

FIVE-YEAR LICENSE RENEWAL:
Harrah's East Chicago Casino

Drew Klacik
Laura Littlepage
Seth Payton

Center for Urban Policy and the Environment
Indiana University School of Public and Environmental Affairs
Indiana University-Purdue University Indianapolis

Larry DeBoer
Purdue University

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INTRODUCTION

The Riverboat Gambling Act (Act), effective July 1, 1993, authorized the Indiana Gaming Commission to issue licenses for the express purpose of riverboat gambling in the state of Indiana. Part of the statutory criteria for issuance of these licenses, in addition to being financially capable of completing the project and passing an Indiana State Police investigation, is the applicant's ability to promote tourism and economic development in the home dock area while best serving the interest of the citizens of Indiana. The Indiana Gaming Commission (Commission) contracted with the Center for Urban Policy and the Environment (Center) of Indiana University's School of Public and Environmental Affairs to assist the Commission in performing the economic impact, fiscal impact, financial, management, and other analyses required to assist the Commission in awarding the initial riverboat casino licenses. Additionally, the Commission requested the Center's assistance in monitoring the economic impacts and fiscal returns from each riverboat operation.

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

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

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 East Chicago Casino (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. The Act specifies that an owner's initial license expires five (5) years after the effective date of the license. This report is an analysis of Harrah's first five years of operation.

The Certificate specified certain levels of project development and incentive payments to be made by Harrah's as well as specifying that Harrah's abide by agreements made with the city of East Chicago. Because this analysis must be completed before the completion of Harrah's fifth year of operations, in year five, data are shown for year



five through December 31, 2001. In addition to the five-year totals of components included in the previous annual reports, this report includes an analysis of the tourism impact of Harrah's visitors, a study of the employment impact, a descriptive analysis of the economic impact of the additional revenue received, and an analysis of the fiscal impact on local communities. This five-year report is the seventh of ten analyses, one for each Indiana riverboat. The first, an analysis of Aztar was completed in February of 2001. The next three, Empress, Trump, and Majestic Star were completed in July 2001. The fifth and sixth, Grand Victoria and Argosy, were completed in November 2001. Each additional report will allow an opportunity to refine the methodology, improve data collection, and compare and contrast riverboat performance and its impacts on local communities.



PROJECT DEVELOPMENT AND GAMING ACTIVITIES

Harrah's riverboat has 49,210 square feet of gaming space 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 15 story, 293-room hotel opened on December 31, 2001, although not all the rooms were completed at that time. Some suites are still under construction. Harrah's received a ten-year property tax abatement for two-thirds of the value of the hotel project. The percentage of taxes abated will range from 100 percent in the first year to 5 percent in the 10th and final year. The tax revenue from the remaining one-third of the project will be used to fund a Tax Increment Financing District (TIF). The revenues from the TIF will be used for the city's water filtration plant as well as improvements to the Guthrie Street corridor south of Pastrick Marina.

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

Project Development Certificate Compliance

In the Certificate of Suitability (referred to throughout as Certificate), 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 2001, Harrah's reported that \$274.4 million has been spent on project development, \$119.9 million more than agreed upon in the Certificate.

Harrah's has spent money locally for both capital and operating expenses as well as through sponsorships and contributions. As Table 1 illustrates, since 1999, Harrah's has spent \$47.3 million locally (in Lake County). Additionally, Harrah's has impacted the East Chicago area through \$399,516 in sponsorships and contributions to local area organizations. This excludes any contributions that were part of the local development agreement, which are discussed under Incentive Payments.

Table 1: Local Spending, Sponsorship, and Contributions

	1997	1998	1999	2000	2001	Total
						\$47,263,600
Local Spending	NA	NA	\$12,415,247	\$16,642,238	\$18,206,115	
Sponsorships and Contributions	\$25,918	\$54,357	\$85,849	\$112,993	\$121,119	\$399,516



Gaming Activity

The Certificate did not require any specific levels of gaming activity by Harrah's. As Table 2 illustrates, Harrah's has had attendance of over 25 million people since opening and adjusted gross gaming receipts of over \$1.0 billion, for an average of \$40 of casino win per patron per cruise.

Table 2: Gaming Activity

Category	1997	1998	1999	2000	2001	Total/Average
Attendance	3,453,745	4,878,404	5,147,427	5,633,578	5,910,383	25,023,537
Gross Gaming Receipts	\$111,258,888	\$175,573,419	\$206,850,525	\$247,628,520	\$266,380,735	\$1,007,692,087
\$ Per Patron per Cruise	\$32	\$36	\$40	\$44	\$45	\$40

Impact of Gaming Activity on Tourism

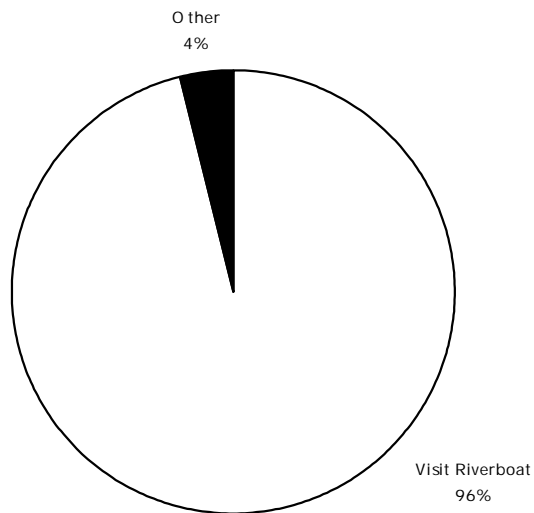
One argument for legalizing gaming riverboats was that the projects would become tourist destinations and local businesses would benefit from the influx of visitors who would consume goods and service at local establishments as well as at the riverboat casino. It also was assumed that most of the casino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

With the cooperation of Harrah's, the Center conducted face-to-face interviews with riverboat patrons over a four-day period in February 2002 (Friday through Monday) in the riverboat pavilion. During the four-day interview period, the Center acquired a 179-patron sample. According to the survey data, the average distance traveled to the riverboat was 36 miles. Only 28 percent of the interviewees were from Indiana, 63 percent of the remaining 72 percent were from Illinois (31 percent from Chicago).



To suggest that riverboat casinos increase tourism in local areas is to presume that the riverboat will draw people that otherwise would not have visited the area. To test that assumption, each interviewed patron was asked to provide the main reason for traveling to East Chicago. Figure 1 indicates that 96 percent of the patrons stated that their main reason for traveling to East Chicago was to visit Harrah's casino. The remaining 4 percent of interviewed patrons' primary reason for visiting East Chicago was for vacation, conducting business, or visiting relatives.

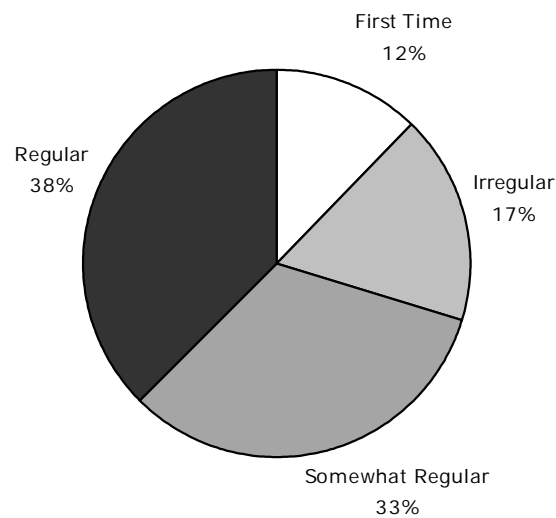
Figure 1: Harrah's Patrons' Reasons for Visiting East Chicago





The patrons also were asked how often they visit Harrah's. Specifically, each interviewed respondent was asked to what degree he or she regularly visited the riverboat. Figure 2 illustrates the proportion of respondents who were grouped by broad categories: first time visitor, irregular visitor, somewhat regular visitor, and regular visitor. As shown, patrons of the riverboat were much more likely to be at least somewhat regular visitors of the riverboat (33 percent somewhat regular, 38 percent regular). Twelve percent of the interviewees were first time visitors.

Figure 2: Regularity of Patron Visits to Harrah's



First time visitor

- Visiting Harrah's for the first time

Irregular visitor

- Visit Harrah's less than once a year
- Visit Harrah's one or two times a year

Somewhat regular visitor

- Visit Harrah's every couple of months
- Visit Harrah's once a month

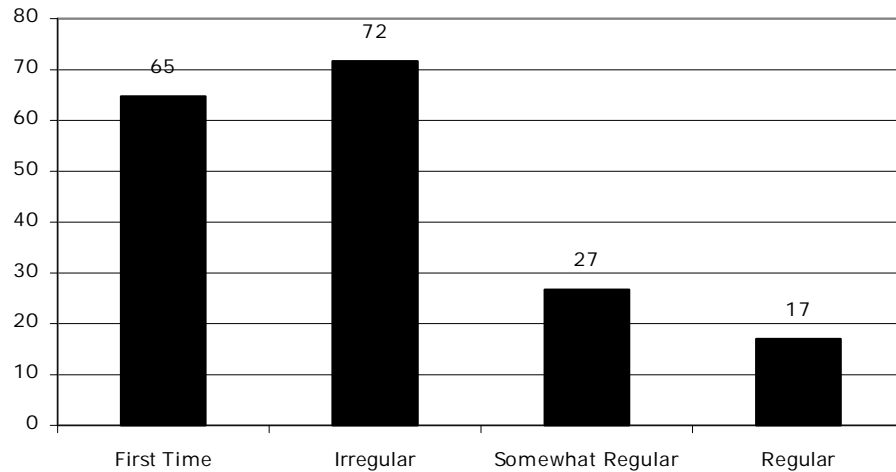
Regular visitor

- Visit Harrah's once a week
- Visit Harrah's two to three times a week
- Visit Harrah's everyday



Figure 3 illustrates the average estimated distance traveled to visit the riverboat by regularity of visits. As shown, regularity of visits generally increases as distance traveled decreases. On average, first time and irregular visitors traveled 65 and 72 miles, respectively. Somewhat regular visitors traveled 27 miles and regular visitors traveled 17 miles, on average.

Figure 3: Average Miles Traveled by Regularity of Visits to Harrah's



As mentioned previously, 96 percent of the interviewed patrons were in East Chicago specifically for the riverboat. In addition, each patron was asked how long he or she planned to stay in East Chicago during his or her visit. Table 3 indicates that 24 of the 179 interviewed patrons (13 percent) stayed in East Chicago over eight hours. Those patrons who stayed for more than eight hours were more likely to have traveled farther distances to visit the riverboat. In fact, the 20 patrons who stayed more than 24 hours in East Chicago traveled nearly three times the distance of those interviewees who visited less than eight hours.

Table 3: Time Spent in East Chicago

	Number of Patrons	Proportion of Respondents	Average Miles Traveled
8 hours or less	155	87%	29
9 to 24 Hours	4	2%	67
1 to 4 Days	20	11%	83
Total Sample	179	100%	36



Few of the interviewees had or anticipated visiting other attractions in East Chicago. Many of the patrons indicated that they would be dining in the riverboat pavilion (most with a complimentary meal) and/or were staying in the Harrah's hotel (also, mostly complimentary). Twenty-eight of the 179 respondents (15 percent) had visited or anticipated visiting at least one other Indiana riverboat on the same trip. Eighteen Harrah's patrons visited or anticipated visiting one other riverboat, 6 (3 percent) had visited or planned on visiting two other Indiana riverboats, and two (one percent) had visited or planned on visiting three other Indiana riverboats. These 36 trips to other Indiana riverboats were distributed among Horseshoe (17 trips), Majestic Star (8 trips), and Trump (11 trips), all located in Lake County, Indiana.



EMPLOYMENT

Employment Certificate Compliance

Harrah's did not identify specific hiring goals for women, minorities, or local residents in its application. As of December 31, 2001, 59 percent of Harrah's employees were women and 62 percent were minorities. Eighty-eight percent of the employees were residents of Indiana, and approximately 76 percent were from the Lake County area and roughly 25 percent resided in East Chicago. Almost all of the employees who did not live in Indiana were from the Chicago, Illinois area.

As Table 4 indicates, as of December 31, 2001, Harrah's had employment of 1,906 persons in the hotel and casino, above their five-year average of 1,630. Since opening, Harrah's has paid over \$224 million in wages. Full- and part-time employees receive benefits that include health care coverage and vacation time.

Table 4: Employment and Wages

Category	1997	1998	1999	2000	2001	Total/Average
Employment	1,444	1,309	1,735	1,755	1,906	1,630
Total Wages, Tips & Benefits	\$28,873,224	\$40,285,228	\$45,838,542	\$51,467,536	\$57,562,060	\$224,026,590

Impact on Harrah's Workforce

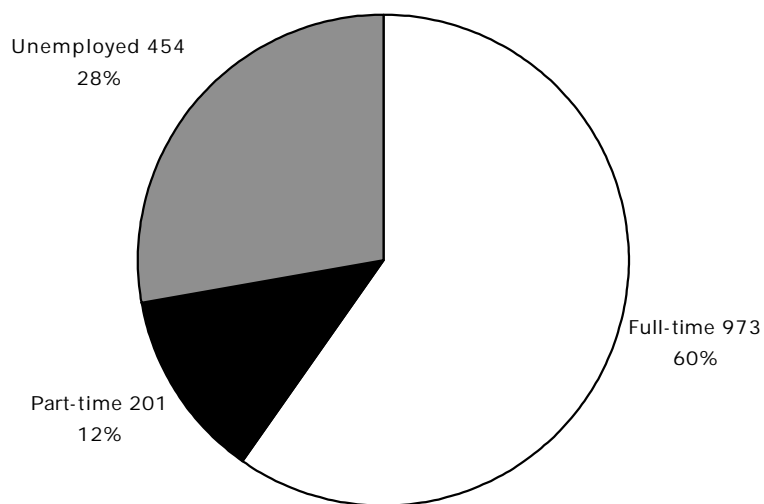
In testimony given to the Indiana Gambling Impact Study Commission in 1999, proponents of legal gaming asserted that gaming-related employment offers the chronically unemployed and under-employed an opportunity to establish a work record and skill set that may lead to even greater economic opportunity. Those who oppose legal gambling questioned the validity for this assertion and claimed that gambling-related jobs are often dead-end positions, plagued by high turnover rates. As part of the five-year analysis, current Harrah's employees were asked to complete a survey of their past and current work history, including questions about the learning and skill-building opportunities presented to them. This analysis is based on 1,636 surveys received from 1,906 total employees at Harrah's for a response rate of 86 percent.



Previous Employment Status

As shown in Figure 4, 28 percent of the current Harrah's employees who responded to the survey were unemployed prior to beginning work at the riverboat. Sixty percent had full-time jobs. The average annual wage of those employed at full-time jobs prior to beginning work at Harrah's was \$22,479.

Figure 4: Employment Status Prior to Beginning Work at Harrah's

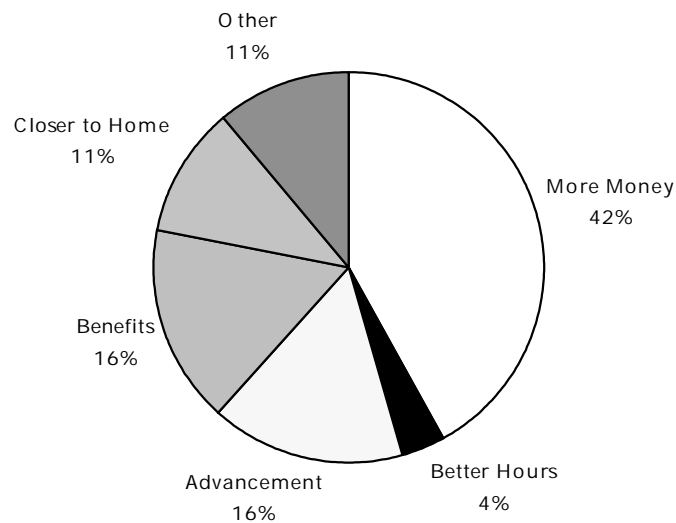




Reasons for Leaving a Job to Accept Employment at Harrah's

As shown in Figure 5, for the 1,164 survey respondents who left full- or part-time positions to begin work at Harrah's, the principal reason was more money (42 percent). Improved benefits and better advancement opportunities were the second and third most common reasons the previously employed cited for beginning work at Harrah's. The most common prior occupation of current Harrah's employees who left full- or part-time positions to begin work were either service sector jobs (27 percent) or retail sector jobs (12 percent).

Figure 5: Why Previously Employed Accepted Job at Harrah's

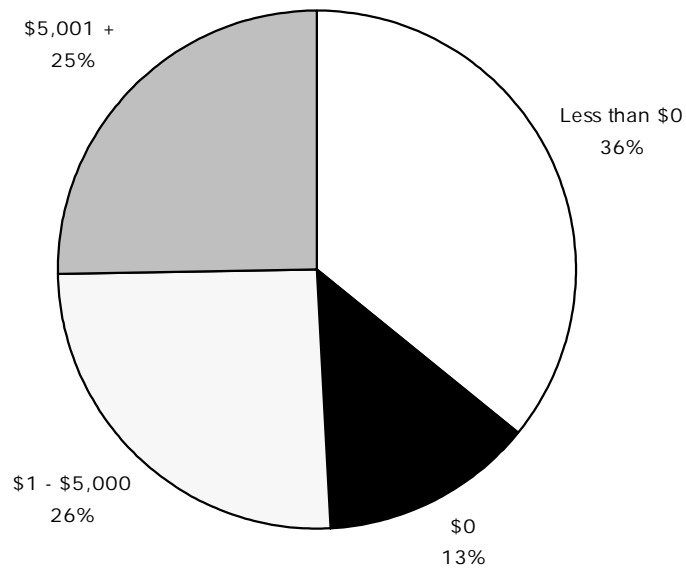




Change in Annual Wages Upon Beginning at Harrah's

Of the 1,636 respondents, 972 provided information that compared previous wages to starting wages at Harrah's. As shown in Figure 6, slightly more than 50 percent received a raise from their previous position, those with raises were split nearly equally between more or less than \$5,000. Reflective of the nearly even distribution of those receiving a raise and those that did not, the median increase for employees reporting a previous wage and starting wage at Harrah's was \$600. The average increase for employees reporting both previous and starting wages was \$204.

Figure 6: Change in Annual Wages from Previous Job to Starting at Harrah's

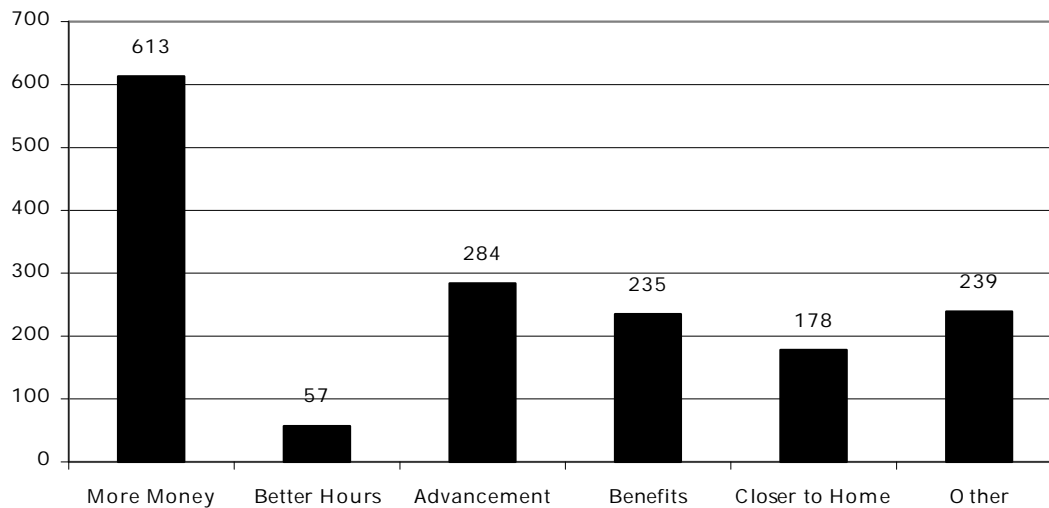




Reasons for Beginning Employment at Harrah's

As shown in Figure 7, more money had more than twice as many responses (613) than the next largest response (advancement opportunities, 284). Better benefits (235) and other (239) experienced a response level similar to advancement opportunities.

Figure 7: Primary Reason for Beginning Employment at Harrah's (All Respondents)

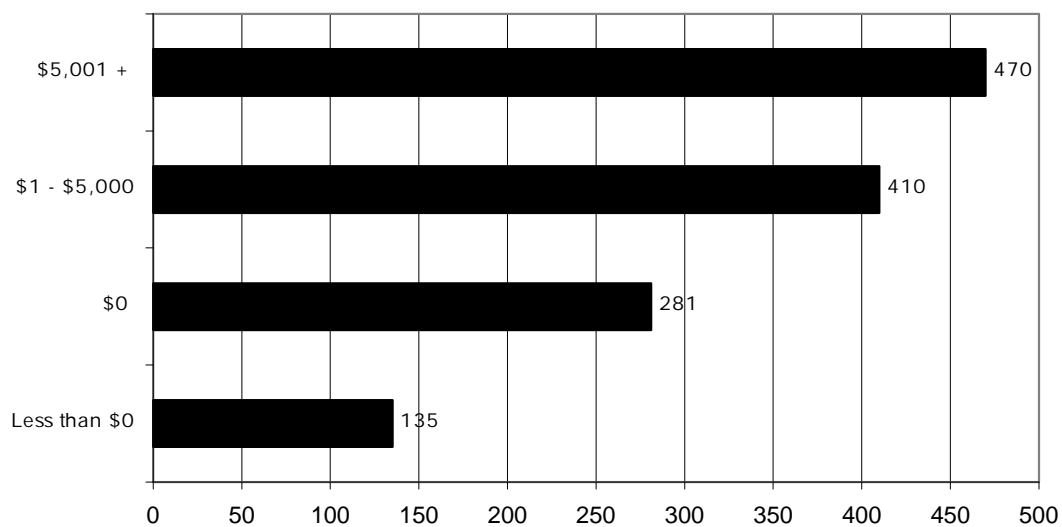




Harrah's Employment History

Of the 1,296 survey respondents reporting current and beginning wages at Harrah's, Figure 8 shows that 880 (68 percent) have experienced an increase in wages over the period. Only 416, or 32 percent, experienced a decline or no increase in annual wages since beginning employment at Harrah's. The average increase in wages for all employees reporting both current and beginning wages was \$5,331 over the period. The median increase was \$3,000. Over the same period, per capita income in Indiana grew by \$3,295. The 25 percent rate of increase for Harrah's workers compared to the 15 percent increase for all Indiana workers shows that Harrah's workers incomes are growing, on average, faster than wages for other workers.

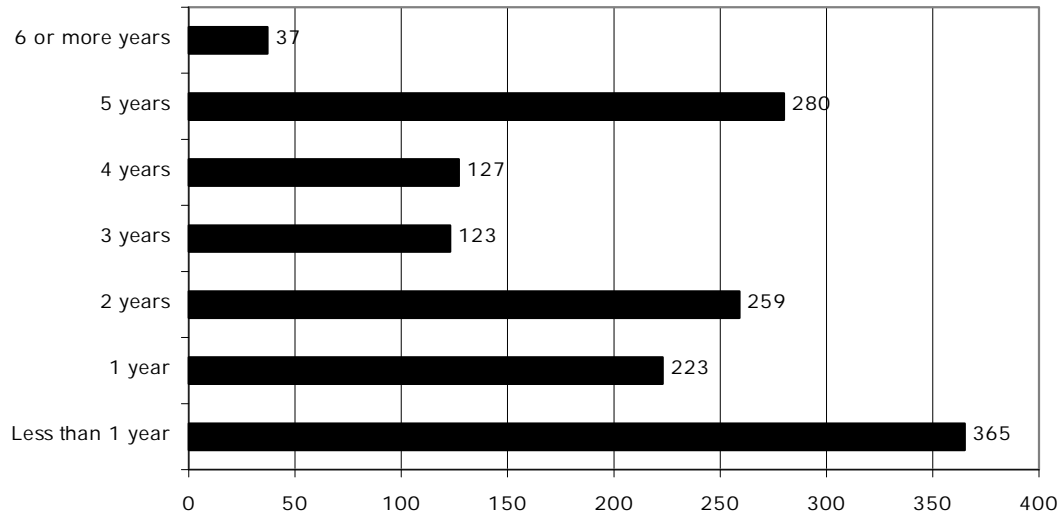
Figure 8: Change in Annual Wages Since Beginning Employment at Harrah's





The average length of employment at Harrah's by survey respondents was two years and eight months. The median length of employment was two years and six months. As shown in Figure 9, 444 workers or 31 percent of all respondents have worked at Harrah's for four or more years. Thirty-seven employees report that they have worked for Harrah's longer than the East Chicago riverboat has been open, while this may be reporting error it is also possible that these employees transferred from another Harrah's operation.

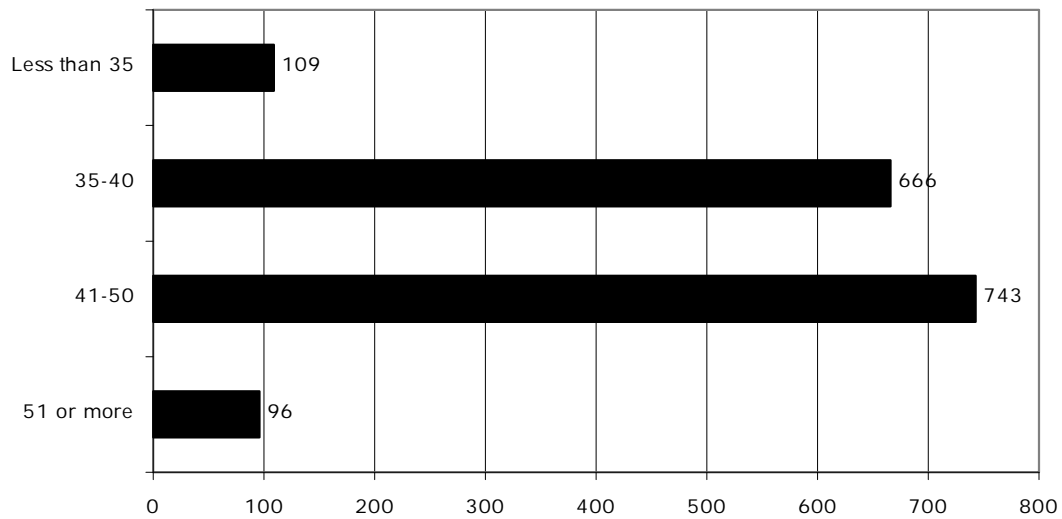
Figure 9: Years Worked at Harrah's by Number of Respondents





Ninety-four percent of the Harrah's employees responding to this survey question are full-time employees working between 35 and 50 hours per week. As shown in Figure 10, only 109, or 6 percent, report working part-time or less than 35 hours. While it is possible that those working full-time were more likely to return their survey, the vast majority of respondents employed by Harrah's work on a full-time basis.

Figure 10: Hours Worked per Week by Harrah's Employees

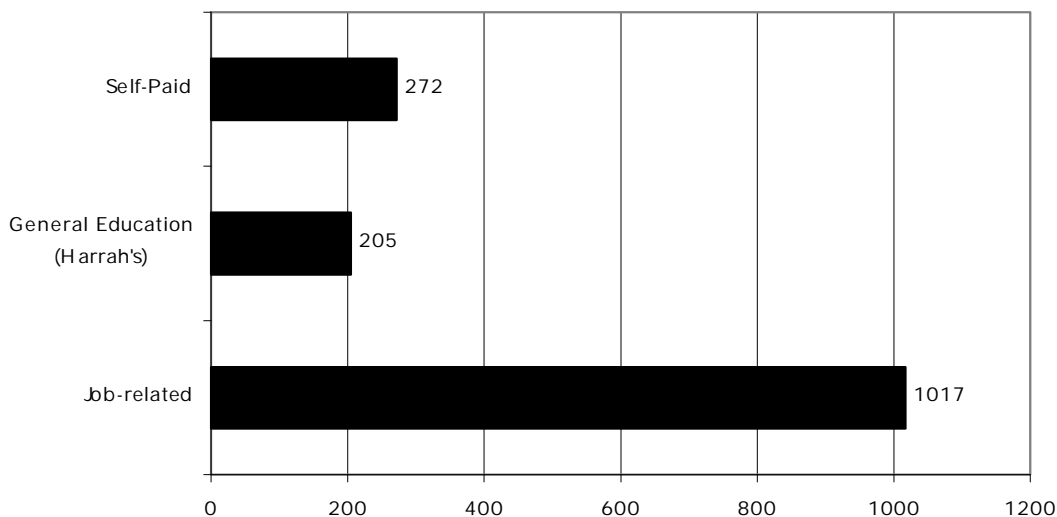




Employee Training and Skill Building

While the data on wages and employment show that Harrah's employees are, for the most part, experiencing improved economic conditions, training and skill enhancements are key levers to continued growth and career opportunities. Figure 11 shows that 1,017 (68 percent) of the respondents reported riverboat job-related training, fewer Harrah's employees are accessing skill-building opportunities beyond those directly related to their duties at the riverboat. In fact more employees paid for their own training (272) than received additional skill-building opportunities paid by Harrah's (205).

Figure 11: Training and Skill Building of Harrah's Employees



Thirty-six percent of all respondents reported a high school degree as their highest level of academic achievement and 48 percent reported some college as their highest level of academic achievement. Arguably, these two groups are most positioned to take advantage of additional skill-building opportunities. Nine percent of the high school graduates and 14 percent of those with some college reported receiving non-job-related general education opportunities funded by Harrah's. Nine percent of the high school graduates and 20 percent of those reporting some college paid for additional skill-building opportunities on their own. With the information gathered from this survey, there are no means to determine if these results are determined by employee decisions, lack of availability to training, or other factors. The slight differences between high school graduates and those with some college suggests that prior collegiate experience might play a role in explaining access to training. Two possible explanations for this are, ease of access for those previously accepted to college, and the prior experience and commitment of those with some college.





ECONOMIC AND FISCAL ACTIVITY

Since opening in 1997, through December 31, 2001, Harrah's has paid local governments over \$100 million in gaming-related taxes (admissions and wagering taxes) and has voluntarily contributed an additional \$46 million to East Chicago. Of the \$100 million in gaming-related taxes, \$75 million was distributed to the city of East Chicago, with the remaining \$25 million distributed to Lake County. The analysis of the economic benefits of spending of local gaming-related taxes and incentives is limited to expenditures made by the city of East Chicago, the Twin City Educational Foundation, and the East Chicago Community Foundation.

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

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

This debate ignores the economic contributions made by the spending of the tax revenue generated by gaming facilities for local government. The manner in which local governments choose to invest the local gaming tax revenue has immediate and long-term impacts for the local economy. The immediate benefit occurs as a result of the spending of local tax dollars working their way through the local economy. The long-term benefit is determined by how well the spending contributes to the long-term economic competitiveness of the local economy.



This chapter of the analysis discusses the following:

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

Compliance

Tax Revenue

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

As Table 5 illustrates, Harrah’s has paid almost \$178 million in direct taxes to the state of Indiana since it opened.

Table 5: State Direct Taxes¹

Category	1997	1998	1999	2000	2001	Total
Gaming Tax (State share)	\$16,691,751	\$26,327,223	\$31,024,847	\$37,138,345	\$39,959,959	\$151,142,124
Admission Tax (State share)	\$3,453,745	\$4,878,404	\$5,147,427	\$5,633,578	\$5,910,383	\$25,023,537
Sales and Use Tax	NA	\$434,258	\$358,117	\$438,858	\$497,544	\$1,728,777
TOTAL	\$20,145,496	\$31,639,885	\$36,530,391	\$43,210,781	\$46,367,886	\$177,894,438

¹ Source: Harrah’s East Chicago Casino



In addition, as Table 6 shows, Harrah's has paid almost \$113 million in direct taxes (gaming, admission, and property taxes) to the local area (city and county) since it opened.

Table 6: Local Direct Taxes²

Category	1997	1998	1999	2000	2001	Total
Gaming Tax (City share)	\$5,563,917	\$8,775,741	\$10,341,616	\$12,379,448	\$13,319,986	\$50,380,708
Admission Tax (County share)	\$3,453,745	\$4,878,404	\$5,147,427	\$5,633,578	\$5,910,383	\$25,023,537
Admission Tax (City share)	\$3,453,745	\$4,878,404	\$5,147,427	\$5,633,578	\$5,910,383	\$25,023,537
Property Tax	\$567,267	\$2,341,572	\$2,482,357	\$3,262,412	\$3,800,983	\$12,454,591
TOTAL	\$13,038,674	\$20,874,121	\$23,118,827	\$26,909,016	\$28,941,735	\$112,882,373

Incentive Payments

The largest impact of Harrah's in the East Chicago area (outside of taxes) has been through incentive payments. These payments are the result of agreements that were made with the city of East Chicago as part of their application process. In its Certificate of Suitability, Harrah's agreed to provide incentive payments, as detailed below. As Table 7 illustrates, Harrah's is on or ahead of schedule with its incentive payments, except for the Homebuyer's Assistance, and has provided \$46 million in incentive payments. The initial project was delayed due to difficulty in locating a partner bank. A partner bank has been found and the project is in the design phase. While all the fixed incentives (except for the Homebuyer's Assistance) were completed in years one and two, the largest incentives, the contingent incentives, will continue into the future.

Table 7: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Through 12/31/01	Status
Projects or Programs	\$1,270,000	East Chicago	\$1,371,000	Completed Year 1
Contributions to Cline Avenue Overpass	\$3,500,000	East Chicago	\$3,500,000	Completed Year 1
Job Training	\$1,544,000	East Chicago	\$1,544,000	Completed Year 1
Homebuyer Assistance	\$5,500,000	East Chicago	\$104,000	Ongoing
Economic Development Initiatives	\$4,558,000	East Chicago	\$4,558,000	Completed Year 2
Contingent Initiatives	1% of AGR	East Chicago	\$10,076,921	Ongoing
Contingent Initiatives	1% of AGR	East Chicago Community Foundation	\$10,076,921	Ongoing
Contingent Initiatives	1% of AGR	Twin City Education Foundation	\$10,076,921	Ongoing
Contingent Initiatives	0.75% of AGR	East Chicago Second Century	\$7,557,691	Ongoing

² Source: Harrah's East Chicago Casino



Replacement of Bathhouse	\$155,000	Jerose Park	\$155,000	Completed Year 2
Marina Entrance	Not in certificate	Marina	\$311,000	Completed Year 3
TOTAL			\$45,834,954	

The Homebuyer's Assistance is for Harrah's employees and commits up to five percent of the purchase price of the home. (Not to exceed a maximum \$5,000). The employee must be employed for at least one year, be in good standing, and be first-time home buyers in the City of East Chicago. The home purchase is limited to single-family dwellings and they must remain in the home for at least a year.

Fiscal Impact of Tax Revenues on Local Government

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

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



Overall Impact on Lake County

Table 10 shows total assessed value³ in the assessment years 1988, 1994, and 2000 (that is, assessed values for taxes payable in 1989, 1995, and 2001). There are four riverboats in Lake County, so these data show the impacts of all four. Like Indiana as a whole, Lake County assessed value grew more slowly in 1994-2000 than it did in 1988-94. This is primarily because the 1980s saw more inflation in construction costs than the early 1990s. The 1989 reassessment increased taxable values more than did the 1995 reassessment. In both periods, Lake County's assessed value growth lagged the state's. The advent of the riverboats did add substantially to Lake County's assessed value, but not enough to offset other factors, such as declining industrial assessments.

Table 10: Assessed Value in Assessment Year, Lake County, 1988-2000 (thousands)

	1988	1994	2000	Avg. Annual % Change	
				1988-94	1994-2000
Lake County	1,938,133	2,700,650	3,293,631	5.7%	3.4%
All Indiana	28,507,022	43,028,074	57,318,892	7.1%	4.9%

The riverboats are major employers, with more than 6,000 employees in Lake County. This figure represents about 2.4 percent of total employment in Lake County. Table 11 shows that Lake County employment grew only 0.8 percent per year between 1988 and 1994, but that the growth rate nearly doubled to 1.4 percent per year over 1994-99. During this same period Indiana average annual growth remained constant at 1.9 percent per year. Lake County employment is more dependent on cyclically sensitive manufacturing than is the state as a whole, so the 1990s expansion may account for this increase in employment growth. The 1988-94 period included a recession. But the increase in Lake County employment growth also may be due to the riverboats. The total increase in employment from 1994 to 1998 was 15,100. Riverboat employment of 6,000 would account for more than a third of this growth.

Table 11: Place-of-work Employment in Lake County, 1988-99

	1988	1994	1999	Avg. Annual % Change	
				1988-94	1994-99
Lake County	220,998	232,110	249,345	0.8%	1.4%
All Indiana	2,953,581	3,314,850	3,645,725	1.9%	1.9%

³ Assessed value is the dollar value placed on real and personal property by local assessors, for property tax purposes. Real property is land and buildings (and, in Indiana, riverboats). Personal property is business equipment and inventories.



Lake County's per capita income is slightly less than the state average (Table 12). As with employment, growth in per capital income above inflation was much faster after 1994 than before. Indiana as a whole also experienced more rapid income growth, but the growth increase was not as great as in Lake County. Prior to the riverboats, Lake County's real per capital income growth was about half the state's growth; since the riverboats, Lake County's growth has exceeded Indiana's. Again, this may be due to the cyclical characteristics of Lake County's economy, but it also may be due to the riverboats.

Table 12: Personal Income Per Capita in 2001 Dollars, Lake County, 1988-99

	1988	1994	1999	Avg. Annual % Change	
				1988-94	1994-99
Lake County	23,167	24,199	27,519	0.7%	3.3%
All Indiana	23,378	25,278	28,420	1.3%	3.0%

As shown in Table 13, Lake County has experienced slow population growth over the past 12 years. Population has grown slightly more slowly since 1994, compared to the 1988-94 period. Indiana's population growth has exceeded Lake County's, and during 1994-2000 Indiana's population growth rate increased slightly.

Table 13: Population in Lake County, 1988-2000

	1988	1994	2000	Avg. Annual % Change	
				1988-94	1994-2000
Lake County	472,081	481,836	484,564	0.3%	0.1%
All Indiana	5,523,679	5,745,626	6,080,485	0.7%	0.9%

Table 14 shows school enrollment. Here we need not rely on countywide data, but can look at the East Chicago School Corporation. The Harrah's riverboats are within the borders of this school corporation. East Chicago School Corporation enrollment has declined at rapid rates over the whole 1988-2001 period. Declines after 1994 were slightly slower than before. The corporation enrolled 571 fewer pupils in 2001 than it did in 1994. During this same period Indiana's overall enrollment increased slightly.

Table 14: School Enrollment in East Chicago School Corporation, 1988-2000

	1988	1994	2001	Avg. Annual % Change	
				1988-94	1994-00
East Chicago School Corp.	7,303	6,670	6,099	-1.5%	-1.3%
All Indiana	927,687	930,836	954,480	0.1%	0.4%

The arrival of the riverboats may well have increased employment and real per capita income in Lake County. Industrial declines in assessed value appear to have offset the added assessments from riverboats. There seems to have been little impact on population and school enrollment in East Chicago Schools, however. From a fiscal



impact perspective, this is important. Local revenues are more closely related to assessed value, jobs, and income. Employment and income have grown more rapidly since 1994. Local costs are more closely related to population and school enrollment. Population did not grow more rapidly after 1994, and East Chicago School enrollment continued to fall after the riverboats arrived. These broad indicators suggest that the riverboats had a positive fiscal impact. The East Chicago School Corporation enrollment decline probably implies that the school corporation has excess capacity, meaning that the educational needs of any new pupils brought to the corporation by riverboat employees have been met by existing teachers and facilities.

Fiscal Impact of New Employment

In the fall of 1999 surveys were mailed to 1,750 riverboat employees representing seven of the nine riverboats then operating.⁴ Seventy-four employees had relocated, decreasing the sample to 1,676. Four hundred and fifty-seven questionnaires were returned, for a response rate of 27.3 percent. For the Harrah’s riverboat, 247 valid surveys were mailed, and 53 were returned, for a response rate of 21.5 percent.

Table 15 shows the location of employees before and after they were hired by the riverboats. There were 52 usable survey responses from the Harrah’s riverboat in East Chicago for this question. Of the 52 responses, 12 relocated upon becoming riverboat employees, while 40 did not relocate. Of those who relocated, 7 moved into Lake County, while 5 moved into a neighboring county.

Fifty-two employees is of course a very small sample. However, our confidence in these results is increased by the fact that similar results were found for all Indiana riverboats surveyed. In the statewide sample of 448 usable responses, only 22 percent relocated, while 78 percent did not. The results for Harrah’s employees are nearly identical to the state total.

Extrapolating the survey results to all 1,512 Harrah’s employees (as of 1999), 13.5 percent or 204 moved from elsewhere to Lake County, and 61.5 percent or 930 existing county residents took new jobs with the riverboat. The remainder live outside Lake County.

Table 15: Location of Employee Residence Prior to Employment

	Host County		Non-Host Area		Total	
	# of Employees	% Total	# of Employees	% Total	Total	Percent
New	7	13.5%	5	9.6%	12	23.1%
Existing	32	61.5%	8	15.4%	40	76.9%

Host: County in which riverboat is located
 Non-Host: Surrounding area

⁴ This study was conducted for the Indiana Gambling Impact Study Commission in 1999. The tenth Indiana riverboat began operation in 2000 in Switzerland County.



New: Employee moved from outside area to obtain employment
Existing: Employee was a resident in area prior to employment

The survey also asked about housing construction. Six of the 47 Harrah's survey respondents answering this question reported living in a house built since 1996. This is a relatively small number, but more than in most riverboat counties.

Fiscal Impact on Lake County

The Harrah's riverboat adds \$14.2 million in new assessed value (AV). The county's cumulative fund property tax rate adds \$22,574 in new revenue to the county budget. The operating and welfare rates generate \$673,968 in new revenue. However, the added riverboat AV is not enough to change the maximum levy limit on property tax levies for operating purposes. In effect, the riverboats produce no added operating revenue—each dollar of added riverboat tax is offset by a dollar decline in taxes paid by existing taxpayers. The same is assumed to be true for welfare. Welfare appropriations are determined by state rules, and we assumed that the advent of the riverboat does not change the number of eligible recipients. The added riverboat taxes for welfare are offset by lower welfare taxes on existing taxpayers. The debt service rate generates \$10,947 in revenue, but again, this is offset by declines in property tax payments by existing taxpayers. Debt service payments remain constant when assessed value rises, so the debt service tax rate declines. These tax savings from the operating, welfare, and debt service rates do not provide additional revenue to county, but they do have a fiscal impact upon the citizens of Lake County, who pay lower property taxes than they would have without the riverboats.

Lake County is one of only seven Indiana counties without a local income tax. Other revenues include motor vehicle excise taxes, charges and fees, and additional miscellaneous revenue. The sum is \$25,687. Overwhelmingly, the largest revenue source attributed to the riverboat is the admissions taxes received by the county, which total \$5.6 million.

The added costs to Lake County of the riverboats and their employees are estimated using two cost estimate methods described in Appendix A. The two results are similar, differing by about \$80,000, ranging from \$198,815 to \$279,884.

Fiscal impact is calculated as the added revenues less the added costs of a development. For the county, eight different fiscal impact calculations were performed. Detailed results are presented in Table A1 in Appendix A. When riverboat admissions taxes are included, the fiscal impact is *overwhelmingly positive, approximately \$5 to \$6 million*. The added revenue is far more than the added costs. This is true if only added revenues without tax savings are counted, or if total revenues are counted, and it is true under either estimate of added costs.

We also calculated the fiscal impacts with the riverboat taxes excluded: each of the cost estimates, with only added non-riverboat tax revenue and with total non-



riverboat tax revenue. We calculated the fiscal impact without the added revenue from the riverboat because county riverboat tax revenues have been assigned primarily to capital improvements. Tax savings can be turned into added revenues through several avenues, including new bond issues (debt service), tax increment financing, and added cumulative fund rates. All of these, however, raise revenue for capital improvements. How are added operating costs to be funded? The county might have difficulty funding the added operating costs—sheriffs officers' wages, road maintenance, park maintenance and so forth—because virtually all the added revenue from the riverboat is devoted to capital improvements.

The fiscal impacts using only added revenue are *negative*—costs exceed added revenues slightly, ranging from a negative fiscal impact of \$150,553 to \$231,623.⁵

Fiscal Impact on City of East Chicago

As stated above for Lake County, the property tax on the Harrah's riverboat provides little added revenue to the city of East Chicago. The added \$14.2 million in riverboat assessed value in 2000 is taxed at the city's operating rate, which generates \$803,884 in tax revenue. However, because the added riverboat AV is not enough to increase the three-year average AV growth rate above five percent, the city's maximum levy is unchanged by the advent of the riverboats. Every dollar of property tax paid by the riverboats is offset by a dollar of property tax saved by existing taxpayers. While this does not provide additional revenue to city of East Chicago, it does have a fiscal impact upon the city's citizens, who pay lower property taxes than they would have without the riverboats. The city's cumulative fund rate does add revenue to the city budget, to the amount of \$16,420.

Lake County has no local income tax. East Chicago's other revenues sum to \$47,351. Again, riverboat wagering and admissions taxes are by far the largest source of additional revenue, \$18 million.

Costs are calculated for the city using methods described in Appendix A and the added costs sum to \$574,653.

The detailed results for the city are presented in Table A2 in Appendix A. Even more than for the county, the fiscal impacts including riverboat taxes are *overwhelmingly positive*, \$17.5 to \$18.4 million. The annual tax revenue from the Harrah's riverboat far exceeds the added costs.

⁵ The negative fiscal impact without the added riverboat revenue may be overstated, for two reasons. First, some of the added costs that might be generated by the riverboat and its employees are capital costs. The riverboat revenue will more than cover these costs. Second, Lake County is home to three riverboats in addition to Harrah's. The costs of delivering similar services to four boats are unlikely to be four times the cost of delivering services to a single boat. Such "economies of scale" would reduce the cost impact of each boat individually.



If both riverboat taxes and tax savings are excluded, however, the fiscal impact is *negative* at \$510,882. In most cities this could represent a potential problem with operating costs because riverboat revenues have been assigned almost exclusively to capital improvements. Tax savings can be turned into new revenues, but only for capital improvements. Some of the added costs may be for non-capital expenses: wages for new police officers and firefighters, road maintenance and so



forth. The added operating revenue from other sources may not cover these added costs.⁶ In East Chicago's case, however, the \$22.3 million for operations that was transferred to the General fund more than covers these added costs.

Fiscal Impact on East Chicago School Corporation

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

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

Most of the property taxes paid on the \$14.2 million in Harrah's riverboat assessed value become added revenue for the school corporation. Added revenue from property taxes amounts to \$785,967. Only the debt service fund creates tax savings. The debt repayment schedule is unchanged by the added assessed value, so the rate required to raise these payments falls. This results in \$305,578 in tax savings to existing taxpayers. Other revenues are relatively small in comparison, totaling \$25,349 in added revenue.

State aid falls by \$428,627. Assessed value per pupil is increased by the advent of the riverboat. This reduces the amount paid to the school corporation in per-pupil aid. Enrollment is not assumed to increase, so the net effect of the added wealth is to

⁶ Again, more than for the county, this negative fiscal impact may be overstated. Not all of the new Harrah's employees live in East Chicago, though this analysis makes that assumption. Further, Census population figures show that East Chicago's population fell by 1,446 between 1990 and 2000. While the advent of the riverboat probably added population to the city, ten years ago the city was providing services to more people. Even with the riverboat, fewer people were being served in 2000 than in 1990.

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

Without the added people, the negative fiscal impact drops to \$65,756, due entirely to the extra costs imposed directly by the riverboat. Some of these will be capital costs, which can be covered by riverboat taxes, so any negative fiscal impact on operating costs would be smaller still.



reduce state aid. In total, the school corporation realizes \$384,759 in added revenue, \$690,337 in total, including tax savings.

Enrollment in East Chicago schools had declined by 571 pupils since the riverboat arrived. It is estimated that the new resident riverboat employees have added 96 new pupils to the schools. This number is less than the average annual decline in enrollment in the past five years, however. It seems quite likely that the East Chicago School Corporation has the extra capacity to serve these new pupils at no additional cost. Added costs are assumed to be zero.

For the East Chicago School Corporation, the fiscal impact of the Harrah's riverboat is *positive*, and equal to the added revenue created by the riverboat. Added revenue is \$384,759 without tax savings, \$690,337 with tax savings.

Economic Benefits of Gaming-Related Taxes and Incentives

Since its opening in 1997 through December 31, 2001, the Harrah's riverboat casino has paid approximately \$121 million in local taxes and voluntary contributions to the City of East Chicago, the East Chicago Community Development Foundation (ECCDF), East Chicago Second Century, Inc. (ECSC), and the Twin City Education Foundation (TCEF). The ECCDF and TCEF have each received \$10,076,921 in contributions from Harrah's. The ECSC has received \$7,557,691 in contributions. The remaining local taxes and negotiated contributions have been received by the city of East Chicago. Detailed expenditure information is available for approximately \$86 million of the total local gaming-related tax and voluntarily negotiated contributions. The analysis of the economic benefits of spending of local gaming-related taxes and incentives is limited to expenditures made by the city of East Chicago, the Twin City Educational Foundation, and the East Chicago Community Foundation.

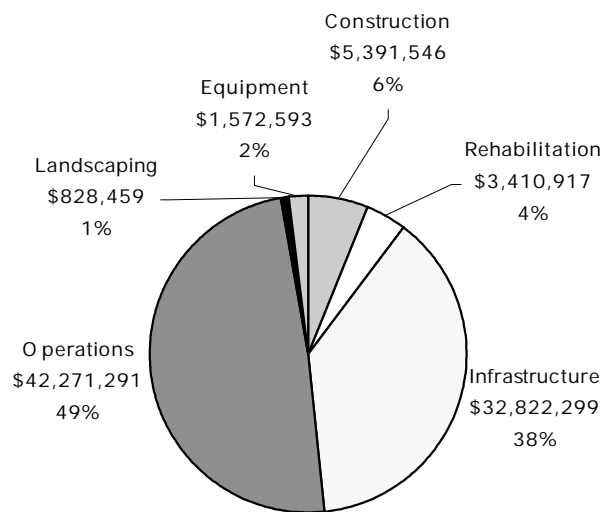


Total Spending

As illustrated in Figure 12, nearly 50 percent of all expenditures were for operations of local government and a range of foundations and programs. Other expenditures include:

- Infrastructure (primarily roads)
- Construction of new facilities (marina entrance, affordable housing and other public facilities)
- Rehabilitation (public and not-for-profit buildings, economic development projects)
- Landscaping (Little League fields, public parks)
- Capital equipment (police and fire equipment)

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



Total Benefits

From 1997 through 2001, the total short-term economic benefit provided by the spending of local gaming-related tax revenue and negotiated incentives was over \$136 million. The analysis does not include tax revenue spent by other cities and towns in Lake County. It also does not include revenues collected but not yet expended.



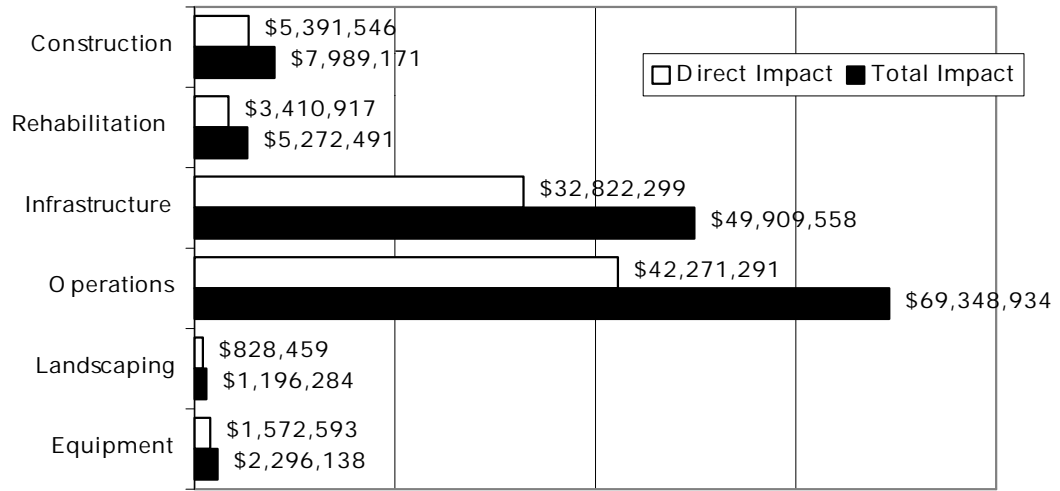
How the tax dollars are spent determines both the short and long term economic benefits generated within the local economy. The short-term benefits are the immediate result of the spending—principally the new jobs, wages, and business activity generated as spent tax and incentive dollars work their way through the Lake County economy. These short-term benefits represent the \$136 million described in this study.

The long-term benefits are related to the degree to which the spending supports or develops competitive economic advantages for the city of East Chicago and the business located there. These long-term benefits are not immediately measurable. However, if the local gaming-related tax and incentive dollars are spent wisely they will support the local economy for many years. The economic impact analysis also cannot measure the contributions made to the quality of life in East Chicago. For example, while the model can measure the jobs created by the rehabilitation of a school building, a homeless intervention project, or heating assistance program, it cannot measure the impact of these programs on the lives of the individuals benefiting from the programs.

Economic Benefit by Type of Expenditure

In Figure 13, the direct impact bars represent the gaming-related expenditures made by the city of East Chicago and the three foundations. The total impact bars represent the full economic benefit of the local spending decisions as they work their way through the local economy. For example, the nearly \$33 million spent on infrastructure improvements results in nearly \$50 million of total economic benefit, with the additional economic benefits being created by the spending of the firms building the infrastructure and the spending of the wages earned by employees working on the projects.

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





Each expenditure category provides a different measure of immediate return on the investment made. For example, as Figure 14 illustrates, for every \$20,000 invested in landscaping a new job is created. Or, as Figure 15 illustrates, infrastructure investments provide an additional 52 cents of economic activity for each dollar spent

Figure 14: Investment Per Job Created

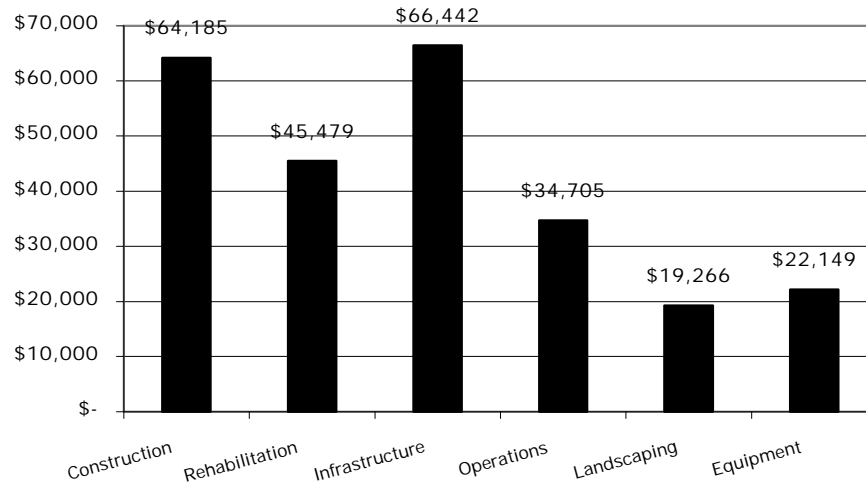
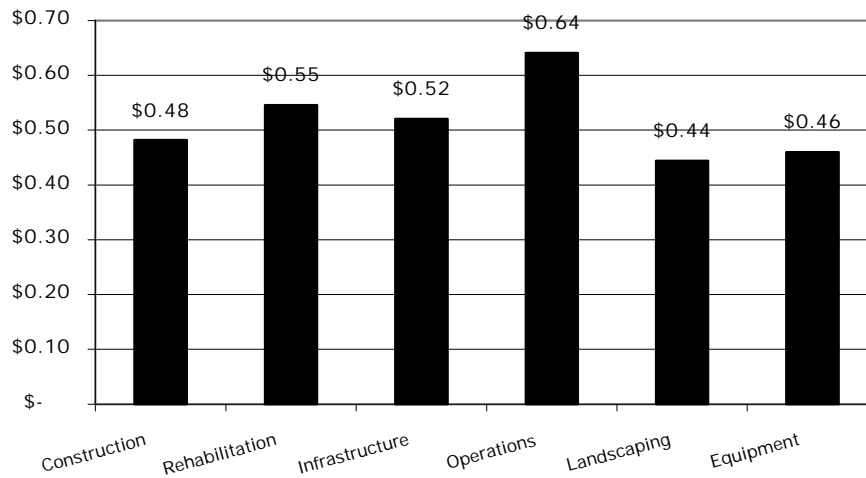


Figure 15: Additional Return on One Dollar Invested



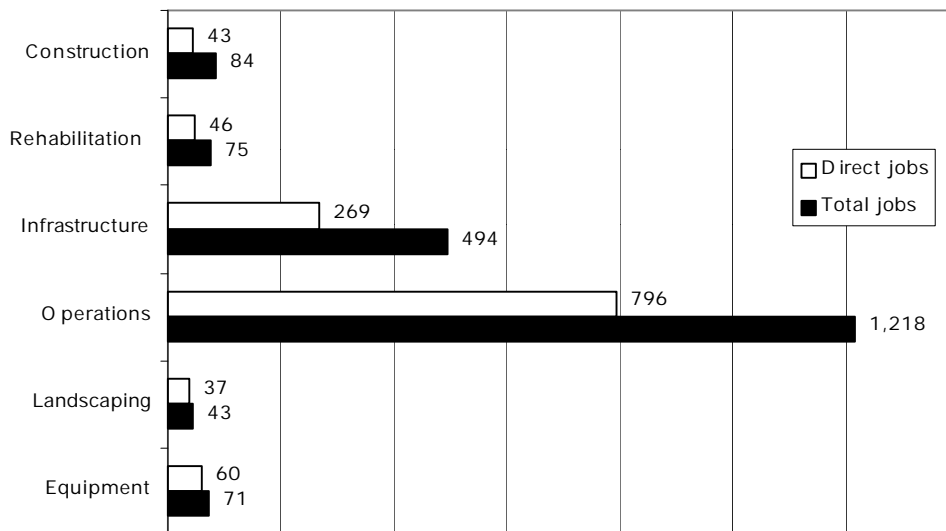


The rate of return offers local officials one perspective from which to evaluate the benefits of investing gaming-related tax revenues. However, the rate of return provides only a short-term perspective, with the economic benefits ending soon after the last dollar is spent. The long-term perspective must consider the lasting value of the improvements made. Thus, while the immediate return on operations exceeds that of construction and infrastructure, the lasting benefits of improved roads and facilities may outweigh the immediate benefits of operations. From the long-term perspective, the degree to which the investments contribute to the economic competitiveness of local firms, the local workforce, and the area's quality of life must be considered.

Jobs Created

Figure 16 displays the number of jobs attributable to each category of investment made with gaming-related revenue. There were 1,985 total jobs created in Lake County as a result of the spending of gaming-related revenue. Spending on operations and infrastructure created the vast majority of the new jobs. Each new job represents an annual full-time equivalent measure of employment. For example, one individual employed for four years while working at a construction firm counts as four jobs.

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

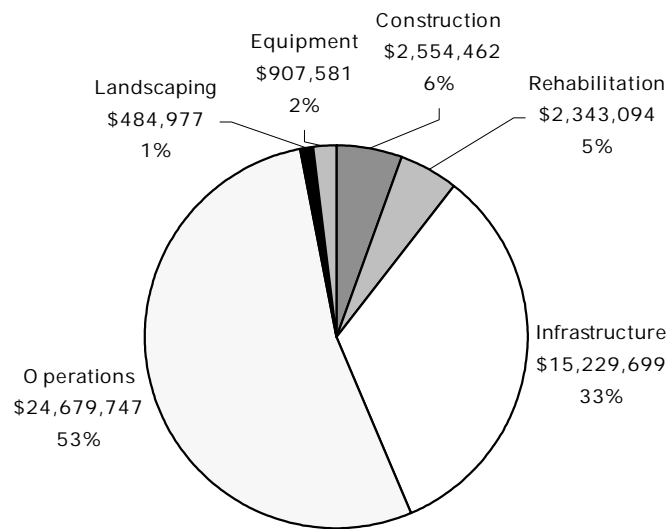




Wages Generated

Figure 17 displays the total gaming-related earnings generated in Lake County. The spending of gaming-related tax and incentive revenue has produced over \$46 million in total wages. The vast majority of wages were produced by operation and infrastructure expenditures. The highest average wage was created by rehabilitation-related jobs (\$31,241) while landscaping-related jobs produced the lowest average wage of \$11,278 per job.

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





OTHER ISSUES

According to Harrah's, 56 lawsuits have been filed against them since June 1, 1998, when it acquired Showboat; 40 were filed by patrons and 16 by employees. In addition, Showboat had reported in its first year that it was sued once for sexual harassment and once for wrongful discharge. According to a phone interview with East Chicago's police department, the neighborhood surrounding the riverboat has not experienced any additional criminal activity that can be attributed to the riverboat's presence. Crime in East Chicago has decreased substantially over this time period due to increased cooperation with federal agencies, community policing and increased staffing. Traffic to the rest of the city has not increased because of the direct access from the highway to the casino.

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 by addressing gambling problems and providing 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.

As Table 14 indicates, in an effort to prevent underage gambling, Harrah's has verified 103,500 identifications. In addition, they have turned away 4,522 patrons for being under 21.

Table 14: Harrah's Efforts to Prevent Underage Gambling

	1997-1998	1999	2000	2001	Total
Number of IDs verified	NA	10,797	28,896	63,807	103,500
Number of patrons turned away - under 21	NA	536	1,574	2,412	4,522



SUMMARY OF FINDINGS

Project Development Certificate Compliance

- As of December 2001, Harrah's had spent \$274.4 million, \$119.9 million more than agreed to in the Certificate for the development of the project.
- Since 1999, Harrah's has spent \$47.3 million locally.
- Harrah's has contributed almost \$400,000 to local area organizations.

Gaming Activity

- Harrah's has had attendance of over 25 million people since opening and gross gaming receipts of \$1.0 billion, for an average of \$40 of casino win per patron per cruise.

Impact of Gaming Activity on Tourism

- Most patrons were regular (38 percent) or somewhat regular (33 percent) visitors.
- According to a survey of patrons, 96 percent of the patrons stated that their main reason for traveling to East Chicago was to visit Harrah's.
- Thirteen percent of the patrons planned to stay in East Chicago for more than eight hours.
- According to a survey, few of the respondents anticipated visiting other businesses and/or attractions, but 15 percent had visited or planned to visit at least one other riverboat on the same trip.

Employment Certificate Compliance

- As of December 2001, Harrah's had employment of 1,906 persons, above their five-year average of 1,630. Since opening Harrah's has paid over \$224 million in wages.
- As of December 2001, 59 percent of Harrah's employees were women, and 62 percent were minorities. Seventy-six percent were residents of Lake County and 25 percent were residents of East Chicago.

Impact on Harrah's Workforce

- According to a survey of employees, before beginning employment with Harrah's, approximately 40 percent of employees were either not working or working part-time.
- When respondents were asked to select one reason for taking a job with Harrah's, 42 percent chose more money as their primary reason, 16 percent chose improved benefits as their reason for accepting employment, and an additional 16 percent chose to begin work at Harrah's because of opportunities for advancement.



- According to a survey, the average increase in wages for employees, since they began work at Harrah's is \$5,331.
- The average length of employment at Harrah's was two years and eight months.
- Sixty-eight percent of all respondents report receiving training related to their position at Harrah's. Only 14 percent received general or basic skill training, from Harrah's and 18 percent paid for additional training themselves.

Tax Revenue Collected

- Harrah's has paid almost \$178 million in direct taxes to the state of Indiana since it opened.
- Harrah's has paid almost \$113 million in direct taxes to the local area since it opened.

Incentive Payment Certificate Compliance

- Harrah's is on schedule with its incentive payments and has provided \$45.8 million in incentive payments.
- While all the fixed incentives were completed in years one and two, the largest, the contingent incentives, will continue into the future.

Fiscal Impact of Tax Revenues on Local Government

- In total, the fiscal impact of the Harrah's riverboat on Lake County, the city of East Chicago and the East Chicago Community School Corporation is positive; total added revenues greatly exceed total added costs.
- For the city, the fiscal impacts using only added revenue *without riverboat taxes* are near zero. Without the riverboat revenues or tax savings, the city approximately breaks even. However, the fiscal impact analysis implies that for the county, *without riverboat taxes*, the additional revenue may not be enough to meet the added operating costs that the riverboat and its employees may create.
- The school corporation receives no riverboat taxes, but the added revenue from property taxes and state aid are added to its budget, for the most part. The positive impact results from the relatively small increase in enrollment, compared to the large increase in assessed value.

Economic Benefits of Gaming-Related Taxes and Incentives

- The total economic benefit produced through the spending of Harrah's local gaming revenue was almost \$136 million.
- Local area employment attributable to this economic benefit was 1,985 jobs with earnings of over \$46 million.

Other Issues

- Harrah's, in an effort to prevent underage gambling, has verified 103,500 identifications. In addition, they have turned away 4,522 patrons for being



under 21 or not having identification.



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



City and County Revenue Estimates

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

A jurisdiction's AV could also increase if riverboat employees construct new homes. The survey results for Harrah's employees show that a few are living in homes constructed since 1995. The analysis assumes that 26 new homes were constructed, with market values averaging \$115,000. The ratio of assessed value to market value is assumed to be 0.21, and deductions are subtracted to calculate added residential assessed value.

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

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

Non-operating funds operate under different rules. The welfare fund is not subject to the same controls as the operating fund, yet new welfare revenue is unlikely to be raised by the addition of new AV. Welfare expenditures are typically targeted to meet specific needs, determined by state eligibility rules and court mandates. It is assumed that the welfare levy does not change with the added AV, so the welfare portion of the



property tax rate falls. Again, this produces tax savings for existing taxpayers, because the higher AV means the welfare bill can be paid with a lower tax rate.

The property tax cumulative funds are subject to specific rate controls, rather than levy controls, so new AV will be taxed at the current rate. Added AV produces new revenue for jurisdiction cumulative funds. The revenue raised by the cumulative fund property tax is simply the product of the rate and the new development's AV.

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

There are several other categories of local government revenue, including income taxes, motor vehicle excise taxes, license and permit fees, fines, and other miscellaneous sources. There are three local income taxes available to Indiana civil governments, known as the County Adjusted Gross Income Tax (CAGIT), the County Option Income Tax (COIT), and the County Economic Development Income Tax (CEDIT or EDIT). Lake County is one of only seven remaining counties that have not adopted a local income tax.

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

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

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

City and County Cost Estimates

In the analysis of the county, several methods are used. Regression equations were estimated to show the effects of changes in employment and population on appropriations. Each 10 percent increase in population is found to increase



appropriations by about 7.5 percent. Population measures the demands of county residents for county services. Each ten percent increase in employment is found to increase appropriations by about 0.8 percent. Employment is "place-of-work" employment, that is, the number of full- and part-time employees of firms in the county, regardless of where those employees live. This variable is used to indicate the level of commercial/industrial development in the county, which also places demands on county services.

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

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

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

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

Burchell and Listokin's refinement coefficients reduce costs attributed to existing commercial/industrial firms the larger is the average commercial/industrial parcel compared to the average parcel overall. They reduce costs attributed to the new



development the larger is the development compared to existing average commercial/industrial parcel. The refinement coefficients were based on a review of a large number of commercial/industrial cost studies.



Table A1: Fiscal Impact Estimates for Lake County

Revenues		Added Revenue (\$)	Tax Savings (\$)	Total (\$)
	Property Tax	22,574	684,916	707,490
	Operating	-	342,089	342,089
	Welfare	-	331,879	331,879
	Cumulative	22,574	-	22,574
	Debt Service	-	10,947	10,947
	Local Income Tax	-	-	-
	Other Revenues	25,687	-	25,687
	Riverboat Taxes	5,633,578	-	5,633,578
	TOTAL	5,681,839	684,916	6,366,755
Costs		FIA Methods	Regression	
	TOTAL	198,815	279,884	
	Fiscal Impacts (Revenues less added costs)		Added Revenue Only (\$)	Total (\$)
		FIA Methods	5,483,025	6,167,940
		Regression	5,401,955	6,086,871
	Fiscal Impacts w/o Riverboat Taxes		Added Revenue Only (\$)	Total (\$)
		FIA Methods	(150,553)	534,362
		Regression	(231,623)	453,293



Table A2: Fiscal Impact Estimates for East Chicago

Revenues		Added Revenue (\$)	Tax Savings (\$)	Total (\$)
	Property Tax	16,420	878,160	894,580
	Operating	-	803,884	803,884
	Welfare	-	-	-
	Cumulative	16,420	-	16,420
	Debt Service	-	74,276	74,276
	Local Income Tax	-	-	-
	Other Revenues	47,351	-	47,351
	Riverboat Taxes	18,013,026	-	18,013,026
	TOTAL	18,076,797	878,160	18,954,957
Costs		FIA Methods		
	TOTAL	574,653		
	Fiscal Impacts (Revenues less added costs)		Added Revenue Only (\$)	Total (\$)
		FIA Methods	17,502,144	18,380,304
	Fiscal Impacts w/o Riverboat Taxes		Added Revenue Only (\$)	Total (\$)
			Revenue	Total
		FIA Methods	(510,882)	367,278

School Corporation Revenue Estimates

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

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

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



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

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

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

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

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

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

School Corporation Cost Estimates

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

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



It is important to note that while the other categories of costs in this model are annual costs, capital expenses are a long-term investment. Local government bonds finance expansion of school facilities and the costs are amortized over a several years. It is assumed that the school corporation will finance the capital expense with a 20-year bond at the current state and local bond interest rate of 5.1 percent (as of February 2002, according to the Federal Reserve Board). Multiplying the additional enrollment by the service standard for required facility space gives the necessary area of expansion. The total cost of this expansion is calculated at \$100 per square foot. The annual annuity payment to finance this total cost is calculated over 20 years at 5.1 percent.

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

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

Table A3: Fiscal Impact Estimates for East Chicago Community School Corporation

Revenues		Added Revenue (\$)	Tax Savings (\$)	Total (\$)
Property Tax		785,967	305,578	1,091,545
General Fund		583,331		583,331
Debt Service Fund		-	305,578	305,578
Capital Projects Fund		137,502	-	137,502
Transportation Fund		63,710	-	63,710
Other Funds		1,424		1,424
Other Own-Source Revenues		25,349	-	25,349
Other Taxes		2,068	-	2,068
Charges and Fees		5,867		5,867
Other Revenues		17,414		17,414
State Aid		(428,627)	-	(428,627)
TOTAL		384,759	305,578	690,337
Costs		Per Pupil		
	TOTAL	0		
	Fiscal Impacts		Added Revenue Only (\$)	Total (\$)
		Per Pupil	384,759	690,337

