

Five-Year License
Renewal Report for
Azta Indiana
Gaming Corporation



**FIVE-YEAR LICENSE RENEWAL:
Aztar Indiana Gaming Corporation**

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INTRODUCTION

The Riverboat Gambling Act (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. Part of the statutory criteria for issuance of these licenses, in addition to being financially capable of completing the project and passing an Indiana State Police investigation, is the applicant's ability to promote tourism and economic development in the home dock area while best serving the interest of the citizens of Indiana. 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 assist the Commission in performing the economic impact, fiscal impact, financial, management, and other analyses required to assist the Commission in awarding the initial riverboat casino licenses. Additionally, the Commission requested the center assistance in monitoring the economic impacts and fiscal returns from each riverboat operation.

In partnership with the Commission, the center has, since 1993, completed evaluations for the granting of ten riverboat casino licenses. The center also has completed annual performance reports for all operating riverboat casinos. In addition, the center has provided other analyses for the Commission, as requested, and also served as the staff and conducted extensive research for the Indiana Gambling Impact Study Commission.

The center uses analytic and decision facilitation competencies to inform policy choices about complex societal, economic and political problems, especially in Central Indiana. The center is non-partisan and non-ideological and works on a broad range of policy issues. Governments, nonprofit organizations, businesses, and foundations support projects at the center. Affiliated faculty from Indiana University-Purdue University Indianapolis and other universities, professional staff of the center, and graduate assistants form teams for projects.

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 was the first casino to begin operations in Indiana, opening on December 7, 1995. The Act specifies that an owner's initial license expires five (5) years after the effective date of the license. This report is an analysis of Aztar's first five years of operation. The Certificate of Suitability (Certificate) was the agreement between Aztar and the Indiana Gaming Commission that gave Aztar its license.

The Certificate specified certain levels of project development and incentive payments to be made by Aztar as well as specifying that Aztar abide by agreements made with the city of Evansville. Because this analysis must be completed before the completion of Aztar's fifth year of operations, in year-five, data are either shown for the first four years, or where available, for year five January through July or August 2000. In addition to the five-year totals of components included in the previous annual reports, this report includes an analysis of the tourism impact of Aztar visitors, a study of the employment impact, a descriptive analysis of the economic impact of the additional revenue received, and an analysis of the fiscal impact on local communities. This report is the first of ten analyses, one for each Indiana riverboat. Each additional report will allow an opportunity to



refine the methodology, improve data collection, and compare and contrast riverboat performance and its impacts on local communities.



PROJECT DEVELOPMENT AND GAMING ACTIVITIES

Aztar's project included building a riverboat, pavilion, and hotel. The riverboat was constructed in Indiana by Jeffboat. 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. Gaming activity reflects the number of riverboat patrons and how much money they spent. Spending is defined as the amount bet, less winnings received.

PROJECT DEVELOPMENT CERTIFICATE COMPLIANCE

In the Certificate of Suitability, Aztar committed to spend approximately \$100 million on the development of their facility. As of December 1996, after completion of the pavilion, parking garage and hotel, Aztar had spent approximately \$121 million, \$21 million more than agreed to in the Certificate for the development of the project. Aztar has spent money locally for both capital and operating expenses as well as through sponsorships and contributions. As Table 1 illustrates, since opening, Aztar has spent over \$85 million or 70 percent of the \$121 million locally. Construction costs made up the largest share of these expenditures and primarily were completed by 1996. Additionally, Aztar has impacted the Evansville area through nearly \$1.9 million in sponsorships and contributions to local area organizations.

Table 1: Local Spending, Sponsorship, and Contributions

	1994-95	1996	1997	1998	1999	Thru 7/00	Total
Local Spending	\$2,185,050	\$54,499,774	\$9,328,427	\$7,668,197	\$8,620,761	\$3,7472,744	\$85,774,984
Sponsorship Contribution	\$137,814	\$230,561	\$319,929	\$382,155	\$469,775	\$344,871	\$1,885,105

GAMING ACTIVITY

The certificate did not require any specific levels of gaming activity by Aztar. As Table 2 illustrates, Aztar has had attendance of almost 10 million people since opening and gross gaming receipts of almost \$500 million, for an average of \$49 per patron.

Table 2: Gaming Activity

Category	1996	1997	1998	1999	Thru 7/00	Total/Average
Attendance	2,311,476	2,086,712	2,090,804	1,987,971	1,247,971	9,724,934
Gross Gaming Receipts	\$106,134,093	\$107,023,831	\$110,487,677	\$94,498,070	\$58,012,620	\$476,156,291
\$ Per Patron per Cruise	\$46	\$51	\$53	\$48	\$46	\$49



IMPACT OF GAMING ACTIVITY ON TOURISM

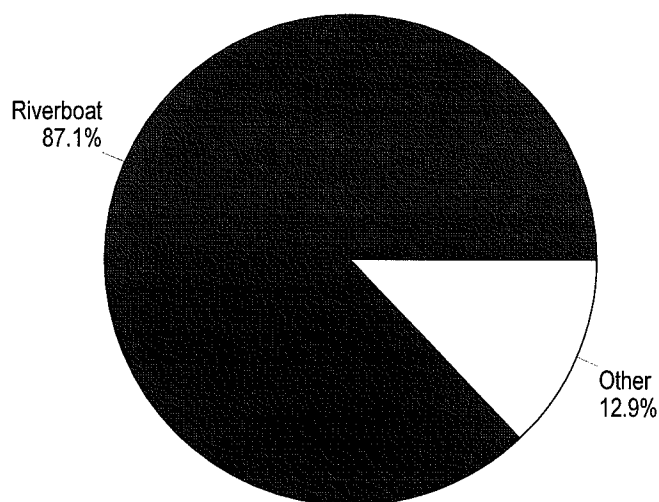
One argument for legalizing riverboats was that the projects would become a tourist destination and local businesses would benefit from the influx of visitors (almost ten million in five years to Aztar) who would consume goods and services at local establishments as well as at the riverboat casino. It also was assumed that most of the casino visitors would be tourists and not local residents.

With the cooperation of Aztar, the center conducted face-to-face interviews with riverboat patrons over a four-day period in September 2000 (Friday through Monday) in the riverboat pavilion. During the four-day interview period, the center acquired a 217-patron sample. In general, the estimated average distance traveled to the riverboat was 111 miles. Eighteen percent of the interviewees were from the city of Evansville, 39 percent were from the remainder of Indiana, and 43 percent were from outside Indiana.¹

To suggest that riverboat casinos increase tourism in downtown areas is to presume that the riverboat will draw tourists from outside the city that would not have otherwise visited the area. To test that assumption, each interviewed patron was asked to provide the main reason for traveling to downtown Evansville. Figure 1 indicates that 87 percent of the patrons stated that their main reason for traveling downtown was to visit Aztar. The remaining 13 percent of interviewed patrons were vacationing, conducting business, visiting relatives, or taking classes at a local university.

Figure 1:

Aztar Patrons Reason for Visiting Downtown Evansville



Survey of Patrons September 2000

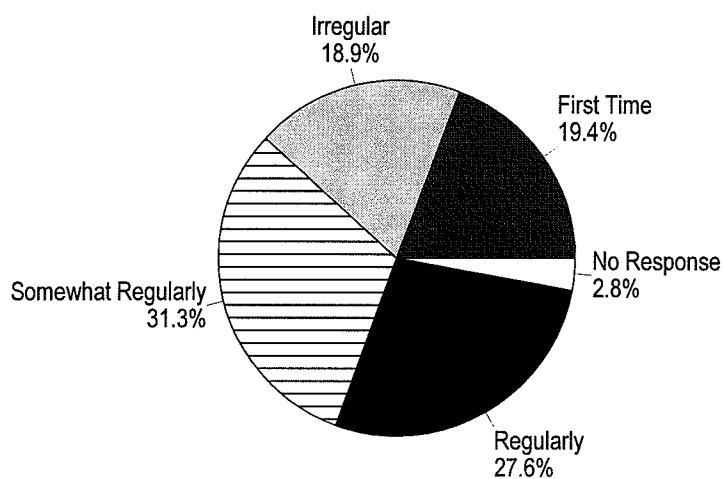
¹ While not a statistically representative sample, the proportion of patrons visiting from outside Indiana are consistent with detailed attendance records collected by Aztar and represent a useful cross section of gaming customers.



The patrons also were asked how often they visit Aztar. Specifically, each interviewed respondent was asked to what degree he or she regularly visited the riverboat. Figure 2 illustrates the proportion of respondents who were categorized by broad categories: first time visitor, irregular visitor, somewhat regular visitor, or regular visitor. As shown, patrons of the riverboat were more likely to visit the riverboat either somewhat regularly (31 percent) or regularly (28 percent).

Figure 2:

Regularity of Patron Visits to Aztar



Survey of Patrons September 2000

First Time Visitor

- Visiting Aztar for the first time

Irregular Visitor

- Visit Aztar less than once a year
- Visit Aztar one or two times a year

Somewhat Regular Visitor

- Visit Aztar every couple months
- Visit Aztar once a month

Regular Visitor

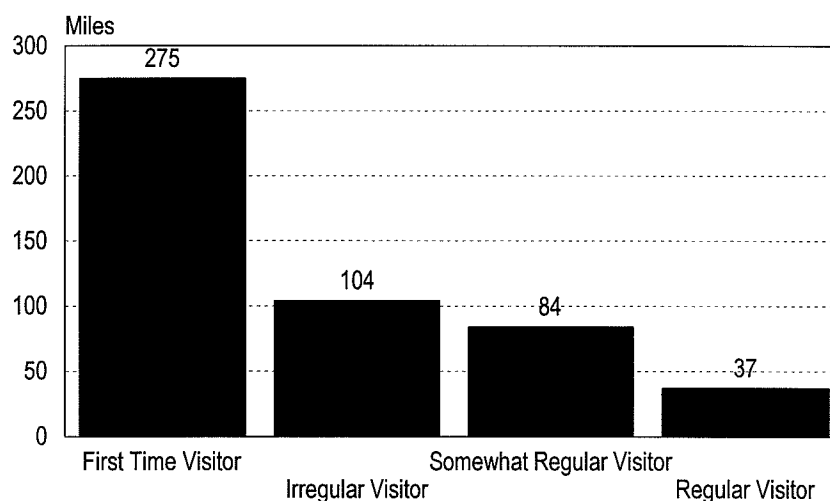
- Visit Aztar once a week
- Visit Aztar two to three times a week
- Visit Aztar everyday



Figure 3 illustrates the average estimated distance traveled to visit the riverboat by the regularity of visits. As shown, the average distance traveled consistently decreased from 275 miles to 23 miles as regularity of visits increased. The patrons who visit the riverboat more frequently are more likely to live closer to the riverboat.

Figure 3:

Average Miles Traveled by Regularity of Visits to Aztar



Survey of Patrons September 2000

As mentioned previously, 87 percent of the interviewed patrons were in downtown Evansville specifically to visit the riverboat. In addition, each patron was asked how long he or she planned to stay in downtown Evansville during his or her visit. Table 3 indicates that only 25 of the 217 interviewed patrons (11 percent) stayed in downtown Evansville over eight hours. Those patrons who stayed more than eight hours were more likely to have traveled further distances to visit the riverboat. In general, the average miles traveled by patrons who stayed more than a day (average 316 miles) was over three times greater than those who stayed less than eight hours (average 93 miles).

Table 3: Time spent in downtown Evansville

	Number of Patrons	Proportion of Respondents	Average Miles Traveled
8 Hours or Less	192	89%	93
9 to 24 Hours	11	5%	150
1 to 4 Days	14	6%	316
Total Sample	217	100%	111



Table 4 shows the proportion of residents who visited other attractions or patronized other business relative to total time each patron spent downtown. As indicated, 23 percent of the sample visited other downtown businesses and/or attractions. The patrons who stayed downtown longer were more likely to visit other downtown amenities and businesses.

Table 4: Time downtown and visitation of other attractions

	Number of Patrons	Visited Other Attractions	Average Miles Traveled
8 Hours or Less	192	19%	93
9 to 24 Hours	11	40%	150
1 to 4 Days	14	57%	316
Total Sample	217	23%	111

When asked to specify the type of business attraction visited, 17 percent of all respondents reported eating at restaurants. Five percent of the respondents indicated that they had or planned to shop while downtown. Five percent of the respondents also stayed in a hotel downtown. The respondents who reported that they shopped or ate meals downtown estimated spending approximately \$18. Less than one percent of the respondents indicated that they had visited another riverboat on this trip.



EMPLOYMENT

The Certificate required Aztar to strive to reach certain employment goals per an agreement between Aztar and the city of Evansville, but did not specify any total employment goals. In addition, with the issuance of the riverboat license in Evansville, it was expected that the riverboat would have positive employment impacts on its workforce.

EMPLOYMENT CERTIFICATE COMPLIANCE

Table 5 shows the goals that Aztar agreed to with the city of Evansville as well as their actual performance. Aztar met its goals for all employees and came close to meeting it for managers but fell slightly short of meeting the goal for women directors/vice presidents while exceeding their goal for minority directors/vice presidents. In addition, the city requested that Aztar target for employment residents of the 4th and 6th wards of Evansville and 48 percent of the employees reside in these areas. Another goal was to hire 90 percent of employees from Vanderburgh County and 73 percent of Aztar employees are county residents.

Table 5: Employment Goals

Employment Category	Goal	Actual
<i>All Employees (first year)</i>		
Women	45-55%	53 %
Minorities	10%	18%
<i>Managers (second year)</i>		
Women	45-55%	44%
Minorities	10%	10%
<i>Directors/Vice Presidents (third year)</i>		
Women	45-55%	32%
Minorities	10%	16%

As Table 6 indicates, as of August 25, 2000, Aztar had employment of 1,173 persons in both the casino and hotel, slightly below their five-year average of 1,204. For 1999, salaries and wages were \$30.6 million, including tips to dealers (but not to bar and wait staff), and since opening Aztar has paid almost \$144 million in wages. Full- and part-time employees receive benefits that include health care coverage and vacation time.

Table 6: Employment and wages

Category	Actual 1996	Actual 1997	Actual 1998	Actual 1999	Thru 8/00	Average/Total
Employment	1,308	1,264	1,187	1,089	1,173	1,204
Total Wages, Tips & Benefits	\$29,722,000	\$33,236,416	\$33,043,980	\$30,617,807	\$16,911,873	\$143,532,076



IMPACT ON AZTAR'S WORKFORCE

In testimony given to the Indiana Gambling Impact Study Commission in 1999, proponents of legal gaming asserted that gaming-related employment offers the chronically unemployed and underemployed an opportunity to establish a work record and skill set that may lead to even greater economic opportunity. Those who oppose legal gambling questioned the validity of this assertion and claimed that gambling-related jobs are often dead-end positions, plagued by high-turnover rates. As part of the five-year analysis, current Aztar employees were asked to complete a survey of their past and current work history as well as learning and skill-building opportunities presented to them.

The result of this analysis of Aztar's contribution to the development and training of its employees is based on 228 returned surveys from a total of 1,200 that were distributed to Aztar employees in October 2000. The results and conclusions are limited to the 228 respondents, who may or may not be typical of all employees.

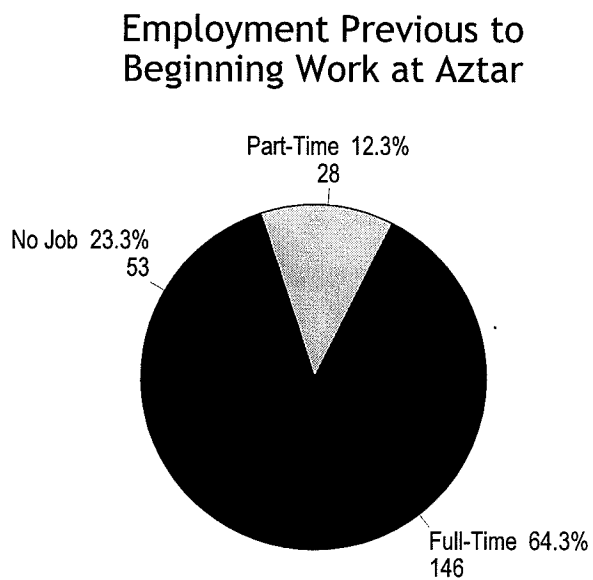
In general, those who responded to the survey are earning more than they were prior to beginning employment at Aztar. Additionally, Aztar has provided the majority of the responding employees with the opportunity to acquire and develop skills directly related to their casino jobs. Furthermore, almost half the respondents reported taking general skill-building and development courses. These skill-building efforts were either directly reimbursed by Aztar or indirectly made possible through the wages earned while working at Aztar. As a benefit to all crew members, Aztar provides assistance with the expenses of continuing education which relate to the career development of the individual at Casino Aztar (\$300 per session/semester up to a maximum of \$1,000 per year). The course or training may be directly related to the crew member's current job classification or provide requisite skills for upward mobility that will expand the opportunities for a position of greater salary or increased responsibility. The remainder of this section provides greater detail concerning the skill-building opportunities available to Aztar employees.



EMPLOYMENT MOTIVATION

As displayed in Figure 4, 146 of the 228 respondents left a full-time position to begin work at Aztar. Fifty-three of the respondents had no job immediately prior to beginning work at Aztar.

Figure 4:



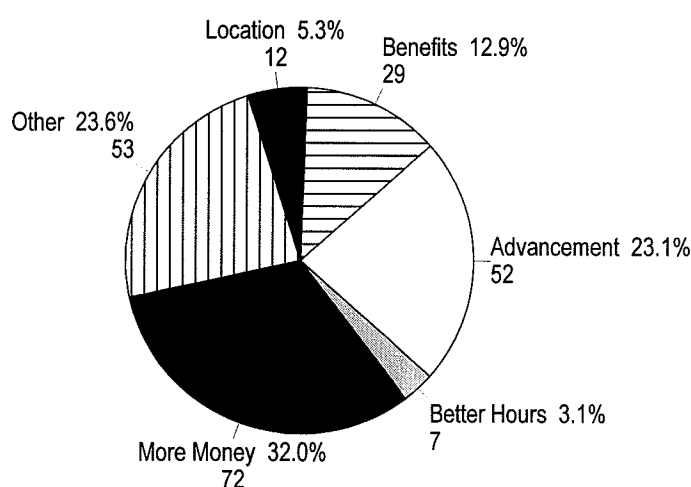
Survey of Employees October 2000



As Figure 5 illustrates, when respondents were asked to select one reason for taking a job with Aztar, 32 percent chose more money as the primary reason, 23.1 percent chose better opportunities for advancement, and nearly 13 percent chose to begin work at Aztar because of better benefits. Thus, nearly 70 percent of those who reported a reason for taking a job with Aztar did so for a purpose that might be described as having potential for career advancement.

Figure 5:

Why Employees Accepted Employment with Aztar



Survey of Employees October 2000

Wage History

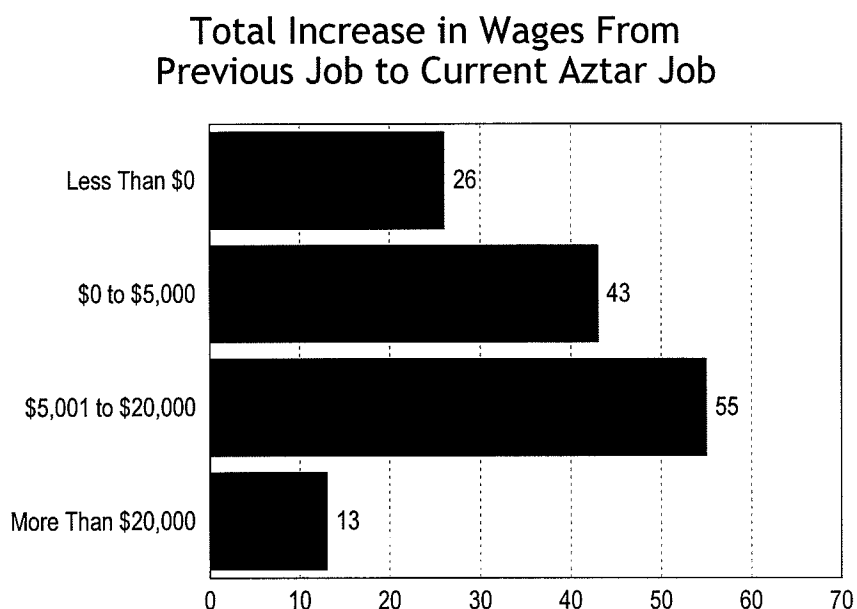
The average annual increase in wages for the 137 respondents who provided a salary at their previous job as well as a beginning salary at Aztar was \$253. The median or mid-point increase was \$1,000 (68 respondents received a raise of \$1,000 or less and 68 respondents received a raise of 1,000 or more). Forty-nine Aztar employees report taking a pay cut to begin work at the casino, the average pay cut for these employees was \$9,490. The median pay cut of those employees was \$5,280. Eighty-eight employees report either no increase or an increase in pay upon beginning work at the Aztar; the average wage for this group was \$5,679.

The average increase in wages for employees, since they began work at Aztar is \$6,034. The median or mid-point of all raises is \$3,436. Forty-three employees have received raises of \$1,000 or less and 35 employees have received raises of more than \$10,000. The size of the raise is partially a function of the length of service. Employees with two or less years at Aztar have experienced an average wage increase of \$2,500. Employees with more than two years of services have experienced an average total wage increase of \$7,770.



Only 23 employees are now making less than they reported making at the job they held previous to beginning work at Aztar. Additionally, as displayed in Figure 6, 43 employees have experienced a wage increase between \$0 and \$5,000, 55 employees experienced an increase of between \$5,001 and \$20,000, and 13 employees experienced a wage increase of \$20,001 or more.

Figure 6:



Training

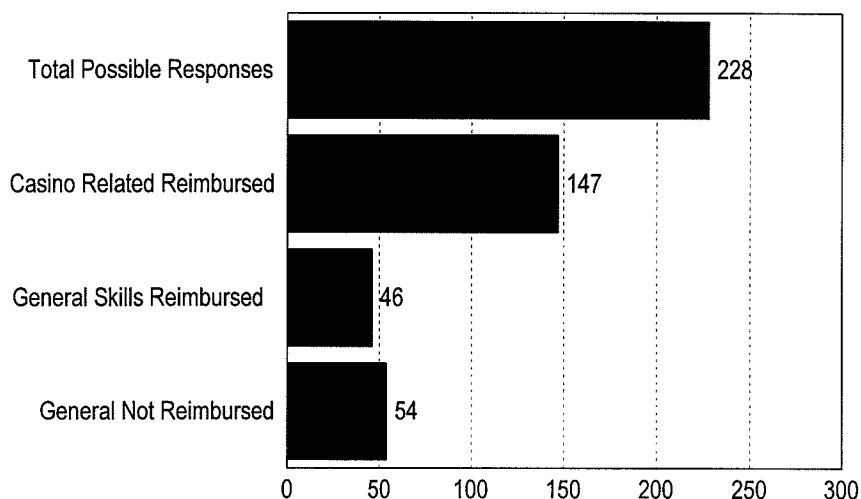
The final issue to be investigated is that of training and skill building. A related issue here is whether the opportunity to work at Aztar is providing employees with skills transferable to other employment. While all employees who maintain an employment history with Aztar, or any other firm, are learning or having reinforced the basic job skill of dependability, the survey sought to identify what other training was available.



As shown in Figure 7, 64 percent of all respondents report receiving training related to their position at Aztar. Only 20 percent received general or basic skill training, either from Aztar or reimbursed by Aztar. An additional, 24 percent paid for basic skill training on their own. Of course, it may be argued that the wages earned at Aztar made these purchases possible.

Figure 7:

Training and Skill-Building of Aztar Employees



Survey of Employees October 2000



ECONOMIC AND FISCAL ACTIVITY

Much debate surrounds the question of the economic impact of legalized gambling. The Indiana Gambling Impact Study Commission found that those who support legalized gambling claim economic benefits, such as new gaming-related jobs, million of dollars in private investment for gaming facilities, and the possibility of new visitor spending. Those who oppose legalized gaming question the economic contributions of the industry. Those who doubt the economic impact of the gaming industry, assert that there is little evidence of new visitor spending beyond the gaming facility, that the vast majority of the revenue is exported to the corporate headquarters with little benefit to the local community, and claim that much of the spending by local residents represents a changed pattern of personal expenditures rather than the infusion of new dollars into the economy.

Often overlooked in this discussion are the economic benefits of the local incentives and mandatory gaming-related tax revenues produced by the gaming industry. While Table 7 includes local incentives and taxes paid through July 2000, we consider the impact of only the first four years because there is a lag time between when taxes and incentive payments are paid and when they are expended. Between 1996 and 1999, Aztar contributed \$28,974,000 in local incentives and paid over \$34 million in gaming taxes to the city of Evansville.² These contributions provide two types of economic benefits.

The most immediate is the economic impact generated by the spending of the new revenue. The immediate economic impact represents the total economic benefits derived from the spending of the voluntary or tax dollars as they work their way through the local economy. The enduring benefit is the lasting contribution of the investments made by local government. Viewed from the long-term perspective, the critical question is not the economic value of spending for the project, but rather the degree to which spending on a specific project contributes to the long-term economic competitiveness of the local economy.

In addition to the mandatory gaming-related tax revenues, riverboat casino operations generate traditional local tax revenues such as property tax. Riverboat casino operations also produce additional costs for local government. For example, a dramatic increase in the number of visitors might require the hiring of additional police officers or overtime pay, the attraction of new workers likely increases the number of students at local schools. The final part of this section considers the net fiscal effect of Aztar on local units of government. The analysis considers the net impact with gaming-related revenues as well as the net impact minus gaming-related revenue.

In total, the immediate economic benefits of Aztar's discretionary contributions exceed \$43 million and the immediate economic benefit of Aztar's mandatory tax payments is nearly \$50 million. The value of the immediate benefits to the economy of Vanderburgh County is a result of total contributions and the expenditure choices of local government. The categorization of spending is intended to assist local policy makers in making future expenditure decisions. Finally, the net fiscal

² Aztar Annual Report, Center for Urban Policy and the Environment.



impact of Aztar, including local gaming-related tax revenues is very positive for most units of local government.

The following sections provide greater detail regarding the compliance of Aztar's voluntary and mandatory contributions and provide a preliminary analysis to identify and quantify the immediate economic benefits enjoyed by Evansville and Vanderburgh County as a result of the investment of the voluntary and tax contribution of Aztar. In addition to the economic impact of the local tax revenues there is an impact on the revenues and costs of local governments from these tax revenues. This is the fiscal impact. The final part of this section addresses Aztar's fiscal impact on local government.

INCENTIVE PAYMENTS

The largest impact of Aztar in the Evansville area (outside of taxes) has been through incentive payments. These payments are the result of agreements that were made with the city of Evansville as part of their application process. In its Certificate of Suitability Aztar agreed to provide incentive payments, as detailed below.

Incentive Payment Certificate Compliance

As Table 7 illustrates, Aztar is on or ahead of schedule with its incentive payments and has provided almost \$30 million in incentive payments. Table 7 also shows that several of the incentive payments are complete and several more (Downtown Revitalization, Economic Development, Pigeon Creek Greenway, and Evansville ONE) were five-year commitments scheduled to cease at the end of this year. After the five-year period the Riverfront Park Lease is the only incentive that will continue, and in fact, will increase. In years 6, 7, and 8 the lease payments will be 2 percent of AGR up to \$50 million, then 4 percent of annual AGR of the next \$25 million, then 8 percent of annual AGR above \$75 million, with a minimum of \$1 million per year. This compares to the lease agreement for the first five years of 2 percent of AGR up to \$50 million, then 3 percent of AGR above \$50 million, with a minimum of \$1 million. If these lease payments were in effect in 1999, the payments would have been \$3.5 million, in contrast to the \$2.3 million paid. The economic impact of these contributions to the Evansville economy is discussed in the section below.

**Table 7: Schedule and description of incentive payments**

Incentive	Promised Amount	Recipient	Amt. Paid Through 7/00	Status
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	\$12,104,340	Ongoing
Downtown Revitalization	Greater of \$1 million or 2% of AGR per year for the first 5 years.	City of Evansville	\$9,645,876	On schedule Ends after year 5
Economic Development	\$1,000,000 (\$200,000/yr over 5 yrs)	City of Evansville	\$933,334	On schedule Ends after year 5
Pigeon Creek Greenway	\$250,000 (\$50,000/yr over 5 yrs)	City of Evansville	\$233,333	On schedule Ends after year 5
Vanderburgh Auditorium	\$750,000 (\$250,000/yr over 3 yrs)	Vanderburgh County	\$750,000	Completed Year 2
Evansville ONE	\$1,250,000 (\$250,000/yr over 5 yrs)	City of Evansville	\$1,000,000	On schedule
Downtown Learning Center	\$1,000,000	City of Evansville	\$1,000,000	Completed Year 1
Victory Theater	\$1,000,000	City of Evansville	\$1,000,000	Completed Year 1
United Way	\$200,000	United Way SW Indiana	\$200,000	Completed Year 1
Dress Plaza	\$3,000,000	City of Evansville	\$3,000,000	Completed Year 2
Disaster Plan	up to \$50,000	City of Evansville	Developed by Aztar	Completed Year 1
Burdette Park	\$100,000	Vanderburgh County	\$100,000	Completed Year 1
TOTAL			\$29,966,883	

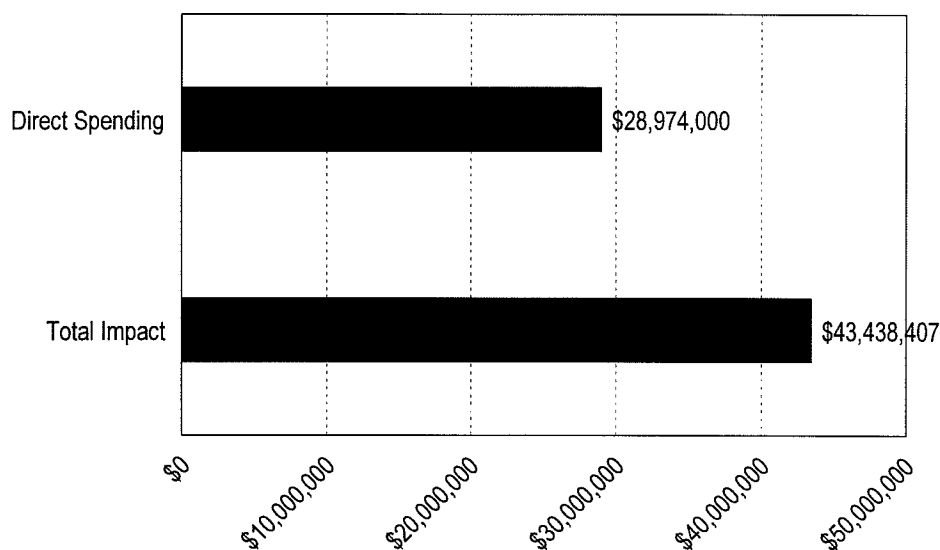


Impact of Incentive Payments on the Local Economy

The total economic benefit produced through the spending of Aztar's \$28,974,000 of local incentive payments, between 1996 and 1999, was \$43,438,407. Contained within this total economic impact are 614 new jobs and nearly \$14 million in new salaries. Figure 8 shows the amount attributable to taxes and local incentives.³

Figure 8:

Direct and Total Economic Impact of Aztar's Voluntary Incentive Payments



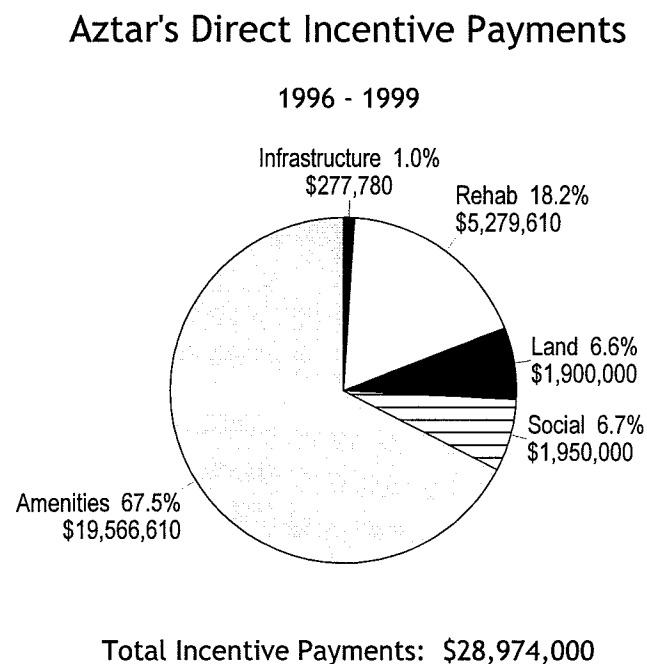
³ The primary purpose of this analysis is to identify and quantify the economic benefits, if any, enjoyed by Evansville and Vanderburgh County as a result of the investment of the voluntary contributions of Aztar. To fully measure the immediate economic benefits, an input/output model called IMPLAN is used. Input/output modeling is the most widely accepted method for estimating the economic impact or contribution of business operations and construction. An input/output model is used to estimate the total value of a firm or firms spending on wages, and goods and services as they work their way through the local economy.

For example, when a firm is hired to rehabilitate a building, it hires and pays its workers and purchases goods and services from a variety of firms. These are usually referred to as the *direct* benefits of the new firm. The firm's employees, then buy or improve homes, purchase groceries and clothing, attend movies, go out to dinner, buy new cars, and make a variety of other purchases. As a result of these purchases additional jobs are created and more goods are purchased. Similarly, when the new firm purchases goods and services from other business, additional jobs are created and those firms then purchase goods and services from still more businesses. The economic activity generated by employee purchases and firm's business transactions is commonly referred to as *indirect* impact. Each round of these *indirect* transactions creates additional economic activity attributable to the operations of the new firm (Aztar). An input/output model estimates the total value of the direct and indirect economic activity attributable to the operations of a specific firm or firms



Through December 1999, Aztar provided \$28,974,000 in local incentives for a wide variety of local projects and programs.⁴As shown in Figure 9, for analytical purposes we categorized contributions according to general use. Amenities include projects such as the Victory Theater, the Pigeon Creek Greenway, and others that are developed into physical assets for the enjoyment of residents and visitors. Infrastructure includes a portion of economic development and downtown revitalization funding. The social category includes the funding of both the Downtown Learning Center and Evansville ONE. The rehabilitation category is meant to capture the funds spent in the rehabilitation of the Vanderburgh County Auditorium as well as other rehabilitation efforts made with funds directed to either economic development or downtown revitalization efforts.

Figure 9:



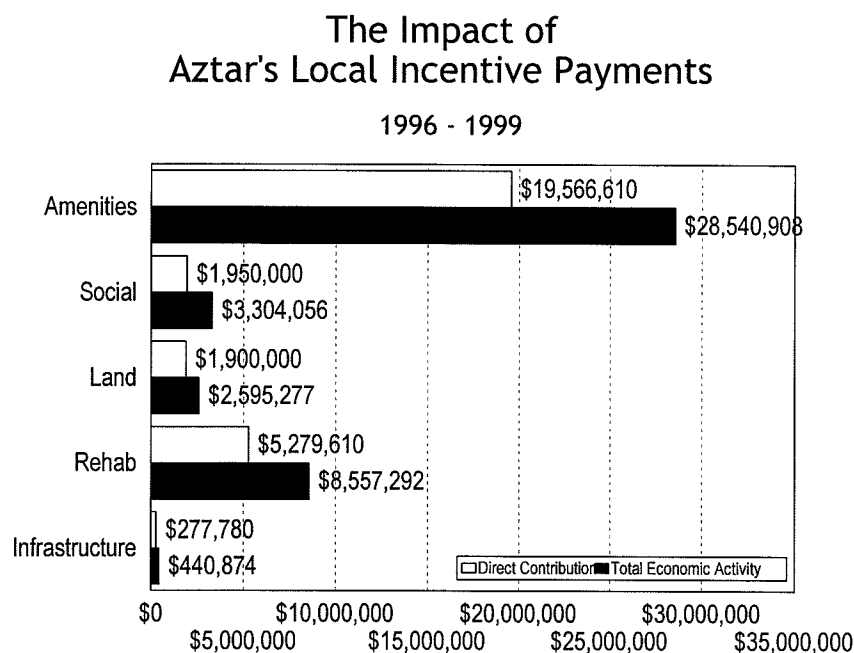
⁴ See Table 7



Figure 10 displays the direct contribution made by Aztar as well as the total amount of economic activity derived from the original contribution as it works its way through the local economy. For example, the spending of \$19,566,610 on improvements to local amenities results in a total economic benefit of over \$28.5 million. This means that an additional 46 cents of economic activity is produced for every dollar originally spent on amenity improvements. Spending on social programs results in the highest rate of return⁵ with additional 69 cents of economic activity being produced by each initial dollar. The lowest return was for land purchases, with only 37 cents of additional activity being produced by each initial dollar.

The rate of return offers local officials the opportunity to consider additional information when making future spending decisions. The rate of return provides an indication of the short-term benefits provided by the different investments. If this was the only goal of the investment, amenity improvements provide the greatest short-term return. Of course, local officials must also consider other less quantifiable factors that help determine public benefit and establish spending priorities, including the long-term economic benefits of their spending decisions.

Figure 10:



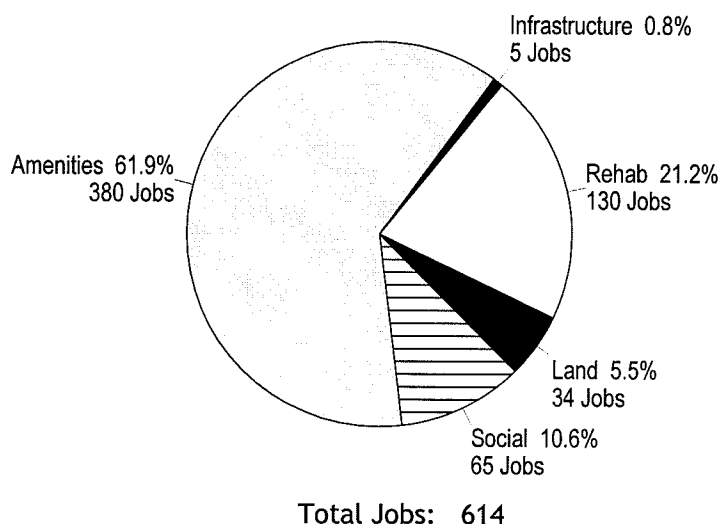
⁵ The different rate of return for each category of spending is influenced by a number of factors, with three of the most critical being 1) the area analyzed, 2) the overall multiplier of the spending, and 3) the amount of indirect and induced activity retained within the area of analysis. The area used in this analysis is Vanderburgh County. The 69-cent return on investment in social programs indicates that the Vanderburgh County economy can be expected to retain more of the training-related spending than it would for rehabilitation, where only 62 cents of new activity is retained.



Figure 11 shows the number of jobs attributable to each category of local incentives. There were a total of 614 jobs generated, in Vanderburgh County, between 1996 and 1999, with the largest number (380 or 61.9 percent) produced through the construction, rehabilitation, maintenance, and operations of amenities. These jobs represent an annual full-time equivalent measure of employment not the number of individuals employed. For example, if an individual were employed for all four years as a result of this spending, that would represent four jobs rather than one employed individual.

Figure 11:

Total Employment Attributable to Azta's Local Incentive Payments for 1996-1999



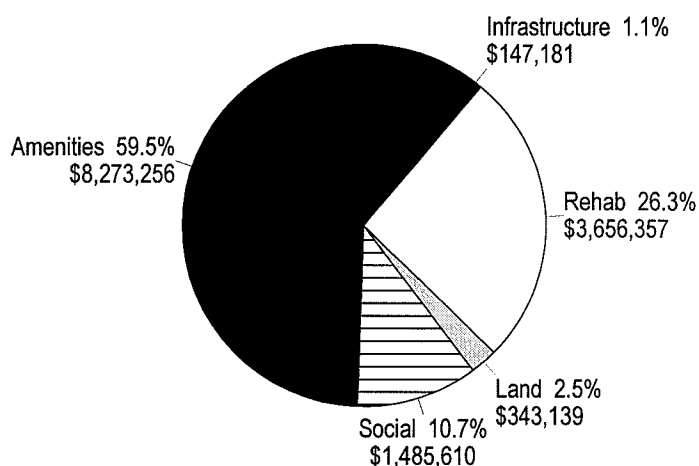


Presented in Figure 12 is the total amount of Vanderburgh County employee earnings attributable to the projects related to the voluntary incentives contributed by Aztar. Over the four-year period a total of nearly \$14 million in employee earnings was generated from the spending of Aztar's local incentives.⁶ The largest category was once again amenities, with over \$8 million of total employee earnings. However, while 61.9 percent of all jobs were attributable to amenity spending, only 59.2 percent of all wages were generated in this category. The rehabilitation category was responsible for 21.2 percent of all jobs and a 26.3 percent share of all wages. This difference is explained by differing wage rates in the type of economic activity generated by the spending.

Figure 12:

Total Employee Earnings Attributable to Aztar's Local Incentive Payments

1996 - 1999



Total Employee Earnings: \$13,905,543

TAX REVENUE

There are two sources of direct gaming revenue: the gaming tax, which is 20 percent of gross revenues, and the admission tax, a total of \$3 per admission. The city of Evansville receives one quarter of the gaming tax and \$1 per admission. The county also receives \$1 per admission. In addition, another dollar is collected that is split several ways by the state. There are other revenues that are collected as a result of the gaming facility being located in the community — property taxes, sales taxes, and food and beverage taxes. There are at least two types of impact that the direct gaming revenues have had on the local community. One is the economic impact that additional spending has generated. The impact of the additional spending is discussed in the *Impact of Tax Revenues on Local Economy* section. The second type of impact we examine is the overall fiscal

⁶ Spending data attributable to the IMPLAN input/output model based on data provided for Vanderburgh County.



impact on the local governments in Evansville and Vanderburgh County, which is discussed in the *Fiscal Impact of Tax Revenues on Local Government* section.

Tax Revenue Collected

As Table 8 illustrates, Aztar has paid almost \$85 million in direct taxes to the state of Indiana since it opened.

Table 8: State Direct Taxes

Category	1996	1997	1998	1999	Thru 7/2000	Total
Gaming Tax ⁷ (State Share)	\$15,941,238	\$16,053,575	\$16,573,152	\$14,174,710	\$8,701,893	\$71,444,568
Admission Tax ⁷ (State Share)	\$2,311,480	\$2,086,712	\$2,090,804	\$1,987,971	\$1,247,971	\$9,724,938
Sales and Use Tax ⁸	\$710,950	\$620,040	\$647,447	795,380	\$307,480	\$3,081,297
Food and Beverage ⁸	\$31,375	\$64,051	\$66,524	\$59,659	\$33,653	\$255,262
TOTAL	\$18,997,039	\$18,826,375	\$19,379,925	\$17,019,719	\$10,290,997	\$84,506,065

In addition, as Table 9 shows, Aztar has paid \$49 million in direct taxes (gaming, admission, and property taxes) to the local area (city and county) since it opened.

Table 9: Local Direct Taxes

Category	1996	1997	1998	1999	Thru 7/2000	Total
Gaming Tax ⁷ (City Share)	\$5,313,746	\$5,351,192	\$5,524,383	\$4,724,903	\$2,900,631	\$23,814,855
Admission Tax ⁷ (County Share)	\$2,311,480	\$2,086,712	\$2,090,804	\$1,987,971	\$1,247,971	\$9,724,938
Admission Tax ⁷ (City Share)	\$2,311,480	\$2,086,712	\$2,090,804	\$1,987,971	\$1,247,971	\$9,724,938
Property Tax ⁸		\$797,970	\$1,992,654	\$1,947,998	\$976,672	\$5,715,907
TOTAL	\$9,938,702	\$10,324,583	\$11,700,643	\$10,650,842	\$6,373,245	\$48,980,638

⁷ Source: Indiana Gaming Commission

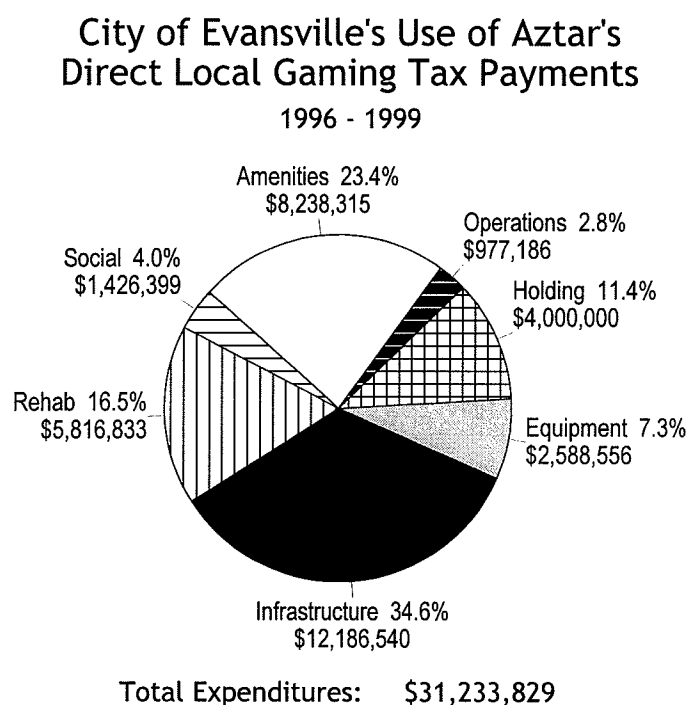
⁸ Source: Aztar Indiana Gaming Corporation



IMPACT OF THE SPENDING OF TAX REVENUES ON THE LOCAL ECONOMY

Between 1996 and 1999, Aztar paid \$35,233,829 in gaming-related taxes (admission and gaming taxes) to the city of Evansville. Property taxes are discussed in the fiscal impact section below. An additional \$8.5 million of revenue went to the county but information was not available on their expenditures. Figure 13, shows how the city of Evansville chose to invest the gaming-related taxes (\$4 million was in a holding fund and not yet spent). As with the local incentives for analytical purposes, the tax expenditure choices made by local government were categorized according to general use. The only new category is equipment. No money that was spent could be directly attributed to the purchase of land.⁹

Figure 13:



⁹ It is important to note that this analysis is limited to gaming-related local tax revenue and does not include, property tax and other local taxes typically paid by all firms. Furthermore, the analysis is based on the full tax collection. According to a report for the Indiana Gambling Impact Study Commission, 52 percent of the spending is attributable to non-Indiana residents. If the analysis were limited to only that revenue attributable to spending by non-Indiana residents the impacts still would represent an important contribution to the local economy.

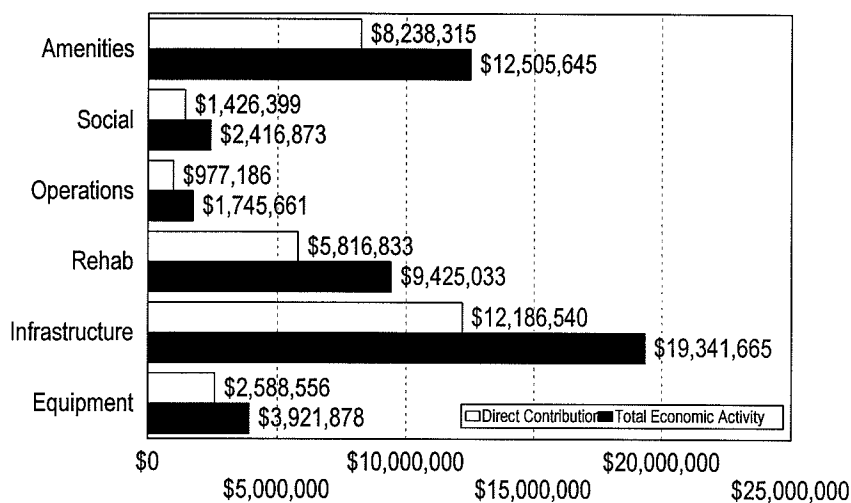


Figure 14, shows the direct and total economic activity generated through the spending of Aztar gaming-related tax payments. The total economic contribution through these payments exceeds 49 million. The gaming-related tax payments of \$31.2 million generated \$49.4 million of economic activity. The largest gross categories were infrastructure with a total economic impact of over \$19 million and amenities with \$12.5 million in total economic activity. Once again, the labor intensive social programs and local government operations sectors retained the greatest shares of economic activity and capturing \$1.69 and \$1.79 respectively, of total economic activity per tax dollar spent.

Figure 14:

The Economic Contribution of Evansville's Expenditures of Aztar's Gaming Tax Payments

1996 - 1999

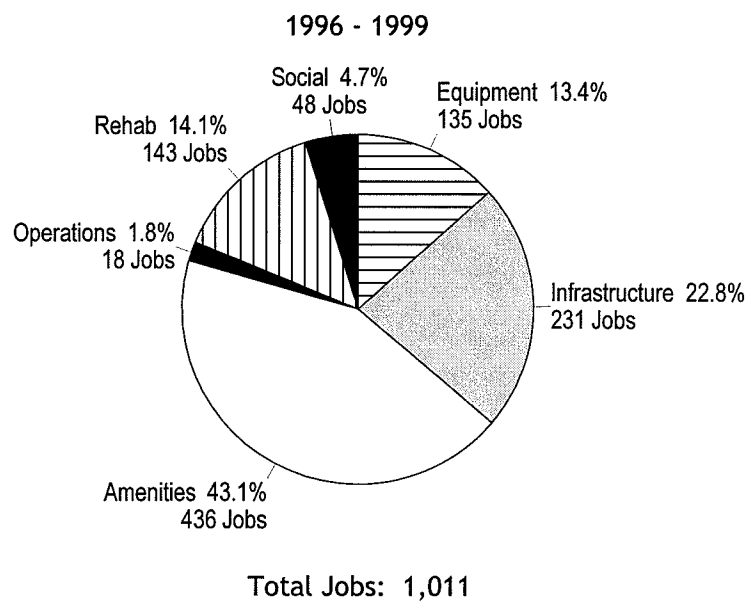




As displayed in Figure 15, the use of the input/output model estimates that the spending of Aztar gaming-related tax payments generated 1,011 full-time jobs between 1996 and 1999. While each job represents a one-year position, the over 1,000 jobs is a sizeable contribution to the local economy. The 436 amenity-related jobs represented the largest number in any single category, and an additional 231 jobs were created in infrastructure work.

Figure 15

Employment Attributable to Evansville's Expenditure of Aztar's Gaming Tax Payments



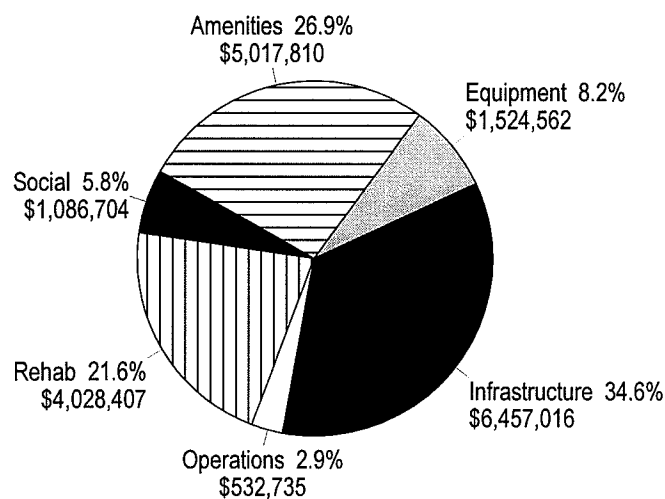


As with local incentives, infrastructure and rehabilitation jobs were estimated to be higher paying and over 60 percent of all wages were in these categories, in sharp contrast to 37 percent of all jobs. Figure 16 shows the total amount of employee earnings attributable to each type of job.

Figure 16:

Total Employee Earnings Attributable to Evansville's Expenditures of Aztar's Gaming Tax Payments

1996 - 1999



Total Employee Earnings: \$18,647,234

Fiscal Impact of Tax Revenues on Local Government

Riverboat casinos affect the revenues and costs of the local governments of the communities that host them. This is known as the *fiscal impact*. Riverboats pay new property taxes on the boat and other new facilities. It pays the admissions and wagering taxes that the host cities and counties share with the state. Riverboats also may impose new costs on local governments. For example, it may require added infrastructure, traffic control, or public safety expenditures. In addition, riverboat employees may relocate within the community, and pay added property taxes, income taxes, charges, and fees. If they relocate in the riverboat communities, they also will demand new infrastructure, recreation facilities, police protection, and education for their children. Measuring the fiscal impact implies comparing these additional revenues and costs. If added revenues exceed added costs, the fiscal impact is said to be positive. If added revenues fall short of added costs, the fiscal impact is negative.

This analysis applies recognized fiscal impact methods, described in Appendix A, to assess the impact of the Aztar riverboat on the budgets of Vanderburgh County, the city of Evansville and the Evansville-Vanderburgh School Corporation for the year 2000. The analysis for each unit shows the effect on the unit's budget for this single year. Assessments, tax rates, and appropriations levels



change only gradually from year to year. This means that the results for the most recent year are typical, representative of all the years since the advent of the riverboat, and likely to be representative of years in the near future.

Overall Impact on Vanderburgh County

Table 10 shows total assessed value¹⁰ in the assessment years 1988, 1994, and 1999 (that is, assessed values for taxes payable in 1989, 1995, and 2000). The effect of the riverboat on Vanderburgh County assessed value is difficult to see in the aggregate. Like Indiana as a whole, Vanderburgh County assessed value grew more slowly in 1994-99 than it did in 1988-94. This is primarily because the 1980s saw more inflation in construction costs than the early 1990s. The 1989 reassessment increased taxable values more than did the 1995 reassessment. However, Vanderburgh's assessed value growth was more similar to the state's after the riverboat began operation than before. The fact that assessed value growth fell off less in Vanderburgh County than it did in Indiana as a whole is due in part to the arrival of the riverboat.

Table 10: Assessed Value in Assessment Year, Vanderburgh County, 1988-99 (thousands)

	1988	1994	1999	Avg. Annual % Change	
				1988-94	1994-99
Vanderburgh	795,604	1,113,173	1,426,723	5.8%	5.1%
All Indiana	28,507,022	43,028,074	55,869,930	7.1%	5.4%

The riverboat is a major employer, but represents less than one percent of total employment in Vanderburgh County. The effect of the riverboat on Vanderburgh County employment is not evident in the aggregate data in Table 11. Vanderburgh County's employment growth dropped to 1.3 percent per year during 1994-98, from 2 percent per year in 1988-94. The state as a whole did not see such a drop. Presumably, had the riverboat not begun operation, Vanderburgh County's employment growth would have fallen more.

Table 11: Place-of-work employment in Vanderburgh County, 1988-98

	1988	1994	1998	Avg. Annual % Change	
				1988-94	1994-98
Vanderburgh	107,932	121,495	127,944	2.0%	1.3%
All Indiana	2,953,581	3,314,850	3,576,683	1.9%	1.9%

¹⁰ Assessed value is the dollar value placed on real and personal property by local assessors, for property tax purposes. Real property is land and buildings (and, in Indiana, riverboats). Personal property is business equipment and inventories.



Despite relatively slow growth in employment, Vanderburgh County's per capita income remained above the state average, and increased at rates similar to the state (Table 12). After 1994 Vanderburgh County per capita income grew slightly faster than did state per capita income.

Table 12: Personal income per capita in 1999 dollars, Vanderburgh County, 1988-98 (thousands)

	1988	1994	1998	Avg. Annual % Change	
				1988-94	1994-98
Vanderburgh	23,733	25,594	27,609	1.3%	1.9%
All Indiana	21,865	23,779	25,566	1.4%	1.8%

As shown in Table 13, Vanderburgh County has had little population growth over the past five years. Population increased by 202 people between 1994 and 1999. Population has grown less since the riverboat began operation than it did before. Growth rates for Indiana as a whole were the same in both periods, and higher than in Vanderburgh County.

Table 13: Population in Vanderburgh County, 1988-99

	1988	1994	1999	Avg. Annual % Change	
				1988-94	1994-99
Vanderburgh	165,004	167,720	167,922	0.3%	0.02%
All Indiana	5,523,679	5,745,626	5,942,901	0.7%	0.7%

Table 14 shows a similar pattern in school enrollment. The countywide Evansville-Vanderburgh School Corporation enrolled 804 fewer pupils in 2000 than it did in 1994. The 1988-94 period saw an increase of just 99 pupils. That earlier increase was at a faster percentage rate than the state as a whole. Since 1994, however, Indiana's enrollment has increased while Vanderburgh's has declined.

Table 14: School enrollment in Vanderburgh County, 1988-2000

	1988	1994	2000	Avg. Annual % Change	
				1988-94	1994-00
Vanderburgh	22,727	23,826	23,022	0.8%	-0.6%
All Indiana	962,653	964,462	988,064	0.03%	0.4%

Since the riverboat is relatively small compared to the county, the countywide data show little impact. It appears possible that assessed value grew more than it would have had the riverboat not arrived. Perhaps income per person grew a bit more than it would have also. Most important, though, are the effects the riverboat did *not* have on the cost side of the ledger. Vanderburgh County has seen little population growth since 1994, and population is the main determinant of local government costs. The Evansville-Vanderburgh School Corporation has seen a sizable *decline* in the number of pupils since 1994. The reasons behind this decline are beyond the scope of this report. The decline may imply that the school corporation has excess capacity, meaning that the educational needs of any new pupils brought to the corporation by riverboat employees have been met by existing teachers and facilities.



Fiscal Impact of New Employment

In the fall of 1999 surveys were mailed to 1,750 riverboat employees representing seven of the nine riverboats,¹¹ randomly sampled using payroll information. Seventy-four employees had relocated, decreasing the sample to 1,676. Four hundred and fifty-seven questionnaires were returned, for a response rate of 27.3 percent. For the Aztar riverboat, 240 valid surveys were mailed, and 70 were returned, for a response rate of 29.2 percent.

Table 15 shows the location of employees before and after they were hired by the riverboats. There were 69 usable survey responses from the Aztar riverboat in Evansville for this question. Of the 69 responses, 19 relocated upon becoming riverboat employees, while 50 did not relocate. Of those who relocated, 11 moved into Vanderburgh County, while 8 moved into a neighboring county. Extrapolating these survey results to all 1,089 Aztar employees, 15.9 percent or 173 moved from elsewhere to Vanderburgh County, and 59.4 percent or 647 existing county residents took new jobs with the riverboat. The remainder live outside Vanderburgh County.

Table 15: Location of employee residence prior to employment

	Host County		Non-Host Area		Total	
	N	% Total	N	% Total	Total	Percent
New	11	15.9%	8	11.6%	19	27.5%
Existing	41	59.4%	9	13.0%	50	72.5%

Host: County in which riverboat is located

Non-Host: Surrounding area

New: Employee moved from outside area to obtain employment

Existing: Employee was a resident in area prior to employment

The survey asked how many children in the employee's household were enrolled in public school. Of the 70 respondents, 54 said they had no school-age children. Sixteen respondents answered that they had a total of 25 children in school (Table 16). Of these 25 children, 18 (72 percent) lived in Indiana prior to their riverboat employment. Seven (28 percent) lived in another state. Extrapolating these results to the 1,089 Aztar employees yields estimates that the employees have 389 school-age children (one child for every 2.8 employees). Of these, 72 percent or 280 were probably already in the local school corporation before the riverboat began operation, and 109 are new to the local schools.

Table 16: School-age children from in-state and out-of-state

Employees with Number of Children	N	In-State	Out-of-State
0	54	0	0
1	9	7	2
2	5	4	1
3	2	1	1
Total Children	25	18	7

¹¹ The tenth Indiana riverboat began operation in 2000 in Switzerland County.



The survey also asked about housing construction. Only one of the Aztar survey respondents reported living in a residence built since 1996. It appears that riverboat employees have built few new houses.

Fiscal Impact on Vanderburgh County

The riverboat adds more than \$17 million in new assessed value. The county's cumulative fund property tax rate adds \$41,544 in new revenue to the county budget. The operating and welfare rates generate \$358,235 in new revenue. However, the added riverboat AV is not enough to change the maximum levy limit on property tax levies for operating purposes. In effect, the riverboat produces no added operating revenue—each dollar of added riverboat tax is offset by a dollar decline in taxes paid by existing taxpayers. The same is assumed to be true for welfare. Welfare appropriations are determined by state rules, and we assumed that the advent of the riverboat does not change the number of eligible recipients. The added riverboat taxes for welfare are offset by lower welfare taxes on existing taxpayers. The county has no debt service tax rate. While this does not provide additional revenue to county, it does have a fiscal impact upon the citizens of Vanderburgh County, who pay lower property taxes than they would have without the riverboat.

Added local income tax revenue is estimated at \$27,946. The county receives 43 percent of countywide county option income tax (COIT) revenue, based on its property tax levy share in total county and municipal levies. Added income from new resident employees and higher pay to existing residents is almost \$6.9 million. County revenue equals 43 percent of this income, less deductions, times the one percent COIT rate. Other revenues include motor vehicle excise taxes, charges and fees, and additional miscellaneous revenue. The sum is \$23,017. Overwhelmingly, the largest revenue source to the county attributed to the riverboat is the admissions taxes received by the county, which total almost \$2 million.

Using the two cost estimate methods described in Appendix A, the two results are similar, differing by only \$21,000, ranging from \$157,868 to \$178,852.

Fiscal impact is calculated as the added revenues less the added costs of a development. For the county, eight different fiscal impact calculations were performed. Detailed results are presented in Table A1 in Appendix A. When riverboat admissions taxes are included, the fiscal impact is *overwhelmingly positive, approximately \$2.3 million*. The added revenue is far more than the added costs. This is true if only added revenues without tax savings are counted, or if total revenues are counted, and it is true under either estimate of added costs.

We also calculated the fiscal impacts with the riverboat taxes excluded: each of the cost estimates, with only added non-riverboat tax revenue and with total non-riverboat tax revenue. We calculated the fiscal impact without the added revenue from the riverboat because county riverboat tax revenues have been assigned to capital improvements. Tax savings can be turned into added revenues through several avenues, including new bond issues (debt service), tax increment financing, and added cumulative fund rates. All of these, however, raise revenue for capital improvements. How are added operating costs to be funded? The county might have difficulty funding the added



operating costs—sheriffs officers' wages, road maintenance, park maintenance and so forth—because virtually all the added revenue from the riverboat is devoted to capital improvements. The fiscal impacts using only added revenue are *negative*—costs exceed added revenues slightly, ranging from a negative fiscal impact of \$65,360 to \$86,344.¹²

Fiscal Impact on City of Evansville

As stated above for Vanderburgh County, the property tax on the riverboat provides no added revenue to the city of Evansville. The added \$17 million in riverboat assessed value in 1999 is taxed at the city's operating and debt service rates, which generates \$641,587 in tax revenue. However, because the added riverboat AV is not enough to increase the three-year average AV growth rate above five percent, the city's maximum levy is unchanged by the advent of the riverboat. Every dollar of property tax paid by the riverboat is offset by a dollar of property tax saved by existing taxpayers. While this does not provide additional revenue to city of Evansville, it does have a fiscal impact upon the citizens of Evansville, who pay lower property taxes than they would have without the riverboat.

The city receives 47 percent of countywide COIT revenue, which is \$31,302. Other revenues sum to \$39,860. Again, riverboat wagering and admissions taxes are by far the largest source of additional revenue, \$6.7 million.

Costs are calculated for the city using methods described in Appendix A and the added costs sum to \$272,532.

The detailed results for the city are presented in Table A2 in Appendix A. Even more than for the county, the fiscal impacts including riverboat taxes are *overwhelmingly positive*, \$7.2 million. The annual tax revenue from the riverboat far exceeds the added costs.

If both riverboat taxes and tax savings are excluded, however, the fiscal impact is *negative* at \$201,370. Again, this represents a potential problem with operating costs. Riverboat revenues have been assigned to capital improvements. Tax savings can be turned into new revenues, but only for capital improvements. Some of the added costs may be for non-capital expenses: wages for new

¹² The negative fiscal impact without the added riverboat revenue may be overstated, for two reasons. First, some of the added costs that might be generated by the riverboat and its employees are capital costs, such as new patrol cars, new roads, and other new infrastructure. The riverboat revenue will more than cover these costs. Second, the survey results produce an estimate of new county population from the riverboat of 369. Of the 1,089 Aztar employees, 15.9 percent are estimated to have relocated in Vanderburgh County from elsewhere. These employees brought an estimated 109 new children to the school corporation (see below). If it is assumed that there is one added adult for every two new riverboat employees, the population increase due to the riverboat is 369. Yet, between 1994 and 1999, the actual population of Vanderburgh County increased by only 202 people (see Table 13). This implies that the county's population would have fallen were it not for the riverboat. If the fiscal impact analysis is redone with only 202 added people, the negative fiscal impacts fall to between \$54 thousand and \$38 thousand.



police officers and firefighters, road maintenance and so forth. The added operating revenue from the income tax and other sources may not cover these added costs.¹³

Fiscal Impact on Evansville-Vanderburgh County School Corporation

School corporation finances differ from county and city finances. They operate under different sets of property tax controls. A major source of revenue is state aid, distributed by a complex formula. School corporations do not receive riverboat taxes directly, but do collect property taxes on riverboat assessed values.

This analysis is based on assessments, tax rates, appropriation levels, enrollment, and the school funding formula for the year 2000. The analysis shows the effect on the school corporation's budget for the single year 2000. Assessments, tax rates, appropriations levels, enrollment, and the school formula change only gradually from year to year. This means that the results for the most recent year are typical, representative of all the years since the advent of the riverboat, and likely to be representative of years in the near future. School corporation revenue estimates are primarily based on property taxes and state aid. Two independent methods of estimating costs are used for the expenditure side of the analysis. A detailed discussion of the methodology is included in Appendix A.

Most of the property taxes paid on the \$17 million in Aztar riverboat assessed value become added revenue for the school corporation. Added revenue from property taxes amounts to \$817,943. Only the debt service fund creates tax savings. The debt repayment schedule is unchanged by the added assessed value, so the rate required to raise these payments falls. This results in \$21,482 in tax savings to existing taxpayers. Other revenues are relatively small in comparison, totaling \$27,445 in added revenue.

State aid increases by \$100,313. Assessed value per pupil is increased by the advent of the riverboat. This reduces the amount paid to the school corporation in per-pupil aid. However, the implied increase in enrollment from the new resident riverboat employees more than offsets this per pupil drop, creating the aid increase. In total, the school corporation realizes \$945,700 in added revenue, \$967,183 in total, including tax savings.

¹³ Again, more than for the county, this negative fiscal impact may be overstated. About 73 percent of the county's population resides in the city. If that pattern holds for new resident riverboat employees, the added population in Evansville would be 275. But, in fact, Evansville's population is estimated to have fallen by 1,910 between 1994 and 1998 (the most recent Census estimate). This implies that it would have fallen more without the riverboat.

It would be defensible, then, to count the added population costs at zero. The city had the capacity to serve 124,689 people in 1994. By 1998, with or without the riverboat, fewer people had to be served. One might argue that the city would have saved more in costs without the riverboat's employees, if costs fall when population drops. But it is hard to see how the riverboat's employees could have increased costs given the overall population decline.

Without the added people, the negative fiscal impact drops to \$102,250, due entirely to the extra costs imposed directly by the riverboat. Some of these will be capital costs, which can be covered by riverboat taxes, so the negative fiscal impact on operating costs would be smaller still.



The two cost methods, discussed in detail in Appendix A, arrived at different results, which ranged from \$805,472 to \$1,087,880. The detailed estimates for the Evansville-Vanderburgh County School Corporation are presented in Table A3 in Appendix A. Using the survey results, it is estimated that the riverboat's new resident employees added 109 children to school enrollment. However, during the 1994-2000 period, school enrollment in Evansville-Vanderburgh County fell by 804. This implies that without the riverboat, the decrease would have been more. In light of this enrollment decline, three approaches to cost estimation appear defensible.¹⁴

Under the first assumption, the fiscal impact may be positive or negative, depending on the method used to account for costs. Under the second assumption, the fiscal impact is likely to be more positive. Under the third assumption—no new enrollment—the fiscal impact is decidedly positive. It seems most reasonable to conclude that the fiscal impact of the Aztar riverboat on the budget of the Evansville-Vanderburgh County School Corporation has been *near zero or positive*—added revenues have equaled or exceeded added costs.

In interviews, local officials see little or no impact on schools, because school enrollment is declining. The school corporation educated more students before the riverboat arrived than it does now. This may well be a case of excess capacity—the school corporation can handle added enrollment without adding resources—and in such cases the fiscal impact methods used here overstate costs. For this reason, it is likely that, at worst, the school corporation is covering added riverboat costs with added riverboat revenues, and probably is seeing more added revenue than added costs.

¹⁴ First, it may be that school corporations see their costs reduced with lower enrollment, at the same rate as costs increase when enrollment rises. If so, the added enrollment from the riverboat means that costs fell less than they could have. The fiscal impact results imply that the effect on the school budget is somewhere near the borderline between positive and negative (that is, negative using the service standard method, positive using the regression method).

Second, it may be that school corporations do not see their costs reduced with lower enrollment to the same degree that costs increase with higher enrollment, at least in the short run. For example, debt service must be paid whether enrollment grows or declines. Empty buildings must still be maintained, and the school corporation may reduce class sizes rather than dismiss teachers in proportion to the enrollment decline. If this is the case, then the impact on costs of a smaller decline in enrollment is less than the impact of a similar sized increase in enrollment. Put another way, a school corporation with declining enrollment may have the capacity to handle new pupils with less added cost, because the facilities and teachers to educate these new pupils are already in the budget.

A third approach is to estimate the added costs of enrollment at zero. Despite the influence of the riverboat, enrollment in Evansville-Vanderburgh County School Corporation declined. Declining enrollment does not add to costs.



OTHER ISSUES

According to Aztar, 23 lawsuits have been filed against them since 1996; 2 were filed by vendors, 7 by employees, and 14 by patrons. According to the Evansville Police Department, crime in the area around the riverboat has not risen since the boat opened; in fact, in 1999 it even fell when compared to the previous year.

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 print 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 sponsored 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 through 2000. Aztar also has a self-eviction program for individuals who wish to be banned from the facility. Any attempts by these individuals to enter the casino can result in their arrest for trespassing.

As Table 17 indicates, in an effort to prevent underage gambling, Aztar has verified almost 200,000 identifications and turned away almost 3,000 patrons since it opened. An additional 124 cases were referred to prosecution including 64 patrons who were detained subsequent to boarding.

Table 17: Aztar's efforts to prevent underage gambling

	1996	1997	1998	1999	Thru 7/00	Total
Number of I.D.s verified	36,687	36,972	42,033	48,807	28,264	192,763
Number of patrons turned away (no I.D. or under 21)	978	497	474	553	282	2,784
Patrons detained subsequent to boarding	34	8	8	10	4	64
Cases referred to prosecution	57	41	10	12	4	124



SUMMARY OF FINDINGS

Project Development Certificate Compliance

- As of December 1996, after completion of the pavilion, parking garage, and hotel, Aztar had spent approximately \$121 million, \$21 million more than agreed to in the Certificate for the development of the project. Aztar spent an additional \$7.7 million in capital expenditures through the end of July 2000.
- Since opening, Aztar has spent over \$85 million locally.
- Aztar has contributed \$1.9 million to local area organizations.

Gaming Activity

- Aztar has had attendance of almost 10 million people since opening and gross gaming receipts of almost \$500 million, for an average of \$49 per patron.

Impact of Gaming Activity on Tourism

- According to a survey of patrons, 87 percent of the patrons state that their main reason for traveling downtown was to visit Aztar.
- Patrons of the riverboat were more likely to visit the riverboat either somewhat regularly (31 percent) or regularly (28 percent).
- The patrons who visit the riverboat more frequently are more likely to live closer to the riverboat.
- Only 11 percent of the patrons planned to stay downtown for more than eight hours.
- According to our survey, 23 percent of the respondents visited other downtown businesses and/or attractions.

Employment Certificate Compliance

- As of August 25, 2000, Aztar had employment of 1,173 persons in both the casino and hotel, slightly below their five-year average of 1,204. For 1999, salaries and wages were \$30.6 million, including tips to dealers (but not to bar and wait staff), and since opening Aztar has paid almost \$150 million in wages.
- Through August 2000, 53 percent of Aztar employees were women, 18 percent were minorities, and 47.8 percent were from the 4th and 6th wards of Evansville (pursuant to a request by the city).



- Aztar exceeded its goal of having minorities comprise at least ten percent of total employment (18 percent), managers (10.2 percent), and director/vice presidents (16 percent). It met its goal of having 45-55 percent of its employees women with 53 percent, and came close to meeting the same goal for women managers with 44 percent, but fell slightly short of the same goal for directors/vice presidents with 32 percent.
- Aztar was below its goal of hiring 90 percent of its employees from residents of Vanderburgh County, with 73.1 percent.

Impact on Aztar's Workforce

- According to our survey of employees, before beginning employment with Aztar, approximately 36 percent of employees were either not working or working part-time.
- When respondents were asked to select one reason for taking a job with Aztar, 32 percent chose more money as the primary reason, an additional 23.1 percent chose better opportunities for advancement, and nearly 13 percent chose to begin work at Aztar because of better benefits.
- According to our survey, the average increase in wages for employees, since they began work at Aztar is \$6,034.
- Sixty-four percent of all respondents' report receiving training related to their position at Aztar. Only 20 percent received general or basic skill training, either from Aztar or reimbursed by Aztar.

Incentive Payment Certificate Compliance

- Aztar is on or ahead of schedule with its incentive payments and has provided almost \$30 million in incentive payments
- After the five-year period, the Riverfront Park Lease is the only incentive that will continue.

Impact of Incentive Payments on the Local Economy

- The total economic benefit produced through the spending of Aztar's local incentives was approximately \$43.4 million.
- Local area employment attributable to this economic benefit was 614 jobs with earnings of \$14 million.

Tax Revenue Collected

- Aztar has paid almost \$85 million in direct taxes to the state of Indiana since it opened.
- Aztar has paid \$49 million in direct taxes to the local area since it opened.



Impact of the Spending of Tax Revenues on Local Economy

- The total economic benefit produced through the spending of Aztar's local gaming tax payments was approximately \$49 million.
- Local area employment attributable to this economic benefit was 1,011 jobs with earnings of \$18 million.

Fiscal Impact of Tax Revenues on Local Government

- In total, the fiscal impact of the Aztar riverboat on Vanderburgh County and the city of Evansville is positive: total added revenues greatly exceed total added costs. The Evansville-Vanderburgh County School Corporation appears to approximately break even at worst.
- In the city and county, most of the admissions and wagering tax revenues from the riverboat are devoted to capital projects. There is little doubt that any infrastructure requirements imposed on these units by the riverboat are met with this added revenue. The fiscal impact analysis implies that for both the city and county, the revenue that actually can be added to the budget may not be enough to meet the added operating costs which the riverboat and its employees may create.
- However, in interviews, local officials do not see a problem with funding operating costs. No new police officers or firefighters were added. Traffic control has not been a problem, as the riverboat is "off to one side" of downtown. Roads and traffic lights that might be attributed to the riverboat were funded with the riverboat tax revenue.
- The school corporation receives no riverboat taxes, but the added revenue from property taxes and state aid are added to its budget, for the most part. Added costs vary with the method used to estimate them, but appear to be within 15 percent of added revenues.

Other Issues

- Aztar, in an effort to prevent underage gambling, has verified almost 200,000 identifications and turned away almost 3,000 patrons from January 1996 through July 2000. An additional 64 patrons were detained subsequent to boarding and 124 cases were referred to prosecution.



APPENDIX A: METHODOLOGY FOR ESTIMATING LOCAL REVENUES AND COSTS



CITY AND COUNTY REVENUE ESTIMATES

The first step in revenue modeling was to obtain the assessed value (AV) of each riverboat project. Local assessors and personnel from the Indiana State Board of Tax Commissioners aided in this effort. Assessments were obtained for 1999 pay 2000, that is, the assessed values of March 1, 1999, upon which year 2000 tax payments were based. The real and personal property assessed value for the many parcels owned by the riverboats were summed. The value of the land prior to its purchase by the riverboat companies was used to estimate the AV before construction. The incremental AV, found by subtracting the pre-development AV from the total of developed lots, avoids double-counting revenues that would have been collected in the absence of development. Deductions and exemptions were then subtracted from the incremental AV to produce the added net taxable AV.

A jurisdiction's AV could also increase if riverboat employees construct new homes. The survey results for Aztar employees, however, showed little if any added home construction. It is assumed that the riverboat has had no impact on residential assessed value in the county, city or school corporation.

In Indiana, property tax revenue is not simply the product of the local rate and the taxable AV. Property tax controls limit the amount of revenue that can be raised. For civil jurisdiction (non-school) operating funds, the state places a ceiling on the amount of property taxes that can be raised, called the maximum levy. In almost every jurisdiction, the maximum levy rises by five percent per year, no matter what changes occur in AV. Thus, in most cases added AV *will not increase* the amount of operating fund tax revenue that is collected by civil jurisdictions-the levy would have increased by five percent in any case. Exceptions occur when a project is so large relative to existing assessed value that it causes the three-year average of AV growth to exceed five percent. This occurs in the smaller riverboat jurisdictions. In the city of Evansville and Vanderburgh County, the riverboat assessed value is not big enough to raise three-year average AV growth above five percent. In both these jurisdictions the maximum levy is unchanged by the advent of the riverboat.

If AV rises but the levy does not, the tax rate will fall. Existing taxpayers receive tax reductions. The fiscal impact of a development must be divided into two parts: added revenue to the local government, and tax savings to existing taxpayers.

Non-operating funds operate under different rules. The welfare fund is not subject to the same controls as the operating fund, yet new welfare revenue is unlikely to be raised by the addition of new AV. Welfare expenditures are typically targeted to meet specific needs, determined by state eligibility rules and court mandates. It is assumed that the welfare levy does not change with the added AV, so the welfare portion of the property tax rate falls. Again, this produces tax savings for existing taxpayers, because the higher AV means the welfare bill can be paid with a lower tax rate.

The property tax cumulative funds are subject to specific rate controls, rather than levy controls, so new AV will be taxed at the current rate. Added AV produces new revenue for jurisdiction cumulative funds. The revenue raised by the cumulative fund property tax is simply the product of the rate and the new development's AV.



The amount of annual debt service is usually fixed by the conditions of the bond sale. Added AV decreases the tax rate required to raise this debt service, so it produces tax savings for existing taxpayers.

There are several other categories of local government revenue, including income taxes, motor vehicle excise taxes, license and permit fees, fines, and other miscellaneous sources. There are three local income taxes available to Indiana civil governments, known as the County Adjusted Gross Income Tax (CAGIT), the County Option Income Tax (COIT), and the County Economic Development Income Tax (CEDIT or EDIT). Vanderburgh County has adopted COIT at one percent. Evansville receives a portion of this revenue. The school corporation does not. COIT is a tax on individual income, not corporate income, so the riverboat project itself has no impact on local income tax receipts. The incomes of resident riverboat employees are subject to these taxes. Taxes on added incomes of riverboat employees who relocated to Vanderburgh County are fully counted in the fiscal impact analysis. For existing residents, taxes on the income increase that occurred because of employment with Aztar are counted. The distribution rules for COIT revenue to the county and city are based on shares in the property tax levy, so it does not matter for income tax revenue distribution where in the county riverboat employees live.

All cars, light trucks, and motorcycles are subject to Indiana's motor vehicle excise tax. The employee survey results were used to estimate the number of new vehicles brought into the jurisdiction by riverboat employees. The total amount of excise tax is calculated using the excise tax schedule. Some state aid is tied to excise tax collections, and this amount was added to excise tax collections. The county, city, and school corporation each receive a fraction of this countywide revenue, based approximately on that unit's share in countywide property taxes.

Charges, fines, fees, and other revenues are assumed to be directly linked to population increase, so an average costing method of estimating the revenue is employed. Two categories of data, charges and fees and other revenues, were collected from Indiana's Local Government Database. The amounts collected were divided by the most recent jurisdiction population estimates. These per capita amounts were multiplied by the number of new residents to obtain added revenue estimates. The riverboat projects themselves are assumed to generate no additional charges and fees.

The largest revenue impact of a riverboat, of course, are the riverboat taxes paid to the county and city governments. The school corporation does not receive riverboat taxes.

CITY AND COUNTY COST ESTIMATES

In the analysis of the county, several methods are used. Regression equations were estimated to show the effects of changes in employment and population on appropriations. Each 10 percent increase in population is found to increase appropriations by about 7.5 percent. Population measures the demands of county residents for county services. Each ten percent increase in employment is found to increase appropriations by about 0.8 percent. Employment is "place-of-work" employment, that is, the number of full- and part-time employees of firms in the county, regardless of where those employees live. This variable is used to indicate the level of commercial/industrial development in the county, which also places demands on county services.



Riverboats increase population and employment. The percentage increase in population and employment, times the regression coefficients, yields the percentage increase in appropriations. City data on employment are not available, so the regression method cannot be used for the Evansville fiscal impact.

Another set of methods used to calculate the added local government costs of riverboats for civil governments are labeled "FIA methods," for "fiscal impact analysis methods." These are derived from the techniques presented by Burchell and Listokin in their 1978 classic *Fiscal Impact Handbook*. Per capita appropriations are calculated for the county and city, by dividing total appropriations by jurisdiction population. The added population resulting from the riverboat is then multiplied by per capita appropriations to estimate the costs of added people.

The FIA method used for the riverboat itself is called proportional valuation. In its simplest form, this method attributes a share of existing appropriations to the costs imposed by existing commercial/industrial property, equal to the share of commercial/industrial real assessed value in total real assessed value. If, for example, a county spends one million dollars a year, and real commercial/industrial property is 15 percent of real assessed value, \$150,000 would be assigned as costs due to existing commercial/industrial property. The next step takes the new development's real assessed value as a percentage of existing commercial/industrial real assessed value. This percentage is multiplied by the appropriations attributed to existing commercial/industrial property, to give the estimated cost impact of the new development. For example, if the new development is 10 percent of existing commercial/industrial real AV, it is estimated that commercial/industrial costs will rise by 10 percent, or \$15,000 in this example.

Burchell and Listokin refined this method to recognize that a small number of large commercial/industrial parcels are less expensive to serve than a large number of small commercial/industrial parcels. Economies of scale and location are the reasons. One multi-lane road serving a big development costs less than many two-lane roads serving many small developments. Police protection may be provided more cheaply to a single large location than to many small, scattered locations.

Burchell and Listokin's refinement coefficients reduce costs attributed to existing commercial/industrial firms the larger is the average commercial/industrial parcel compared to the average parcel overall. They reduce costs attributed to the new development the larger is the development compared to existing average commercial/industrial parcel. The refinement coefficients were based on a review of a large number of commercial/industrial cost studies.



Table A1: Fiscal impact estimates for Vanderburgh County

Revenues		Added Revenue (\$)	Tax Savings (\$)	Total (\$)
	Property Tax	41,544	358,235	399,779
	Operating	-	260,802	260,802
	Welfare	-	97,433	97,433
	Cumulative	41,544	-	41,544
	Debt Service	-	-	-
	Local Income Tax	27,946	-	27,946
	Other Revenues	23,017	-	23,017
	Riverboat Taxes	1,987,971	-	1,987,971
	TOTAL	2,080,479	358,235	2,438,714
Costs		FIA Methods	Regression	
	TOTAL	178,852	157,868	
	Fiscal Impacts (Revenues less added costs)		Added Revenue Only (\$)	Total (\$)
		FIA Methods	1,901,627	2,259,862
		Regression	1,922,611	2,280,846
	Fiscal Impacts w/o Riverboat Taxes		Added Revenue Only (\$)	Total (\$)
		FIA Methods	(86,344)	271,891
		Regression	(65,360)	292,875

**Table A2: Fiscal impact estimates for Evansville**

Revenues		Added Revenue (\$)	Tax Savings (\$)	Total (\$)
	Property Tax	-	641,587	641,587
	Operating	-	607,511	607,511
	Welfare	-	-	-
	Cumulative	-	-	-
	Debt Service	-	34,076	34,076
	Local Income Tax	31,302	-	31,302
	Other Revenues	39,860	-	39,860
	Riverboat Taxes	6,712,875	-	6,712,875
	TOTAL	6,784,037	641,587	7,425,624
Costs		FIA Methods		
	TOTAL	272,532		
	Fiscal Impacts (Revenues less added costs)		Added Revenue Only (\$)	Total (\$)
		FIA Methods	6,511,505	7,153,091
	Fiscal Impacts w/o Riverboat Taxes		Added Revenue Only (\$)	Total (\$)
			Revenue	Total
		FIA Methods	(201,370)	440,216

SCHOOL CORPORATION REVENUE ESTIMATES

Schools receive most of their revenue from two sources, property taxes, and state aid. Property tax impacts may be calculated as the existing tax rate times the new assessed value. For debt service, the levy is assumed to remain the same, since it is based on the fixed debt repayment schedule. Added assessed value reduces the rate required to raise this part of the levy, producing tax savings.

The majority of state funding comes in the form of the Basic Grant. The Basic Grant is calculated using a complicated formula requiring specific information concerning past and current enrollment, tax rates, and the assessed value and revenues of the school district over the past few years. Other grant programs include the At-Risk Grant, the ADA Flat Grant, the Special Education Grant, the Academic Honors Grant, and the Vocational Education Grant.

Using the actual state aid formula to calculate riverboat fiscal impact introduces a number of intractable problems. For example, the previous year's tax levy and state aid level are elements in the current year's formula calculation. To isolate the impact of the riverboat, presumably the previous year's figures should not include the riverboat's influence. Of course, for the aid calculation in 2000, the 1999 levy and aid figures did include the riverboat's influence, and were themselves the results of calculations that included the levy and aid figures for 1998. Further, go back more than two years and the formula calculations themselves are different.



As an alternative, state aid per pupil can be modeled with reasonable accuracy using a simpler "foundation" formula:

$$\text{State Aid per pupil} = \text{Target Spending per pupil} - (\text{Target Tax Rate} \times \text{AV per pupil}).$$

The result is multiplied by enrollment to give total state aid. The formula implies that as assessed value per pupil increases, state aid per pupil decreases. More state aid is delivered to school corporations with lower wealth per pupil. In addition, as enrollment increases, state aid increases. Thus, any new development that increases both AV and enrollment may increase or decrease state aid, depending on the values of target spending and the target tax rate, and on the relative increase in AV and enrollment.

Regression analysis can be used on data for 2000 to reduce the actual formula distribution of aid to this simpler form. The result is the formula

$$\text{State Aid per pupil} = \$4,741 - (0.024 \times \text{AV per pupil}).$$

The 0.024 figure is the target tax rate, and means \$2.40 per \$100 assessed value. Each added \$1,000 AV per pupil reduces aid per pupil by about \$24. This formula may be tested by using Evansville-Vanderburgh School Corporation's year 2000 AV per pupil in the formula, \$62,528, calculating the result and multiplying by enrollment. The result produces a total state aid estimate that is within one-third of one percent of actual total state aid.

This formula allows a calculation of the effect of the riverboat on state aid. The riverboat adds assessed value, the new resident riverboat employees' children add enrollment. This alters AV per pupil, and hence state aid per pupil. The new state aid per pupil times enrollment is the estimate of the riverboat's impact on total aid.

SCHOOL CORPORATION COST ESTIMATES

As with civil governments, two independent methods of estimating costs are employed. The first method is called the service standard method. It asks what added expenditures would have been needed to maintain the existing level of service given the additional enrollment. The pupil-teacher ratio is the best indicator of service standard available, though of course it does not fully capture the level of educational service provided. If new development brings higher enrollment, new teachers must be hired to maintain the current class size. The number of new teachers to be hired equals new enrollment divided by current class size. The result is multiplied by the school corporation's average teacher salary.

Capital expenses deal with the expansion of physical facilities, including the building of new schools or expansion of existing structures. Students across all school districts typically require similar facilities, so the standard chosen to represent capital costs is building area per student. According to Indiana's 1995 School Construction Benchmark Committee report, the average amount of space required by the average student is 150 square feet. The report also sets the cost of physical expansion at \$100 per square foot.



It is important to note that while the other categories of costs in this model are annual costs, capital expenses are a long-term investment. Local government bonds finance expansion of school facilities and the costs are amortized over a several years. It is assumed that the school corporation will finance the capital expense with a 20-year bond at the current state and local bond interest rate of 5.5 percent (as of August 2000, according to the Federal Reserve Board). Multiplying the additional enrollment by the service standard for required facility space gives the necessary area of expansion. The total cost of this expansion is calculated at \$100 per square foot. The annual annuity payment to finance this total cost is calculated over 20 years at 5.5 percent.

Other school operating expenditures include a myriad of categories, such as nurse services, food preparation, transportation, and building maintenance. These are summed and divided by enrollment to yield a per pupil average. This average is multiplied by the increase in enrollment to estimate added other costs.

Is enrollment the only trigger of school corporation costs? The service standard method assumes so. However, a new commercial/industrial development may impose added costs on a school corporation even if enrollment does not change. The new job opportunities created by the new industry may require higher school corporation wages, in order to keep teachers, maintenance workers, and others from leaving. Perhaps traffic congestion requires more bus routes. School security may need to be increased due to the extra employee and visitor traffic through the community. It may be that the new industry creates demands for new kinds of school programs, such as vocational programs. In the case of riverboat casino development, might existing residents demand new programs to counteract the allure of gambling?

Evidence that new employment has an impact on school costs apart from enrollment is seen in regression results. A ten percent increase in employment is associated with a 0.9 percent increase in school appropriations. A ten percent increase in enrollment is associated with a 9.2 percent increase in appropriations. An alternate estimate of added costs is developed by calculating the percentage increase in appropriations that results from the added employment and enrollment associated with the riverboat.



Table A3: Fiscal impact estimates for Evansville-Vanderburgh County School Corporation

Revenues		Added Revenue (\$)	Tax Savings (\$)	Total (\$)
	Property Tax	817,943	21,482	839,425
	General Fund	517,068		517,068
	Debt Service Fund	-	21,482	21,482
	Capital Projects Fund	195,841	-	195,841
	Transportation Fund	102,534	-	102,534
	Other Funds	2,499		2,499
	Other Own-Source Revenues	27,445	-	27,445
	Other Taxes	-	-	-
	Charges and Fees	7,052		7,052
	Other Revenues	20,393		20,393
	State Aid	100,313	-	100,313
	TOTAL	945,700	21,482	967,183
Costs		FIA Methods	Regression	
	TOTAL	1,087,880	805,472	
	Fiscal Impacts		Added Revenue Only (\$)	Total (\$)
		Per Pupil	(142,180)	(120,697)
		Regression	140,228	161,710