

FIVE-YEAR LICENSE RENEWAL:
Blue Chip Casino, LLC

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INTRODUCTION

The Riverboat Gambling Act (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. Part of the statutory criteria for issuance of these licenses, in addition to being financially capable of completing the project and passing an Indiana State Police investigation, is the applicant's ability to promote tourism and economic development in the home dock area while best serving the interest of the citizens of Indiana. 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 economic impact, fiscal impact, financial, management, and other analyses required to assist the Commission in awarding the initial riverboat casino licenses. Additionally, the Commission requested the Center's assistance in monitoring the economic impacts and fiscal returns from each riverboat operation.

In partnership with the Commission, the Center has, since 1993, completed evaluations for the granting of ten riverboat casino licenses. The Center also has completed annual performance reports for all operating riverboat casinos. In addition, the Center has provided other analyses for the Commission, as requested, and also served as the staff and conducted extensive research for the Indiana Gambling Impact Study Commission.

The Center uses analytic and decision facilitation competencies to inform policy choices about complex societal, economic, and political problems, especially in Central Indiana. The Center is nonpartisan and non-ideological and works on a broad range of policy issues. Governments, nonprofit organizations, businesses, and foundations support projects at the center. Affiliated faculty from Indiana University–Purdue University Indianapolis and other universities, professional staff of the Center, and graduate assistants form project teams.

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. The Act specifies that an owner's initial license expire five (5) years after the effective date of the license. This report is an analysis of Blue Chip's first five years of operation.

The Certificate specified certain levels of project development and incentive payments to be made by Blue Chip and specified that Blue Chip abide by agreements made with the city of Michigan City. Because this analysis must be completed before the completion of Blue Chip's fifth year of operations, in year five, data are shown for year five through April 30, 2002. In addition to the five-year totals of components included in the previous annual reports, this report includes an analysis of the tourism impact of Blue Chip's visitors, a study of the employment impact, a descriptive analysis of the economic impact of the additional revenue received, and an analysis of the fiscal impact on local communities. This five-year report is the eighth of ten analyses, one for each Indiana riverboat. The first, an analysis of Aztar, was completed in February 2001. The next three, Empress, Trump,



and Majestic Star, were completed in July 2001. The fifth and sixth, Grand Victoria and Argosy, were completed in November 2001. The seventh report, Harrah's, was completed in April 2002. Each additional report will allow an opportunity to refine the methodology, improve data collection, and compare and contrast riverboat performance and its impacts on local communities.



PROJECT DEVELOPMENT AND GAMING ACTIVITIES

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.

Gaming activity reflects the number of riverboat patrons and how much money they spent. Spending is defined as the amount bet, less winnings received.

Project Development Certificate Compliance

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 Michigan City other incentives totaling several million dollars. At the end of April 2002, Blue Chip reported that \$152.8 million has been spent on project development, \$65.8 million more than agreed upon in the Certificate.

Blue Chip has spent money locally for both capital and operating expenses as well as through sponsorships and contributions. As Table 1 illustrates, since 1997, Blue Chip has spent \$99.2 million locally. Additionally, Blue Chip has impacted the Michigan City area through \$563,500 in sponsorships and contributions to local area organizations. This excludes any contributions that were part of the local development agreement, which are discussed under Incentive Payments.

Table 1: Local Spending, Sponsorship, and Contributions

	1997/98	1999	2000	2001	2002 thru 4/30	Total
Local Spending	\$60,500,000	\$8,500,000	\$18,900,000	\$8,600,000	\$2,700,000	\$99,200,000
Sponsorships and Contributions	\$120,000	\$118,160	\$166,825	\$82,030	\$76,485	\$563,500



Gaming Activity

The Certificate did not require any specific levels of gaming activity by Blue Chip. As Table 2 illustrates, Blue Chip has had attendance of over 16 million people since opening and adjusted gross gaming receipts of almost \$719 million, for an average of \$44 of casino win per patron per cruise.

Table 2: Gaming Activity

Category	1997/98	1999	2000	2001	2002 thru 4/30	Total/Average
Attendance	3,524,210	3,645,628	3,811,667	3,992,240	1,319,450	16,223,195
Gross Gaming Receipts	\$127,168,000	\$161,710,925	\$178,334,900	\$185,462,655	\$66,026,580	\$718,703,060
\$ Per Patron per Cruise	\$36	\$44	\$47	\$46	\$50	\$44

Impact of Gaming Activity on Tourism

One argument for legalizing riverboats was that the projects would become a tourist destination and local businesses would benefit from the influx of visitors who would consume goods and services at local establishments as well as at the riverboat casino. It also was assumed that most of the casino visitors would be tourist and not local residents.

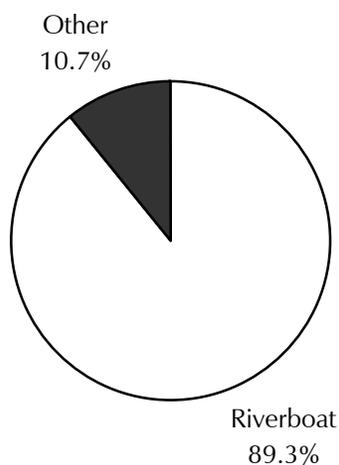
With the cooperation of Blue Chip, the Center conducted face-to-face interviews with riverboat patrons over a four-day period in May 2002 in the riverboat pavilion. During the four-day period, the Center acquired a 234-patron sample.¹ In general, the estimated average distance traveled to the riverboat was 97 miles. Three percent of the interviewees were from Michigan City, 47.9 percent were from the remainder of Indiana, and 49.1 percent were from outside Indiana (32.9 percent were from Michigan).

¹ While not a statistically significant sample, survey responses were consistent and provide information necessary to draw adequate conclusions.



To suggest that riverboat casinos increase tourism in local areas is to presume that the riverboat will draw people that would not have otherwise visited the area. To test that assumption, each interviewed patron was asked to provide his or her main reason for traveling to Michigan City. Figure 1 indicates that 89.3 percent of the patrons stated that their main reason for traveling to Michigan City was to visit Blue Chip Casino. The other most common primary purpose for interviewees to visit Michigan City (3 percent) was to shop at the outlet mall. The remaining 7.7 percent of interviewed patrons were visiting Michigan City for the primary purpose of visiting friends or relatives, vacationing, conducting business, visiting the dunes, or fishing.

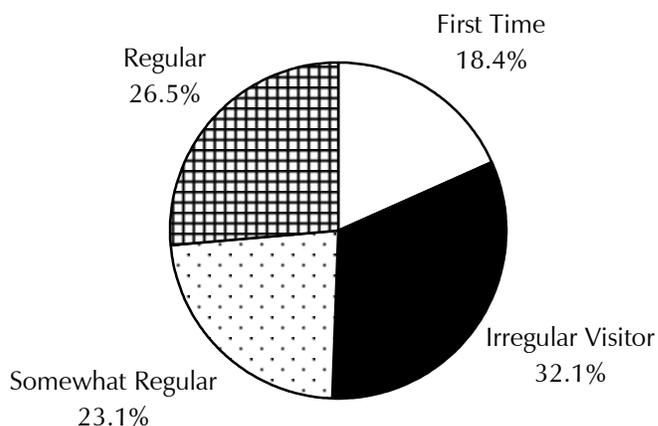
Figure 1: Blue Chip Patrons' Reasons for Visiting Michigan City





The patrons also were asked how often they visit Blue Chip Casino. Specifically, each interviewed respondent was asked to what degree he or she regularly visited the riverboat. Figure 2 illustrates the proportion of respondents by four broadly categorized groups: first time visitor, irregular visitor, somewhat regular visitor, and regular visitor. As shown, most of the patrons visited the riverboat irregularly (32.1 percent). The remaining two-thirds of interviewees were distributed among the three remaining broad categories as follows: regular visitors (26.5 percent), somewhat regular visitors (23.1 percent), and first time visitors (18.4 percent).

Figure 2: Regularity of Patron Visits to Blue Chip



First Time Visitors

- Visiting Blue Chip for the first time

Irregular Visitors

- Visit Blue Chip less than once a year
- Visit Blue Chip one or two times a year

Somewhat Regular Visitors

- Visit Blue Chip every couple months
- Visit Blue Chip once a month

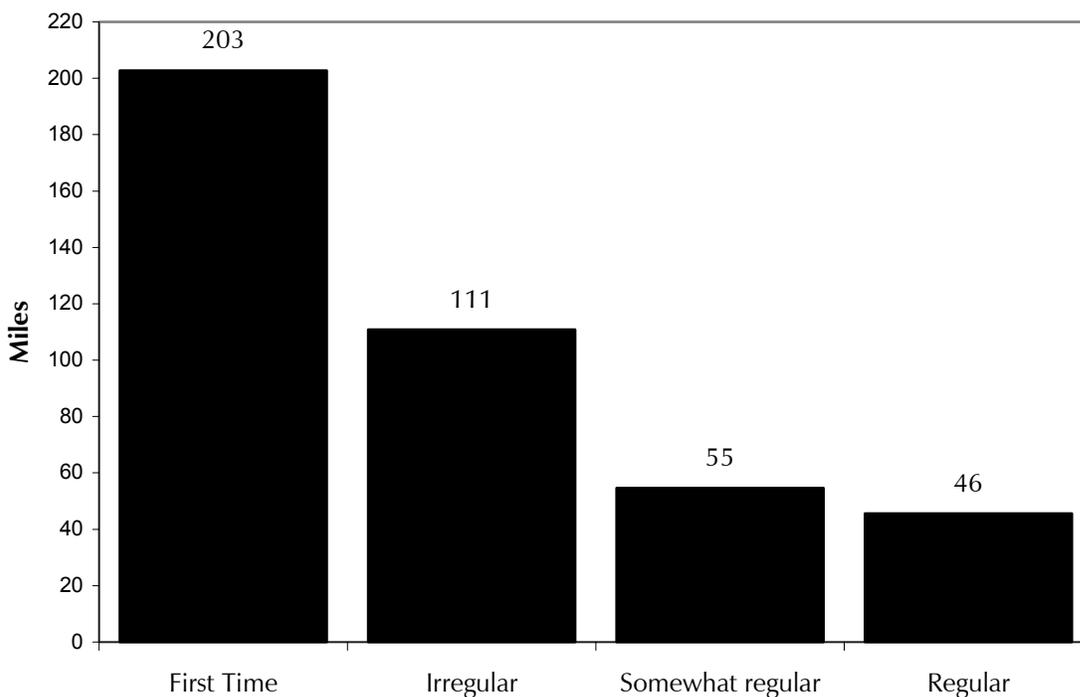
Regular Visitors

- Visit Blue Chip once a week
- Visit Blue Chip two to three times a week
- Visit Blue Chip every day



As mentioned previously, the overall average distance traveled was 97 miles. Figure 3 illustrates the average estimated distance traveled to visit the riverboat by the regularity of visits. As shown, the average distance traveled consistently decreased from 203 miles to 46 miles as regularity of visits increases. The patrons who visit the riverboat more frequently are more likely to live closer to the riverboat.

Figure 3: Average Distance Traveled by Regularity of Visits to Blue Chip



As stated previously, 89.3 percent of the interviewed patrons were in Michigan City specifically to visit the riverboat. In addition, each patron was asked how long he or she planned to stay in Michigan City during his or her visit. Table 3 indicates that 41 of the 234 patrons (18 percent) stayed in Michigan City more than 8 hours. Those patrons who stayed for more than one day were more likely to have traveled farther distances to visit the riverboat.

Table 3: Time Spent in Michigan City by Distance Traveled

	Number of Patrons	Proportion of Respondents	Average Miles Traveled
8 Hours or Less	193	82%	91
9 to 24 Hours	22	9%	113
1 Day to 1 Week	19	8%	143
Total Sample	234	100%	97



Of the 234 interviewees, nine had visited or planned on visiting other Indiana riverboats on their trip. One of the patrons visited four other riverboats on his/her trip, six visited two other riverboats, and two planned on visiting one other riverboat. These visits to other Indiana riverboats included a visit to Empress, six visits to Trump, four visits to Majestic Star, five trips to Harrah's, and two trips to Horseshoe.



EMPLOYMENT

Employment Certificate Compliance

As of April 30, 2002, 64 percent of Blue Chip’s employees were women and 20 percent were minorities. Approximately 61 percent were from LaPorte County. Blue Chip committed to use its best efforts to employ a permanent work force that is demographically representative of LaPorte County and to fill 90 percent of the jobs with LaPorte County residents. According to 1997 population estimates, in LaPorte County 12.6 percent of the population consists of minorities and 48.9 percent of women. Blue Chip is more than meeting its commitment to hire women and minorities, but it lags behind in its commitment to hire LaPorte County residents.

As Table 4 indicates, as of April 30, 2002, Blue Chip had employment of 1,149 persons in the hotel and casino, slightly below their five-year average of 1,153. Since opening, Blue Chip has paid almost \$150 million in wages. Full- and part-time employees receive benefits that include health care coverage and vacation time.

Table 4: Employment and Wages

Category	1997/98	1999	2000	2001	2002 thru 4/30	Total/Average
Employment	1,080	1,191	1,202	1,144	1,149	1,153
Total Wages, Tips & Benefits	\$30,064,562	\$32,802,110	\$36,526,900	\$38,021,950	\$12,158,960	\$149,544,0482

Impact on Blue Chip’s Workforce

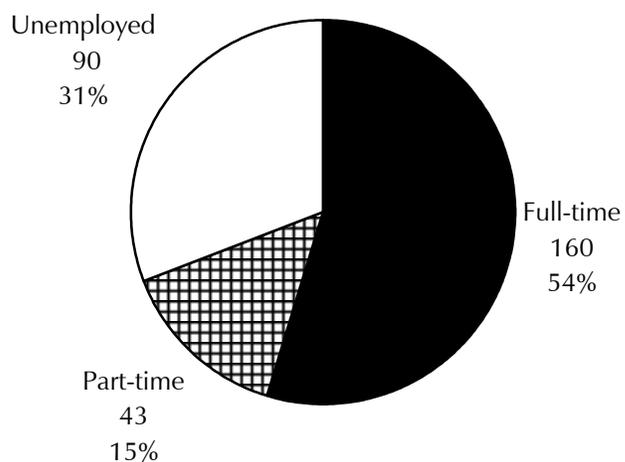
In testimony given to the Indiana Gambling Impact Study Commission in 1999, proponents of legal gaming asserted that gaming-related employment offers the chronically unemployed and under-employed an opportunity to establish a work record and skill set that may lead to even greater economic opportunity. Those who oppose legal gambling questioned the validity for this assertion and claimed that gambling-related jobs are often dead-end positions, plagued by high turnover rates. As part of the five-year analysis, current Blue Chip employees were asked to complete a survey of their past and current work history, including questions about the learning and skill-building opportunities presented to them. This analysis is based on 293 surveys received from 1,153 total employees at Blue Chip for a response rate of 25 percent.



Previous Employment Status

As shown in Figure 4, 31 percent of the current Blue Chip employees who responded to the survey were unemployed prior to beginning work at the riverboat. Fifty-four percent had full-time jobs. The average annual wage of the 143 Blue Chip employees who were employed full-time prior to beginning work and who reported a previous wage was \$23,711.

Figure 4: Employment Status Prior to Beginning Work at Blue Chip

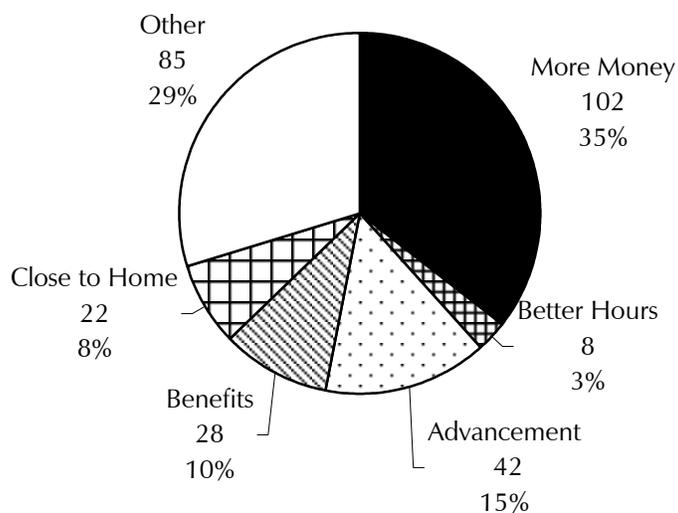




Reasons for Leaving a Job to Accept Employment at Blue Chip

As shown in Figure 5, for the 203 survey respondents who left full- or part-time positions and responded to the question regarding their motivation to begin work at Blue Chip, the principal reason was more money (35 percent). Better advancement opportunities (15 percent) and improved benefits (10 percent) were the second and third most common reasons the previously employed people cited for beginning work at Blue Chip. The most common prior occupation of current Blue Chip employees who left full- or part-time positions to begin work were either service sector jobs (21 percent) or retail sector jobs (11 percent). Nine percent of the employees who responded to this question were previously employed in the manufacturing sector of the economy.

Figure 5: Why Previously Employed Accepted Job at Blue Chip

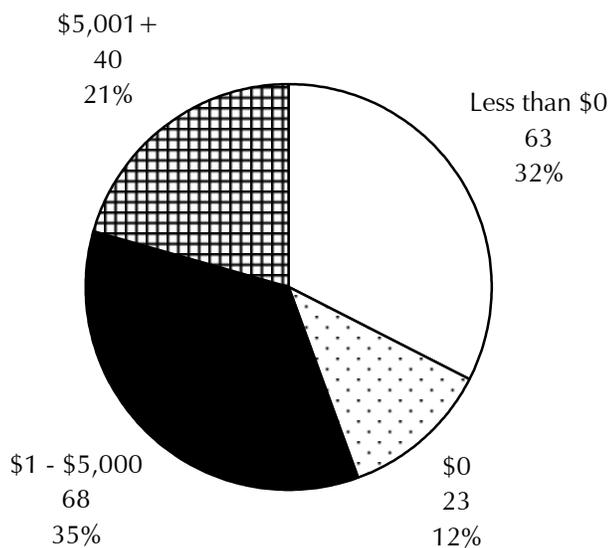




Change in Annual Wages Upon Beginning at Blue Chip

Of the 293 respondents, 194 provided information that compared previous wages to starting wages at Harrah's. As shown in Figure 6, 56 percent of the respondents received a raise when starting at Blue Chip, with 40 employees reporting receiving beginning raises of more than \$5,000 and 68 reported receiving a raise of \$5,000 or less. The median increase for employees reporting a wage from their previous employer and starting wage at Blue Chip was \$1,000. The average increase for employees reporting both previous and starting wages was \$1,016.

Figure 6: Change in Annual Wages from Previous Job to Starting at Blue Chip

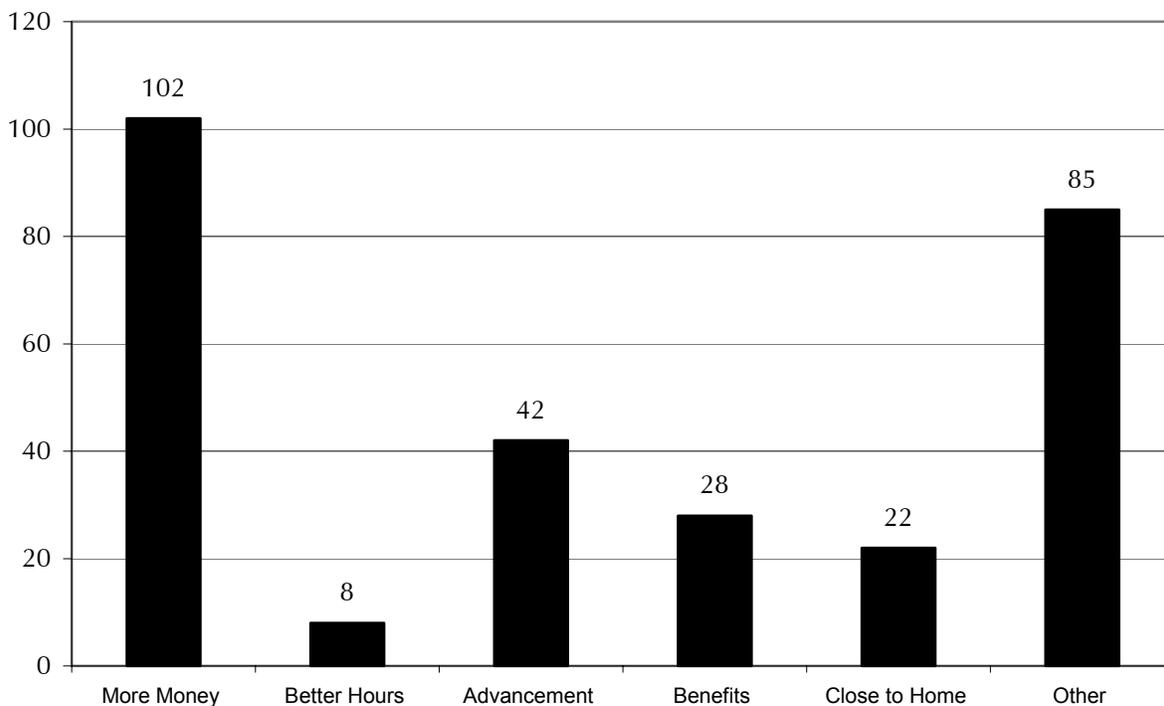




Reasons for Beginning Employment at Blue Chip

As shown in Figure 7, employees cited more money as the principal motivation for beginning employment at Blue Chip twice as often as any other response. The next most common response was better advancement opportunities.

Figure 7: Primary Reason for Beginning Employment at Blue Chip (All Respondents)

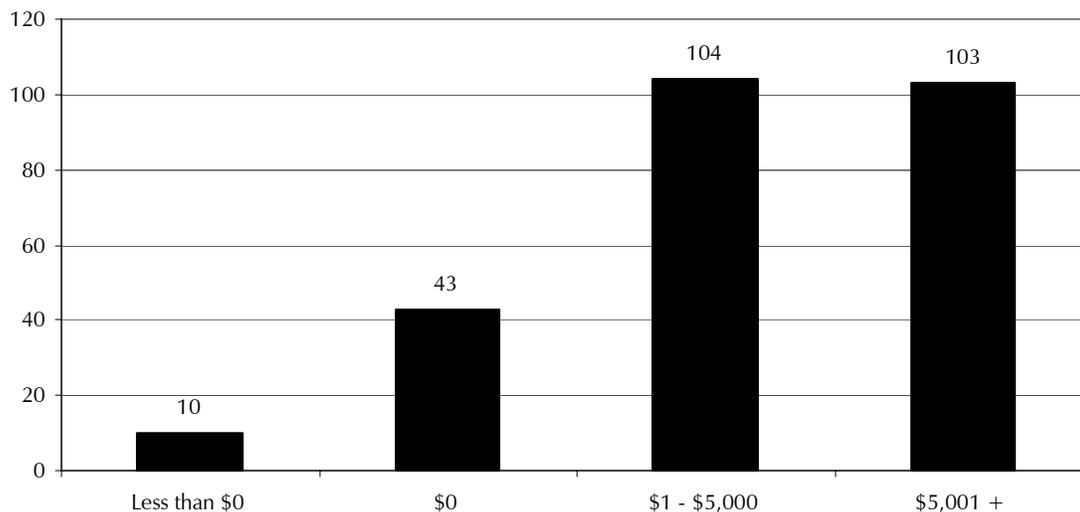




Blue Chip Employment History

Of the 260 survey respondents reporting current and beginning wages at Blue Chip, Figure 8 shows that 207 (nearly 80 percent) experienced an increase in wages over the period. Only 53, or 20 percent, experienced a decline or no increase in annual wages since beginning employment at Blue Chip. The average increase in wages for all employees reporting both current and beginning wages was \$5,960 over the period. The median increase was \$3,140. Over the same period, per capita income in Indiana grew by \$3,295. The 28 percent rate of increase for Blue Chip workers compared with the 15 percent increase for all Indiana workers shows that Blue Chip workers' incomes are growing, on average, faster than wages for other workers in Indiana. An additional measure of the increased well being of Blue Chip employees is the fact that 33 respondents report moving from rental housing to home ownership.

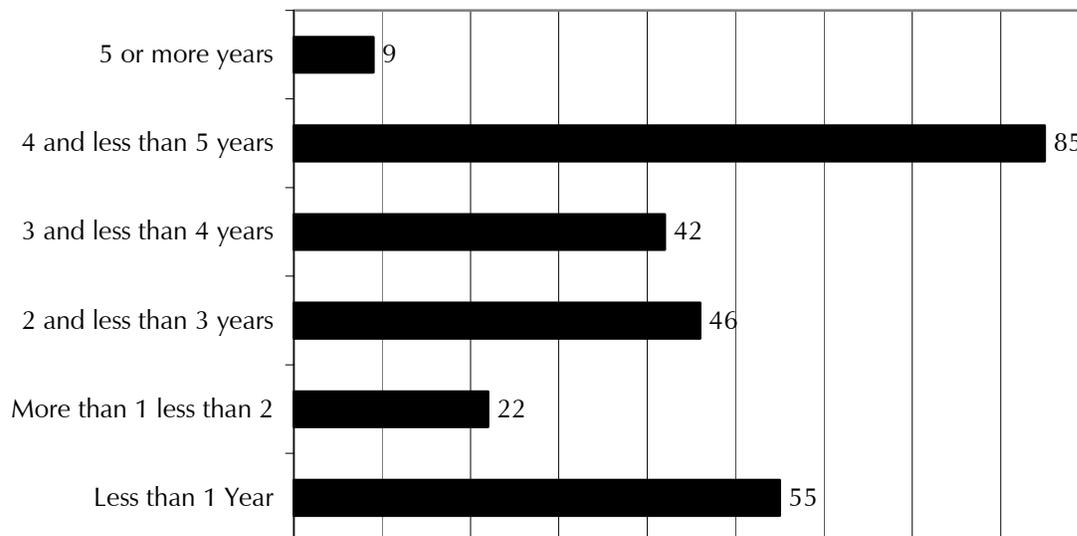
Figure 8: Change in Annual Wages Since Beginning Employment at Blue Chip





The average and median length of employment at Blue Chip by survey respondents was two years and ten months. As shown in Figure 9, 94 workers or 36 percent of all respondents have worked at Blue Chip for four or more years. Thirty percent of the respondents have worked at Blue Chip for less than two years.

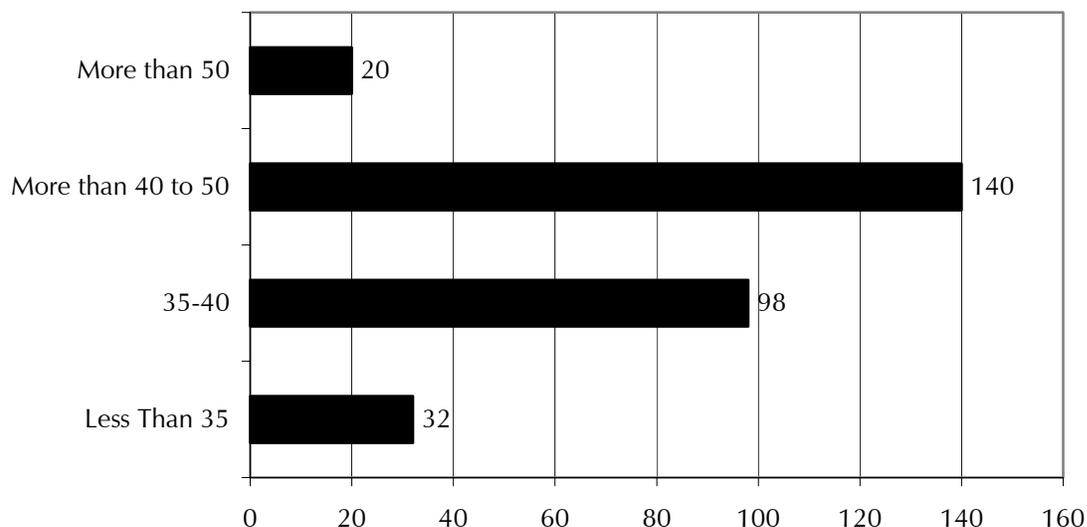
Figure 9: Years Worked at Blue Chip by Number of Respondents





Eighty-nine percent of Blue Chip employees who responded to a survey question regarding hours worked per week are full-time employees working between 35 and 50 hours per week. As shown in Figure 10, only 32, or 11 percent, report working part-time or less than 35 hours per week. While it is possible that those working full-time were more likely to return their surveys, the vast majority of respondents employed by Blue Chip work on a full-time basis.

Figure 10: Hours Worked per Week by Blue Chip Employees

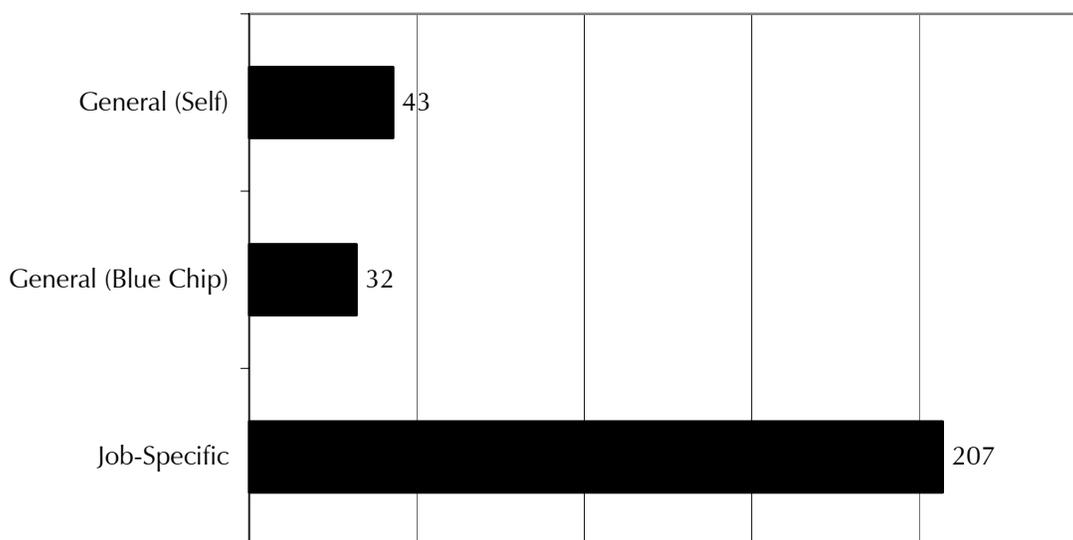




Employee Training and Skill Building

While the data on wages and employment show that Blue Chip employees are, for the most part, experiencing improved economic conditions, training and skill enhancements are key levers to continued growth and career opportunities. Figure 11 shows that 207 (71 percent) of the respondents reported riverboat job-related training, fewer Blue Chip employees are accessing skill-building opportunities beyond those directly related to their duties at the riverboat. In fact more employees paid for their own training (43 or 15 percent) than received skill-building opportunities that were not directly related to their job and paid for by Blue Chip (32 or 11 percent).

Figure 11: Training and Skill Building of Blue Chip Employees



Thirty-four percent of all respondents reported a high school degree as their highest level of academic achievement, and 43 percent reported some college as their highest level of academic achievement. Arguably, these two groups, based on educational experience and need, are most positioned to take advantage of additional skill-building opportunities. Five percent of the high school graduates and 13 percent of those with some college reported receiving non-job-related general education opportunities funded by Blue Chip. The two groups that received the highest share of general training provided by Blue Chip were those with Masters degrees (33 percent) and undergraduate degrees (15 percent). While 18 percent of Blue Chip employees with some college reported paying for additional skill-building opportunities, only four percent of those with only high school degrees paid for additional skill-building opportunities on their own.

With the information gathered from this survey, there is no way to determine if these results are determined by employee decisions, lack of availability to training, or other factors. Blue Chip Casino reports that they have provided hundreds of hours of operations-related training for their employees. Operations-related training efforts range from new employee orientation and job specific instruction to management and supervisory skills. Blue Chip does not have a written policy regarding tuition reimbursement and access to outside training opportunities. Blue Chip staff report that requests for



this type of training are heard on a case-by-case basis and that Blue Chip has supported numerous outside training opportunities.



ECONOMIC AND FISCAL ACTIVITY

Since opening in 1997, through April 30, 2002, Blue Chip has paid local governments over \$68 million in gaming-related taxes (admissions and wagering taxes) and has voluntarily contributed an additional \$15.2 million to Michigan City. Of the \$68 million in gaming-related taxes, \$52.2 million was distributed to the city of Michigan City, with the remaining \$16.2 million distributed to LaPorte County. The analysis of the economic benefits of spending of local gaming-related taxes and incentives is limited to expenditures made by the city of Michigan City.

In addition to gaming-related taxes, Blue Chip also generates traditional local tax revenues, principally property taxes on the boat and on other facilities. The presence of the casino and its patrons creates additional costs for local government. For example, the boat and the accompanying change in traffic patterns and volume may require new infrastructure or more frequent maintenance and increased traffic control costs. The influx of new visitors may require additional public safety expenditures. Riverboat casino employees may choose to relocate within the community and pay new taxes (principally property) and demand new infrastructure and services, including police protection and schools. The fiscal impact of Blue Chip is determined by comparing the additional tax revenues attributable to the casino to the service and infrastructure costs. If added revenue exceeds cost, the fiscal impact is said to be positive. If the added revenues fall short of costs, the fiscal impact is negative.

While there is much discussion and controversy regarding the economic benefits of the gaming industry, little attention has been focused on the economic benefits generated by spending the local tax dollars generated from the gaming industry. The Indiana Gambling Impact Study Commission found that those who support legalized gaming claim economic benefits such as new jobs at the casino, millions of dollars of private investment for gaming facilities, accompanied by spin-off benefits generated by visitors to and suppliers of the facilities. Those who question the economic benefits generated by the gaming industry claim that much of the spending is done by local residents and represents redirected rather than new dollars for the local economy. Opponents also claim that profits are exported to the corporate headquarters of the local casino and that there is no evidence of new visitor spending beyond the gaming facility.

This debate ignores the economic contributions made by spending the tax revenue generated by gaming facilities for local government. The manner in which local governments choose to invest local gaming tax revenue has immediate and long-term impacts for the local economy. An immediate benefit occurs when local tax dollars are spent and the effect works its way through the local economy. The long-term benefit is determined by how well this spending contributes to the long-term economic competitiveness of the local economy.



This chapter of the analysis discusses the following:

- **Compliance:** documents Blue Chip’s compliance with mandatory tax payments and voluntary contributions
- **Fiscal Impact:** analyzes the new gaming-related costs and revenues generated by Blue Chip for taxing units in Michigan City
- **Economic Benefits:** identifies the immediate economic benefits generated by Blue Chip’s local gaming-related tax payments and voluntary contributions

Compliance

Tax Revenue

There are two sources of direct gaming revenue: the gaming tax, which is 20 percent of gross revenues, and the admission tax, a total of \$3 per admission. The city of Michigan City receives one quarter of the gaming tax and \$1 per admission. The county also receives \$1 per admission. In addition, another dollar is collected that is split several ways by the state. There are other revenues that are collected as a result of the gaming facility being located in the community—property taxes, sales taxes, and food and beverage taxes. There are at least two types of impacts that direct gaming revenues have had on the local community. The first type of impact we examine is the overall fiscal impact on local governments in Michigan City and LaPorte County, which is discussed in the Fiscal Impact of Tax Revenues on Local Government section. The second type is the economic impact generated by additional spending. The impact of the additional spending is discussed in the Economic Benefits of Gaming-Related Taxes and Incentives section.

As Table 5 illustrates, Blue Chip has paid almost \$127 million in direct taxes to the state of Indiana since it opened.

Table 5: State Direct Taxes²

Category	1997/98	1999	2000	2001	2002 thru 4/30	Total
Gaming Tax (State share)	\$19,075,200	\$24,256,639	\$26,750,235	\$27,819,398	\$9,903,987	\$107,805,459
Admission Tax (State share)	\$3,524,210	\$3,645,628	\$3,811,667	\$3,992,240	\$1,319,450	\$16,223,195
Sales and Use Tax	\$225,349	\$443,872	\$744,100	\$921,040	\$301,050	\$2,635,411
TOTAL	\$22,824,759	\$28,346,139	\$31,306,002	\$32,732,678	\$11,524,487	\$126,664,065

² Source: Blue Chip Casino, LLC



In addition, as Table 6 shows, Blue Chip has paid almost \$72 million in direct taxes (gaming, admission, and property taxes) to the local area (city and county) since it opened.

Table 6: Local Direct Taxes³

Category	1997/98	1999	2000	2001	2002 thru 4/30	Total
Gaming Tax (City share)	\$6,358,400	\$8,085,546	\$8,916,745	\$9,273,133	\$3,301,329	\$35,935,153
Admission Tax (County share)	\$3,524,210	\$3,645,628	\$3,811,667	\$3,992,240	\$1,319,450	\$16,223,195
Admission Tax (City share)	\$3,524,210	\$3,645,628	\$3,811,667	\$3,992,240	\$1,319,450	\$16,223,195
Property Tax	\$79,045	\$819,192	\$975,500	\$1,441,740	\$0	\$3,315,477
TOTAL	\$13,485,865	\$16,195,994	\$17,515,579	\$18,699,353	\$5,940,229	\$71,697,020

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 schools' portion is distributed based on a percent of total 1996-97 headcount enrollments with a 2 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. Through November 2001, Michigan City has shared \$8.9 million.

Incentive Payments

The largest impact of Blue Chip in the Michigan City area (outside of taxes) has been through incentive payments. These payments are the result of agreements that were made with the city of Michigan City as part of their application process. In its Certificate of Suitability, Blue Chip agreed to provide incentive payments, as detailed below. 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. As Table

³ Source: Blue Chip Casino, LLC



7 illustrates, Blue Chip is on or ahead of schedule with its incentive payments and has provided \$15.2 million in incentive payments through December 31, 2001. (The incentives are shown through the end of 2001 because the contingent incentive is calculated as a percent of AGR). While all the fixed incentives were completed in years one and two (except for the \$300,000 annually to the city), the largest incentive, the contingent incentive, will continue into the future.

Table 7: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Through 12/31/01	Status
	% of Adjusted Gross Revenues (see text above)			
A) Ongoing payments		Michigan City	\$6,504,248	Ongoing
B) Annual Incentive	Not in certificate	Michigan City	\$600,000	Ongoing
C) Donation of lakefront property	Not specified	Michigan City	\$600,000	Completed Year 1
D) Marina development	Not specified	Michigan City Port Authority	\$4,500,000	Completed Year 1
E) Donation of peninsula and 100 revenue-producing boat slips	Not specified	Michigan City Port Authority	\$1,500,000	Completed Year 1
F) Infrastructure improvements	Not specified	Michigan City	\$500,000	Completed Year 2
G) Harborside Homes property	Not in certificate	Michigan City	\$1,000,000	Completed Year 2
TOTAL			\$15,204,248	

Fiscal Impact of Tax Revenues on Local Government

Riverboat casinos affect the revenues and costs of the local governments of the communities that host them. This is known as the *fiscal impact*. Riverboats pay new property taxes on the boat and other new facilities. They pay the admissions and wagering taxes that the host cities and counties share with the state. Riverboats also may impose new costs on local governments. For example, they may require added infrastructure, traffic control, or public safety expenditures. In addition, riverboat employees may relocate within the community and pay added property taxes, income taxes, charges, and fees. If they relocate in the riverboat communities, they also will demand new infrastructure, recreation facilities, police protection, and education for their children. Measuring the fiscal impact implies comparing these additional revenues and costs. If added revenues exceed added costs, the fiscal impact is said to be positive. If added revenues fall short of added costs, the fiscal impact is negative.

This analysis applies recognized fiscal impact methods, described in Appendix A, to assess the impact of Blue Chip riverboat on the budgets of LaPorte County, the city of Michigan City and the Michigan City Area School Corporation for the year 2001. The analysis for each unit shows the effect on the unit's budget for this single year. Assessments, tax rates, and appropriations levels change only gradually from year to year. This means that the results for the most recent year are typical, representative of all the years since the advent of the riverboat, and likely to be representative of years in the near future.



Overall Impact on LaPorte County

Table 8 shows total assessed value⁴ in the assessment years 1988, 1994, and 2000 (that is, assessed values for taxes payable in 1989, 1995, and 2001). Like Indiana as a whole, LaPorte County's assessed value grew more slowly in 1994-2000 than it did in 1988-94. This is primarily because the 1980s saw more inflation in construction costs than the early 1990s. The 1989 reassessment increased taxable values more than did the 1995 reassessment. In the earlier period, LaPorte County's assessed value growth lagged the state's. The advent of the riverboat added substantially to LaPorte County's assessed value, so that the county's assessed value growth nearly matched the state average in the latter period. Without the riverboat, average annual growth after 1994 would have been about 4.2%, lower than Indiana's average rate by the same amount as in the earlier period.

Table 8: Assessed Value in Assessment Year, LaPorte County, 1988-2000 (thousands)

	1988	1994	2000	Avg. Annual % Change	
				1988-94	1994-2000
LaPorte County	\$491,635	\$711,991	\$941,354	6.4%	4.8%
All Indiana	\$28,507,022	\$43,028,074	\$57,318,892	7.1%	4.9%

Blue Chip riverboat is a major employer, with about 1,200 employees in LaPorte County. This figure represents about 2% of total employment in LaPorte County. Table 9 shows that LaPorte County employment grew 1.2% per year between 1988 and 1994, and slightly slower at 1.0% during 1994-99. During this same period, average annual growth in Indiana remained constant at 1.9% per year. Riverboat employment represents about one-third of the job growth in LaPorte County since 1994. Without this growth, LaPorte employment would have grown at only half the rate of the earlier period.

Table 9: Place-of-work employment in LaPorte County, 1988-99

	1988	1994	1999	Avg. Annual % Change	
				1988-94	1994-99
LaPorte County	52,260	56,122	59,024	1.2%	1.0%
All Indiana	2,953,581	3,314,850	3,645,725	1.9%	1.9%

⁴ Assessed value is the dollar value placed on real and personal property by local assessors, for property tax purposes. Real property is land and buildings (and, in Indiana, riverboats). Personal property is business equipment and inventories.



LaPorte County's per capita income is lower than the state average (Table 10). Growth in per capita income above inflation was much faster after 1994 than before. Indiana as a whole also experienced more rapid income growth, but the growth increase was not as great as in LaPorte. Prior to the riverboats, LaPorte's real per capita income growth was about half the state's growth; since the riverboats, LaPorte's growth has nearly matched Indiana's. This may partly be due to the riverboats.

Table 10: Personal income per capita in 2001 dollars, LaPorte County, 1988-99

	1988	1994	1999	Avg. Annual % Change	
				1988-94	1994-99
LaPorte County	\$21,992	\$22,992	\$25,574	0.7%	2.7%
All Indiana	\$23,378	\$25,278	\$28,420	1.3%	3.0%

As shown in Table 11, LaPorte County's population growth was similar to Indiana's during 1988-94, but slowed after 1994, lagging behind Indiana's overall growth. The number of added people between 1994 and 2000 was 543, less than half the employment added by Blue Chip. The riverboat appears to have had little impact on population.

Table 11: Population in LaPorte County, 1988-2000

	1988	1994	2000	Avg. Annual % Change	
				1988-94	1994-2000
LaPorte County	105,941	109,563	110,106	0.6%	0.1%
All Indiana	5,523,679	5,745,626	6,080,485	0.7%	0.9%

Table 12 shows school enrollment. Here we need not rely on county-wide data, but can look at the Michigan City Area School Corporation. Blue Chip riverboat is within the borders of this school corporation. Michigan City Area School Corporation enrollment has declined substantially over the whole 1988-2001 period, though the drop after 1994 was slower than before. The corporation enrolled 495 fewer pupils in 2001 than it did in 1994. During this same period Indiana's overall enrollment increased slightly.

Table 12: School enrollment in Michigan City Area School Corporation, 1988-2000

	1988	1994	2001	Avg. Annual % Change	
				1988-94	1994-00
Michigan City Area	8,436	7,426	6,931	-2.1%	-1.0%
All Indiana	927,687	930,836	954,480	0.1%	0.4%

The arrival of Blue Chip riverboat increased assessed value in LaPorte County, probably increased employment, and may have added to growth in per capita income. There seems to have been little impact on population and school enrollment in Michigan City Area Schools, however. From a fiscal impact perspective, this is important. Local revenues are more closely related to assessed value, jobs, and income. Assessed value is certainly higher, and employment and income are probably higher in LaPorte because of the riverboat. Local costs are more closely related to population and



school enrollment. Population growth slowed in LaPorte County after 1994, and Michigan City Area School enrollment continued to fall after the riverboats arrived. These broad indicators suggest that the riverboats had a positive fiscal impact. The Michigan City Area School Corporation enrollment decline probably implies that the school corporation has excess capacity, meaning that the educational needs of any new pupils brought to the corporation by riverboat employees have been met by existing teachers and facilities.

Fiscal Impact of New Employment

In the fall of 1999, surveys were mailed to 1,750 riverboat employees representing seven of the nine riverboats then operating,⁵ randomly sampled using payroll information. Seventy-four employees had relocated, decreasing the sample to 1,676. Four hundred and fifty-seven questionnaires were returned, for a response rate of 27.3 percent. For Blue Chip riverboat, 236 valid surveys were mailed, and 77 were returned, for a response rate of 32.6 percent.

Table 13 shows the home location of employees before and after they were hired by the riverboats. There were 77 usable survey responses from Blue Chip riverboat in Michigan City for this question. Of the 77 responses, 12 people relocated upon becoming riverboat employees, while 65 did not relocate. Of those who relocated, nine moved into LaPorte County, while three moved into a neighboring county.

Seventy-seven employees is of course a very small sample. However, our confidence in these results is increased by the fact that similar results were found for all Indiana riverboats surveyed. In the statewide sample of 448 usable responses, only 22% relocated, while 78% did not. The results for Blue Chip employees are similar to the state total, in that few employees relocated.

Extrapolating the survey results to all 1,202 Blue Chip employees (as of 2000), 11.7 percent or 141 moved from elsewhere to LaPorte County, and 53.2 percent or 639 existing county residents took new jobs with the riverboat. The remainder live outside LaPorte County.

Table 13: Location of employee residence prior to employment

	Host County		Non-Host Area		Total	
	# of Employees	% Total	# of Employees	% Total	Total	Percent
New	9	11.7%	3	3.9%	12	15.6%
Existing	41	53.2%	24	31.2%	65	84.4%

- Host: County in which the riverboat is located
- Non-Host: Surrounding area
- New: Employee moved from outside the area to obtain employment
- Existing: Employee was a resident in the area prior to employment

⁵ The tenth Indiana riverboat began operation in 2000 in Switzerland County.



The survey also asked about housing construction. None of the 43 Blue Chip survey respondents answering this question reported living in a single-family house built since 1996. This is also consistent with other riverboat counties—few employees have bought newly built houses.

Fiscal Impact on LaPorte County

Blue Chip riverboat adds \$30.3 million in new assessed value. The county's cumulative fund property tax rate adds \$17,232 in new revenue to the county budget. The operating and welfare rates generate \$178,018 in new revenue. However, the added riverboat ASSESSED VALUE is not enough to change the maximum levy limit on property tax levies for operating purposes. In effect, the riverboats produce no added operating revenue—each dollar of added riverboat tax is offset by a dollar decline in taxes paid by existing taxpayers. The same is assumed to be true for welfare. Welfare appropriations are determined by state rules, and we assumed that the advent of the riverboat does not change the number of eligible recipients. The added riverboat taxes for welfare are offset by lower welfare taxes on existing taxpayers. The county has no debt service rate. The tax savings from the operating and welfare rates do not provide additional revenue to LaPorte county, but they do have a fiscal impact upon the citizens of LaPorte County, who pay lower property taxes than they would have without the riverboat.

LaPorte County uses a combination of two local income taxes; the county adjusted gross income tax (CAGIT) at 0.5%, and the county economic development income tax (CEDIT) at 0.45%. Individuals, not businesses, pay these income taxes, so the added revenue represents payments from new employee incomes. A fraction of the CAGIT revenue must be used for property tax relief, and so is counted as tax savings. The remainder is “spendable” by the county. The income taxes add \$11,059 in revenue, and \$1,072 in tax savings. Other revenues include motor vehicle excise taxes, charges and fees, and additional miscellaneous revenue. The sum is \$13,339. Overwhelmingly, the largest revenue source attributed to the riverboat is the admissions taxes received by the county, which total \$3.8 million.

The added costs to LaPorte County of the riverboats and their employees are estimated using two cost estimate methods described in Appendix A. The two results are similar, differing by about \$18,500, ranging from \$115,238 to \$133,803.

Fiscal impact is calculated as the added revenues less the added costs of development. For the county, eight different fiscal impact calculations were performed. Detailed results are presented in Table A1 in Appendix A. When riverboat admissions taxes are included, the fiscal impact is *overwhelmingly positive, between \$3.7 and \$4.0 million*. The added revenue is far more than the added costs. This is true if only added revenues without tax savings are counted, or if total revenues are counted, and it is true under either estimate of added costs.

We also calculated the fiscal impacts with the riverboat taxes excluded: each of the cost estimates, with only added non-riverboat tax revenue and with total non-riverboat tax revenue. We calculated the fiscal impact without the added revenue from the riverboat because county riverboat tax revenues have been assigned primarily to capital improvements. Tax savings can be turned into added revenues through several avenues, including new bond issues (debt service), tax increment



financing, and added cumulative fund rates. All of these, however, raise revenue for capital improvements. How are added operating costs to be funded? The county might have difficulty funding the added operating costs—sheriffs officers' wages, road maintenance, park maintenance and so forth—because virtually all the added revenue from the riverboat is devoted to capital improvements.

The fiscal impacts using only added revenue are *negative*—costs exceed added revenues, ranging from a negative fiscal impact of \$73,608 to \$92,173.

Fiscal Impact on Michigan City

As stated above for LaPorte County, the property taxes on Blue Chip riverboat provide little added revenue to Michigan City. The added \$30.3 million in riverboat-assessed value in 2000 is taxed at the city's operating rate, which generates \$358,032 in tax revenue. However, because the added riverboat assessed value is not enough to increase the three-year average AV growth rate above five percent, the city's maximum levy is unchanged by the advent of the riverboat. Every dollar of property tax paid by the riverboat is offset by a dollar of property tax saved by existing taxpayers. While this does not provide additional revenue to Michigan City, it does have a fiscal impact upon the city's citizens, who pay lower property taxes than they would have without the riverboat. The city's cumulative fund rate does add revenue to the city budget, to the amount of \$9,503.

LaPorte County has the CAGIT and CEDIT local income taxes. These taxes on new employee incomes add \$6,214 to city revenue. Part of CAGIT revenue is used for property tax relief, generating \$602 in tax savings. Michigan City's other revenues sum to \$28,177. Again, riverboat wagering and admissions taxes are by far the largest source of additional revenue, \$12.6 million.

Costs are calculated for the city using methods described in Appendix A. The added costs sum to \$278,372.

The detailed results for the city are presented in Table A2 in Appendix A. Even more than for the county, the fiscal impacts including riverboat taxes are *overwhelmingly positive*, \$12.4 to \$12.8 million. The annual tax revenue from Blue Chip riverboat far exceeds the added costs.

If both riverboat taxes and tax savings are excluded, however, the fiscal impact is *negative* at \$234,479. Again, this represents a potential problem with operating costs. Riverboat revenues have been assigned to capital improvements. Tax savings can be turned into new revenues, but only for capital improvements. Some of the added costs may be for non-capital expenses: wages for new police officers and firefighters, road maintenance, and so forth. The added operating revenue from other sources may not cover these added costs.⁶

⁶This negative fiscal impact may be overstated. Not all of the new Blue Chip employees live in Michigan City, though this analysis makes that assumption. Further, Census population figures show that Michigan City's population fell by 922 between 1990 and 2000. While the advent of the riverboat probably added population to the city, ten years ago the city was providing services to more people. Even with the riverboat, fewer people were being served in 2000 than in 1990.



Fiscal Impact on Michigan City Area School Corporation

School corporation finances differ from county and city finances. They operate under different sets of property tax controls. A major source of revenue is state aid, distributed by a complex formula. School corporations do not receive riverboat taxes directly, but do collect property taxes on riverboat-assessed values.

This analysis is based on assessments, tax rates, appropriation levels, enrollment, and the school funding formula for the year 2001. The analysis shows the effect on the school corporation's budget for the single year 2001. Assessments, tax rates, appropriations levels, enrollment, and the school formula change only gradually from year to year. This means that the results for the most recent year are typical, representative of all the years since the advent of the riverboat, and likely to be representative of years in the near future. School corporation revenue estimates are primarily based on property taxes and state aid. Two independent methods of estimating costs are used for the expenditure side of the analysis. A detailed discussion of the methodology is included in Appendix A.

Most of the property taxes paid on the \$30.3 million in Blue Chip riverboat assessed value become added revenue for the school corporation. Added revenue from property taxes amounts to \$1,211,071. Only the debt service fund creates tax savings. The debt repayment schedule is unchanged by the added assessed value, so the rate required to raise these payments falls. This results in \$264,317 in tax savings to existing taxpayers. Other revenues are relatively small in comparison, totaling \$39,591 in added revenue.

State aid falls by \$534,402. Assessed value per pupil is increased by the advent of the riverboat. This reduces the amount paid to the school corporation in per-pupil aid. Enrollment is not assumed to increase, so the net effect of the added wealth is to reduce state aid. The school corporation realizes \$719,150 in added revenue, \$983,467 in total, including tax savings.

Enrollment in Michigan City Area Schools had declined by 495 pupils since the riverboat arrived. It is estimated that the riverboat employees who are new residents have added 66 new pupils to the schools. This number is less than the average annual decline in enrollment in the past five years, however. It seems quite likely that the Michigan City Area School Corporation has the extra capacity to serve these new pupils at no additional cost. Added costs are assumed to be negligible.

For the Michigan City Area School Corporation, the fiscal impact of Blue Chip riverboat is *positive*, and equal to the added revenue created by the riverboat. Added revenue is \$719,150 without tax savings, \$983,467 with tax savings.

It would be defensible, then, to count the added population costs at zero. One might argue that the city would have saved more in costs without the riverboat's employees, if costs fall when population drops. But it is hard to see how the riverboat's employees could have increased costs given the overall population decline.

Without the added people, the negative fiscal impact drops to \$29,499, due entirely to the extra costs imposed directly by the riverboat. Some of these will be capital costs, which can be covered by riverboat taxes, so any negative fiscal impact on operating costs would be smaller still.



Economic Benefits of Gaming-Related Taxes and Incentives

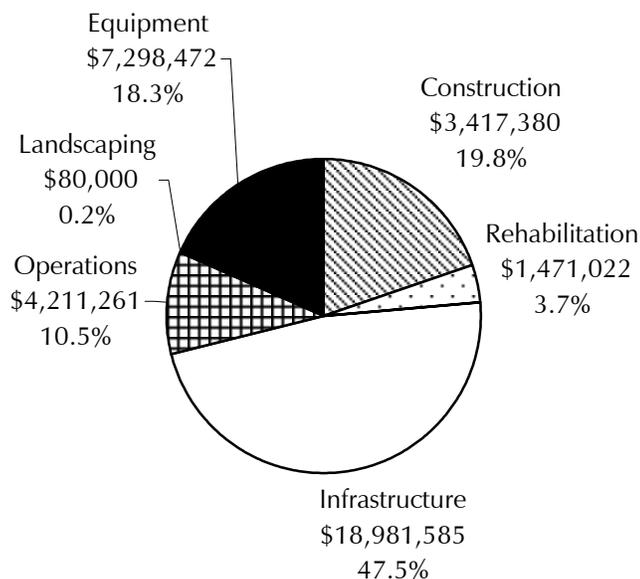
Since opening in 1997 through December 31, 2001, Blue Chip has paid approximately \$67.1 million in local taxes and voluntary contributions to Michigan City (civil city) and Michigan City Enrichment Corporation. This analysis is based on the spending by Michigan City of \$40,686,451, \$773,269 by the Michigan City Enrichment Corporation, and does not include \$6.5 million of on-going incentive payments as well as \$2 million of land and boat slip donations..

Total Spending

As illustrated in Figure 12, 47.5 percent of all expenditures were on infrastructure, including roads, sewers, and parks. Other expenditures include:

- The rehabilitation of buildings
- Construction of new buildings
- Supporting the operations of government and not-for-profits
- The landscaping of public parks and playgrounds
- And, the purchase of capital equipment such as police and fire vehicles

Figure 12: Spending of Riverboat-Related Tax and Incentive Payments





Total Benefits

From 1997 through 2001, the total short-term economic benefit provided by the spending of local gaming-related tax revenue and negotiated incentives was over \$67 million. The analysis does not include tax revenue spent by other cities and towns in LaPorte County. It also does not include revenues collected but not yet expended.

How the tax dollars are spent determines both the short- and long-term economic benefits generated within the local economy. The short-term benefits are the immediate result of the spending—principally the new jobs, wages, and business activity generated as spent tax and incentive dollars work their way through the LaPorte County economy. These short-term benefits represent the \$67 million described in this study.

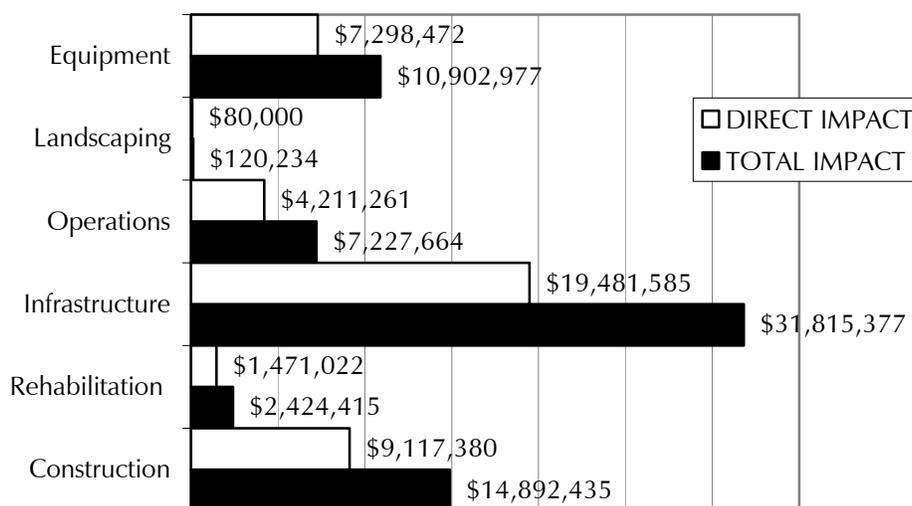
The long-term benefits are related to the degree to which the spending supports or develops competitive economic advantages for Michigan City, LaPorte County and the private business located there. These long-term benefits are not immediately measurable. However, if the local gaming-related tax and incentive dollars are spent wisely, they will support the local economy for many years. The economic impact analysis also cannot measure the contributions made to the quality of life in Michigan City and LaPorte County. For example, while the model can measure the jobs created by the rehabilitation of a city construction project, the repaving of a road, or the purchase of a new police vehicle, it cannot measure the impact of these programs on the lives of the individuals benefiting from the purchases.



Economic Benefit by Type of Expenditure

In Figure 13, the direct impact bars represent the gaming-related expenditures made by the Michigan City and the Michigan City Enrichment Corporation. The total impact bars represent the full economic benefit of the local spending decisions as they work their way through the local economy. For example, the nearly \$19.5 million spent on infrastructure improvements results in nearly \$32 million of total economic benefit, with the additional economic benefits being created by the spending of the firms building the infrastructure and the spending of the wages earned by employees working on the projects.

Figure 13: Economic Contribution of Spending of Riverboat-Related Revenue





Each expenditure category provides a different measure of immediate return on the investment made. For example, as Figure 14 illustrates, for every \$60,000 invested in infrastructure a new job is created. Or, as Figure 15 illustrates, infrastructure investments provide an additional 63 cents of economic activity for each dollar spent

Figure 14: Investment Per Job Created

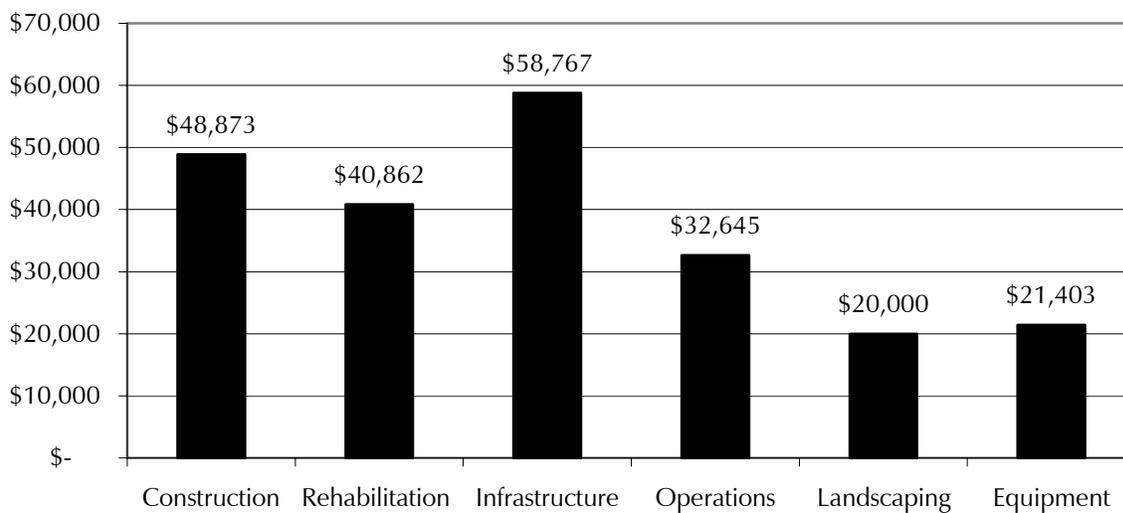
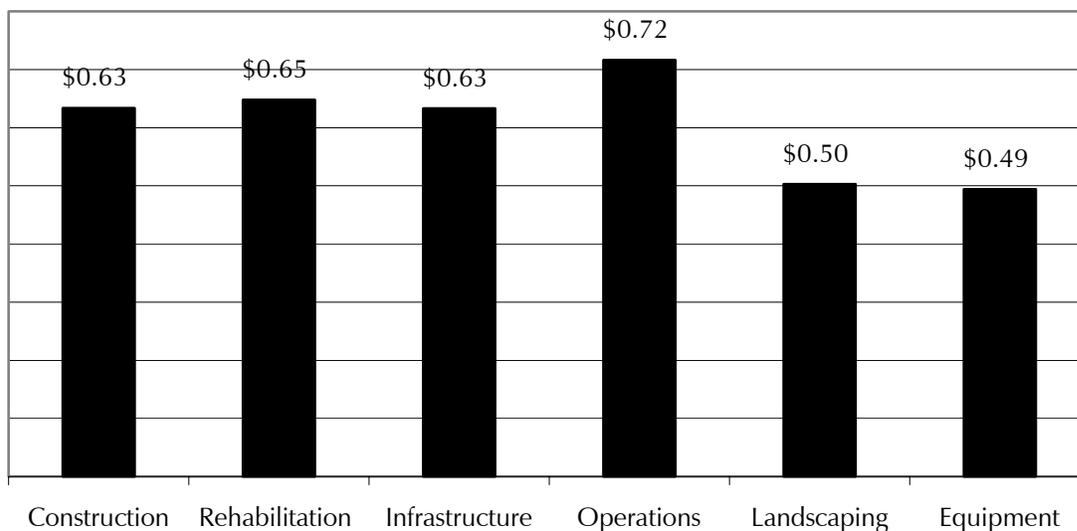


Figure 15: Additional Return on One Dollar Invested



The rate of return offers local officials one perspective from which to evaluate the benefits of investing gaming-related tax revenues. However, the rate of return provides only a short-term



perspective, with the economic benefits ending soon after the last dollar is spent. The long-term perspective must consider the lasting value of the improvements made. Thus, while the immediate return on operations exceeds that of construction and infrastructure, the lasting benefits of improved roads and facilities may outweigh the immediate benefits of operations. From the long-term perspective, the degree to which the investments contribute to the economic competitiveness of local firms, the local workforce, and the area's quality of life must be considered.

Jobs Created

Figure 16 displays the number of jobs attributable to each category of investment made with gaming-related revenue. There were 995 total jobs created in LaPorte County as a result of the spending of gaming-related revenue. Spending on equipment and infrastructure created the vast majority of the new jobs. Each new job represents an annual full-time equivalent measure of employment. For example, one individual employed for four years while working at a construction firm counts as four jobs.

Figure 16: Total Employment Attributable to the Spending of Riverboat-Related Revenue

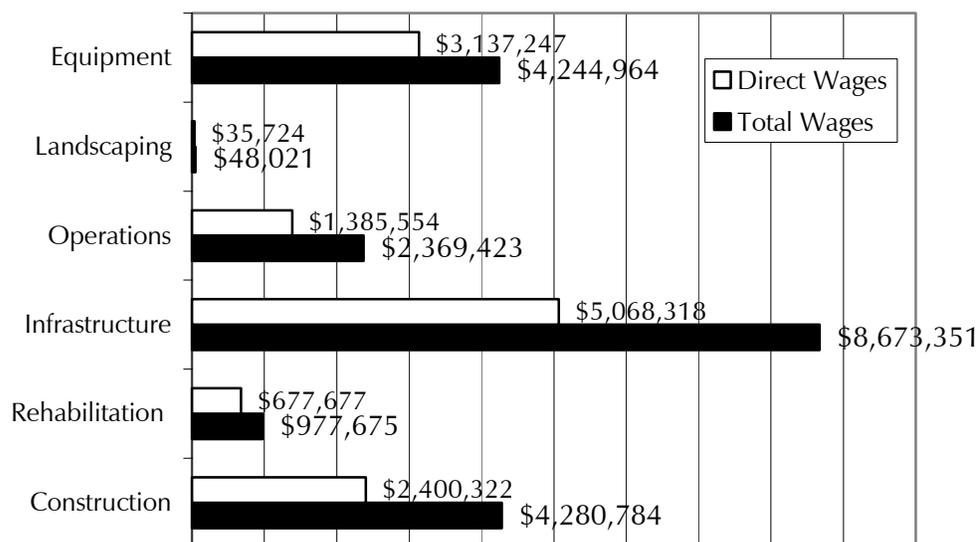




Wages Generated

Figure 17 displays the total gaming-related earnings generated in LaPorte County. The spending of gaming-related tax and incentive revenue has produced over \$20.5 million in total wages. The vast majority of wages were produced by equipment and infrastructure expenditures. The highest average wage was created by rehabilitation-related jobs (\$27,157) while landscaping-related jobs produced the lowest average wage of \$12,005 per job.

Figure 17: Total Employee Earnings Attributable to Spending of Riverboat-Related Revenue





OTHER ISSUES

According to Blue Chip, 32 lawsuits have been filed against them since opening; 13 were filed by patrons (mostly slip and falls) and 19 by employees. According to a phone interview with 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 has made efforts to minimize negative impacts. Boyd, their parent company, was the founder of the National Center for Responsible Gaming, now affiliated with Harvard Medical School. Boyd's commitment was \$850,000. Blue Chip has mandatory employee training on the signs and symptoms of problem gambling as well as underage 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 displays problem gambling information brochures which are available to guests and employees at every cage, ATM, and credit card machines. It also provides full benefit coverage to employees and their dependents for treatment of compulsive gambling disorders.

In addition, Blue Chip offers a self-eviction program whereby patrons can evict themselves from Blue Chip as well as restrict the marketing incentives they receive. If the patron is found in the casino after self-eviction, at a minimum, the patron will be asked to leave Blue Chip casino property. Since Boyd's acquisition of Blue Chip in November 1999, 67 individuals have self-evicted. At Blue Chip, the general manager is the only person authorized to consider a request for reinstatement and the standard practice is not to reinstate any patron who has requested self-exclusion.

As Table 14 indicates, in an effort to prevent underage gambling, Blue Chip has verified 196,490 identifications. In addition, they have turned away 917 patrons for being under age 21.

Table 14: Blue Chip's Efforts to Prevent Underage Gambling

Category	1997/98	1999	2000	2001	2002 thru 4/30	Total
Number of IDs verified	19,200	23,140	68,357	59,976	25,817	196,490
Number of patrons turned away – under age 21	320	92	278	163	64	917



SUMMARY OF FINDINGS

Project Development Certificate Compliance

- As of April 30, 2002, Blue Chip had spent \$152.8 million, \$65.8 million more than agreed to in the Certificate for the development of the project.
- Since 1997, Blue Chip has spent \$99.2 million locally.
- Blue Chip has contributed \$563,500 to local area organizations.

Gaming Activity

- Blue Chip has had attendance of over 16 million people since opening and gross gaming receipts of \$718.7 million, for an average of \$44 of casino win per patron per cruise.

Impact of Gaming Activity on Tourism

- Most patrons were irregular (32.1 percent) or regular (26.5 percent) visitors.
- According to a patron survey, 89 percent of the patrons stated that their main reason for traveling to Michigan City was to visit Blue Chip.
- Thirteen percent of the patrons planned to stay in Michigan City for more than eight hours.
- According to a survey, the other most common primary purpose for interviewees to visit Michigan City (3 percent) was to shop at the outlet mall. The remaining 7.7 percent of interviewed patrons were visiting Michigan City for the primary purpose of visiting friends or relatives, vacationing, conducting business, visiting the dunes, or fishing.

Employment Certificate Compliance

- As of April 30, 2002, Blue Chip had employment of 1,149 persons, slightly below their five-year average of 1,153. Since opening Blue Chip has paid almost \$150 million in wages.
- As of April 30, 2002, 64 percent of Blue Chip's employees were women and 20 percent were minorities. Approximately 61 percent were from LaPorte County. Blue Chip committed to use their best efforts to employ a permanent work force that is demographically representative of LaPorte County and to fill 90 percent of the jobs with LaPorte County residents. Blue Chip is more than meeting their commitment to hire women and minorities, while it lags behind in its commitment to hire LaPorte County residents.

Impact on Blue Chip Workforce

- According to a survey of employees, before beginning employment with Blue Chip, approximately 46 percent of employees were either not working or working part-time.
- When respondents were asked to select one reason for taking a job with Blue Chip, 35 percent indicated that more money was their primary reason, 15 percent chose to begin work at Blue Chip because of opportunities for advancement, and an additional 10 percent chose improved benefits as their reason for accepting employment.



- According to a survey, the average increase in wages for employees, since they began work at Blue Chip is \$5,960.
- The average length of employment at Blue Chip was two years and ten months.
- Seventy-one percent of all respondents report receiving training related to their position at Blue Chip. Only 11 percent received general or basic skill training from Blue Chip, and 15 percent paid for additional training themselves.

Tax Revenue Collected

- Blue Chip has paid almost \$127 million in direct taxes to the state of Indiana since it opened.
- Blue Chip has paid almost \$72 million in direct taxes to the local area since it opened.

Incentive Payment Certificate Compliance

- Blue Chip is on schedule with its incentive payments and has provided \$15.2 million in incentive payments.
- While all the fixed incentives were completed in years one and two, the largest, the contingent incentive, will continue into the future.

Fiscal Impact of Tax Revenues on Local Government

- In total, the fiscal impact of the Blue Chip riverboat on LaPorte County, Michigan City and the Michigan City Community School Corporation is positive; total added revenues greatly exceed total added costs.
- However, the fiscal impact analysis implies that for both the city and county, without riverboat taxes, the additional revenue may not be enough to meet the added operating costs that the riverboat and its employees may create.
- The school corporation receives no riverboat taxes, but the added revenue from property taxes and state aid are added to its budget, for the most part. The positive impact results from the relatively small increase in enrollment, compared to the large increase in assessed value.

Economic Benefits of Gaming-Related Taxes and Incentives

- The total economic benefit produced through the spending of Blue Chip local gaming revenue was over \$67 million.
- Local area employment attributable to this economic benefit was 995 jobs with earnings of over \$20 million.

Other Issues

- In an effort to prevent underage gambling, Blue Chip has verified 196,498 identifications. In addition, it has turned away 917 patrons for being under age 21.



**APPENDIX A:
METHODOLOGY FOR ESTIMATING LOCAL REVENUES AND COSTS**



City and County Revenue Estimates

The first step in revenue modeling was to obtain the assessed value (AV) of each riverboat project. Local assessors and personnel from the Indiana State Board of Tax Commissioners (now renamed the Department of Local Government Finance) aided in this effort. Assessments were obtained for 1999 pay 2000, that is, the assessed values of March 1, 1999, upon which year 2000 tax payments were based. The real and personal property assessed value for the many parcels owned by the riverboats were summed. The value of the land prior to its purchase by the riverboat companies was used to estimate the ASSESSED VALUE before construction. The incremental AV, found by subtracting the pre-development ASSESSED VALUE from the total of developed lots, avoids double-counting revenues that would have been collected in the absence of development. Deductions and exemptions were then subtracted from the incremental ASSESSED VALUE to produce the added net taxable AV.

A jurisdiction's ASSESSED VALUE could also increase if riverboat employees construct new homes. The survey results for Blue Chip employees show that none are living in single-family homes constructed since 1995. The analysis assumes that no homes were constructed.

In Indiana, property tax revenue is not simply the product of the local rate and the taxable AV. Property tax controls limit the amount of revenue that can be raised. For civil jurisdiction (non-school) operating funds, the state places a ceiling on the amount of property taxes that can be raised, called the maximum levy. In almost every jurisdiction, the maximum levy rises by five percent per year, no matter what changes occur in AV. Thus, in most cases added ASSESSED VALUE *will not increase* the amount of operating fund tax revenue that is collected by civil jurisdictions—the levy would have increased by five percent in any case. Exceptions occur when a project is so large relative to existing assessed value that it causes the three-year average of ASSESSED VALUE growth to exceed five percent. This occurs in the smaller riverboat jurisdictions. In the city of Michigan City and LaPorte County, the riverboat-assessed value is not big enough to raise three-year average ASSESSED VALUE growth above five percent. In both these jurisdictions the maximum levy is unchanged by the advent of the riverboat.

If ASSESSED VALUE rises but the levy does not, the tax rate will fall. Existing taxpayers receive tax reductions. The fiscal impact of a development must be divided into two parts: added revenue to the local government, and tax savings to existing taxpayers.

Non-operating funds operate under different rules. The welfare fund is not subject to the same controls as the operating fund, yet new welfare revenue is unlikely to be raised by the addition of new AV. Welfare expenditures are typically targeted to meet specific needs, determined by state eligibility rules and court mandates. It is assumed that the welfare levy does not change with the added AV, so the welfare portion of the property tax rate falls. Again, this produces tax savings for existing taxpayers, because the higher ASSESSED VALUE means the welfare bill can be paid with a lower tax rate.

The property tax cumulative funds are subject to specific rate controls, rather than levy controls; so new ASSESSED VALUE will be taxed at the current rate. Added ASSESSED VALUE produces new



revenue for jurisdiction cumulative funds. The revenue raised by the cumulative fund property tax is simply the product of the rate and the new development's AV.

The amount of annual debt service is usually fixed by the conditions of the bond sale. Added ASSESSED VALUE decreases the tax rate required to raise this debt service, so it produces tax savings for existing taxpayers.

There are several other categories of local government revenue, including income taxes, motor vehicle excise taxes, license and permit fees, fines, and other miscellaneous sources. There are three local income taxes available to Indiana civil governments, known as the County Adjusted Gross Income Tax (CAGIT), the County Option Income Tax (COIT), and the County Economic Development Income Tax (CEDIT or EDIT). LaPorte County has CAGIT at 0.5% and CEDIT at 0.45%. These rates are multiplied by the new taxable incomes of riverboat employees, which is the sum of the total pay of new in-migrant employees, and the pay increases of new resident employees. Revenue is divided among local jurisdictions based on shares in the property tax levy. Part of the CAGIT revenue must be used for property tax relief, and so is counted as tax savings.

All cars, light trucks, and motorcycles are subject to Indiana's motor vehicle excise tax. The employee survey results were used to estimate the number of new vehicles brought into the jurisdiction by riverboat employees. The total amount of excise tax is calculated using the excise tax schedule. Some state aid is tied to excise tax collections, and this amount was added to excise tax collections. The county, city, and school corporation each receive a fraction of this countywide revenue, based approximately on that unit's share in countywide property taxes.

Charges, fines, fees, and other revenues are assumed to be directly linked to population increase, so an average costing method of estimating the revenue is employed. Two categories of data, charges and fees and other revenues, were collected from Indiana's Local Government Database. The amounts collected were divided by the most recent jurisdiction population estimates. These per capita amounts were multiplied by the number of new residents to obtain added revenue estimates. The riverboat projects themselves are assumed to generate no additional charges and fees.

The largest revenue impact of a riverboat, of course, are the riverboat taxes paid to the county and city governments. The school corporation does not receive riverboat taxes.

City and County Cost Estimates

In the analysis of the county, several methods are used. Regression equations were estimated to show the effects of changes in employment and population on appropriations. Each 10 percent increase in population is found to increase appropriations by about 7.5 percent. Population measures the demands of county residents for county services. Each ten percent increase in employment is found to increase appropriations by about 0.8 percent. Employment is "place-of-work" employment, that is, the number of full- and part-time employees of firms in the county, regardless of where those employees live. This variable is used to indicate the level of commercial/industrial development in the county, which also places demands on county services.



Riverboats increase population and employment. The percentage increase in population and employment, times the regression coefficients, yields the percentage increase in appropriations. City data on employment are not available, so the regression method cannot be used for the Michigan City fiscal impact.

Another set of methods used to calculate the added local government costs of riverboats for civil governments are labeled “FIA methods,” for “fiscal impact analysis methods.” These are derived from the techniques presented by Burchell and Listokin in their 1978 classic *Fiscal Impact Handbook*. Per capita appropriations are calculated for the county and city, by dividing total appropriations by jurisdiction population. The added population resulting from the riverboat is then multiplied by per capita appropriations to estimate the costs of added people.

The FIA method used for the riverboat itself is called proportional valuation. In its simplest form, this method attributes a share of existing appropriations to the costs imposed by existing commercial/industrial property, equal to the share of commercial/industrial real assessed value in total real assessed value. If, for example, a county spends one million dollars a year, and real commercial/industrial property is 15 percent of real assessed value, \$150,000 would be assigned as costs due to existing commercial/industrial property. The next step takes the new development's real assessed value as a percentage of existing commercial/industrial real assessed value. This percentage is multiplied by the appropriations attributed to existing commercial/industrial property, to give the estimated cost impact of the new development. For example, if the new development is 10 percent of existing commercial/industrial real AV, it is estimated that commercial/industrial costs will rise by 10 percent, or \$15,000 in this example.

Burchell and Listokin refined this method to recognize that a small number of large commercial/industrial parcels are less expensive to serve than a large number of small commercial/industrial parcels. Economies of scale and location are the reasons. One multi-lane road serving a big development costs less than many two-lane roads serving many small developments. Police protection may be provided more cheaply to a single large location than to many small, scattered locations.

Burchell and Listokin's refinement coefficients reduce costs attributed to existing commercial/industrial firms the larger is the average commercial/industrial parcel compared to the average parcel overall. The reduced costs attributed to the new development the larger is the development compared to existing average commercial/industrial parcel. The refinement coefficients were based on a review of a large number of commercial/industrial cost studies.



Table A1: Fiscal impact estimates for LaPorte County

Revenues		Added Revenue (\$)	Tax Savings (\$)	Total (\$)
	Property Tax	17,232	178,018	195,250
	Operating	-	140,165	140,165
	Welfare	-	37,853	37,853
	Cumulative	17,232	-	17,232
	Debt Service	-	-	-
	Local Income Tax	11,059	1,072	12,130
	Other Revenues	13,339	-	13,339
	Riverboat Taxes	3,811,722	-	3,811,722
	TOTAL	3,853,352	179,090	4,032,441
Costs		FIA Methods	Regression	
	TOTAL	115,238	133,803	
	Fiscal Impacts (Revenues less added costs)		Added Revenue Only (\$)	Total (\$)
		FIA Methods	3,738,114	3,917,203
		Regression	3,719,549	3,898,639
	Fiscal Impacts w/o Riverboat Taxes		Added Revenue Only (\$)	Total (\$)
		FIA Methods	(73,608)	105,481
		Regression	(92,173)	86,917



Table A2: Fiscal impact estimates for Michigan City

Revenues		Added Revenue (\$)	Tax Savings (\$)	Total (\$)
Property Tax		9,503	358,032	367,534
Operating		-	358,032	358,032
Welfare		-	-	-
Cumulative		9,503	-	9,503
Debt Service		-	-	-
Local Income Tax		6,214	602	6,816
Other Revenues		28,177	-	28,177
Riverboat Taxes		12,634,225	-	12,634,225
TOTAL		12,678,118	358,634	13,036,752
Costs		FIA Methods		
	TOTAL	278,372		
	Fiscal Impacts (Revenues less added costs)		Added Revenue Only (\$)	Total (\$)
		FIA Methods	12,399,746	12,758,380
	Fiscal Impacts w/o Riverboat Taxes		Added Revenue Only (\$)	Total (\$)
			Revenue	Total
	FIA Methods	(234,479)	124,155	

School Corporation Revenue Estimates

Schools receive most of their revenue from two sources, property taxes and state aid. Property tax impacts may be calculated as the existing tax rate times the new assessed value. For debt service, the levy is assumed to remain the same, since it is based on the fixed debt repayment schedule. Added assessed value reduces the rate required to raise this part of the levy, producing tax savings.

The majority of state funding comes in the form of the Basic Grant. The Basic Grant is calculated using a complicated formula requiring specific information concerning past and current enrollment, tax rates, and the assessed value and revenues of the school district over the past few years. Other grant programs include the At-Risk Grant, the ADA Flat Grant, the Special Education Grant, the Academic Honors Grant, and the Vocational Education Grant.

Using the actual state aid formula to calculate riverboat fiscal impact introduces a number of intractable problems. For example, the previous year's tax levy and state aid level are elements in the current year's formula calculation. To isolate the impact of the riverboat, presumably the previous year's figures should not include the riverboat's influence. Of course, for the aid calculation in 2000, the 1999 levy and aid figures did include the riverboat's influence, and were themselves the results of calculations that included the levy and aid figures for 1998. Further, go back more than two years and the formula calculations themselves are different.



As an alternative, state aid per pupil can be modeled with reasonable accuracy using a simpler "foundation" formula:

$$\text{State Aid per pupil} = \text{Target Spending per pupil} - (\text{Target Tax Rate} \times \text{ASSESSED VALUE per pupil}).$$

The result is multiplied by enrollment to give total state aid. The formula implies that as assessed value per pupil increases, state aid per pupil decreases. More state aid is delivered to school corporations with lower wealth per pupil. In addition, as enrollment increases, state aid increases. Thus, any new development that increases both ASSESSED VALUE and enrollment may increase or decrease state aid, depending on the values of target spending and the target tax rate, and on the relative increase in ASSESSED VALUE and enrollment.

Regression analysis can be used on data for 2000 to reduce the actual formula distribution of aid to this simpler form. The result is the formula

$$\text{State Aid per pupil} = \$5,279 - (0.0301 \times \text{ASSESSED VALUE per pupil}).$$

The 0.0301 figure is the target tax rate, and means \$3.01 per \$100 assessed value. Each added \$1,000 ASSESSED VALUE per pupil reduces aid per pupil by about \$30. This formula allows a calculation of the effect of the riverboat on state aid. The riverboat adds assessed value, the new resident riverboat employees' children add enrollment. This alters ASSESSED VALUE per pupil, and hence state aid per pupil. The new state aid per pupil times enrollment is the estimate of the riverboat's impact on total aid.

School Corporation Cost Estimates

School corporation costs are estimated using the service standard method. This method asks what added expenditures would have been needed to maintain the existing level of service given the additional enrollment. The pupil-teacher ratio is the best indicator of service standard available, though of course it does not fully capture the level of educational service provided. If new development brings higher enrollment, new teachers must be hired to maintain the current class size. The number of new teachers to be hired equals new enrollment divided by current class size. The result is multiplied by the school corporation's average teacher salary.

Capital expenses deal with the expansion of physical facilities, including the building of new schools or expansion of existing structures. Students across all school districts typically require similar facilities, so the standard chosen to represent capital costs is building area per student. According to Indiana's 1995 School Construction Benchmark Committee report, the average amount of space required by the average student is 150 square feet. The report also sets the cost of physical expansion at \$100 per square foot.

It is important to note that while the other categories of costs in this model are annual costs, capital expenses are a long-term investment. Local government bonds finance expansion of school facilities and the costs are amortized over a several years. It is assumed that the school corporation will finance the capital expense with a 20-year bond at the current state and local bond interest rate of



5.2 percent (as of May 2002, according to the Federal Reserve Board). Multiplying the additional enrollment by the service standard for required facility space gives the necessary area of expansion. The total cost of this expansion is calculated at \$100 per square foot. The annual annuity payment to finance this total cost is calculated over 20 years at 5.1 percent.

Other school operating expenditures include a myriad of categories, such as nurse services, food preparation, transportation, and building maintenance. These are summed and divided by enrollment to yield a per pupil average. This average is multiplied by the increase in enrollment to estimate added other costs.

Note that all of these methods depend on the number of additional pupils the riverboat brings to the school corporation. If there are no additional pupils, there are no additional costs. This can happen if the new pupils replace others who have departed from the school system. The rapid loss of enrollment by Michigan City Area Schools is strong evidence that riverboat employees' children were taking the places of other pupils who had been served by the schools in the previous year. It is assumed that these new pupils are served at no added cost.



Table A3: Fiscal impact estimates for Michigan City Community School Corporation

Revenues		Added Revenue (\$)	Tax Savings (\$)	Total (\$)
Property Tax		1,211,071	264,317	1,475,388
General Fund		872,082		872,082
Debt Service Fund		-	264,317	264,317
Capital Projects Fund		194,689	-	194,689
Transportation Fund		141,368	-	141,368
Other Funds		2,933		2,933
Other Own-Source Revenues		39,591	-	39,591
Other Taxes		2,889	-	2,889
Charges and Fees		12,084		12,084
Other Revenues		24,618		24,618
State Aid		(534,402)	-	(534,402)
TOTAL		719,150	264,317	983,467
Costs		Per Pupil		
	TOTAL	0		
	Fiscal Impacts		Added Revenue Only (\$)	Total (\$)
		Per Pupil	719,150	983,467