Fireworks and big crowds welcomed Horseshoe Casino's opening in Cincinnati. It has generated $200 million in revenue in its first year and paid $50 million in jackpots.(Photo: The Cincinnati Enquirer)

State officials were betting that Indiana gaming revenues would take a major hit when a downtown Cincinnati casino and two racinos opened in Ohio last year.

And they were right.

Many gamblers who once flooded southeast Indiana's three riverboat casinos spent their money in Ohio during the past year. Due largely to the Ohio losses, gaming revenues were down $242.5 million in Indiana the past 11 months, leading to lower state tax collections and, in many cases, lower payments to the local communities that rely on gambling cash to pay for a significant portion of their services.

To stay in the game, Indiana's riverboat casino owners have made modest investments in their properties and boosted marketing.

But more competition is headed their way from Illinois, Kentucky and Michigan. Competition has changed the game forever.

"We're looking at a new normal that is certainly nothing like we've seen before," said Ed Feigenbaum, publisher of Indiana Gaming Insight newsletter. "It has upset the casino apple cart, and it has reordered the hierarchy of casinos within Indiana. And it has proven to be a tremendous negative hit to the state of Indiana's bottom line."

Faced with that new reality, Indiana's casinos are wagering that state lawmakers will help bail them out. Gaming lobbyists plan to ask the General Assembly for a hand in 2015, likely through a mix of tax breaks and more gaming options.

Legislators, some who prefer tax breaks and some who prefer an expansion of gambling, are examining the issue this summer and appear poised to help. But at least one economist wonders if it's time to let gaming houses cover their own bets.

Deal Ohio in

In March 2013, the state-of-the-art $400 million Horseshoe Casino opened in downtown Cincinnati , less than an hour's drive from three casinos, including one of the state's best-performing. The 400,000-square-foot new facility features 2,000 slot machines, 85 table games, an events center and several restaurants.

The effect in Indiana was immediate and the drop in revenues sharp. In December, one racino — a horsetrack with gambling machines — opened near Cincinnati and another in Dayton, dealing Hoosier casinos another blow.

Revenues at Hollywood Casino in Lawrenceburg plunged 36 percent — nearly $114 million — in the past 11 months. The next closest casinos to Cincinnati, the Rising Star and Belterra, took 30 and 23 percent hits to revenue, respectively.

The reason is clear. This May, for the first time since Indiana riverboat casinos opened near Cincinnati in 1996, more metro area gambling dollars were spent in Ohio than in Indiana, according to an analysis conducted by the Cincinnati Enquirer.

Gamblers, the analysis showed, spent $33.9 million in May at the Horseshoe Casino in Cincinnati and two racinos, or 54 percent of the total $62.8 million in gambling dollars spent in the region. The three nearby Indiana riverboats took in 46 percent of gambling dollars in the region, down 18 percentage points from a year ago.

"Our world has changed," said Mike Smith, president of the Casino Association of Indiana, gambling's lead lobbyist at the Statehouse.

To respond, the casinos have increased advertising in Ohio and southeast Indiana, Smith said. They've also tried to freshen up their aging properties. Belterra spent $4.5 million to renovate its food and beverage amenities, while Hollywood spent $4.2 million and Rising Star $400,000 to remodel their hotels.

But revenues continue to plunge month by month. And Indiana's gambling problem goes further than Ohio.

When gambling came to Indiana in the 1990s, the state chose to bunch the majority of its riverboat casinos around major cities in other states, namely Chicago, Louisville and Cincinnati.

Now, Illinois is adding 15,000 virtual gaming machines at local bars and taverns, a concern especially for the four riverboats in Each Chicago, Gary and Hammond.

In Kentucky, horse tracks have been permitted to install gaming machines, a concern especially for the Horseshoe Southern Indiana and the Tropicana along the border. In Michigan, the Four Winds Casino opened in 2007 near the border with Indiana and has since opened two satellite locations. They compete with Indiana's Blue Chip Casino in Michigan City.

And more competition could come from within the state. The racinos in Anderson and Shelbyville — the only gambling operations in Indiana to post revenue increases in the last 11 months — want to add live gaming. And two years ago, the Pokagon Band of the Potawatomi Indians began the process to open a casino near South Bend.

State, local governments are big losers

The state, with its $30 billion budget, has been budgeting around declining gambling revenues

since the recession in 2008. State officials believe they can rely on other forms of revenue, including income and sales taxes.

Still, gambling provides a healthy chunk of taxes, bringing in $592 million in the past 11 months, down from $687 million the same period a year ago.

And local governments near casinos rely on casino revenue for basic city, county and town services such as fire protection, roadwork and infrastructure.

The state's 11 casinos paid $98 million in development fees to surrounding communities in 2013. The state's 92 counties shared $72 million from the 13 total gambling properties.

Rising Sun Clerk-Treasurer Rae Baker Gipson said 2014's wagering tax revenues are on pace for a 38 percent decline from $3.2 million. Admission tax revenues are down 23 percent from $2.7 million.

"It's tight and it's going to get tighter," she said.

Dillon Dorrell, a member of Ohio County's County council, estimates the county's income from gaming will drop 50 percent.

"We are taking this very seriously," he said. "The Ohio competition has definitely had an impact."

Surrounding cities also could feel the pinch.

Near Lawrenceburg, local entities shared $23 million in 2012 from Hollywood. In 2013, the money shrank to $19 million. Lawrenceburg Clerk-Treasurer Jackie Stutz anticipates the

revenue will shrink even more dramatically this year.

In Switzerland County, County Council President Mike Jones said he's concerned declining revenues will spur the casino to alter its deal with lcoal governments. The Belterra, he said, is the county's largest private employer, and the money is vital to a community.

State legislature might change the game

Gambling lobbyists, the casinos, racinos and local officials are asking their state lawmakers to ante up again.

Last year, they asked for help in anticipation of the Ohio expansion but lost. The riverboats wanted to build large, visitor-friendly casinos on land. The racinos in Central Indiana, which now have gambling machines, wanted to offer live gaming.

Even in defeat, however, the 13 gaming facilities gained a combined $65 million tax giveback.

But the riverboats still want to build on land. The racinos still want to offer live gaming.

Smith, the casino association chief and a former state lawmaker when the legislature approved gambling in the 1990s, is prepared to argue that state-of-the-art, land-based casinos will draw back out-of-state customers and lure more Hoosiers. The confined space on the water prevents local riverboat casinos from fully competing with newer, fancier facilities across the state line.

Local officials in Southwest Indiana agree.

"Twenty years ago, it was a big philosophical argument, and the idea was Indiana doesn't want land-based casinos," said Jones, the County Council president in Switzerland County, "but with

the racinos, it's not really a strong argument anymore.

"It's time we start thinking about saving some of the jobs and the opportunities that those communities intended to get when they originally got casino gaming."

State lawmakers are studying the issue this summer, but a winning answer may not come easily. Powerful Republicans disagree on how — though perhaps not if — they should help.

House Speaker Brian Bosma, R-Indianapolis, noted "We have to find the right balance, what's right for Hoosiers and what's right for the industry."

He's skeptical that letting riverboats build land-based casinos is the right answer. Allowing live gambling at racinos, he thinks, would just draw Central Indiana customers from Indiana's casinos.

He opposed the expansion of gambling two years ago and appears poised to do so again.

"Any change that impacts one or a handful of gaming locations in Indiana generally has a negative impact on the remaining venues," Bosma said.

But he wouldn't rule out tax incentives.

Senate leaders have the opposite take. Senate Appropriations Chairman Luke Kenley, R-Noblesville, is worried about continued declining revenue projections in gaming, sales taxes and income taxes
— three significant state budget funding sources. He appears to be in no mood for another giveback.

Kenley and Senate Public Policy Committee Chairman Ron Alting, R-Lafeyette, believe letting riverboat casinos — which don't actually sail — move to land would be a better solution.

"They want to maintain their present site but be able to build out upon the land and have it be more one-unit facility instead of this farcical concoction called a riverboat," Kenley said. "I think we should look at that."

All bets are off

Lawmakers will float legislation when the summer study committee concludes this fall.

An agreement, if there is one, likely won't be reached until they finish wrangling over the two-year state budget next spring.

But some outside the Statehouse are skeptical the state can — or should — do anything. After all, some Ohio and Indiana casinos are owned by the same companies. Others wonder why the government should prop up any of them.

Mike Hicks, a Ball State University economist, believes gambling revenues are likely to continue to decline no matter what the state does, saying the economy remains sluggish, the competition has increased, and the novelty of gambling may be wearing off in Indiana.

"If these companies are going to fail as a consequence of competitive pressure, then they are going to fail," he said. "They opened up with the complete expectation that Ohio would open casinos. That's commerce. The legislature ought not to be insulating any company from competitive pressures."

That day may be far away, though. Lawmakers seem unwilling to cut their losses yet.

"There comes a point down the line, you set the tools in place, you say this is it, and now you are on your own," Alting said. "I don't think we're near that."

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