

Playing with House Money: As Isle of Capri Dodders, Davenport and Bettendorf Could Lose Millions

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The Isle of Capri's hesitance to follow through with two major casino-related projects - a hotel and parking garage on the Davenport riverfront and a financial pledge to the City of Bettendorf's convention center - could cost both cities millions of dollars.

In Davenport, the Isle of Capri appears to have abandoned its plans for a riverfront hotel and parking ramp and is in talks with the city to put the Rhythm City casino in the south building of the RiverCenter and to build a hotel nearby.

That shift could cost the city up to \$8 million in Community Attraction & Tourism grant funds from the state of Iowa if the casino company doesn't soon make a public commitment to upgrade Rhythm City. Or it could imperil the entire \$13.8-million grant application, which would set the city back in its effort to improve riverfront parks.

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Also tied up in the Davenport situation are the futures of the Blackhawk Hotel (which the Isle of Capri owns but hasn't used since a February 2006 fire) and the downtown convention business.

In Bettendorf, the Isle of Capri is balking at a provision in its development agreement that would require it to contribute \$10 million to a planned events center that would be connected to its newly expanded hotel. If it doesn't commit to those funds by June 28, the events center will likely not move forward, and the city will have to forfeit \$4.1 million in state Vision Iowa money.

The primary holdup in both cases appears to be that the Isle of Capri is uncertain of its place in the current gambling marketplace. Both the Davenport and Bettendorf operations have been hurt by "resort" casinos that have opened in recent years. May 2007 revenues for Rhythm City were down 22 percent compared to May 2005, and for the July-to-June fiscal year were on track to drop 14 percent from 2005 to 2007. Isle of Capri's May 2007 revenues were 7 percent lower than the same month in 2005, and on track to fall 13 percent for the current fiscal year compared to 2005.

The Isle of Capri isn't talking about its plans. Jill Haynes, the company's senior director of corporate communications, said that because Isle of Capri is a publicly traded company, it would not discuss its decisions before investors were informed about them. She said that the Isle is "in continued discussions with the City of Davenport" but wouldn't confirm the RiverCenter as a possible Rhythm City location, saying that the company is looking at a variety of options.

But the Isle of Capri's apparent unwillingness to follow through on its local development agreements suggests that it doesn't think it can compete in the current gaming climate and would be satisfied with the Quad Cities being a second- or third-tier market.

"I Don't Have Any Plans"

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Davenport City Administrator Craig Malin said that there have been no negotiations at this point with the Isle of Capri about a RiverCenter casino site.

"We're in the conceptualizing options phase," he said Monday. "I've had three substantive discussions with them over the course of the last six months.

"I don't have a letter of intent from them, a rough proposal. I don't have any plans."

The prompt for those discussions is an Iowa law - signed last month - that allows casinos to be land-based.

Initially, Malin said, Isle of Capri approached the city about moving Rhythm City to the RiverCenter and didn't want to build a hotel. "A hotel has to be part of the package," Malin said. "We're not interested in convenience gaming." He declined to comment on the size of a potential hotel but said he'd like to see one that can be expanded.

Malin emphasized that an agreement with the Isle of Capri is not imminent. "I can't see how this would happen in June," he said. "Sometime in July or August we might have the information components that we need for informed decision-making by the council."

But there is a sense of urgency. Davenport is negotiating with the State of Iowa for a Community Attraction & Tourism (CAT) grant. The city has asked for \$13.8 million for riverfront-park improvements, and the scope of the Isle of Capri's downtown investment in Rhythm City is a major component of the private investment required for the grant.

Malin said that the Isle of Capri has told him that it's willing to make an investment in a RiverCenter site commensurate with the \$40-million-plus it planned to spend on its riverfront hotel, for which a development agreement was signed in 2005. The state's Vision Iowa board

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has typically awarded grants in the neighborhood of 20 percent of local investments, so that translates into roughly \$8 million in potential grant money the city could receive if it gets a commitment from the Isle of Capri.

"Their prompt resolution of this is advantageous for all parties," Malin said. "It's the most substantial thing holding it [CAT-grant negotiations] back."

Malin said he requested the week before last a letter of intent from the Isle of Capri committing to a \$40-million Davenport investment. As of Monday, he hasn't received it.

If the city council puts a rush on the RiverCenter concept, the likely goal would be to secure state money before it's awarded to other communities.

Vision Iowa Board Chairperson Andy Anderson confirmed in a *Quad-City Times* article Tuesday that uncertainty about Rhythm City jeopardizes the city's grant application.

Alderman Bill Lynn said he isn't sure that the RiverCenter idea is a serious proposal. He said he thinks the Isle of Capri might be sending up a trial balloon to see if it floats. "What we're hearing right now is a lot of talk," said Lynn, who said he doesn't have an opinion on the concept. "I've got to hear a lot more."

Alderman Shawn Hamerlinck said he's concerned that a decision will be made too quickly by the city council. "The first thing we have to do is slow down," he said.

Hamerlinck's admonition is an acknowledgment that many people worry that the Isle of Capri and the city council will hash out a deal before the public has the opportunity to review, assess, and give their opinions on any plan.

Asked about his concerns about the RiverCenter concept, Danny A. Holmes - general manager of the Radisson Quad City Plaza hotel - said, "One is the fact that it's being

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negotiated behind closed doors again."

The Isle of Capri doesn't help itself - or the city - in this regard by being so coy about its plans.

Both Hamerlinck and Malin said that they've asked Isle of Capri about an interstate location that would simultaneously make the casino convenient for travelers and provide the space to build a larger complex, such as the \$175-million facility the company will open in Waterloo later this month.

"They absolutely have no intention of moving out there," Hamerlinck said.

"They don't appear interested at all in the level of investment necessary to build a stand-alone campus along the interstate or any other location," Malin said. "I've asked them that question directly, and their response has been that that level of investment would not be supported by a market study that they've conducted that they have not shared with me."

But he added that Isle of Capri can't simply maintain the status quo, and that gives the city some bargaining power. "They're responsible to their shareholders, and they need to make some investment ... in their Davenport market in order to put that business operation in the right direction," he said. "It's going in the wrong direction now."

Baggage

Just as the Isle of Capri hotel proposal brought with it the baggage of the city's stewardship of the riverfront, so the RiverCenter concept can't be considered by itself.

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As Malin notes, Davenport currently has "suboptimal" situations with the Blackhawk Hotel, the RiverCenter (losing hundreds of thousands of dollars a year), its convention climate (with too few downtown hotel rooms to book big meetings), and Rhythm City (with declining revenues). The Isle of Capri RiverCenter idea has the potential to address all four of those, he argued.

"You have suboptimized everything you could," Malin said. "What you need to do is put it all right. ... Don't take the first deal. Take the good, long-term deal for all the operators involved. That's what has to happen."

But what constitutes a win-win long-term deal? If Rhythm City moves into the RiverCenter, the city would need to invest millions of dollars to expand the north building of the facility to maintain its viability as a convention center. That's an expensive proposition, but Malin said putting money into the RiverCenter needs to happen anyway if the city wants to retain its convention business.

"There needs to be some fiscal investment in the RiverCenter if we're going to be competitive," he said. "Now we *can* decide we're not going to be competitive [But] this may be an opportunity to do a number of things."

Rick Palmer, executive director of the RiverCenter, said that the facility has been able to maintain its position in the marketplace, but "if we want to move ahead, some improvements would be nice." He said a more critical issue, however, is downtown hotel capacity.

Malin said the city has contracted with consultant HVS to explore whether the north building of the RiverCenter should be expanded and what it might look like and cost. He said that study should be finished in late June or early July.

Hamerlinck said that he opposes moving Rhythm City to the RiverCenter's south building. "There's no way I can back it going into the RiverCenter," he said. "We'd be subsidizing gaming."

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In essence, Hamerlinck said, the cost of the north-building expansion would amount to an Isle of Capri subsidy, because the city wouldn't need to make that investment otherwise.

There's also the question of lease payments. Both Malin and Hamerlinck used \$137,000 a year as a starting point for lease negotiations, because that represents the direct city revenue attributable to the south RiverCenter building.

Lynn said he thinks that's not enough money, and might not even make up for the events that the RiverCenter could lose because of a casino in the south side.

Furthermore, the restoration of the Blackhawk Hotel would need to move forward to, in concert with the Radisson, provide adequate hotel rooms to attract larger conventions.

The city has picked Restoration St. Louis as its preferred company to rehab the Blackhawk, and several months ago the city asked Isle of Capri to approve that choice, which is one of its rights under the 2005 development agreement for the riverfront-hotel project. Under that agreement, the Isle is supposed to sell the Blackhawk to the city for \$1 so that the building can be redeveloped.

Malin said that developers' interest in the Blackhawk gave Isle of Capri pause. "They didn't give us their approval," he said. "Still haven't."

There's also a question of parking. Malin said the city is willing to consider financing a parking garage for a new, land-based casino, but only if the casino pays back the costs. That's the arrangement the city agreed to with the riverfront hotel.

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"I'm Getting Poorer"

The RiverCenter issue is further complicated by the objections of the Radisson to the RiverCenter concept.

"For the life of me, I don't understand why either the city or the casino wants to be in that location," Radisson General Manager Holmes said last week. "To me, it makes no sense whatsoever. It's as far away as you can get from the interstates. Parking's certainly going to be a problem."

Holmes said he's miffed at the process thus far - "It ought to go to a vote instead of just having Mr. Malin decide it" - but is mostly concerned about the livelihood of his 221-room hotel and other downtown businesses. The Radisson was built in part to serve the RiverCenter's convention business.

"Nobody's really paying a whole lot of attention to where all the conventions are going to go," he said.

Holmes sounded skeptical that the Blackhawk would be restored and would provide adequate hotel capacity for conventions. The hotel presently has 121 rooms, and redevelopment is likely to be mixed use, with retail and condos that would cut into the number of hotel rooms.

"The Radisson alone cannot support the RiverCenter the way it needs to be supported," Holmes said. "But I really don't believe getting rid of the RiverCenter is the answer."

Even if the city expands the north building of the RiverCenter and the Blackhawk is restored, there are logistical concerns, he said. For one thing, patrons would need to cross two streets to get to the Radisson, and convenience is king with conventions. Furthermore, there's an inadequate kitchen in the north RiverCenter.

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Both factors could make it difficult to attract conventions, he said

"It's very difficult to get food from the Radisson hotel to RiverCenter north now," Holmes said. "It's not going to get any easier If they absolutely insist on going that route [an expanded RiverCenter north], then they need to put a very good production kitchen into it for whoever's doing the catering."

Holmes said he's concerned that a casino in the RiverCenter would cut into his convention business, which accounts for more than 50,000 room nights a year and 30 percent of his catering business, "directly attributable to the business we're doing at the RiverCenter."

In room revenue alone, he said, that's \$650,000 a year. "While the casino grows richer, I'm getting poorer - or working harder," Holmes said.

Those revenues also contribute to city coffers, because three-quarters of the money from the city's 7-percent hotel/motel tax stays with the city; on Holmes' estimate, that would be slightly more than \$34,000 a year.

Malin, who met with Holmes and Mayor Ed Winborn on Monday, pledged that the city will take care of the hotel Holmes manages. "The Radisson needs to be strongly supported by city actions to remain viable," he said.

Holmes also said that a drop in convention business could hurt other downtown businesses, particularly bars and restaurants that draw convention attendees. "It's going to hurt everybody if they do that, except the casino," he said.

The convention business has already been hampered by the closure of the Blackhawk, Holmes said. "We're no longer able to attract 350-, 400-, 450-room conventions, which we used to share with the Blackhawk. One of us was the overflow hotel for the other The

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ones that do book with us, we're pushing them out to the Clarion [formerly the Holiday Inn, on 53rd and Brady streets], and out to the Utica Ridge [Road] hotels It's not as convenient for them Some of them sign, some of the don't.

"We are getting ... smaller conventions. We're looking for smaller conventions, because we know we can't get the big ones. We're definitely feeling it."

Anecdotally, "the closing of the Blackhawk has had an impact on conventions," said Joe Taylor, president and CEO of the Quad Cities Convention & Visitors Bureau.

He cited the example of last year's National Trails Symposium, which was forced to find rooms for attendees after the Blackhawk fire. "We really had to redouble our efforts to find meeting space and rooms," Taylor said.

Still, he doubted that the closure at this point has affected the overall convention business in the Quad Cities. "It's probably been more inconvenience than economics," he said.

That could be a function of how far in advance conventions are booked. Taylor said reopening the Blackhawk as a full-service convention hotel is important to the area's marketability for conventions.

The RiverCenter's Palmer said his facility hasn't seen less convention business since the fire. "We're pretty much holding steady right now," he said.

But he attributed that to the Isle of Capri's unwillingness to set aside blocks of rooms for conventions when the Blackhawk was open.

Ideally, Palmer said, the RiverCenter would have between 300 to 400 rooms available on any given night for conventions, of which the Radisson can generally provide 150. "We need

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more hotel rooms to be an effective convention space," he said.

"It Really Falls to the Isle"

While Davenport has room to negotiate with Isle of Capri, Bettendorf is in the less-enviable position of being at the company's mercy.

The city could lose \$4.1 million in state funds along with the convention-center project that was a major component of the hotel expansion. The idea was that the Isle's larger hotel combined with a convention center would draw new people - and new revenues - to Bettendorf.

The \$15.8-million event center is now in jeopardy.

As part of the development agreement with the Isle of Capri, the Scott County Regional Authority - the not-for-profit organization that holds the Bettendorf gambling license - was to contribute \$10 million to the event center. But that provision would have kicked in only if the organization saw revenue growth of 6 percent a year.

"That growth is not there," said Bettendorf City Administrator Decker Ploehn. "And the Isle was to make up any shortfall in that coverage."

In other words, the Isle of Capri agreed to pick up the \$10 million if the Scott County Regional Authority didn't.

But that might not happen. "The Isle is very concerned about the market condition and

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the ability to then infuse another \$10 million into the project at the same time they are agreeing to operate the events center and absorb all losses," Ploehn said.

As part of the development agreement, the Isle of Capri is scheduled to receive \$2.5 million from the City of Bettendorf to offset some of the cost of a parking ramp, and it would be the operator of the events center that would be connected to its hotel. Those are the only benefits it would forfeit if it declines to pony up the \$10 million, Ploehn said, and there's no additional penalty for breaking the development agreement.

By June 28, "we have to begin the draw-down of the funds for the construction of the events center" as part of the state grant, Ploehn said. If it doesn't begin the draw-down by then, it will give up the \$4.1 million.

Ploehn said the Isle of Capri needs to decide by June 28 whether it will contribute the \$10 million. "We have expenses that we can begin to claim against that draw-down," he said. But "if the financing's not in place, we don't want to begin the draw-down, because ... you have to pay the money back. ...

"We have a \$10-million shortfall, and as of June 28, we'll have a \$14-million shortfall."

So without a commitment from the Isle of Capri, the events center would likely die. "We'll have to seriously look at what our options are at that point," Ploehn said. "It [the events center] was predicated on the fact that the Isle would run it and it would be connected to their hotel. ... It becomes much more burdensome on the city if we don't have an operator, and it's connected to their hotel. If it falls through, at that point we're not going to be working with them."

He added that the city council is not likely to approve any more money for the project: "We've not had that discussion yet. We're still working on the premise that we have a signed development agreement, and we're having questions about how we can resolve that \$10 million. ...

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"It really falls to the Isle to make it happen."

Casino Rock Island Still Moving Forward

To the uncertainty about the Isle of Capri's plans in the Quad Cities add Jumer's Casino Rock Island, which has yet to secure approval from the Illinois Gaming Board for its planned \$150-million casino complex near Interstate 280 and Illinois 92.

The casino sought final approval from the board in April - asking it to waive its two-meeting rule for consideration - but was turned down, with board members asking for more information.

Bill Renk, Casino Rock Island's vice president of sales and marketing, said he anticipates going before the board again in the next two to three months. "If all goes well, it will be in a couple months or so," he said.

"It will be their decision," he said when asked about the casino's prospects for approval. "I'm optimistic"

The complex would include a casino, a convention/events center, and a hotel with roughly 200 rooms, Renk said. Construction is expected to take 15 to 18 months and would begin soon after approval from the Illinois Gaming Board. Renk said utility work at the site is nearly complete.

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Renk also said that even if the state's new smoke-free workplace law is signed by the governor and not altered to exempt gambling facilities, Casino Rock Island plans to move forward.

The City of Rock Island has a twofold interest in the project. First, if the casino moves off the riverfront, the city will be able to redevelop that area, including the armory. Second, the city stands to get significantly more money from a new casino - roughly \$6 million a year compared to the current \$4 million to \$5 million.

Jumer's Casino Rock Island will get significant tax-increment benefits - somewhere in the neighborhood of \$10 million - in the form of 75 percent of future property taxes on the site for 13 years. Even though that might end up being more than the casino will pay for public improvements on the site - such as extending utilities and the interstate interchange - the city doesn't incur any risk on the project. "We were putting all the costs on their side of the ledger," said Rock Island City Manager John C. Phillips.