

Eleven-Year License Renewal: Horseshoe Casino Hammond

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Executive Summary

Economic and Fiscal Activity

In 2006, attendance at Horseshoe was 4,198,416; this was the highest attendance of any riverboat casino in 2006. Between 2001 and 2006, attendance at Horseshoe increased by 53 percent (or 1.4 million), which compares favorably to the mean (37 percent) attendance increase for the ten riverboat casinos, as well as to the median (50 percent). In 2006, a total of \$131,938,502 in wagering tax was generated at Horseshoe. During the six-year period (2001 to 2006) a total of \$173,617,470 of capital investment was made at the Horseshoe property. The average annual investment at Horseshoe was 219 million, which exceeded both the means and the median annual investment made at the ten riverboats.

Between 2001 and 2006, Horseshoe made payments of nearly \$130 million to the city of Hammond and local community foundations. Horseshoe's negotiated incentive payments were more than twice that of both the mean and median of Indiana riverboat casinos. Between 2003 and 2006, Horseshoe paid 19 cents of negotiated incentives to local government and foundations per \$1 of wagering tax revenue. The average amount of negotiated incentives paid per \$1 of wagering tax revenue by the Indiana riverboat casinos was 16 cents and the average for Lake Michigan boats was 15 cents.

From Horseshoe's opening in June 1996, through December 31, 2005, the cumulative economic impact of expenditures of local gaming-related taxes and negotiated incentive payments has exceeded \$374 million. Included in this economic impact are the creation of 5,351 full-time jobs (one-year equivalents) and nearly \$117 million in employee compensation.

Employment

In 2001 and 2006 the average annual employment at Horseshoe was 2,261. Horseshoe's six-year average annual employment (2001 to 2006) was 2,272. Horseshoe averaged more annual employees over the five-year period than any of the other riverboats.

In August 2006, the Center surveyed Horseshoe employees and found that for many employees the employment opportunity at the riverboat provided an increased sense of economic security. For example, 39 percent of the survey respondents were unemployed or working part-time prior to beginning work at Horseshoe; and nearly 95 percent indicated that their first job at Horseshoe was a full-time position. The average length of employment was 4 years and 6 months, and 88 employees felt secure enough to move from rental housing to homeownership. Three hundred ninety-three respondents reported purchasing a new car, truck, or van since beginning work at Horseshoe and 137 reported undertaking a home remodeling project. While more than two-thirds of the employees reported job-related training, fewer employees reported tuition reimbursement opportunities or paying for their own training. Survey results suggest that some full-time employees appear to be unaware of their eligibility for benefits such as health and life insurance and retirement plans. Among the 659 full-time employees responding to the survey only 435 to 486 employees responded that they are eligible for various benefits.



Community Impacts

Engaging Solutions (a subcontractor to the Center) conducted two public hearings in Hammond in August 2006. The first invited community leaders, local business leaders, and social services providers. The second was advertised in the local media as a public hearing where all were welcome. The audience was overall complimentary of the community partnership with Horseshoe. The majority of the audience felt that many of the infrastructure activities of the community would not had been completed had it not been for the tax revenue from the casino. However, there were questions as to whether the casino met its original commitments outlined in the first agreement, including minority set asides and building a hotel.

In addition to the public hearings, the Center contracted with the Survey Research Center at IUPUI to conduct a random survey of 200 people in Hammond in August 2006 to determine their opinion of Horseshoe as well as their participation in gambling. Overall, the lottery is the most popular activity, followed by playing cards for money, playing bingo, and then going to a casino.

Then respondents were asked if they had heard of Horseshoe and 99 percent indicated that they had heard of it. People's opinions of Horseshoe are different depending upon their experiences. Respondents who know someone who works at the casino are much more likely to favor it than those who are not gamblers or know someone with a gambling problem. Those who know someone with a gambling problem are more likely to have mixed feelings.

Current Financial Position and Future Plans

Horseshoe Hammond Casino has produced large and growing revenues and strong positive operating cash flows margins throughout its history. Due to its proximity to Chicago and having the benefit of having had financially-strong owners with Horseshoe Gaming and now Harrah's Entertainment the operation has expanded its operating base and has been a fierce competitor in the Chicago gaming market. Its owners have reinvested significant amounts of capital in the operation for improvement and expansion and plan to continue to do so. Harrah's, with its strong Total Rewards program, has one of the premier customer management marketing programs in the world and each of its properties benefit from the strategy of providing "branded gaming" experiences for customers.

In conclusion, this analysis of the past, and of the current and planned financial and operating strategy of Hammond license supports the conclusion that the license has been well managed and its current owners/managers have the ability to continue to produce significant economic benefits for the community in which it is located and for the state of Indiana in general.



Introduction

On November 17, 1995, the Indiana Gaming Commission (Commission) issued a Certificate of Suitability¹ for a Riverboat Owner's License for a riverboat to be docked in Hammond, Indiana. Empress Casino Hammond Corp., formerly known as Lake Michigan Charters, Ltd., opened on June 29, 1996. Following its second year of operation, Empress Casino Hammond Corporation entered into negotiations with Horseshoe Gaming Holding Corporation for the transfer of ownership. The sale was finalized in November 1999, and the name of the facility was changed to Horseshoe Casino Hammond (Horseshoe). On July 1, 2004, Horseshoe Gaming Holding Corp. was sold to Harrah's Entertainment, which has retained the name. The Riverboat Gambling Act, effective July 1, 1993, specifies that a licensed owner, after their license is renewed at year five, shall undergo a complete investigation every three years to determine that the licensed owner remains in compliance.

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

Harrah's is the owner of both Horseshoe and Caesars in Harrison County. Caesars was due for its eight-year report in November 2006. Because Harrah's owns both boats, parts of the analysis for re-licensing for Horseshoe and Caesars were combined and took place in November 2006. Where available, data are shown through 2006.

¹ The Certificate of Suitability (Certificate) was the agreement between Horseshoe and the Indiana Gaming Commission that gave Horseshoe its license. The Certificate specified certain levels of project development and incentive payments to be made by Horseshoe as well as specifying that Horseshoe abide by agreements made with the local governments.





Economic and Fiscal Activity

The following sections provide a comparative analysis of Horseshoe's performance as well as an analysis to identify and quantify the economic benefits enjoyed by Lake County as a result of the investment of the voluntary and tax contributions of Horseshoe.

A Comparative Analysis of Horseshoe's Performance 2001 – 2006

To more fully understand the performance of the individual riverboat casinos as they are considered for re-licensure, the Center conducted a comparative analysis. Key performance measures analyzed include:

- Attendance and admissions tax revenue,
- Wagering and wagering tax revenue,
- Capital re-investment in the facility,
- Incentives contributions to local governments and foundations(negotiated and voluntary), and
- Employment.

The individual casino, in this case Horseshoe, is compared with the mean and median of all Indiana riverboat casinos, as well as the means of these measures for two subgroups: the riverboat casinos on Lake Michigan² and those on the Ohio River.³ We also show how the individual casino compares with the high and low performance for each variable among Indiana riverboat casinos. It is expected that the comparative analysis will provide the Commission additional insight into the performance of the riverboats, individually and collectively.

Attendance and Admissions Tax

In 2006, attendance at Horseshoe was 4,198,416; this was the highest attendance of any riverboat casino in 2006. Between 2005 and 2006, attendance at Horseshoe increased by 26,727 patrons, a one year increase of 0.6 percent. In 2006, attendance at Horseshoe produced \$12,595,248 in admissions tax. Between 2005 and 2006 the admissions tax generated at Horseshoe increased by \$80,181. Because the Admissions Tax is directly related to admissions (\$3 per admission), the one-year mean increase in attendance and admissions tax across all ten boats was relatively flat (less than 1 percent) and the mean attendance and accompanying admissions tax for the Lake Michigan based riverboat casinos decreased slightly (less than 1 percent).

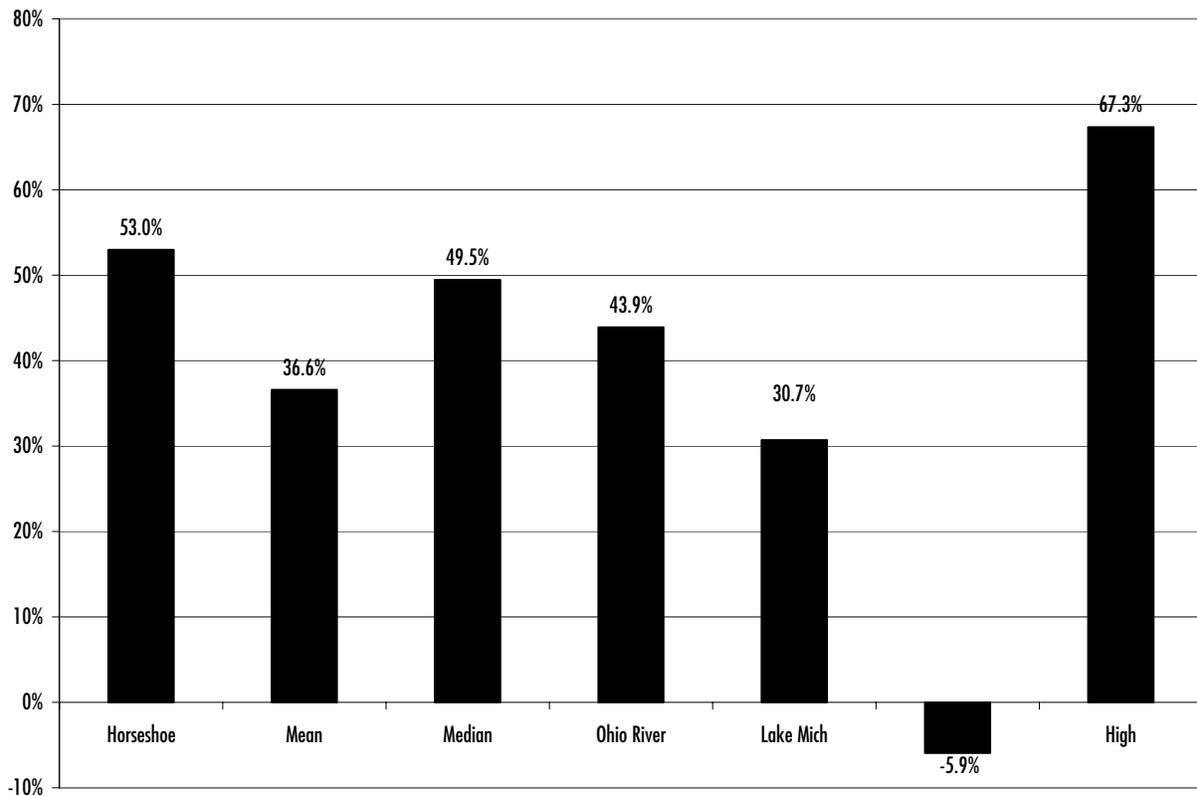
² The Lake Michigan average includes: Blue Chip, Horseshoe, Majestic Star, Resorts, and Majestic II (formerly Trump).

³ The Ohio River average includes: Argosy, Aztar, Belterra, Caesars, and Grand Victoria.



As shown in Figure 1, between 2001 and 2006, attendance at Horseshoe increased by 53 percent (or 1.4 million). Attendance at Horseshoe compares favorably to the mean (36.6 percent) attendance increase for the ten riverboat casinos, as well as to the median (49.5 percent). The percentage of attendance increase at Horseshoe also exceeds the 30.7 percent average increase among Horseshoe's Lake Michigan peer riverboat casinos. The change in boarding policy in 2002 makes a five year comparison of admissions tax revenue imprecise.

Figure 1: Attendance Performance 2001 to 2006



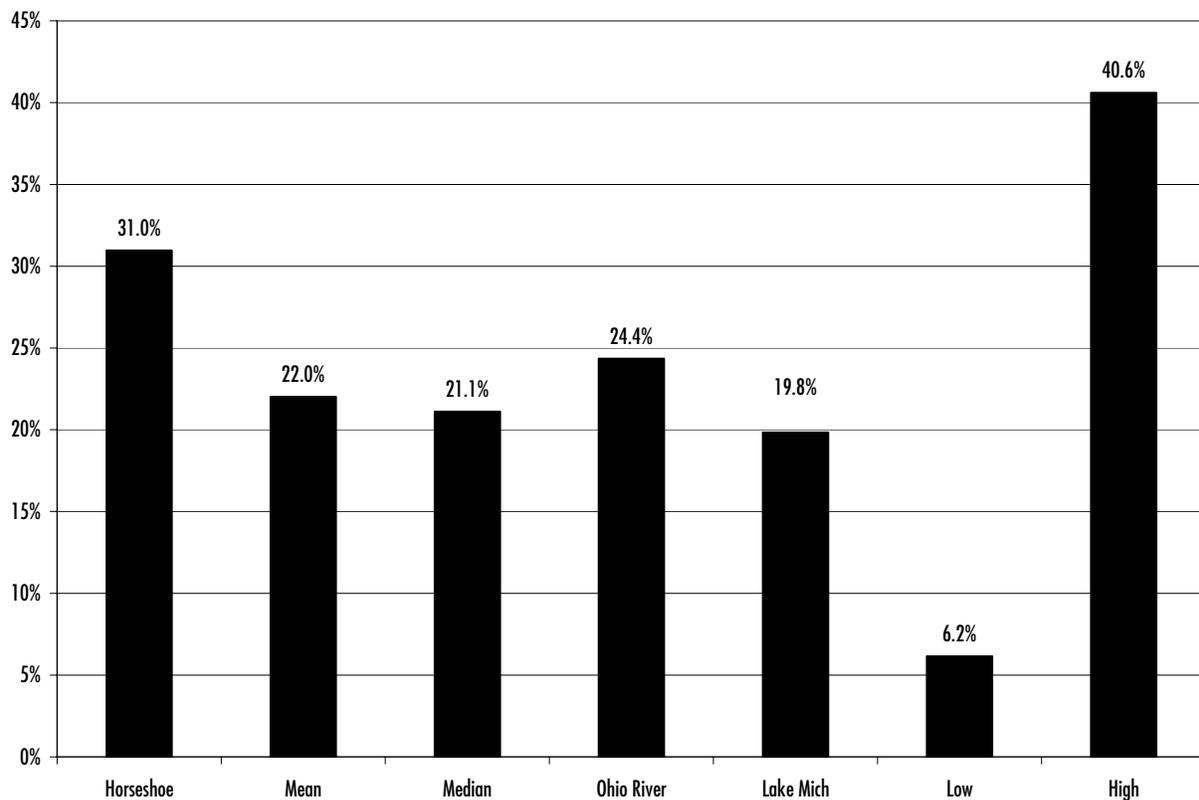


Wagering and Wagering Tax

Changes in the annual amount of wagering and wagering taxes can be attributed in part to inflation, increased wagering per customer, and increased attendance. On July 1, 2002, a law took effect allowing flexible boarding and creating a new graduated wagering tax structure and a new admission tax structure. As a result of these changes, the analysis of wagering tax revenue will be limited to the 2003 through 2006 time period.

In 2006, a total of \$131,938,502 of wagering tax was generated at Horseshoe. The annual wagering tax revenue generated between 2003 and 2006 at Horseshoe increased by \$31,196,869 or 31 percent (see Figure 2). As with attendance and admission tax revenue, Horseshoe's performance compares favorably with the mean (22 percent) and median (21.1 percent) of the ten riverboat casinos. The percentage increase in wagering taxes generated at Horseshoe between 2003 and 2005 (31 percent) exceeds the percentage increase across the five Lake Michigan riverboat casinos (19.8 percent).

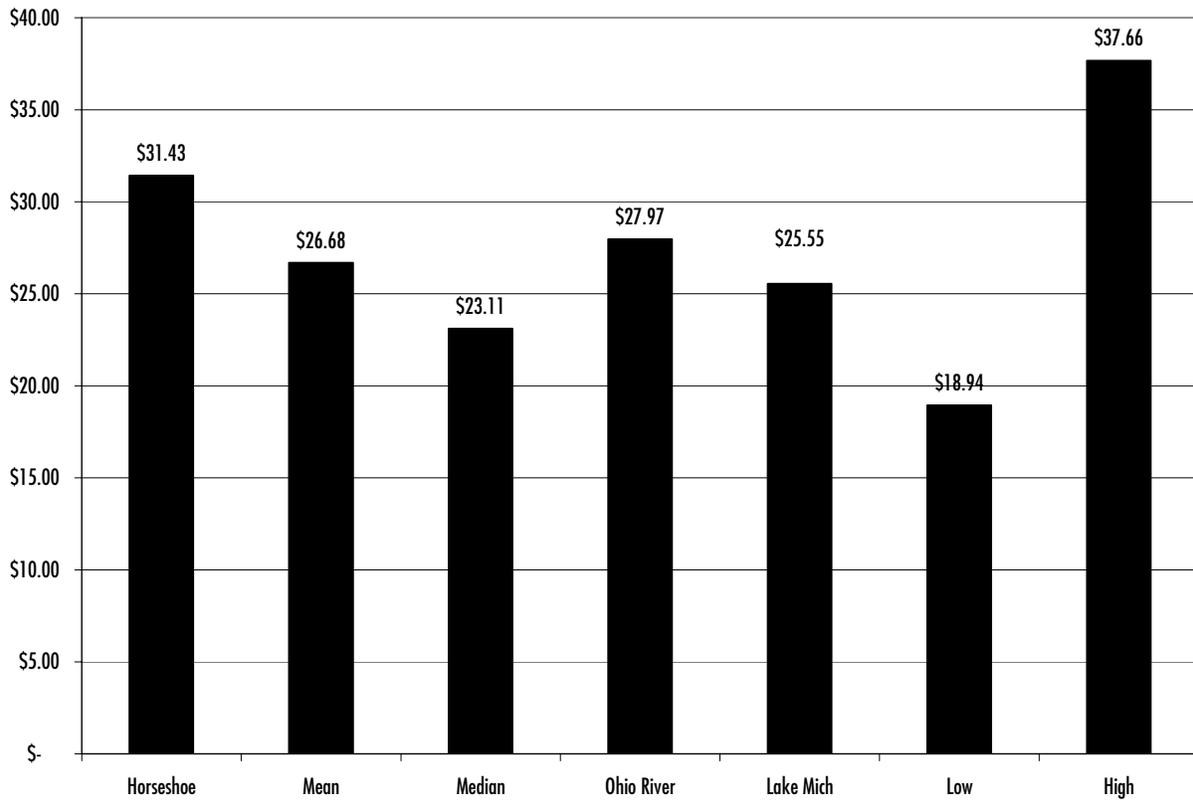
Figure 2: Wagering Tax Revenue 2003 to 2006





Per attendee analysis provides control for attendance driven changes in wagering tax performance. In 2006, \$31.43 in wagering tax revenue on average was generated by each of Horseshoe's 4,198,416 attendees. As seen in Figure 3, per attendee wagering tax revenue generated at Horseshoe surpassed the ten riverboat mean (\$26.68) and median (\$23.11), as well as the average for Horseshoe's Lake Michigan peer riverboats (\$25.55).

Figure 3: Wagering Tax per Attendee 2006



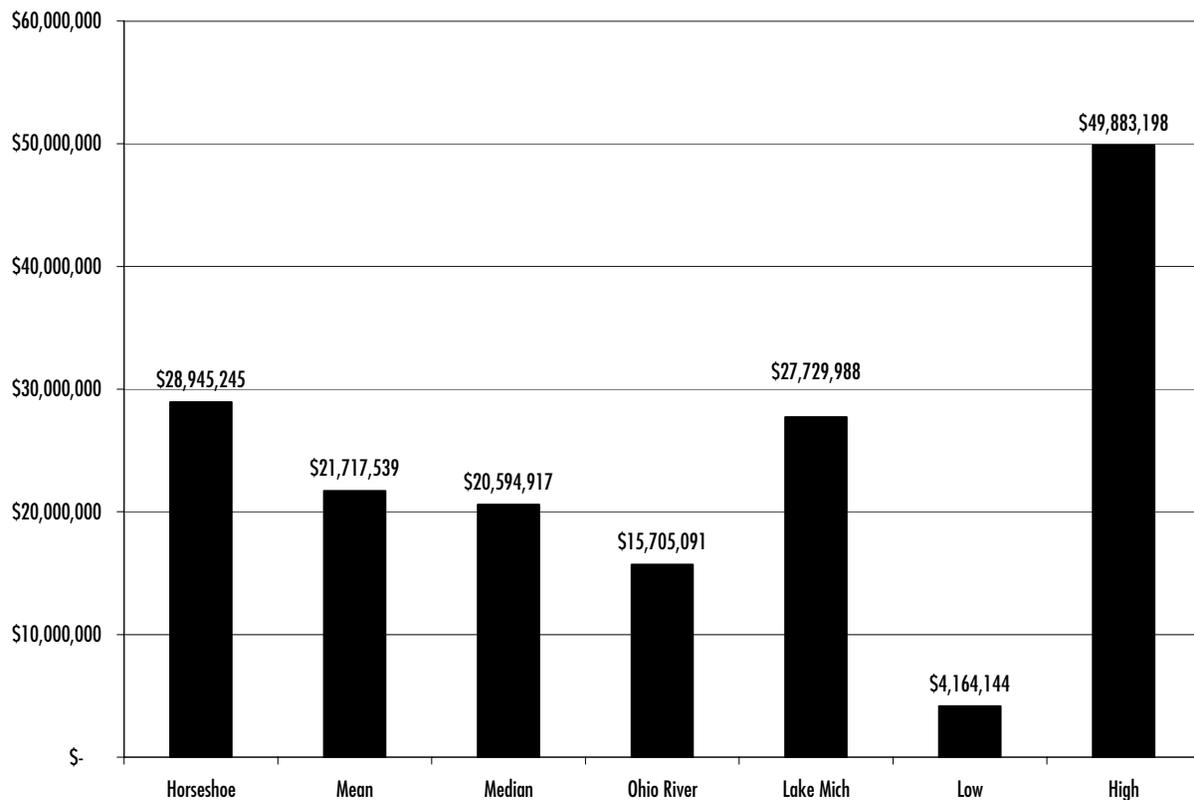
Between 2003 and 2006, per attendee wagering at Horseshoe increased by 17.9 percent, similar to the average change for all riverboats (18.5 percent) and slightly above the Lake Michigan mean (15.9 percent).



Capital Re-investment

During the six-year period (2001 to 2006) a total of \$173,671,470 of capital investment was made at the Horseshoe property. Investment in the facility remained relatively constant, until 2006 when Horseshoe's \$78.5 million re-investment was nearly three times greater than in any previous year. The year with the lowest capital investment was 2002 (\$8.5 million). As displayed in Figure 4, the average annual investment at Horseshoe was \$28.9 million. Average annual investment at Horseshoe during the period exceeded the median annual investment made at the ten riverboats by approximately \$8 million and the mean annual investment by approximately \$7 million. Annual average investment at the Horseshoe facility was similar to the average annual investment made by the five Lake Michigan boats, exceeding the average by \$1.2 million.

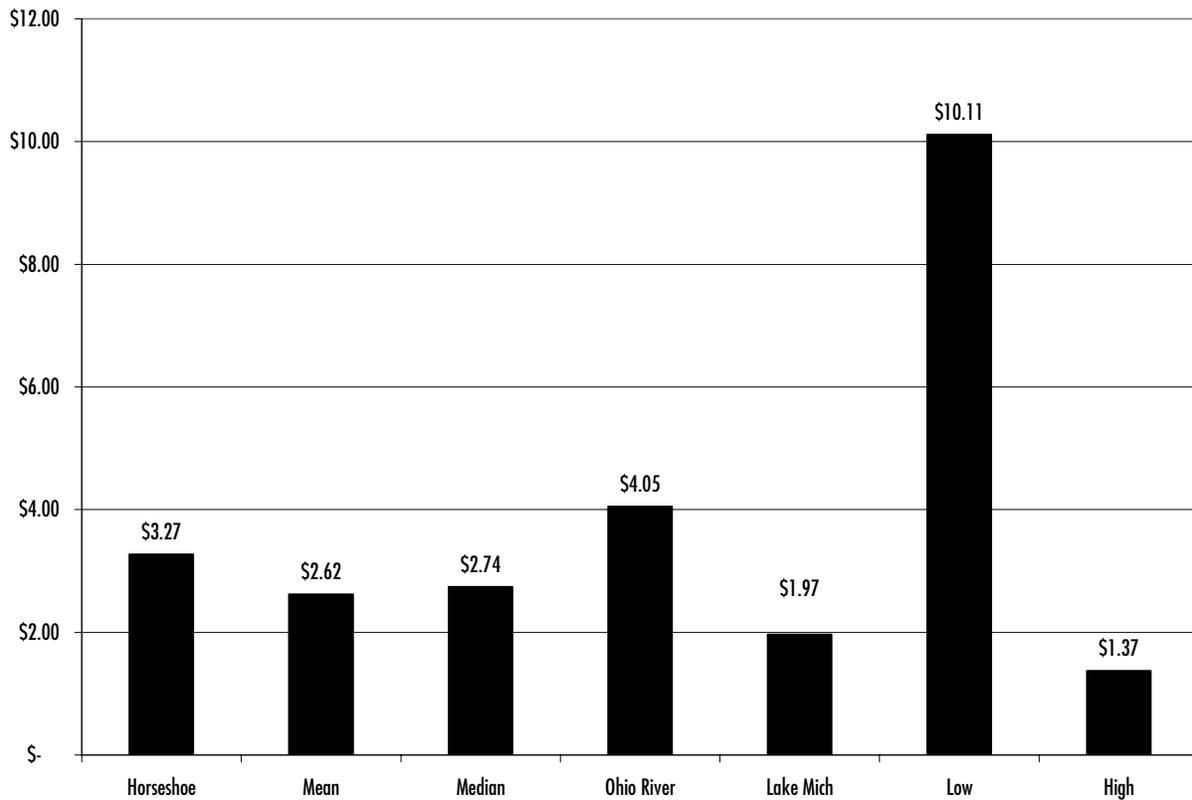
Figure 4: Average Annual Capital Investment in Riverboat Facilities 2001 to 2006





Capital investment behavior is likely affected by many factors, including age and size of the facility. Horseshoe, for example, is located proximate to a significant population center. Gaming revenue is an important factor in determining the amount of capital available for investment in the facility. As a result, we have chosen to analyze the ratio of capital investment to wagering tax revenue to control for the varying economic performances of the riverboats. Because the wagering tax law changed in 2002, the wagering tax-related capital investment analysis is limited to the 2003 to 2006 period.

Figure 5: Ratio of Wagering Taxes to Annual Capital Investment



As Figure 5 illustrates, between 2003 and 2006, \$1 of capital investment was made at the Horseshoe facility for every \$3.27 of wagering tax revenue. The Horseshoe investment ratio was lower than the investment rate for ten boat average of \$1 of capital investment for every \$2.62 of wagering tax revenue and the Lake Michigan riverboat average of \$1 of capital investment for every \$1.97 of wagering tax revenue generated. That is, if available reinvestment capital is related to wagering tax revenue, Horseshoe reinvests slightly less gaming revenue back into capital improvements, relatively.

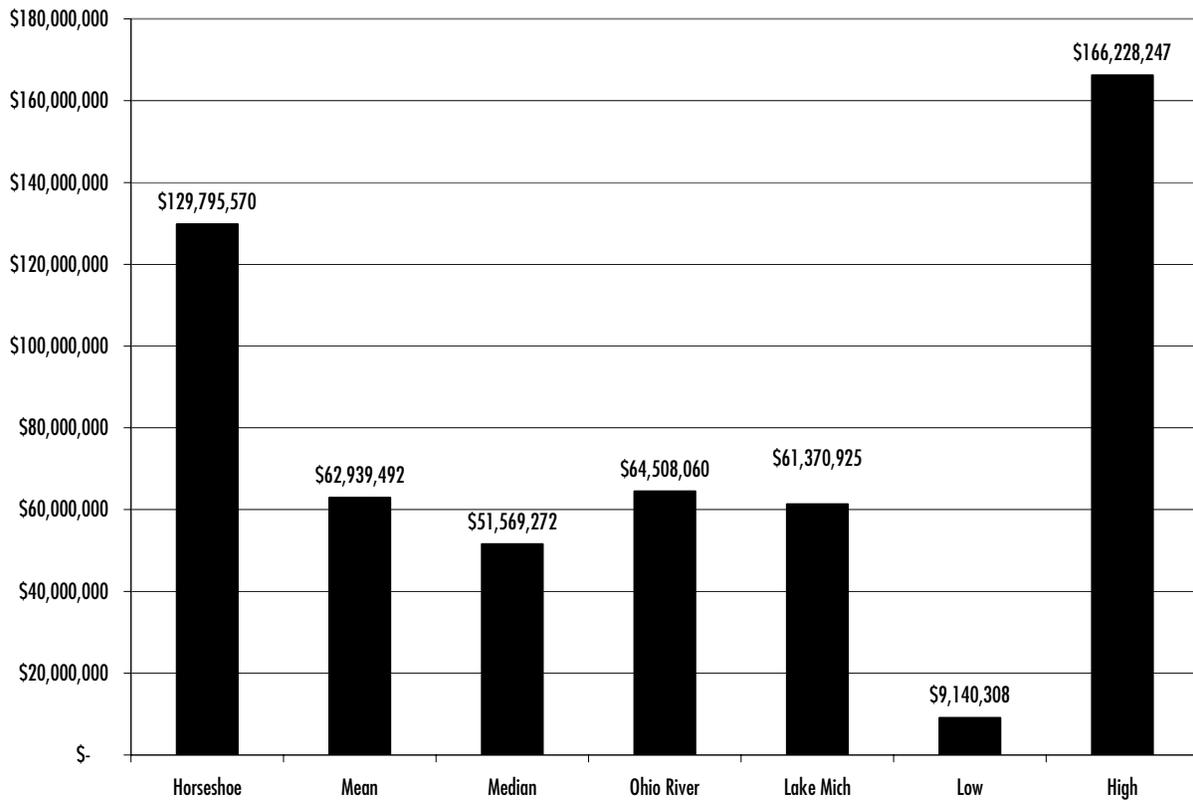
Negotiated Incentives and Voluntary Contributions

Negotiated incentives were made with local governments and community foundations during the application process. This analysis is limited to incentive payments made between 2001 and 2006 that are attributable to agreements negotiated during the original application process and/or any updates to those negotiated incentive payments.



Between 2001 and 2006, Horseshoe made payments of nearly \$130 million to the city of Hammond and local community foundations. Horseshoe payments ranged from a low of \$19 million in 2001 to a high of \$24 million in 2005. The average annual payment by Horseshoe was \$21.6 million. As shown in Figure 6, Horseshoe's \$130 million of negotiated incentive payments was more than twice as large as the Indiana riverboat average and median. Horseshoe's negotiated incentives were also more than twice the average for the Lake Michigan boats.

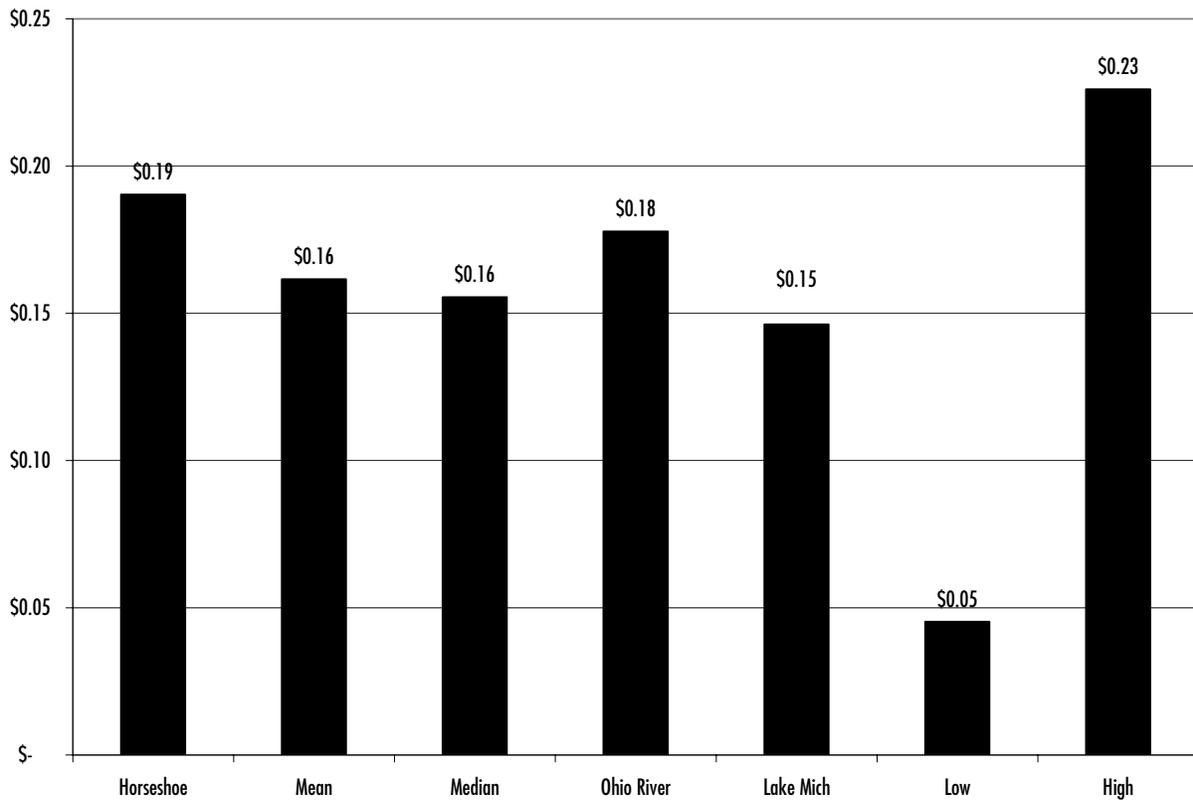
Figure 6: Total Negotiated Incentive Payments 2001 to 2006





The levels of many of the negotiated incentives are related to gaming revenue levels. We have chosen to analyze and compare the ratio of negotiated incentive payments to wagering tax revenue to control for the varying economic performances of the riverboats. As Figure 7 illustrates, between 2003 and 2006, Horseshoe paid 19 cents of negotiated incentives to local government and foundations per \$1 of wagering tax revenue. The average amount of negotiated incentives paid per \$1 of wagering tax revenue by the Indiana riverboat casinos was 16 cents and the average for Lake Michigan boats was 15 cents.

Figure 7: Ratio of Negotiated Incentives to Wagering Taxes 2003-2006



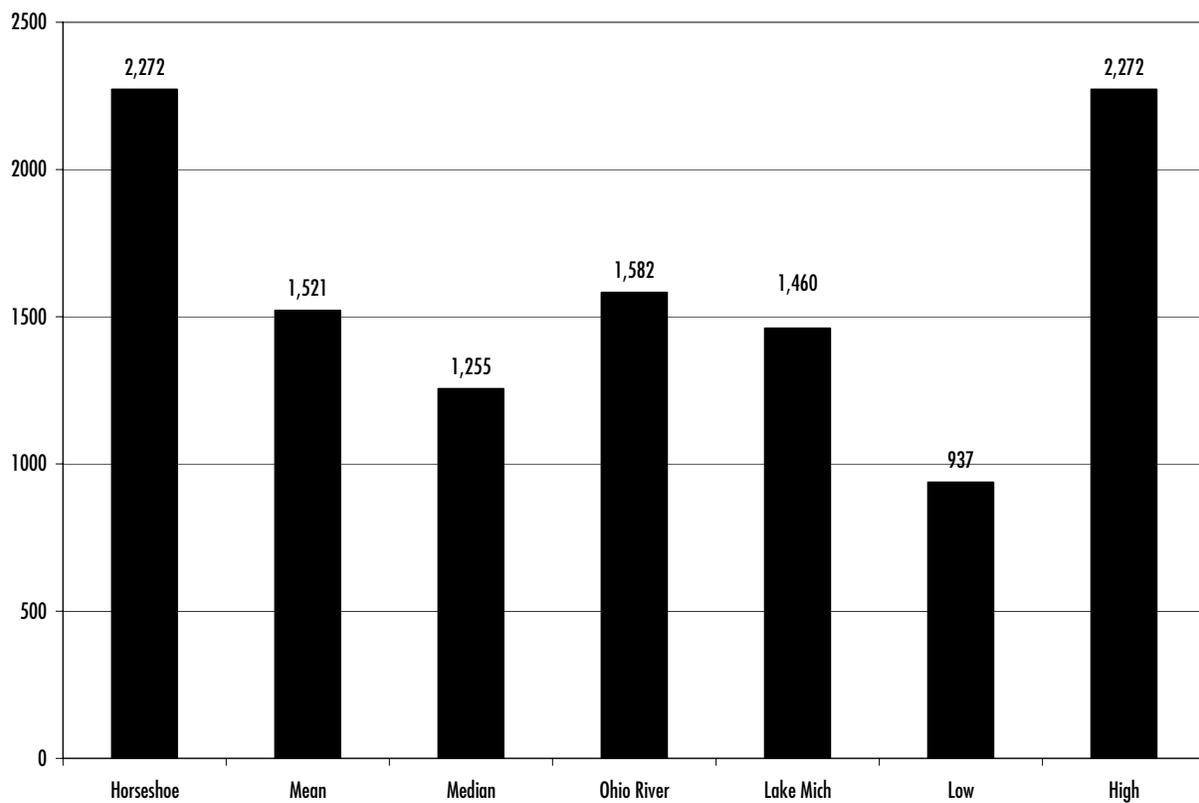
In addition to the negotiated incentives, Horseshoe reported making \$1,674,787 in voluntary contributions to local institutions between 2001 and 2006. Horseshoe's \$334,957 average annual voluntary contribution compares favorably to the average of the Indiana riverboats (\$182,561).



Employment

The average annual employment at Horseshoe was 2,261 in 2001 and 2006. Employment peaked at 2,428 in 2003 and was at its lowest point in 2005 (2,157). As shown in Figure 8, Horseshoe's five-year average annual employment (2001 to 2006) was 2,272. Horseshoe averaged more annual employees over the five-year period than any of the other riverboats.

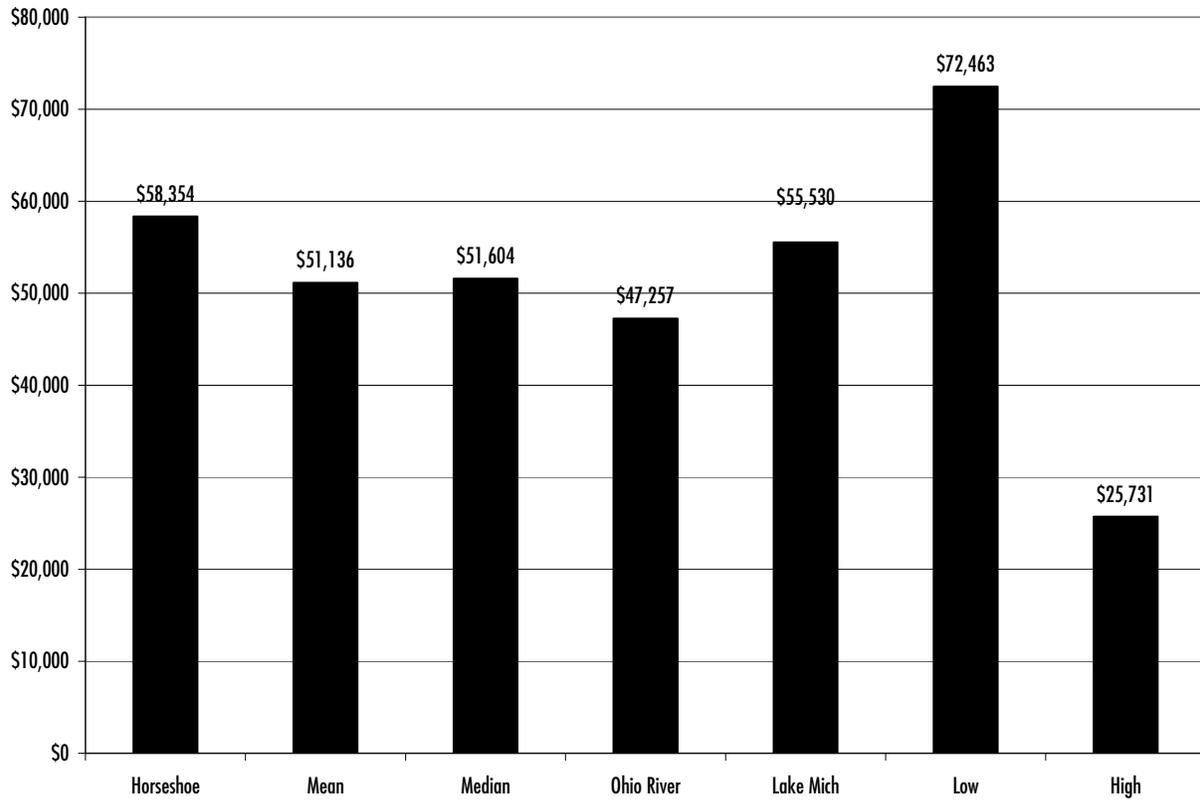
Figure 8: Average Annual Employment 2001 - 2006





Using wagering tax revenue as a proxy for gaming activity, in 2006, Horseshoe had one employee for every \$58,354 of wagering tax while the 10 Indiana riverboat average was one employee per \$51,136, and the Lake Michigan casino average was one employee per \$55,530 of wagering tax revenue. (Figure 9)

Figure 9: Ratio of Wagering Tax Revenue to Employees

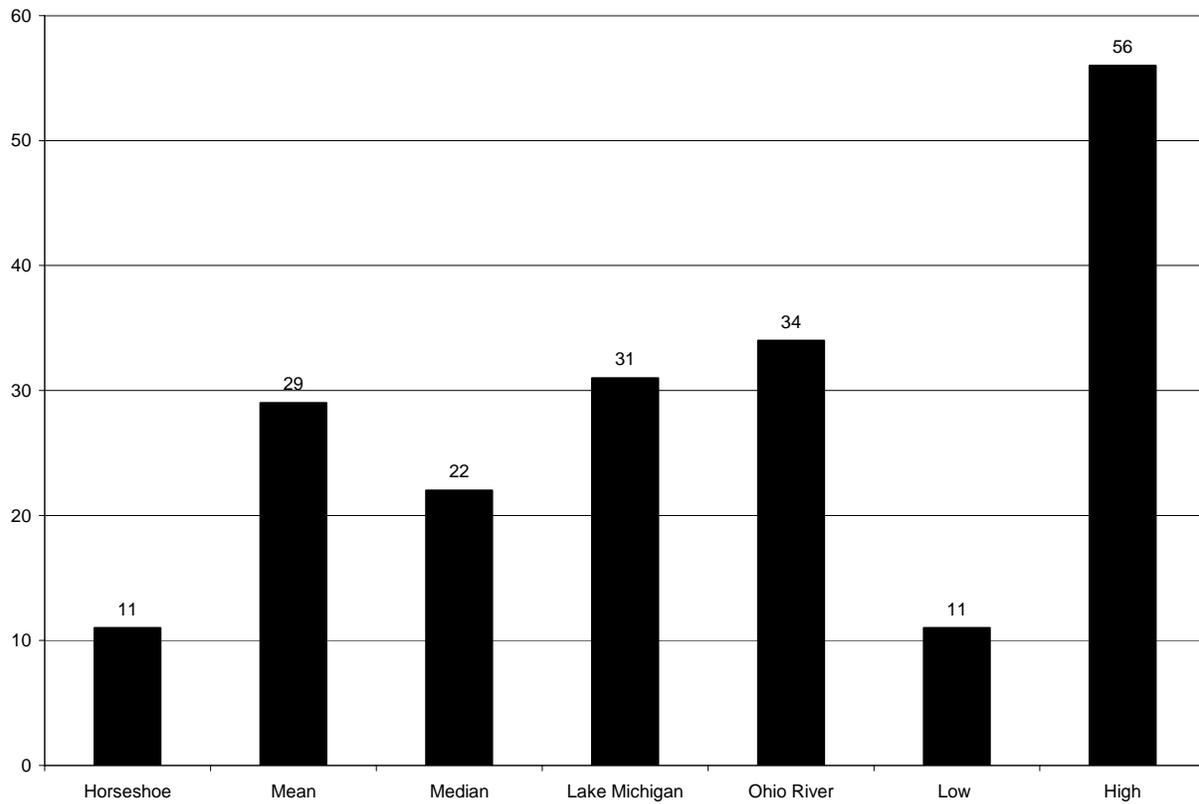




Settlements with the Commission

As Figure 10 illustrates, Horseshoe had 11 violations settled with the Commission, the lowest of all riverboats. The violations included several for minors obtaining access and one for violating internal controls and one for an occupational license violation.

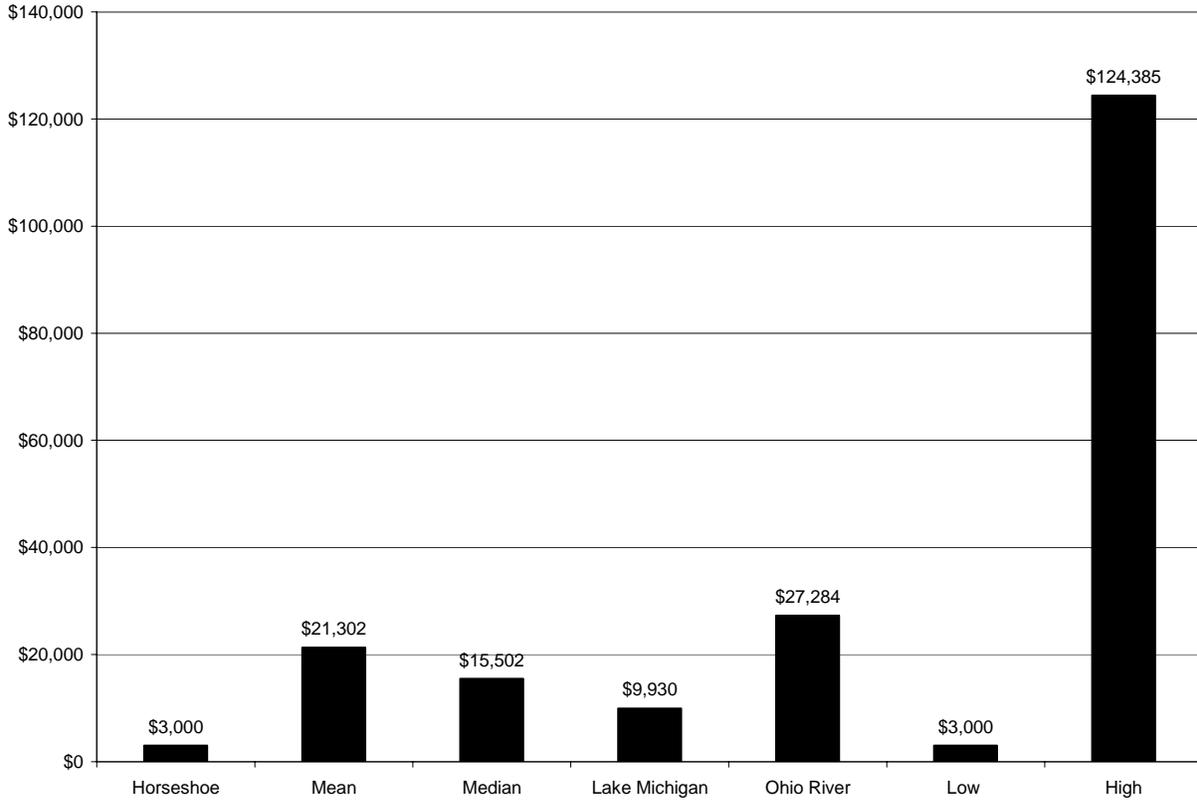
Figure 10: Number of Violations Settled with the Commission 2001 to 2006





In addition to the number of violations, the average dollar amount per violation gives a perspective of the relative severity of the violations. As Figure 11 illustrates, Horseshoe also had the lowest average fine.

Figure 11: Average Fine per Violation 2001 to 2006





Economic Benefits of Gaming-Related Taxes and Incentives

Horseshoe's eight-year license evaluation included estimates of the economic impact of local gaming-related taxes and incentive revenue spent by local governments and community foundations. As part of this evaluation, we present the economic impact that has occurred since the eight-year report.

In the two years (CY 2004 and 2005) since the eight-year Horseshoe license evaluation, Horseshoe has generated \$43.3 million of local gaming-related tax revenue and \$45,766,484 of locally negotiated incentive payments. The analysis is based on the spending of \$63,315,937 of local gaming-related tax and incentive payments made by Horseshoe to the city of Hammond and local community foundations in CYs 2004 and 2005. The analysis does not consider gaming-related tax revenue that has been used to retire debt, or has been invested or placed in reserve funds, or is not readily categorized. The area of economic impact is Lake County. In 2004 and 2005, the spending of gaming-related tax and incentive revenue by the city of Hammond and local community foundations has resulted in:

- \$95,530,564 in economic impact,
- \$33,056,799 in employee compensation, and
- 1,164 new jobs (full-time equivalents).

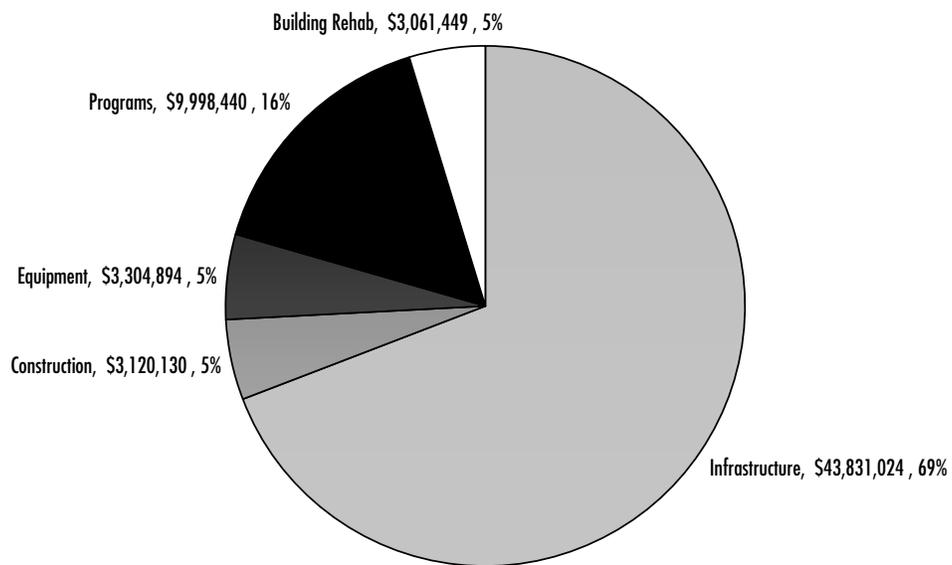
From Horseshoe's opening in June 1996, through December 31, 2005, the cumulative economic impact of expenditures of local gaming-related taxes and negotiated incentive payments has exceeded \$374 million. Included in this economic impact are the creation of 5,351 full-time jobs (one-year equivalents) and nearly \$117 million in employee compensation.



Total Spending 2004 and 2005

As illustrated in Figure 12, investments in infrastructure and community programs comprised 85 percent of all expenditures included in the analysis. Construction of new buildings and facilities, the rehabilitation of homes and existing structures and equipment purchases each totaled approximately \$3 million or roughly five percent of all expenditures.

Figure 12: Spending of Riverboat-Related Tax and Incentive Payments 2004-2005





Economic Benefits

In CY 2004 and 2005, the total short-term economic benefit provided by the spending of local gaming-related tax revenue and negotiated incentives enjoyed by the citizens and businesses of Hammond and Lake County was over \$95.5 million. The analysis does not consider gaming-related tax revenue that has been used to retire debt, or has been invested or placed in reserve funds, or is not readily categorized.

The type of investments made by the city of Hammond and the local community foundations 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 the spending of tax and incentive dollars work their way through the Lake County economy. These short-term benefits represent the over \$95.5 million described in this study.

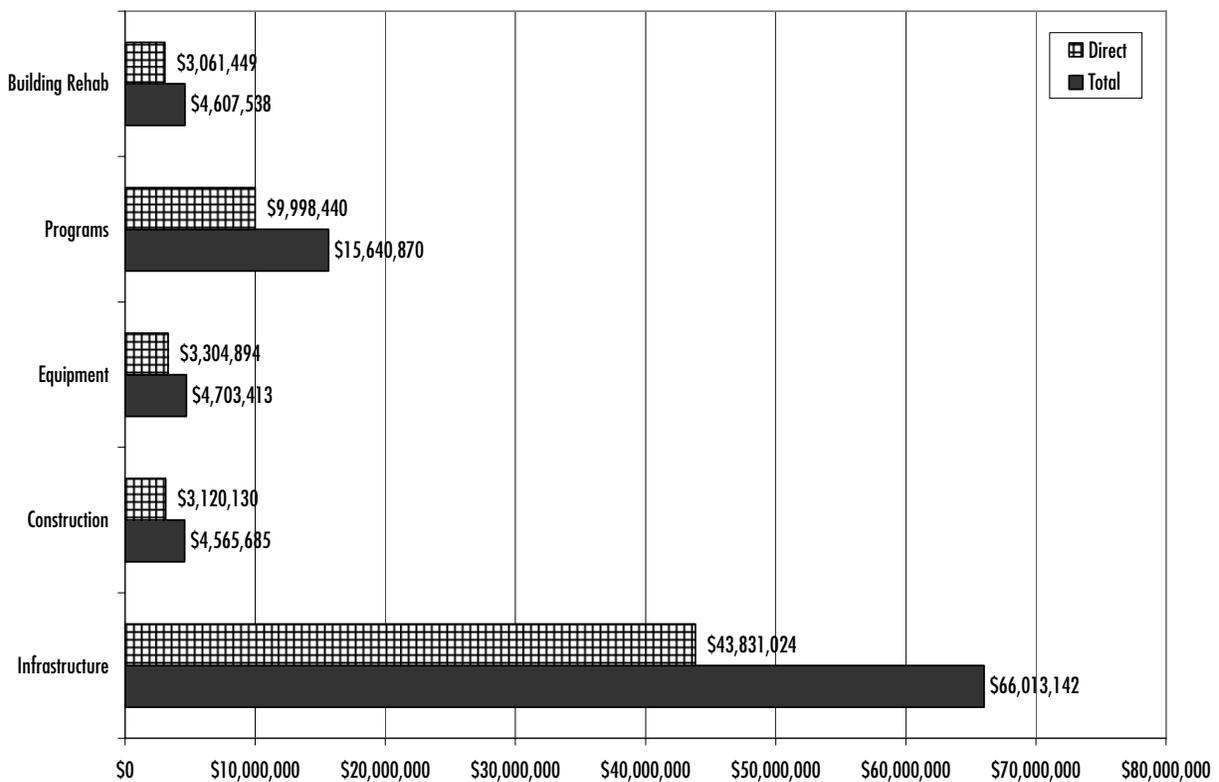
The long-term benefits are related to the degree to which the spending supports or develops competitive economic advantages for Lake County and the private businesses located there. These long-term benefits are not immediately measurable. However, if the local gaming-related tax and incentive dollars 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 the area. For example, while the model can measure the jobs created by the building of sidewalks and curbs, the construction of a new golf course, or the purchase of a new police vehicle, it cannot measure the impact of these programs on the lives of the individuals benefiting from these expenditures.



Direct and Indirect Benefit by Type of Expenditure

In Figure 13, the direct impact bars represent the gaming-related expenditures made by the city of Hammond and the local community foundation. 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 \$43 million spent on infrastructure improvements results in over \$66 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.

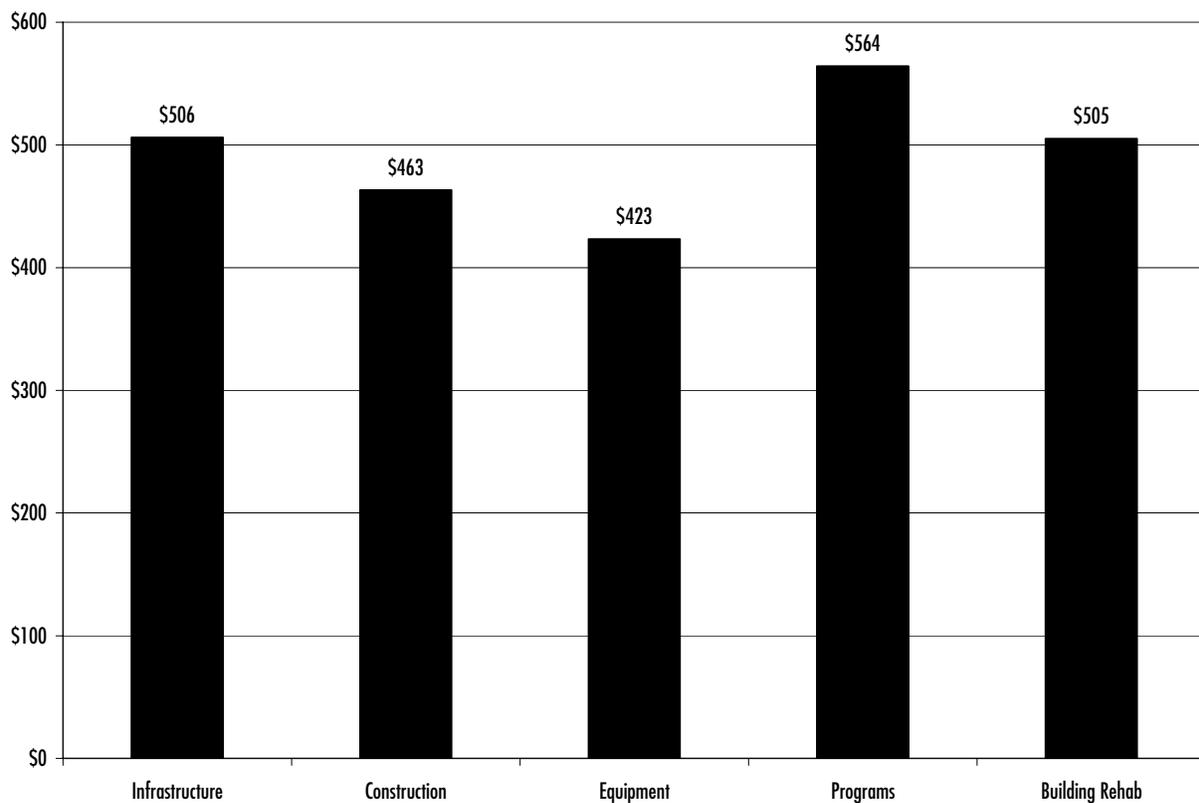
Figure 13: Economic Contribution of Spending of Riverboat-Related Revenue





Each expenditure category provides a different measure of immediate return on the investment made. For example, program investments provide the highest short-term economic impact with \$564 of indirect economic activity for each \$1,000 of direct expenditures (Figure 14). The high short-term economic return is likely a function of the personnel intensive nature of programmatic investments. The lowest short-term economic return is equipment purchases which generate \$423 of indirect economic activity for each \$1,000 of direct investment. The lower short-term economic impact is likely a result of the fact that if the purchased equipment is manufactured in places other than Lake County the indirect economic benefits accrue there rather than in the county of purchase.

Figure 14: Additional Return per \$1,000 of Investment



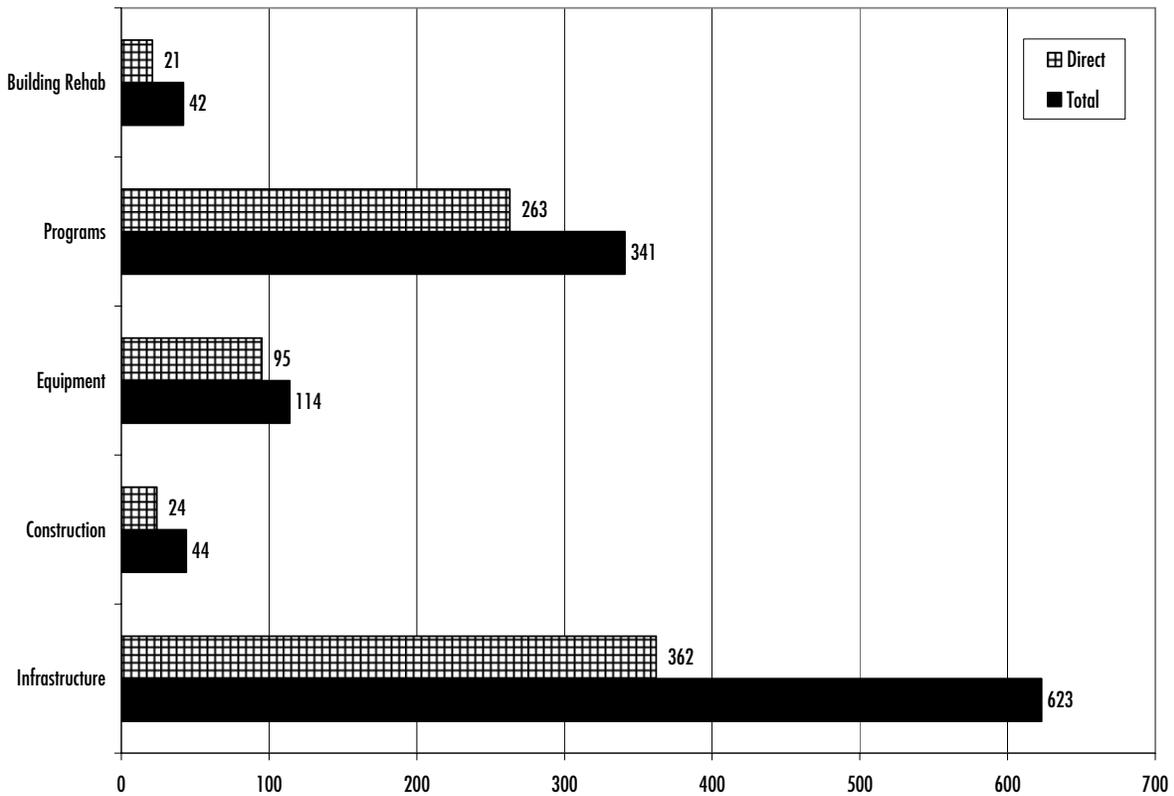
The rate of return offers local officials one perspective from which to evaluate the benefits of investing gaming-related tax revenues. However, the rate of return provides only a short-term perspective, with the economic benefits ending soon after the last dollar is spent. The long-term perspective must consider the lasting value of the improvements made. Thus, while the immediate return on programs 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 15 displays the number of jobs attributable to each category of investment made with gaming-related revenue. There were 1,164 total jobs created in Lake County as a result of the spending of gaming-related revenue from Horseshoe. Spending on infrastructure created nearly 54 percent 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.

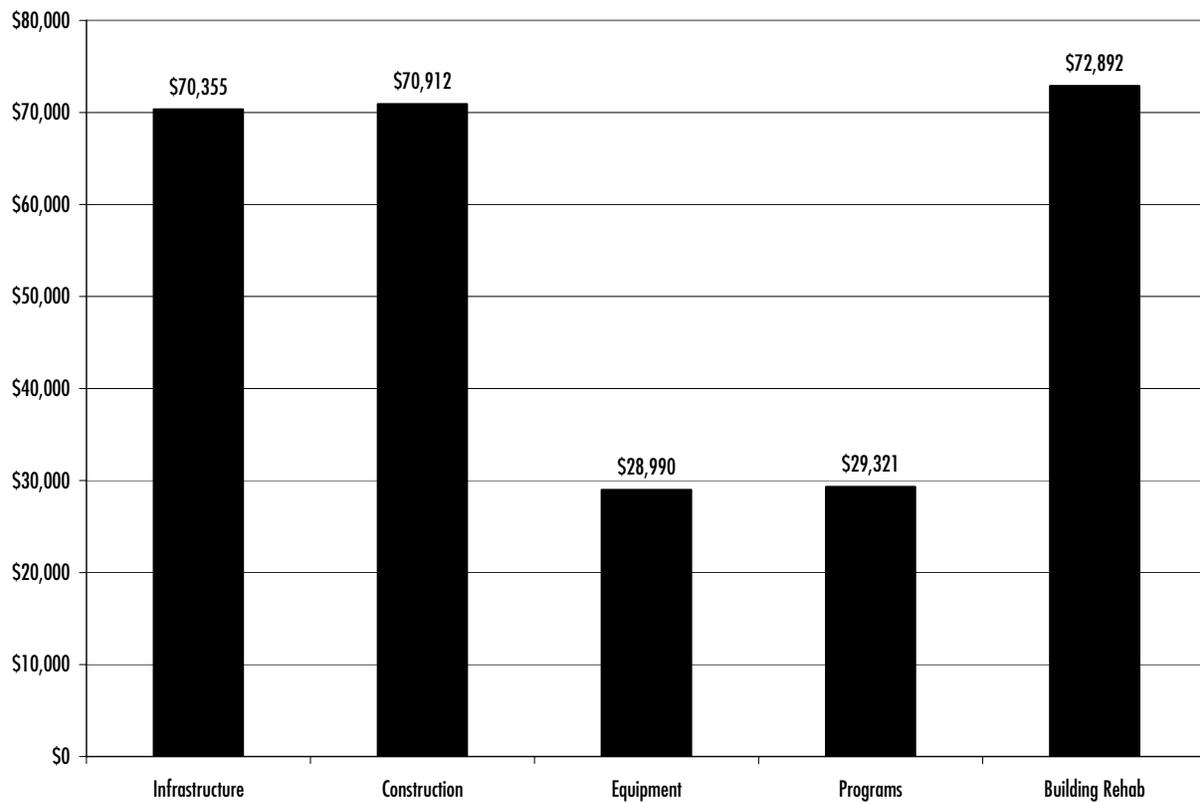
Figure 15: Total Employment Attributable to the Spending of Riverboat-Related Revenue





While over half the new jobs were created by infrastructure investments, equipment purchases required only \$28,990 of investment per job. Building rehab required the highest investment per job, requiring \$72,892 of investment per job (Figure 16).

Figure 16: Investment per Job Created

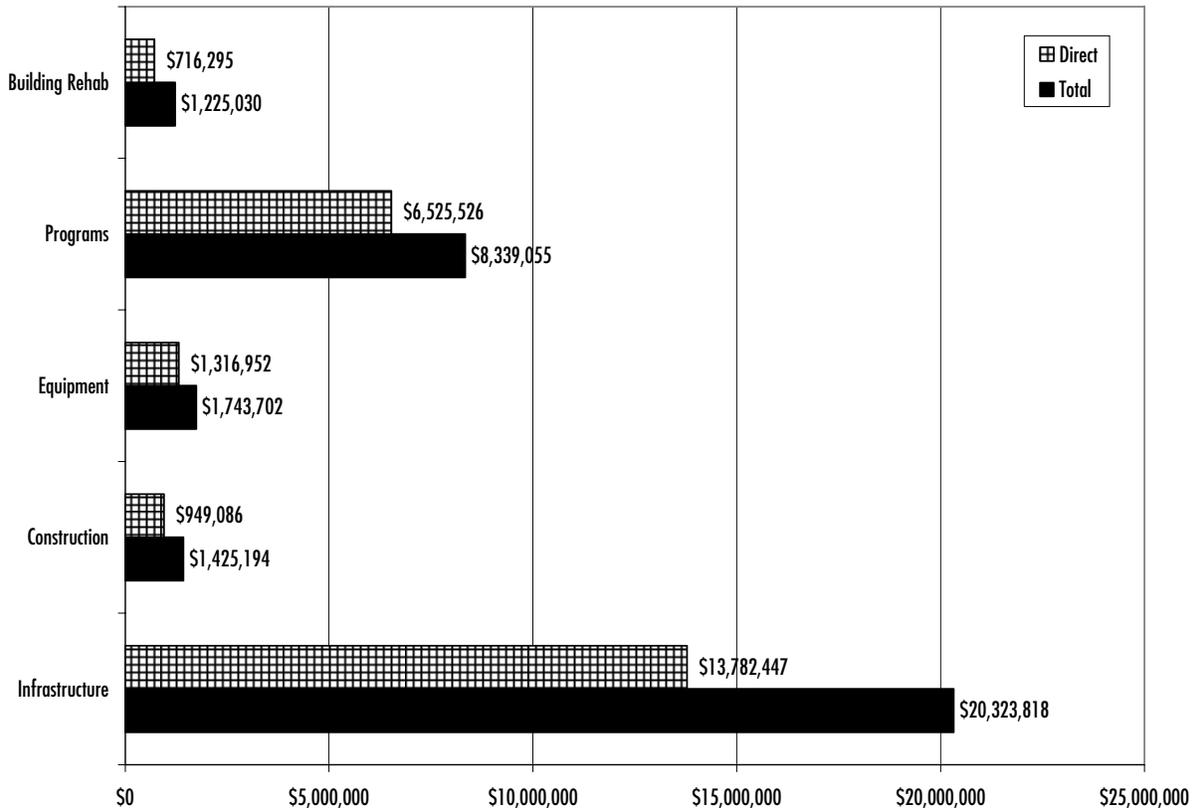




Wages Generated

Figure 17 displays the direct and total gaming-related earnings from Horseshoe generated in Lake County. The spending of gaming-related tax and incentive revenue has produced over \$33 million in total wages. The vast majority of wages were produced through infrastructure expenditures. The highest average wage was created by infrastructure-related jobs (\$32,622) while equipment-related jobs produced the lowest average wage of \$29,321 per job.

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



Cumulative Economic Impact 1996 – 2005

Between June 1996 and December 31, 2005, the spending of gaming-related tax and negotiated tax incentives has resulted in over \$374 million of total economic impact. Twenty-six percent of the economic impact has occurred in the 2004–2005. The spending of local gaming-related tax and negotiated incentives has generated 5,351 total jobs between 1996 and 2005. Twenty-two percent of these jobs were created in the past two years. Finally, the spending of gaming-related tax and negotiated incentives has resulted in \$116,619,533 in total wages. Twenty-eight percent of all wages have been generated in 2004 and 2005.



Horseshoe's Workforce: A Survey of Employees

To assist in this evaluation the Center conducted a survey of current Horseshoe employees in August 2006. The survey and accompanying analysis help the Commission determine the impact of Horseshoe on its workforce. The analysis is divided into four topic areas:

1. A brief description of the respondents and their histories
2. The respondents' employment histories prior to beginning work at Horseshoe
3. The initial experience of the respondents upon beginning work at Horseshoe
4. The respondents' current situation

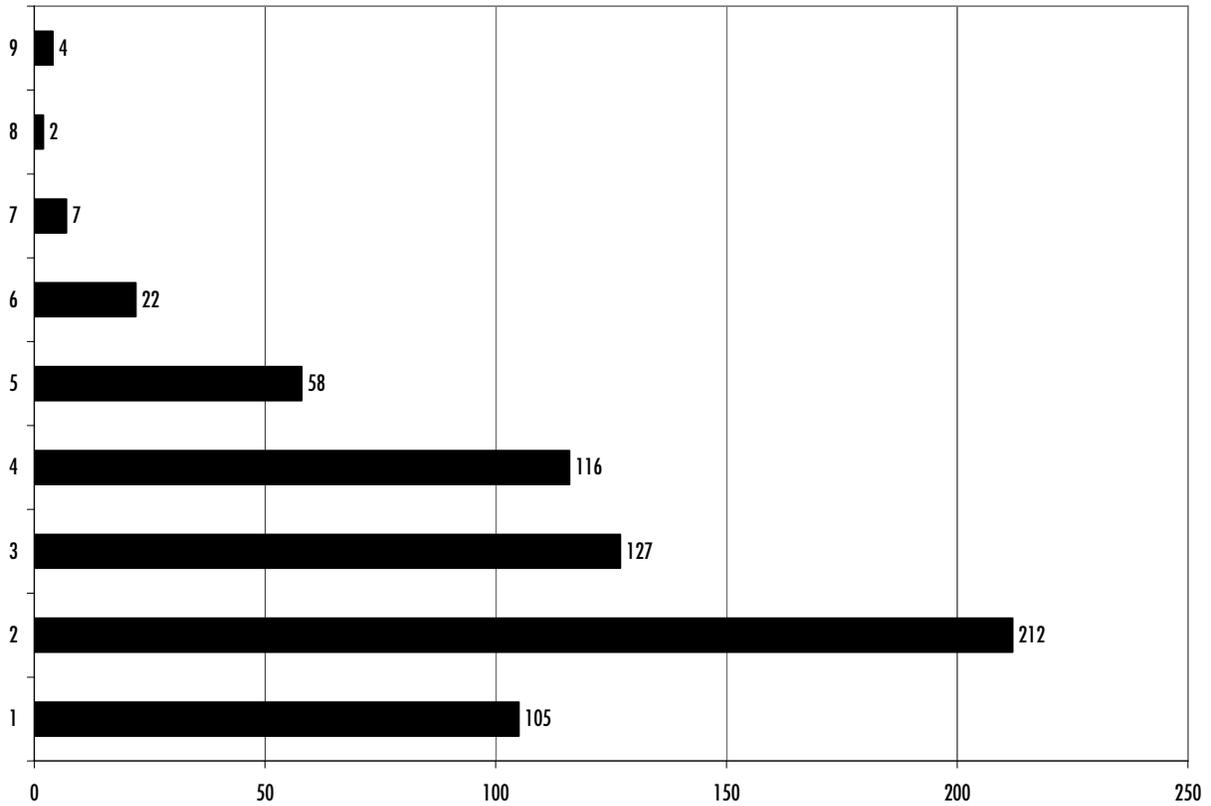
An Overview of the Respondents

A survey was distributed to each of the 2,261 employees. There were 715 total responses to the survey, but not everyone responded or provided a valid response to each survey questions. For example, 678 individuals responded to the question concerning gender and, of those who responded, 413 or 61 percent were females and 265 or 39 percent were males. Approximately 70 percent of all respondents reported living in Lake County.



The average age of those who responded was 38 years and 1 month, the median age was 36 years and the oldest respondent was 74 and the youngest 18. As Figure 18 illustrates, two-person households were the most common (212 or 32 percent), and nearly 86 percent of all respondents reported living in a household with four or less individuals.

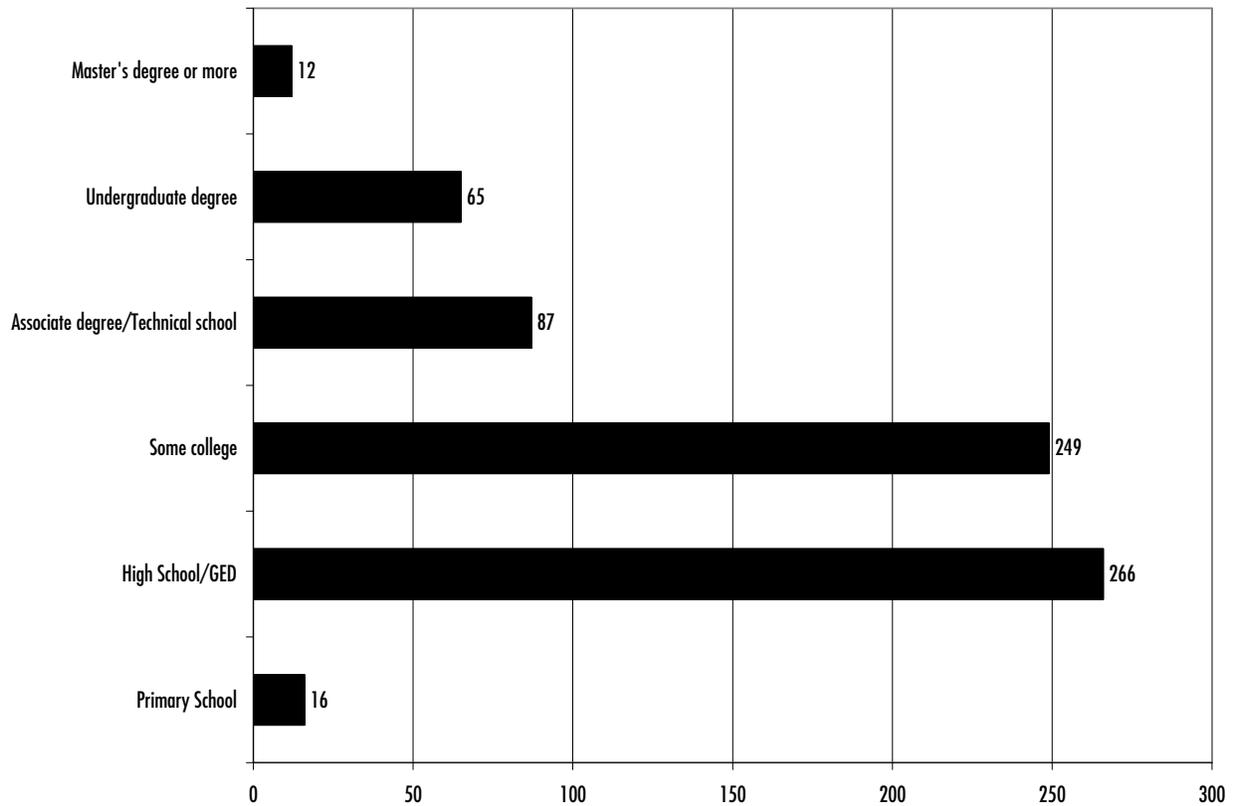
Figure 18: Total Number of Individuals in Household (2006 Survey)





The largest share of Horseshoe respondents reported having earned a high school degree or attending some college (515 or 74 percent). An additional 164 respondents (24 percent) reported having attained Associates, Bachelors, or Masters degrees. Only 16 individuals (2 percent) reported that primary school was their highest level of academic attainment (Figure 19).

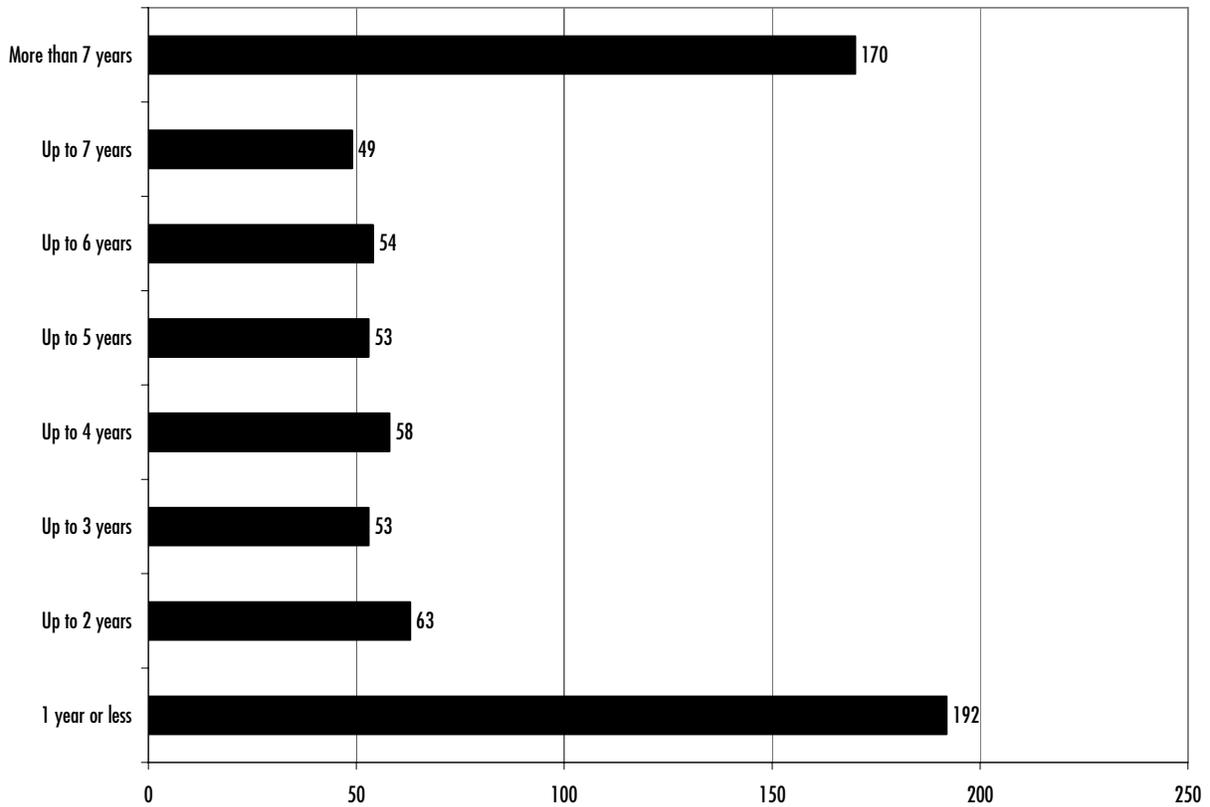
Figure 19: Education Achievement of Horseshoe's Employees (2006 Survey)





The average length of employment at Horseshoe for those responding to this question was 4 years and 6 months. The median length of employment was 4 years. Two survey respondents report working at Horseshoe for 2 weeks and one respondent report working for Horseshoe for 35 years. Figure 18 shows the number of employees and years worked. Approximately 28 percent of the respondents reported working at Horseshoe for 1 year or less and nearly 25 percent reported working more than 7 years.

Figure 20: Employees by Number of Years Working at Horseshoe (2006 Survey)

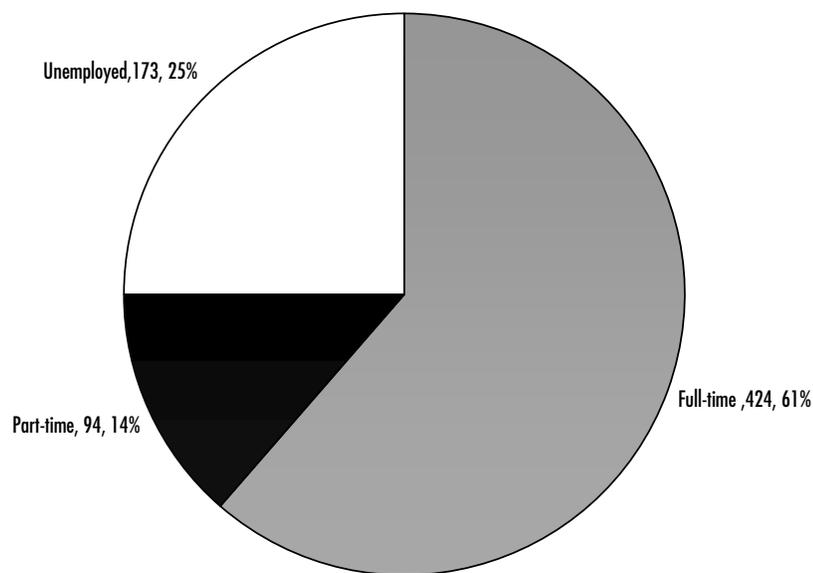




Employment History Prior to Beginning Work at Horseshoe

Based on responses to the survey, 61 percent were employed full-time prior to beginning work at Horseshoe. Twenty-five percent report that they were unemployed prior to beginning work at Horseshoe. (Figure 21)

Figure 21: Employment Status Prior to Beginning Work at Horseshoe

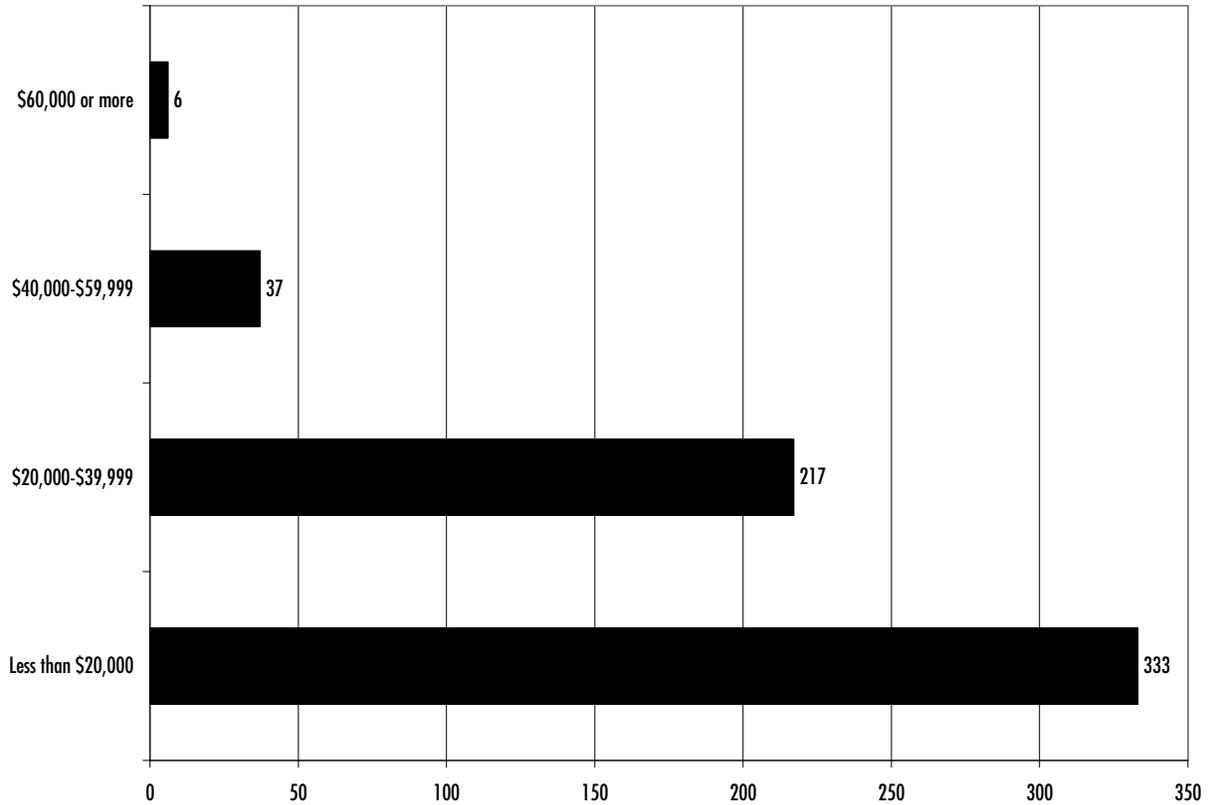


Nearly 95 percent of those who responded to the survey reported that their first job at Horseshoe was a full-time position. Based on those who responded to both the question regarding previous employment and the survey question regarding initial employment at Horseshoe, 404 individuals moved from a previous full-time position to a full-time position at Horseshoe and 82 respondents moved from a previous part-time position to a full-time position at Horseshoe.



Figure 22 displays the starting wages for the 593 respondents who reported that they work full-time and provided a starting annual income (including tips). Three hundred thirty-three respondents or 56 percent reported a starting income at Horseshoe of less than \$20,000. An additional 217 or nearly 37 percent reported earning between \$20,000 and \$39,999. Forty-three individuals reported earning \$40,000 or more. The average reported starting income was \$22,547 and the median was \$18,500.

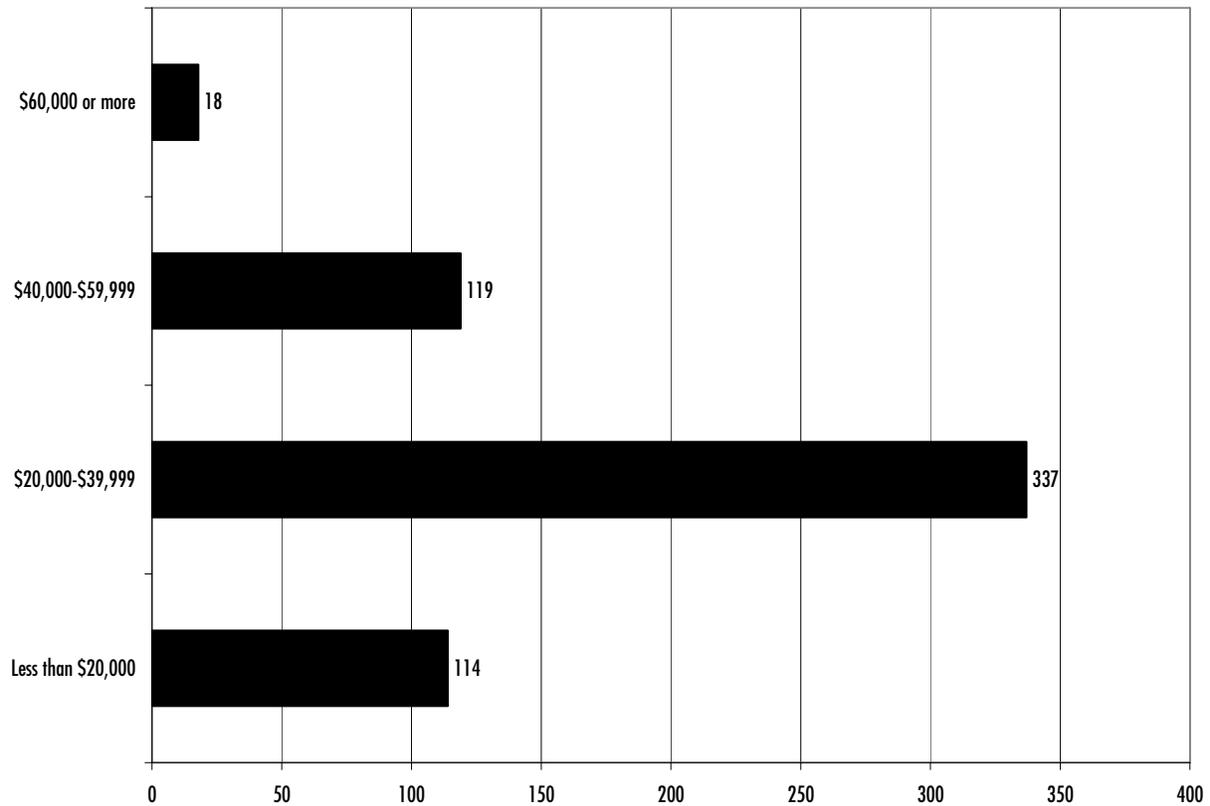
Figure 22: Beginning Wages and Tips at Horseshoe





The average current annual income of the 588 Horseshoe employees who provided this information was \$29,932 and the median was \$24,140. On average, the current annual income of the Horseshoe employees who provided responses regarding current wages and starting wages is \$7,385 higher than the average starting wage for this group. As shown in Figure 23, most respondents' current income falls between \$20,000 and \$39,999, with 57 percent of those who responded reporting earning an income within that range.

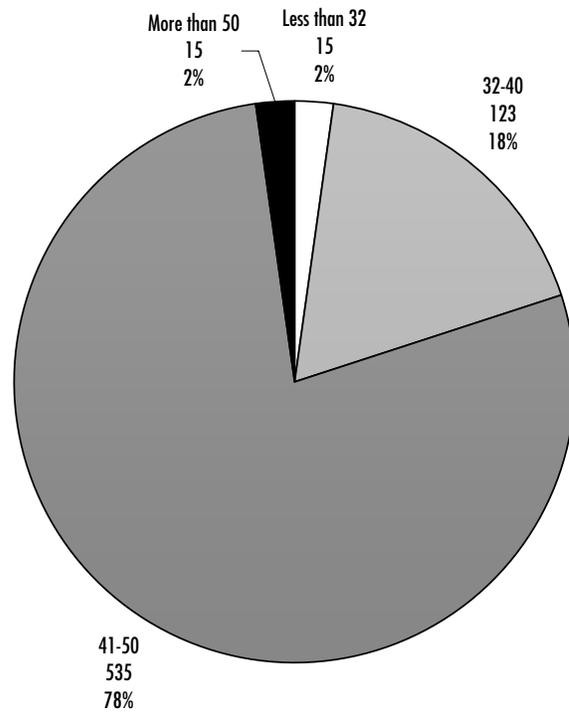
Figure 23: Current Annual Income (Including Tips) of Horseshoe's Employees





As shown in Figure 24, nearly all respondents report that they work between 32 and 50 hours per week (658 or nearly 96 percent). Only 15 indicated they worked less than 32 hours.

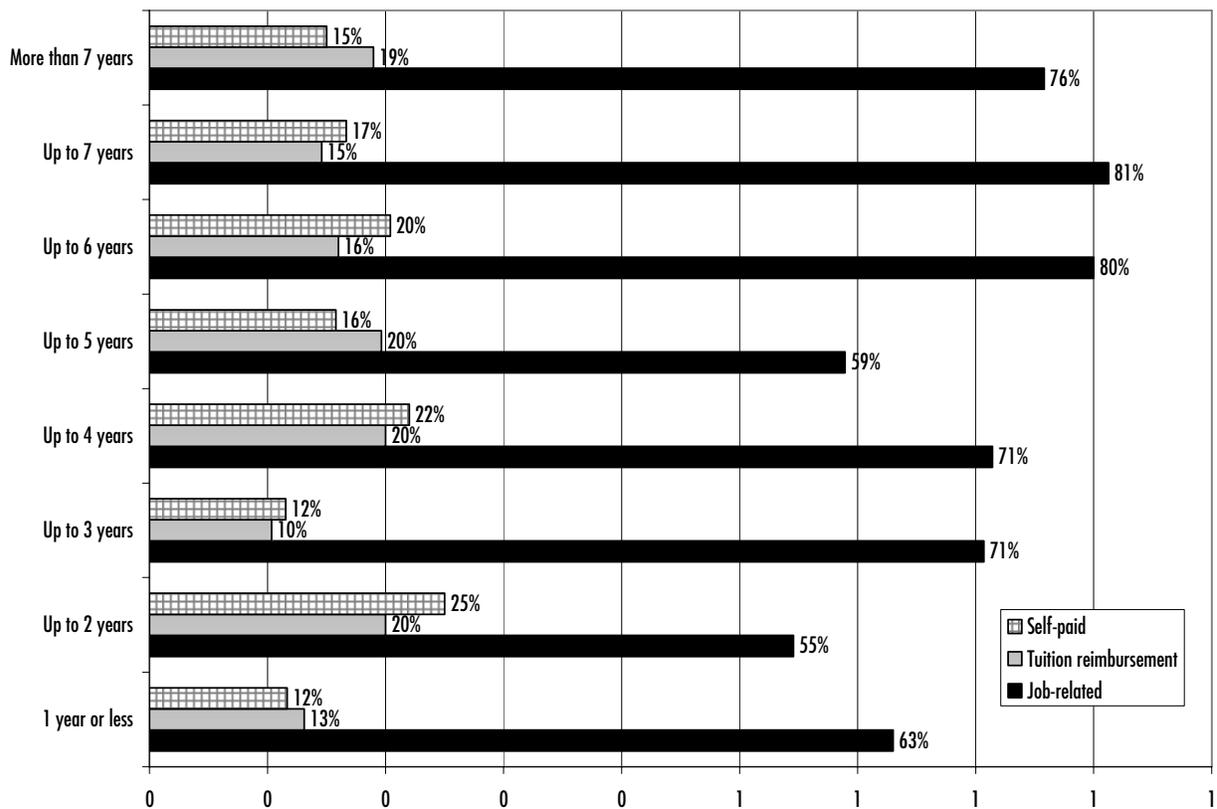
Figure 24: Number of Hours Worked per Week at Horseshoe





Training and re-training are important components of building an economically competitive workforce. As shown in Figure 26, a much higher share of Horseshoe employees are receiving job-related training than receive either tuition reimbursement or choose to pay for additional skill-building opportunities on their own. For all respondents, the number receiving tuition reimbursement (89) and the number paying for their own training or education (82) is similar, though the numbers vary based on years of experience with Horseshoe.

Figure 26: Training and Education Opportunities for Horseshoe Employees



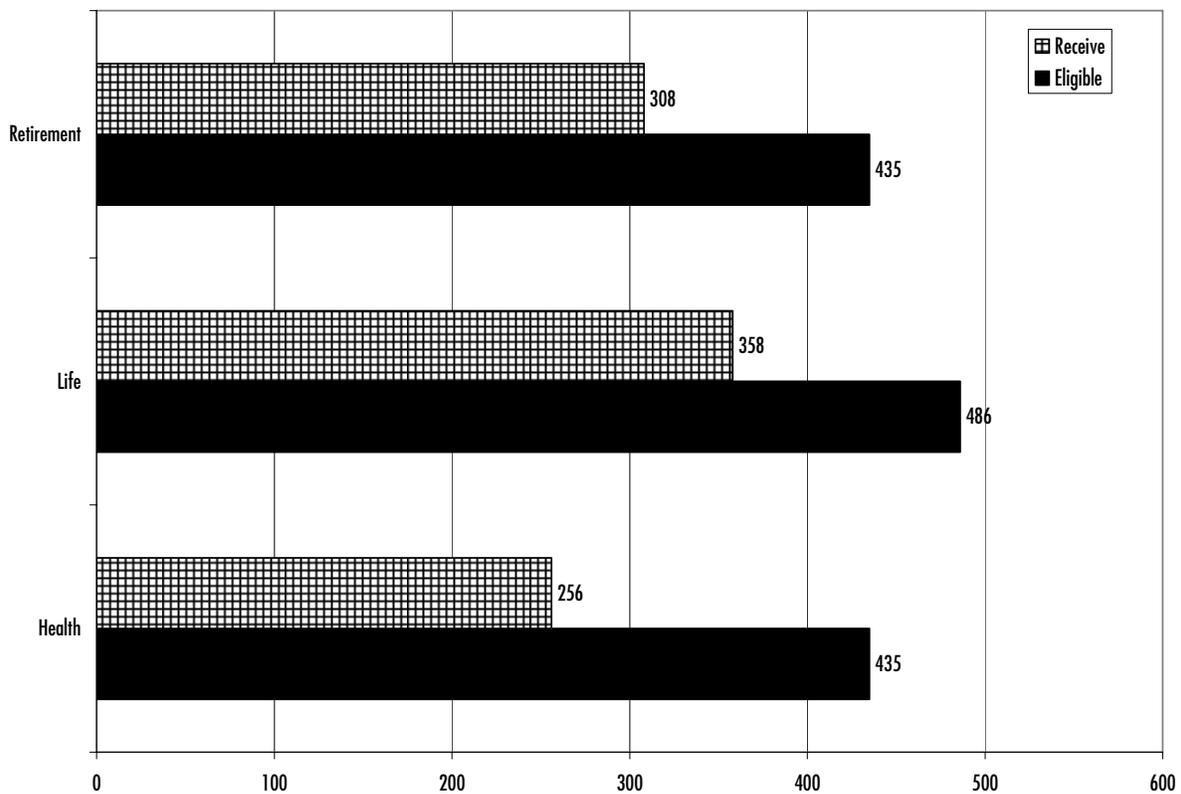
When access to training is compared to educational attainment, it becomes clear that access to all types of training increases as the level of educational attainment increases. For example, the share of respondents who reported receiving job-related training increased from 65 percent for those with a high school education to 77 percent for those with college degrees to 100 percent for those with graduate degrees.

A similar disparity exists for both tuition reimbursement programs and self-paid education or training. For example, only 9 percent of all high school graduates report taking advantage of tuition reimbursement programs while 26 percent of all those with college degrees and 50 percent of those with graduate degrees report making use of the tuition reimbursement opportunity. Those with a higher level of education may have a greater appreciation for the value of skill building and education, but more might be done to encourage those with less education to take advantage of these opportunities.



Participants in the focus groups held in conjunction with previous license hearings have suggested that there are concerns regarding access to and utilization of benefits such as health and life insurance and retirement plans. As a result, questions regarding this issue have been added to the survey of employees. Survey results suggest that some full-time employees appear to be unaware of their eligibility for these benefits. Among the 659 full-time employees responding to the survey only 435 to 486 employees responded that they are eligible for benefits. When respondents who said they were eligible were asked why, they do not receive the benefits, 36 said they couldn't afford the premium, 47 received coverage under their spouse's plan, and 22 reported receiving benefits from another job.

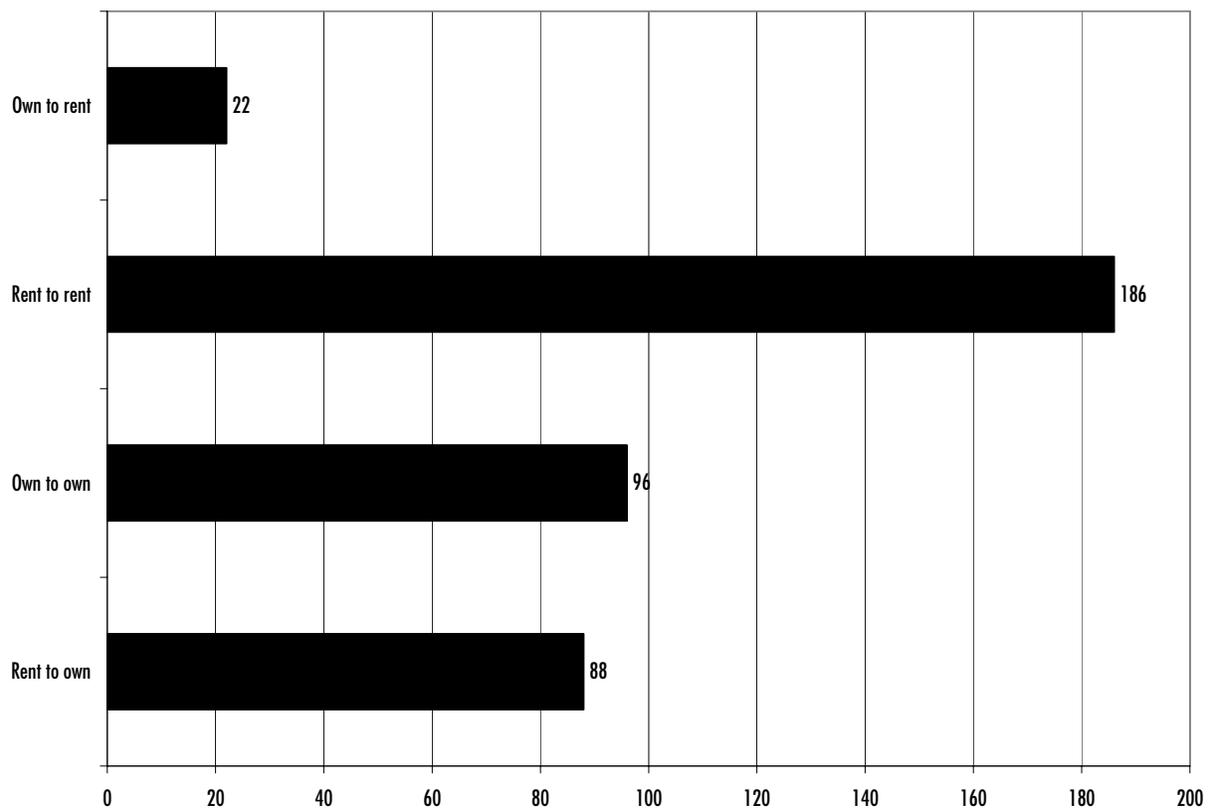
Figure 27: Perceived Eligibility for Benefits and Utilization





Of the 715 employees responding to the survey, 88 or 12 percent of all respondents reported moving from rental status to homeownership status since beginning work at Horseshoe. An additional 96 individuals or 13 percent reported moving from one home to another. Three hundred ninety-three respondents reported purchasing a new car, truck, or van since beginning work at Horseshoe and 137 reported undertaking a home remodeling project.

Figure 28: Changes in Housing Status since Beginning Work at Horseshoe







Community Impacts

While Horseshoe does not have a hotel, they did book 1,643 hotel nights in northwest Indiana in 2005. In addition, they had 13 events in 2005, with a total attendance of 7,835.

Community Input

Engaging Solutions (a subcontractor to the Center) conducted two public hearings in Hammond in August 2006. The first invited community leaders, local business leaders, and social services providers. The second was advertised in the local media as a public hearing where all were welcome. The first meeting was well attended (36 people) with the second less so (8 people).

The audience was overall complimentary of the community partnership with Horseshoe. The majority of the audience felt that many of the infrastructure activities of the community would not had been completed had it not been for the tax revenue from the casino. However, there were questions as to whether the casino met its original commitments outlined in the first agreement, including minority set asides and building a hotel.

The group was very interested in developing opportunities for creating a sustainable community. One individual suggested a review of funding to determine if a meaningful partnership could be established between Horseshoe and the educational system/community of Northwest Indiana. Another recommended funding to develop and implement a long-term plan for sustainability of the future. The group had concerns as to the accountability of funds and the use of the funds by public leaders. Suggestions for actions included establish a Citizen Group for oversight with authority, Horseshoe should establish a reading room where the community can review information on funding, outcomes, etc., establish a neighborhood liaison, and complete the hotel as stated in the original agreement.



In addition to the public hearings, the Center contracted with the Survey Research Center at IUPUI to conduct a random survey of 200 people in Hammond in August 2006 to determine their opinion of Horseshoe as well as their participation in gambling. As Table 1 indicates, overall, the lottery is the most popular activity, followed by playing cards for money, playing bingo, and then going to a casino. The picture changes slightly if you ask what you did in the last month, with the highest rate still going to the lottery (45 percent) but the second highest was bets placed at a casino (23 percent).

Table 1: Participation in Gaming Activities by Hammond Residents

Type of gaming	Percent responded yes they have ever played	Of those, percent who played in the last month
Played cards for money	43%	6%
Played bingo for cash prizes	40%	6%
Bet on games of your own personal skill like pool, golf, etc.	19%	22%
Bet money on sports teams	21%	17%
Bought lottery tickets, scratch offs, or pull-tabs	67%	45%
Placed bets at a casino	37%	23%
Bet on horses	24%	2%
Used the internet to play poker online	0.5%	0%
Used the internet to bet money any other way	0.5%	0%
Participated in any other forms of gambling	14%	22%

Respondents were first asked if they had heard of Horseshoe and 99 percent indicated that they had heard of it. As Table 2 illustrates, people's opinions of Horseshoe are different depending upon their experiences. Respondents who know someone who works at the casino (31 percent) are much more likely to favor it than those who are not gamblers (13 percent) or know someone with a gambling problem (26 percent). Those who know someone with a gambling problem are more likely to have mixed feelings.

Table 2: Opinion of Horseshoe Casino

	All responses	Not a gambler	Know someone who works at casino	Know someone with a gambling problem
Favor	48%	20%	56%	35%
Opposed	12%	32%	11%	22%
Mixed Feeling	24%	20%	26%	35%
No opinion/don't know	17%	28%	6%	8%

The reasons cited by those strongly opposed include religious reasons, as well as concerns about problem gambling. Those strongly in favor cite the additional revenue (the casino has provided infrastructure, and lowered property taxes) and the jobs, as well as the entertainment value.



As Table 3 indicates, in an effort to prevent underage gambling, Horseshoe has verified 1.6 million identifications and turned away 60,255 patrons since it opened. In an effort to address problem gambling, 1,437 patrons have self-excluded. Part of the self-exclusion process is a signed agreement to forfeit any winnings. Jackpots have been won (and forfeited) by 36 self-excluded patrons.

Table 3: Horseshoe's Efforts to Prevent Underage and Problem Gambling

	1996-03	2004	2005	Through June 30, 2006	Total
Number of I.D.s verified	916,577	258,452	287,870	127,833	1,590,732
Number of patrons turned away- under 21 or no ID	36,917	9,889	9,418	4,031	60,255
Self-excluded		524	608	305	1,437
Jackpots won by those who self-excluded		4	24	8	



Current Financial Position and Future Plans

Horseshoe Hammond has applied for a renewal of its gaming license in Hammond, Indiana. The purpose of this section is to provide the Indiana Gaming Commission with assessments of the operating performance of the Hammond license, the operating plans of Horseshoe Hammond for the next three years, and the financial strength of the parent company, Harrah's Entertainment, Inc.

Horseshoe Hammond LLC

Empress Casino Hammond was licensed in June 1996, and opened for operation later in 1996 with a total initial capital investment of \$159.8 million. Horseshoe Gaming acquired the Empress Hammond in 1999 for approximately \$400 million. Approximately \$360 million in long-term debt was used to complete the transaction. All the assets of Horseshoe Hammond guaranteed the long-term debt. In 2004, Harrah's Entertainment acquired Horseshoe Gaming for approximately \$700 million. After the transaction, there was still approximately \$360 million in long-term debt on the balance sheet in addition to an equity balance of \$245 million.

The casino is located on Lake Michigan in Hammond, Indiana. Horseshoe Hammond is the closest casino to downtown Chicago. The owners of the license have periodically made major capital investments in the property. In April 2006, Harrah's announced plans to invest \$485 million in Horseshoe Hammond. The announcement indicated that Harrah's intended to create a "Las Vegas" experience for the Chicago gaming market. Harrah's plans included a two-level entertainment vessel with 108,000 square feet of casino space on the first floor with the second level housing a 2,500 seat multi-purpose theater and a large buffet. The project is scheduled for completion in mid-2008.

The Hammond license has been very successful in terms of operations and generating growth in gaming revenues. In the seven-year period between 1998 and 2006, gaming revenues increased at a compounded average annual growth rate of 9.5 percent. During the same period, the operation generated an average cash flow return on revenue (EBITDA/Revenue) of 21 percent.

At the end of 2006, Horseshoe Hammond reported total assets of \$759 million and produced total net revenue of \$411 million in 2006. The balance sheet listed no long-term debt at the end of 2006. The cash flow generated from the operation in 2005 (EBITDA) was \$93.3 million. The total equity recorded on the balance sheet at the end of 2006 was \$717 million. In other words, Horseshoe was totally equity financed at the end of 2006.

Harrah's Entertainment, Inc.

Harrah's (HET) is a publicly traded gaming company. It claims to be the world's largest provider of branded casino entertainment. In 2006, the company generated total net revenue of more than \$9.7 billion. The company's five brands are Harrah's, Caesars, Horseshoe, Total Rewards, and World Series of Poker. The company, through its wholly owned subsidiary, Harrah's Operating Company, Inc., owns and manages 40 gaming properties, primarily located in 12 states. These include 19 land-based casinos, and 11 riverboat casinos. Harrah's operates in every major domestic gaming market and in several international markets. Its growth plans include multiple investments in international markets. Harrah's was the first company to own two gaming licenses in Indiana. The major risks that Harrah's is exposed to with its geographically diversified business model that focuses exclusively on gaming is a slow down in consumer



spending on gaming entertainment, an over-supply of gaming in certain major markets, and travel-related security threats. In 2006, Harrah's agreed to be acquired by a private equity company. That transaction is not expected to be completed until late in 2007.

Marketing

The company operates a customer loyalty program called Total Rewards and claims to have more than 40 million Total Rewards members. The Total Rewards program is patented, with patent expiring in 2016. Total Rewards provides an incentive for customers to consolidate their gaming activities with Harrah's and gives Harrah's an advantage in terms of customer service and operating efficiency. Further, the database created by the Total Rewards program provides Harrah's with information about the gaming activities of millions of customers. That information is then used for marketing through direct mail and electronic channels. For 2004, Harrah's estimated that its customers spent 44 percent of their total annual gaming budget with Harrah's. With Total Rewards, customers earn reward credits and are able to redeem the credits at any Harrah's gaming facility.

Operating Performance

At the end of 2006, Harrah's had total assets of \$22.3 billion and generated net revenue of \$9.7 billion with annualized gaming revenues of \$7.6 billion. Harrah's had total long-term debt of \$11.6 billion and produced before-tax operating cash flow (EBITDA) at a rate of \$2.26 billion. Harrah's annualized interest expense for 2006 was \$670 million. This translates into a strong fixed charge coverage ratio (EBITDA/Interest Expense) of 3.37 times. Harrah's Leverage Ratio (Long-Term Debt/EBITDA) at the end of 2006 was 5.13 times. Harrah's enjoys a strong credit rating and has ample established credit lines. In June 2006, Harrah's had an established credit facility that provided up to \$4 billion in borrowings. At that date, there was \$1.4 billion of unused capacity on the established facility. Harrah's held \$799.6 million in cash and cash equivalents in December 2006.

Harrah's had dramatically increased its portfolio of gaming properties in the last two years with the acquisitions of Caesars and Horseshoe Gaming. The company operates a geographically diversified set of properties and earned a consolidated cash flow margin on revenues of 23.4 percent in 2006.

Horseshoe's Actual and Projected Performance (2003-2009)

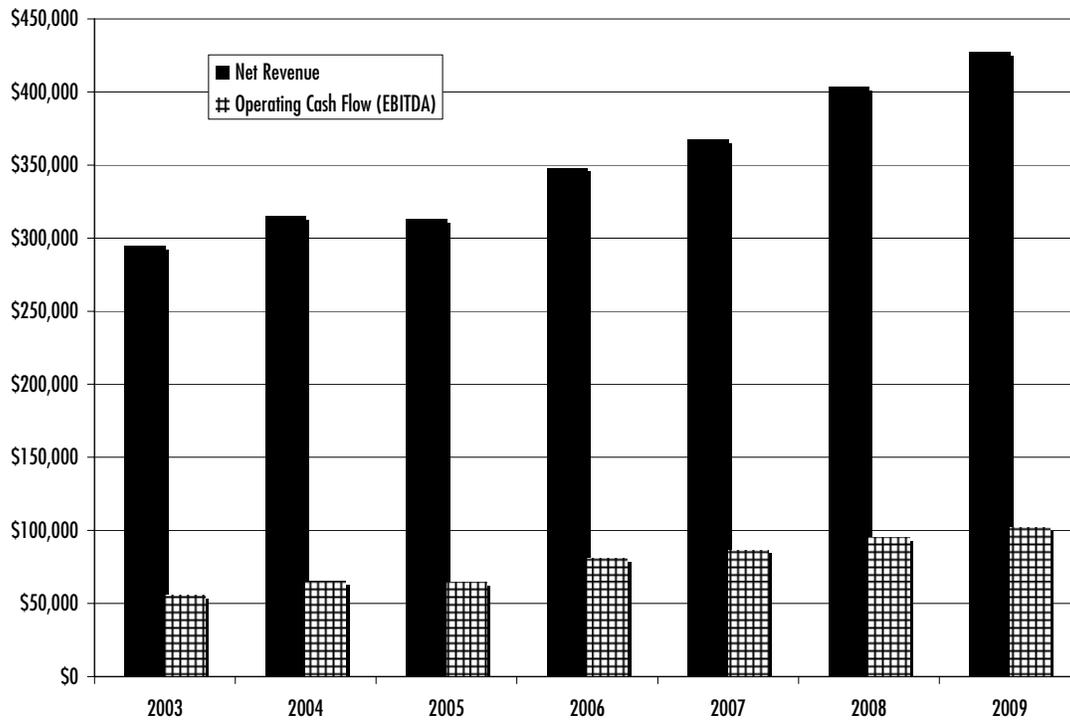
Between 2003 and 2006, the period that included the acquisition of the Hammond operation by Harrah's Entertainment, net revenue for Horseshoe Hammond increased by a total of 16 percent. For the period from 2005 to 2009, net revenues are forecasted to increase by about 59 percent for a compounded average annual growth rate of 12 percent. The bulk of the growth is expected after the completion of the renovation and expansion project in mid 2008. Harrah's plan to have a "Las Vegas or Atlantic City" type experience in the Chicago gaming market is associated with a projected increase of 24 percent in net revenue in 2008 and 21 percent in 2009.

During the period from 2003 to 2006, Horseshoe Hammond enjoyed a 38 percent increase in operating cash flow or EBITDA (Figure 29). At the same time, the EBITDA/Net Revenue margin improved from 19 percent to 23 percent. This improvement in operating margin may be attributed to programs that were introduced by the Harrah's management team. In the projections provided for 2006 to 2009, EBITDA is forecasted to exceed \$178 million by 2009 and the EBITDA/Revenue margin is forecasted to improve further to 26.8 percent by that date. While the Hammond operation has historically earned a higher cash



flow margin on operations than other facilities in Indiana, this forecast would exceed the highest margin ever produced at the Hammond property.

Figure 29: Net Revenue and Operating Cash flow

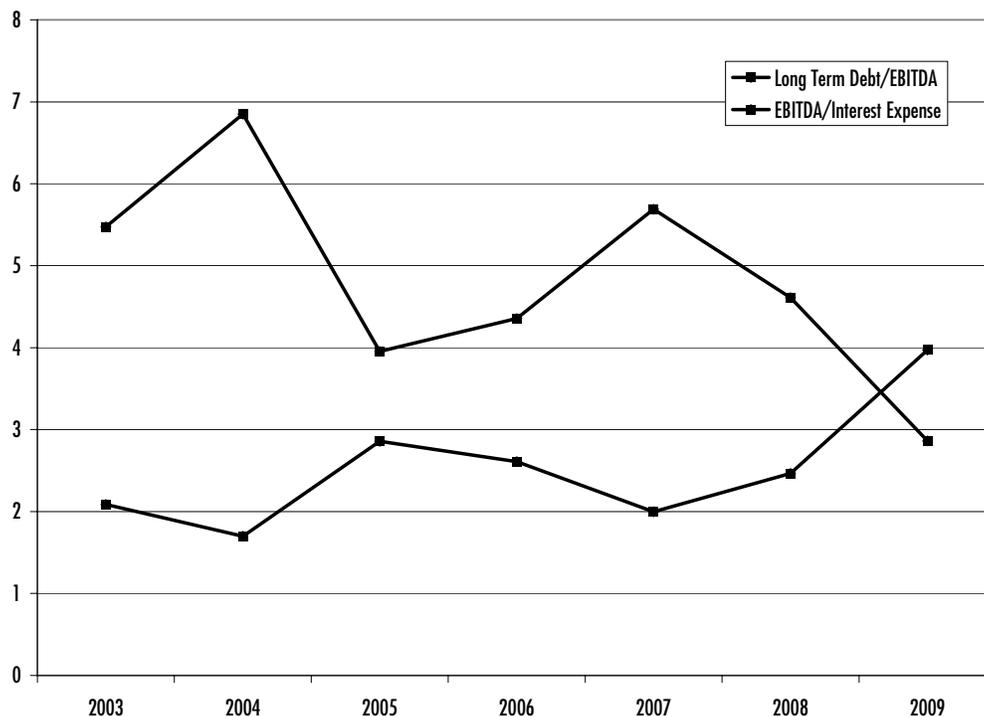


The planned expansion of the Hammond property is scheduled to involve a capital expenditure of \$485 million. While management did not provide estimates of the amount of debt that would be used to finance the project nor did they provide a forecast for interest rates, a pro forma estimate of long-term debt needed to fund the expansion project and the interest expense that would likely be incurred if the cost of the new debt was equal to the historical cost of long-term debt in the 2003 to 2005 period was created. Given those forecasts, the Leverage Ratios for the Hammond Operation for 2006 through 2009 were also estimated.



Historically, the Long-Term Debt relative to Operating Cash Flow (actual) has ranged between 5 and 7 times (Figure 30). With the acquisition of Horseshoe Hammond, Harrah's had assumed Horseshoes debt and there was no increase in the debt found on Horseshoe Hammond's balance sheet. With the planned expansion of the property, it was assumed that cash flow from operations would be used to fund the project and that long-term debt would increase to cover the balance. As the project will take about three years to complete, it will be possible to fund a portion of the project out of operating income and thus, there was not a substantial forecasted increase in long-term debt and especially relative to operating cash flow. As a consequence, the leverage measures forecasted for the period from 2006 to 2009 showed substantial improvement as EBITDA was forecasted by management to grow faster than the other elements of the calculation.

Figure 30: Leverage Ratios

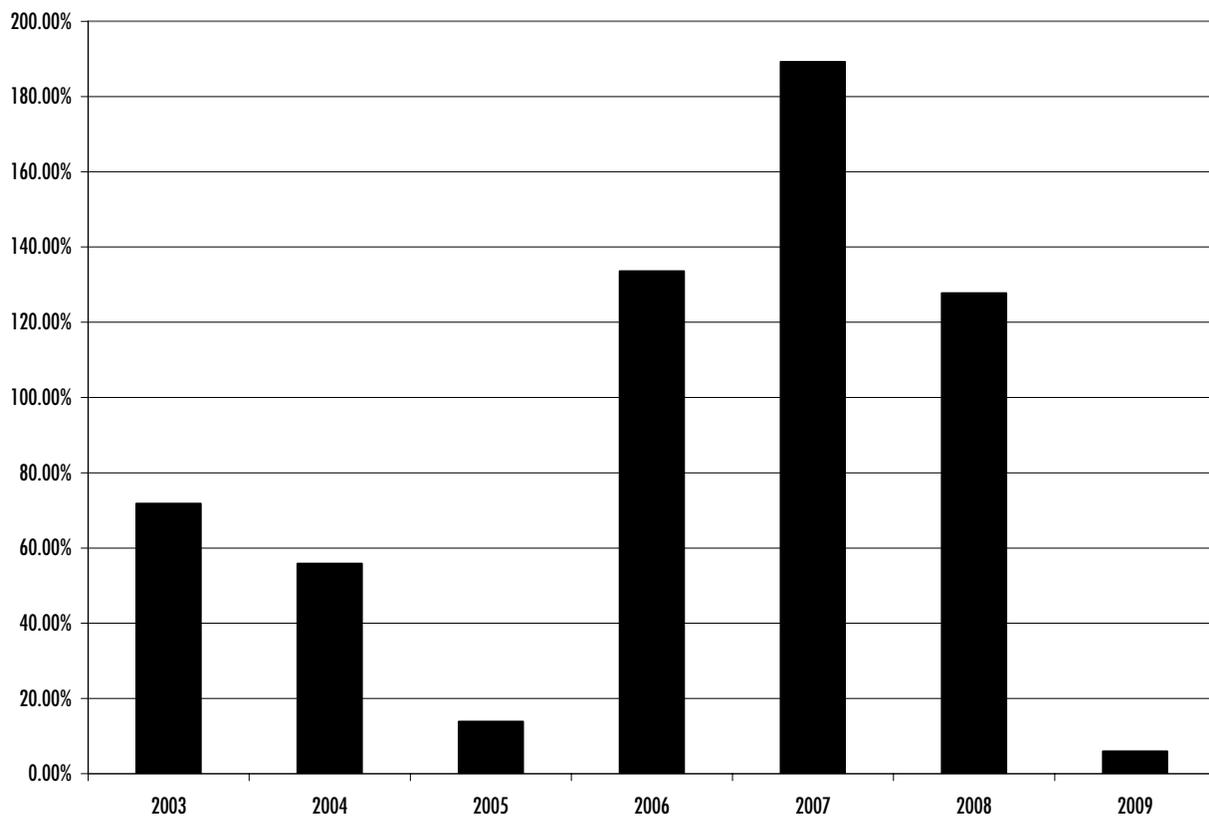




Capital Investment and Free Cash Flow

The planned program to renovate and expand the Hammond property, which was started in 2006 and will extend through mid 2008, will absorb more than 100 percent of operating cash flow from the property during the building period (Figure 31). However, as indicated earlier, Harrah's has adequate established credit facilities to fund the planned expansion in Hammond.

Figure 31: Capital Expenditures/EBITDA





Summary and Recommendation

Horseshoe Hammond Casino has produced large and growing revenues and strong positive operating cash flows margins throughout its history. Due to its proximity to Chicago and having the benefit of having had financially-strong owners with Horseshoe Gaming and now Harrah's Entertainment the operation has expanded its operating base and has been a fierce competitor in the Chicago gaming market. Its owners have reinvested significant amounts of capital in the operation for improvement and expansion and plan to continue to do so. Harrah's, with its strong Total Rewards program, has one of the premier customer management marketing programs in the world and each of its properties benefit from the strategy of providing "branded gaming" experiences for customers.

In conclusion, this analysis of the past, and of the current and planned financial and operating strategy of Hammond license supports the conclusion that the license has been well managed and its current owners/managers have the ability to continue to produce significant economic benefits for the community in which it is located and for the state of Indiana in general.