

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

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Introduction

The Riverboat Gambling Act, effective July 1, 1993, authorized the Indiana Gaming Commission to issue licenses for the express purpose of riverboat gambling in the state of Indiana. One of the statutory criteria for issuance of these licenses is the applicant's ability to promote economic development in the home dock area while best serving the interest of the citizens of Indiana. As an aid to fulfilling its legislative requirements, the Indiana Gaming Commission (Commission) contracted with the Center for Urban Policy and the Environment (Center) of Indiana University's School of Public and Environmental Affairs to perform the economic impact, fiscal impact, financial, management, and other analyses required to assist the Commission in awarding licenses. As part of that contract, the Center has committed to monitor over time the economic impacts and fiscal returns from each riverboat operation.

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

Project Development and Investment

Development Activities

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

The 2,683-passenger riverboat opened with 35,000 square-feet of gaming space. A 108,000-square-foot permanent pavilion and a 1,200-space parking garage were completed and opened with the launching of the riverboat. The size and scope of the pavilion and current parking garage are as described in the license application. Construction on a 200-room hotel was scheduled to begin immediately after substantial completion of the Guest Pavilion. Construction on the hotel is planned to begin within the next 12 months.

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

Development	Certificate of Suitability	Actual	Difference
Empress III riverboat, guest pavilion, 1,200-space parking garage, surface parking lot and overpass, and various feeder and service roads	\$112,000	\$127,900	\$15,900
200-room hotel and conference center	10,000	0	(10,000)
Commercial development within the greater Hammond area	10,000	0	(10,000)
Renovation of existing housing and construction of new market-rate housing in the greater Hammond area	5,000	0	(5,000)
TOTAL DEVELOPMENT	\$137,000	\$127,900	(\$9,100)

As Table 1 illustrates, Empress spent \$15.9 million more than agreed to in the certificate for the basic development of the project (riverboat, pavilion, garage, etc.) and \$9.1 million less than the total agreed development. In addition, they have begun construction on a helix parking garage that will be completed in late 1997 at a cost of \$6.5 million.¹ The certificate indicated that projects for the commercial development were to be formulated during 1996 and implemented starting in 1997 and continuing thereafter. Currently, Empress has hired Arthur Andersen to identify projects. The certificate also indicated that the renovation and construction of housing was to be formulated in 1996 and implemented in 1997. Empress

¹ Construction has been completed prior to publication of this report.

recently began discussions with the city to meet this commitment although no projects have been identified to date. The city and Empress are actively negotiating to determine the best way to implement these projects.

Other Commitments

Table 2: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Through 6/30/97	Status
A) Expanded capacity sewer and lift station	\$500,000	City of Hammond	\$500,000	Completed
B) Robertsdale lift station improvements	\$150,000	City of Hammond	\$150,000	Completed
C) Contributions for public safety and to promote economic development	\$1,250,000 (\$250,000 per year for 5 years paid in two annual installments)	City of Whiting	\$250,000	Current
D) Purchase 6.5 acres from NIPSCO for Lakefront Park and Sanctuary	\$2,750,000	Hammond Parks Foundation	\$2,750,000	Completed
E) Upkeep of the Milwaukee Clipper	\$500,000*	Milwaukee Clipper	\$500,000	Completed
F) Construction of new building	\$2,750,000*	Hammond Port Authority	\$2,750,000	Committed
G) Transport Milwaukee Clipper out of Marina	\$750,000*	Milwaukee Clipper	\$750,000	Completed
H) Donation	\$750,000*	Nurseryland Foundation	\$750,000	Completed
I) Donation	\$250,000*	Harbor House	\$250,000	Completed
J) Donation	\$1,000,000	Hammond Community Corporation	\$1,068,750	Pending
K) Payment to support cost of additional police, fire, etc.	Up to \$1,000,000 per year	City of Hammond	\$796,213	Current
L) Bond shortfall payments	Not specified	Hammond Marina	\$2,250,000	Current
M) Lease	\$1 per admission	Hammond Port Authority	\$5,147,549	Current
N) Ongoing payments	4% on 1 st \$125 million AGR; 6% on \$125-\$200 million; 4% on excess over \$200 million	City of Hammond	\$8,598,899	Current
O) Establish incubator program	\$1,000,000	Not-for-profit corporation	\$1,000,000	Pending ²
P) Donation	Not in certificate	Hammond Development Corporation	\$50,000 annually	First year payment/donation made

*Part of original \$5 million Milwaukee Clipper commitment

² Paid after June 29, 1997.

As Table 2 illustrates, Empress is current with regard to all of the additional commitments except for the incubator program. Hammond promised to establish and provide \$1 million funding for a not-for-profit corporation to select grant recipients for the incubator program. A committee has been formed but no action has been taken. In addition, they made a donation to the Hammond Development Corporation of \$50,000. This was not promised in the certificate of suitability.

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

Table 3: Hammond Appropriations from Gaming Revenues in 1996-1997 (\$000's)

Engineering and construction of streets—\$3 million per City Council District	\$18,000
Street Department—7 trucks	700
Sanitation Department—4 garbage trucks	500
Other capital equipment	845
Repairs and replacement	555
Black top/streetscape alley repair	800
Neighborhood development	350
Civic Center/Parks	1,210
Criminal justice facility	300
Education	625
Economic development	700
Reduction debt service	2,415
Shared 10% for highways	1,697
Total Appropriated Funds	\$28,697

Community Activity

Empress has contributed \$1,151,000 in corporate sponsorships, in-kind donations, and monetary contributions to over 300 organizations including \$12,500 to the Lake Area United Way. Empress has pledged \$25,000 to the United Way for 1997. They currently are in the process of setting up an employee campaign that may start in August 1997. Empress's senior management is involved in more than 35 local organizations and is represented on many boards of directors in the Hammond area, including: the Northwest Indiana Forum, the Hammond Boys & Girls Club, the Hammond Chamber of Commerce, the Whiting/Robertsdale Chamber of Commerce, Calumet College of St. Joseph, Riverboat Gaming Maritime Association, and the Purdue Alumni Association Calumet. Empress has sponsored many downtown events including: Hammond Augustfest, Venetian Nights at the Hammond Marina, Hammond Holiday Parade, Whiting/Robertsdale Parade of Lights, Whiting Fourth of July Parade, Keep Hammond Beautiful, the Winter Magic Festival, and the Little Red Schoolhouse Parade and Festival.

Minority/Women Business Enterprise

In the Indiana riverboat legislation, the Indiana General Assembly stated that the opportunity for full enterprise participation in the riverboat industry for minorities and women is essential if social and economic parity for all citizens is to be obtained and if the economies of the riverboat cities are to be stimulated as contemplated by this legislation. Empress committed to meet the goals of the legislation in their first year. According to their goals, Empress indicated that they would expend ten percent of the dollar value of their contracts for goods and services provided by minority-owned businesses and five percent from women-owned businesses. The Commission, through the Indiana Department of Administration's Office of Minority Business Development (OMBD), has established and administers a unified certification procedure for minority- and women-owned enterprises that conduct business with riverboat operations.

OMBD currently is reviewing the information provided by Empress to determine compliance.

Economic and Fiscal Impacts

Employment and Earnings Impacts

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

As Table 4 indicates, Empress estimated in its application employment of 773 persons in the casino for annual wages totaling approximately \$23.7 million. Estimates for hotel employment were not included. As of June 30, 1997, Empress had 1,695 employees, more than twice their original estimate. For 1996-1997, salaries and wages were \$31.3 million, including tips to dealers (but not to bar and wait staff). Ninety-eight percent of total wages were paid to full-time employees. Full- and part-time employees receive benefits.

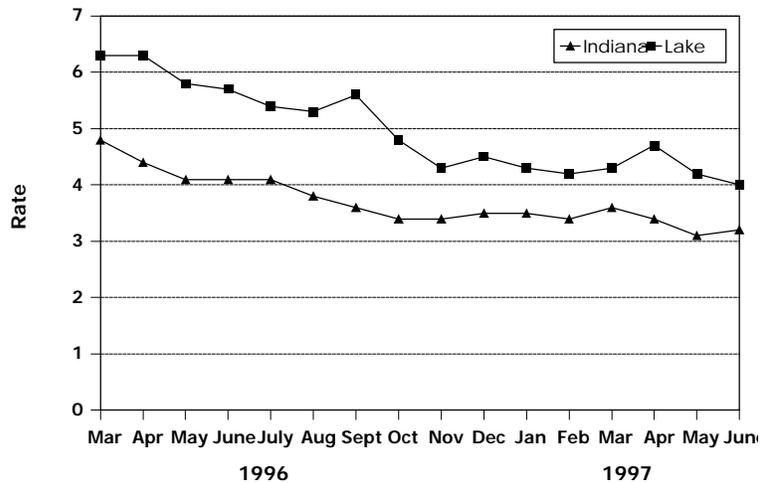
Table 4: Comparison of Forecast to Actual Empress Operation

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

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

As Figure 1 illustrates, Lake County's unemployment rate has decreased since 1996, as has the state unemployment rate. Obviously, the opening of riverboats in the area had an effect on unemployment as well as the overall growth of the economy in the region.

As of June 30, 1997, 53 percent of Empress employees were women, 35 percent were minorities, and 51 percent were from Hammond. Twenty-one percent of employees came from out-of-state. In their application, Empress did not state specific employment goals.

Figure 1: Unemployment Rate: Indiana and Lake County

As Table 4 illustrates, in 1996, Empress had adjusted gross gaming receipts of \$185 million, or 24 percent more than their application estimate. They had total gross revenues (includes casino, food and beverage, parking, gift shop and other revenues) of \$197 million, \$32 million more than the \$165 million estimated in their application. Though their attendance was significantly greater than expected (65 percent), Empress overestimated the receipts per passenger per trip. Total local taxes (city and county admission taxes plus local gaming tax) were \$19.5 million, or \$5.8 million more than the projection of \$13.7 million in Empress's application.

Local Economic Impact

In addition to the gaming taxes paid to the city and state, Empress paid \$224,704 in sales and use taxes and \$341,646 in property taxes. Payroll of \$31.3 million and local purchases of \$8,292,050 million also contributed to the local economy. Empress's marketing department has participated in several cooperative advertising ventures with local merchants and organizations. City officials indicated that two new restaurants opened as a result of the riverboat and that three new hotels are planned.

Impact on Tourism

Through June 30, 1997, Indiana residents made less than 20 percent of the trips to Empress. In 1996-1997, Empress had 5.1 million paid admissions. This attendance is more than 2 million greater than Empress's attendance projection in their application. The Empress has provided complimentary space in its pavilion for a Lake County Convention and Visitors Information Center. Located in a highly visible area, the Center handles numerous reservations for local hotels and restaurants.

According to the Lake County Convention and Visitors Bureau, hotel occupancy in Lake County has increased 13 percent from 1996 to 1997. The Convention and Visitors Bureau attributes this to the increased visitation to the Lake County riverboats. It is impossible at this time to determine which of the Lake County riverboats these visitors attended. Both Empress and Trump plan to begin construction of their own hotels this year.

Legal Issues

Empress was sued seven times. Two of the suits involved an employee of the marine department who was injured in the course of his duties. Another two suits involved guests who were injured. Other cases involved a national origin discrimination claim; a suit regarding toke distribution; and a declaratory judgment action to determine whether or not a shareholders agreement covered the board of directors. There were a total of 28 arrests for incidences on Empress property in 1996-1997. The largest category was disorderly conduct. Less than .0006 percent of visits in 1996 resulted in a citation or arrest.

According to Hammond's chief of police, the neighborhood surrounding the riverboat has not experienced additional criminal activity that can be attributed to Empress's presence. In addition, the crime rate in Hammond has decreased in every category from 1996 to 1997.

Other Impacts

There are other possible impacts that can result from the location of a riverboat in a community. For example, compulsive gambling might become a problem. There also might be decreases in patronage for existing businesses, higher rates of bankruptcy, and a greater need for social services. From July 1996 to June 30, 1997, 36 calls for help with gambling problems were made by Lake County residents to the "Deal With It" line that's contracted through the Commission for a Drug Free Indiana. There also have been five calls from LaPorte County, four calls from Porter County, and 24 calls from Chicago. This rate is double last year's rate. Eight patients already have sought treatment for compulsive gambling in Northwest Indiana's mental health centers. Commission for a Drug Free Indiana has contracted a study that will examine whether or not this increase is directly attributable to riverboat gambling.

In some smaller communities, we expect an impact on housing starts, school enrollment, and other factors from the additional employees moving into the area. Because three riverboats opened almost simultaneously, it is not possible to discern individual impacts. Even so, we did examine school enrollments in Lake County and Hammond and found that they declined slightly in Lake County (-2.2 percent) and increased at comparable rates as previous years in Hammond (1.2 percent).

Empress has made efforts to minimize the negative impacts of gambling. They have contracted with two local organizations that treat compulsive gambling to provide a one-hour training course to all of their employees. This training will assist employees in identifying possible compulsive gamblers among patrons and employees.

Summary of Findings

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

- Empress spent a total of \$127.9 million on the basic development of the project, \$15.9 million more than estimated.
- Empress is on schedule with almost all of its incentive payments.
- Empress has sponsored many community events, their senior management is represented on many boards, and they contributed \$12,500 to United Way.
- Employment totaled 1,695 employees, more than twice the amount projected, and wages, benefits, and tips were \$31 million, one-third greater than projections.
- Even though they did not state specific employment goals, 35 percent of Empress employees were minorities and 51 percent were from Hammond.
- Empress paid \$13.2 million more in gaming taxes than projected.
- In addition to the gaming taxes, Empress paid \$224,704 in sales and use taxes and \$341,646 in property taxes.
- According to the Hammond Chief of Police, the neighborhood surrounding the riverboat has not experienced additional criminal activity that can be attributed to Empress's presence. In fact, crime in Hammond has decreased.
- Empress has been proactive in developing programs for compulsive gambling.

Empress has not met its projections in the following areas:

- \$10 million worth of commercial development projects within the greater Hammond area were to be formulated during 1996 and implemented in 1997 and thereafter. No projects have been identified, formulated, or undertaken to date. However, Empress has hired Arthur Andersen to identify projects.³
- Renovation of existing housing and construction of new market-rate housing totaling \$5 million also was to be formulated in 1996 and implemented in 1997. Currently Empress is beginning discussions with the city to meet this commitment but no projects have been identified.³

³ The City and Empress are actively negotiating to determine the best way to implement these projects.

- Construction of a 200-room hotel was scheduled to begin immediately after substantial completion of the Guest Pavilion but was not undertaken. Construction is planned to begin within the next year.³
- Empress promised to establish and provide \$1 million funding for a not-for-profit corporation to select grant recipients for the incubator program. A committee has been formed but no action has been taken.⁴

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

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

⁴ The \$1 million has been paid to the city subsequent to June 29, 1997.