

Second Year Evaluation of Riverboat Licensee for Switzerland County, Indiana: Belterra Resort, LLC

January 1, 2002-December 31, 2002

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Introduction

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

On September 14, 1998, the Commission issued a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in Switzerland County, Indiana. Belterra Resort, LLC (Belterra), formerly know as Pinnacle Gaming Development Corporation, opened on October 27, 2000. This report covers its second year of operation.

Project Development and Investment

Development Activities

In the Certificate of Suitability (Certificate), Belterra committed to spend \$148 million on project development, in addition to pledging to Switzerland County other incentives totaling several million dollars. As Table 1 illustrates, through 2002, it had spent \$250.7 million, \$102.7 million more than projected.

The 3,000-passenger riverboat opened with 38,000 square feet of gaming space. The facility has a 15-story hotel with 308 rooms, three-level garage for approximately 2,200 cars plus additional surface parking, seven restaurants, an 18-hole Tom Fazio Golf Course, a spa and health club, a 1,750-seat showroom, retail shops, and banquet facilities.

Table 1: Actual Versus Predicted Development Costs

Development	Certificate of Suitability	Actual thru 2001	Actual 2002	Difference
Pinnacle Acquisition	\$4,300,000	\$5,919,700	\$0	\$1,619,700
Land	\$1,000,000	\$7,743,366	\$51,765	\$6,795,131
Construction: Support Facilities	\$21,270,000	\$23,008,587	\$885,848	\$2,624,435
Construction: Boat and Marine Facilities	\$43,000,000	\$48,849,599	\$239,697	\$6,089,296
Gaming Equipment	\$12,250,000	\$13,876,888	\$1,828,049	\$3,454,937
Hotel, Furniture and Fixtures	\$44,450,000	\$116,314,519	\$1,296,022	\$73,160,541
Golf Complex	\$10,000,000	\$11,767,092	\$254,366	\$2,021,458
Pre-Opening Expenses	\$4,500,000	\$15,911,107	\$0	\$11,411,107
Working Capital	\$7,230,000	\$2,792,925	\$0	(\$4,437,075)
Total Development	\$148,000,000	\$246,183,783	\$4,555,746	\$102,739,529

Other Commitments

As Table 2 illustrates, Belterra is current with regard to all of the additional commitments and has made several commitments that were not part of the Certificate. The \$1.2 million contribution to an emergency service facility was used to build the Switzerland County Medical Center, which houses doctors from the King's Daughter's Hospital, the Switzerland County Health Department, the Nurse-Managed Clinic, and a dentist.

Table 2: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Through 12/01	Amount Paid Through 12/02	Status
Traffic Control & Infrastructure	\$1,120,000	Switzerland County	\$1,750,000		Completed Year 1
Emergency Services Facility	\$1,200,000	Switzerland County	\$1,200,000		Completed Year 1
EMS Ambulance	\$125,000	Switzerland County	\$125,000		Completed Year 1
Firefighting equipment	\$300,000	Florence	\$300,000		Completed Year 1
Firefighting equipment	\$45,000	Moorefield	\$45,000		Completed Year 1
Firefighting equipment	\$45,000	Posey	\$45,000		Completed Year 1

Table 2: Schedule and Description of Incentive Payments (continued)

Incentive	Promised Amount	Recipient	Amount Paid Through 12/01	Amount Paid Through 12/02	Status
Firefighting equipment	\$45,000	Patriot	\$45,000		Completed Year 1
Firefighting equipment	\$45,000	Vevay-Jefferson-Craig	\$45,000		Completed Year 1
Firefighting equipment	\$45,000	East Enterprise	\$45,000		Completed Year 1
Sheriff's Department	\$150,000	Switzerland County	\$150,000		Completed Year 1
County Infrastructure	\$750,000	Switzerland County	\$750,000		Completed Year 1
4-H Fairgrounds	\$400,000	Switzerland County	\$400,000		Completed Year 1
Riverfront Park	\$25,000	Switzerland County	\$25,000		Completed Year 1
General Fund	\$5,000	Switzerland County	\$5,000		Completed Year 1
Contribution	.298% \$0-40,000,000 AGR .390% \$40,000,001-\$80,00,00 AGR .528% over \$80,000,001 AGR	Switzerland County Public Endowment	\$343,119	\$366,536	Ongoing
Contribution	.150% \$0-40,000,000 AGR .196% \$40,000,001-\$80,00,00 AGR .265% over \$80,000,001 AGR	Vevay Switzerland County Foundation	\$172,752	\$184,073	Ongoing
Contribution	.150% \$0-40,000,000 AGR .196% \$40,000,001-\$80,00,00 AGR .265% over \$80,000,001 AGR	Vevay Town Board	\$172,752	\$184,073	Ongoing
Contribution	.052% \$0-40,000,000 AGR .068% \$40,000,001-\$80,00,00 AGR .092% over \$80,000,001 AGR	Patriot Town Board	\$59,880	\$63,885	Ongoing
Contribution	If AGR reaches \$127,202,817, .425% AGR If AGR reaches \$146,283,240m .85% AGR	Switzerland County	\$0	\$980,495	Ongoing
Contribution	Not in certificate of suitability	Crawford County Development	\$6,550	\$157,366	Ongoing
Contribution	Not in certificate of suitability	Regional revenue sharing	\$546,269	\$546,269	Ongoing
Infrastructure	Not in certificate of suitability	Florence regional sewer	\$145,075		Completed Year 1
Infrastructure	Not in certificate of suitability	Switzco Gas	\$1,156,664		Completed Year 1
Total			\$7,533,061	\$2,482,697	

Table 3 below lists the distributions from the Casino Revenue fund in Switzerland County, which totaled almost \$21 million in 2002. Belterra's payments of the statutorily required admission tax and gaming tax to the county are deposited into this fund, which had a balance of over \$22 million on January 31, 2003.

Table 3: Distributions from the Casino Revenue Fund in Switzerland County

Entity	Distribution 2001	Distribution 2002
Switzerland County Council	\$2,051,497	\$4,960,290
Switzerland County Public School Endowment	\$1,184,369	\$2,856,967
Switzerland County Fund	\$845,978	\$2,040,691
911/Public Safety/Law Enforcement	\$401,840	\$969,328
Emergency Services	\$359,541	\$867,294
Infrastructure	\$613,334	\$1,479,501
Economic Development	\$63,448	\$153,052
Regional Revenue Sharing-Jefferson County	\$422,989	\$1,020,345
Regional Revenue Sharing-Ripley County	\$211,494	\$510,172
Regional Revenue Sharing-Crawford County	\$211,494	\$510,172
Crawford County	\$296,092	\$714,242
Switzerland County YMCA	\$105,747	\$255,086
Town of Vevay	\$592,184	\$1,428,483
Town of Patriot	\$253,793	\$612,207
Cotton Township	\$33,332	\$80,403
Craig Township	\$19,119	\$46,120
Jefferson Township	\$34,685	\$83,668
Pleasant Township	\$29,609	\$71,424
Posey Township	\$31,132	\$75,097
York Township	\$21,319	\$51,425
Switzerland County Fire Chiefs Corp	\$676,783	\$1,632,550
Admissions/Tourism	\$208,719	\$491,244
Total	\$8,668,4984	\$20,909,761

Community Activity

Belterra has contributed in-kind donations and monetary contributions to over 20 organizations including Summer Reading Program, Marching Band, and Children's Christmas Party. Belterra also sponsored several events including the United Way Golf Tournament and a fundraiser for Children's Hospital of Cincinnati. Belterra's senior management is represented on several boards in the area: United Way, Switzerland County Tourism Board, Switzerland County Chamber of Commerce, Switzerland County 4-H and Switzerland County Child and Protective Services.

Minority/Women Business Enterprise

In the Indiana riverboat legislation, the Indiana General Assembly stated that the opportunity for full minority and women's business enterprise participation in the riverboat industry is essential if social and economic parity is to be obtained by minority and women business persons and if the economies of the riverboat cities are to be stimulated as contemplated by this legislation. The goals of the legislation are for the companies to expend 10 percent of the dollar value of their contracts for goods and services from minority-owned businesses and 5 percent from women-owned businesses. According to unaudited information provided to the Indiana Gaming Commission, for the year ending December 31, 2002, 16.9

percent of Belterra's expenditures were to minority-owned businesses and 13.9 percent were to women-owned businesses.

Economic and Fiscal Impacts

Employment and Earnings Impacts

Belterra leased a building in Vevay and, for those employees not already experienced, conducted its own training for all riverboat-related positions, including dealers, cashiers, slot representatives and technicians, and surveillance personnel.

As Table 4 indicates, Belterra estimated in its application employment of 1,394 persons in the casino and hotel for annual wages totaling approximately \$25.9 million. As of December 2002, Belterra had 1,232 employees including the hotel staff. For 2002, salaries and wages were \$34.4 million, including tips to dealers (but not to bar and wait staff). Full-time employees receive benefits including medical, dental, vision, life insurance, short-term disability, and matching contributions to a 401k program.

Table 4: Comparison of Forecast to Actual Belterra Operation

Category	Application Forecast Year 2	Actual 2002	Difference
Employment as of 12/31/02	1,394	1,232	(162)
Total Wages, Tips, & Benefits	\$25,875,460	\$34,377,729	\$8,502,269
Attendance	2,917,810	2,259,698 ²	(658,112)
Gross Gaming Receipts	\$142,144,000	\$117,279,766	(\$24,864,234)
Gaming Tax (State)	21,321,600	\$16,932,834	(\$4,388,766)
Gaming Tax (Local)	7,107,200	\$5,644,278	(\$1,462,922)
Admission Tax (State)	2,917,810	\$2,259,698 ²	(\$658,112)
Admission Tax (County) ¹	5,835,620	\$4,519,396 ²	(\$1,316,224)

¹No incorporated city

²Reflects flexible boarding attendance since August 2002.

As Table 4 illustrates, in 2002, Belterra had adjusted gross gaming receipts of \$117.3 million, \$24.9 million or 17 percent less than its application estimate. Belterra began flexible boarding in August 2002. This means that while previously a patron who was on the riverboat for two one two-hour cruises was counted as two admissions. With flexible boarding, each patron is counted only when they go through the turnstile. Therefore, the attendance numbers are not directly comparable to past years or projections. Total local taxes (county admission taxes plus local gaming tax) were \$10.2 million, or \$2.8 million less than the projection of \$13 million in Belterra's application.

Tables 5 compares forecast to actual for Year 1.

Table 5: Comparison of Forecast to Actual Belterra Operation

Category	Application Forecast Year 1	Actual 2001	Difference
Employment as of 12/31/01	1,394	1,336	(58)
Total Wages, Tips, & Benefits	\$25,121,805	\$39,078,835	\$13,957,030
Attendance	2,888,975	2,310,951	(578,024)
Gross Gaming Receipts	\$130,004,000	\$96,024,050	(\$33,979,950)
Gaming Tax (State)	\$19,500,600	\$14,402,933	(\$5,097,667)
Gaming Tax (Local)	\$6,500,200	\$4,800,978	(\$1,699,222)
Admission Tax (State)	\$2,888,975	\$2,310,951	(\$578,024)
Admission Tax (County) ¹	\$5,777,950	\$4,621,902	(\$1,156,048)

¹No incorporated city

Table 6 compares Year 1 to Year 2. As Table 6 illustrates, Belterra had slightly fewer employees and lower wages than in 2001. Belterra increased in gross gaming receipts and gaming taxes from Year 1 to Year 2, but had decreased attendance and admission taxes, which could be explained by the adoption of flexible boarding in August 2002.

Table 6: Comparison of Forecast to Actual Belterra Operation

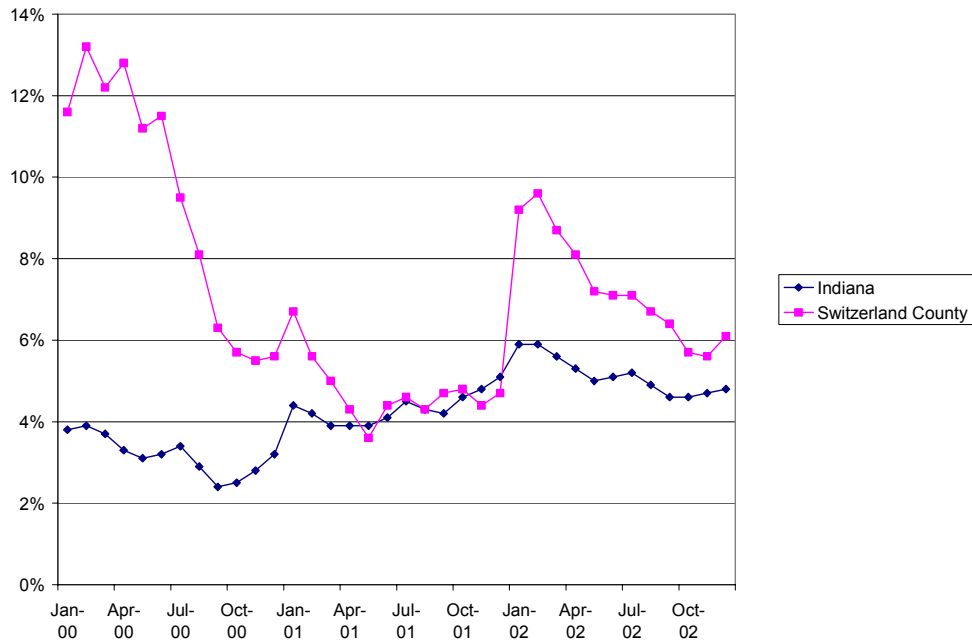
Category	Actual 2001	Actual 2002	Difference
Employment as of 12/31/01	1,336	1,232	(104)
Total Wages, Tips, & Benefits	\$39,078,835	\$34,377,729	(\$4,701,106)
Attendance	2,310,951	2,259,698 ²	(51,253)
Gross Gaming Receipts	\$96,024,050	\$117,279,766	\$21,255,716
Gaming Tax (State)	\$14,402,933	\$16,932,834	\$2,529,901
Gaming Tax (Local)	\$4,800,978	\$5,644,278	\$843,300
Admission Tax (State)	\$2,310,951	\$2,259,698 ²	(\$51,253)
Admission Tax (County) ¹	\$4,621,902	\$4,519,396 ²	(\$102,506)

¹No incorporated city

²Reflects flexible boarding attendance since August 2002.

As Figure 1 illustrates, Switzerland County's unemployment rate was dramatically higher than the state average in early 2000, but decreased throughout the year. In December 2002, Switzerland County had an unemployment rate of 6.1 percent while the state average was 4.8 percent. The opening of the riverboat in the area appears to have had a positive effect on unemployment.

Figure 1: Unemployment Rates in Switzerland County and Indiana 2000-2002



As of December 2002, 56 percent of Belterra's employees were women, 4 percent were minorities, 57 percent were from Switzerland, Jefferson, and Ripley counties, and 33 percent came from out-of-state, primarily Kentucky. In its application, Belterra did not make hiring commitments.

Local Economic Impact

In addition to the gaming taxes paid to the city and state, Belterra paid \$886,089 in sales and use taxes and \$1,461,280 in property taxes. Payroll of \$34.4 million and local purchases of \$1.3 million in Switzerland County and \$13 million in the state of Indiana also contributed to the local economy. Several new stores opened in Switzerland County in 2002, including a restaurant, three stores selling arts and crafts, and a gift shop.

Impact on Tourism

In 2002, according to Belterra player card records, Indiana residents made approximately 23 percent of the trips to Belterra. In 2002, Belterra had 2.3 million admissions. The hotel occupancy rate for 2002 was 90.2 percent. Belterra has reopened the Ogle Haus Inn (54 rooms) and its occupancy rate was 55.9 percent. Fairway Inn, a new motel with 45 rooms, opened across the road from Belterra in 2002. Belterra has a joint marketing initiative with the Switzerland County Tourism Board, including an advertisement in the Indiana Travel Guide.

Legal Issues

Belterra had seven lawsuits in 2002, two were personal injury claims by patrons, one was from a Pinnacle shareholder, one was worker's compensation, two were small claims courts, and one was an insurance claim related to a boat accident. There were 29 arrests for incidents on Belterra property in 2002, with the majority for public intoxication and theft. Less than .0001 percent of visits in 2002 resulted in an arrest. Belterra's security department is using a card verifier that is programmed to read government-issued driver licenses issued in North America. It displays the age and date of birth and can also detect altered, fraudulent, or expired identification. Even with this system, which acts as a deterrent to underage patrons seeking admission by checking every person's identification, 29 people were turned away for being under 21. According to the Switzerland County Sheriff's office, while the area surrounding the riverboat has not experienced additional criminal activity that can be attributed to Belterra presence, there has been a noticeable increase in traffic. One cited problem of the increased traffic on the two-lane roads that lead to the riverboat is that traffic often does not yield to emergency vehicles.

Other Impacts

Belterra has made efforts to minimize the negative impacts of gambling. All employees receive training about compulsive gambling as part of their orientation. Belterra is a member of the Indiana Council on Problem Gambling and the Kentucky Council on Problem Gambling. It also has a self-exclusion program in which, upon request by a patron, he or she is removed from personal check cashing privileges, credit privileges, direct mail marketing materials, and promotional mail at Belterra. If they return they are subject to arrest for trespassing. This self-exclusion is permanent and cannot be rescinded. In 2002, 47 patrons opted to self-exclude. All printed materials and billboards list the number to call for help with gambling problems.

Summary of Findings

Belterra has met or exceeded the requirements of its Certificate in the following areas:

- Belterra has spent a total of \$250.7 million on the development of the project, \$102.7 million more than estimated.
- Belterra is on schedule with all of its incentive payments and has provided several additional payments that were not included in the certificate of suitability.
- Belterra has sponsored many community events and it has made in-kind and monetary contributions to more than 20 organizations.
- According to unaudited information provided to the Indiana Gaming Commission, 16.9 percent of Belterra's expenditures were to minority-owned businesses and 13.9 percent were to women-owned businesses, higher than the 10 percent and 5 percent recommended in the legislation.
- Wages, benefits, and tips were \$34.4 million, \$8.5 million higher than projected.
- Belterra paid \$886,089 in sales and use taxes and \$1,461,280 in property taxes.
- Belterra has been proactive in developing programs for compulsive gambling, with 47 patrons opting for self-exclusion in 2002.

Belterra has not met its projections in the following areas:

- Employment totaled 1,232 employees, 162 less than projected.
- Gross gaming receipts were \$117.3 million, \$24.9 million less than the \$142.1 million projected.
- Attendance was slightly lower than projected, but because of flexible boarding, 2002 attendance is not directly comparable to projections.
- State and local gaming taxes were \$29.4 million, \$7.8 million less than projected.