

Evaluation of Riverboat Licensee for Gary, Indiana: The Majestic Star Casino, LLC

December 1997

Introduction.....	1
Project Development and Investment.....	1
Development Activities.....	1
Other Commitments.....	2
Community Activity.....	2
Minority/Women Business Enterprise.....	2
Economic and Fiscal Impacts	2
Employment and Earnings Impacts	2
Local Economic Impact	3
Impact on Tourism.....	4
Legal Issues.....	4
Other Impacts	4
Summary of Findings.....	4

Introduction

The Riverboat Gambling Act, effective July 1, 1993, authorized the Indiana Gaming Commission to issue licenses for the express purpose of riverboat gambling in the state of Indiana. One of the statutory criteria for issuance of these licenses is the applicant's ability to promote economic development in the home dock area while best serving the interest of the citizens of Indiana. As an aid to fulfilling its legislative requirements, the Indiana Gaming Commission (Commission) contracted with the Center for Urban Policy and the Environment (Center) of Indiana University's School of Public and Environmental Affairs to perform the economic impact, fiscal impact, financial, management, and other analyses required to assist the Commission in awarding licenses. As part of that contract, the Center has committed to monitor over time the economic impacts and fiscal returns from each riverboat operation.

On December 9, 1994, the Commission issued Certificates of Suitability for a Riverboat Owner's License for two riverboats to be docked in Gary, Indiana. One of the riverboats, The Majestic Star Casino, LLC (Majestic Star), previously known as Barden-PRC-Gary, LLC opened on June 11, 1996. This report is an evaluation of its first year of operation.

Project Development and Investment

Development Activities

In the Certificate of Suitability (referred to throughout as certificate), Majestic Star committed to spend approximately \$116 million on project development, in addition to pledging to the city of Gary other incentives totaling several million dollars. (Table 2)

The riverboat opened with 26,000-square-feet of gaming space (compared to 20,000-square-feet originally proposed). A joint facility (with Trump) consisting of a 90,000-square-foot temporary pavilion with 2,800 self-parking spaces and 469 valet parking spaces opened with the launching of the riverboat. A new 3,500-passenger riverboat (3,000 passengers and 500 crew) is scheduled to open in late October. It will have 43,000 square-feet of gaming space with escalators and a two-level atrium.

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

Development	Certificate of Suitability	Actual	Difference
Lakeside (dock improvements)	\$7,875	\$8,363	\$488
Pavilions & other enhancements	51,375	24,518	(26,857)
Land and improvements	6,500	16,218	9,718
Vessel	20,000	28,882*	8,882
Gaming, data processing & other equipment	11,500	19,046	7,546
Pre-opening deferred costs	3,500	11,876	8,376
Payments—city	5,250	5,250	-
Off-site developments (Union Station)	10,000	-	(10,000)
TOTAL DEVELOPMENT	\$116,000	\$114,093	(\$1,907)

* The agreed to lease value of the vessel is \$20 million, however the company expended \$28.9 million on new vessel construction.

As Table 1 illustrates, Majestic Star spent \$114.1 million, \$1.9 million less than the \$116 million agreed to in the certificate for the development of the project. Per the development agreement, the \$10 million for additional off-site development projects to be agreed to by and between the City and Majestic Star is to be expended in calendar years 1998-1999. Therefore, Majestic Star spent a total of \$108.9 million on development, \$8.1 million more than estimated in the certificate for 1996-1997.

Other Commitments

As Table 2 illustrates, Majestic Star is on schedule with their economic development payments. In addition, they purchased 12 police cars for the city of Gary.

Table 2: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid through 6/11/97	Status
A) Economic development payments	3% of AGR each year	City of Gary	\$2,852,599	Current
B) Purchase of 12 police cars		City of Gary	\$246,950	Completed

Community Activity

In 1996 and 1997 Majestic Star made numerous donations to community groups, including \$104,360 for computers to the Gary Community School Corporation. Majestic Star's senior management serves on many boards of directors in the Gary and Northwest Indiana area, including the American Cancer Society, the Boys and Girls Club of Northwest Indiana, Inc., and the Balliwick Theater. Majestic Star also co-sponsored the Northwest Indiana Black Expo.

Minority/Women Business Enterprise

In the Indiana riverboat legislation, the Indiana General Assembly stated that the opportunity for full enterprise participation in the riverboat industry for minorities and women is essential if social and economic parity for all citizens is to be obtained and if the economies of the riverboat cities are to be stimulated as contemplated by this legislation. Majestic Star committed to meet the goals of the legislation in their first year. According to their goals, Majestic Star indicated that they would expend ten percent of the dollar value of their contracts for goods and services from minority-owned businesses and five percent from women-owned businesses. The Commission, through the Indiana Department of Administration's Office of Minority Business Development (OMBD), has established and administers a unified certification procedure for minority- and women-owned enterprises that conduct business with riverboat operations.

OMBD currently is reviewing the information provided by Majestic Star to determine compliance.

Economic and Fiscal Impacts

Employment and Earnings Impacts

Majestic Star began hiring and training the majority of their employees in March 1996. Majestic Star contracted with Ivy Tech to provide training for all riverboat-related positions, including dealers, cashiers, and surveillance personnel. They also participated in a number of community-sponsored job fairs and sponsored several job fairs of their own.

As Table 3 indicates, Majestic Star estimated in its application that it would employ 775 persons in the casino for annual wages totaling approximately \$17.4 million. Estimates for hotel employment were not included. As of June 14, 1997, Majestic Star had 1,073 employees (including half of Buffington Harbor's employees). For 1996-1997, salaries and wages were \$24.4 million, including tips to dealers (but not to bar and wait staff). Full- and part-time employees are eligible to receive benefits. The benefits include vacation time, sick time, and duty meals for both full- and part-time staff, as well as health-care coverage for full-time workers. Part-time employees are approximately two percent of all employees.

Table 3: Comparison of Forecast to Actual Majestic Star Operation June 11, 1996 – June 11, 1997

Application

Category	Forecast Year 1	Actual 1996-1997	Difference
Employment as of 6/14/97	775*	1073	298
Total Wages, Tips, & Benefits	\$17,424,507	\$24,387,928	\$6,963,421
Attendance	1,800,000	2,918,186	1,118,186
Gross Gaming Receipts	\$130,031,250	\$94,633,530	(\$35,397,720)
\$ per Patron per Cruise	\$72**	\$32	(\$40)
Gaming Tax (State)	\$19,504,688	\$14,195,029	(\$5,309,659)
Gaming Tax (Local)	\$6,501,563	\$4,731,677	(\$1,769,886)
Admission Tax (State)	\$1,800,000	\$2,918,186	\$1,118,186
Admission Tax (County)	\$1,800,000	\$2,918,186	\$1,118,186
Admission Tax (City)	\$1,800,000	\$2,918,186	\$1,118,186

*Includes half of Buffington Harbor employees

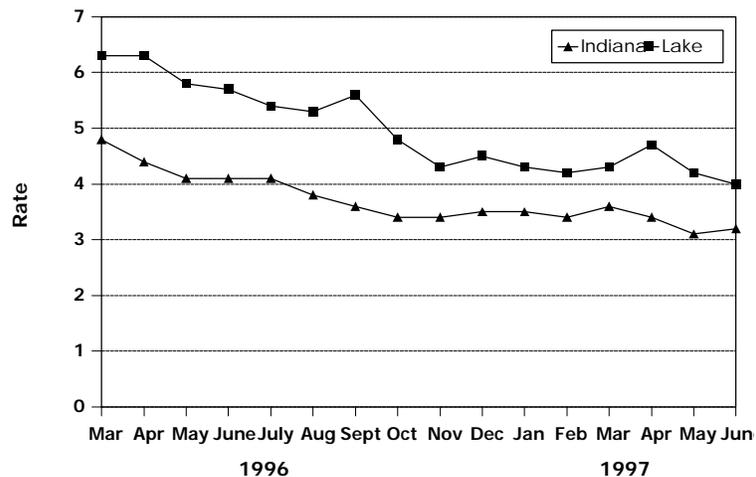
** Applicant average for Gary was \$68.

As Table 3 illustrates, in fiscal year 1996, Majestic Star had adjusted gross gaming receipts of \$94.6 million, or \$35.4 million less than their application estimate. They had total gross revenues of \$97.1 million, \$60.1 million less than the \$157.2 million estimated in their application. Total state taxes were \$17.1 million, \$4.2 million less than projected. Total local taxes were \$10.6 million, \$0.5 million more than the projection of \$10.1 million in Majestic Star's application. The additional admission taxes for the city and county made up for the shortfall in gaming taxes.

As Figure 1 illustrates, both Lake County's and the state's unemployment rates have decreased since 1996. Obviously, the opening of the other riverboats in the area had an effect on unemployment as well as the overall growing regional economy.

As of May 31, 1997, 55 percent of Majestic Star employees were women, 60 percent were minorities, 46 percent were from Gary, and 71 percent were residents of Lake County. In their application, Majestic Star's goal was to employ 52 percent women employees, 70 percent minority employees, 67 percent Gary residents, and 90 percent Lake County residents. They have slightly exceeded their goal for hiring women but have fallen short on their goals of hiring from Gary, Lake County, and minorities.

Figure 1: Unemployment Rate: Indiana and Lake County



Local Economic Impact

In addition to the gaming taxes paid to the city and state, Majestic Star paid \$80,942 in sales and use taxes. Majestic Star did not pay property taxes in 1996-1997. Payroll of \$24.4 million and purchases from of \$1.1 million from city of Gary vendors with a total of \$2.6 million from Lake county vendors, also contributed to the local economy. Although this spending has assisted some merchants, development has not grown as a result of the riverboats.

Impact on Tourism

Through June 11, 1997, nearly 40 percent of the trips to Majestic Star were made by Indiana residents with the majority of those residents from Northwest Indiana. In 1996-1997, Majestic Star had 2.9 million paid admissions. This attendance is approximately 1.1 million greater than Majestic Star's attendance projection in their application.

According to the Lake County Convention and Visitors Bureau, hotel occupancy in Lake County has increased 13 percent from 1996 to 1997. The Convention and Visitors Bureau attributes this to increased visitation to the Lake County riverboats. It is impossible at this time to determine which of the Lake County riverboats these visitors attended. Both Empress and Trump plan to begin construction of their own hotels this year.

Legal Issues

Majestic Star was sued four times in 1996-1997—twice by injured employees and twice for disputed contract claims. There were a total of 16 arrests for incidences on Majestic Star property in 1996-1997. More than half of the arrests were related to fraud or theft. The rest were related to disorderly conduct and false identification. Less than .001 percent of the total visits resulted in a citation or arrest.

Other Impacts

There are other possible impacts that can result from the location of a riverboat in a community. For example, compulsive gambling might become a problem. There also might be decreases in patronage for existing businesses, higher rates of bankruptcy, and a greater need for social services. From July 1996 to June 30, 1997, 36 calls for help with gambling problems were made by Lake County residents to the "Deal With It" line that is contracted through the Commission for a Drug Free Indiana. There also have been five calls from LaPorte County, four calls from Porter County, and 24 calls from Chicago. This rate is double last year's rate. Eight patients already have sought treatment for compulsive gambling in Northwest Indiana's mental health centers. Commission for a Drug Free Indiana has contracted a study that will examine whether or not this increase is directly attributable to riverboat gambling.

In some smaller communities, we expect an impact on housing starts, school enrollment, and other factors from the additional employees moving into the area. Because three riverboats opened nearly simultaneously, it is not possible to discern individual impacts. Even so, we did examine school enrollments in Lake County and Hammond and found that they declined slightly in Lake County (-2.2 percent) and increased at comparable rates as previous years in Gary (0.3 percent).

Majestic Star has made efforts to minimize negative impacts. Majestic Star's risk manager is one of the organizing members of the Northwest Coalition Against Problem Gambling and has been named an officer of the organization. One of Majestic Star's trainers is establishing a program that will go into effect in September, 1997 in which all supervisory and management personnel will undergo mandatory problem gaming awareness. Risk management also is developing a separate program for the identification and referral of employees who may exhibit symptoms of compulsive gambling.

Summary of Findings

Majestic Star has met the requirements of their certificate of suitability in most areas.

- Majestic Star is on schedule with all of its incentive payments.
- Majestic Star spent a total of \$108.9 million on development, \$8.1 million more than estimated in the certificate of suitability for 1996-1997.
- Majestic Star has sponsored several community events; its senior management is represented on many boards; and the company has made numerous donations to community groups.
- Employment totaled 1,073 employees, significantly more than projected, and wages, benefits, and tips were \$24.4 million, also greater than projected.
- Local gaming taxes were slightly higher (\$0.5 million) than projected.
- Majestic Star paid \$80,942 in sales and use taxes.
- Majestic Star has been proactive in developing programs for compulsive gambling.

Majestic Star has not met its projections in a few areas:

- Majestic Star has not met its employment goals for minorities, Gary residents, and Lake County residents.
- Because gross gaming receipts were substantially less than projected, state gaming taxes were \$17.1 million, \$4.2 million less than projected.

We are not able to determine compliance in the following area:

- OMBD is currently reviewing the information provided by Majestic Star to determine compliance with MBE/WBE requirements.