

Third Year Evaluation of Riverboat Licensee for Hammond, Indiana: Empress Casino Hammond Corporation July 1998-December 1999

June 2000

Introduction.....	0
Project Development and Investment.....	1
Development Activities.....	1
Other Commitments.....	2
Community Activity.....	4
Minority/Women Business Enterprise.....	4
Economic and Fiscal Impacts.....	4
Employment and Earnings Impacts.....	4
Local Economic Impact.....	7
Impact on Tourism.....	8
Legal Issues.....	8
Other Impacts.....	8
Summary of Findings.....	8

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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. Following its second year of operation, Empress Casino Hammond Corporation entered into negotiations with Horseshoe Gaming Holding Corporation for the transfer of ownership. The sale was finalized in November 1999. The previous reports were based on the first two years of operation. The Center and Commission are currently in the process of converting all of the evaluation reports to a calendar year basis. In this interim period, this report will cover the last 18 months of operation, but, unless otherwise noted, will consider 1999 its third year of operation for comparison purposes.

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 fourth deck was added in the second year, which brought the capacity of crew and passengers to 3,240 and gaming square footage to 42,573. A 107,000-square-foot permanent pavilion and a 1,200-space parking garage were completed and opened with the launching of the riverboat. Additional square footage (18,000 square feet) was added with the enclosure of the third-floor balcony and a seven-million-dollar double helix added to the parking garage. Construction on a 200-room hotel was scheduled to begin immediately after substantial completion of the Guest Pavilion. A master plan is being developed but Empress does not have an anticipated opening date for the hotel.

As Table 1 illustrates, Empress spent a total of \$159.8 million or \$33.5 million more than the agreement in the Certificate for total project development.

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

Development	Certificate of Suitability	1996-97 Actual	1997-98 Actual	1998-Dec 1999 Actual	Difference Total and Certificate
Empress III riverboat, guest pavilion, 1,200-space parking garage, surface parking lot and overpass, various feeder and service roads improvements and additions	\$112,000	\$127,900	\$20,920	\$10,944	\$47,764
200-room hotel and conference center	10,000	0	700		(\$9,300)
Commercial development within the greater Hammond area	10,000	0	650	5,850	(\$3,500)
Renovation of existing housing and construction of new market-rate housing in the greater Hammond area	5,000	0	1,000	2,515	(\$1,485)
Total Development	\$137,000	\$127,900	\$23,270	\$19,309	\$33,479

Other Commitments

As Table 2 illustrates, Empress is current with regard to all of the additional commitments not included in the project development. In addition, it made a donation to the Hammond Community Corporation of \$425,000 more than contracted in the Certificate of suitability.

Table 2: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Through 6/30/97	Amount Paid through 6/30/98	Amount Paid through 1/1/99-12/31/99	Status
A) Expanded capacity sewer and lift station	\$500,000	City of Hammond	\$500,000			Completed Year 1
B) Robertsdale lift station improvements	\$150,000	City of Hammond	\$150,000			Completed Year 1
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-January and July)	City of Whiting	\$250,000	\$125,000	\$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 Year 1
E) Upkeep of the Milwaukee Clipper	\$500,000 ¹	Milwaukee Clipper	\$500,000			Completed Year 1
F) Construction of new building	\$2,750,000 ¹	Hammond Port Authority	\$2,750,000			Completed Year 2
G) Transport Milwaukee Clipper out of Marina	\$750,000 ¹	Milwaukee Clipper	\$750,000			Completed Year 1

Table 2: Schedule and Description of Incentive Payments (continued)

Incentive	Promised Amount	Recipient	Amount Paid Through 6/30/97	Amount Paid through 6/30/98	Amount Paid through 1/1/99-12/31/99	Status
H) Donation	\$750,000 ¹	Nurseryland Foundation	\$750,000			Completed Year 1
I) Donation	\$250,000 ¹	Harbor House	\$250,000			Completed Year 1
J) Donation	\$1,000,000	Hammond Community Corporation	\$1,068,750	\$356,250		Completed Year 2
K) Payment to support cost of additional police, fire, etc.	Up to \$1,000,000 per year	City of Hammond	\$796,213	\$840,691	\$875,791	Current
L) Bond shortfall payments	Not specified	Hammond Marina	\$2,250,000 ²			Current
M) Lease	\$1 per admission	Hammond Port Authority	\$5,147,549	\$5,586,549	\$5,792,687 ³	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	\$8,625,031 ²	\$10,744,065 ⁴	Current
O) Establish incubator program	\$1,000,000	Hammond Development Corporation	\$1,000,000			Completed Year 1
P) Donation	Not in Certificate	Hammond Development Corporation	\$50,000	\$100,000		Completed Year 2

¹Part of original \$5 million Milwaukee Clipper commitment²The bond shortfall payments were a loan and the ongoing payments in 1997-98 are net \$1.4 million given as credit for that loan.³An additional \$2,906,506 was paid from July 1998- December 1998⁴An additional \$5,158,829 was paid from July 1998-December 1998.

Table 3 illustrates the city of Hammond's expenditures on capital items using gaming revenue and incentives during 1996, 1997, 1998 and 1999.

Table 3: Hammond Expenditures from Gaming Revenues

	1996	1997	1998	1999
Neighborhood development	0	\$230,623	\$1,833,941	\$2,613,592
City and Public Safety Capital Programs	\$345,851	\$2,540,342	\$1,722,475	\$1,313,765
Parks and Recreation Activity Fund	0	\$358,810	\$1,360,076	\$2,380,018
Debt Reduction	0	\$2,295,573	\$1,640,376	\$1,732,000
Economic Development	0	\$324,521	\$1,121,800	\$2,299,405
Street	\$673,140	\$8,856,277	\$15,708,513	\$26,869,589
Public Safety	\$273,308	\$897,889	821,084	\$930,551
Total	\$1,294,295.00	\$15,506,032.00	\$24,210,263.00	\$38,140,919.00

Community Activity

Since its inception, Empress has contributed nearly \$3 million in corporate sponsorships, in-kind donations, and monetary contributions to over 300 organizations. Through 1999, Empress's senior management was involved in more than 50 local organizations and is represented on many boards of directors in the area, including: Boys & Girls Club of Northwest Indiana, Calumet College of St. Joseph, Chicago Southland Chamber of Commerce, Executive Board of Trade Winds Center for Rehabilitation, Hammond Chamber of Commerce, Hammond Development Corporation, Hammond Hispanic Coordinating Council, Haven House, Lake Area United Way, Managing Board of Northwest Indiana Forum, Neighborhoods Inc., Riverboat Gaming Marine Management Association, Whiting/Robertsdale Chamber of Commerce, and Big 10 of Northwest Indiana. Empress has also sponsored many programs and events in the area during this evaluation period, including: United Way 2000 Campaign, March of Dimes Walk America, Blood Drive for Heartland Blood Center, Toys for Kids Program, MDA/Jerry Lewis Telethon, Neighborhoods Inc., Three Cheers for Education, Hammond Marina Venetian Nights, WYIN Public Television Gala, PACMA Heavyweight Championship Fight, Taste of Northwest Indiana for American Heart Association, Earl Christy Charity Foundation Dinner, March of Dimes Car Show, Hammond August Fest, MS Bartenders Ball, Boys & Girls Club of Northwest Indiana Annual Dinner, Ron Santo Walk for Cure of Diabetes, Polka Association Conference, Hammond Chamber of Commerce Business After Hours.

Minority/Women Business Enterprise

The Office of Minority Business Development and the Indiana Gaming Commission are currently 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 its employees in February 1996. Empress initially 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 \$24.9 million. Estimates for hotel employment were not included. As of December 31, 1999 Empress had 2,047 employees, more than twice its original estimate. For 1999, salaries and wages were \$44.6 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-time employees receive benefits, including a comprehensive insurance plan, 401K plan, tuition reimbursement, and vacation time. Part-time employees are eligible for a 401K plan after one year of service.

As Table 4 illustrates, in 1999, Empress had adjusted gross gaming receipts of \$231.1 million, or 52 percent more than its application estimate. It had total gross revenues (includes casino, food and beverage, parking, gift shop, and other revenues) of \$250.7 million, \$88.9 million more than the \$161.8 million estimated in its application. Though its attendance was greater than expected (82 percent), Empress slightly overestimated the receipts per passenger per trip. Total local taxes (city and county admission taxes plus local gaming tax) were \$23.1 million, or \$9.2 million more than the projection of \$13.9 million in Empress's application.

Table 4: Comparison of Forecast to Actual Empress Operation

Category	Application Forecast Year 3	Actual 1999	Difference
Employment as of 12/31/99	773	2,047	1,274
Total Wages, Tips, & Benefits	\$24,926,100	\$44,570,391	\$19,644,291
Attendance	3,182,833	5,792,687	2,609,558
Gross Gaming Receipts	\$152,216,800	\$231,101,645	\$78,884,845
\$ per Patron per Cruise	\$48 ⁵	\$40	(\$8)
Gaming Tax (State)	\$22,832,520	\$34,665,247 ⁶	\$11,832,727
Gaming Tax (Local)	\$7,610,084	\$11,555,083 ⁷	\$3,944,999
Admission Tax (State)	\$3,182,833	\$5,792,687 ⁸	\$2,609,558
Admission Tax (County)	\$3,182,833	\$5,792,687 ⁸	\$2,609,558
Admission Tax (City)	\$3,182,833	\$5,792,687 ⁸	\$2,609,558

⁵Applicant average for Hammond and East Chicago applicants was \$54.

⁶An additional \$16,627,253 was paid from June 1998- December 1998

⁷An additional \$5,542,418 was paid from June 1998- December 1998

⁸An additional \$2,906,506 was paid from June 1998- December 1998

As Tables 4, 5 and 6 indicate, Empress has exceeded forecasts in all three years in all areas except win-per-patron per cruise.

Table 5: Comparison of Forecast to Actual Empress Operation

Category	Application Forecast Year 2	Actual 1997-1998	Difference
Employment as of 6/30/98	773	1,797	1,024
Total Wages, Tips, & Benefits	\$24,318,100	\$39,207,364	\$14,889,264
Attendance	3,151,333	5,586,549	2,435,216
Gross Gaming Receipts	\$150,709,800	\$213,894,280	\$63,184,480
\$ per Patron per Cruise	\$48	\$38	(\$10)
Gaming Tax (State)	\$22,606,740	\$32,084,142	\$9,477,402
Gaming Tax (Local)	\$7,535,490	\$10,694,714	\$3,159,224
Admission Tax (State)	\$3,151,333	\$5,586,549	\$2,435,216
Admission Tax (County)	\$3,151,333	\$5,586,549	\$2,435,216
Admission Tax (City)	\$3,151,333	\$5,586,549	\$2,435,216

Table 6: 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

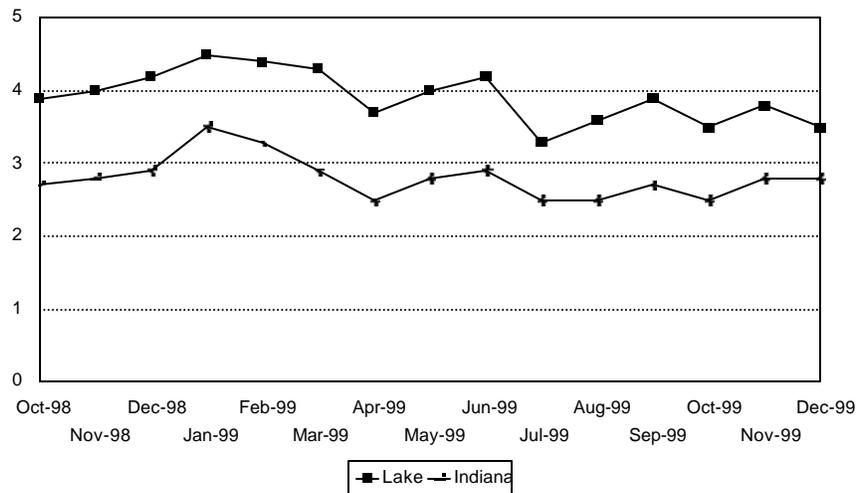
As Table 7 indicates, Empress has increased in every category from Year 2 to Year 3.

Table 7: Comparison of Year 1 to Year 2 to Year 3

Category	Actual Year 1 1996-97	Actual Year 2 1997-98	Actual Year 3 1999	Difference between Year 2 and Year 3
Employment	1,695	1,797	2,047	250
Total Wages, Tips & Benefits	\$31,267,700	\$39,207,364	\$44,570,391	\$5,363,027
Attendance	5,147,549	5,586,549	5,792,687	206,138
Gross Gaming Receipts	\$184,981,649	\$213,894,280	\$231,101,645	\$17,207,365
\$ Per Patron per Cruise	\$36	\$38	\$40	\$2
Gaming Tax (State)	\$27,747,247	\$32,084,142	\$34,665,247	\$2,581,105
Gaming Tax (Local)	\$9,249,082	\$10,694,714	\$11,555,083	\$860,369
Admission Tax (State)	\$5,147,549	\$5,586,549	\$5,792,687	\$206,138
Admission Tax (County)	\$5,147,549	\$5,586,549	\$5,792,687	\$206,138
Admission Tax (City)	\$5,147,549	\$5,586,549	\$5,792,687	\$206,138

As Figure 1 illustrates, Lake County's unemployment rate decreased over the year to 3.5 percent in December, but has never been lower than the state unemployment rate, which was 2.8 percent in December.

Figure 1: 1999 Unemployment Rates for Lake County and the State of Indiana



As of December 31 1999, 59 percent of Empress employees were women, 50 percent were minorities, and 30 percent were from Hammond. Twenty-eight percent of employees came from out-of-state. While Empress did not state specific employment goals in its application, it indicated to Hammond that it would strive towards the goal of 50 percent of its employees being Hammond residents. Even though it is under that goal, it should be recognized that its original employment estimate was 773 employees, which means they promised to hire approximately 387 Hammond residents and it has hired 614 Hammond residents. In addition, some employees that were hired as Hammond residents have moved out of the city since gaining employment.

Local Economic Impact

In addition to the gaming taxes paid to the city and state, Empress paid \$1,056,285 in sales and use taxes and \$2,770,991 in 1999 property taxes. Payroll of \$44.6 million and purchases of \$2,502,784 in Hammond 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 the riverboat has led to the development of restaurants and an increased interest of hotel development in the area.

Impact on Tourism

Through December 31, 1999 Indiana residents made less than ten percent of the trips to Empress. In 1999, Empress had 5.8 million paid admissions. This attendance was more than 2.6 million greater than Empress's attendance projection in its 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. It is temporarily closed due to an employee shortage, caused by the opening of the Visitors Bureau at the interchange of Kennedy Avenue and I80/I94. Two new restaurants, a gas station and a car wash have opened near the riverboat.

According to the Lake County Convention and Visitors Bureau, hotel occupancy is up since the riverboats opened. The Convention and Visitors Bureau attributes this to increased visitation to the Lake County riverboats. It is impossible at this time to determine which of the Lake County riverboats these visitors attended. The first Visitors Bureau was completed last year at the interchange of Kennedy Avenue and I80/I94.

Legal Issues

Empress has nine cases of general litigation pending, 26 cases of insurance coverage litigation pending, and 12 cases of EEOC/Civil Rights Commission litigation for discrimination. The general litigation lawsuits range from two harassment lawsuits to one vendor payment dispute and one patent infringement lawsuit. Eighteen of the insurance coverage suits involved guests who were allegedly injured while the other eight involved employees who were allegedly injured on the job. There were a total of 24 arrests of patrons for incidences on Empress property in 1999. The largest category was child neglect (eight cases) and disorderly conduct (five cases). Empress security reported checking 82,305 identifications and turning away 368 patrons for improper or no identification. Less than .0005 percent of visits in 1999 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 although theft, burglary, robbery, and auto theft have increased in the area surrounding the boat. The amount of traffic citations have also increased considerably, much of which can be attributed to increased police presence in the area.

Other Impacts

There are other possible impacts that can result from the location of a riverboat in a community. For example, compulsive gambling might become a problem. There also might be decreases in patronage for existing businesses, higher rates of bankruptcy, and a greater need for social services. In 1999, Lake County residents made 75 calls for help with gambling problems to the "Deal With It" line, compared to 91 calls the previous year. There also have been 20 calls from LaPorte County, up from 11; 24 calls from Porter County, compared to 23; and 94 calls from Chicago, down from 138 calls.

Empress has made efforts to minimize the negative impacts of gambling. It has contracted with two local organizations that treat compulsive gambling to provide a one-hour training course to all of its employees. This training assists employees in identifying possible compulsive gamblers among patrons and employees. A self-help brochure has been designed, printed, and made available to patrons. It outlines the 20 Gamblers Anonymous questions that help someone determine if they have a problem and contains the phone numbers of both Indiana and Illinois agencies where one can seek help. It also displays the 1-800-9-WITH-IT message on all material handed to patrons as well as post it on signs near casino cages. Empress has made a pledge of \$60,000, payable over three years, to the National Center for Responsible Gaming. It also displays the 1-800-9-WITH-IT message on all material handed to patrons as well as post it on signs near casino cages. Empress has a self-eviction program for individuals who wish to be banned from the facility. Upon request, they are removed from all mailings and promotions. If they are identified on the boat, they are escorted off the property. While Empress does not have a written policy on reinstatement of self-evictions, they have not reinstated anyone that self-evicted since 1998.

Summary of Findings

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

- Empress spent a total of \$159.8 million on the development of the project, \$22.8 million more than estimated.
- Empress is on schedule with almost all of its incentive payments.

- Empress has sponsored many community events and its senior management is represented on many boards.
- Employment totaled 2,047 employees, more than twice the amount projected, and wages, benefits, and tips were \$44.6 million, \$19.6 million greater than projected.
- Even though it did not state specific employment goals, 50 percent of Empress employees were minorities and 30 percent were from Hammond.
- Empress paid \$23.6 million more in total gaming taxes than projected.
- In addition to the gaming taxes, Empress paid \$1,056,285 in sales and use taxes and \$2,770,991 in property taxes and had \$2,502,789 in spending in Hammond.
- Empress has been proactive in developing programs for compulsive gambling.

Empress has not met its projections in the following area:

- Construction of a 200-room hotel was scheduled to begin immediately after substantial completion of the Guest Pavilion but was not undertaken. It is under discussion with the city of Hammond.