

GAMING *in* Biloxi

March 2018





Biloxi Casino Resort Market 2018



History

Casino style gambling was a part of Biloxi's history dating back to at least the early 20th century when back room clubs offered slot machines and table games to thousands of locals and hundreds of thousands of tourists. Games of chance, however, date back hundreds of years in Biloxi, to the time of Native Americans.



During a national investigation into organized crime involved in interstate commerce in the 1950s, Tennessee Senator Estes Kefauver convened a congressional committee in Biloxi to the delight of area ministers. Still, the practice persisted until the late 1960s when the last of the wink-and-a-nod rooms faded into history.

Legalized gaming arrived in 1992, when the first three riverboat casinos (Isle of Capri, the President and the Biloxi Belle) cruised into town. Thousands of people from Florida to Louisiana lined up to wait as long as three hours in the broiling August sun before they could enter one of the cramped gambling boats. Legal gaming quickly resuscitated the stagnant Biloxi tourism industry, evolving into supersized gambling halls with dazzling new resort hotels and entertainment centers.

The largest casino companies in Las Vegas moved in to buy out the smaller operations and world class resorts dominated Biloxi's skyline by the late 1990s. Now, 26 years after legalization, Biloxi is a major gaming destination. Since 1992, Biloxi has generated about \$18 billion of gross gaming revenue yielding \$450 million in casino taxes to the benefit of public safety, education, streets and drainage and quality of life.



From a high of 10 to the current lineup of 8 casino resorts, Biloxi offers more than 5.7 million annual coast visitors the latest in gaming inventory, fine dining and headliner entertainment.



With year-round temperate weather, an endless white sand beach and the hypnotizing waters of the Gulf of Mexico, Biloxi also provides an affordable and compelling playground for adults and families. Exquisite and unique museums highlight the city's 319-year history and complement all-encompassing outdoor recreation from golf to tennis to deep sea fishing to sailboat regattas to island hopping.

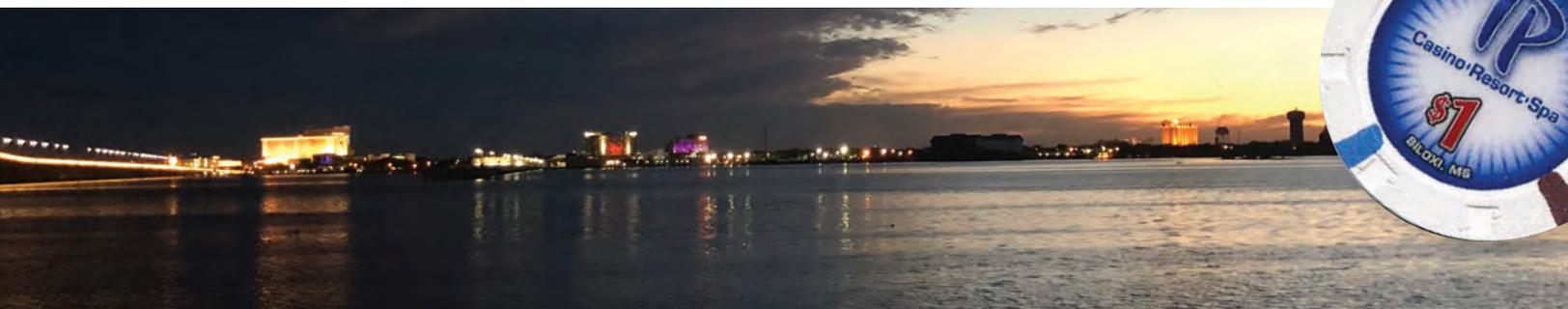
Biloxi Mayor Andrew "FoFo" Gilich has created a variety of economic development programs designed to augment casino tourism with new family amenities like amusement parks, mini-race car tracks and eco-tourism. A new boardwalk is being installed, which will allow locals and visitors to stroll the waterfront from Back Bay Biloxi all the way around the Point Cadet area and across to West Beach.



Downtown revitalization is underway with new restaurants, entertainment venues and retail shops underscoring mixed-use developments that include housing elements for millennials and retirees. Pedestrian walkways over U.S. 90 will allow easier entry into Downtown Biloxi by the thousands of visitors staying in beachfront resorts like Beau Rivage, Hard Rock, Doubletree and the new Watermark set to open later this year.

Non-casino hotel development is on the uptick as Biloxi tries to regain the room supply drastically reduced by Hurricane Katrina in 2005. Although still a predominantly drive-in market, Biloxi is working with Coast tourism and airport officials to expand air service both nationally and internationally.

While the Biloxi gaming market has remained flat for the past several years, at least three available gaming sites are being considered by various companies for potential development.

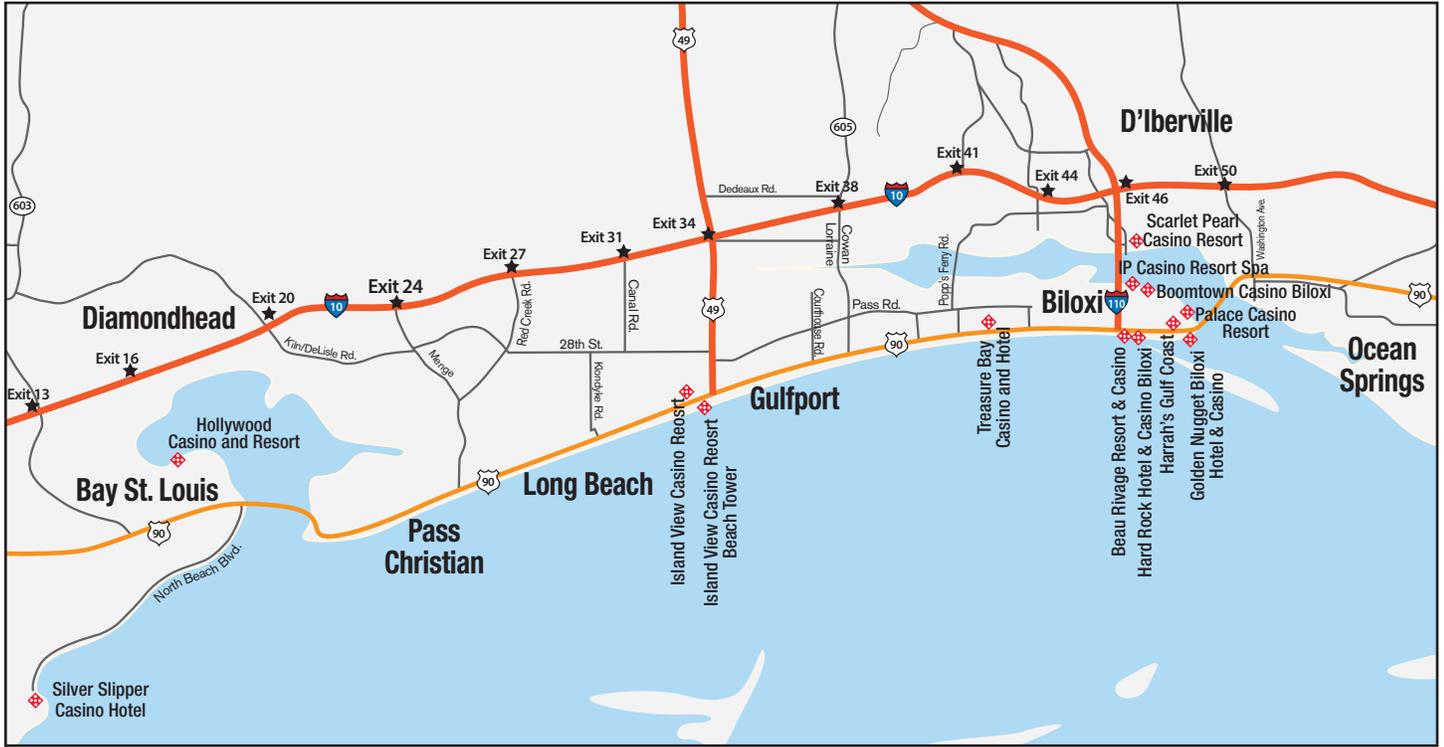


Existing Casinos and Potential Casino Sites



| Potential Sites | Sq Ft | Acres | Address | GIS Coordinates |
|--------------------|------------|-------|-----------------------|------------------------|
| Broadwater | 10,825,714 | 249 | 2100 Beach Blvd/US-90 | Lat 30.392 Lon -88.962 |
| Old Margaritaville | 723,762 | 17 | 160 5th St | Lat 30.401 Lon -88.860 |
| Ferrara Site | 802,852 | 18 | 100 8th St | Lat 30.405 Lon -88.862 |
| Tivoli Site | 1,299,840 | 30 | 430 Beach Blvd/US-90 | Lat 30.393 Lon -88.873 |





Golden Nugget Biloxi



IP Casino Resort Spa



Hard Rock Hotel & Casino



Treasure Bay Casino and Hotel



Beau Rivage Resort & Casino



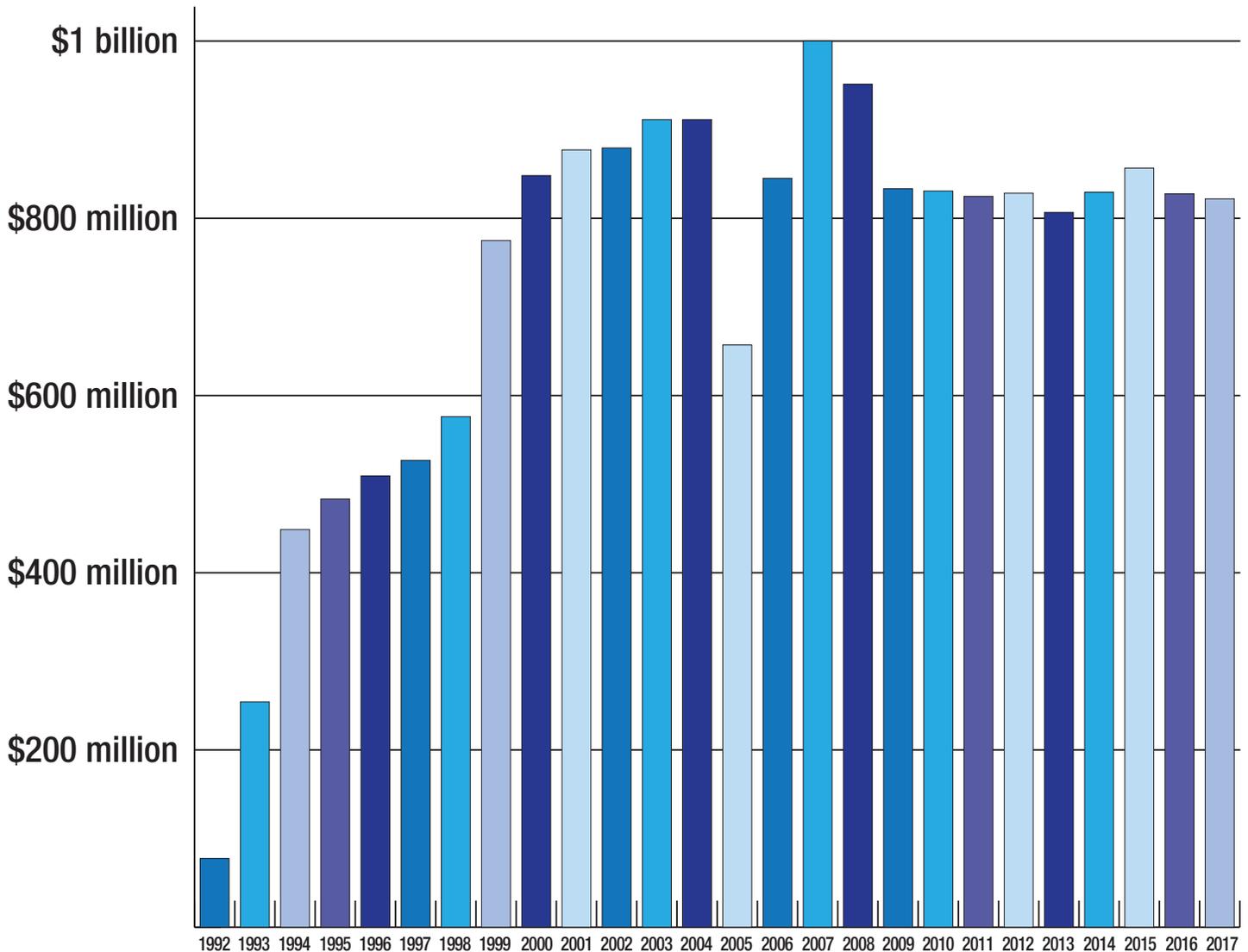
Palace Casino Resort



Boomtown Casino Biloxi



Gross gaming revenue



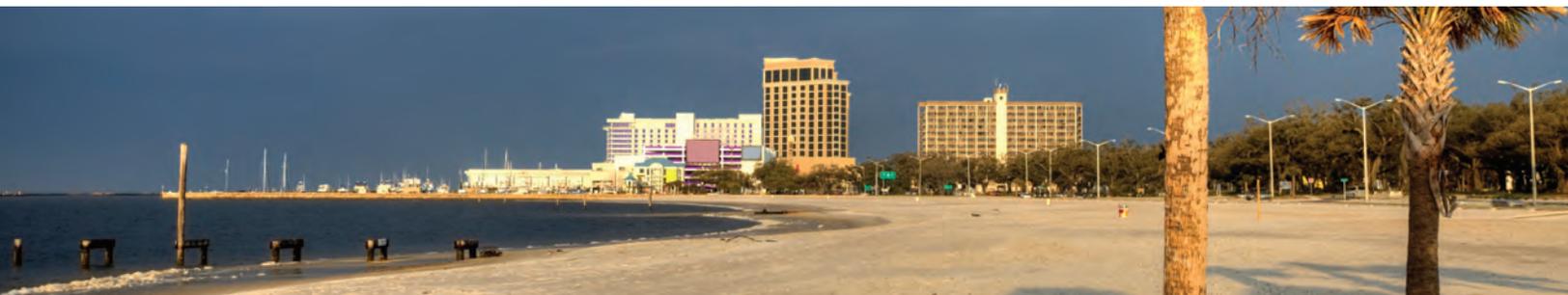
Opportunity Zones: Tax Cut and Jobs Act of 2017

Opportunity Zones are a new community development program established by Congress in the Tax Cuts and Jobs Act of 2017 to encourage long-term investments in low-income urban and rural communities nationwide. The Opportunity Zones program provides a tax incentive for investors to re-invest their unrealized capital gains into Opportunity Funds that are dedicated to investing into Opportunity Zones designated by the chief executives of every U.S. state and territory.

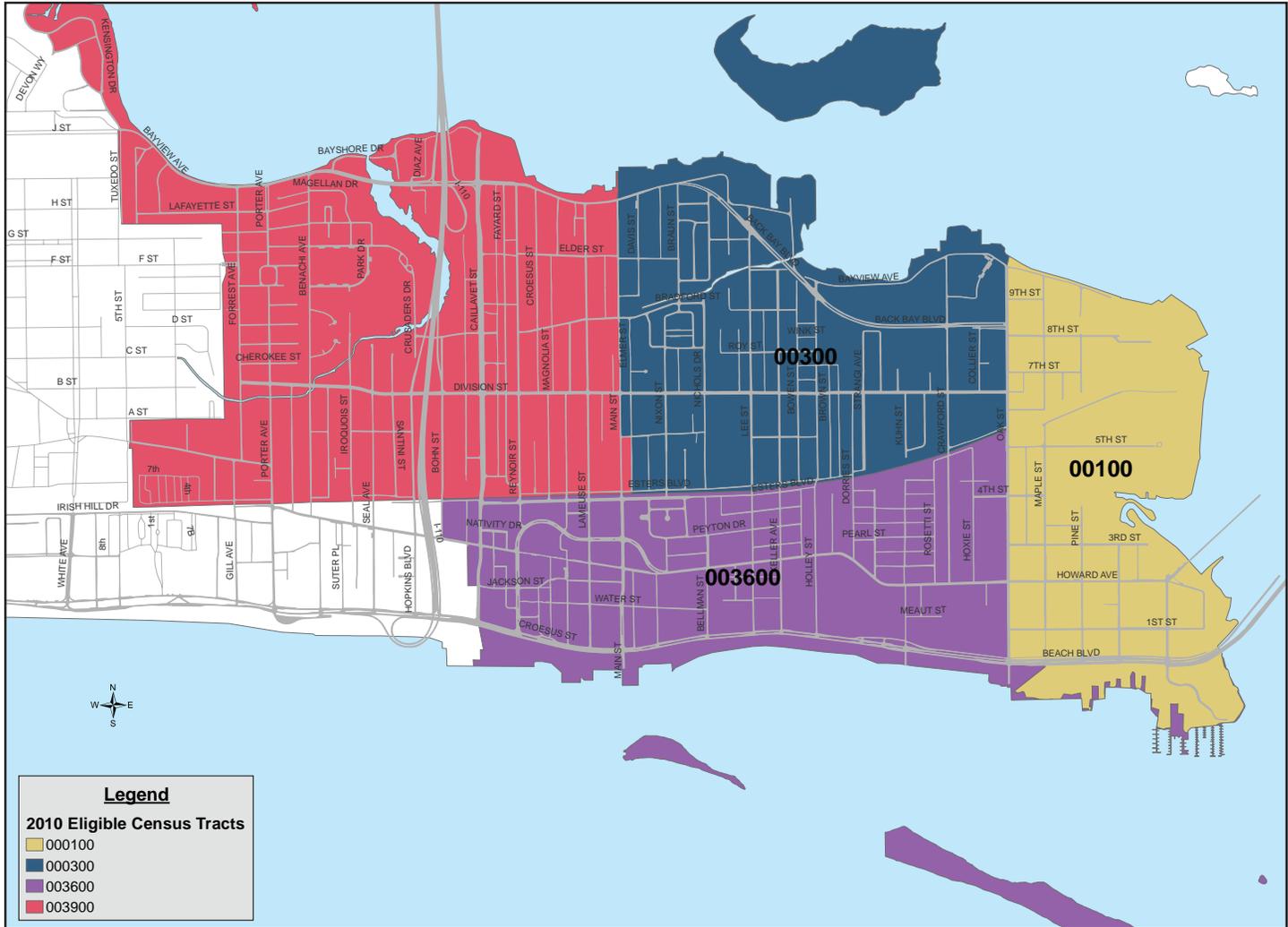
This program uses low-income community census tracts as the basis for determining areas eligible for Opportunity Zone designation.

The Opportunity Zones program offers investors the following incentives for putting their capital to work in low-income communities:

- A temporary tax deferral for capital gains reinvested in an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is sold or Dec. 31, 2026.
- A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis of the original investment is increased by 10 percent if the investment in the qualified opportunity zone fund is held by the taxpayer for at least five years, and by an additional five percent if held for at least seven years, excluding up to 15 percent of the original gain from taxation.
- A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in a qualified opportunity zone fund, if the investment is held for at least 10 years. (Note: this exclusion applies to the gains accrued from an investment in an Opportunity Fund, not the original gains).

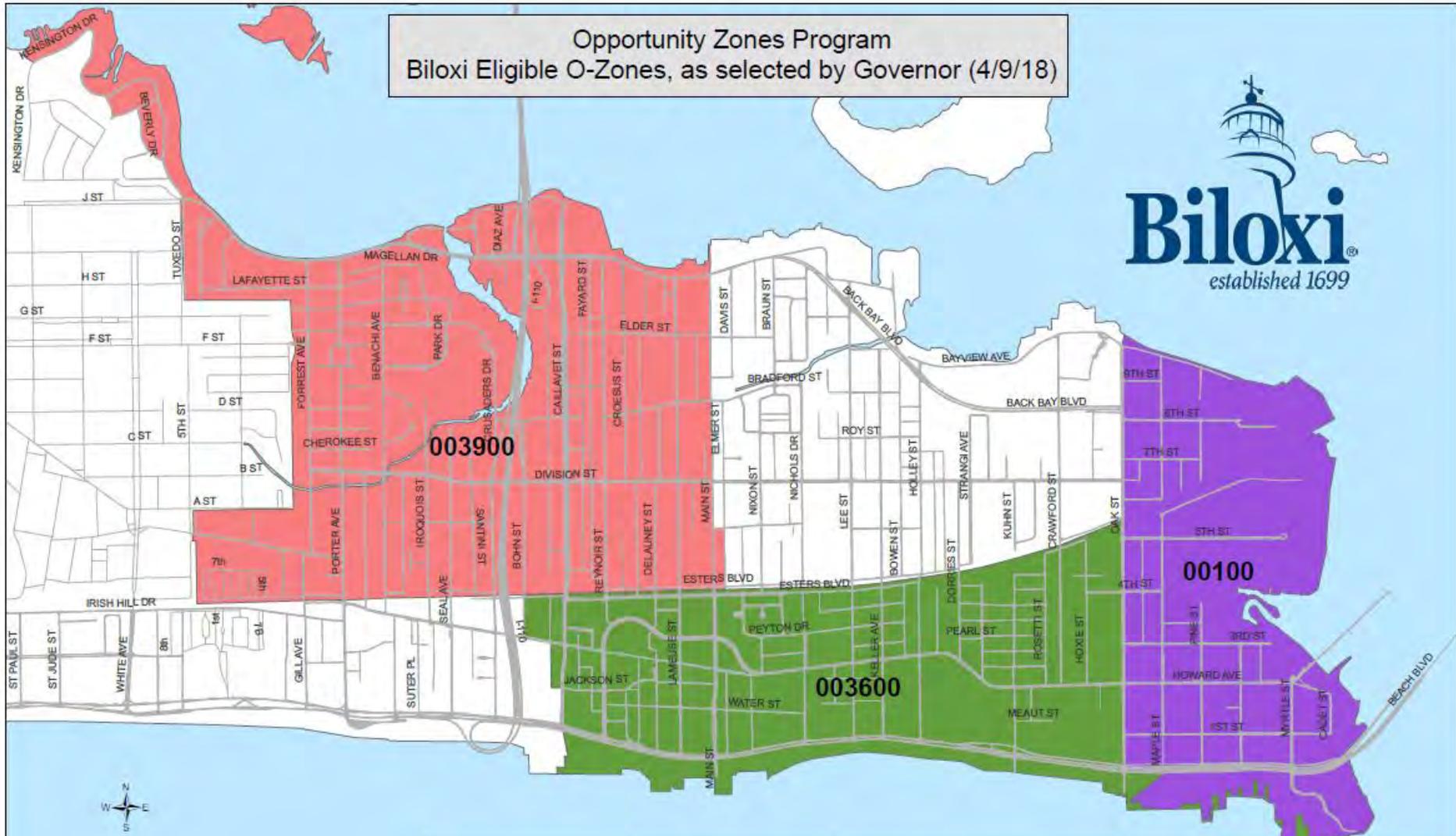


Eligible Areas shown by 2010 Census Tracts



| TRACTCE | NAME/SAD | 2000 Census Data | | | 2010 Census Data | | | | 2011-2015 American Community Survey Estimate | | | |
|---------|----------------------|------------------|---------------------|---|------------------|--------------------|---|----------------------------|--|--------------------|---|----------------------------|
| | | Population | Median Income | Labor Force Participation Rate Estimate | Population | Median Income | Labor Force Participation Rate Estimate | Unemployment Rate Estimate | Population | Median Income | Labor Force Participation Rate Estimate | Unemployment Rate Estimate |
| 003900 | Census Tract 39 | x | x | x | 3,278 | \$39,231.00 | 71.2% | 9.2% | 3314 | \$33,750.00 | 63.2% | 6.7% |
| 00400 | Census Tract 4 | 1,519 | \$ 28,068.00 | | | | | | | | | |
| 00700 | Census Tract 7 | 1,692 | \$ 28,257.00 | | | | | | | | | |
| 00800 | Census Tract 8 | 1,741 | \$ 34,457.00 | | | | | | | | | |
| | Summary/Total | 4,952 | \$ 30,260.67 | | 3,278 | \$39,231.00 | 71.2% | 9.2% | 3314 | \$33,750.00 | 63.2% | 6.7% |
| 003600 | Census Tract 36 | x | x | x | 1,080 | \$16,250.00 | 51.5% | 6.1% | 1064 | \$28,000.00 | 64.7% | 11.9% |
| 00200 | Census Tract 2 | 2,276 | \$ 35,859.00 | | | | | | | | | |
| 00500 | Census Tract 5 | 168 | \$ 61,000.00 | | | | | | | | | |
| | Summary/Total | 2,444 | \$ 48,429.50 | | 1,080 | \$16,250.00 | 51.5% | 6.1% | 1064 | \$28,000.00 | 64.7% | 11.9% |
| 000100 | Census Tract 1 | 1,391 | \$ 33,750.00 | | 255 | \$45,114.00 | 71.7% | 7.3% | 334 | \$10,833.00 | 43.0% | 9.3% |
| 000300 | Census Tract 3 | 2,859 | \$ 25,845.00 | | 2,054 | \$26,014.00 | 54.7% | 10.6% | 2030 | \$21,208.00 | 67.4% | 24.3% |

Opportunity Zones Program
 Biloxi Eligible O-Zones, as selected by Governor (4/9/18)



Legend
 Biloxi Eligible O-Zones

- 000100
- 003600
- 003900

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| | | | | | | | | | 334 | \$10,833.00 | 43.0% | 9.3% |

Opportunity Zones: Tax Cut and Jobs Act of 2017

The recent Tax Cuts and Jobs Act has provided favorable tax treatment with respect to the timely reinvestment of realized capital gains into Qualified Opportunity Funds.

Are there any Qualified Opportunity Zones in Biloxi?

Biloxi has requested that Governor Bryant designate six census tracts in Biloxi that are clearly eligible and are among the most impoverished in Mississippi. Biloxi's six tracts are depicted on the attached map. The Governor has not yet designated tracts to the Federal Government, and the deadline for designation has not yet occurred. March 6, 2018 is the initial deadline for state designation, but the state can request a 30-day extension.

What are the tax advantages of holding an investment for designated time periods?

Realized capital gains that are reinvested into a Qualified Opportunity Fund within 180 days are not taxed until the investment in the fund is sold, or Dec. 31, 2026, if earlier (the "recognition date"). If the fund investment is held for 5 years prior to the recognition date, the taxpayer's basis is stepped up such that 10 percent of the invested deferred gain escapes taxation. If the fund investment is held seven years, an additional five percent of the deferred gain escapes taxation. (Deferred gains invested within five years of Dec. 31, 2026 will be taxed in full in the 2026 tax year regardless of how long they are held after that, but the taxpayer's basis in the fund investment may still be eligible for a step-up in basis at the five and seven year marks.) If the fund investment is held for 10 years, capital gains taxes will be due for 2026 with respect to the deferred gain rolled over into the fund (taking into account the basis adjustments described above), but the taxpayer in the year of sale can elect to adjust his basis to the then fair market value such that "new" gain on the fund investment will not be taxed.

What is a "Qualified Opportunity Fund"?

A Qualified Opportunity Fund is a corporation or partnership organized for the purpose of investing in "qualified opportunity zone property" and that holds 90 percent of its assets in "qualified opportunity zone property." The Act directs the Department of Treasury to prescribe rules for the certification of Qualified Opportunity Funds. The certification process is expected to be handled by the Community Development Financial Institutions (CDFI) Fund in a similar manner to the existing process for allocating New Markets Tax Credits.

What are the investment requirements applicable to Qualified Opportunity Funds?

A Qualified Opportunity Fund must hold at least 90 percent of its assets in "qualified opportunity zone property," determined by the average of the percentage of such property held by the fund on the last day of the sixth month and on the last day of each tax year. If the Qualified Opportunity Fund fails to meet the 90 percent test, it (or its owners if it's a pass-through entity) will pay a tax penalty on a sliding scale.

What sorts of investments constitute "qualified opportunity zone property"?

A Qualified Opportunity Fund can invest directly in tangible property used in a trade or business if (i) such property was acquired by purchase after Dec. 31, 2017, (ii) the original use of such property commences with the Qualified Opportunity Fund or the Qualified Opportunity Fund substantially improves the property, and (iii) substantially all of the use of such property is in

a qualified opportunity zone. It can also invest cash in newly issued securities of certain corporations or partnerships substantially all of whose tangible property meets the tests of clauses (i), (ii) and (iii) above. Projects that could qualify are construction or substantial rehabilitation of commercial properties or single or multi-family residential properties and operating businesses. (Certain disfavored businesses are excluded, such as golf courses and gambling establishments.)



Must the fund's investments be physically located in a qualified opportunity zone?

To qualify as "qualified opportunity zone business property," substantially all of the use of such property must be in a qualified opportunity zone. Unless and until further guidance is issued, it is recommended to interpret this requirement as requiring physical presence.

What applicable Treasury guidance is available?

Revenue Procedure 2018-16 provides guidance relating to the eligibility of certain census tracts for nomination and approval as "qualified opportunity zones." No other Treasury guidance is yet available.

Are capital gains realized in 2017 eligible?

The Act has an effective date of Dec. 22, 2017. Certainly, capital gains realized in a transaction with an "unrelated person" on or after that date are eligible if timely reinvested into a Qualified Opportunity Fund. It is not certain whether capital gains realized before the effective date are eligible. [As a practical matter, unless certified Qualified Opportunity Funds are accepting investments before mid-June, 2018, a taxpayer could not take advantage of the new law for 2017 gains.]

What will be the effect of timely reinvestment of eligible 2017 capital gains with respect to the 2017 tax year?

Taxpayers who timely reinvest eligible 2017 capital gains into a Qualified Opportunity Fund and make the required tax election will not be taxed on those capital gains in the 2017 tax year. They will incur tax liability on those gains in the year they sell their investment or 2026, if earlier, at the applicable capital gains rates then in effect, subject to potential favorable basis adjustments.

Are capital gains realized in 2018 eligible?

Capital gains realized in a transaction with an "unrelated person" in 2018 and thereafter through Dec. 31, 2026 are eligible.

What are the reinvestment requirements for favorable capital gains tax treatment?

In order to qualify for the Act's favorable capital gains tax treatment, eligible capital gains realized in a sale or exchange must be reinvested in a Qualified Opportunity Fund within 180 days.

What if investments are made in a zone prior to its designation as a qualified opportunity zone? Will it qualify if the zone is subsequently approved for designation?

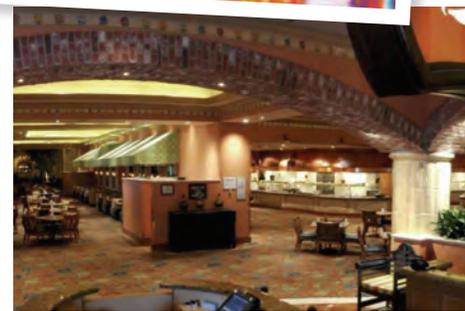
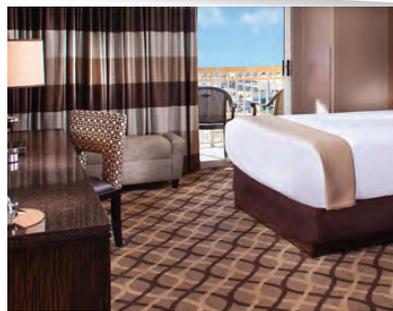
All opportunity zones should be designated no later than June 20, 2018. Therefore, it is recommended that qualified opportunity funds wait to make investments until that time. (But a taxpayer could make his investment in a qualified opportunity fund prior to the zone designations.)

The information contained herein is a summary and general in nature. It is not, and should not be construed as, accounting, legal or tax advice and may not be applicable to, or suitable for, the reader's specific circumstances or needs which may require consideration of tax and nontax factors not described herein. The reader should contact his own tax advisor prior to taking any action based upon this information. Changes in tax laws or other factors could affect, on a prospective or retroactive basis, the information contained herein.

Casino Resort Requirements

The Mississippi Gaming Commission, which is the state agency tasked with overseeing the casino industry, has a number of requirements for new casino resort developments. They must include these features:

- Be no more than 800 feet from the 19-year mean high water line, excluding public rights of way.
- A parking facility to accommodate at least 500 cars, in close proximity to the casino complex.
- A hotel of at least 300 rooms and be a three diamond rating as defined by an acceptable travel publication as determined by the commission.
- A restaurant capable of seating at least 200 people and a fine-dining facility capable of seating at least 75 people.
- A casino floor of at least 40,000-square feet.
- Have or support an amenity that will be unique to the market and will encourage economic development and promote tourism.



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