

Chicago Casino Would Be a Costly Bet, Gambling Operators Say

City sees source for new revenue but potential \$1 billion cost might make developers wary

By

Katherine Sayre

July 24, 2021 8:00 am ET

Chicago leaders are searching for a company to build the city's first casino, but big gambling operators are concerned that the government's plans will be too costly to make the project feasible.

The city is calling for a megaresort with hotel rooms, meeting space and a surrounding entertainment district, according to a request for proposals issued in April. Chicago is hoping a casino will aid its [underfunded pensions](#), said city officials. Chicago's requirements for the megacasino mean a developer could have to spend \$1 billion or more to accomplish the task, according to one person familiar with the plans. Casino-resorts that have opened in Las Vegas and Boston in recent years, albeit on a larger scale than what Chicago has proposed, have cost \$4.3 billion and \$2.6 billion.

Chicago's desires follow on the heels of a wave of states and cities [seeking to expand gambling to boost their economies](#), a decadeslong trend that has surged recently with online wagering. Gambling companies are eyeing a possible casino in New York City and investments in the rapidly growing online wagering market across the U.S. "We expect to have a very unique entertainment and gaming experience that you're not going to find anywhere else in the region," Chicago Mayor Lori Lightfoot said in an interview. "That is certainly our expectation. We're going to be driving toward that."

Chicago's request for proposals is detailed: a 500-room, five-star hotel; an "iconic outdoor public space"; up to 60,000 square feet of meeting space; and spaces for

restaurants, entertainment, shops and museums that involve Chicago-made brands and local artists and suppliers, all designed with Chicago's history in mind and with innovative architecture. The casino would open by 2025. Proposals are due Aug. 23 and developers would present plans to the public in late September. The applicants are being asked to propose the site for the project.

Gambling operators are also calculating whether some U.S. regional markets like Illinois and Indiana are becoming too crowded by casinos and sports-betting venues. City leaders want a Chicago casino to capture dollars lost from gamblers who cross the state line to Indiana to gamble there. Tax revenues of about \$200 million a year to the city would go toward the city's police and fire pension funds.

An Illinois gambling expansion approved by state lawmakers in 2019 created an effective tax rate more than 70% for a Chicago casino—meaning any operator would have to part with nearly two-thirds of its revenues—making the project unlikely to move forward. That was reduced to an effective rate of about 40% last year after city leaders sought a change in the legislation.

Last year, four gambling operators responded to the city of Chicago's initial request for information from interested companies. Those included Las Vegas's [MGM Resorts International](#) and [Wynn Resorts](#) Ltd., Hard Rock International based in Florida and Chicago-based Rush Street Gaming.

Since then, MGM Resorts has indicated it is no longer interested. In April, MGM Chief Executive Bill Hornbuckle said the tax rate for the project doesn't "marry up" with development of a full casino-resort. "We're not overly keen or focused at this point in time there," Mr. Hornbuckle said in a conference call with investors. The company's position on that hasn't changed, according to a spokesman.

Wynn Resorts has also decided not to participate in the request-for-proposals, said a spokesman, who declined to comment further.

Rush Street Gaming, which has worked with Chicago real-estate development firm Related Midwest in exploring the project, said that the companies "are long-term

believers in the promise of Chicago's future" and "are working together to evaluate this unique opportunity."

A Hard Rock spokeswoman declined to comment.

Other casino operators that didn't respond to the initial request for information could emerge in the current selection process.

Ms. Lightfoot said the envisioned entertainment district would have a mix of public and private investment, and the city "will also have skin in the game," including new infrastructure to complete the district. She said she couldn't say exactly how much the public investment would be. "We want to make sure that we're setting up whoever the operator is for maximum success," she said.

Under the casino expansion law Illinois passed, the winning company would have to pay the state fees in the beginning of the project, including \$30,000 for every slot machine and seat at a table game—so-called gaming positions. That would equal \$120 million if the casino opted for the full 4,000 gaming positions allowed, [according to an analysis](#) by the consulting firm Union Gaming Analytics, which also conducted the feasibility study. An additional payment based on annual gross revenues in the first three years—a fee that could be about \$480 million, according to the analysis—would be due in payments over six years.

In a statement, the city said even with the fees, the casino represents "the biggest and most compelling liberalization of gaming in the U.S. today" and is an opportunity for a company to build a profitable property.

Illinois's gambling expansion also allows for five more new casinos, including two in the Chicago area, as well as increases in gambling activities at existing locations, adding to supply in the regions.

Meanwhile, an urban casino project has high costs along with the potential for political and zoning issues that can cause delays, said Brendan Bussmann, partner and director of government affairs at gambling consultants Global Market Advisors. In Chicago, the tax rate, despite being lowered, still makes a project difficult, he said.

“The challenge with Chicago is, the sun and the moon and the stars really have to align to make it work,” Mr. Bussmann said.

Write to Katherine Sayre at katherine.sayre@wsj.com