

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

October 1998

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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 second 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 1)

The riverboat opened with 26,000-square-feet of gaming space (compared to 20,000 square feet originally proposed). A joint facility (with Trump), called Buffington Harbor, 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. Trump and Majestic Star shared the cost of construction and continue to share the cost of maintenance and employees. A new 3,500-passenger riverboat (3,000 passengers and 500 crew) was opened on October 27, 1997. The riverboat has 43,000 square-feet of gaming space with escalators and a two-level atrium.

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

Development	Certificate of Suitability	1996-97 Actual	1997-98 Actual	Difference
Lakeside (dock improvements)	\$7,875	\$8,363	\$8,023	\$8,511
Pavilions & other enhancements	51,375	24,518	202	(26,655)
Land and improvements	6,500	8,382	0	1,882
Vessel	20,000	28,882	\$16,236	25,118
Gaming, data processing & other equipment	11,500	19,046	1,658	9,204
Pre-opening deferred costs	3,500	11,876	1,254	9,630
Payments—city	5,250	5,250	0	0
Off-site developments (Union Station)*	10,000	0	313	(9,688)
TOTAL DEVELOPMENT	116,000	114,093	19,910	18,003

* Majestic Star is in negotiation with the City of Gary to determine if there are other areas where these funds could be better invested.

As Table 1 illustrates, Majestic Star spent \$134 million, \$18 million more than the \$116 million agreement 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.

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 1996-97	Amount Paid 1997-98	Status
A) Economic development payments	3% of AGR each year	City of Gary	\$2,852,599	\$3,007,178	Current
B) Hire consultant to assist city in planning for Gary 2000 waterfront project		City of Gary	\$48,000	\$97,000	Completed
C) Youth Training Program		City of Gary	\$53,000 in computers	\$48,900 in software	Completed
D) Purchase of 12 police cars		City of Gary	\$246,950	0	Completed

Table 3 illustrates the city of Gary's expenditures on capital items using gaming revenue and incentives during 1997 and 1998:

Table 3: Gary Appropriations from Gaming Revenues in 1997-1998 (\$000s)

	1997	1998
Infrastructure	\$333	\$100
Judgement (Casino-related costs)	5,283	0
Pavement	467	1,066
Emergency Demo	265	362
Lakefront	205	85
City equipment	14	2,947
Airport Project	0	1,400
Aquatorium	86	106
Golf course	426	72
Tolleston Park	235	1,320
Telecommunications	0	300
Total Appropriated Funds	\$7,314	\$7,759

Community Activity

In 1997 and 1998 Majestic Star made numerous donations to community groups, including \$7,500 to the Lake Area United Way and \$12,500 to Gary's Fourth of July fireworks display. 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. Many of their associates are involved in local organizations including soccer coaching, wrestling coaching, Cub Scouts NW, Gary Community Health Foundation, Aids Walk of Chicago, Test Positive Awareness Network, Baliwick Theater, and Sojourner Truth Advisory Board.

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 the Gary branch of 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. Since June 1997, Majestic Star has hosted two dealer job fairs and a cage cashier fair in the city of Gary drawing over 500 job seekers. The dealer fairs at Ivy Tech were offered in conjunction with free dealer training classes, which were offered at Ivy Tech in the summer of 1997 and spring of 1998. Majestic Star paid 100 percent of the direct and associated costs to train over 150 new dealers since June 1997.

As Table 4 indicates, Majestic Star estimated in its application that it would employ 773 persons in the casino for annual wages totaling approximately \$17.4 million. As of June 14, 1998, Majestic Star had 1,183 employees (including half of Buffington Harbor's employees). For 1997-1998, salaries and wages were \$33 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 a 401K plan, and coverage for vision, life, dental, prescription drugs, health-care, and disability for full-time workers.

As Table 4 illustrates, in fiscal year 1997-98, Majestic Star had adjusted gross gaming receipts of \$100.2 million, or \$50.5 million less than their application estimate. They had total gross revenues of \$103.1 million, \$63.5 million less than the \$166.6 million estimated in their application. Total state taxes were \$18.2 million, \$7.6 million less than projected. Total local taxes were \$11.2 million, \$2.6 million less than projected.

As Tables 4 and 5 indicate, Majestic Star exceeded forecasts in Year 1 in all areas except win-per-patron per cruise, gross gaming receipts, and gaming taxes, but in Year 2, the only forecast they exceeded was in employment and wages. As Table 6 indicates, Majestic Star's actual performance increased from Year 1 to Year 2 in the following areas: employment, wages, attendance, revenues, taxes paid and win per patron per cruise.

Table 4: Comparison of Forecast to Actual Majestic Star Operation, Year 2

Category	Application Forecast Year 2	Actual 1997-98	Difference
Employment	773	1183*	410
Total Wages, Tips & Benefits	\$24,318,100	\$32,996,554	\$8,678,454
Attendance	3,151,333	3,116,732	(34,601)
Gross Gaming Receipts	\$150,709,800	\$100,239,267	(\$50,470,533)
\$ per Patron per Cruise	\$48**	\$32	(\$16)
Gaming Tax (State)	\$22,606,470	\$15,035,890	(\$7,570,580)
Gaming Tax (Local)	\$7,535,490	\$5,011,963	(\$2,523,527)
Admission Tax (State)	\$3,151,333	\$3,116,732	(\$34,601)
Admission Tax (County)	\$3,151,333	\$3,116,732	(\$34,601)
Admission Tax (City)	\$3,151,333	\$3,116,732	(\$34,601)

* Includes half of Buffington Harbor employees.

** Applicant average for Gary was \$68.

Table 5: Comparison of Forecast to Actual Majestic Star Operation, Year 1

Category	Application Forecast Year 1	Actual 1996-97	Difference
Employment as of 6/30/98	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.

Table 6: Comparison of Year 1 to Year 2

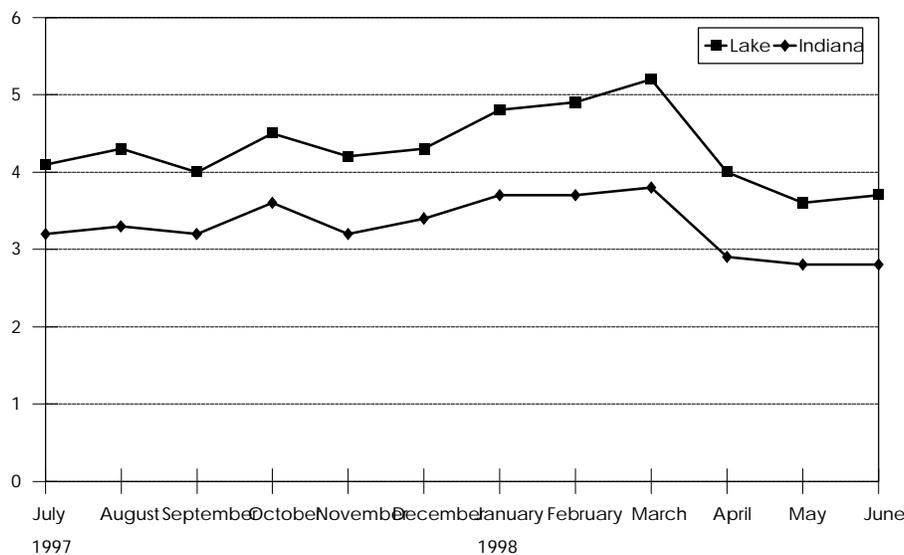
Category	Actual 1996-97	Actual 1997-98	Difference
Employment	1073	1183*	110
Total Wages, Tips & Benefits	\$24,387,928	\$32,996,554	\$8,608,626
Attendance	2,918,186	3,116,732	198,546
Gross Gaming Receipts	\$94,633,530	\$100,239,267	\$5,605,737
\$ per Patron per Cruise	\$32**	\$32	\$0
Gaming Tax (State)	\$14,195,029	\$15,035,890	\$840,861
Gaming Tax (Local)	\$4,731,677	\$5,011,963	\$280,286
Admission Tax (State)	\$2,918,186	\$3,116,732	\$198,546
Admission Tax (County)	\$2,918,186	\$3,116,732	\$198,546
Admission Tax (City)	\$2,918,186	\$3,116,732	\$198,546

* Includes half of Buffington Harbor employees.

** Applicant average for Gary was \$68.

As Figure 1 illustrates, Lake County's unemployment rate has fluctuated since 1997, but has never been lower than the state unemployment rate.

Figure 1: Unemployment Rate: Lake County



As of May 31, 1998, 58 percent of Majestic Star employees were women, 65 percent were minorities, 48 percent were from Gary, and 77 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.

Local Economic Impact

In addition to the gaming taxes paid to the city and state, Majestic Star paid \$316,253 in sales and use taxes and \$467,474 in property taxes in 1997-1998. Payroll of \$33 million and purchases of \$3.9 million from city of Gary vendors, with a total of \$5.9 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, Indiana residents made over 48 percent of the trips to Majestic Star; the majority of those residents were from Northwest Indiana. In 1997-1998, Majestic Star had 3.1 million paid admissions. This attendance was slightly lower than Majestic Star's attendance projection of 3.2 million in Year 2 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.

Legal Issues

Majestic Star was sued six times in 1997-1998—three times by injured employees and three times by injured patrons. There were a total of 43 arrests on Majestic Star property in 1997-1998 including 3 of employees, 12 for outstanding warrants, 8 for theft and check fraud, and the remaining 22 for improper conduct including public intoxication, battery, criminal trespass, and resisting law enforcement. The State Police have not written any citations for minors in a tavern because Lake County will not prosecute that offense. Majestic Star security handles that issue by checking identification and turning away underage patrons. Last year they reported checking 130,513 identifications and turning away 3,549 patrons for improper or no identification. Gaming enforcement wrote five tickets for false or improper identification. An additional 249 patrons were refused entry because they were under 21. Less than .001 percent of the total visits resulted in a citation or arrest.

According to Gary's Chief of Police, Majestic Star's presence has not contributed to additional criminal activity in the neighborhood surrounding the riverboat. In addition, the Chief of Police indicated that there seems to have been a decrease in illegal gambling in the area.

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 1997 to June 1998, 91 calls for help with gambling problems were made by Lake County residents to the "Deal With It" line. There also have been 11 calls from LaPorte County, 23 calls from Porter County, and 138 calls from Chicago. This rate is higher than last year's rate. In addition, of those who identified the source of the number, approximately half indicated that they obtained it from a riverboat ticket.

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 has developed a program, not yet implemented, in which all supervisory and management personnel undergo mandatory problem gaming awareness. Risk management also developed 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 \$134 million, \$18 million more than the \$116 million agreed to in the certificate for the development of the project
- 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 1,183 employees, 410 more than projected, and wages, benefits, and tips were \$33 million, \$8.7 million greater than projected.
- Majestic Star has increased employment, wages, attendance, revenues, taxes paid, and win-per-patron per cruise from Year 1 or Year 2..
- Majestic Star paid \$316,253 in sales and use taxes, \$467,474 in property taxes, and had local purchases of \$3.9 million from Gary vendors, with \$5.9 million total from Lake County vendors.
- 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.
- Majestic Star exceeded forecasts in Year 1 in all areas except wins-per-patron per cruise, gross gaming receipts, and gaming taxes, but in Year 2, the only forecast they exceeded was in employment and wages. Actual performance was less than forecast in the following areas: gross gaming receipts, gaming taxes, attendance, and wins-per-patron per cruise.

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.