

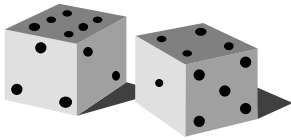
**ILLINOIS ECONOMIC  
and  
FISCAL COMMISSION**



---

**WAGERING IN ILLINOIS:  
2000 UPDATE**

---



SEPTEMBER 2000  
703 Stratton Office Building  
Springfield, Illinois 62706

---

***ILLINOIS ECONOMIC and FISCAL COMMISSION***

---

***COMMISSION CO-CHAIRS***

Senator Patrick D. Welch  
Representative Terry R. Parke

***SENATE***

Miguel del Valle  
Rickey R. Hendon  
Chris Lauzen  
John W. Maitland, Jr.  
Steven Rauschenberger

***HOUSE***

William E. Brady  
Judy Erwin  
Frank J. Mautino  
Richard Myers  
Jeffrey M. Schoenberg

---

EXECUTIVE DIRECTOR  
Dan R. Long

UNIT MANAGER  
Jim Muschinske

AUTHORS OF REPORT  
Lisa Barutcu  
Mike Howard

EXECUTIVE SECRETARY  
Donna Belknap

RECEPTIONIST/SECRETARY  
Sonya Hedges

---

**TABLE OF CONTENTS**  
**2000 WAGERING IN ILLINOIS**

	<u>PAGE</u>
EXECUTIVE SUMMARY	i
INTRODUCTION	1
PUBLIC ACT 91-0040	5
HORSE RACING	6
LOTTERY	12
RIVERBOAT GAMBLING	17
CONCLUSION	25
 <u>CHARTS:</u>	
1 Composition of Illinois Gaming Revenues	2
2 Illinois Horse Racing Handle: Composition by Amount Wagered	7
3 Illinois Horse Racing Handle: Composition by Percentage	8
4 Percentage of the Total Horse Racing Handle by Wagering Outlet: USA, 1998	9
5 Percentage of the Total Horse Racing Handle by Wagering Outlet: Illinois, 1998	9
6 The Distribution of FY 1999 Lottery Sales	13
7 Distribution of Taxes and Fees Imposed on Riverboat Licensees – FY 2000	24
 <u>TABLES:</u>	
1 State of Illinois Gaming Revenue (FY 1975 – FY 2000)	1
2 Gaming Hold and Per-Capita Spending at Illinois Gaming Facilities	3
3 Has Illinois Reached its Gaming Saturation Point?	4
4 Sources and Allocation of Horse Racing Revenues	6
5 Illinois Horse Racing Tracks and Associated OTB's	11
6 Lottery Sales by Game, Total Sales, Transfers and Percentages Transferred	12
7 Composition of Lottery Sales by Game	14
8 Per-Capita Handle as a Percentage of Personal Income (FY 1999)	15
9 Impact of Dockside Gambling in Illinois	19
10 Illinois Riverboat Information	21
 Appendix I Illinois Riverboat Casinos by License	 26
Appendix II A Comparison of Riverboat Gambling	27

## EXECUTIVE SUMMARY

The following document is the Commission's fourth examination of Illinois gaming. In accordance with Senate Resolution 875 (87<sup>th</sup> General Assembly), the Commission released its first report in 1992. That report examined the legally sanctioned forms of wagering as a means of determining their economic impact as well as the potential for further expansion of the gaming industry. Additional reports were released in 1994 and 1998. These reports updated the previous releases and provided further analysis of Illinois gaming. This report addresses the current status of Illinois wagering.

- The State's share of legalized gaming revenues totaled \$861 million in FY 2000; a 5 percent increase over FY 1999. This overall increase consisted of a \$90 million increase in Gaming Fund transfers to the Education Assistance Fund, a \$26 million decrease in horse racing revenues, and a \$25 million decrease in lottery transfers to the Common School Fund. The Illinois gaming industry is expanding despite stagnating horse racing and lottery revenues.
- Public Act 91-0040 impacted riverboat gaming by authorizing dockside gambling and the relocation of the dormant tenth riverboat license from JoDaviess to Cook County. The Act impacted the horse racing industry by replacing the graduated pari-mutuel tax with a flat 1.5 percent tax. As a result, this Act will increase riverboat tax revenues while simultaneously decreasing horse racing tax revenues.
- In 1999, Horse racing generated \$42.4 million in State revenues and \$13.6 million in local revenues. In addition, approximately \$1.1 billion dollars was wagered at Illinois racing facilities. Despite the consistency of the racing handle, its composition continued to shift away from on-track and toward off-track wagering.
- In FY 2000, lottery sales once again exceeded \$1.5 billion. Despite this fact, sales declined for the fourth consecutive year. This decline resulted in a simultaneous reduction in the amount transferred to the Common School Fund. In FY 2000, the amount transferred was approximately \$515 million.
- After one complete fiscal year of dockside gambling, FY 2000 adjusted gross receipts were 36 percent higher than FY 1999 adjusted gross receipts. FY 2000 admissions were 43 percent greater than the FY 1999 patron count. As a result of riverboat activity between July 1 and June 30, FY 2000 revenues due to the State were \$384 million (up 40 percent) and local revenues were \$98.7 million (up 18 percent).
- The renewal and relocation of the dormant tenth riverboat casino license faces legal challenges, and is still awaiting approval by the Illinois Gaming Board. If this license is renewed and relocates to Cook County, the new riverboat will likely be very successful, but may decrease the adjusted gross receipts and admissions of nearby boats.

## INTRODUCTION

Since the Commission published its last report in January 1998, numerous changes have altered the landscape of Illinois gaming. The reopening of Arlington International Racecourse has impacted the horse racing industry. Despite declining sales associated with many of its other games, the Illinois State Lottery has enjoyed the continued success of the Big Game. Riverboat gambling has been affected by the introduction of the graduated wagering tax and the potential relocation and activation of the tenth riverboat license. Additional changes were made to the structures of Illinois horse racing and riverboat casino gaming as a result of the General Assembly's passage of Public Act 91-0040. The provisions contained within this act will be discussed later in this report.

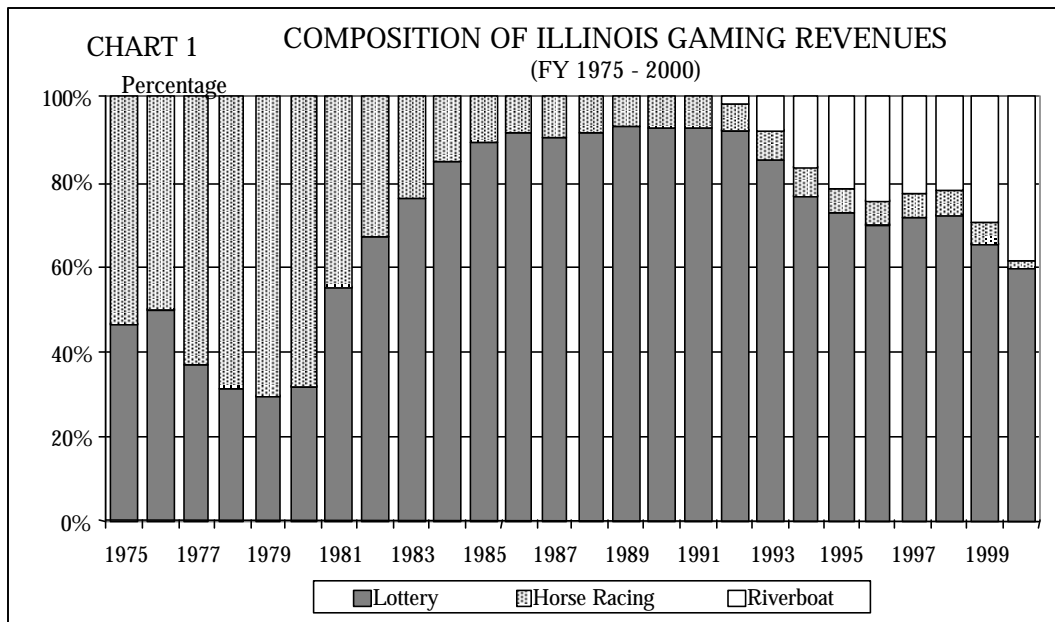
<b>TABLE 1: State of Illinois Gaming Revenue (FY 1975 - 2000)</b>					
<b>Fiscal Year</b>	<b>Lottery <sup>(1)</sup></b>	<b>Horse Racing <sup>(2)</sup></b>	<b>Riverboat <sup>(3)</sup></b>	<b>Total</b>	<b>Prior Year % Change</b>
<b>1975</b>	\$55	\$63	0	\$118	
<b>1976</b>	\$76	\$75	0	\$151	28%
<b>1977</b>	\$44	\$75	0	\$119	-21%
<b>1978</b>	\$34	\$74	0	\$108	-9%
<b>1979</b>	\$33	\$79	0	\$112	4%
<b>1980</b>	\$33	\$70	0	\$103	-8%
<b>1981</b>	\$90	\$73	0	\$163	58%
<b>1982</b>	\$139	\$68	0	\$207	27%
<b>1983</b>	\$216	\$66	0	\$282	36%
<b>1984</b>	\$365	\$65	0	\$430	52%
<b>1985</b>	\$503	\$61	0	\$564	31%
<b>1986</b>	\$552	\$51	0	\$603	7%
<b>1987</b>	\$553	\$57	0	\$610	1%
<b>1988</b>	\$524	\$46	0	\$570	-7%
<b>1989</b>	\$586	\$43	0	\$629	10%
<b>1990</b>	\$594	\$46	0	\$640	2%
<b>1991</b>	\$580	\$46	0	\$626	-2%
<b>1992</b>	\$611	\$45	\$8	\$664	6%
<b>1993</b>	\$588	\$48	\$54	\$690	4%
<b>1994</b>	\$552	\$47	\$118	\$717	4%
<b>1995</b>	\$588	\$45	\$171	\$804	12%
<b>1996</b>	\$594	\$46	\$205	\$845	5%
<b>1997</b>	\$590	\$45	\$185	\$820	-3%
<b>1998</b>	\$560	\$42	\$170	\$772	-6%
<b>1999</b>	\$540	\$42	\$240	\$822	6%
<b>2000</b>	\$515	\$16	\$330	\$861	5%

(1) Figures represent transfers into the Common School Fund.  
(2) Figures represent total state revenue generated, not allocated, based on a calendar year. The 2000 figure is an estimate.  
(3) Figures represent appropriations (FY 1992 - 1995) and transfers (FY 1996 - 2000) into the Education Assistance Fund.

SOURCES: Bureau of the Budget, Illinois Department of Lottery, and Illinois Racing Board

In FY 2000, the State's share of revenue generated by horse racing, lottery, and riverboat casinos reached \$861 million. This was a 5 percent increase over FY 1999. Despite this overall gain, lottery transfers decreased by \$25 million and the State's share of horse racing revenues are projected to fall by \$26 million. (The horse racing figure is a projection as horse racing revenues are based on a calendar year.) Therefore, the increase in total State gaming revenues is a function of the \$90 million increase associated with riverboat casino revenues.

These previously mentioned figures indicate a change in the composition of State gaming-related revenues. Although the lottery still comprises the largest percentage of gaming revenues, its percentage has declined steadily since 1992 (the first year of riverboat gaming). Despite the consistent nature of racing related revenues, Public Act 91-0040 contained numerous provisions that significantly decrease racing revenues. As a result, riverboat casinos now comprise roughly 38 percent of total State gaming revenues. (See Chart 1)



In previous reports, the Commission relied solely on total and per-capita wagering figures as a means of assessing the status of Illinois gaming. Although this analysis accurately identified gaming trends, total wagering figures included only the money that was initially bet by wagering patrons, without regard to winnings. This fact presented a problem, particularly as riverboat patrons often bet with winnings for which there is no accurate means of determining the total amount wagered.

To address this problem, this report will introduce a means of comparing all three forms of gaming. Although total wagering will be used when assessing horse racing and the lottery, the concept of "gaming hold" will be used when examining riverboat

casinos and the gaming industry as a whole. For the purposes of this examination, the term gaming hold will refer to the amount of money that gaming facilities keep after paying gaming winners. For horse racing and the lottery, the gaming hold is equal to the difference between the total wagered and the amount paid to winners. For riverboat casinos, the gaming hold is equal to adjusted gross receipts.

Table 2 presents an assessment of the Illinois gaming industry, based on gaming hold by fiscal year and type of gaming. It also includes the per-capita spending of Illinois residents on the three forms of legal gaming in Illinois.

<b>TABLE 2: "GAMING HOLD" AND PER-CAPITA SPENDING AT ILLINOIS GAMING FACILITIES</b>										
	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>POPULATION</b>	11.43	11.52	11.61	11.69	11.73	11.79	11.93	12.01	12.07	12.13
<b>HORSE RACING (CY)</b>										
GAMING HOLD (IN MILLIONS)	\$ 270	\$ 273	\$ 286	\$ 286	\$ 277	\$ 271	\$ 276	\$ 264	\$ 243	\$ 247
PER-CAPITA SPENDING	\$ 24	\$ 24	\$ 25	\$ 24	\$ 24	\$ 23	\$ 23	\$ 22	\$ 20	\$ 20
<b>LOTTERY (FY)</b>										
GAMING HOLD (IN MILLIONS)	\$ 779	\$ 788	\$ 822	\$ 791	\$ 734	\$ 770	\$ 798	\$ 796	\$ 741	\$ 704
PER-CAPITA SPENDING	\$ 68	\$ 68	\$ 71	\$ 68	\$ 63	\$ 65	\$ 67	\$ 66	\$ 61	\$ 58
<b>RIVERBOATS (FY)</b>										
GAMING HOLD (IN MILLIONS)	\$ -	\$ -	\$ 81	\$ 377	\$ 844	\$ 1,098	\$ 1,215	\$ 1,052	\$ 1,066	\$ 1,171
PER-CAPITA SPENDING	\$ -	\$ -	\$ 7	\$ 32	\$ 72	\$ 93	\$ 102	\$ 88	\$ 88	\$ 97
<b>ALL WAGERING</b>										
GAMING HOLD (IN MILLIONS)	\$ 1,048	\$ 1,061	\$ 1,189	\$ 1,454	\$ 1,855	\$ 2,139	\$ 2,290	\$ 2,112	\$ 2,049	\$ 2,123
PER-CAPITA SPENDING	\$ 92	\$ 92	\$ 102	\$ 124	\$ 158	\$ 181	\$ 192	\$ 176	\$ 170	\$ 175
<b>SOURCES: ILLINOIS RACING BOARD, ILLINOIS DEPT. OF LOTTERY, ILLINOIS GAMING BOARD, STATE RANKINGS: A STATISTICAL VIEW OF THE 50 UNITED STATES</b>										

In previous reports, the Commission discussed the concept of a gaming saturation point. At that time, it was stated that saturation "...occurs when the portion of income people are willing to gamble no longer increases, even with the introduction of new games or variations of old ones. Subsequently, absent any changes in the taxing structure, a stagnation in the amount of money wagered also means a stagnation in revenues from gambling." Although the Commission agrees with the accuracy of this definition, a modification is needed in order to address the difficulty associated with identifying a total wagering figure for riverboats. Therefore, this examination will focus on the trends associated with total revenues, gaming hold, and per-capita spending in order to address gaming saturation.

Since identifying the exact point at which a market is saturated is difficult, a careful examination of the data is necessary. In FY 1999, State gaming revenues totaled \$822 million. This was a 6 percent increase over FY 1998. In addition, the gaming industry's \$2.1 billion gaming hold represented a 4 percent increase over FY 1998.

Furthermore, per-capita spending on gaming increased by 3 percent to \$175 in FY 1999. On the surface, these figures indicate an expanding Illinois gaming market.

Despite these figures, a closer examination reveals a slightly different trend. In FY 1999, riverboat gambling was the only form of gaming that experienced a noticeable increase in total revenues, gaming hold, and per-capita spending. As a result, the expansion of the gaming industry appears to be based entirely on the increased revenues associated with riverboat gaming.

<b>TABLE 3: HAS ILLINOIS REACHED ITS GAMING SATURATION POINT?</b>									
	State Revenues (In Millions)			Gaming Hold (In Millions)			Per-Capita		
	1998	1999	% Change	1998	1999	% Change	1998	1999	% Change
Horse Racing (CY)	42	42	0.0%	243	247	1.6%	20	20	0.0%
Lottery (FY)	560	540	-3.6%	741	704	-5.0%	61	58	-4.9%
Riverboats	170	240	41.2%	1,066	1,171	9.8%	88	97	10.2%
All Gaming	772	822	6.5%	2,050	2,122	3.5%	169	175	3.6%

SOURCES: Illinois Racing Board, Illinois Department of Lottery, Illinois Gaming

This fact leads to an interesting observation regarding the concept of gaming saturation. In previous reports, the Commission dealt solely with the saturation point of the entire industry. As a result, total revenues and per-capita wagering figures were examined as a means of identifying the overall status of the gaming industry. Although this was a useful indicator, Table 3 reveals the significance of examining the specific saturation points of the various gaming components. **As Table 3 details, the Illinois gaming market is still expanding despite the fact that the Illinois State Lottery and the horse racing industry are experiencing stagnant revenues, gaming hold, and per-capita spending.** Although FY 2000 lottery and horse racing data is incomplete, preliminary estimates indicate that this trend may continue into the future.

To explain the expansion of the gaming industry, in spite of stagnant horse racing and lottery revenues, it is useful to examine FY 2000 riverboat gaming figures. In FY 2000, adjusted gross receipts (gaming hold) increased by 36 percent over FY 1999 receipts, to almost \$1.6 billion. State revenues (transfers) were \$90 million higher than FY 1999 transfers, and per-capita spending, based on a FY 2000 population estimate of 12.18 million, exceeded \$130. Although the increases in adjusted gross receipts, State revenues, and per-capita spending are significant, and the success of dockside gambling may continue, FY 2001 figures will likely be more moderate. Even if horse racing and lottery revenues remain static, the popularity of dockside gambling and the possible approval of a riverboat in Cook County may be sufficient to maintain the expansion of the Illinois gaming industry in the near-term. However, eventually, even riverboat wagering will likely plateau similar to what occurred in the mid to late 1990's.



## **PUBLIC ACT 91-0040**

In 1999, the 91<sup>st</sup> General Assembly passed legislation (Public Act 91-0040) that amended the Horse Racing Act and the Riverboat Gambling Act by reducing taxes on horse racing while authorizing dockside gambling and the relocation of the JoDaviss County riverboat license to Cook County. Although this act was commonly referred to as the "Riverboat Bill," it contained several provisions that impacted the horse racing industry and its associated revenues. While a majority of the bill's provisions have taken effect, others depend on the relocation of the tenth license.

### RIVERBOAT GAMBLING

Public Act 91-0040 instituted several changes to the Riverboat Gambling Act. Effective June 25, 1999, dockside gambling was authorized throughout the State. As a result, riverboat casinos replaced minimum cruise lengths with the continuous entrance and exit of patrons during operating hours. In addition, the definition of the term "admission" was changed from the sum of both turnstile patron count and passengers remaining on board for one or more subsequent excursions to the actual number of people entering the gaming area.

This legislation also authorized the relocation of the dormant tenth riverboat license to Cook County. In addition, Public Act 91-0040 mandated that the eventual owner of the tenth license share a portion of its adjusted gross receipts according to the following provisions: 2 percent to the Cook County Criminal Justice System; 2 percent to the State University Capital Improvement Fund; and 15 percent to the newly created Horse Racing Equity Fund. The beneficiaries of the tenth license are paying close attention to legal battles that have stymied the activation of the tenth license.

### HORSE RACING

Effective January 1, 2000, Public Act 91-0040 made the following changes to the Horse Racing Act. The privilege tax levied against the total pari-mutuel handle was changed from a graduated schedule to a flat 1.5 percent. State and local taxes were eliminated on all wagers placed outside of Illinois. The State collection of breakage and the moneys associated with unclaimed pari-mutuel tickets was discontinued. The act also created the Illinois Quarter Horse Breeders Fund and the Horse Racing Fund, and repealed the Horse Racing Tax Allocation Fund and the Illinois Race Track Improvement Fund.

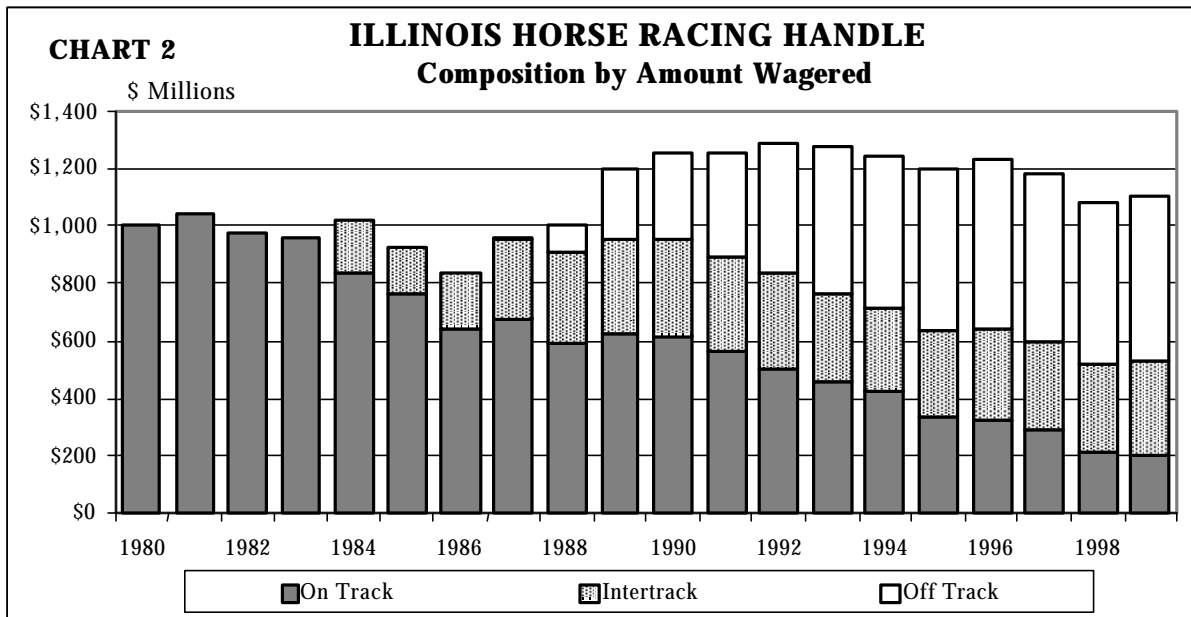
In addition, the Act required the General Assembly to appropriate sufficient funds from the General Revenue Fund to reimburse all purse accounts equal to the purse recapture amounts deducted by the racetracks. The Act also authorized licensees to deduct the real estate tax liabilities of its affiliated racetrack against future pari-mutuel tax liabilities.

## HORSE RACING

Each year more than \$1 billion is wagered on horse racing at the State's seven on-track and twenty off-track betting locations. In recent years, wagering has generated an average of \$44 million in annual State revenues and \$14 million in annual local revenues. (See Table 4)

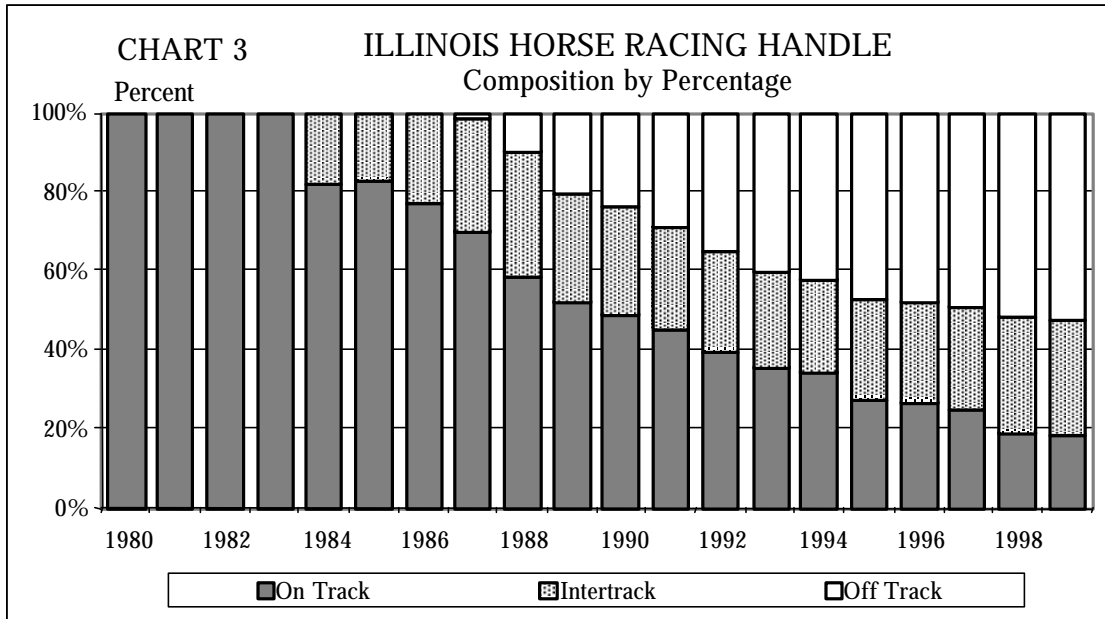
<b>TABLE 4: SOURCES AND ALLOCATION OF HORSE RACING REVENUES</b>					
<b>REVENUE</b>	<b>CALENDAR YEARS (IN MILLIONS)</b>				
	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
LICENSE FEES	\$0.2	\$0.1	\$0.1	\$0.1	\$0.1
ADMISSION TAXES	\$0.2	\$0.2	\$0.2	\$0.1	\$0.1
PRIVILEGE TAX	\$27.2	\$28.3	\$27.3	\$25.0	\$25.6
H.R.T.A. TAX	\$5.5	\$5.9	\$5.8	\$5.7	\$5.8
BREAKAGE	\$7.6	\$7.3	\$6.9	\$5.9	\$5.8
LICENSING	\$0.3	\$0.3	\$0.3	\$0.3	\$0.2
FINGERPRINT FEES	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
UNCASHED TICKETS	\$3.3	\$3.3	\$4.3	\$4.8	\$4.5
HORSEMEN'S FINES	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
MISCELLANEOUS	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>*TOTAL STATE</b>	<b>\$44.5</b>	<b>\$45.8</b>	<b>\$45.1</b>	<b>\$42.1</b>	<b>\$42.4</b>
2% OF OTB HANDLE TO	\$11.3	\$11.8	\$11.6	\$11.3	\$11.6
CITY (CHICAGO) OTB ADMISSION	\$1.1	\$1.0	\$1.0	\$0.9	\$0.8
ON TRACK CITY ADMISSION	\$0.1	\$0.1	\$0.1	\$0.0	\$0.0
COUNTY COMMINGLING	\$0.2	\$0.4	\$0.3	\$0.3	\$0.4
INTERTRACK SURCHARGE TO	\$0.7	\$0.7	\$0.7	\$0.7	\$0.8
<b>*TOTAL LOCAL</b>	<b>\$13.5</b>	<b>\$14.0</b>	<b>\$13.7</b>	<b>\$13.3</b>	<b>\$13.6</b>
<b>TOTAL REVENUES</b>	<b>\$58.0</b>	<b>\$59.8</b>	<b>\$58.8</b>	<b>\$55.4</b>	<b>\$56.0</b>
<b>ALLOCATION OF REVENUES</b>					
GENERAL REVENUE FUND	\$4.6	\$4.5	\$4.2	\$3.6	\$3.5
VETERAN'S	\$3.3	\$3.3	\$4.3	\$4.8	\$4.5
AGRICULTURAL	\$13.6	\$14.1	\$13.6	\$12.5	\$12.8
METROPOLITAN					
AUDITORIUM AND	\$9.4	\$9.8	\$9.4	\$8.6	\$8.8
FAIR AND	\$0.2	\$0.3	\$0.2	\$0.1	\$0.1
BUILD ILLINOIS	\$1.7	\$1.7	\$1.7	\$1.7	\$1.7
HORSE RACING TAX	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
HRTA EXCESS	\$0.5	\$0.9	\$0.8	\$0.7	\$0.8
FINGERPRINT LICENSE	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
ILLINOIS STANDARD BRED BREEDERS	\$0.9	\$0.7	\$0.7	\$0.6	\$0.7
ILLINOIS THOROUGHBRED BREEDERS	\$1.4	\$1.7	\$1.6	\$1.5	\$1.5
RACE TRACK	\$3.8	\$3.7	\$3.5	\$2.9	\$2.9
<b>*TOTAL STATE</b>	<b>\$44.5</b>	<b>\$45.8</b>	<b>\$45.1</b>	<b>\$42.1</b>	<b>\$42.4</b>
TO CITIES	\$6.8	\$7.0	\$6.9	\$6.6	\$6.7
TO COUNTIES	\$6.6	\$7.0	\$6.8	\$6.7	\$6.9
<b>*TOTAL LOCAL</b>	<b>\$13.5</b>	<b>\$14.0</b>	<b>\$13.7</b>	<b>\$13.3</b>	<b>\$13.6</b>
<b>TOTAL REVENUES</b>	<b>\$58.0</b>	<b>\$59.8</b>	<b>\$58.8</b>	<b>\$55.4</b>	<b>\$56.0</b>
<b>* TOTALS MAY NOT EQUAL DUE TO ROUNDING</b>					
<b>SOURCE: ILLINOIS RACING BOARD ANNUAL REPORTS</b>					

Although the total racing handle has remained relatively constant since 1989, recent figures indicate a reduction in the handle as well as a change in its composition. Chart 2 reveals that, in 1997, the total handle dipped below \$1.2 billion for the first time since 1990. This decline continued in 1998 when the amount wagered fell below \$1.1 billion. While a small increase was experienced in 1999, it is still too early to predict a return to previous wagering levels. Obviously, the recent reopening of the Arlington International Racetrack should have some effect on increasing handles, but to what degree is still uncertain.



Prior to 1984, pari-mutuel wagering was only permitted at on-track racing facilities. This exclusivity was eliminated with the introduction of inter-track (1984) and simulcast (1985) wagering. These provisions authorized wagering on the outcome of simultaneously televised racing action taking place at tracks located within and outside of Illinois. (For the purposes of this report, the term inter-track wagering will be used to refer to both of these forms of wagering.) This change was followed in 1987 by the introduction of off-track betting.

As these alternative means of wagering matured, they significantly altered the composition of the total racing handle. Between the years of 1990 and 1999, the percentage of the total handle generated from on-track wagering fell from 49 to 18 percent. This decline coincided with a dramatic increase in participation at off-track betting locations. Over the previously mentioned time frame, the percentage of the total handle generated at off-track wagering facilities increased from 24 to 52 percent. Despite this shift, inter-track wagering remained stable and generally comprised between 25 and 30 percent of the total handle. Chart 3, on the following page, illustrates the dramatic shift in the composition of the racing handle.

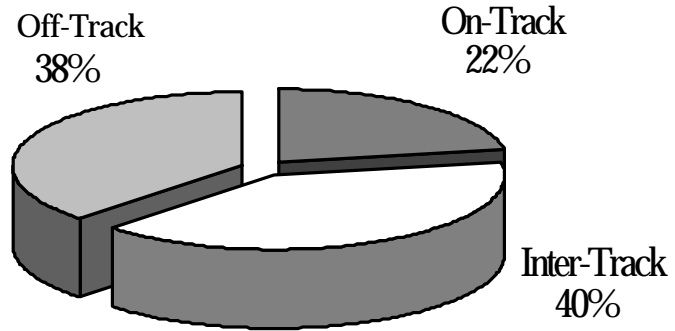


The Horse Racing Act of 1974 entitles the Illinois Racing Board to issue each racetrack up to six off-track betting (OTB) licenses, with an exception made for Fairmont Park which is entitled to a seventh license. Therefore, the potential exists for the establishment of 43 off-track betting facilities. Despite this provision, the Illinois Racing Board issued only 20 licenses in 2000. Although it is highly unlikely that all 43 licenses would be granted, the potential exists for the future development of 23 additional off-track betting locations

Furthermore, Charts 4 and 5 reveal the contrast between the compositions of the Illinois handle and the handle associated with the United States. The most dramatic differences exist in the areas of inter-track and off-track wagering. The majority of Illinois wagering takes place at off-track wagering facilities, whereas the majority of the nation's wagering takes place via inter-track facilities.

**CHART 4**

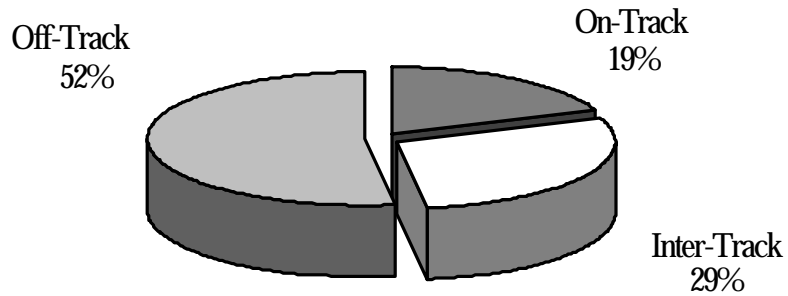
**Percentage of the Total Horse Racing Handle by Wagering Outlet: U.S.A (1998)**



**Source: The 1998 Gross Annual Wager**

**CHART 5**

**Percentage of Total Horse Racing Handle by Wagering Outlet: Illinois (1998)**



**Source: Illinois Racing Board**

## PUBLIC ACT 91-0040

In 1999, the State of Illinois received approximately \$42 million from revenues associated with pari-mutuel wagering. This total consisted of approximately \$25 million in privilege tax revenues, \$6 million in Horse Racing Tax Allocation Fund revenues, \$6 million in breakage revenues, and \$5 million in unclaimed pari-mutuel tickets. Had Public Act 91-0040 been in effect in 1999, privilege tax revenues would have been reduced to approximately \$16 million and the revenues associated with the Horse Racing Tax Allocation Fund, breakage, and unclaimed tickets would have been lost. Therefore, this act would have reduced the State's racing-related revenues by approximately \$26 million.

In addition, the State would have been responsible for the expenditures associated with the mandated purse recapture reimbursement and the real estate tax credit. These liabilities have been estimated at approximately \$15 million annually. These expenditures, combined with the previously mentioned reduction in racing related revenues, led the Illinois Racing Board to estimate that this legislation would result in a \$38 million reduction in State revenues (based on calendar year 1998 figures).

## ARLINGTON INTERNATIONAL RACECOURSE

On May 23, 2000, Arlington International Racecourse officially reopened for live racing action. Early figures indicate that the reopening of Arlington renewed public enthusiasm which has resulted in large crowds and wagering totals. In fact, preliminary forecasts predict that Arlington's handle will exceed those associated with all other Illinois tracks. This increased wagering should result in a simultaneous increase in the State's total racing handle. Although there is no way to accurately estimate how large this increase will be or how long it will last, it is likely to be significant. Despite this increase in total handle, it is unlikely that it will be great enough to offset the horse racing tax revenue losses associated with Public Act 91-0040.

In addition, reports indicate a proposed merger between Arlington International Racecourse and Churchill Downs Inc. (CDI). By placing Arlington under the management of the same company that operates Churchill Downs, this proposal would align Arlington with one of the most prestigious tracks in the United States. Furthermore, CDI owns three additional tracks and is a partial owner of two more. This partnership would allow Arlington's schedule to be coordinated with these tracks as a means of ensuring full fields and better purses. As a result, this merger would increase Arlington's total handle and national presence by increasing its exposure in the areas of inter-track and simulcast wagering.

**TABLE 5: Illinois Horse Racing Tracks & Associated OTB's**

<i>Track</i>	<i>County</i>	<i>Associated OTB Parlors</i>
Arlington International Racecourse	Cook	Chicago (Weed Street) Waukegan
Balmoral Park	Will	Bloomington Champaign Chicago (Corliss) Danville Peoria
Fairmont Park	Madison	Carbondale Effingham Grayville Springfield
Hawthorne Race Course	Cook	Chicago (State Street) Oakbrook Terrace
Maywood Park	Cook	Chicago (West Jackson) Joliet Empress North Aurora
*Quad City Downs	Rock Island	Rockford
Sportsman's Park	Cook	Crestwood Joliet Peru
*discontinued on-track racing in 1994		

## LOTTERY

Since its inception in 1975, total lottery sales have reached approximately \$26.8 billion. The following table presents a brief history of the Illinois State Lottery highlighting sales by game, total sales, transfers to the Common School Fund, and the amount transferred as a percentage of total sales.

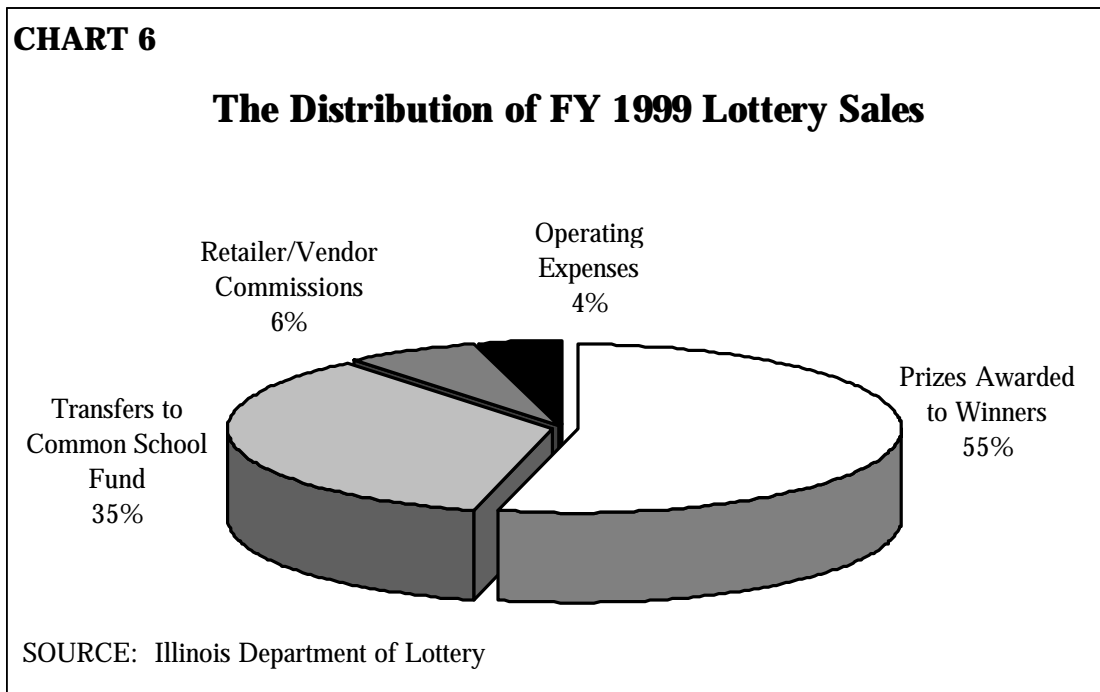
<b>TABLE 6: LOTTERY SALES BY GAME, TOTAL SALES, TRANSFERS, &amp; PERCENTAGE TRANSFERRED: FY 1975 - FY 2000 (IN MILLIONS)</b>										
FISCAL YEAR	\$.50, \$1, KENO '93	INSTANT	PICK 3	PICK 4	LOTTO	LITTLE LOTTO	BIG GAME	TOTAL SALES	LOTTERY TRANSFERS	TRANSFERS AS A % OF TOTAL SALES
1975	\$ 129.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$129.3	\$55.2	42.7%
1976	\$ 107.3	\$ 56.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$163.9	\$75.9	46.3%
1977	\$ 50.0	\$ 62.9	\$ -	\$ -	\$ -	\$ -	\$ -	\$112.9	\$43.6	38.6%
1978	\$ 31.6	\$ 57.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$89.1	\$33.5	37.6%
1979	\$ 20.4	\$ 56.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$76.7	\$32.6	42.5%
1980	\$ 13.7	\$ 41.4	\$ 42.4	\$ -	\$ -	\$ -	\$ -	\$97.5	\$33.1	33.9%
1981	\$ 7.5	\$ 43.0	\$ 164.2	\$ -	\$ -	\$ -	\$ -	\$214.7	\$90.4	42.1%
1982	\$ 0.0	\$ 78.2	\$ 248.2	\$ 17.7	\$ -	\$ -	\$ -	\$344.1	\$138.6	40.3%
1983	\$ -	\$ 158.1	\$ 283.8	\$ 46.0	\$ 26.9	\$ -	\$ -	\$514.8	\$216.3	42.0%
1984	\$ -	\$ 196.6	\$ 367.4	\$ 49.4	\$ 298.8	\$ -	\$ -	\$912.2	\$365.4	40.1%
1985	\$ -	\$ 233.7	\$ 356.2	\$ 75.5	\$ 567.4	\$ 2.8	\$ -	\$1,235.6	\$502.8	40.7%
1986	\$ -	\$ 237.6	\$ 347.6	\$ 88.1	\$ 642.3	\$ -	\$ -	\$1,315.6	\$551.8	41.9%
1987	\$ -	\$ 227.3	\$ 335.1	\$ 93.0	\$ 678.5	\$ -	\$ -	\$1,333.9	\$553.1	41.5%
1988	\$ -	\$ 260.1	\$ 352.6	\$ 105.9	\$ 600.6	\$ 16.3	\$ -	\$1,335.5	\$524.4	39.3%
1989	\$ -	\$ 321.9	\$ 369.6	\$ 108.6	\$ 607.1	\$ 164.1	\$ -	\$1,571.3	\$586.1	37.3%
1990	\$ -	\$ 341.2	\$ 382.5	\$ 114.1	\$ 588.7	\$ 143.7	\$ -	\$1,570.2	\$594.0	37.8%
1991	\$ -	\$ 364.6	\$ 368.5	\$ 109.0	\$ 601.0	\$ 123.4	\$ -	\$1,566.5	\$580.0	37.0%
1992	\$ -	\$ 406.0	\$ 362.0	\$ 112.3	\$ 633.5	\$ 123.1	\$ -	\$1,636.9	\$610.5	37.3%
1993	\$ 0.1	\$ 493.2	\$ 350.5	\$ 112.3	\$ 489.9	\$ 129.9	\$ -	\$1,575.9	\$587.6	37.3%
1994	\$ -	\$ 548.7	\$ 344.5	\$ 109.7	\$ 403.0	\$ 122.7	\$ -	\$1,528.6	\$552.1	36.1%
1995	\$ -	\$ 630.7	\$ 358.4	\$ 123.7	\$ 386.6	\$ 130.1	\$ -	\$1,629.5	\$588.3	36.1%
1996	\$ -	\$ 646.7	\$ 357.5	\$ 140.3	\$ 363.4	\$ 129.4	\$ -	\$1,637.3	\$594.1	36.3%
1997	\$ -	\$ 636.2	\$ 340.7	\$ 139.8	\$ 295.3	\$ 118.8	\$ 92.4	\$1,623.2	\$590.2	36.4%
1998	\$ -	\$ 618.3	\$ 344.7	\$ 145.3	\$ 263.0	\$ 111.8	\$ 93.8	\$1,576.9	\$560.0	35.5%
1999	\$ -	\$ 570.1	\$ 335.3	\$ 144.5	\$ 168.8	\$ 113.7	\$ 193.5	\$1,525.9	\$540.0	35.4%
2000	\$ -	\$ 541.5	\$ 341.4	\$ 154.4	\$ 146.3	\$ 101.0	\$ 219.3	\$1,503.9	\$515.3	34.3%
<b>TOTALS</b>	\$ 359.9	\$ 7,828.4	\$ 6,753.1	\$ 1,989.6	\$ 7,761.1	\$ 1,530.8	\$ 599.0	<b>\$ 26,821.9</b>	<b>\$ 10,114.9</b>	<b>37.7%</b>

**SOURCE: ILLINOIS DEPARTMENT OF LOTTERY**

An examination of Table 6 indicates that total lottery sales have exceeded \$1.5 billion for twelve consecutive years. **Despite this fact, a closer examination reveals that total sales have stagnated after peaking at approximately \$1.6 billion.** Over the past four fiscal years (1997 – 2000), lottery sales have declined with decreasing sales affecting Lotto, Little Lotto and the various Instant Games. These decreases have resulted in a simultaneous reduction in the amount transferred to the Common School Fund.



In FY 2000, lottery sales totaled approximately \$1.5 billion. From this sum, \$515 million was transferred to the Common School Fund. Since the total sales associated with both FY 1999 and FY 2000 were roughly the same, their distribution should be similar. In FY 1999, lottery winners received \$822 million, the Common School Fund received \$540 million, retailers and vendors received \$98 million, and the Department of Lottery used the remaining \$65 million to cover its operating expenses. Chart 6 illustrates the distribution of this money.



Since the 1998 Commission report, a number of trends have emerged. As shown in Table 7, instant games continue to comprise the greatest percentage of lottery sales. Although the sales associated with these games have declined in recent years, they still comprise 35 percent of the total. In addition, the Big Game has increased in popularity. In only its fourth year of existence, the Big Game generated approximately \$219 million in FY 2000 and accounted for 14 percent of total sales. Despite the Department of Lottery's recent attempt to revive the Lotto game, sales have continued to decrease. In fact, much of the popularity of the Big Game appears to have been gained at Lotto's expense.

**TABLE 7: COMPOSITION OF LOTTERY SALES BY GAME**

FISCAL YEAR	\$.50, \$1, KENO '93	INSTANT	PICK 3	PICK 4	LOTTO	LITTLE LOTTO	BIG GAME	TOTAL SALES
1975	100%	-	-	-	-	-	-	\$129.3
1976	65%	35%	-	-	-	-	-	\$163.9
1977	44%	56%	-	-	-	-	-	\$112.9
1978	35%	65%	-	-	-	-	-	\$89.1
1979	27%	73%	-	-	-	-	-	\$76.7
1980	14%	42%	43%	-	-	-	-	\$97.5
1981	3%	20%	76%	-	-	-	-	\$214.7
1982	0%	23%	72%	5%	-	-	-	\$344.1
1983	-	31%	55%	9%	5%	-	-	\$514.8
1984	-	22%	40%	5%	33%	-	-	\$912.2
1985	-	19%	29%	6%	46%	0%	-	\$1,235.6
1986	-	18%	26%	7%	49%	-	-	\$1,315.6
1987	-	17%	25%	7%	51%	-	-	\$1,333.9
1988	-	19%	26%	8%	45%	1%	-	\$1,335.5
1989	-	20%	24%	7%	39%	10%	-	\$1,571.3
1990	-	22%	24%	7%	37%	9%	-	\$1,570.2
1991	-	23%	24%	7%	38%	8%	-	\$1,566.5
1992	-	25%	22%	7%	39%	8%	-	\$1,636.9
1993	-	31%	22%	7%	31%	8%	-	\$1,575.9
1994	-	36%	23%	7%	26%	8%	-	\$1,528.6
1995	-	39%	22%	8%	24%	8%	-	\$1,629.5
1996	-	39%	22%	9%	22%	8%	-	\$1,637.3
1997	-	39%	21%	9%	18%	7%	6%	\$1,623.2
1998	-	39%	22%	9%	17%	7%	6%	\$1,576.9
1999	-	37%	22%	9%	11%	7%	13%	\$1,525.9
2000	-	35%	22%	10%	10%	7%	14%	\$1,503.9

**SOURCE: ILLINOIS DEPARTMENT OF LOTTERY**

The decrease in lottery sales appears to be a result of the fact that Illinois residents have reduced the amount of money they are willing to spend on the lottery. In 1992, Lafleur's Lottery World ranked Illinois 9th in the nation in terms of per-capita lottery sales as a percentage of personal income. At that time, per-capita spending on lottery tickets amounted to \$143.00. By 1995, Illinois ranked 19th with per-capita spending of \$134.00. This trend continued in 1999 as Illinois fell another two positions to 21st with per-capita spending of \$126.00. (This per-capita figure is based on total sales and should not be confused with the previously discussed per-capita spending figure, which was based on the gaming hold.)

**TABLE 8: PER-CAPITA HANDLE AS A PERCENTAGE OF PERSONAL INCOME (FY 1999)**

(RANK) STATE	POPULATION (MILLIONS)	PER-CAPITA PERSONAL INCOME	* TOTAL LOTTERY SALES (MILLIONS)	PER-CAPITA SALES	PC SALES AS A % OF PC PERSONAL INCOME
SOUTH DAKOTA	0.7	\$ 25,107	\$ 554.6	\$ 757	3.01%
RHODE ISLAND	1.0	\$ 29,720	\$ 741.4	\$ 748	2.52%
DELAWARE	0.8	\$ 30,685	\$ 527.4	\$ 699	2.28%
MASSACHUSETTS	6.2	\$ 35,733	\$ 3,381.6	\$ 548	1.53%
DISTRICT OF COLUMBIA	0.5	\$ 38,228	\$ 205.0	\$ 395	1.03%
CONNECTICUT	3.3	\$ 39,167	\$ 871.0	\$ 265	0.68%
GEORGIA	7.8	\$ 27,198	\$ 2,034.3	\$ 261	0.96%
OREGON	3.3	\$ 27,135	\$ 728.5	\$ 220	0.81%
WEST VIRGINIA	1.8	\$ 20,888	\$ 392.6	\$ 217	1.04%
MARYLAND	5.2	\$ 32,166	\$ 1,084.1	\$ 210	0.65%
NEW JERSEY	8.1	\$ 36,106	\$ 1,658.2	\$ 204	0.56%
NEW YORK	18.2	\$ 33,946	\$ 3,697.6	\$ 203	0.60%
OHIO	11.3	\$ 27,081	\$ 2,144.9	\$ 191	0.70%
MICHIGAN	9.9	\$ 27,844	\$ 1,774.5	\$ 180	0.65%
NEW HAMPSHIRE	1.2	\$ 30,905	\$ 199.0	\$ 166	0.54%
KENTUCKY	4.0	\$ 23,161	\$ 575.7	\$ 145	0.63%
FLORIDA	15.1	\$ 28,023	\$ 2,178.6	\$ 144	0.51%
PENNSYLVANIA	12.0	\$ 28,676	\$ 1,668.7	\$ 139	0.49%
VIRGINIA	6.9	\$ 29,484	\$ 934.5	\$ 136	0.46%
TEXAS	20.0	\$ 26,525	\$ 2,580.0	\$ 129	0.49%
ILLINOIS	12.1	\$ 31,278	\$ 1,524.4	\$ 126	0.40%
VERMONT	0.6	\$ 25,892	\$ 70.4	\$ 119	0.46%
MAINE	1.3	\$ 24,960	\$ 144.5	\$ 115	0.46%
INDIANA	5.9	\$ 26,092	\$ 681.4	\$ 115	0.44%
MISSOURI	5.5	\$ 26,187	\$ 513.3	\$ 94	0.36%
COLORADO	4.1	\$ 31,678	\$ 368.4	\$ 91	0.29%
WASHINGTON	5.8	\$ 30,295	\$ 473.4	\$ 82	0.27%
MINNESOTA	4.8	\$ 30,622	\$ 390.0	\$ 82	0.27%
WISCONSIN	5.3	\$ 27,412	\$ 428.2	\$ 82	0.30%
KANSAS	2.7	\$ 26,633	\$ 202.8	\$ 76	0.29%
CALIFORNIA	33.1	\$ 29,819	\$ 2,525.1	\$ 76	0.26%
IDAHO	1.3	\$ 23,445	\$ 90.5	\$ 72	0.31%
LOUISIANA	4.4	\$ 22,792	\$ 296.2	\$ 68	0.30%
IOWA	2.9	\$ 25,727	\$ 184.1	\$ 64	0.25%
ARIZONA	4.8	\$ 25,307	\$ 268.3	\$ 56	0.22%
NEW MEXICO	1.7	\$ 22,063	\$ 89.2	\$ 51	0.23%
NEBRASKA	1.7	\$ 27,437	\$ 72.4	\$ 43	0.16%
MONTANA	0.9	\$ 22,314	\$ 30.0	\$ 34	0.15%
ALABAMA	4.4	\$ 22,946	\$ -	\$ -	0.00%
ALASKA	0.6	\$ 28,523	\$ -	\$ -	0.00%
ARKANSAS	2.6	\$ 22,114	\$ -	\$ -	0.00%
HAWAII	1.2	\$ 27,842	\$ -	\$ -	0.00%
MISSISSIPPI	2.8	\$ 20,506	\$ -	\$ -	0.00%
NEVADA	1.8	\$ 30,351	\$ -	\$ -	0.00%
NORTH CAROLINA	7.7	\$ 26,220	\$ -	\$ -	0.00%
NORTH DAKOTA	0.6	\$ 23,518	\$ -	\$ -	0.00%
OKLAHOMA	3.4	\$ 22,801	\$ -	\$ -	0.00%
SOUTH CAROLINA	3.9	\$ 23,496	\$ -	\$ -	0.00%
TENNESSEE	5.5	\$ 25,581	\$ -	\$ -	0.00%
UTAH	2.1	\$ 23,356	\$ -	\$ -	0.00%
WYOMING	0.5	\$ 26,003	\$ -	\$ -	0.00%
<b>TOTALS</b>	<b>272.7</b>	<b>27,470</b>	<b>\$ 36,284.8</b>	<b>\$ 133</b>	<b>0.48%</b>

\* FISCAL YEAR 1999 UNAUDITED TOTAL LOTTERY SALES

SOURCES: LAFLEUR'S LOTTERY WORLD, STATE RANKINGS 2000: A STATISTICAL VIEW OF THE 50 STATES, SURVEY OF CURRENT BUSINESS (JUNE 2000)

Throughout its history, the lottery has exhibited a cycle of maturity in its games in which play expands rapidly in the first years of a game only to eventually stabilize. As a result, the Department of Lottery has relied on the development of new games and the modification of existing games to generate increased sales. Although these strategies have proven successful, recent examples illustrate that they may not be working as well as they once did.

The process of developing new games as a means of generating increased sales began in 1976 with the introduction of the Instant Game. This trend continued, and eventually resulted in the current gaming mix. Although this strategy traditionally ensured higher levels of play, the introduction of the Big Game identified a shift in this pattern. While the Big Game has experienced increasing popularity and sales, it has not proven sufficient to offset the declining sales associated with other lottery games.

The strategy of modifying existing games incorporates the repackaging of games with increased odds of winning and adjustments to game frequency. Successful examples of this strategy include the Department of Lottery's theme-oriented instant games and increased number of daily drawings. Despite the historical success of this strategy, recent attempts at reviving slumping Lotto sales have not generated the anticipated increase. Lotto sales have decreased by 50 percent since 1997.

Although it may be too early to predict a permanent plateau in lottery sales, these examples support the notion that the lottery has either reached or is nearing maturity. As a result, the Department of Lottery is faced with the challenge of creatively marketing new and existing games as a means of maintaining their current player base, as well as attracting new customers. This will be difficult, as the State gaming market will force increased competition between all forms of legalized gaming.

## RIVERBOAT GAMBLING

In 1990, riverboat gambling was authorized in the State of Illinois by the Riverboat Gambling Act (Public Act 86-1029). This Act authorized 10 riverboat casino licenses; each licensee may operate two riverboat casinos at a single-specified docksite. The Riverboat Gambling Act also established the wagering tax. This tax, paid by licensees to the State of Illinois, was equal to 20 percent of a licensee's annual adjusted gross receipts. Illinois' first riverboat casino, the Alton Belle, opened on September 11, 1991. There are currently 12 riverboats operating under 9 licenses in Illinois.

Before Public Act 91-0040 was enacted, two events had significantly changed the Illinois riverboat gambling industry since its inception:

The first event was the July 1997 closure of the Silver Eagle riverboat located in Jo Daviess County. It was the first and only closure of a riverboat in Illinois. The Silver Eagle's proximity to Iowa riverboats and Iowa's approval of dockside gambling were two factors that greatly reduced its adjusted gross receipts and admissions. The closing of the Silver Eagle was significant because it demonstrated that riverboat gambling was not immune to the same forms of competition as other forms of gambling.

The implementation of the current graduated tax structure on January 1, 1998 was the second significant event, as it contributed significantly to increased tax receipts. The wagering tax had been a simple formula, a flat tax of 20 percent of a licensee's annual adjusted gross receipts. The current graduated tax is imposed as follows:

<b>If Adjusted Gross Receipts are</b>	<b>tax rate is</b>
0 to \$25 million	15 percent
\$25 to \$50 million	20 percent
\$50 to \$75 million	25 percent
\$75 to \$100 million	30 percent
Over \$100 million	35 percent

Revenues due to the State from the wagering and admission taxes in FY 1997 were approximately \$183 million. Revenues due to the State from the first full fiscal year after the enactment of the graduated tax, FY 1999, were \$273 million. **The graduated tax was largely responsible for the 50 percent (\$90 million) increase in revenues owed to the State from FY 1997 to FY 1999.**

*[It is important to note the distinction between "revenues due to the State" and "transfers." Revenues due to the State are the tax liability owed to the State (from the wagering and admissions tax) based on riverboat gambling activity between July 1 and June 30. Transfers represent State revenues that are transferred from the State Gaming Fund to the Education Assistance Fund.]*

## IMPACT OF PUBLIC ACT 91-0040

Until recently, riverboat gambling in Illinois had experienced little change, and it was apparent that (with virtually all licenses in operation) riverboat gambling may have been nearing its saturation point. On June 25, 1999, however, Public Act 91-0040 was signed into law. Few of its provisions related to riverboat gambling have been implemented, but one very important change has had an immediate and measurable impact on riverboat gambling: the authorization of dockside gambling has significantly increased the adjusted gross receipts and the “patron” (admissions) count of all nine active riverboat licenses in Illinois. The following sections discuss the various components of Public Act 91-0040 and its impact on Illinois Riverboat Gaming.

### DOCKSIDE GAMBLING

When gaming saturation is discussed, dockside gambling is consistently mentioned as an option that states should consider in order to augment the success of riverboat gambling. As of June 25, 1999, all riverboat casinos in Illinois allow the continuous entrance and exit of patrons while the boat is open for business. Until this date, riverboat casinos maintained minimum cruise lengths, and were not allowed to operate while docked unless inclement weather or mechanical problems prevented cruising. While increased State and local revenues were expected to follow the authorization of dockside gambling, the widespread success experienced by all of the boats exceeded most expectations. **The introduction of dockside gambling to the Illinois riverboat gambling market helped increase annual adjusted gross receipts more than 35 percent from FY 1999 to FY 2000.** FY 2000 was the first full year of dockside gambling; the table on the following page shows adjusted gross receipts, patron count, and State and local revenue totals for fiscal years 1999 and 2000.

**TABLE 9: IMPACT OF DOCKSIDE GAMBLING IN ILLINOIS**

<b>FY 1999</b>					
	<u>AGR</u>	<u>Patrons</u>	<u>STATE Revenues</u>	<u>LOCAL Revenues</u>	<u>Total Revenues</u>
Elgin	\$267,876,000	2,323,887	\$71,804,654	\$17,335,654	\$89,140,308
Joliet Harrah's	\$177,635,000	1,664,059	\$43,278,654	\$12,135,154	\$55,413,808
Joliet Empress	\$168,937,000	1,948,853	\$40,855,666	\$12,071,016	\$52,926,682
Aurora	\$168,811,000	1,885,163	\$40,890,910	\$11,794,960	\$52,685,870
East St. Louis	\$121,105,000	1,705,093	\$26,777,580	\$9,455,330	\$36,232,910
East Peoria	\$101,552,000	1,354,734	\$20,348,015	\$7,773,615	\$28,121,630
Metropolis	\$79,517,000	1,045,892	\$14,582,616	\$6,064,616	\$20,647,232
Alton	\$71,628,000	1,201,360	\$12,513,651	\$5,712,551	\$18,226,202
Rock Island	\$13,787,000	366,548	\$1,956,996	\$1,267,646	\$3,224,642
JoDaviess	\$0	0	\$0	\$0	\$0
<b>TOTALS</b>	<b>\$1,170,848,000</b>	<b>13,495,589</b>	<b>\$273,008,742</b>	<b>\$83,610,542</b>	<b>\$356,619,284</b>
<b>FY 2000</b>					
	<u>AGR</u>	<u>Admissions*</u>	<u>STATE Revenues</u>	<u>LOCAL Revenues</u>	<u>Total Revenues</u>
Elgin	\$374,666,000	3,607,894	\$103,507,694	\$22,341,194	\$125,848,888
Joliet Harrah's	\$263,262,000	2,387,079	\$68,509,429	\$15,550,179	\$84,059,608
Joliet Empress	\$224,731,000	2,539,641	\$56,815,041	\$13,776,191	\$70,591,232
Aurora	\$211,891,000	2,845,450	\$53,313,950	\$13,440,000	\$66,753,950
East St. Louis	\$154,536,000	2,185,336	\$34,644,136	\$9,912,136	\$44,556,272
East Peoria	\$127,384,000	1,848,899	\$26,295,499	\$8,218,099	\$34,513,598
Metropolis	\$104,424,000	1,458,371	\$18,795,221	\$6,679,571	\$25,474,792
Alton	\$103,183,000	1,680,240	\$18,445,690	\$6,839,390	\$25,285,080
Rock Island	\$25,346,000	688,567	\$3,223,167	\$1,955,867	\$5,179,034
JoDaviess	\$0	0	\$0	\$0	\$0
<b>TOTALS</b>	<b>\$1,589,423,000</b>	<b>19,241,477</b>	<b>\$383,549,827</b>	<b>\$98,712,627</b>	<b>\$482,262,454</b>
<b>% Increase Over FY 1999</b>	<b>36%</b>	<b>43%</b>	<b>40%</b>	<b>18%</b>	<b>35%</b>

\*On 6/26/99, dockside gambling began in Illinois. On that date, the definition of admissions changed to reflect the count of patrons entering gaming areas (IL Gaming Board Monthly Riverboat Casino Report).

### DEFINITION OF ADMISSIONS

Since the first riverboat casino license was issued in 1991, monthly statistics compiled by the Illinois Gaming Board have included the number of admissions and patrons associated with each license. In its 1999 Annual Report, The Illinois Gaming Board defined "admissions" as "the sum of both turnstile patron count and passengers remaining on board for one or more subsequent excursions." Patrons were defined as "the number of individuals that have boarded the riverboat through the turnstile." It is important to differentiate between these two terms because Illinois imposes an admission tax on licensees, but not a patron tax. This \$2.00 admission tax is shared equally by the State and the local government where the boat is docked.

Prior to Public Act 91-0040, the admission tax was \$2.00 per person, per cruise. If a person boarded a riverboat and stayed through three cruises, a licensee would remit \$6 to the State, \$2 for each of the three admissions. While this person was only counted as a patron once, he or she would count for three admissions.

As of June 26, 1999, however, the definition of admissions changed to reflect the count of patrons entering the gaming area. The \$2 admission tax is still imposed on each admission, but because the term “admission” has adopted the definition of patron, a licensee only pays a \$2 tax for each person that boards a riverboat, regardless of how long he or she stays on board. (Because the riverboats no longer cruise, a person could remain on the boat from open to close each day.)

While local governments experienced an overall revenue increase of 18 percent from FY 1999 to FY 2000, the share of local revenues received from the admissions tax has been reduced. A boat’s licensee now pays \$2 per admission, regardless of how long someone remains on the boat. In FY 1999, total admissions were approximately 25 million, while total patron count was 13.5 million. FY 2000 admissions (formerly patrons) were 19.2 million.

In FY 1999 local governments received approximately \$25 million from the admission tax, but in FY 2000 they received only \$19.2 million from the admission tax. While local governments have certainly reaped the rewards of dockside gambling, the redefinition of an admission has reduced the extent to which they will benefit from the admission tax. However, lower local revenue from the admission tax was more than offset by increased adjusted gross receipts, of which local governments receive 5 percent.



**TABLE 10: ILLINOIS RIVERBOAT INFORMATION**

BOAT LOCATION STARTING DATE	FY 1999 STATE SHARE OF WAGERING & ADMISSION TAX	FY 1999 LOCAL SHARE OF WAGERING & ADMISSION TAX	FY 2000 STATE SHARE OF WAGERING & ADMISSION TAX	FY 2000 LOCAL SHARE OF WAGERING & ADMISSION TAX	TOTAL % CHANGE FROM FY1999 TO FY 2000
<b>ALTON BELLE II</b> ALTON September 11, 1991	\$ 12,513,651	\$ 5,712,551	\$ 18,445,690	\$ 6,839,390	38.7%
<b>PAR-A-DICE</b> EAST PEORIA November 20, 1991	\$ 20,348,015	\$ 7,773,615	\$ 26,295,499	\$ 8,218,099	22.7%
<b>CASINO ROCK ISLAND</b> ROCK ISLAND March 11, 1992	\$ 1,956,996	\$ 1,267,646	\$ 3,223,167	\$ 1,955,867	60.6%
<b>EMPRESS I &amp; II</b> JOLIET June 18, 1992	\$ 40,855,666	\$ 12,071,016	\$ 56,815,041	\$ 13,776,191	33.4%
<b>SILVER EAGLE</b> JODAVIESS COUNTY June 18, 1992	\$ -	\$ -	\$ -	\$ -	
<b>PLAYERS' RIVERBOAT CASINO</b> METROPOLIS February 23, 1993	\$ 14,582,616	\$ 6,064,616	\$ 18,795,221	\$ 6,679,571	23.4%
<b>HARRAH'S NORTHERN &amp; SOUTHERN STAR</b> JOLIET May 4, 1993	\$ 43,278,654	\$ 12,135,154	\$ 68,509,429	\$ 15,550,179	51.7%
<b>CITY OF LIGHTS I &amp; II</b> AURORA June 17, 1993	\$ 40,890,910	\$ 11,794,960	\$ 53,313,950	\$ 13,440,000	26.7%
<b>CASINO QUEEN</b> EAST ST. LOUIS June 23, 1993	\$ 26,777,580	\$ 9,455,330	\$ 34,644,136	\$ 9,912,136	23.0%
<b>GRAND VICTORIA</b> ELGIN October 6, 1994	\$ 71,804,654	\$ 17,335,654	\$ 103,507,694	\$ 22,341,194	41.2%
<b>SUBTOTAL</b>	\$ 273,008,742	\$ 83,610,542	\$ 383,549,827	\$ 98,712,627	35.2%
<b>TOTAL STATE &amp; LOCAL SHARE OF REVENUES</b>		\$ 356,619,284		\$ 482,262,454	35.2%
<b>SOURCE: Illinois Gaming Board Monthly Casino Reports, Adjusted Gross Receipts and Admissions: Totals may not equal, due to rounding.</b>					

## RELOCATION OF 10<sup>th</sup> LICENSE

For several years, many interested parties have tried unsuccessfully to amend gaming legislation to allow for a riverboat casino in Cook County. In addition to permitting dockside gambling, Public Act 91-0040 authorized the owner of the inactive Silver Eagle license to relocate to Cook County. The former licensee of the Silver Eagle, HP, Inc., has become Emerald Casino Corporation and is attempting to open a casino in Rosemont. While it is expected that this Cook County boat will be very successful once operational, it has faced and continues to face many legal challenges.

At the time the legislation was enacted, October of 2000 had been mentioned as a potential opening date for a Rosemont casino. Construction on the planned casino and entertainment venue has been halted, however, while legal wranglings continue. Parties involved include the Illinois Gaming Board, the owners of the dormant Jo Daviess County license, and investors from Lake County who would like to pursue the tenth license. According to a recent Chicago Tribune article (July 1, 2000), "the Illinois Gaming Board declared... that it retains the power to decide when and if the casino is built." Not only has there been much discussion regarding the location of the tenth license, but the law's constitutionality has also been questioned. If Public Act 91-0040 were declared unconstitutional, it is possible that the entire law, which includes the approval of dockside gambling, would be struck down.

## WHO WILL BENEFIT FROM THE 10<sup>th</sup> LICENSE?

Public Act 91-0040 requires that the owner of the tenth license share a portion of that license's adjusted gross receipts. The law requires 15 percent of the adjusted gross receipts to be paid from the State Gaming Fund to the Horse Racing Equity Fund. From this amount, 50 percent will be awarded in the form of purses to horse owners, and 50 percent will be awarded to track owners based on their track's percentage of the total handle. In addition, 2 percent of the adjusted gross receipts would be paid from the State Gaming Fund to Cook County for its criminal justice system. Each year, the General Assembly would replace both of these losses to the State Gaming Fund by appropriating (from the General Revenue Fund) amounts equal to the amounts that were paid from the State Gaming Fund in the prior calendar year. An additional 2 percent of the adjusted gross receipts of the tenth license would be paid from the State Gaming Fund to the State Universities Capital Improvement Fund; this payment from the State Gaming Fund would not be replaced by General Revenue Fund dollars.

## BOAT'S SUCCESS IN ROSEMONT

Speculation remains regarding the proposed location for the tenth license. While Public Act 91-0040 allows for the operation of a riverboat casino in Cook County, the

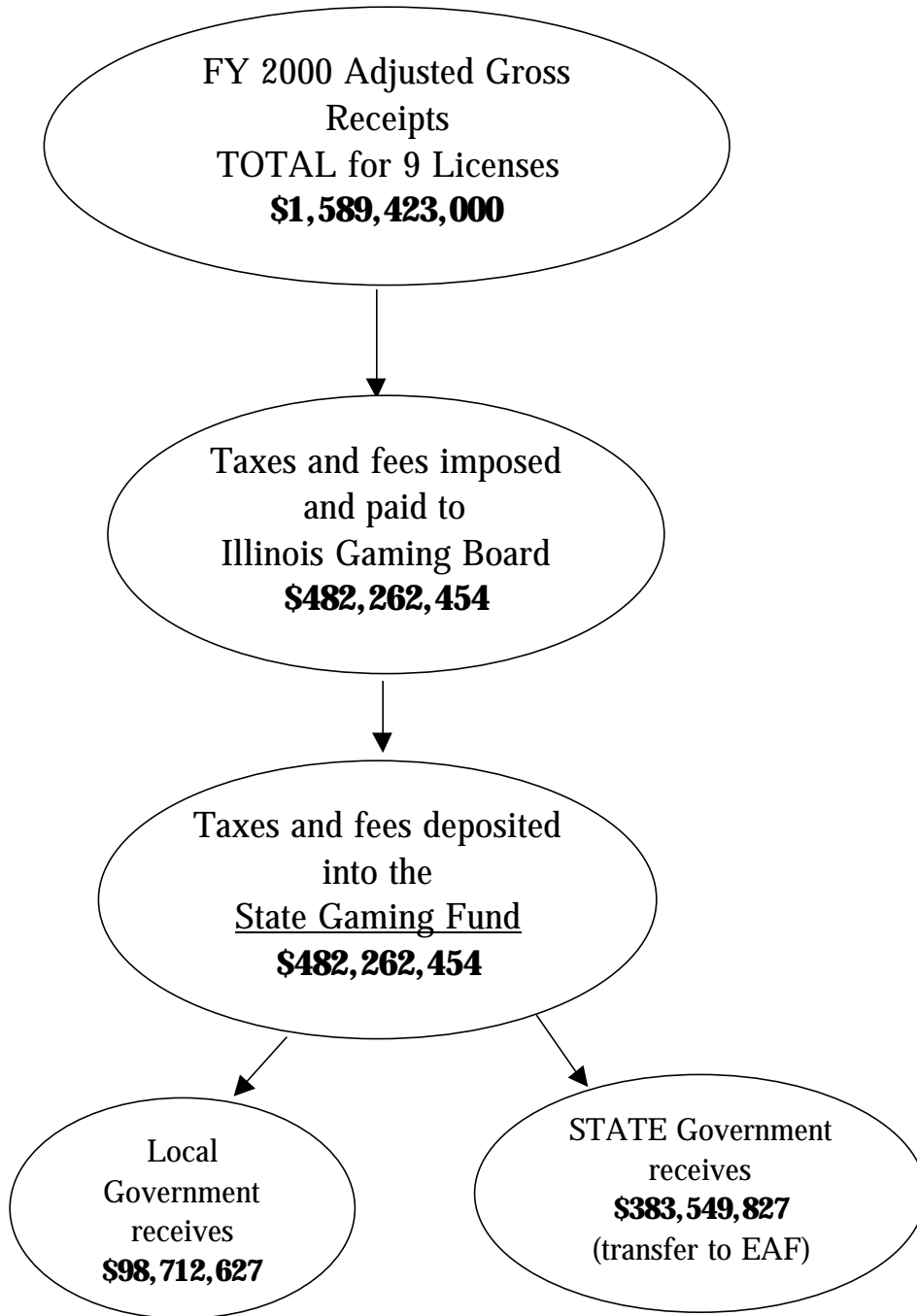
constitutionality of the Act has been challenged. It seemed apparent to Emerald Casino Inc., the “owners” of the tenth license, that their license would be renewed. The company had already begun construction on a riverboat casino/entertainment complex in the Village of Rosemont. However, its construction was halted in February awaiting Illinois Gaming Board approval of the license and its location. At its June 30, 1999 meeting, the Illinois Gaming Board made it clear that (from its interpretation of the Riverboat Gambling Act) the decision regarding the renewal and relocation of the tenth license is within their purview.

If the license is approved and a docked riverboat casino opens in the Village of Rosemont, the outlook for its success is good. The tenth license would have an immediate advantage over the other licensees due to the approval of dockside gambling. Until June 26, 1999, boats required to cruise in Illinois have had to compete with boats in states with dockside gambling. The tenth licensee will fairly compete with other docked riverboats. Due to its proximity to O’Hare International Airport, convention centers, and several hotels, a riverboat casino in Rosemont would benefit from a large market of potential gambling patrons.

#### CANNIBALIZATION

When the dispute over the tenth license is finally resolved, a riverboat casino will likely open in Cook County. If this occurs, the success of this new boat may adversely affect the local revenues of licensees nearby in Elgin and Aurora. Since there is no boat in Cook County, many Chicago-area riverboat casino patrons (who choose to spend their gambling dollars in Illinois) likely travel to Elgin or Aurora. If a new boat opens in Cook County, it may cannibalize the revenues of riverboat casinos in both cities. Based on FY 2000 adjusted gross receipts and admissions, the City of Elgin would lose approximately \$2.2 million in annual revenue for each 10 percent decrease in adjusted gross receipts and admissions. The City of Aurora would lose approximately \$1.3 million under the same scenario. FY 2000 local revenue for Elgin was \$22.3 million; in Aurora it was \$13.4 million. It has been predicted that the tenth license will be at least as successful as the riverboat with the highest adjusted gross receipts in FY 2000, the *Grand Victoria* in Elgin.

CHART 7: Distribution of Taxes and Fees Imposed on Riverboat Licensees  
Fiscal Year 2000



SOURCE: Illinois Gaming Board Monthly Riverboat Casino Reports (AGR & Admissions only)

## CONCLUSION

In conclusion, various analyses discussed earlier in this report indicate that while overall revenues from gaming have continued to grow, that growth is not evenly distributed over the various forms of gaming.

Specifically, it appears that the lottery has reached a level of play of approximately \$1.5 billion to \$1.6 billion each year, translating into approximately \$500 million to \$550 million in general funds revenues. It would be surprising if future levels of play were to increase significantly. In fact, based on the recent trend, a more likely forecast would be for continued stagnation and/or gradual decline.

The future of horse racing is more difficult to predict as the number of on-track establishments in operation (namely Arlington) significantly alter the amount of money wagered. However, the restructuring of horse racing taxes under Public Act 91-0040 reduced tax revenues. As a result, direct horse racing revenues will comprise such a relatively small percentage of overall wagering tax receipts, that even a significant increase or decrease in handle will not dramatically change overall tax revenues from horse racing.

Riverboat gambling continues to make up a larger and larger share of Illinois wagering. This trend is likely to continue in the near future, particularly if the tenth license becomes operational in Cook County. However, even revenues from this fast growing form of gaming will eventually begin to plateau. In fact, prior to the recent change to dockside, adjusted gross receipts had fluctuated between \$1.1 billion and \$1.2 billion from 1995 to 1999, indicating that absent recent tax restructuring and other legislative changes, riverboat revenues would have demonstrated only modest growth.

It is important to note that while gaming revenues are expected to contribute over \$900 million in the current fiscal year, Illinois' overall economy has been enjoying growth since FY 1992. Should Illinois experience a period of minimal growth or recession, these areas of revenue may be among the first to be affected. Additionally, as they have several times in the past, the General Assembly may choose to alter the current gaming environment by either allowing an expansion or restructuring tax rates.

APPENDIX I

<b>Illinois Riverboat Casinos by License</b>			
<b>Licensee</b>	<b>City of</b>	<b>Name of Riverboat(s)</b>	<b>Start Date</b>
<b>1. Alton Gaming Company</b>	Alton	The Alton Belle II	September 11, 1991
<b>2. Par-A-Dice Gaming Corporation</b>	East Peoria	Par-A-Dice	November 20, 1991
<b>3. Rock Island Boatworks, Inc.</b>	Rock Island	Casino Rock Island	March 11, 1992
<b>4. Empress Casino- Joliet Corporation</b>	* Joliet	Empress I Empress II	June 17, 1992
<b>5. Emerald Casino, Inc (H.P. Inc.)</b>	<i>license pending renewal and relocation</i>		<i>June 18, 1992</i>
<b>6. Southern Illinois Riverboat Casino Cruises, Inc</b>	Metropolis	Players Riverboat Casino	February 23, 1993
<b>7. Harrah's Casino Cruises Joliet</b>	Joliet	Northern Star Southern Star	May 4, 1993
<b>8. Hollywood Casino-Aurora, Inc.</b>	Aurora	City of Lights I City of Lights II	June 17, 1993
<b>9. Casino Queen, Inc.</b>	East St. Louis	Casino Queen	June 23, 1993
<b>10. Elgin Riverboat Resort</b>	Elgin	Grand Victoria	October 6, 1994

\* acquired by Horseshoe Gaming Holding Corporation 11/30/99  
 On 6/30/00, the Illinois Gaming Board decided that the owner of the Joliet Empress casinos, Jack Binion, is "unsuitable as an Illinois casino owner." The license renewal was denied, but Binion can continue to operate while he appeals the decision. "Panel Declares Binion Unfit to Run Casino" Chicago Tribune, July 1, 2000

*SOURCE: Illinois Gaming Board 1999 Annual Report*

## APPENDIX II

### A COMPARISON OF RIVERBOAT GAMBLING FY 2000

	ILLINOIS	INDIANA (CY 1999)	IOWA	MISSOURI
Population (in millions)	11.9	5.94	2.87	5.47
Riverboat Gambling Began Operating	1991	1995	1991	1994
# of Active Licenses	<b>9</b>	11 licenses were issued, but only 10 are available	<b>10</b>	<b>15</b>
Total authorized	10	9 are active-the 10th license is pending	there is no statutory limit; but the number of boats allowed was set by regulation	there are no statutory limits
Total Boats	12	9	10	15
Dockside Gambling	YES	NO	YES	YES
Wagering Tax	Graduated tax on AGR on adjusted gross receipts	20% of AGR deposited into General Fund	Graduated tax on AGR 5% up to \$1 M, 10% from 1 to 3 M, 20% over 3 M	20% of AGR 90% to State, 10% to Locals
Admissions Tax	\$2 per admission	\$3 per person, per cruise \$1 to State, \$1 to Locals, \$1 shared among State and locals	a tax billed based on a boat's expenses; it is deposited into the General Fund	\$2 per person, per excursion \$1 to State, \$1 to Locals
<b>AGR</b>	\$1,589,423,000	\$1,557,131,712	\$577,941,126	\$978,768,809
Admissions	19,241,477	38,002,298	13,289,873	48,522,933
State Revenue	\$383,549,827	\$311,538,359	\$108,091,878	\$224,701,319
Local Revenue	\$98,712,627	\$114,116,884	\$5,779,411	\$68,098,309
<b>TOTAL Revenue</b>	<b>\$482,262,454</b>	<b>\$425,655,243</b>	<b>\$113,871,289</b>	<b>\$292,799,628</b>

\* there were eleven licenses issued, but only ten are available: the Army Corps of Engineers declared that there cannot be a riverboat casino on Patoka

## **BACKGROUND**

The Illinois Economic and Fiscal Commission, a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans; and
- 4) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services.

The Commission also has a mandate to report to the General Assembly "... on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes two primary reports. The "Revenue Estimate and Economic Outlook" describes and projects economic conditions and their impact on State revenues. "The Illinois Bond Watcher" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The Commission also periodically publishes special topic reports that have or could have an impact on the economic well being of Illinois.

These reports are available from:

Illinois Economic and Fiscal Commission  
703 Stratton Office Building  
Springfield, Illinois 62706  
(217) 782-5320  
(217) 782-3513 (FAX)

Reports can also be accessed from our Webpage:

[http://www.legis.state.il.us/commission/ecfisc/ecfisc\\_home.html](http://www.legis.state.il.us/commission/ecfisc/ecfisc_home.html)