

Second Year Evaluation of Riverboat Licensee for Michigan City, Indiana: Blue Chip Casino, LLC

September 1998–December 1999

June 2000

Introduction.....	0
Project Development and Investment.....	1
Development Activities	1
Other Commitments.....	2
Community Activity	4
Minority/Women Business Enterprise.....	4
Economic and Fiscal Impacts.....	4
Employment and Earnings Impacts	4
Local Economic Impact.....	6
Impact on Tourism	7
Legal Issues	7
Other Impacts	7
Summary of Findings	7

Center for Urban Policy and the Environment ~ School of Public and Environmental Affairs
342 North Senate Avenue, #300 ~ Indianapolis, IN 46204-1708
Telephone (317) 261-3000 ~ FAX (317) 261-3050 ~ <http://www.urbancenter.iupui.edu>

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 April 17, 1996, the Commission issued a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in Michigan City, Indiana. Blue Chip Casino, Inc. (Blue Chip) opened on August 22, 1997. Following its first year of operation, Blue Chip entered into negotiations with Boyd Gaming Corporation to purchase the company. The Commission approved the sale on November 8, 1999. The name of the licensee was changed to Blue Chip Casino, LLC. A previous report was based on the first year 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 16 months of operation (September 1998 through December 1999) but, unless otherwise noted, will consider 1999 its second year of operation for comparison.

Project Development and Investment

Development Activities

In the Certificate of Suitability (referred to throughout as Certificate), Blue Chip committed to spend approximately \$87 million on project development, in addition to pledging to the city of Michigan City other incentives totaling several million dollars. As of December 1999, Blue Chip has spent \$138.3 million, nearly \$52 million more than the agreed commitment in the Certificate for the development of the project.

The 3,000-passenger (plus 500 crew) riverboat opened with 37,400 square-feet of gaming space. The vessel has an 87,000-square-foot permanent pavilion. The pavilion has two restaurants, a snack bar, and a lounge with a bar. After breaking ground in 1998, the hotel attached to the pavilion opened on February 15, 2000.

Temporary costs are under the Certificate estimates because Blue Chip did not build a temporary facility. Permanent pre-opening costs were higher than anticipated because Blue Chip had salaries and other expenses that had to be paid longer than anticipated.

Other Commitments

Table 1 shows the additional commitments, or incentive payments, promised in the original Certificate. As shown, Blue Chip is current or has completed all of the additional commitments to the community. In addition to the commitments promised in the Certificate, it has committed up to one million dollars for Michigan City to purchase Harborside Homes property.

Table 1: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Year 1 1997-1998	Amount Paid Year 2 1999	Status
A) Ongoing payments	0.5 % of Adjusted Gross Revenues	Michigan City Community Endowment Corporation	\$685,883	\$765,179 ¹	Current
B) Donation of lakefront property	Not specified	Michigan City	\$600,000	\$0	Completed Year 1
C) Marina development	Not specified	Michigan City Port Authority	\$4,500,000	\$0	Completed Year 1
D) Donation of peninsula and 100 revenue-producing boat slips	Not specified	Michigan City Port Authority	\$1,500,000	\$0	Completed Year 1
E) Infrastructure improvements	Not specified	Michigan City	\$200,000	\$300,000	Current
F) Harborside Homes property ²		Michigan City	\$0	\$1,000,000	Current

¹ An additional \$247,653 not shown in the table was paid between 9/98-12/98.

² Not in the certificate of suitability.

Table 2 illustrates the city of Michigan City's appropriations for capital items using gaming revenue during calendar year 1999:

Table 2: Michigan City Appropriations from Gaming Revenues in 1999

Activity	1999 Appropriation
Repairs and maintenance	\$475,000
Storm sewer	\$2,779,791
Sidewalk Repairs/paving	\$150,000
Washington Park furniture and fixtures	\$106,500
Park motor equipment	\$232,000
Machinery and equipment	\$940,800
Police vehicles	\$667,000
Police matching grant	\$25,000
Total Appropriated Funds	\$5,376,091

Michigan City has established a fund consisting of 25 percent of the local share of the wagering tax to be distributed among the units of local government within LaPorte County. The shares are distributed as follows: county (20 percent), schools (20 percent), townships (20 percent), cities and towns (30 percent), and special taxing districts (10 percent). The school's portion is distributed based on a percent of total 1996-97 headcount enrollments with a two percent minimum guarantee. The distributions to cities and towns are based on the number of housing units according to the 1990 census with a 20 percent maximum share and a six percent minimum share. The special taxing district fund is distributed to libraries, the LaPorte Aviation Authority, and the Michigan City Sanitary District. Actual distributions from 1999 are detailed below in Table 3.

Table 3: Michigan City Shared Wagering Tax Distribution 1999

Unit of Government	1999
County	\$370,706
LaPorte County	\$370,706
Cities/Towns	\$558,053
Kingsbury	33,363
Kingsford Heights	33,363
LaCrosse	33,363
Long Beach	88,969
LaPorte	111,211
Michiana Shores	33,363
Pottawattamie Park	33,363
Trail Creek	85,408
Wanatah	33,363
Westville	72,287
Schools	\$370,697
John Glen School Corporation	7,413
Lacrosse School Corporation	7,413
LaPorte Community School Corporation	133,453
Michigan City Area Schools	148,281
MSD of New Durham Township	14,827
New Prairie School Corporation	37,070
South Central School Corporation	14,827
Wanatah School Corporation	7,413
Townships	\$370,687
Cass	7,413
OCenter	18,534
Clinton	7,413
Coolspring	92,676
Dewey	7,413
Galena	7,413
Hanna	7,413
Hudson	7,413
Johnson	7,413
Kankakee	11,121
Lincoln	7,413
Michigan	100,090
New Durham	11,121

Table 3: Michigan City Shared Wagering Tax Distribution 1999 (continued)

Noble	7,413
Pleasant	7,413
Prairie	7,413
Scipio	11,121
Unit of Government	1999
Springfield	22,242
Union	7,413
Washington	7,413
Wills	7,413
Special Districts	185,373
LaCrosse Library District	5,000
LaPorte County Public Library	5,000
LaPorte Municipal Airport Authority	2,000
Michigan City Public Library	5,000
Sanitary District	158,373
Wanatah Public Library	5,000
Westville-New Durham Township	5,000

Community Activity

Blue Chip has made numerous donations to community groups and sponsored several community events, including \$10,000 to Meals on Wheels and the Michigan City Homeless Shelter. Blue Chip's senior management is involved in many local organizations in the Michigan City area, including: Michigan City and LaPorte Chambers of Commerce, LaPorte County Planning Council, and the LaPorte County United Way.

Minority/Women Business Enterprise

The Office of Minority Business Development and the Indiana Gaming Commission are currently reviewing the information provided by Blue Chip to determine compliance.

Economic and Fiscal Impacts

Employment and Earnings Impacts

Blue Chip began hiring and training the majority of its employees in May and June of 1997. Training was conducted internally.

As shown in Table 4, Blue Chip committed to having 703 employees by its second year of operation. Blue Chip also forecasted that all annual wages of employees would total approximately \$13.3 million. As of December 31, 1999, Blue Chip employed 1,191 people. Total salaries and wages equaled approximately \$32.8 million, including tips to dealers (but not to bar and wait staff), over twice the projected amount. Full-time and part-time employees receive benefits.

Also shown in Table 4, Blue Chip accrued \$161.7 million in gross gaming receipts during calendar year 1999, \$88 million more than estimated in the application. The state received \$24 million in gaming tax, \$17 million more than projected. Total local taxes paid were \$8 million, \$5.6 million more than projected.

Table 4: Comparison of Forecast to Actual Blue Chip Operation Year 2

Category	Application Forecast Year 2	Actual Year 2 (1999)	Difference
Employment as of 12/31/99	703	1,191	488
Total Wages, Tips, & Benefits	\$13,263,000	\$32,802,110	\$19,539,110
Attendance	2,000,000	3,645,628	1,645,628

Gross Gaming Receipts	\$73,700,000	\$161,710,925	\$88,010,925
\$ per Patron per Cruise	\$35 ³	\$44	\$9
Gaming Tax (State)	\$7,053,750	\$24,096,492 ⁴	\$17,042,742
Gaming Tax (Local)	\$2,351,250	\$8,032,164 ⁵	\$5,680,914
Admission Tax (State)	\$2,000,000	\$3,645,628 ⁶	\$2,145,628
Admission Tax (County)	\$2,000,000	\$3,645,628 ⁶	\$2,145,628
Admission Tax (City)	\$2,000,000	\$3,645,628 ⁶	\$2,145,628

³Applicant average was \$34.

⁴An additional \$7,426,898 was paid from September 1998-December 1998.

⁵ An additional \$2,475,633 was paid from September 1998-December 1998.

⁶ An additional \$1,193,144 was paid from September 1998-December 1998.

Table 5 compares actual to forecast for year 1 of operation.

Table 5: Comparison of Forecast to Actual Blue Chip Operation Year 1

Category	Application Forecast Year 1	Actual Year 1 (Through August 1998)	Difference
Employment as of 8/31/98	530	1,080	550
Total Wages, Tips, & Benefits	\$10,160,364	\$30,034,562	\$19,874,198
Attendance	1,500,000	3,524,210	2,024,210
Gross Gaming Receipts	\$47,025,000	\$127,168,000	\$80,143,000
\$ per Patron per Cruise	\$30	\$36	\$6
Gaming Tax (State)	\$7,053,750	\$19,075,200	\$12,021,450
Gaming Tax (Local)	\$2,351,250	\$6,384,000	\$4,032,750
Admission Tax (State)	\$1,500,000	\$3,524,210	\$2,042,210
Admission Tax (County)	\$1,500,000	\$3,524,210	\$2,042,210
Admission Tax (City)	\$1,500,000	\$3,524,210	\$2,042,210

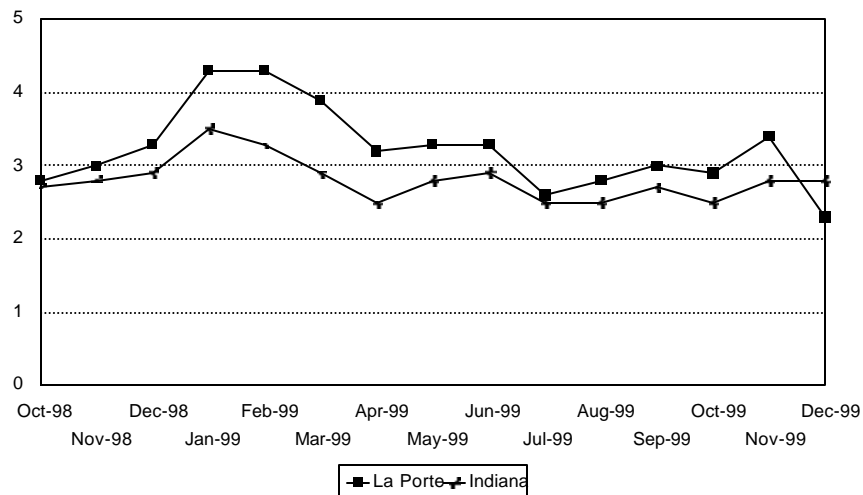
As Table 6 illustrates, Blue Chip has increased in every category from Year 1 to Year 2.

Table 6: Comparison of Years 1 and 2

Category	Actual Year 1 (Through August 1998)	Actual Year 2 (1999)	Difference
Employment	1,080	1,191	111
Total Wages, Tips, & Benefits	\$30,034,562	\$32,802,110	\$2,767,548
Attendance	3,524,210	3,645,628	121,418
Gross Gaming Receipts	\$127,168,000	\$161,710,925	\$34,542,925
\$ per Patron per Cruise	\$36	\$44	\$8
Gaming Tax (State)	\$19,075,200	\$24,096,492	\$5,021,292
Gaming Tax (Local)	\$6,384,000	\$8,032,164	\$1,648,164
Admission Tax (State)	\$3,524,210	\$3,645,628	\$121,418
Admission Tax (County)	\$3,524,210	\$3,645,628	\$121,418
Admission Tax (City)	\$3,524,210	\$3,645,628	\$121,418

As Figure 1 illustrates, the unemployment rate in LaPorte County has been higher than the state rate most of the year, but decreased to 2.3 percent in December 1999, lower than the 2.8 percent state unemployment rate.

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



As of December 31, 1999, 61 percent of Blue Chip employees were women, 22 percent were minorities, and 63 percent were from LaPorte County. Eight percent of employees came from out-of-state. Blue Chip committed to use its best efforts to employ 90 percent of its permanent work force from LaPorte County, and that these employees be demographically representative of the area. According to 1998 population estimates, 10.9 percent of the LaPorte County population consists of minorities and 48.7 percent of women. Blue Chip is more than meeting its commitment to hire women and minorities, but it continues to lag behind in its ambitious commitment to hire 90 percent LaPorte County residents. With the low unemployment rate in LaPorte County and Blue Chip's efforts, it seems as if it has hired close to the maximum of LaPorte County residents possible.

Local Economic Impact

In addition to the gaming taxes paid to the city and state, Blue Chip paid \$443,872 in sales and use taxes and \$819,192 in property taxes. Payroll of \$32.8 million and purchases of \$1.3 million from Michigan City vendors and another \$7.2 million from

other Indiana vendors also contributed to the local economy. Blue Chip's marketing department has participated in several cooperative advertising ventures with local merchants and organizations. While no additional development has occurred yet, city officials indicated that the redevelopment of the area and the new marina have increased the number of contacts from developers interested in the area.

Impact on Tourism

In 1999, Blue Chip had 3.6 million paid admissions. This attendance is almost twice Blue Chip's attendance projection in its application. Blue Chip has provided complimentary space in its pavilion for a LaPorte County Convention and Visitors Information Center. Located in a highly visible area, the Center handles numerous reservations for local hotels and restaurants. Blue Chip also works on several cooperative ventures with the Convention and Visitors Bureau offering group packages with local businesses to increase overnight visits.

The Convention and Visitors Bureau reports that it has had an increase in visitors to its information centers, calls on the phone line, and number of welcome packets prepared.

Legal Issues

Blue Chip was sued seven times in 1999. There were a total of 35 arrests for incidences on Blue Chip property in 1999. The largest categories were public intoxication and theft. Blue Chip security reported checking 23,140 identifications and turning away 92 patrons for being under 21. Less than .001 percent of visits in 1999 resulted in a citation or arrest.

According to Michigan City's chief of police, the neighborhood surrounding the riverboat has not experienced additional criminal activity that can be attributed to Blue Chip's presence. In general, Michigan City has maintained a steadily decreasing crime rate in the last three years.

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

Blue Chip has made efforts to minimize the negative impacts of gambling. It has formed a task force of management and frontline employees to address alcohol and compulsive gambling issues. This task force will assist employees in identifying possible compulsive gamblers among patrons. It also displays the 1-800-9-WITH-IT message on all material handed to patrons as well as on signs near casino cages. Blue Chip has a self-eviction program for individuals who wish to be banned from the facility. Upon written request, all mailing inducements will be stopped as well as any credit. If the patron is found in the casino after self-eviction, at a minimum the patron will be asked to leave the Blue Chip casino property. An evicted patron may request readmission in writing to the general manger. The general manger may maintain the self-eviction or readmit the patron.

Summary of Findings

Blue Chip has met or exceeded the requirements of its Certificate of Suitability in the following areas:

- Blue Chip spent a total of \$138.3 million on the basic development of the project, \$52 million more than estimated.
- Blue Chip is on schedule with all of its incentive payments.
- Blue Chip has sponsored many community events; its senior management is represented on many boards.
- Blue Chip had higher than projected attendance, gross gaming receipts, dollars per patron per cruise, and gaming taxes.

- Employment totaled 1,191 employees; almost twice the amount projected, and wages, benefits, and tips were \$32.8 million, more than twice projections.
- In 1999, 61 percent of Blue Chip employees were women and 22 percent were minorities, more than meeting its commitment to hire a demographically representative workforce.
- Blue Chip paid \$29.2 million more in gaming taxes than projected.
- In addition to the gaming taxes, Blue Chip paid \$443,872 in sales and use taxes and \$819,192 in property taxes.
- Blue Chip made local purchases of \$8.5 million in LaPorte County with \$1.3 million of that occurring in Michigan City.
- Blue Chip has been proactive in developing programs for compulsive gambling.

Blue Chip has not met its projections in the following areas:

- Blue Chip committed to filling 90 percent of the jobs with LaPorte County residents. As of December 31, 63 percent of its employees were from LaPorte County. Although Blue Chip has not met the 90 percent employment projection for LaPorte County residents, it has consistently exceeded total employment projections. With the low unemployment rate in LaPorte County and Blue Chip's efforts, it seems as if they have hired close to the maximum of LaPorte County residents possible.