

Evaluation of Riverboat Licensee for Michigan City, Indiana: Blue Chip Casino, Inc.

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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 April 17, 1996, the Commission issued a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in Michigan City, Indiana. Blue Chip Casino, Inc. (Blue Chip) opened on August 22, 1997. This report is an evaluation of its first year of operation.

Project Development and Investment

Development Activities

In the Certificate of Suitability (referred to throughout as certificate), Blue Chip committed to spend approximately \$87 million on project development, in addition to pledging to the city of Michigan City other incentives totaling several million dollars.

The 3,000-passenger (plus 500 crew) riverboat opened with 37,400 square-feet of gaming space. An 80,000-square-foot permanent pavilion was completed and opened with the launching of the riverboat. The pavilion includes two ballroom/banquet rooms, three restaurants, one lounge, and a gift shop.

As Table 1 illustrates, Blue Chip spent \$46 million more than agreed to in the certificate for the development of the project. In addition, Blue Chip is scheduled to break ground before the end of 1998 on a 200 room, \$18 million hotel.

Temporary costs are under the certificate of suitability estimates because they did not build a temporary facility. In anticipation of building a temporary facility, Blue chip obtained a vessel (shown at \$12 million) and then when they did not operate a temporary facility, they disposed of that vessel (shown as \$8.3 million). Permanent pre-opening costs were higher than anticipated because Blue Chip did not operate a temporary facility. There were salaries and other expenses that had to be paid for longer than anticipated.

Table 1: Actual Versus Predicted Development Costs

Development	Certificate of Suitability	Actual	Difference
Temporary vessel	\$10,000,000	\$10,000,000	\$0
Permanent Vessel	24,300,000	40,542,000	16,242,000
Temporary Gaming Equipment	3,475,000	\$2,000,000	(1,475,000)
Permanent Gaming Equipment	8,350,000	23,552,000	15,202,000
Temporary Land Acquisition	2,200,000		(2,200,000)
Permanent Land Acquisition	2,200,000	11,056,000	8,856,000
Temporary Pre-Opening Costs	3,417,478		(3,417,478)
Permanent Pre-Opening Costs	375,000	7,517,000	7,142,000
Interim Facilities	2,643,500		(2,643,500)
Permanent Structure	22,500,000	26,363,000	3,863,000
Temporary Site Costs	2,685,000		(2,685,000)
Permanent Site Costs	5,890,000	20,031,000	14,141,000
Temporary Contingent Costs	618,710		(618,710)
Permanent Contingent Costs	6,388,340		(6,388,340)
Salvage of Interim Facilities	(8,500,000)	(8,255,000)	245,000
TOTAL DEVELOPMENT	\$86,543,028	\$132,806,000	\$46,262,972

Other Commitments

As Table 2 illustrates, Blue Chip is current with regard to all of the additional commitments to the community beyond the tax requirements.

Table 2: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Through 8/31/98	Status
A) Ongoing payments	0.5 % of Adjusted Gross Revenues	Michigan City Community Endowment Corporation	\$685,883	Current
B) Donation of lakefront property	Not specified	Michigan City	\$600,000	Completed
C) Marina Development	Not specified	Michigan City Port Authority	\$4,500,000	Completed
D) Donation of peninsula and 100 revenue-producing boat slips	Not specified	Michigan City Port Authority	\$1,500,000	Completed
E) Infrastructure improvements	Not specified	Michigan City	\$200,000	Current

Table 3 illustrates the city of Michigan City's appropriations for capital items using gaming revenue during calendar year 1998:

Table 3: Michigan City Capital Appropriations from Gaming Revenues in 1998

Repairs and Maintenance	\$565,000
Demolitions	\$50,000
North Side Fire Station	\$900,000
South Side Fire Station	\$900,000
Storm Sewer	\$1,400,000
Sidewalk Repairs/paving	\$400,000
Washington Park parking lot	\$50,000
Park motor equipment	\$58,000
Park office equipment	\$30,000
Street machinery and equipment	\$125,000
Police equipment	\$80,000
Police vehicles	\$663,000
Police matching grant	\$95,000

Michigan City has established a fund consisting of 25 percent of the local share of the wagering tax to be distributed among the units of local government within the county of La Porte. The shares are distributed as follows: county (20 percent), schools (20 percent), townships (20 percent), cities and towns (30 percent), and special taxing districts (10 percent). The school's portion is distributed based on a percent of total 1996-97 headcount enrollment with a two percent minimum guarantee. The distributions to cities and towns are based on the number of housing units according to the 1990 census with a 20 percent maximum share and a six percent minimum share. The special taxing district fund is distributed to libraries, the La Porte Aviation Authority, and the Michigan City Sanitary District. Actual distributions from August 1997-August 1998 are detailed below.

Table 4: Michigan City Shared Win Tax Distribution 1997-1998

Unit of Government	Dollars
County	\$289,908
Cities/Towns:	\$434,862
Kingsbury	\$23,273
Kingsford Hts.	\$26,092
LaCrosse	\$26,092
La Porte	\$86,972
Long Beach	\$69,578
Michigan Shores	\$26,092
Pott Park	\$26,092
Trail Creek	\$65,229
Wanatah	\$26,092
Westville	\$56,532
Schools:	\$321,232
John Glenn	\$5,798
LaCrosse	\$5,798
La Porte	\$104,367
MCAS	\$115,963
New Prairie	\$28,991

Table 4 (cont'd) Michigan City Shared Win Tax Distribution 1997-1998

Unit of Government	Dollars
So. Central	\$11,596
Wanatah	\$5,798
Westville	\$11,596

Townships	\$289,908
Cass	\$5,798
Center	\$14,495
Clinton	\$5,798
Coolspring	\$72,477
Dewey	\$5,798
Galena	\$5,798
Hanna	\$5,798
Hudson	\$5,798
Johnson	\$5,798
Kankakee	\$8,697
Lincoln	\$5,798
Michigan	\$78,275
New Durham	\$8,697
Noble	\$5,798
Pleasant	\$5,798
Prairie	\$6,162
Scipio	\$8,697
Springfield	\$17,394
Union	\$5,798
Washington	\$5,798
Wills	\$5,798
Specials	\$144,954
LaCrosse/Library	\$7,500
La Porte City/Library	\$7,500
Michigan City/Library	\$7,500
Wanatah/Library	\$7,500
Westville/Library	\$7,500
La Porte City/AV	\$4,500
Michigan City Sanitary District	\$102,954

Community Activity

Blue Chip has contributed approximately \$120,000 in corporate sponsorships, in-kind donations, and monetary contributions to various organizations including \$25,000 to the Michigan City Seniors Center. Blue Chip's senior management is involved in many local organizations in the Michigan City area, including: Michigan City and La Porte Chambers of Commerce, Parents and Friends, Inc. March of Dimes, Northwest Indiana, Great Lakes Military Museum, La Porte Rotary Service Club, La Porte County Planning Council, Goodwill Industries of Michiana, La Porte County United Way, La Porte County Probation Advisory Board, and the Michigan City Fraternal Order of Police.

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. Blue Chip committed to meet the goals of the legislation in their first year. According to their goals, Blue Chip 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 has recently submitted the 1996 and 1997 expenditure reports for Blue Chip. The Commission has not yet audited these reports.

According to the OMBD, in 1996, 22.51 percent of Blue Chip's purchases were from minority-owned businesses and 2.23 percent were from women-owned businesses. In 1997, 2.92 percent of purchases were from minority-owned businesses and 1.56 percent of purchases were from women-owned businesses.

Economic and Fiscal Impacts

Employment and Earnings Impacts

Blue Chip began hiring and training the majority of their employees in May and June of 1997. Their training was conducted internally.

As Table 5 indicates, Blue Chip estimated in its application employment of 530 persons in the casino for annual wages totaling approximately \$10.1 million. As of August 31, 1998, Blue Chip had 1080 employees, more than twice their original estimate. For 1997-1998, salaries and wages were \$30 million, including tips to dealers (but not to bar and wait staff), almost three times as much as forecasted in their application. Approximately 89 percent of employees were full-time. Full- and part-time employees receive benefits.

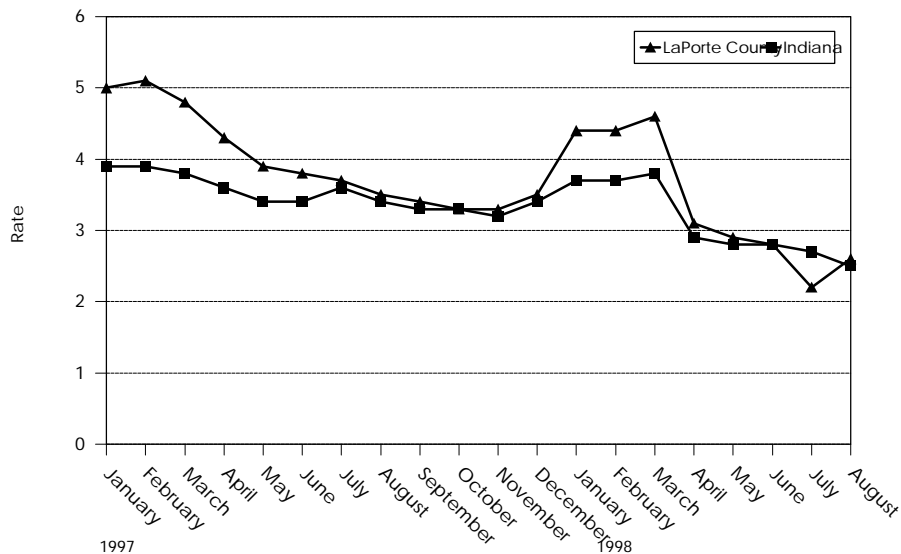
As Table 4 illustrates, in 1997-98, Blue Chip had adjusted gross gaming receipts of \$127.2 million, or \$80.1 million more than their application estimate. They had total gross revenues (includes casino, food and beverage, parking, gift shop and other revenues) of \$137 million, \$90 million more than the \$47 million estimated in their application. Receipts per passenger per trip at \$36 were higher than the estimate of \$30. Total local taxes (city and county admission taxes plus local gaming tax) were \$13.4 million, more than twice (\$8.0 million more) the projection of \$5.4 million in Blue Chip's application.

Table 5: Comparison of Forecast to Actual Blue Chip Operation

Category	Application Forecast Year 1	Actual 1997-1998	Difference
Employment as of 8/31/98	530	1080	550
Total Wages, Tips, & Benefits	\$10,160,364	\$30,034,562	\$19,874,198
Attendance	1,500,000	3,524,210	2,024,210
Gross Gaming Receipts	\$47,025,000	\$127,168,000	\$80,143,000
\$ per Patron per Cruise	\$30	\$36	\$6
Gaming Tax (State)	\$7,053,750	\$19,075,200	\$12,021,450
Gaming Tax (Local)	\$2,351,250	\$6,384,000	\$4,032,750
Admission Tax (State)	\$1,500,000	\$3,524,210	\$2,042,210
Admission Tax (County)	\$1,500,000	\$3,524,210	\$2,042,210
Admission Tax (City)	\$1,500,000	\$3,524,210	\$2,042,210

As Figure 1 illustrates, unemployment in La Porte County has decreased since the riverboat opened and is comparable to the state rate.

Figure 1: Unemployment Rate: LaPorte County, Indiana



As of August 31, 1998, 61 percent of Blue Chip employees were women, 22.5 percent were minorities, and 63 percent were from La Porte County. Nine percent of employees came from out-of-state. Blue Chip committed to use their best efforts to employ a permanent work force that is demographically representative of La Porte County and to fill 90 percent of the jobs with La Porte County residents. According to 1997 population estimates, in La Porte County 12.6 percent of the population consists of minorities and 48.9 percent of women. Blue Chip is more than meeting their commitment to hire women and minorities, while it lags behind in its commitment to hire La Porte County residents.

Local Economic Impact

In addition to the gaming taxes paid to the city and state, Blue Chip paid \$225,349 in sales and use taxes and \$79,045 in property taxes. Payroll of \$30 million and local purchases of \$60.5 million in La Porte County with \$22.8 million of that occurring in Michigan City also contributed to the local economy. Another \$6.3 million in purchases were made from Lake, Porter and St. Joseph counties. Local purchases reflect the fact that Blue Chip's riverboat was built on site, using local steel. Blue Chip's marketing department has participated in several cooperative advertising ventures with local merchants and organizations. While no additional development has occurred yet, city officials indicated that the redevelopment of the area and the new marina have increased contacts from developers interested in the area.

Impact on Tourism

Through, 1998, Indiana residents made approximately 40 percent of the trips to Blue Chip. In 1997-1998, Blue Chip had 3.5 million paid admissions. This attendance is more than two million greater than Blue Chip's attendance projection in their application. Blue Chip has provided complimentary space in its pavilion for a La Porte County Convention and Visitors Information Center. Located in a highly visible area, the Center handles numerous reservations for local hotels and restaurants.

According to the La Porte County Convention and Visitors Bureau, hotel occupancy in La Porte County has not increased from 1997 to 1998 but the average daily room rate has increased, leading to an increase in the innkeeper's tax. The Convention and Visitors Bureau also reports that they have had an increase in visitors to their information centers, calls on the phone line and number of welcome packets prepared.

Legal Issues

Blue Chip was sued four times, one was a contract dispute, one a construction related dispute, one an employee related dispute (dismissed) and another a guest related dispute. There were a total of 66 arrests for incidences on Blue Chip property in 1997-1998. The largest categories were public intoxication and theft. Less than .001 percent of visits in 1997-98 resulted in a citation or arrest.

According to Michigan City's chief of police, the neighborhood surrounding the riverboat has not experienced additional criminal activity that can be attributed to Blue Chip's presence. Blue Chip security checked approximately 300 identifications per week and turned away approximately 20 patrons per month for lack of identification or being underage.

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, (the latest data available) 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 they obtained it from a riverboat ticket.

Blue Chip has made efforts to minimize the negative impacts of gambling. They have formed a task force of management and frontline employees to address alcohol and compulsive gambling issues. This task force will assist employees in identifying possible compulsive gamblers among patrons.

Summary of Findings

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

- Blue Chip spent a total of \$132.8 million on the basic development of the project, \$46.3 million more than estimated.
- Blue Chip is on schedule with all of its incentive payments.

- Blue Chip has sponsored many community events, their senior management is represented on many boards, and they contributed \$25,000 to the Michigan City Senior Center.
- Employment totaled 1080 employees, more than twice the amount projected, and wages, benefits, and tips were \$30 million, three times greater than projections.
- In 1997-1998, 61 percent of Blue Chip employees were women and 22.5 percent were minorities, more than meeting their commitment to hire a demographically representative workforce.
- Blue Chip paid \$22.8 million more in gaming taxes than projected.
- In addition to the gaming taxes, Blue Chip paid \$225,349 in sales and use taxes and \$79,045 in property taxes.
- Blue Chip made local purchases of \$60.5 million in La Porte County with \$22.8 million of that occurring in Michigan City. Another \$6.3 million in purchases were made from Lake, Porter and St. Joseph counties. Local purchases reflect the fact that Blue Chip's riverboat was built on site, using local steel.
- According to the Michigan City Chief of Police, the neighborhood surrounding the riverboat has not experienced additional criminal activity that can be attributed to Blue Chip's presence.
- Blue Chip has been proactive in developing programs for compulsive gambling.

Blue Chip has not met its projections in the following areas:

- Blue Chip committed to filling 90 percent of the jobs with La Porte County residents. As of August 31, 1998 63 percent of their employees were from La Porte County.

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

- The Commission is currently reviewing the information provided by OMBD to determine Blue Chip's compliance with MBE/WBE requirements.