

Eight-Year License Renewal: Blue Chip Casino, LLC

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Executive Summary

Economic and Fiscal Activity

Riverboats have a powerful positive fiscal impact on Indiana counties and cities. Added riverboat tax revenue is much more than added costs. The changes brought about by tax restructuring—flexible boarding, lower admissions counts, graduated wagering tax rates, limits and floors on riverboat tax revenue—are not big enough to change this positive fiscal impact.

Admissions were trending upward prior to flexible boarding, so the admissions tax revenue the county and city will actually receive is less than what would have been received under the old rules. Wagering tax receipts also were trending upward prior to flexible boarding but Michigan City will continue to receive wagering taxes at the 2002 level. The new rules were quite costly to the city.

The total eight-year economic impact of the spending of local gaming-related tax and incentives payment from Blue Chip's opening through 2004 is almost \$114 million, with \$37 million in employee compensation, and 1,684 new jobs (full-time equivalents). While the short-term economic contributions of the spending of gaming-related taxes and incentives are important, the long-term contributions to the quality of life from investments in capital equipment, new construction, landscaping, and infrastructure improvements, as well as programs and scholarships, should benefit residents and increase the economic competitiveness of local businesses.

Community Impacts

Blue Chip spent over \$138 million locally and has impacted the area through \$782,027 in sponsorships and contributions to local area organizations.

Center staff conducted three focus groups in Michigan City with community leaders including representatives of local government, business leaders, and social service providers. According to their comments, the riverboat casino has been a positive addition to the community. Blue Chip is a good corporate citizen. It is the biggest industry in the community and it doesn't have a negative environmental impact or ask the local government for anything. It directly brings tourists to Michigan City and sponsors events for tourism. It provides revenue which is used to fund infrastructure development and capital improvements, as well as before and after school programs and other social service programs through the Community Enrichment Corporation. The economic impact of having more employed residents, tourists, etc. has decreased crime rates and led to neighborhood revitalization.

There were also some concerns raised, such as the lack of smoke-free sections on the current boat which leads to long term health care effects. Some people have problem with gambling addictions, leading to bankruptcy or just spending more than they can afford, domestic violence and child abuse and there is not much effort from the casino to identify people with gambling problems. There is not a lot of community input in deciding needs and where revenues are going and there is a question of whether the casino includes minorities and locals to the extent possible (as vendors, contractors, etc.).



Employment

Blue Chip had 1,164 employees as of December 31, 2004, and has paid \$240 million in wages since opening. In May, the Center surveyed Blue Chip's employees and found that for many employees the employment opportunity at the riverboat provided an increased sense of economic security. For example, 23 percent of the survey respondents were unemployed prior to beginning work at Blue Chip; and 51 percent of those that were employed reported receiving a raise upon beginning work at Blue Chip. The average length of employment was 4 years and 3 months, and 44 employed felt secure enough to move from rental housing to homeownership. While most employees reported job-related training, fewer employees reported tuition reimbursement opportunities or paying for their own training. Approximately half of the employees access available health insurance and almost two-thirds participate in life insurance and the retirement plan. There seems to be some confusion on the part of employees in determining their eligibility. Of those that should be eligible (working full-time); one-fourth did not know they were eligible for benefits.

Business Climate Impacts

Overall, the numbers of jobs and number of establishments in La Porte County have lagged compared to the trends in the aggregate of the non-riverboat counties. The lagged growth in jobs and establishments began before the commencement of gaming. Wage growth in La Porte County was comparable to wage growth in the aggregate of Non-Riverboat Counties.

Amusement, Gambling, and Recreation Industry was one of the industries that showed considerable change after gaming began in La Porte County in 1997. Obviously, the change is due to the addition of riverboats in the area. Employment and wages grew very rapidly in that industry post riverboat gaming. Ten other industries met the criteria for analysis and showed considerable observable change in employment, number establishments, or wages near the time gaming commenced. Half of those industries were in the Retail Sectors.

Current Financial Position and Future Plans

Blue Chip Casino produced outstanding operating results in the last three years. The facility is a significant contributor to the cash flow of the parent and the importance of the property is highlighted by the expansion plans that have been made to counteract the impact on the Michigan City property of the potential entrance of a new competitor in the market. Boyd is investing a large amount to create the asset base for substantial growth in earnings in the future and while currently using a fairly high amount of leverage, the company is well positioned in the debt market and has adequate cash flow to service its existing debt burden.



Introduction

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 Riverboat Gambling Act, effective July 1, 1993, specifies that a licensed owner, after their license is renewed at year five, shall undergo a complete investigation every three years to determine that the licensed owner remains in compliance.

The Commission asked the Center for Urban Policy and the Environment (Center) of Indiana University's School of Public and Environmental Affairs to assist the Commission in performing economic impact, fiscal impact, financial, management, and other analyses to assist the Commission in renewing the riverboat casino licenses. The Center prepared annual evaluation reports for Blue Chip's first four years of operation as well as a report that analyzed Blue Chip's first five years of operation. These reports are available on the Indiana Gaming Commission's website (www.in.gov/gaming/reports/).

This report contains an analysis of Blue Chip's first eight years of operation. Because this analysis must be completed before the completion of Blue Chip's eighth year of operations, data are shown through December 31, 2004.





Economic and Fiscal Activity

The following sections examine the changes brought about by tax restructuring—flexible boarding, lower admissions counts, graduated wagering tax rates, and limits and floors on riverboat tax revenue. They also provide detail regarding the compliance of Blue Chip’s voluntary and mandatory contributions and provide a preliminary analysis to identify and quantify the immediate economic benefits enjoyed by Michigan City and LaPorte County as a result of the investment of the voluntary and tax contribution of Blue Chip.

Tax Restructuring and Riverboat Tax Payments to Local Governments

The Indiana General Assembly passed tax restructuring in its June 2002 special session. Restructuring made a number of dramatic changes in state and local taxation.

- It increased the sales tax and the cigarette tax.
- It reformed the corporate income taxes.
- It revised the local property tax controls.
- It delivered hundreds of millions of dollars in additional property tax relief.
- It raised hundreds of millions of dollars to help fill in Indiana’s state budget gap.

In addition, tax restructuring made several changes that affected the taxation of riverboat admissions, wagering receipts, and property.

- It allowed riverboats to adopt flexible boarding, also known as dockside gaming, rather than requiring two-hour excursions throughout the day.
- It adopted new, higher graduated tax rates for the wagering tax.
- It capped the revenue that host cities and towns could receive from the wagering tax, at the amount received during the state’s fiscal year 2001-02.
- It put a floor on the revenue that host cities, towns and counties could receive from the admissions tax, at the amount received during the state’s fiscal year 2001-02.
- It designated the first \$33 million in wagering taxes collected in each state fiscal year for distribution to non-riverboat counties, cities and towns.
- And, it effectively committed Indiana to market value property tax assessment, which affected the tax rates applied to the assessed value of riverboat property.

This section of the report will look at the effect of these changes on the tax revenues collected from the Blue Chip riverboat by La Porte County, Michigan City, and Michigan City Area School Corporation.

Admissions Tax

Tax restructuring left admissions tax rates unchanged for La Porte County and Michigan City. Before and after restructuring, the county and the city received one dollar for each riverboat admission.

However, restructuring allowed the riverboats to adopt flexible boarding. Prior to this, riverboats were required to cruise, or operate as if they cruised. The casino’s doors were closed to entrants for the length of the cruise, whether or not the boat left the dock. With flexible boarding, the riverboat is allowed to

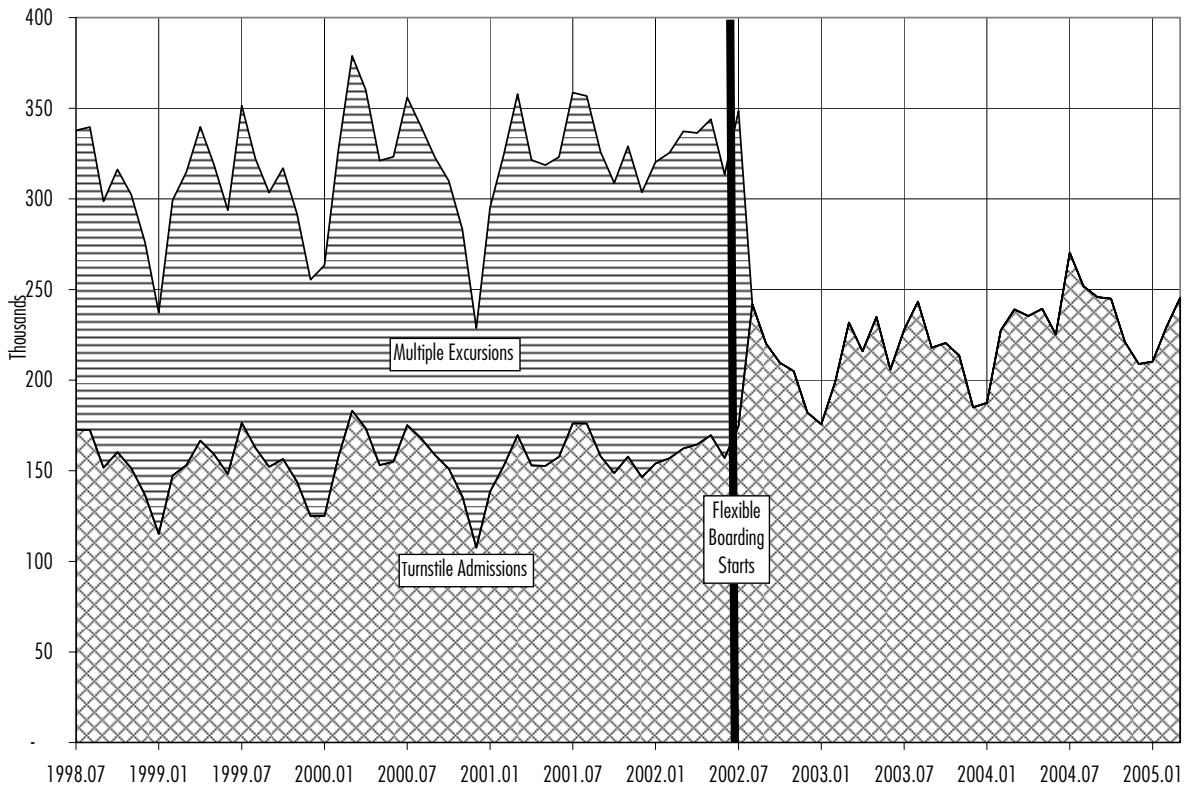


remain dockside with its doors open. Patrons may enter at any time they wish. This increased convenience was expected to increase attendance and wagering, and it appears to have done so.

By the first week of August 2002, all of Indiana's riverboats had applied for and been granted permission to use flexible boarding. Blue Chip began flexible boarding on August 1, 2002.

Prior to flexible boarding, all the patrons of each cruise were counted as new admissions, even if the patron simply remained on the boat for more than one cruise. Flexible boarding ended this practice. This meant that the number of admissions, as counted, declined with the advent of flexible boarding, even as the number of patrons increased.

Figure 1: Turnstile and Multiple Excursion Admissions, July 1998–April 2005.



Turnstile admissions show the actual number patrons entering the riverboat. Multiple excursions are the added count of these patrons as extra admissions because they took more than one cruise. In August 2002, multiple excursion admissions disappear. The number of turnstile admissions increased, from a monthly average of 160,607 in fiscal year 2002 (July 2001 through June 2002) to a monthly average of 208,038 in fiscal year 2003, a 29.5 percent increase. But the total number of counted admissions (including multiple excursions) dropped from a monthly average of 329,963 in fiscal year 2002, a 37 percent decline.



Flexible boarding, which appears to have increased admissions, as expected, would have cost La Porte County and Michigan City 37 percent of their admissions tax revenue, had the old tax structure remained unchanged.

Perhaps in response to this irony, the General Assembly fixed the amount of admissions tax revenue to be distributed to riverboat cities and counties at the (state) fiscal year 2001-02 amount. Indiana Code 4-33-12-6 reads (in part):

(h) . . . The treasurer of state shall determine the total amount of money paid by the treasurer of state to an entity subject to this subsection during the state fiscal year 2002. The amount determined under this subsection is the base year revenue. . . . The treasurer of state shall certify the base year revenue determined under this subsection to each entity subject to this subsection.

(j) For state fiscal years beginning after June 30, 2002, the total amount of money distributed to an entity under this section during a state fiscal year may not exceed the entity's base year revenue as determined under subsection (h). . . . If the treasurer of state determines that the total amount of money distributed to an entity under this section during a state fiscal year is less than the entity's base year revenue, the treasurer of state shall make a supplemental distribution to the entity under IC 4-33-13-5(g).

And IC 4-33-13-5(g) reads (in part):

Before September 15 of 2003 and each year thereafter, the treasurer of state shall determine the total amount of money distributed to an entity . . . during the preceding state fiscal year. If the treasurer of state determines that the total amount of money distributed to an entity . . . during the preceding state fiscal year was less than the entity's base year revenue. . . , the treasurer of state shall make a supplemental distribution to the entity from taxes collected under this chapter and deposited into the property tax replacement fund. The amount of the supplemental distribution is equal to the difference between the entity's base year revenue. . . and the total amount of money distributed to the entity during the preceding state fiscal year under IC 4-33-12-6.

The State Treasurer certified base year revenue from Blue Chip for La Porte County and Michigan City at \$3,909,273, the amount collected during the state fiscal year 2002. This amount was distributed to the county and city in fiscal 2003 and 2004. Each year collections fell short of the base year amount. In each year the state made a supplemental distribution to La Porte County and Michigan City of about \$850,000 to cover this shortage, taken from the property tax replacement fund.

Wagering Tax

Tax restructuring allowed riverboats to adopt flexible boarding, which was expected to increase wagering revenue. However, riverboats that adopted flexible boarding (as they all did) would pay wagering taxes under a new set of graduated tax rates.

Prior to restructuring the wagering tax rate was a flat 20 percent of adjusted gross receipts (AGR). After restructuring, the rates were set for flexible boarding riverboats as shown in Table 1. The initial rate is 15 percent, less than the old flat rate, but this applies only to the first \$25 million. A 20 percent rate applies to AGR from \$25 to \$50 million. Above \$50 million, rates higher than the pre-restructuring 20 percent flat



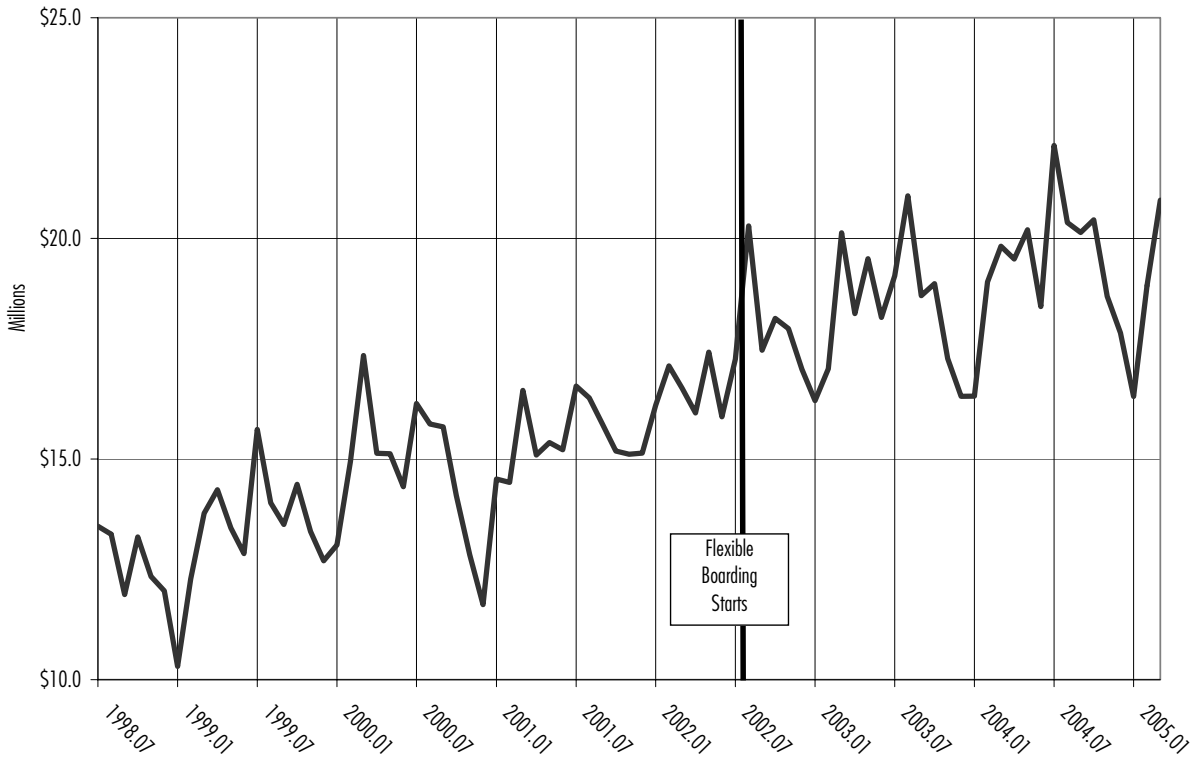
rate apply. In fiscal 2003-04, Blue Chip began paying the 25 percent rate September 16, 2003, less than three months into the state fiscal year. Clearly, the new graduated tax rates represent an increase in wagering taxes for Indiana’s riverboats.

Table 1: Graduated Wagering Tax Rates

From AGR Amount	To AGR Amount	Tax Rate
\$0	\$25 million	15%
\$25 million	\$50 million	20%
\$50 million	\$75 million	25%
\$75 million	\$150 million	30%
\$150 million	And above	35%

Flexible boarding was expected to increase adjusted gross receipts. It is unclear whether it has done so for the Blue Chip riverboat. Figure 2 shows the monthly AGR for the period July 1998 through April 2005. Blue Chip has seen an upward trend in receipts throughout its existence. In the two years prior to flexible boarding, receipts rose 2.4 percent (fiscal 2001) and 8.9 percent (fiscal 2002). Since flexible boarding, receipts have risen 12.5 percent (fiscal 2003) and 3.3 percent (fiscal 2004).

Figure 2: Adjusted Gross Receipts, July 1998-April 2005





Michigan City receives a share of wagering tax revenue. Counties do not receive such revenue. Prior to restructuring, Michigan City received one-quarter of the wagering taxes collected under the flat 20 percent rate. This share was unchanged by tax restructuring.

However, two features were added to the distribution of wagering taxes to local governments which reduce the amount of revenue that Michigan City realizes from the wagering tax.

One, the legislature designated the first \$33 million from statewide wagering taxes to be distributed to non-riverboat counties, cities and towns. The collection of the \$33 million starts with the beginning of the state fiscal year in July. Indiana Code 4-33-13-5 (a) reads (in part):

- (1) The first thirty-three million dollars (\$33,000,000) of tax revenues collected under this chapter shall be set aside for revenue sharing under subsection (e).
- (2) Subject to subsection (c), twenty-five percent (25%) of the remaining tax revenue remitted by each licensed owner shall be paid:
 - (A) to the city that is designated as the home dock of the riverboat from which the tax revenue was collected. . . .

Subsection (e) referred to in part (1) describes how the revenue is to be divided up among non-riverboat counties, cities, and towns.

Michigan City will receive 25 percent of wagering tax revenue, after the \$33 million has been collected in July and August. Blue Chip collects about 10 percent of statewide wagering taxes, so its share of the \$33 million is about \$3,300,000.

Two, the legislature fixed a maximum amount that a city can receive from wagering taxes, at the amount received during the state fiscal year 2001-02. Subsection (c) referred to in (2) above reads (in part):

. . . The treasurer of state shall determine the total amount of money paid by the treasurer of state to the city or county during the state fiscal year 2002. The amount determined is the base year revenue for the city or county. The treasurer of state shall certify the base year revenue determined under this subsection to the city or county. The total amount of money distributed to a city or county under this section during a state fiscal year may not exceed the entity's base year revenue.

The State Treasurer certified base year revenue for Michigan City at \$9,556,783. In fiscal 2004, Michigan City's wagering tax collections reached this amount by the end of March 2004. The revenue that would have gone to Michigan City in March through June without this limit was instead deposited in the state's property tax replacement fund, an amount equal to approximately \$9.2 million.

Fiscal Impacts

Fiscal impact analysis attempts to determine how a change in policy has affected the revenues and expenditures of a government. How has tax restructuring affected the budgets of La Porte County and Michigan City?



We compare three scenarios. First, suppose the policies in effect in 2002 had continued. Suppose there was no flexible boarding, no graduated wagering tax, and no limits or floors on admissions and wagering tax revenue. Riverboats would continue to cruise, with taxable admissions equal to turnstile plus multiple excursion admissions. The wagering tax would remain at a flat 20 percent of adjusted gross receipts. Call this the “Old” scenario.

Second, suppose that flexible boarding and the graduated wagering tax had been adopted without the limits or floors on admissions and wagering tax revenues. Call this the “No-Limits” scenario.

Third, consider what was actually adopted, flexible boarding, turnstile admissions, a graduated wagering tax, a floor on admissions tax revenue, and a limit on wagering tax revenue. Call this the “Actual” scenario.

The key to the pre-restructuring scenario are the assumptions about what would have happened to admissions and adjusted gross receipts. Flexible boarding apparently increased admissions, but its effect on receipts is open to question. Would admissions have increased had flexible boarding not been adopted?

Blue Chip adjusted gross receipts trended upward during the whole period from mid-1998 to the adoption of flexible boarding in August 2002 (see Figure 2). Receipts averaged \$12.8 million per month in the first twelve months of this period; \$16.1 million per month in the last twelve months, an 8 percent annual rate of increase. The fiscal impact analysis assumes that receipts would have continued to rise 8 percent per year in 2003 and 2004, in the absence of flexible boarding.

Total admissions also showed an upward trend, but at a slower rate than receipts. Admissions averaged 306,000 during the first twelve months of this period, and 330,000 in the last twelve months, a 2.5 percent annual rate of increase. The fiscal impact analysis assumes that admissions would have continued to rise 2.5 percent per year in 2003 and 2004, without flexible boarding.

Tables 2, 3 and 4 show the revenue estimates for the three scenarios for La Porte County and Michigan City.

Table 2 shows the Admissions Tax estimates, and Table 3 shows the Wagering Tax estimates. Table 4 shows the total riverboat tax revenues received by each unit under each scenario. Both La Porte County and Michigan City receive less revenue under the Actual scenario than under the Old scenario. Had flexible boarding not been introduced, the wagering tax rates not increased, and the revenue caps and floors not been applied, both the county and city would have received more revenue in 2004 than they actually did. This result depends on the assumption that total admissions and AGR were trending upward before flexible boarding was adopted.

Had admissions and AGR kept increasing, La Porte County and Michigan City admissions and wagering tax revenue would have continued to rise above the fiscal 2002 levels. Admissions tax revenues would have been greater in 2004 than the fiscal 2002 level guaranteed by the state. Wagering tax revenues for Michigan City would have grown beyond the fiscal 2002 limit imposed by the state.

La Porte County receives more revenue under the Actual scenario than under the No Limits scenario. This is because flexible boarding meant the loss of admissions taxes from the multiple excursions admissions



count. The state floor on admissions revenues at the fiscal 2002 level saves the county from a substantial revenue loss.

The same is not true for Michigan City. The city would have fared better under the No Limits scenario than under the Actual scenario. This is because the state’s supplemental distribution for admissions taxes of \$1.2 million is so much less than the excess wagering tax over the state cap of \$5.6 million. The city loses substantial wagering tax revenue because revenues are capped at the fiscal 2002 level.

Table 2: Admissions Tax

		Old	No Limits	Actual
	Taxable Admissions	4,160,007	2,662,049	2,667,776
La Porte	Tax Revenue	\$4,160,007	\$2,662,049	\$2,667,776
	Supplemental Distribution	-	-	\$1,241,497
	Total Revenue	\$4,160,007	\$2,662,049	\$3,909,273
Michigan City	Tax Revenue	\$4,160,007	\$2,662,049	\$2,667,776
	Supplemental Distribution	-	-	\$1,241,497
	Total Revenue	\$4,160,007	\$2,662,049	\$3,909,273

Table 3: Wagering Tax

		Old	No Limits	Actual
Michigan City	AGR	\$225,831,976	\$224,930,771	\$224,930,771
	Tax Revenue	11,291,599	15,131,192	15,131,192
	Less: Amount Over Limit	0	0	5,574,409
	Total Revenue	\$11,291,599	\$15,131,192	\$9,556,783

Table 4: Admissions and Wagering Tax Combined

		Old	No Limits	Actual
La Porte	Total Revenue	\$6,301,742	\$4,010,791	\$5,982,314
Michigan City	Total Revenue	\$21,533,558	\$26,796,638	\$19,531,968

While there is no formal analysis of costs here, increased attendance might add to city and county costs, through added traffic control requirements, for example. On the other hand, the end of cruises may spread traffic more evenly throughout the day, replacing big increases in traffic every two hours. The effect of flexible boarding on costs is unclear, but is likely to be small.

Previous analyses have shown that Indiana’s riverboat taxes are quite generous for the counties and cities hosting riverboats, a fact that tax restructuring has not changed. Riverboats have a positive fiscal impact for host counties and cities. The move to flexible boarding had the potential to make riverboats much less generous for counties, and much more generous for cities. The state avoided both possibilities by fixing future revenues at their 2002 levels. Tax restructuring effectively reserved the revenue benefits of added wagering taxes for the state, and for non-riverboat counties, cities, and towns.



Property Tax

In December 1998, the Indiana Supreme Court found Indiana's real property tax assessment system to be unconstitutional. Indiana had been assessing real property—land and buildings—for tax purposes using a unique system based on construction costs and depreciation by age. The court found that this system lacked a sufficient relationship to property wealth and was not based on objectively verifiable data.

While the court did not decide explicitly that Indiana must use a market value system, assessment rule changes made by the June 2002 tax restructuring effectively made Indiana a market value state. To lessen the resulting tax shift to homeowners, the legislature increased homeowner deductions, and increased the amount of state funds devoted to property tax relief. The funds were derived from the increases in the sales tax, cigarette tax, and the higher graduated riverboat wagering tax. Most of the added tax relief was delivered through a higher property tax replacement credit (PTRC) rate. During the 2005 legislative session, state property tax relief payments were frozen, meaning that property taxes will rise more rapidly in 2006 and 2007.

La Porte County taxable assessed values (after deductions) rose 64 percent from 2002 to 2003. Tax rates fell an average of 36 percent. The total revenue realized from the property tax increased 5 percent, though a higher share came from state PTRC payments, paid out of state funds and replacing property taxes dollar for dollar.

How a particular taxpayer fares under reassessment depends on how much the taxpayer's property's assessed value increases, how much the tax rate falls, and how much property tax relief the taxpayer's property is eligible for. It appears that reassessment increased the taxable assessed values of older homes, rental property and farm land more, while the assessed values of newer homes, and commercial, industrial and utility property increased less. In general, property taxes shifted from businesses to homeowners and farmers.

Table 5 shows the property tax payments by Blue Chip in 2002 and 2003 (before and after reassessment), as well as the composition of tax rates by local jurisdiction. Assessed value rose more than tax levies between 2002 and 2003, so the tax rates for La Porte County local governments fell. The combined tax rate paid by Blue Chip fell from \$5.00 per \$100 assessed value to \$3.44 per \$100 assessed value, a 31 percent fall. Blue Chip property assessments increased, but not as much as the rate fell. Blue Chip total property tax payment declined slightly, by 3.7 percent.

Table 5: Estimated Blue Chip Property Tax Payments by Unit, 2002 and 2003

	2002 Rate	2003 Rate	2002 Share	2003 Share	2002 Paid	2003 Paid
State Unit	0.0033	0.0033	0.07%	0.10%	\$1,061	\$1,486
La Porte County	0.9289	0.5957	18.57%	17.31%	\$298,718	\$268,297
Michigan Township	0.0172	0.0092	0.34%	0.27%	\$5,531	\$4,144
Michigan City	1.604	1.2249	32.07%	35.59%	\$515,819	\$551,682
Michigan City Schools	1.8313	1.1489	36.61%	33.38%	\$588,915	\$517,453
Michigan City Library	0.1867	0.1265	3.73%	3.68%	\$60,040	\$56,974
Michigan City Sanitary	0.4308	0.3332	8.61%	9.68%	\$138,538	\$150,070
Total	5.0022	3.4417	100.00%	100.00%	\$1,608,622	\$1,550,106



Both before and after reassessment, about 87 percent of Blue Chip property tax payments appear to go to La Porte County, Michigan City, and Michigan City Area School Corporation. Michigan City Sanitary District gets most of the remainder. Between 2002 and 2003 the amount received by the city increased, while the amount received by the county and school corporation fell.

The results in this table should not be misinterpreted. First, the total revenues received by all these jurisdictions increased. Reassessment caused a shift in tax burdens, but did not affect the total revenues collected by jurisdictions. Where Blue Chip is paying a smaller share of those revenues, other taxpayers are paying more.

Second, reassessment generally shifted taxes away from businesses. The slight decline in Blue Chip tax bill reflects the very big increase in the assessments of residential property, relative to the assessment increase of Blue Chip commercial property. Many commercial and industrial property owners in La Porte County saw tax bill decreases as a result of reassessment.

Conclusion

Riverboats have a powerful positive fiscal impact on Indiana counties and cities. Added riverboat tax revenue is much more than added costs. The changes brought about by tax restructuring—flexible boarding, lower admissions counts, graduated wagering tax rates, limits and floors on riverboat tax revenue—are not big enough to change this positive fiscal impact.

The floor on admissions tax receipts and the ceiling on wagering tax receipts fix future riverboat taxes at state fiscal year 2002 levels for La Porte County and Michigan City. Flexible boarding caused a drastic reduction in admissions counts, which would have cost the county and city much lost admissions tax receipts, without the floor on admissions taxes. Admissions were trending upward prior to flexible boarding, so the admissions tax revenue the county and city will actually receive is less than what would have been received under the old rules.

Wagering tax receipts also were trending upward prior to flexible boarding. Had flexible boarding with a tax ceiling not been adopted, the city would have seen continued increases in wagering tax revenue. If flexible boarding had been adopted without the ceiling, the city would have received a very large increase in wagering revenue. As it stands, Michigan City will continue to receive wagering taxes at the 2002 level. The new rules were quite costly to the city.

With the wagering tax limit, the state has effectively channeled the added revenues from flexible boarding to itself. Part of this revenue will be distributed to non-riverboat counties, cities, and towns. Part will be used for property tax relief.

Property tax reassessment increased assessed values and reduced tax rates. La Porte County residential assessments rose more than assessments of commercial and industrial property, including Blue Chip property. This caused a tax shift away from businesses, to residential property owners. Blue Chip saw its tax bill decline by 3.7 percent between 2002 and 2003, mostly as a result of reassessment.

Riverboats do not produce sizable positive fiscal impacts for Indiana school corporations, because the schools do not share in riverboat admissions or wagering tax revenue. Property tax receipts are the primary riverboat revenue source for schools. The Michigan City Area School Corporation saw a decrease in the



gross taxes received from Blue Chip property. This represents a shift in tax payments from the riverboat to other property taxpayers. It is unlikely that the riverboat has a large positive fiscal impact on Michigan City Schools, and it may well have a negative fiscal impact.

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 Community 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 6 illustrates, Blue Chip is on or ahead of schedule with its incentive payments and has provided \$26.4 million in incentive payments through December 31, 2004. 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 6: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Through 12/31/01	Status
Annual incentive	Percent of Adjusted Gross Revenues (see text above)	Michigan City	\$13,524,857	Ongoing
Annual Incentive	Not in certificate	Michigan City Community Enrichment Corporation	\$3,750,000	Ongoing
Annual incentive	Not in certificate	Michigan City Economic Development	\$1,000,000	Ongoing
Donation of lakefront property	Not specified	Michigan City	\$600,000	Completed Year 1
Marina development	Not specified	Michigan City Port Authority	\$4,500,000	Completed Year 1
Donation of peninsula and 100 revenue-producing boat slips	Not specified	Michigan City Port Authority	\$1,500,000	Completed Year 1
Infrastructure improvements	Not specified	Michigan City	\$500,000	Completed Year 2
Harborside Homes property	Not in certificate	Michigan City	\$1,000,000	Completed Year 2
Total			\$26,374,857	



Tax Revenue Collected

As Table 7 illustrates, Blue Chip has paid over \$X million in direct taxes to the state of Indiana since it opened.

Table 7: State Direct Taxes

Category	FY 1997-03	FY 2004	Total
Gaming Tax (State Share)*	\$153,979,042	\$54,168,987	\$208,148,029
Admission Tax (State Share)*	\$21,991,265	\$936,855	\$22,928,120
Sales and Use Tax	\$4,140,275	\$628,838	\$4,769,113
Total			

*Total tax collected minus city and county share. State share of admission taxes appears low because the state returns most of the admission tax it collects to maintain the 2002 level of admission tax.

In addition, as Table 8 shows, Blue Chip has paid over \$ million in direct taxes (gaming, admission, and property taxes) to the local area (city and county) since it opened.

Table 8: Local Direct Taxes

Category	FY 1997-03	FY 2004	Total
Gaming Tax (City Share)	\$58,127,004	\$9,556,783	\$67,683,787
Admission Tax (County Share)	\$23,646,770	\$3,524,646	\$27,171,416
Admission Tax (City Share)	\$23,646,770	\$3,524,646	\$27,171,416
Property Tax	\$6,475,205	\$1,496,827	\$7,972,032
Total	\$111,895,749	\$18,102,902	\$129,998,651

Economic Impact of the Spending of Gaming-Related Local Taxes and Incentive Payments

The spending by local governments and foundations of gaming-related taxes and negotiated incentive payments they receive can have immediate and long-term impacts on the local economy. The primary immediate benefits are the jobs, wages, and new economic activity generated by local governments and foundations spending of gaming-related tax and incentive revenue. The long-term economic impacts of the spending of the local gaming-related tax and incentives include an increased quality of life and a more economically competitive local economy. The value of the immediate benefits can be estimated through the use of an input/output model. While the short-term stimulus local spending adds to the economy is important, the long-term benefits are perhaps best understood as investments made in order to fundamentally increase the economic competitiveness of the community (residents, existing businesses, and the ability to attract new businesses and residents). These long-term contributions can begin to be understood by looking at job creation and wage trends in the local economy.

Total Short-Term Economic Benefits 1996–2004

While the primary focus of this evaluation is on the period between 2002 and 2004, during the five year evaluation (1997–2001) of the Blue Chip’s performance, the Center for Urban Policy and the Environment estimated the economic impact of local gaming-related taxes and incentive revenue spent by local governments and community foundations. As part of the eight-year evaluation, we continue to analyze and estimate the economic contributions attributable to the expenditure of gaming-related taxes



and negotiated incentives by local governments and foundations. When the two analyses are combined, the total eight-year economic impact of the spending of local gaming-related tax and incentives payment from Blue Chip's Michigan City opening on August 22, 1997, through December 31, 2004, was nearly \$114 million. Specifically, the expenditures of local gaming-related taxes and incentive payments made by Michigan City and the Michigan City Enrichment Corporation have generated an estimated:

- \$113,915,038 in economic impact,
- \$36,635,791 in employee compensation, and
- 1,684 new jobs (full-time equivalents).

The following economic impact analysis is based on expenditures of \$32,048,287, made by Michigan City and the Michigan City Enrichment Corporation between January 1, 2002 and December 31, 2004. It does not include \$291,000 to employee pension funds, a matching grant of \$750,000, and transfers to other local governments. The study does include over \$8 million of employee insurance expenditures which could be considered required expenditures which would need to be made even if gaming-related revenue was not available.

The total of direct and indirect estimated economic impact of expenditures of local gaming-related taxes and incentive payments since the five year report (covering the years 2002-2004) is:

- \$46,531,936 in economic impact,
- \$16,041,573 in employee compensation, and
- 689 new jobs (full-time equivalents).

Local Investments

The \$46.5 million in economic contributions results from the expenditure or investment of over \$32 million of gaming-related tax and incentive revenue spent by Michigan City and the Michigan City Enrichment Corporation. Over \$14 million or 44 percent of all expenditures were dedicated to infrastructure improvements including street, alley, and sewer projects. The second largest expenditure category was insurance, with expenditures of over \$8.1 million or 25 percent. The principal insurance expenditure was an annual payment for the employer share of health insurance.

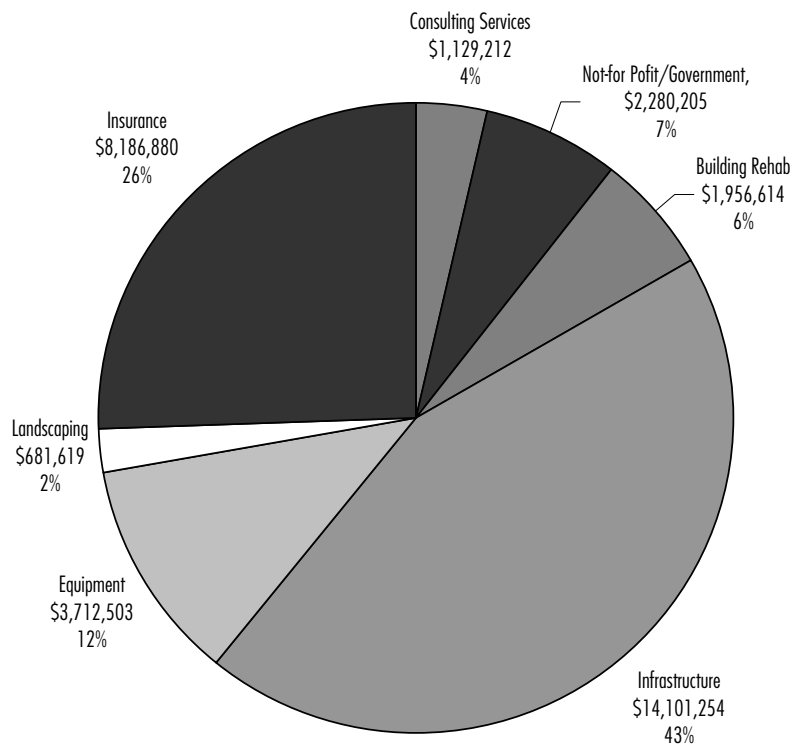
Many of the expenditures made by the city and corporation have the potential to improve the long term economic competitiveness of the area and the quality of life for area residents. The \$14 million of infrastructure investments and have the potential to make immediate and long lasting impacts on the economic competitiveness of Michigan City and the surrounding area by making the area more attractive to local businesses. Investment in the local parks, public safety, and local not-for-profits programs in the arts, education, health, and diversity programs have the potential to improve the quality of life in the area and contribute to the attraction and retention of human capital.



For the purposes of this analysis the expenditures made by Michigan City and the Michigan City Enrichment Corporation between 2002 and 2004 can be aggregated into the following categories. The total amount and share by expenditure category is displayed in Figure 3.

- Capital Equipment
- Infrastructure
- Landscaping
- Rehabilitation and Repair of Existing Structures
- Not-for-Profit and Government Operations
- Insurance
- Consulting Services, including engineering, education, and legal services

Figure 3: Estimated Expenditure by Type of Public Investment





Direct Economic Impact 2002 – 2004

Direct economic impact is generated by money spent with firms directly contracted by Michigan City and the Michigan City Enrichment Corporation to provide services (the not-for-profit and government category as well as the insurance and consulting services categories) or produce goods (capital equipment, infrastructure, landscaping, and rehab construction). Specifically, it is estimated that the \$32 million of city and corporation expenditures generated an estimated:

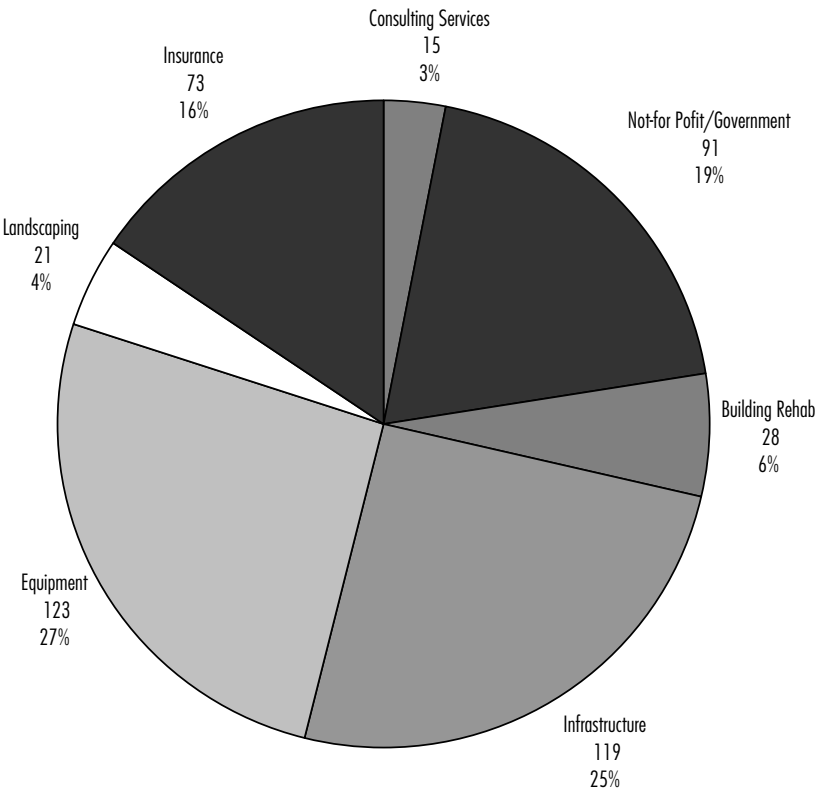
- \$11,307,592 in employee compensation,
- 9470 new jobs (full-time equivalents)

The 470 jobs and over \$11 million in wages are expected to be created directly at the firms receiving the \$32 million of gaming-related expenditures for the purpose of producing goods and services. The largest number of jobs produced by expenditures made between 2002 and 2004 were attributable to the purchases of capital equipment where 123 jobs (full-time equivalent) were supported at firms receiving revenue directly attributable to gaming-related taxes and incentive expenditures. While 26 percent of all direct jobs were attributable to capital equipment sales only 12 percent of all direct spending was attributable to capital equipment sale, furthermore, while infrastructure related expenditures made up 44 percent of all expenditures only 25 percent of all direct jobs were infrastructure related.



It is important to understand that while the total amount expended by category plays an important role in determining the number of direct jobs created/supported by investment category at firms receiving payments funded through gaming-related tax or incentive revenues, the investment categories differ in the degree to which they are labor and materials dependant. For example, a job related to capital equipment requires only \$30,183 of expenditure to create a job. This is likely a result of the fact that sales is a more labor than material intensive trade, whereas an infrastructure job, which is much more dependent on material, requires nearly \$119,000 of expenditures to create/support one direct job. Figure 4 displays the total number of direct jobs attributable to each investment category.

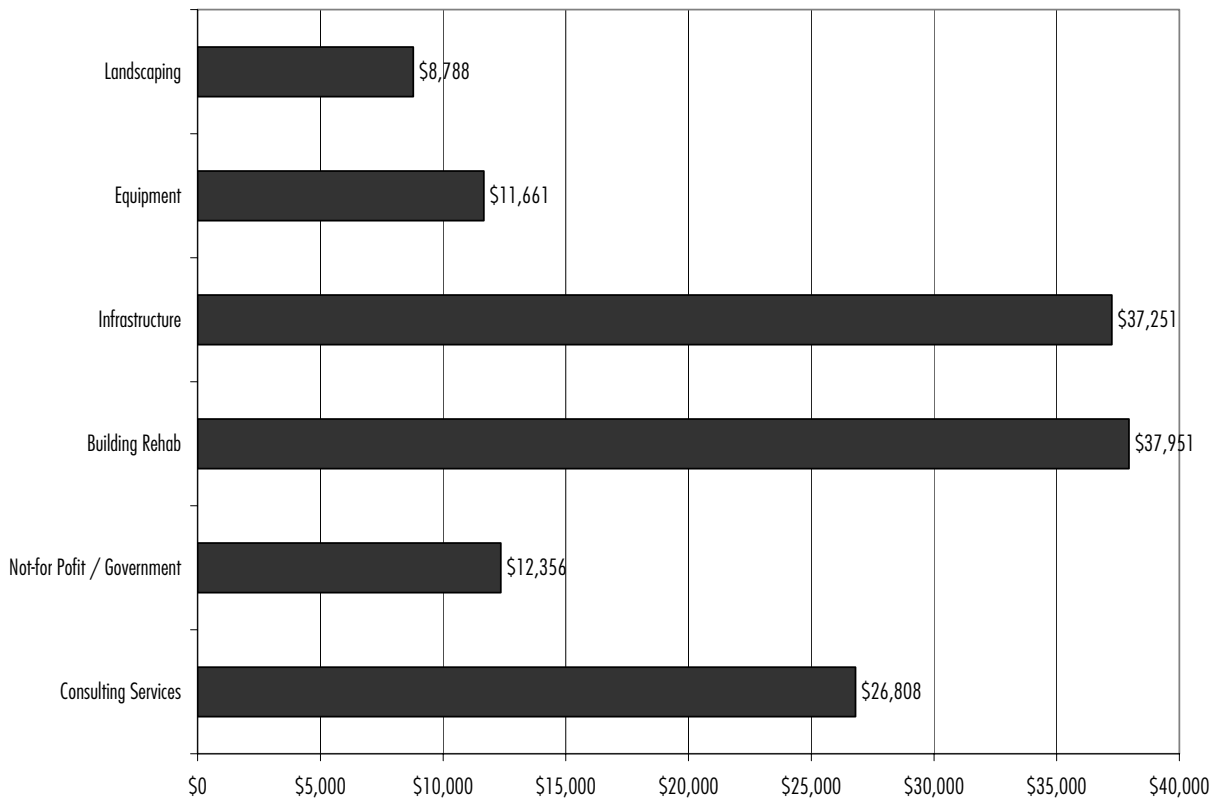
Figure 4: Direct Jobs 2002–2004





While the largest numbers of jobs created were attributable to the purchases of capital equipment, the average wage for jobs directly attributable to infrastructure and building rehabilitation investments were much higher than the average wage attributable to capital equipment purchases. Infrastructure and building rehabilitation wages averaged in the range of \$37,000 to \$38,000 per direct job compared to \$11,661 for jobs directly related to Capital equipment purchases. Figure 5 displays the average wage for direct jobs in each investment category.

Figure 5: Average Direct Wage per Job 2002–2004



Indirect and Induced Economic Impact 2002–2004

As the spending of over \$32 million in tax and incentive payments works its way through the La Porte County economy, it generates additional economic benefits above and beyond those generated at the firms that receive gaming-related contracts and revenues. For example, one of the new jobs may be an employee of a firm working on an infrastructure project, for example a new sewer line, attributable to gaming-related tax and incentive revenue paid by the Blue Chip and spent by Michigan City. As the worker and his or her family eats at La Porte County restaurants, shops in local stores, purchases new automobiles, and makes home improvements, those expenditures and all other local expenditures generate additional economic activity. Similarly, the firm working on the infrastructure project needs to purchase materials, supplies, and perhaps equipment from other businesses. As with the employee, when purchased locally, the firm's expenditures produce additional economic benefits in La Porte County. These benefits are known as the indirect benefits. Then as the firms and workers who indirectly benefit from the expenditure of tax and incentive spending by Michigan City and the Michigan City Enrichment



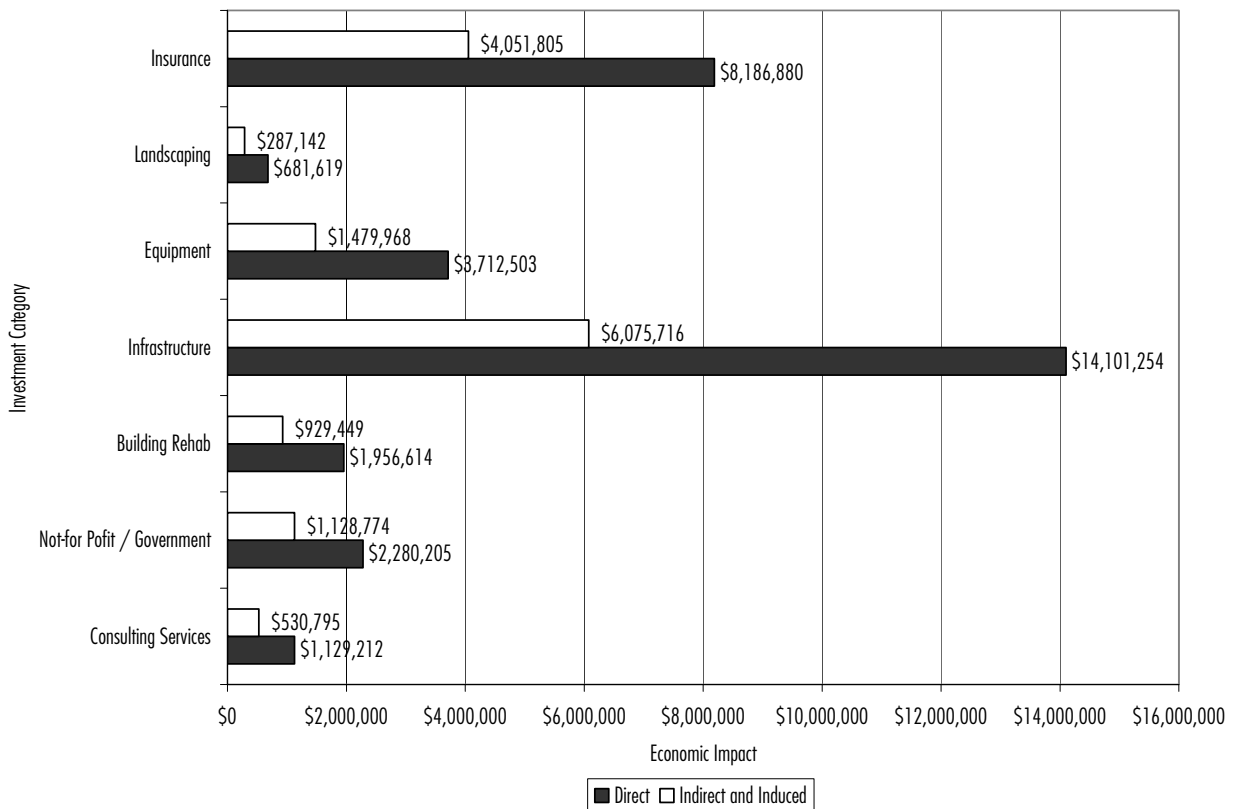
Corporation spend their money, it generates additional economic activity. These additional rounds of economic activity are known as the induced benefits.

The indirect and induced economic impact of the spending of gaming-related local tax and incentive payments made by the Blue Chip is estimated to have generated an additional:

- \$14,483,649 in indirect and induced economic activity,
- \$4,733,981 in indirect and induced employee compensation, and
- 219 indirect and induced new jobs (full-time equivalents).

The infrastructure investment category generated over \$6 million of indirect and induced economic activity attributable to initial direct investment of over \$14 million. Restated, the initial expenditure of over \$14 million of gaming-related tax and incentive revenue on infrastructure projects produced an additional \$6 million of economic activity within La Porte County. Figure 6 provides the total amount of direct and indirect and induced economic activity attributable to each investment category.

Figure 6: Direct, Indirect and Induced Economic Activity by Type of Public Investment

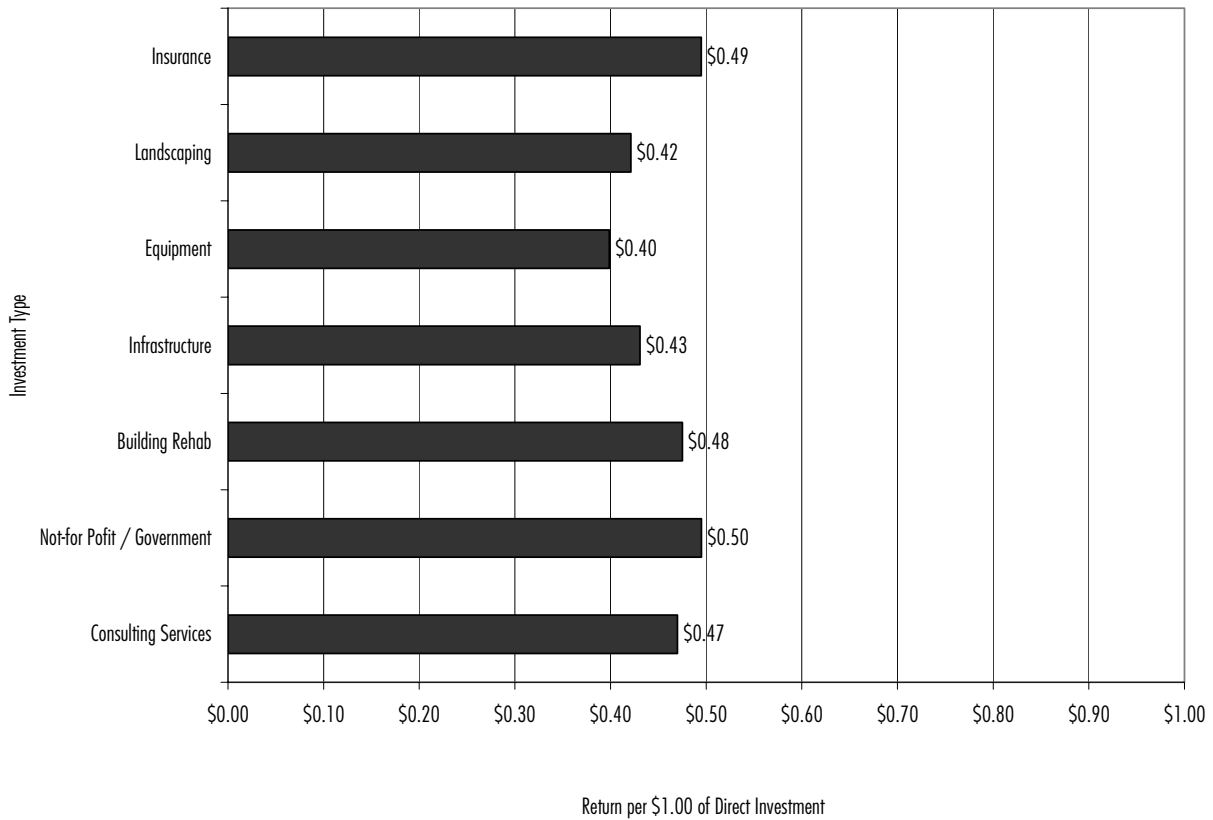


In part because of the large amount of spending, the infrastructure investment category generated the most indirect and induced economic activity; however, the most efficient producer of additional economic activity was government and not-for-profit operations generating 50 cents of indirect and induced economic activity per \$1.00 of direct investment. Each of the direct spending or investment categories has



a different rate of return within the La Porte County economy. Figure 7 displays indirect and induced impact generated by the expenditure of \$1.00 in each investment category. The share of indirect impact varies because different types of expenditures engender different local spending behaviors. For example, if there are few providers of lumber or cement within La Porte County, then the increased demand for such items may result in purchases being made outside the impact area, when this occurs dollars leave the local economy and the spending of those dollars in other regions generates no additional economic benefits for the La Porte County economy. While the immediate rate of return is highest for local government and not-for-profit operations (50 cents of indirect impact per \$1.00 of public investment) many studies indicated that the long-term benefits of public investments in infrastructure investment will produce greater long-term impacts including higher wages, more jobs, and increased property value.

Figure 7: Indirect and Induced Impact per \$1.00 of Direct Investment by Type of Investment





Long-Term Economic Benefits of Gaming-Related Taxes and Incentives

The long-term economic benefits of the spending of the spending of gaming-related taxes and incentives should result in a more economically competitive local economy. For example, road and traffic control infrastructure investments that reduce the time costs related to transportation should reduce the cost of business operation and the provision of new services might improve the perceived quality of life and make the area a more attractive place to live.

One measure of increased economic competitiveness might be changes in unemployment rate relative to that of the state. The average annual unemployment rate for Indiana in 1996 was 3.9 percent. Indiana's average annual unemployment rate increased to 5.3 percent by 2003. The average annual unemployment rate in La Porte County was higher in both 1996 (5.1 percent) and 2003 (6.9 percent). In March 2005, La Porte County's unemployment rate was 6.7 percent and the unemployment rate in Indiana was 6.0 percent.

Another measure of increased economic competitiveness might be changes in per capita income. In 1996 Indiana's per capita income was \$22,368 and by 2003 it had increased to \$28,838 an increase of \$6,470 dollars or 28.9 percent. La Porte County's per capita income increased from \$20,596 in 1996 to \$25,241 in 2003, an increase of \$4,645 dollars or 22.6 percent.

While eight years is not likely a long enough period to substantially change the local economy, La Porte County has continued to trail the state in per capita income. Furthermore, the county's unemployment rate has continued to exceed the statewide average, though by March 2005 the gap had decreased from 1.2 percent in 1996 (annual average) to 0.7 percent in March of 2005.¹

¹ Of course, there are many other factors in La Porte County which also affect the employment rate and per capita income.



Community Impacts

Local Spending and Contributions

Blue Chip has spent money locally for both capital and operating expenses as well as through sponsorships and contributions. As Table 9 illustrates, since opening, Blue Chip has spent over \$138 million locally (in Northwest Indiana). Additionally, Blue Chip has impacted the Michigan City area through \$782,022 sponsorships and contributions to local area organizations. This figure excludes any contributions that were part of the local development agreement, which are discussed under Incentive Payments.

Table 9: Local Spending, Sponsorships, and Contributions

	1997-2001	2002	2003	2004	Total
Local Spending	\$96,500,000	\$8,696,292	\$7,902,490	\$25,195,279	\$138,294,061
Sponsorships/Contributions	\$487,015	\$141,241	\$52,857	\$100,909	\$782,022

Community Input

Another way to determine impact in the local community is to listen to the views of members of the local community. Center staff conducted three focus groups in Michigan City with:

- Community leaders,
- Local business leaders and
- Social services providers

The questions asked were broad to allow the participants to raise issues of importance to them and covered positive and negative impacts, strengths and weaknesses, and opportunities and threats. While there were some differences among the groups, which are described below, overall the following themes resonated with all three groups:

- The riverboat casino has been a positive addition to the community:
 - Blue Chip is a good corporate citizen. It is active in the community and asks for input from the community (e.g., what should the old boat be used for?). Its employees are active in the community (e.g., Junior Achievement, serving on nonprofit boards), and it makes donations of in-kind items such as toilets and pies to nonprofits as well as contributions to local nonprofits. It is the biggest industry in the community and it doesn't have a negative environmental impact or ask the local government for anything.
 - It directly brings tourists to Michigan City and sponsors events for tourism (e.g., beach volleyball). It has also contributed funds to other tourist attractions, which would have low visibility without assistance and financial support.
 - Blue Chip provides revenue for Michigan City, surrounding communities, and La Porte County which is used to fund infrastructure development and capital improvements, as well as before and after school programs and other social service programs through the Community Enrichment Corporation.



- The economic impact of having more employed residents, tourists, etc. has decreased crime rates and led to neighborhood revitalization.
- There were some issues where we received mixed input:
 - While some say that Blue Chip brought over 1,000 jobs and it employs a lot of people from within Michigan City and LaPorte County and is a fair employer – workers have a voice in their employment and wages/benefits, better benefits and lower turnover compared to other service jobs in the area, others say that the jobs are not necessarily quality jobs. They have low wages and poor benefits.
 - Some said that Blue Chip improved/revitalized the neighborhood surrounding the casino which increased tax base and property values, while others said that there was a lack of investment in the community surrounding the casino.
 - There were contrasting views about casino home buyouts. Some said the casino gave people more money than they could have gotten at market value, but others said it wasn't enough for displaced residents to buy a new home somewhere else.
 - While everyone agreed that the casino has brought name recognition for Michigan City, there was disagreement about whether this was good or bad –people identify the city with the casino and a prison.
- There were also several negatives suggested:
 - There are no smoke-free sections on the current boat which leads to long term health care effects.
 - Some people have problem with gambling addictions, leading to bankruptcy or just spending more than they can afford, domestic violence and child abuse and there is not much effort from the casino to identify people with gambling problems.
 - There is not a lot of community input in deciding needs and where revenues are going
 - There is a question of whether the casino includes minorities and locals to the extent possible (as vendors, contractors, etc.). A few indicated that Blue Chip has ignored the African American community's needs in the past.
 - Legislature/state wanting to take casino revenue from the local community
 - Boats/casinos popping up in other communities (like land-based Indian casino) could be a threat to the revenue from Blue Chip.
 - Overdependence on revenue from Blue Chip. The government handles it well now, but could be a problem because short and long range plans depend on gaming revenues.

Other Issues

According to Blue Chip, 139 legal actions have been filed against them since 1997; 54 by employees (equal opportunity employment commission and unfair labor practices) with the remainder mostly from patrons.

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 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, 316 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 644,352 identifications. In addition, they have turned away 5,421 patrons for being under age 21 (Table 10).

Table 10: Blue Chip's Efforts to Prevent Problem Gambling

	1997-01	2002	2003	2004	Total
Number of IDs verified	170,673	110,099	166,354	197,226	644,352
Number of patrons turned away — under 21 or no identification	853	1,389	1,872	1,307	5,421
Self-exclusions	67	65	101	83	316





Employment

As of December 31, 2004, 59 percent of Blue Chip’s employees were women and 21 percent were minorities. Approximately 60 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. In LaPorte County 13 percent of the population consists of minorities and 49 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 11 indicates, as of December 31, 2004, Blue Chip had employment of 1,192 persons in both the casino and hotel, above their eight-year average of 1,164. For 2004, salaries and wages were \$34.7 million, including tips to dealers (but not to bar and wait staff), and since opening, Blue Chip has paid almost \$240 million in wages, tips, and benefits.

Table 11: Employment and Wages

Category	1997-2001	2002	2003	2004	Average/Total
Average Employment	1,153	1169	1186	1192	1,164
Wages and tips	\$137,415,522	\$33,156,700	\$34,645,200	\$34,667,400	\$239,884,822
Average wages and tips per employee	\$26,485	\$28,363	\$29,212	\$29,092	\$27,478

A Survey of Blue Chip Employees

To assist in the eight-year license evaluation of the Blue Chip riverboat casino the Center conducted a survey of current Blue Chip employees in May 2005. Previously, in 2002, the Center conducted a survey of the employees for the five-year licensure hearing. The survey and accompanying analysis is intended to assist the Commission in determining the impact of Blue Chip on the local workforce. Responses to the current survey will be compared to those from the previous survey, when applicable. The analysis is divided into four topic areas:

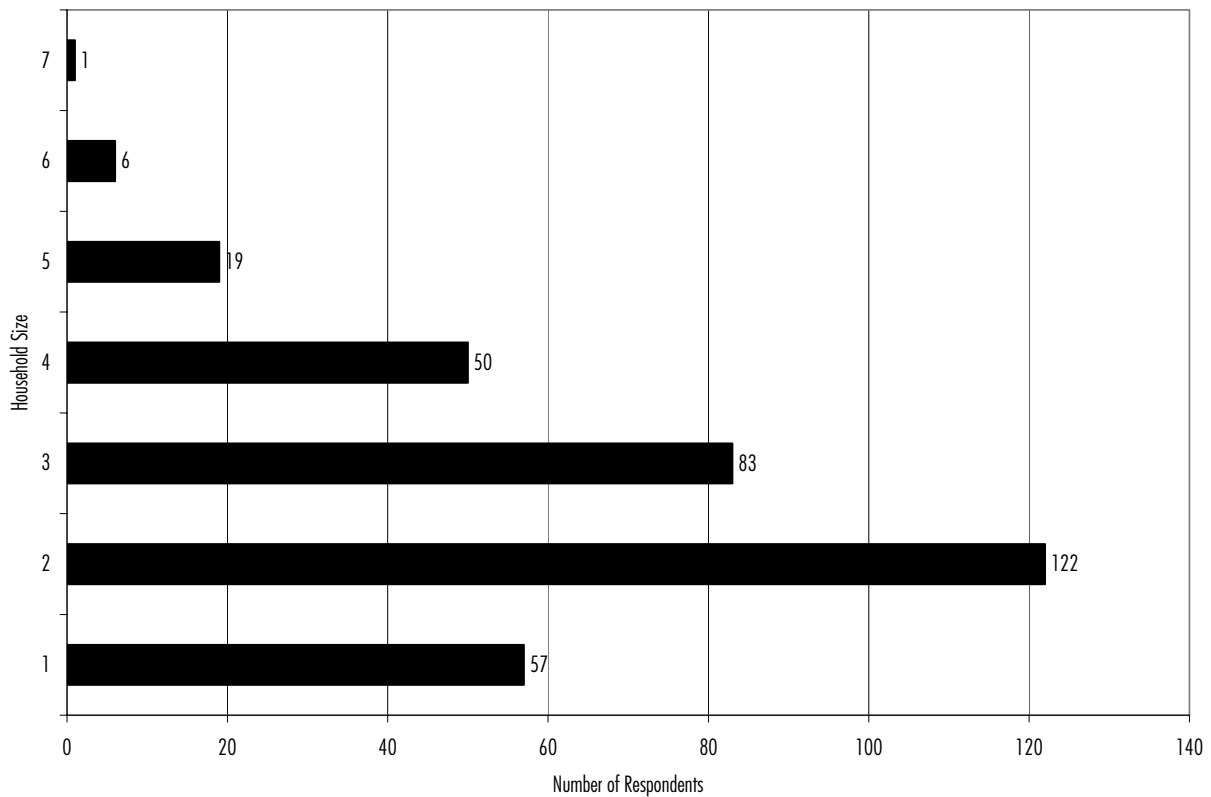
1. a brief description of the respondents and their history
2. the respondents employment history prior to beginning work at the Blue Chip,
3. the initial experience of the respondents upon beginning work at Blue Chip,
4. the respondents current situation



An Overview of the Respondents

There were 347 total responses to the survey, but not everyone responded to each survey question. For example, 339 individuals responded to the question concerning gender and of those who responded 144 or 42 percent of those who responded were males and 195 or 58 percent were female. The average reported age of those who responded was 43 years and 8 months; the oldest respondent was 72 and the youngest 20. One, two, and three-person households accounted for 262 or 77.5 percent of the 338 responses to the household size survey question. As shown in Figure 8, two-person households made up the largest single household size with 122 or 36 percent of all responses. Only 26 respondents (7.7 percent) reported in living in a household of 5 or more individuals.

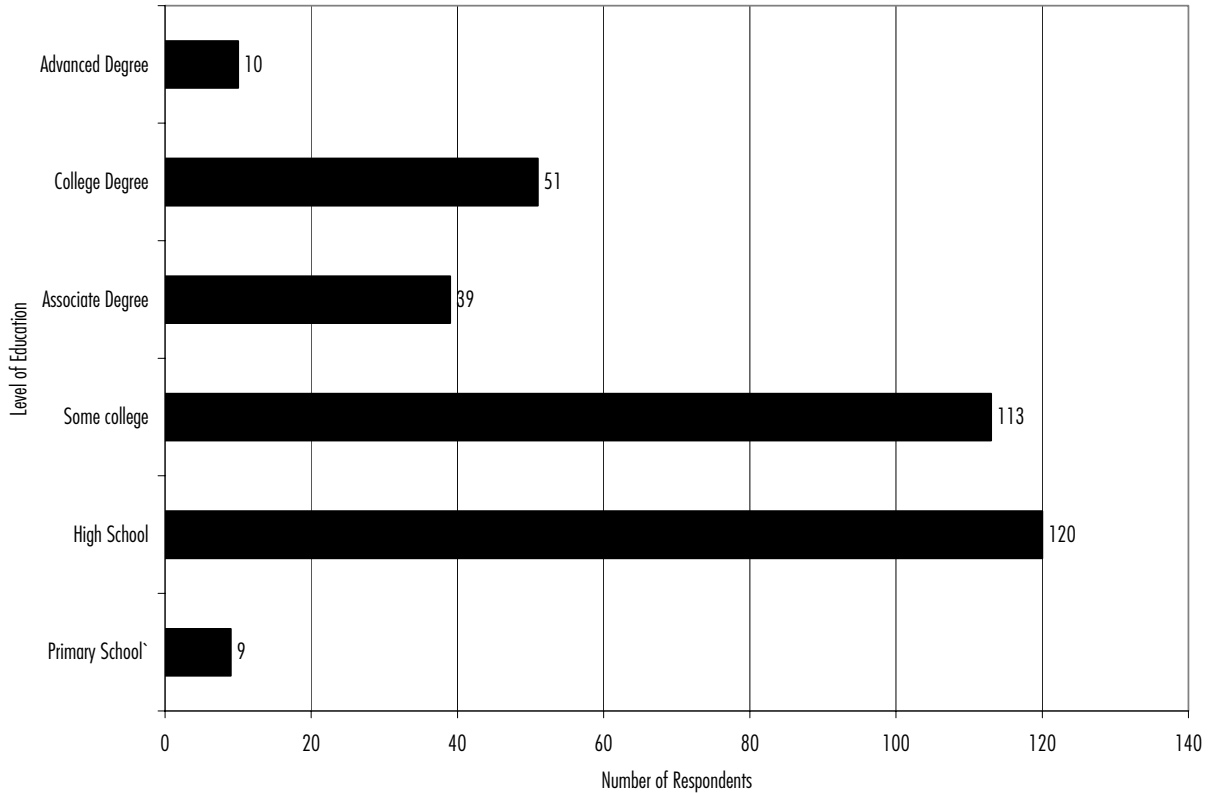
Figure 8: Total Number of Individuals in Household





Only 3 percent of the respondents reported having failed to earn at least a high school diploma. Two hundred eighty two of the respondents (80 percent) reported high school or attending some college or an associate’s degree as their highest level of education. An additional 61 respondents or 17 percent reported receiving an undergraduate or graduate college degree as their highest level of education. Figure 9 summarizes the educational achievement of all respondents.

Figure 9: Educational Achievement of Blue Chip Employees



Employment History Prior to Beginning Work at the Blue Chip

Based on responses to the current survey, 67 percent were employed full-time prior to beginning work at the Blue Chip and 23 percent were unemployed prior to beginning to work there. (Table 12)

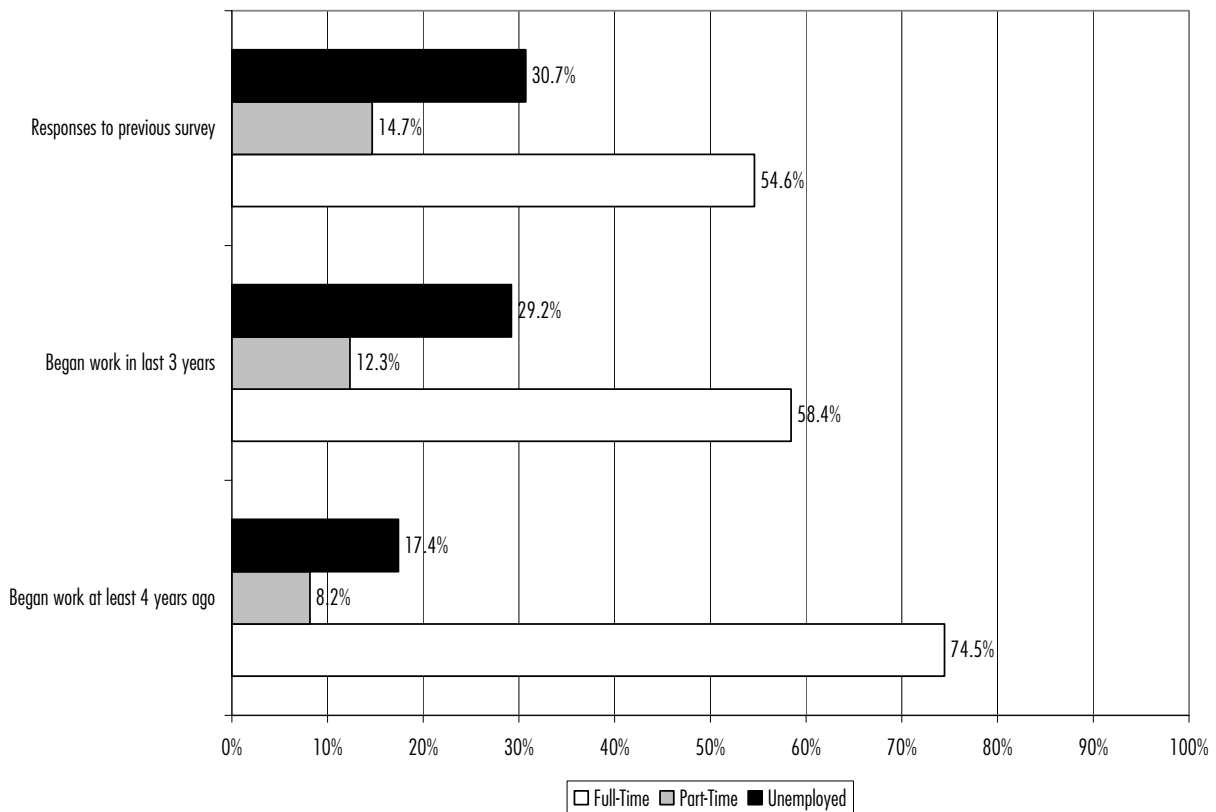
Table 12: Employment Status Prior to beginning Work at blue Chip

Employed full-time prior to beginning work at Blue Chip	67 percent
Employed part-time prior to beginning work at Blue Chip	10 percent
Unemployed prior to beginning work at Blue Chip	23 percent



Figure 10 compares the responses from the current survey to responses from the five-year licensure evaluation survey. Responses to the current survey are separated into employees who began work since the five-year survey and evaluation (those who began work in the last three years) and those who were working at the time of the last survey and evaluation (began work at least four years ago). A comparison of those who began work at least four years ago with those who responded to the previous five-year survey suggests that it may be possible that previously unemployed and those previously employed on a part-time basis may be slightly less likely to remain employed at Blue Chip; as the percent of respondents in both categories declined from the previous survey. For example in the previous survey 14.7 percent of the respondents reported working part-time prior to beginning work at Blue Chip in the current survey only 8.2 percent of those who would have been working at the Blue Chip at the time of the five-year survey (began work at least four years ago) responded that they had previously been working part-time. This may indicate that less previously unemployed and part-time employed individuals remain at employed at the Blue Chip.

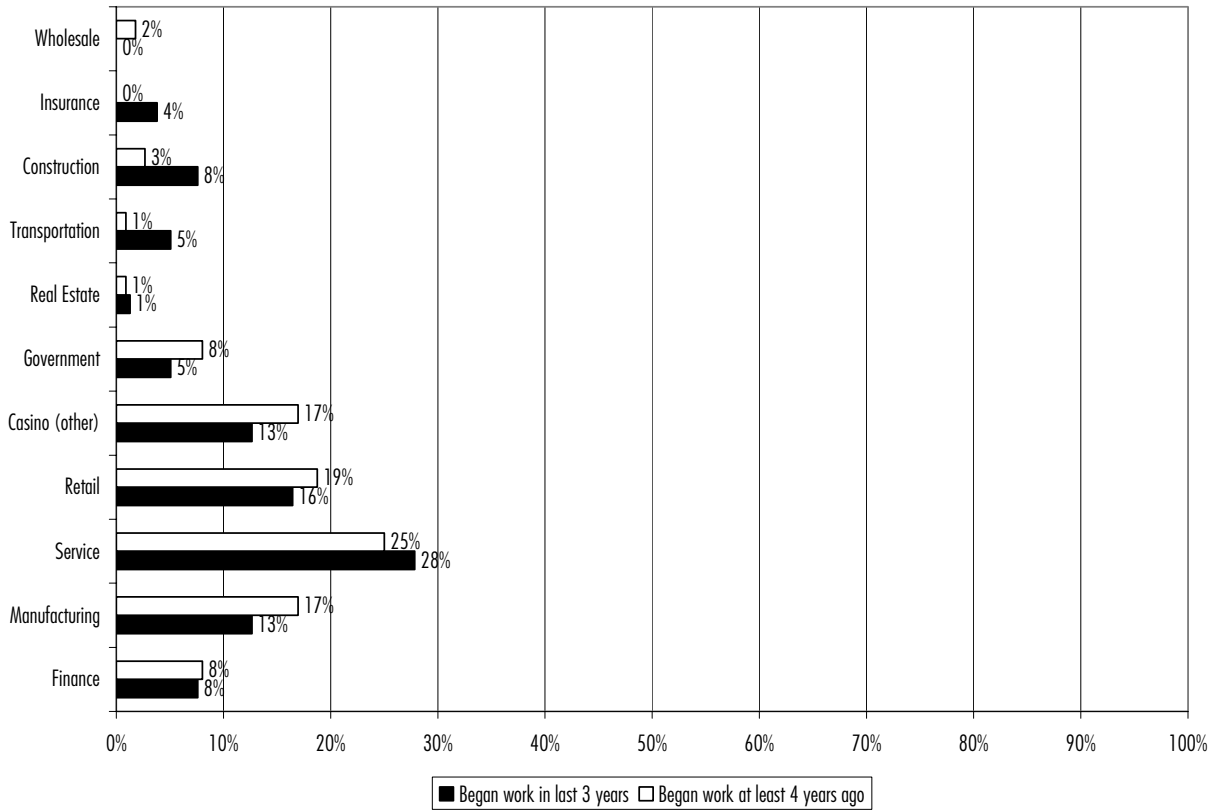
Figure 10: Employment Status Prior to Beginning Work at the Blue Chip





Based on all responses to the current survey, 44 percent of the respondents who identified a specific type of work were previously employed in either the service sector (50 responses), or in the retail sector (34 total responses). When comparing the results of those who have worked at the Blue Chip for four or more years to those that began work in the last three years, Figure 11 shows that an increasingly larger share of those previously employed in the service and construction sectors have migrated to the casino, while the share of those previously employed in manufacturing, government, and retail have experienced a decrease.

Figure 11: Sector of Employment Prior to Beginning Work at the Blue Chip





Beginning Work at the Blue Chip

As shown in Figure 12, the most common reason for beginning work at the Blue Chip in both the previous survey and for those who have worked at the Blue Chip for four or more years was more money. However, for those who have begun work in the last three years the share of respondents who reported seeking better benefits has surpassed more money and become the most common reason for beginning work at the Blue Chip. Career advancement opportunities have also passed more as a reason for beginning work at Blue Chip. Job security was the most commonly cited reason for beginning work at the blue Chip.

Figure 12: Reason for Beginning Work at the Blue Chip

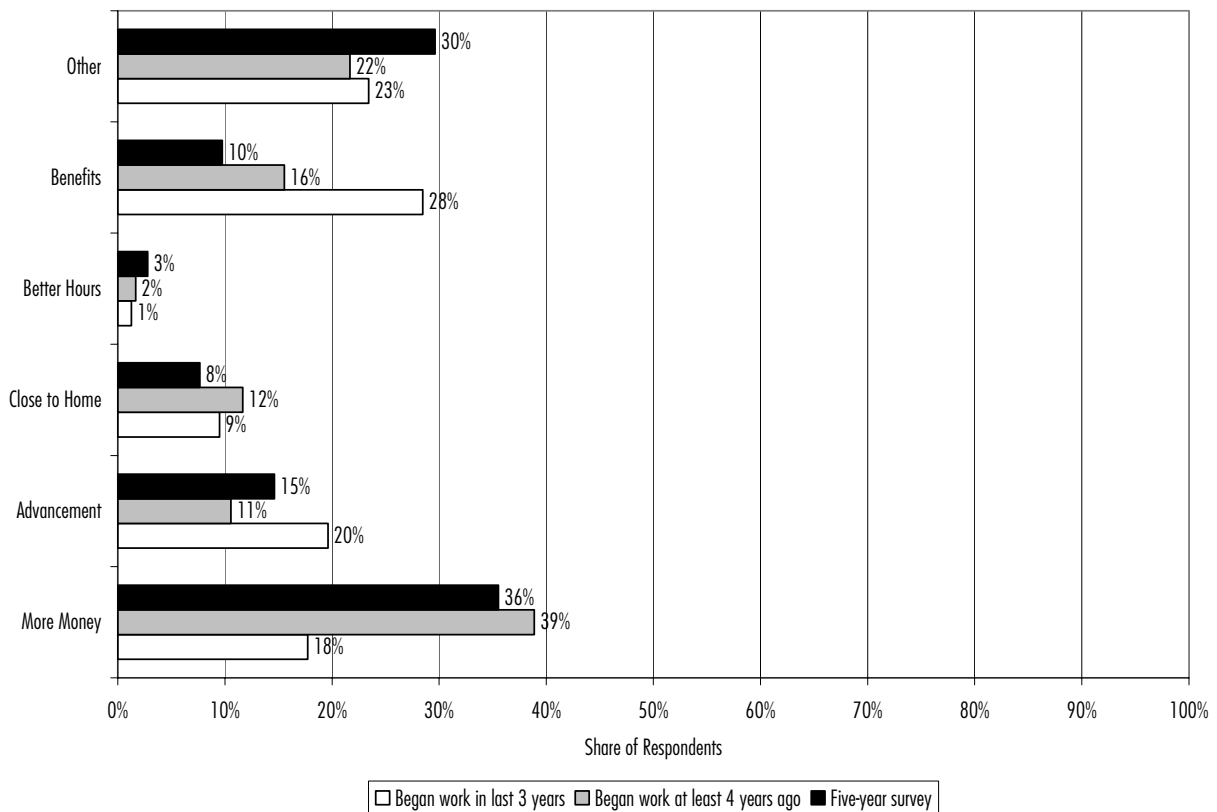
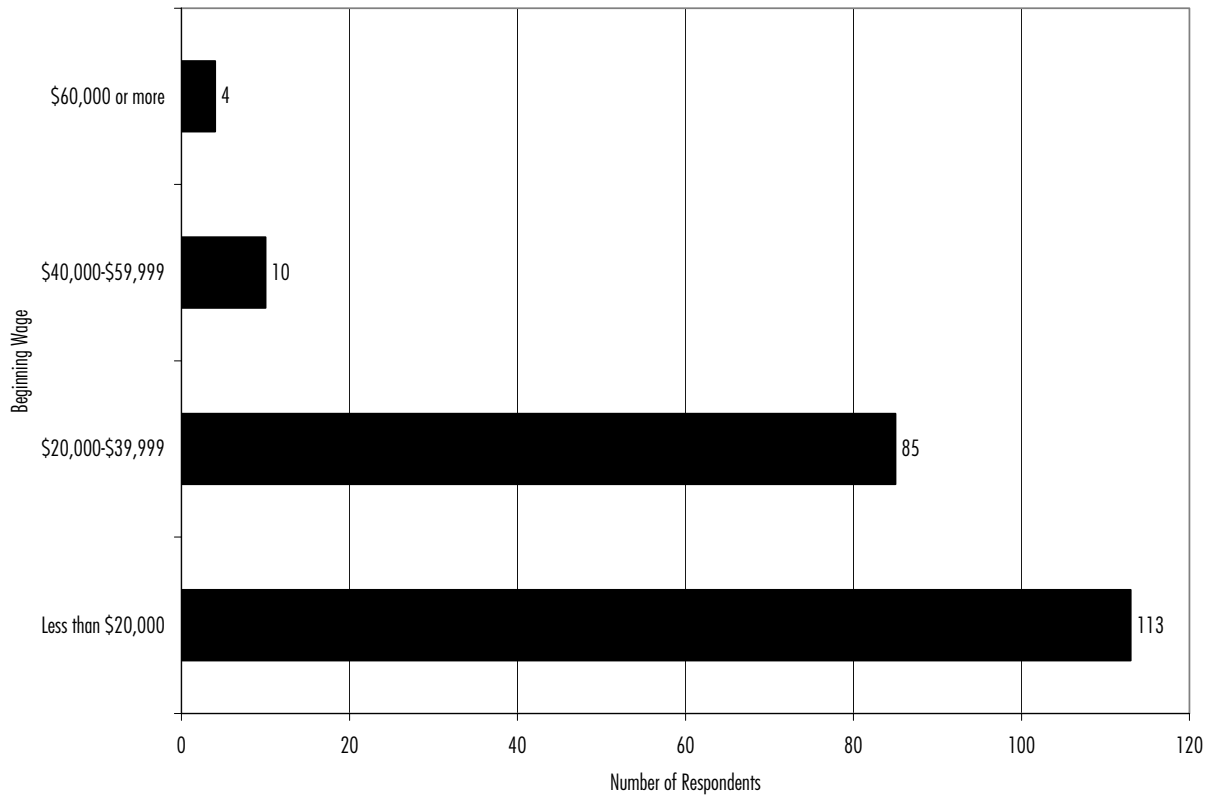




Figure 13 displays the starting wages for the 212 respondents who reported that they work full time and provided a starting annual income (including tips). Over 53 percent or 113 individuals who responded to the survey reported earning less than \$20,000 in the first year of employment. Eighty-six or 40 percent reported earning between \$20,000 and \$39,999. Only 14 or 7 percent reported initial incomes of \$40,000 or more. The average annual income upon beginning work at the Blue Chip was \$23,456 and the median was \$19,000.

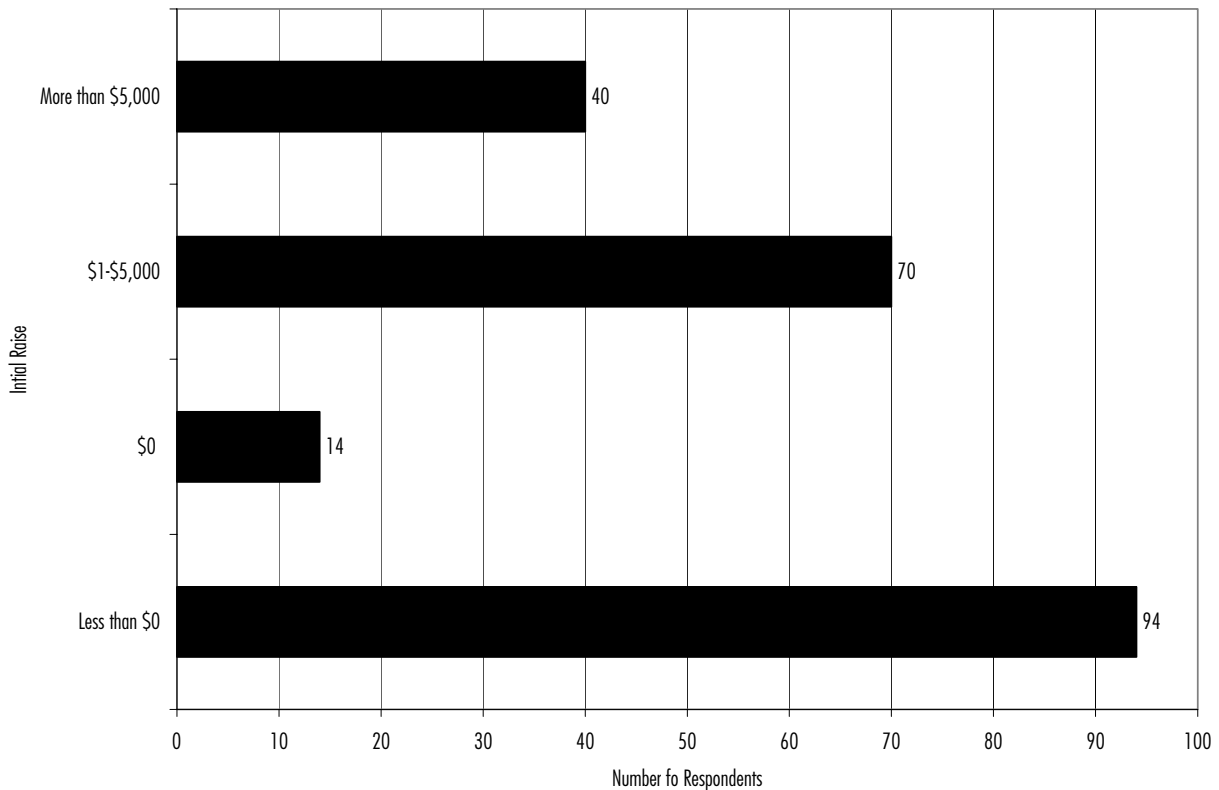
Figure 13: Beginning Wage at Blue Chip





Slightly more than half (50.5 percent) or 110 of the 218 respondents reporting a prior annual wage and a beginning wage at the Blue Chip received a raise upon beginning their new casino-based job. The remaining 108 respondents or 49.5 percent of those responding reported receiving either reduced income or no raise. The average change in income for the 218 individuals reporting a prior annual wage and a beginning wage was a \$3,094 decrease in pay and the median was a \$250 wage increase. This suggests that the average was affected by a small number of large wage decreases —16 individuals reported a wage decrease of \$30,000 or more.

Figure 14: Change in Annual Income upon Beginning Work at Blue Chip

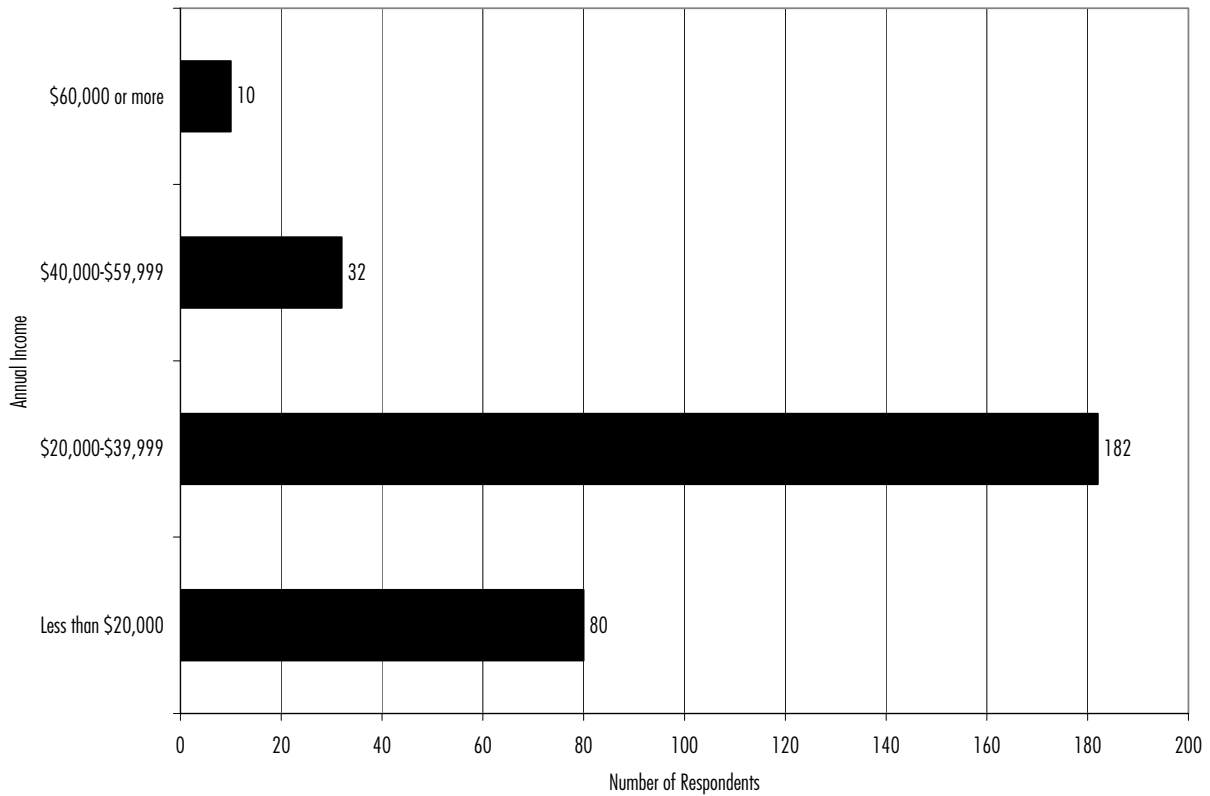




Current Experience

The average current annual income of the 304 Blue Chip employees responding to this question was \$28,769 and the median was \$26,250. As shown in Figure 15, 182 or 60 percent of those responding earn between \$20,000 and \$39,999. In 2003 (the latest date available), the Bureau of Economic Analysis reported that the per capita income in La Porte County was \$25,241. The 2000 Census reported the median household income in La Porte County to be \$41,430.

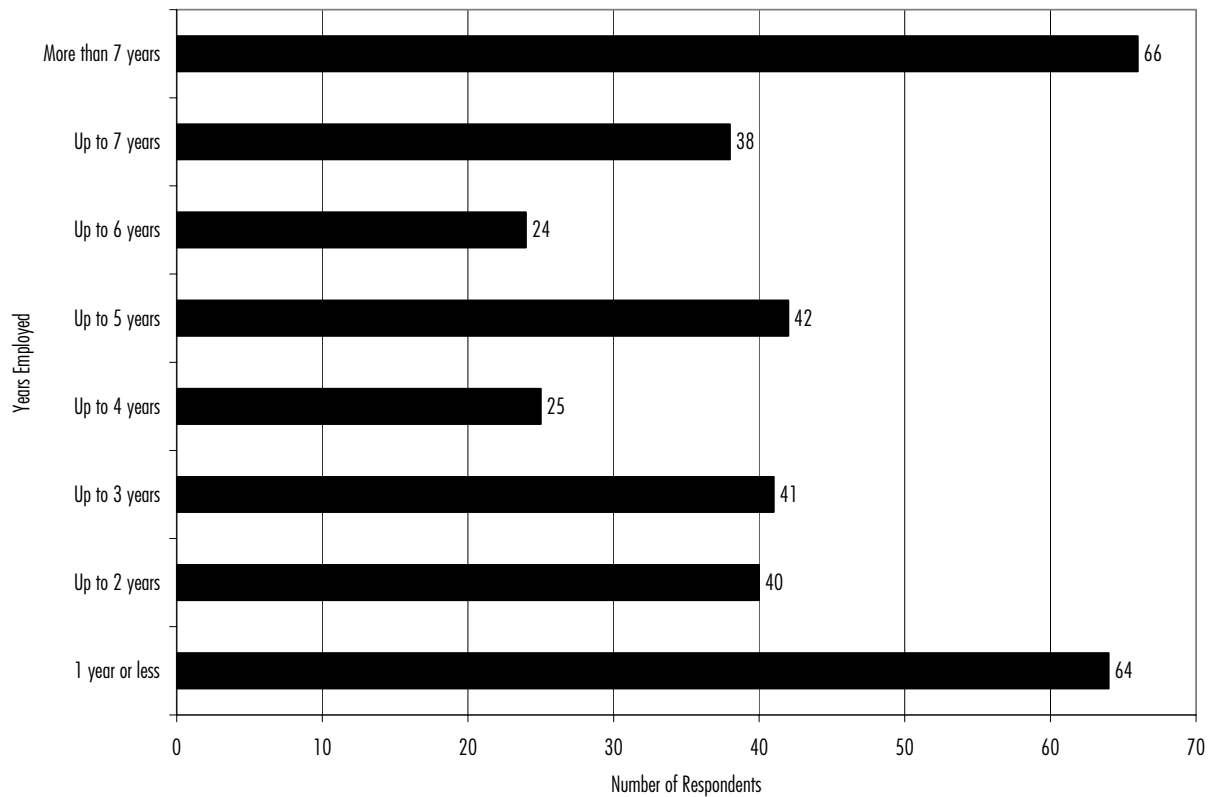
Figure 15: Current Annual Income of Blue Chip Employees





The average length of employment at the Blue Chip for the 340 employees responding to this question was 4 years and 3 months and the median was 4 years and 1 month. Figure 20 displays the number of employees and years worked. Approximately the same share of individuals have worked for more than 7 years (19.4 percent) as have worked for 1 year or less (18.8 percent).

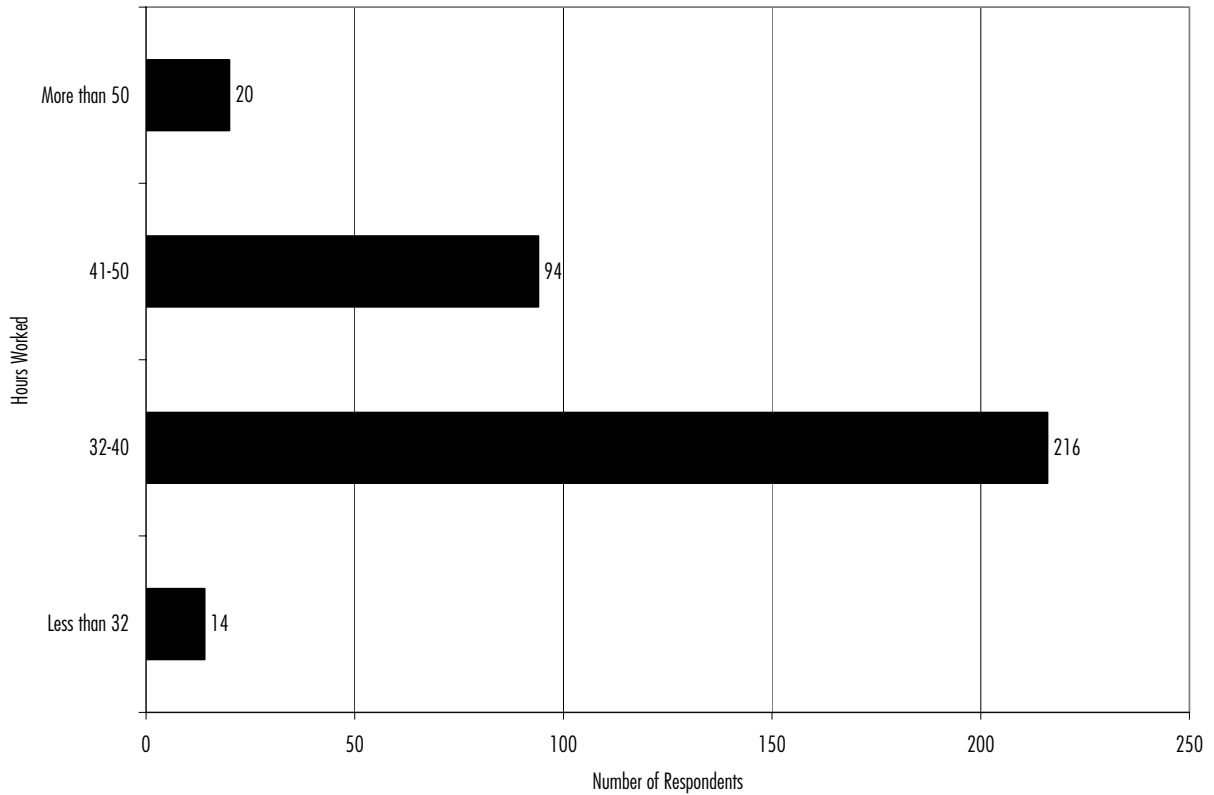
Figure 16: Years Worked at Blue Chip





As shown in Figure 17 only 14 respondents or 4 percent report working less than 32 hours per week. This is important as it is the dividing line for becoming fully eligible for employee benefits. Thirty-three percent report working 41 hours or more.

Figure 17: Number of Hours Worked per Week at Blue Chip.

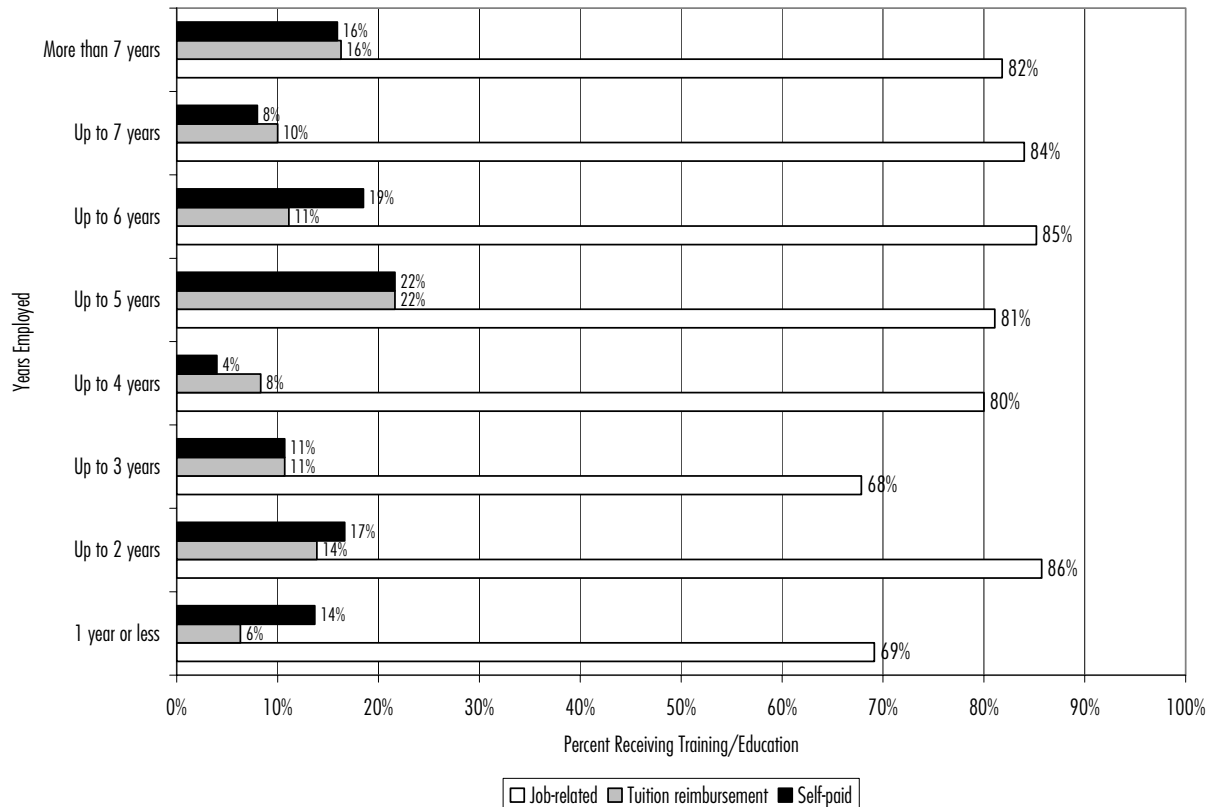




Training and Education

Training and re-training are important components of building an economically competitive workforce. As show in Figure 18, much higher share of Blue Chip employees are receiving job-related training than receive either tuition reimbursement or choose to pay for additional skill-building opportunities on their own.

Figure 18: Training and Education Opportunities for Blue Chip Employees



While it might be expected that the share of employees who report receiving tuition reimbursement from Blue Chip would increase as the number of years worked increases, the tuition reimbursement performance is somewhat unclear and might more a function of employee behavior than years worked.

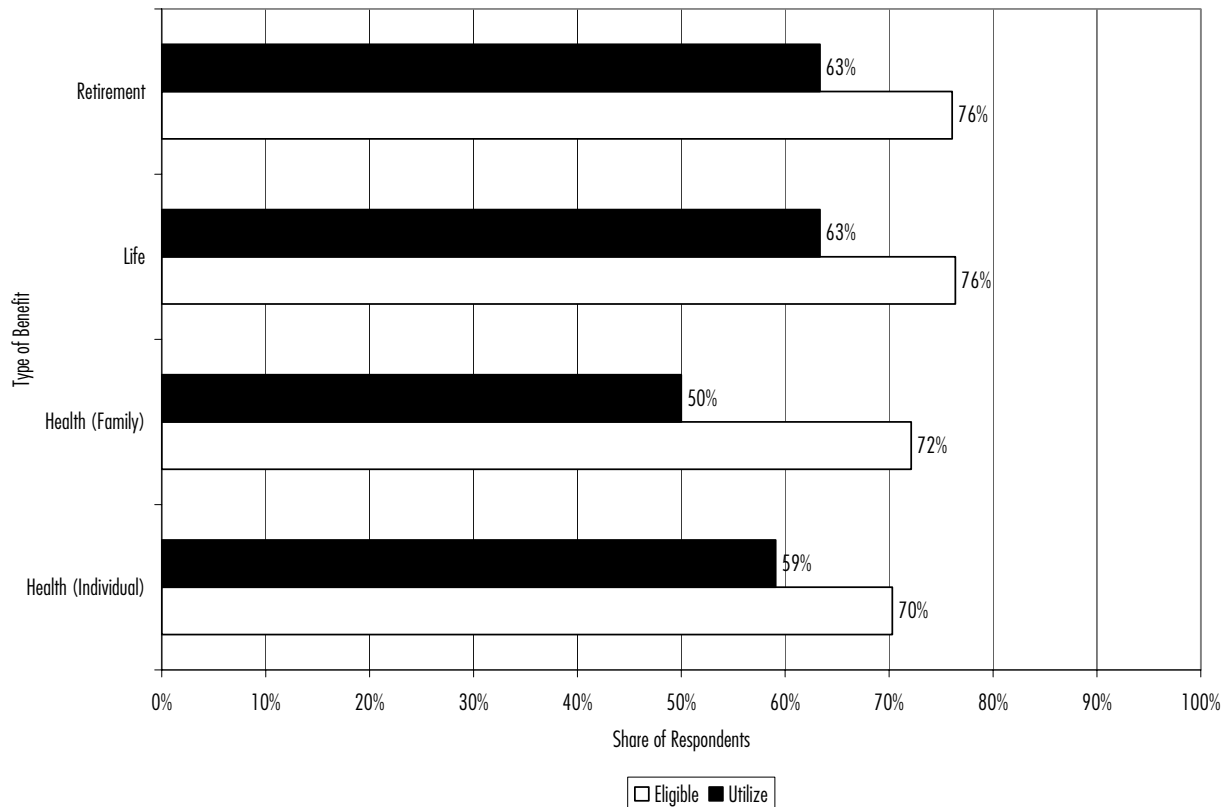
When access to training is compared by highest level of educational attainment, it becomes clear that access to all types of training increases as the level of educational attainment increases. For example, the share of those receiving job related training increased from 75 percent for those with an Associates degree or less to 90 percent for those with a college degree or more. A similar disparity exists for both tuition reimbursement programs (10 percent Associates or less to 16 percent college degree or more) and self-paid opportunities (10 percent Associate or less to 33 percent college degree or more). While one explanation for this disparity is that those with a higher level of education have a greater appreciation for the value of skill building through additional education, more might be done to encourage more use of training programs.



Benefits

Participants in the focus groups held in conjunction with the previous license hearing have suggested that there are concerns regarding access to and utilization of benefits such as life and health insurance and retirement plans. As a result, questions regarding these benefits were first included in the Harrah's East Chicago survey and will be included in all future eight-year employee surveys. The results suggest that many of the full-time employees responding to the survey are unaware or unclear of benefit eligibility. All respondents reporting working 32 hours or more should have responded positively to being eligible to receive benefits. Yet, approximately 25 percent of the responses suggest that they believe they are ineligible. Over 50 percent of the respondents report utilizing some form of health insurance and 63 percent utilize life insurance and retirement benefits.

Figure 19: Benefits and Utilization



Of the 347 respondents reporting a change in place of residence since beginning work at the Blue Chip, 44 or nearly 12.6 percent reported moving from rental status to home ownership. An additional 45 or 13 percent reported moving from one home to another. One hundred eighty-nine respondents reported purchasing a car, van, or truck, and 101 reported undertaking a home remodeling project.





Business Climate Impacts

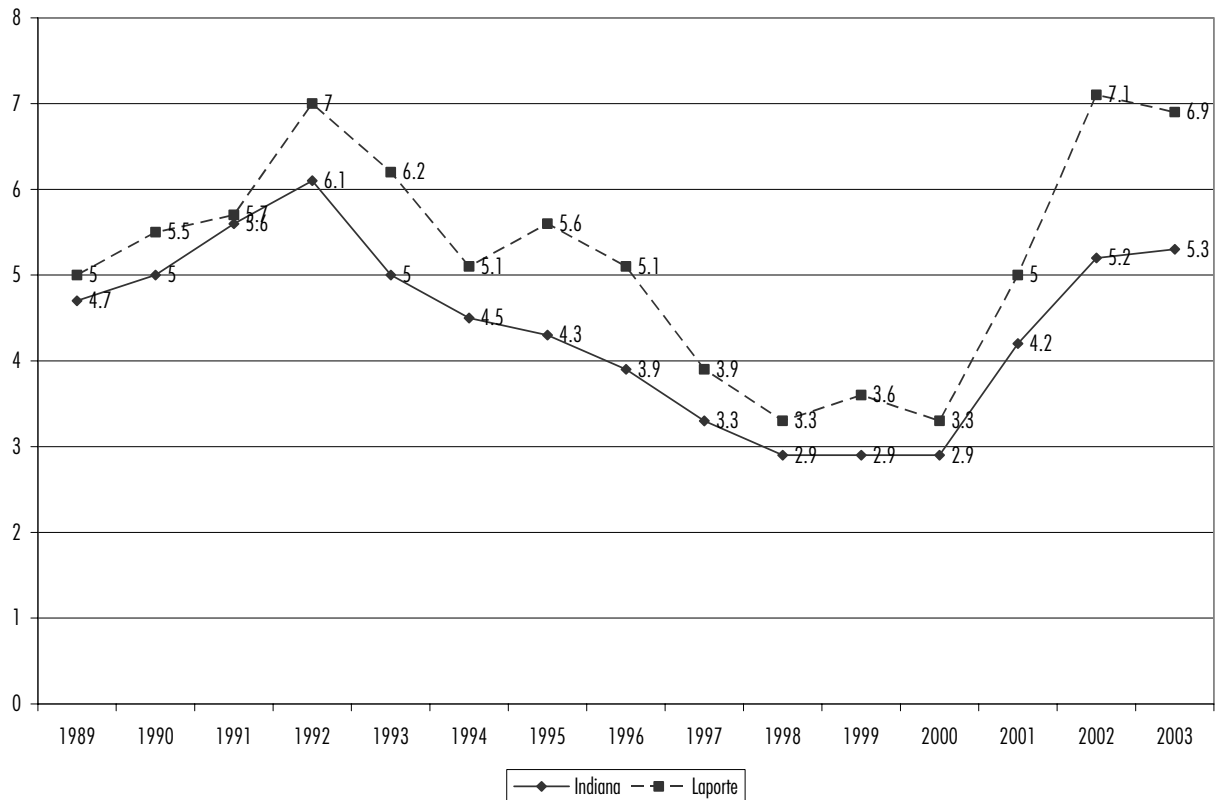
Advocates of legalizing Indiana riverboats argued that riverboats would contribute to local economies of stressed areas through newly created job opportunities and promises for increased wages. Advocates also contended that private local business establishments would benefit through increased consumption of goods and services from the influx of casino patrons and employees. Others argued that riverboats would have detrimental effects through cannibalization of existing business establishments. That is, opponents argued that riverboats with attached hotels and restaurants would provide a substitute for local consumption within local riverboat communities. As riverboats provide relatively higher paying jobs, some existing local establishments may not be able to compete for labor.

A study released by the Indiana Gambling Impact Study Commission in 1999 found that all Indiana riverboat counties were suffering from lower than normal economic conditions prior to riverboats beginning operations. Following the introduction of riverboats in these counties, the overall employment, wages, and number of firms generally were higher or comparable to statewide trends. As Figure 20 illustrates, the unemployment rate in La Porte County has been consistently higher, but follows the statewide trend. This analysis expands upon the 1999 Indiana Gambling Impact Study Commission report, focusing on county level employment, wage, and number of establishments by industry using a special aggregation of ES202 data provided by the Indiana Business Research Center.² This section also shows employment patterns within the direct vicinity of the riverboat location.

²The ES-202 program produces a comprehensive tabulation of employment and wage information for workers covered by state unemployment insurance laws. Publicly available files include data on the number of establishments, monthly employment, and quarterly wages, by industry, at the three-digit level North American Industry Classification System, by county, by ownership sector, for the entire United States.



Figure 20: Unemployment Rates in La Porte County and Indiana



This section complements the economic impact study in this evaluation. The economic benefits measured in that section show direct and total investment of dollars from tax revenues and incentive payments. This section adds a broader perspective of industry change to the discussion. This section identifies industries that have experienced observable changes soon after the commencement of gaming in La Porte County. It also shows the total change in employment, number of establishments, and wage change near the riverboat. It is simply a descriptive analysis focused on industry change before and after the commencement of gaming operations. It does not attempt to provide a causal relationship between the establishment of Blue Chip and the change in other industries operating in La Porte County.

Data Used for Industry Analysis

The United States Bureau of Labor Statistics (BLS) divides the employment and earnings into industries. Since 2000, the North American Industry Classification System (NAICS) has been the coding structure. The NAICS coding structure allows for hierarchical aggregation based on a six-digit system. All industries can be aggregated to the sector level (two-digit level). There are 21 sectors for which industries are assigned. These sectors can be grouped further into two production categories: Goods Producing and Service Producing. While the coding system allows for six-digit desegregation, the three-digit industry level is the most detailed level of analysis that will be performed in this report. That is the level just below the sector aggregation. For the purposes of this report, the three-digit level will be referred to as the industry level. The data used for this report in years prior to 2001 are a special tabulation provided by the Indiana Business Research Center. These data were recoded from the former Standard Industrial



Classification (SIC) coding scheme used during those years. The use of these data is limited, but it is the only source that is available for the trend analyses prepared in this section of the report.

Changes in Total Jobs, Establishments, and Wages

Figures 21, 22, and 23 compare trends in total number of jobs, total number of establishments, and average wage per employee between La Porte County and the aggregate of non-riverboat counties for the 13-year period beginning in 1991 and ending in 2003. These data reflect third quarter figures. The trend lines take 1991 as the base year and compare each of the following years to those levels. Thus, 1991 as the base year is set to 100, and the subsequent years can be read as annual percentage changes from the base year, much like the consumer price index. The focus on the analysis is on whether or not there are observable changes that occurred after gaming commenced in La Porte County and whether or not those changes are divergent from trends during the same time period in the aggregate of non-riverboat counties.

As shown in Figure 21, growth in total number of jobs in La Porte County lagged the growth in non-riverboat counties. In the mid-nineties, the number of jobs increased but ultimately fell to just 4 percent higher in 2003 than in 1990. At the same time, the total number of jobs in the aggregate of non-riverboat counties was approximately 14 percent higher in 2003 than it was in 1991. The difference between job changes in La Porte County and the aggregate of non-riverboat counties began well before gaming in the area.

Figure 21: Comparison of Trends in Total Jobs

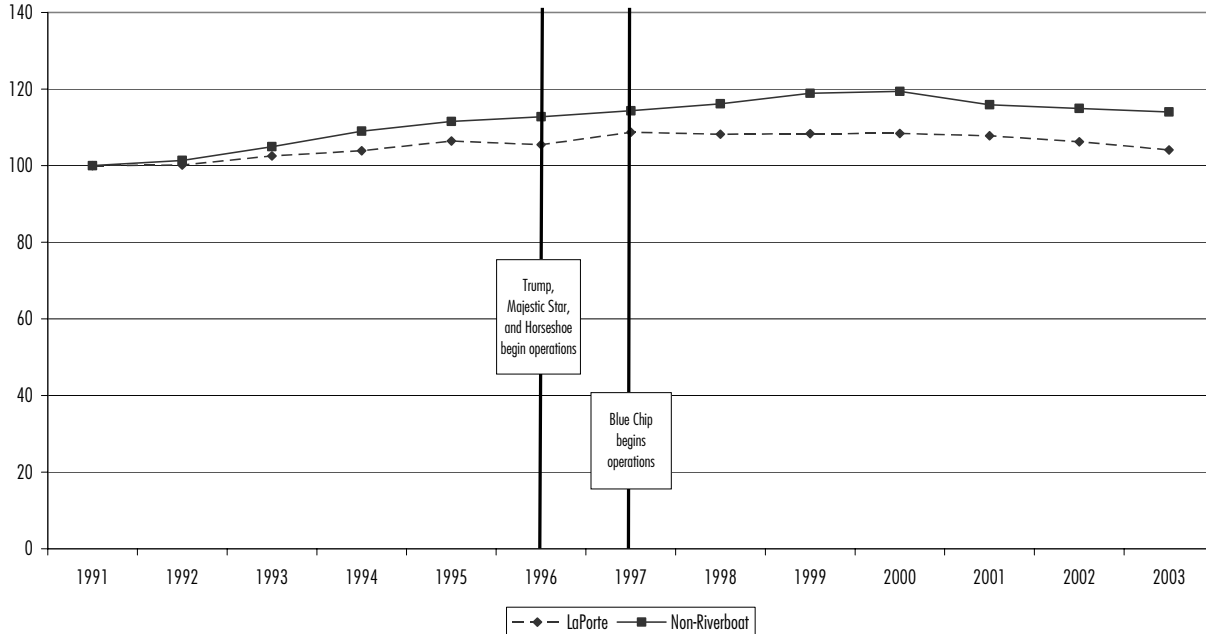




Figure 22 shows that the total number of establishments in La Porte County was 7 percent greater in 2003 than in 1991. That number is just over half of the 12 percent increase in the number of establishments reported in the aggregate of non-riverboat counties over the same time period. The divergence of the La Porte County trend from the aggregate non-riverboat county trend began in began around the mid-1990s, prior to the opening of the first riverboats in the area.

Figure 22: Comparison of Trends in Total Number of Establishments

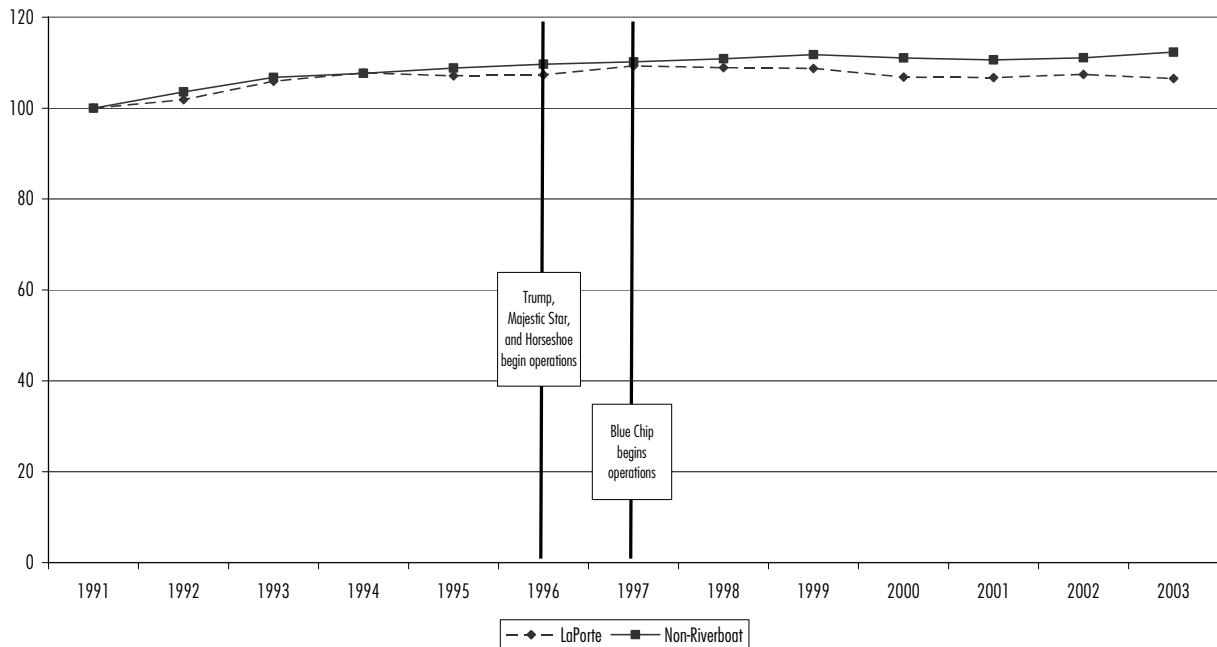
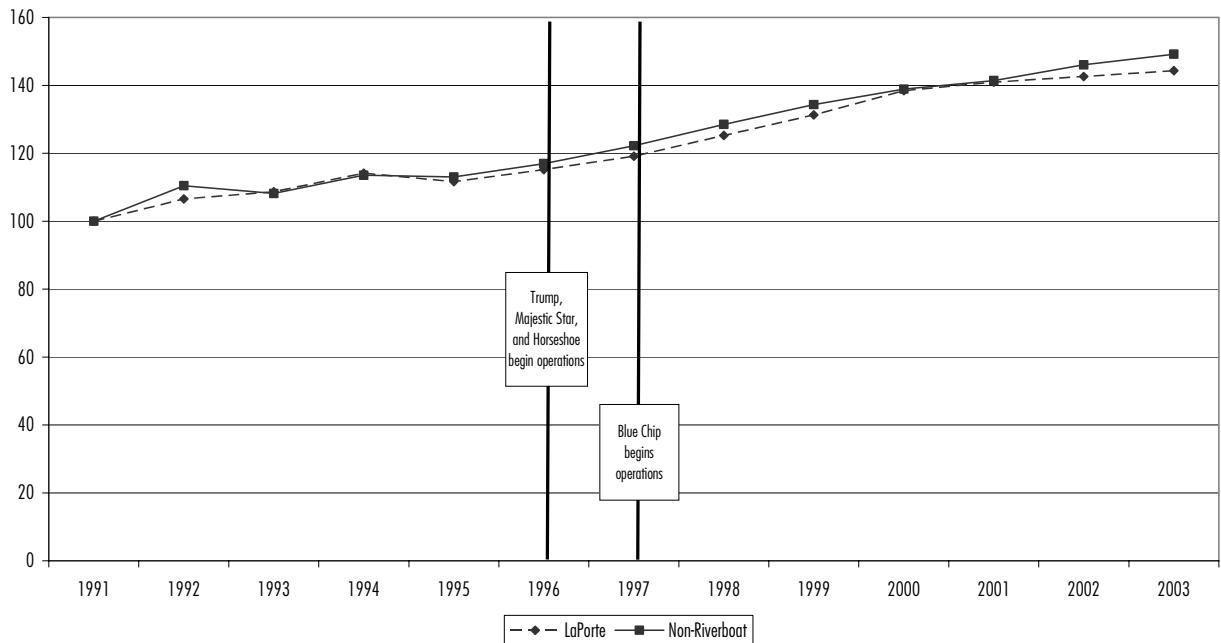




Figure 23 indicates that wages in La Porte County have increase fairly consistently since 1995. In fact, growth and decline in that county tend to mirror changes in the aggregated of non-riverboat counties. Those patterns reflect no observable effect of overall wages in La Porte County after the commencement of gaming in 1997.

Figure 23: Comparison of Trends in Average Wage



Inter-Industry Business Climate Change

This section of the analysis provides a perspective of the business climate at the major industry level. This perspective offers insight into whether or not specific industries within previously outlined sectors have experienced substantial changes in number of jobs, number of establishments, and average wage per job after the commencement of gaming.

While more insightful, analyzing the data at the industry level is also much more complex. Most of the complexity exists because of data suppression. The ES202 data are suppressed if an industry has less than three firms or if one firm accounts for over 80 percent of industry employment. Data are suppressed to protect the privacy of individual firms. Even when all data are disclosed, some industries are too small and volatile to recognize any consistent trends. As a result of these complexities, specific industries had to meet two criteria before being included in the analysis.

- Criterion 1: Data for specific industries had to be disclosed in at least two of the years between 1997 and 2002. To be included in the aggregate of non-riverboat county comparison, a specific industry within a given county had to be disclosed for every year between 1992 and 2002.
- Criterion 2: In addition to criterion 1, the number of jobs or establishments within specific industries had to account for at least 0.5 percent of the total for the county in at least one of the years between 1992 and 2002.



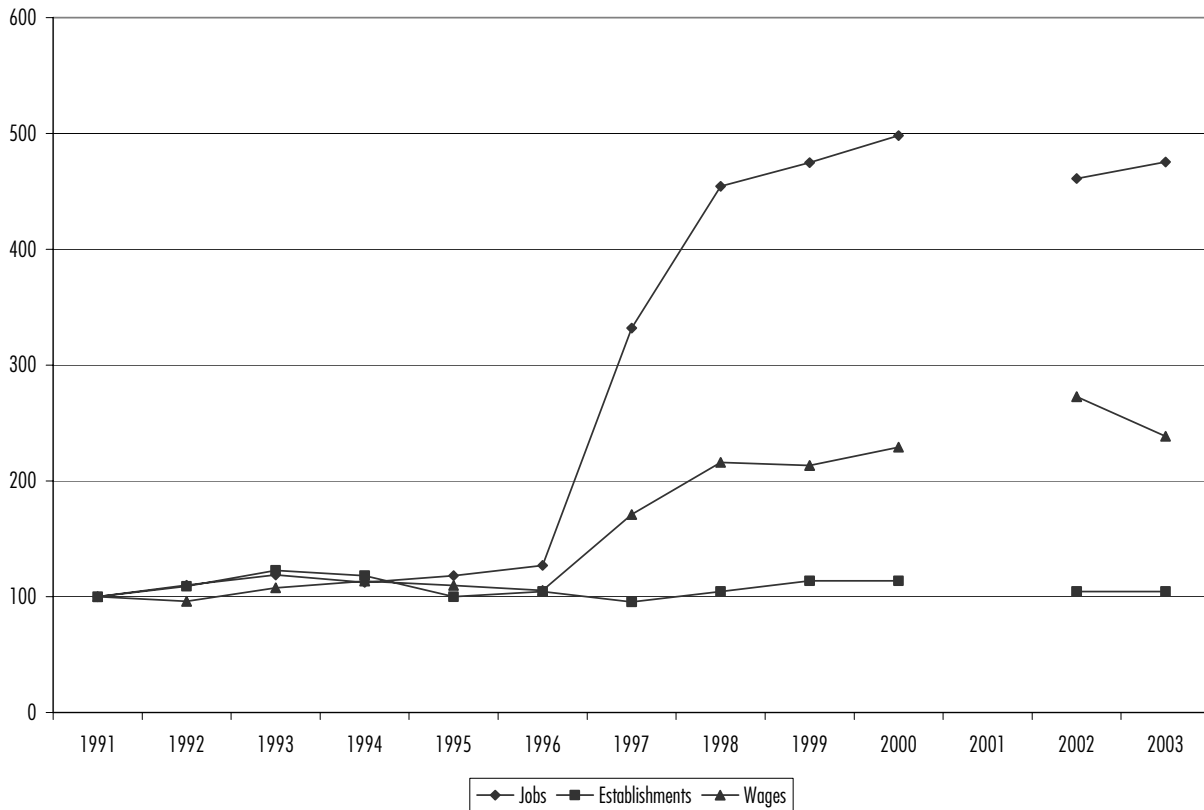
After meeting these criteria, the analysis began with a comparison of change in industry employment from 1992 to 1997 (before the riverboat), 1997 to 2002 (change after gaming). Based on the change during these time periods, a comparability index was constructed. The comparability index is equal to the percentage change in employment in La Porte County from one time period to the next time period minus the percentage change during the same time periods in the non-riverboat counties. This index measures whether or not an industry in La Porte County experienced comparable employment trends following the operation of the Blue Chip riverboat in Michigan City. If an industry had an index score less than -5 or greater than 5 between 1997 and 2002, it was examined further. Further examination of those industries focused on whether or not each showed observable change before and after 1997. Again, the focus of this analysis is on trends that show observable divergence from the aggregate non-riverboat comparison before and after the commencement of gaming activities. It is not a study of causal relationships of riverboat gaming.



Amusement, Gambling, and Recreation Industry

The Amusement, Gambling, and Recreation Industry was one of the industries that experienced considerable change in La Porte County in 1997.³ It deserves special attention because it is the industry in which the riverboat operations are assigned. Much of the change in this industry is certainly due to the addition of the riverboats in the county. As Figure 24⁴ indicates, there was a very large increase in employment while the number of establishments did not fluctuate as much. Wages also increased fairly drastically in 1997, the first year of riverboat gaming in La Porte County.

Figure 24: La Porte County Trends in Amusement, Gambling, and Recreation Industry (1991-2003)



Other Industries in Lake County Experiencing Considerable Change

Ten other industries were found to have observable changes following riverboat gaming in La Porte County that were not comparable to trends in the aggregate of non-riverboat counties.⁵ Table 13 identifies those industries. It also indicates the sector in which each industry is categorized and the absolute change in employment, number of establishments, and average wage from 1997 to 2002. Half of the industries that experienced divergent trends were within the Retail Trade sector (five industries). Only two of the

³ The trend lines take 1991 as the base year and compare each of the following years to those levels. Thus, 1991 as the base year is set to 100, and the subsequent years can be read as annual percentage changes from the base year, much like the consumer price index.

⁴ The break in data for 2001 reflects missing data due to disclosure policies.

⁵ See Appendix I for description of each industry



industries (Nursing and Residential Care Facilities and Rental and Leasing Services) did not experience a drop in jobs during the time period. Clothing and Clothing and Accessories Stores establishments had the greatest absolute drop in establishments. Health and Personal Care Stores and Rental and Leasing Services were the only two industries to experience a drop in wage post-1997. On average, Health and Personal Care Store wages dropped by over \$1,700. At the same time, Rental and Leasing Service jobs dropped by over \$14,500. Average Educational Services wage increased the most of any of the selected industries (\$8,119).

Table 13: Identified Industries and Summary of Changes

Industry	Employment Change 1997-2002	Establishment Change 1997-2002	Wage Change 1997-2002
Retail Trade Sector			
Clothing and Clothing Accessories Stores	-251	-13	\$1,982
General Merchandise Stores	-230	2	\$3,985
Gasoline Stations	-51	-7	\$2,384
Health and Personal Care Stores	-42	-5	-\$1,736
Non-store Retailers	-16	-2	\$2,941
Real Estate and Rental and Leasing Sector			
Rental and Leasing Services*	208	-5	-\$14,553
Educational Services Sector			
Educational Services	-270	3	\$8,119
Health Care and Social Services Sector			
Nursing and Residential Care Facilities	863	5	\$2,326
Other Services (Except Public Administration)			
Religious, Grant-making, Civic, Professional, and Similar Organizations	-98	-6	\$3,209
Public Administration			
Justice, Public Order, and Safety Activities	-149	0	\$3,699

* Data reflect change from 1997-2001 due to disclosure problems in 2002



Table 14 indicates the changes in employment in more detail for the selected industries. The first column after the industry name shows the actual employment in 2002. The next two columns show what employment in 2002 would be for each of the industries if: (1) each industry followed the same trend after 1997 as experienced from 1992 to 1997 and (2) each industry followed the same trend between 1997 and 2002 as did the aggregate of non-riverboat counties. The last two columns show the difference between the actual employment and the employment under the other scenarios, respectively. If the numbers in the last two columns are positive, then La Porte County is better off than it would be under either of the other scenarios. If the same numbers are negative, then that industry is worse off.

Table 14: Actual Employment in La Porte County 2002 Relative to Other Trends

Industry	Actual	Total Employment if Change in Employment Was Equal to:		Difference between Actual and:	
		Average 1992-1997 Trend in La Porte County	Trend in Aggregate Non-Riverboat Counties 1997-2002	1992-1997 Trend	Non-Riverboat Trend
Educational Services	2,587	3,391	3,191	-804	-604
Justice, Public Order, and Safety Activities	1,864	2,035	2,299	-171	-435
General Merchandise Stores	1,413	2,893	1,637	-1,480	-224
Clothing and Clothing Accessories Stores	615	1,135	774	-520	-159
Religious, Grant-making, Civic, Professional, and Similar Organizations	407	516	555	-109	-148
Health and Personal Care Stores	277	369	331	-92	-54
Gasoline Stations	420	522	460	-102	-40
Non-store Retailers	121	202	105	-81	16
Rental and Leasing Services*	406	233	199	173	207
Nursing and Residential Care Facilities	1,525	561	633	964	892

* Data reflect change from 1994-1997 and 1997-2001 due to disclosure problems prior to 1994 and after 2001

As shown, the Education Services industry was the largest employer in 2002 of the industries identified. That industry also experienced the largest absolute difference between actual employment and what employment would have been if it had grown at the same rate as non-riverboat counties. If Education Services would have grown at the same rate 1997-2002 as the non-riverboat counties (3,391), it would have surpassed the rate of the growth in the non-riverboat counties by 200 jobs. General Merchandise stores experienced the greatest change in the county after the riverboat; however, that change is likely reflected in a exceptional increase that occurred prior to 1997.

Non-store Retailers, Rental and Leasing Services, and Nursing and Residential Care Facilities all experienced increases in jobs faster than if they had changed at the same rate as the aggregate of non-riverboat counties. Nursing and Residential Care Facilities saw the greatest acceleration in jobs after 1997 of those identified. That industry is over 890 jobs greater than if it had followed previous county trends and the trends of the aggregate of the non-riverboat counties.

Table 15 compares the number of establishments for the selected industries. Eight of the 10 selected industries had fewer firms in 2002 than if change had occurred at the same pace as between 1992 and 1997.



Six industries had fewer establishments than if they had changed at the same rate as the aggregate of non-riverboat communities. The losses relative to the non-riverboat trends are fairly small. However, some of the changes relative to prior trends in the county are quite large. Those industries among that group that experienced fairly great deceleration in establishment growth after 1997 were: Religious, Grant-making, Civic, Professional, and Similar Organizations; Educational Services; and Non-store retailers. Non-store Retailers was the only industry that did not also experience slowed growth relative to the non-riverboat scenario. Industries that slowed relative to both scenarios include: Religious, Grant-making, Civic, Professional, and Similar Organizations; Gasoline Stations; Health and Personal Care Services; Educational Services; and Rental and Leasing Services. The industries that have more establishments than if they had performed like the aggregate of non-riverboat counties include: Non-store Retailers; Clothing and Clothing and Accessories Stores; and Nursing and Residential Care Facilities. Nursing and Residential Care Facilities was the only industry in which the number of establishments actually grew faster than both other scenarios.

Table 15: Number of Establishments in La Porte County 2002 Relative to Other Trends

Industry	Actual	Total Employment if Change in Employment Was Equal to:		Difference between Actual and:	
		Average 1992-1997 Trend in La Porte County	Trend in Aggregate Non-Riverboat Counties 1997-2002	1992-1997 Trend	Non-Riverboat Trend
Religious, Grant-making, Civic, Professional, and Similar Organizations	55	68	60	-13	-5
Gasoline Stations	54	74	58	-20	-4
Health and Personal Care Stores	22	27	25	-5	-3
Educational Services	45	61	48	-16	-3
Rental and Leasing Services	27	32	30	-5	-3
General Merchandise Stores	20	16	21	4	-1
Justice, Public Order, and Safety Activities	7	8	7	-1	0
Non-store Retailers	11	24	10	-13	1
Clothing and Clothing Accessories Stores	66	67	64	-1	2
Nursing and Residential Care Facilities	16	10	11	6	5

* Data reflect change from 1994-1997 and 1997-2001 due to disclosure problems prior to 1994 and after 2001



Table 16 compares the average wage per job for the selected industries. Health and Personal Care Stores and Nursing and Residential Care Facilities were the only identified industries that paid less on average than if the growth in wage per job had continued at the same rate as between 1991 and 1996. Those industries' wages also grew slower than what would have occurred under the aggregate non-riverboat scenario. Other industries that experienced wage growth slower than the aggregate of the non-riverboat counties were: Non-store Retailers; Justice, Public Order, and Safety Activities, and Rental and Leasing Services. All other selected industries' wages grew faster than both scenarios.

Table 16: Actual Wage in La Porte County 2002 Relative to Other Trends

Industry	Actual	Total Employment if Change in Employment Was Equal to:		Difference between Actual and:	
		Average 1992-1997 Trend in La Porte County	Trend in Aggregate Non-Riverboat Counties 1997-2002	1992-1997 Trend	Non-Riverboat Trend
Health and Personal Care Stores	\$17,555	\$18,729	\$22,047	\$(1,175)	\$(4,492)
Non-store Retailers	\$27,757	\$15,177	\$31,482	\$12,579	\$(3,725)
Nursing and Residential Care Facilities	\$21,004	\$25,837	\$24,106	\$(4,833)	\$(3,102)
Justice, Public Order, and Safety Activities	\$29,773	\$29,567	\$32,152	\$206	\$(2,379)
Rental and Leasing Services	\$16,104	\$13,680	\$17,887	\$2,424	\$(1,783)
Clothing and Clothing Accessories Stores	\$13,593	\$12,455	\$13,544	\$1,138	\$49
General Merchandise Stores	\$15,752	\$10,735	\$15,174	\$5,016	\$578
Gasoline Stations	\$15,221	\$14,560	\$14,618	\$661	\$603
Religious, Grant-making, Civic, Professional, and Similar Organizations	\$11,481	\$9,336	\$10,654	\$2,145	\$827
Educational Services	\$28,599	\$21,975	\$23,838	\$6,624	\$4,761

* Data reflect change from 1994-1997 and 1997-2001 due to disclosure problems prior to 1994 and after 2001

Change in Employment near Blue Chip

The comparable industry trend data do not exist for geographic boundaries lower than the county level. However, there are data that allow for comparisons to total employment, total number of establishments, and total wage by ZIP code. These data can be taken from the U.S. Bureau of the Census ZIP Business patterns. The ZIP code in which Blue Chip is located is 46360. It is a fairly large ZIP code, so a micro level analysis was not possible.

The 46360 zip code has experience growth in employment between 1997 and 2002 at a faster rate than the county as a whole (6 percent increases at the ZIP code versus loss of three percent for the county). The number of establishments have dropped nearby (-2 percent), but more slowly than the county. However, wages have not kept pace with the county as a whole. The 46460 ZIP code average increase in wage was six percent (not adjusting for inflation) versus 12 percent for the county as a whole between 1997 and 2002.



Summary of Business Impacts

Overall, the numbers of jobs and number of establishments in La Porte County have lagged compared to the trends in the aggregate of the non-riverboat counties. The lagged growth in jobs and establishments began before the commencement of gaming. Wage growth in La Porte County was comparable to wage growth in the aggregate of Non-Riverboat Counties.

Amusement, Gambling, and Recreation Industry was one of the industries that showed considerable change after gaming began in La Porte County in 1997. Obviously, the change is due to the addition of riverboats in the area. Employment and wages grew very rapidly in that industry post riverboat gaming.

Ten other industries met the criteria for analysis and showed considerable observable change in employment, number establishments, or wages near the time gaming commenced. Half of those industries were in the Retail Sectors. It is impossible to argue that all of the observable changes documented here occurred because riverboats opened during that time period. Causal relationship between gaming commencement and other industry change is beyond the scope of this report. This study, however, provides an understanding of what the business climate is in a county that receives fairly large investments and much attention as a result of gaming in the community.

Table 17 provides a summary of change in selected industries, which exhibited considerable change around the same time as the commencement of gaming. Specifically, the table shows whether or not an industry had positive change after the commencement of gaming relative to the change in only La Porte County five years prior (LaPorte), relative to only the aggregate of non-riverboat counties (non-riverboat), relative to both the change in the county five years prior and the change five years after in the non-riverboat counties (both), or positive change relative to neither of the two scenarios (neither). The bottom section of the table shows the count by employment, establishment, and wage. The table also scores each industry. The score is the sum of the three indicators based on the following conditions: Lake (1 point), Non-riverboat (1 point), Both (2 points), and Neither (-2 points).

Table 17: Summary of Relative Change by Selected Industries

Industry	Jobs	Establishments	Wage	Score
Health and Personal Care Stores	Neither	Neither	Neither	-6
Gasoline Stations	Neither	Neither	Both	-4
Educational Services	Neither	Neither	Both	-2
Clothing and Clothing Accessories Stores	Neither	Non-Riverboat	Both	1
General Merchandise Stores	Neither	LaPorte	Both	1
Rental and Leasing Services	Both	Neither	LaPorte	1
Justice, Public Order, and Safety Activities	Both	Neither	LaPorte	1
Nursing and Residential Care Facilities	Both	Both	Neither	2
Religious, Grant-making, Civic, Professional, and Similar Organizations	Both	Neither	Both	2
Non-store Retailers	Non-Riverboat	Non-Riverboat	LaPorte	3
Both	4	1	5	
LaPorte	5	1	3	
Non-Riverboat	1	2	0	
Neither	0	6	2	



Most of the selected industries grew at a slower rate after the beginning of gaming operations, but faster than the non-riverboat trend for the same time period. Four industries performed better than both before gaming operations in the county began and the non-riverboat trend. Most of the industries' wages per job grew faster than they would have in the scenarios (trend in La Porte County before gaming and trend of non-riverboat gaming).

Three industries scored negatively on the growth scoring indicator explained previously. Those industries include: Health and Personal Care Stores; Gasoline Stations, and Educational Services. Health and Personal Care Stores was the only industry perform worse through all indicators than would have been experience if growth would have occurred at the same rate as before gaming in the county or at the same rate as the non-riverboat counties. Industries that place positively based on scoring include: Clothing and Clothing Accessories Stores; General Merchandise Stores; Rental and Leasing Services; Justice, Public Order, and Safety Activities; Nursing and Residential Care Facilities; Religious, Grant-making, Civic, Professional, and Similar Organizations; and Non-store Retailers.

A micro level analysis was not possible for this riverboat. However, ZIP code level data indicate that jobs grew faster near the riverboat than for La Porte County as a whole. The number of establishments dropped, but dropped at slow rate than the rest of the county. Finally, wage growth nearby did not keep pace with the county as a whole.





Current Financial Position and Future Plans

Blue Chip Casino L.L.C. located in Michigan City has applied for the renewal of its gaming license in Indiana. Blue Chip Casino is a wholly owned subsidiary of Boyd Gaming Corporation, a publicly traded company. Blue Chip Casino was acquired by Boyd Gaming Corporation in November 1999.

This section provides the Indiana Gaming Commission with an assessment of the business. This assessment is organized in three parts. First, the operating performance of the Blue Chip Casino, both historic and projected, is evaluated. Second, the financial strength of the parent company is assessed relative to peers. Third and final, is a summary and a recommendation.

Blue Chip Casino

In the initial capital investment plan for the Michigan City property, Blue Chip was committed to spend about \$87 million. As of November 1999, the property represented a total investment of \$110 million. Boyd acquired Blue Chip for about \$275 million. The company carries an intangible asset on its balance sheet valued at \$158 million, an amount that reflects the unamortized premium over book value that Boyd paid for the Blue Chip operation at the time of acquisition in 1999. A hotel with 118 rooms was completed in February 2000 for a total capitalized cost of approximately \$20 million. The capital investment in Michigan City had a net book value at the end of 2004 of approximately \$153 million.

The Michigan City facility has 42,500 square feet of gaming space with 1,721 slot machines and 51 table games. The Blue Chip facility achieved an annual attendance in excess of 2.66 million patrons in fiscal 2004 versus an average for all Indiana boats of 2.65 million and achieved an average WIN per patron of \$84.47 in 2004 versus an average for all Indiana boats of \$87.14. Since the first full year of dockside gaming in 2002, revenue for the Blue Chip facility has increased by about 11 percent or at an annual rate of about 5 percent. The Michigan City facility generated about 14 percent of total revenue for Boyd Gaming and almost 19 percent of its operating profit from its wholly owned properties in calendar year 2004.

Operating Performance

Three financial ratios are used in this assessment of the operating performance of the Michigan City facility. The ratios are the Revenue to Total Assets ratio, the Cash flow (EBITDA) to Revenue margin and measures of financial leverage. The Michigan City facility is a wholly owned subsidiary of Boyd Gaming. The parent company does not allocate debt or interest expense back to the level of the operating unit. Therefore, the annual income statement for Blue Chip L.L.C. shows no interest expense or income tax expense. Additionally, the balance sheet reflects no long-term debt and the shareholders equity account has been essentially constant at about \$275 million, which was the price Boyd Gaming paid for Blue Chip Casino, since November 1999. In other words, all income generated by the Blue Chip subsidiary is paid annually as a dividend to the parent. The parent company, in turn, uses the “dividend” to pay interest expense and income taxes associated with the operation of the Michigan City facility. The assets and cash flows of all the wholly owned subsidiaries secure the debt outstanding on the parent company’s balance sheet.

Ratios summarizing the financial performance for Blue Chip for 2002 and 2004 are presented in Table 18. During the three-year period ending December 2004, annual revenues increased from \$184.2 million



realized in 2001 to reach \$234.6 million in 2004 for an average annual growth rate of about 9 percent. Since 2001, the book value of total assets in Michigan City increased by about 11 percent in total. Annual revenue generated was steady at about 72 percent of the total asset investment. It is clear from the increase in total assets and the increase in equity that the Michigan City facility is undergoing an expansion and renovation project. The project has a total expected cost of \$163 million and will result in a new boat, and parking structure. Additionally, the existing pavilion will be reconfigured. The Michigan City facility generated an average operating cash flow margin on total revenue EBITDA/Total Revenue of about 38 percent, which is an extraordinary level of cash flow on revenues for a gaming operation in Indiana. The margin declined in the last two years to 35 percent in 2004 as casino expenses increased as a percent of gaming revenues. This is likely attributable to higher gaming taxes.

As the parent company does not assign debt contracts to the level of the individual properties, there is no way to quantify the amount of leverage used in the Michigan City property. The debt obligations of the parent company are collateralized by all of the wholly owned properties. An assessment of the relative indebtedness of the parent will be presented in the section of this report that pertains to the financial strength of the parent company, Boyd Gaming.

Table 18: Financial Performance

Revenue (\$ millions)	2002	2004
Total Revenues	\$211.9	\$234.6
Casino Revenues	207.6	230.6
Less Promotional Allowances	11.7	14.4
Net Casino Revenue	195.9	216.2
Casino Expenses	79.1	100.6
EBITDA	92.2	82.04
Pre-tax Income	81.9	70.7
Balance Sheet Accounts		
Total Assets	293.2	323.1
Land, Improvements, Building	102.9	153.2
Equity	275.6	294.7
Ratios		
Revenue/Total Assets	0.72	0.73
EBITDA/Revenue (%)	43.5	34.97
LTD/EBIDTA	NA	NA

Performance of Blue Chip versus Other Indiana Licenses

Financial performance measures for Boyd's Blue Chip Casino for 2002-2004 are summarized in Table 19 along with similar measures for two other Indiana facilities that have recently been approved for re-licensing, Harrah's (Resorts) East Chicago and Horseshoe (Harrah's). Blue Chip Casino has achieved about the same level of revenue relative to total assets than the other two companies but a markedly higher level of operating cash flow (EBITDA) relative to revenues. For all three properties, the cash flow margin declined during the period, likely a reflection of increased competition and higher gaming taxes.



Table 19: Blue Chip Relative to Other Indiana Riverboats

	2002	2003	2004
Horseshoe (Harrah's)			
Revenue/Total Assets	0.77	0.78	NA
EBITDA/Revenue %	21.23	17.22	NA
Long Term Debt/EBITDA	5.84	6.70	NA
Harrah's (Resorts) East Chicago			
Revenue/Total Assets	0.74	0.70	0.76
EBITDA/Revenue %	26.05	20.24	20.79
Long Term Debt/EBITDA	3.02	3.58	2.25
Blue Chip			
Revenue/Total Assets	0.72	0.76	0.73
EBITDA/Revenue %	43.5	37.1	34.97
Long Term Debt/EBITDA	NA	NA	NS

In Table 20, various measures of gaming activity are presented for Blue Chip and the peer riverboat operations in Indiana. Blue Chip is the smallest of the three in terms of number of slot machines. Blue Chip enjoys an above average slot WIN per day but has a below average number of slot machines. Part of the expansion project that is underway is to expand the slot capacity in Michigan City. The expansion should be an effective strategy for protecting and increasing top line revenue growth for Blue Chip.

Table 20: Blue Chip versus Peers in Indiana Fiscal Year 2004

	Harrah's	Blue Chip	Horseshoe	Indiana Average
Admissions (millions)	4.01	2.66	3.95	2.65
Win (\$ millions)	4312.70	\$224.90	\$362.10	\$231.30
Gaming Tax Rate	34.10%	31.89%	34.10%	32.08%
Slots	1,909	1,721	2,007	1,801
Win per Slot per Day	\$371	\$317	\$398	\$293
Win per Position per Day	\$372	\$304	\$491	\$352

Forecasted Performance

For the three-year period 2005-2007, Blue Chip's management forecasts a 32 percent increase in total annual revenue and the completion of the large capital expansion project which started in 2004 (Table 21). The project, called the Barge Project, has a total forecasted cost of \$163 million. The expansion project is designed to reduce the risk to the Michigan City facility of the potential Pokagon Casino in New Buffalo, Michigan which is expected to open by the end of 2006 or early 2007. In March 2005, US District Judge James Robertson ruled in favor of the Pokagon Band of Potawatomi Indians bid to build a casino near New Buffalo. The tribe has created a partnership with Lakes Entertainment, Inc. to build a casino with 144,000 square feet of gaming space with 3,000 slot machines and 100 table games. The total project is expected to cost \$200 million. The site is ten miles from the Blue Chip casino and is expected to draw customers from southwest Michigan. The renovation of the casino space at Blue Chip to one story from a three-story facility is expected to improve the competitiveness of the facility relative to the land-based Indian casino.



Annual operating cash flow for Blue Chip is forecasted to increase dramatically in 2006 but decline in the 2007–2008 period as gaming revenues decline. Management believes that the new Indian casino will result in a decline in revenues in 2007 of about 5 percent. That decline is expected to continue into 2008 (not shown in table).

Table 21: Projected Financials for Blue Chip Casino (\$ in millions)

	2005	2006	2007
Total Revenue	\$251.7	\$328.3	\$310.5
Total Assets	310.6	411.6	411.6
Long Term Debt	0	0	0
Equity	295.1	396.1	3,396.1
Interest Expense	0	0	0
EBITDA	85.1	111.0	104.9
Ratio			
Revenue/Total Assets	0.81	0.80	0.75
EBITDA/Revenue (%)	33.8	33.8	33.8
LTD EBITDA	NA	NA	NA

Total projected after tax cash flow (Net Income plus depreciation) for the three-year period (2005–2007) is \$201.7 million with planned maintenance plus expansion capital expenditures of \$121.5 million (Table 22). Thus, expected excess cumulative free cash flow for the period is about \$80.2 million, all of which will be returned to the parent company. Blue Chip is expected to generate cash flow from operations, which will be sufficient to cover expansion capital investments in the next three years.

Table 22: Free Cash Flow from Blue Chip Casino (\$ in millions)

	2005	2006	2007	2008
Total Revenue	251.7	2328.3	310.5	282.9
EBITDA	85.1	111.0	104.9	95.6
Depreciation	11.7	20.5	20.6	18.8
Profit Before Tax	73.4	90.5	84.3	76.8
Tax @ 40%	29.4	36.2	33.7	30.7
Profit After Tax	44	54.3	50.6	46.1
Plus Depreciation	11.7	20.5	20.6	18.8
Less Capital Expenditure	87.5	27.0	7.0	7.0
Less Debt Repayment	-	-	-	-
Free Cash Flow	-31.8	47.8	64.2	57.9
Distribution to/from Parent	31.8	-47.8	-64.2	-57.9

Boyd Gaming Corporation

Boyd Gaming is a diversified gaming entertainment company operating 11 wholly owned gaming entertainment properties in Las Vegas and 6 properties outside of Nevada and one joint venture. The joint venture, the Borgata, is a \$1.1 billion development in Atlantic City with MGM Mirage. The joint venture project in Atlantic City has significantly increased the value of assets managed by the company. Boyd was obligated to make a capital investment in the project of \$207 million as was its partner MGM Mirage. The



investment was recorded on the books using the equity method and the \$621 million in debt invested in the project came from a bank credit agreement, which will be non-recourse to both Boyd and MGM Mirage. Boyd has no financial obligation to support the project beyond an unlimited completion guarantee.

Boyd Gaming emphasizes slot machine play, which they indicate is “highly dependent on the volume of customers who visit the facilities. A summary of financial information for Boyd Gaming is presented in Exhibit 6. Boyd has generated total revenues in excess of \$1.2 billion in each of the last three years on assets greater than \$1.8 billion. The company acquired Coast Hotel and Casino in 2004 and increased its asset base substantially. The company earned a cash flow (EBITDA) return on revenue of just above 21 percent on average.

In 2005, Borgato had approximately \$1 billion of capital expenditures planned. A Phase I expansion of the Borgato, will require an investment of \$200 million. Boyd also is currently planning expansions of its South Coast Hotel and Casino in Las Vegas at a total cost of \$600 million and its Stardust site in Las Vegas at an undisclosed cost. All of these projects will be funded through cash flow and existing debt capacity of Boyd Gaming. From a financial risk point of view, Boyd Gaming is highly levered but has had ample cash flow to service its debts and have cash flow available to fund capital expenditures which are targeted at improving rather than simply maintaining its gaming properties.

Boyd Gaming describes itself as a multi-jurisdictional gaming company that has successfully operated for over 25 years. An unusual characteristic of Boyd Gaming Corporation is that the Boyd family and insiders own 51 percent of the common stock outstanding. Mr. William S. Boyd, Chairman and CEO, is 70 years old. Several members of the Boyd family are actively involved in the management of the company.

Table 23: Boyd Gaming Corporation Selected balance Sheet and Cash Flow Information(\$000,000)

	2002	2003	2004
Total Revenue	\$1,357	\$1,253	\$1,734
EBITDA	254.5	243	432
Depreciation Expense	90.1	94.2	136
Capital Expenditures	70.9	81.5	268.8
Interest Expense	72.9	74.5	102
Long Term Debt	1,227	1,098	2,304
Ratios			
EBITDA/Revenue	18.75%	19.39%	24.91%
EBITDA/Interest Expense	3.49	3.26	4.24
Long Term debt/EBITDA	4.82	4.52	5.33

Boyd Gaming versus Peers

In Table 24, data summarizing the financial performance for Boyd and peer gaming companies with operations in Indiana are presented for 2004. Boyd Gaming is a mid-sized company in this group at annual revenues of about \$1.7 billion. Its cash flow margin at 24.9 percent ranks it third in the group of large gaming companies. The most distinctive characteristic of Boyd relative to the peer companies is that it is very highly levered with long-term debt that is more than 5 times EBITDA. But the other measure of



leverage, the coverage ratio of EBITDA/Interest Expense is not out of line relative to the peer group, reflecting the high level of cash flow generated by the Boyd properties.

Based on this comparison, one would say that Boyd is highly levered but has the cash flow generating potential to be able to comfortably service its long-term debt. And while Boyd has plans to make major capital expenditures in the next several years, the company claims to be able to fund the expenditures out of cash flow and established credit facilities. The capital expenditure plans reflect a high level of management confidence in its ability to generate future cash flows. In mid-2005, Boyd was active in the long-term debt market, restructuring its debt contracts to create the capacity needed and to refinance contracts to reduce the level of interest expense.

Table 24: Boyd Comparison with Other Gaming Companies 2004 (\$ in millions)

	Annual Net Revenue	EBITDA	LTDebt/ EBITDA	EBITDA/ Interest	EBITDA/ Revenue
Aztar	\$947	\$159.69	4.17	4.39	16.86%
Boyd	\$1,700	\$432	5.33	4.24	24.91%
Harrah's	\$4,470	\$1,140	4.35	4.86	25.50%
Caesars	\$4,500	\$1,140	3.67	3.42	25.33%
Penn National Gaming (Argosy)	\$1,160	\$280	3.19	3.72	24.18%

A summary of the long-term debt contracts that Boyd Gaming had outstanding at the end of 2004 is provided in Table 25. The primary difference between the total amount of debt listed in Exhibit 8 and the amount shown in Exhibit 6 is the total of operating leases and other debt obligations that Boyd has. The lease obligations resulted from contracts that were acquired with the Coast acquisition.

Table 25: Boyd Gaming Debt Outstanding December 31, 2004 (\$ in millions)

	Amount
Bank Credit Facility	\$1,180
9.25% Senior Note due 2009	200
8.75% Senior Note due 2012	250
7.75% Senior Note due 2012	300
6.75% Senior Note due 2014	350
Other Debt	30.9
Operating Lease	548
Total	\$2,858

Summary and Conclusion

Blue Chip Casino produced outstanding operating results in the last three years. The facility is a significant contributor to the cash flow of the parent and the importance of the property is highlighted by the expansion plans that have been made to counteract the impact on the Michigan City property of the potential entrance of a new competitor in the market. Boyd is investing a large amount to create the asset base for substantial growth in earnings in the future and while currently using a fairly high amount of leverage, the company is well positioned in the debt market and has adequate cash flow to service its existing debt burden.