

Eight-Year License Renewal: Aztar Indiana Gaming Corporation

October 2003

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Executive Summary

Economic and Fiscal Activity

Aztar has a positive fiscal impact on Evansville and Vanderburgh County. The new tax revenue generated by Aztar dramatically exceeds the cost of providing additional services. The changes brought about by tax restructuring—flexible boarding, lower admissions counts, graduated wagering tax rates, limits and floors on riverboat tax revenue—have not affected the local positive fiscal impact. However, because the Evansville-Vanderburgh School Corporation saw a decrease in the gross taxes received from Aztar property, it is unlikely that the riverboat has a large positive fiscal impact on Evansville-Vanderburgh schools, and it may well have a negative fiscal impact.

Since opening, the spending of local gaming related taxes and incentive payments has contributed over \$150 million of new economic activity in Vanderburgh County. Included within this economic impact are an estimated 2,600 jobs and \$53 million in local wages. 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 by the city of Evansville in storm sewer improvements, street paving, and other infrastructure, as well as the purchase of new public safety equipment such as police cars, a new fire engine and a search and rescue boat should benefit residents and increase the economic competitiveness of local businesses.

Employment

Aztar has provided new employment opportunities for local residents. Aztar had 1,170 employees as of July 31, 2003, and has paid over \$237 million in wages since opening. In September the Center surveyed Aztar employees and found that for many employees the employment opportunity at the riverboat provided an increased sense of economic security. For example nearly a third of the survey respondents were unemployed prior to beginning work at Aztar; and almost one-half of those that were employed reported receiving a raise upon beginning work at Aztar. The average length of employment was four years and one month, and 61 employees felt secure enough to move from rental housing to homeownership. However, few employees reported receiving training opportunities that were not directly related to their job and few reported taking advantage of tuition reimbursement opportunities.

Business Climate Impacts

Business climate impacts within Evansville and Vanderburgh County generally follow the same trend as Indiana's non-riverboat counties. Overall, the number of jobs, number of establishments, and average wage per job in Vanderburgh County has followed the same trend as the aggregate of Indiana non-riverboat counties. Eighteen industries have been identified as exhibiting trends that are considerably different than what would have happened following the same trend before the establishment of Aztar and/or the trend relative to the aggregate of non-riverboat counties. Most of the identified industries are within the Services and Manufacturing sectors. Positive and negative changes in jobs, number of establishments and wages per job among the identified industries vary.

Community Impacts

Aztar is perceived as a good corporate citizen, spending almost \$110 million in the area, sponsoring local organizations, and attracting new visitors to the community; however, there is concern the social problems are hard to identify and address. Since opening, Aztar Indiana has spent almost \$110 million



locally (in Vanderburgh and Warrick counties). Construction costs comprise approximately one-half of these expenditures and primarily were completed by 1996. Additionally, Aztar Indiana has impacted the Evansville area through nearly \$3 million in sponsorships and contributions to local area organizations.

Center staff conducted three focus groups in Evansville with local community and business leaders and social services providers. While there were some differences among the groups, overall the results were positive. Most indicated that Aztar is a good corporate citizen, provides an attraction to the community and jobs, but that some people have gambling problems and it is difficult to identify those people.

Current Financial Position and Future Plans

The Evansville facility enjoyed an upsurge in gaming revenue with the introduction of dockside boarding after several years of slow or no growth. The new lease contract with the city of Evansville increases the profit potential of expansion capital projects and the company has already developed plans for such expansion. The future is bright for the Evansville license. The license generates a competitive rate of return for its investors, the site is not heavily levered, and new added incentives to invest in development projects should have a very positive effect on the community as well as the attractiveness of the physical facility.



Introduction

On February 10, 1995, the Indiana Gaming Commission (Commission) issued a Certificate of Suitability¹ for a Riverboat Owner's License for a riverboat to be docked in Evansville, Indiana, to Aztar Indiana Gaming Corporation (Aztar Indiana). Although it was the third operation to receive a Certificate of Suitability, Aztar Indiana was the first casino to begin operations in Indiana, opening on December 7, 1995. 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 Aztar's first four years of operation as well as a report that analyzed Aztar'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 Aztar Indiana's first eight years of operation. Because this analysis must be completed before the completion of Aztar Indiana's eighth year of operations, in year eight, data are shown January through July 31, 2003. The five-year report was completed before the completion of the fifth year of operation so data for 2000 were shown through July 31, 2000. This report includes full year information for 2000, even though it is not part of the three-year license renewal period, because it was not available for the five-year renewal report.

¹ The Certificate of Suitability (Certificate) was the agreement between Aztar Indiana and the Indiana Gaming Commission that gave Aztar Indiana its license. The Certificate specified certain levels of project development and incentive payments to be made by Aztar Indiana as well as specifying that Aztar Indiana abide by agreements made with the city of Evansville.





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 Aztar’s voluntary and mandatory contributions and provide a preliminary analysis to identify and quantify the immediate economic benefits enjoyed by Evansville and Vanderburgh County as a result of the investment of the voluntary and tax contribution of Aztar.

Tax Restructuring and Riverboat Tax Payments to Local Governments

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.
- And, 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 Aztar riverboat by Vanderburgh County, the city of Evansville, and the Evansville-Vanderburgh School Corporation.

Admissions Tax

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

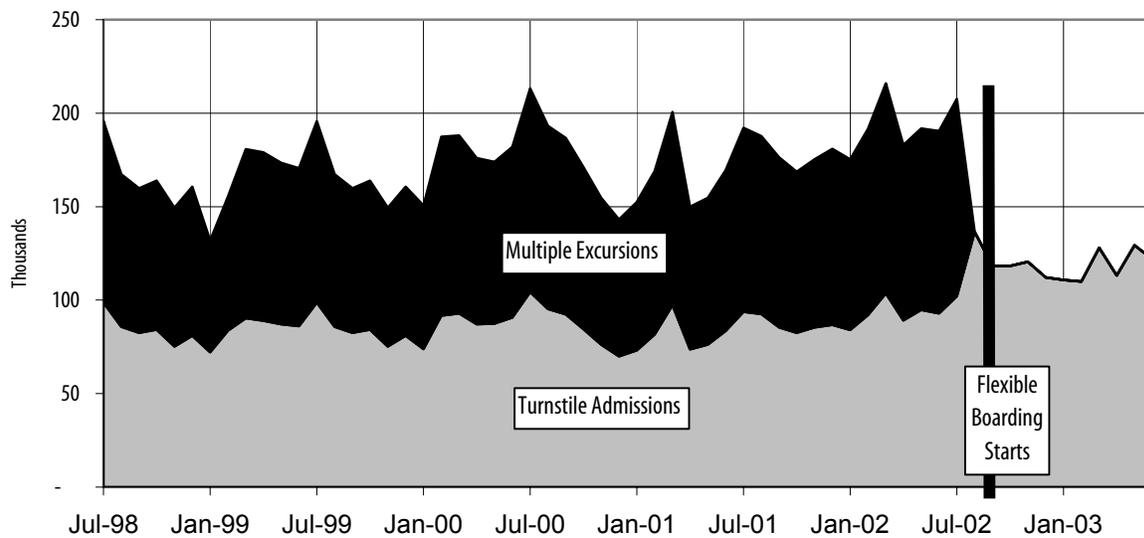
However, restructuring allowed the riverboats to adopt flexible boarding. Prior to this, riverboats were required to cruise, or operate as if they cruised. The casino’s doors were closed to entrants for the length of the cruise, whether or not the boat left the dock. With flexible boarding, the riverboat 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 implement flexible boarding. Aztar began flexible boarding on August 1, 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)

Figure 1: Turnstile and Multiple Excursion Admissions, July 1998-June 2003



Turnstile admissions show the actual number of 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 were no longer counted for tax purposes. The number of turnstile admissions increased, from a monthly average of 86,565 from July 1998, through July 2002, to a monthly average of 119,886, a 38 percent increase. But the total number of taxable admissions (which formerly included multiple excursions) dropped from a monthly average of 174,237, a 31 percent decline.

Flexible boarding, which appears to have increased admissions, as expected, would have cost Vanderburgh County and the city of Evansville 31 percent of their admissions tax revenue, had the tax system remained unchanged. However, the General Assembly set 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) (version b) 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 for Vanderburgh County and the city of Evansville at \$2,126,670.88. During the state fiscal year from July 2002 to June 2003, the total admissions taxes distributed to the county and city were approximately \$1,420,930. For each, this is simply one dollar times the total admissions for 2002-03 (note that this included the last month of multiple excursions, July 2002). In September, then, the State Treasurer distributed to the city and county about \$705,741 each.

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.



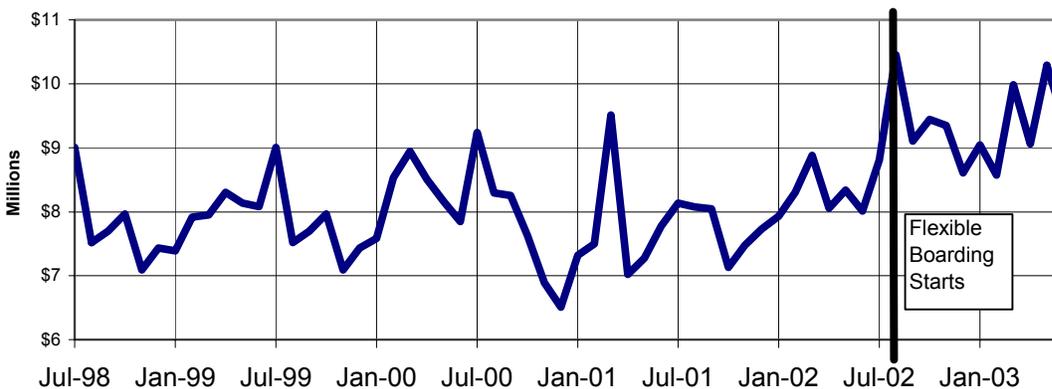
Prior to restructuring the wagering tax rate was a flat 20 percent of adjusted gross receipts (AGR). After restructuring, the rates were set for flexible boarding riverboats as shown in Table 1. The initial rate is 15 percent, less than the old flat rate, but this applies only to the first \$25 million. 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. Aztar has the smallest AGR among Indiana's riverboats. It began paying the 25 percent rate in December 2002, not quite halfway through the state fiscal year.² 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	Tax Rate
\$0 - \$25,000,000	15%
\$25,000,001 - \$50,000,000	20%
\$50,000,001 - \$75,000,000	25%
\$75,000,001 - \$150,000,000	30%
\$150,000,001 - and above	35%

Figure 2 shows the estimated monthly AGR for the period July 1998 through June 2003. Prior to flexible boarding, monthly AGR rarely exceeded \$9 million; after flexible boarding AGR rarely fell below \$9 million. The average AGR for the months prior to the advent of flexible boarding was \$7.9 million. With flexible boarding, the average has been \$9.4 million, an increase of 18 percent.

Figure 2: Estimated Adjusted Gross Receipts, July 1998-June 2003



² There was confusion about when to start counting AGR to determine which graduated rate to use. The fiscal year began in July, but flexible boarding began in August. Did the AGR in July count towards determining which graduated rate to use? This was addressed in the 2003 budget bill, which added language to the Indiana Code saying that in any year that flexible boarding was adopted, the AGR shall be counted from the beginning of that fiscal year (see IC 4-33-13-1.5(g) (version a)).



Evansville receives a share of wagering tax revenue. Vanderburgh County does not receive such revenue. Prior to restructuring, Evansville received one-quarter of the wagering taxes collected under the flat 20 percent rate. Evansville still receives 25 percent of a portion of the wagering taxes. However, two features were added to the distribution of wagering taxes to local governments which reduce the amount of revenue that Evansville realizes from the wagering tax.

First, 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 each year. 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. Evansville will receive 25 percent of wagering tax revenue, after the \$33 million has been collected in July and August. Aztar collects about 5 percent of statewide AGR, so its share of the \$33 million is about \$1,650,000.

Second, 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 Evansville City at \$4,760,339.79. Evansville's wagering tax collections reached this amount by the end of April 2003. The revenue that would have gone to Evansville in May and June without this limit was instead deposited in the state's property tax replacement fund, an amount equal to approximately \$1.2 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 Vanderburgh County and Evansville?

We compared three scenarios. First, suppose the policies in effect in 2002 had continued. Suppose there were 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 old scenario is the assumption about what would have happened to admissions and adjusted gross receipts without the tax restructuring. Flexible boarding apparently increased both admissions and AGR, but would either of these tax bases have increased had flexible boarding not been adopted?

There appears to have been a slight upward trend in total admissions, mostly due to increases in multiple excursion admissions. Total admissions increased each year from state fiscal years 1999 to 2002. In 1999, total admissions were 1,987,971; by 2002, the figure was 2,228,941, an increase of 240,970. Of this amount, 67,264 were due to increased turnstile admissions, and 173,722 were due to increased multiple excursion admissions.

Total admissions increased by 3.9 percent per year over this period. Had that rate continued in state fiscal year 2003, admissions would have reached 2,315,870 for the year.

On the other hand, there appears to have been no upward trend in adjusted gross receipts. AGR in state fiscal year 2002 was \$96.1 million, which was greater than in 1999 but less than in 2000. The calculations use the average annual AGR for 1999–2002 to estimate what AGR would have been in the absence of flexible boarding. That figure is \$95,041,080.

Tables 2, 3, and 4 show the revenue estimates for the three scenarios for Vanderburgh County and Evansville.

Table 2: Admissions Tax

		Old	No Limits	Actual
	Taxable Admissions	2,315,870	1,420,930	1,420,930
Vanderburgh	Tax Revenue	\$2,315,870	\$1,420,930	\$1,420,930
	Plus: Supplemental*	\$0	\$0	\$705,741
	Total Revenue	\$2,315,870	\$1,420,930	\$2,126,671
Evansville	Tax Revenue	\$2,315,870	\$1,420,930	\$1,420,930
	Plus: Supplemental*	\$0	\$0	\$705,741
	Total Revenue	\$2,315,870	\$1,420,930	\$2,126,671

*Amount of the supplemental distribution to cities and counties by the State Treasurer, to bring admissions receipts up to the 2002 level.



Table 3: Wagering Tax

		Old	No Limits	Actual
Evansville	AGR	\$95,041,080	\$112,168,099	\$112,168,099
	Tax Revenue	\$4,752,054	\$5,942,340	\$5,942,340
	Less: Amount Over Limit	\$0	\$0	\$1,182,000
	Total Revenue	\$4,752,054	\$5,942,340	\$4,760,340

Table 4: Admissions and Wagering Tax Combined

		Old	No Limits	Actual
Vanderburgh	Total Revenue	\$2,315,870	\$1,420,930	\$2,126,671
Evansville	Total Revenue	\$7,067,924	\$7,363,270	\$6,887,011

Table 4 shows the total riverboat tax revenues received by each unit under each scenario. The Actual scenario does *not* deliver the most revenue to either unit. For Vanderburgh, the Old scenario delivers the most revenue. This result depends entirely on the assumption that total admissions was trending upward before flexible boarding. If there were no upward trend, the Old and Actual scenarios would deliver the same revenue. Further, the certainty with which the revenue would be delivered under the Actual scenario—with any variations in admissions taxes offset by the state’s supplemental distribution—would probably make it preferred.

If total admissions were trending upward without flexible boarding, then the county would have realized continued increases in admissions tax revenue, rather than the fixed distribution of the Actual scenario.

With flexible boarding, and without the multiple excursion admissions, Vanderburgh would have suffered an enormous loss of revenue. If turnstile admissions trend upward under flexible boarding, the size of the state’s supplemental distribution will fall. Turnstile admissions under flexible boarding are unlikely to grow enough to match total admissions with multiple excursions in the near future, however.

Evansville receives the most revenue under the No Limits scenario, and the Actual scenario delivers the smallest revenue of the three. Evansville receives the same admissions tax revenue as Vanderburgh County, so the Vanderburgh analysis also applies to the city. The Old scenario delivers slightly more revenue than the Actual scenario to Evansville because of the assumed increases in total admissions. If there were no upward trend in admissions revenue totals would be nearly identical, and the greater certainty of the Actual revenues would be preferable to the uncertainty of the Old revenues. Wagering tax receipts under the Actual scenario are slightly greater than under the Old scenario. This is because the city’s base year revenue reflects a relatively high revenue year, 2002, while the Old scenario revenue is based on average AGR for 1999–2002.

Actual revenue is significantly less than the revenue that would be received under the No Limits scenario. Like Vanderburgh, Evansville would suffer large losses in admissions tax revenue if flexible boarding were adopted without the state’s revenue floor. The benefit of flexible boarding, however, is in the added



AGR, and the state's limit on wagering tax receipts costs Evansville over a million dollars a year. This would more than offset the loss of admissions tax revenue.

This analysis does not include 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 scheduled cruises may spread traffic more evenly throughout the day, instead of increases in traffic every two hours. The effect of flexible boarding on costs is unclear, but is likely to be small.

Previous analyses conducted for the five-year evaluations have shown that Indiana's riverboat taxes provide substantial amount of revenue 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.

The court did not decide explicitly that Indiana must use a market value system, that is, to assess based on a property's predicted selling price. In 2002, the State Tax Board (renamed the Department of Local Government Finance) proposed a non-market value assessment system that (it hoped) would meet the court's requirements. However, the tax restructuring passed by the General Assembly in the June 2002 special session threw out the main non-market value element of the Tax Board's proposal.³ Indiana effectively became a market value state. In addition, the legislature 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.

Vanderburgh County was among the first counties to finish the reassessment of real property, and to issue tax bills based on the new assessed values. For the county as a whole, assessed values increased 63 percent, and tax rates fell an average of 32 percent. The total revenue realized from the property tax increased 10 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 of the taxpayer's property is eligible for tax relief. It appears that reassessment is increasing the assessed values of residential and agricultural property more, while the assessed values of commercial, industrial, and utility properties are increasing less.

³ This non-market value element was the "shelter allowance," which was a fixed dollar amount to be subtracted from the predicted selling price of each owner-occupied home as part of the assessment calculation. The allowance varied by county. The legislature replaced the shelter allowance with a higher homestead exemption, which is applied after assessments are set.



This implies that property taxes will shift from businesses to homeowners and farmers. New higher property tax relief will reduce the tax increases experienced by homeowners and farmers, so that both groups should approximately break even on average.

Table 5 shows the assessed value and tax payments for Aztar's real property.⁴ All of this property is in the Pigeon Township portion of Evansville, so it is all subject to the same tax rates and eligible for the same property tax replacement credits. The combined tax rate of Vanderburgh County, Evansville, the Evansville-Vanderburgh School Corporation, and the other units of government was \$3.8850 per \$100 assessed value for taxes in 2002. The rate fell to \$2.6723 per \$100 assessed value in 2003, a 31 percent drop. These rates multiplied by the riverboat's assessed value give the gross tax.

When riverboats first appeared in Indiana, the State Tax Board determined that the boats themselves should be assessed and taxed as real property. The first line of Table 5 shows that the Aztar riverboat's assessed value increased 46 percent with reassessment, and that Aztar's property overall saw a 42 percent increase. Homeowners in Vanderburgh County saw their property's assessments rise 117 percent from 2002 to 2003. Like many commercial businesses, then, Aztar's share of total property tax payments will fall.

Table 5: Aztar's 2002 and 2003 Assessed Values and Property Tax Payments

	2002 Assessed Value	2003 Assessed Value	Percent Change	2002 Gross Tax	2003 Gross Tax	Percent Change
Riverboat	\$11,390,000	\$16,660,000	46.3%	\$442,502	\$445,205	0.6%
Hotel/parking garage	\$5,676,800	\$7,409,500	30.5%	\$220,544	\$198,004	-10.2%
Retail facility	\$23,776,500	\$32,261,600	35.7%	\$923,717	\$862,127	-6.7%
All other real property	\$1,059,300	\$3,314,500	212.9%	\$41,154	\$88,573	115.2%
Total	\$4,902,600	\$59,645,600	42.3%	\$1,627,916	\$1,593,909	-2.1%

Table 6: Aztar Net Tax Payments

	2002 Net Tax	2003 Net Tax	Percent Change
Riverboat	\$369,100	\$323,165	-12.4%
Hotel/parking garage	\$183,960	\$143,727	-21.9%
Retail facility	\$770,493	625,800	-18.8%
All other real property	\$34,327	\$64,294	87.3%
Total	\$1,357,881	\$1,156,985	-14.8%

The higher assessment on the riverboat, multiplied by the smaller tax rate, left the gross tax payment slightly higher. The gross tax is the amount of revenue Vanderburgh local governments realize from property taxes on the riverboat, but it is not the tax that Aztar actually pays. This is because of the

⁴ Aztar also owns taxable personal property, which is business equipment and inventories. Tax restructuring threw out some changes that the Tax Board has proposed for the assessment of personal property, so reassessment will not affect personal property assessments as of next year. Taxes on personal property will probably fall because of the drop in the tax rate.



property tax replacement credits, which are state payments to local governments designed to reduce property tax payments. In 2002, the Evansville-Pigeon Township PTRC rate was 16.59 percent of gross taxes. New tax relief passed during tax restructuring increased the PTRC rate to 27.41 percent. Subtracting these percentages from each year's tax payment gives the net tax. Aztar's real property tax payments on the riverboat fell 12.4 percent in 2003 (Table 6). Aztar's tax payments fell 14.8 percent overall.

The gross tax on all of the real property owned by Aztar fell by 2.1 percent. Vanderburgh local governments are realizing about \$34,000 less from property taxes on Aztar holdings in 2003 compared to 2002. This does not mean that the local units have lost revenue overall, however. It means that Aztar's share of the total tax bill in Vanderburgh County has been reduced, and other property owners are paying more.

The tax rate any taxpayer pays is the sum of the tax rates of the units in which his or her property is located. Aztar pays property taxes to Vanderburgh County, Evansville City, Evansville-Vanderburgh School Corporation, and several smaller units (such as a township and library district). The property tax rates of these jurisdictions sum to the total rates applied in 2002 and 2003.

Table 7 shows how Aztar's gross tax payments were divided among these units in 2002 and 2003. It reveals that the overall 2.1 percent decline in gross taxes was concentrated in the school corporation, which saw an 8.7 percent drop in riverboat revenue. Other units of government received more revenue from Aztar.

Table 7: Aztar Gross Tax Payments to Vanderburgh Local Governments

	2002 Rate	2003 Rate	Percent Change	2002 Gross Tax	2003 Gross Tax	Percent Change
Vanderburgh County	0.7465	0.5399	-27.7%	\$312,803	\$322,027	2.9%
Evansville City	1.2058	0.8600	-28.7%	\$505,262	\$512,952	1.5%
Evansville-Vanderburgh School Corp.	1.6346	1.0486	-35.8%	\$684,940	625,444	-8.7%
All Other Units	0.2981	0.2238	-24.9%	\$124,912	133,487	6.9%
Total	3.8850	2.6723	-31.2%	\$1,627,917	1,593,910	-2.1%

Again, this does not necessarily mean that the school corporation is receiving less revenue overall because Aztar is paying less. Other taxpayers will be paying more. In addition, the state school aid formula may adjust for the relatively small increase in riverboat assessed value by supplying more state aid.

Summary of Fiscal Impact

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, and 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 Vanderburgh County and Evansville City. Had flexible boarding not been



adopted, and had admissions counts continued to increase, both the county and city could have realized more admissions tax revenue in future years. However, flexible boarding caused a drastic reduction in admissions counts, which would have cost the county and city hundreds of thousands of dollars in lost admissions tax receipts, without the imposed floor on tax revenue.

Wagering tax receipts were not trending upward prior to flexible boarding, so the ceiling on wagering taxes keeps revenues at about the same level as in past years. However, flexible boarding has increased adjusted gross receipts, and the new graduated tax rates generate more revenue from these receipts. With flexible boarding but without the limit, Evansville would have received more than one million dollars in extra wagering tax revenue. That would have been more than enough to offset lost admissions tax revenue without the floor.

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

Property tax reassessment increased assessed values and reduced tax rates. Like most commercial businesses, Aztar's overall assessed value increased by a relatively small amount, compared to the increases experienced by homeowners. The gross taxes received from Aztar by the county and the city increased by a small amount in 2003. The net taxes paid by Aztar fell, as new higher property tax relief paid more of Aztar's tax bill (and everyone else's).

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 Evansville-Vanderburgh School Corporation saw a decrease in the gross taxes received from Aztar property. This represents a shift in tax payments from the riverboat to other property taxpayers. Still, the riverboat delivers somewhat less revenue for the school corporation with reassessment than it did before. It is unlikely that the riverboat has a large positive fiscal impact on Evansville-Vanderburgh schools, and it may well have a negative fiscal impact.

Incentive Payments

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



Incentive Payment Certificate Compliance

As Table 8 illustrates, Aztar Indiana has provided over \$46 million in incentive payments since inception, with the lease payments being the only incentive payment in the last three years. The economic impact of these contributions to the Evansville economy is discussed in the section below.

Table 8: Schedule and Description of Incentive Payments

Category	1996-99	2000	2001	2002	Thru 7/31/03	Total
Riverfront Park Lease Payments (City)	\$10,789,925	\$2,732,754	\$4,906,860	\$5,956,241	\$1,552,992	\$25,938,772
Downtown Revitalization Fund (City)	\$8,403,942	\$1,903,205	\$0	\$0	\$0	\$10,307,147
Project Riverfront (City) Dress Plaza	\$3,000,000	\$0	\$0	\$0	\$0	\$3,000,000
Victory Theater (City)	\$1,000,000	\$0	\$0	\$0	\$0	\$1,000,000
Downtown Learning Center (City)	\$1,000,000	\$0	\$0	\$0	\$0	\$1,000,000
Economic Development Revolving Fund (City)	\$800,000	\$200,000	\$0	(\$0)	\$0	\$1,000,000
Vanderburgh Auditorium (County)	\$750,000	\$0	\$0	\$0	\$0	\$750,000
Burdette Park (County)	\$100,000	\$0	\$0	\$0	\$0	\$100,000
Evansville One (City)	\$750,000	\$500,000	\$0	\$0	\$0	\$1,250,000
Pigeon Creek Greenway (City)	\$200,000	\$50,000	\$0	(\$0)	\$0	\$250,000
Cost of Park Land to City (City)	\$1,900,000	\$0	\$0	\$0	\$0	\$1,900,000
TOTAL	\$28,693,867	\$5,385,959	\$4,906,860	\$5,956,241	\$1,552,992	\$46,495,919

Tax Revenue Collected

As Table 9 illustrates, Aztar Indiana has paid over \$142 million in direct taxes to the state of Indiana since it opened.

Table 9: State Direct Taxes

Category	1996-99	2000	2001	2002	Thru 7/31/03	Total
Gaming Tax (State Share)	\$63,741,468	14,371,850	14,307,216	16,969,648	12,175,087	\$121,565,269
Admission Tax (State Share)	\$8,626,234	\$2,105,899	\$2,124,152	\$1,943,898	\$834,040	\$15,634,223
Sales and Use Tax	\$2,773,818	533,779	482,462	568,888	398,202	\$4,757,149
Food and Beverage	\$221,609	\$58,322	\$54,184	\$63,956	\$37,350	\$435,421
TOTAL	\$74,217,346	\$17,069,850	\$16,968,014	\$19,546,390	\$13,444,679	\$142,392,062



In addition, as Table 10 shows, Aztar Indiana has paid over \$83 million in direct taxes (gaming, admission, and property taxes) to the local area (city and county) since it opened.

Table 10: Local Direct Taxes

Category	1996-99	2000	2001	2002	Thru 7/31/03	Total
Gaming Tax (City Share)	\$21,247,156	\$4,790,617	\$4,769,072	\$5,656,549	\$4,058,362	\$40,521,756
Admission Tax (County Share)	\$8,626,234	\$2,105,899	\$2,124,152	\$1,943,898	\$834,040	\$15,634,223
Admission Tax (City Share)	\$8,626,234	\$2,105,899	\$2,124,152	\$1,943,898	\$834,040	\$15,634,223
Property Tax	\$4,738,622	\$1,953,344	\$1,949,924	\$1,926,718	\$778,099	\$11,346,707
TOTAL	\$43,238,246	\$10,955,759	\$10,967,300	\$11,471,063	\$6,504,541	\$83,136,909

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

As part of the five-year evaluation we 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 will present the total eight year economic impact of expenditures of gaming related tax and incentive payments and provide a detailed analysis of the economic impact that has occurred since the five year report.

From Aztar's opening on December 7, 1995, through December 31, 2000, the economic impact of expenditures of local gaming-related taxes and incentive payments made by the city of Evansville have generated:

- \$150,008,287 in economic impact,
- \$52,791,980 of employee compensation, and
- 2,612 new jobs (full-time equivalents).

The economic impact of expenditures of local gaming-related taxes and incentive payments since the five year report (covering the years 2000 - 2002) is:

- \$57,213,125 of economic impact,
- \$20,144,741 of employee compensation, and
- 987 new jobs (full-time equivalents)

Economic Impact of the Expenditure of Gaming-Related Local Taxes and Incentive Payments 2000–2002

The expenditure by local government of the gaming-related taxes and incentive payments generated by Aztar makes two important contributions to the local economy. The first contribution is the immediate economic impact of the expenditures as they work their way through the local economy. These benefits can be estimated through the use of an input output model, and are important for the short-term stimulus they add to the local economy. The second or long term contribution of these investments is to the fundamental competitiveness of the local economy. These longer-term contributions can begin to be understood by looking at employment trends in the local economy.



Direct Economic Impact 2000 – 2002

Direct economic impact represents the spending of local tax and incentive revenue and the employment and wages generated by that expenditure. Specifically, the city of Evansville spent \$39,181,505 of tax and incentive revenue, primarily on capital equipment, new construction, the rehabilitation and repair of existing structures, landscaping, and infrastructure improvements. The spending of the over \$39 million in tax and incentive revenue generated:

- \$14,226,417 of employee compensation and
- 712 new jobs (full time equivalents).

Indirect and Induced Economic Impact 2000 – 2002

As the spending of over \$39 million in tax and incentive payments works its way through the local economy (Vanderburgh County), it generates additional economic benefits for the community. For example, one of the 712 new jobs may be a \$33,000 a year construction worker whose employment is attributable to tax and incentive revenue paid by Aztar and spent by the city of Evansville. As the construction worker and his or her family eat at local restaurants, shop in local stores, purchase a new automobile, and make home improvements, those expenditures and all other local expenditures generate additional economic activity. Similarly, one of the firms hired by the city of Evansville to patch and pave city streets, needs to purchase materials, supplies, and perhaps equipment. As with the construction worker, when purchased locally, these expenditures produce additional economic benefits. 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 Evansville spend their money, it generates additional economic activity. This round of economic activity is known as the induced benefits.

The indirect and induced economic impact of the spending of gaming-related local tax and incentive payments made by Aztar generates an additional:

- \$18,031,620 of economic activity,
- \$5,918,324 of employee compensation, and
- 275 new jobs (full time equivalents).

An Expenditure Category Analysis of Economic Impact

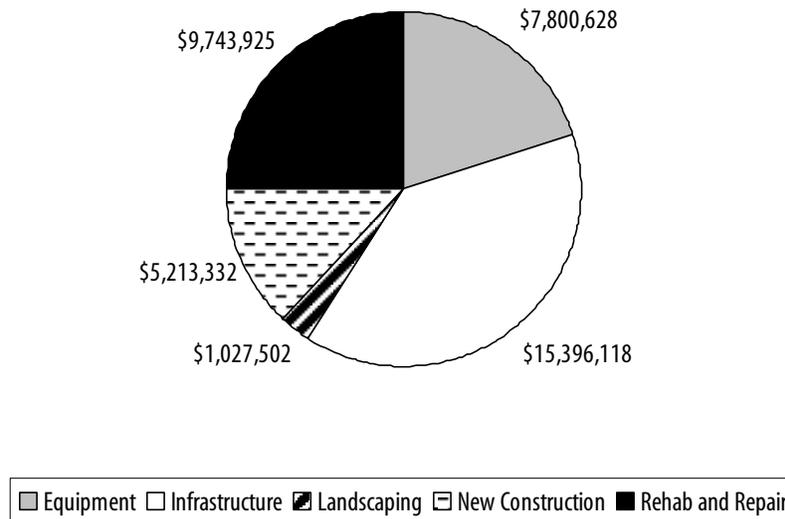
Differing forms of investment have different rates of return. This is an accepted truth in the stock market and it is also true for public investments. This section of the report will describe the total investment in each category, provide examples of the types of investments made, and compare return on investment category by share of indirect benefit, wages generated by public investment, and jobs relative to direct expenditures.

The city of Evansville's expenditures between 2000 and 2002 were sorted into the following categories:

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



Figure 3: City of Evansville Expenditures by Category



Examples of equipment expenditures include:

- Support of a Geographic Information System which provides users with detailed information about all properties in Evansville
- Equipment for the fire department, such as a new fire engine, search and rescue boat, and other fire fighting equipment
- Police equipment, including new police cars and communication equipment
- New buses for public transit
- An upgraded voice mail system for city government
- Building inspection equipment

Examples of infrastructure expenditures include:

- Storm sewer improvements
- Street patching and paving
- Project Riverfront esplanade renovation

Primary landscaping investments were:

- Golf course improvements
- Mesker Zoo landscaping improvements

New construction and rehabilitation and repair expenditures included:

- Swonder Ice Rink Building
- The Victory Theater
- Executive Inn improvements
- Mesker Zoo and Music Theater projects

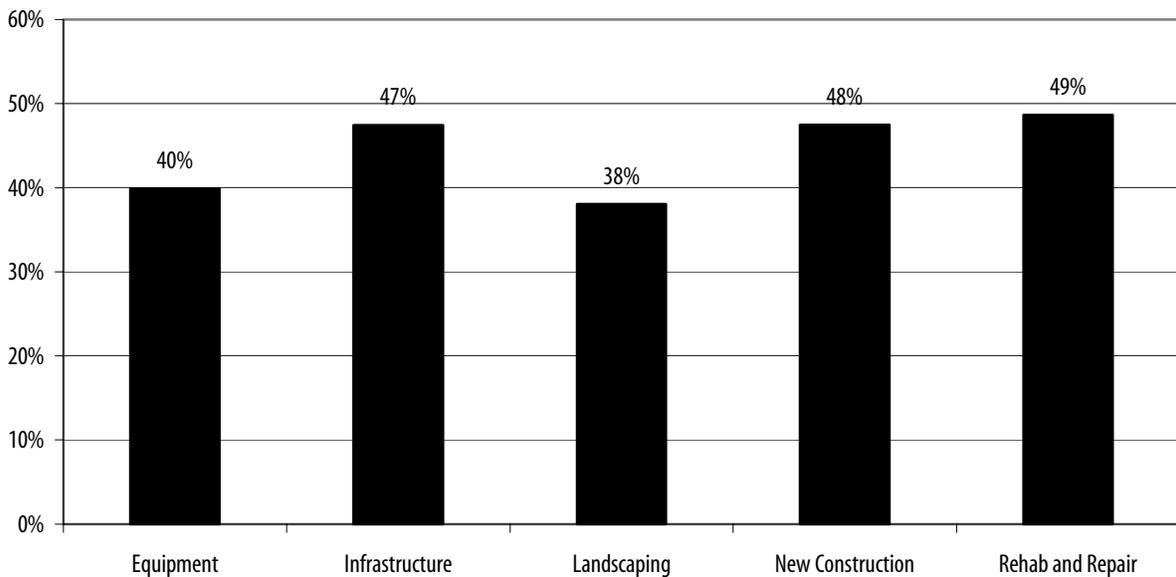


Indirect Impact as a Share of Total Impact

As in the stock market, different investments in Evansville’s local economy will have different rates of return (as measured by share of indirect impact). Figure 4 displays indirect and induced impact as a share of total impact in each category. The share of indirect impact will vary because different types of expenditures engender different local spending behaviors. For example equipment purchases, which in Evansville generate a 39.9 percent share of indirect and induced economic activity, are primarily a retail transaction that often times involve the purchase of equipment made outside the local economy. Thus the purchase of a Dell computer made in Texas involves little indirect economic impact. The primary local economic benefit is the sales staff which then limits the induced impact to the economic impact generated by expenditures of the local sales staff and local sales company, while excluding from the local economic impact the wages and expenditures of the Dell factory where the computer is made. Infrastructure investments in Evansville generate a 47.5 percent share of indirect investment. This is because greater shares of the secondary expenditures are made locally. For example, the company pouring cement at Project Riverfront likely purchased stone and sand from local suppliers, who may have purchased it from a local quarry. This generates a greater share of indirect and induced employment because the local economy enjoys the benefits produced by the firms and employees that work at the local supplier and quarry rather than in Texas as was the case with the equipment purchase.

Rehabilitation and repair expenditures have the highest rate of return with each \$1 of direct expenditures generating over 48 cents of indirect and induced activity. The lowest rate of return is landscaping which generates 38 cents of indirect or induced economic impact for each dollar of direct expenditures.

Figure 4: Indirect and Induced Impact as a Share of Total Impact (Direct, Indirect, and Induced) by Category

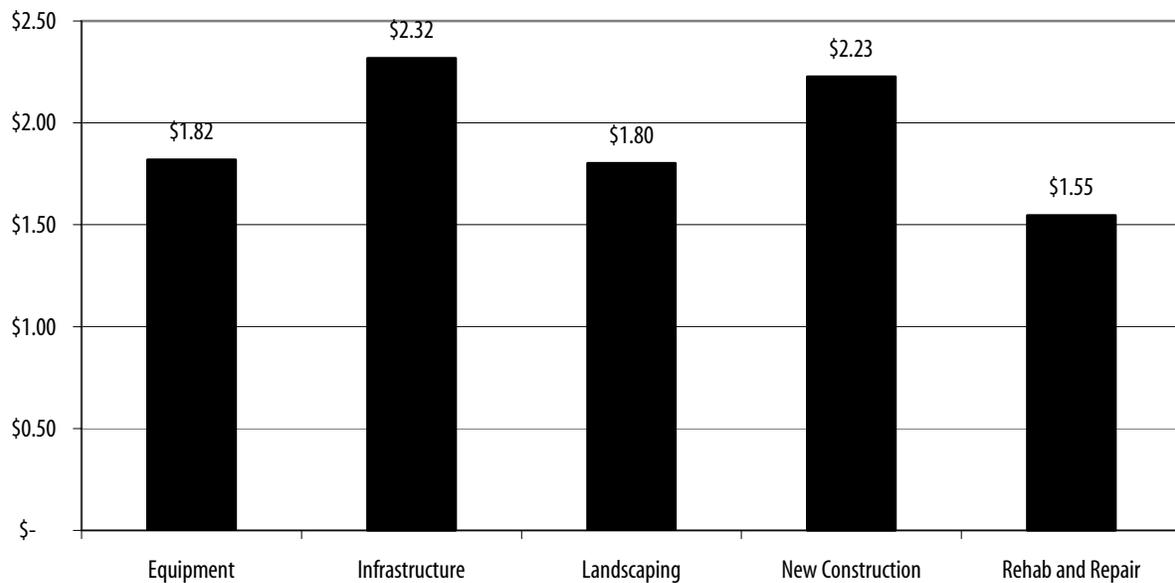




Direct Expenditures and New Wages

Figure 5 displays the amount of direct expenditures required to produce \$1 of new local wages. This amount varies because wages vary by industry and because the industry sectors have differing wage versus material and capital equipment expenditure rates. In this case, rehabilitation and repair expenditures are the most efficient in generating new wages, with only \$1.55 of new investment required to generate \$1 of new wages. Infrastructure investments, which require a high share of material and equipment expenditures, requires \$2.32 in new expenditures to generate \$1 of new wages.

Figure 5: Direct Expenditures per \$1 of New Employee Compensation

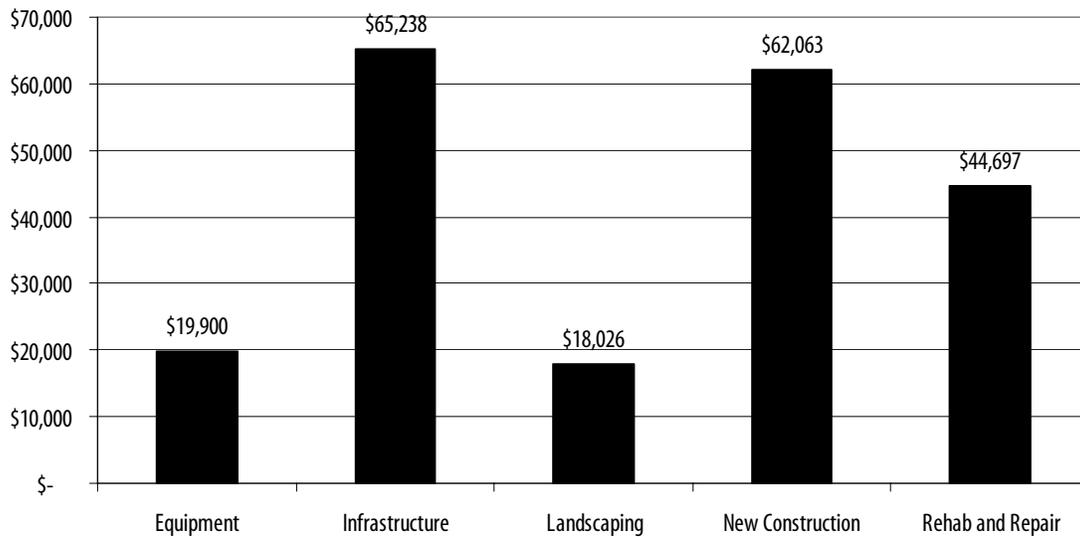




Direct Expenditures and New Jobs

Figure 6 displays the amount of new expenditures by economic sector required to produce a new job in the local economy. Much of the variance is attributable to the varying degree of labor intensity by economic sector. It is also important to understand that it only requires \$18,026 of direct expenditures to create a new landscaping job as compared to over \$65,000 to create an infrastructure job because the average wage for a landscaping job was approximately \$9,000 as compared to nearly \$34,000 for the infrastructure worker.

Figure 6: Direct Expenditures per New Job Created





Employment

As Table 11 indicates, as of July 31, 2003, Aztar Indiana had employment of 1,170 persons in both the casino and hotel, slightly above their eight-year average of 1,163. For 2002, salaries and wages were \$31 million, including tips to dealers (but not to bar and wait staff), and since opening Aztar Indiana has paid over \$237 million in wages, tips, and benefits.

The Certificate required Aztar Indiana to strive to reach certain employment goals per an agreement between Aztar Indiana and the city of Evansville, but did not specify any total employment goals. The city requested that Aztar Indiana target for employment residents of the 4th and 6th wards of Evansville and currently 47 percent of the employees reside in these areas. Another goal was to hire 90 percent of employees from Vanderburgh County and currently 73 percent of Aztar Indiana employees are county residents.

Table 11: Employment and Wages

Category	1996-99 Average	2000	2001	2002	Thru 7/31/03	Total/Average
Total Employment	1,212	1,065	1,065	1,161	1,170	1,163
% Minority	19%	19%	17%	16%	16%	18%
% 4 th & 6 th Wards	50%	47%	44%	47%	47%	48%
% Vanderburgh County	78%	73%	71%	73%	73%	75%
% Indiana	90%	90%	91%	92%	92%	91%
Total Wages, Tips & Benefits	\$126,620,203*	\$30,458,797	\$29,293,154	\$31,160,268	\$19,512,752	\$237,045,174

*Total

Aztar Indiana's Workforce: A Survey of Employees

To assist in the eight-year license evaluation the Center for Urban Policy and the Environment in October 2003 conducted a survey of current Aztar employees. Previously, in October 2000, the Center conducted a survey of Aztar employees for the five-year licensure hearing. The survey and accompanying analysis help the Gaming Commission determine the impact of Aztar on the local workforce. Responses to the current survey will be compared to those from the previous survey, when possible. 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 Aztar
3. The initial experience of the respondents' upon beginning work at Aztar
4. The respondents' current situation

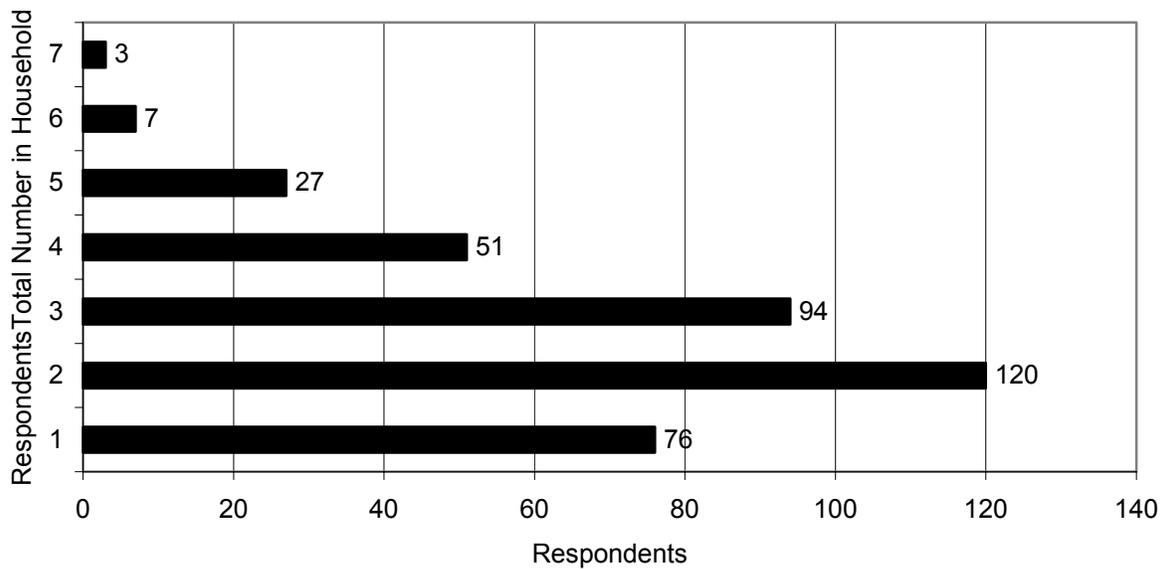


An Overview of the Respondents

One hundred ninety-six of the respondents were male and 177 were female. While the average age was 40 years and 3 months, the oldest respondent was 75 and the youngest 19. The respondents report living in the Evansville area for an average of 21 years.

The most common number of individuals in the respondents' household was 2 (32 percent). Approximately 25 percent of the respondents indicated a 3-person household which likely indicates the presence of children. Figure 7 shows the total number of persons per household.

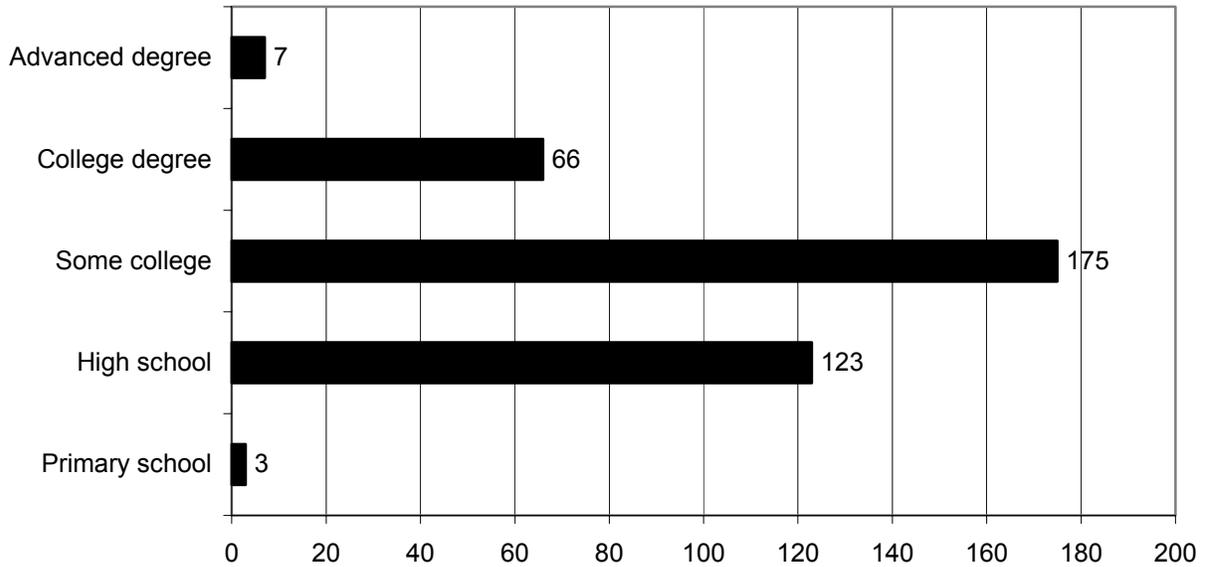
Figure 7: Total Number of Individuals in Household





Nearly 80 percent of the respondents reported a high school diploma or some college as their highest level of education. An additional 18 percent reported receiving a college degree. Figure 8 summarizes the educational achievement of all respondents.

Figure 8: Highest Level of Education



Employment History Prior to Beginning Work at Aztar

Based on responses to the current survey, the majority of respondents were employed in full time jobs prior to beginning work at Aztar. (Table 12)

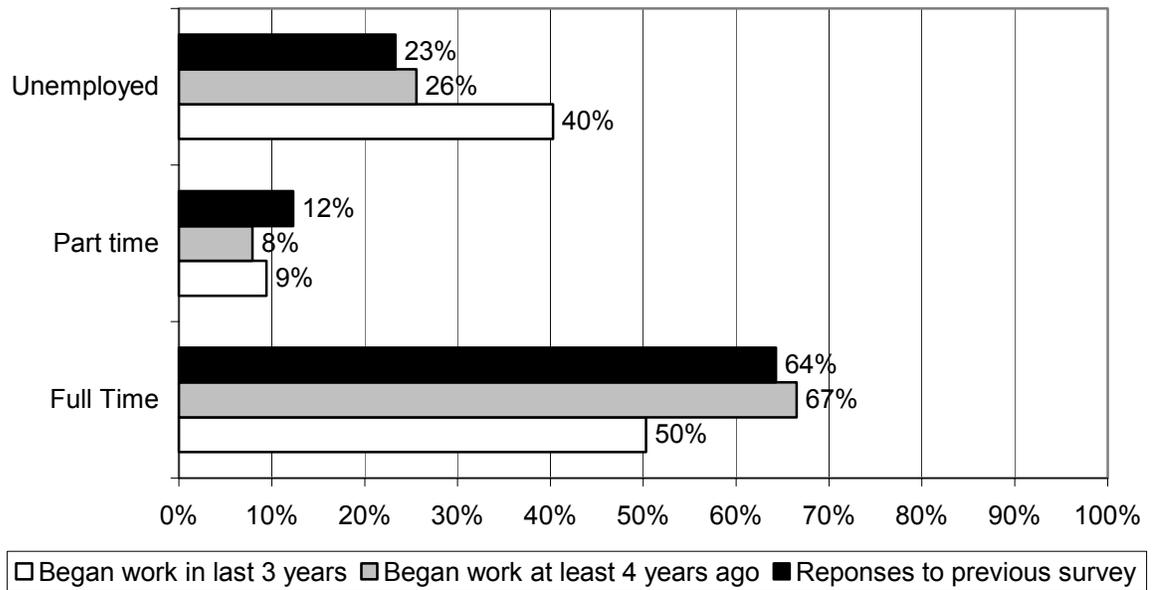
Table 12: Employment Status Prior to Beginning Work at Aztar

Employed full-time prior to beginning work at Aztar	59.8 percent
Employed part-time prior to beginning work at Aztar	8.6 percent
Unemployed prior to beginning work at Aztar	31.6 percent



Figure 9 displays the responses from the current survey as well as responses from the five year licensure hearing evaluation survey. Responses to the current survey are separated into employees who began work since the last 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). The responses suggest that in the last three years there has been an increase in the number of previously unemployed beginning work at Aztar.

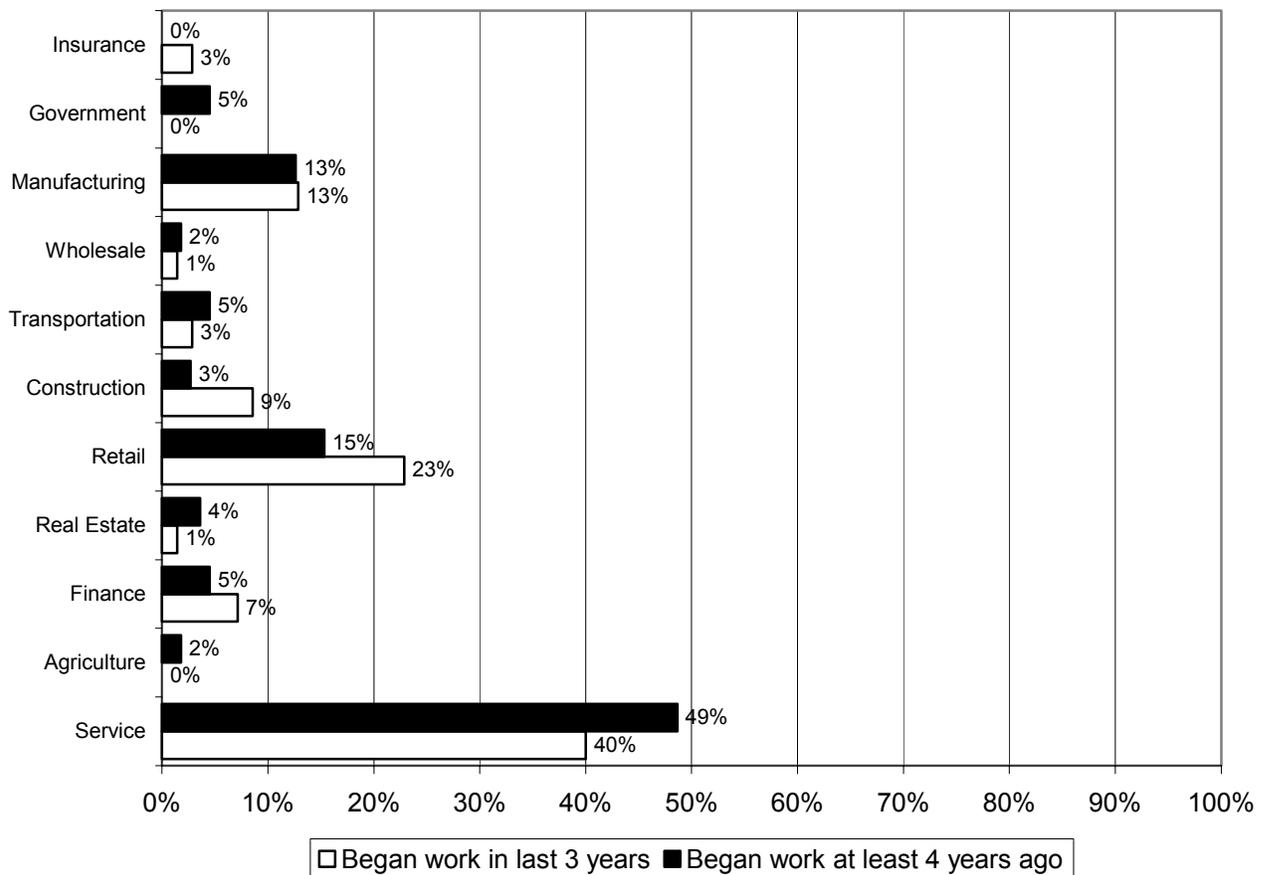
Figure 9: Employment Prior to Beginning Work at Aztar





Based on responses to the current survey, most respondents were employed in either service (45.3 percent of all responses) or retail sector jobs (18.2 percent) prior to beginning work at Aztar. As shown in Figure 10, service and retail sector jobs were the most common for employees who began work in the past three years and for those who began work at Aztar at least four years ago. While still a relatively small share of the total share of previously employed, the share of new Aztar employees previously working in the construction sector has increased from 2.7 percent to 8.6 percent.

Figure 10: Sector of Employment Prior to Beginning Work at Aztar





Beginning Work at Aztar

As shown in Figure 11, of the specified reasons for beginning work at Aztar, more money was the leading response. This was true for those who began work in the last three years as well as for those that have worked at Aztar for four or more years. It was also true for the employees that responded to the 5-year survey, where 32 percent of all respondents identified more money as the principal reason they began work at Aztar. Over the last three years, better hours has increased as the primary motivation for employment and closer to home and better advancement opportunities have diminished as primary motivation for beginning work at Aztar.

Figure 11: Reason for Beginning Work at Aztar

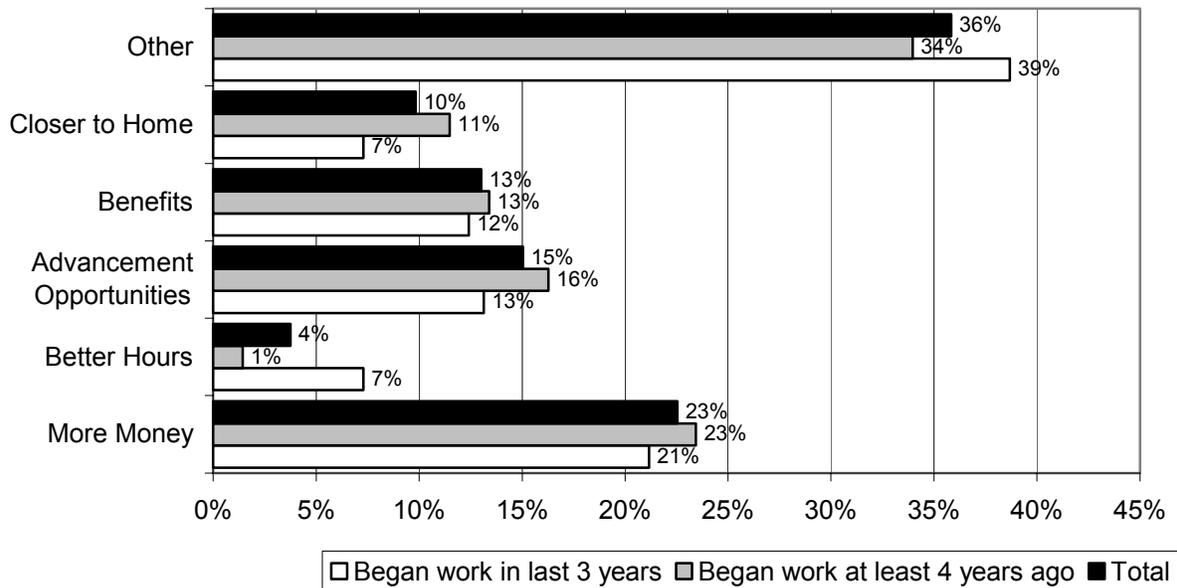
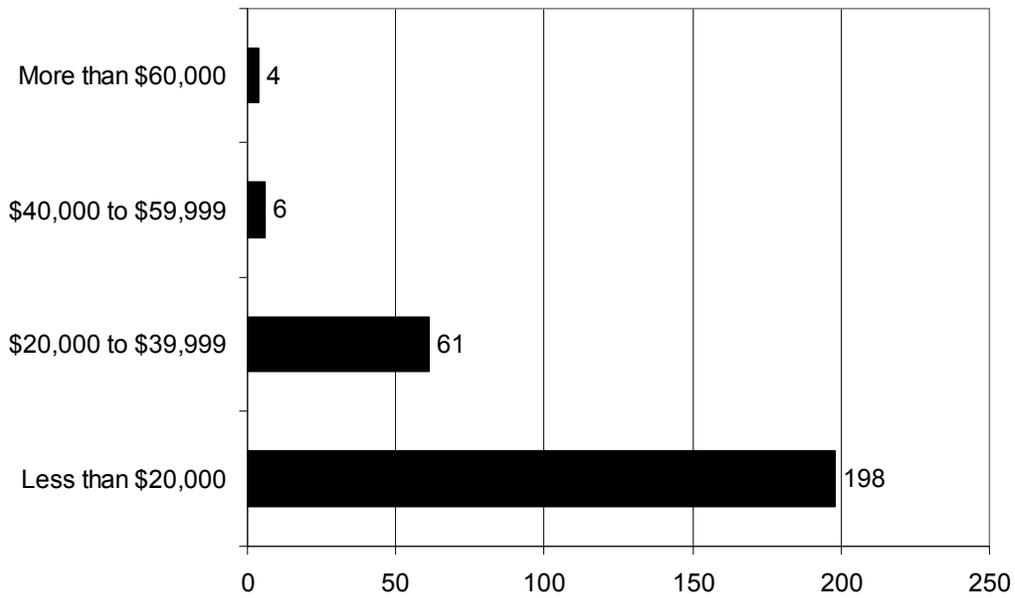




Figure 12 displays the starting wage for the 269 employees that work full time and reported a starting annual income. One hundred ninety-eight or 73.6 percent reported a beginning annual income of less than \$20,000 and an additional 22.7 percent reported a beginning annual income of between \$20,000 and \$39,999. The average annual income upon beginning work at Aztar was \$18,592.

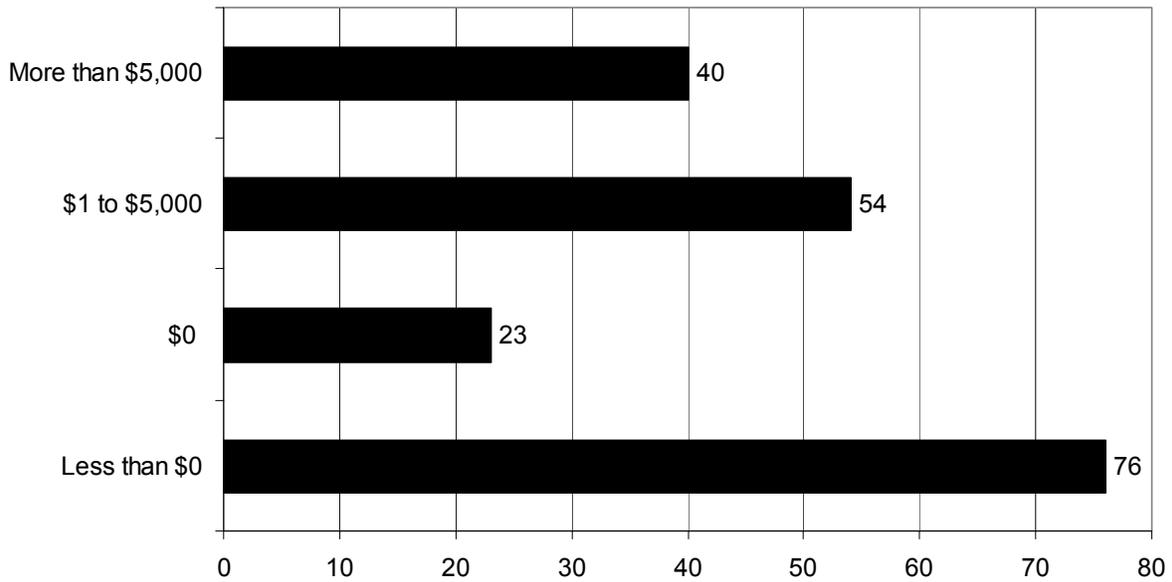
Figure 12: Beginning Wage at Aztar





Almost 49 percent of the employees reporting a prior annual wage and a beginning wage at Aztar received a raise upon beginning their new job. Fifty-four respondents received a raise of \$5,000 or less and 40 received a raise of more than \$5,000. Seventy-six employees reported experiencing a cut in annual pay upon beginning work at Aztar. The average increase for all employees reporting both previous and starting wages was \$831. (Figure 13)

Figure 13: Change in Annual Wage Upon Beginning Work at Aztar

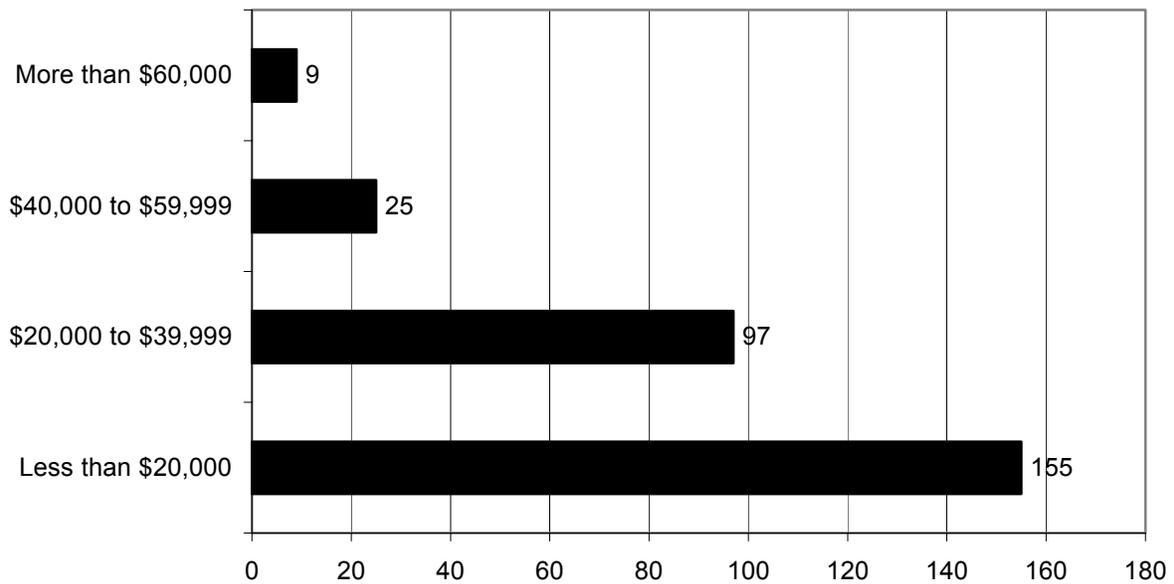




Current Annual Wages

The average annual income of those responding to this question was \$25,319. As shown in Figure 14, 155 or 54 percent make less than \$20,000 per year. In 2001 the Bureau of Economic Analysis reported that the per capita income in Vanderburgh County was \$29,917.

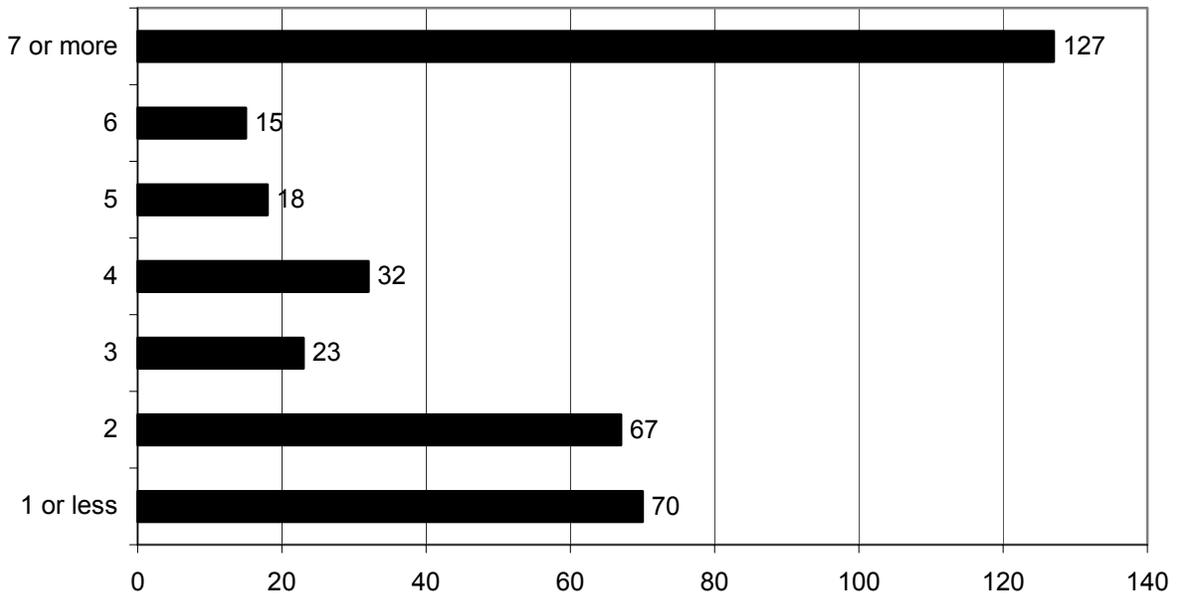
Figure 14: Current Annual Wages of Aztar Employees





The average length of employment at Aztar for the 352 employees responding to this question was 4 years and 1 month. Figure 15 displays the number of employees and years worked. Approximately 36 percent of those responding have worked at Aztar for 7 or more years and 39 percent have worked at Aztar 2 years or less.

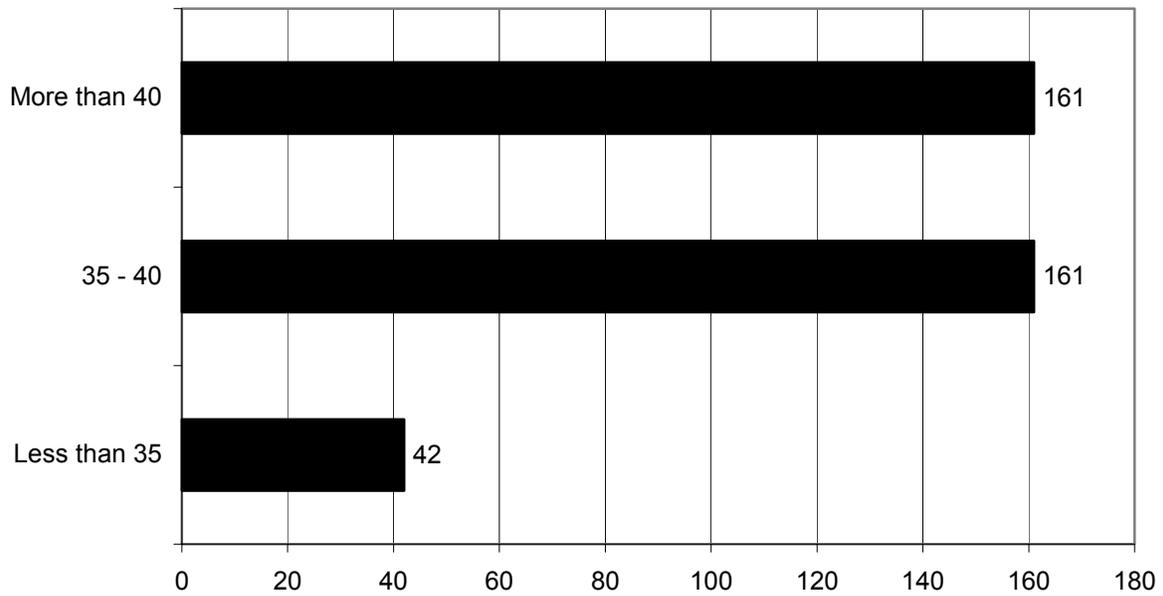
Figure 15: Years Worked at Aztar





As shown in Figure 16 only 42 respondents or 11.5 percent report working less than 35 hours per week. There is an equal number of employees reporting working between 35 and 40 hours as there is more than 40.

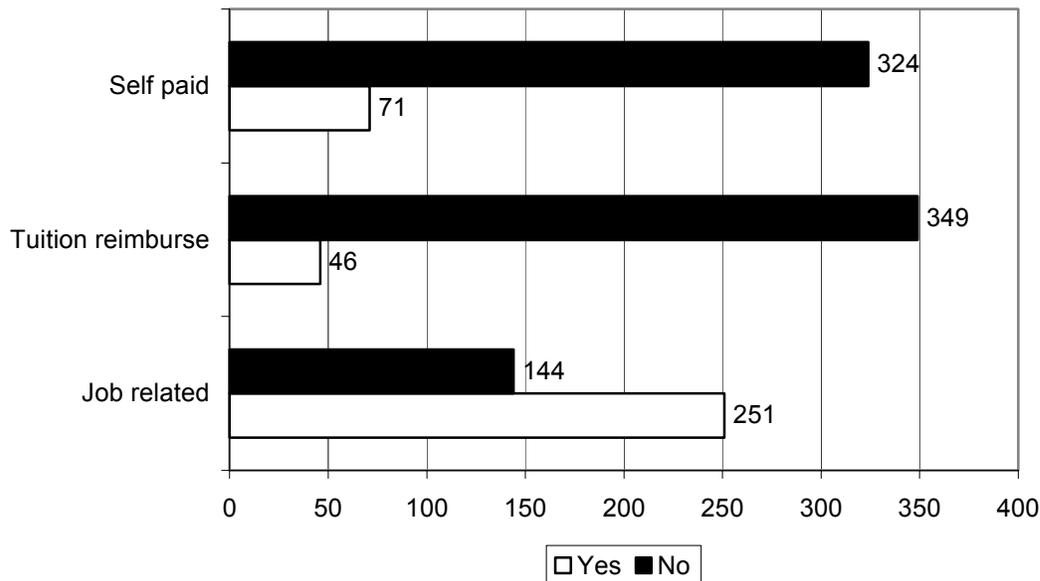
Figure 16: Number of Hours Worked per Week





Training and re-training are important components of building an able workforce. As show in Figure 17 many more Aztar employees are receiving job-related training than receive either tuition reimbursement or choose to pay for additional skill building opportunities on their own. Interestingly a greater share of respondents reported paying for their own training or education opportunities (17.9 percent) than received tuition reimbursement from Aztar (11.6 percent).

Figure 17: Training and Education Opportunities for Aztar Employees



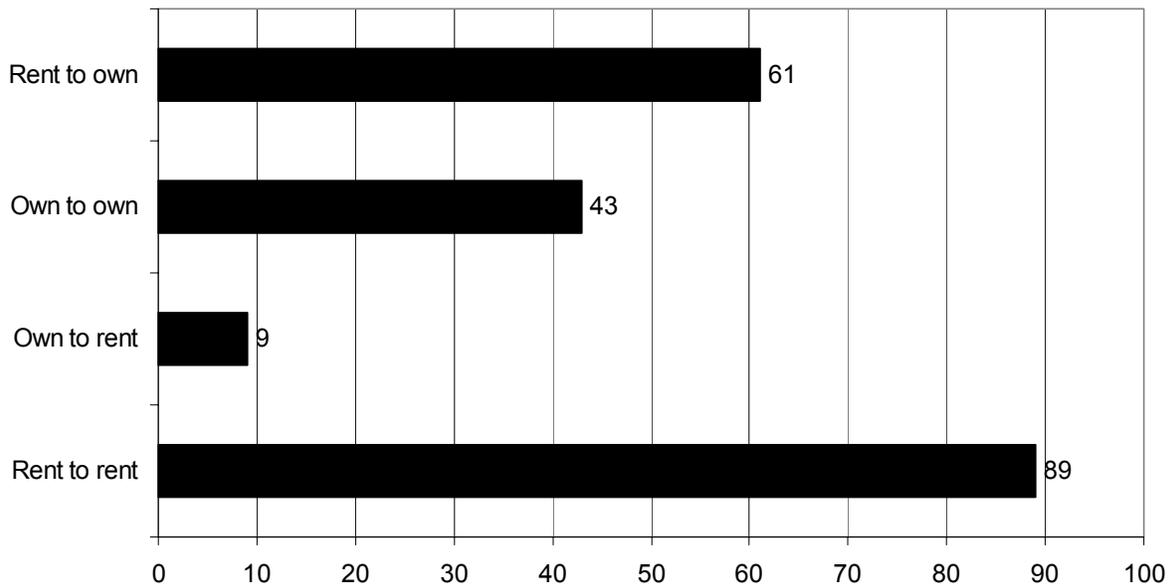
As might be expected the likelihood of receiving job related training or tuition reimbursement from Aztar increased as the number of years worked increased. For example, 8 percent of the respondents that worked 3 years or less report receiving tuition reimbursement and 14 percent of those working more than 3 years reported receiving tuition reimbursement. This was not the case for self-paid training and education opportunities, where the share declined from 29 percent of those working 3 years or less to 18 percent of those working more than 3 years.

While the share of respondents receiving job-related training remained constant over the 5 year and 8 year survey, the share receiving tuition reimbursement declined from 20 percent in the 5 year survey to 11.6 percent in the 8 year survey. The share reporting paying for their own training and education expenses also declined from 23 percent to 18 percent.



Of the 202 respondents reporting a change in place of residence since beginning work at Aztar, 61 or 30 percent reported moving from rental status to home ownership (Figure 18). Fifty-three of the 61 employees who moved from rental status to home ownership have worked at Aztar for more than 3 years. Ninety-two individuals reported making home remodeling investments and 214 respondents reporting purchasing a car or van.

Figure 18: Changes in Housing Status Since Beginning Work at Aztar







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 the cannibalization of existing business establishments. That is, opponents argued that riverboats with attached hotels and restaurants would provide a substitute for local consumption rather than complementing local establishments; driving competing businesses out of the market. Concern has also risen around detrimental effects of job substitution 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 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. This analysis expands upon the 1999 Indiana Gambling Impact Study Commission report, focusing on county level employment, wage, and establishments by industry using a special aggregation of ES202 data provided by the Indiana Business Research Center.⁵

This section complements the economic impact study included 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 private business industries that have experienced observable changes soon after the commencement of gaming in Vanderburgh County. This analysis is not an attempt to provide a causal relationship between the establishment of Aztar and the change in other industries operating in Vanderburgh County. It is simply a descriptive analysis focused on industry change before and after the commencement of gaming operations. Among several additional impacts, major investments by Toyota Motor Manufacturing Corporation and AK Steel in the surrounding area likely also have had impacts on the business climate of Vanderburgh County. Separating these effects is beyond the scope of this report.

Changes in Total Jobs, Wages, and Establishments

Figures 19, 20, and 21 compare trends in total number of jobs, total number of establishments, and average wage per employee between Vanderburgh County and the aggregate of non-riverboat counties from 1993 to 2000 (two years before through five years after the commencement of gaming). The trend lines take 1993 as the base year and compare each of the following years to those levels. Thus, 1993 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 a consumer price index. The focus of the analysis is on whether or not there are

⁵ 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 4-digit Standard Industrial Classification (SIC) level, by county, by ownership sector, for the entire United States.



observable changes that occurred after 1995 (gaming commencement) and whether those changes are divergent from trends during the same time period in the aggregate of non-riverboat counties.

Figure 19: Comparison of Trends in Total Jobs

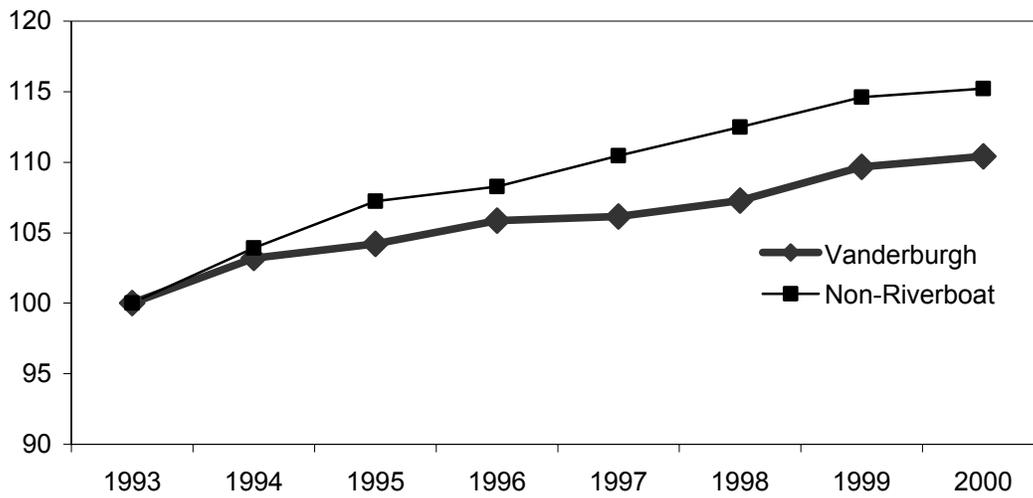


Figure 20: Comparison of Trends in Total Number of Establishments

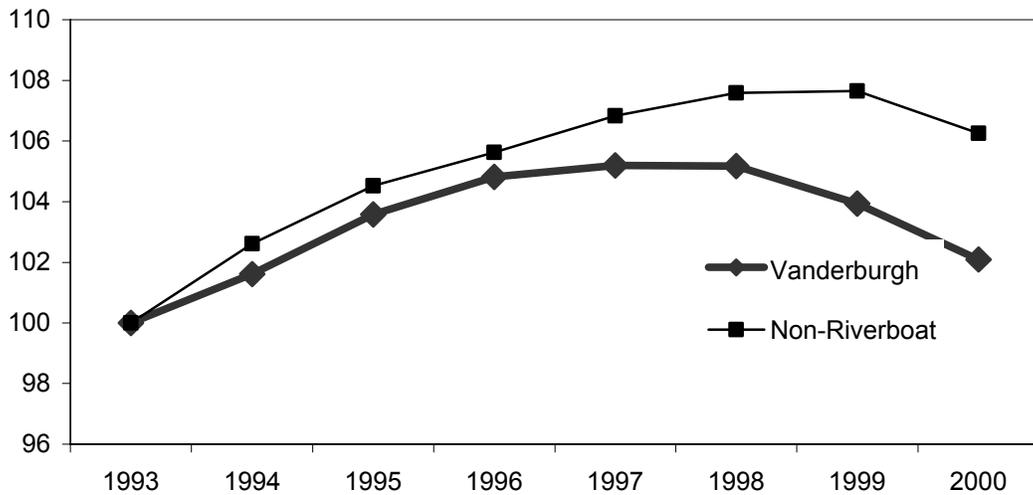
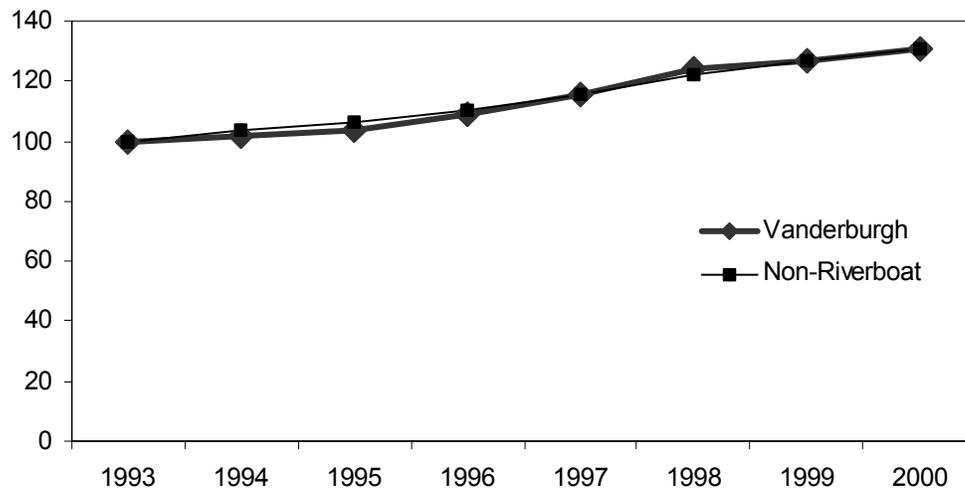




Figure 21: Comparison of Trends in Average Wage



As shown in the preceding figures, both the number of jobs and average wage have consistently increased annually from 1993 through 2000. When compared to the aggregate of non-riverboat counties, trends in wage per employee in Vanderburgh County are nearly identical. The number of jobs, while increasing, does not keep pace with the non-riverboat counties. However, this is a trend that started before commencement of gaming.

Vanderburgh County experienced a fairly sudden change in the number of establishments that began between 1997 and 1998. The trend shows that the number of establishments grew by nearly five percent between 1993 and 1997, when it peaked. Immediately following 1997, this trend began to decline by about 4 percent over the next three years. Though this change seems drastic when following trends in Vanderburgh County alone, the same trends appear in the aggregate of non-riverboat counties around the same time period. In effect, Vanderburgh County has experienced many of the same changes that have occurred in the non-riverboat counties: increase in number of jobs, growth in wages, and a decline in the number of establishments. Though this is an informative perspective, it does not answer the most important question: Has Vanderburgh County experienced observable changes in trends before and after gaming within specific industries?

Inter-Industry Business Climate Change

This section of the analysis provides a perspective of the business climate at the major industry level.⁶ This perspective offers insight into whether or not specific sectors and industries have experienced substantial changes in number of jobs, number of establishments, and average wage per job.

⁶ Industries are examined at the two-digit level of the Standard Industrial Classification. Technically, this level is referred to as the major group level.



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 1995 and 2000. 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 1993 and 2000.
- 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 1993 and 2000.

After meeting these criteria, the analysis began with a comparison of change in industry employment from 1993 to 1995, (before the riverboat), 1995 to 1997 (short-term change after gaming), and 1995 to 2000 (long term 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 Vanderburgh 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 Vanderburgh County experienced comparable employment trends following the operation of Aztar. If an industry had an index score less than -5 or greater than 5 between 1995 and 2000, they were examined further. Further examination of those industries focused on whether or not each showed observable changes before and after 1995. 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 casual relationships from riverboat gaming.

Industries in Vanderburgh County Experiencing Considerable Change

Based on the preceding criteria and analyses, 18 industries were found to have observable changes in 1995 that were not comparable to trends in the aggregate of non-riverboat counties.⁷ Table 13 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 1995 to 2000. Note that eating and drinking establishments, an industry that is often perceived as threatened by casino establishments are not included for further analysis. That industry did not show “drastic” observable change (positive or negative) in the five years following the commencement of gaming.

⁷ See Appendix I for descriptions of each industry.



As shown in Table 13, most of the industries that experienced divergent trends were within the Service sector (6 industries) and Manufacturing sector (5 industries). Industries in four other private sectors in Vanderburgh County have also experienced some observable changes: Retail (3 industries); Finance, Insurance, and Real Estate (2 industries); Transportation and Public Utilities (1 industry); and Wholesale Trade (1 industry).

Table 13: Summary of Identified Industries and Change

Sector/Industry	Employment Change 1995-2000	Establishment Change 1995-2000	Average Wage Change 1995-2000*
Manufacturing			
Food and kindred products	358	-4	\$7,948
Printing and publishing	-798	-7	\$2,426
Rubber and Misc. plastics products	50	7	\$7,508
Stone, clay, and glass products	83	3	\$12,629
Industrial machinery and equipment	35	-6	\$3859
Transportation and Public Utilities			
Electric, gas, and sanitary services	108	6	\$23,082
Wholesale Trade			
Nondurable goods	-409	-37	\$7,427
Retail Trade			
Building materials and garden supplies	284	-6	\$6,168
General merchandise stores	418	3	\$1,702
Food stores	90	-3	\$1,531
Finance, Insurance, and Real Estate			
Depository institutions	496	-6	\$14,122
Insurance carriers	-665	-6	\$10,402
Services			
Hotels and other lodging places	-29	12	\$1,439
Personal services	-117	-10	\$4,145
Miscellaneous repair services	126	-4	\$4,866
Motion pictures	-48	-4	\$5,523
Amusement and recreation services	1042	5	\$6,927
Health services	-491	-21	\$7,875



Table 14 indicates the comparative change in employment in more detail for the selected industries. The first column after the industry name shows the actual employment in 2000. The next two columns show what employment in 2000 would be for each of the industries if: (1) each industry followed the same trend after 1995 as experienced from 1993 to 1995 and (2) each industry followed the same trend between 1995 and 2000 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 Vanderburgh 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 14: Actual Employment in Vanderburgh County 2000 Relative to Other Trends

Industry	Actual	Total Employment if Change in Employment Was Equal to:		Difference between Actual and:	
		Average 1993-1995 trend in Vanderburgh County	Trend in Aggregate Non-Riverboat County	1993-1995 trend	Non-riverboat trend
Health services	12,671	14,512	14,589	-1,841	-1,918
Insurance carriers*	375	2,232	1,080	-1,857	-705
Printing and publishing	923	1,636	1,388	-713	-465
Nondurable goods	1,406	1,901	1,780	-495	-374
Personal services	1,231	1,453	1,344	-222	-113
Motion pictures	285	369	373	-84	-88
Hotels and other lodging places**	848	840	911	9	-63
Miscellaneous repair services	706	622	610	84	96
Stone, clay, and glass products	648	559	411	89	237
Industrial machinery and equipment	979	1,195	725	-216	254
Rubber and miscellaneous plastics products	3,455	3,947	3,186	-492	269
Building materials and garden supplies	1,107	892	824	215	283
Electric, gas, and sanitary services	728	736	439	-8	289
Food stores	2,290	1,939	1,950	351	340
General merchandise stores	3,605	3,991	3,091	-386	514
Food and kindred products	1,426	875	849	552	577
Depository institutions	2,273	1,521	1,638	753	635
Amusement and recreation services**	2,079	1,325	1,210	754	869

*The data for this industry were suppressed in 2000. BLS withholds publication of employment and wage data for any industry level when necessary to protect the identity of cooperating employers. The numbers included in this table end in 1999.

**Employment from Aztar is reported in these industries.

As shown, the health services industry was, by far, the largest employer of the identified industries in 2000. It also has experienced the largest loss in competitiveness of those industries in Vanderburgh County. It is not only worse off than it was before 1995; it also has diverged considerably from the growth experienced



by the aggregate of non-riverboat counties. In fact, if the health services industry had kept pace with its average employment growth in the two years prior to 1995, the industry would have over 1,800 additional jobs in Vanderburgh County. If the health services industry would have grown at the same rate as the aggregate of non-riverboat counties between 1995 and 2000, there would be over 1,900 additional jobs in the area. Other industries that are also worse off competitively than they were before 1995 and are worse off than the aggregate of non-riverboat counties include: insurance carriers, printing and publishing, nondurable wholesale goods, personal services, and motion pictures.

Some identified industries were worse off than they would be if trends before 1995 held from then until 2000, but still out performed the aggregate of non-riverboat counties. Those industries include: industrial machinery and equipment; rubber and miscellaneous plastics products; electric, gas, and sanitary services; and general merchandise stores. Essentially, these industries might be expected to experience losses in employment because the same industries in the referenced aggregate of non-riverboat counties also have decreased. Though these industries in Vanderburgh County are worse off than they would be if trends before 1995 followed through after 1995, they did perform better than aggregate of non-riverboat counties. One industry, hotels and other lodging places, was better off in 2000 than if trends before 1995 continued through 2000. However, employment in that industry did not keep pace with the aggregate of non-riverboat communities, even though some of the employment at Aztar is included in this category.

Identified industries that were better off in 2000 than if they had followed the trend from 1993 to 1995 or if they had grown at the same pace as the aggregate of non-riverboat counties include: amusement and recreation services; depository institutions; food and kindred products; food stores; building materials and garden supplies; stone, clay, and glass products; and miscellaneous repair services. The competitiveness of these industries increased after 1995. The greatest actual divergence from before 1995 and non-riverboat county trends was in the amusement in recreation services industry, which is an industry category in which Aztar employment is included.



Table 15 indicates the comparative change in the number of establishments for the selected industries. Eleven of the 18 identified industries had fewer firms in 2000 than if change had occurred at the same pace as between 1993 and 1995. However, only five of those industries had fewer establishments than if they had changed at the same rate as the aggregate of non-riverboat communities. Those industries include: insurance carriers; nondurable goods; health services; depository institutions; and industrial machinery and equipment. The industries that have more establishments than if they had performed like the aggregate of non-riverboat counties include: Hotels and other lodging places (including the casino hotel); Rubber and miscellaneous plastics products; general merchandise stores; electric, gas, and sanitary services; food stores; stone, clay, and glass products; personal services; amusement and recreation services (including the casino); and miscellaneous repair services.

Table 15: Actual Number of Establishments in Vanderburgh County 2000 Relative to Other Trends

Industry	Actual	Total Establishments if Change in Establishments Was Equal to:		Difference between Actual and:	
		Average 1993-1995 trend in Vanderburgh County	Trend in Aggregate Non-Riverboat County	1993-1995 trend	Non-riverboat trend
Nondurable goods	110	146	131	-36	-21
Health services	350	413	368	-63	-18
Depository institutions	73	103	86	-30	-13
Industrial machinery and equipment	58	72	61	-14	-3
Insurance carriers*	42	54	43	-12	-1
Building materials and garden supplies	49	60	49	-11	0
Printing and publishing	43	43	43	0	0
Motion pictures	23	27	23	-4	0
Food and kindred products	16	19	16	-3	0
Miscellaneous repair services	68	75	66	-7	2
Amusement and recreation services**	71	71	68	0	3
Personal services	148	161	144	-13	4
Stone, clay, and glass products	11	7	7	4	4
Food stores	78	74	72	4	6
Electric, gas, and sanitary services	14	11	8	3	6
General merchandise stores	33	38	27	-5	6
Rubber and misc. plastics products	34	21	26	13	8
Hotels and other lodging places**	35	28	26	7	9

*The data for this industry were suppressed in 2000. . BLS withholds publication of employment and wage data for any industry level when necessary to protect the identity of cooperating employers The numbers included in this industry end in 1999.

**Establishments from Aztar are reported in these industries.



Table 16 indicates the comparative change in the average wage per job for the selected industries. The hotels and other lodging places industry was the only identified industry that paid less on average than if the growth in wage per job had continued at the same rate as between 1993 and 1995. Five of the 18 identified industries have not kept pace with wages compared to the average of the non-riverboat counties, including: printing and publishing, miscellaneous repair services, hotels and other lodging places, food stores, and general merchandise stores. Other identified industries outpaced the same industries in the average non-riverboat counties by over \$2,000. Those industries include: Electric, gas, and sanitary services; stone, clay, and glass products; depository institutions; motion pictures; food and kindred products; health services, amusement and recreation services (including the casino), rubber and miscellaneous plastics products; building materials and garden supplies; and insurance carriers.

Table 16: Actual Average Wage in Vanderburgh County 2000 Relative to Other Trends

Industry	Actual	Average Wage if Change in Average Wage Was Equal to:		Difference between Actual and:	
		Average 1993-1995 trend in Vanderburgh County	Trend in Aggregate Non-Riverboat County	1993-1995 trend	Non-riverboat trend
Printing and publishing	\$34,173	\$33,785	\$40,664	\$388	-\$6,491
Miscellaneous repair services	33,927	31,823	36,358	2,104	-2,432
Hotels and other lodging places**	12,291	12,809	13,256	-518	-964
Food stores	12,750	11,880	13,035	869	-285
General merchandise stores	13,097	10,926	13,363	2,171	-266
Nondurable goods	35,793	32,925	35,605	2,868	188
Personal services	17,666	14,624	16,669	3,043	997
Industrial machinery and equipment	37,962	37,509	36,079	452	1,883
Building materials and garden supplies	22,658	17,389	20,637	5,268	2,021
Rubber and misc. plastics products	36,061	29,995	34,006	6,067	2,056
Amusement and recreation services**	17,672	12,320	15,049	5,351	2,622
Health services	35,472	28,230	32,803	7,242	2,669
Food and kindred products	35,021	26,569	32,016	8,452	3,005
Motion pictures	14,592	8,641	10,501	5,951	4,091
Depository institutions	39,562	28,588	32,765	10,974	6,797
Stone, clay, and glass products	51,193	44,904	43,985	6,289	7,208
Electric, gas, and sanitary services	59,607	40,024	45,397	19,582	14,209
Insurance carriers*	34,542	11,330	31,231	3,311	23,211

*The data for this industry were suppressed in 2000. . BLS withholds publication of employment and wage data for any industry level when necessary to protect the identity of cooperating employers The numbers included in this industry end in 1999.

**Wages from Aztar are reported in these industries.

Summary of Business Impacts

Overall, the number of jobs, number of establishments, and average wage per job in Vanderburgh County has followed the same trend as the aggregate of Indiana non-riverboat counties. Eighteen industries have been identified as exhibiting trends that are considerably different than what would have happened



following the same trend before the establishment of Aztar and/or the trend relative to the aggregate of non-riverboat counties. Most of the identified industries are within the Services and Manufacturing sectors. Positive and negative changes in jobs, number of establishments, and wages per job among the identified industries vary.



Community Impacts

Local Spending and Contributions

Aztar Indiana has spent money locally for both capital and operating expenses as well as through sponsorships and contributions. As Table 17 illustrates, since opening, Aztar Indiana has spent almost \$110 million locally (Vanderburgh and Warrick counties). Construction costs make up approximately half of these expenditures and primarily were completed by 1996. Additionally, Aztar Indiana has impacted the Evansville area through nearly \$3 million in sponsorships and contributions to local area organizations.

Table 17: Local Spending, Sponsorship, and Contributions

	1996-99	2000	2001	2002	Thru 7/31/03	Total
Local Spending	\$81,281,754	\$10,065,024	\$6,704,394	\$7,125,820	\$4,471,261	\$109,648,253
Sponsorships/ Contributions	\$1,540,234	\$460,378	\$390,496	\$345,677	\$218,927	\$2,955,712

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 Evansville with:

- Community leaders including representatives of law enforcement
- Local business leaders (retail, restaurant, hotel, convention) and
- Social services providers

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:

- Downtown development did not occur as hoped but not necessarily Aztar's fault, there are many players
- People who visit boat do not spend time downtown
- Downtown riverfront has been enhanced
- Aztar is a good corporate citizen, providing dollars, time, and leadership
- Aztar has provided over 1,000 jobs
- The casino has not produced the negatives expected, like increased traffic and crime
- Aztar provides an attraction for the community for visitors, conventions, new employees
- Tax revenues have provided many opportunities for Evansville
- Funded beneficial social service programs
- Some people in the community have gambling problems but these problems can be hidden by other problems. People will come in for a marital problem or a job loss or depression problem and eventually it is discovered that gambling is also a problem.

Comments that only group (social service providers) mentioned include:



- Homeless and mentally ill congregate on the boat because it is open almost around the clock and offers free sodas.
- Aztar should hold workshops with social services providers so that Aztar is aware of places to refer people to and so that social service providers are aware of issues facing Aztar.
- Increase in cash advance and pawnshops are outgrowths of the casino.
- Issues with Aztar as an employer, including that they don't train employees except on job-specific skills, they require part-time people to purchase uniforms, and they fire people quickly. It was mentioned that this also occurs in other local businesses but is still of concern to the social service providers.

Other Issues

According to Aztar, since opening, there have been 57 legal actions it has been involved with, including 15 employee lawsuits, nine patron lawsuits, 17 employee claims with an administrative agency, three lawsuits filed by Aztar, and several miscellaneous claims. According to the Evansville Police Department, crime in the area around the riverboat has not risen since the boat opened; they indicated that they have more runs to the local mall than to the riverboat area.

Aztar Indiana has made efforts to minimize negative impacts that could result from problem gambling:

- Problem gambling awareness signs are posted at casino entrances, ATM machines, restrooms, elevators, and ticketing windows.
- Information about problem gambling is printed on all tickets and collateral materials.
- Participation in Responsible Gaming Education Week with public service announcements on local radio stations and in the Evansville newspaper.
- Established relationships with local social services agencies and arrangements have been made to allow these organizations to assist in the completion of the required forms for self-exclusion for their patients.
- Project 21, stresses to high school students that gaming is adult entertainment. It also provides funding for college scholarships. Aztar continued to provide this program over the last three years.
- A self-exclusion program for individuals who wish to be banned from the facility. Any attempts by these individuals to enter the casino can result in their arrest for trespassing. The exclusions can last for one year, five years, or for a lifetime. This is a modification from the original six month option. Since January 2000, 250 individuals have requested self-exclusion.

As Table 18 indicates, in an effort to prevent underage gambling, Aztar Indiana has verified 371,618 identifications and turned away 4,761 patrons since it opened. An additional 145 cases were referred to prosecution and 79 patrons who were detained subsequent to boarding.

Table 18: Aztar Indiana's efforts to prevent underage gambling

	1996-99	2000	2001	2002	Thru 7/31/03	Total
Number of I.D.s verified	164,499	42,407	42,578	65,095	57,039	371,618
Number of patrons turned away (no I.D. or under 21)	2,502	434	391	777	657	4,761
Patrons detained subsequent to boarding	60	5	4	6	4	79



Cases referred to prosecution	120	6	6	5	8	145
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Current Financial Position and Future Plans

Aztar Corporation is a publicly traded gaming company that owns and operates three land-based casinos and two riverboat casinos in Atlantic City; Las Vegas; Laughlin, Nevada; Evansville, Indiana; and Caruthersville, Missouri. Aztar Corporation had a market capitalization of \$598 million and had total interest bearing debt at June 2003 of \$582.5 million.

Aztar Corporation has applied for the renewal of its gaming license in Indiana. The purpose of this section is to provide a summary of the current financial position of Aztar Indiana, and Aztar Corporation the parent entity, and to assess the operation plans put forth by Evansville management for the 2004-2006 period.

Description of Operations

Aztar Indiana opened for operation in December 1995. Its total fixed asset investment at December 1996, before depreciation, was \$110 million. At December 2002, Aztar Indiana had a net fixed asset investment of \$78.0 million. The Evansville operation had total revenue of \$116 million in 2002 with casino revenues (net of promotions) of \$105.2 million. About 90 percent of total revenue came from the casino in the most recent calendar year of operations. The balance came from sales of food and beverages and hotel. Aztar Indiana has a hotel with 250 rooms. Cash flow generated from the operation in 2002 (EBITDA or Earnings before interest and taxes, depreciation, and amortization) was \$30.3 million on revenues of \$116 million. The Evansville operation had a very strong balance sheet at the end of 2002 and also demonstrated strong cash flow generation ability. Total long-term debt due to the parent corporation was \$45.8 million with an annual interest expense of \$7.9 million. The Evansville operation had member's equity at the end of 2002 of \$36.8 million. Relative to the parent corporation, Aztar Indiana enjoys a higher utilization of its asset base, (measured as revenue/total assets) a greater cash flow return on revenues and is relatively unlevered when the long term debt obligation is compared to cash flow (Table 19).

Table 19: Base Data 2002 (dollars in millions)

	Aztar Indiana	Aztar Corporation
Total Assets	\$104.4	\$1,211.0
Revenue	\$116	\$834.3
EBITDA	\$30.3	\$186.9
Long term debt	\$45.8	\$524.0
Equity	\$36.8	\$515.0
Interest Expense	\$7.9	\$41.2
Ratios		
Revenues/Total Assets	111%	69%
EBITDA/Revenue	26%	22%
Long term debt/EBITDA	1.5	2.8



EBITDA/Interest expense	3.8	4.5
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Aztar Indiana – Historic Performance

In the period from 2000 to 2002, the Evansville facility realized an increase in total revenue as its fixed asset base depreciated. Total revenue increased at an average annual rate of 3.8 percent and gaming revenue increased at an average annual rate of about 4.5 percent. This compares to an average annual growth rate in gaming revenue of 10.6 percent for all the riverboats in the state. The initiation of dockside boarding was very positive for Aztar Indiana and in 2002, EBITDA or pretax cash flow recovered to its level for 2000 (Table 20).

Table 20: Historical Performance Measures, Aztar Indiana 2000-2002 (dollars in millions)

	2000	2001	2002
Revenue	\$107.9	\$106.0	\$116.3
Gaming Revenue	\$96.3	\$95.3	\$105.1
Admission (Turnstile)	1.047	1.012	1.264
Net Fixed Assets	\$83.8	\$80.0	\$75.4
Capital Expenditure	\$2.6	\$3.7	\$3.5
Marketing and Promotion	\$16.0	\$13.5	\$14.7
EBITDA	\$24.3	\$21.8	\$24.3

Casino Aztar Indiana Relative to Competitors

Aztar Indiana was the first of five riverboat gaming operations on the Ohio River in Indiana. The comparison of operating statistics for Aztar Indiana relative to those for Argosy Lawrenceburg, Caesars Indiana and Grand Victoria show that Aztar Indiana is a substantially smaller operation in terms of revenues (Table 21). With less than half the square footage of either Argosy or Caesars and about two-thirds of the slot machines, Aztar Indiana generates an average win per gaming position that is well below that of its Ohio River competitors (\$156 in 2002 versus an average of \$274 for Caesars and Argosy). Aztar Indiana has about the same number of slot machines as Grand Victoria. However, because of the relatively small size of its physical operation, Aztar Indiana was second among the riverboats in the state in terms of win per square foot of casino space.



In reflection of its relatively low level of annual gaming revenue and the associated low state gaming tax rate, Aztar Indiana realized a decline in total gaming tax paid in calendar year 2002 to 29.3 percent from 30.2 percent in 2001 as did the Grand Victoria. Both Caesars and Argosy experienced a year over year increase in the gaming taxes paid as a percent of gaming revenue as both have a level of revenue that puts their operations in a higher margin gaming tax bracket than what is currently applied for Aztar Indiana. Relative to the other boats, Aztar Indiana earns a comparable cash flow margin on revenue and is substantially less levered (in terms of Long Term Debt to EBITDA) than Caesars. The other two Ohio River boats report no long-term debt at the subsidiary level. Belterra was not included because it did not open until October 2000.

Table 21: Aztar Indiana Relative to Other Indiana Riverboats on Ohio River (dollars in millions)

	2000	2001	2002
Aztar Indiana			
Revenue	\$107.9	\$106.0	\$116.3
Revenue/Total Assets	102%	103%	111%
EBITDA/Revenue	27%	26%	26%
Long Term Debt/EBITDA	2.47	2.35	1.51
Gaming Tax/Gaming Revenue	31%	30%	29%
Argosy Lawrenceburg			
Revenue	\$400.8	\$404.3	\$426.1
Revenue/Total Assets	163%	181%	194%
EBITDA/Revenue	29%	29%	27%
Long Term Debt/EBITDA	NA	NA	NA
Gaming Tax/Gaming Revenue	33%	34%	36%
Caesars Indiana			
Revenue	\$194.7	\$220.9	\$276.9
Revenue/Total Assets	61%	59%	75%
EBITDA/Revenue	21%	22%	24%
Long Term Debt/EBITDA	4.66	4.92	3.57
Gaming Tax/Gaming Revenue	30%	32%	34
Grand Victoria			
Revenue	\$170.20	\$136.30	\$151.10
Revenue/Total Assets	139.00%	117.00%	133.00%
EBITDA/Revenue	23.00%	21.00%	22.00%
Long Term Debt/EBITDA	NA	NA	NA
Gaming Tax/Gaming Revenue	27%	28%	26%
Aggregate Indiana Gaming Revenue	\$1,688	\$1,842	\$2,062



Aztar Indiana: Forecasted Performance

Between 2003 and 2006, Aztar management expects gaming revenue to increase by about 8 percent and total revenue to increase by about 3 percent. Admissions or number of patrons per year are expected to remain constant at about 1.5 million persons from 2004 to 2006, while the net fixed asset investment steadily declines as depreciation expense exceeds planned maintenance capital investments in each year. Cash flow or EBITDA is expected to maintain at a fairly steady rate both in terms of absolute dollars and as a percent of total revenue during the period and at a percentage rate that is substantially higher than what was achieved in 2002. Marketing and promotional expenses are expected to grow slightly as a percent of revenue.

Capital Spending in Evansville

Effective on July 1, 2002, the riverboats in Indiana are taxed by the state on gaming revenues on a tax schedule that is 35 percent on adjusted gaming revenue above \$150 million. At its current level of operation Aztar is firmly in the 30 percent tax bracket, which is assessed on gaming revenue between \$75 million and \$150 million. In addition to the gaming tax paid to the state, Aztar also pays rent to the city of Evansville, which is a function of adjusted gaming revenue. The original planned schedule for that rental payment was 2 percent on AGR up to \$50 million and 3 percent on revenue above \$50 million. In its sixth year of operation, the Evansville rental payment adjusted to 2 percent on the first \$25 million, 4 percent on the next \$50 million and 8 percent above \$75 million. In December 2002, the company and the city of Evansville agreed to change a portion of the rental payment to an unspecified fixed amount. The city also agreed to give a credit of \$1 against that fixed amount for each \$2.50 of development capital expenditures made by the company. The forecasts for capital expenditures do not reflect the incremental development capital expenditures that will result from the new lease arrangement. The company already has committed to spending \$6 million for an Executive Conference Center.

The new rental agreement between Aztar Indiana and the city of Evansville gives Aztar Indiana a significant incentive to invest in the capital base. Without tax relief, Aztar Indiana was faced with a marginal state and local gaming and admissions tax as a percent of gaming revenue, which was about equal to 38 percent. With the new tax structure, Aztar Indiana has added incentive to invest in capital expansion projects. This is a very positive development for the Evansville operation.

Aztar Corporation: Description and Strategy

Aztar Corporation operates casino hotels in Atlantic City, New Jersey, and Las Vegas, Nevada, under the Tropicana name and in Laughlin, Nevada, as Ramada Express. The company operates casino riverboats in Missouri and Indiana under the Casino Aztar name. The corporation manages 9,024 slot machines and 319 table games in 312,625 square feet of gaming space. The consolidated financial statements of Aztar Corporation include all of these subsidiaries.

Aztar Corporation describes its operating strategy in terms of effective marketing, tight cost control and property specific strategies. The objective of effective marketing is achieved through a focus on local customers. The target market segment is middle to upper end players with particular emphasis on higher margin premium slot customers. Aztar Corporation has developed and uses database marketing systems to target customers. The objective of tight cost control involves finding a balance between entertainment for customers and an attractive operating margin.

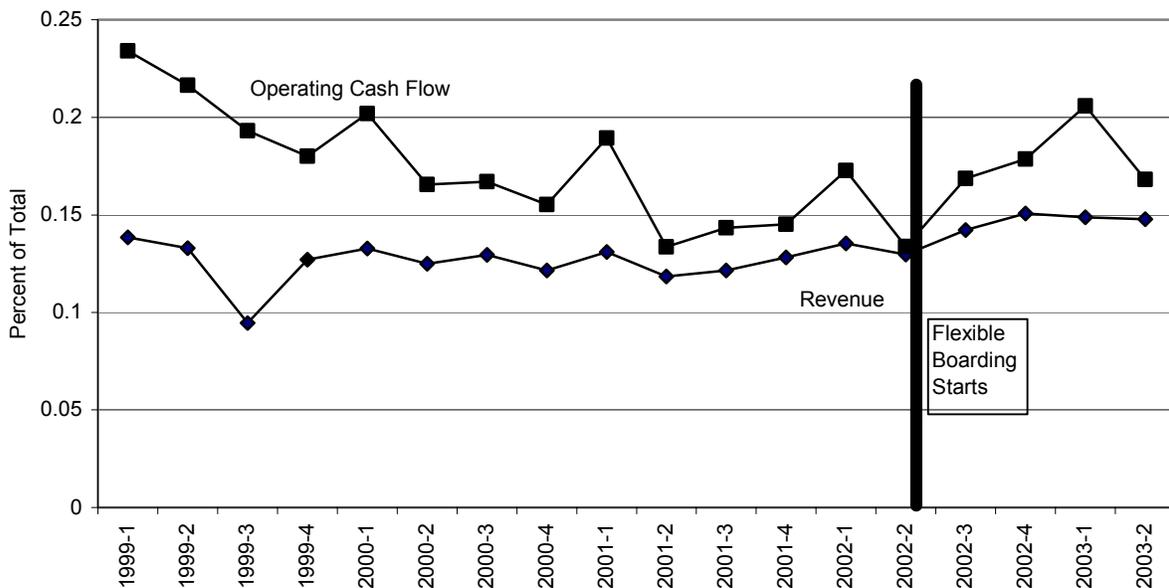


Aztar Indiana “positions itself to capture the patronage of the local market.” The property’s convenient location and parking structure provides easy access to the hotel and casino, factors that are important to attracting and retaining customers in Evansville.

Aztar Indiana trends vs. Aztar Inc.

Revenues for the consolidated business have been relatively flat since 1999, growing at a compound annual rate of 1.4 percent. Operating cash flow or EBITDA had stronger growth, at about 2.4 percent annually in the same period. During the 1999–2002 period, Aztar Indiana produced a growing percentage of the parent’s consolidated revenues, moving from about 14 percent in the first quarter of 1999 to 15 percent in the second quarter of 2003. With the initiation of dockside gaming, gaming revenue in Evansville grew faster than that for the parent. (Figure 22)

Figure 22: Aztar Indiana Operating Results vs. Parent (by quarter)



The growing importance of the Evansville casino in terms of revenue production was not duplicated in the trend in operating cash flow (EBITDA), which is revenues minus operating expenses. Since 1999, EBITDA for the Evansville facility declined from 23 percent of total to about 17 percent in second quarter of 2003. This trend may reflect the aging of the Evansville facility. To reinvigorate cash flow growth in Evansville is likely to require an increase in development capital spending at that location. For the last three years, depreciation expense for Evansville was more than double the capital reinvestments made at that facility. The recent change in the local rental payment schedule will improve the economics of capital expenditures in Evansville, which is a very positive development for the city of Evansville and for the state.



Recent Development

The parent company has committed to make major capital expenditures in Atlantic City. In February 2002, Aztar Corporation purchased the 50 percent interest in Tropicana Las Vegas that it did not own for \$117.5 million plus assumed debt of \$48.9 million. In April 2002, Aztar started construction on a project to expand its Tropicana Atlantic City facility. The project will cost \$225 million and will be completed by March 2004. The company also is considering a major expansion of its Tropicana property in Las Vegas. The total capital investment made in the Tropicana properties will represent an increase in total assets of more than 30 percent, a major increase in exposure to the Las Vegas and Atlantic City markets.

Debt Capacity of the Parent

At the end of 2002, Aztar Corporation had total long-term debt, which was 2.8 times annual operating cash flow (EBITDA). Additionally, the company had annual interest expenses, which were only about one-fifth of total operating cash flow. The parent company had a very strong balance sheet at the end of 2002 with long-term debt outstanding approximately equal to the book value of equity. It is clear that Aztar Corporation management is using the strength of its balance sheet and relatively strong cash flow generation capacity to reposition itself in the major gaming markets. The company has ample unused debt capacity to finance its expansion plans for the next couple of years. To reinforce that point, the company reported that it started a share buyback program in December 2002 with authorization to repurchase up to 4 million shares or about 10 percent of shares outstanding.

Summary of Financial Position and Future Plans

The Aztar Corporation is a mid-sized competitor in major gaming markets and has recently announced and undertaken a major capital expenditure in Atlantic City. Similar expansion plans are being considered in Las Vegas. The corporation has a strong balance sheet and sufficient operating cash flow to support the expansion plans or additional debt that might be taken on to finance the projects.

The Evansville facility enjoyed an upsurge in gaming revenue with the introduction of dockside boarding after several years of slow or no growth. The new lease contract with the city of Evansville increases the profit potential of expansion capital projects and the company has already developed plans for such expansion. The Aztar license was the first one to become operational in Indiana and is not as close to major metropolitan areas as the other boats on the Ohio River. Its distance from large populations probably caused the boarding limitations that were in place before August 2002 to be especially burdensome for Aztar Indiana. The future though is bright for the Evansville license. The license generates a competitive rate of return for its investors, the site is not heavily levered, and new added incentives to invest in development projects should have a very positive effect on the community as well as the attractiveness of the physical facility.



Appendix I: Description of SIC Codes





*Standard Industrial Classification (SIC) descriptions were taken from
<http://www.census.gov/epcd/ec97brdg/>*

20 Food and Kindred Products

This major group includes establishments manufacturing or processing foods and beverages for human consumption, and certain related products, such as manufactured ice, chewing gum, vegetable and animal fats and oils, and prepared feeds for animals and fowls. Products described as dietetic are classified in the same manner as non-dietetic products (e.g., as candy, canned fruits, cookies).

27 Printing, Publishing, and Allied Industries

This major group includes establishments engaged in printing by one or more common processes, such as letterpress; lithography (including offset), gravure, or screen; and those establishments which perform services for the printing trade, such as bookbinding and plate-making. This major group also includes establishments engaged in publishing newspapers, books, and periodicals, regardless of whether or not they do their own printing.

30 Rubber and Miscellaneous Plastics Products

This major group includes establishments manufacturing products, not elsewhere classified, from plastics resins and from natural, synthetic, or reclaimed rubber, gutta percha, balata, or gutta siak. Numerous products made from these materials are included in other major groups, such as boats in major group 37, and toys, buckles, and buttons in major group 39. This group includes establishments primarily manufacturing tires, but establishments primarily recapping and re-treading automobile tires are classified in Services, industry 7534. Establishments primarily engaged in manufacturing synthetic rubber and synthetic plastics resins are classified in industry group 282.

32 Stone, Clay, Glass, and Concrete Products

This major group includes establishments engaged in manufacturing flat glass and other glass products, cement, structural clay products, pottery, concrete and gypsum products, cut stone, abrasive and asbestos products, and other products from materials taken principally from the earth in the form of stone, clay, and sand. When separate reports are available for mines and quarries operated by manufacturing establishments classified in this major group, the mining and quarrying activities are classified in Division B, Mining. When separate reports are not available, the mining and quarrying activities, other than those of industry 3295, are classified herein with the manufacturing operations.

If separate reports are not available for crushing, grinding, and other preparation activities of industry 3295, these establishments are classified in Division B, Mining.

35 Industrial and Commercial Machinery and Computer Equipment

This major group includes establishments engaged in manufacturing industrial and commercial machinery and equipment and computers. Included are the manufacture of engines and turbines; farm and garden machinery; construction, mining, and oil field machinery; elevators and conveying equipment; hoists, cranes, monorails, and industrial trucks and tractors; metalworking machinery; special industry machinery; general industrial machinery; computer and peripheral equipment and office machinery; and refrigeration and service industry machinery. Machines powered by built-in or detachable motors ordinarily are included in this major group, with the exception of electrical household appliances. Power-driven hand tools are included in this major group, whether electric or otherwise driven. Establishments primarily



engaged in manufacturing electrical equipment are classified in major group 36, and those manufacturing hand tools, except powered, are classified in major group 34.

Electric, Gas, and Sanitary Services (SIC Major Group 49)

This major group includes establishments primarily engaged in the generation, transmission, and/or distribution of electricity or gas or steam. Such establishments may be combinations of any of the above three services and also include other types of services, such as transportation, communications, and refrigeration. Water and irrigation systems, and sanitary systems engaged in the collection and disposal of garbage, sewage, and other wastes by means of destroying or processing materials are also included. If one service of a combination system does not constitute 95 percent or more of revenues, the establishment should be classified as a combination in Industry Group 493, with the subgroup being determined by the major service supplied.

Nondurable Goods (SIC Major Group F51)

This major group includes establishments primarily engaged in the wholesale distribution of paper and paper products (SIC Industry Group 511); drugs, drug proprietaries, and druggists' sundries (SIC Industry Group 512); apparel, piece goods, and notions (SIC Industry Group 513); groceries and related products (SIC Industry Group 514); farm-product raw materials (SIC Industry Group 515); chemicals and allied products (SIC Industry Group 516); petroleum and petroleum products (SIC Industry Group 517); beer, wine, and distilled alcoholic beverages (SIC Industry Group 518); and miscellaneous nondurable goods (SIC Industry Group 519).

Building Materials, Hardware, Garden Supply, and Mobile Home Dealers (SIC Major Group 52)

This major group includes retail establishments primarily engaged in selling lumber and other building materials; paint, glass, and wallpaper; hardware; nursery stock; lawn and garden supplies; and manufactured (mobile) homes. It includes lumber and other building materials dealers and paint, glass, and wallpaper stores selling to the general public, even if sales to contractors account for a larger proportion of total sales; these establishments are known as retail in the trade. Establishments primarily selling these products but not selling to the general public are classified in wholesale trade.

General Merchandise Stores (SIC Major Group 53)

This major group includes retail stores which sell a number of lines of merchandise, such as dry goods, apparel and accessories, furniture and home furnishings, small wares, hardware, and food. The stores included in this group are known as department stores, variety stores, general merchandise stores, catalog showrooms, warehouse clubs, and general stores. Establishments primarily engaged in selling used general merchandise are classified in SIC

593, and those selling general merchandise by mail, vending machine, or direct selling are classified in SIC 596.

Food Stores (SIC Major Group 54)

This major group includes retail stores primarily engaged in selling food for home preparation and consumption. Establishments primarily engaged in selling prepared foods and drinks for consumption on



the premises are classified in major group 58, and stores primarily engaged in selling packaged beers and liquors are classified in SIC 5921.

Depository Institutions (SIC Major Group 60)

This major group includes institutions that are engaged in deposit banking or closely related functions, including fiduciary activities.

Insurance Carriers (SIC Major Group 63)

This major group includes carriers of insurance of all types, including reinsurance. Agents and brokers dealing in insurance and organizations rendering services to insurance carriers or to policy holders are classified in Major Group 64.

Hotels, Rooming Houses, Camps, and Other Lodging Places (SIC Major Group 70)

This group includes establishments engaged in providing lodging, or lodging and meals, and camping facilities. Hotels which provide accommodations for permanent residents (e.g., apartment hotels) and residential mobile home parks are classified in Real Estate, Major Group 65.

Personal Services (SIC Major Group 72)

This group includes establishments primarily engaged in providing services generally to individuals, such as barber and beauty shops, dry-cleaning plants, laundries, and photographic studios. For establishments classified in Industry Group 721, collecting and distributing units (branch outlets, pickup stations, terminals, or depots) owned and operated by a firm which does its own laundry work are not classified as separate establishments. Data for these units are merged with data for the plant where the work is done.

Miscellaneous Repair Services (SIC Major Group 76)

This group includes establishments primarily engaged in miscellaneous repair services, not elsewhere classified. Repair departments of retail dealers or manufacturers are not included unless operated as separate establishments and reported as such. This group does not include some repair services of which the more important are: repair to structures (classified in Construction); garment and shoe repair (classified in Major Group 72); automotive repair services (classified in Major Group 75); electronic computer and computer peripheral equipment repair services (classified in Industry 7378); ship and boat repair (classified in Manufacturing); and railroad repair (classified in Manufacturing).

Motion Pictures (SIC Major Group 78)

This group includes establishments producing and distributing motion pictures, exhibiting motion pictures in commercially operated theaters, and furnishing services to the motion picture industry. The term "motion pictures" includes similar productions for television or other media using film, tape, or other means.

Amusement and Recreational Services, except Motion Pictures and Museums (SIC Major Group 79)

This group includes establishments primarily engaged in providing amusement, recreation, or entertainment services, not elsewhere classified. Gambling businesses, where legal, are also included in this Major Group; however, combined gambling and lodging facilities with 25 guestrooms or more are classified in Industry



7011. Establishments primarily engaged in operating museums, art galleries, arboreta, and botanical and zoological gardens are classified in Major Group 84.

Health Services (SIC Major Group 80)

This group includes establishments primarily engaged in furnishing medical, surgical, and other health services to persons. Associations or groups, such as Health Maintenance Organizations (HMO's), primarily engaged in providing medical or other health services to members are included, but those which only provide insurance covering hospitalization or medical costs are classified in Insurance, Major Group 63. Hospices providing medical services are also included in this Major Group and are classified according to the primary service provided. Healthcare facilities were primarily coded based on self-designation. Where multiple levels of care were indicated but were not apparently separate operations, the facility was generally classified based on the highest level of care provided. Veterinarians are classified in Agriculture, Industry Group 074.