

# Second Year Evaluation of Riverboat Licensee for Gary, Indiana: Trump Indiana, Inc.

---

October 1998

Introduction.....	1
Project Development and Investment.....	1
Development Activities.....	1
Other Commitments.....	2
Community Activity.....	3
Minority/Women Business Enterprise.....	3
Economic and Fiscal Impacts.....	3
Employment and Earnings Impacts.....	3
Local Economic Impact.....	5
Impact on Tourism.....	5
Legal Issues.....	5
Other Impacts.....	6
Summary of Findings.....	6

---

# Introduction

The Riverboat Gambling Act, effective July 1, 1993, authorized the Indiana Gaming Commission to issue licenses for the express purpose of riverboat gambling in the state of Indiana. One of the statutory criteria for issuance of these licenses is the applicant's ability to promote economic development in the home dock area while best serving the interest of the citizens of Indiana. As an aid to fulfilling its legislative requirements, the Indiana Gaming Commission (Commission) contracted with the Center for Urban Policy and the Environment (Center) of Indiana University's School of Public and Environmental Affairs to perform the economic impact, fiscal impact, financial, management, and other analyses required to assist the Commission in awarding licenses. As part of that contract, the Center has committed to monitor over time the economic impacts and fiscal returns from each riverboat operation.

On December 9, 1994, the Commission issued a Certificate of Suitability for a Riverboat Owner's License for two riverboats to be docked in Gary, Indiana. Trump Indiana, Inc. (Trump) opened on June 11, 1996. This report is an evaluation of its second year of operation.

## Project Development and Investment

### Development Activities

In the Certificate of Suitability (referred to throughout as certificate), Trump committed to spend approximately \$153 million on project development, in addition to pledging to the city of Gary other incentives totaling several million dollars.

The 2,990-passenger riverboat opened with 37,700 square-feet of gaming space. A joint facility (with Majestic Star), called Buffington Harbor, consisting of a 90,000-square-foot temporary pavilion with 2,800 self-parking spaces and 650 valet parking spaces, was completed and opened with the launching of the riverboat. Trump and Majestic Star shared the cost of construction and continue to share the cost of maintenance and employees. Trump began construction on a 300-room hotel in September 1997. The hotel is comprised of three wings. The center wing is anticipated to open in September 1998, the west wing in October 1998, and the east wing in December 1998. The center wing is comprised of 96 rooms, lobby and front desk areas, meeting rooms, restaurant and related kitchen facilities, indoor swimming pool, exercise room, and administrative support offices. The west wing will have 104 rooms and the east wing 100 rooms. The total cost of the project is anticipated to be \$17 million.

As Table 1 illustrates, Trump actually spent \$125.7 million in Year 1 and Year 2 in contrast to the \$153 million promised in the certificate for the development of the project. According to Trump's agreement with the city of Gary, their pre-opening and first- and second-year commitment was for \$116 million with the rest of the money to be spent over years three through five. Trump's records show that the economic development and infrastructure expenditures were estimated to be \$10 million through Year 2, whereas actual expenditures in that category were \$4.4 million. This category includes funds for the renovation of the closed downtown Gary Hotel and road improvements for the Buffington Harbor area. Trump remains in active discussion with Gary officials about these projects and a consultant was recently retained to develop design and construction plans for the hotel renovation.

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

Development	Certificate of Suitability	1996-97 Actual*	1997-98 Actual	Difference
Vessel and equipment	\$46,100	\$48,060	\$4,137	\$6,097
Pre-opening	14,400	14,624	0	224
Land-based development	55,000	36,155	7,590	(11,255)
Economic development and infrastructure projects (off-site development)	21,000	4,260	151	(16,589)
Harbor improvements	4,000	4,184	\$159	343
Professional fees	2,500	2,882	\$0	382
Contingency	10,000	3,509	\$0	(6,491)
<b>TOTAL DEVELOPMENT</b>	<b>\$153,000</b>	<b>\$113,674</b>	<b>\$12,037</b>	<b>(\$27,289)**</b>

\*Please note that 1996-97 actually differs from those reported in the first evaluation because Trump did not include the original cost of the land in the numbers they reported the first year. There also are small differences due to accounting adjustments.

\*\* According to Trump's agreement with the city of Gary, their pre-opening and first- and second-year commitment was for \$116 million with the rest of the money to be spent over years three through five.

### Other Commitments

As Table 2 illustrates, Trump is on schedule with all of their incentive payments except for the renovation of the Sheraton Hotel and the police substations, both of which are under discussion with the city of Gary.

Table 2: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Through 6/30/97	Amount Paid through 6/30/98	Status
A) Developer's payment	\$2,500,000	City of Gary	\$2,500,000		Paid October 6, 1995
B) Developer's payment (ninety days after opening)	\$2,500,000*	City of Gary	\$2,500,000		Paid September 11, 1996
C) Renovation of the Sheraton Hotel	\$10,000,000*	City of Gary	\$0	0	Pending discussions with city
D) Police substations	\$2,000,000*	City of Gary	\$0	0	Pending discussion with city
E) Off-site development	\$6,500,000*	Road/Utility improvements	\$1,503,133	\$150,825	Ongoing
F) Additional wagering taxes (3% plus 1% of AGR)	3% plus 1% of AGR	City of Gary	\$5,305,946	\$4,747,102	Ongoing
G) Donation to Trump Foundation	\$1 million in Year 1, \$100,000 each year thereafter	Trump Foundation scholarships	\$1,000,000	\$100,000	Ongoing
H) Donation of police cars		Police Dept.	\$246,950		Completed

\* Part of \$21 million listed in Table 1 under Economic Development

Table 3 illustrates the city of Gary's expenditures on capital items using gaming revenue and incentives during 1997 and 1998:

Table 3: Gary Appropriations from Gaming Revenues in 1997-1998 (\$000s)

	1997	1998
Infrastructure	\$333	\$100
Judgement (Casino related costs)	5,283	0
Pavement	467	1,066
Emergency Demo	265	362
Lakefront	205	85
City equipment	14	2,947
Airport Project	0	1,400
Aquatorium	86	106
Golf course	426	72
Tolleston Park	235	1,320
Telecommunications	0	300
Total Appropriated Funds	\$7,314	\$7,759

### Community Activity

In 1997 and 1998 Trump made numerous donations to community groups and sponsored several community events, contributing more than \$122,000. Trump's Vice President level community representative is involved in 18 local organizations and is represented on several boards of directors in the Gary area. Two senior-level managers are represented on several boards including the Boys and Girls Club of Indiana, Ivy Tech, and the Northwest Indiana Forum.

### Minority/Women Business Enterprise

In the Indiana riverboat legislation, the Indiana General Assembly stated that the opportunity for full enterprise participation in the riverboat industry for minorities and women is essential if social and economic parity for all citizens is to be obtained and if the economies of the riverboat cities are to be stimulated as contemplated by this legislation. Trump committed to meeting the goals of the legislation in their first year. According to their goals, Trump indicated that they would expend ten percent of the dollar value of their contracts for goods and services from minority-owned businesses and five percent from women-owned businesses. The Commission, through the Indiana Department of Administration's Office of Minority Business Development (OMBD), has established and administers a unified certification procedure for minority and women's enterprises that conduct business with riverboat operations.

OMBD currently is reviewing the information provided by Trump to determine compliance.

## Economic and Fiscal Impacts

### Employment and Earnings Impacts

Trump began hiring and training the majority of their employees in March 1996. Trump contracted with Ivy Tech to provide training for all riverboat-related positions, including dealers, cashiers, and surveillance personnel.

As Table 4 indicates, Trump estimated in its application that, in Year 2, it would employ 1,679 persons in the casino for annual wages totaling approximately \$41.4 million. Estimates for hotel employment were not included. As of June 30, 1997, Trump had 1,228 employees (including half of Buffington Harbor's employees). For 1997-1998, salaries and wages were \$24.7 million, including tips to dealers (but not to bar and wait staff). Full- and part-time employees both receive benefits, including health-care coverage and life insurance.

Table 4: Comparison of Forecast to Actual Trump Operation, Year 2

Category	Application Forecast Year 2	Actual 1997-98	Difference
----------	-----------------------------	----------------	------------

Employment as of 6/30/98	1679	1228*	(451)
Total Wages, Tips & Benefits	\$41,406,000	\$24,704,537	\$16,701,463
Attendance	2,453,333	3,189,312	735,979
Gross Gaming Receipts	167,163,000	119,605,448	(\$47,557,552)
\$ per Patron per Cruise	\$68**	\$38	(\$30)
Gaming Tax (State)	\$25,074,450	\$17,833,800	(\$7,240,650)
Gaming Tax (Local)	\$8,358,150	\$5,944,600	(\$3,413,550)
Admission Tax (State)	\$2,453,333	\$3,189,312	\$735,979
Admission Tax (County)	\$2,453,333	\$3,189,312	\$735,979
Admission Tax (City)	\$2,453,333	\$3,189,312	\$735,979

\* Includes half of Buffington Harbor employees.

\*\* Applicant average for Gary was \$68.

As Table 4 illustrates, in 1996, Trump had adjusted gross gaming receipts of \$119.6 million, or 40 percent less than their application estimate. They had total gross revenues of \$132.8 million, \$49.1 million less than the \$181.9 million estimated in their application. Total local taxes were \$12.3 million, or \$1 million less than the projection of \$13.3 million in Trump's application.

As Tables 4 and 5 indicate, Trump exceeded forecasts in Year 1 in all areas except wins-per-patron per cruise, but in Year 2, the only forecast they exceeded was in attendance and attendance taxes. As Table 6 indicates, Trump has decreased employment, wages, attendance, revenues, and taxes paid from Year 1 to Year 2. While employment decreased 15 percent, wages decreased 33 percent.

Table 5: Comparison of Forecast to Actual Trump Operation, Year 1

Category	Application Forecast Year 1	Actual 1996-1997	Difference
Employment	1185	1,461*	276
Total Wages, Tips & Benefits	\$27,832,000	\$32,739,830	\$4,907,383
Attendance	1,840,000	4,299,738	2,459,738
Gross Gaming Receipts	\$120,776,000	\$147,663,355	\$26,887,335
\$ per Patron per Cruise	\$66**	\$34	(\$32)
Gaming Tax (State)	\$18,116,000	\$22,149,503	\$4,033,503
Gaming Tax (Local)	\$6,039,000	\$7,383,168	\$1,344,167
Admission Tax (State)	\$1,840,000	\$4,299,738	\$2,459,738
Admission Tax (County)	\$1,840,000	\$4,299,738	\$2,459,738
Admission Tax (City)	\$1,840,000	\$4,299,738	\$2,459,738

\* Includes half of Buffington Harbor employees.

\*\* Applicant average for Gary was \$68.

Table 6: Comparison of Year 1 to Year 2

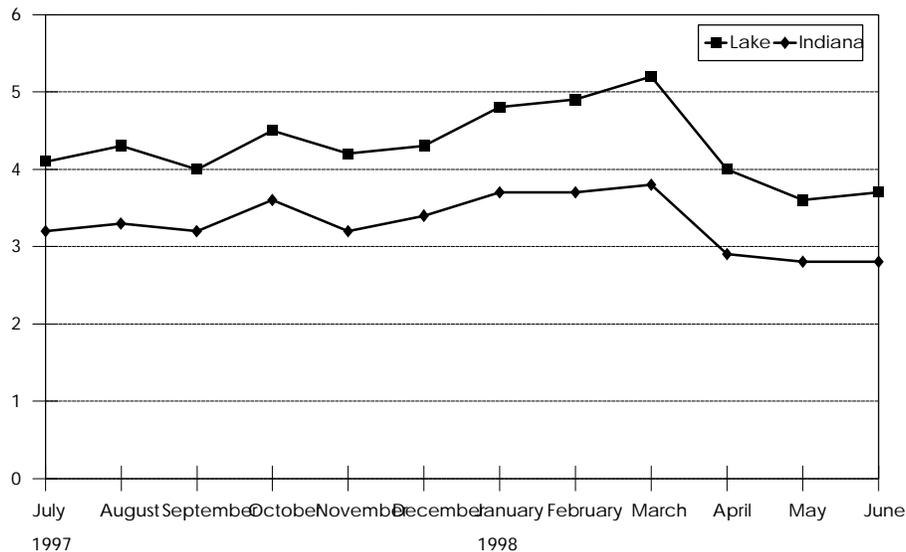
Category	Actual 1996-97	Actual 1997-98	Difference
Employment	1,461*	1228*	(233)
Total Wages, Tips & Benefits	\$32,739,830	\$24,704,537	(\$8,035,293)
Attendance	4,299,738	3,189,312	(1,110,426)
Gross Gaming Receipts	\$147,663,355	119,605,448	(\$28,057,907)
\$ per Patron per Cruise	\$34**	\$38**	\$4
Gaming Tax (State)	\$22,149,503	\$17,833,800	(\$4,315,703)
Gaming Tax (Local)	\$7,383,168	\$5,944,600	(\$1,438,568)
Admission Tax (State)	\$4,299,738	\$3,189,312	(\$1,110,426)
Admission Tax (County)	\$4,299,738	\$3,189,312	(\$1,110,426)
Admission Tax (City)	\$4,299,738	\$3,189,312	(\$1,110,426)

\* Includes half of Buffington Harbor employees.

\*\* Applicant average for Gary was \$68.

As Figure 1 illustrates, Lake County's unemployment rate has fluctuated since 1997, but has never been lower than the state unemployment rate.

Figure 1: Unemployment Rate: Lake County



As of May 31, 1998, 55.7 percent of Trump employees were women, 63.8 percent were minorities, 45.1 percent were from Gary, and 77.6 percent were residents of Lake County. In their application, Trump's goal was to employ 52 percent female employees, 70 percent minority employees, and 90 percent of employees from Lake County. Trump exceeded their goal for hiring women but fell short on their goals of hiring from Gary and Lake County residents and minorities. As of May 31, 1998, 17.1 percent of Trump's employees were from out-of-state, with the majority from Illinois.

### Local Economic Impact

In addition to the gaming taxes paid to the city and state, Trump paid \$182,223 in sales and use taxes. Trump paid \$570,259 in property taxes in 1997-1998. Payroll of \$24.7 million and purchases of \$7.1 million from Gary vendors and another \$2.4 million from other Lake County vendors also contributed to the local economy. Even though this spending has assisted many local merchants, there has not been a great deal of additional development in the downtown area as a result of the riverboats.

### Impact on Tourism

Through June 11, 1998, Indiana residents made more than one-third of the total trips to Trump, with approximately 20 percent of the total from northwest Indiana. In 1997-1998, Trump had 3.2 million paid admissions. This attendance was approximately 0.7 million greater than Trump's attendance projection in their application, but a decrease of 1.1 million admissions from the previous year following the opening of Showboat and Blue Chip.

According to the Lake County Convention and Visitors Bureau, hotel occupancy is up 13 percent from 1996 to 1997. The Convention and Visitors Bureau attributes this to increased visitation to the Lake County riverboats. It is impossible at this time to determine which of the Lake County riverboats these visitors attended.

### Legal Issues

Trump had 12 Equal Employment Opportunity Commission claims filed against it in 1997-1998. They also had five employment-related lawsuits filed against them. There were a total of 58 arrests for incidences on Trump property during this period, up significantly from 18 last year. Of the arrests, 38 were of patrons and 20 were of employees. The largest arrest category of patrons was disorderly conduct while the largest category for employees was warrants. The State Police have not written any citations for minors in a tavern because Lake County will not prosecute that offense. Trump security

handles that issue by checking identification and turning away underage patrons. Last year they reported checking 68,063 identifications and refusing entry to 420 patrons because they were under 21. Less than .001 percent of total visits resulted in a citation or arrest.

According to Gary's Chief of Police, Trump's presence has not contributed to the additional criminal activity in the neighborhood surrounding the riverboat. In addition, the Chief of Police indicated that there seems to have been a decrease in illegal gambling in the area.

## Other Impacts

There are other possible impacts that can result from the location of a riverboat in a community. For example, compulsive gambling might become a problem. There also might be decreases in patronage for existing businesses, higher rates of bankruptcy, and a greater need for social services. From July 1997 to June 1998, 91 calls for help with gambling problems were made by Lake County residents to the "Deal With It" line. There also have been 11 calls from LaPorte County, 23 calls from Porter County, and 138 calls from Chicago. This rate is significantly higher than last year's rate. In addition, of those who identified the source of the number, approximately half indicated they obtained it from a riverboat ticket.

Trump has made efforts to minimize negative impacts. Trump sponsors the Northwest Indiana Coalition on Problem Gambling. The Coalition provides information and seminars on problem gambling to the public. Trump trains employees in behavior identification for many business and work-related problems. The employees have access to Charter Behavioral Health for their families and themselves. They also are trained to provide such information to customers.

# Summary of Findings

Trump has met the requirements of their certificate of suitability in the following areas:

- Trump spent a total of \$126 million on development, \$10 million more than estimated through Year 2 in their agreement with the city of Gary.
- Trump is on schedule with most of its incentive payments (see below).
- Trump has sponsored several community events; its senior management is represented on many boards; and the company has made numerous donations to community groups.
- Trump had 3.2 million paid admissions, approximately 0.7 million greater than projected in their application for Year 2.
- Trump paid \$182,223 in sales and use taxes, \$570,259 in property taxes, and purchased \$ 7.1 million from Gary vendors and another \$2.4 million from other Lake County vendors.
- Trump has been proactive in developing programs for compulsive gambling.

Trump has not met its projections in the following areas:

- Trump is still discussing the renovation of the Sheraton Hotel and the police substations with the City of Gary; a consultant was recently retained to develop design and construction plans for the hotel renovation.
- Trump had adjusted gross gaming receipts of \$119.6 million, or 40 percent less than their application estimate.
- They had total gross revenues of \$132.8 million, \$49.1 million less than the \$181.9 million estimated in their application.
- Employment totaled 1,228 employees, 233 less than projected, and wages, benefits, and tips were \$24.7 million, \$16.7 million less than projected. Employment also decreased from year 1 to year 2, a total of 233 less employees and \$16.7 million less in wages.
- Total local taxes were \$12.3 million, or \$1 million less than the projection of \$13.3 million in Trump's application.
- Trump exceeded forecasts in Year 1 in all areas except win-per-patron per cruise but in Year 2, the only forecast they exceeded was in attendance and attendance taxes. Trump's actual performance has decreased in some areas including employment, wages, attendance, revenues, and taxes paid from Year 1 to Year 2.
- Trump has not met its employment goals for minorities, Gary residents, and Lake County residents.

We are not able to determine compliance in the following area:

- OMBD currently is reviewing the information provided by Trump to determine compliance with MBE/WBE requirements.