

# Evaluation of Riverboat Licensee for East Chicago, Indiana: Showboat Mardi Gras Casino Partnership

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# Introduction

The Riverboat Gambling Act, effective July 1, 1993, authorized the Indiana Gaming Commission to issue licenses for the express purpose of riverboat gambling in the state of Indiana. One of the statutory criteria for issuance of these licenses is the applicant's ability to promote economic development in the home dock area while best serving the interest of the citizens of Indiana. As an aid to fulfilling its legislative requirements, the Indiana Gaming Commission (Commission) contracted with the Center for Urban Policy and the Environment (Center) of Indiana University's School of Public and Environmental Affairs to perform the economic impact, fiscal impact, financial, management, and other analyses required to assist the Commission in awarding licenses. As part of that contract, the Center has committed to continue to monitor the economic impacts and fiscal returns from each riverboat operation.

On January 8, 1996, the Commission issued a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in East Chicago, Indiana. Showboat Mardi Gras Partnership (Showboat) received its owner's license on April 15, 1997. This report is an evaluation of its first year of operation. During its first year of operation Harrah's entered into negotiations with Showboat to purchase the company. The sale was finalized in June 1998.

## Project Development and Investment

### Development Activities

In the Certificate of Suitability (referred to throughout as certificate), Showboat committed to spend approximately \$154.5 million on project development, in addition to pledging to the city of East Chicago other incentives totaling several million dollars.

The 4,250-passenger riverboat opened with 53,000 square feet of gaming space. An 112,000-square-foot permanent pavilion was completed and opened with the launching of the riverboat. In addition, there is a 1,800-car parking garage, 1,000-car surface parking lot, 200-seat buffet restaurant, and 54-seat fine dining restaurant. The size and scope of the pavilion and current parking garage are as described in the license application.

Table 1: Actual Versus Predicted Development Costs (\$ 000s)

Development	Certificate of Suitability	Actual	Difference
Total Costs	\$154,480	\$195,545	\$41,065

As Table 1 illustrates, Showboat spent \$41.1 million more than agreed to in the certificate for the development of the project (riverboat, pavilion, garage, etc.). While the certificate did not provide a breakdown of development commitments, Showboat provided actual expenditures. Those expenditures included \$47.6 million for gaming vessel construction, \$14.0 million for pavilion construction, \$10.0 million for breakwater construction, \$8.1 million for parking garage construction, and \$8.3 million for parking garage expansion.

### Other Commitments

As Table 2 illustrates, Showboat is current with regard to most of the additional commitments. The \$5.5 million for homebuyers' assistance has been delayed due to difficulty in locating a partner bank. Showboat now has found a bank and expects to begin this program within six months. The Second Century Development Corporation held a design competition that sought architectural firms throughout the Midwest to participate. The winners, Blackburn and Associates from Indianapolis, are finishing design details in preparation for construction of 64 single-family market rate homes. The construction will begin in late summer or early fall of 1998 on a 7-acre site. The development will be the first of its kind in East Chicago in more than 20 years. Table 3 lists

grants that have been awarded from the East Chicago foundations. The remainder of the money has gone into endowments and administration.

Table 2: Schedule and Description of Incentive Payments (\$000s)

Incentive	Promised Amount	Recipient	Amount Paid Through 4/18/98	Status
A) Projects and Programs	\$1,270	East Chicago	\$1,371	Complete
B) Contribution to Cline Avenue Overpass	\$3,500	East Chicago	\$3,441	Complete
C) Job training	\$1,544	East Chicago	\$1,544	Complete
D) Homebuyer Assistance	\$5,500	East Chicago	\$0	Pending
E) Economic Development Initiatives	\$4,558	East Chicago	\$3,689	Ongoing
F) Contingent Incentives	1% of annual adjusted gross gaming receipts	East Chicago	\$1,609	Ongoing
G) Contingent Incentives	1% of annual adjusted gross gaming receipts	East Chicago Community Development Foundation, Inc.	\$1,609	Ongoing
H) Contingent Incentives	1% of annual adjusted gross gaming receipts	Twin City Education Foundations, Inc.	\$1,609	Ongoing
I) Contingent Incentives	¾% of annual adjusted gross gaming receipts	East Chicago Second Century, Inc.	\$1,207	Ongoing
J) Replacement of bathhouse	Not in certificate \$195,000 estimate	Pastrick, Marina		Summer 98

Table 3: Foundations of East Chicago Emergency Funding Initiative

Organization Name	Project/Program Title	Twin City Education Foundation Final Funding	East Chicago Community Development Foundation Final Funding
Calumet College	A collaboration Initiative Improving Health & Education of Non-traditional Students	\$5,000	
Calumet College - St. Joseph	CDA Training	\$17,000	
Catholic Family Service A Division of Catholic Charities Diocese of Gary, Inc.	Catholic Family Service Counseling Extension		\$20,000
Central High School	Summer Job Shadowing	\$12,200	
Central High School	Building a resource library for School to Work	\$5,000	
Central High School	Peer Partners Pilot Program	\$2,500	
Christmas in April	Home Repair		\$10,000
Christmas in April	Girl Scout Home Rehab		\$10,500
College Tour Fund-Black Expo CRP	College Tour Fund Housing Prog. Rental Rehab	\$2,000	\$10,000
Central HS Computer Club	Computer Club Initiative		\$4,000
EC Wrestling Club	Cardinal Wrestling Club	\$4,100	
EC Civic Little League	Safety Equipment	\$3,500	\$1,500
EC Civic Little League	Field Development		\$5,000
Grand Cal Task Force	Grand Calumet River/Indiana Harbor Ship Canal Corridor Vision		\$5,000
Harbor Area CDC	Harbor Commercial Rehab & Dev		\$10,000
Harrison Elementary	Technology & Literature in the Classroom	\$850	
Harrison Elementary	Gang Facts Alternatives (GFA)		\$1,500
Indiana Plan	Indiana Plan/EC Residents	\$5,300	
Inner City Games	Games	\$15,000	
Little Angels under God & Heaven	3rd Annual Guthrie Groove Dance Contest		\$2,000
Multi-Cultural Mural Committee	Power of an Education Mural	\$900	\$600
NI Black Expo	Spring Celebration & Youth Summit	\$7,500	\$1,200
Puerto Rican parade & Cultural Organization of NWI	Puerto Rican Cultural Awareness Events		\$5,000
Purdue University Calumet	Engineering & Science Summer Program	\$5,000	
Renaissance Dev. Corporation	Operating Budget		\$10,000
Renaissance Dev. Corporation	Computer Learning Program		\$10,000
School City of East Chicago	Earth Camp	\$3,500	
School City of East Chicago	Project Aquaquest (Distance Learning)	\$5,000	
School City of East Chicago	Pre-Kindergarten (K-Camp)	\$5,000	
St. Stansalaus School	St. Stan Schl Improvement & Major repair plan-Door Replacement		\$16,000
School City of East Chicago	Community Environmental Ed. & Outreach	\$25,000	
School City of East Chicago	Alternative School: Central's Success Academy	\$29,700	
Showboat Scholarships	Scholarships	\$20,000	
St. Mary School	Computer Lab Development	\$3,700	

Table 3 (cont'd): Foundations of East Chicago Emergency Funding Initiative

Organization Name	Project/Program Title	Twin City Education Foundation Final Funding	East Chicago Community Development Foundation Final Funding
St. Mary School	Computer Lab Development	\$3,500	
St. Mary School	Enrichment Program for Community Youth	\$3,000	
Robertson Child Dev. Center	Day Care Homes Development		\$10,000
Twin City Community Service	Office Equipment		\$10,000
Twin City Community Service	Project YES-Youth Employment Services		\$10,000
Twin City Community Service	Three Component Youth Programs		\$10,000
Zion Missionary Baptist Community	Youth Deliverance for Millennium 2000	\$9,500	\$10,000
St. Stansalaus School	Development of a Computer Lab	\$18,250	
Tab's Accounting & Tax Service	T.A.B.	\$5,000	
Twin City Community Service	EC Mathematics & Science Wizardry	\$20,000	
Workforce Development Services	Title II-A Adults, TitleII-c Youth, Title II-OW, Title III/D1W	\$8,500	
The Salvation Army	Emergency Needs Program		\$20,700
Viva La Hispanidad!	Attendance to US Hispanic Leadership Conference	\$2,400	\$600
School City of East Chicago	Exploring the Visual & Performing Arts - Camp	\$2,100	\$1,400
Union Benefica Mexicana	Rebuilt Deteriorating Façade		\$5,000
<b>TOTAL</b>		<b>\$250,000</b>	<b>\$200,000</b>

Table 4 illustrates the city of East Chicago's expenditures using gaming revenue during 1996-1997:

Table 4: East Chicago's Disbursements from Gaming Revenues in 1996-1997

Construction costs related to Cline Avenue Extension	\$3,239,659
Reimbursement of City police personnel costs	\$1,376,590
Other	\$576,309
Kennedy Avenue construction local matching funds	\$400,000
Purchase of police cars	\$358,040
Capital improvement projects	\$316,191
Ambulance and appropriate support equipment	\$118,950
Schools in distress assistance	\$118,000
Emergency Management Department	\$100,000
Purchase of a Utility boom truck	\$60,327
Desk Top Publishing Equipment & Software	\$41,378
Computer equipment	\$18,625
Marina Security Boat Radio Equipment	\$10,000

### Community Activity

In addition to the foundation contributions to which Showboat agreed to in the certificate, Showboat has contributed \$84,218 in corporate sponsorships, in-kind donations, and monetary contributions to over 170 organizations. Showboat's senior management is involved in more than 65 local organizations and is represented on many boards of directors in the East Chicago area, including: East Chicago Youth Service Bureau, Operation HOPE, Indiana Job Training Administrators,

Inc., American Red Cross, Lake County Chapter, St. Catherine's Hospital, Corinthian Center Christian Home for Women, and the East Chicago Public Library.

### Minority/Women Business Enterprise

In the Indiana riverboat legislation, the Indiana General Assembly stated that the opportunity for full enterprise participation in the riverboat industry for minorities and women is essential if social and economic parity for all citizens is to be obtained and if the economies of the riverboat cities are to be stimulated as contemplated by this legislation. Showboat committed to meet the goals of the legislation in their first year. According to their goals, Showboat indicated that they would expend ten percent of the dollar value of their contracts for goods and services provided by minority-owned businesses and five percent from women-owned businesses. The Commission, through the Indiana Department of Administration's Office of Minority Business Development (OMBD), has established and administers a unified certification procedure for minority- and women-owned enterprises that conduct business with riverboat operations.

OMBD currently is reviewing the information provided by Showboat to determine compliance.

## Economic and Fiscal Impacts

### Employment and Earnings Impacts

Showboat began hiring and training the majority of their employees in March of 1997. Ivy Tech College provided training for employees. Ivy Tech also administered a job assessment program funded by Showboat that provided local residents an opportunity to improve or enhance their employment potential with remedial education classes, employee preparation classes, and job training. The assessment center opened in August of 1996. More than 700 East Chicago residents were assisted through the assessment center. The assessment center still is in existence and currently is being used and funded by other area businesses.

As Table 5 indicates, Showboat's application estimated employment of 2,000 persons in the casino for annual wages totaling approximately \$46.7 million. As of April 15, 1998, Showboat had 1,333 employees. For 1997-1998, salaries and wages were \$33.0 million, including tips to dealers (but not to bar and wait staff). Full- and part-time employees receive benefits.

Table 5: Comparison of Forecast to Actual Showboat Operation

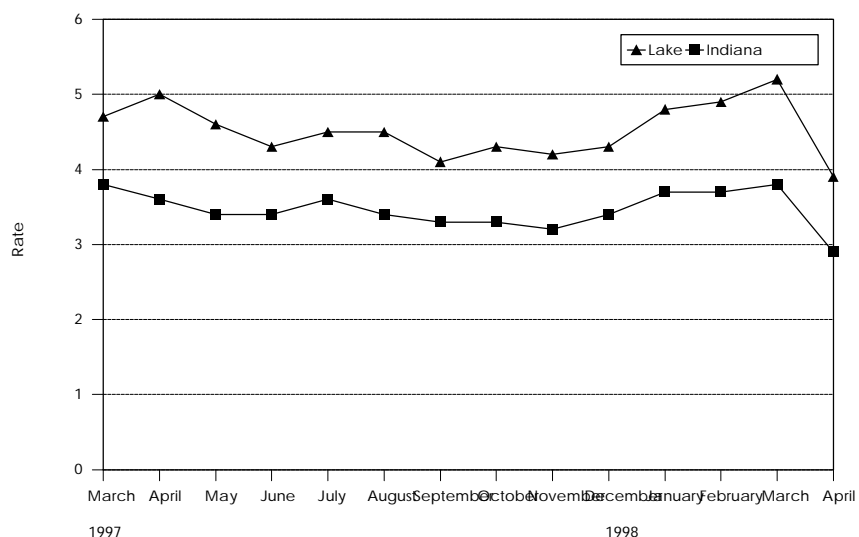
Category	Application Forecast Year 1	Actual 1997-1998	Difference
Employment as of 4/18/98	2,000	1,333	(667)
Total Wages, Tips, & Benefits	\$46,742,000	\$33,038,468	(\$13,703,532)
Attendance	5,381,780	4,910,876	(470,904)
Gross Gaming Receipts	\$269,088,952	\$160,913,549	(\$108,175,403)
\$ per Patron per Cruise	\$50*	\$33	(\$17)
Gaming Tax (State)	\$40,363,343	\$24,137,031	(\$16,226,312)
Gaming Tax (Local)	\$13,454,448	\$8,045,677	(\$5,408,771)
Admission Tax (State)	\$5,381,780	\$4,910,876	(\$470,904)
Admission Tax (County)	\$5,381,780	\$4,910,876	(\$470,904)
Admission Tax (City)	\$5,381,780	\$4,910,876	(\$470,904)

\* Applicant average for Hammond and East Chicago was \$54.

As Table 5 illustrates, in 1997-1998, Showboat had adjusted gross gaming receipts of \$160.9 million, or 40 percent less than their application estimate. They had total gross revenues (includes casino, food and beverage, parking, gift shop, and other revenues) of \$173.6 million, \$117 million less than the \$290.6 million estimated in their application. Their attendance was slightly less than expected (8.8 percent); Showboat overestimated the receipts per passenger per trip (\$33 actual versus \$50 projected). Total local taxes (city and county admission taxes plus local gaming tax) were \$17.9 million, or \$6.3 million less than the projection of \$24.2 million in Showboat’s application.

Lake County’s unemployment rate has fluctuated since 1997 but is now lower than it was in April of 1997 (see Figure 1). While the opening of riverboats in the area seems to have had an effect on unemployment as well as the overall growth of the economy in the region, Lake County’s unemployment rate was higher than the state’s unemployment rate.

Figure 1: Unemployment Rate: Indiana and Lake County



As of April 15, 1998, 59 percent of Showboat employees were women, 59 percent were minorities, 30.5 percent were from East Chicago, and 84.4 percent were from Northwest Indiana. In their application, Showboat did not state specific employment goals.

## Local Economic Impact

In addition to the gaming taxes paid to the city and state, Showboat paid \$2,672,117 in sales and use taxes and \$483,198 in property taxes. Payroll of \$33.0 million and local purchases of \$15.3 million also contributed to the local economy.

City officials indicated that residents are purchasing more goods and services from area residents supporting the business base in East Chicago. One example they cited is a \$150,000 expansion of the local Walgreen's store. This expansion will create eight new jobs. Another example is Del Ray Farms new 4,600 square-foot fruit, vegetable, and meat market which employs 35 people, fifty percent East Chicago residents and 85 percent minorities. There are plans to build a new gas station and mini mart a short distance from the riverboat on property that has been vacant for 20 years. This business will create six to eight new jobs. The Pastrick Marina has seen an increase of business as well. It has six new slips, a new entranceway, a renovated fish cleaning station, and the city is in the process of constructing a new boat maintenance building.

## Impact on Tourism

Through April 15, 1998, non-Indiana residents made more than 70 percent of the trips to Showboat with the majority of those trips from Illinois residents. In 1997-1998, Showboat had 4.9 million taxable admissions. This attendance is 0.5 million less than Showboat's attendance projection in their application.

According to the Lake County Convention and Visitors Bureau, hotel occupancy in Lake County has increased 13 percent from 1996 to 1997. The Convention and Visitors Bureau attributes this to the increased visitation to the Lake County riverboats. It is impossible at this time to determine which of the Lake County riverboats these visitors attended.

## Legal Issues

There have been 29 felony arrests filed and 18 misdemeanor arrests for incidences on Showboat property during this period. The majority of arrests were for credit card fraud, theft by employees and alcohol related incidences. The State Police have not written any citations for minors in a tavern because Lake County will not prosecute that offense. Showboat security handles that issue by checking identifications and turning away underage patrons. Last year they reported checking 38,993 identifications and turning away 2,133 patrons for being underage. Showboat was sued once for sexual harassment and once for wrongful discharge.

According to East Chicago's chief of police, the neighborhood has not experienced any additional criminal activity that can be attributed to Showboat's presence. Accidents in the area increased from 12 in 1996-1997 to 20 in 1997-1998 but there were no fatal accidents in either year.

## Other Impacts

There are other possible impacts that can result from the location of a riverboat in a community. For example, compulsive gambling might become a problem. There also might be decreases in patronage for existing businesses, higher rates of bankruptcy, and a greater need for social services. From April 1997 to April, 1998, 98 calls for help with gambling problems were made by Lake County residents to the "Deal With It" line that's contracted through the Commission for a Drug Free Indiana. There also have been 10 calls from La Porte County, 22 calls from Porter County, and 119 calls from Chicago. This rate is much higher than last year's rate. For example, in the same period from 1996-1997 Lake County residents made 26 calls. The referral line has recently started asking callers where they obtained the number and 36 percent of in-state residents and 70 percent of out of state residents indicated that they had obtained the number from a riverboat ticket.

In some smaller communities, we expect an impact on housing starts, school enrollment, and other factors from the additional employees moving into the area. Because three riverboats opened previous to Showboat, it is not possible to discern individual impacts. Even so, we did examine school enrollments in Lake County and found that they declined slightly in Lake County (-1.1 percent) from the previous year.

Showboat does not provide training for its employees concerning compulsive gambling. If a patron has a gambling problem they may contact any security officer or casino host on the boat for assistance. In the past year only one person has contacted management regarding a gambling problem. Showboat officials anticipate that Harrah's will implement problem gambling programs including its Operation Bet Smart and Project 21 programs at the facility. Project 21 stresses to high school students that gaming is adult entertainment and provides funding for college scholarships.



## Summary of Findings

Showboat has met or exceeded the requirements of their certificate of suitability in the following areas:

- Showboat spent a total of \$195.5 million on the development of the project, \$41.1 million more than estimated.
- Showboat is on schedule with almost all of its incentive payments.
- Showboat has sponsored many community events; their senior management is represented on many boards.
- Even though they did not state specific employment goals, 59 percent of Showboat employees were minorities and 30.5 percent were from East Chicago.
- In addition to the gaming taxes, Showboat paid \$2,672,117 in sales and use taxes and \$483,198 in property taxes.

Showboat has not met its projections in the following areas:

- Showboat overestimated the receipts per passenger per trip (\$33 actual versus \$50 projected) which led to adjusted gross gaming receipts of \$160.9 million, or 40 percent less than their application estimate.
- Employment totaled 1,333 employees, 667 less than the amount projected, and wages, benefits, and tips were \$33.0 million, \$13.7 million less than projections.
- Showboat paid \$23 million less in gaming taxes than projected.

We are not able to determine compliance in the following area:

- OMBD currently is reviewing the information provided by Showboat to determine compliance with MBE/WBE requirements.