

The \$120 million Grand Falls Casino Resort being built in northwest Iowa will default on its loans and likely be sold at a "fire sale price" if Iowa lawmakers approve Gov. Terry Branstad's proposed 63 percent increase in state casino taxes, its chief executive warns.

Dan Kehl heads Kehl Management, which plans to open the luxury gambling resort in late May near Larchwood,

along the Iowa-South Dakota border. He said Branstad's proposed tax increase doesn't offer a sustainable business model for Iowa's \$1.4 billion-a-year casino industry, which employs nearly 10,000 people and is the state's No. 1 tourist attraction, drawing 22 million admissions last year.

"The governor is just wrong on this issue. This is a job killer," Kehl said. "The Republicans ran on no tax increases, and this is a huge tax increase."

Gambling industry executives have warned of severe consequences for Iowa's 17 state-regulated casinos and their communities, ranging from thousands of job losses to steep reductions in donations to schools, volunteer fire departments, libraries and other charitable causes.

Branstad proposed last month to increase Iowa's casino tax rate to a maximum of 36 percent on gross gambling revenues. The revenue would be used to finance a \$200 million cut in corporate taxes. Most Iowa casinos pay a maximum 22 percent tax rate, while Prairie Meadows Racetrack and Casino in Altoona and Horseshoe Casino in Council Bluffs pay a maximum 24 percent.

Branstad has scoffed at warnings the higher tax rate could hurt Iowa's casino industry, saying that the plan is equitable and that gambling lobbyists are "crying wolf."

Branstad spokesman Tim Albrecht defended the governor's tax package, which includes a reduction in commercial property taxes.

"Governor Branstad wants to create 200,000 jobs in Iowa, and lowering corporate taxes is a

vital tool to ensure successful job creation," he said. "While the governor appreciates the jobs that have been created in the gaming industry, and the contributions made to those communities, those casinos have likely hit their saturation point."

Communities would get lower payments

It's not just casino executives who are crying foul. Iowa's casino industry is unique when compared to other states because all Iowa gambling businesses have a local nonprofit partner that provides a share of casino profits for community betterment projects.

Officials from nonprofit groups associated with casinos in Emmetsburg, Worth County and Waterloo said their contracts with casinos have provisions that reduce payments to nonprofits if the state raises their tax rates.

"It's going to hurt the whole community," said Don Hoth of Waterloo, president of the Black Hawk County Gaming Association, affiliated with the Isle Casino-Hotel. The association receives about \$4.5 million annually based on 5.75 percent of the casino's gross gambling revenues. That would be cut to 3 percent if Branstad's tax increase is implemented, which means the association couldn't meet commitments to help pay for such projects as a planned \$30 million downtown Waterloo indoor sports complex and a new community food bank, he said.

At Northwood near the Iowa-Minnesota border, the Worth County Development Authority receives 5.76 percent of the Diamond Jo Worth Casino's gross gambling revenue. That would also be trimmed to 3 percent. The association now offers every Worth County high school graduate a one-time \$6,000 college scholarship and donates money to scores of organizations such as schools, veterans groups and senior citizen centers.

"I don't think I have to do anything to encourage people to be against it. They are against it," said Kim Koenigs, the Worth County authority's executive director.

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Casino executives say jobs, solvency at stake

Casino executives are mounting an aggressive attack against the proposal. They say the solvency of their operations is at stake.

Kehl said that besides forcing sale of the Grand Falls Casino in Lyon County, Branstad's tax proposal would decimate the \$140 million Riverside Casino and Golf Resort, south of Iowa City, operated by Kehl Management. That would cause hundreds of layoffs among Riverside's 700 employees and require closing the golf course, restaurants and other attractions, he said.

"The tax increase, as proposed, would basically put us out of business," said Kehl, whose parents, Bob and Ruth Kehl, helped pioneer Iowa's riverboat gambling industry two decades ago in communities along the Mississippi River. "Riverside and Lyon County are Iowa-owned properties with over 800 investors and \$86 million in Iowa equity. That equity would be wiped out. We won't be able to make our bank covenants or loan payments."

Gary Hoyer, chief executive officer of Catfish Bend Casino in Burlington, said the tax increase would prevent the casino from refinancing its debt when its \$50 million note is due in June 2012.

"We would have to turn our keys over to the bank," he said.

Even if Catfish Bend could stay open, managers would be forced to dramatically reduce the payroll and spending on capital improvements that make the facility attractive to customers, many of whom cross the river from Illinois to gamble, Hoyer said. That would defeat state officials' original plans to establish Iowa casinos as destination resort properties, he said.

Gary Palmer, chief executive of Prairie Meadows, predicted the tax increase could lead to a halt in construction of a \$30 million hotel project now under way adjacent to the Altoona racetrack-casino.

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"It would kill our cash flow, and we have to have cash flow in order to pay our loan back," Palmer said.

Branstad's proposal also worries leaders of Polk County, which owns Prairie Meadows, and other local officials. The casino is projected to provide about \$37 million this year to Polk County, the city of Des Moines, Polk County schools, and scores of charitable groups. The \$37 million includes \$15.6 million in rent. The county relies on money from Prairie Meadows to meet a \$14 million annual debt payment on the Iowa Events Center in downtown Des Moines. Palmer said Prairie Meadows would still probably be able to pay its rent, "although it would be very close." He added that it's clear that Prairie Meadows' charitable contributions, which are expected to total about \$6 million this year, would be wiped out, as would most of Polk County's ability to donate to charities.

Proposal's future in Legislature unclear

Critics of Iowa's gambling industry, such as Tom Coates of Norwalk, support the plan. They contend the negative social costs of Iowa's casinos, such as divorces, suicides and embezzlements, far outweigh the economic benefits.

Gambling foe Mitch Henry of Des Moines said, "I understand the casino industry's viewpoint, but do I feel their pain? No."

The likely fate of the proposal in the Legislature isn't clear.

Iowa Senate Majority Leader Michael Gronstal, a Council Bluffs Democrat, told a crowd attending a Council Bluffs legislative coffee he didn't understand why Branstad "is declaring war on Council Bluffs." Council Bluffs has three casinos and is Iowa's largest gambling market, generating nearly one-third of the state's gambling revenue last year.

"One third of that new tax would come out of a county with approximately 3 percent of the state's population. That's pretty outrageous," Gronstal said in an interview.

Iowa Senate Republican Leader Paul McKinley of Chariton said he hasn't decided whether to support the tax proposal, saying, "I think we will have to see how this plays out."

Republican Sen. Merlin Bartz of Grafton said Branstad should be complimented for submitting a balanced budget.

"Whether you agree with it or not, this talks about the governor's priorities," Bartz said. "He is providing an opportunity to reduce the corporate income tax rate and to provide commercial property tax relief, which is something a lot of my constituents have been talking about the past two years."

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