

Second Year Evaluation of Riverboat Licensee for Evansville, Indiana: Aztar Indiana Gaming Corporation

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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 Aztar's second year of operation, January 1997 through December 1997.

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. As of December 1996, Aztar had spent approximately \$121 million, \$21 million more than agreed to in the certificate for the development of the project. In 1997, Aztar spent an additional \$108,000 on operating equipment and supplies for the project.

As Table 1 illustrates, Aztar is on or ahead of schedule with their incentive payments. Although the city of Evansville received many of these payments in 1996, the city postponed many expenditures until 1997. Table 2 shows that the city has made the following expenditures from the gaming revenue and incentives to date.

The city has committed much more than Aztar's contributions to the Victory Theater and Downtown Learning Center projects. The Downtown Learning Center project is converting the old Sonntag Hotel into a center that will link the city's two universities and public and Catholic secondary school systems. The city also is restoring Victory Theater to its original grandeur. This project should be complete by summer 1998. The Vanderburgh Auditorium contribution (\$750,000 over three 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.

To promote new development and renovation of existing buildings downtown, the city of Evansville developed a Downtown Revitalization Loan Program. The fund provides low-interest loans up to \$100,000 that must be matched with cash from the borrower or financing source. The fund is targeting revitalization of the area bounded by Walnut Street, Sycamore Street, Martin Luther King Jr. Boulevard, and Riverside Drive. To date, more than \$33,000 in loans have been granted to local businesses (see Table 2).

Table 1: Schedule and Description of Incentive Payments (000's)

Incentive	Promised Amount	Recipient	Amount Paid through 12/31/96	Amount Paid 1/97 through 12/97	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	\$2,710	Ongoing
B) Downtown Revitalization	Greater of \$1 million or 2% of AGR per year for the first 5 years.	City of Evansville	\$2,300	\$2,135	Ongoing

C)	Economic Development	\$1,000 (\$200/yr over 5 yrs)	City of Evansville	\$217	\$200	Ahead of schedule
D)	Pigeon Creek Greenway	\$250 (\$50/yr over 5 yrs)	City of Evansville	\$54	\$50	Ahead of schedule
E)	Vanderburgh Auditorium	\$750 (\$250/yr over 3 yrs)	Vanderburgh County	\$500	\$250	Ahead of schedule
F)	Evansville ONE	\$1,250 (\$250/yr over 5 yrs)	City of Evansville	\$250	\$250	On schedule
G)	Downtown Learning Center	\$1,000	City of Evansville	\$1,000	--	COMPLETE (Year 1)
H)	Victory Theater	\$1,000	City of Evansville	\$1,000	--	COMPLETE (Year 1)
I)	United Way	\$200	United Way of Southwestern Indiana	\$200	--	COMPLETE (Year 1)
J)	Dress Plaza	\$3,000	City of Evansville	\$1,000 cash plus riverfront property to be converted into a park by the city in lieu of \$2 million cash.	\$2,000 (property transferred to the city on 2/5/97)	COMPLETE
K)	Disaster Plan	up to \$50	City of Evansville	Developed by Aztar	--	COMPLETE (Year 1)
L)	Park Replacement	up to \$3,000	City of Evansville	\$1,900 for the acquisition and transfer of land to the city.	--	COMPLETE (Year 1)
M)	Burdette Park	\$100	Vanderburgh County	\$100	--	COMPLETE (Year 1)

Table 2: City of Evansville Expenditures

Expenditure	1996	1997
Park Conversions/Expansions	\$3,256	\$164,451
Mesker Zoo Improvements	\$109,018	\$258,880
Storm Sewer Improvements	\$1,050,000	\$1,050,000
Street Repair	\$500,000	\$1,000,000
Learning Center Transfer	\$1,000,000	--
Victory Theater Transfer	\$1,000,000	--
Downtown Revitalization Improvements	\$77,709	\$34,781
Downtown Revitalization Loans	\$33,650	--
Economic Development Loans Transfer	\$200,000	\$200,000
Pigeon Creek Greenway Transfer	\$50,000	\$50,000
Victory Theatre Debt Service	--	\$1,500,000
Pigeon Creek Greenway	--	\$750,000
Fire Improvements	--	\$280,000
Police Equipment/Improvements	--	\$52,636
Development Corp. Grant	--	\$5,000
Sycamore Street Parking Garage	--	\$13,155
Parking Expenses	--	\$226
Total Budgeted Expenditures	\$4,023,633	\$8,047,266

Community Activity

Aztar's senior management is represented on many boards of directors in the Evansville area, including Metropolitan Evansville Chamber of Commerce, Evansville Philharmonic, Deaconess Hospital Foundation, Tri-State Minority Supplier Development Council, and Arts Council of Southwest Indiana.

In 1997, Aztar sponsored several community events, including the Arts Festival River Run, Boots Randolph Jazz Concert, Easter Seal Society Senior Golf Series, Evansville Freedom Festival including Evansville's 4th of July fireworks celebration, Leadership Evansville Celebration of Leadership, and Riverfest '97/Downtown After Sundown. Aztar also made contributions to many community groups and service organizations, including the Catholic Education Foundation, American Red Cross (flood relief), ECHO Housing Corp. Neighborhood Association Program, Evansville Philharmonic Orchestra, and CK Newsome Community Center.

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 and second years. 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 in Year 2. 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.

OMBD currently is reviewing information provided by Aztar to determine compliance.

It should be noted that the Evansville Black Chamber of Commerce gave Aztar its "Achievement in Procurement Diversity" award in September 1997.

Economic and Fiscal Impacts

Employment and Earnings Impacts

As Table 3 indicates, in Year 2, Aztar estimated employment of 1,400 persons in both the casino and hotel for annual wages totaling approximately \$27 million. As of December 31, 1997, Aztar had 1,264 employees, 164 fewer than estimated in their application, and 44 fewer employees than in 1996 (see Tables 3 and 4). For 1997, salaries and wages were \$33 million, including tips to dealers (but not to bar and wait staff), approximately \$6 million more than Aztar's application estimate. Ninety-four percent of total wages was paid to full-time employees versus 80 percent in 1996. Full- and part-time employees receive benefits that equal 29.3 percent of their wages. The benefits for both full-time and part-time workers include health care coverage and vacation time.

As Table 3 illustrates, in 1997, Aztar had adjusted gross gaming receipts of \$107 million, or 26 percent less than their application estimate. Additionally, Aztar's attendance fell below their 1997 estimate by 11 percent, and Aztar also overestimated the receipts per passenger per trip. Total local taxes were \$9.5 million, \$2.4 million less than Aztar's estimate, and total state taxes were \$18.1 million, \$6 million less than their estimate for 1997.

Table 5 shows that Aztar's attendance decreased by approximately 224,000 admissions between Year 1 and Year 2, which also caused a decrease in admission taxes for state and local government. Aztar also employed 44 fewer workers in Year 2 than in Year 1. In contrast, Aztar's gross gaming receipts and resulting state and local gaming taxes increased between Year 1 and Year 2, as did receipts per passenger per trip (see Table 5).

Table 3: Comparison of Forecast to Actual Aztar Operation, Year 2

Category	Application Forecast Year 2	Actual 1997	Difference
Employment as of 12/31/97	1,400	1,264	(136)
Total Wages, Tips & Benefits	\$27,214,000	\$33,236,416	\$6,022,416
Attendance	2,341,135	2,086,712	(254,423)
Gross Gaming Receipts	\$145,455,000	\$107,023,831	(\$38,431,169)
\$ per Patron per Cruise	\$62*	\$51	(\$11)
Gaming Tax (State)	\$21,818,250	\$16,053,575	(\$5,764,675)
Gaming Tax (Local)	\$7,272,750	\$5,351,192	(\$1,921,558)
Admission Tax (State)	\$2,341,135	\$2,086,712	(\$254,423)
Admission Tax (County)	\$2,341,135	\$2,086,712	(\$254,423)
Admission Tax (City)	\$2,341,135	\$2,086,712	(\$254,423)

* Applicant average for Evansville was \$58.

Table 4: Comparison of Forecast to Actual Aztar Operation, Year 1

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.

Table 5: Comparison of Year 1 to Year 2

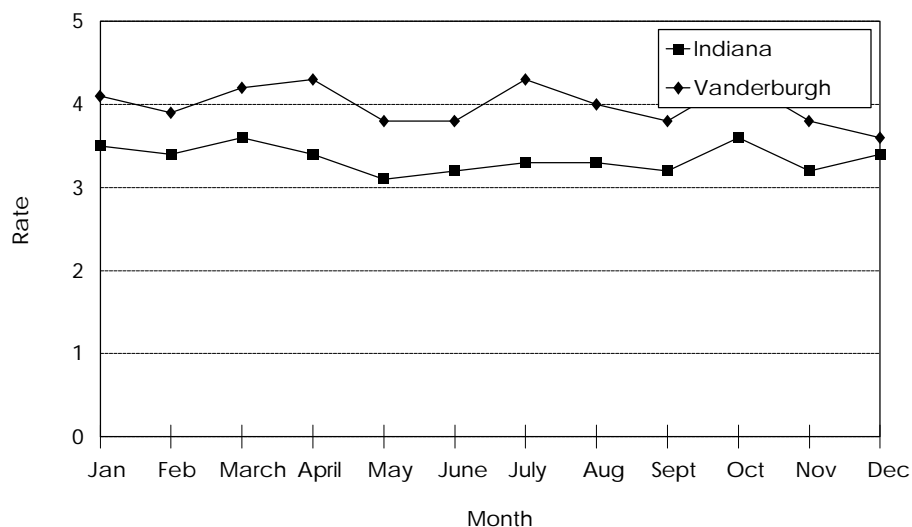
Category	Actual 1996	Actual 1997	Difference
Employment as of 12/31/97	1,308	1,264	(44)
Total Wages, Tips & Benefits	\$29,722,000	\$33,236,416	\$3,514,416
Attendance	2,311,476	2,086,712	(224,764)
Gross Gaming Receipts	\$106,134,093	\$107,023,831	\$889,738
\$ per Patron per Cruise	\$46	\$51	\$5
Gaming Tax (State)	\$15,941,238	\$16,053,575	\$112,337
Gaming Tax (Local)	\$5,313,746	\$5,351,192	\$37,446
Admission Tax (State)	\$2,311,480	\$2,086,712	(\$224,768)
Admission Tax (County)	\$2,311,480	\$2,086,712	(\$224,768)
Admission Tax (City)	\$2,311,480	\$2,086,712	(\$224,768)

As of December 31, 1997, 54 percent of Aztar employees were women, 19 percent were minorities, 48 percent were from the 4th and 6th wards of Evansville (pursuant to a request by the city), and 77 percent were residents of Vanderburgh County. In their application, Aztar's goal for their second year was to have 10 percent of management consist of minorities and 10 percent of management consist of women. Aztar exceeded the goal for minority managers in Year 1 as 16 percent of management was comprised of minorities in that period. During Year 2, minorities comprised 15 percent of management and women comprised 42 percent of management, exceeding Aztar's goals.

As Figure 1 illustrates, Vanderburgh County's unemployment rate has decreased since 1996 as has the state unemployment rate. However, Vanderburgh County's unemployment rate was higher than the state unemployment rate for 1997. Other major factors affecting the unemployment rate in Vanderburgh County include 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 that will employ 2,500 construction workers.

Figure 1

1997 Unemployment Rates in Indiana and Vanderburgh County



Local Economic Impacts

In addition to the gaming taxes paid to the city and state, in 1997, Aztar paid \$620,040 in sales and use taxes, \$64,051 in food and beverage taxes, and \$128,168 in innkeeper's tax. Aztar also paid \$740,526 in property taxes in 1997 for 1996, and will pay \$2.1 million in property taxes in 1998 for 1997. Payroll of \$33 million and local purchases of \$12.9 million also contributed to the local economy.

Several restaurants and bars have opened in the vicinity of riverboat since it opened in 1995. Fast Eddie's Restaurant, the Firkin Brew Pub, and the Jungle Restaurant and Fat Cat Cigar Lounge were new downtown developments in 1996 that the city and Aztar could identify as resulting from the riverboat. In 1997, several other restaurants and bars opened downtown, including The Alley Bar, Chili Peppers Tex-Mex Cantina, Java Beans Restaurant, and Boston Bay Seafood and Company. One factor that has encouraged this development is the city's classification of the area near Aztar as a Riverboat Development Area. Within this boundary, new bars and restaurants can pay the retail value instead of the market price for a liquor license. Another possible impact has been the purchase and \$10 million renovation of the Executive Inn. The facility now is a 400-room Radisson Hotel.

Besides spending with downtown merchants, Aztar has made numerous efforts to aid downtown development.

- Aztar hired a full-time Downtown Marketing Manager to assist local businesses in marketing their products and services to Aztar patrons.
- Aztar printed and distributed 50,000 Fun Books in which 37 downtown merchants participated with coupon offers.
- Aztar offered free downtown trolley service to all of its customers. This program commenced in January 1996 and continues today.
- Aztar allowed regular customers who collect Fun Card points when they visit the casino to redeem them with participating downtown merchants.
- Aztar developed a four-color downtown retail/restaurant map showing the trolley route and historic points of interest that is distributed in the pavilion, hotel, and across downtown. In 1997, Aztar distributed the map to more than 90,000 readers via an insert in the Evansville Courier and Press newspapers.
- Aztar initiated and financially supported the production and implementation of a downtown restaurant/entertainment commercial in July 1997 that was run on local television and radio.
- Aztar implemented the "Upside Downtown" program in September 1997, a cross-promotion with seven downtown restaurants targeted at out-of-town visitors.

Impact on Tourism

From January 1, 1997 through December 31, 1997, approximately two-thirds of the trips to Aztar were made by Indiana residents with the majority of the Indiana trips from the local market. In 1997, Aztar had approximately 2 million paid admissions. This attendance is 11 percent less than the Year 2 attendance projection in Aztar's application.

The purchase and renovation of the downtown Executive Inn by the Radisson Hotel chain has added 400 new hotel rooms to the area. Combined with Aztar's 250 hotel rooms, 900 hotel rooms have been added to the Evansville market since 1995. The local innkeeper's tax is a measure of the number of people staying in Evansville hotels. In 1996, innkeeper's tax revenue was \$597,546, whereas it was \$625,885 in 1997, a 5 percent increase. In contrast, between 1995 and 1996, the innkeeper's tax increased by 20 percent, though it averaged annual growth of about 5 percent prior to 1995. It is important to note that Indiana law does not require Aztar to pay innkeeper's tax on complimentary rooms.

Legal Issues

Aztar was sued seven times during 1997. Aztar was sued four times for false detainment, once for discrimination (dismissed), once for a dispute related to their parking lot (settled), and once for defamation. Eighty-six arrests (including seven arrests for outstanding warrants not related to gaming) and 56 citations were issued on Aztar property in 1997. All of the citations (100 percent) were for offenses related to minors (false identification or illegal presence in a tavern) whereas the arrests were more varied. The largest arrest category was alcohol-related offenses such as drunk and disorderly conduct, public intoxication, and minor in a tavern. In addition, 20 arrests were related to illegal drugs (possession of marijuana and possession of a Schedule II narcotic). Less than .0001 percent of the total visits in 1997 resulted in a citation or arrest.

According to the Evansville Police Department, crime reports and arrests in the area around the boat increased slightly from Year 1 to Year 2. In 1996, there were 121 arrests and crime reports, whereas in 1997, there were 132. Narcotics offenses increased the most during this period, from 5 in 1996 to 21 in 1997, a 320 percent increase.

Other Impacts

There are other impacts that can result from the location of a riverboat in a community. For example, compulsive gambling might become a problem, and as a result, lead to higher rates of bankruptcy and/or greater need for social services. In 1997, 20 calls for help with gambling problems were made by Vanderburgh County residents to the “Deal With It” line that is contracted through the Commission for a Drug Free Indiana. This is an increase from the seven calls that were made from the same area in 1996.

In some smaller communities, we expect an impact on housing starts, school enrollment, and other factors from the new employees moving into the area. We examined local school enrollments and found that they did not change between 1996 and 1997.

Aztar has made efforts to minimize negative impacts. Aztar posts problem gambling awareness signs at casino entrances, ATM machines, and ticketing windows, as well as prints information about problem gambling on all tickets and collateral materials. 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 Problem Gambling for referrals of patrons and employees in southern Indiana who request assistance. In 1997, Aztar had a consultant give a seminar for employees concerning compulsive gambling. In 1997, Aztar 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. Aztar continued to provide this program throughout 1997.

Summary of Findings

Aztar has met or exceeded the requirements of their certificate of suitability in most areas for its second year of operation.

- As reported in 1996, Aztar has spent a total of \$121 million on project development, \$21 million more than estimated.
- Aztar is on or ahead of schedule with its incentive payments.
- Aztar has sponsored several community events and senior management is represented on many local boards of directors.
- Wages, benefits, and tips were \$33.2 million, greater than projected.
- Aztar has met or exceeded all employment goals except for one (see below).
- Aztar paid \$620,040 in sales and use taxes and \$2.1 million in property taxes.
- Aztar has been proactive in developing programs for compulsive gambling.

Aztar has not met its projections in a these areas:

- Hiring of employees from Vanderburgh County fell short of Aztar’s 90 percent goal (actual employment was 77 percent local).
- Employment totaled 1,264 employees, 136 fewer than projected
- Total state and local gambling taxes were \$8.5 million less than projected.
- Attendance was 11 percent less than projected and receipts per passenger per trip was 18 percent less than projected.