Eight-Year License Renewal: Harrah's East Chicago

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Riverboats have a powerful positive fiscal impact on Indiana counties and cities. Added riverboat tax revenue is much more than added costs. The changes brought about by tax restructuring—flexible boarding, lower admissions counts, graduated wagering tax rates, limits and floors on riverboat tax revenue—are not big enough to change this positive fiscal impact.

Admissions were trending upward prior to flexible boarding, so the admissions tax revenue the county and city will actually receive is less than what would have been received under the old rules. Wagering tax receipts also were trending upward prior to flexible boarding but East Chicago will continue to receive wagering taxes at the 2002 level. The new rules were quite costly to the city.

The total eight-year economic impact of the spending of local gaming-related tax and incentives payment from Harrah's East Chicago opening through 2004 is almost $203 million, with $76,043,466 in employee compensation, and 3,280 new jobs (full-time equivalents). While the short-term economic contributions of the spending of gaming-related taxes and incentives are important, the long-term contributions to the quality of life from investments in capital equipment, new construction, landscaping, and infrastructure improvements, as well as programs and scholarships, should benefit residents and increase the economic competitiveness of local businesses.

Community Impacts

Harrah's East Chicago spent over $103 million locally and has impacted the area through $875,302 in sponsorships and contributions to local area organizations.

Center staff conducted three focus groups in East Chicago with community leaders including representatives of local government, business leaders, and social service providers. According to their comments, the riverboat casino has been a positive addition to the community. It encourages tourism and community visibility, offers hope and opportunity for the city and its residents, and provides revenue to local government for community/infrastructure improvements, capital and beautification projects. It provides an inflow of cash to nonprofits/foundations has allowed expansion of nonprofit community, especially facilitating arts community and other organizations to flourish and reach more people. It has also encouraged new development and increased business for local businesses as well as provided employment opportunities (with health benefits), especially for unskilled labor, low-income families, and single parents.

There were also some concerns raised, including lack of accountability/oversight of gaming revenue distribution from both the foundations and the previous city administration, few long-term employment opportunities on the boat, and not very good benefits. They also mentioned that lakeshore access has been lost for community recreational use and that there are social ills, although not as much as expected. It was suggested that the Commission should consider requiring a five-year plan from the local community for the casino's re-licensing

Employment

Harrah's East Chicago had 1,841 employees as of December 31, 2004, and has paid $400 million in wages since opening. In April the Center surveyed Harrah's East Chicago employees and found that for many employees the employment opportunity at the riverboat provided an increased sense of economic security. For example, 21 percent of the survey respondents were unemployed prior to beginning work at Harrah's East Chicago; and 61 percent of those that were employed reported receiving a raise upon beginning work at Harrah's East Chicago. The average length of employment was 4 years and 6 months, and 153 employed felt secure enough to move from rental housing to homeownership. While almost two-thirds of the employees reported job-related training, fewer employees reported tuition reimbursement opportunities or paying for their own training. Approximately half of the employees access available health insurance and life insurance and 38 percent participate in the retirement plan. There seems to be some confusion on the part of employees in determining their eligibility. Of those that should be eligible (working full-time), one-third did not know they were eligible for benefits.

Business Climate Impacts

Overall, the numbers of jobs, number of establishments, and average wage per job in Lake County have lagged compared to the trends in the aggregate of the non-riverboat counties. The lagged growth in jobs and establishments began well before the commencement of gaming. The divergence in wage growth relative to the aggregate of non-riverboat counties began approximately the same time as gaming in the county. However, this change is likely due more to the changing industry mix than the inducement of gaming employment in the area.

Amusement, Gambling, and Recreation Industry was one of the industries that showed considerable change after gaming began in Lake County in 1996. Obviously, the change is due to the addition of riverboats in the area. Employment and wages grew very rapidly in that industry post riverboat gaming. Eighteen other industries met the criteria for analysis and showed considerable observable change in employment, number establishments, or wages near the time gaming commenced. Most of those industries were in the Manufacturing and Retail Sectors.

Current Financial Position and Future Plans

The new owners of the East Chicago license are experienced gaming managers. They have acquired four gaming properties using an aggressive capital structure. However, these owners represent private equity funds, which are oriented toward managing properties to maximize cash flow prospects with the idea that within three to five years from acquisition, the properties will be sold at a gain. In this transaction, the price paid for the four properties was aggressive at 8.5 times trailing EBITDA. There is no reason to expect that this ownership structure will not be able to produce excellent results with the East Chicago license, as that operation is already one of the best in Indiana. Based on this analysis, renewal of the East Chicago license is recommended.

Introduction

On January 8, 1996, the Commission issued a Certificate of Suitability for a Riverboat Owner's License in East Chicago, Indiana. Showboat Mardi Gras Partnership (Showboat) received its owner's license on April 15, 1997, and commenced gaming activities on April 18, 1997. During its first year of operation, Harrah's East Chicago Casino (Harrah's East Chicago) entered into negotiations with Showboat to purchase the company. The sale was finalized in June 1998, and the riverboat is now Harrah's East Chicago Casino. The Riverboat Gambling Act, effective July 1, 1993, specifies that a licensed owner, after their license is renewed at year five, shall undergo a complete investigation every three years to determine that the licensed owner remains in compliance.

The Commission asked 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 economic impact, fiscal impact, financial, management, and other analyses to assist the Commission in renewing the riverboat casino licenses. The Center prepared annual evaluation reports for Harrah's East Chicago's first four years of operation as well as a report that analyzed Harrah's East Chicago's first five years of operation. These reports are available on the Indiana Gaming Commission's website (www.in.gov/gaming/reports/).

This report contains an analysis of Harrah's East Chicago's first eight years of operation. Because this analysis must be completed before the completion of Harrah's East Chicago's eighth year of operations, data are shown through December 31, 2004. It should be noted that this casino will become Resorts East Chicago upon transfer of the license to Resorts International Holding.

Economic and Fiscal Activity

The following sections examine the changes brought about by tax restructuring—flexible boarding, lower admissions counts, graduated wagering tax rates, and limits and floors on riverboat tax revenue. They also provide detail regarding the compliance of Harrah's East Chicago's voluntary and mandatory contributions and provide a preliminary analysis to identify and quantify the immediate economic benefits enjoyed by East Chicago and Lake County as a result of the investment of the voluntary and tax contribution of Harrah's East Chicago.

Tax Restructuring and Riverboat Tax Payments to Lake County and East Chicago

The Indiana General Assembly passed tax restructuring in its June 2002 special session. Restructuring made a number of dramatic changes in state and local taxation.

- It increased the sales tax and the cigarette tax.
- It reformed the corporate income taxes.
- It revised the local property tax controls.
- It delivered hundreds of millions of dollars in additional property tax relief.
- It raised hundreds of millions of dollars to help fill in Indiana's state budget gap.

In addition, tax restructuring made several changes that affected the taxation of riverboat admissions, wagering receipts, and property.

- It allowed riverboats to adopt flexible boarding, also known as dockside gaming, rather than requiring two-hour excursions throughout the day.
- It adopted new, higher graduated tax rates for the wagering tax.
- It capped the revenue that host cities and towns could receive from the wagering tax, at the amount received during the state's fiscal year 2001-02.
- It put a floor on the revenue that host cities, towns, and counties could receive from the admissions tax, at the amount received during the state's fiscal year 2001-02.
- It designated the first $33 million in wagering taxes collected in each state fiscal year for distribution to non-riverboat counties, cities, and towns.
- It effectively committed Indiana to market value property tax assessment, which affected the tax rates applied to the assessed value of riverboat property.

This section of the report will look at the effect of these changes on the tax revenues collected from the Harrah's East Chicago riverboat by Lake County, the city of East Chicago, and the East Chicago School Corporation.

Admissions Tax

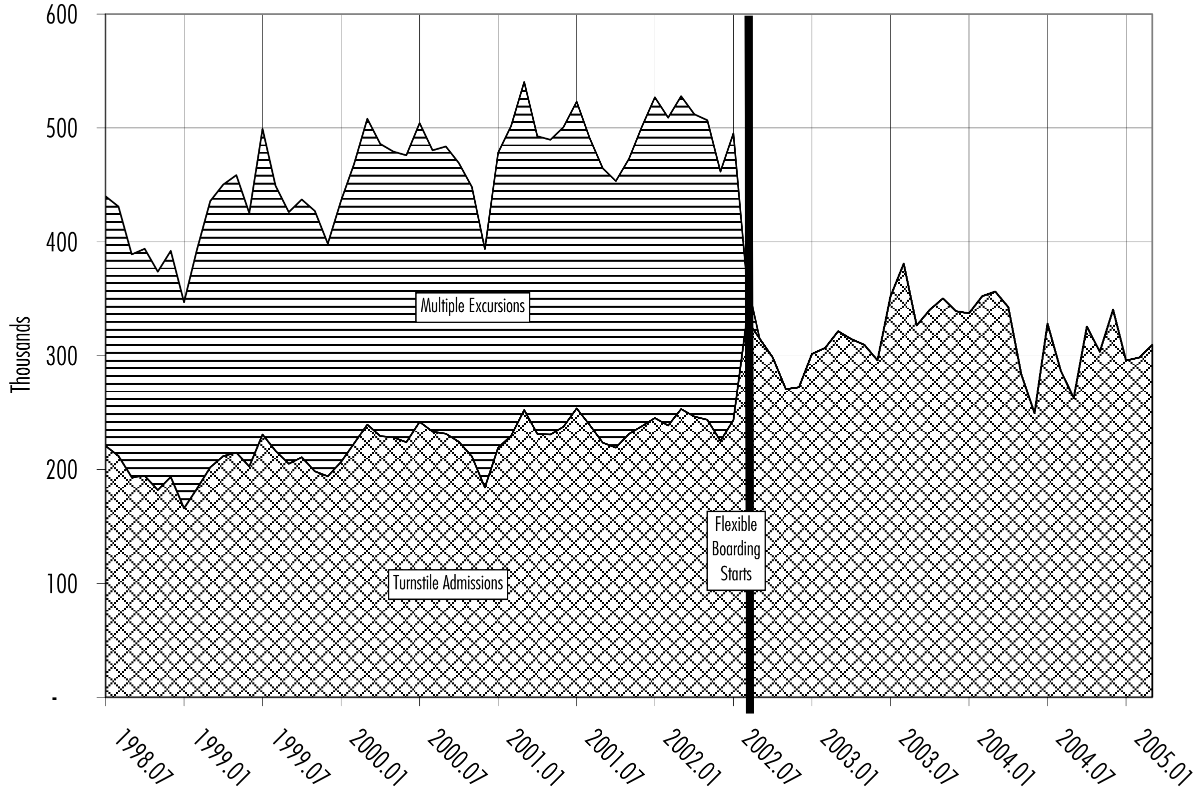
Tax restructuring left admissions tax rates unchanged for Lake County and East Chicago. Before and after restructuring, the county and the city received one dollar for each riverboat admission.

However, restructuring allowed the riverboats to adopt flexible boarding. Prior to this, riverboats were required to cruise, or operate as if they cruised. The casino's doors were closed to entrants for the length of the cruise, whether or not the boat left the dock. With flexible boarding, the riverboat is allowed to remain dockside with its doors open. Patrons may enter at any time they wish. This increased convenience was expected to increase attendance and wagering, and it appears to have done so.

By the first week of August 2002, all of Indiana's riverboats had applied for and been granted permission to use flexible boarding. Harrah's East Chicago began flexible boarding on August 5, 2002.

Prior to flexible boarding, all the patrons of each cruise were counted as new admissions, even if the patron simply remained on the boat for more than one cruise. Flexible boarding ended this practice. This meant that the number of admissions, as counted, declined with the advent of flexible boarding, even as the number of patrons increased.

Figure 1: Monthly Admissions for the Harrah's East Chicago Riverboat, July 1998–March 2005



Turnstile admissions show the actual number patrons entering the riverboat. Multiple excursions are the added count of these patrons as extra admissions because they took more than one cruise. In August 2002, multiple excursion admissions disappear (Harrah's East Chicago continued to count multiple excursions for four days in August). The number of turnstile admissions increased, from a monthly average of 238,156 in fiscal year 2002 (July 2001 through June 2002) to a monthly average of 298,488 in fiscal year 2003, a 25 percent increase. But the total number of counted admissions (including multiple excursions) dropped from a monthly average of 495,925 in fiscal year 2002, a 40 percent decline.

Flexible boarding, which appears to have increased admissions, as expected, would have cost Lake County and the city of East Chicago 40 percent of their admissions tax revenue, had the old tax structure remained unchanged.

Perhaps in response to this, the General Assembly fixed the amount of admissions tax revenue to be distributed to riverboat cities and counties at the (state) fiscal year 2001-02 amount. Indiana Code 4-33-12-6 reads (in part):

> (h) . . . The treasurer of state shall determine the total amount of money paid by the treasurer of state to an entity subject to this subsection during the state fiscal year 2002. The amount determined under this subsection is the base year revenue. . . . The treasurer of state shall certify the base year revenue determined under this subsection to each entity subject to this subsection.

> (j) For state fiscal years beginning after June 30, 2002, the total amount of money distributed to an entity under this section during a state fiscal year may not exceed the entity's base year revenue as determined under subsection (h). . . . If the treasurer of state determines that the total amount of money distributed to an entity under this section during a state fiscal year is less than the entity's base year revenue, the treasurer of state shall make a supplemental distribution to the entity under IC 4-33-13-5(g).

And IC 4-33-13-5(g) reads (in part):

> Before September 15 of 2003 and each year thereafter, the treasurer of state shall determine the total amount of money distributed to an entity . . . during the preceding state fiscal year. If the treasurer of state determines that the total amount of money distributed to an entity . . . during the preceding state fiscal year was less than the entity's base year revenue. . . , the treasurer of state shall make a supplemental distribution to the entity from taxes collected under this chapter and deposited into the property tax replacement fund. The amount of the supplemental distribution is equal to the difference between the entity's base year revenue. . . and the total amount of money distributed to the entity during the preceding state fiscal year under IC 4-33-12-6.

The State Treasurer certified base year revenue from Harrah's East Chicago for Lake County and East Chicago City at $5,982,314, the amount collected during the state fiscal year 2002. This amount was distributed to the county and city in fiscal 2003 and 2004. Each year collections fell short of the base year amount. In each year the state made a supplemental distribution to Lake County and East Chicago of about $2.4 million to cover this shortage, taken from the property tax replacement fund.

Wagering Tax

Tax restructuring allowed riverboats to adopt flexible boarding, which was expected to increase wagering revenue. However, riverboats that adopted flexible boarding (as they all did) would pay wagering taxes under a new set of graduated tax rates.

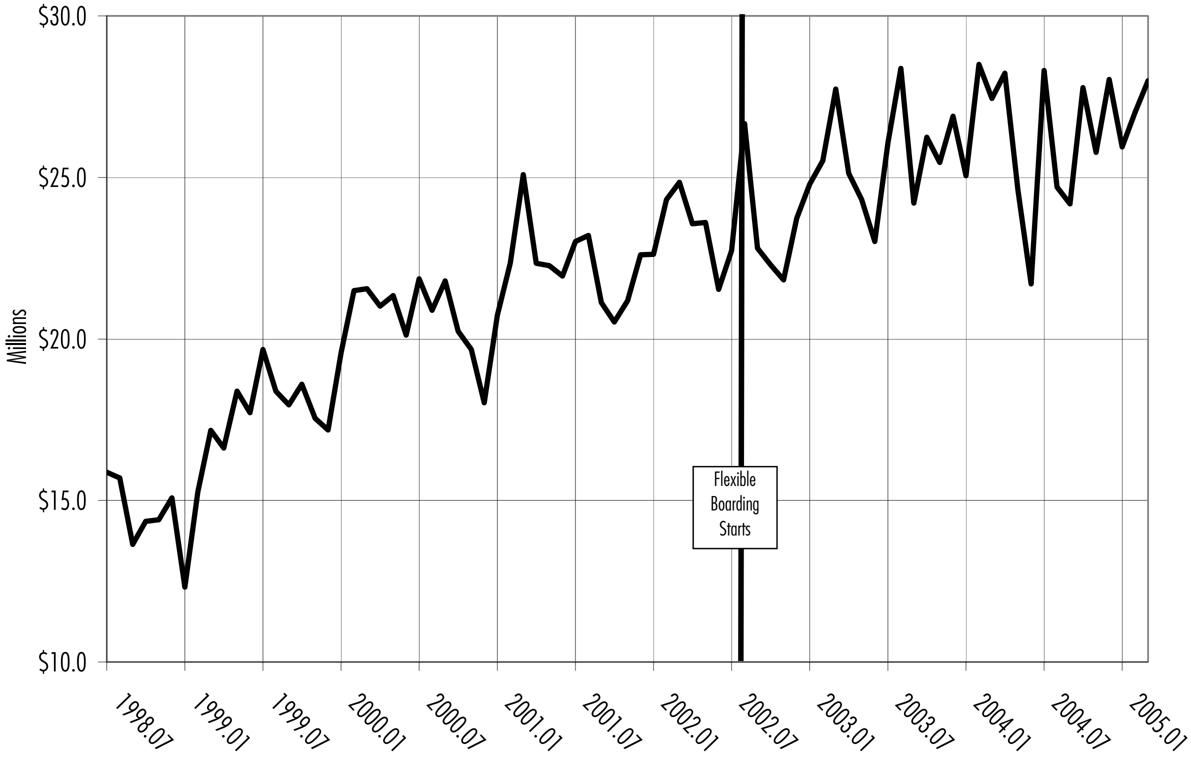
Prior to restructuring the wagering tax rate was a flat 20 percent of adjusted gross receipts (AGR). After restructuring, the rates were set for flexible boarding riverboats as shown in Table 1. The initial rate is 15 percent, less than the old flat rate, but this applies only to the first $25 million. A 20 percent rate applies to AGR from $25 to $50 million. Above $50 million, rates higher than the pre-restructuring 20 percent flat rate apply. In fiscal 2003-04, Harrah's East Chicago began paying the 25 percent rate August 27, 2003, just two months into the state fiscal year. Clearly, the new graduated tax rates represent an increase in wagering taxes for Indiana's riverboats.

Table 1: Graduated Wagering Tax Rates

From AGR Amount	To AGR Amount	Tax Rate
$0	$25 million	15%
$25 million	$50 million	20%
$50 million	$75 million	25%
$75 million	$150 million	30%
$150 million	And above	35%

Flexible boarding was expected to increase adjusted gross receipts, and it appears to have done so for the Harrah's East Chicago riverboat. Figure 2 shows the monthly AGR for the period July 1998 through March 2005. Harrah's East Chicago has seen an upward trend in receipts throughout its existence, but receipts appear to have accelerated after flexible boarding was introduced. Receipts increased 5.8 percent in fiscal 2002, before flexible boarding. Receipts increased 6.8 percent in 2003 and 7.7 percent in 2004.

Figure 2: Adjusted Gross Receipts, Harrah's East Chicago Riverboat, July 1998–March 2005



East Chicago City receives a share of wagering tax revenue. Counties do not receive such revenue. Prior to restructuring, East Chicago received one-quarter of the wagering taxes collected under the flat 20 percent rate. This share was unchanged by tax restructuring.

However, two features were added to the distribution of wagering taxes to local governments which reduce the amount of revenue that East Chicago realizes from the wagering tax.

One, the legislature designated the first $33 million from statewide wagering taxes to be distributed to non-riverboat counties, cities, and towns. The collection of the $33 million starts with the beginning of the state fiscal year in July. Indiana Code 4-33-13-5 (a) reads (in part):

> (1) The first thirty-three million dollars ($33,000,000) of tax revenues collected under this chapter shall be set aside for revenue sharing under subsection (e).
> (2) Subject to subsection (c), twenty-five percent (25%) of the remaining tax revenue remitted by each licensed owner shall be paid:
> (A) to the city that is designated as the home dock of the riverboat from which the tax revenue was collected . . .

Subsection (e) referred to in part (1) describes how the revenue is to be divided up among non-riverboat counties, cities, and towns.

East Chicago will receive 25 percent of wagering tax revenue, after the $33 million has been collected in July and August. Harrah's East Chicago collects about 14 percent of statewide wagering taxes, so its share of the $33 million is about $4,700,000.

Two, the legislature fixed a maximum amount that a city can receive from wagering taxes, at the amount received during the state fiscal year 2001-02. Subsection (c) referred to in (2) above reads (in part):

> . . . The treasurer of state shall determine the total amount of money paid by the treasurer of state to the city or county during the state fiscal year 2002. The amount determined is the base year revenue for the city or county. The treasurer of state shall certify the base year revenue determined under this subsection to the city or county. The total amount of money distributed to a city or county under this section during a state fiscal year may not exceed the entity's base year revenue.

The State Treasurer certified base year revenue for East Chicago at $13,549,654. In fiscal 2004, East Chicago's wagering tax collections reached this amount by the end of February 2004. The revenue that would have gone to East Chicago in March through June without this limit was instead deposited in the state's property tax replacement fund, an amount equal to approximately $9.2 million.

Fiscal Impacts

Fiscal impact analysis attempts to determine how a change in policy has affected the revenues and expenditures of a government. How has tax restructuring affected the budgets of Lake County and East Chicago?

We compare three scenarios. First, suppose the policies in effect in 2002 had continued. Suppose there was no flexible boarding, no graduated wagering tax, and no limits or floors on admissions and wagering tax revenue. Riverboats would continue to cruise, with taxable admissions equal to turnstile plus multiple excursion admissions. The wagering tax would remain at a flat 20 percent of adjusted gross receipts. Call this the "Old" scenario.

Second, suppose that flexible boarding and the graduated wagering tax had been adopted without the limits or floors on admissions and wagering tax revenues. Call this the "No-Limits" scenario.

Third, consider what was actually adopted, flexible boarding, turnstile admissions, a graduated wagering tax, a floor on admissions tax revenue, and a limit on wagering tax revenue. Call this the "Actual" scenario.

The key to the pre-restructuring scenario are the assumptions about what would have happened to admissions and adjusted gross receipts. Flexible boarding apparently increased both, but would either of these tax bases have increased had flexible boarding not been adopted?

Harrah's East Chicago adjusted gross receipts trended upward during the whole period from mid-1998 to the adoption of flexible boarding in August 2002 (see Figure 2). Receipts averaged $15.5 million per month in the first twelve months of this period; $22.7 million per month in the last twelve months. Receipts were rising more slowly towards the end of this period, however. Receipts rose 25.7 percent in fiscal year 2000, 9.7 percent in 2001, and 5.8 percent in 2002. The fiscal impact analysis assumes that receipts would have continued to rise 5.8 percent per year in 2003 and 2004, in the absence of flexible boarding.

Total admissions also showed an upward trend, but again the rate of increase declined during the four year period. Admissions averages 411,000 during the first twelve months of this period, and 496,000 in the last twelve months. Admissions rose 11.4 percent in 2000, 5.3 percent in 2001, and 2.9 percent in 2002. The fiscal impact analysis assumes that admissions would have continued to rise 2.9 percent per year in 2003 and 2004, without flexible boarding.

Tables 2, 3, and 4 show the revenue estimates for the three scenarios for Lake County and East Chicago. Table 2 shows the Admissions Tax estimates, and Table 3 shows the Wagering Tax estimates. Table 4 shows the total riverboat tax revenues received by each unit under each scenario. Both Lake County and East Chicago receive less revenue under the Actual scenario than under the Old scenario. Had flexible boarding not been introduced, the wagering tax rates not increased, and the revenue caps and floors not been applied, both the county and city would have received more revenue in 2004 than they actually did. This result depends on the assumption that total admissions and AGR were trending upward before flexible boarding was adopted.

Had admissions and AGR kept increasing, Lake County and East Chicago admissions and wagering tax revenue would have continued to rise above the fiscal 2002 levels. Admissions tax revenues would have been greater in 2004 than the fiscal 2002 level guaranteed by the state. Wagering tax revenues for East Chicago would have grown beyond the fiscal 2002 limit imposed by the state.

Lake County receives more revenue under the Actual scenario than under the No Limits scenario. This is because flexible boarding meant the loss of admissions taxes from the multiple excursions admissions count. The state floor on admissions revenues at the fiscal 2002 level saves the county from a substantial revenue loss.

The same is not true for East Chicago. The city would have fared better under the No Limits scenario than under the Actual scenario. This is because the state's supplemental distribution for admissions taxes of

$2.4 million is so much less than the excess wagering tax over the state cap of $9.2 million. The city loses substantial wagering tax revenue because revenues are capped at the fiscal 2002 level.

Table 2: Admissions Tax

		Old	No Limits	Actual
	Taxable Admissions	$6,301,742	$4,010,791	$3,548,330
Lake	Tax Revenue	6,301,742	4,010,791	3,548,330
	Supplemental Distribution	-	-	2,433,984
	Total Revenue	$6,301,742	$4,010,791	$5,982,314
East Chicago	Tax Revenue	6,301,742	4,010,791	3,548,330
	Supplemental Distribution	-	-	2,433,984
	Total Revenue	$6,301,742	$4,010,791	$5,982,314

Table 3: Wagering Tax

		Old	No Limits	Actual
East Chicago	AGR	$304,636,329	$312,825,725	$312,825,725
	Tax Revenue	15,231,816	22,785,847	22,785,847
	Less: Amount Over Limit	0	0	9,236,193
	Total Revenue	$15,231,816	$22,785,847	$13,549,654

Table 4: Admissions and Wagering Tax Combined

		Old	No Limits	Actual
Lake	Total Revenue	$6,301,742	$4,010,791	$5,982,314
East Chicago	Total Revenue	$21,533,558	$26,796,638	$19,531,968

We did not conduct a formal analysis of costs. Increased attendance might add to city and county costs, through added traffic control requirements, for example. On the other hand, the end of cruises may spread traffic more evenly throughout the day, replacing big increases in traffic every two hours. The effect of flexible boarding on costs is unclear, but is likely to be small.

Previous analyses have shown that Indiana's riverboat taxes are quite generous for the counties and cities hosting riverboats, a fact that tax restructuring has not changed. Riverboats have a positive fiscal impact for host counties and cities. The move to flexible boarding had the potential to make riverboats much less generous for counties, and much more generous for cities. The state avoided both possibilities by fixing future revenues at their 2002 levels. Tax restructuring effectively reserved the revenue benefits of added wagering taxes for the state, and for non-riverboat counties, cities, and towns.

Property Tax

In December 1998, the Indiana Supreme Court found Indiana's real property tax assessment system to be unconstitutional. Indiana had been assessing real property—land and buildings—for tax purposes using a unique system based on construction costs and depreciation by age. The court found that this system lacked a sufficient relationship to property wealth and was not based on objectively verifiable data.

While the court did not decide explicitly that Indiana must use a market value system, assessment rule changes made by the June 2002 tax restructuring effectively made Indiana a market value state. To lessen the resulting tax shift to homeowners, the legislature increased homeowner deductions, and increased the amount of state funds devoted to property tax relief. The funds were derived from the increases in the sales tax, cigarette tax, and the higher graduated riverboat wagering tax. Most of the added tax relief was delivered through a higher property tax replacement credit (PTRC) rate. During the 2005 legislative session, state property tax relief payments were frozen, meaning property taxes will rise more rapidly in 2006 and 2007.

In Lake County gross assessed values increased 84 percent and taxable assessed values (after deductions) rose 62 percent. Tax rates fell an average of 32.5 percent from 2002 to 2003. The total revenue realized from the property tax increased 9.5 percent though a higher share came from state PTRC payments, paid out of state funds and replacing property taxes dollar for dollar.

How a particular taxpayer fares under reassessment depends on how much the taxpayer's property's assessed value increases, how much the tax rate falls, and how much property tax relief the taxpayer's property is eligible for. It appears that reassessment increased the taxable assessed values of older homes, rental property, and farm land more, while the assessed values of newer homes, and commercial, industrial, and utility property increased less. In general, property taxes shifted from businesses to homeowners and farmers.

Table 5 shows the property tax payments by Harrah's East Chicago in 2002 and 2003 (before and after reassessment), as well as the composition of tax rates by local jurisdiction. Assessed value rose more than tax levies between 2002 and 2003, so the tax rates for Lake County local governments fell. The combined tax rate paid by Harrah's East Chicago fell from $11.87 per $100 assessed value to $7.09 per $100 assessed value. Harrah's East Chicago assessments increased, but not in proportion to the rate decrease. Harrah's East Chicago total property tax payment declined slightly, by about 2 percent.

Table 5: Estimated Harrah's East Chicago Property Tax Payments by Unit, 2002 and 2003

	2002 Rate	2003 Rate	2002 Share	2003 Share	2002 Paid	2003 Paid
State Unit	0.0033	0.0033	0.03%	0.05%	$1,250	$2,046
Lake County	1.8831	1.1676	15.86%	16.48%	713,493	723,953
North Township	0.137	0.0726	1.15%	1.02%	51,908	45,015
East Chicago City	4.5089	2.7784	37.97%	39.21%	1,708,391	1,722,705
East Chicago Schools	3.4004	1.868	28.64%	26.36%	1,288,388	1,158,225
East Chicago Library	0.5012	0.3062	4.22%	4.32%	189,901	189,855
East Chicago Sanitary	1.3955	0.8655	11.75%	12.21%	528,745	536,640
Lake County SWMD	0.0451	0.025	0.38%	0.35%	17,088	15,501
Total	11.8745	7.0866	100.00%	100.00%	$4,499,165	$4,393,940

Both before and after reassessment, about 82 percent of Harrah's East Chicago property tax payments appear to go to Lake County, East Chicago City, and the East Chicago School Corporation. The East Chicago Sanitary District gets most of the remainder. Between 2002 and 2003 the amount received by the city and county increased slightly, while the amount received by the school corporation fell.

The results in this table should not be misinterpreted. First, the total revenues received by all these jurisdictions increased. Reassessment caused a shift in tax burdens, but did not affect the total revenues collected by jurisdictions. Where Harrah's East Chicago is paying a smaller share of those revenues, other taxpayers are paying more.

Second, reassessment generally shifted taxes away from businesses. The slight decline in Harrah's East Chicago tax bill reflects the very big increase in the assessments of residential property, relative to the assessment increase of Harrah's East Chicago commercial property. Many commercial and industrial property owners in Lake County saw tax bill decreases as a result of reassessment.

Third, part of Harrah's East Chicago property tax payments go to a tax increment financing district. The tax payment amounts for the local units are thus somewhat overstated.

Fiscal Impacts Conclusion

Riverboats have a powerful positive fiscal impact on Indiana counties and cities. Added riverboat tax revenue is much more than added costs. The changes brought about by tax restructuring—flexible boarding, lower admissions counts, graduated wagering tax rates, limits and floors on riverboat tax revenue—are not big enough to change this positive fiscal impact.

The floor on admissions tax receipts and the ceiling on wagering tax receipts fix future riverboat taxes at state fiscal year 2002 levels for Lake County and East Chicago. Flexible boarding caused a drastic reduction in admissions counts, which would have cost the county and city much lost admissions tax receipts, without the floor on admissions taxes. Admissions were trending upward prior to flexible boarding, so the admissions tax revenue the county and city will actually receive is less than what would have been received under the old rules.

Wagering tax receipts also were trending upward prior to flexible boarding. Had flexible boarding with a tax ceiling not been adopted, the city would have seen continued increases in wagering tax revenue. If flexible boarding had been adopted without the ceiling, the city would have received a very large increase in wagering revenue. As it stands, East Chicago will continue to receive wagering taxes at the 2002 level. The new rules were quite costly to the city.

With the wagering tax limit, the state has effectively channeled the added revenues from flexible boarding to itself. Part of this revenue will be distributed to non-riverboat counties, cities, and towns. Part will be used for property tax relief.

Property tax reassessment increased assessed values and reduced tax rates. Lake County residential assessments rose more than assessments of commercial and industrial property, including Harrah's East Chicago property. This caused a tax shift away from businesses, to residential property owners. Harrah's East Chicago saw its tax bill decline by 2 percent between 2002 and 2003, mostly as a result of reassessment.

Riverboats do not produce sizable positive fiscal impacts for Indiana school corporations, because the schools do not share in riverboat admissions or wagering tax revenue. Property tax receipts are the primary riverboat revenue source for schools. The East Chicago School Corporation saw a decrease in the gross taxes received from Harrah's East Chicago property. This represents a shift in tax payments from the riverboat to other property taxpayers. It is unlikely that the riverboat has a large positive fiscal impact on East Chicago schools, and it may well have a negative fiscal impact.

Incentive Payments

The largest impact of Harrah's in the East Chicago area (outside of taxes) has been through incentive payments. These payments are the result of agreements that were made with the city of East Chicago as part of their application process. In its Certificate of Suitability, Harrah's East Chicago agreed to provide incentive payments, as detailed below. As Table 6 illustrates, Harrah's East Chicago is on or ahead of schedule with its incentive payments, except for the Homebuyer Assistance, and has provided $80 million in incentive payments. The initial project was delayed due to difficulty in locating a partner bank. While only a small fraction has been expended, this is due to a few factors. Since this is a loan guarantee program, and none of the participants have defaulted, expenses are lower. In addition, while 38 families have accessed this guarantee and the up to $5,000 down payment assistance, some people are reluctant to purchase a house in East Chicago with the uncertainty surrounding the property tax situation.

All the fixed incentives (except for the Homebuyer Assistance) were completed in the first three years. The largest incentives, the contingent incentives, are under negotiation with the city of East Chicago. The proposed changes would not affect the overall total amount of the contingent incentives, but would affect who received them and their purpose. The city has raised issues with the structure of the current foundations' paid boards of directors as well as the percent of funds disbursed as compared to percent spent on administration. The economic impact of these contributions to the Lake County economy is discussed in another section.

Table 6: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amt. Paid Through 12/31/04	Status
Projects or Programs	$1,270,000	East Chicago	$1,371,000	Completed Year 1
Contributions to Cline Avenue Overpass	$3,500,000	East Chicago	$3,500,00	Completed Year 1
Job Training	$1,544,000	East Chicago	$1,544,000	Completed Year 1
Homebuyer Assistance	$5,500,000	East Chicago	$145,564	Ongoing
Economic Development Initiatives	$4,558,000	East Chicago	$4,558,000	Completed Year 2
Contingent Initiatives	1% of AGR	East Chicago	$19,050,886	Under negotiation
Contingent Initiatives	1% of AGR	East Chicago Community Foundation	$19,050,886	Under negotiation
Contingent Initiatives	1% of AGR	Twin City Education Foundation	$19,050,886	Under negotiation
Contingent Initiatives	0.75% of AGR	East Chicago Second Century	$14,288,164	Under negotiation
Replacement of Bathhouse	$155,000	Jerose Park	$155,000	Completed Year 2
Marina Entrance	Not in certificate	Marina	$311,000	Completed Year 3
Total			$79,528,886	

Tax Revenue Collected

As Table 7 illustrates, Harrah's East Chicago has paid over $373 million in direct taxes to the state of Indiana since it opened.

Table 7: State Direct Taxes

Category	FY 1997-03	FY 2004	Total
Gaming Tax (State Share)*	$287,493,087	$80,964,777	$368,457,864
Admission Tax (State Share)*	48,183,374	947,021	49,1303,95
Sales and Use Tax	3,275,015	1,065,774	4,340,789
Total	$338,951,476	$82,977,572	$373,290,051

*Total tax collected minus city and county share. State share of admission taxes appears low because the state returns most of the admission tax it collects to maintain East Chicago and Lake County at the 2002 level of admission tax.

In addition, as Table 8 shows, Harrah's East Chicago has paid over $196 million in direct taxes (gaming, admission, and property taxes) to the local area (city and county) since it opened.

Table 8: Local Direct Taxes

Category	FY1997-03	FY 2004	Total
Gaming Tax (City Share)	$83,001,794	$13,549,654	$96,551,448
Admission Tax (County Share)	31,075,755	5,542,676	36,618,431
Admission Tax (City Share)	31,075,755	5,542,676	36,618,431
Property Tax	18,255,833	8,012,463	26,268,296
Total	$163,409,137	$32,647,469	$196,056,606

Economic Impact of the Spending of Gaming-Related Local Taxes and Incentive Payments

The spending by local governments and foundations of gaming-related taxes and negotiated incentive payments they receive can have immediate and long-term impacts on the local economy. The primary immediate benefits are the jobs, wages, and new economic activity generated by local governments and foundations spending of gaming-related tax and incentive revenue. The long-term economic impacts of the spending of the local gaming-related tax and incentives include an increased quality of life and a more economically competitive local economy. The value of the immediate benefits can be estimated through the use of an input/output model. While the short-term stimulus local spending adds to the economy is important, the long-term benefits are perhaps best understood as investments made in order to fundamentally increase the economic competitiveness of the community (residents, existing businesses, and the ability to attract new businesses and residents). These long-term contributions can begin to be understood by looking at job creation and wage trends in the local economy.

Total Short-Term Economic Benefits 1996 – 2004

While the primary focus of this evaluation is on the period between 2002 and 2004, during the five year evaluation (1997 – 2001) of Harrah's East Chicago performance, the Center for Urban Policy and the Environment estimated the economic impact of local gaming-related taxes and incentive revenue spent by local governments and community foundations. As part of the eight-year evaluation, we continue to analyze and estimate the economic contributions attributable to the expenditure of gaming-related taxes and negotiated incentives by local governments and foundations. When the two analyses are combined, the total eight-year economic impact of the spending of local gaming-related tax and incentives payment from Harrah's East Chicago opening on April 18, 1997, through December 31, 2004, exceeded $202 million. Specifically, the expenditures of local gaming-related taxes and incentive payments made by the city of East Chicago (Reserve and Trust funds), the Twin City Education Foundation, and the East Chicago Community Development Foundation have generated an estimated:

- $202,989,928 in economic impact,
- $76,043,466 in employee compensation, and
- 3,280 new jobs (full-time equivalents).

The following economic impact analysis is based on expenditures of $44,004,024, made by the city of East Chicago, the Twin City Education Foundation, and the East Chicago Community Development Foundation between January 1, 2002 and December 31, 2004. It does not include debt service expenditures of $1,172,543 made by the city of East Chicago and $2,200,000 of gaming-related revenue transferred to the city's insurance program. It also does not include any expenditures made by Second Century Inc., as they have not provided any data for this analysis.

The total of direct and indirect estimated economic impact of expenditures of local gaming-related taxes and incentive payments since the five year report (covering the years 2002-2004) is:

- $66,977,352 in economic impact,
- $29,843,906 in employee compensation, and
- 1,267 new jobs (full-time equivalents).

Local Investments

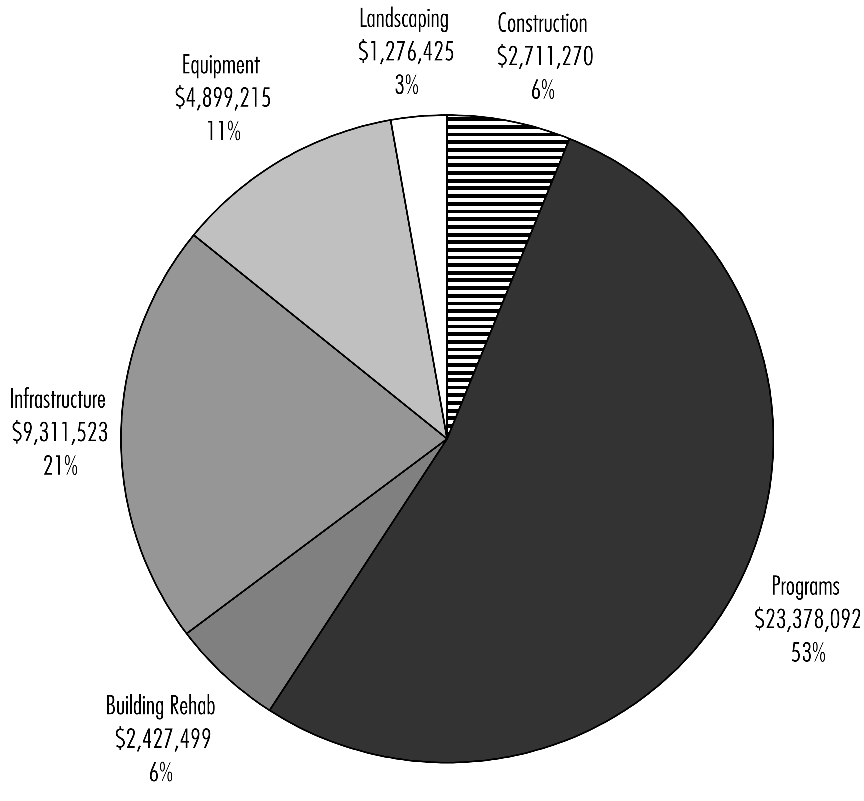
The nearly $67 million in economic contributions results from the expenditure or investment of over $44 million of gaming-related tax and incentive revenue spent by the city of East Chicago and two local foundations. The largest amount of spending was directed towards programs and not-for-profit operations with $23 million of program-related expenditures or over 53 percent of all investment made by the city of East Chicago and the two community foundations. The second largest expenditure category was infrastructure with over $9 million or 21 percent of total investment.

Program expenditures made by the city and foundations included: college scholarships, community and cultural festivals, operating support for a variety of not-for-profits organizations, support for a variety of East Chicago public schools academic and athletic programs, grants to local catholic schools, public safety programs, and a variety of faith-based programs. These programs can improve the quality of life in the community as well as address the productivity of the local workforce. Infrastructure investments, particularly those related to transportation and utilities, have the potential to make long lasting impacts on the economic competitiveness of the community.

For the purposes of this analysis the expenditures made by the city of East Chicago and the foundations between 2002 and 2004 can be aggregated into the following categories. The total amount and share by expenditure category is displayed in Figure 3.

- Capital Equipment
- Infrastructure
- Landscaping
- New Construction
- Rehabilitation and Repair of Existing Structures
- Program Operations

Figure 3: Estimated Expenditure by Type of Public Investment



Direct Economic Impact 2002 – 2004

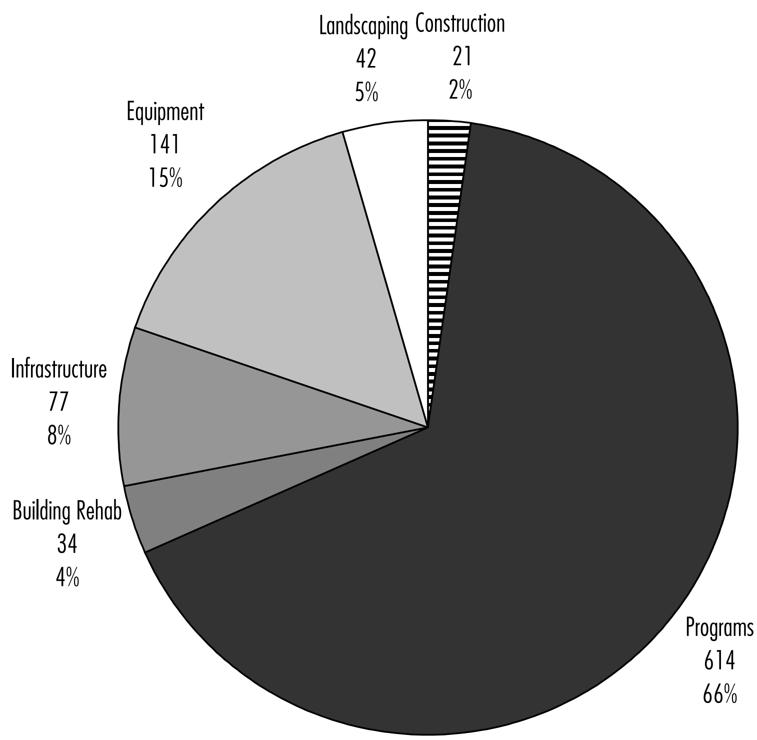
Direct economic impact is generated by money spent with firms directly contracted by the city of East Chicago and the two foundations to provide services (the program category) or produce goods (capital equipment, infrastructure, landscaping, new and rehab construction). Specifically, it is estimated that this generated an estimated:

- $44,004,024 in economic impact
- $22,617,684 in employee compensation
- 929 new jobs (full-time equivalents)

The 929 jobs and over $22 million in wages are expected to be created directly at the firms receiving gaming-related revenue for the purpose of producing goods and services. The largest number of jobs directly attributable to investments made between 2002 and 2004 was in the programs category where 614 jobs (full-time equivalent) were supported at firms receiving revenue directly attributable to gaming-related taxes and incentives. Investments in infrastructure made up 21.2 percent of all expenditures, and investments generated only 77 jobs or 8.3 percent of all jobs. Conversely, while only $4.9 million (or 11.1 percent) was spent on capital equipment purchases and other retail/wholesale goods, an estimated 141 (or 15.2 percent) of capital equipment and retail/wholesale related jobs were created.

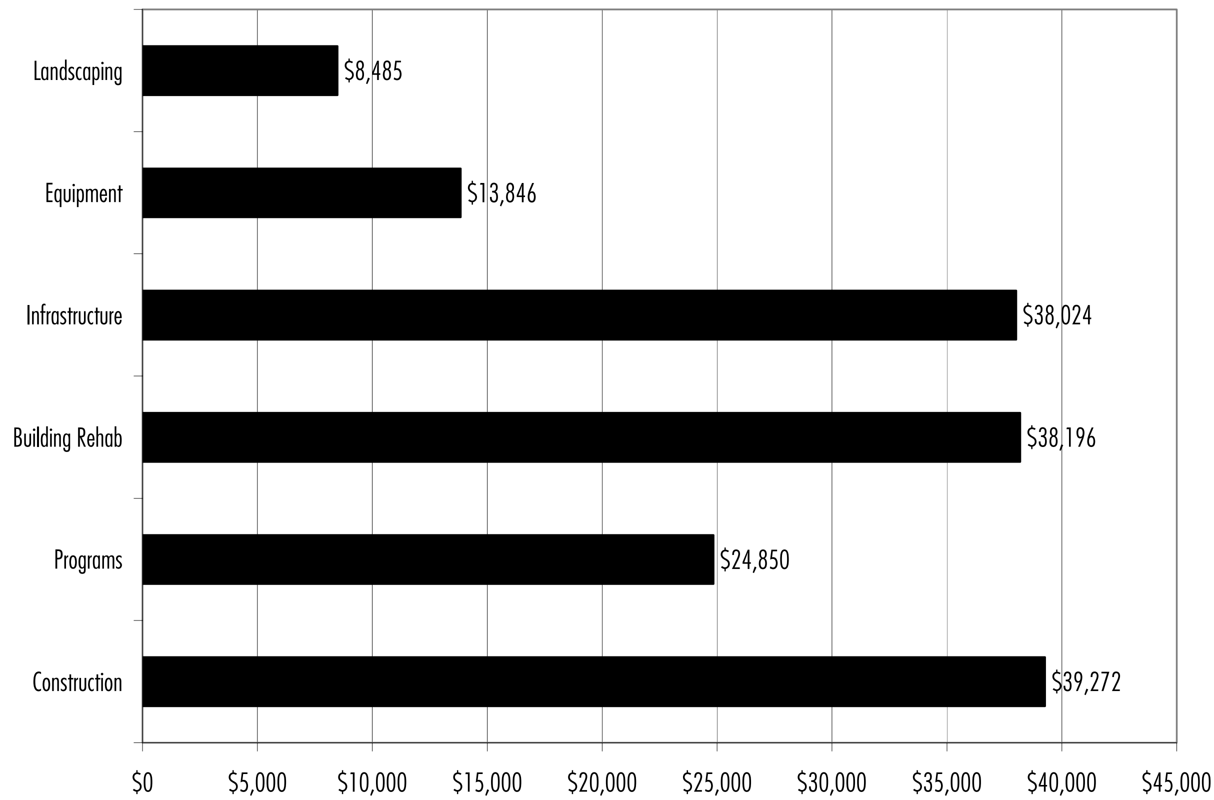
It is important to understand that while the total amount expended by category plays an important role in determining the number of jobs created/supported by investment category, the investment categories differ in the degree to which they are labor and materials dependant. For example, a job related to a capital equipment and retail/wholesale sales requires only $29,161 of expenditure to create a job. This is likely a result of the fact that sales is a more labor than material intensive trade, whereas a construction job, which is much more dependant on material, requires over $71,000 of expenditures to create/support one job. Figure 4 displays the total number of direct jobs attributable to each investment category.

Figure 4: Direct Jobs 2002–2004



While the largest numbers of jobs created were attributable to programmatic investments, the average wage for jobs directly attributable to construction, infrastructure, and building rehabilitation investments was much higher than the average program wage. Construction, infrastructure, and building rehabilitation wages ranged from $38,024 and $39,272 per job, compared to $24,850 for jobs directly related to programs and other not-for-profit operations. Figure 5 displays the average wage for direct jobs in each investment category.

Figure 5: Average Direct Wage per Job 2002–2004



Indirect and Induced Economic Impact 2002–2004

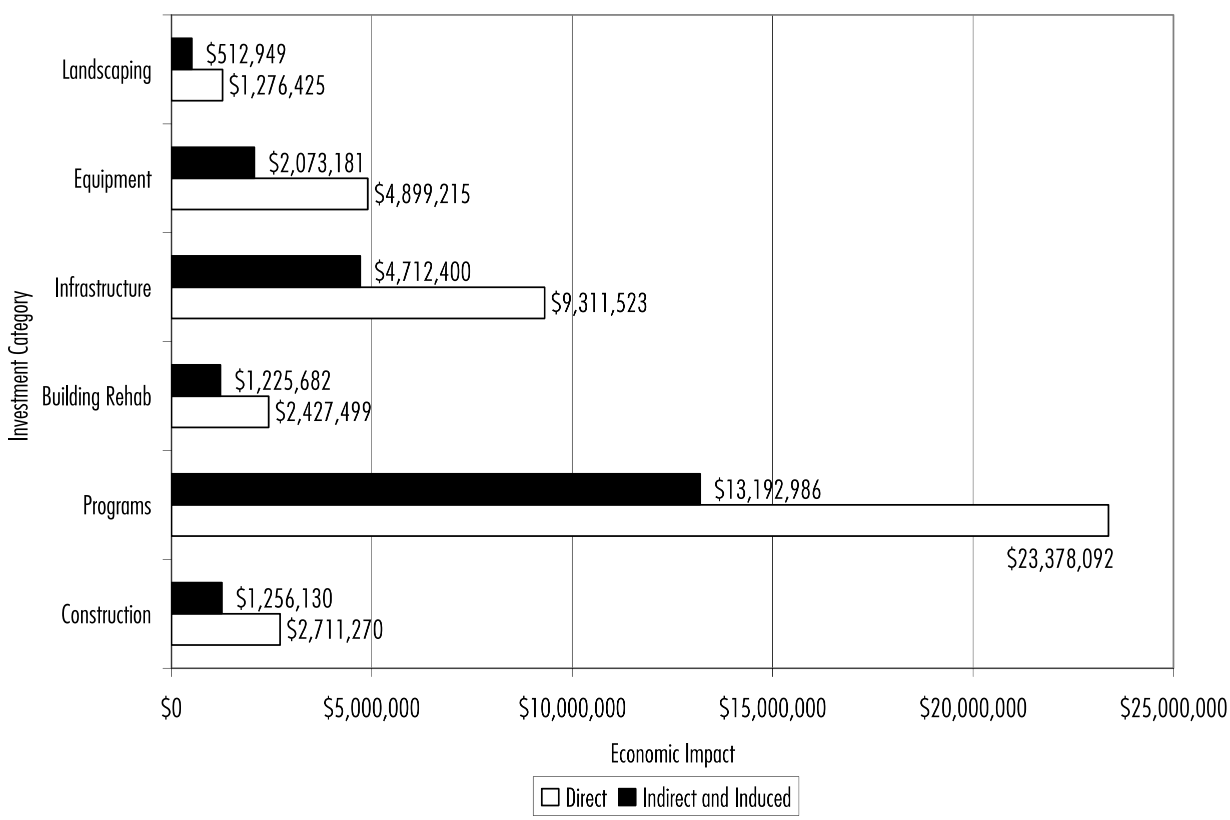
As the spending of over $44 million in tax and incentive payments works its way through the Lake County economy), it generates additional economic benefits above and beyond those generated at the firms that receive gaming-related contracts and revenues. For example, one of the new jobs may be an employee of a firm providing working on a construction project attributable to gaming-related tax and incentive revenue paid by Harrah's East Chicago and spent by the city East Chicago. As the worker and his or her family eats at local restaurants, shops in local stores, purchases new automobiles, and makes home improvements, those expenditures and all other local expenditures generate additional economic activity. Similarly, the firm working on the construction project needs to purchase materials, supplies, and perhaps equipment from other businesses. As with the employee, when purchased locally, the firm's expenditures produce additional economic benefits to the community. These benefits are known as the indirect benefits. Then as the firms and workers who indirectly benefit from the expenditure of tax and incentive spending by the city of East Chicago and the community foundations spend their money, it generates additional economic activity. These additional rounds of economic activity are known as the induced benefits.

The indirect and induced economic impact of the spending of gaming-related local tax and incentive payments made by Harrah's East Chicago is estimated to have generated an additional:

- $22,973,328 in indirect economic activity,
- $7,226,222 in indirect employee compensation, and
- 338 indirect new jobs (full-time equivalents).

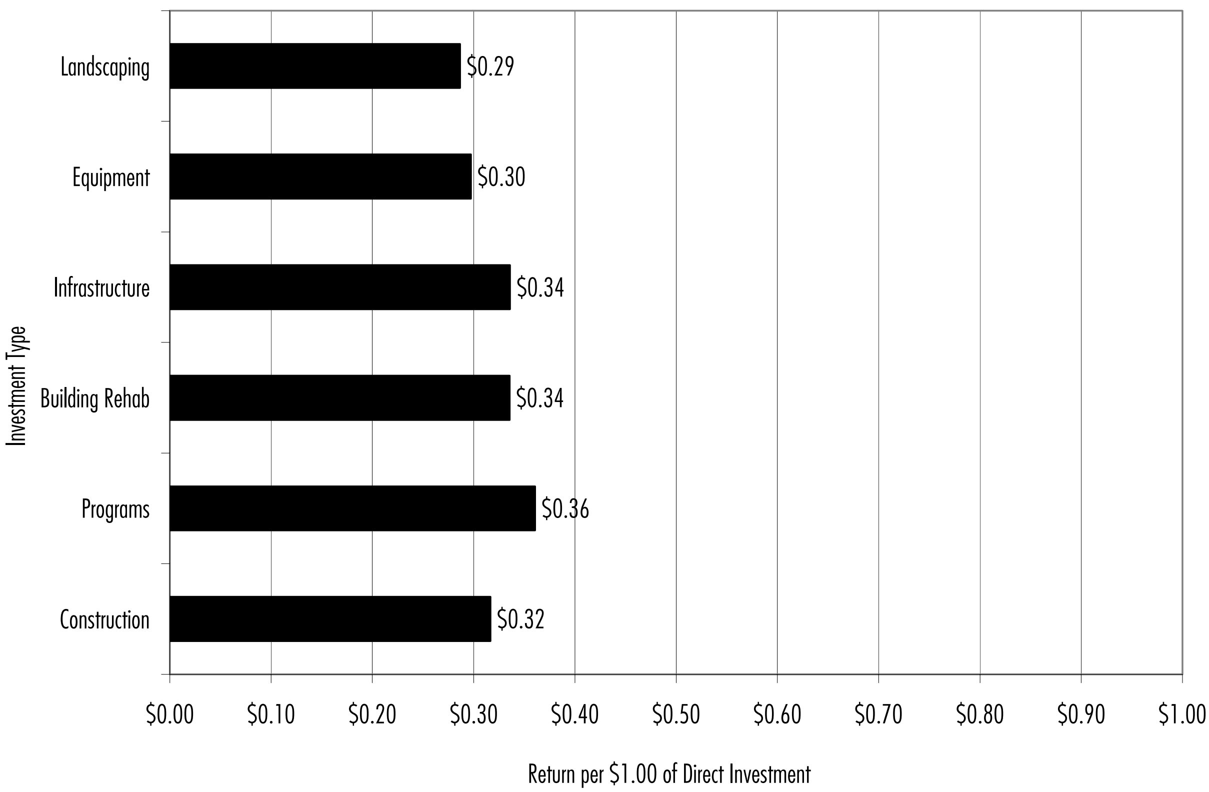
The programs investment category generated over $13.1 million of indirect and induced economic activity attributable to initial investment. Restated, the initial expenditure of over $23 million of gaming-related tax and incentive revenue on programs and nonprofit operations related activity produced an additional $13.1 million of economic activity within Lake County. Figure 6 provides the total amount of direct and indirect and induced economic activity attributable to each investment category.

Figure 6: Direct, Indirect and Induced Economic Activity by Type of Public Investment



In part because of the large amount of spending, the program investment category generated the most indirect and induced economic activity; however, it was the most efficient producer of additional economic activity, generating 36 cents of indirect and induced economic activity per $1.00 of investment. Each of the direct spending or investment categories has a different rate of return within the Lake County economy. Figure 7 displays indirect and induced impact generated by the expenditure of $1.00 in each investment category. The share of indirect impact varies because different types of expenditures engender different local spending behaviors. For example, if there are few providers of lumber or cement within Lake County, then the increased demand for such items may result in purchases being made outside the impact area, when this occurs dollars leave the local economy and the spending of those dollars in other regions generates no additional economic benefits for the Lake County economy. While the immediate rate of return is highest for programs and not-for-profit operations (36 cents of indirect impact per $1.00 of public investment) many studies indicated that the long-term benefits of public investments in infrastructure, facility construction, and capital equipment investment will produce greater long-term impacts including higher wages, more jobs, and increased property value.

Figure 7: Indirect and Induced Impact per $1.00 of Direct Investment by Type of Investment



Long-Term Economic Benefits of Gaming Related Taxes and Incentives

The long-term economic benefits of the spending of the spending of gaming-related taxes and incentives should result in a more economically competitive local economy. For example, road and traffic control infrastructure investments that reduce the time costs related to transportation should reduce the cost of business operation and the provision of new services might improve the perceived quality of life and make the area a more attractive place to live. While eight years is not likely a long enough period to substantially change the local economy, most counties in the study area have seen per capita income increase at a faster rate than the Indiana statewide average and two counties have seen their unemployment rate relative to the Indiana statewide average drop dramatically.[1]

One measure of increased economic competitiveness might be changes in unemployment rate relative to that of the state. The average annual unemployment rate for Indiana in 1996 was 3.9 percent. Indiana's average annual unemployment rate increased to 5.2 percent by 2004. The average annual unemployment rate in Lake County was higher in both 1996 (5.7 percent) and 2003 (6.0 percent). While Lake County's unemployment rate was higher that the state's throughout the study period, Lake County's unemployment rate increased more slowly between 1996 and 2004 than the state's rate. In February 2005, Lake County's unemployment rate was 7.2 percent and the unemployment rate in Indiana was 6.4 percent.

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[1] Of course there are many other factors in Lake County, including the steel industry, that also affect the employment rate and wages.

Community Impacts

Local Spending and Contributions

Harrah's East Chicago has spent money locally for both capital and operating expenses as well as through sponsorships and contributions. As Table 9 illustrates, since opening, Harrah's East Chicago has spent over $103 million locally (in Northwest Indiana). Additionally, Harrah's East Chicago has impacted the East Chicago area through $875,302 in sponsorships and contributions to local area organizations. This figure excludes any contributions that were part of the local development agreement, which are discussed under Incentive Payments.

Table 9: Local Spending, Sponsorships, and Contributions

	1997-2001	2002	2003	2004	Total
Local Spending	$47,263,600	$14,181,918	$25,191,944	$16,428,444	$103,065,906
Sponsorships/Contributions	$399,516	$130,104	$177,713	$167,969	$875,302

Community Input

Another way to determine impact in the local community is to listen to the views of members of the local community. Center staff conducted three focus groups in East Chicago with:

- Community leaders,
- Local business leaders (retail, restaurant, hotel, convention from East Chicago and Lake County), and
- Social services providers (from or serving East Chicago and/or Lake County).

The questions asked were broad to allow the participants to raise issues of importance to them and covered positive and negative impacts, strengths and weaknesses, and opportunities and threats. While there were some differences among the groups, which are described below, overall the following themes resonated with all three groups:

The riverboat casino has been a positive addition to the community. They:

- encourage tourism and community visibility–it's a reason for people to visit East Chicago and know what's going on in the community
- offer hope and opportunity for the city and its residents (psychological boost)
- provide a nice meeting space to hold meetings, etc., allowing local organizations to invite others into the community and expand their reach to new areas
- provide recreation/entertainment–gives residents something to do within their community
- provide revenue to local government for community/infrastructure improvements, capital and beautification projects
- encourage new development
  - provide opportunities to start a local business through loans to women and minorities
- increased business for local businesses

- provide employment opportunities (with health benefits), especially for unskilled labor, low-income families, and single parents
  - Job training, skill development
- provide an inflow of cash to nonprofits/foundations has allowed expansion of nonprofit community, especially facilitating arts community and other organizations to flourish and reach more people

There were mixed opinions about Harrah's East Chicago participation in the community, but many feel that the company and its employees have a strong community presence (e.g., a physical presence at community activities and monetary and in-kind donations) while others thought they could be better corporate citizens.

In addition to the positives, there were several negatives suggested:

- Lack of accountability/oversight of gaming revenue distribution from both the foundations and the previous city administration
- No/few long-term employment opportunities on the boat, not very good benefits (health insurance, etc.)
- Too much lakeshore/lakeshore access has been lost for community recreational use
- Social ills (e.g., bankruptcy/overdraft, gambling addictions)-although not as much as expected
- Negative stigma with having the boat in their community
- Money hasn't gone to nonprofits outside of East Chicago, even though they serve East Chicago residents
- Haven't improved the area immediately surrounding the casino
- Tourists/visitors can get to the boat without ever entering the city
- Should consider requiring a five-year plan from the local community for the casino's re-licensing

Other Issues

According to Harrah's East Chicago, 146 legal actions have been filed against them since 1997; 63 patrons and 83 employees (worker's compensation and equal opportunity employment commission).

Harrah's East Chicago has made efforts to minimize negative impacts. Following the Harrah's Entertainment Guidebook for Responsible Gaming, Harrah's East Chicago provides training for its employees on compulsive gambling. Harrah's East Chicago has implemented two responsible gaming programs: Operation Bet Smart and Project 21. Operation Bet Smart is an awareness campaign that targets employees, guests, and the industry by addressing gambling problems and providing recommendations and information on how to get help. The Project 21 program is an initiative to teach casino employees, minors, parents, and guardians about the consequences of gambling under legal age. In addition, Harrah's East Chicago has a self-eviction program where patrons can evict themselves from any and all Harrah's East Chicago properties as well as restrict the marketing incentives they receive. A total of 427 patrons have chosen to self-exclude themselves from Harrah's East Chicago (Table 10).

As Table 10 indicates, in an effort to prevent underage gambling, Harrah's East Chicago has verified 401,319 identifications and turned away 13,544 patrons since it opened.

Table 10: Harrah's East Chicago Efforts to Prevent Problem Gambling

	1997-01	2002	2003	2004	Total
Number of IDs verified	103,500	66,024	101,092	130,703	401,319
Number of patrons turned away – under 21 or no identification	4,522	2,483	3,400	3,139	13,544
Self-exclusions	81	93	158	95	427

Employment

Harrah's East Chicago did not identify specific hiring goals for minorities, or local residents in its application. As of December 31, 2004, 62 percent of Harrah's East Chicago employees were minority, 59 percent female, and 21 percent were from East Chicago.

As Table 11 indicates, as of December 31, 2004, Harrah's East Chicago had employment of 1,841 persons in both the casino and hotel, slightly above their eight-year average of 1,830 and slightly down from their highest employment level of 1,963 in 2003. For 2004, salaries and wages were $58.2 million, including tips to dealers (but not to bar and wait staff), and since opening, Harrah's East Chicago has paid $400 million in wages, tips, and benefits.

Table 11: Employment and Wages

Category	1997-2001	2002	2003	2004	Average/Total
Average Employment	1,630	1,885	1,963	1,841	1,830
Wages and tips	$224,026,590	$56,981,593	$60,677,105	58,218,518	$399,903,806
Average wages and tips per employee		$30,229	$30,910	$31,623	

A Survey of Harrah's East Chicago Employees

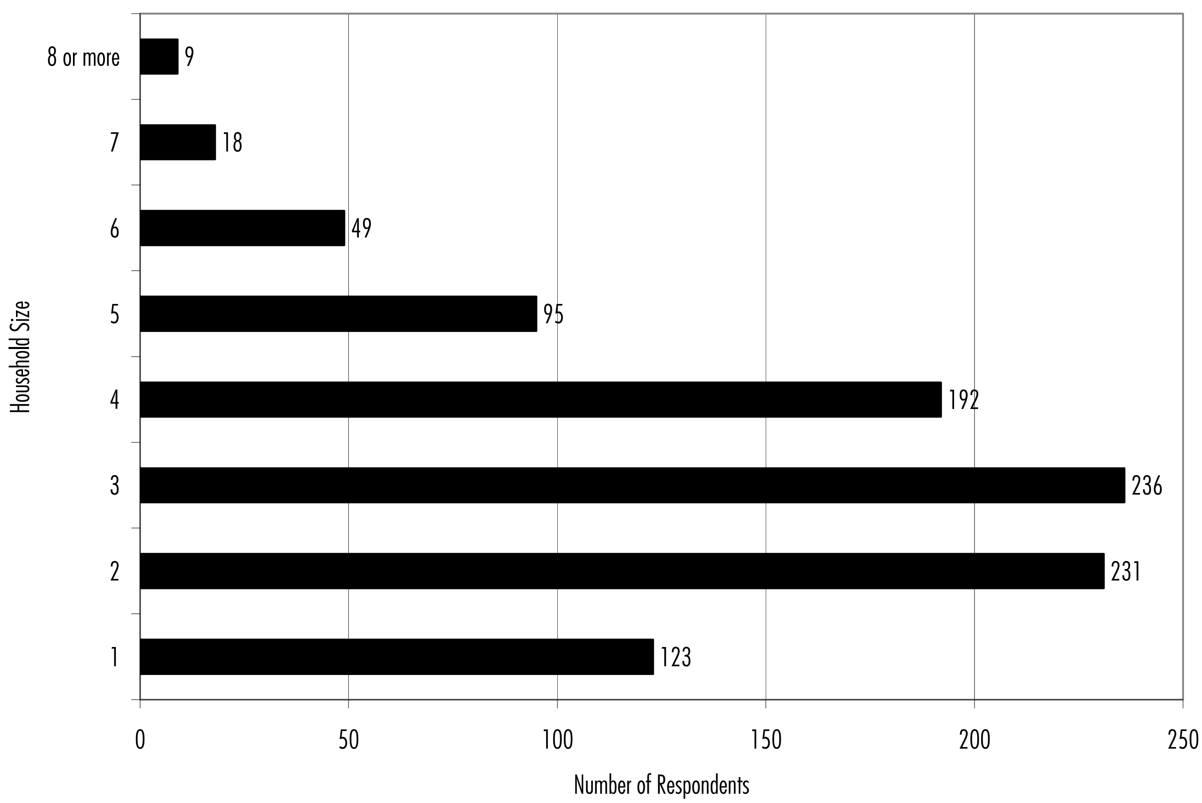
To assist in the 8-year license evaluation of the Harrah's East Chicago riverboat casino the Center in April 2005 conducted a survey of current Harrah's East Chicago employees. Previously, in 2002, the Center conducted a survey of the employees for the five year licensure hearing. The survey and accompanying analysis is intended to assist the Commission in determining the impact of Harrah's East Chicago on the local workforce. Responses to the current survey will be compared to those from the previous survey, when applicable. The analysis is divided into four topic areas:

1. a brief description of the respondents and their history
2. the respondents employment history prior to beginning work at Harrah's East Chicago,
3. the initial experience of the respondents upon beginning work at Harrah's East Chicago,
4. the respondents current situation

An Overview of the Respondents

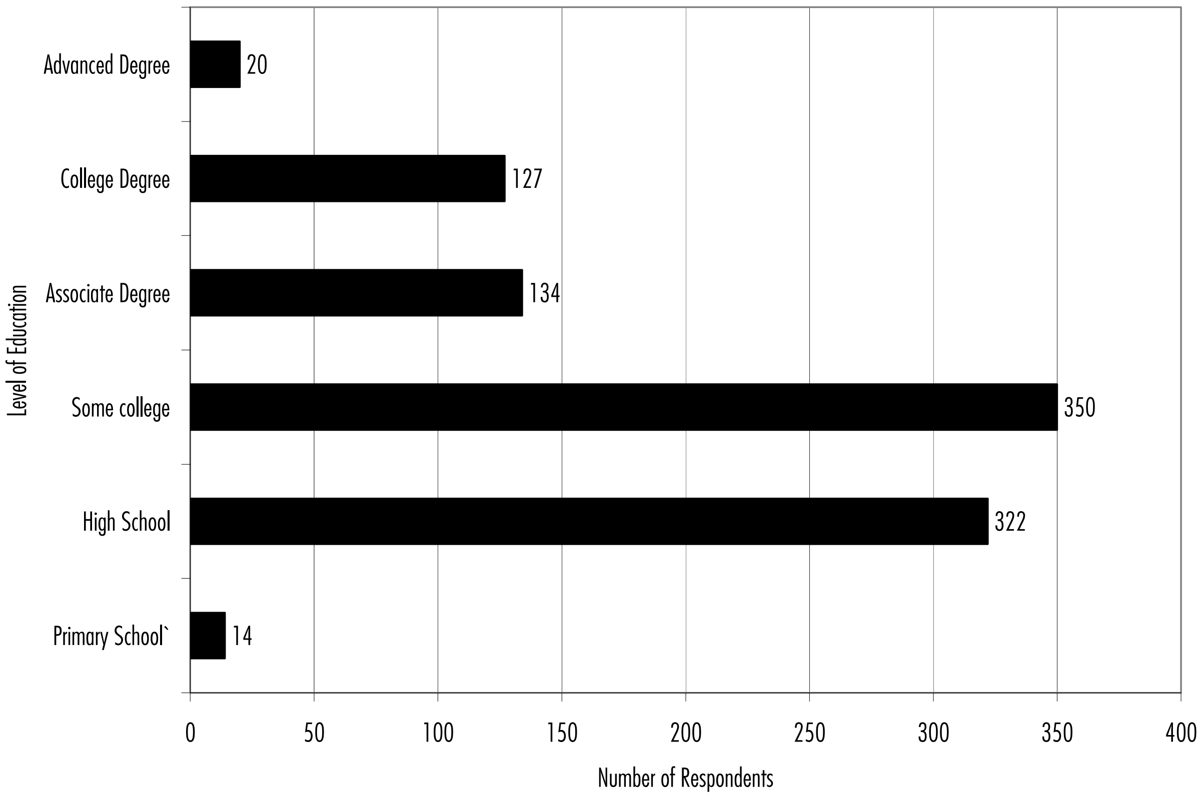
There were 992 total responses to the survey, but not everyone responded to each survey question. For example, 965 individuals responded to the question concerning gender and of those who responded 378 or 39 percent were males and 587 or 54 percent were female. The average reported age of those who responded was 37 years and 1 month; the oldest respondent was 71 and the youngest 18. Two-person (231) and three-person (236) households accounted for 49 percent of all responses. An additional 38 percent of those responding lived in either a one-person household (123) or four-person household (192). Only 17.1 percent or 171 respondents reported living in a household with five or more individuals. Figure 8 displays the full array of persons per household.

Figure 8: Total Number of Individuals in Household



Nearly all (98.5) percent of the respondents reported having earned at least a high school diploma. Eight hundred and six of the respondents (83 percent) reported high school or attending some college or an associate's degree as their highest level of education. An additional 147 respondents or 15 percent reported receiving a undergraduate or graduate college degree as their highest level of education. Figure 9 summarizes the educational achievement of all respondents.

Figure 9: Educational Achievement of Harrah's East Chicago Employees



Employment History Prior to Beginning Work at Harrah's East Chicago

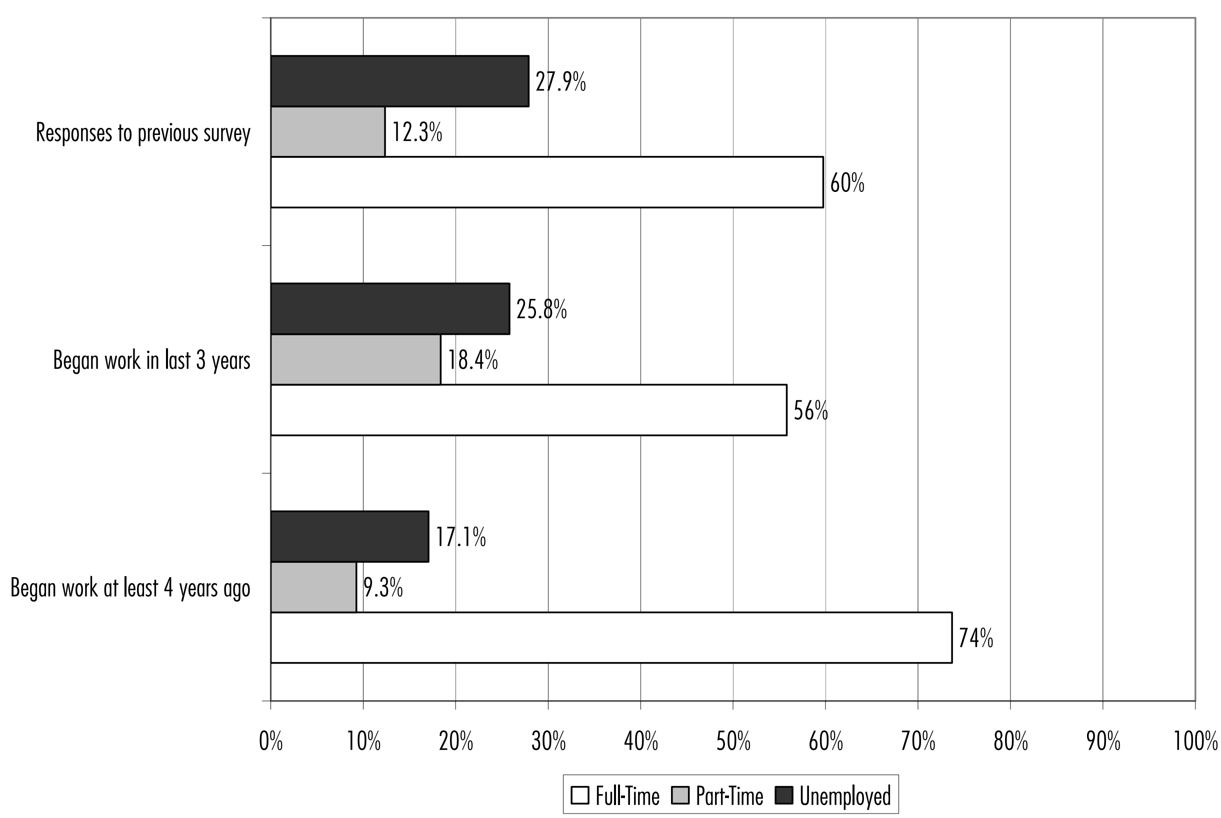
Based on responses to the current survey, nearly 66 percent were employed full-time prior to beginning work at Harrah's East Chicago. Almost 21 percent were unemployed prior to beginning to work at Harrah's East Chicago.

Table 12: Employment Status Prior to beginning Work at Harrah's East Chicago

Employed full-time prior to beginning work at Harrah's	65.9 percent
Employed part-time prior to beginning work at Harrah's	13.2 percent
Unemployed prior to beginning work at Harrah's	20.9 percent

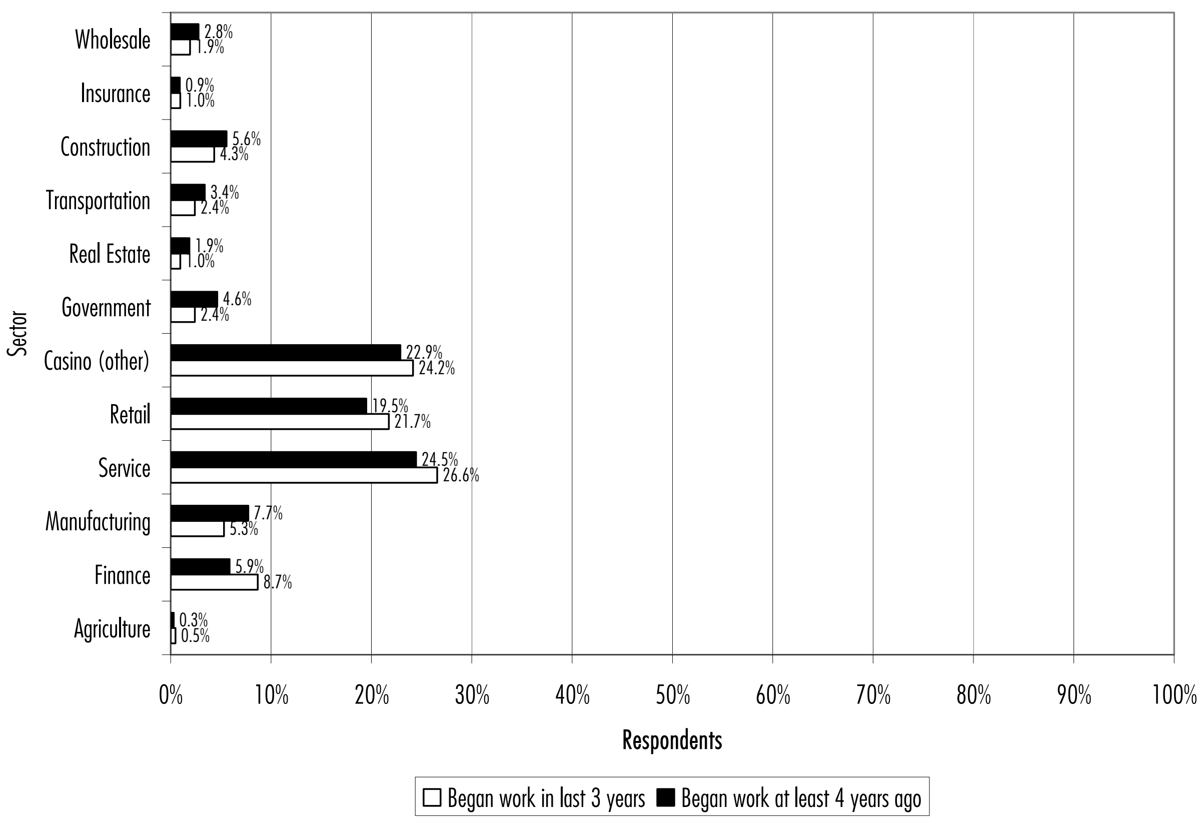
Figure 10 compares the responses from the current survey to responses from the five-year licensure evaluation survey. Responses to the current survey are separated into employees who began work since the five-year survey and evaluation (those who began work in the last three years) and those who were working at the time of the last survey and evaluation (began work at least four years ago). A comparison of those who began work at least four years ago with those who responded to the previous five-year survey suggests that it may be possible that previously unemployed and those previously employed on a part-time basis may be slightly less likely to remain employed at Harrah's East Chicago; as the percent of respondents in both categories declined from the previous survey. This may indicate that less previously unemployed and part-time employed individuals remain at Harrah's East Chicago.

Figure 10: Employment Status Prior to Beginning Work at Harrah's East Chicago



Based on all responses to the current survey, the majority of the respondents who identified a specific type of work were employed in either the service sector (134), at another casino (124), or in the retail sector (108). When comparing the results of those who have worked at Harrah's East Chicago for four or more years to those that began work in the last three years, Figure 11 shows that an increasingly larger share of those previously employed in the service, casino, retail, and finance sectors have migrated to the casino, while the share of those previously employed in manufacturing, government, transportation, and construction have decreased. The other sectors have experienced little or no change (less than 1 percent).

Figure 11: Sector of Employment Prior to Beginning Work at Harrah's East Chicago



Beginning Work at Harrah's East Chicago

As shown in Figure 12, the most common reason for beginning work at Harrah's East Chicago in both the previous survey and for those who have worked at Harrah's East Chicago for four or more years was more money. However for those who have began work in the last three years the share of respondents who reported seeking better career advance opportunities has more than doubled and has surpassed more money and become the most common response. Security and job satisfaction/enjoyment were the most commonly cited other reasons for beginning work at Harrah's East Chicago.

Figure 12: Reason for Beginning Work at Harrah's East Chicago

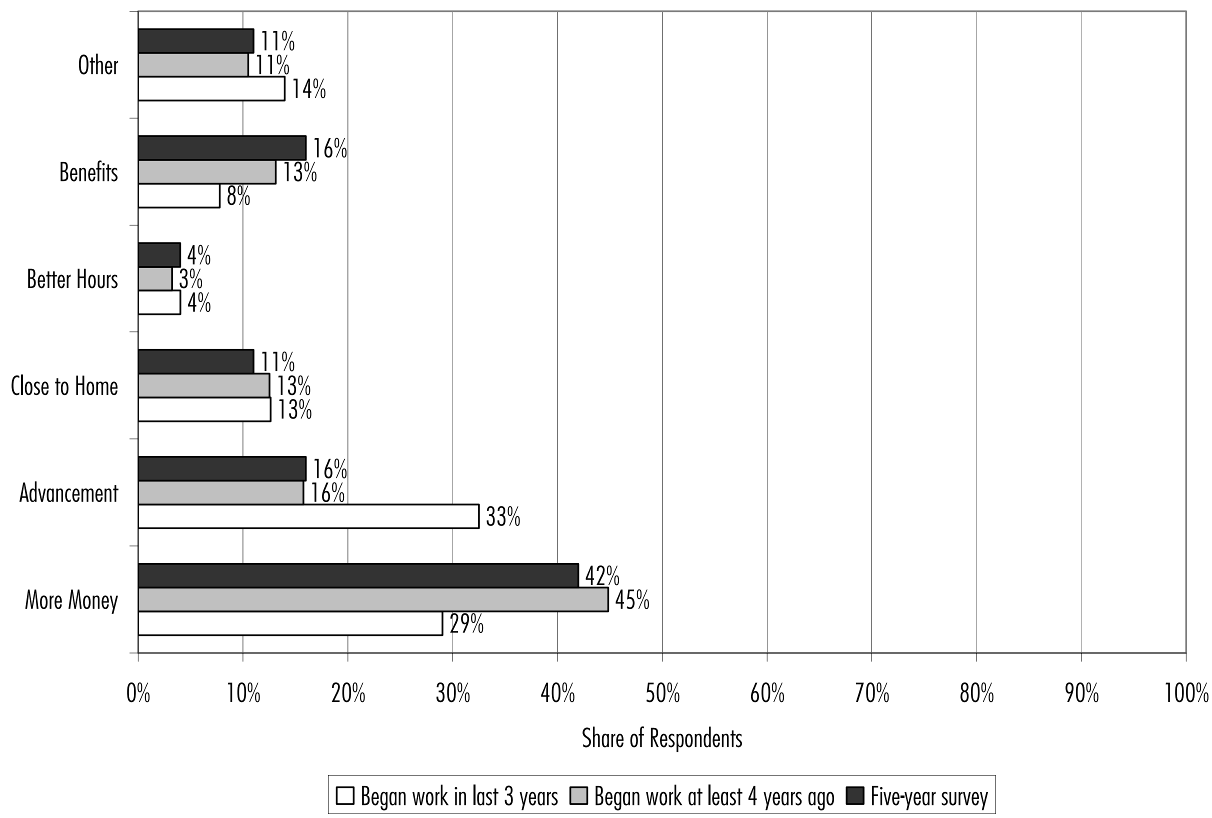
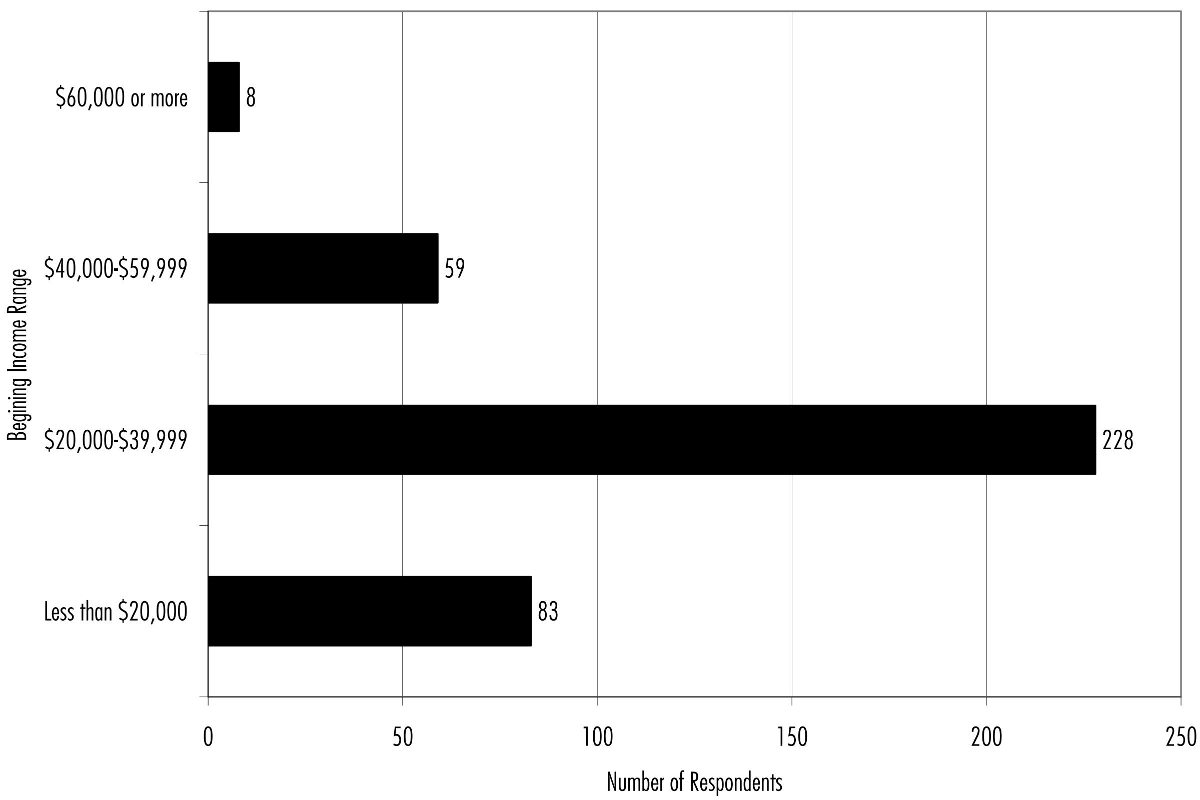


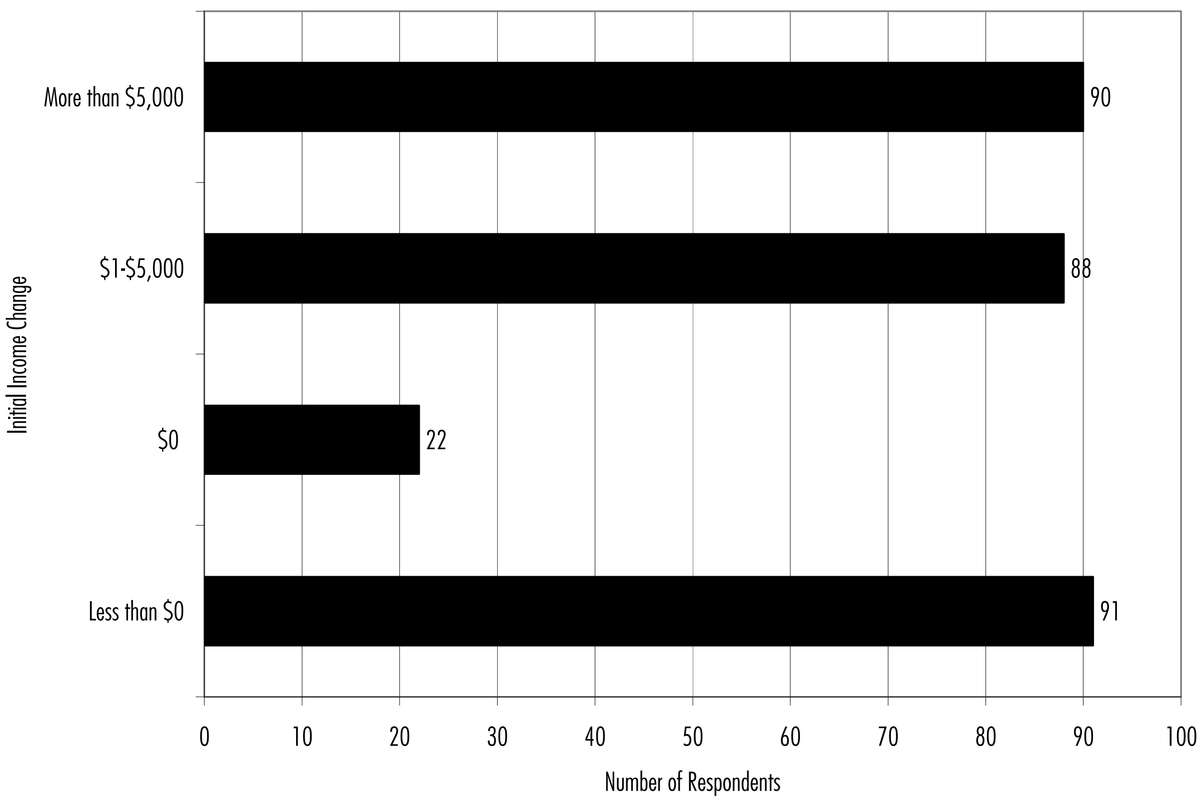
Figure 13 displays the starting wages for the 378 respondents who reported that they work full time and provided a starting annual income (including tips). Only 83 individuals or 21.9 percent reported earning less than $20,000 in the first year of employment. Two hundred twenty-eight or 60.3 percent reported earning between $20,000 and $39,999, and an additional 59 or 15.6 percent reporting initial income of between $40,000 and $59,999. The average annual income upon beginning work at Harrah's East Chicago was $29,812 and the median was $28,000.

Figure 13: Beginning Wage at Harrah's East Chicago



Slightly over 61 percent of the 291 respondents reporting a prior annual wage and a beginning wage at Harrah's East Chicago received a raise upon beginning their new casino-based job. While 113 respondents or nearly 39 percent of those responding reported receiving either reduced income or no raise, 178 individuals or 61 percent of those responding enjoyed increased income upon beginning work at Harrah's East Chicago. The average change in income for the 291 individuals reporting a prior annual wage and a beginning wage was a $1,121 increase and the median was a $2,000 increase.

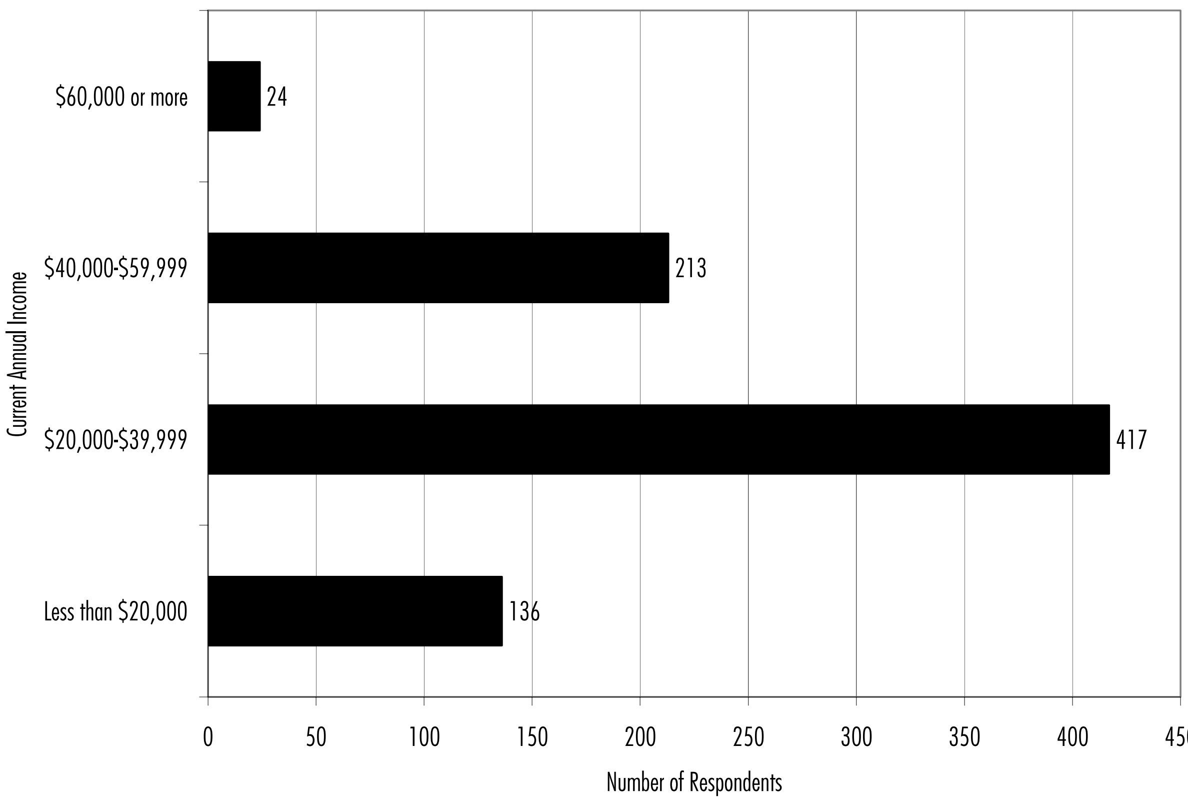
Figure 14: Change in Annual Income upon Beginning Work at Harrah's East Chicago



Current Annual Income

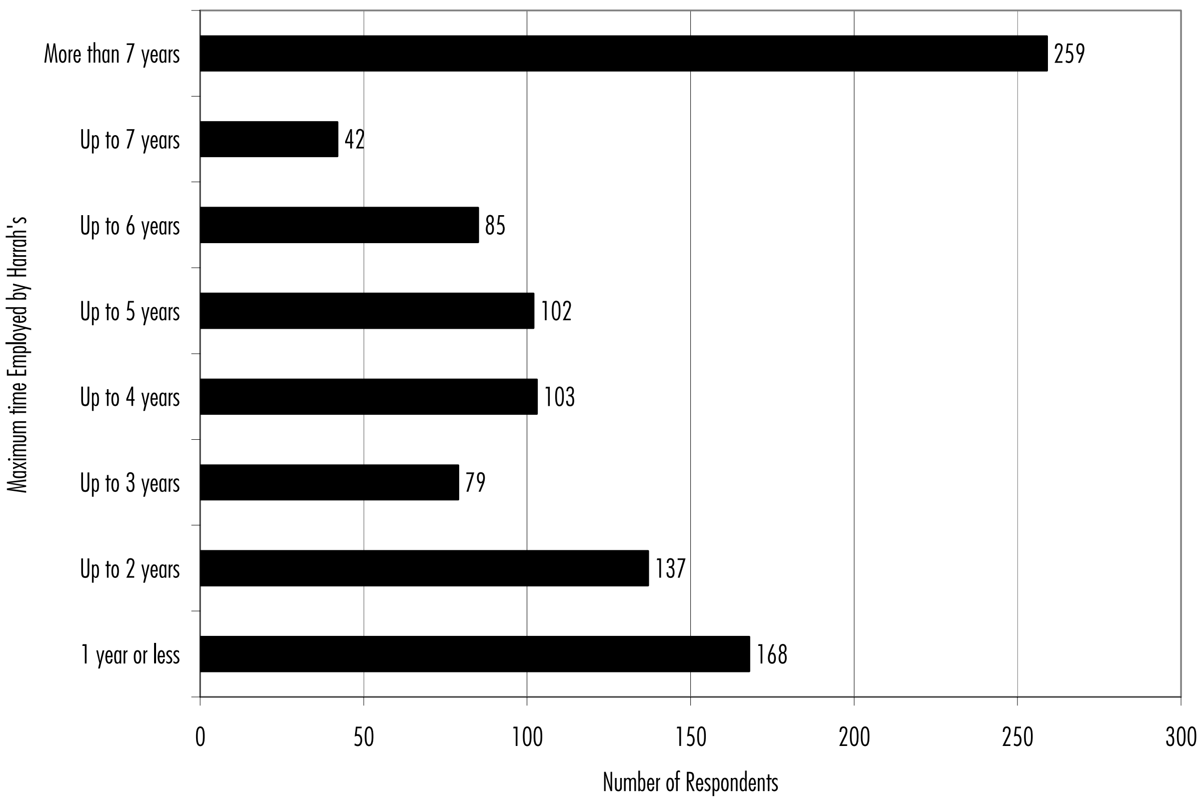
The average current annual income of the 790 Harrah's East Chicago employees responding to this question was $31,581 and the median was $28,000. As shown in Figure 15, 417 or 52.8 percent of those responding earn between $20,000 and $39,999. In 2003 (the latest date available), the Bureau of Economic Analysis reported that the per capita income in Lake County was $27,054. The 2000 Census reported the median household income in Lake County to be $41,289.

Figure 15: Current Annual Income of Harrah's East Chicago Employees



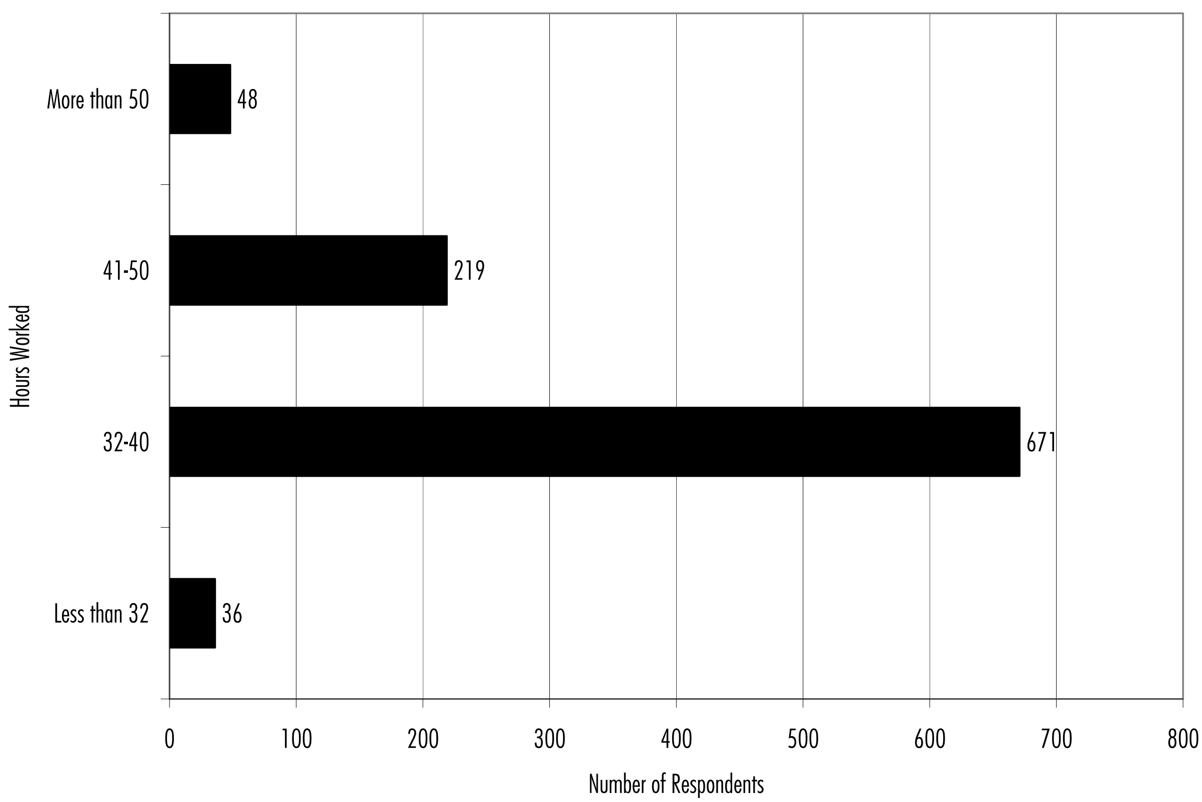
The average length of employment at Harrah's East Chicago for the 975 employees responding to this question was 4 years and 6 months and the median was 4 years and 1 month. Figure 20 displays the number of employees and years worked. Approximately 27 percent of those responding have worked at Harrah's East Chicago for more than 7 years and slightly over 31 percent have worked at Harrah's East Chicago for 2 years or less.

Figure 16: Years Worked at Harrah's East Chicago



As shown in Figure 17 only 36 respondents or 3.7 percent report working less than 32 hours per week. This is important as it is the dividing line for becoming fully eligible for employee benefits. Twenty-seven percent report working 41 hours or more.

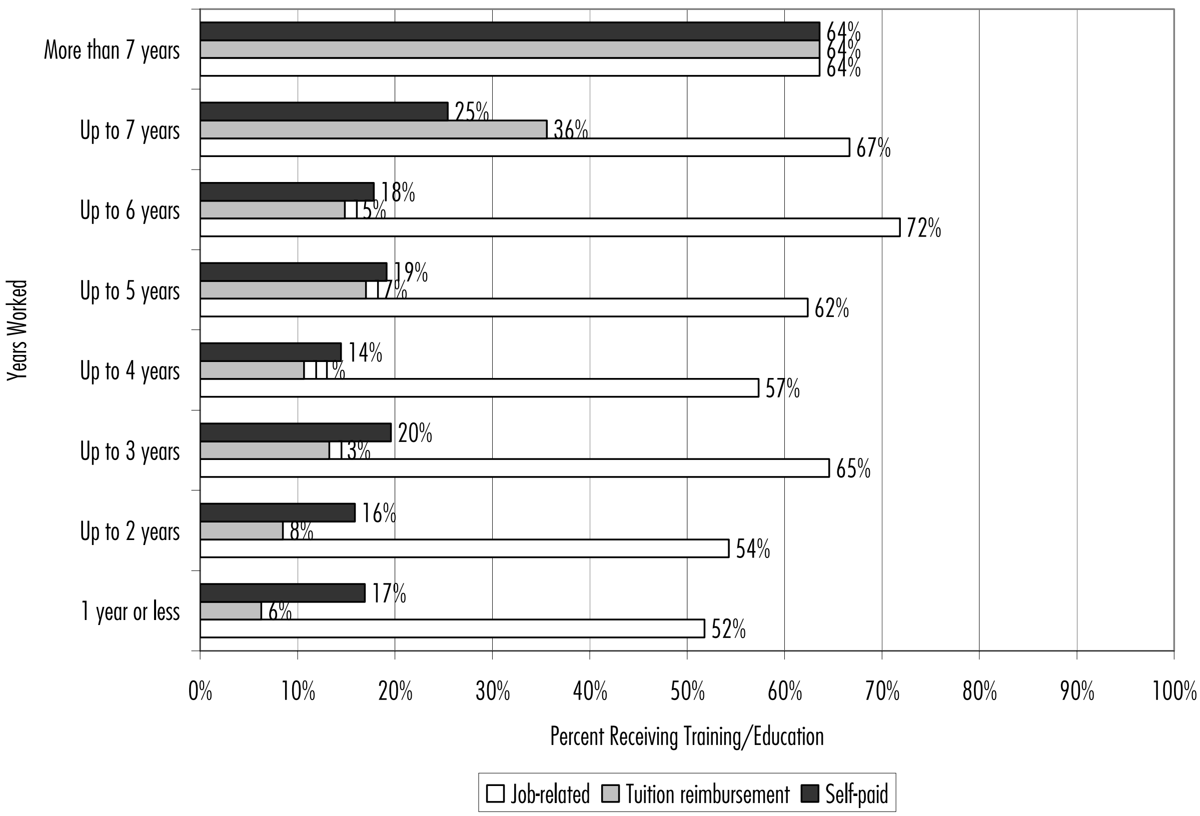
Figure 17: Number of Hours Worked per Week at Harrah's East Chicago.



Training and Education

Training and re-training are important components of building an economically competitive workforce. As show in Figure 18, much higher share of Harrah's East Chicago employees are receiving job-related training than receive either tuition reimbursement or choose to pay for additional skill-building opportunities on their own.

Figure 18: Training and Education Opportunities for Argosy Employees



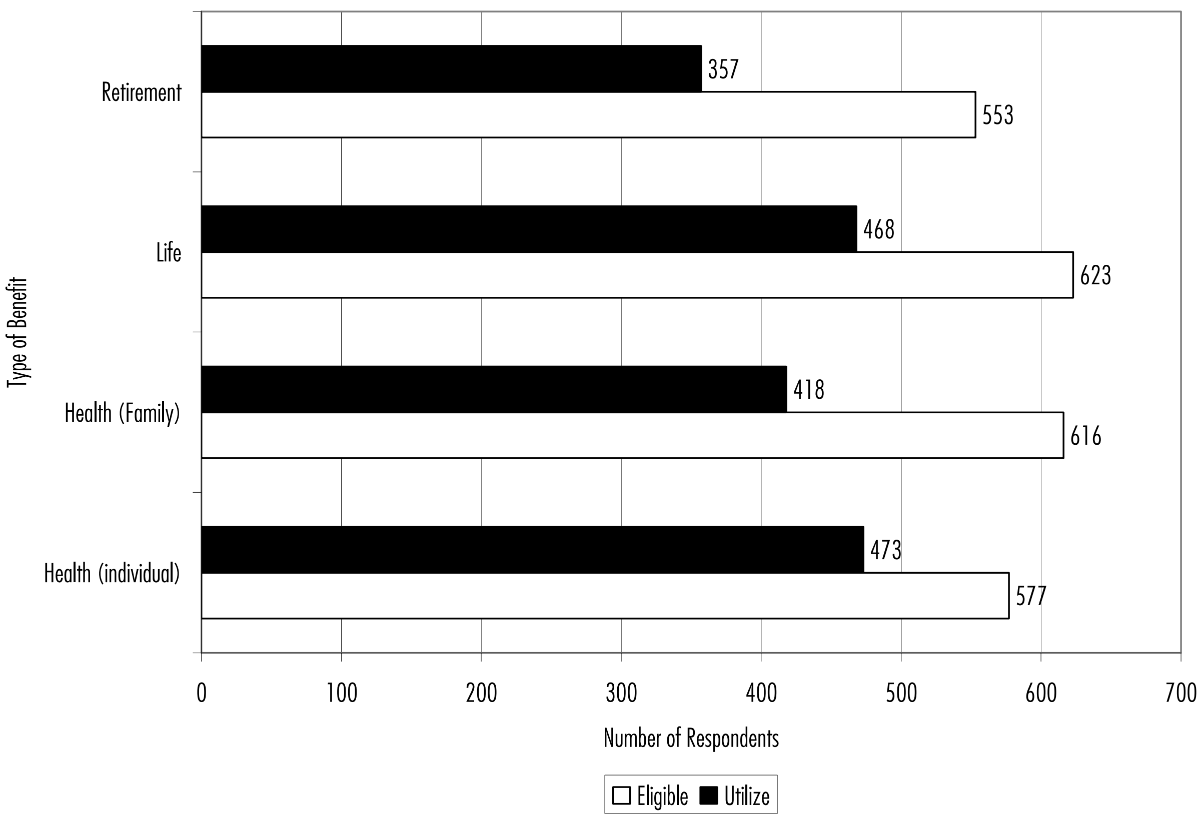
As might be expected the share of employees who report receiving tuition reimbursement from Harrah's East Chicago increased as the number of years worked increased. However, until the respondents have worked at Harrah's East Chicago for up to 7 years more employees report paying for their own training than receiving tuition reimbursement from Harrah's East Chicago

When access to training is compared by highest level of educational attainment, it becomes clear that access to all types of training increases as the level of educational attainment increases. For example, the share of those receiving job related training increased from 52 percent for those with a high school degree or less to 79 percent for those with a college degree or more. A similar disparity exists for both tuition reimbursement programs (11 percent high school or less to 24 percent college degree or more) and self-paid opportunities (8 percent high school or less to 30 percent college degree or more). While one explanation for this disparity is that those with a higher level of education have a greater appreciation for the value of skill building through additional education, more might be done to encourage more use of training programs.

Benefits

Participants in the focus groups held in conjunction with the previous license hearing have suggested that there are concerns regarding access to and utilization of benefits such as life and health insurance and retirement plans. As a result, questions regarding these benefits have been included in the Harrah's East Chicago survey and will be included in all future eight-year employee surveys. The results suggest that many of the 938 full-time employees responding to the survey are unaware or unclear of benefit eligibility. All respondents reporting working 32 hours or more should have responded positively to being eligible to receive benefits. Yet, approximately one-third of the responses suggest that they believe they are ineligible. Approximately 50 percent of the respondents report utilizing some form of health insurance and 50 percent utilize life insurance.[2] Only 38 percent report that they are participating in a Harrah's East Chicago retirement plan.

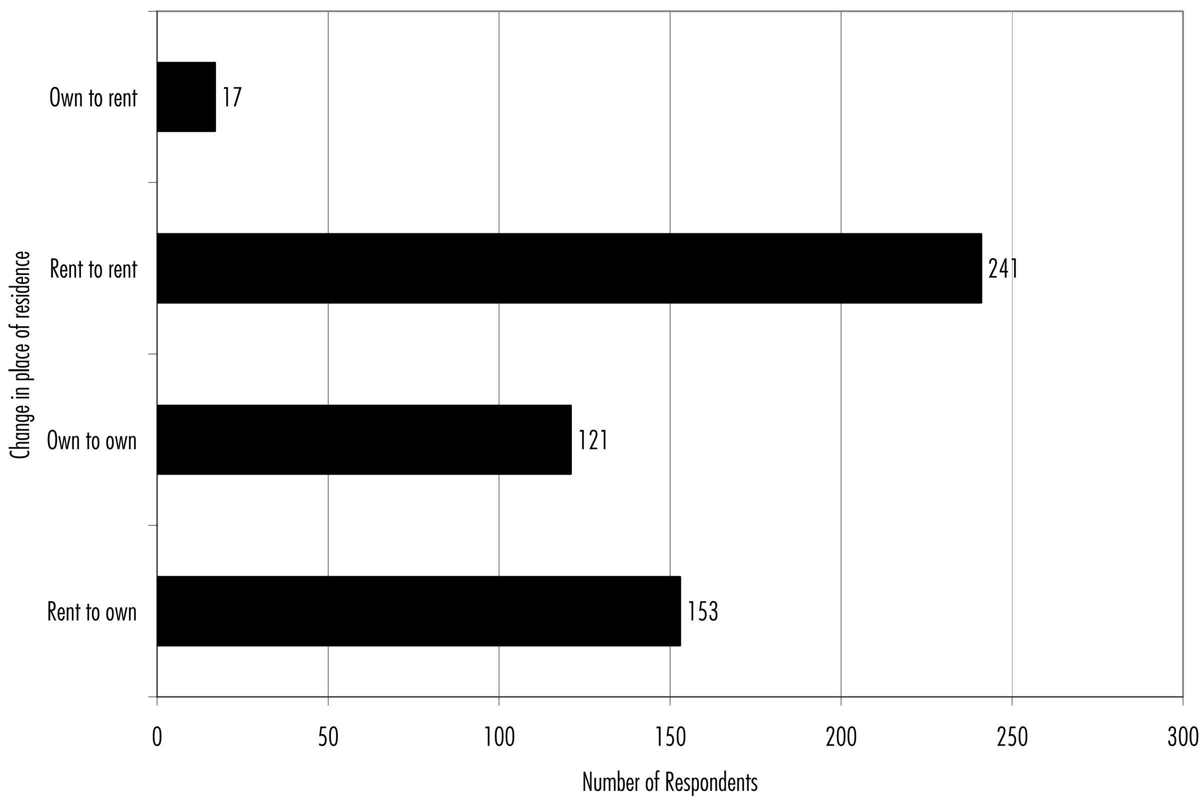
Figure 19: Benefits and Utilization



[2] Ninety-eight percent of employees responded positively to utilizing either individual or family health insurance. There is likely some duplication in these responses, the question will be improved upon in the next survey.

Of the 532 respondents reporting a change in place of residence since beginning work at Harrah's East Chicago, 153 or nearly 29 percent reported moving from rental status to home ownership (Figure 20). An additional 121 or nearly 23 percent reported moving from one home to another. Five hundred ninety-nine respondents reported purchasing a car, van, or truck, and 192 reported undertaking a home remodeling project.

Figure 20: Changes in Housing Status since Beginning Work at Harrah's East Chicago



Business Climate Impacts

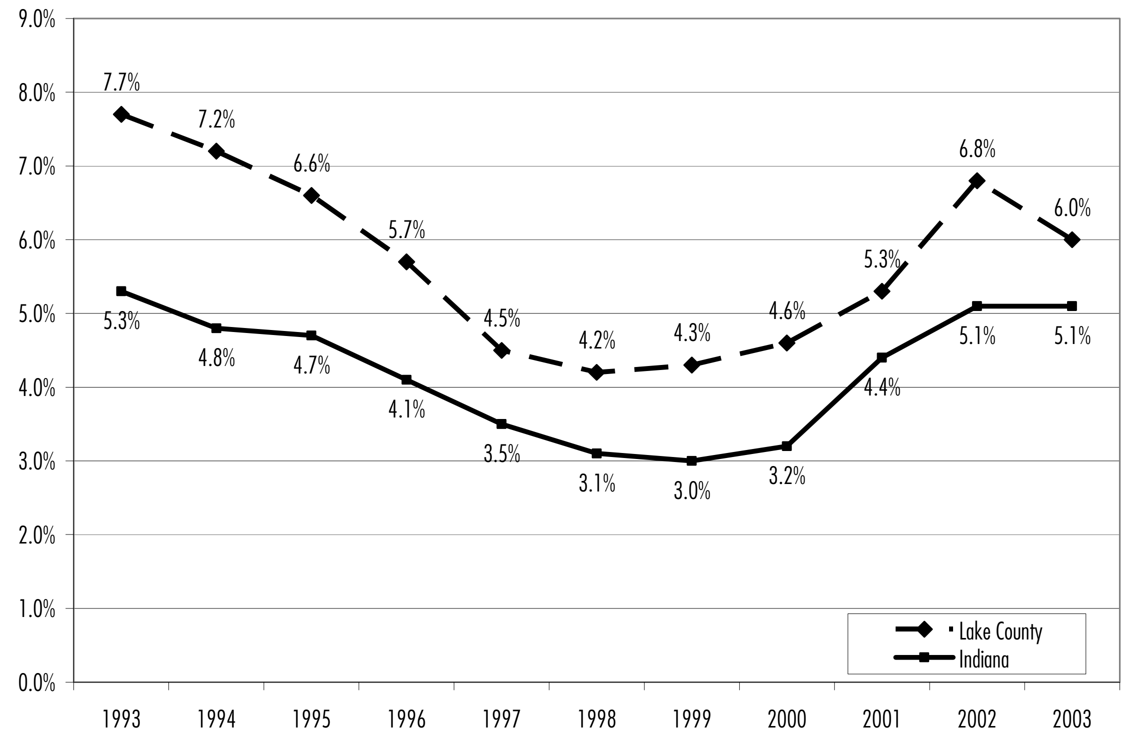
Advocates of legalizing Indiana riverboats argued that riverboats would contribute to local economies of stressed areas through newly created job opportunities and promises for increased wages. Advocates also contended that private local business establishments would benefit through increased consumption of goods and services from the influx of casino patrons and employees. Others argued that riverboats would have detrimental effects through cannibalization of existing business establishments. That is, opponents argued that riverboats with attached hotels and restaurants would provide a substitute for local consumption within local riverboat communities. As riverboats provide relatively higher paying jobs, some existing local establishments may not be able to compete for labor.

A study released by the Indiana Gambling Impact Study Commission in 1999 found that all Indiana riverboat counties were suffering from lower than normal economic conditions prior to riverboats beginning operations. Following the introduction of riverboats in these counties, the overall employment, wages, and number of firms generally were higher or comparable to statewide trends. Lake County is unique among the Indiana riverboat counties. It is the only county that has more than one riverboat license. Lake County has four licenses: One in East Chicago; two in Gary; and one in Hammond. As Figure 27 illustrates, the unemployment rate in Lake County has been consistently higher than the statewide trend.

This analysis expands upon the 1999 Indiana Gambling Impact Study Commission report, focusing on county level employment, wage, and number of establishments by industry using a special aggregation of ES-202 data provided by the Indiana Business Research Center.[3] A large portion of this analysis was completed for the license renewal of Gary riverboats (Majestic Star and Trump) and the Hammond riverboat in 2004. A brief local analysis on the growth of employment surrounding Harrah's in East Chicago is added to the evaluation.

[3] The ES-202 program produces a comprehensive tabulation of employment and wage information for workers covered by state unemployment insurance laws. Publicly available files include data on the number of establishments, monthly employment, and quarterly wages, by industry, at the three-digit level North American Industry Classification System, by county, by ownership sector, for the entire United States.

Figure 21: Unemployment Rates for Lake County and Indiana 1993-2003



This section complements the economic impact study in this evaluation. The economic benefits measured in that section show direct and total investment of dollars from tax revenues and incentive payments. This section adds a broader perspective of industry change to the discussion. This section identifies industries that have experienced observable changes soon after the commencement of gaming in Lake County. It also shows the total change in employment, number of establishments, and wage change near the riverboat. It is simply a descriptive analysis focused on industry change before and after the commencement of gaming operations. It does not attempt to provide a causal relationship between the establishment of riverboats and the change in other industries operating in Lake County. In fact, there is evidence that some change is simply a result of changes in industry mix.

Data Used for Industry Analysis

The United States Bureau of Labor Statistics (BLS) divides the employment and earnings into industries. Since 2000, the North American Industry Classification System (NAICS) has been the coding structure. The NAICS coding structure allows for hierarchical aggregation based on a six-digit system. All industries can be aggregated to the sector level (two-digit level). There are 21 sectors for which industries are assigned. These sectors can be grouped further into two production categories: Goods Producing and Service Producing. While the coding system allows for six-digit desegregation, the three-digit industry level is the most detailed level of analysis that will be performed in this report. That is the level just below the sector aggregation. For the purposes of this report, the three-digit level will be referred to as the industry level. The data used for this report in years prior to 2001 are a special tabulation provided by the Indiana Business Research Center. These data were recoded from the former Standard Industrial

Classification (SIC) coding scheme used during those years. The use of these data is limited, but it is the only source that is available for the trend analyses prepared in this section of the report.

Changes in Total Jobs, Establishments, and Wages

Figures 22, 23, and 24 compare trends in total number of jobs, total number of establishments, and average wage per employee between Lake County and the aggregate of non-riverboat counties for the 13-year period beginning in 1991 and ending in 2003. These data reflect third quarter figures. The trend lines take 1991 as the base year and compare each of the following years to those levels. Thus, 1991 as the base year is set to 100, and the subsequent years can be read as annual percentage changes from the base year, much like the consumer price index. The focus on the analysis is on whether or not there are observable changes that occurred after gaming commenced in Lake County and whether or not those changes are divergent from trends during the same time period in the aggregate of non-riverboat counties. While this report focuses on the Harrah's East Chicago opening in 1997, it is also important to understand that three other riverboats had already begun riverboat gaming operations in Lake County in the late 1996.

As shown in Figure 22, growth in total number of jobs in Lake County lagged the growth in non-riverboat counties. In the mid-nineties, the number of jobs increased but ultimately fell to nearly the same level in 2003 as in 1991. At the same time, the total number of jobs in the aggregate of non-riverboat counties was approximately 14 percent higher in 2003 than it was in 1991. The difference between job changes in Lake County and the aggregate of non-riverboat counties began well before gaming in the area.

Figure 22: Comparison of Trends in Total Jobs

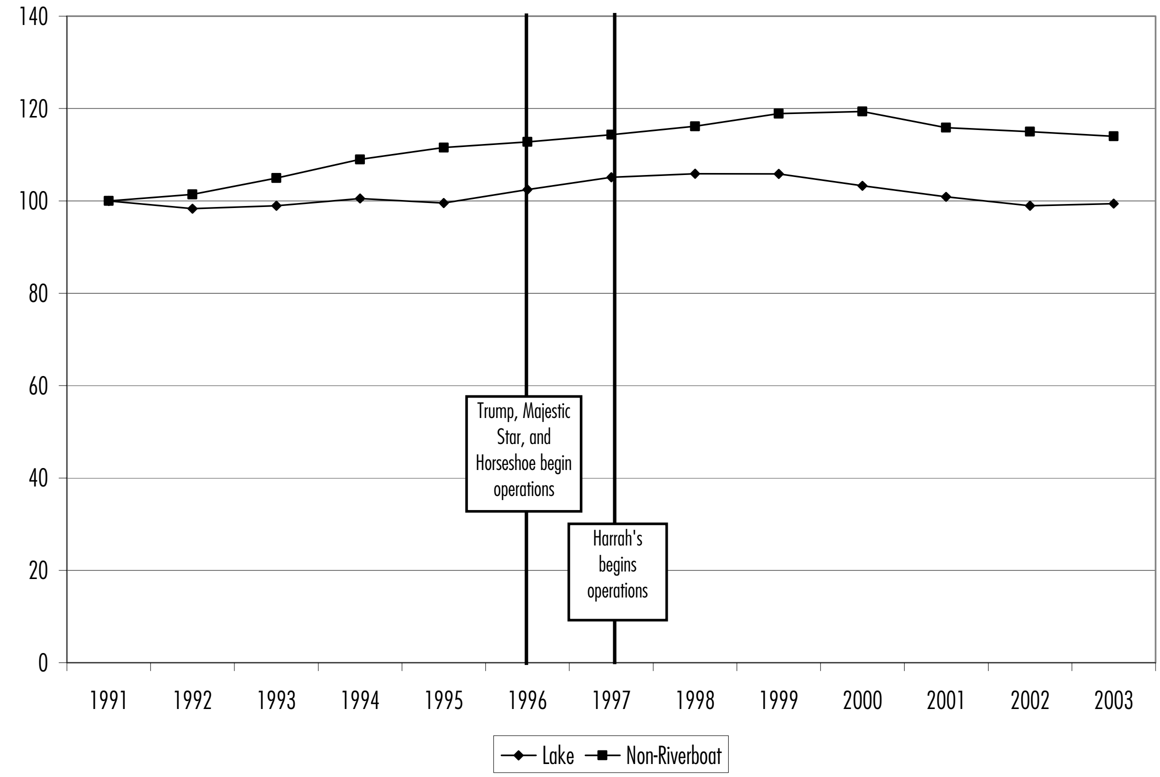
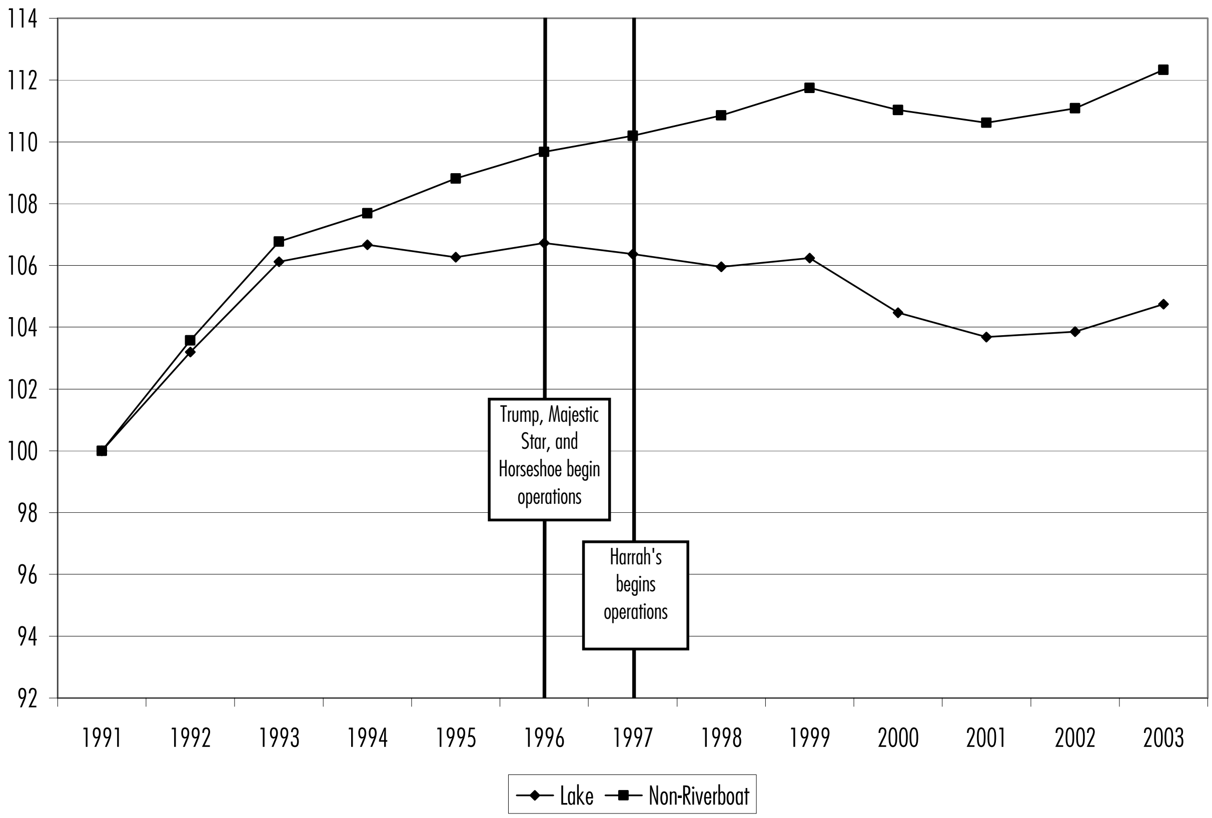


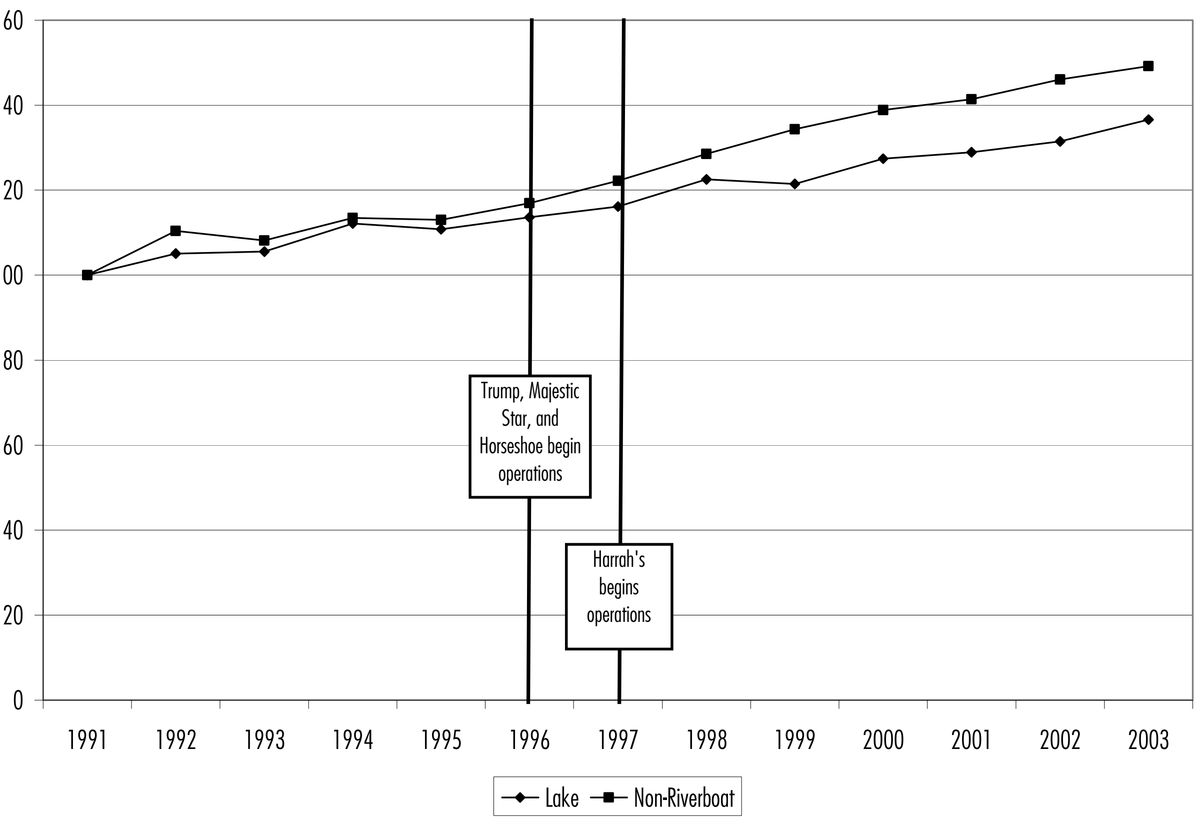
Figure 23 shows that the total number of establishments in Lake County was 5 percent greater in 2003 than in 1991. However, that number is less than half of the 12 percent increase in the number of establishments reported in the aggregate of non-riverboat counties over the same time period. The divergence of the Lake County trend from the aggregate non-riverboat county trend began in 1994, two years prior to the opening of the first riverboats in the area.

Figure 23: Comparison of Trends in Total Number of Establishments



While the average wage increased fairly consistently each year in Lake County during the 13-year period, Figure 24 indicates that it began slowing relative to the aggregate of non-riverboat counties around 1996. Even though the slower growth in wages began during the same year as riverboat gaming began, it does not prove causality. It is possible that the slowed job growth and loss in the number of establishments that began early during the study period reflects a relatively less than optimal business climate that began prior to the commencement of gaming. The average wage trend also likely reflects the change in industry mix in the area.

Figure 24: Comparison of Trends in Average Wage



Changing Industry Mix

The industrial mix in employment has changed dramatically over the past few decades. Across the country, the composition of employment has shifted from goods producing industries to service industries. This is also true in Indiana.

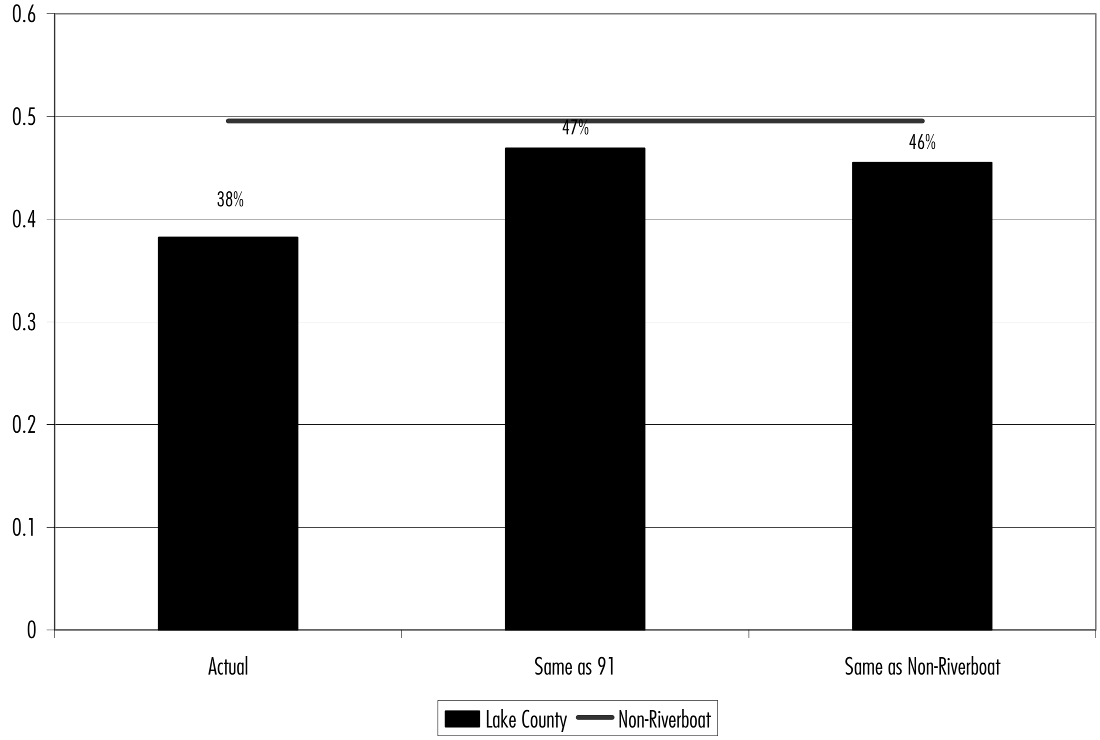
Table 13 compares the proportional shift in employment in Lake County to the aggregate of non-riverboat counties for the 13-year period beginning in 1991 (five years before riverboat gaming began in Lake County) through 2003. Like the aggregate of non-riverboat counties, Lake County has experienced a shift from manufacturing to service sector employment. However, that shift was 5 percent greater in Lake County. The greatest negative shift occurred in the Manufacturing Sector of the Goods Producing category. The Health Care and Social Services and the Arts, Entertainment, and Recreation sectors shifted positively in the industry mix. Additional negative shifts occurred in the Finance and Insurance and Transportation and Warehousing sectors. These industry shifts have contributed to the changing wage trends.

Table 13: Proportional Shift in Employment in Lake County by Sector

	Proportion in 2003		Proportional Shift from 1991 to 2003	
	Lake	Non-Riverboat	Lake	Non-Riverboat
Goods Producing	22%	28%	-8%	-3%
Construction	7%	5%	-1%	1%
Manufacturing	15%	22%	-7%	-4%
Agriculture, Forestry, Fishing, and Hunting	0%	0%	0%	0%
Mining	0%	0%	0%	0%
Service Producing	78%	72%	8%	3%
Health Care and Social Services	14%	12%	3%	2%
Educational Services	7%	6%	1%	1%
Real Estate and Rental and Leasing	1%	1%	0%	0%
Finance and Insurance	3%	4%	-2%	0%
Information	1%	2%	0%	0%
Arts, Entertainment, and Recreation	4%	1%	4%	0%
Accommodation and Food Services	8%	8%	0%	1%
Other Services (Except Public Administration)	4%	3%	0%	0%
Administrative and Support and Waste Management and Remediation Services	5%	5%	1%	1%
Professional, Scientific, and Technical Services	3%	3%	0%	0%
Management of Companies and Enterprises	1%	1%	0%	0%
Public Administration	6%	5%	1%	0%
Utilities	1%	0%	1%	0%
Retail Trade	13%	12%	0%	-1%
Wholesale Trade	3%	4%	-1%	0%
Transportation and Warehousing	4%	4%	-2%	0%
Unallocated	0%	0%	0%	0%

Figure 25 shows comparisons of actual change in wages during the 13-year period relative to the actual aggregate of non-riverboat counties and two other scenarios. Scenario 1 shows the wage increase that would have occurred if there had not been a change in industry mix since 1991. Scenario 2 indicates the increase in wages that would have occurred if the industry mix was the same in Lake County as in the non-riverboat counties in 2003. As shown, if the industry mix had remained the same in Lake County as in 1991, the average wage would have increased by 47 percent rather than the actual 38 percent. That scenario also would have increased faster than the expected wage increase if the 2003 industry mix of Lake County was the same as the aggregate of non-riverboat counties. Due to the wage structure of the Lake County's economy, none of the scenarios would have provided an increase equal to the aggregate of non-riverboat counties.

Figure 25: Actual and Scenario-Based Wage Change Comparisons, 1991-2003



Inter-Industry Business Climate Change

This section of the analysis provides a perspective of the business climate at the major industry level. This perspective offers insight into whether or not specific industries within previously outlined sectors have experienced substantial changes in number of jobs, number of establishments, and average wage per job after the commencement of gaming.

While more insightful, analyzing the data at the industry level is also much more complex. Most of the complexity exists because of data suppression. The ES202 data are suppressed if an industry has less than three firms or if one firm accounts for over 80 percent of industry employment. Data are suppressed to protect the privacy of individual firms. Even when all data are disclosed, some industries are too small and volatile to recognize any consistent trends. As a result of these complexities, specific industries had to meet two criteria before being included in the analysis.

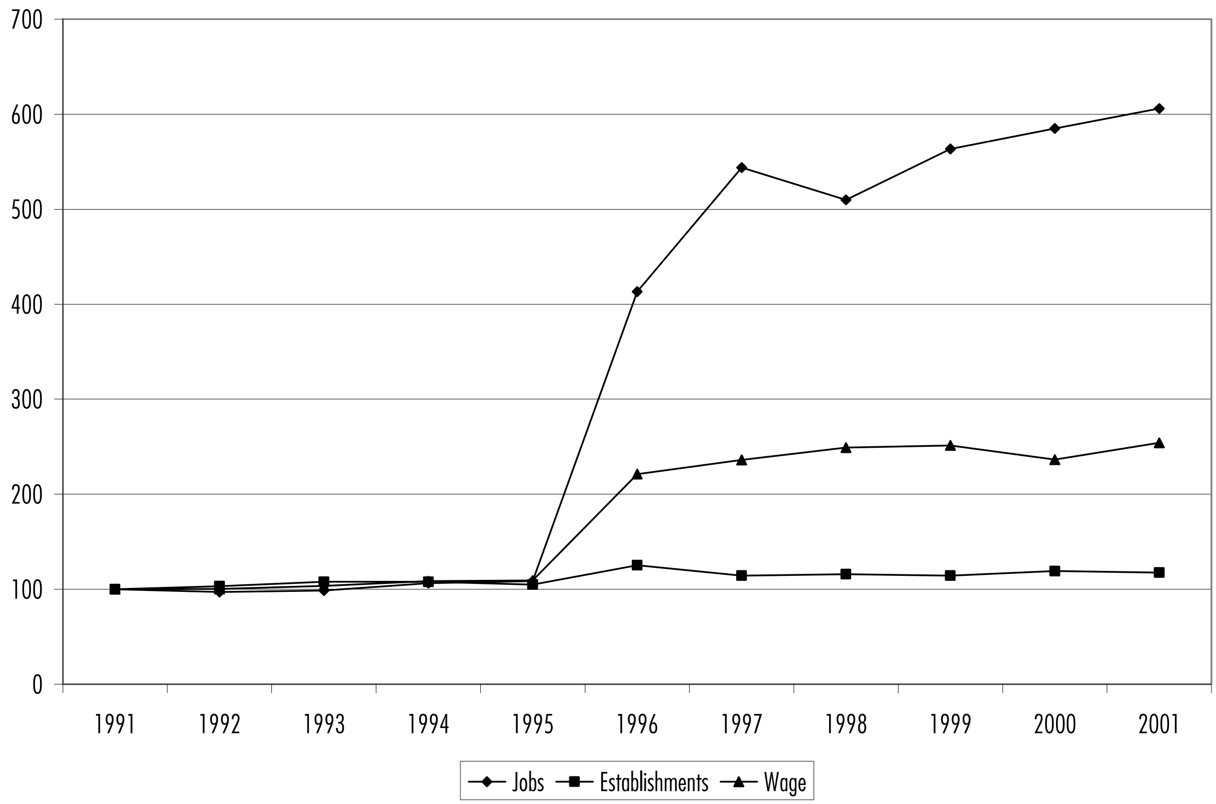
- Criterion 1: Data for specific industries had to be disclosed in at least two of the years between 1996 and 2001. To be included in the aggregate of non-riverboat county comparison, a specific industry within a given county had to be disclosed for every year between 1991 and 2001.
- Criterion 2: In addition to criterion 1, the number of jobs or establishments within specific industries had to account for at least 0.5 percent of the total for the county in at least one of the years between 1991 and 2001.

After meeting these criteria, the analysis began with a comparison of change in industry employment from 1991 to 1996 (before the riverboat), 1996 to 2001 (change after gaming). Based on the change during these time periods, a comparability index was constructed. The comparability index is equal to the percentage change in employment in Lake County from one time period to the next time period minus the percentage change during the same time periods in the non-riverboat counties. This index measures whether or not an industry in Lake County experienced comparable employment trends following the operation of gaming in Lake County. If an industry had an index score less than -5 or greater than 5 between 1996 and 2001, it was examined further. Further examination of those industries focused on whether or not each showed observable change before and after 1996. Again, the focus of this analysis is on trends that show observable divergence from the aggregate non-riverboat comparison before and after the commencement of gaming activities. It is not a study of causal relationships of riverboat gaming.

Amusement, Gambling, and Recreation Industry

The Amusement, Gambling, and Recreation Industry was one of the industries that experienced considerable change in Lake County in 1996.[4] It deserves special attention because it is the industry in which the riverboat operations are assigned. Much of the change in this industry is certainly due to the addition of the riverboats in the county. As Figure 26 indicates, there was a very large increase in employment while the number of establishments did not fluctuate as much. Wages also increased fairly drastically in 1996, the first year of riverboat gaming in Lake County.

Figure 26: Lake County Trends in Amusement, Gambling, and Recreation Industry (1991-2001)



[4] The trend lines take 1991 as the base year and compare each of the following years to those levels. Thus, 1991 as the base year is set to 100, and the subsequent years can be read as annual percentage changes from the base year, much like the consumer price index.

Other Industries in Lake County Experiencing Considerable Change

Eighteen other industries were found to have observable changes in 1996 that were not comparable to trends in the aggregate of non-riverboat counties.[5] Table 14 identifies those industries. It also indicates the sector in which each industry is categorized and the absolute change in employment, number of establishments, and average wage from 1996 to 2001. Most of the industries that experienced divergent trends were within the manufacturing sector (seven industries). All of those industries experienced a negative change in employment and only two of those industries did not lose establishments. The Food Service and Drinking Places, Food and Beverage Stores, Wholesale Electronic Markets and Agents and Brokers, and Motor Vehicle and Parts Dealers also lost employment and establishments. The Nonstore Retailer industry was the only industry in which the wage was lower in 2001 than in 1996. Selected industries in which employment grew relatively more quickly after 1996 include, Nursing and Residential Care Facilities; General Merchandise Stores; and Executive, Legislative, and other General Government Support.

Table 14: Identified Industries and Summary of Changes

Industry	Employment Change 1996-2001	Establishment Change 1996-2001	Wage Change 1996-2001 Weekly Average	Wage Change 1996-2001 Annual Average
Manufacturing Sector				
Transportation Equipment Manufacturing	-709	-2	$187	$9,724
Machinery Manufacturing	-537	2	$86	$4,472
Food Manufacturing	-365	-5	$217	$11,284
Chemical Manufacturing	-344	-1	$151	$7,852
Nonmetallic Mineral Product Manufacturing	-52	2	$113	$5,876
Printing and Related Support Activities	-45	-2	$155	$8,060
Paper Manufacturing	-13	-1	$181	$9,412
Wholesale Trade Sector				
Wholesale Electronic Markets and Agents and Brokers	-298	-32	$145	$7,540
Retail Trade Sector				
Food and Beverage Stores	-521	-18	$29	$1,508
Motor Vehicle and Parts Dealers	-313	-15	$146	$7,592
Nonstore Retailers	8	-10	-$156	-$8,112
Health and Personal Care Stores	59	-8	$54	$2,808
General Merchandise Stores	755	0	$55	$2,860
Health Care and Social Assistance Sector				
Hospitals	59	-1	$117	$6,084
Nursing and Residential Care Facilities	437	3	$60	$3,120

[5] See Appendix I for description of each industry

Table 14: Identified Industries and Summary of Changes (continued)

Industry	Employment Change 1996-2001	Establishment Change 1996-2001	Wage Change 1996-2001 Weekly Average	Annual Average
Accommodation and Food Services				
Food Services and Drinking Places	-941	-53	$37	$1,924
Accommodation	7	6	$86	$4,472
Public Administration				
Executive, Legislative, and Other General Government Support	1,440	6	$108	$5,616

Table 15 indicates the changes in employment in more detail for the selected industries. The first column after the industry name shows the actual employment in 2001. The next two columns show what employment in 2001 would be for each of the industries if: (1) each industry followed the same trend after 1996 as experienced from 1991 to 1996 and (2) each industry followed the same trend between 1996 and 2001 as did the aggregate of non-riverboat counties. The last two columns show the difference between the actual employment and the employment under the other scenarios, respectively. If the numbers in the last two columns are positive, then Lake County is better off than it would be under either of the other scenarios. If the same numbers are negative, then that industry is worse off.

Table 15: Actual Employment in Lake County 2001 Relative to Other Trends

		Total Employment if Change in Employment Was Equal to:		Difference between Actual and:	
Industry	Actual	Average 1991-1996 Trend in Lake County	Trend in Aggregate Non-Riverboat Counties 1996-2001	1991-1996 Trend	Non-Riverboat Trend
Hospitals	11,111	12,357	12,350	-1,246	-1,239
Food Services and Drinking Places	13,671	15,903	14,902	-2,232	-1,231
Transportation Equipment Manufacturing	1,011	2,770	1,612	-1,759	-601
Machinery Manufacturing	8,79	2,025	1,284	-1,146	-405
Food Manufacturing	1,242	1,611	1,496	-369	-254
Nonmetallic Mineral Product Manufacturing	1,097	1,320	1,208	-223	-111
Chemical Manufacturing	1,352	1,560	1,445	-208	-93
Health and Personal Care Stores	1,932	1,778	2,020	154	-88
Motor Vehicle and Parts Dealers	3,164	4,398	3,241	-1,234	-77
Wholesale Electronic Markets and Agents and Brokers	486	829	520	-343	-34
Printing and Related Support Activities	402	526	402	-124	0
Accommodation	1,275	1,553	1,264	-278	11
Paper Manufacturing	286	84	245	202	41
Nonstore Retailers	510	361	413	149	97
Food and Beverage Stores	5,006	5,323	4,837	-317	169
General Merchandise Stores	4,858	4,348	4,417	510	441
Nursing and Residential Care Facilities	4,328	5,768	3,736	-1,440	592
Executive, Legislative, and Other General Government Support	9,070	7,309	8,281	1,761	789

As shown, Hospitals and Food Services and Drinking Places were the largest employers of the identified industries in 2001. Using the non-riverboat trend as the comparison, those industries also experienced the largest absolute difference between actual employment and what employment would have been under the other two scenarios. If the Hospital industry had grown at the same rate between 1996 and 2001 as it did between 1991 and 1996 (12,357 jobs), it would have kept pace with the trends experienced in the aggregate of non-riverboat counties (12,350 jobs).

Three of the selected industries that performed worse than if trends had been the same as from 1991 to 1996 in Lake County, still performed better than the aggregate of non-riverboat counties. Those industries include: Accommodation; Food and Beverage Stores; and Nursing and Residential Care Facilities.

Four industries performed better than under either scenario. One of those industries was government support, technically coded as Executive, Legislative, and Other General Government Support. The other industries include, Paper Manufacturing; Nonstore Retail; and General Merchandise Stores.

Table 16 compares the number of establishments for the selected industries. Twelve of the 18 selected industries had fewer firms in 2001 than if change had occurred at the same pace as between 1991 and 1996. Nine industries had fewer establishments than if they had changed at the same rate as the aggregate of non-riverboat communities. The Food Services and Drinking Places industry faired the worst relative to the other two scenarios. Other industries that slowed relative to both other scenarios include: Motor Vehicle and Parts Dealers; Health and Personal Care Stores; Wholesale Electronic Markets and Agents and Brokers; General Merchandise Stores; Nonstore Retailers; Transportation Equipment Manufacturing; Paper Manufacturing; and Hospitals. The industries that have more establishments than if they had performed like the aggregate of non-riverboat counties include: Chemical Manufacturing; Machinery Manufacturing; Accommodation; Nursing and Residential Care Facilities; Printing and Related Support Activities; Executive, Legislative, and other General Government Support; and Food and Beverage Stores.

Table 16: Actual Number of Establishments in Lake County 2001 Relative to Other Trends

		Total Employment if Change in Employment Was Equal to:		Difference between Actual and:	
Industry	Actual	Average 1991-1996 Trend in Lake County	Trend in Aggregate Non-Riverboat Counties 1996-2001	1991-1996 Trend	Non-Riverboat trend
Food Services and Drinking Places	743	935	788	-192	-45
Motor Vehicle and Parts Dealers	176	192	187	-16	-11
Health and Personal Care Stores	115	122	122	-7	-7
Wholesale Electronic Markets and Agents and Brokers	86	118	92	-32	-6
General Merchandise Stores	55	57	59	-2	-4
Nonstore Retailers	30	33	33	-3	-3
Transportation Equipment Manufacturing	9	10	10	-1	-1
Paper Manufacturing	5	6	6	-1	-1
Hospitals	9	11	10	-2	-1
Food Manufacturing	26	25	26	1	0
Nonmetallic Mineral Product Manufacturing	36	30	36	6	0
Chemical Manufacturing	23	27	22	-4	1
Machinery Manufacturing	41	41	38	0	3
Accommodation	38	29	35	9	3
Nursing and Residential Care Facilities	58	86	54	-28	4
Printing and Related Support Activities	41	41	37	0	4
Executive, Legislative, and Other General Government Support	37	28	31	9	6
Food and Beverage Stores	205	227	197	-22	8

Table 17 compares the average wage per job for the selected industries. The Nonstore Retailers; Nursing and Residential Care Facilities; Food and Beverage Stores; Nonmetallic Mineral Product Manufacturing; Machinery Manufacturing; Health and Personal Care Stores; Accommodation; and Chemical Manufacturing were the only identified industries that paid less on average than if the growth in wage per job had continued at the same rate as between 1991 and 1996. Seven of the 19 industries did not keep pace with wages of the aggregate of non-riverboat counties.

Table 17: Actual Wage in Lake County 2001 Relative to Other Trends

		Total Employment if Change in Employment Was Equal to:		Difference between Actual and:	
Industry	Actual	Average 1991-1996 Trend in Lake County	Trend in Aggregate Non-Riverboat Counties 1996-2001	1991-1996 Trend	Non-Riverboat trend
Nonstore Retailers	$30,732	$67,324	$51,148	$(36,592)	$(20,416)
Hospitals	$34,164	$34,075	$36,537	$89	$(2,373)
Nursing and Residential Care Facilities	$19,188	$19,547	$21,186	$(359)	$(1,998)
Food and Beverage Stores	$15,288	$16,751	$16,349	$(1,463)	$(1,061)
Nonmetallic Mineral Product Manufacturing	$39,156	$39,443	$40,005	$(287)	$(849)
General Merchandise Stores	$15,236	$13,208	$15,653	$2,028	$(417)
Machinery Manufacturing	$36,816	$41,395	$36,998	$(4,579)	$(182)
Food Services and Drinking Places	$9,932	$9,414	$9,514	$518	$418
Executive, Legislative, and Other General Government Support	$26,728	$26,212	$26,116	$516	$612
Health and Personal Care Stores	$23,920	$27,650	$23,301	$(3,730)	$619
Motor Vehicle and Parts Dealers	$34,528	$29,814	$33,292	$4,714	$1,236
Accommodation	$16,900	$18,564	$15,289	$(1,664)	$1,611
Chemical Manufacturing	$61,776	$63,400	$59,585	$(1,624)	$2,191
Wholesale Electronic Markets and Agents and Brokers	$45,760	$45,309	$43,165	$451	$2,595
Printing and Related Support Activities	$30,472	$25,897	$26,627	$4,575	$3,845
Transportation Equipment Manufacturing	$39,000	$35,446	$33,950	$3,554	$5,050
Paper Manufacturing	$43,680	$43,014	$38,440	$666	$5,240
Food Manufacturing	$38,688	$32,454	$31,640	$6,234	$7,048

Three of the industries in which the average wage was less than it would have been if it had experienced the same growth between 1996 and 2001 as occurred during 1991 through 1996, still performed better than if they had mirrored the aggregate non-riverboat county wage growth. Those industries included: Health and Personal Care Stores; Accommodation; and Chemical Manufacturing. Eight industries experience greater actual average wage increases than if they had experienced the same change under either of the other scenarios. Those industries include: Food Services and Drinking Places; Executive, Legislative, and Other General Government Support; Motor Vehicle and Parts Dealers; Wholesale Electronic Markets and Agents and Brokers; Printing and Related Support Activities; Transportation Equipment Manufacturing; Paper Manufacturing; and Food Manufacturing.

Change in Employment near Harrah's East Chicago

The comparable industry trend data do not exist for geographic boundaries lower than the county level. However, there are data that allow for comparisons to total employment, total number of establishments, and total wage by ZIP code. These data, taken from the U.S. Bureau of the Census ZIP Business patterns, were used in this analysis to estimate the total for each of those indicators within 1-mile, 2-mile, 3-mile, 4-mile, and 5-mile radii around the Harrah's East Chicago. The estimates are calculated by the percentage of the area of each ZIP code within the respective radii.

Table 18 shows that an estimated 24.3 percent of all jobs and 12 percent of all establishments were located within a five-mile radius around the riverboat in 2001. Most of those jobs and establishments are between four and five miles from the riverboat. About 30 percent of all wages paid in Lake County were within five miles of the Harrah's East Chicago. Half of that 30 percent of wages is paid to jobs within three miles of the riverboat. Proportionally, there has been a shift of employment, establishments, and wages away from the studied area. Due to lack of data, it is not yet possible to determine the industries in which these shifts have occurred.

Table 18: Shifts in Employment, Establishments, and Wages near Harrah's East Chicago

	2001 Proportion	Shift 1996-2001	Cumulative Proportions	Shift
Employment				
< 1 mile	1.8%	-0.1%	1.8%	-0.1%
1-2 mile	4.2%	-0.2%	6.0%	-0.4%
2-3 mile	4.9%	-0.3%	10.9%	-0.7%
3-4 mile	5.5%	-0.2%	16.4%	-0.9%
4-5 mile	7.8%	0.4%	24.3%	-0.5%
> 5 mile	75.7%	0.5%	100.0%	
Establishments				
< 1 mile	0.6%	-0.1%	0.6%	-0.1%
1-2 mile	1.4%	-0.2%	2.0%	-0.3%
2-3 mile	2.1%	-0.3%	4.1%	-0.5%
3-4 mile	3.3%	-0.4%	7.3%	-0.9%
4-5 mile	4.7%	-0.5%	12.0%	-1.4%
> 5 mile	88.0%	1.4%	100.0%	
Wage				
< 1 mile	2.5%	-0.6%	2.5%	-0.6%
1-2 mile	5.9%	-1.4%	8.4%	-2.0%
2-3 mile	6.6%	-1.5%	15.0%	-3.5%
3-4 mile	6.6%	-1.0%	21.6%	-4.5%
4-5 mile	8.6%	-0.2%	30.3%	-4.6%
> 5 mile	69.7%	4.6%	100.0%	

Summary of Business Impacts

Overall, the numbers of jobs, number of establishments, and average wage per job in Lake County have lagged compared to the trends in the aggregate of the non-riverboat counties. The lagged growth in jobs and establishments began well before the commencement of gaming. The divergence in wage growth relative to the aggregate of non-riverboat counties began approximately the same time as gaming in the county. However, this change is likely due more to the changing industry mix than the inducement of gaming employment in the area.

Amusement, Gambling, and Recreation Industry was one of the industries that showed considerable change after gaming began in Lake County in 1996. Obviously, the change is due to the addition of riverboats in the area. Employment and wages grew very rapidly in that industry post riverboat gaming.

Eighteen other industries met the criteria for analysis and showed considerable observable change in employment, number establishments, or wages near the time gaming commenced. Most of those industries were in the Manufacturing and Retail Sectors. It is impossible to argue that all of the observable changes documented here occurred because riverboats opened during that time period. Causal relationship between gaming commencement and other industry change is beyond the scope of this report. This study, however, provides an understanding of what the business climate is in a county that receives fairly large investments and much attention as a result of gaming in the community.

Table 19 provides a summary of change in selected industries, which exhibited considerable change around the same time as the commencement of gaming. Specifically, the table shows whether or not an industry had positive change after the commencement of gaming relative to the change in only Lake County five years prior (Lake), relative to only the aggregate of non-riverboat counties (non-riverboat), relative to both the change in the county five years prior and the change five years after in the non-riverboat counties (both), or positive change relative to neither of the two scenarios (neither). The bottom section of the table shows the count by employment, establishment, and wage. The table also scores each industry. The score is the sum of the three indicators based on the following conditions: Lake (1 point), Non-riverboat (1 point), Both (2 points), and Neither (-2 points).

Table 19: Summary of Relative Change by Selected Industries

Industry	Jobs	Establishments	Wage	Score
Nonmetallic Mineral Product Manufacturing	Neither	Lake	Neither	-3
Hospitals	Neither	Neither	Non-Riverboat	-3
Nonstore Retailers	Both	Neither	Neither	-2
Machinery Manufacturing	Neither	Both	Neither	-2
Food Services and Drinking Places	Neither	Neither	Both	-2
Motor Vehicle and Parts Dealers	Neither	Neither	Both	-2
Transportation Equipment Manufacturing	Neither	Neither	Both	-2
Wholesale Electronic Markets and Agents and Brokers	Neither	Neither	Both	-2
Health and Personal Care Stores	Lake	Neither	Non-Riverboat	0
Food and Beverage Stores	Lake	Non-Riverboat	Neither	0
Chemical Manufacturing	Neither	Non-Riverboat	Non-Riverboat	0
Nursing and Residential Care Facilities	Non-Riverboat	Lake	Neither	0
General Merchandise Stores	Both	Neither	Lake	1
Food Manufacturing	Neither	Lake	Both	1
Paper Manufacturing	Both	Neither	Both	2
Printing and Related Support Activities	Neither	Both	Both	2
Accommodation	Lake	Both	Non-Riverboat	4
Executive, Legislative, and Other General Government Support	Both	Both	Both	6
Both	4	4	8	
Lake	3	3	1	
Non-Riverboat	1	2	4	
Neither	10	9	5	

Most of the selected industries grew at a slower rate after the beginning of gaming operations and slower than the non-riverboat trend for the same time period (*Neither* in table above). Four industries performed better than both before gaming operations in the county began and the non-riverboat trend. Most of the industries' wages per job grew faster than they would have in the scenarios (trend in Lake County before gaming and trend of non-riverboat gaming).

The Executive, Legislative, and other General Government Support, within the Public Administration Sector, was the only industry to have increased faster than both of the other scenarios in employment, number of establishments, and wages. Others that placed positively on the positive growth score were General Merchandise Stores, Food Manufacturing, Paper Manufacturing, Printing and Related Support

Activities, and Accommodation. Eight of the industries received negative placing under the scoring system. The industries that received negative competitive scores were Nonmetallic Mineral Product Manufacturing, Hospitals, Nonstore Retailers, Machinery Manufacturing, Food Services and Drinking Places, Motor Vehicle and Parts Dealers, Transportation Equipment Manufacturing, and Wholesale Electronic Markets and Agents and Brokers.

Twenty-four percent of jobs, 12 percent of establishments, and about 30 percent of wages in Lake County are located within a five-mile radius of Harrah's East Chicago. Since 1996, there has been a shift of jobs away from this area. Future data availability will allow for more detailed analyses that indicate which industries are experiencing those shifts, either positively or negatively.

Current Financial Position and Future Plans

Resorts International Holdings, the new owner of Showboat Marina Casino in East Chicago, Indiana, has applied for the renewal of the gaming license for the Showboat Marina Casino. The purpose of this report is to provide the Indiana Gaming Commission with an assessment of the past and forecasted financial performance of this Indiana facility.

Showboat Marina Casino Partnership was formed on March 1, 1996, for the purpose of operating a riverboat casino facility in East Chicago, Indiana. The East Chicago facility was licensed in April 1997 and Harrah's East Chicago acquired Showboat in June 1998. With the acquisition, Harrah's East Chicago owned 55 percent of the Showboat Marina Casino Partnership. The East Chicago facility was converted to the Harrah's East Chicago brand in March 1999 when Harrah's East Chicago increased its ownership interest to 99.55 percent. In 2002, Harrah's East Chicago applied for and was granted a renewal of its license to operate the East Chicago facility through 2005. In 2003, Harrah's East Chicago acquired the rest of the equity to become the sole owner of the East Chicago facility. On September 27, 2004, Resorts International Holdings, LLC, a Delaware limited liability company, entered into an asset purchase agreement to acquire Showboat Marina Casino Partnership as part of a transaction involving four casinos which had a total transaction value of $1.3 billion. The transaction was financed with about $350 million of equity with the balance coming from two long-term debt contracts. The name of the property will become Resorts East Chicago.

Resorts International Holding, LLC

Resorts International Holding, LLC, was formed in February 2004, as a limited liability company and is the holding company for four different wholly owned affiliate companies, one of which is the East Chicago property. Resorts International Holding, LLC, is a wholly owned subsidiary of RIH Casino Resorts, LLC whose voting members are RIH Voteco, LLC, and RIH Co. Investment Voteco, LLC. The sole members of these two limited liability companies are Thomas Barrack and Nicholas Ribis. Nicholas L. Ribis is the manager of Resorts International Holding, LLC. The non-voting members are affiliates of Colony Investors VI and are invested through an entity identified as RIH Resorts, LLC. Colony Investors VI is a non-voting equity investment vehicle affiliated with Colony Capital, LLC. Colony Investors VI plans to invest total equity of $92.5 million in this project.

Colony Capital, LLC

Colony Capital, LLC, is a private international investment firm focusing primarily on real estate related assets and operating companies with a dependence on real estate assets. Affiliated investment vehicles include Colony I, Colony II, Colony III, Colony IV, Colony V, and Colony VI. The firm was created in 1991 and has consummated investments with a total capitalization of $10.5 billion in that period of time. The company attracts equity capital from institutional investors and late in 2004, managed $4.1 billion in equity.

The operating procedure of Colony Capital, LLC, is to create a pool of private equity and to acquire undervalued assets, using its equity capital leveraged with long-term debt up to a target capital structure of 75 percent debt and 25 percent equity. The General Partner makes the investment and management decisions and the Limited Partners are non-voting members. The General Partner looks for opportunities to sell assets or develop and sell acquired real estate for a profit. This is in contrast to an acquirer who may try to build long-term value by improving operations of companies. Colony Capital's minimum annual rate of return to its equity investors is 10 percent. Colony Capital LLC is the general partner and earns an annual fee based on the value of the assets under management.

The standard organizational structure for a transaction such as the one involving the East Chicago facility is for the General Partner to set up an independent limited liability affiliate that will own the operating assets being acquired. The entity will issue debt required to complete the transaction. The assets or cash flows of the property being acquired or assets and cash flows of affiliates secure the debt. A limited partnership affiliate such as Colony Capital VI will be the equity investor. As part of the structure, the limited partners (in their individual capacities and not in their capacities as limited partners) may have opportunities to participate in co-investment opportunities when the general partner decides that a project is too large or too risky to be funded completely with the equity capital available from the equity entity such as Colony Investors VI. These opportunities will be identified by the General Partner and made available to the limited partners on a pro-rata share basis. Limited partners are not required to participate in these co-investment opportunities

Gaming Investments of Colony Capital

Colony Capital, LLC, currently is invested in other gaming-related assets. Colony Capital bought the Resorts International Hotel and Casino in Atlantic City in March 2001. Nicholas Ribis, the former CEO of the Trump gaming operations served as a Colony consultant and had an equity stake in Resorts International and was given the responsibility to oversee the Resorts operation in Atlantic City. He served as Vice Chairman of Resorts in 2004. In 2004, Resorts opened a new $125 million luxury hotel tower in Atlantic City and agreed to acquire land across the street from its new hotel for $40 million to develop retail space and another tower hotel.

Colony Capital, LLC, through its subsidiary Colony LVH acquired the Las Vegas Hilton in June 2004 from Caesars for $280 million. Caesars Entertainment President and Chief Executive Officer Wallace R. Barr said, "The new owners of the legendary Las Vegas Hilton have a strong track record and are in an excellent position to ensure a bright future for the property and its world-class employees." Colony LVH entered into an agreement with Hilton Hotels Corporation pursuant to which the hotel would continue to use certain elements of the Hilton brand, primarily The Hilton Reservation System. The firm intended to continue the operation of the property as a hotel-casino, and may construct additional facilities on land that is currently unused. "This is a one-of-a-kind asset and we look forward to repositioning the property and recapturing its luster as one of the great resorts of the world," said Thomas J. Barrack, Jr., Chairman and CEO of Colony Capital. Nicholas L. Ribis, Vice Chairman of Colony Resorts LVH Acquisitions, LLC (Colony LVH) added, "We are excited about operating one of the best-known resorts in the world and being a part of the number one gaming market in the world." Colony LVH planned to invest up to $67 million over a four-year period to renovate the hotel, including updates to the guest rooms, restaurants and casino area and will focus on developing convention business for the hotel.

In January 2004, Colony Capital bought 15 percent of the biggest casino operation in Europe for approximately $122 million. Colony Capital also secured an option to sell its stake in the business between 2008 and 2010. The new operating company was formed when Accor SA merged its casino business with Groupe Lucien Barriere. The combined entity will control 30 percent of the French casino market and will generate annual revenue of $1.1 billion.

With the recent proposed acquisition of the four casino properties from Harrah's Caesars, Colony Capital was identified in the press as "poised to become a major competitor in the gaming industry nationwide." It is one of a few companies with major exposure in both Atlantic City and Las Vegas. Thomas Barrack was quoted as telling the Nevada gaming regulators that the gaming business had evolved such that "Colony Capital and other private companies are more interested in long-term commitments than they had been in the past." Additionally, Colony Capital's investment in the Resorts International property in Atlantic City was cited as having improved the property and turned it into a must-see attraction.

Colony Investors VI

Colony Investors VI, an affiliate of Colony Capital, LLC, was formed in July 2003 as a discretionary real estate related investment fund. The entity is a limited partnership. As such, investment authority and all other decision rights are vested in the partnership's General Partner that is Colony GP VI, LLC, whose sole member is Mr. Thomas Barrack. The total equity capital commitment to Colony Investors VI is $463 million from about 30 Limited Partners. Based on the general terms of the investment fund, it has capacity to acquire assets with cost basis of $1.85 billion or four times the equity capital commitment. As of September 2004, Colony VI had consummated eight investments and committed $336 million of debt plus equity capital of the Partnership. The only gaming related investment held by Colony Investors VI at June 30, 2004, was an interest in the Las Vegas Hilton Hotel and Casino.

Management of Property

The casino management experience upon which the success of this acquisition is based comes from Mr. Ribis and the management team that he has assembled for properties with the Resorts International brand. The Asset Purchase Agreement indicated that Harrah's East Chicago, the seller, would retain certain key personnel. The acquiring firm has the option to offer other employees similar positions at similar pay. Colony Capital will rebrand Harrah's Tunica as Resorts Tunica to reflect its flagship Resorts International Casino in Atlantic City. Colony also is considering a licensing agreement with Caesars to retain the Bally's name while making "cosmetic" changes to the Tunica property. The East Chicago property would be called Resorts East Chicago. For a short period of time after the acquisition, Resorts will continue allowing customers to use the Total Rewards customer management system that Harrah's East Chicago has in place in all its properties.

In its materials presented to support the transfer of the acquired casino properties from Harrah's East Chicago and Caesars to Resorts, the new owners provided the following financial forecasts for the acquired properties (Table 20). In general, the new owners were forecasting a healthy increase in operating cash flow (EBITDA) which, given the amount of long term debt used to complete the transaction, was necessary to adequately service the debt and satisfy the Leverage Ratio limits established by the lenders. (Leverage Ratio is the ratio of Long term Debt relative to EBITDA). In the consolidated plans, forecasted capital expenditures are below depreciation expense, suggesting that the owners will be able to generate between $55 and $60 million each year (2005-2006) in before tax free cash flow from the consolidated properties. (Free cash flow is defined as EBITDA less Interest Expense less Capital Expenditures.)

Table 20: Resorts Forecast for Acquired Properties (dollars in millions)

Consolidated Transaction	2003A	2004E	2005E	2006E
Total Assets	$956.2	$1,386.0	$1,317.2	$1,271.4
Total Debt	590.8	1,060.0	945	885.6
Total Equity	282.8	386.0	372	385.4
Interest Expense	41.1	78.9	79.0	79.8
Total EBITDA	137.3	150.9	172.8	187.0
Debt/EBITDA	4.3	7.0	5.5	4.7
Debt/Equity	2.1	2.7	2.5	2.3
EBITDA/Interest Expense	3.34	1.91	2.19	2.34
Capital Expenditure	34.0	68.0	36.8	32.7
Depreciation/Amort	47.9	46.0	47.6	47.6

The East Chicago Property

At December 2003, the East Chicago gaming operation had 53,000 square feet of casino gaming space with 1,909 slot machines and 66 table games. The facility has a hotel with 293 rooms, a parking garage with capacity for 1,800 cars and surface parking for an additional 1,200 cars. The East Chicago facility reported total assets with book value of $413.9 million with long-term debt obligations of $140 million at the end of 2003. The company also reported a balance due to affiliates of $72.5 million

In terms of various operating metrics, the East Chicago gaming license is among the best in Indiana. In fiscal year, 2004, the facility achieved an average daily WIN per gaming position of $373 versus an overall average of $292 for all the riverboat gaming facilities in the state. The East Chicago facility was the third highest in terms of WIN per gaming position. Of all the riverboats in Indiana, the East Chicago facility attracts the largest number of players at slightly more than 4 million for the year. Total gaming revenue in fiscal year 2004 was $312.7 million or about 13.5 percent of the total gaming revenue generated by all ten riverboats in Indiana in the period. It ranked third in the state in terms of total gaming taxes paid in 2004, at slightly more than $106 million.

Actual and forecasted operating cash flows for the East Chicago property for the period 2002 to 2006 are summarized in Table 21. The acquiring firm forecasted an annual increase in total gross revenue of 5 percent for the East Chicago property. These operating plans are based on an assumption that WIN per position per day will increase from $373 in fiscal 2004 to reach $452.8 by 2007, an increase of 21 percent in a three-year period. There will be no increase in the number of slot machines or table games. The operating assumptions do reflect a one-time increase in the hold percentage for both the slot machines and the table games.

EBITDA as a percent of net gaming revenue is expected to improve from 20.35 percent in 2003 that was produced by Harrah's East Chicago management to reach 24.11 percent by 2007. The forecasts for the East Chicago property are consistent with those of the consolidated operation in that the new owners are planning to benefit from substantial operating efficiencies and perhaps market share growth. Forecasted capital expenditures in East Chicago are well below depreciation expense each year. Additionally, promotional allowances increase only slightly as a percent of gross revenue.

Table 21: Actual and Forecasted Operating Cash Flows for East Chicago Casino (000,000)

	2002	2003	2004	2005	2006	2007
Total Assets	$377.6	$413.9	NA	NA	NA	NA
Total Long Term Debt	$140.0	$140.0	NA	NA	NA	NA
Due to Affiliates	$17.2	$72.5	NA	NA	NA	NA
Equity	$192.1	$168.0	NA	NA	NA	NA
Total Gaming Gross Revenue	$280.6	$308.2	$314.4	$343.0	$361.6	$379.3
Gross Non gaming revenue	$34.5	$36.2	$35.6	$37.5	$36.6	$37.7
Promotion allowance	$45.6	$53.4	52.6	58.3	61.5	64.5
Net Total Revenue	$269.5	$291.0	$299.2	$320.7	$337.3	$352.9
Capital Expenditures	$11.61	$19.4	$38.9	$6.8	$4.8	$5.0
Depreciation	$17.4	$16.9	$17.5	$17.5	$17.5	$17.5
Restated EBITDA	$70.2	$59.2	$62.2	$72.2	$78.9	$85.1
Free Cash Flow After Tax	$42.8	$27.1	$9.9	$49.0	$55.7	$59.8
EBITDA/Net Revenue	26.05%	20.35%	20.79%	22.51%	23.39%	24.11%
Capital Expenditures/Net Revenue	4.31%	6.67%	13.00%	2.12%	1.42%	1.42%
Promotions/Gross Revenue	14.47%	15.51%	15.03%	15.32%	15.44%	15.47%

Analysis of Operating Assumptions

Figure 27 below provides an assessment of the assumed rates of growth in gaming revenues, food, hotel and beverage revenues, promotional allowances, and EBITDA. In general, it is assumed that all these measures will enjoy above trend growth in 2005, the first year of the transaction, and then all growth trends are steady through 2008 at between 4 percent and 10 percent.

Figure 27: Annual Growth of Key Measures, East Chicago

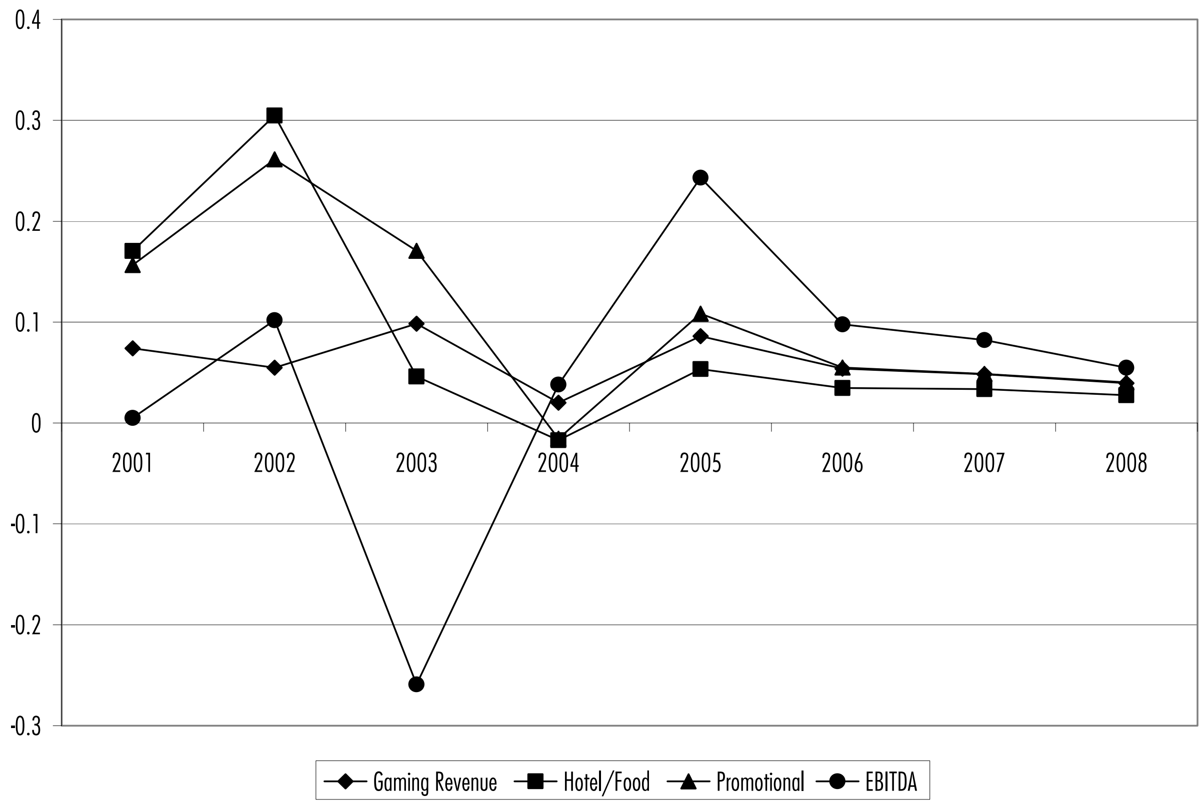
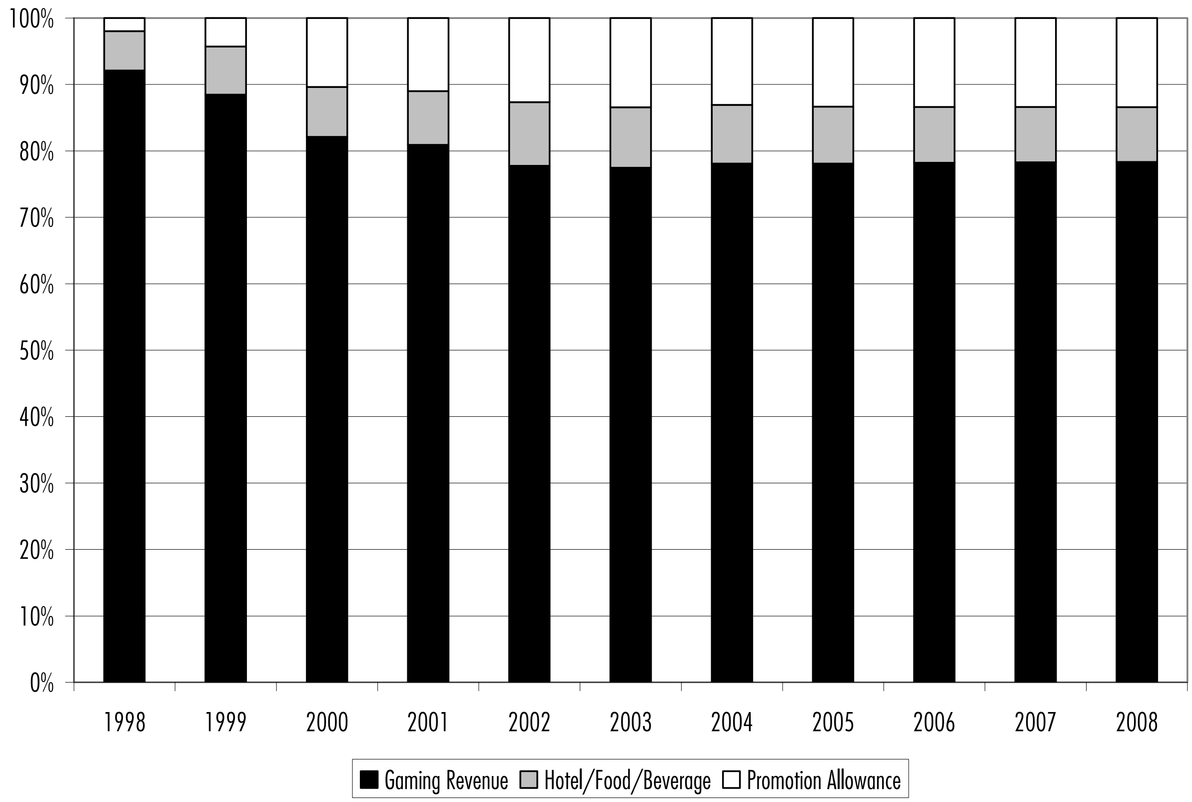


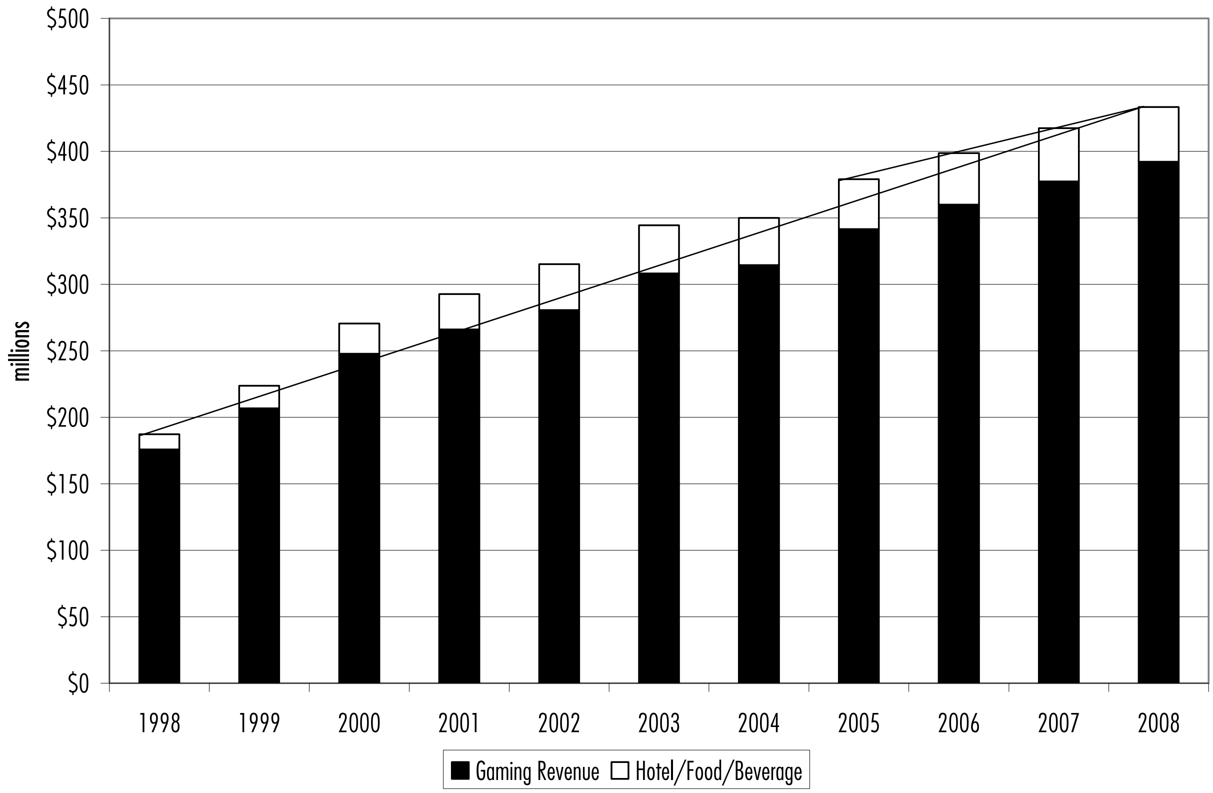
Figure 28 provides a graphic depiction of the breakdown of revenues between gaming, food, beverage and hotel revenues and promotional expenses. To get total net revenue, the promotional expenses are subtracted from total revenues. It is easily seen from the chart that promotional allowances are about 13 percent of total revenues under the new management team. This is about the same as more recent years with Harrah's East Chicago management.

Figure 28: Gaming, Entertainment, Promotions, East Chicago



Finally, in Figure 29, we can see in chart form the planned growth in total gross revenues for the East Chicago property. Under the new management, total gross revenue grow is slowing slightly relative to the longer-term trend. However, the Chicago market is a mature gaming market with some prospect for new competition coming from land-based casinos in Chicago and casinos on Indian reservations in Michigan. Given these threats, the growth forecast in the next several years is probably slightly optimistic.

Figure 29: Total Revenue Sources, East Chicago



East Chicago Relative to Other Chicago Riverboats

To understand the potential operating and financial strengths or weaknesses of the East Chicago facility, we contrasted its ratios relative to those of Majestic Star and Horseshoe for the period 2002-2003 (Table 22).

Table 22: Analysis of East Chicago vs. Majestic Star and Horseshoe

	2002	2003
East Chicago		
Revenue/Total Assets	0.74	0.70
EBITDA/Revenue%	26.05%	20.34%
Long-term Debt/EBIDA	3.02	3.58
Majestic Star		
Revenue/Total Assets	1.19	1.21
EBITDA/Revenue%	17.43	15.02
Long-term Debt/EBIDA	4.83	7.67
Horseshoe		
Revenue/Total Assets	0.765	0.781
EBITDA/Revenue%	21.2	17.2
Long-term Debt/EBIDA	5.84	6.7

The East Chicago facility is similar to Horseshoe in terms of the productivity of assets measure. The East Chicago facility generated a cash flow margin on revenue at greater than 20 percent in each year while neither of the other two boats achieved that level of operating performance. The East Chicago facility was substantially less levered than its two peer operations when measured as the ratio of Long-term Debt to EBITDA. With the new owner, the long term debt taken on in the acquisition is not allocated to the level of the individual properties. All the new debt is secured by all the properties and cash flows of the consolidated operations.

Summary of Financial Position and Future Plans

The new owners of the East Chicago license are experienced gaming managers. They have acquired four gaming properties using an aggressive capital structure. However, these owners represent private equity funds, which are oriented toward managing properties to maximize cash flow prospects with the idea that within three to five years from acquisition, the properties will be sold at a gain. In this transaction, the price paid for the four properties was aggressive at 8.5 times trailing EBITDA. There is no reason to expect that this ownership structure will not be able to produce excellent results with the East Chicago license, as that operation is already one of the best in Indiana. Based on this analysis, renewal of the East Chicago license is recommended.