City of Detroit

CITY COUNCIL

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TO: The Honorable City Council

FROM: David Whitaker, Director
City Council Research and Analysis Division Staff

DATE: June 26, 2008

RE: **UPDATE ON THE MICHIGAN GAMING CONTROL BOARD'S SHOW CAUSE HEARING WHY THE BOARD SHOULD NOT INVOKE THE SALE OF GREEKTOWN CASINO**

Pursuant to the City Council's request that the City Council Research and Analysis Division (RAD) provide updates on the status of the Greektown Casino developers' (Greektown Casino) efforts to complete the construction of the permanent casino and hotel, RAD provides this memorandum. RAD attended the regular public meeting held by the Michigan Gaming Control Board (Board) on June 10, 2008. Their agenda included, "Greektown Entities Show Cause hearing Why the Board Should Not Invoke the Sales Transaction Process Described in the 2005 Debt Transaction Order."

The Board's attorneys from the Michigan Attorney General's office presented their findings that the Greektown Casino had not complied with several covenants in a 2005 Debt Transaction Order. This Order from the Board was based on an agreement from the Greektown Casino entities to construct a permanent casino and hotel with certain financial benchmarks. The Greektown Casino legal representative from the law firm of Conway, McKenzie and Dunleavy of Birmingham, Michigan, did not dispute that Greektown Casino had not complied with the 2005 Debt Transaction Order. Nor did they dispute the Board's right to order sale of the casino and hotel. The Greektown Casino legal representative argued, among other reasons, that it would not be in the best financial interest of the City of Detroit and State of Michigan if a sale were ordered. Details of their position was provided in a PowerPoint presentation (See attached.)

Greektown indicated that they incurred an additional debt of $100 million over what had been anticipated. They also explained the economic climate contributed to their financial plight, affecting their equity, which affected the debt ratio, which affected the ability to get loans. Filing bankruptcy was the best way to get loans to continue building

the casino and hotel, per Greektown's attorney. The Assistant Chief of the Chippewa Tribe, Mr. Payment, who was opposed to a sale, also presented testimony.

Also, the Michigan Gaming Control Board issued a press release of their decision (See attached). The Board passed a motion to take under advisement invoking the sale process under the 2005 Debt Transaction Order, of Greektown casino and hotel properties. The Motion also included:

1. Nothing waives the Board's right to issue a forced sale.
2. Greektown is required to report to the Board each month regarding:
    a. Status of process in the U.S. Bankruptcy Court case
    b. Any proposed or actual changes in the creditors and owners
    c. The progress of cost reductions in operations
    d. The financial status of the construction projects
    e. Any reorganization
    f. Any transfer of management
    g. Construction progress
    h. Status of City of Detroit Development Agreement
    i. Compliance with Development Agreement.

The Board has, since the June 10, 2008, meeting, scheduled a Special Board Meeting on **June 27, 2008, at 9:00 A.M. to discuss approval of "Greektown Casino L.L.C.'s Request for Final Approval of DIP Financing."** DIP means "debtor in possession" (See attached). The Board's next regularly scheduled meeting is August 12, 2008.

The Board is interested in and inquired as to the City's position. The City Council may want to ask the City's legal representative what the City's position is regarding this matter, as none was given at the June 10, 2008 meeting.

Attachments

Presentation to:

Michigan Gaming Control Board

by:

June 10, 2008

Atlanta:
7000 Central Parkway, NE
Suite 1325
Atlanta, GA 30328
770.394.9905

Detroit:
401 S. Old Woodward Avenue
Suite 340
Birmingham, MI 48009
248.433.3100

Chicago:
303 West Madison
Suite 1600
Chicago, IL 60606
312.220.0100

New York:
1270 Avenue of the Americas
Suite 2340
New York, NY 10020
212.586.2200

Shanghai:
31/F Jin Mao Tower
88 Shi Ji Avenue
Pudong, Shanghai 200120
8621.2890.9631

Dayton:
109 North Main Street
500 Performance Place
Dayton, OH 45402
937.222.7317

Background on Chapter 11 Filing

- Upcoming cash obligations (as of the Chapter 11 filing date)
  - Approximately $150 MM remaining on construction, approximately $40 MM of which is due by June 30
  - Approximately $10 MM in interest due on bonds on June 1 and December 1
  - Waiver from Ted Gatzaros for November 2007 payment set to expire on June 1; an additional approximately $20 MM due in November 2008
- Evaluation of alternatives
  - Halt total construction/halt hotel construction
  - Seek additional equity financing (led to EIG proposal)
  - Seek additional debt financing
  - Seek waivers of obligations
- Advantages of Chapter 11
  - Obtained financing sufficient to complete construction, pending court approval
  - Automatic stay provides relief from creditors related to unpaid obligations
  - Existing and anticipated covenant defaults under senior secured credit agreement addressed through adequate protection provisions of debtor-in-possession financing
  - Allows time and money needed to complete permanent casino and hotel and achieve normalized operating income to deal with existing obligations

Impact of a Premature Sale Process

- Greektown Casino is currently operating in a down environment
  - Nationally, gaming industry revenues and profitability have shown declines year-over-year
  - Greektown has been negatively impacted by disruption created by the "in-process" status of its construction project
  - The two other Detroit casinos have completed their permanent casino and hotel expansion projects
- Credit markets have been severely disrupted
  - Many sale transactions pulled from market due to lack of financing
  - Depressing overall valuations and multiples of cash flow
- Speaking to another troubled casino situation, Tropicana, Deutsche Bank analyst Andrew Zarnett says, "*The fundamentals of the market are negative … and the credit crunch has made it very difficult to finance acquisitions.*"
- A near-term sale would cause potential buyers to discount their valuation of Greektown Casino due to:
  - Uncertainty factor – Chapter 11, timing of construction project, impact on current operations
  - Investment needed to finish construction project
  - Lack of free cash flow
  - Potential contentiousness of creditors
  - Lack of demonstrated performance with permanent casino/hotel in place
  - Inability to obtain significant financing commitment due to market conditions
  - Perceived duress would distract focus from actual performance

Impact of a Premature Sale Process *(continued)*

- A premature sale process creates many other risks:
  - Loss of customers and revenues
  - Potential loss of employees
  - Likely renegotiation of DIP financing facility
    - Earlier maturity
    - Less funding
  - Construction project either delayed or halted altogether
    - Uncertainty regarding availability of adequate financing
    - Buyer diligence process
  - Creditors could be very contentious as they will see the benefit of delaying a sale process
    - Entire process likely to be fought in court
    - Will keep some potential acquirors on the sidelines

Impact of a Premature Sale Process *(continued)*

- Many non-troubled gaming entities have sold for strong multiples of trailing cash flow (EBITDA), ranging from 8x-12x and higher
- However troubled companies in any industry trade at a significant discount

Forced Sale Now

- Weaker competitively vs. MGM and Motor City
- EBITDA down over 25% from 2006, or approximately $20 million
- Substantial cost to complete permanent casino (approximately $150 million) together with uncertainty
- Negative free cash flow
- Delay in qualifying for lower gaming tax
- Looming court battle due to Chapter 11 process

Completion of Permanent Casino and Hotel

- On par with other casino operators in Detroit with more attractive location
- Cash flow enhancement through reduction in gaming tax
- Elimination of uncertainty
- Demonstrated performance of permanent casino and hotel
- Greater number of potential acquirors/investors would be interested
- EBITDA run rate increase of approximately 50% over current run rate
- Recapture of market share would further enhance value

Impact of a Premature Sale Process *(continued)*

- The potential positive value swing of waiting until the permanent casino and hotel are finished is enormous; normalized operations and the reduction in gaming tax alone provide material value enhancement:

	Approximate Annualized Impact on EBITDA	
Return to Normalized EBITDA	$	20 MM
Reduction in Gaming Tax		17 MM
Total	$	37 MM

- Applying a market multiple of 8x-12x EBITDA illustrates the substantive pickup in valuation created by delaying a process until completion of the project
- The above analysis is compelling even before considering the impacts of the large, current construction funding requirements on a potential buyer's valuation of Greektown

Benefits of No Forced Sale

- Continuity
  - Casino operations
  - Permanent casino and hotel construction
  - Employees
- Assured financing to complete construction project
- Enhanced valuation
  - Increased earnings and cash flows
  - Higher valuation multiples
  - Greater certainty
- Compliance with 2005 Debt Transaction Order
  - Chapter 11 process will result in a restructuring or sale transaction
  - Either result should provide compliance with the financial benchmarks that were violated
- A fully operating, permanent Greektown Casino and Hotel is in the best interest of the citizens of the State of Michigan and City of Detroit – Greektown's current path, effected through a Chapter 11 reorganization process, is the best means to achieve this result
- Avoid possible expensive litigation

How Chapter 11 Cases Address MGCB's Concerns

Concern	How Addressed
Greektown will not be in compliance with covenants contained in the Pre-petition credit agreement and November 2005 MGCB order	The debtor-in-possession ("DIP") credit agreement contains revised covenants and is subject to MGCB approval
More timely visibility to liquidity and performance information	In addition to court mandated reporting, Greektown will provide the MGCB with all reporting required under the DIP credit agreement at the same time as the lender
A sale process is enforced if certain milestones are not achieved	The DIP credit agreement requires a sale process to be pursued in parallel with a plan of reorganization, with activities commencing around the time the hotel is nearing completion
Any changes to equity ownership are approved by the MGCB	Any new equity participants will be subject to MGCB licensing approval

PRESS RELEASE

Michigan Gaming Control Board

FOR IMMEDIATE RELEASE:
June 11, 2008

Contact:
Eric Bush (517) 241-0136

Location: Cadillac Place, 3062 W. Grand Blvd., L-700 – Detroit.
Time: 10:00 A.M.

Topic: Detroit Casino Revenues & Wagering Taxes for May

Yesterday, at the Michigan Gaming Control Board monthly meeting, the Executive Director, Rick Kalm, advised Board members that aggregate revenue and taxes for all three Detroit casinos for the month of May 2008 were up by 16.53% compared to the same month last year. Revenue for MGM Grand, MotorCity and Greektown Casinos were up by 27.9%, 14.03% and 2.69%, respectively, in May 2008 compared to the same month last year.

For the month of May 2008, gaming taxes for the three Detroit casinos were 11.09 million compared to 12.78 million for the same period last year. The decrease in the State of Michigan's gaming tax revenue is due to the tax roll back for MGM Grand Detroit Casino and MotorCity Casino.

Topic: Greektown Sale Order Held in Abeyance

The Board held a show cause hearing with Greektown casino officials immediately after the regular meeting. The Board heard evidence presented by Greektown consultants from the Conway & MacKenzie concerning the pending Chapter 11 bankruptcy filing. The sale provisions of the 2005 Board order were held in abeyance. Greektown management must report their progress monthly to the Board during Chapter 11 proceedings.

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STATE OF MICHIGAN
MICHIGAN GAMING CONTROL BOARD

SPECIAL PUBLIC MEETING

Michigan Gaming Control Board
Detroit Office Hearing Room
Cadillac Place
3062 W. Grand Blvd.
Detroit, Michigan

Friday, June 27, 2008
9:00 A.M.

AGENDA

I. Call to Order and Roll Call

II. Consider Approval of the Minutes of the Board's June 5, 2008 Special Public Meeting

III. Business

A. Consider Greektown Casino L.L.C.'s Request for Final Approval of DIP Financing

IV. Public Comment

V. Announce the Board's Next Scheduled Public Meeting (**Tuesday, August 12, 2008, 10:00 A.M.**, Detroit Cadillac Place Board Hearing Room)

VI. Adjournment