

Casino Aztar

First Year Evaluation

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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 February 10, 1995, the Commission issued a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in Evansville, Indiana. Although it was the third operation to receive a Certificate of Suitability, Aztar Indiana Gaming Corporation (Aztar) opened on December 7, 1995. Evansville was thus the site of the first Indiana riverboat. 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), Aztar committed to spend approximately \$100 million on project development, in addition to pledging to the city of Evansville other incentives totaling several million dollars. The riverboat was constructed in Indiana by Jeffboat, who estimated that 200 employees worked approximately six months earning an average wage of \$12 per hour. They also estimated that two-thirds of those employees were Indiana residents.

The 2,700-passenger riverboat (compared to the 2,500-passenger riverboat originally proposed) opened with a temporary pavilion in December 1995. A 44,000-square-foot permanent pavilion and a 1,668-space parking garage were completed and opened in October 1996, with a 250-room hotel opening in December 1996. The size and scope of the pavilion, hotel, and parking garage are as described in the license application.

As Table 1 illustrates, Aztar spent \$21 million more than agreed to in the certificate for the development of the project. The hotel cost \$6.9 million more than planned and the vessel cost an additional \$2.4 million. A temporary pavilion and parking were unanticipated expenses of \$2.3 million. Park and landscape improvements did not include the park replacement costs, which are detailed in Table 2.

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

Development	Certificate of Suitability	Actual	Difference
Docking Facility	\$6,800	\$7,993	\$1,193
Pavilion, Skywalk and Other Gaming-Related Development	\$11,500	\$13,573	\$2,073
Land	\$3,200	\$3,302	\$102
Park and Landscape Improvements	\$3,500	\$4,071	\$571
Infrastructure	\$800	\$400	\$(400)
Hotel	\$19,500	\$26,392	\$6,892
Parking Garage	\$11,000	\$12,867	\$1,867
Vessel	\$17,000	\$19,396	\$2,396
Gaming Equipment	\$11,500	\$10,944	\$(556)
Pre-Opening Costs	\$3,000	\$5,735	\$2,735
Fees and Permits	\$500	\$1,711	\$1,211
Working Capital	\$2,000	\$1,500	\$(500)
Construction Period Interest	\$3,350	\$5,735	\$2,385
Operating Equipment and Supplies	\$2,000	\$4,912	\$2,912
Temporary Pavilion and Parking	-	\$2,338	\$2,338
Contingency	\$4,180	-	\$(4,180)
TOTAL DEVELOPMENT	\$99,830	\$120,869	\$21,039

Other Commitments

As shown in Table 2 Item L, Aztar has spent \$1.9 million for acquisition of park lands to replace Riverfront Park. The three sites, located in areas where the city and local residents believe parks are needed, are:

- ❖ A 22.87-acre westside wetlands site bounded by Tekoppel and Broadway avenues and adjacent to Howell Park.
- ❖ 8 acres along Waterworks Road near Sunset Park in the downtown area.
- ❖ A 25-acre site on the city's far eastside near the location where Evansville-Vanderburgh County School Corporation will acquire land for a future elementary school. This site will be developed into four soccer fields according to current city plans.

Table 2: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid through 12/31/96	Status
A) Riverfront Park Lease	First 5 years: 2% of AGR to \$50 million, then 3% of AGR above \$50 million, minimum of \$1 million. Percents increase in later years.	City of Evansville	\$2,900,000	Ongoing
B) Downtown Revitalization	Greater of \$1 million or 2% of AGR per year for the first 5 years.	City of Evansville	\$2,300,000	Ongoing
C) Downtown Learning Center	\$1,000,000	City of Evansville	\$1,000,000	COMPLETE
D) Economic Development	\$1,000,000 (\$200,000/yr over 5 yrs)	City of Evansville	\$217,000	Ahead of schedule
E) Victory Theater	\$1,000,000	City of Evansville	\$1,000,000	COMPLETE
F) Pigeon Creek Greenway	\$250,000 (\$50,000/yr over 5 yrs)	City of Evansville	\$54,000	Ahead of schedule
G) Vanderburgh Auditorium	\$750,000 (\$250,000/yr over 5 yrs)	Vanderburgh County	\$500,000	Ahead of schedule
H) United Way	\$200,000	United Way of Southwestern Indiana	\$200,000	COMPLETE
I) Evansville ONE	\$1,250,000 (\$250,000/yr over 5 yrs)	City of Evansville	\$250,000	On schedule
J) Dress Plaza	\$3,000,000	City of Evansville	\$1,000,000 cash plus riverfront property to be converted into a park by the city in lieu of \$2 million cash.	COMPLETE
K) Disaster Plan	up to \$50,000	City of Evansville	Developed by Azta	COMPLETE
L) Park Replacement	up to \$3,000,000	City of Evansville	\$1,900,000 for the acquisition and transfer of land to the city.	COMPLETE
M) Burdette Park	\$100,000	Vanderburgh County	\$100,000	COMPLETE

As Table 2 illustrates, Azta is on or ahead of schedule with its incentive payments. While the city of Evansville has received these payments, the city has been conservative and plans to spend the majority of revenues in 1997. Table 3 shows that the city made the following expenditures from the gaming revenue and incentives in 1996:

Table 3: Evansville Expenditures in 1996

Park Conversions/Expansions	\$3,256
Mesker Zoo Improvements	\$109,018
Storm Sewer Improvements	\$1,050,000
Street Repair	\$500,000
Learning Center Transfer	\$1,000,000
Victory Theater Transfer	\$1,000,000
Downtown Revitalization Improvements	\$77,709
Downtown Revitalization Loans	\$33,650
Economic Development Loans Transfer	\$200,000
Pigeon Creek Greenway Transfer	\$50,000
Total Budgeted Expenditures	\$4,023,633

The city has committed much more than Aztar's contributions to the Victory Theater and Downtown Learning Center projects. The Downtown Learning Center project will convert the old Sonntag Hotel into a center that will link the city's two universities and public and Catholic secondary school systems, while the Victory Theater will be restored to its original grandeur. The Vanderburgh Auditorium contribution (\$750,000 over five years) also is part of a larger project. The county facility currently is undergoing a \$30 million renovation and expansion, making it a full-service facility with 40,000 square feet of convention space.

Community Activity

In addition to Aztar's contribution to the United Way of Southwestern Indiana, in 1996, Aztar employees contributed \$50,000 to a United Way campaign with employee participation in excess of 80 percent.

Aztar's senior management is represented on many boards of directors in the Evansville area, including Center City, Evansville Philharmonic, Operation City Beautiful, Deaconess Hospital Foundation, Evansville Freedom Festival, and the Tri-State Minority Supplier Development Council. Aztar has sponsored several community events, including the Evansville Jazz Saxophone Contest, Fabulous First Friday, Downtown After Sundown, Ohio Valley Ribberfest BBQ Cookoff and Festival, a Downtown Block Party on Main Street, and the 1997 Arts Fest River Run Finish Line Party and Boots Randolph Jazz Concert, which was covered by ESPN.

Minority/Women Business Enterprise

In the Indiana riverboat legislation, the Indiana General Assembly stated that the opportunity for full minority and women's business enterprise participation in the riverboat industry is essential if social and economic parity is to be obtained by minority and women business persons and if the economies of the riverboat cities are to be stimulated as contemplated by this legislation. Aztar committed to meet the goals of the legislation in their first year. According to their goals, Aztar said they would expend 10 percent of the dollar value of their contracts for goods and services from minority-owned businesses and 5 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's enterprises that conduct business with riverboat operations.

According to the OMBD, as of December 31, 1996, 10.3 percent of Aztar's expenditures were to minority-owned businesses and 19 percent were to women-owned businesses. In addition, for contracts that utilized a participation plan, 7.3 percent of the total costs of contracts were subcontracted to minority businesses and 14.4 percent were subcontracted to businesses owned by women.

Economic and Fiscal Impacts

Employment and Earnings Impacts

Azta began hiring and training the majority of their employees in September 1995. Azta provided internal training for all riverboat-related positions, including dealers, cashiers, and surveillance personnel.

As Table 4 indicates, Azta estimated in its application employment of 1,400 persons in both the casino and hotel for annual wages totaling approximately \$27 million. As of December 31, 1996, Azta had 1,308 employees. For 1996, salaries and wages were \$30 million, including tips to dealers (but not to bar and wait staff). For most of the year Azta had approximately 1,040 employees, with an average of 1,108. Eighty percent of total wages was paid to full-time employees. Full- and part-time employees receive benefits that equal 25 percent of their wages. The benefits for both full-time and part-time workers include health care coverage and vacation time.

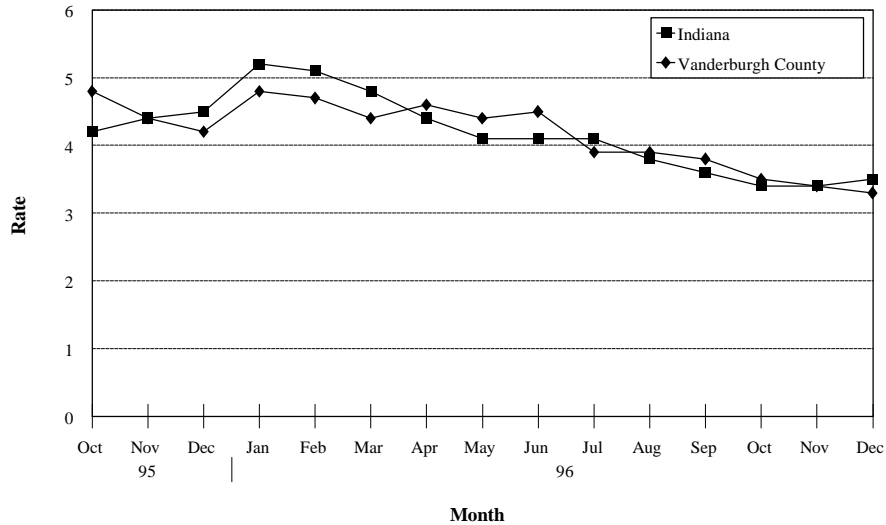
Table 4: Comparison of Forecast to Actual Azta Operation

Category	Application Forecast Year 1	Actual 1996	Difference
Employment as of 12/31/96	1,400	1,308	(92)
Total Wages, Tips & Benefits	\$27,214,000	\$29,722,000	\$2,508,000
Attendance	2,295,230	2,311,476	16,246
Gross Gaming Receipts	\$138,440,000	\$106,134,093	\$(32,305,907)
\$ per Patron per Cruise	\$60*	\$46	\$(14)
Gaming Tax (State)	\$20,766,000	\$15,941,238	\$(4,824,762)
Gaming Tax (Local)	\$6,922,000	\$5,313,746	\$(1,608,254)
Admission Tax (State)	\$2,295,230	\$2,311,480	\$16,250
Admission Tax (County)	\$2,295,230	\$2,311,480	\$16,250
Admission Tax (City)	\$2,295,230	\$2,311,480	\$16,250

* Applicant average for Evansville was \$58.

As Figure 1 illustrates, Vanderburgh County's unemployment rate has decreased since 1995 as has the state unemployment average. Other major factors affecting the employment rate in Vanderburgh County in addition to Azta were the layoff of several hundred workers by Whirlpool in Evansville in 1996 and new construction by Toyota of a \$700 million truck assembly plant in nearby Gibson County employing 2,500 construction workers.

Figure 1
1995 and 1996 Unemployment Rate:
Indiana and Vanderburgh County



As of December 31, 1996, 52 percent of Aztar employees were women, 20 percent were minorities, 50 percent were from the 4th and 6th wards of Evansville (pursuant to a request by the city), and 80 percent were residents of Vanderburgh County. Fourteen percent of employees came from out of state. In their application, Aztar's goal was to have 10 percent minority employees at the end of the first year, 45 percent to 55 percent women employees at the end of the first year, and 90 percent of employees from Vanderburgh County. Aztar's goal for the second year is to have 10 percent of management consist of minorities. They have already exceeded that goal as 16 percent of management is comprised of minorities.

As Table 4 illustrates, in 1996, Aztar had adjusted gross gaming receipts of \$106 million, or 30 percent less than their application estimate. They had total gross revenues of \$116 million, \$65 million less than the \$181 million estimated in their application because the hotel and permanent pavilion did not open until late 1996. While their attendance was on target, Aztar overestimated the receipts per passenger per trip. Total local taxes were \$8.1 million and additional local incentives were \$9.5 million. Total local taxes were less than the projection of \$11.5 million in Aztar's application, while incentives were on target.

Local Economic Impact

The January 1995 report "Analysis of Riverboat Applications for Evansville, Indiana: Aztar Indiana Gaming Corporation" included a forecast of economic impacts as a result of both gaming activity and construction for the Evansville region and statewide. Estimates of first year impacts were derived using the input-output multipliers described in the report mentioned above and in its Methodology Appendix.

With actual total revenues of \$116 million, statewide and regional earnings impact from gaming in year 1 are estimated to be \$47.7 million and \$38.6 million, respectively, and the estimated statewide and regional earnings impact from construction were \$61.0 million and \$43.4 million, respectively.

With an average of 1,108 actual employees in 1996, total estimated employment from gaming activity is 1,405 (statewide) and 1,318 (region), while the statewide and regional employment from construction is estimated to be 2,992 and 2,150 employees. It should be noted that the earnings impacts from construction are unlikely to persist beyond the year of construction.

In addition to the gaming taxes paid to the city and state, Aztar paid \$800,000 in sales and use taxes and \$2.2 million in property taxes. Payroll of \$30 million and local purchases of \$9.2 million also contributed to the local economy. Of the amount spent in Vanderburgh County, \$3.6 million was spent with downtown vendors. While this spending has assisted those merchants, there has not been a high level of additional development in the downtown area as a result of the riverboat. The opening of Fast Eddie's restaurant, the Firkin Brew Pub, and the Jungle Restaurant and Fat Cat Cigar Lounge are downtown developments that the city and Aztar could identify as resulting from the riverboat. During this time period, the downtown also lost two of its three major jewelry stores, a florist, and an optical company. These losses have not been from a lack of effort by Aztar. Besides spending with downtown merchants, Aztar has made numerous efforts to aid downtown development, including:

- ❖ Printing and distributing 50,000 Fun Books in which 37 downtown merchants participated with coupon offers.
- ❖ Offering free downtown trolley service for all Casino Aztar customers throughout 1996. A total of 4,730 rode the trolley using Aztar vouchers.
- ❖ Allowing regular customers who collect Fun Card points when they visit the casino to redeem them with participating downtown merchants.
- ❖ Developing a four-color downtown retail/restaurant map showing the trolley route and historic points of interest that is distributed in the Pavilion and across downtown.

Another possible impact has been the purchase and \$10 million renovation of the Executive Inn by a developer who plans to make it part of the Radisson hotel chain. The city of Evansville indicated that the most positive aspect of Aztar's presence has been the new projects, such as renovating and expanding the Vanderburgh Auditorium, that the additional revenue has allowed the city to consider.

Impact on Tourism

Through December 31, 1996, more than half of the trips to Aztar were made by Indiana residents with the majority from the local area market. In 1996, Aztar had 2.3 million paid admissions. Because of multiple excursions on the same day, this equaled 1.2 million visits. This attendance is on target with Aztar's attendance projection in their application.

Using the receipts from the innkeepers tax as an estimate of the increase in room nights from 1995-1996 and data from "The Economic Impact of Expenditures by Tourists on Evansville Calendar Year 1993" prepared by Davidson-Peterson Associates, Inc., we can estimate that approximately 63,000 or 5.3 percent of patrons stayed overnight in a hotel or motel. Approximately one-third of those who came from more than 150 miles away in 1996 stayed in a hotel. Assuming that each patron stayed one night and spent the average amount for visitors to hotels and motels in Evansville, total expenditures by these visitors was approximately \$8 million. Since we estimated that 63,000 spent the night, we can assume that the remainder of those who were not local residents were day-trippers. Assuming that casino patrons spent the average of day trip visitors to

Evansville, we can estimate that these additional visitors spent approximately \$11.2 million in the city.

Legal Issues

Aztar was sued twice in 1996 for false detention, once for discrimination against a patron (dismissed 5/1/97), and once involving a contract dispute over a parking lot. There were a total of 66 arrests (including arrests for outstanding warrants not related to gaming) and 49 citations were issued on Aztar property in 1996. Almost all of the citations (96 percent) were for offenses related to minors (false identification or illegal presence in a tavern) whereas the arrests were more varied. The largest category was alcohol-related offenses such as drunk and disorderly conduct, public intoxication, and minor in a tavern. Less than .01 percent of the total visits in 1996 resulted in a citation or arrest.

According to Evansville's chief of police, the neighborhood surrounding the riverboat has not experienced any additional criminal activity that can be attributed to Aztar's presence.

Other Impacts

There are other possible impacts that can result from the location of a riverboat in a community. For example, compulsive gambling may become a problem, and as a result, lead to higher rates of bankruptcy and greater need for social services. However, from the data available, compulsive gambling does not seem to have become a dramatic problem after one year. Calls to the gambling help line have not increased dramatically, and from the data available we cannot determine if gaming has had an effect on bankruptcies in the Evansville Division. From 1995 to 1996, bankruptcies have increased less in the Evansville Division than in other divisions in the Southern District of Indiana.

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 only 188 employees came from out of state and 80 percent of total employees were Vanderburgh County residents, it is unlikely that there was a discernible impact in Evansville school districts, either positive or negative. Even so, we did examine school enrollments and found that they were stable from 1995 to 1996 as they have been for several years.

Another possible impact created by Aztar is a decrease in patronage for other businesses as residents divert their spending to the riverboat. This is not something that we can measure at this time from the data available.

Aztar has made efforts to minimize negative impacts. Aztar has taken an active role in collaborating with the Indiana Division of Mental Health to develop programs for compulsive gamblers. In the meantime, Aztar is developing a program to utilize the services of the Kentucky Council on Compulsive Gambling for referrals of patrons and employees in southern Indiana who request assistance. In addition, Aztar had a consultant give a seminar for employees concerning compulsive gambling. Aztar has signed a contract with Harrah's to implement Project 21, which stresses to high school students that gaming is adult entertainment. Project 21 also provides funding for college scholarships.

Summary of Findings

Aztar has met or exceeded the requirements of their certificate of suitability in most areas.

- ❖ Aztar spent a total of \$121 million on development, \$21 million more than estimated.
- ❖ Aztar is on or ahead of schedule with its incentive payments.
- ❖ Aztar has sponsored several community events, its senior management is represented on many boards, and its employees contributed \$50,000 to United Way.
- ❖ According to the OMBD, Aztar was in compliance with M/WBE requirements.
- ❖ Employment totaled 1,308 employees, slightly less than projected, whereas wages, benefits, and tips were \$30 million, slightly greater than projections.
- ❖ Aztar has met or exceeded all employment goals except for one (see below).
- ❖ The economic impact from construction was greater than forecasted.
- ❖ While Aztar has made an effort to aid downtown development there has not been much additional development in the area.
- ❖ Aztar paid \$800,000 in sales and use taxes and \$2.2 million in property taxes in addition to the gaming taxes.
- ❖ Approximately 63,000 or 5.3 percent of patrons spent the night in a hotel or motel generating approximately \$8 million in expenditures.
- ❖ According to the Evansville Chief of Police, the neighborhood surrounding the riverboat has not experienced any additional criminal activity that can be attributed to Aztar's presence.
- ❖ Aztar has been proactive in developing programs for compulsive gambling.

Aztar has not met its projections in a few areas:

- ❖ Hiring of employees from Vanderburgh County (goal of 90 percent; actual employment of 80 percent).
- ❖ Gross gaming receipts were less than projected because dollars per patron per cruise were less than expected even though attendance was on target
- ❖ Total revenues were lower than expected because the hotel and pavilion were not open until the end of 1996.