

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

June 1998-December 1999

June 2000

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Introduction.....	0
Project Development and Investment.....	1
Development Activities .....	1
Other Commitments .....	1
Community Activity .....	2
Minority/Women Business Enterprise .....	2
Economic and Fiscal Impacts .....	2
Employment and Earnings Impacts .....	2
Local Economic Impact.....	6
Impact on Tourism .....	6
Legal Issues .....	6
Other Impacts .....	6
Summary of Findings .....	6

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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. The previous reports were based on the first two years of operation. The Center and Commission are currently in the process of converting all of the evaluation reports to a calendar year basis. In this interim period, this report will cover the last 18 months of operation, but, unless otherwise noted, will consider 1999 its third year of operation for comparison purposes.

## 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.

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 approximately 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 of the Buffington Harbor land facilities. 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. In 1999, Majestic Star opened two new lounges for club members, a high-limit slot room, and an expanded employee cafeteria facility on the vessel.

Majestic Star has spent \$141 million, over \$25 million more than the \$116 million agreement in the Certificate for the development of the project. The only project development cost that Majestic Star has not completed is a designated \$10 million for additional off-site development projects. At the request of the city of Gary, Majestic Star will delay payment until the city has completed and adopted a master plan for funds.

### Other Commitments

As Table 1 illustrates, Majestic Star is on schedule with its economic development payments. In addition, it purchased 12 police cars for the city of Gary during its first year of operation.

Table 1: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid 1996-97	Amount Paid 1997-98	Amount Paid 1999	Status
A) Economic development payments	3% of AGR each year	City of Gary	\$2,852,599	\$3,007,178	\$3,571,441 <sup>1</sup>	Current
B) Hire consultant to assist city in planning for Gary 2000 waterfront project		City of Gary	\$48,000	\$97,000	0	Completed (Year 2)
C) Youth Training Program		City of Gary	\$53,000	\$48,900	0	Completed (Year 2)
D) Purchase of 12 police cars		City of Gary	\$246,950	0	0	Completed (Year 1)

<sup>1</sup> An additional \$1,952,099 was paid from June 1998- December 1998.

Table 2 illustrates the city of Gary's expenditures on capital items using gaming revenue from 1997 through 1999:

Table 2: Gary City Expenditures of Riverboat Revenue 1997, 1998, 1999 (\$000)

	1997	1998	1999
Infrastructure	\$333	\$2,100	\$9,531
Judgment (Casino-related costs)	5,283	1,836	1,553
Pavement	467	4,468	2,017
Public safety	0	3,000	298
Emergency demo	265	1,899	4,085
Storage tank	0	72	216
Lakefront	205	112	70
City equipment	14	4,489	3,330
Airport project	0	3,600	0
Fire Station #4	0	0	3
Aquatorium	86	198	708
Golf course	426	73	0
Tolleston Park	235	1,684	19
Gary Accord	0	50	50
Telecommunications	0	300	0
Youth Service Bureau	0	0	2,500
Airport construction	0	0	264
<b>Total Appropriated Funds</b>	<b>\$7,314</b>	<b>\$23,881</b>	<b>\$24,644</b>

## Community Activity

In 1999 Majestic Star made numerous donations to community groups, including \$13,000 to the Northwest Sickle Cell Foundation and \$25,000 to Gary's Fourth of July fireworks display. Majestic Star's senior management serves on many boards of directors and committees in the Gary and Northwest Indiana area, including the Boys and Girls Club of Northwest Indiana, Inc., Lake Area United Way, Gary Chamber of Commerce, Ivy Tech, Sojourner House, the Gary Crisis Center, Northwest Indiana Sickle Cell Foundation, and Aids Walk, Chicago.

## Minority/Women Business Enterprise

The Office of Minority Business Development and the Indiana Gaming Commission are currently 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 its employees in March 1996. Majestic Star initially contracted with the Gary branch of Ivy Tech to provide training for all riverboat-related positions, including dealers, cashiers, and surveillance personnel. It also participated in a number of community-sponsored job fairs and sponsored several job fairs of its own. Majestic Star and Trump Casinos entered into a joint venture with Buffington Harbor and share 50 percent of employment at the shared pavilion space.

As shown in Table 3, Majestic Star estimated that it would employ 775 persons in the casino for annual wages totaling approximately \$15.7 million. As of December 1999, Majestic Star had 1,168 employees (including half of Buffington Harbor's employees). In 1999, salaries and wages totaled almost \$36 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, healthcare, and disability for full-time workers.

In 1999, Majestic Star's adjusted gross gaming receipts were \$117.2 million, or \$13.2 million more than its application estimate. It had total gross revenues, including half of Buffington Harbor revenues, of \$122.7 million, \$3.1 million less than the \$126 million estimated in its application. Total state taxes were \$20.7 million, \$3.7 million more than projected. Total local taxes were \$12.1 million, \$4.1 million more than projected.

Table 3: Comparison of Forecast to Actual Majestic Star Operation, Year 3

Category	Application Forecast Year 3	1999	Difference
Employment	775	1,168 <sup>2</sup>	393
Total Wages, Tips & Benefits	\$15,651,773	\$36,561,317	\$20,909,544
Attendance	1,400,000	3,143,116	1,743,116
Gross Gaming Receipts	\$104,025,000	\$117,248,008	\$13,223,008
\$ per Patron per Cruise	\$74 <sup>3</sup>	\$37	(\$37)
Gaming Tax (State)	\$15,603,750	\$17,587,201	\$1,983,451
Gaming Tax (Local)	\$5,201,250	\$5,862,400	\$661,150
Admission Tax (State)	\$1,400,000	\$3,143,116	\$1,743,116
Admission Tax (County)	\$1,400,000	\$3,143,116	\$1,743,116
Admission Tax (City)	\$1,400,000	\$3,143,116	\$1,743,116

<sup>2</sup> Includes half of Buffington Harbor employees.

<sup>3</sup> Applicant average for Gary was \$68.

Table 4 and 5 show the comparisons of forecasts to actual for the first and second year operation.

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

Category	Application Forecast Year 2	Actual 1997-98	Difference
Employment	775	1,183	408
Total Wages, Tips & Benefits	\$16,601,092	\$32,996,554	\$16,395,462
Attendance	1,600,000	3,116,732	1,516,320
Gross Gaming Receipts	\$117,028,125	\$100,239,267	(\$16,788,858)
\$ per Patron per Cruise	\$73	\$32	(\$41)
Gaming Tax (State)	\$17,554,219	\$15,035,890	(\$2,518,329)
Gaming Tax (Local)	\$5,851,406	\$5,011,963	(\$839,443)
Admission Tax (State)	\$1,600,000	\$3,116,732	\$1,516,320
Admission Tax (County)	\$1,600,000	\$3,116,732	\$1,516,320
Admission Tax (City)	\$1,600,000	\$3,116,732	\$1,516,320

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

Category	Application Forecast Year 1	Actual 1996-97	Difference
Employment	775	1,073	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

Table 6 indicates that Majestic Star's actual performance increased from Year 2 to Year 3. The number of employees was the only area in which Majestic Star slightly decreased between the second and third year evaluated.

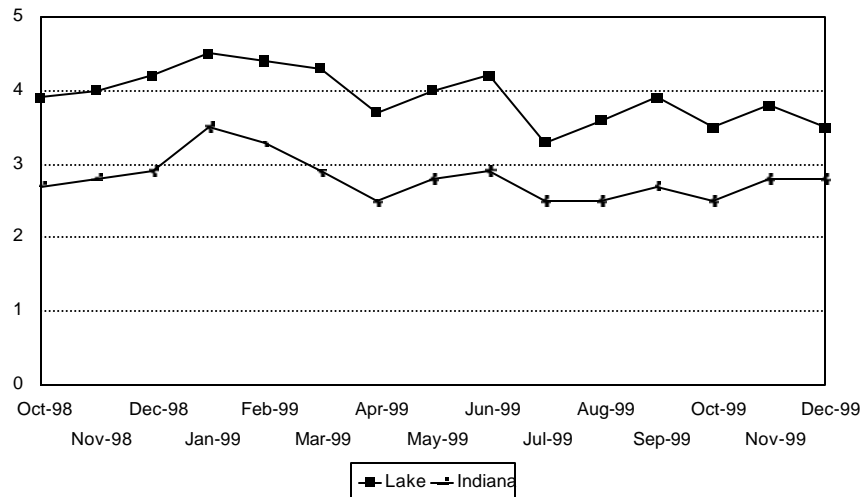
Table 6: Comparison of Year 1, Year 2, and Year 3

Category	Actual 1996-97	Actual 1997-98	1999	Difference
Employment	1,073 <sup>4</sup>	1,183 <sup>4</sup>	1,168 <sup>4</sup>	(15)
Total Wages, Tips & Benefits	\$24,387,928	\$32,996,554	\$36,561,317	\$3,564,763
Attendance	2,918,186	3,116,732	3,143,116	26,384
Gross Gaming Receipts	\$94,633,530	\$100,239,267	\$117,248,008	\$17,008,741
\$ per Patron per Cruise	\$32	\$32	\$37	\$5
Gaming Tax (State)	\$14,195,029	\$15,035,890	\$17,587,201	\$2,551,311
Gaming Tax (Local)	\$4,731,677	\$5,011,963	\$5,862,400	\$850,437
Admission Tax (State)	\$2,918,186	\$3,116,732	\$3,143,116	\$26,384
Admission Tax (County)	\$2,918,186	\$3,116,732	3,143,116	\$26,384
Admission Tax (City)	\$2,918,186	\$3,116,732	3,143,116	\$26,384

<sup>4</sup> Includes half of Buffington Harbor employees

As Figure 1 illustrates, Lake County's unemployment rate decreased over the year to 3.5 percent in December 1999, but has never been lower than the state unemployment rate, which was 2.8 percent in December.

Figure 1: Unemployment Rates for Lake County and the State of Indiana



As of December 31, 1999, 65 percent of Majestic Star employees were women, 70 percent were minorities, 49 percent were from Gary, and 80 percent were residents of Lake County. In its 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. It has exceeded its goal for hiring women, met its goal for hiring minorities but has fallen short of its ambitious goals of hiring 67 percent from Gary and 90 percent from Lake County. With the low unemployment rate in Lake County, Majestic Star's efforts, and competition from three other riverboats for employees, it seems as if Majestic has hired close to the maximum percent of Lake County residents possible. While Gary's unemployment rate of 3.9 percent in December was slightly higher than Lake County's, the same seems to be true for Gary as well.

## Local Economic Impact

In addition to the gaming taxes paid to the city and state, Majestic Star paid \$335,722 in sales and use taxes and \$2.8 million in property taxes from June 1998 through December 1999. During the same time period, Majestic Star's total payroll was \$56.8 million and it made \$8.3 million in purchases from city of Gary vendors, with a total of \$11.6 million from Lake County vendors also contributing 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 approximately 50 percent of the trips to Majestic Star; the majority of those residents were from Northwest Indiana. In 1999, Majestic Star had 3.1 million paid admissions. This attendance was significantly higher than Majestic Star's attendance projection of 1.4 million in Year 3 in its application.

According to the Lake County Convention and Visitors Bureau, hotel occupancy is up since the riverboats opened. 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. The first Visitors Bureau was completed last year at the interchange of Kennedy Avenue and I80/I94.

## Legal Issues

Majestic Star was sued 30 times between June 1998 and December 1999—11 employee claims (mostly under the Jones Act), 17 patron claims (all general liability), 1 supplier claim (multi-defendant patent litigation filed against all riverboats), and 1 disputed contract claim. Four of the 30 claims have been resolved and disposed—1 employee claim, 2 patron claims, and the disputed contract claim. There were a total of 58 arrests on Majestic Star property in 1999 with the largest arrest category outstanding warrants (21). In 1999 Majestic Star reported checking 56,100 identifications and turning away 1,541 patrons for improper or no identification. An additional 85 patrons were refused entry because they were under 21. Less than .002 percent of the total visits resulted in a citation or arrest.

According to Gary's public officials, Majestic Star's presence has not contributed to additional criminal activity in the neighborhood surrounding the riverboat.

## 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. In 1999, Lake County residents made 75 calls for help with gambling problems to the "Deal With It" line, compared to 91 calls the previous year. There also have been 20 calls from LaPorte County, up from 11; 24 calls from Porter County, compared to 23; and 94 calls from Chicago, down from 138 calls.

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 human resources trainers also developed a program 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. Majestic Star also displays the 1-800-9-WITH-IT message on all material handed to patrons as well as displaying it on signs near casino cages. Majestic Star also has instituted a self-eviction policy for individuals who wish to be banned from the facility. Upon request, they are removed from all mailings and promotions. If they are identified on the boat, they are escorted off.

## Summary of Findings

Majestic Star has met the requirements of its Certificate of Suitability in most areas.

- Majestic Star spent \$141 million, \$25 million more than the \$116 million agreed to in the Certificate for the development of the project.
- Majestic Star is on schedule with all of its incentive payments.
- 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 1,168 employees, 393 more than projected, and wages, benefits, and tips were \$36.6 million, \$20.9 million greater than projected.
- Majestic Star has exceeded its goal for hiring women and met its goal for hiring minorities.
- Majestic Star has higher than projected employment, wages, attendance, gaming receipts, total revenues, and taxes paid.
- Majestic Star has increased wages, attendance, revenues, taxes paid, and win-per-patron per cruise from Year 2 to Year 3.
- Majestic Star paid \$335,722 in sales and use taxes, \$2.8 million in property taxes, and had local purchases of \$8.3 million from Gary vendors, with \$11.6 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:

- Receipts per passenger per trip averaged \$37, half of the estimated \$74 Majestic Star projected in their application. However, total attendance has exceeded Majestic Star's projection by over 100 percent.
- Non-gaming revenues were \$3.3 million below Majestic Star's projection.
- Majestic Star has not met its ambitious employment goals for Gary and Lake County residents. With the low unemployment rate in Lake County, Majestic Star's efforts, and competition from three other riverboats for employees, it seems as if Majestic has hired close to the maximum percent of Lake County residents possible. While Gary's unemployment rate of 3.9 percent in December was slightly higher than Lake County's, the same seems to be true for Gary as well.