

Second Year Evaluation of Riverboat Licensee for Hammond, Indiana: Empress Casino Hammond Corporation

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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 monitor over time the economic impacts and fiscal returns from each riverboat operation.

On November 17, 1995, the Commission issued a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in Hammond, Indiana. Empress Casino Hammond Corp. (Empress), formerly know as Lake Michigan Charters, Ltd., opened on June 29, 1996. This report is an evaluation of its second year of operation.

Project Development and Investment

Development Activities

In the Certificate of Suitability (referred to throughout as certificate), Empress committed to spend approximately \$137 million on project development, in addition to pledging to the city of Hammond other incentives totaling several million dollars.

The 2,683-passenger riverboat opened with 35,000 square-feet of gaming space. A fourth deck was added in the second year, which brought the capacity of crew and passengers to 3,240 and gaming square footage to 42,573. A 107,000-square-foot permanent pavilion and a 1,200-space parking garage were completed and opened with the launching of the riverboat. Additional square footage (18,000 square feet) was added with the enclosure of the third-floor balcony and a seven-million-dollar double helix added to the parking garage. Construction on a 200-room hotel was scheduled to begin immediately after substantial completion of the Guest Pavilion. Construction on the hotel is under discussion with the city of Hammond. To date approximately \$1.3 million has been spent on land acquisition and approximately \$100,000 has been spent on design.

As Table 1 illustrates, Empress spent \$14.2 million more than the agreement in the certificate for total project development. The certificate indicated that projects for the commercial development were to be formulated during 1996, implemented in 1997, and continuing thereafter. Currently, Empress has hired consultants to identify projects. The city and Empress are negotiating to determine the best way to implement these projects. The certificate also indicated that the renovation and construction of housing was to be formulated in 1996 and implemented in 1997. Empress recently submitted two agreements to the city regarding the residential commitment of \$5 million. One is for a \$1.5 million revolving loan program to provide homebuyers with low-interest loans. This program is being facilitated by Neighborhoods Inc. and is being offered citywide. The city also is in the process of granting tax abatements for these properties, which also will benefit the buyer. The other program involves spending \$3.5 million to build a new subdivision of single family homes in Hammond. Conley Construction & Engineering Corp. is the general contractor of these union built homes. These homes will initially be marketed to employees of the Empress Casino Hammond. The entire Empress residential commitment is scheduled to be completed within three years.

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

| Development | Certificate of Suitability | 1996-97 Actual | 1997-98 Actual | Difference |
|---|----------------------------|------------------|------------------|-----------------|
| Empress III riverboat, guest pavilion, 1,200-space parking garage, surface parking lot and overpass, and various feeder and service roads | \$112,000 | \$127,900 | \$20,920 | \$38,220 |
| 200-room hotel and conference center | 10,000 | 0 | 700 | (9,300) |
| Commercial development within the greater Hammond area | 10,000 | 0 | 650 | (9,350) |
| Renovation of existing housing and construction of new market-rate housing in the greater Hammond area | 5,000 | 0 | 1,000 | (4,000) |
| TOTAL DEVELOPMENT | \$137,000 | \$127,900 | \$151,170 | \$14,220 |

Other Commitments

As Table 2 illustrates, Empress is current with regard to all of the additional commitments not included in the project development. In addition, they made a donation to the Hammond Community Corporation of \$425,000 more than contracted in the certificate of suitability.

Table 2: Schedule and Description of Incentive Payments

| | | | Amount Paid | Amount Paid | |
|--|--|--|-------------|-------------|--|
| | | | | | |

| Incentive | Promised Amount | Recipient | Through 6/30/97 | Through 6/30/98 | Status |
|--|--|--------------------------|--------------------|--------------------|---------------------|
| A) Expanded capacity sewer and lift station | \$500,000 | City of Hammond | \$500,000 | | Completed Year 1 |
| B) Robertsdale lift station improvements | \$150,000 | City of Hammond | \$150,000 | | Completed Year 1 |
| C) Contributions for public safety and to promote economic development | \$1,250,000 (\$250,000 per year for 5 years paid in two annual installments- January and July) | City of Whiting | \$250,000 | \$125,000 | Current |
| D) Purchase 6.5 acres from NIPSCO for Lakefront Park and Sanctuary | \$2,750,000 | Hammond Parks Foundation | \$2,750,000 | | Completed Year 1 |
| E) Upkeep of the Milwaukee Clipper | \$500,000* | Milwaukee Clipper | \$500,000 | | Completed Year 1 |
| F) Construction of new building | \$2,750,000* | Hammond Port Authority | \$2,750,000 | | Completed Year 2 |
| G) Transport Milwaukee Clipper out of Marina | \$750,000* | Milwaukee Clipper | \$750,000 | | Completed Year 1 |
| H) Donation | \$750,000* | Nurseryland Foundation | \$750,000 | | Completed Year 1 |

Table 2 (cont'd): Schedule and Description of Incentive Payments

| Incentive | Promised Amount | Recipient | Amount Paid Through 6/30/97 | Amount Paid Through 6/30/98 | Status |
|---|---|---------------------------------|-----------------------------|-----------------------------|---|
| I) Donation | \$250,000* | Harbor House | \$250,000 | | Completed Year 1 |
| J) Donation | \$1,000,000 | Hammond Community Corporation | \$1,068,750 | \$356,250 | Completed Year 2 |
| K) Payment to support cost of additional police, fire, etc. | Up to \$1,000,000 per year | City of Hammond | \$796,213 | \$840,691 | Current |
| L) Bond shortfall payments | Not specified | Hammond Marina | \$2,250,000* | | Current |
| M) Lease | \$1 per admission | Hammond Port Authority | \$5,147,549 | \$5,586,549 | Current |
| N) Ongoing payments | 4% on 1 st \$125 million AGR; 6% on \$125-\$200 million; 4% on excess over \$200 million | City of Hammond | \$8,598,899 | \$8,625,031* | Current |
| O) Establish incubator program | \$1,000,000 | Hammond Development Corporation | \$1,000,000 | | Completed Year 1 |
| P) Donation | Not in certificate | Hammond Development Corporation | \$50,000 annually | \$100,000 | First and second year payment/donation made |

*Part of original \$5 million Milwaukee Clipper commitment

** The bond shortfall payments were a loan and the ongoing payments in 1997-98 are net \$1.4 million given as credit for that loan.

Table 3 illustrates the city of Hammond's expenditures on capital items using gaming revenue and incentives during fiscal years 1996-97 and 1997-98:

Table 3: Hammond Appropriations from Gaming Revenues (\$000s)

| | 1996-97 | 1997-98 |
|---|--|--|
| Engineering and construction of streets | \$18,000 (\$3 million per City Council District) | \$16,800 (\$2.7 million per City Council District) |
| Street Department—7 trucks | 700 | 0 |
| Sanitation Department—4 garbage trucks | 500 | 0 |
| Other capital equipment | 845 | 738 |
| Repairs and replacement | 555 | 530 |
| Black top/streetscape alley repair | 800 | 0 |
| Neighborhood development | 350 | 1,360 |
| Civic Center/Parks | 1,210 | 1,000 |
| Criminal justice facility | 300 | 500 |
| Education | 625 | 500 |
| Economic development | 700 | 1,050 |
| Reduction debt service | 2,415 | 1,521 |
| Shared 10% for highways | 1,697 | 3,850 |
| Total Appropriated Funds | \$28,697 | \$27,849 |

Community Activity

Empress has contributed \$92,500 in corporate sponsorships, in-kind donations, and monetary contributions to over 180 organizations. Empress's senior management is involved in more than 50 local organizations and is represented on many boards of directors in the Hammond area, including: the Northwest Indiana Forum, the Hammond Boys & Girls Club, the Hammond Chamber of Commerce, the Whiting/Robertsdale Chamber of Commerce, Calumet College of St. Joseph, Haven House, and the Purdue Alumni Association. Empress has sponsored many downtown events including: Hammond Augustfest, Venetian Nights at the Hammond Marina, Whiting Fourth of July Parade, Chesterton's Wizard of Oz Festival, and Whiting's Pierogi Festival.

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. Empress committed to meet the goals of the legislation in their first year. According to their goals, Empress 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 Empress to determine compliance.

Economic and Fiscal Impacts

Employment and Earnings Impacts

Empress began hiring and training the majority of their employees in February 1996. Empress contracted with Calumet College to provide training space for all riverboat-related positions, including dealers, cashiers, and surveillance personnel.

As Table 4 indicates, Empress estimated in its application employment of 773 persons in the casino for annual wages totaling approximately \$23.7 million. Estimates for hotel employment were not included. As of June 30, 1998, Empress had 1,797 employees, more than twice their original estimate. For 1997-1998, salaries and wages were \$39.2 million, including tips to dealers (but not to bar and wait staff). Ninety-eight percent of total wages were paid to full-time employees. Full-time employees receive benefits, including health insurance, 401K plan, and vacation time. Part-time employees are eligible for a 410K plan after one year of service.

As Table 4 illustrates, in 1997-98, Empress had adjusted gross gaming receipts of \$213.9 million, or 42 percent more than their application estimate. They had total gross revenues (includes casino, food and beverage, parking, gift shop, and other revenues) of \$228 million, \$62 million more than the \$166 million estimated in their application. Though their attendance was greater than expected (77 percent), Empress overestimated the receipts per passenger per trip. Total local taxes (city and county admission taxes plus local gaming tax) were \$21.9 million, or \$8.1 million more than the projection of \$13.8 million in Empress's application.

Table 4: Comparison of Forecast to Actual Empress Operation

| Category | Application Forecast Year 2 | Actual 1997-1998 | Difference |
|-------------------------------|-----------------------------|------------------|--------------|
| Employment as of 6/30/98 | 773 | 1797 | 1,024 |
| Total Wages, Tips, & Benefits | \$24,318,100 | \$39,207,364 | \$14,889,264 |
| Attendance | 3,151,333 | 5,586,549 | 2,435,216 |
| Gross Gaming Receipts | \$150,709,800 | \$213,894,280 | \$63,184,480 |
| \$ per Patron per Cruise | \$48* | \$38 | (\$10) |
| Gaming Tax (State) | \$22,606,740 | \$32,084,142 | \$9,477,402 |
| Gaming Tax (Local) | \$7,535,490 | \$10,694,714 | \$3,159,224 |
| Admission Tax (State) | \$3,151,333 | \$5,586,549 | \$2,435,216 |
| Admission Tax (County) | \$3,151,333 | \$5,586,549 | \$2,435,216 |
| Admission Tax (City) | \$3,151,333 | \$5,586,549 | \$2,435,216 |

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

Table 5: Comparison of Forecast to Actual Empress Operation

| Category | Application Forecast Year 1 | Actual 1996-1997 | Difference |
|-------------------------------|-----------------------------|------------------|--------------|
| Employment as of 6/30/97 | 773 | 1,695 | 922 |
| Total Wages, Tips, & Benefits | \$23,725,000 | \$ 31,267,700 | \$7,542,700 |
| Attendance | 3,120,133 | 5,147,549 | 2,027,416 |
| Gross Gaming Receipts | \$149,217,600 | \$184,981,649 | \$35,764,049 |
| \$ per Patron per Cruise | \$48* | \$36 | (\$12) |
| Gaming Tax (State) | \$22,382,640 | \$27,747,247 | \$5,364,607 |
| Gaming Tax (Local) | \$7,460,880 | \$9,249,082 | \$1,788,202 |
| Admission Tax (State) | \$3,120,133 | \$5,147,549 | \$2,027,416 |
| Admission Tax (County) | \$3,120,133 | \$5,147,549 | \$2,027,416 |
| Admission Tax (City) | \$3,120,133 | \$5,147,549 | \$2,027,416 |

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

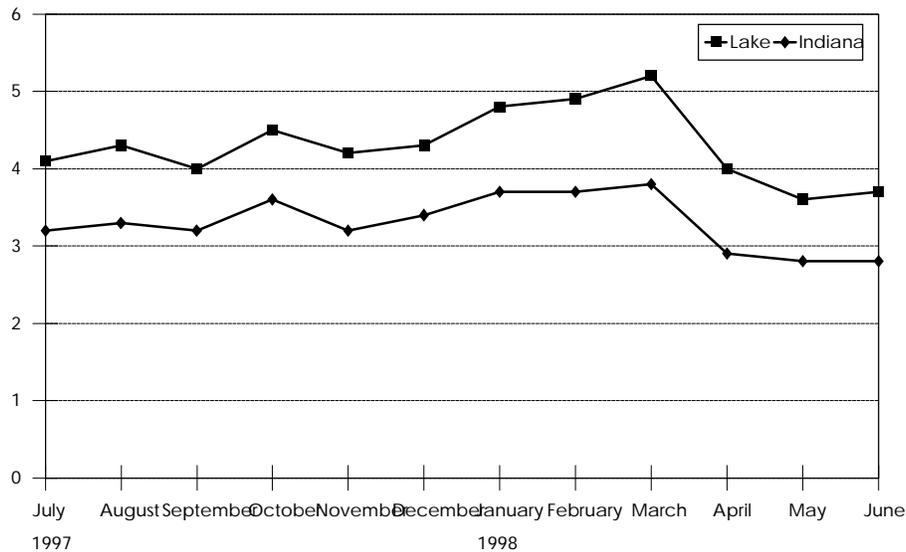
As Tables 4 and 5 indicate, Empress has exceeded forecasts in both years in all areas except win-per-patron per cruise. As Table 6 indicates, Empress has increased employment, wages, attendance, revenues, taxes paid and win-per-patron per cruise from Year 1 to Year 2.

Table 6: Comparison of Year 1 to Year 2

| Category | Actual 1996-97 | Actual 1997-98 | Difference |
|-------------------------------|----------------|----------------|--------------|
| Employment | 1,695 | 1,797 | 102 |
| Total Wages, Tips, & Benefits | \$31,267,700 | \$39,207,364 | \$7,939,664 |
| Attendance | 5,147,549 | 5,586,549 | 439,000 |
| Gross Gaming Receipts | \$184,981,649 | \$213,894,280 | \$28,912,631 |
| \$ per Patron per Cruise | \$36 | \$38 | \$2 |
| Gaming Tax (State) | \$27,747,247 | \$32,084,142 | \$4,336,895 |
| Gaming Tax (Local) | \$9,249,082 | \$10,694,714 | \$1,445,632 |
| Admission Tax (State) | \$5,147,549 | \$5,586,549 | \$439,000 |
| Admission Tax (County) | \$5,147,549 | \$5,586,549 | \$439,000 |
| Admission Tax (City) | \$5,147,549 | \$5,586,549 | \$439,000 |

As Figure 1 illustrates, Lake County's unemployment rate has fluctuated since 1997, but has never been lower than the state unemployment rate.

Figure 1: Unemployment Rate: Lake County



As of June 30, 1998, 56 percent of Empress employees were women, 40 percent were minorities, and 47 percent were from Hammond. Twenty-one percent of employees came from out-of-state. While Empress did not state specific employment goals in their application, they indicated to Hammond that they would strive towards the goal of 50 percent of their employees being Hammond residents. Even though they are slightly under that goal, it should be recognized that their original employment estimate was 773 employees, not 1,797 employees. In addition, some employees that were hired as Hammond residents have moved out of the city since gaining employment. With Hammond's unemployment rate under 5 percent, Empress will have to aggressively recruit Hammond residents to obtain the goal of 50 percent.

Local Economic Impact

In addition to the gaming taxes paid to the city and state, Empress paid \$744,671 in sales and use taxes and \$1,517,234 in property taxes. Payroll of \$39.2 million and purchases of \$6,607,717 in Lake County also contributed to the local economy. Empress's marketing department has participated in several cooperative advertising ventures with local merchants and organizations. City officials indicated that two new restaurants opened as a result of the riverboat and that three new hotels are planned.

Impact on Tourism

Through June 30, 1998, Indiana residents made less than 13 percent of the trips to Empress. In 1997-1998, Empress had 5.6 million paid admissions. This attendance was more than 2.4 million greater than Empress's attendance projection in their application. The Empress has provided complimentary space in its pavilion for a Lake County Convention and Visitors Information Center. Located in a highly visible area, the Center handles numerous reservations for local hotels and restaurants. In addition, Empress produced a Community Fun Book in conjunction with the Lake County Convention and Visitors Bureau, the Hammond Chamber of Commerce, and the Hammond Department of Economic Development. The Fun Book invited local businesses to offer discounts to Empress guests. Forty local businesses participated in the program, and 10,000 coupon books were distributed to Empress patrons.

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

Empress was sued seven times since June 1997. Four of the suits involved guests who were allegedly injured while the other three involved employees who were allegedly injured on the job. Empress has filed one lawsuit, a collection proceeding. Eleven Empress employees were arrested, most for theft of tokens. There were a total of 60 arrests of patrons for incidences on Empress property in 1997-1998. The largest category was disorderly conduct, followed by battery. The State Police have not written any citations for minors in a tavern because Lake County will not prosecute that offense. Empress security handles that issue by checking identification and turning away underage patrons. Last year they reported checking 81,255 identifications and turning away 3,821 patrons for improper or no identification. Gaming enforcement wrote 56 tickets for false or improper identification. An additional 420 patrons were refused entry because they were under 21. Less than .0001 percent of visits in 1997-98 resulted in a citation or arrest.

According to Hammond's chief of police, the neighborhood surrounding the riverboat has not experienced additional criminal activity that can be attributed to Empress's presence although theft, burglary, robbery, and auto theft have increased in the area surrounding the boat. The overall crime rate in Hammond has decreased from 1997 to 1998.

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 July 1997 to June 1998, 91 calls for help with gambling problems were made by Lake County residents to the "Deal With It" line. There also have been 11 calls from La Porte County, 23 calls from Porter County, and 138 calls from Chicago. This rate is higher than last year's rate. In addition, of those who identified the source of the number, approximately half indicated that they obtained it from a riverboat ticket.

Empress has made efforts to minimize the negative impacts of gambling. They have contracted with two local organizations that treat compulsive gambling to provide a one-hour training course to all of their employees. This training will assist employees in identifying possible compulsive gamblers among patrons and employees. A self-help brochure has been designed, printed, and made available to patrons. It outlines the 20 Gamblers Anonymous questions that help someone determine if they have a problem and contains the phone numbers of both Indiana and Illinois agencies where one can seek help. Empress has made a pledge of \$60,000, payable over three years, to the National Center for Responsible Gaming. They also have taken bids on a public service announcement that will be played on the televisions located in the Empress pavilion.

Summary of Findings

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

- Empress spent a total of \$151.2 million on the development of the project, \$14.2 million more than estimated. Additional square footage (18,000 square feet) was added with the enclosure of the third-floor balcony and a seven-million-dollar double helix added to the parking garage.
- Empress is on schedule with almost all of its incentive payments.
- Empress has sponsored many community events and their senior management is represented on many boards.

- Employment totaled 1,797 employees, more than twice the amount projected, and wages, benefits, and tips were \$39.2 million, 60 percent greater than projections.
- Even though they did not state specific employment goals, 40 percent of Empress employees were minorities and 47 percent were from Hammond.
- Empress has increased employment, wages, attendance, revenues, taxes paid and win-per-patron per cruise from Year 1 to Year 2.
- Empress paid \$7.1 million more in gaming taxes than projected.
- In addition to the gaming taxes, Empress paid \$744,671 in sales and use taxes and \$1,517,234 in property taxes and had \$6,607,717 in spending in Lake County.
- Empress has been proactive in developing programs for compulsive gambling.

Empress has not met its projections in the following areas:

- Although \$10 million worth of commercial development projects were to be formulated during 1996 and implemented in 1997 and thereafter within the greater Hammond area, no projects have been identified, formulated, or undertaken to date. However, Empress has hired consultants to identify projects. The city and Empress are negotiating to determine the best way to implement these projects.
- Renovation of existing housing and construction of new market-rate housing totaling \$5 million also was to be formulated in 1996 and implemented in 1997. Currently Empress has submitted two agreements concerning this commitment to the city. Through June 30, 1998 Empress has spent \$1.0 million towards this commitment.
- Construction of a 200-room hotel was scheduled to begin immediately after substantial completion of the Guest Pavilion but was not undertaken. It is under discussion with the city of Hammond.

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

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