

# Second Year Evaluation of Riverboat Licensee for East Chicago, Indiana: Harrah's East Chicago Casino May 1998-April 1999

June 2000

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# Introduction

The Indiana 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 the economic impacts and fiscal returns from each riverboat operation.

On January 8, 1996, the Commission issued a Certificate of Suitability for a Riverboat Owner's License in East Chicago, Indiana. Showboat Mardi Gras Partnership (Showboat) received its owner's license on April 15, 1997, and commenced gaming activities on April 18, 1997. During its first year of operation, Harrah's entered into negotiations with Showboat to purchase the company. The sale was finalized in June 1998 and the riverboat is now Harrah's East Chicago Casino. This report is a second year evaluation of the riverboat's operation in East Chicago, Indiana.

## Project Development and Investment

### Development Activities

In the Certificate of Suitability (referred to throughout as Certificate), Showboat originally committed to spend approximately \$154.5 million on project development, in addition to pledging to the city of East Chicago other incentives totaling several million dollars. At the end of December 1998, Showboat reported spending \$205.2 million on project development, over \$50 million more than agreed upon in the Certificate. Additionally, Harrah's spent \$30 million in capital improvements during 1999. The additional capital includes restaurants, a café, a 6,000-square-foot meeting/function space, and additional bus parking.

Currently, Harrah's permanent riverboat is approximately 53,000 square feet and accommodates 4,250 passengers. Harrah's permanent pavilion is approximately 112,000 square feet and was completed and opened with the launching of the riverboat. Prior to the additional capital improvements, the property had a 1,800 car parking garage, 1,000 car surface parking lot, 200-seat buffet restaurant, and 54-seat fine dining restaurant. The size and scope of the current pavilion and parking garage are as described in the licensee's application.

## Other Commitments

In addition to impacts on the local economies of the surrounding communities through employment, property tax base, and admissions and wagering tax revenues, all current riverboat licensees in Indiana provide incentive payments to local governments and nonprofit organizations. Incentive payments are commitments made by the riverboat license applicants during the negotiation of licenses. Table 1 shows the additional commitments, or incentive payments, promised in the original Certificate. Harrah's is current with most of the commitments. The only pending obligation is the \$5.5 million committed in the original Certificate for homebuyers' assistance. The initial project was delayed due to difficulty in locating a partner bank. A partner bank has been found and Blackburn and Associates of Indianapolis finished designs for 64 single-family market rate homes to be developed by Second Century Development, Inc. The development will be the first of its kind in East Chicago in more than 20 years. In addition to the projects that have been completed, Harrah's is committed to ongoing contingent incentives to the City of East Chicago, East Chicago Community Foundation, Twin City Education Foundation, and East Chicago Second Century, Inc.

Table 1: Schedule and Description of Incentive Payments (\$000)

Incentive	Promised Amount	Recipient	Amount Paid 1997-98	Amount Paid 1998-99	Status
A) Projects or Programs	\$1,270	East Chicago	\$1,371	\$0	Completed (Year 1)
B) Contributions to Cline Avenue Overpass	\$3,500	East Chicago	\$3,441	\$59	Completed (Year 1)
C) Job Training	\$1,544	East Chicago	\$1,544	\$0	Completed (Year 1)
D) Homebuyer Assistance	\$5,500	East Chicago	\$0	\$0	Pending
E) Economic Development Initiatives	\$4,558	East Chicago	\$3,689	\$869	Completed (Year 2)
F) Contingent Initiatives	1% of adjusted gross gaming receipts	East Chicago	\$1,609	\$1,779	Ongoing
G) Contingent Initiatives	1% of adjusted gross gaming receipts	East Chicago Community Foundation,	\$1,609	\$1,779	Ongoing

		Inc.			
H) Contingent Initiatives	1% of adjusted gross gaming receipts	Twin City Education Foundation, Inc.	\$1,609	\$1,779	Ongoing
I) Contingent Initiatives	¾% of adjusted gross gaming receipts	East Chicago Second Century, Inc.	\$1,207	\$1,334	Ongoing
J) Replacement of Bathhouse	\$155 <sup>1</sup>	Jerose Park	\$0	\$155	Complete (Year 2)

From the contingent incentives paid to East Chicago Community Foundation Incorporated and Twin City Education Foundations Incorporated, grants are awarded to local organizations for various projects. Table 2 shows the organization, project, and amount awarded by each foundation from the second year contingent incentive payments by the riverboat licensee. The remainder of the funds are used for administration or contributed to an endowment.

<sup>1</sup> The first year evaluation of Showboat Mardi Gras Casino Partnership indicated an estimate of \$195 million. As shown, the actual cost of the replacement bathhouse was \$150 million.

Table 2: Contingent incentives to Foundations

Organization Name	Project/Program Title	Twin Education Foundation	East Chicago Community Development Foundation
African American History Club	Bring in the Book, Bring in the Knowledge	\$3,000	
African American History Club	Explore America	\$5,000	
African American United	Capacity Building		\$10,000
Bishop Noll Institute	Fall, 1999 Career Awareness Fair	\$3,500	
Bishop Noll Institute	Summer 1999 EC Adult Commuter Literacy Program	\$3,500	
Block Junior High School	Foundations for Success	\$3,000	
Brownfields	Redevelopment Site		\$15,000
Calumet Council Boy Scouts of America	EC Urban Emphasis Program		\$5,000
Calumet Council of Boy Scouts of America	Learning for Life: Character Education	\$4,000	
Catholic Family Service	Comprehensive Emergency Assistant Project		\$10,000
Cheerleaders & Booster Club	Cheerleaders/Boosters: Spirit Readiness	\$2,500	
Christmas in April EC Northwest Indiana Business	Christmas in April 1999		\$10,000
Committee for a Better, Cleaner Safer Markstown Historic District	Marktown Newsletter & Walking Through Marktown		\$3,000
Committee for a Better, Cleaner, and Safer Marktown Historic District	Marktown Kid's Fest '99 the arts in East Chicago	\$8,000	
Community Reinvestment Project of East Chicago	Affordable Housing & Rental Rehabilitation Program		\$15,000
Day with our Youth	Bicycles	\$1,250	
Day with Our Youth	Bicycles		\$1,250
East Chicago Basketball Club Association	East Chicago Girls Youth Program	\$6,500	
East Chicago Central	Health Technology Project	\$5,000	
East Chicago Central Computer Club	ECC After School Computer Club	\$7,500	
East Chicago Central High School	Pro Start Career Program	\$3,000	
East Chicago Central High School	Summer Job Shadowing	\$5,000	
East Chicago Parks & Recreation	NYS&NYSOA Training	\$6,000	
East Chicago Police Department	A Day with Our Youth	\$2,500	
East Chicago Police Department	A Day with the Youth		\$2,500
East Chicago PopWarner	Jr. Cardinal Football League		\$19,855

Football League			
EC Civic Little League	Cheerleaders/Boosters: Spirit Readiness		\$2,500
EC Civic Little League	Baseball Clinics		\$2,500
East Chicago Central High School	Renaissance	\$1,000	
Field Elementary School	Skills for Life	\$5,000	
Gilbert Diaz Foundation	Holiday Help Foundation		\$7,000
Greater EC CDC	Solomon Project		\$15,000
Greater First Baptist Christian Academy	Academy	\$10,000	
Greater First Baptist Christian Academy/Greater First Church	Education for the New Millennium-Side by Side	\$10,000	
Harbor Area CDC	Façade Restoration	,	\$12,500
Healthy East Chicago	Tot Drop Helps A Healthy Start: Day Care Services Play a Role in Health Outcomes		\$10,000
Hispanic Women's Forum of Northwest Indiana	General Funding for Office Setup	\$2,500	

Table 2: Contingent incentives to Foundations (continued)

Organization Name	Project/Program Title	Twin Education Foundation	East Chicago Community Development Foundation
Indiana Harbor Catholic Elementary School	Technology Update	\$3,000	
Indiana Sailing Association, Inc.	Project Challenge	\$2,000	
Indiana Sailing Association, Inc.	Cardinal Sailing--Safety of Life at Sea		\$2,000
Inner City Games	East Chicago IGC	\$7,500	
Inner City Games	1999 East Chicago Inner City Games		\$7,500
Inner City Games	Inner City Games Celebration		\$10,000
Junior Achievement	Junior Achievement's Whole School Sponsorship Program	\$5,000	
Junior Achievement	Junior Achievement's Whole School Sponsorship Program		\$5,000
Lake Area United Way	21st Century Scholars Program-ALSE Clemete Center	\$50,000	
Little Angels Under God & Heaven (LAUGH)	Annual Guthrie Groove Dance Contest		\$5,000
Mariachi Sol de America	Mariachi Music/Cultural Development	\$5,000	
Meek Baptist Church	Food Ministry		\$5,000
Mt. Herman Baptist Church, Catch on Fire Entrepreneurs	Computer and Job Training Workshops	\$8,500	
NAACP	ACT-SO Award Program		\$12,000
New Second Baptist Church	Watch Care Program		\$5,700
Northern Indiana Arts Association	In-School Visiting Artist Program	\$3,000	
Office of Hispanic Ministries	Leadership Development for Multi-Cultural Ministry	\$2,000	
Operation HOPE, Inc.	Sr. Citizen Soup Kitchen		\$1,000
Partners Accessing Cultural Enrichment Opportunities (PACE-ON)	Stakeholders Creating a Positive Culture for Change	\$5,000	
Puerto Rican Parade and Cultural Organization of NWI	Puerto Rican Cultural Film Festival	\$4,000	
Purdue University Calumet	Engineering & Science Summer Program	\$5,000	
Reach for Tomorrow	Trip to Naval Academy & UC San Diego	\$10,000	
Renaissance Development Corporation	New Construction		\$12,500
Roberston Child Development Center	Keep East Chicago Working		\$10,000
School City of East Chicago	Elementary School Academic Competition	\$1,120	
School City of East Chicago	Environmental Summer Camp	\$3,500	

School City of East Chicago	Challenger Mission Project	\$5,000	
School City of East Chicago	School Uniforms	\$12,000	
School City of East Chicago--Central High School	Let's Read	\$3,000	
Special Olympics Porter County	Lakers Basketball Program		\$600
St. Catherine's Hospital	Pregnancy Loss - Education and Support	\$6,000	
St. Mark AME Zion Church	Church Improvement		\$3,000
St. Mark AME Zion Church	Church Improvement & Accessibility		\$7,500
St. Mary Parish	Building for Third Millennium		\$5,000
St. Mary School	St. Mary School Building Improvement Fund		\$10,000
St. Mary/St. Stanislaus School	St. Mary/St. Stanislaus School Enrichment Program	\$4,000	
St. Mary's Safety Helmet	Bicycle Helmets		\$500
St. Michael's	Safety & Beautification Repairs to St. Michael The Arcangel Parish Property		\$3,000

Table 2: Contingent incentives to Foundations (continued)

Organization Name	Project/Program Title	Twin Education Foundation	East Chicago Community Development Foundation
St. Patrick's Church	Renovation of Social Hall for a Better Community		\$5,000
St. Stanislaus School	Challenger Learning Center Mission	\$700	
St. Stansilaus Parrish	"A Window of Opportunity"		\$10,000
Tab's Accounting & Tax Service	T.A.B.	\$3,000	
TCEF Scholarships	East Chicago Central Scholarships	\$40,000	
Twin City Community Services	Parent Activity Aide Training	\$1,300	
Twin City Community Services	Calumet Street Dawgs	\$3,000	
Twin City Community Services	Computer Family Reunion	\$5,250	
United Cultural Arts Association	United Cultural Arts Project		\$7,000
Viva la Hisparlidad! (WE COPE)	Washington DC	\$5,000	
	Washington Elementary Coming Together: Community, School & Family	\$3,000	
West Side Junior High School	Preparing Today for Employment and Quality of Life in Northwest Indiana	\$1,000	
Workforce Development	Title II-A Adults, TitleII-C	\$7,200	



Services	Youth, TitleII-OW, Title III/D1W		
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Table 3 displays the City of East Chicago's 1998 Gaming Special Revenue Fund activities. As shown, a majority of the funds were used for capital improvements.

Table 3: 1998 East Chicago Gaming Special Revenue Fund

Activity	Amount
Reimbursement of 1999 Park Bond Proceeds	\$2,211,122
Reimbursement of 1999 Public Safety Building Bond Proceeds	\$1,115,600
Transfer to City Employee Hospital and Life Internal Service Fund	\$2,000,000
Transfer to the Park General Fund for Reimbursement of Capital Related Expenditures	\$400,000
Police and Fire Capital Related needs	\$1,290,730
Elevated Water Storage Tank Renovation	\$675,163
Park and Recreation Related Program and Activities	\$170,392
Redevelopment, Neighborhood Assistance and Community Development	\$450,084
Road and Railroad Improvements	\$3,134,115
Four City Consortium Funding Participation	\$115,000
Capital Planning, Administration, and Public relations	\$596,955
Street Light Repairs	\$40,453
Purchase City Vehicles	\$247,060
Side Walk Enhancement and Repair Program	\$1,095,325

## Community Activity

In addition to the foundation contributions agreed upon in the Certificate, Harrah's contributed to over 140 organizations through corporate sponsorships, in-kind donations, and monetary grants. Through April 1999, Harrah's employees volunteered their services for several community activities and were represented on 18 boards of directors at the national, state, and local level. Local board participation includes: St. Catherine Hospital, St. Catherine Hospital Foundation, Red Cross, Boys and Girls Clubs of Northwest Indiana, Girl Scouts of Calumet Council, Lowell Robertson Child Development Center, Twin City Community Services, Hoosier Boys Town, Hoosier Boys Town Fund Development Committee, Partners in Contracting Corporation, Northern Indian Arts Association, East Chicago Library Board, East Chicago Public Schools Career Vocational Education Advisory Committee, ALSE Roberto Clemente Neighborhood Center, East Chicago Education, and Community Development Foundations.

## Minority/Women Business Enterprise

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

## Economic and Fiscal Impacts

## Employment and Earnings Impacts

Harrah's not only began changing the physical attributes of the property after completing the ownership transfer from Showboat, Inc. in February 1999, but also began re-training a majority of its employees. The training is based on a corporation-wide program. In addition to training, full-time employees may receive educational assistance reimbursement for continuing education.

Table 4 shows a comparison of application forecasts originally estimated by Showboat and actual operations reported by Harrah's in the second year of the riverboat's existence. As shown, it was estimated that 2,000 persons would be employed at the casino with annual wages totaling approximately \$46.7 million. As of April 1999, Harrah's employed 488 persons less than was originally projected. In turn, total salaries, wages, and tips to dealers (but not to bar and wait staff) were below the projected \$46.7 million by \$13.2 million. All full-time and part-time employees receive benefits.

Mostly attributable to the lower than projected attendance and dollars per patron, gross gaming receipts, state taxes, and local taxes were less than originally was estimated for the riverboat's second year. Table 4 also reveals that Harrah's second year adjusted gross gaming receipts were \$190.1 million, \$58.1 million less than the original application estimated. The riverboat paid a total of \$33.4 million in state taxes and \$19.2 million in local taxes, which is \$8.8 million and \$3.1 million less than projected, respectively.

Table 4: Comparison of Forecast to Actual Harrah's Casino Operation (2nd Year)

Category	Application Forecast	Actual 1998-1999	Difference
Employment as of April	2,000	1,512	(488)
Total Wages, Tips, & Benefits	\$46,742,000	\$33,543,858	(\$13,198,142)
Attendance	4,964,438	4,845,809	(118,629)
Gross Gaming Receipts	\$248,221,900	\$190,118,734	(\$58,103,166)
\$ Per Patron per Cruise	\$50	\$39	(\$11)
Gaming Tax (State)	\$37,233,285	\$28,517,810.10	(\$8,715,475)
Gaming Tax (Local)	\$12,411,095	\$9,505,936.70	(\$2,905,158)
Admission Tax (State)	\$4,964,438	\$4,845,809	(\$118,629)
Admission Tax (County)	\$4,964,438	\$4,845,809	(\$118,629)
Admission Tax (City)	\$4,964,438	\$4,845,809	(\$118,629)

Table 5 compares the first and second years of riverboat operations in East Chicago. Despite the inability to meet or exceed the projected

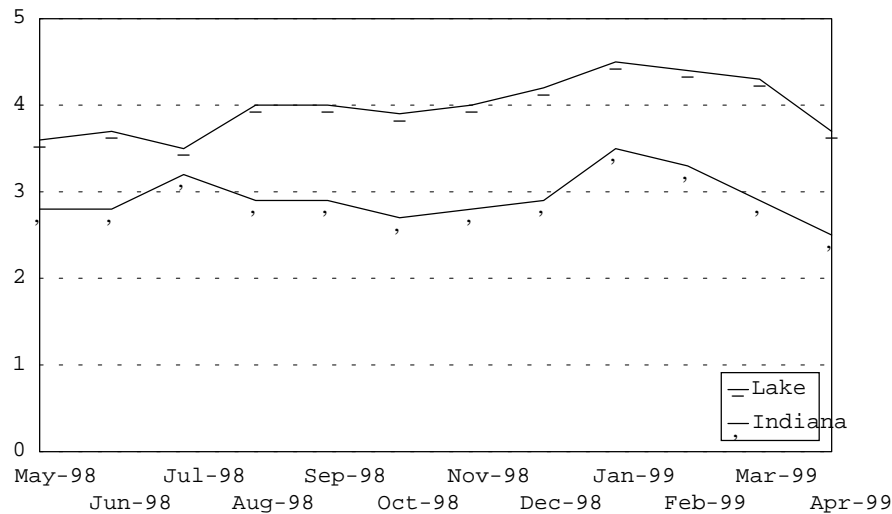
employment and tax revenues, all of the indicators have come closer in the second year to meeting original forecasts in the second year. For instance, actual patron attendance decreased in the second year, which led to a decrease in the admission taxes collected. However, since patron attendance was forecasted to decrease at a faster rate than actually occurred, attendance and admission taxes were 6.4 percent closer to meeting the original application projections.

Table 5: Comparison of Year 1 and Year 2

Category	1997-1998		1998-1999		Difference	
	Actual	% of Forecast	Actual	% of Forecast	Actual	% of Forecast
Employment as of April	1,333	66.7%	1,512	75.6%	179	9.0%
Total Wages, Tips, & Benefits	\$33,038,468	70.7%	\$33,543,858	71.8%	\$505,390	1.1%
Attendance	4,910,876	91.3%	4,845,809	97.6%	-65,067	6.4%
Gross Gaming Receipts	\$160,913,549	59.8%	\$190,118,734	76.6%	\$29,205,185	16.8%
\$ per Patron per Cruise	\$33	66.0%	\$39	78.5%	\$6	12.5%
Gaming Tax (State)	\$24,137,031	59.8%	\$28,517,810	76.6%	\$4,380,779	16.8%
Gaming Tax (Local)	\$8,045,677	59.8%	\$9,505,937	76.6%	\$1,460,259	16.8%
Admission Tax (State)	\$4,910,876	91.3%	\$4,845,809	97.6%	\$(65,067)	6.4%
Admission Tax (County)	\$4,910,876	91.3%	\$4,845,809	97.6%	\$(65,067)	6.4%
Admission Tax (City)	\$4,910,876	91.3%	\$4,845,809	97.6%	\$(65,067)	6.4%

Figure 1 compares Lake County's unemployment rate to the unemployment rate of the entire state of Indiana. It is difficult to attribute all of changes in Lake County's aggregate unemployment rate to the existence of riverboats in the area. However, the figure shows that the Lake County unemployment rate, while fluctuating fairly consistently with the state total unemployment, decreased over the time period. By the end of the riverboat's second year, Lake County's unemployment rate was 3.7 percent while total state unemployment was 2.5 percent.

Figure 1: Unemployment Rate: Indiana and Lake Coun



Source: Center for Urban Policy and the Environment

As of April 30, 1999, 61 percent of Harrah's employees were women and 61 percent were minorities. Eighty-seven percent of the employees were residents of Indiana, as approximately 80 percent were from the Lake County area. Of the 80 percent of Harrah's employees living in Lake County, roughly 30 percent resided in East Chicago. Almost all of the employees who did not live in Indiana were from the Chicago, Illinois area. There was not a specific employment goal stated in the original application.

### Local Economic Impact

In addition to the gaming taxes paid to the city and state, Harrah's paid \$469,035 in sales and use taxes. Additionally, Harrah's paid \$1,845,498 in property taxes in 1998-1999. The riverboat's payroll of \$33.5 million and local purchases of \$6.2 million also contributed to the local economy. Similar to what was reported in first-year evaluation of the riverboat in East Chicago, city officials indicated that the boat's existence continues to have positive impacts on development in East Chicago. Several examples of relocating and expanding firms whose investment can be attributed to the boats presence were cited. They anticipate that the expansion of convention space in the pavilion will further increase investment in the area.

### Impact on Tourism

According to the Lake County Convention and Visitors Bureau, the hospitality industry is thriving in Lake County. The Convention and Visitors Bureau attributes much of the rise in hospitality to the existence of Lake County riverboats. However, it is difficult to determine how each of the four Lake County riverboats individually contributes to tourism in the county.

### Legal Issue

There were 52 persons arrested by the State Police from April 1998 through December 1999. The majority of arrests were for fraud, theft, and check fraud. According to East Chicago's chief of police, the

neighborhood has not experienced any additional criminal activity that can be attributed to the riverboat's presence. Most of the change in public safety has been increased traffic and a notably higher incidence of accidents. City officials estimate that the number of accidents will decrease as road construction that is underway near the Harrah's property is completed.

## 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. As an indicator for possible increases in compulsive gambling behavior, data provided by Indiana Family and Social Services Agency on the number of calls made to the state sponsored referral line were collected. From April 1998 to April 1999, Lake County residents made 77 calls for help with gambling problems to the referral line, 11 calls less than the prior year. At the same time, 19 calls came from LaPorte County and 25 calls from Porter County, 9 and 4 calls more than the previous year, respectively. Most of the calls in the area came from Chicago, with as many as 105 calls in 1999, down from 135 in 1998.

Harrah's has made efforts to minimize negative impacts. Following the Harrah's Entertainment Guidebook for Responsible Gaming, Harrah's provides training for its employees on compulsive gambling. Harrah's has implemented two responsible gaming programs: Operation Bet Smart and Project 21. Operation Bet Smart is an awareness campaign that targets employees, guests, and the industry that addresses gambling problems and provides recommendations and information on how to get help. The Project 21 program is an initiative to teach casino employees, minors, parents, and guardians about the consequences of gambling under legal age. In addition, Harrah's has a self- eviction program where patrons can evict themselves from any and all Harrah's properties as well as restrict the marketing incentives they receive.

## Summary of Findings

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

- By the end of its second year, the riverboat has spent over \$50 million more on project development than promised in the Certificate. Harrah's is committed to spend another \$30 million on infrastructure improvements.
- Harrah's is on schedule with almost all of its incentive payments.
- Harrah's continues to sponsor many community events; its senior management is represented on several boards.
- Even though it did not state specific employment goals, 61 percent of Harrah's employees were minorities and nearly 30 percent were from East Chicago.
- In addition to the gaming taxes, Harrah's paid \$469,035 in sales and use taxes and \$1,845,498 in property taxes.

Showboat has not met its projections in the following areas:

- Showboat overestimated the receipts per passenger per trip (\$39 actual versus \$50 projected) that led to adjusted gross gaming receipts of \$190.1 million, or 23 percent less than its application estimate.
- Employment totaled 1,512 employees, 488 less than the amount projected, and wages, benefits, and tips were \$33.5 million, \$13.2 million less than projections.
- Harrah's paid \$12 million less in gaming taxes than projected.