Eight-Year License Renewal: Caesars Indiana

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In 2005, attendance at Caesars was 3,385,362; a decrease of 3 percent from 2004. Between 2001 and 2005, attendance at Caesars increased by 43 percent (or 1 million), which compares favorably to the mean (35 percent) attendance increase for the 10 riverboat casinos, as well as to the median (46 percent). In 2005, a total of $88,764,299 in wagering tax was generated at Horseshoe. During the five-year period (2001 to 2005) a total of $135,902,543 of capital investment was made at the Caesars property. The average annual investment at Caesars was $27 million, which exceeded both the mean and median annual investment made at the ten riverboats.

Between 2001 and 2005, Caesars made negotiated incentive payments of over $66 million, exceeding both the mean and median average Indiana riverboat casino. Between 2003 and 2005, Caesars paid 18 cents of negotiated incentives to local government and foundations per $1 of wagering tax revenue. The average amount of negotiated incentives paid per $1 of wagering tax revenue by the Indiana riverboat casinos was 18 cents and the average for Lake Michigan boats was 15 cents.

During the five-year period (2001 to 2005) a total of $135,902,543 of capital investment was made at the Caesars property. The average annual investment at Caesars was $27 million, which exceeded both the means and median annual investment made at the ten riverboats.

In the three years (CY 2003, 2004, and 2005) since the five-year Caesars license evaluation, Caesars has generated $70.4 million of local gaming-related tax revenue and $66.3 million of locally negotiated incentive payments. Between 2003 and 2005 the spending of gaming-related tax and incentive revenue by Harrison County and local community foundations has resulted in $73,681,622 in economic impact, $23,679,926 of employee compensation, and 1,494 new jobs (full time equivalents).From Caesars' opening in November 1998, through December 31, 2005, the cumulative economic impact of expenditures of local gaming-related taxes and negotiated incentive payments is nearly $140 million. Included in this economic impact are the creation of 2,590 full-time jobs (one-year equivalents) and nearly $41 million in employee compensation.

Employment

In 2001 and 2005 the average annual employment at Caesars was 2,188 and 2,107 respectively. The decline of 81 average annual jobs represents a 3.7 percent decline in total average employment. Annual average employment declined more steeply for the ten Indiana riverboats (8 percent) and the Ohio River boats (8 percent). Caesars' five-year average annual employment (2001 to 2005) was 2,209, higher than both the mean and median for all boats.

In August the Center surveyed Caesars employees and found that for many employees the employment opportunity at the riverboat provided an increased sense of economic security. For example, 34 percent of the survey respondents were unemployed or working part-time prior to beginning work at Horseshoe; and nearly 90 percent indicated that their first job at Caesars was a full-time position. The average length of employment was 4 years and 7 months, and 108 employees felt secure enough to move from rental housing to homeownership. Three hundred ninety-two respondents reported purchasing a new car, truck, or van since beginning work at Caesars and 152 reported undertaking a home remodeling project. While most of the employees reported job-related training, fewer employees reported tuition reimbursement opportunities or paying for their own training. Survey results suggest that some full-time employees appear to be unaware of their eligibility for benefits such as health and life insurance and retirement plans. Among the 673 full-time employees responding to the survey only 488 (health insurance) to 547 (life insurance) employees responded that they are eligible for benefits.

Community Impacts

Engaging Solutions (a subcontractor to the Center) conducted two public hearings in Hammond in August 2006. The first invited community leaders, local business leaders, and social services providers. The second was advertised in the local media as a public hearing where all were welcome. The comments from both meetings were positive. Several people spoke about how the millions Harrison, Floyd, and other counties in the region have received has helped schools, libraries, roads, community centers, fire departments, and law enforcement agencies.

Other issues raised were concerns about compulsive gambling and issues related to the casino revenue. Revenue issues included a concern that the state will further shrink local share of casino revenues, the impact of French Lick gaming on Caesars revenue base, and the growing dependency on casino revenues as the primary if not sole source of revenue for some initiatives.

In addition to the public hearings, the Center contracted with the Survey Research Center at IUPUI to conduct a random survey of 200 people in Hammond in August 2006 to determine their opinion of Caesars as well as their participation in gambling. Overall, the lottery is the most popular activity, followed by placing bets on horses and then going to a casino. Then respondents were asked if they had heard of Caesars and 98 percent indicated that they had heard of it. People's opinions of Caesars are different depending upon their experiences. Respondents who know someone who works at the casino are much more likely to favor it than those who are not gamblers or know someone with a gambling problem. Those who are not gamblers are more likely to have mixed feelings.

Current Financial Position and Future Plans

Caesars Indiana has produced growing revenues and operating cash flows margins throughout its history. Its original owners invested significant amounts of capital in the operation, which was capable of supporting significant growth over time. Harrah's, with its strong Total Rewards program, has one of the premier customer management marketing programs in the world and each of its properties benefit from the strategy of providing "branded gaming" experiences for customers. The Caesars Indiana property is projected to grow substantially as a result of the cross-selling power of the Total Rewards program. In conclusion, this analysis of the past, and of the current and planned financial and operating strategy of the Harrison County license supports the conclusion that the license has been well managed and its current owners/managers have the ability to continue to produce significant economic benefits for the community in which it is located and for the state of Indiana in general.

Introduction

On May 20, 1996, the Indiana Gaming Commission issued a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in Harrison County, Indiana. Caesars Indiana (Caesars) formerly known as RDI/Caesars Riverboat Casino, LLC opened on November 20, 1998. 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 Caesars' first four years of operation as well as a report that analyzed Caesars first five years of operation. These reports are available on the Commission's website. (http://www.in.gov/gaming/publications/casino_eval/)

Harrah's is the owner of both Caesars and Horseshoe in Hammond, Indiana. Caesars is due for its eight year report in November 2006. Because Harrah's owns both boats, the relicensing hearing for Horseshoe and Caesars has been combined and will take place in November 2006. Because this analysis must be completed before the completion of Caesars eighth year of operation, data are shown through June 30, 2006.

Economic and Fiscal Activity

The following sections provide a comparative analysis of Caesar's performance as well as an analysis to identify and quantify the economic benefits enjoyed by Lake County as a result of the investment of the voluntary and tax contributions of Caesars.

A Comparative Analysis of Caesars' Performance 2001 – 2005

To more fully understand the performance of the individual riverboat casinos as they are considered for re-licensure, the Center conducted a comparative analysis. Key performance measures analyzed include;

- Attendance and admissions tax revenue,
- Wagering and wagering tax revenue,
- Capital re-investment in the facility,
- Incentives contributions to local governments and foundations(negotiated and voluntary),
- Employment, and
- Settlements with the Commission.

The individual casino, in this case Caesars, is compared with the mean and median of all Indiana riverboat casinos, as well as the means of these measures for two subgroups: the riverboat casinos on the Ohio River[1] and those on Lake Michigan.[2] We also show how the individual casino compares with the high and low performance for each variable among Indiana riverboat casinos. It is expected that the comparative analysis will provide the Indiana Gaming Commission additional insight into the performance of the riverboats, individually and collectively.

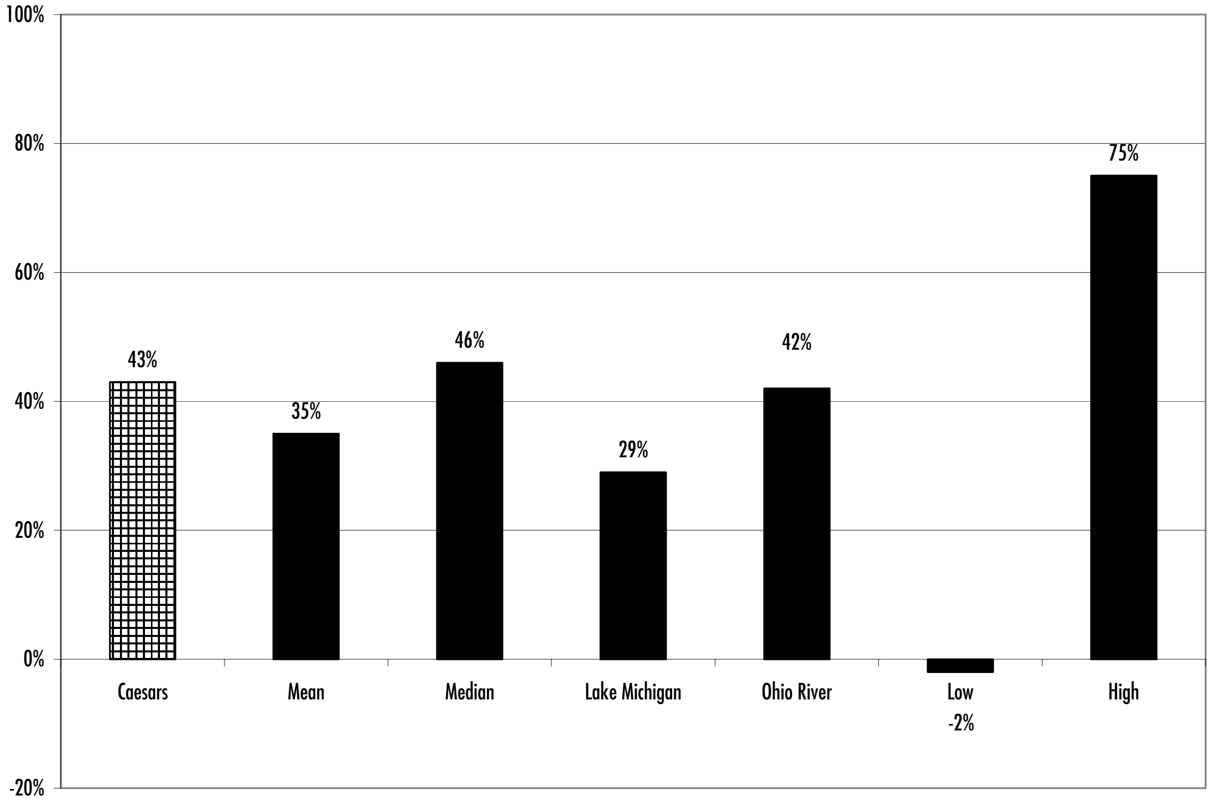
Attendance and Admissions Tax

In 2005, attendance at Caesars' was 3,385,362. Between 2004 and 2005, attendance at Caesars' decreased by 88,408 patrons, a one year decrease of nearly 3 percent. Caesars' is one of five riverboat casinos to experience a decrease in attendance. In 2005, attendance at Caesars produced $10,156,086 in admissions tax. Between 2004 and 2005 the admissions tax generated at Caesars decreased by $265,224. Because the admissions tax is directly related to admissions ($3 per admission), the one-year mean change in attendance and admissions tax is identical and across all 10 boats was relatively flat (less than 1 percent) and the mean attendance and accompanying admissions tax for the Ohio River based riverboat casinos increased by nearly 2 percent.

[1] The Ohio river average includes: Argosy, Aztar, Belterra, Caesars, and the Grand Victoria
[2] The Lake Michigan average includes: Blue Chip, Horseshoe, Majestic Star, Resorts, and Majestic II (formerly Trump)

As shown in Figure 1, between 2001 and 2005, attendance at Caesars increased by 43 percent (or 1 million). Attendance at Caesars compares favorably to the mean (35 percent) attendance increase for the 10 riverboat casinos, as well as to the median (46 percent). The percentage increase at Caesars is nearly identical to the 42 percent average increase among Caesars' Ohio River peer riverboat casinos. The change in boarding policy in 2002 makes a five year comparison of admissions tax revenue imprecise.

Figure 1: Attendance Performance 2001 to 2005

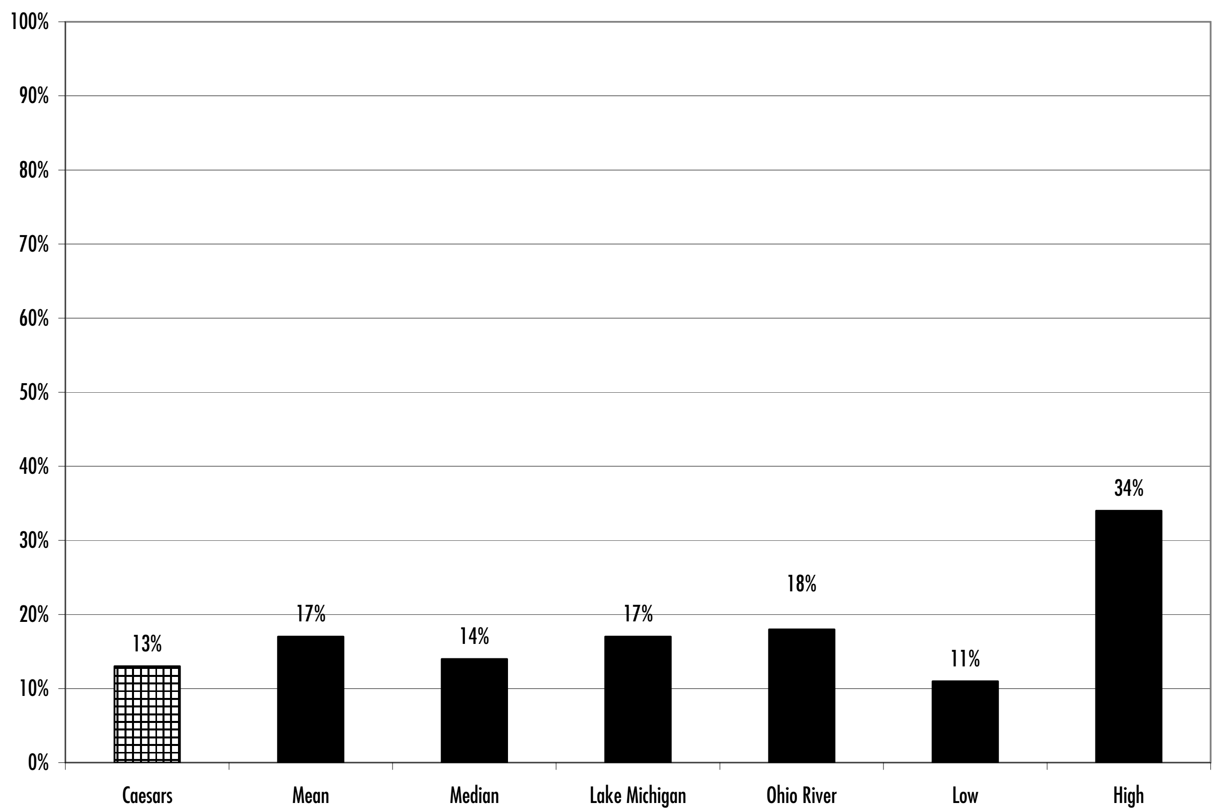


Wagering and Wagering Tax

Changes in the annual amount of wagering and wagering taxes can be attributed in part to inflation, increased wagering per customer, and increased attendance. On July 1, 2002, a law took effect allowing flexible boarding and creating a new graduated wagering tax structure and a new admission tax structure. As a result of these changes, the analysis of wagering tax revenue will be limited to the 2003 through 2005 time period.

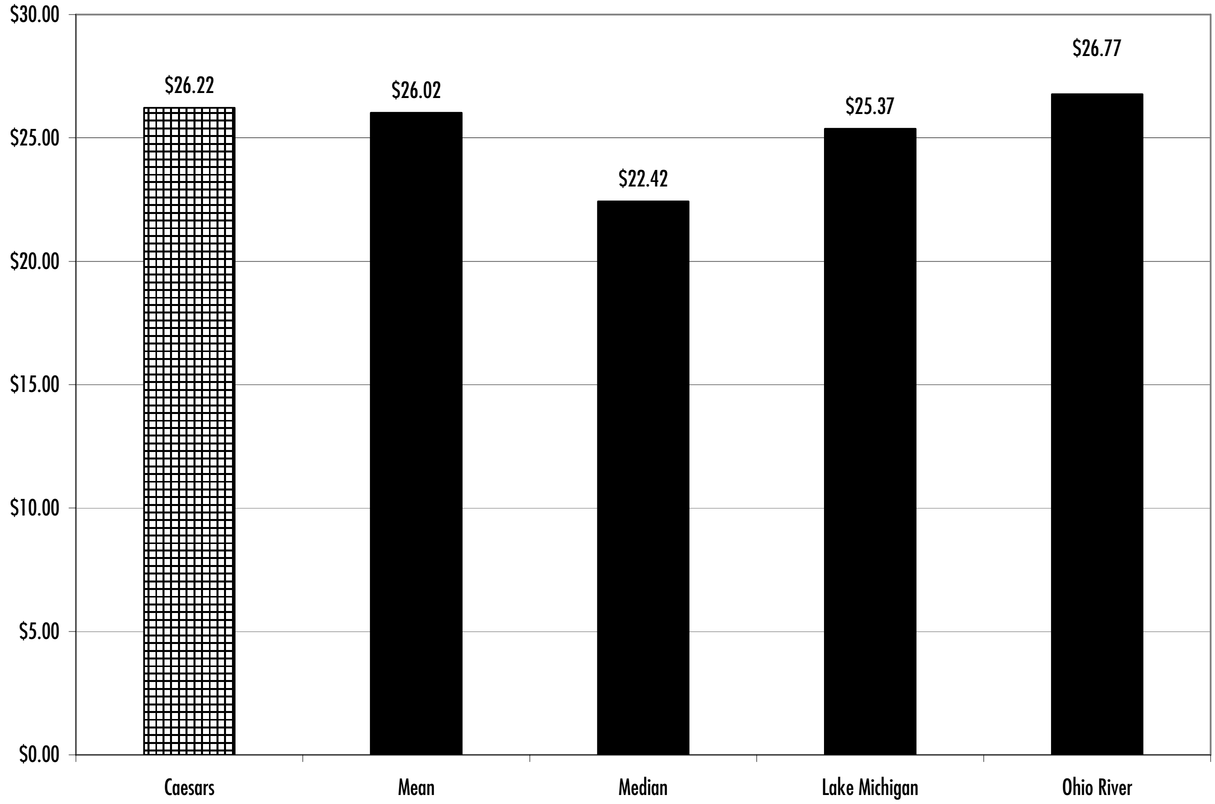
In 2005, a total of $88,764,299 in wagering tax was generated at Caesars. The annual wagering tax revenue generated between 2003 and 2005 at Caesars increased by $10,129,883 or 13 percent (see Figure 2). As with attendance and admission tax revenue Caesars' performance is similar to the mean (17 percent) and median (14 percent) of the 10 riverboat casinos. The percentage increase in wagering taxes generated at Caesars between 2003 and 2005 trails the percentage increase across the five Ohio River riverboat casinos (18 percent).

Figure 2: Wagering Tax Revenue 2003 to 2005



A per attendee analysis provides control for attendance driven changes in wagering tax performance. In 2005, on average, $26.22 in wagering tax revenue was generated by each of the Caesars' 3,385,362 attendees. As seen in Figure 3, per attendee wagering tax revenue generated at Caesars was similar to the 10 riverboat mean ($26.02) and surpassed the median ($22.42), yet trailed the average for Caesars' Ohio River peer riverboats ($26.77).

Figure 3: Wagering Tax per Attendee 2005

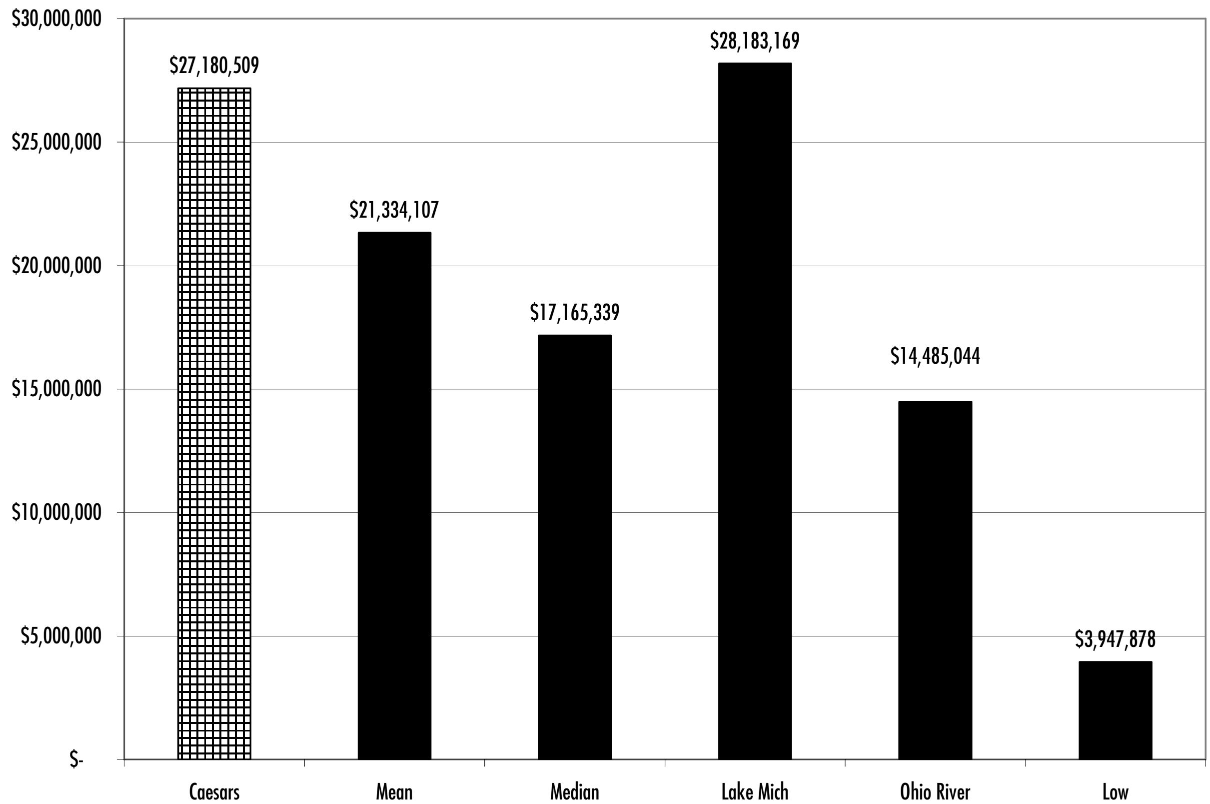


Between 2003 and 2005, per attendee wagering at Caesars increased by 19 percent, a slightly higher percentage increase than the mean (16 percent) and the median of all riverboats (15 percent). The 19 percent per attendee increase in wagering at Caesars also surpassed the 16 percent average increase for the five Ohio River riverboat casinos.

Capital Reinvestment

During the five-year period (2001 – 2005) a total of $135,902,543 of capital investment was made at the Caesars property. Over $82 million of the total investment was made in 2001 (possibly related to start-up costs), after 2001 investment in the facility remained relatively constant over the period, ranging from a high of $14.5 million in 2004 to a low of $10.2 million in 2005. As displayed in Figure 4, the average annual investment at Caesars was $27 million. Average annual investment at Caesars during the period exceeded the mean annual investment made at the 10 riverboats by approximately $6 million and exceeded the median by $10 million. Investment at the Caesars facility was nearly twice the average annual investment made by the five Ohio River riverboat casinos.

Figure 4: Average Annual Capital Investment in Riverboat Facilities 2001 to 2005



Capital investment behavior is likely affected by many factors, including age and size of the facility (Caesars, for example, is the newest facility opening in November 1998). Gaming revenue is an important factor in determining the amount of capital available to be reinvested in the facility. As a result, we have chosen to analyze the ratio of capital investment to wagering tax revenue to control for the varying economic performances of the riverboats. Because the wagering tax law changed in 2002, the wagering tax-related capital investment analysis is limited to the 2003 to 2005 period. It should also be noted that between 2003 and 2005, the Blue Chip and Resorts facilities appear to have undergone significant renovation with each facility experiencing over $100 million of capital reinvestment in a single year.

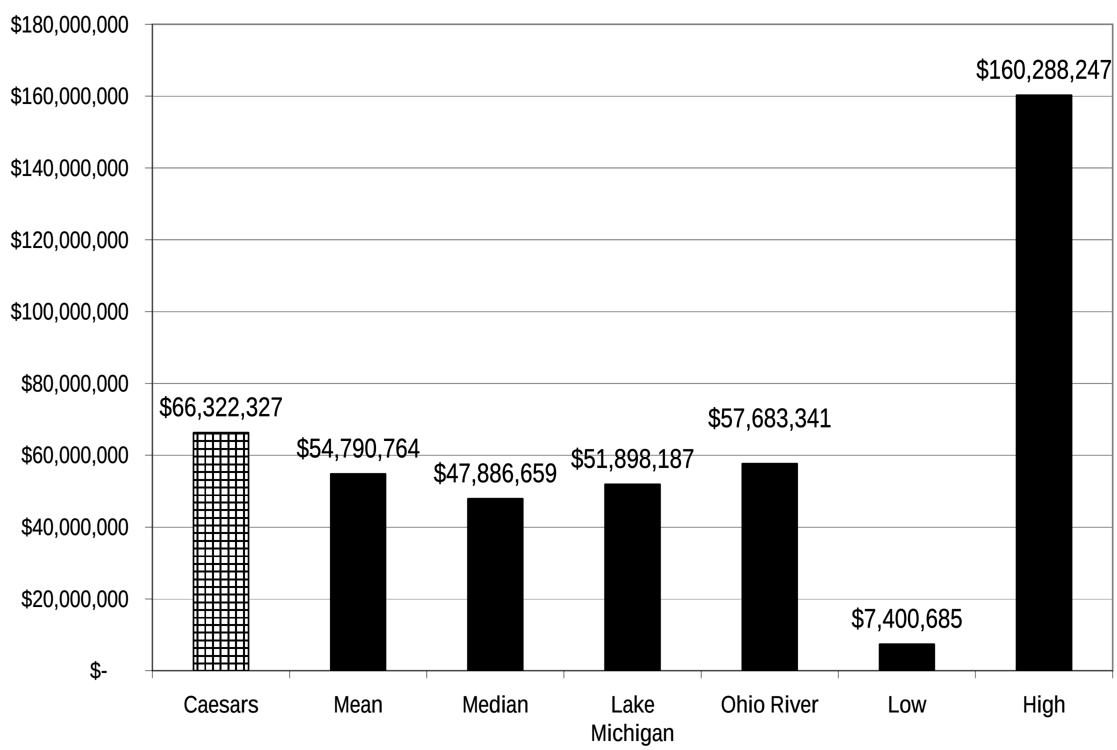
Between 2003 and 2005, $1 of capital investment was made at the Caesars facility for every $6.47 of wagering tax revenue. The Caesars ratio was higher than the ratios for the 10 boat average of $1 of capital investment for every $2.48 of wagering tax revenue and the Ohio River riverboat average of $1 of capital investment for every $4.46 of wagering tax revenue generated. That is, if available reinvestment capital is related to wagering tax revenue, Caesars reinvests less gaming revenue back into capital improvements.

Negotiated Incentives and Voluntary Contributions

Negotiated incentives were made with local governments and community foundations during the application process. This analysis is limited to incentive payments made between 2001 and 2005 that are attributable to agreements negotiated during the original application process and/or any updates to those negotiated incentive payments.

Between 2001 and 2005, Caesars made payments of $66.3 million to Harrison County, the Caesars' Foundation of Floyd County and the Harrison County Community Foundation. Caesars payments ranged from $7.4 million in 2001 to $16.4 million in 2005. The average annual payment by Caesars was $13.3 million. As shown in Figure 5, during the study period Caesars' $66.3 million of negotiated incentive payments exceeded the mean land median for all riverboats, and average of the five Ohio river-boats.

Figure 5: Total Negotiated Incentive Payments 2001 to 2005



The levels of many of the negotiated incentives are related to gaming revenue levels. We have chosen to analyze and compare the ratio of negotiated incentive payments to wagering tax revenue to control for the varying economic performances of the riverboats. Between 2003 and 2005 Caesars paid 18 cents cent of negotiated incentives to local government and foundations per $1 of wagering tax revenue. The average amount of negotiated incentives paid per $1 of wagering tax revenue by all Indiana riverboat casinos was 18 cents, the average for Ohio River boats was 21 cents.

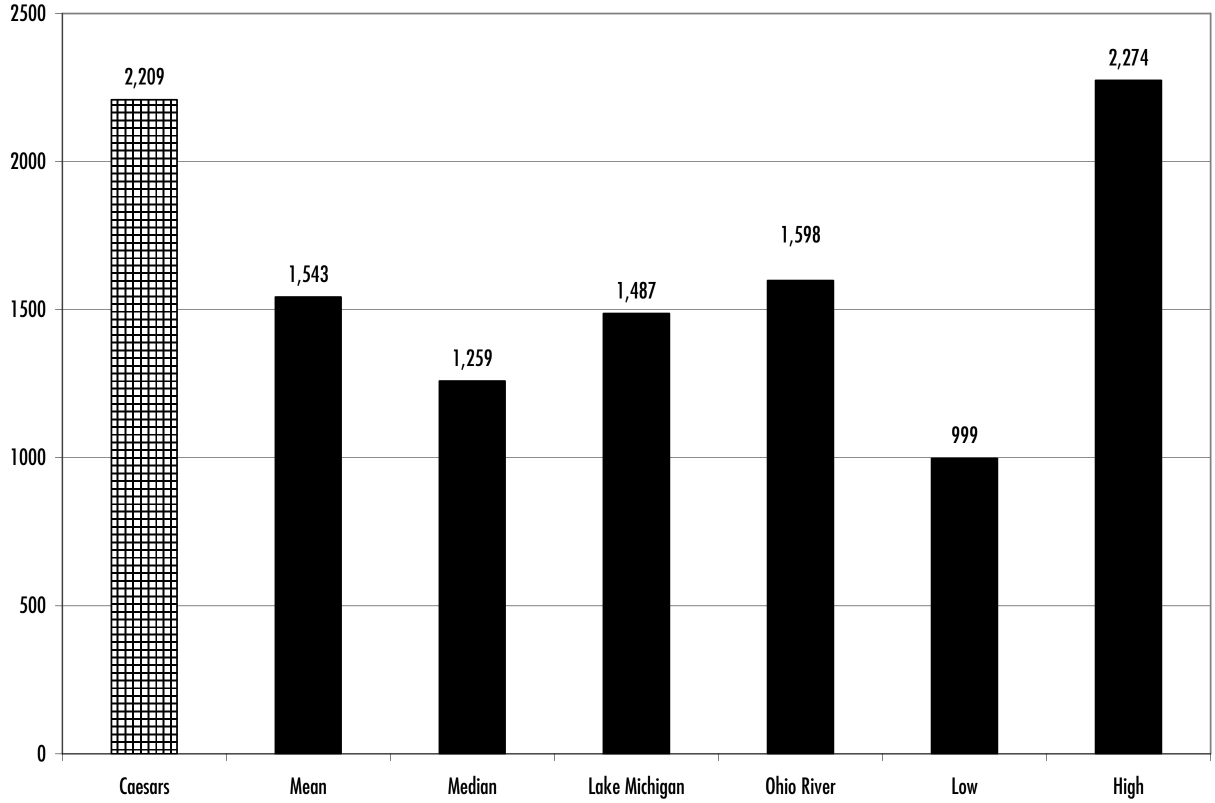
In addition to the negotiated incentives, Caesars reported making $472,712 of voluntary contributions to local institutions between 2001 and 2005. Organizations receiving donations include Fund for the Arts, Muhammad Ali Center, Light Up Louisville, YMCA of Harrison County, and the Louisville Urban League. Caesars' $94,542 average annual voluntary contribution compares favorably to the average of the Indiana riverboats ($143,409).

Employment

In 2001 and 2005 the average annual employment at Caesars was 2,188 and 2,107 respectively. The decline of 81 average annual jobs represents a 3.7 percent decline in total average employment. Annual average employment declined more steeply for the 10 Indiana riverboats (8 percent) and the Ohio River boats (also 8 percent).

As shown in Figure 6, Caesars' five-year average annual employment (2001 to 2005) was 2,209. Caesars average employment exceeded the 10 boat mean and median as well as the average for the five peer boats on the Ohio River. If a company has more activity, it will need more employees, so to measure gaming activity we used wagering tax revenue and divided it by number of employees. In 2005, Caesars hired one employee per $42,128 of wagering tax revenue. The 10 Indiana riverboat average was one employee per $47,429, and the Ohio River riverboats average was one employee per $44,179 of gaming tax revenue.

Figure 6: Average Annual Employment 2001 to 2005

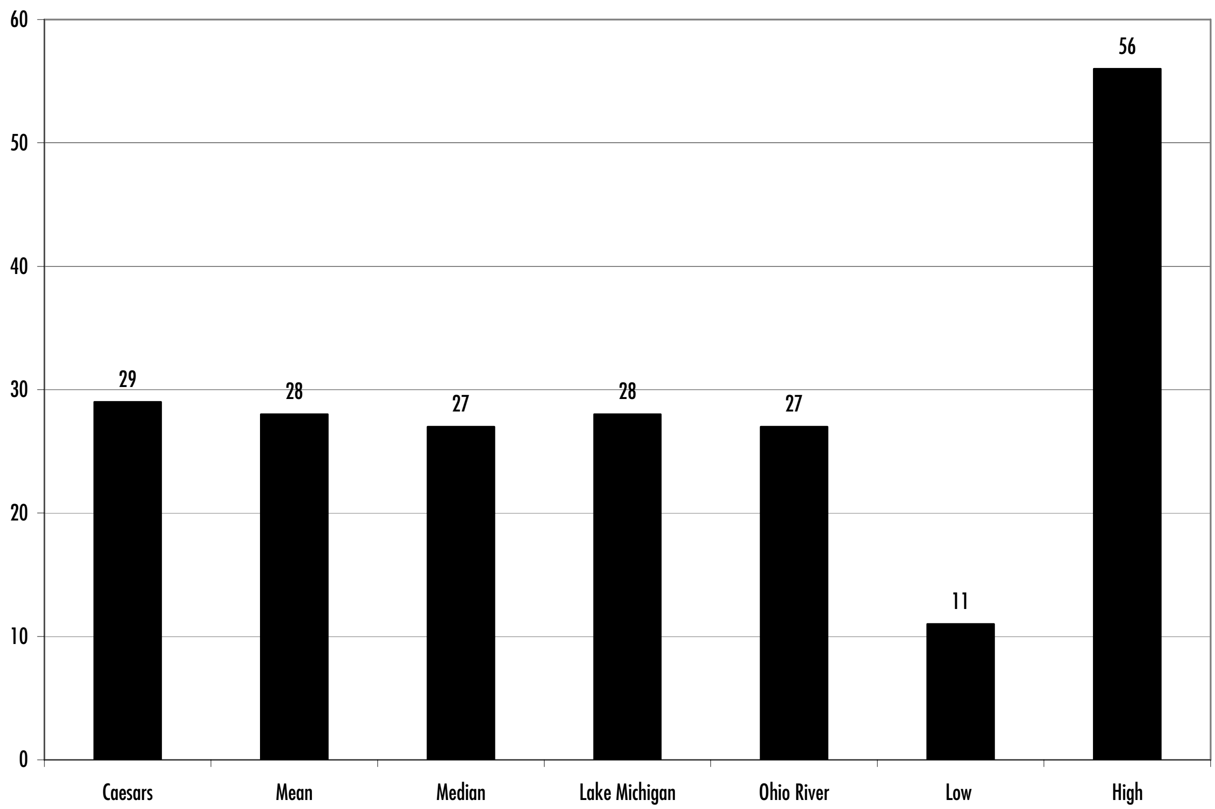


In 2005 Caesars paid $84.6 million in wages, tips and benefits. After subtracting benefits, their weekly salary in 2006 of $558 is higher than the Harrison County average wage of $519 for all covered employment. Average weekly wage for the Amusement, Gaming and Recreation Industry, of which Caesars is a part, is not available for Harrison County because of too few firms.

Settlements with the Commission

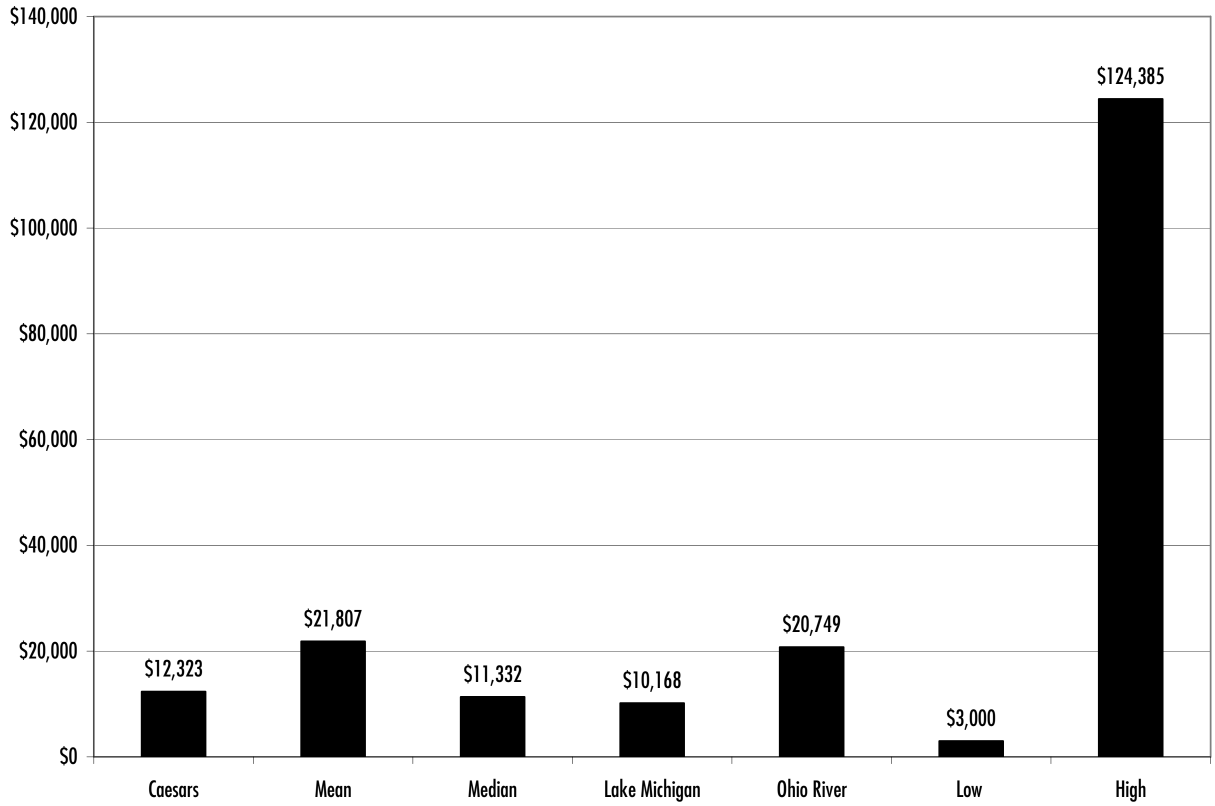
As Figure 7 illustrates, Caesars had 29 violations from 2001-2005, close to the median and mean of 27 and 28. The violations included 15 violations for minors obtaining access, 5 violations related to marketing materials sent to Voluntary Exclusion participants, several related to credit facilities and several related to internal controls violations.

Figure 7: Number of Violations Settled with the Commission 2001 to 2005



In addition to the number of violations, the average dollar amount per violation gives a perspective of the relative severity of the violations. As Figure 8 illustrates, Horseshoe's average fine was slightly higher than the median, but lower than the mean.

Figure 8: Average Fine per Violation 2001 to 2005



Economic Benefits of Gaming-Related Taxes and Incentives

In the three years (CY 2003, 2004, and 2005) since the five-year Caesars license evaluation, Caesars has generated $70.4 million of local gaming-related tax revenue and $66.3 of locally negotiated incentive payments. The analysis is based on the spending of $52,055,740 of local gaming-related tax and incentive payments made by Caesars to Harrison County, the Caesars' Foundation of Floyd County, and the Harrison County Community Foundation during CYs 2003 - 2005. The analysis does not include spending by other counties or local municipalities. It also does not included gaming-related revenue that has been used to retire debt, or has been invested, placed in reserve funds, or is not readily categorized. The economic impact analysis area includes Harrison, Crawford, Floyd, and Washington counties. Between 2003 and 2005 the spending of gaming-related tax and incentive revenue by Harrison County and local community foundations has resulted in:

- $73,681,622 in economic impact,
- $23,679,926 of employee compensation, and

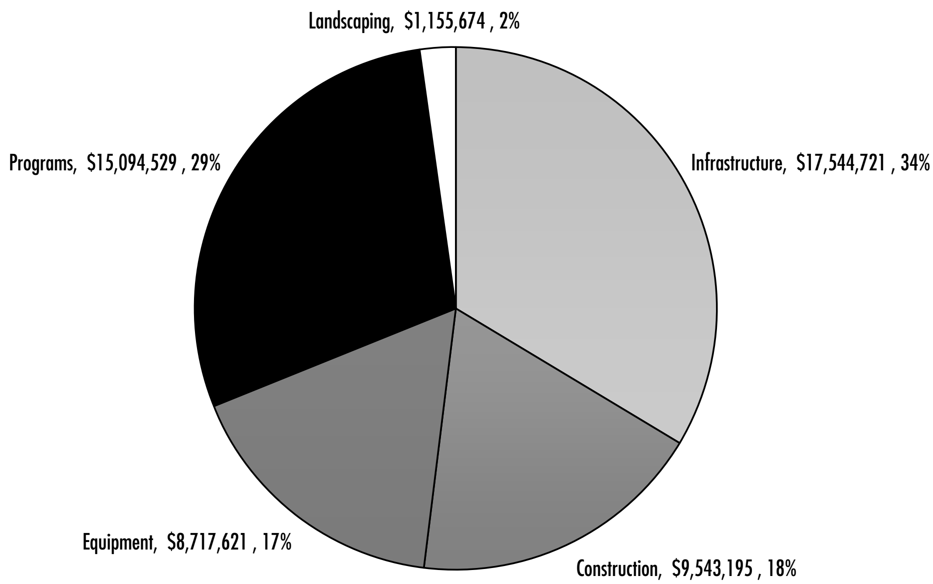
- 1,494 new jobs (full time equivalents).

From Caesars' opening in November 1998, through December 31, 2005, the cumulative economic impact of expenditures of local gaming-related taxes and negotiated incentive payments is nearly $140 million. Included in this economic impact are the creation of 2,590 full-time jobs (one-year equivalents) and nearly $41 million in employee compensation.

Total Spending 2004 and 2005

As illustrated in Figure 9, investments in infrastructure (primarily streets and sewers) and community programs comprised 63 percent of all expenditures included in the analysis. Construction projects, including new buildings and the rehabilitation of existing structures and equipment purchases each totaled approximately $9 million and landscaping, including trails and land purchases spending exceeded $1 million.

Figure 9: Spending of Riverboat-Related Tax and Incentive Payments



Economic Benefits

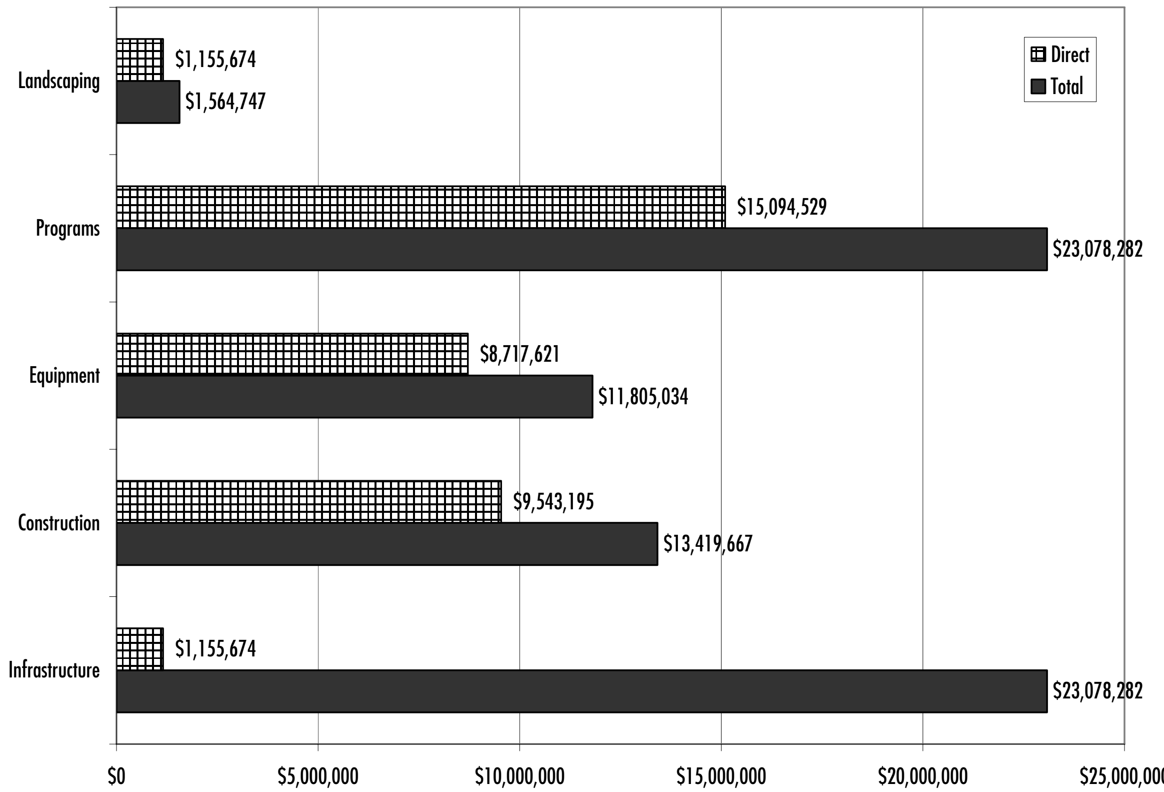
Between 2003 and 2005, the total short-term economic benefit provided by the spending of local gaming-related tax revenue and negotiated incentives and enjoyed by the citizens and businesses of Harrison, Crawford, Floyd, and Washington counties was over $73 million. The type of investments made by the Harrison County and the local community foundations determines both the short- and long-term economic benefits generated within the local economy. The short-term benefits are the immediate result of the spending—principally the new jobs, wages, and business activity generated as the spending of tax and incentive dollars work their way through the four-county area's economy. These short-term benefits represent over $73 million described in this study.

The long-term benefits are related to the degree to which the spending supports or develops competitive economic advantages for the counties and the private business located there. These long-term benefits are not immediately measurable. However, if the local gaming-related tax and incentive dollars are spent wisely they will support the local economy for many years. The economic impact analysis also cannot measure the contributions made to the quality of life in the area. For example, while the model can measure the economic benefits of a new ambulance, fire truck, a new sewer system, or a program for young children, it cannot measure the impact of these programs on the lives of the individuals benefiting from these purchases.

Direct and Indirect Benefit by Type of Expenditure

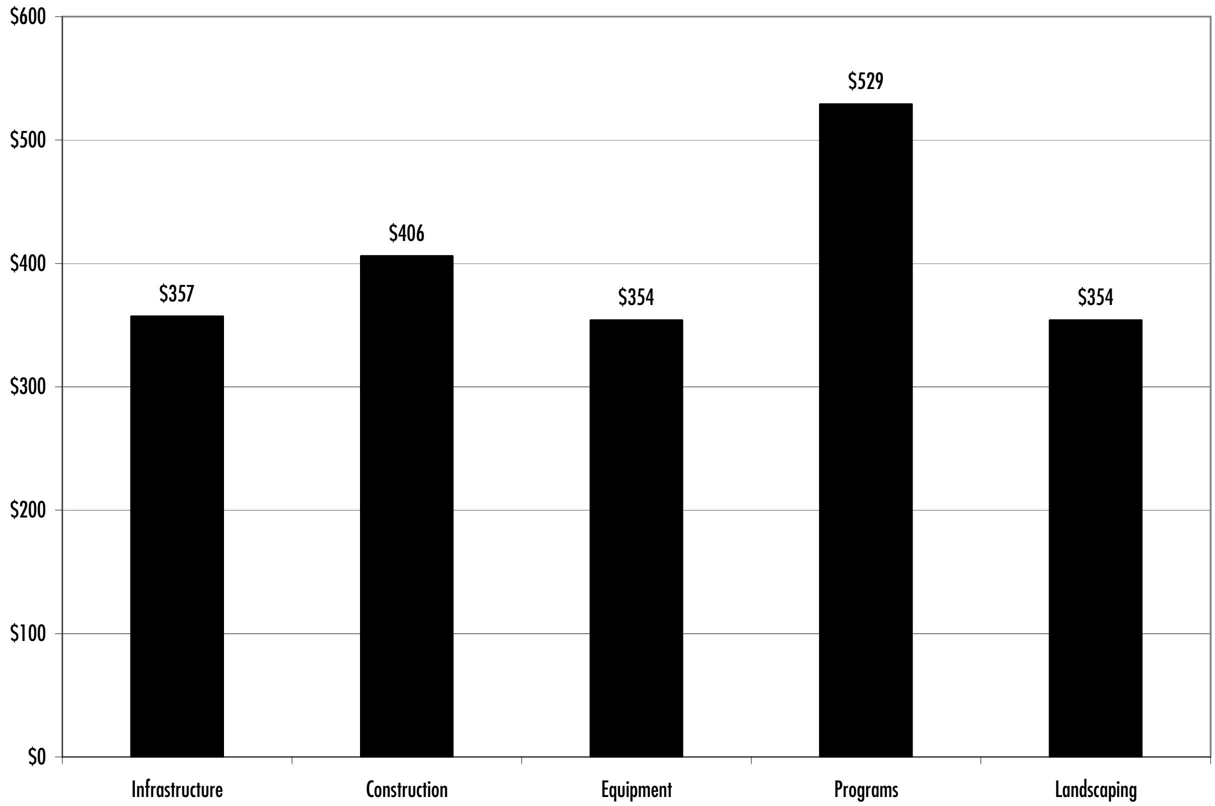
In Figure 10, the direct impact bars represent the gaming-related expenditures made by Harrison County and the community foundations. The total impact bars represent the full economic benefit of the local spending decisions as they work their way through the local four-county economy. For example, the $17 million spent on infrastructure improvements results in nearly $24 million of total economic benefit, with the additional economic benefits being created by the spending of the firms building the infrastructure and the spending of the wages earned by employees working on the projects.

Figure 10: Economic Contribution of Spending of Riverboat-Related Revenue



Each expenditure category provides a different measure of immediate return on the investment made. For example, as seen in the previous chart, program investments and infrastructure both generate approximately $23 million of total economic impact, yet direct program spending was $2 million less. This can occur because program operations generate $529 of indirect economic activity for each $1,000 of direct expenditures and infrastructure investments induce only $357 of additional indirect economic activity. The high programmatic short-term economic return is likely a function of the personnel intensive nature of programmatic operations while infrastructure requires the purchase of supplies that are not manufactured in the four-county area. And the indirect economic benefits associated with the purchases accrue there rather than in the four-county area.

Figure 11: Additional Return Per $1,000 of Investment

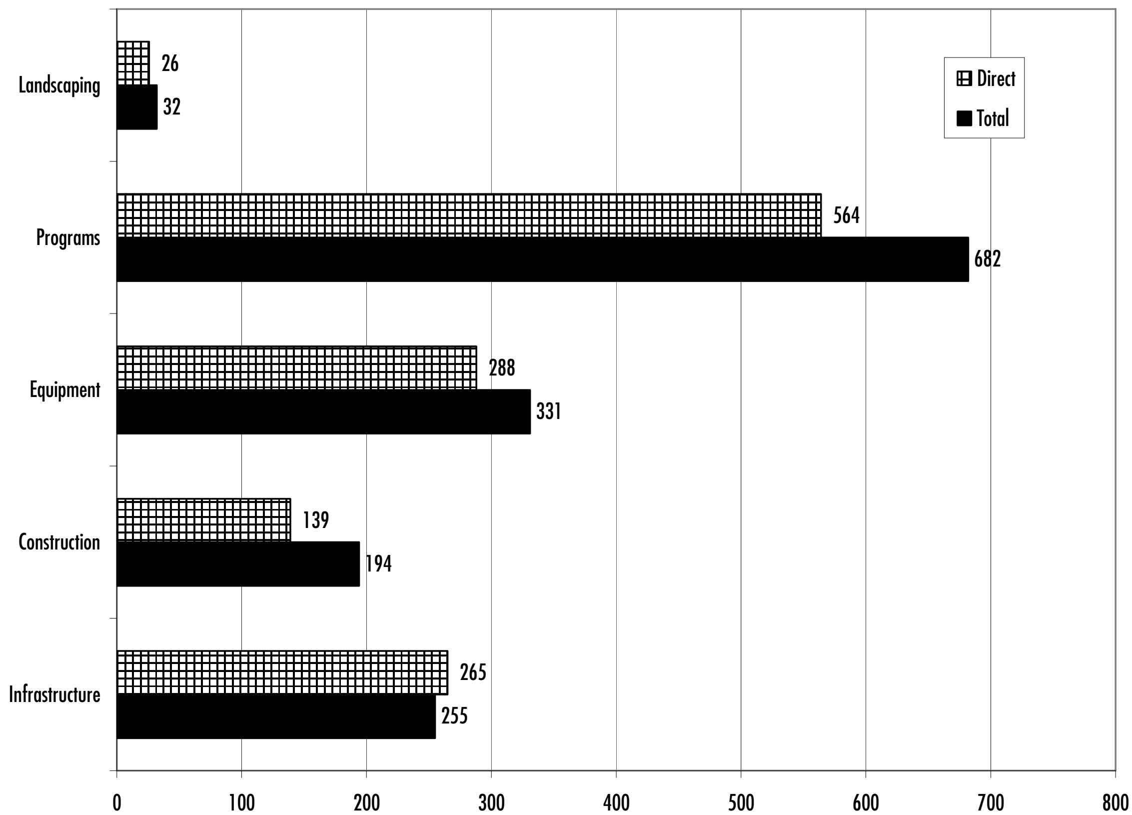


The rate of return offers local officials one perspective from which to evaluate the benefits of investing gaming-related tax revenues. However, the rate of return provides only a short-term perspective, with the economic benefits ending soon after the last dollar is spent. The long-term perspective must consider the lasting value of the improvements made. Thus, while the immediate return on programs exceeds that of construction and infrastructure, the lasting benefits of improved roads and facilities may outweigh the immediate benefits of operations. From the long-term perspective, the degree to which the investments contribute to the economic competitiveness of local firms, the local workforce, and the area's quality of life must be considered.

Jobs Created

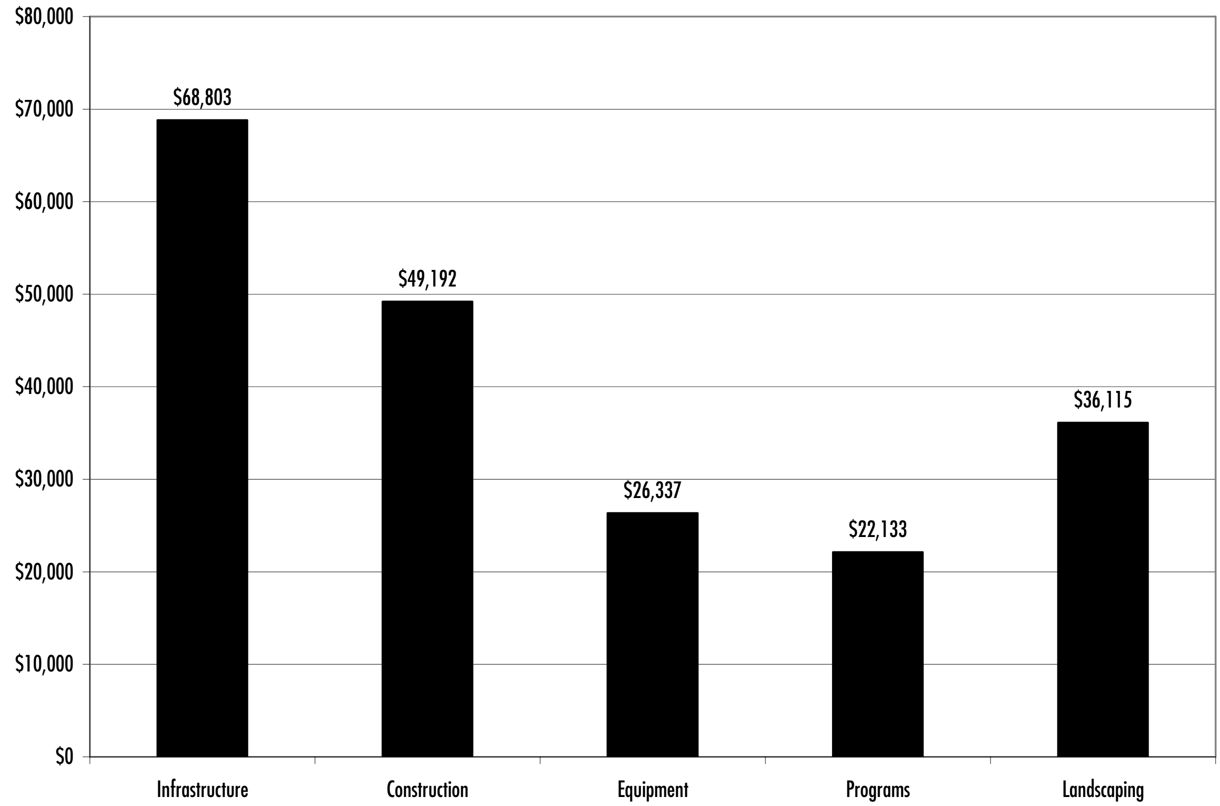
Figure 12 displays the number of jobs attributable to each category of investment made with gaming-related revenue. There were 1,494 total jobs created in the four-county area as a result of the spending of gaming-related revenue. Spending on programs created nearly 46 percent of the new jobs. Each new job represents an annual full-time equivalent measure of employment. For example, one individual employed for four years while working at a construction firm counts as four jobs.

Figure 12: Total Employment Attributable to the Spending of Riverboat-Related Revenue



While nearly 46 percent of the new jobs were created by programmatic investments, program expenditures represented only 29 percent of all expenditures, or nearly the same level of spending as infrastructure investments, which generated only 255 jobs. This outcome is a result of the fact that programmatic investment required only $22,132 of investment per job while infrastructure investment required the highest investment per job, $68,802 of per job.

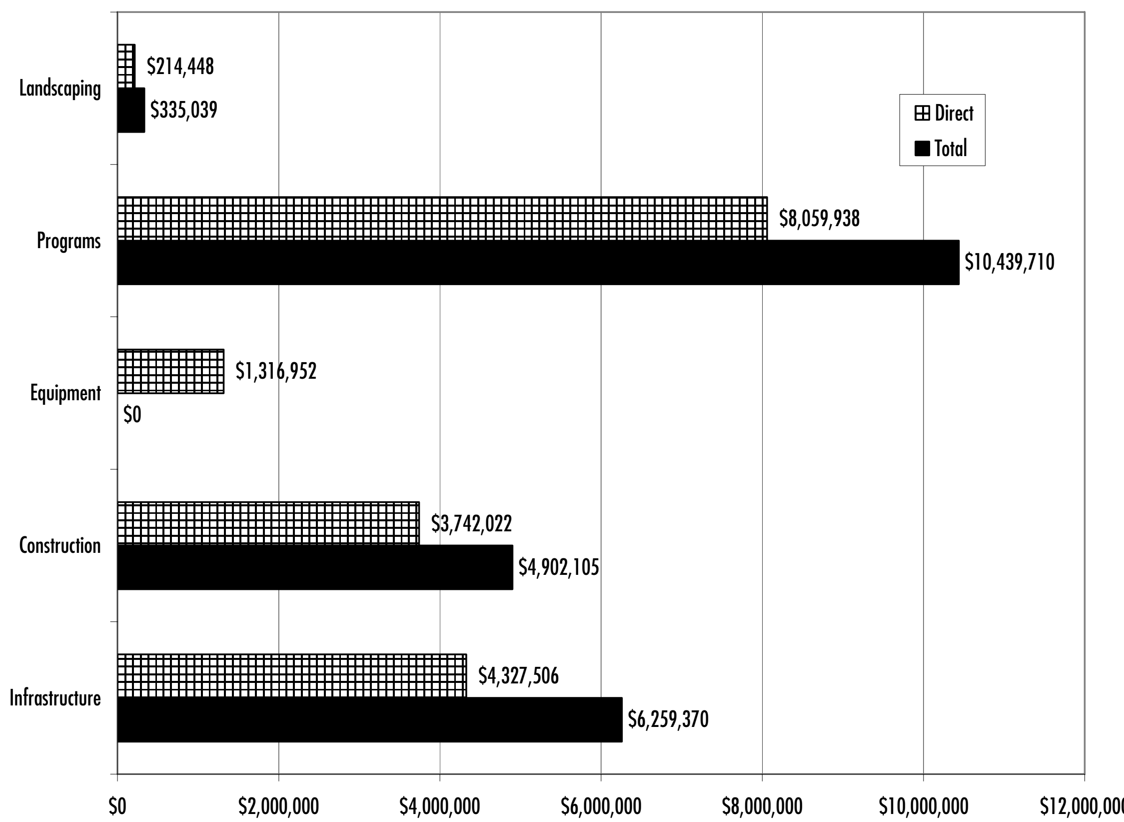
Figure 13: Investment per Job Created



Wages Generated

Figure 14 displays the total and direct gaming-related earnings generated in the four-county area. The spending of gaming-related tax and incentive revenue has produced over $23 million in total wages. While programs produced the highest total employment and wages, the highest average wage was created by construction-related jobs ($25,268) while program-related jobs produced an average wage of $15,307 per job.

Figure 14: Total Employee Earnings Attributable to Spending of Riverboat-Related Revenue



Cumulative Economic Impact 1998 – 2005

Between November 1998 and December 31, 2005, the spending of gaming-related tax and negotiated tax incentives has resulted in over $139 million in total economic impact. Forty-seven percent of the economic impact has occurred in the past three years. The spending of local gaming-related tax and negotiated incentives has generated 2,590 total jobs between 1998 and 2005. Fifty-eight percent of these jobs were created in the past three years. Finally, the spending of gaming-related tax and negotiated incentives has resulted in $40,771,458 in total wages. Fifty-six percent of all wages have been generated in the last three years.

Caesars' Workforce: A Survey of Employees

To assist in this evaluation, the Center conducted a survey of current Caesars employees in August 2006. The survey and accompanying analysis help the Commission determine the impact of Ceasars on its workforce. The analysis is divided into four topic areas:

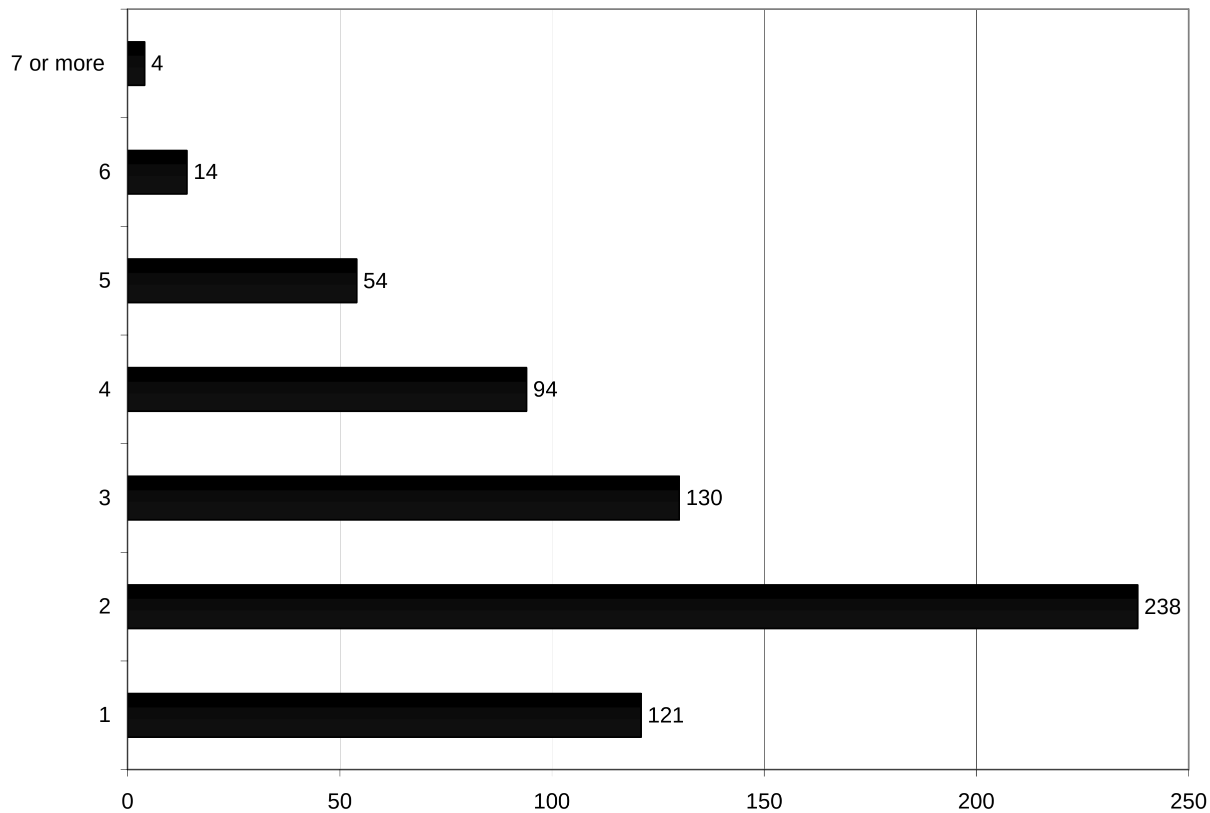
1. A brief description of the respondents and their histories
2. The respondents' employment histories prior to beginning work at Caesars
3. The initial experience of the respondents upon beginning work at Caesars
4. The respondents' current situation

An Overview of the Respondents

A survey was distributed to each of the 2,261 employees. There were 719 total responses to the survey, but not all of these responded to every question or provided a valid response to each survey question. For example, 684 individuals responded to the question concerning gender and of those who responded 353 or 52 percent were females and 331 or 48 percent were males.

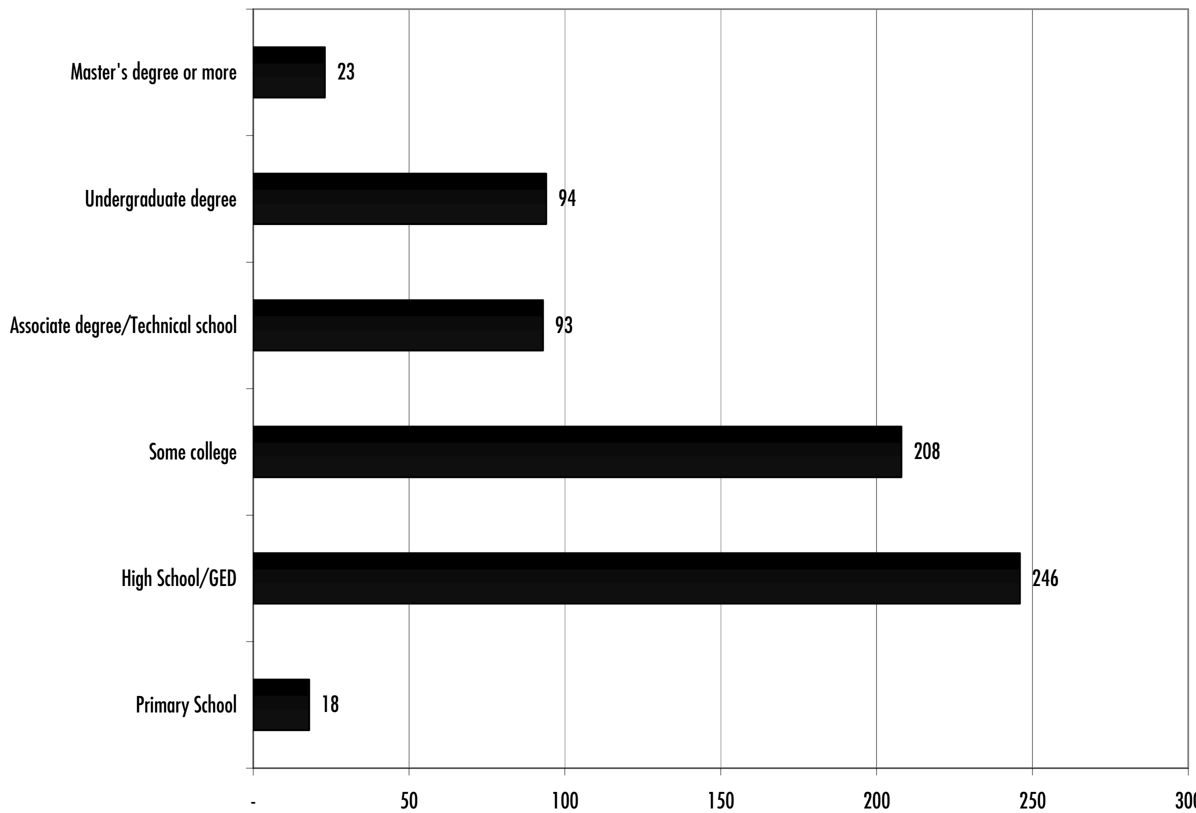
The average age of those who responded was 41 years and 2 months, the median age was 41 years and the oldest respondent was 80 and the youngest 18. As Figure 15 illustrates, two-person households were the most common (238 or 36 percent), and nearly 75 percent of all respondents reported living in a household with three or less individuals.

Figure15: Total Number of Individuals in Household



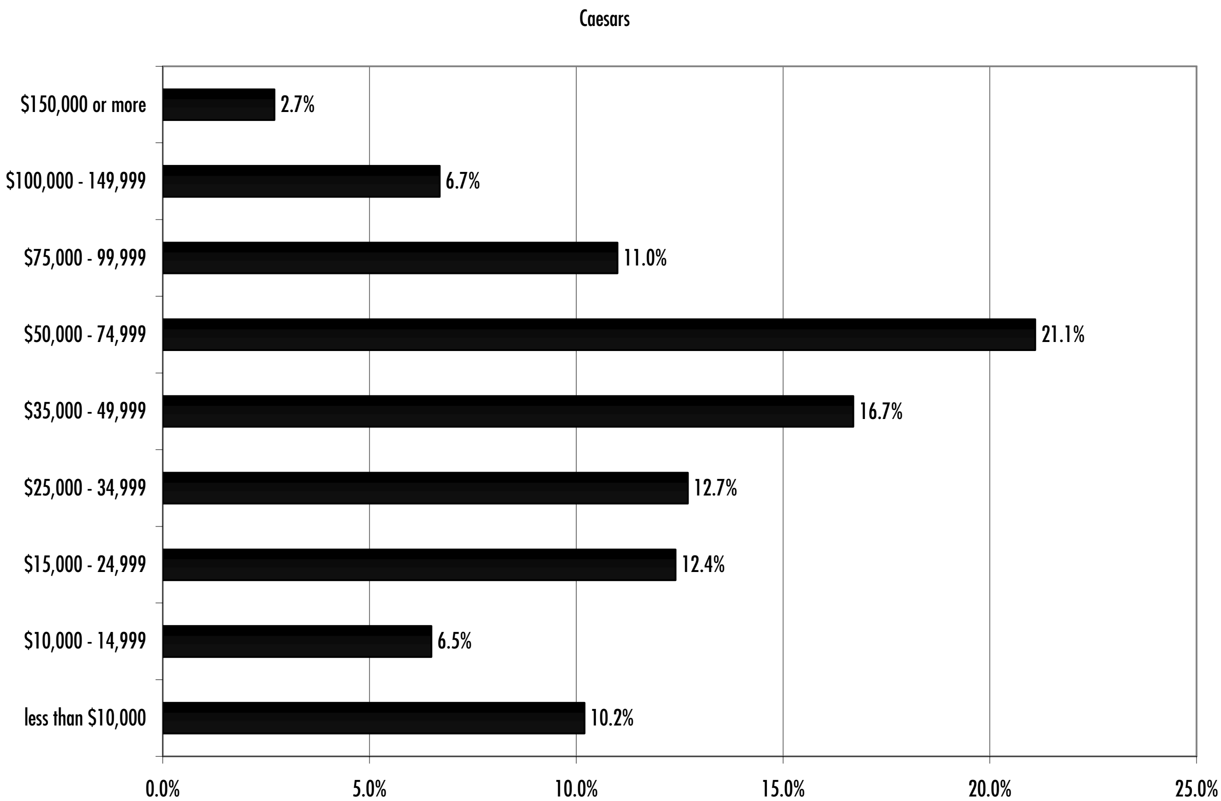
The largest share of Caesars respondents reported having earned a high school degree or attending some college (454 or 64 percent). An additional 210 respondents (32 percent) reported having attained an Associates, Bachelors, or Masters Degree. Only 18 individuals (3 percent) reported that primary school was their highest level of academic attainment. (Figure 16)

Figure 16: Education Achievement of Caesars' Employees



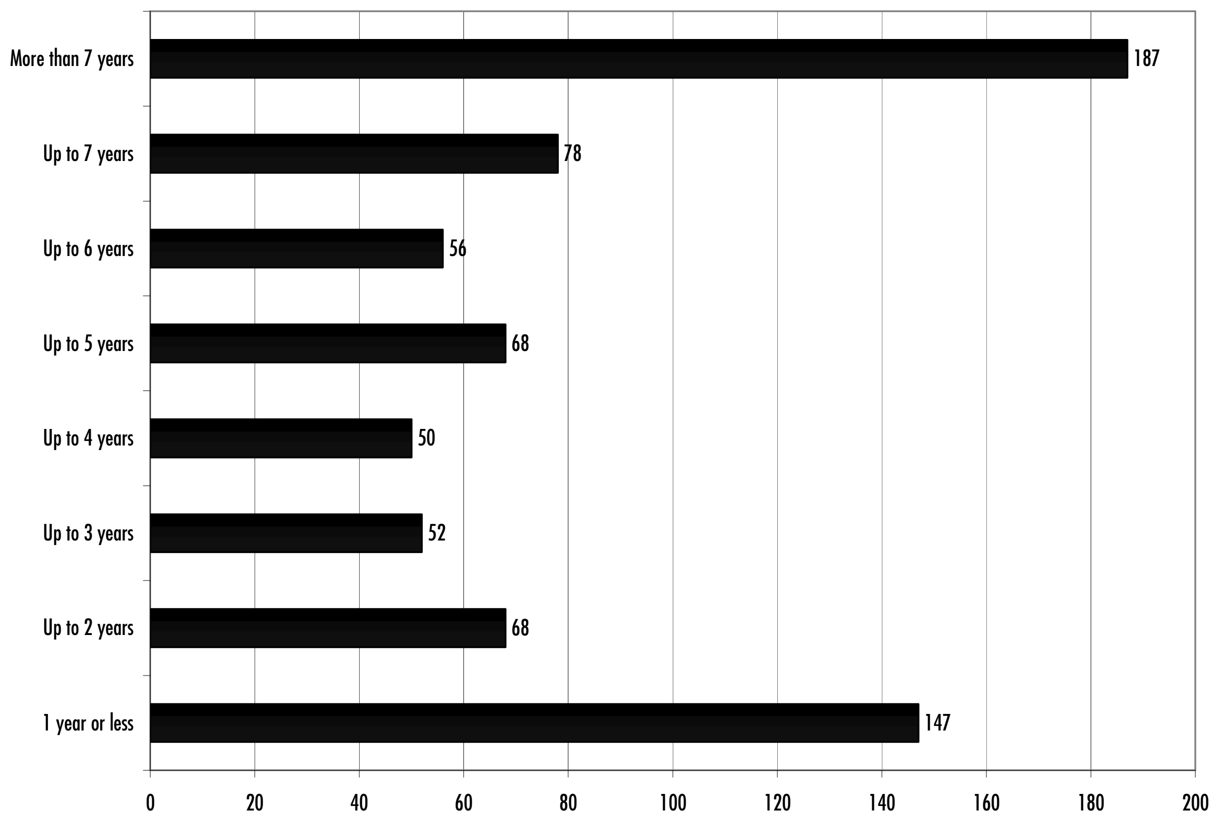
As shown in Figure 17, over 41 % of all Caesars households reported earning a household income of over $50,000, with 21 % falling between $50,000 and $74,999.

Figure 17: Household Income Caesars (2006)



Approximately 28 percent of all respondents reported living in Harrison County and the average length of employment at Caesars for those responding to this question was 4 years and 7 months. The median length of employment was 5 years. Twenty-five survey respondents reported working at Caesars for 4 weeks or less and five respondents report working for Caesars for 10 or more years. Figure 18 shows the number of employees and years worked. Approximately 21 percent of the respondents reported working at Caesars for 1 year or less and nearly 26 percent reported working more than 7 years.

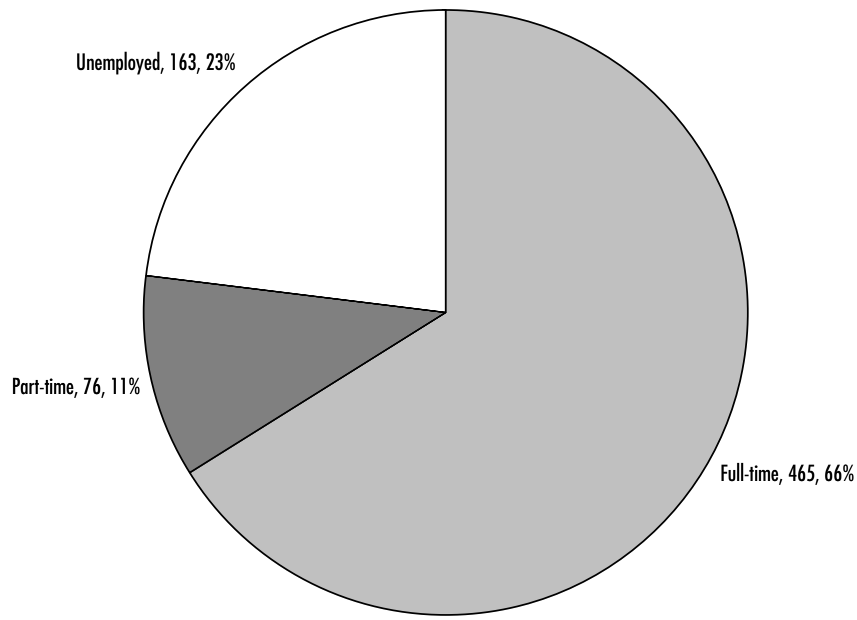
Figure 18: Number of Years Worked at Caesars



Employment History Prior to Beginning Work at Caesars

Based on responses to the survey, 66 percent were employed full-time prior to beginning work at Caesars. Twenty-three percent report that they were unemployed prior to beginning work at Caesars.

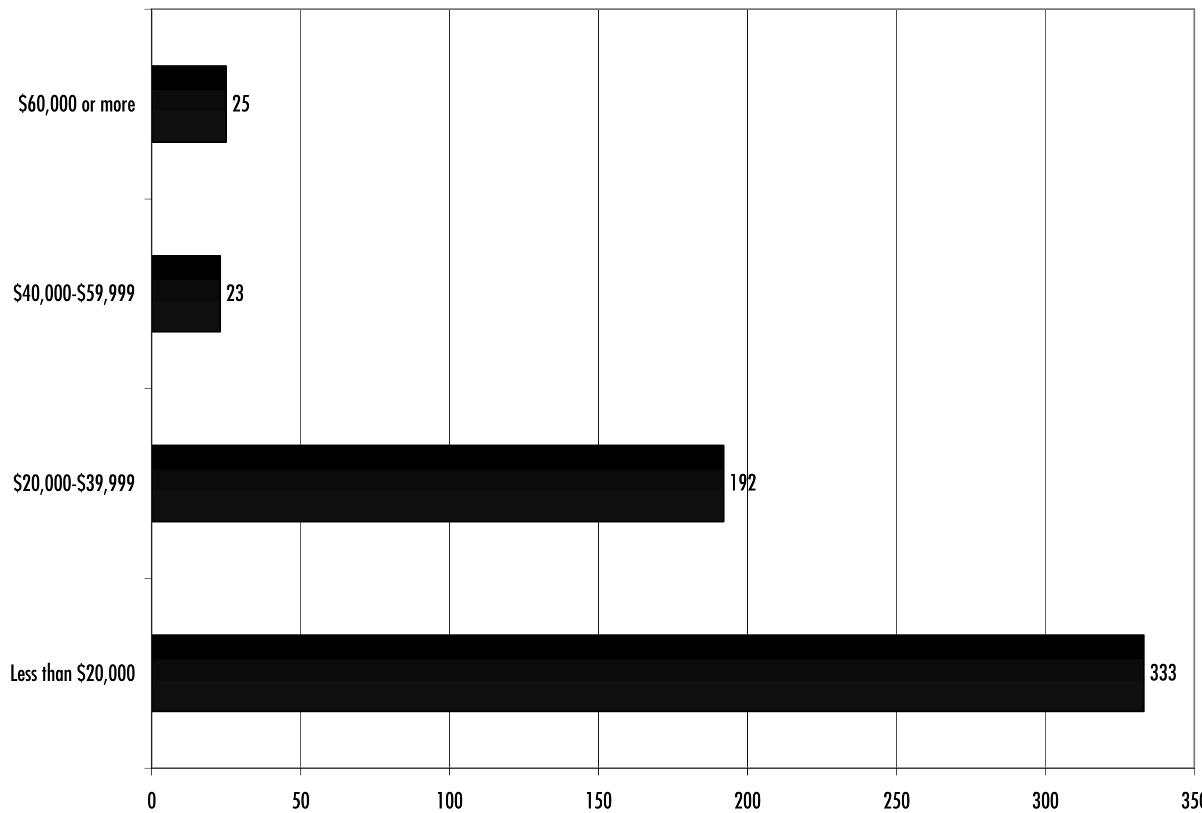
Figure 19: Employment Status Prior to Beginning Work at Caesars



Nearly 90 percent of those who responded to the survey reported that their first job at Caesars was a full-time position. Based on those who responded to both the question regarding previous employment and the survey question regarding initial employment at Caesars, 133 individuals moved from unemployment to a full-time position at Caesars and 26 respondents moved from being previously unemployed to a part-time position at Caesars.

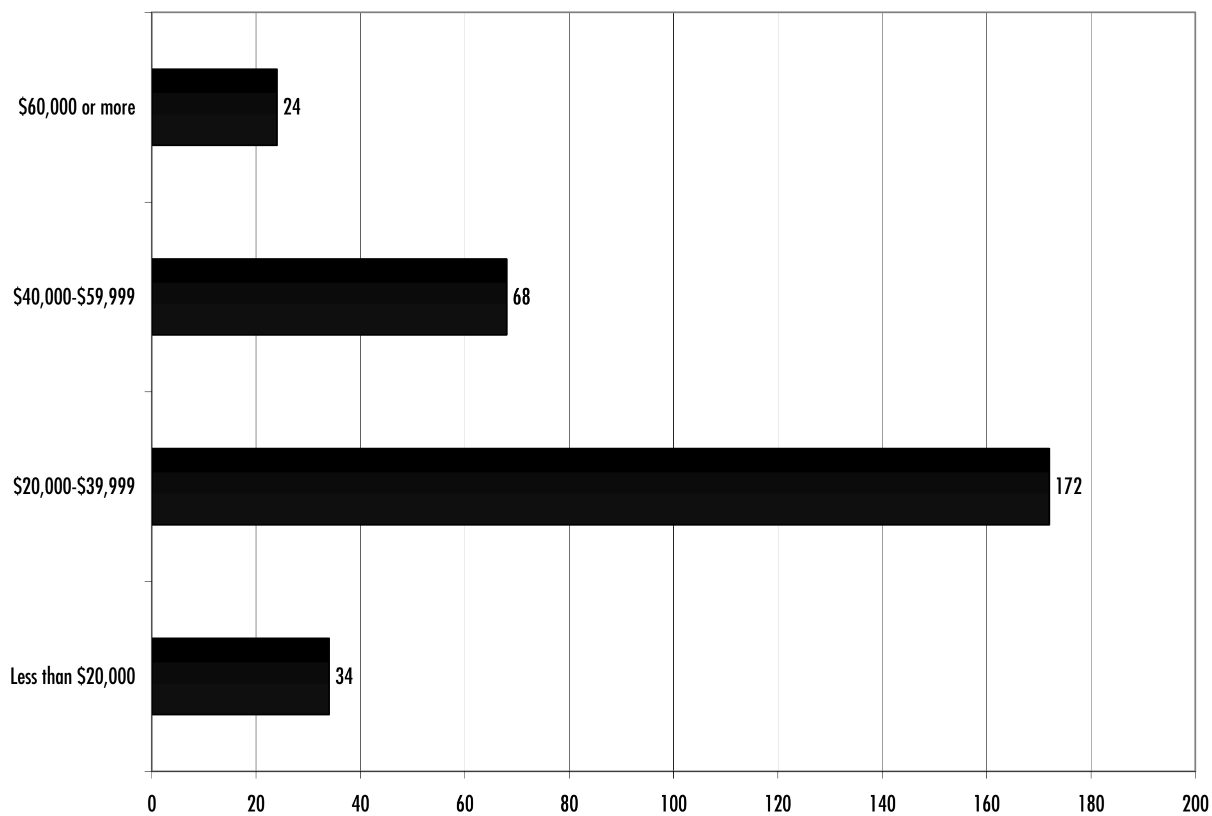
Figure 20 displays the starting wages for the 573 respondents who reported that they worked full time and provided a starting annual income (including tips). Only 48 respondents or 8 percent reported a starting income at Caesars of more than $39,999. The average reported starting income was $23,340 and the median was $18,000.

Figure 20: Beginning Wages and Tips at Caesars



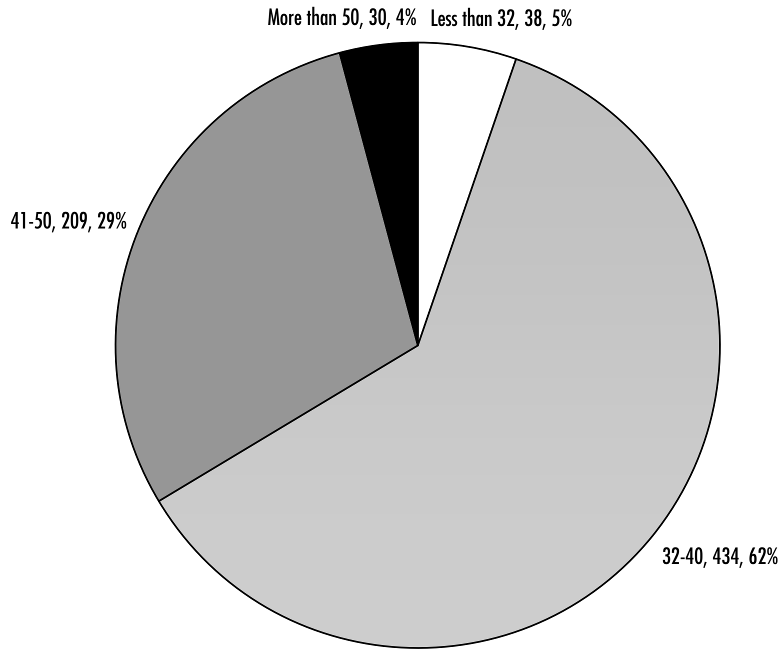
The average current annual income of the 298 Caesars employees responding to this question was $35,800 and the median was $33,600. The current annual income of the Caesars employees who responded to the question is $15,600 higher than the initial income of those who responded to that survey question. Similarly, the current median income of those who responded was $5,640 higher than the initial wages of those who responded. As shown in Figure 21, the largest number of respondents' income fell between $20,000 and $39,999 with 172 or 58 percent of those who responded reporting earning an income within that range.

Figure 21: Current Annual Income (Including Tips) of Caesars Employees



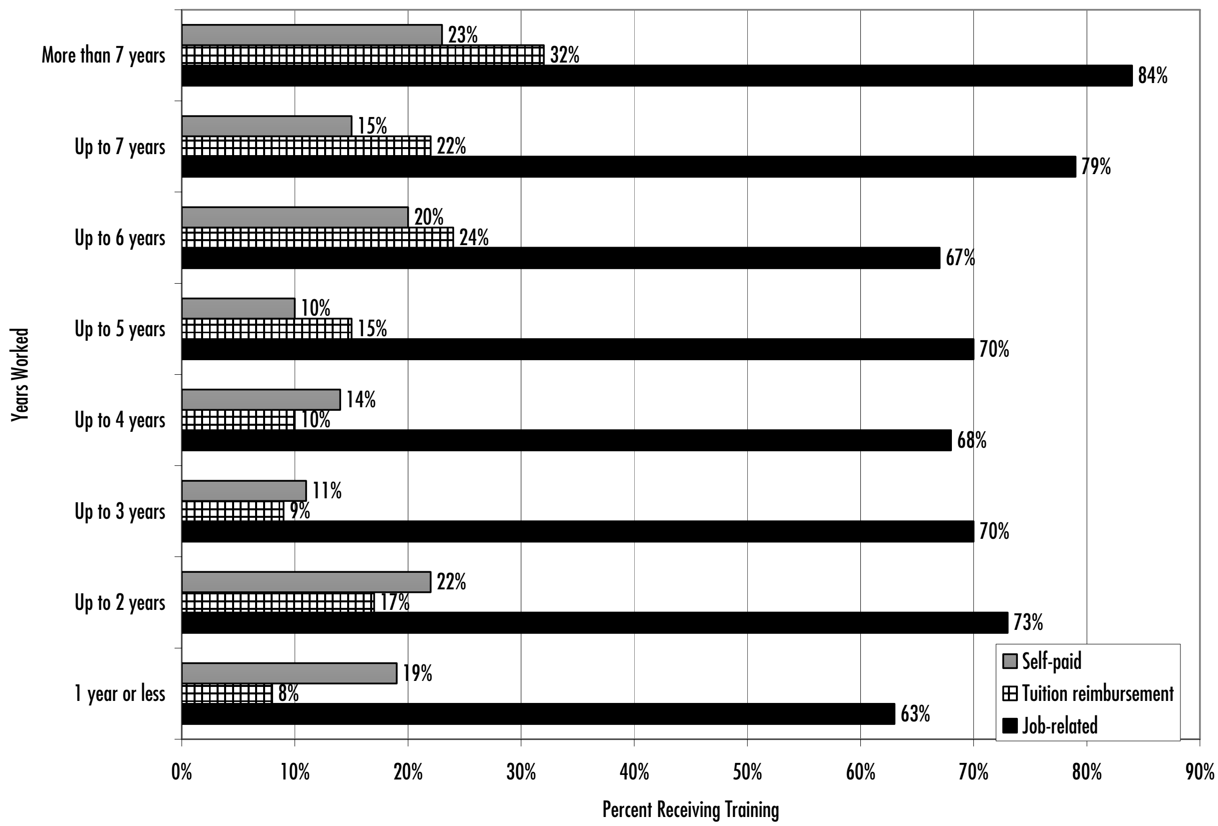
As shown in Figure 22, nearly all respondents report that they work between 32 and 50 hours (643 or 90 percent). Only 38 or 5 percent indicate they worked less than 32 hours.

Figure 22: Number of Hours Worked per Week at Caesars



Training and re-training are important components of building an economically competitive workforce. As shown in Figure 23, a much higher share of Caesars employees are receiving job-related training than receive either tuition reimbursement or choose to pay for additional skill-building opportunities on their own. Comparing tuition-reimbursement to self-paid training opportunities reveals that while the share receiving either benefit varies by year, in the aggregate the total number of individuals reporting receiving tuition reimbursement (122) and paying for their own trailing or education (124) are nearly identical.

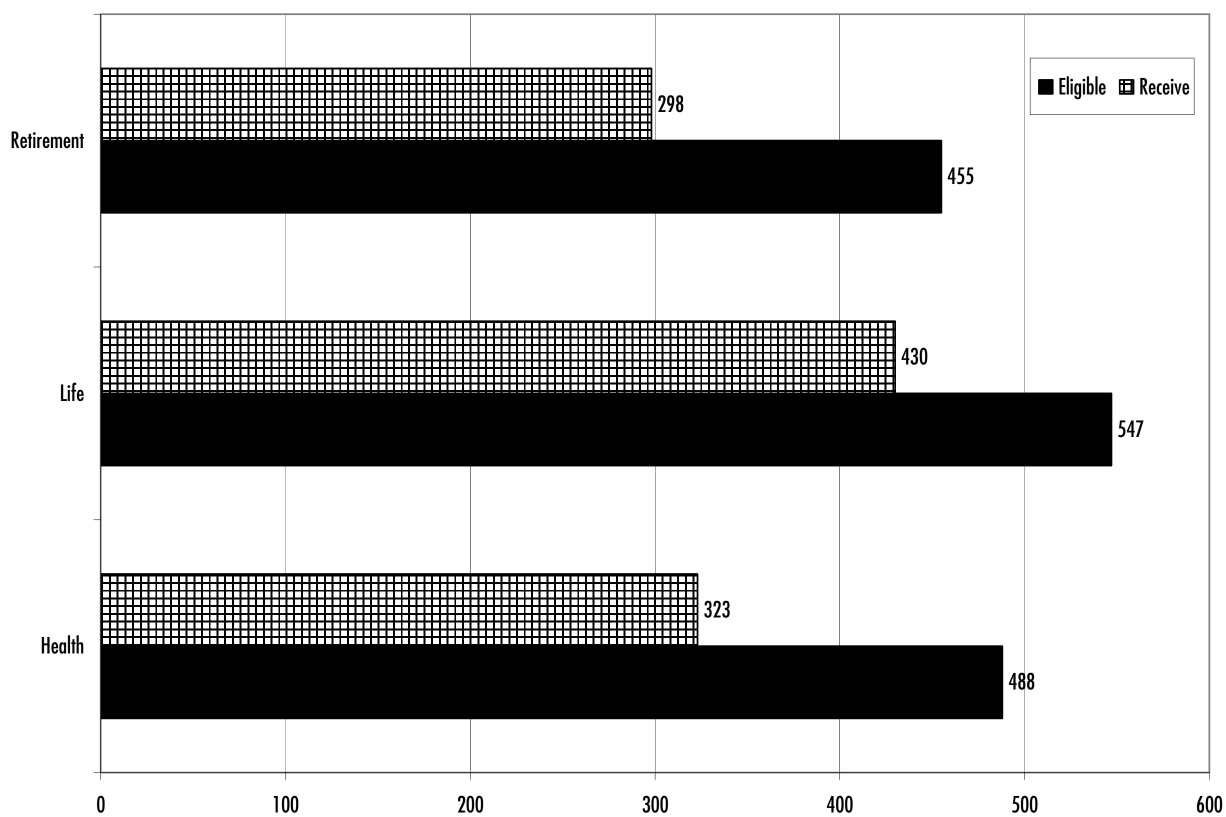
Figure 23: Training and Education Opportunities for Caesars Employees



When access to training is compared to educational attainment, it becomes clear that access to all types of training increases as the level of educational attainment increases. For example, the share of respondents who reported receiving job-related training increased from 65 percent for that with high school education to 83 percent for those with college degrees and 96 percent for those with masters degrees. A similar disparity exists for both tuition reimbursement programs and self-paid education or training. For example, only 8 percent of all high school graduates report taking advantage of tuition reimbursement programs while 31 percent of all those with college degrees and 23 percent of those with masters degrees report making use of the tuition reimbursement opportunity. While one explanation for this disparity is that those with a higher level of education have a greater appreciation for the value of skill building and education, more might be done to encourage those with less education to take advantage of these opportunities.

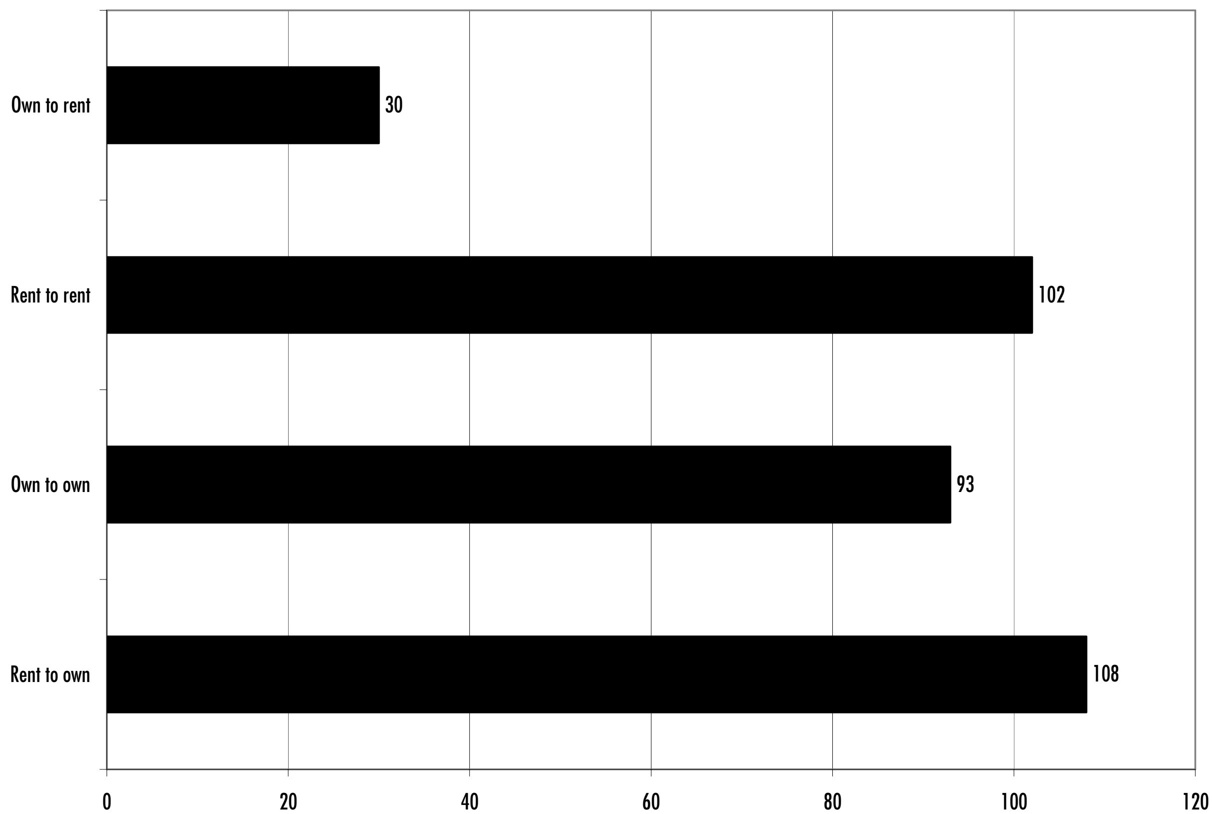
Participants in the focus groups held in conjunction with previous license hearings have suggested that there are concerns regarding access to and utilization of benefits such as health and life insurance and retirement plans. As a result questions regarding this issue have been added to the survey of employees. Survey results suggest that some full-time employees appear to be unaware of their eligibility these benefits. There were 673 full-time employees responding to the survey and 488 indicated that they believe they are eligible for health insurance program benefits and 547 believed they were eligible for life insurance. When respondents were asked why, if they are eligible, they do not receive the benefits, 21 said they couldn't afford the premium, 59 received coverage under their spouse's plan, and 26 reported receiving benefits from another job.

Figure 24: Perceived Eligibility for Benefits and Utilization



Of the 719 employees responding to the survey, 108 or 15 percent of all respondents reported moving from rental status to homeownership status since beginning work at Caesars. An additional 94 individuals or 13 percent reported moving from one home to another. Three hundred ninety-two respondents reported purchasing a new car, truck, or van since beginning work at Caesars and 152 reported undertaking a home remodeling project.

Figure 25: Changes in Housing Status since Beginning Work at Caesars



Community Impacts

According to Randall Travel Marketing, nationally, hotel occupancy levels averaged 63.1 percent in 2005. As Table 1 illustrates, Caesars had a much higher occupancy rate than the national average and it has been increasing slightly each year since 2003.

Table 1: Hotel Room Nights and Occupancy

	2003	2004	2005	Thru June 30, 2006	Total
Hotel room nights	161,643	171,623	167,447	85,600	586,313
Percent of capacity	88.2%	93.4%	93.8%	94.0%	92.1%

Community Input

Engaging Solutions (a subcontractor to the Center) conducted two public hearings in Harrison County in August 2006. The first invited community leaders, local business leaders, and social services providers. The second was advertised in the local media as a public hearing where all were welcome. The first meeting was well attended (44 people) with the second less so (5 people).

The comments from both meetings were positive. During the first focus group meeting in the afternoon, officials from local school districts, the Chamber of Commerce of Harrison County, and elected representatives attended.

Several people spoke about how the millions Harrison, Floyd, and other counties in the region have received has helped schools, libraries, roads, community centers, fire departments, and law enforcement agencies.

Other issues raised included:

- A concern that the state will further shrink local share of casino revenues.
- Some concern about those who have become gambling addicts, but most did not feel this was an overwhelming problem.
- Growing dependency on casino revenues as primary if not sole source of revenue for some initiatives
- Impact of French Lick gaming on Caesars revenue base

The group wanted to continue to have these types of meetings and publish the results of these meetings on the Commission website.

In addition to the public hearings, the Center contracted with the Survey Research Center at IUPUI to conduct a random survey of 200 people in Harrison County in August 2006, to determine their opinion of Caesars as well as their participation in gambling. As Table 2 indicates, overall, lottery is the most popular activity (72 percent), followed by placing bets on horses (40.5 percent), and then placing bets at a casino (37 percent). The picture changes slightly if you ask those who participated what they did in the last month, with the highest rate going to on-line betting (on other and poker) and then to lottery.

Table 2: Participation in Gaming Activities by Harrison County Residents

Type of gaming	Percent responded yes they have ever played	Of yeses, percent who did it in the last month
Played cards for money	34.0%	24%
Played bingo for cash prizes	30.5%	5%
Bet on games of your own personal skill like pool, golf, etc.	17.0%	18%
Bet money on sports teams	15.0%	3%
Bought lottery tickets, scratch offs or pull-tabs	72.0%	39%
Placed bets at a casino	37.0%	16%
Bet on horses	40.5%	13%
Used the internet to play poker on-line	1.0%	50%
Used the internet to bet money any other way	0.5%	100%
Participated in any other forms of gambling	6.5%	23%

Respondents were asked if they had heard of Caesars and 98 percent indicated that they had heard of it. As Table 3 illustrates, people's opinions of Caesars are different depending upon their experiences. Respondents who know someone who works at the casino (53 percent of respondents) are much more likely to favor it than those who are not gamblers, meaning they answered no to all of the above questions about participation in gambling, (15 percent) or know someone with a gambling problem (23 percent). Those who are not gamblers are more likely to have mixed feelings.

Table 3: Opinion of Caesars Indiana Casino

	All responses	Not a gambler	Know someone who works at Casino	Know someone with a gambling problem
Favor	50%	7%	53%	28%
Opposed	13%	38%	15%	30%
Mixed Feeling	25%	38%	26%	28%
No opinion/don't know	12%	17%	6%	14%

The reasons cited by those strongly opposed include religious reasons as well as concerns about problem gambling. Those strongly in favor cite the additional revenue (it has provided infrastructure, lowered property taxes) and the jobs, as well as the entertainment value.

Other Issues

As Table 4 illustrates, Caesars had numerous settlements with the Commission in 2004, 2005, and 2006, while they had none in 2003. Incidents included minor on-vessel incidents, mailing direct mail piece to members of the voluntary exclusion program, marketing incidents (such as giving away a car that was not part of an approved promotion), and failures to inspect equipment.

Table 4: A Summary of Settlements with the Indiana Gaming Commission

	2004	2005	2006 (through June 30)
Number of violations	14	11	5
Total amount fined	$186,352.75	$59,000	$107,500
Types of violations	• Failure to provide notification regarding financing transactions (2) • Marketing incidents (2) • Minor on vessel (10)	• Minor on vessel incidents (3) • VEP patrons received direct mail (5) • Failure to inspect roulette wheels (1) • Failure to inspect cards (1) • Improper ticket verification during a system outage (1)	Allowing deck hands to participate in count (1) Failure to secure sensitive keys (1) VEP patrons received direct mail (1) Failure to notify before replacing turnstiles (1) Minor on vessel (1)

As Table 5 indicates, in an effort to prevent underage gambling, Caesars has verified 1.4 million identifications and turned away 24,533 patrons since it opened. In an effort to address problem gambling, 1,858 patrons have self-excluded. While part of the self-exclusion process is a signed agreement to forfeit any winnings, jackpots have been won (and forfeited) by 19 self-excluded patrons.

Table 5: Caesars' Efforts to Prevent Underage and Problem Gambling

	1999-03	2004	2005	Thru June 30, 2006	Total
Number of I.D.s verified	635,972	326,970	287,544	176,836	1,427,322
Number of patrons turned away- under 21 or no ID	11,411	6,026	4,543	2,553	24,533
Self-excluded	199	714	665	380	1,958
Jackpots won by those who self-excluded	7	2	4	6	19

Current Financial Position and Future Plans

Caesars Indiana, LLC, a wholly owned subsidiary of Harrah's Entertainment, Inc., has applied for the renewal of its gaming license in Indiana. The purpose of this section is to provide the Indiana Gaming Commission with assessments of the operating performance of the Harrison County license, the operating plans of Caesars Indiana for the next three years, and the financial strength of the parent company, Harrah's Entertainment, Inc.

Caesars Indiana, LLC.

Caesars Indiana was issued a Certificate of Suitability in May 1996 for a riverboat owner's license to operate in Harrison County in Indiana. The company's riverboat, called the Glory of Rome, commenced operations in November 1998. In the initial capital investment plan for the Harrison County property, Caesars Indiana was committed to invest $228.2 million for project development. Through December 2002, a total of $434.4 million was invested. The Harrison County facility with 3,345 gaming positions was the largest of the 10 riverboats operating in Indiana.

Caesars Indiana has improved its physical facility in the five years ending in 2005, generally having annual capital expenditures that exceeded annual depreciation deductions. A 500-room hotel was completed in September 2001 along with a 3000-space parking garage. A golf course opened in October 2002.

Caesars Indiana was acquired by Harrah's in 2005 for $849 million and is now a wholly owned subsidiary of Harrah's Entertainment Inc. In the transaction, Harrah's assumed $212 million of long-term debt and financed the rest of the balance sheet with about $600 million in equity.

The Harrison County license has been very successful in terms of operations and generating growth in gaming revenues. In the seven-year period between 1998 and 2005, gaming revenues increased at an average annual compounded growth rate of 11.5 percent. During the same period, the operation generated an average cash flow return of revenue of about 21 percent.

At the end of 2005, Caesars Riverboat Casino reported total assets of $855 million and total net revenue for the year of $313 million. The balance sheet listed total long-term debts of $209 million, listed as Due to Affiliate. The cash flow generated from the operation in 2005 (EBITDA) was about $65 million. The Long Term Debt/EBITDA ratio was 3.21 times, a relatively strong Leverage Ratio for gaming entities. The Fixed Charge Coverage ratio was 3.6 times which is also at a relatively strong level. The long-term debt contracts are actually contracts issued by the parent company (Harrah's), which claims to be the only investment grade gaming company, a condition that allows it to borrow at the most competitive rates in the gaming industry.

Harrah's Entertainment, Inc.

Harrah's (HET) is a publicly traded gaming company. It claims to be the world's largest provider of branded casino entertainment. In 2005, the company generated total net revenue of more than $7 billion with $6 billion classified as casino revenue. The company's five brands are Harrah's, Caesars, Horseshoe, Total Rewards, and World Series of Poker. The company, through its wholly owned subsidiary, Harrah's

Operating Company, Inc., owns and manages 40 gaming properties, primarily located in 12 states. These include 19 land-based casinos, and 11 riverboat casinos. Harrah's operates in every major domestic gaming market and in several international markets. Its growth plans include multiple investments in international markets. Harrah's was the first company to own two gaming licenses in Indiana. The major risks that Harrah's is exposed to with its geographically diversified business model that focuses exclusively on gaming is a slow down in consumer spending on gaming entertainment, an over-supply of gaming in certain major markets and travel-related security threats.

Marketing

The company operates a customer loyalty program called Total Rewards and claims to have more than 40 million Total Rewards members. The Total Rewards program is patented, with the patent expiring in 2016. Total Rewards provides incentives for customers to consolidate their gaming activities at a Harrah's casino and gives Harrah's an advantage in terms of customer service and operating efficiency. Further, the database created by the Total Rewards program provides Harrah's with information about the gaming activities of millions of customers. That information is then used for marketing through direct mail and electronic channels. For 2004, Harrah's estimated that its customers spent 44 percent of their total annual gaming budget with Harrah's. With Total Rewards, customers earn reward credits and are able to redeem the credits at any Harrah's gaming facility.

Operating Performance

At the end of the first six months of 2006, Harrah's had total assets of $20.7 billion and generated annualized net revenue of $9.5 billion with annualized gaming revenues of $7.6 billion. Harrah's had total long-term debt of $10.8 billion and produced before-tax operating cash flow (EBITDA) of $2.4 billion. Harrah's annualized interest expense for 2006 was $653 million. This translates into a very strong fixed charge coverage ratio (EBITDA/Interest Expense) of 3.68 times. Harrah's Leverage Ratio (Long Term Debt/EBITDA) at the end of June 2006 was 4.41 times. Harrah's enjoys a strong credit rating and has ample established credit lines. In June 2006, Harrah's had an established credit facility that provided up to $4 billion in borrowings. At that date, there was $1.4 billion of unused capacity on the established facility. Harrah's held $636.9 million in cash and cash equivalents in June 2006.

Harrah's had dramatically increased its portfolio of gaming properties in the last two years with the acquisitions of Caesars and Horseshoe Gaming. The company operates a geographically diversified set of properties and earned a consolidated cash flow margin on revenues of 25.3 percent in the first six months of 2006.

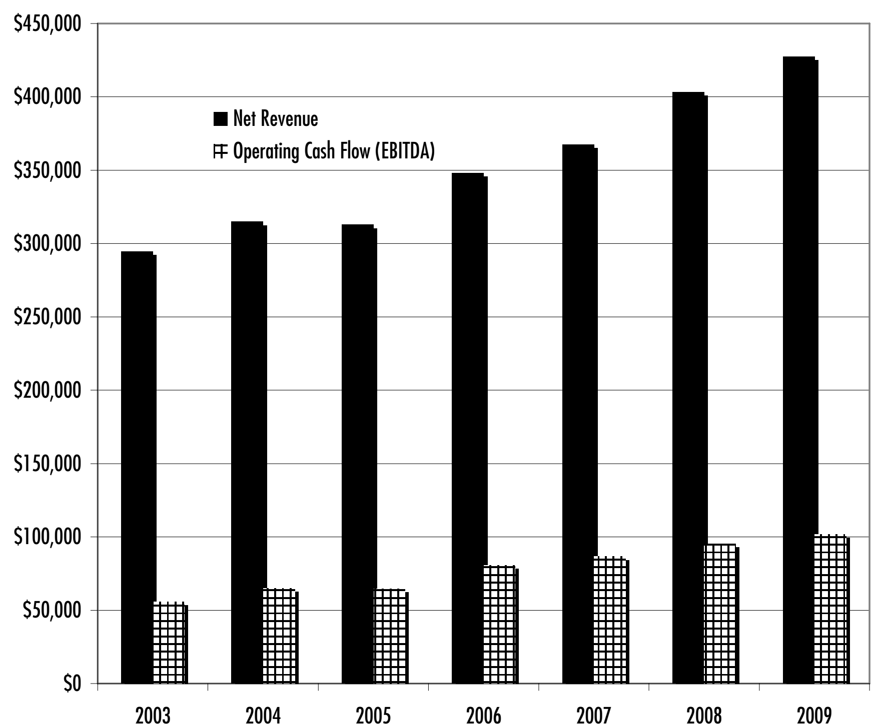
In a letter dated February 20, 2006, the Commission was informed about Proposed Financing for Harrah's Entertainment. The document indicated that in the next two years, Harrah's anticipated the issuance of up to $2 billion in registered securities. Harrah's intends to seek approval from the Commission when specific plans to issue new debt are finalized. In the February 20 communication, Harrah's reported that in 2006, a plan for issuing debt securities with face value of $394,701,750 was being prepared.

Caesars Indiana Actual and Projected Performance (2003-2009)

Between 2003 and 2005, the period that included the acquisition of the Caesars Indiana operation by Harrah's Entertainment, net revenue for Caesars Indiana increased by a total of 6 percent. For the period from 2005 to 2009, net revenues are forecasted to increase by about 37 percent for a compounded average annual growth rate of 8 percent. The bulk of the growth is associated with a planned $224 million renovation and expansion project in 2007 and 2008. The project includes an upgrade to the vessel, the pavilion, and the hotel.

During the period from 2003 to 2005, Caesars Indiana enjoyed a 16 percent increase in operating cash flow or EBITDA (Figure 26). At the same time, the EBITDA/Net Revenue margin improved from 18.9 percent to 20.7 percent. In the projections provided for 2006 to 2009, annual operating cash flow is projected to increase by 26 percent to more than $100 million while the EBITDA/Revenue margin is forecasted to improve further to about 24 percent.

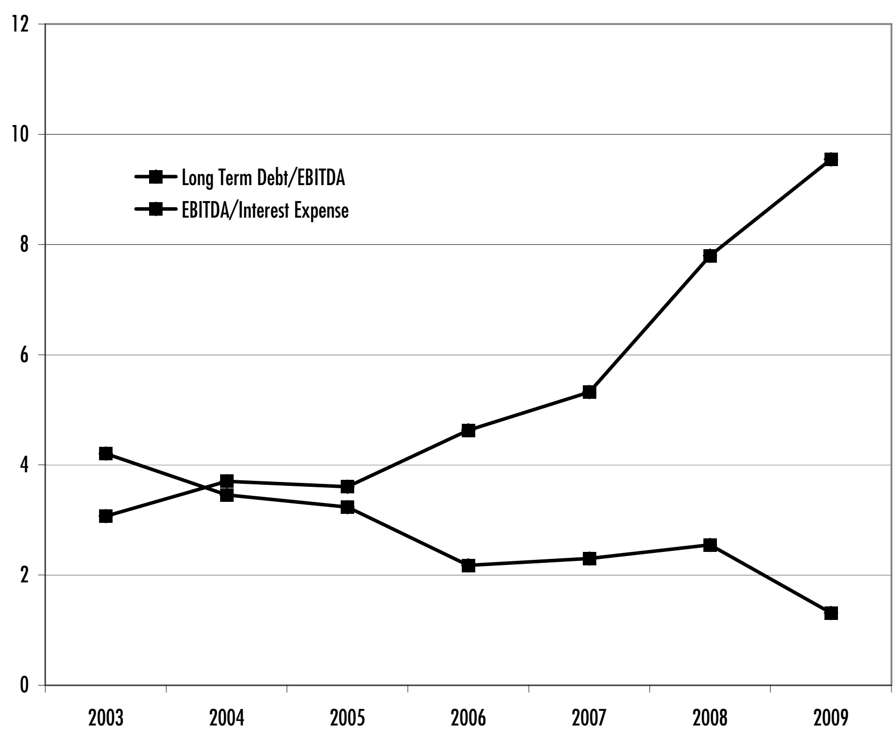
Figure 26: Net Revenue and Cash Flow



The planned expansion of the Harrison County property is scheduled to involve a capital expenditure of $224 million. While management did not provide estimates of the amount of debt that would be used to finance the project nor did they provide a forecast for interest rates, a pro forma estimate of long-term debt needed to fund the expansion project was created. Management provided estimates of annual interest expense. Given those forecasts, the Leverage Ratios for the Caesars Indiana operation for 2006 through 2009 were also estimated

Historically, the Long Term Debt relative to Operating Cash Flow (actual) has ranged between 2 and 4 times. With the acquisition of Caesars Indiana, Harrah's assumed the Caesars Indiana debt and there was no increase in the debt found on the Caesars Indiana balance sheet. With the planned expansion of the property, it was assumed that cash flow from operations would be used to fund the project and that long-term debt would increase to cover the balance. As the project will take two years to complete, it was possible to fund a large portion of the project out of operating income and thus, there is not a substantial increase in Long- Term debt and especially relative to Operating Cash Flow. As a consequence, the leverage measures forecast for the period from 2006 to 2009 (Figure 27) showed substantial improvement as EBITDA was forecasted by management to grow faster than the other elements of the calculation.

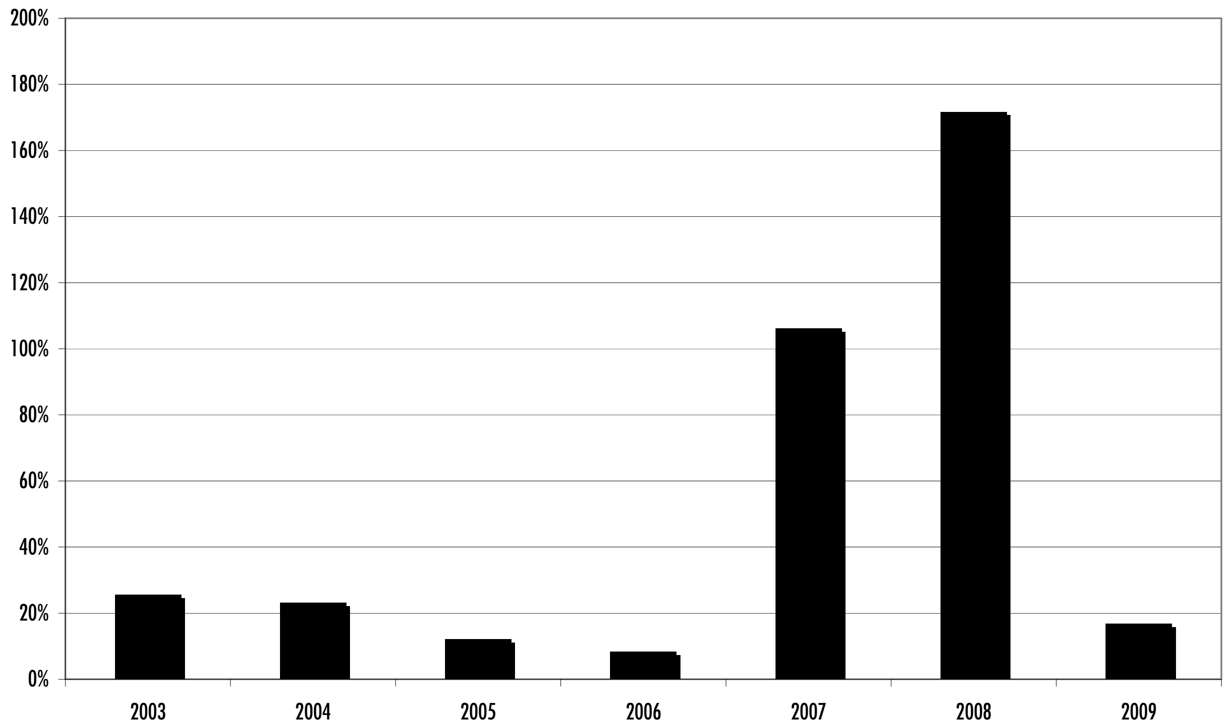
Figure 27: Leverage Measures



Capital Investment and Free Cash Flow

The planned program to renovate the Harrison County property, which has started in 2007 and will extend through 2008, will absorb more than 100 percent of operating cash flow from the property during the building period (Figure 28). However, as indicated earlier, Harrah's has adequate established credit facilities to fund the planned capital expenditures in Harrison County.

Figure 28: Capital Expenditures/EBITDA



Summary and Recommendation

Caesars Indiana has produced growing revenues and operating cash flows margins throughout its history. Its original owners invested significant amounts of capital in the operation, which was capable of supporting significant growth over time. Harrah's, with its strong Total Rewards program, has one of the premier customer management marketing programs in the world and each of its properties benefit from the strategy of providing "branded gaming" experiences for customers. The Caesars Indiana property is projected to grow substantially as a result of the cross-selling power of the Total Rewards program.

In conclusion, this analysis of the past, and of the current and planned financial and operating strategy of the Harrison County license supports the conclusion that the license has been well managed and its current owners/managers have the ability to continue to produce significant economic benefits for the community in which it is located and for the state of Indiana in general.