



FIVE-YEAR LICENSE RENEWAL:
HORSESHOE HAMMOND, INC.

(Formerly known as Empress Casino Hammond Corporation)

**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 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 non-partisan 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 November 17, 1995, the Commission issued a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in Hammond, Indiana. Empress Casino Hammond Corporation (Empress), formerly known as Lake Michigan Charters, Ltd., opened on June 29, 1996. In 1998 Empress entered into negotiations with Horseshoe Gaming Holding Corporation for the transfer of ownership. The sale was finalized in November 1999, with Horseshoe Hammond Inc. (Horseshoe) becoming the new name of the facility in 2001. 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 the first five years of operation. The Certificate of Suitability (Certificate) was the agreement between Horseshoe (then known as Lake Michigan Charters) and the Indiana Gaming Commission that described the requirements the company needed to fulfill to obtain its license.

The Certificate specified certain levels of project development and incentive payments to be made by Empress as well as specifying that Horseshoe abide by agreements made with the city of Hammond. Because this analysis must be completed before the completion of Horseshoe's fifth year of operations, in year-five, data are shown for year five through December 31, 2000. In addition to the five-year totals of components and analysis of compliance included in the previous annual reports, this report includes an analysis of the tourism impact of Horseshoe visitors, a study of the em-



ployment impact, an analysis of the fiscal impact on local communities, and an analysis of the economic benefits generated through the spending of local gaming-related tax revenues and negotiated incentive payments. This report is the second of ten analyses, one for each Indiana riverboat. The first, an analysis of Aztar was completed in February 2001. The next three, Horseshoe, Trump Casino and Majestic Star Casino will be completed in summer 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

The 2,635-passenger riverboat opened with 35,000 square-feet of gaming space. A fourth deck was added in the second year, which brought the capacity of crew and passengers to 3,240 and gaming square footage to 42,573. A 107,000-square-foot permanent pavilion and a 1,200-space parking garage were completed and opened with the launching of the riverboat. Additional square footage (18,000 square feet) was added with the enclosure of the third-floor balcony and a \$7 million double helix added to the parking garage. Construction on a 200-room hotel was scheduled to begin immediately after substantial completion of the Guest Pavilion. A master plan is being developed but Horseshoe does not have an anticipated opening date for the hotel. 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), Horseshoe committed to spend approximately \$137 million on project development, in addition to pledging to the city of Hammond other incentives totaling several million dollars. As of December 2000, Horseshoe had spent approximately \$171.8 million, \$34.8 million more than agreed to in the Certificate for the development of the project. Horseshoe has spent money locally for both capital and operating expenses as well as through sponsorships and contributions. As Table 1 illustrates, since opening, Horseshoe has spent over \$22.6 million locally (in Hammond and Whiting). Additionally, Horseshoe has impacted the Hammond area through \$642,079 in sponsorships and contributions to hundreds of local area organizations such as Hammond Jaycees, Indiana Black Expo, Meals on Wheels, Northwest Indiana Literacy Coalition, and Munster Rotary Club. This figure excludes the charitable contributions that were part of the local development agreement, which are discussed under Incentive Payments.

Table 1: Local Spending, Sponsorship, and Contributions

| | 1996 | 1997 | 1998 | 1999 | 2000 | Total |
|--------------------------------|-------------|------------------------|-------------|-------------|-------------|--------------|
| Local Spending | \$4,184,412 | \$2,744,598 | \$4,046,568 | \$2,887,353 | \$8,476,256 | \$22,609,187 |
| Sponsorships and Contributions | | \$105,386 ¹ | \$138,428 | \$249,342 | \$148,923 | \$642,079 |

¹ Includes 1996 and 1997 contributions.



GAMING ACTIVITY

The certificate did not require any specific levels of gaming activity by Horseshoe. As Table 2 illustrates, Horseshoe has had attendance of almost 25 million people since opening and gross gaming receipts of almost \$994 million, for an average of \$40 per patron.

Table 2: Gaming Activity

| Category | 1996 | 1997 | 1998 | 1999 | 2000 | Total/Average |
|--------------------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Attendance | 2,484,955 | 5,498,234 | 5,708,257 | 5,792,687 | 5,375,620 | 24,859,753 |
| Gross Gaming Receipts | \$95,158,158 | \$210,064,775 | \$220,125,053 | \$231,101,645 | \$237,126,062 | \$993,575,693 |
| \$ Per Patron per Cruise | \$38 | \$38 | \$39 | \$40 | \$44 | \$40 |

IMPACT OF GAMING ACTIVITY ON TOURISM

One argument for legalizing riverboats was that the projects would become a tourist destination and local businesses would benefit from the influx of visitors who would consume goods and services 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.

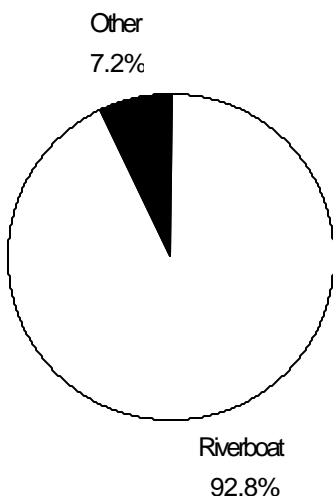
With the cooperation of Horseshoe, the center conducted face-to-face interviews with riverboat patrons over a four-day period in March 2001 in the riverboat pavilion. During the four-day period, the Center acquired a 139-patron sample². In general, the estimated average distance traveled to the riverboat was 34 miles. Just over 1 percent of the interviewees were from the city of Hammond, 25.8 percent were from the remainder of Indiana, and 72.7 were from outside Indiana (55.4 percent from Chicago).

² While not a statistically representative sample, survey responses were consistent and provide information necessary to draw adequate conclusions.



To suggest that riverboat casinos increase tourism in local areas is to presume that the riverboat will draw people that would not have otherwise visited the area. To test that assumption, each interviewed patron was asked to provide the main reason for traveling to Hammond. Figure 1 indicates that 92.8 percent of the patrons stated that their main reason for traveling to Hammond was to visit the Horseshoe Casino. The remaining 7.2 percent of interviewed patrons were visiting relatives, vacationing, conducting business, or crossing the Indiana/Illinois border to purchase lower- priced gasoline and cigarettes.

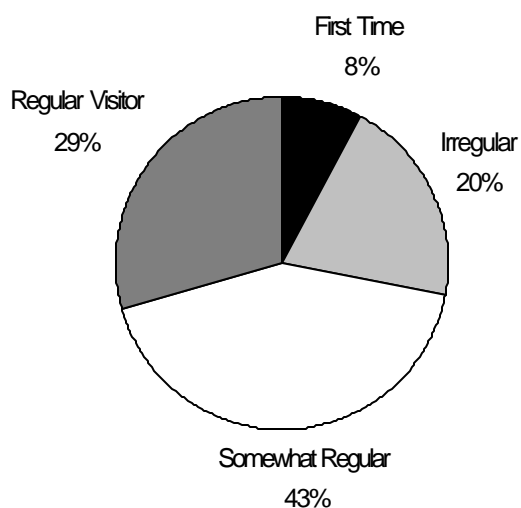
Figure 1: Horseshoe Patrons' Reasons for Visiting Hammond





The patrons also were asked how often they visit Horseshoe Casino. Specifically, each interviewed respondent was asked to what degree he or she regularly visited the riverboat. Figure 2 illustrates the proportion of respondents by four broadly categorized groups: first time visitor, irregular visitor, somewhat regular visitor, and regular visitor. As shown, most of the patrons visited the riverboat somewhat regularly or regularly (43 percent and 29 percent, respectively).

Figure 2: Regularity of Patron Visits to Horseshoe



First Time Visitor

- Visiting Horseshoe for the first time

Irregular Visitor

- Visit Horseshoe less than once a year
- Visit Horseshoe one or two times a year

Somewhat Regular Visitor

- Visit Horseshoe every couple months
- Visit Horseshoe once a month

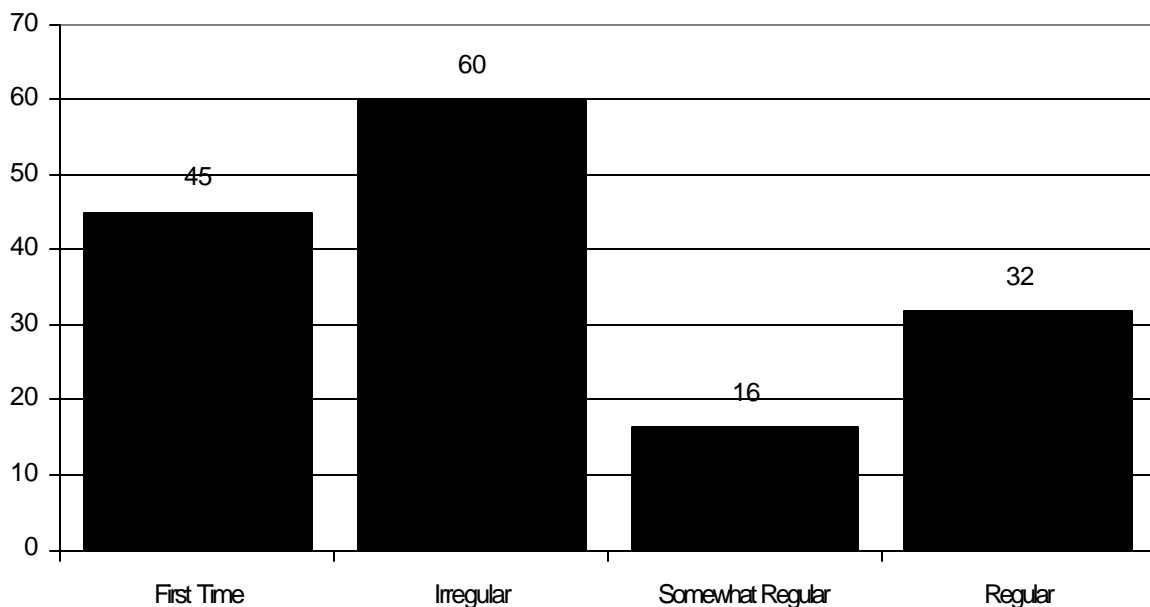
Regular Visitor

- Visit Horseshoe once a week
- Visit Horseshoe two to three times a week
- Visit Horseshoe every day



Figure 3 illustrates the average estimated distance traveled to visit the riverboat by the regularity of visits. As mentioned previously, the overall average distance traveled was 34 miles. While there is not a consistent relationship between distance traveled and regularity of visits, somewhat regular visitors and regular visitors tend to live closer to the riverboat than irregular and first time visitors.

Figure 3: Average Miles Traveled by Regularity of Vists to Horseshoe



Less than two percent of Horseshoe's patrons stayed longer than 8 hours in Hammond, and none of the patrons spent the night in the city. Ten percent of the interviewees patronized other businesses. Most expenditures in the area, other than the expenditures at the riverboat, were made by Illinois residents who were taking advantage of lower Indiana prices on cigarettes and gas.

Of the 139 interviewees, 10 had visited or planned on visiting other Indiana riverboats on their trip. Five of these patrons had visited or planned on visiting Harrah's in East Chicago and five had visited or planned on visiting Majestic Star and/or Trump Casino in Gary. None of the patrons visiting more than one boat were residents of Indiana.



EMPLOYMENT

The Certificate required Horseshoe to strive to reach certain employment goals per an agreement between Horseshoe and the city of Hammond, but did not specify any total employment goals. In addition, with the issuance of the riverboat license in Hammond, it was expected that the riverboat would have positive employment impacts on its workforce.

EMPLOYMENT CERTIFICATE COMPLIANCE

As of December 31, 2000, 60 percent of Horseshoe’s employees were women, 56 percent were minorities, 34 percent were from Hammond and 65 percent were from Lake County. While Horseshoe did not state specific employment goals in its Certificate, it indicated to Hammond that it would strive towards the goal of 50 percent of its employees being Hammond residents, which with the original employment estimate of 773 employees, would have been 387 Hammond residents. Even though it is under the goal of 50 percent Hammond residents, because it has hired three times as many employees as originally estimated (2,301), it has hired 614 Hammond residents, almost double the original goal. In addition, some employees that were hired as Hammond residents have moved out of the city since gaining employment.

As Table 3 indicates, as of December 31, 2000, Horseshoe had employment of 2,301 persons in the casino, above their five-year average of 1,650. For 2000, salaries and wages were \$52.1 million, including tips to dealers (but not to bar and wait staff), and since opening, Horseshoe has paid over \$194 million in wages. Full- and part-time employees receive benefits that include healthcare coverage, vacation time, and tuition reimbursement.

Table 3: Employment and wages

| Category | 1996 | 1997 | 1998 | 1999 | 2000 | Average/Total |
|------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Employment | 1,261 | 1,339 | 1,488 | 1,861 | 2,301 | 1,650 |
| Total Wages, Tips & Benefits | \$17,002,398 | \$38,856,091 | \$41,892,960 | \$44,570,391 | \$52,131,068 | \$194,452,908 |

IMPACT ON Horseshoe’s WORKFORCE

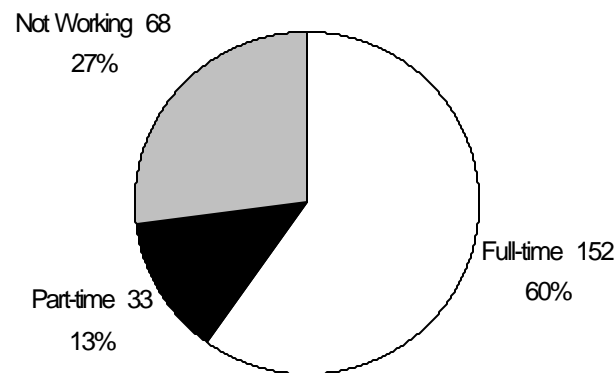
In testimony given to the Indiana Gambling Impact Study Commission in 1999, proponents of legal gaming asserted that gaming-related employment offers the chronically unemployed and under-employed an opportunity to establish a work record and skill set that may lead to even greater economic opportunity. Those who oppose legal gambling questioned the validity of 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 Horseshoe employees were asked to complete a survey of their past and current work history as well as the learning and skill-building opportunities presented to them.



This first part of this analysis is based on 255 returned surveys from the 2,301 total employees.³ The results and conclusions are limited to the 255 respondents, who may or may not be typical of all employees. The second portion of the analysis describes income growth in Horseshoe employee households and compares the change in Horseshoe households with the change in average Indiana households.

As shown in Figure 4, 73 percent of all respondents left a full- or part-time job to begin working at Horseshoe. Only 27 percent were not employed prior to working at Horseshoe.

Figure 4: Employment Status Prior to Beginning Work at Horseshoe

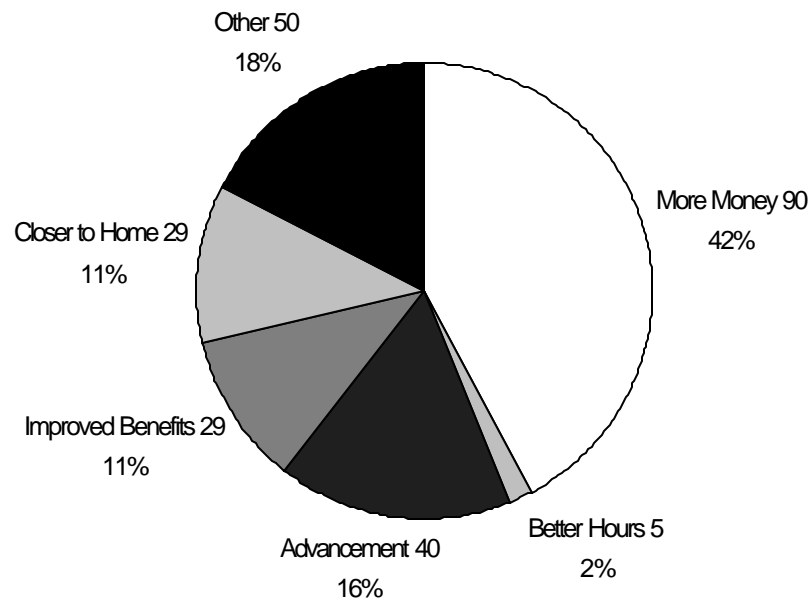


³ The 11 percent return rate is similar to that of the Aztar, because the survey was mailed to all employees and returned by only those who choose to, conclusions should be limited to the respondents rather than all employees.



For those that left full- or part-time positions to begin work at Horseshoe, the principal reason for accepting employment with Horseshoe was more money (42 percent), as shown in Figure 5. The second most frequently mentioned reason for joining the Horseshoe workforce was career advancement (16 percent). Improved benefits and closer to home tied for third with both categories receiving 11 percent of the responses. The most common prior occupations of employees who left full- or part-time positions to begin work at Horseshoe were either service (27 percent) or retail (13 percent) sector jobs.

Figure 5: Why Previously Employed Accepted Job at Horseshoe





One hundred forty-seven of the 255 survey respondents provided information on previous wages and beginning wages at Horseshoe. As shown in Figure 6, only 45 of the 147 respondents who provided both data items reported that they made less when starting at Horseshoe than they did at their previous job. Eighty-four respondents experienced an increase in wages. Forty of those received increases of over \$5,000. The average increase for all 147 respondents was \$1,343. The median or mid-point increase for all respondents was \$1,704.

Figure 6: Total Increase in Wages from Previous Job to Start at Horseshoe

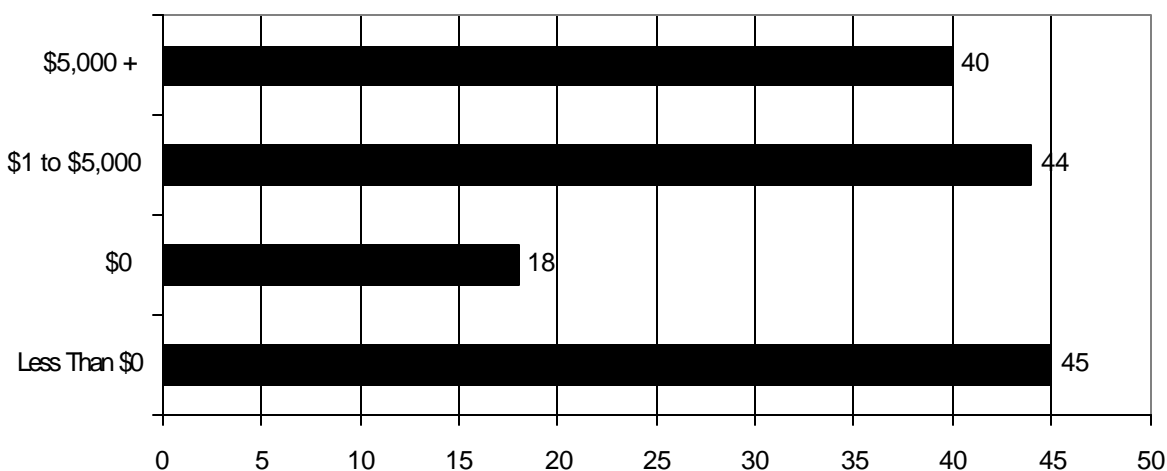




Figure 7 displays the reasons current Horseshoe employees began working there. More money was the principal motivation for nearly half of all respondents; however, those who experienced a decrease in pay were primarily motivated by advancement opportunity, improved benefit packages, closeness to home, and a variety of other reasons. Forty-two of the 45 respondents reporting a decrease in income when starting at Horseshoe were working full-time prior to beginning employment at Horseshoe.

Figure 7: Reason for Beginning Employment at Horseshoe (All Respondents)

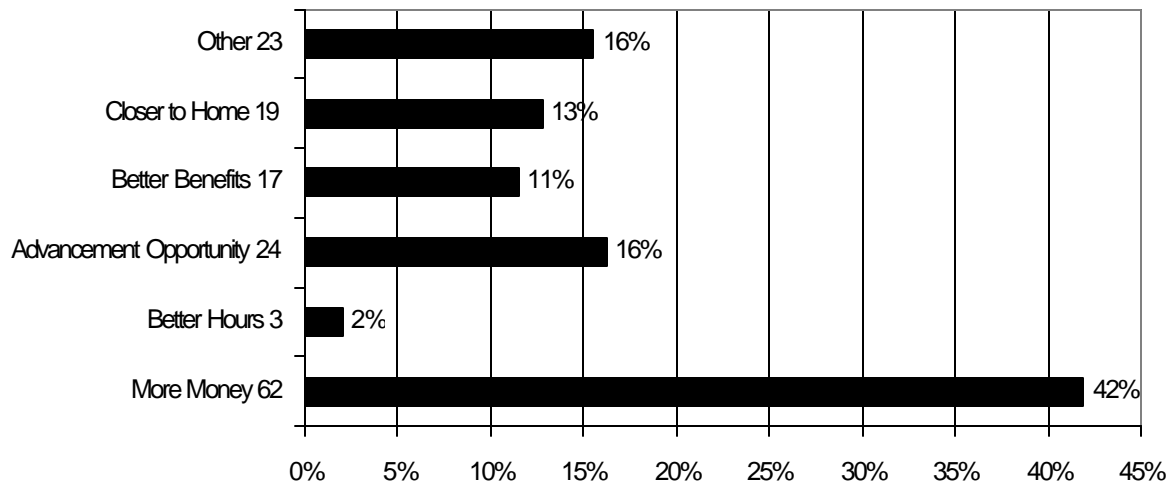
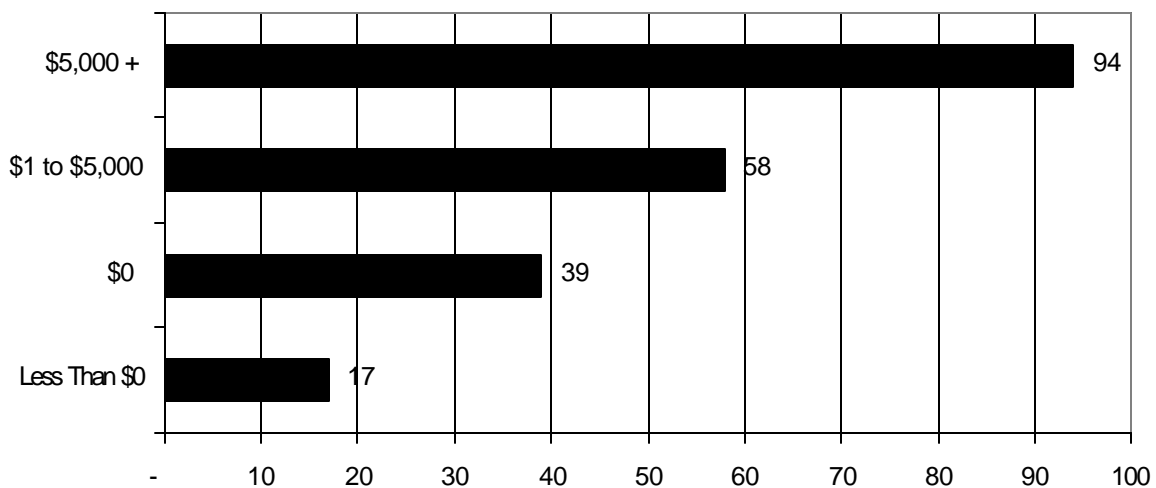




Figure 8 shows that most employees do experience an increase in wages while working at Horseshoe. Fifty-eight employees (28 percent) have earned increases up to \$5,000 since they began work at Horseshoe. An additional 94 employees have received raises of over \$5,000. Only 17 employees have experienced a decrease in wages since beginning work at Horseshoe. The average increase is \$6,589 and the median or mid-point of all respondent wage changes was \$4,608.

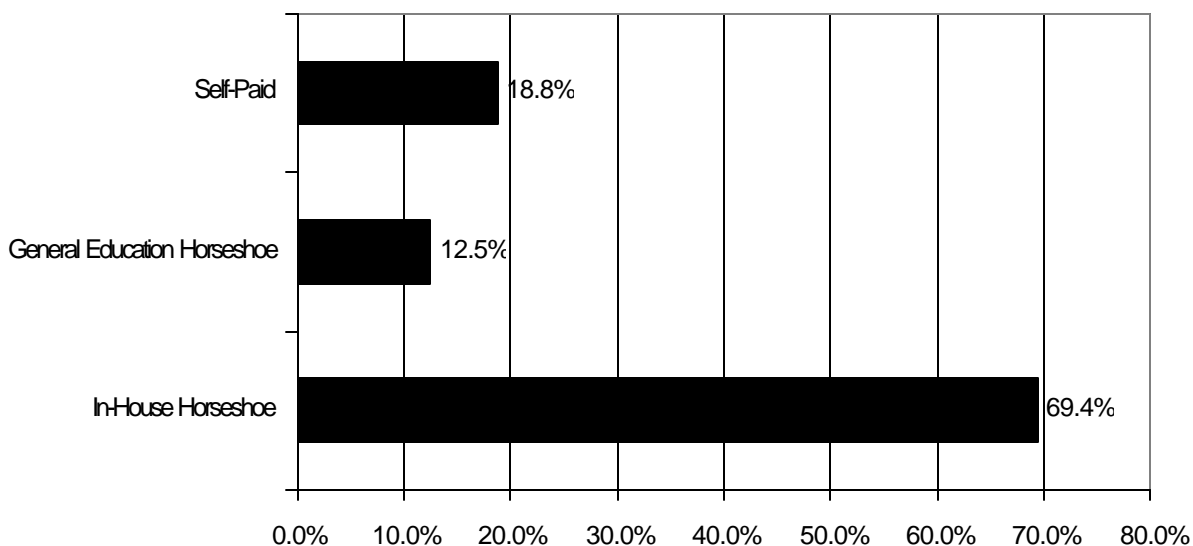
Figure 8: Total Increase in Wages from Starting Wage to Current Wage at Horseshoe





Training and skill-building opportunities are key levers of advancement for many workers. In-house casino specific training is likely to provide employees with the opportunity to advance within the organization; general education and skill-building opportunities may be more transferable to other employment opportunities. As shown in Figure 9, 69 percent (177 employees) reported receiving in-house training directly related to their jobs and provided by Horseshoe. Only 12.5 percent (32 employees) reported receiving any general education or skill building opportunities paid by Horseshoe through either tuition payments or reimbursements. Nearly 20 percent reported that they have paid for additional skill building opportunities on their own.

Figure 9: Training and Skill Building of Horseshoe Employees

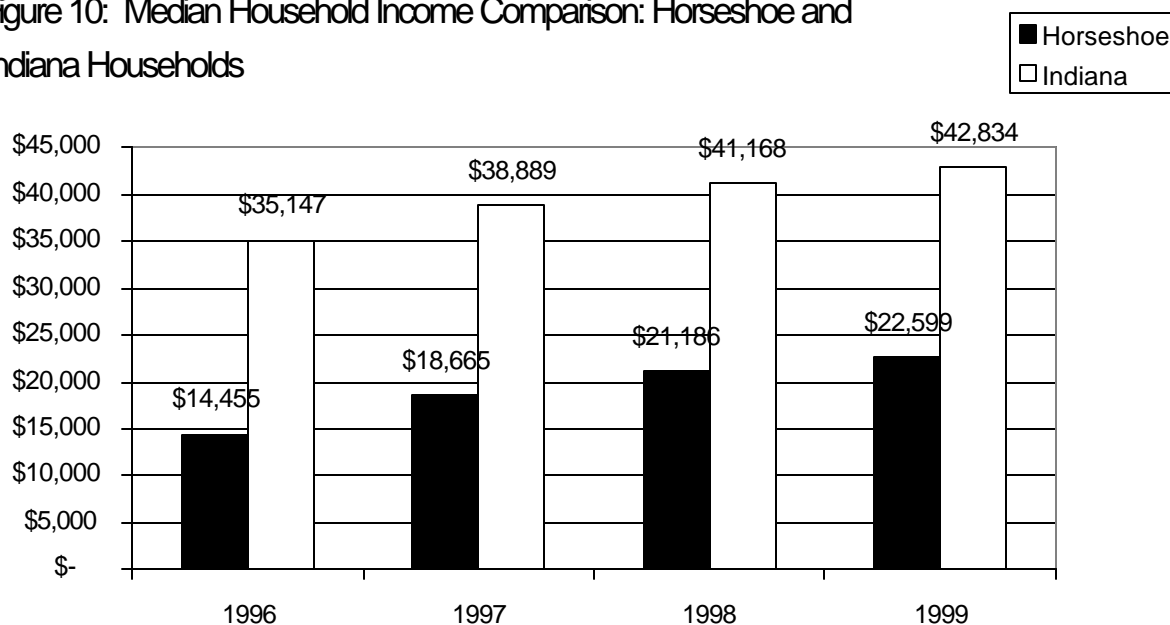




Household Income Analysis

The average household income for households including Horseshoe workers, as either the primary or secondary wage earner, increased from \$22,806 (1,010 households) in 1996 to \$29,703 (1,481 households) in 1999. As shown in Figure 10, the median or mid-point household income for Horseshoe households increased from \$14,455 in 1996 to \$22,599 in 1999. During the same period the median household income for the state of Indiana increased from \$35,147 in 1996 to \$42,830⁴ in 1999.

Figure 10: Median Household Income Comparison: Horseshoe and Indiana Households



This comparison shows that Horseshoe household incomes are growing faster than Indiana household incomes in dollar amount (a Horseshoe gain of \$8,144 to Indiana gain of \$7,686) and rate of change (Horseshoe households grew at 56 percent compared to Indiana's 22 percent gain). While not all of the increase likely comes from riverboat casino employees, household income in households with riverboat employees is growing at a faster rate than for other Indiana taxpayers.

⁴ Estimate based on annual percent increase in total income in Indiana.



ECONOMIC AND FISCAL ACTIVITY

Horseshoe paid local governments approximately \$100 million in gaming-related taxes (admission and wagering taxes) since opening in 1996, through the end of 2000. Horseshoe paid an additional \$98 million of negotiated incentives. Of the \$100 million in gaming -related taxes, nearly \$75 million was paid to the city of Hammond and, the remaining \$25 million was paid to Lake County.

In addition to the gaming-related taxes, Horseshoe 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 Horseshoe 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 revenue 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 chose to invest the local gaming revenue has immediate and long-term impacts for the local economy. The immediate benefit occurs as a result of 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.

The sections of this chapter of the analysis discuss the following:

- **Compliance:** documents Horseshoe's compliance with mandatory tax payments and voluntary contributions
- **Fiscal Impact:** analyzes the new gaming-related costs and revenues generated by Horseshoe for taxing units in Hammond
- and, **Economic Benefits:** identifies the immediate economic benefits generated by Horseshoe 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 gaming revenues, and the admission tax, a total of \$3 per admission. The city of Hammond 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. One is the economic impact that additional spending has generated. The impact of the additional spending is discussed in the *Economic Benefits of Gaming-Related Tax Revenues* section. The second type of impact we examine is the overall fiscal impact on the local governments in Hammond and Lake County, which is discussed in the *Fiscal Impact of Tax Revenues on Local Government* section.

As Table 4 illustrates, Horseshoe has paid almost \$177 million in direct taxes to the state of Indiana since it opened.

Table 4: State Direct Taxes

| Category | 1996 | 1997 | 1998 | 1999 | 2000 | Total |
|---|--------------|--------------|--------------|--------------|--------------|---------------|
| Gaming Tax ⁵ (State Share) | \$14,382,076 | \$31,501,516 | \$33,130,928 | \$34,406,175 | \$35,576,136 | \$148,996,831 |
| Admission Tax ⁵ (State Share) | \$2,484,955 | \$5,498,234 | \$5,708,267 | \$5,792,687 | \$5,375,620 | \$24,859,763 |
| Sales and Use Tax ⁶ | \$224,704 | \$501,688 | \$655,122 | \$1,008,991 | \$728,400 | \$3,118,905 |
| TOTAL | \$17,093,739 | \$37,503,443 | \$39,496,323 | \$41,209,860 | \$41,682,164 | \$176,975,499 |

In addition, as Table 5 shows, Horseshoe has paid \$108 million in direct taxes (gaming, admission, and property taxes) to the local area (city and county) since it opened.

Table 5: Local Direct Taxes

| Category | 1996 | 1997 | 1998 | 1999 | 2000 | Total |
|--|-------------|--------------|--------------|--------------|--------------|---------------|
| Gaming Tax ⁵ (City Share) | \$4,794,025 | \$10,500,505 | \$11,043,643 | \$11,468,725 | \$11,858,712 | \$49,665,610 |
| Admission Tax ⁵ (County Share) | \$2,484,955 | \$5,498,234 | \$5,708,267 | \$5,792,687 | \$5,375,620 | \$24,859,763 |
| Admission Tax ⁵ (City Share) | \$2,484,955 | \$5,498,234 | \$5,708,267 | \$5,792,687 | \$5,375,620 | \$24,859,763 |
| Property Tax ⁶ | \$12,588 | \$683,293 | \$2,351,176 | \$2,770,991 | \$2,835,550 | \$8,653,597 |
| TOTAL | \$9,778,528 | \$22,182,272 | \$24,813,360 | \$25,827,098 | \$25,447,511 | \$108,038,733 |

⁵ Source: Indiana Gaming Commission

⁶ Source: Horseshoe Hammond Inc.



Incentive Payments

The largest impact of Horseshoe in the Hammond area (outside of taxes) has been through negotiated incentive payments. These payments are the result of agreements that were made with the city of Hammond as part of the application process. In its Certificate of Suitability Horseshoe agreed to provide incentive payments, as detailed below.

As Table 6 illustrates, Horseshoe is on or ahead of schedule with its incentive payments and has provided \$98.3 million in incentive payments. While several incentives were completed in years one and two, and others are ending in year five, several more will continue into the future. These include the passenger payment to the Hammond Port Authority of \$1.00 per passenger, the annual payment to the city of Hammond based on adjusted gross receipts, and payment to the city of Hammond for police and fire purposes of up to \$1,000,000.



Table 6: Schedule and description of incentive payments

| Incentive | Promised Amount | Recipient | Amt. Paid Through 12/31/00 | Status |
|---|---|---------------------------------|----------------------------|------------------------------|
| Expanded capacity sewer and lift station | \$500,000 | City of Hammond | \$500,000 | Completed Year 1 |
| Robertsdale lift station improvements | \$150,000 | City of Hammond | \$150,000 | Completed Year 1 |
| Contributions for public safety and to promote economic development | \$1,250,000 (\$250,000 per year for 5 years paid in two annual installments- January and July) | City of Whiting | \$875,000 | Will be completed July, 2001 |
| Purchase 6.5 acres from NIPSCO for Lakefront Park and Sanctuary | \$2,750,000 | Hammond Parks Foundation | \$2,750,000 | Completed Year 1 |
| Upkeep of the Milwaukee Clipper | \$500,000 ⁷ | Milwaukee Clipper | \$500,000 | Completed Year 1 |
| Construction of new building | \$2,750,000 ⁷ | Hammond Port Authority | \$2,750,000 | Completed Year 2 |
| Transport Milwaukee Clipper out of Marina | \$750,000 ⁷ | Milwaukee Clipper | \$750,000 | Completed Year 1 |
| Donation | \$750,000 ⁷ | Nurseryland Foundation | \$750,000 | Completed Year 1 |
| Donation | \$250,000 ⁷ | Harbor House | \$250,000 | Completed Year 1 |
| Donation | \$1,000,000 | Hammond Community Corporation | \$1,425,000 | Completed Year 2 |
| Payment to support cost of additional police, fire, etc. | Up to \$1,000,000 per year | City of Hammond | \$3,512,695 | Ongoing |
| Bond shortfall payments | Not specified | Hammond Marina | \$2,250,000 | Completed Year 1 |
| Lease | \$1 per admission | Hammond Port Authority | \$24,859,763 | Ongoing |
| Ongoing payments | 4% on 1 st \$125 million AGR; 6% on \$125-\$200 million; 4% on excess over \$200 million | City of Hammond | \$45,783,704 | Ongoing |
| Establish incubator program | \$1,000,000 | Hammond Development Corporation | \$1,000,000 | Completed Year 1 |
| Donation | Not in Certificate | Hammond Development Corporation | \$150,000 | Completed Year 2 |

⁷ Part of original \$5 million Milwaukee Clipper commitment



Table 6: Schedule and description of incentive payments (continued)

| Incentive | Promised Amount | Recipient | Amt. Paid Through 12/31/00 | Status |
|--|-----------------|----------------------|----------------------------|-------------------------------------|
| Commercial Development | \$10,000,000 | Greater Hammond Area | \$7,600,000 | Will be completed December 31, 2005 |
| Renovation of existing housing and construction of new market rate housing | \$5,000,000 | Greater Hammond Area | \$2,500,000 | Will be completed July, 2001 |
| TOTAL | | | \$98,306,162 | |

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 Horseshoe riverboat on the budgets of Lake County, the city of Hammond, and the Hammond School Corporation for the year 2000. 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 7 shows total assessed value⁸ in the assessment years 1988, 1994, and 1999 (that is, assessed values for taxes payable in 1989, 1995, and 2000). 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 1994-99 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

⁸Assessed 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.



more than did the 1995 reassessment. However, before the riverboats arrived, Lake’s assessed value growth lagged the state’s. After the riverboats arrived, Lake’s assessed value growth was nearly identical to the state’s. It may be that the advent of the riverboats increased assessed value growth in Lake County, relative to Indiana as a whole.

Table 7: Assessed Value in Assessment Year, Lake County, 1988-99 (\$000)

| | 1988 | 1994 | 1999 | Avg. Annual % Change | |
|-------------|------------|------------|------------|----------------------|---------|
| | | | | 1988-94 | 1994-99 |
| Lake County | 1,938,133 | 2,700,650 | 3,476,149 | 5.7% | 4.3% |
| Indiana | 28,507,022 | 43,028,074 | 55,869,930 | 7.1% | 4.4% |

The riverboats are major employers, with more than 6,000 employees in Lake County in 1999. This figure represents about 2.4 percent of total employment in Lake County. Table 8 shows that Lake County employment grew less than one percent per year between 1988 and 1994, but that the growth rate doubled to 1.6 percent per year over 1994 to 1998. During this same period, Indiana average annual growth remained constant at 1.9% 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, which may have depressed Lake employment more than Indiana employment. 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 one-third of this growth.

Table 8: Place-of-work⁹ employment in Lake County, 1988-98

| | 1988 | 1994 | 1998 | Avg. Annual % Change | |
|-------------|-----------|-----------|-----------|----------------------|---------|
| | | | | 1988-94 | 1994-98 |
| Lake County | 220,998 | 232,110 | 247,210 | 0.8% | 1.6% |
| Indiana | 2,953,581 | 3,314,850 | 3,576,683 | 1.9% | 1.9% |

Lake County’s per capita income is slightly less than the state average (Table 9). As with employment, growth in real per capital income 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. Again, this may be due to the cyclical characteristics of Lake’s economy, but it also may be due to the riverboats.

Table 9: Personal income per capita in 1999 dollars, Lake County, 1988-98

| | 1988 | 1994 | 1998 | Avg. Annual % Change | |
|-------------|--------|--------|--------|----------------------|---------|
| | | | | 1988-94 | 1994-98 |
| Lake County | 22,526 | 23,529 | 26,146 | 0.7% | 2.7% |
| Indiana | 22,731 | 24,579 | 26,583 | 1.3% | 2.0% |

⁹ Employees who work in Lake County, regardless of place of residence.



As shown in Table 10, 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's, and during 1994-2000 Indiana's population growth rate increased slightly.

Table 10: Population in Lake County, 1988-2000

| | 1988 | 1994 | 2000 | Avg. Annual % Change | |
|-------------|-----------|-----------|-----------|----------------------|---------|
| | | | | 1988-94 | 1994-00 |
| Lake County | 472,081 | 481,836 | 484,564 | 0.3% | 0.1% |
| Indiana | 5,523,679 | 5,745,626 | 6,080,485 | 0.7% | 0.9% |

Table 11 shows school enrollment. Here we need not rely on countywide data, but can look at the Hammond School Corporation. The Horseshoe riverboat is within the borders of this school corporation. The Hammond School Corporation enrolled 259 fewer pupils in 2000 than it did in 1994. The 1988-94 period saw a decrease of 179 pupils. There has been little change in the rate of enrollment decline. During this period Indiana enrollment has increased slightly.

Table 11: School enrollment in Hammond School Corporation, 1988-2000

| | 1988 | 1994 | 2000 | Avg. Annual % Change | |
|-----------------|---------|---------|---------|----------------------|---------|
| | | | | 1988-94 | 1994-00 |
| Hammond Schools | 13,737 | 13,558 | 13,299 | -0.2% | -0.3% |
| Indiana | 962,653 | 964,462 | 988,064 | 0.0% | 0.4% |

The arrival of the riverboats may well have increased assessed value, employment and real per capita income in Lake County. There seems to have been little impact on population and school enrollment in Hammond 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; the slowdown in assessed value growth was less in Lake County than in Indiana after 1994. Local costs are more closely related to population and school enrollment. Population did not grow more rapidly after 1994, and Hammond school enrollment continued to fall slightly. These broad indicators suggest that the riverboats had a positive fiscal impact. The Hammond School Corporation enrollment decline may imply 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 addition to the survey discussed previously, as part of the Gambling Impact Study Commission, in the fall of 1999 surveys were mailed to 1,750 riverboat employees representing seven of nine riverboats,¹⁰ randomly sampled using payroll information. 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 Horseshoe riverboat, 244 valid surveys were mailed, and 52 were returned, for a response rate of 21.3 percent.

¹⁰ The tenth Indiana riverboat began operation in 2000 in Switzerland County.



Table 12 shows the location of employees before and after they were hired by the Horseshoe riverboat. There were 52 usable survey responses for this question. Of the 52 responses, only two relocated upon becoming riverboat employees. Of those who relocated, one moved into Lake County (2 percent), while one moved into a neighboring county. Thirty-seven (71 percent) were already residents of Lake County when they took jobs with the Horseshoe riverboat.

Fifty-two employees is a small sample. In the statewide sample of 448 usable responses, the number of employees relocating (22 percent) was much smaller than the number of those who did not relocate (78 percent). The results for the Horseshoe riverboat show an even smaller percentage of employees relocating.

Extrapolating the survey results to all 1,959 Horseshoe employees, 38 moved from elsewhere to Lake County, and 1,394 existing county residents took new jobs with the riverboat. The remainder live outside Lake County.

Table 12: Location of employee residence prior to employment

| | Host County | | Non-Host Area | | Total | |
|----------|----------------|---------|----------------|---------|-------|---------|
| | # of Employees | % Total | # of Employees | % Total | Total | Percent |
| New | 1 | 2% | 1 | 2% | 2 | 2% |
| Existing | 37 | 71% | 13 | 25% | 50 | 96% |

- Host: County in which riverboat is located
- Non-Host Area: Surrounding area
- New: Employee moved from outside area to obtain employment
- Existing: Employee was a resident in area prior to employment

The survey asked how many children in the employee’s household were enrolled in public school. Of the 52 respondents, 30 said they had no school-age children. The remaining twenty-two respondents had a combined total of 33 children in school (Table 13). This is 0.63 children per employee, or one child per 1.6 employees. The results in Table 13 implied that there were 38 employees new to Lake County. If all of these employees live in the Hammond School Corporation, it would see added enrollment of 24 pupils.

Table 13: School-age children

| Number of Children | Number of Employees |
|--------------------|---------------------|
| 0 | 30 |
| 1 | 12 |
| 2 | 9 |
| 3 | 1 |
| Total Children | 33 |

The survey also asked about housing construction. Six of the Horseshoe survey respondents reported living in a residence built since 1996, 13.3 percent of the usable sample. Few riverboat employees



appear to have built new houses, but the number of Horseshoe employees who built may be greater than most of the other riverboats' employees.

Fiscal Impact on Lake County

The riverboat adds \$11.7 million in new assessed value (AV) to the county. The county's cumulative fund property tax rate adds \$17,867 in new revenue to the county budget. The operating and welfare rates generate \$542,216 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 riverboat produces 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 \$8,664 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 riverboat.

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 paid by Horseshoe is \$10,448. Overwhelmingly, the largest revenue source attributed to the riverboat is the admissions taxes received by the county, which total \$5.8 million.

Using the two cost estimate methods described in Appendix A, the added costs to Lake County from the Horseshoe riverboat are estimated at \$82,739 and \$193,571. This is not a very wide range compared to the size of the total revenues generated by the riverboat.

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 \$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 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 \$54,424 to \$165,256.¹¹

Fiscal Impact on City of Hammond

As stated above for Lake County, the property tax on the riverboat provides little added revenue to the city of Hammond. The added \$11.7 million in riverboat assessed value in 1999 is taxed at the city's operating and cumulative fund rates. The cumulative fund rate adds \$12,036 to city revenues. The operating rate generates \$1,155,653 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 riverboat. Every dollar of property tax paid by the riverboat is offset by a dollar of property tax saved by existing taxpayers. While this does not provide additional revenue to city of Hammond, it does have a fiscal impact upon the citizens of Hammond, who pay lower property taxes than they would have without the riverboat.

Lake County has no local income tax. Other revenues sum to \$11,733. Again, riverboat wagering and admissions taxes are by far the largest source of additional revenue, \$17.3 million.

Costs are calculated for the city using methods described in Appendix A. Added costs are estimated to be \$179,095.

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 to \$18 million. The annual tax revenue from the riverboat far exceeds the added costs.

If both riverboat taxes and tax savings are excluded, however, the fiscal impact is *negative* at \$155,326. Again, this represents a potential problem with operating costs. Riverboat revenues have been assigned 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 non-property tax revenue sources may not cover these added costs.¹²

¹¹ 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, such as new patrol cars, new roads, and other new infrastructure. The riverboat revenue will more than cover these costs. Second, Lake County is home to three riverboats in addition to Horseshoe. The costs of delivering similar services to four boats are unlikely to be four times the cost of delivering services to one boat. Such "economies of scale" would reduce the cost impact of each boat individually.

¹² Again, more than for the county, this negative fiscal impact may be overstated. Not all of the new Horseshoe employees live in Hammond, though this analysis makes that assumption. Further, new Census population results show that Hammond's population fell by 1,200 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 even more people. Even with the riverboat, fewer people were being served in 2000 than in 1990. (This footnote continues on the next page.)

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



Fiscal Impact on Hammond 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 2000. The analysis shows the effect on the school corporation's budget for the single year 2000. 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. A detailed discussion of the methodology is included in Appendix A.

Most of the property taxes paid on the \$11.7 million in Horseshoe riverboat assessed value become added revenue for the school corporation. Added revenue from property taxes amounts to \$926,223. 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 \$292,247 in tax savings to existing taxpayers. Other revenues are relatively small in comparison, totaling \$16,005 in added revenue.

State aid decreases by \$171,422. 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. The survey estimates for the Hammond School Corporation imply a relatively small increase in enrollment from the riverboat. The increase in enrollment is not enough to offset the drop in per-pupil aid, so total state aid falls. In total, the school corporation realizes \$770,806 in added revenue, \$1,063,053 in total, including tax savings.

Added costs are estimated on a per-pupil basis, and total \$257,886. The detailed estimates for the Hammond School Corporation are presented in Table A3 in Appendix A. Using the survey results, it is estimated that the riverboat's new resident employees added 24 children to school enrollment. However, during the 1994-2000 period, school enrollment in Hammond fell by 259 (see Table 11). This implies that without the riverboat, the decrease would have been more. But it also means that prior to the riverboat's arrival, the school corporation was providing services to more pupils than it is now. New riverboat pupils merely replaced some lost enrollment. It is defensible to count the costs of added enrollment at zero.¹³

impact drops to \$114,302, 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 small.

¹³ First, it may be that school corporations see their costs reduced with lower enrollment, at the same rate as costs increase when enrollment rises. If so, the added enrollment from the riverboat means that costs fell less than they could have. (This footnote continues on the next page.)

Second, it may be that school corporations do not see their costs reduced with lower enrollment to the same degree that costs increase with higher enrollment, at least in the short run. For example, debt service must be paid whether enrollment grows or declines. Empty buildings must still be maintained, and the school corporation may reduce class sizes rather than



For the Hammond School Corporation, under either cost assumption the fiscal impact of the Horseshoe riverboat is *positive*. Under the first assumption, including riverboat pupils as new enrollment to be served at added cost, the fiscal impact is \$500,000 without tax savings, \$800,000 with tax savings. The positive fiscal impact results from the relatively small enrollment increase, compared to the large increase in assessed value. Under the second assumption—no new enrollment—the fiscal impact is \$650,000 without tax savings, \$950,000 with tax savings. Either way, the evidence is strong that added revenues have exceeded added costs.

ECONOMIC BENEFITS OF GAMING-RELATED TAXES AND INCENTIVES

Horseshoe paid approximately \$75 million in gaming-related taxes between 1996 and 2000 to the city of Hammond. Horseshoe also contributed approximately \$94 million¹⁴ in incentive payments to Hammond, including \$46 million that was not targeted for specific projects and was added to the same fund as the gaming-related taxes. Between 1996 and 2000, the city of Hammond invested \$99.8 million of the gaming revenue fund and the nearly \$46 million in targeted voluntary contributions on infrastructure, facilities, capital equipments, and government and not-for-profit operations in the city.

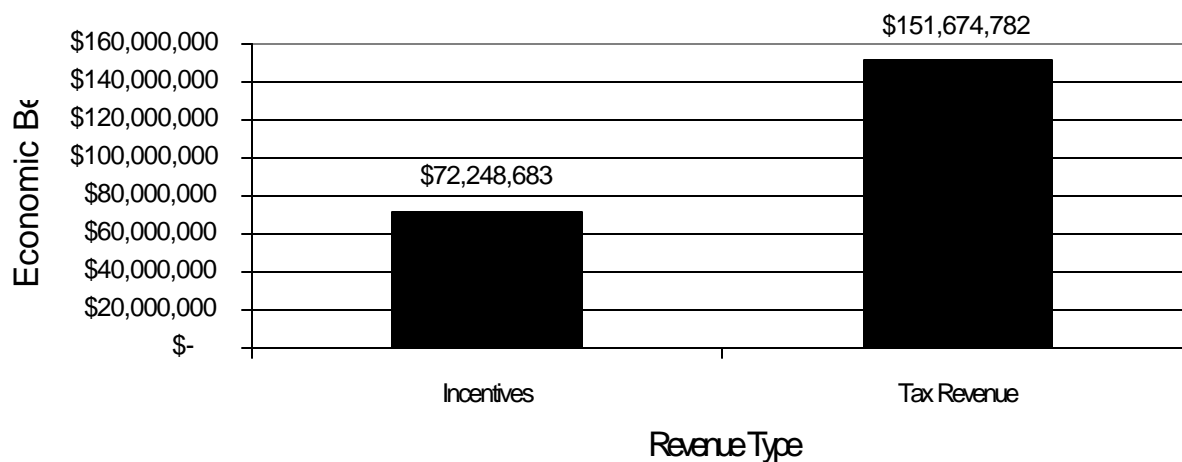
dismiss teachers in proportion to the enrollment decline. If this is the case, then the impact on costs of a smaller decline in enrollment is less than the impact of a similar sized increase in enrollment. Put another way, a school corporation with declining enrollment may have the capacity to handle new pupils with less added cost, because the facilities and teachers to educate these new pupils are already in the budget. A third approach is to estimate the added costs of enrollment at zero. Despite the influence of the riverboat, enrollment in the Hammond School Corporation declined. Declining enrollment does not add to costs.

¹⁴ This figure does not include bond shortfall payments, payments to the city of Whiting, and various donations to local groups.



The total short-term economic benefit provided by the spending of the tax and incentive money is almost \$224 million. As shown in Figure 11, approximately \$151.6 million of the economic benefit is attributable to the spending of gaming-related tax revenue and over \$72 million is attributable to the spending of Horseshoe's negotiated incentive contributions. The analysis does not include local gaming taxes distributed to other Lake County governments from the Horseshoe and the other Lake County riverboat casinos.

Figure 11: Economic Benefits of Horseshoe Gaming-Related Revenue & Contributions



Economic Benefits of Gaming-Related Tax Revenues

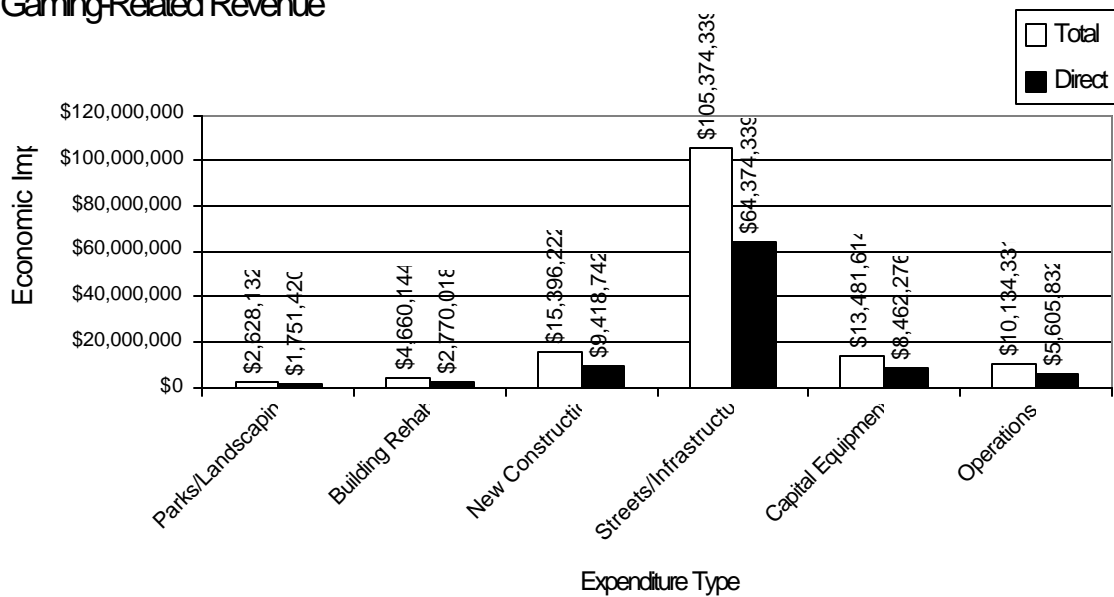
Between 1996 and 2000, Hammond spent approximately \$99.8 million in gaming-related tax revenue. Tax revenue used for debt reduction, \$7.4 million was not included in the economic benefit analysis. Additional tax revenue was generated for other governments in Lake County but is not included in this analysis.

How the revenue is 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 generated as the spending works its way through the local economy. The long-term benefits are related to the degree to which the spending supports or develops competitive advantages in the local economy. These long-term benefits are not immediately measurable, however, if the revenues are spent wisely they will support the local economy for many years.



In Figure 12, the “direct” bars represent expenditures from gaming-related tax revenue in Hammond. Approximately \$5.6 million was spent for operations. Half of the operations spending provided core-operating support to not-for-profits organizations supporting neighborhood and economic development efforts, the remainder was directed to local government, principally overtime for public safety. Nearly \$8.5 million was spent on capital equipment, primarily vehicles and equipment for public safety. Over \$64 million was spent improving streets and railroad crossing in Hammond. The construction of homes and office space received \$9.4 million. The rehabilitation of homes, offices, and the Hammond Civic Center cost nearly \$2.8 million. And parks and recreation received \$1.75 million which was used for two new parks, as well as landscaping and park pavilion improvements throughout the Hammond Park system.

Figure 12: Economic Contribution of Hammond's Expenditure of Horseshoe Gaming-Related Revenue





In Figure 12 the “total” bars portray the total economic activity generated as the “direct” expenditures work their way through the local economy. For example, the \$64 million spent on streets and infrastructure results in \$105 million of total economic activity. This means that each dollar spent improving Hammond’s roads produced 64 cents of additional economic activity for the local economy. Spending on the operations of not-for-profits and public safety provide the highest short-term return with 81 cents of new economic activity being provided for each dollar originally spent. The lowest rate of return is 50 cents for each dollar for parks and landscaping.

The rate of return offers local officials one perspective from which to evaluate the benefits of investing gaming-related revenues. However, the rate of return provides only a short-term perspective, with the benefit ending soon after the last dollar is spent. From a long-term perspective the value of the investment must consider the lasting value of improvements made. From this perspective, the key questions that must be answered by local officials revolve around the degree to which the investments contribute to the economic competitiveness of local firms and the area’s quality of life.

Figure 13 displays the number of jobs attributable to each category of investment made with gaming-related revenue. There were 1,679 total jobs generated in Lake County as a result of the spending of gaming-related revenue. Spending on streets and other infrastructure produced the largest number of jobs. Each new job represents an annual full-time equivalent measure of employment. For example, one individual employed for four years while working on street repair represents four jobs.

Figure 13: Total Employment Attributable to Horseshoe Gaming-Related Tax Payments

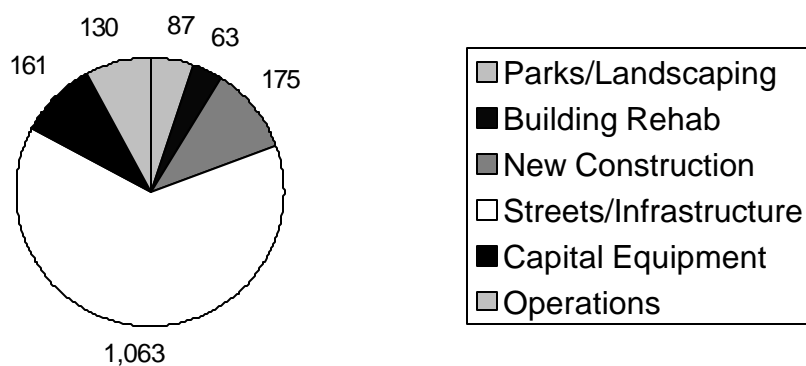
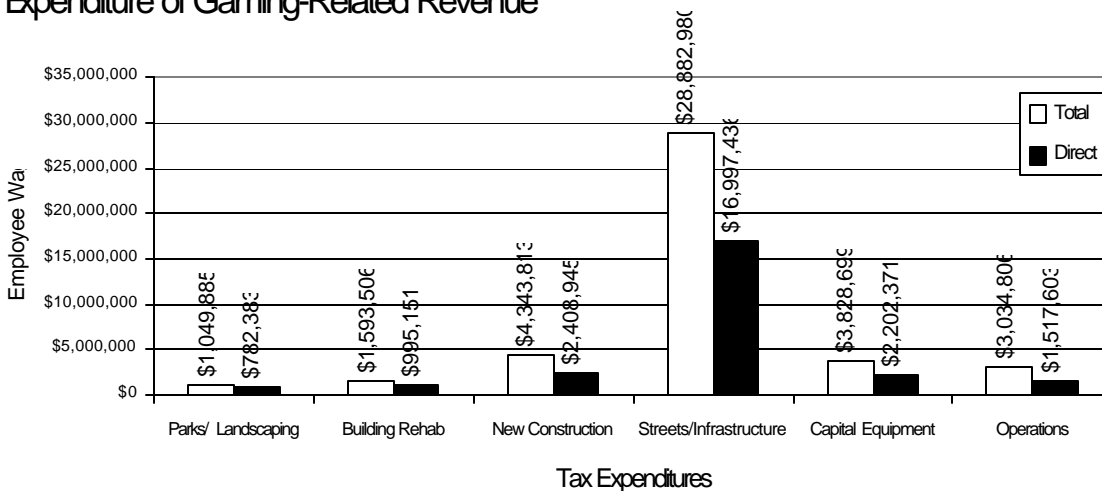




Figure 14 shows the total gaming-related earnings generated in Lake County. Since Horseshoe began operations and paying taxes a total of \$42,733,689 in wages is estimated to have been produced by the spending of gaming-related revenue. Street repair related wages were the largest single category (\$28,882,980); this is principally a result of the large amount of investment in this area. The jobs associated with streets and infrastructure have the highest average wage (\$27,171), the lowest average wage is related to park and landscaping (\$12,068).

Figure 14: Total Earnings Attributable to Hammond's Expenditure of Gaming-Related Revenue



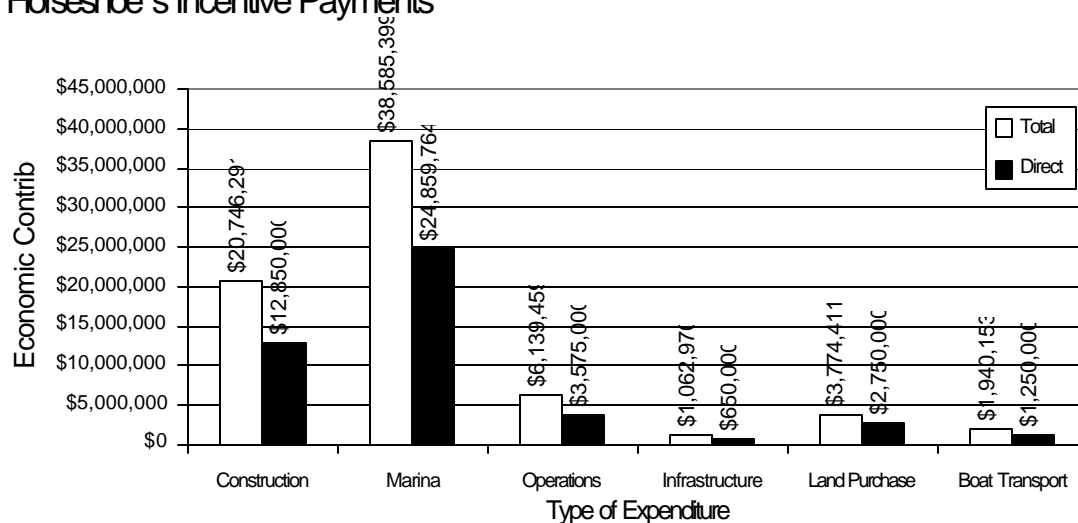
Negotiated Contribution Benefits

During negotiations for its initial gaming license, Horseshoe agreed to contribute towards numerous projects of public value. The largest contribution (over \$24 million) was to the Hammond Marina. Voluntary contributions also have been made towards the purchase of land for a lakefront park and sanctuary, infrastructure improvements, the removal of the Milwaukee Clipper, and the construction of a new building on marina property, as well as gifts to not-for-profits such as community development corporations (CDC) and other foundations and to the city of Whiting.



Figure 15 displays the value of Horseshoe’s negotiated contributions in the “direct” bar¹⁵ and the total economic benefit resulting from the spending of the negotiated contributions in the “total” bar. The total economic benefit generated by spending the negotiated contributions is over \$72 million. The largest economic benefit is \$38.6 million produced by the direct spending of \$24.9 million at the marina. Other economic benefits range from \$20.7 million in economic benefit generated from spending \$12.9 million on new construction and building rehabilitation to \$6.1 million of economic benefit generated from providing \$2.75 million in core operating support to CDCs and donation to other foundations to \$1.9 million of economic benefit resulting from spending \$1.25 million to salvage and remove the Milwaukee Clipper (boat transport) from the marina.

Figure 15: The Economic Contribution of Hammond's Expenditure of Horseshoe's Incentive Payments



The funding to not-for-profit foundations and CDCs provide the greatest short-term return on incentive investments, adding an additional 72 cents of activity to the local economy for every initial dollar spent. The lowest return on investment is the land purchase, which adds only an additional 37 cents for each dollar spent. Investment in the marina provides 55 cents for each initial dollar of investment.

As with gaming-related revenue expenditures, the economic benefit and rate of return represent measures of the short-term benefits of investing gaming-related revenue. From a long-term perspective, an evaluation of the value of the investment must consider the lasting contribution of the investment. From this perspective, the key questions that must be answered by local officials relate to the degree to which the investments contribute to the economic competitiveness of local firms and the area’s quality of life.

¹⁵ Does not include the money provided to Whiting, bond shortfall payments, donations to various local groups, and revenue added to the gaming fund and counted above.



Figure 16 displays the number of jobs attributable to each category of investment made with Horseshoe voluntary contributions. There have been a total of 686 jobs generated in Lake County as a result of the spending of the Horseshoe voluntary contributions. Spending on the marina resulted in 303 of the 519 jobs. Each new job represents an annual full-time equivalent measure of employment. For example, one individual working for three years at the marina represents three jobs.

Figure 16: Employment Attributable to Hammond's Expenditure of Horseshoe's Incentive Payments

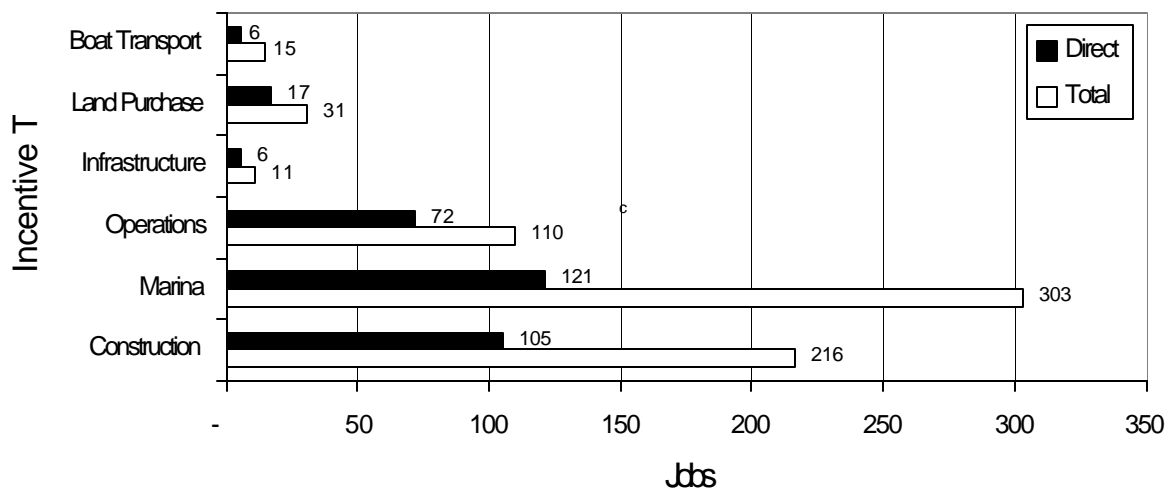
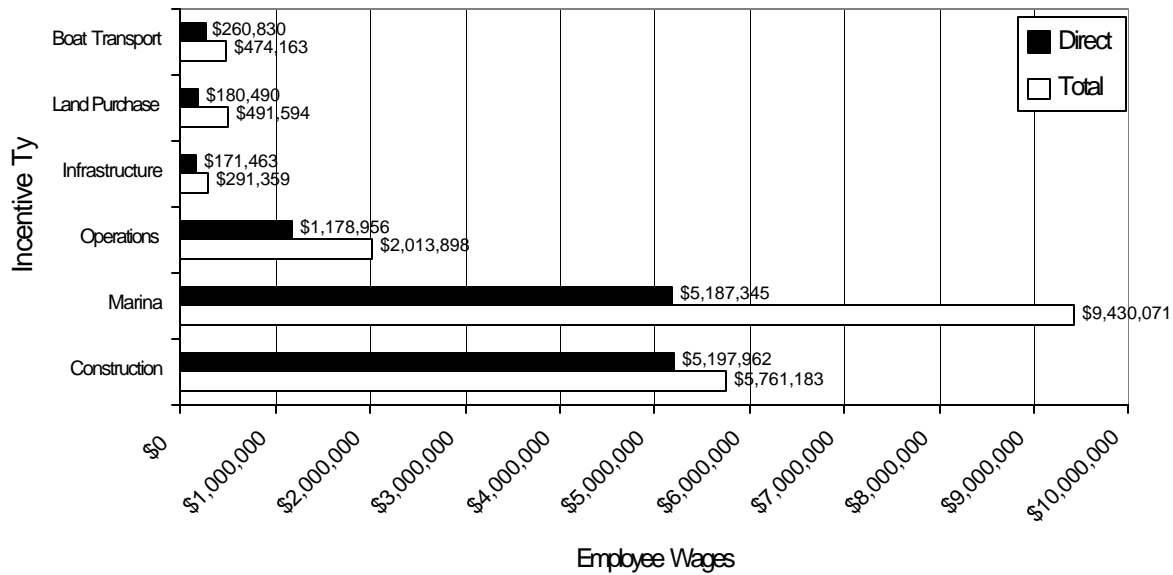




Figure 17 shows the total earnings generated by Horseshoe's voluntary contributions. A total of over \$18 million in wages was granted during the five years. The average earning for jobs associated with Milwaukee Clipper operations were the highest (\$31,611) and not-for-profit operations had the lowest average wage (\$13,998).

Figure 17: Employee Earnings Attributable to Hammond's Expenditure of Horseshoe's Incentive Payments





OTHER ISSUES

According to Horseshoe, 79 lawsuits have been filed against them since 1996; 60 personal injury, four vendors, ten employees, three guest-related and one real estate. According to the Hammond Police Department, crime in the area around the riverboat has not risen since the boat opened; in fact, it has fallen in most categories when compared to before the boat opened.

Horseshoe has made efforts to minimize negative impacts. Horseshoe posts problem gambling awareness signs at casino entrances, ATM machines, and ticketing windows, as well as print information about problem gambling on all tickets and collateral materials. It has created and distributed a brochure on compulsive gambling that included local, regional, and national help-line numbers in addition to the Gamblers Anonymous 20 questions. Horseshoe has presented mandatory seminars to employees on compulsive gambling and distributed materials to employees to enhance their awareness of problem gambling. Items distributed included brochures, t-shirts, buttons, and information packets. Horseshoe also has a self-eviction program for individuals who wish to be banned from the facility. Any attempts by these individuals to enter the casino can result in their arrest for trespassing.

As Table 14 indicates, in an effort to prevent underage gambling, Horseshoe has verified over 360,000 identifications. Since opening, they have turned away over 17,000 patrons for no identification and over 1,500 who were under 21.

Table 14: Horseshoe's efforts to prevent underage gambling

| | 1996 | 1997 | 1998 | 1999 | Thru 7/00 | Total |
|--|--------|--------|--------|--------|-----------|---------|
| Number of I.D.s verified | 33,332 | 86,759 | 80,003 | 82,305 | 83,650 | 366,049 |
| Number of patrons turned away-under 21 | 114 | 313 | 474 | 368 | 299 | 1,568 |
| Patrons turned away- no ID | 1,012 | 3,551 | 3,589 | 4,592 | 4,470 | 17,214 |



SUMMARY OF FINDINGS

Project Development Certificate Compliance

- As of December 2000, Horseshoe spent \$171.8 million, \$34.8 million more than agreed to in the Certificate for the development of the project.
- Since opening, Horseshoe has spent \$22.6 million locally.
- Horseshoe has contributed \$642,079 to hundreds of local area organizations such as Hammond Jaycees, Indiana Black Expo, Meals on Wheels, Northwest Indiana Literacy Coalition, and Munster Rotary Club.

Gaming Activity

- Horseshoe has had attendance of almost 25 million people since opening and gross gaming receipts of \$993.6 million, for an average of \$40 per patron.

Impact of Gaming Activity on Tourism

- According to a survey of patrons, 93 percent of the patrons state that their main reason for traveling to Hammond was to visit Horseshoe.
- Most of the riverboat patrons visited the riverboat either somewhat regularly (43 percent) or regularly (29 percent).
- The patrons who visit the riverboat more frequently are more likely to live closer to the riverboat.
- Less than two percent of the patrons planned to stay in Hammond for more than eight hours.
- According to our survey, 10 percent of the respondents visited other Hammond businesses and/or attractions.

Employment Certificate Compliance

- As of December 31, 2000, Horseshoe had employment of 2,301 persons, above their five-year average of 1,650. For 2000, salaries and wages were \$52.1 million, including tips to dealers (but not to bar and wait staff), and since opening Horseshoe has paid over \$194 million in wages.
- As of December 2000, 60 percent of Horseshoe's employees were women, and 56 percent were minorities.
- Horseshoe was below its goal of hiring 50 percent of its employees from residents of Hammond, with 34 percent. With the original employment estimate of 773 employees, 50 percent would have been 387 Hammond residents. Because it has hired three times as



many employees as originally estimated, it has hired 614 Hammond residents, almost double the original goal.

Impact on Horseshoe's Workforce

- According to our survey of employees, before beginning employment with Horseshoe, 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 Horseshoe, 42 percent chose more money as the primary reason, an additional 16 percent chose better opportunities for advancement, and 11 percent chose to begin work at Horseshoe because of better benefits.
- According to our survey, the average increase in wages for employees, since they began work at Horseshoe is \$1,343.
- Sixty-nine percent of all respondents' report receiving training related to their position at Horseshoe. Only 12.5 percent received general or basic skill training, either from Horseshoe or reimbursed by Horseshoe.
- While not all of the increase likely comes from riverboat casino employees, household income in households with riverboat employees is growing at a faster rate than for other Indiana households.

Tax Revenue Collected

- Horseshoe has paid almost \$177 million in direct taxes to the state of Indiana since it opened.
- Horseshoe has paid \$108 million in direct taxes to the local area since it opened.

Incentive Payment Certificate Compliance

- Horseshoe is on or ahead of schedule with its incentive payments and has provided over \$98 million in incentive payments.
- While several incentives were completed in years one and two, and others are ending in year five, several more will continue into the future.

Fiscal Impact of Tax Revenues on Local Government

- In total, the fiscal impact of the Horseshoe riverboat on Lake County, the city of Hammond and the Hammond School Corporation is positive: total added revenues greatly exceed total added costs.
- In the city and county, most of the admissions and wagering tax revenues from the riverboat are devoted to capital projects. There is little doubt that any infrastructure requirements imposed on these units by the riverboat are met with this added revenue. The fiscal impact analysis implies that for both the city and county, the revenue that actually can be added to



the budget may not be enough to meet the added operating costs which 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 enrollment increased, compared to the large increase in assessed value.

Impact of the Spending of Tax Revenues on Local Economy

- The total economic benefit produced through the spending of Horseshoe's local gaming revenue was approximately \$152 million.
- Local area employment attributable to this economic benefit was 1,679 jobs with earnings of almost \$43 million.

Impact of Incentive Payments on the Local Economy

- The total economic benefit produced through the spending of Horseshoe's local incentives was approximately \$72.2 million.
- Local area employment attributable to this economic benefit was 686 jobs with earnings of \$18.5 million.

Other Issues

- Horseshoe, in an effort to prevent underage gambling, has verified over 360,000 identifications from 1996 through 2000 Horseshoe turned away 17,214 patrons for no identification and 1,568 patrons for being under 21.



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 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 Horseshoe employees show that few are living in homes constructed since 1995. The analysis assumes that four new homes were constructed, with market values averaging \$140,000. 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 Hammond 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 has 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 Hammond 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 | 17,867 | 550,880 | 568,747 | |
| | Operating | - | 270,751 | 270,751 | |
| | Welfare | - | 271,465 | 271,465 | |
| | Cumulative | 17,867 | - | 17,867 | |
| | Debt Service | - | 8,664 | 8,664 | |
| | Local Income Tax | - | - | - | |
| | Other Revenues | 10,448 | - | 10,448 | |
| | Riverboat Taxes | 5,792,687 | - | 5,792,687 | |
| | TOTAL | 5,821,002 | 550,880 | 6,371,882 | |
| Costs | | FIA Methods | Regression | | |
| | | TOTAL | 82,739 | 193,571 | |
| | | Fiscal Impacts (Revenues less added costs) | | Added Revenue Only (\$) | Total (\$) |
| | | | FIA Methods | 5,738,263 | 6,289,143 |
| | | | Regression | 5,627,431 | 6,178,312 |
| | | Fiscal Impacts w/o Riverboat Taxes | | Added Revenue Only (\$) | Total (\$) |
| | | | FIA Methods | (54,424) | 496,456 |
| | | | Regression | (165,256) | 385,625 |



Table A2: Fiscal impact estimates for Hammond

| Revenues | | Added Revenue (\$) | Tax Savings (\$) | Total (\$) |
|--|--|--------------------|-------------------------|------------|
| Property Tax | | 12,036 | 1,155,653 | 1,167,689 |
| Operating | | - | 1,155,653 | 1,155,653 |
| Welfare | | - | - | - |
| Cumulative | | 12,036 | - | 12,036 |
| Debt Service | | - | - | - |
| Local Income Tax | | - | - | - |
| Other Revenues | | 11,733 | - | 11,733 |
| Riverboat Taxes | | 17,261,413 | - | 17,261,413 |
| TOTAL | | 17,285,182 | 1,155,653 | 18,440,835 |
| Costs | | FIA Methods | | |
| TOTAL | | 179,095 | | |
| Fiscal Impacts (Revenues less added costs) | | | Added Revenue Only (\$) | Total (\$) |
| | | FIA Methods | 17,106,087 | 18,261,740 |
| Fiscal Impacts w/o Riverboat Taxes | | | Added Revenue Only (\$) | Total (\$) |
| | | | Revenue | Total |
| | | FIA Methods | (155,326) | 1,000,327 |

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:



State Aid per pupil = Target Spending per pupil - (Target Tax Rate x 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

State Aid per pupil = \$4,741 - (0.024 x AV per pupil).

The 0.024 figure is the target tax rate, and means \$2.40 per \$100 assessed value. Each added \$1,000 AV per pupil reduces aid per pupil by about \$24. 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 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 2001, 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.

Table A3: Fiscal impact estimates for Hammond School Corporation

| Revenues | | Added Revenue (\$) | Tax Savings (\$) | Total (\$) |
|----------|---------------------------|--------------------|-------------------------|------------|
| | Property Tax | 926,223 | 292,247 | 1,218,470 |
| | General Fund | 676,919 | | 676,919 |
| | Debt Service Fund | - | 292,247 | 292,247 |
| | Capital Projects Fund | 125,532 | - | 125,532 |
| | Transportation Fund | 122,601 | - | 122,601 |
| | Other Funds | 1,172 | | 1,172 |
| | Other Own-Source Revenues | 16,005 | - | 16,005 |
| | Other Taxes | 1,538 | - | 1,538 |
| | Charges and Fees | 4,830 | | 4,830 |
| | Other Revenues | 9,636 | | 9,636 |
| | State Aid | (171,422) | - | (171,422) |
| | TOTAL | 770,806 | 292,247 | 1,063,053 |
| Costs | | Per Pupil | | |
| | TOTAL | 257,886 | | |
| | Fiscal Impacts | | Added Revenue Only (\$) | Total (\$) |
| | | Per Pupil | 512,920 | 805,167 |