

Casino Buyout Q & A

1. **What is the action the City Council will vote on at the October 24 City Council meeting?** To direct the Mayor to sign a “Proposed Asset Purchase Terms Sheet” with the Isle of Capri (IOC).
2. **Why would the City do that?** To begin a process intended to result in keeping millions of dollars in annual gaming profits in the community each year, rather than have millions of dollars flow out of the community each year.
3. **How long will the purchase process take?** It will take several months, as there are many steps and approvals before a final transaction is completed.
4. **Can cities own casinos in Iowa?** Yes, the City of Dubuque has owned a casino (Mystique) for years, and Polk County also owns a casino (Prairie Meadows).
5. **How much does the current casino generate in profit?** Documents filed with the Securities and Exchange Commission indicate the Rhythm City casino generated \$8.26 million in operating income and \$10.48 million in adjusted income in FY12.
6. **Over \$10 million a year in income. Is that gross or net?** That is operating cash flow, after paying all gaming taxes and operating expenses. Adjusted gross revenue was \$50.5 million in FY12.
7. **How much is the City paying?** \$46 million, subject to adjustment as provided in the proposed terms sheet. The City expects to issue 20 year bonds for the purchase, and would thus retire the bonds at approximately \$3.5 million a year.
8. **\$8.2 million to \$10.5 million a year in profit from the casino and \$3.5 million a year to buy the casino, is that correct?** Simply put, yes.
9. **Does the purchase include the boat, and all the slot machines?** Yes, the City would purchase the existing casino as a “turn key” operation.
10. **What will the City do with the profit, after paying the bonds each year?** There is no specific plan for that yet. City Councils will decide that as they develop and approve annual budgets for the City in the future.
11. **Could the City Council reduce property taxes?** That is possible in the future, and Dubuque has utilized gaming revenue to hold down their tax rate. As the City works through a plan to move onto land and pays down the purchase cost, the ability to reduce property taxes in the future increases.
12. **Will my property taxes go up because of this purchase?** Absolutely not.
13. **Is the City going to continue to operate the casino as a riverboat?** Not for the long term. If the transaction is completed, we will operate the riverboat only as long as it takes to open a land-based casino.



14. Where will the land-based casino be located? That is yet to be determined. There are several possible locations.

15. How is the City going to decide where to put the land-based casino? The City will be issuing a request for proposals, to determine if a private / public partnership which includes the casino as an element of a larger project is financially advantageous for the City.

16. What if no one responds to the request for proposals? The City has the ability to move onto land on property it already owns, or is readily available.

17. Is that downtown, or on I-80? It can be either, but the City negotiated a \$5 million purchase price reduction to develop a casino downtown, resulting in a base purchase price of \$46 million. A downtown casino can take advantage of existing infrastructure and be marketed along with other existing attractions like the River Center, Adler Theater and downtown businesses.

18. Will the riverboat casino close while the City builds the land-based casino? No, the City will contract with a managing entity to operate the riverboat, using existing casino employees, and begin to build revenue as the land-based casino is sited and built.

19. Will the riverboat still be called "Rhythm City"?
No, there will be a change in the casino brand.

20. Will I still see my favorite Rhythm City employees on the riverboat when the City takes over operations? Yes, the proposed terms specify the continued employment of Rhythm City employees.

21. Will the casino employees become City of Davenport employees? No, the casino employees would become employees of a non-profit, rather than City employees.

22. Is this an existing non-profit, or one that will be created for this purpose? It will be a new non-profit.

23. Who will be appointed to the board of the non-profit? That is yet to be determined, but the board members are expected to be appointed by the City Council.

24. Does the City have financial capacity to buy the casino? Yes, the City has more than adequate bond capacity and a strong bond rating.

25. I thought Davenport, like most cities, was facing challenging finances. That is true in our operating budget. While we have an efficient workforce and have modernized our operations considerably, we do have operating budget challenges, mostly created by unfunded state mandates.

26. Several million dollars of gaming revenue each year could help.

Beyond the big picture idea of keeping gaming revenue in the community, that's the idea. The City's buyout plan utilizes our bonding capacity to diversify and increase City revenue, without raising taxes.



27. How much bonding capacity will the buyout utilize? The City has over \$110 million of bond capacity at the moment, more than double what is needed for the \$46 million buyout.

28. What percentage of the City's bonding capacity is in use now, and how will this change that? The City is using about 64% of its general obligation debt capacity now. A \$48 million bond issue would increase that to approximately 85%. However, the City pays down its debt rapidly, so in four years the percentage would be 68%, four percent higher than now.

29. \$48 million? I thought the purchase cost was \$46 million. The purchase cost is \$46 million. At closing, that number will be adjusted slightly, up or down, depending on a number of factors in the final purchase contract. The \$48 million bond issue is a planning number, to allow the City to make some changes as the casino brand changes.

30. Will the brand be a national brand, or local brand? That is yet to be determined. The trade off in aligning with a national brand is that brand will take money out of Davenport. The two publicly owned casinos in Iowa have kept all the gaming profits in their community, in part, by establishing their own brand.

31. If it is our own, local brand, could we also locally determine issues like smoking policies, and which local brands and suppliers could be aligned with the casino?

Yes.

32. How can I be certain the City isn't going to raise taxes? That is exactly the opposite of the intent in gaining control of the casino and there are years of demonstrated results in Dubuque and Polk County to the contrary.

33. Are there any differences between what is happening in Dubuque and Polk County and the Davenport plan? It is essentially the same idea of keeping all the gaming revenue in the community through a combination of non-profit and local government ownership of the business and facilities. In Davenport, the City would own and control, through a non-profit, the casino business itself. Pending the results of the developer RFP (questions 14 – 17) the City may or may not own the land and casino building. In Dubuque and Polk County, the land and casino facilities are owned by the local government, while the casino is operated by their equivalent organizations to our RDA.

34. How did this idea develop? Like any well-informed decision, the City considered all options. We hired nationally recognized gaming and finance experts to test alternative scenarios of securing a land based casino, including private / public partnership models and the public models used in Dubuque and Polk County. When the final results of the potential private / public partnership with the gaming company brought to the City by MSEG were reviewed, it became clear the

City could reduce risk and maximize revenue retained in the community by utilizing the approach Polk County and Dubuque have used.



35. How does the City payment of \$49,000 to MSEG play into this?

In a couple of ways. First, MSEG brought a reputable gaming company to the City. They incurred expenses in doing so, and the development agreement included a provision by which the City would reimburse them. Secondly, the MSEG agreement had to be terminated to move forward with any other third party prior to mid-November, including the gaming company MSEG brought to us, or the City itself.

36. If the current casino generates \$10.48 million in annual net earnings, that's just over \$200,000 a week?

For an average week, correct.

37. So spending \$49,000 to move the calendar forward by eight weeks leaves the City more than \$1.5 million ahead?

That's a good summation, and will still hold true if the City pays the contingent \$50,000 (\$99,000 total) to MSEG in the future.

38. What are the next steps? The City Council needs to vote on October 24. If the proposed terms are approved, the parties would begin negotiations of a final purchase agreement. The Riverboat Development Authority and Iowa Racing & Gaming Commission would also review the proposed terms. The City would issue requests for proposals both for management of the casino and potential private / public partnership for a future land-based casino. Pending approvals by the City Council and IOC Board of a final agreement, if one is reached, and final approval by the Iowa Racing and Gaming Commission, the City would issue bonds to complete the purchase.



39. If all goes according to schedule, when will the City take ownership of the casino? As early as mid 2013.

40. What are the strategic challenges in the City buying out the riverboat and operating a casino? The City will have the same challenges any casino operator will have. It is a highly competitive business and the City will have to run the operation at a quality level that is attractive to casino patrons.

41. But the City does not have any prior casino management experience. That is true, but the City expects to hire a professional management company and use the expertise of the existing employees.

42. Does the City have any strategic advantages? We do. We own property and infrastructure that may be utilized for elements of a land-based casino project or larger entertainment district, have access to capital at rates far below private sector companies and, because we are a non-profit, we could offer a casino experience that may be more rewarding for customers.

43. How so? We could provide better odds than for profit casinos, and build local business opportunities into the experience – using local restaurants, food and beverages, as an example.

44.

Which City Council members served on the negotiating team?

Mayor Bill Gluba, Finance Chairman Jeff Justin, Community and Economic Development Chairman Gene Meeker and Public Safety Chairman Bill Boom.

45. How does the City know it got a good deal on the buyout?

One standard benchmark is comparing the purchase price to a multiple of the casino's profitability (known as "EBITDA" - earnings before interest, taxes, depreciation and amortization). The acquisition price as a multiple of EBITDA is attractive given that regional casinos generally trade in the 5-7 times EBITDA range. The lower multiple agreed upon reflects the need for incremental capital investment for the new land-based casino. However, the City will also benefit from our ability to finance capital costs at lower interest rates than many private companies given the City's strong credit rating.

46. What firms did the City utilize to review options and negotiate?

The City employed Cummings Associates of Arlington, Maryland to build a base case for the potential of the Quad City gaming market, and PFM, with offices in Des Moines and Chicago, to test various operating models. PFM hired the Spectrum Gaming Group to independently verify and update the Cummings Associates gaming study. Cummings Associates, PFM and the Spectrum Gaming Group are all well respected companies with national reputations in gaming or public finance. Legal counsel was provided by Ahlers and Cooney from Des Moines and O'Connor and Thomas of Dubuque. The two firms have experience with the publicly owned casinos in Polk County, and Dubuque, respectively.

47. Will local charities and non-profits be receiving more or less money with the City buyout? More. The City will honor the same minimum funding level to the Riverboat Development Authority (which provides grants to local charities and non-profits) that the IOC provided. With a move into a land-based casino, the City expects to increase the amount of revenue the Riverboat Development Authority receives (from 4.1% of adjusted gross revenue to 4.5%), and do so again when the City crosses the threshold of paying off half the acquisition cost (from 4.5% to 5% of adjusted gross revenue).

48. So the Riverboat Development Authority remains in place, as an independent organization? Absolutely. The RDA still holds the gaming license provided by the Iowa Racing and Gaming Commission, and still makes their own grant decisions guided by their own board.

49. How do I stay up to date on the casino issues, moving forward?

The City's website at www.cityofdavenportiowa.com.

