

Third Year Evaluation of Riverboat Licensee for Michigan City, Indiana: Blue Chip Casino, LLC

January-December 2000

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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. Following its first year of operation, Blue Chip entered into negotiations with Boyd Gaming Corporation to purchase the company. The Commission approved the sale on November 8, 1999. The name of the licensee was changed to Blue Chip Casino, LLC. A previous report was based on the first year of operation. The Center and Commission have converted all of the evaluation reports to a calendar year basis. Last year's report covered 16 months of operation (September 1998 through December 1999) and was considered the second year of operation for comparison. This report is an evaluation of the third year of operation (2000).

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. As of December 2000, Blue Chip has spent \$147.8 million, \$60.8 million more than the agreed commitment in the Certificate for the development of the project.

The 3,000-passenger (plus 500 crew) riverboat opened with 37,400 square-feet of gaming space. The vessel has an 87,000-square-foot permanent pavilion. The pavilion has two restaurants, a snack bar, and a lounge with a bar. After breaking ground in 1998, the 217,000 square foot hotel (188 rooms) attached to the pavilion opened on February 15, 2000.

Other Commitments

Table 1 shows the additional commitments, or incentive payments, promised in the original Certificate. As shown, Blue Chip is current or has completed all of the additional commitments to the community. In addition to the commitments promised in the Certificate, it has committed up to one million dollars for Michigan City to purchase and demolish Harborside Homes property, previously owned and operated by the Michigan City Housing Authority. Boyd Gaming Corporation purchased Blue Chip in 1999. As part of that agreement, Boyd and Michigan City amended their riverboat gaming development agreement. That amendment, effective January 1, 2000, increased the ongoing payment of 0.5 percent of adjusted gross receipts (AGR) to 0.5 percent of AGR on the first \$90 million, 1.5 percent of AGR on the amount between \$90 and \$140 million, and 3 percent of AGR on the amount in excess of \$140 million. The first \$750,000 of the incentive payments are to be paid to the Michigan City Enrichment Corporation, the next \$200,000 are designated for economic development projects, with the remaining funds designated to fund redevelopment projects. It also added an annual incentive of \$300,000 for Michigan City to use as it sees fit.

Table 1: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Year 1 1997-1998	Amount Paid Year 2 1999	Amount Paid Year 3 2000	Status
A) Ongoing payments	0.5 % of Adjusted Gross Revenues (see text above)	Michigan City	\$685,883	\$1,012,832 ¹	\$2,294,000	Current
B) Annual Incentive	Not in certificate	Michigan City			\$300,000	Current
C) Donation of lakefront property	Not specified	Michigan City	\$600,000	\$0		Completed Year 1
D) Marina development	Not specified	Michigan City Port Authority	\$4,500,000	\$0		Completed Year 1
E) Donation of peninsula and 100 revenue-producing boat slips	Not specified	Michigan City Port Authority	\$1,500,000	\$0		Completed Year 1
F) Infrastructure improvements	Not specified	Michigan City	\$200,000	\$300,000		Completed Year 1
G) Harborside Homes property	Not in certificate	Michigan City	\$0	\$1,000,000		Completed Year 1

¹ Because of the conversion to a calendar year basis, includes an additional \$247,653 that was paid between 9/98-12/98.

Table 2 illustrates the city of Michigan City's appropriations for capital items using gaming revenue during calendar year 2000:

Table 2: Michigan City Expenditures from Gaming Revenues in 2000

Activity	2000 Expenditures
Repairs and maintenance	\$323,007
Election expense	\$45,000
Contractual service	\$550,367
Health insurance	\$1,213,490
Summer Festival fireworks	\$31,180
Pension benefits, police	\$150,000
Other buildings	\$768,380
Improvements to buildings	\$58,015
Sewers	\$3,369,626
Sidewalk repairs/paving	\$32,707
Trail Creek Marina improvement	\$119,861
Water tower	\$1,336,600
Furniture and fixtures	\$137,626
Motor equipment	\$92,409
Street machinery and equipment	\$459,773
Other machinery and equipment	\$974,214
Police vehicles	\$382,955
Matching grant	\$10,000
Other	\$983,966
Total Expended Funds	\$11,041,176

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 LaPorte County. 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 enrollments 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 6 percent minimum share. The special taxing district fund is distributed to libraries, the LaPorte Aviation Authority, and the Michigan City Sanitary District. Actual distributions from 2000 are detailed below in Table 3.

Table 3: Michigan City Shared Wagering Tax Distribution 2000

Unit of Government	2000 Tax Distribution
County (LaPorte)	\$655,177
Cities/Towns	\$982,758
Schools	\$655,167
Townships	\$655,147
Special Districts	\$327,616

Community Activity

Blue Chip has made numerous donations to community groups including \$100,000 in a special round of community funding open to LaPorte County organizations. They sponsored several community events such as the Summer Festival Parade. Blue Chip's employees pledged more than \$50,000 to the Greater LaPorte United Way. Blue Chip's senior management is involved in many local organizations in the Michigan City area, including the Michigan City and LaPorte chambers of commerce,

Minority/Women Business Enterprise

The Office of Minority Business Development and the Indiana Gaming Commission currently are reviewing the information provided by Blue Chip to determine compliance.

Economic and Fiscal Impacts

Employment and Earnings Impacts

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

As shown in Table 4, Blue Chip committed to having 853 employees by its third year of operation. Blue Chip also forecasted that all annual wages of employees would total approximately \$14.9 million. As of December 31, 2000, Blue Chip employed 1,202 people. Total salaries and wages equaled approximately \$36.5 million, including tips to dealers (but not to bar and wait staff), over twice the projected amount. Full-time and part-time employees receive benefits.

Also shown in Table 4, Blue Chip accrued \$178.3 million in gross gaming receipts during calendar year 2000, more than double the amount estimated in the application. The state received \$30.5 million in gaming and admission taxes, \$18.1 million more than projected. Total local gaming and admission taxes paid were \$16.5 million, \$9.0 million more than projected.

Table 4: Comparison of Forecast to Actual Blue Chip Operation Year 3

Category	Application Forecast Year 3	Actual Year 3	Difference
Employment as of 12/31/2000	853	1,202	349
Total Wages, Tips, & Benefits	\$14,863,000	\$36,526,900	\$21,663,900
Attendance	2,000,000	3,811,667	1,811,667
Gross Gaming Receipts	\$70,000,00	\$178,334,900	\$108,334,900
\$ per Patron per Cruise	\$35	\$47	\$12
Gaming Tax (State)	\$10,500,00	\$26,750,235	\$16,250,235
Gaming Tax (Local)	\$3,500,000	\$8,916,745	\$5,416,745
Admission Tax (State)	\$2,000,000	\$3,811,667	\$1,811,667
Admission Tax (County)	\$2,000,000	\$3,811,667	\$1,811,667
Admission Tax (City)	\$2,000,000	\$3,811,667	\$1,811,667

Tables 5 and 6 compare actual to forecast for years 1 and 2 of operation.

Table 5: Comparison of Forecast to Actual Blue Chip Operation Year 2

Category	Application Forecast Year 2	Actual Year 2 (1999)	Difference
Employment as of 12/31/99	703	1,191	488
Total Wages, Tips, & Benefits	\$13,263,000	\$32,802,110	\$19,539,110
Attendance	2,000,000	3,645,628	1,645,628
Gross Gaming Receipts	\$73,700,000	\$161,710,925	\$88,010,925
\$ per Patron per Cruise	\$35	\$44	\$9
Gaming Tax (State)	\$7,053,750	\$24,096,492 ²	\$17,042,742
Gaming Tax (Local)	\$2,351,250	\$8,032,164 ²	\$5,680,914
Admission Tax (State)	\$2,000,000	\$3,645,628 ²	\$2,145,628
Admission Tax (County)	\$2,000,000	\$3,645,628 ²	\$2,145,628

Admission Tax (City)	\$2,000,000	\$3,645,628 ²	\$2,145,628
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²Due to the conversion to a calendar year basis, an additional \$7,426,898 in state gaming tax, \$2,475,633 in local gaming tax, and \$1,193,144 in admission taxes to the city, county and state was paid from September 1998-December 1998 but is not reflected above.

Table 6: Comparison of Forecast to Actual Blue Chip Operation Year 1

Category	Application Forecast Year 1	Actual Year 1 (Through August 1998)	Difference
Employment as of 8/31/98	530	1,080	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

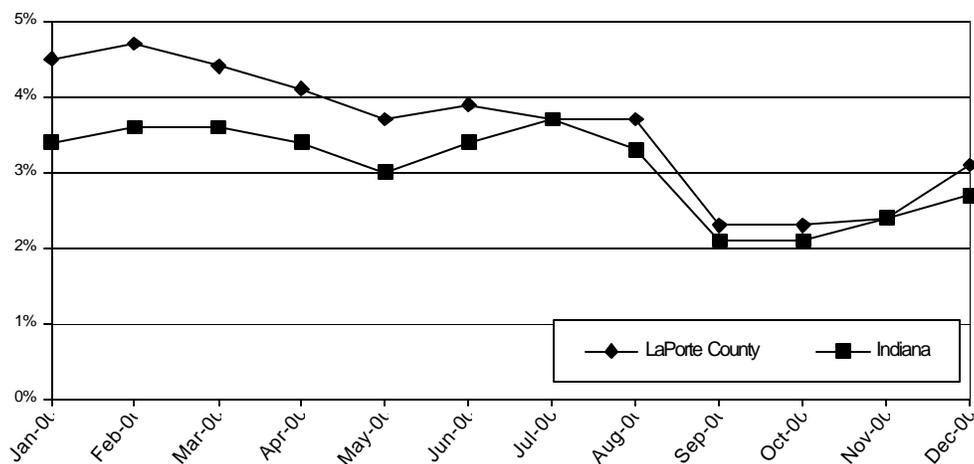
As Table 7 illustrates, Blue Chip has increased in every category from Year 1 through Year 3.

Table 7: Comparison of Years 1, 2 and 3

Category	Actual Year 1 (Through August 1998)	Actual Year 2 (1999)	Actual Year 3 (2000)	Difference
Employment	1,080	1,191	1,202	11
Total Wages, Tips, & Benefits	\$30,034,562	\$32,802,110	\$36,526,900	\$3,724,790
Attendance	3,524,210	3,645,628	3,811,667	166,039
Gross Gaming Receipts	\$127,168,000	\$161,710,925	\$178,334,900	\$16,623,975
\$ per Patron per Cruise	\$36	\$44	\$47	\$3
Gaming Tax (State)	\$19,075,200	\$24,096,492	\$26,750,235	\$2,653,743
Gaming Tax (Local)	\$6,384,000	\$8,032,164	\$8,916,745	\$884,581
Admission Tax (State)	\$3,524,210	\$3,645,628	\$3,811,667	\$166,039
Admission Tax (County)	\$3,524,210	\$3,645,628	\$3,811,667	\$166,039
Admission Tax (City)	\$3,524,210	\$3,645,628	\$3,811,667	\$166,039

As Figure 1 illustrates, the unemployment rate in LaPorte County has been higher than the state rate all year, and was 3.1 percent in December 2000, compared to the 2.7 percent state unemployment rate.

Figure 1: Unemployment Rate:
Indiana and LaPorte County



As of December 31, 2000, 58 percent of Blue Chip employees were women, 22 percent were minorities, and 61 percent were from LaPorte County. Eight percent of employees came from out-of-state. Blue Chip committed to use its best efforts to employ 90 percent of its permanent work force from LaPorte County, and that these employees be demographically representative of the area. According to 1998 population estimates, 10.9 percent of the LaPorte County population consists of minorities and 48.7 percent of women. Blue Chip is more than meeting its commitment to hire women and minorities, but it continues to lag behind in its ambitious commitment to hire 90 percent LaPorte County residents. With the low unemployment rate in LaPorte County and Blue Chip's efforts, it seems to have hired as many LaPorte County residents as possible.

Local Economic Impact

In addition to the gaming taxes paid to the city and state, Blue Chip paid \$627,200 in sales and use taxes and \$975,500 in property taxes. Blue Chip's payroll of \$36.5 million and purchases of \$3.9 million from Michigan City vendors and another \$15 million from other Indiana vendors also contributed to the local economy. 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 the number of contacts from developers interested in the area.

Impact on Tourism

In 2000, Blue Chip had 3.8 million paid admissions. This attendance is almost twice Blue Chip's attendance projection in its application. Blue Chip has provided complimentary space in its pavilion for a LaPorte County Convention and Visitors Information Center. Located in a highly visible area, the information center handles numerous reservations for local hotels and restaurants. Blue Chip also works on several cooperative ventures with the Convention and Visitors Bureau offering group packages with local businesses to increase overnight visits.

The Convention and Visitors Bureau reports that it has had increases in visitors to its information centers, calls on the phone line, and number of welcome packets prepared.

Legal Issues

Blue Chip was sued eight times in 2000 and all were personal injury actions. There were a total of 10 arrests for incidences on Blue Chip property in 2000. Blue Chip security reported checking 68,357 identifications and turning away 278 patrons for being under 21. Less than .0003 percent of visits in 2000 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

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. In 2000, LaPorte County residents made 9 calls for help with gambling problems to the "Deal With It" line, compared to 20 calls the previous year. There also have been 70 calls from Lake County, down from 75 in the prior year; 20 calls from Porter County, compared to 24 in the prior year; and 41 calls from Chicago, down from 94 calls in the prior year. These calls cannot be attributed to any specific boat in the area.

Blue Chip has made efforts to minimize the negative impacts of gambling. They provide mandatory training sessions for all employees who have guest contact through the *When the Fun Stops* program sponsored by the Nevada Council on Problem Gambling. It also displays the 1-800-9-WITH-IT message on all material handed to patrons as well as on signs near casino cages and has problem gambling information brochures available to guests and employees at every cage, ATM and credit card machines. Blue Chip has a self-eviction program for individuals who wish to be banned from the facility. Upon written request, all mailing advertisements will be stopped as well as any credit. If the patron is found in the casino after self-eviction, at a minimum the patron will be asked to leave the Blue Chip casino property. An evicted patron may request readmission in writing to the general manager. The general manager may maintain the self-eviction or readmit the patron.

Summary of Findings

Blue Chip has met or exceeded the requirements of its Certificate of Suitability in the following areas:

- Blue Chip spent a total of \$147.8 million on the basic development of the project, \$60.8 million more than estimated.

- Blue Chip is on schedule with all of its incentive payments and has increased its incentive payments above what was agreed to in the certificate.
- Blue Chip has sponsored many community events; its senior management is represented on many boards.
- Blue Chip had higher than projected attendance, gross gaming receipts, dollars per patron per cruise, and gaming taxes.
- Employment totaled 1,202 employees; 41 percent greater than the amount projected, and wages, benefits, and tips were \$36.5 million, more than twice what was projected.
- In 2000, 58 percent of Blue Chip employees were women and 22 percent were minorities, more than meeting its commitment to hire a demographically representative workforce.
- Blue Chip paid \$27.1 million more in gaming taxes than projected.
- In addition to the gaming taxes, Blue Chip paid \$667,200 in sales and use taxes and \$975,500 in property taxes.
- Blue Chip made local purchases of \$18.9 million in LaPorte County with \$3.9 million of that occurring in Michigan City.
- 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 LaPorte County residents. As of December 31, 61 percent of its employees were from LaPorte County. Although Blue Chip has not met the 90 percent employment projection for LaPorte County residents, it has consistently exceeded total employment projections. With the low unemployment rate in LaPorte County and Blue Chip's efforts, it seems likely they have hired close to the maximum of LaPorte County residents as possible.