

ILLINOIS ECONOMIC FISCAL COMMISSION



**WAGERING IN ILLINOIS
2002 UPDATE**



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SPRINGFIELD, ILLINOIS 62706

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EXECUTIVE SUMMARY

The following document is the Commission's fifth examination of Illinois gaming. In accordance with Senate Resolution 875 (87th 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, 1998, and 2000. These reports updated the previous releases and provided further analysis of State gaming. This report addresses the current status of Illinois wagering.

- In FY 2002, the State's share of horse racing, lottery, and riverboat revenue reached \$1.038 billion, a \$64 million increase over FY 2001. While horse racing experienced no revenue growth, lottery transfers into the Common School Fund increased by \$54 million and Gaming Fund transfers into the Education Assistance Fund increased by \$10 million.
- In 2001, more than \$1 billion was wagered on horse racing, which generated approximately \$13 million in State revenue and \$13 million in local revenue. Despite the consistent nature of the racing handle, its composition continued to shift away from on-track and toward off-track wagering.
- In FY 2002, lottery sales totaled approximately \$1.590 billion, a 10 percent increase over FY 2001. This gain, the first since FY 1996, translated into an increase transfer into the Common School Fund. In FY 2002, this transfer equaled \$555.1 million.
- Due to gaming maturity, large swings in lottery sales appear to be more dependent on jackpot size than any other reason. This notion was supported in FY 2002, as lottery sales benefited from a near-record \$331 million Big Game jackpot.
- In response to the addition of Ohio and New York, Mega Millions—an enhanced version of the Big Game—replaced the Big Game on May 15, 2002. The anticipated jackpots associated with this new game are expected to increase State lottery revenue by approximately \$30 million annually.
- Riverboat casinos experienced increases in both adjusted gross receipts and admissions. In FY 2002, adjusted gross receipts equaled \$1.834 billion (a 7 percent increase over FY 2001) and admissions totaled 19.1 million (a 3 percent increase over FY 2001).
- Dockside gambling has been authorized on Illinois riverboat casinos since FY 2000. After three years, it is apparent that dockside gambling has increased the total adjusted gross receipts and total admissions of the riverboat gaming

industry. Despite this observation, the effects of dockside gambling differ from boat to boat.

- P.A. 92-0595 (HB 2381) altered the riverboat gaming industry by increasing the wagering taxes levied against adjusted gross receipts and the riverboat admissions tax. It is estimated that this legislation will increase State revenue by \$142 million in FY 2003.
- As of August 9, 2002, the Illinois Gaming Board had accepted a tentative settlement with Emerald Casino, the current owners of the dormant tenth riverboat license. Under the settlement, the Board will accept bids and decide the buyer and location of a new riverboat casino. Despite this agreement, lawsuits will likely continue and no timetable has been set regarding the reactivation of the dormant license.
- Many states turned to gaming taxes as a means of addressing FY 2003 budget shortfalls. While Illinois increased riverboat wagering and admissions taxes, Indiana increased wagering taxes and authorized dockside gambling. In this effort, Indiana riverboats were given the option of either paying an increased flat wagering tax or moving to dockside and paying taxes according to a newly-implemented graduated tax schedule.

INTRODUCTION

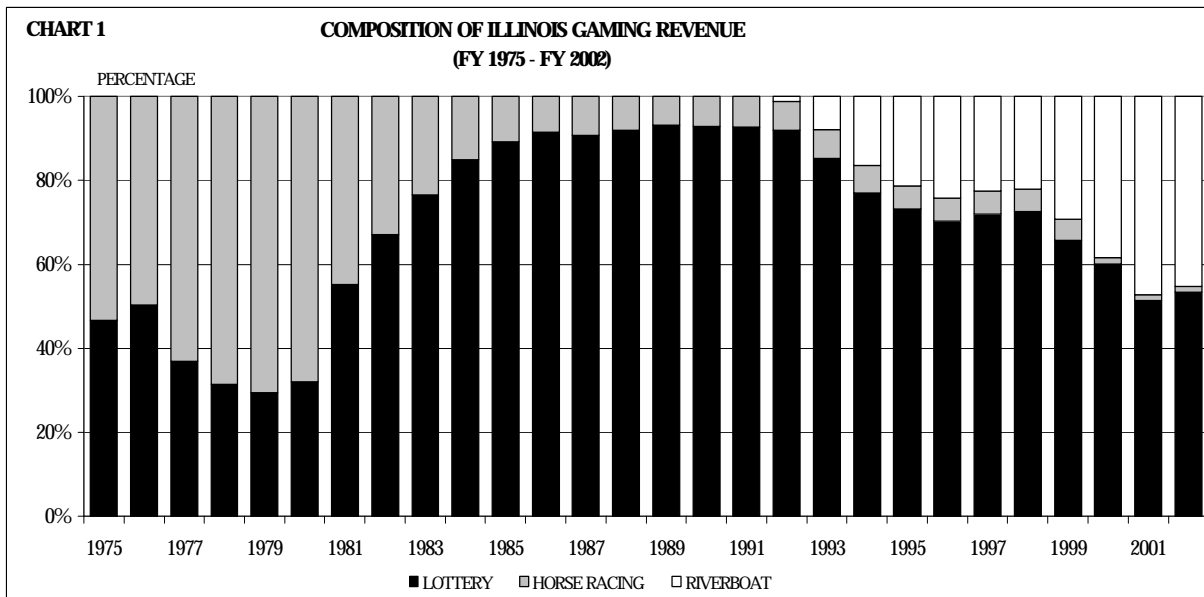
Since the Commission published Wagering in Illinois: 2000 Update, numerous changes have altered the landscape of Illinois gaming. State horse racing revenues experienced a sharp decline as a result of the implementation of the 1.5 percent flat pari-mutuel tax. The Illinois Lottery benefited from a near-record \$331 million Big Game jackpot. Riverboat revenues increased as a result of the popularity associated with dockside gambling. Table 1 includes a history of State gaming revenues.

TABLE 1: STATE GAMING REVENUE (\$ in Millions)					
FISCAL YEAR	LOTTERY ⁽¹⁾	HORSE RACING ⁽²⁾	RIVERBOAT ⁽³⁾	TOTAL	PRIOR YEAR % CHANGE
1975	\$55	\$63	\$0	\$118	N/A
1976	\$76	\$75	\$0	\$151	28%
1977	\$44	\$75	\$0	\$119	-21%
1978	\$34	\$74	\$0	\$108	-9%
1979	\$33	\$79	\$0	\$112	4%
1980	\$33	\$70	\$0	\$103	-8%
1981	\$90	\$73	\$0	\$163	58%
1982	\$139	\$68	\$0	\$207	27%
1983	\$216	\$66	\$0	\$282	36%
1984	\$365	\$65	\$0	\$430	52%
1985	\$503	\$61	\$0	\$564	31%
1986	\$552	\$51	\$0	\$603	7%
1987	\$553	\$57	\$0	\$610	1%
1988	\$524	\$46	\$0	\$570	-7%
1989	\$586	\$43	\$0	\$629	10%
1990	\$594	\$46	\$0	\$640	2%
1991	\$580	\$46	\$0	\$626	-2%
1992	\$611	\$45	\$8	\$664	6%
1993	\$588	\$48	\$54	\$690	4%
1994	\$552	\$47	\$118	\$717	4%
1995	\$588	\$45	\$171	\$804	12%
1996	\$594	\$46	\$205	\$845	5%
1997	\$590	\$45	\$185	\$820	-3%
1998	\$560	\$42	\$170	\$772	-6%
1999	\$540	\$42	\$240	\$822	6%
2000	\$515	\$13	\$330	\$858	4%
2001	\$501	\$13	\$460	\$974	14%
2002	\$555	\$13	\$470	\$1,038	7%

(1) FIGURES REPRESENT TRANSFERS INTO THE COMMON SCHOOL FUND.
(2) FIGURES EQUAL STATE REVENUE GENERATED, NOT ALLOCATED, BASED ON A CALENDAR YEAR. THE 2002 FIGURE IS AN ESTIMATE.
(3) FIGURES REPRESENT APPROPRIATIONS (FY 1992 - 1995) AND TRANSFERS (FY 1996 - 2001) INTO THE EDUCATION ASSISTANCE FUND.

SOURCES: BUREAU OF THE BUDGET, ILLINOIS DEPARTMENT OF LOTTERY, AND ILLINOIS RACING BOARD

In FY 2002, the United States experienced its first recession since 1991. Although gambling revenues have traditionally been considered recession-proof, this reputation was acquired in an era in which legalized gambling was confined to casinos located in Nevada and Atlantic City. At that time, the demand for gambling outweighed its supply to such a degree that the industry was largely shielded from the adverse effects of the contracting economy. In contrast, the current gaming situation is much different; a fact highlighted by the *2000 Gross Annual Wager of the United States*, which stated that the... “demand for commercial games has been satisfied.” Therefore, the recession and the accompanying downturn in the Illinois economy provided an opportunity to test the “strength” of State gaming revenues.



In FY 2002, the State’s share of horse racing, lottery, and riverboat revenue reached \$1.038 billion, which was a 7 percent increase over FY 2001. The \$64 million increase consisted of a \$54 million increase in lottery transfers to the Common School Fund and a \$10 million increase in riverboat transfers to the Education Assistance Fund. For the third consecutive year, State horse racing revenues remained stable. The composition of the FY 2002 gaming revenue increase is noteworthy because it differed from recent years as lottery transfers, not riverboat transfers, comprised the majority of the State revenue increase.

Although 2002 was a good year for lottery transfers, the increase did little to alter the overall composition of State gaming-related revenue. Since the inception of riverboat gaming in 1992, riverboat revenues have increased dramatically as a percentage of total gaming revenues, while the lottery’s percentage has declined. In 2002, lottery revenues comprised 54 percent of total gaming revenues, whereas riverboat casinos and horse racing comprised 45 percent and 1 percent, respectively. This is in contrast to 1993

when lottery transfers amounted to 85 percent, riverboats 8 percent, and horse racing 7 percent. While horse racing generally comprises the smallest percentage of total gaming revenues, its decrease over the past three years has been particularly steep and can be traced to the implementation of P.A. 91-0040. See Chart 1 on page 2.

Prior to Wagering In Illinois: 2000 Update, 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, the Commission introduced the concept of “gaming hold.” For the purposes of the previous report and this examination, the term gaming hold refers 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. Since identifying the exact point at which a market is saturated is difficult, this analysis will focus on State revenues, gaming hold, and per-capita spending as a means of assessing the current status of Illinois gaming.

As Table 2 reveals, FY 2002 State gaming revenues totaled \$1.038 billion. This was a 7 percent increase over FY 2001. In addition, the gaming industry’s \$2.820 billion gaming hold represented nearly an 8 percent increase over FY 2001. Furthermore, per-capita spending on gaming increased by 7 percent to \$224 in FY 2002. Just as they did back in the 2000 Update, these figures indicate an expanding Illinois gaming market. However, a closer examination of Table 2 indicates a different trend. It reveals that during the five years preceding FY 2002, both horse racing and lottery were each experiencing decreasing or stagnating revenues, gaming hold, and per-capita spending. Further analysis reveals that over this same period, riverboat gaming experienced revenue, gaming hold, and per-capita spending increases.

So, what does the future hold for State gaming revenue? While the lottery utilized multiple rollovers and a near-record Big Game jackpot to post a surprisingly strong FY 2002, there is no guarantee that FY 2003 will continue this trend. However, preliminary estimates indicate that the Mega-Millions game could increase FY 2003 revenue by approximately \$30 million. Riverboat gaming revenue should continue to grow given the popularity of dockside gambling combined with the recent passage of P.A. 92-0595. This legislation raised riverboat taxes and is expected to increase State gaming revenue by \$142 million in FY 2003. There is, however, little evidence to indicate a turnaround in horse racing revenue. Therefore, it still appears that the expansion of State gaming is greatly dependent on the increased revenues associated with riverboat gaming.

TABLE 2: THE STATUS OF ILLINOIS GAMING, BASED ON STATE REVENUE, GAMING HOLD, AND PER-CAPITA SPENDING

	1994	1995	1996	1997	1998	1999	2000	2001	2002
POPULATION	11.73	11.79	11.93	12.01	12.07	12.13	12.44	12.48	12.60
HORSE RACING (CY)									
STATE REVENUE (IN MILLIONS)	\$ 47	\$ 45	\$ 46	\$ 45	\$ 42	\$ 42	\$ 13	\$ 13	\$ 13
GAMING HOLD (IN MILLIONS)	\$ 277	\$ 271	\$ 276	\$ 264	\$ 243	\$ 247	\$ 247	\$ 248	\$ 248
* PER-CAPITA SPENDING	\$ 24	\$ 23	\$ 23	\$ 22	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20
% CHANGE IN PER-CAPITA SPENDING	-2%	-3%	1%	-5%	-9%	1%	-3%	0%	-1%
LOTTERY (FY)									
TRANSFERS TO CSF (IN MILLIONS)	\$ 552	\$ 588	\$ 594	\$ 590	\$ 560	\$ 540	\$ 515	\$ 501	\$ 555
GAMING HOLD (IN MILLIONS)	\$ 734	\$ 770	\$ 798	\$ 796	\$ 741	\$ 704	\$ 674	\$ 658	\$ 739
* PER-CAPITA SPENDING	\$ 63	\$ 65	\$ 67	\$ 66	\$ 61	\$ 58	\$ 54	\$ 53	\$ 59
% CHANGE IN PER-CAPITA SPENDING	-8%	4%	2%	-1%	-7%	-5%	-7%	-3%	11%
RIVERBOATS (FY)									
TRASFERS TO EAF (IN MILLIONS)	\$ 118	\$ 171	\$ 205	\$ 185	\$ 170	\$ 240	\$ 330	\$ 460	\$ 470
GAMING HOLD (IN MILLIONS)	\$ 844	\$ 1,098	\$ 1,215	\$ 1,052	\$ 1,066	\$ 1,171	\$ 1,589	\$ 1,713	\$ 1,834
*PER-CAPITA SPENDING	\$ 72	\$ 93	\$ 102	\$ 88	\$ 88	\$ 97	\$ 128	\$ 137	\$ 146
% CHANGE IN PER-CAPITA SPENDING	125%	29%	9%	-14%	1%	9%	32%	7%	6%
ALL WAGERING									
TOTAL REVENUE (IN MILLIONS)	\$ 717	\$ 804	\$ 845	\$ 820	\$ 772	\$ 822	\$ 858	\$ 974	\$ 1,038
GAMING HOLD (IN MILLIONS)	\$ 1,855	\$ 2,139	\$ 2,290	\$ 2,112	\$ 2,049	\$ 2,122	\$ 2,510	\$ 2,618	\$ 2,820
* PER-CAPITA SPENDING	\$ 158	\$ 181	\$ 192	\$ 176	\$ 170	\$ 175	\$ 202	\$ 210	\$ 224
% CHANGE IN PER-CAPITA SPENDING	27%	15%	6%	-8%	-3%	3%	15%	4%	7%
* PER CAPITA SPENDING EQUALS GAMING HOLD DIVIDED BY POPULATION.									
SOURCES: Illinois Racing Board, Illinois Dept. of Lottery, Illinois Gaming Board, State Rankings: A Statistical View of the 50 United States									

Although the Commission has traditionally focused its examinations of Illinois gaming on horse racing, lottery, and riverboat gambling, the State receives additional tax and license revenue via bingo, charitable games, and pull tabs and jar games.

- Illinois receives two forms of revenue from bingo games: license fees and the bingo game receipt tax. In FY 2001, the State generated \$240,530 in bingo license fees and \$5 million in bingo receipts taxes.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2001, the State received \$46,400 in license fees and \$114,927 in receipts taxes.
- Illinois receives two forms of revenue from pull tabs and jar games: license fees and the pull tab and jar games receipts tax. In FY 2001, the State received \$628,750 in license fees and \$7.3 million in receipts taxes.

Between FY 1992 and FY 2001, these miscellaneous gaming revenue sources generated approximately \$14.7 million annually. Although revenues reached \$15.8 million in FY 1995 and declined to \$13.3 million in FY 2001, they appear to be relatively stable. Furthermore, there is no evidence to indicate either a short or long-term deviation from this pattern.

HORSE RACING

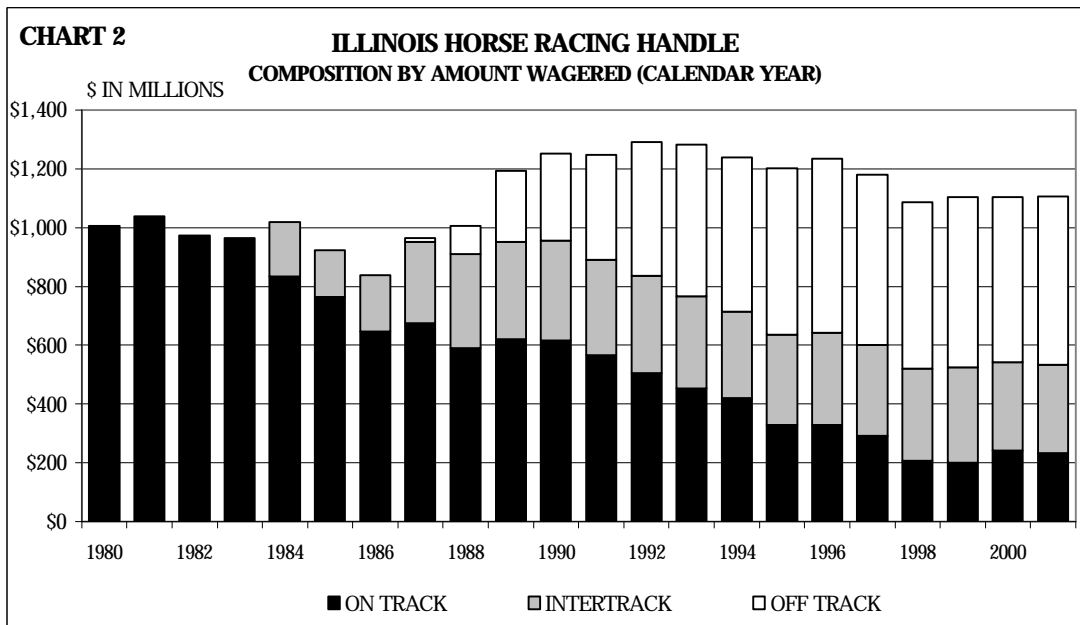
Horse racing is the oldest form of legalized gaming in Illinois. Each year more than \$1 billion is wagered on horse racing at the State's seven on-track and twenty-two off-track wagering facilities. In calendar year 2001, wagering generated \$26 million in total revenues with the State and local governments each receiving approximately \$13 million. While the local portion was consistent with historical trends, State racing-related revenues have declined since the January 1, 2000 implementation of Public Act 91-0040. Table 3 examines the sources and allocation of CY 2001 horse racing revenues while Table 4 details State and local racing revenues over the past five years.

TABLE 3: SOURCES AND ALLOCATION OF HORSE RACING REVENUE FOR CALENDAR YEAR 2001		
REVENUE SOURCE		
LICENSE FEES	\$	106,350
ADMISSION TAXES	\$	129,605
PARI-MUTUEL TAX	\$	16,585,997
PARI-MUTUEL TAX CREDIT	\$	(3,860,671)
LICENSING	\$	263,781
FINGERPRINT FEES	\$	112,746
HORSEMEN'S FINES	\$	94,745
MISCELLANEOUS	\$	11,766
* TOTAL STATE	\$	13,444,319
2% OF OTB HANDLE TO CITY AND COUNTY	\$	11,443,744
CITY (CHICAGO) OTB ADMISSION TAX	\$	707,237
ON TRACK CITY ADMISSION TAX	\$	57,645
INTERTRACK SURCHARGE TO COUNTY (20%)	\$	710,835
* TOTAL LOCAL	\$	12,919,461
TOTAL REVENUES	\$	26,363,780
ALLOCATION OF REVENUE		
HORSE RACING FUND	\$	12,697,539
GENERAL REVENUE FUND	\$	606,247
QUARTERHORSE BREEDERS' FUND	\$	27,787
FINGERPRINT LICENSE FUND	\$	112,746
* TOTAL STATE	\$	13,444,319
TO CITIES	\$	6,486,754
TO COUNTIES	\$	6,432,707
* TOTAL LOCAL	\$	12,919,461
TOTAL REVENUES ALLOCATED	\$	26,363,780
SOURCE: ILLINOIS RACING BOARD - 2001 ANNUAL REPORT		

TABLE 4: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)					
	1997	1998	1999	2000	2001
TOTAL STATE REVENUE	\$45.1	\$42.1	\$42.4	\$13.3	\$13.4
TOTAL LOCAL REVENUE	\$13.7	\$13.3	\$13.6	\$12.8	\$12.9
* TOTAL REVENUES RECEIVED	\$58.8	\$55.4	\$56.0	\$26.1	\$26.4
TOTAL STATE ALLOCATIONS	\$45.1	\$42.1	\$42.4	\$13.3	\$13.4
TOTAL LOCAL ALLOCATIONS	\$13.7	\$13.3	\$13.6	\$12.8	\$12.9
TO CITIES	\$6.9	\$6.6	\$6.7	\$6.4	\$6.5
TO COUNTIES	\$6.8	\$6.7	\$6.9	\$6.3	\$6.4
*TOTAL REVENUES ALLOCATED	\$58.8	\$55.4	\$56.0	\$26.1	\$26.4

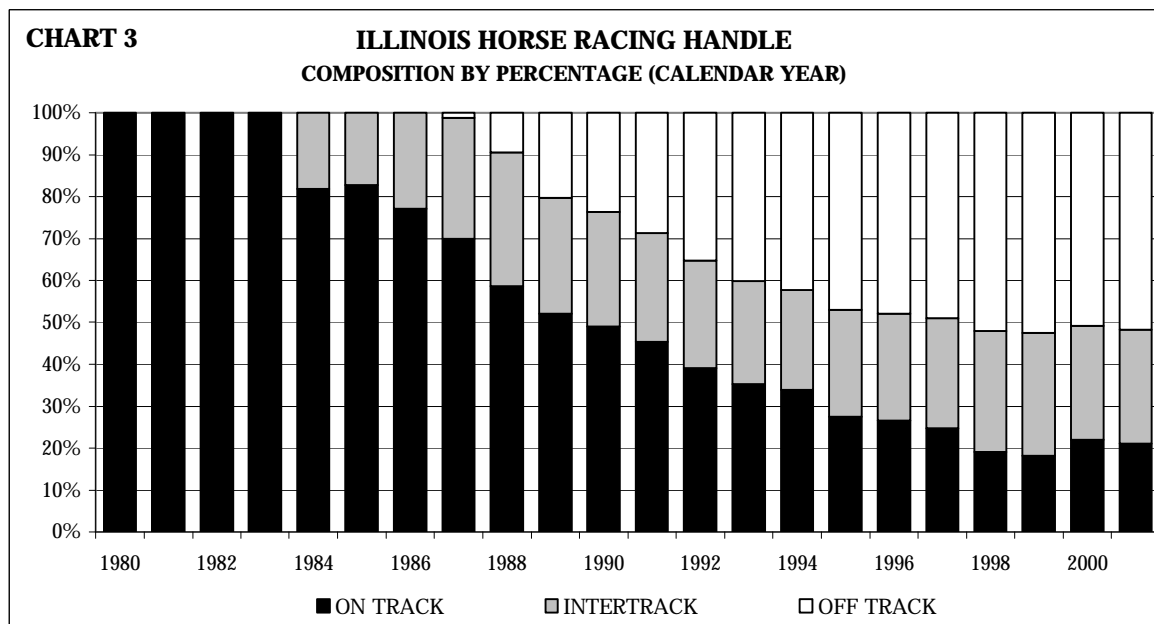
* TOTALS MAY NOT EQUAL DUE TO ROUNDING
SOURCE: ILLINOIS RACING BOARD ANNUAL REPORTS

The 2001 Illinois horse racing handle increased by less than 1 percent over its 2000 amount. While any increase is noteworthy, little evidence exists supporting a long-term increase in the total handle. Instead, this subtle increase—combined with data gathered over the past thirteen years—appears to prove the consistent nature of the total handle. Although the total racing handle has remained relatively stable since 1989, Chart 2 reveals a modest downward trend and a dramatic shift in its overall composition. While small increases were experienced in 1999 and 2001, it is too early to predict a return to previous wagering levels.



Prior to 1984, pari-mutuel wagering was only permitted at on-track racing facilities. This exclusivity was eliminated with the introduction of intertrack (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 1992 and 2001, the percentage of the total handle generated from on-track wagering fell from 39 to 21 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 35 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 illustrates the shift in the composition of the racing handle.



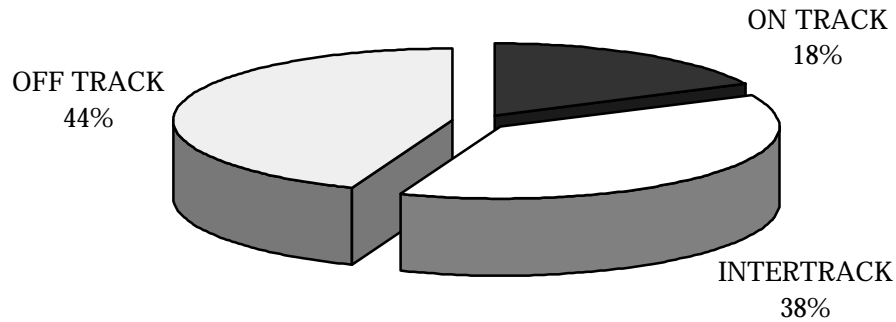
The Horse Racing Act of 1975 authorized the Illinois Racing Board to issue a maximum of forty-three off-track betting (OTB) licenses, as each racetrack is entitled to six OTB licenses, with an exception made for Fairmont Park which is entitled to a seventh license. In 2001, the Illinois Racing Board issued twenty-two; an increase of two licenses from calendar year 2000. These additional facilities included Fairmont Park's new OTB in Sauget and Hawthorne Race Course's new OTB in Romeoville. Although it is highly unlikely that all forty-three licenses would be granted in a single racing year, the potential exists for the future development of twenty-one additional OTB locations.

TABLE 5: ILLINOIS HORSE RACING TRACKS AND ASSOCIATED OTB'S		
TRACK	COUNTY	OTB LOCATIONS
ARLINGTON RACECOURSE	COOK	CHICAGO (WEED STREET) WAUKEGAN
BALMORAL PARK	WILL	BLOOMINGTON CHAMPAIGN CHICAGO (CORLISS) DANVILLE PEORIA
FAIRMONT PARK	MADISON	CARBONDALE EFFINGHAM GRAYVILLE SAUGET SPRINGFIELD
HAWTHORNE RACE COURSE	COOK	CHICAGO (STATE STREET) OAKBROOK TERRACE ROMEDEVILLE
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		

Charts 4 and 5 reveal the contrast between the compositions of the Illinois handle and the handle associated with the United States. Although the composition of each handle is similar, the most dramatic differences exist in the areas of intertrack and off-track wagering.

CHART 4

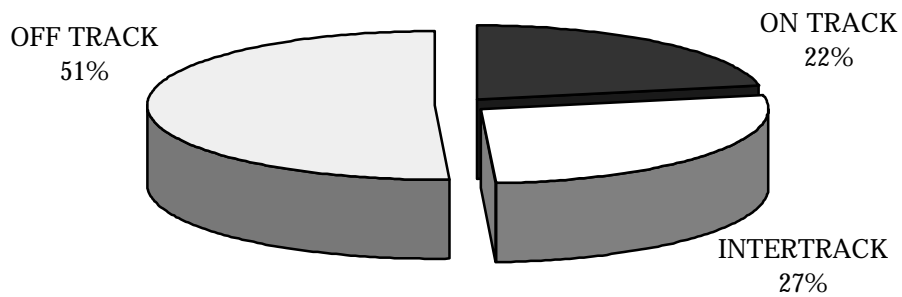
PERCENTAGE OF THE TOTAL HORSE RACING HANDLE BY WAGERING OUTLET: U.S.A. (2000)



SOURCE: THE 2000 GROSS ANNUAL WAGER

CHART 5

PERCENTAGE OF THE TOTAL HORSE RACING HANDLE BY WAGERING OUTLET: ILLINOIS (2000)



SOURCE: ILLINOIS RACING BOARD

UPDATE

The Commission's Wagering in Illinois: 2000 Update highlighted the potential impact associated with the passage of Public Act 91-0040 and the proposed merger of Churchill Downs and Arlington International Racecourse. Since that time, these issues have developed. As a result, the following two sections address these topics and the events that have occurred since the previous publication.

Public Act 91-0040

Public Act 91-0040 made the following changes to the Horse Racing Act of 1975. 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 and authorized licensees to deduct the real estate tax liabilities of its affiliated racetrack against future pari-mutuel tax liabilities.

In 1999 (the last year prior to the implementation of Public Act 91-0040), the State received approximately \$42 million in pari-mutuel wagering revenues. 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. In 2001, the State received only \$13 million. This total consisted of approximately \$17 million in pari-mutuel tax revenues and miscellaneous fees and the State payment of \$4 million to the racetrack licensees in the form of the real estate tax credit. Furthermore, the State was responsible for the expenditures associated with the mandated purse recapture reimbursement (\$15 million). Therefore, Public Act 91-0040 reduced State racing-related revenues by approximately \$44 million.

Arlington International Racecourse Acquisition

In September 2000, Churchill Downs Inc. (CDI) finalized its merger with Duchossois Industries Inc. (DII), the privately-held company that owned Arlington International Racecourse. By placing Arlington under the management of the same company that operates Churchill Downs, this merger aligned Arlington with the most prestigious horse racing track in the world. As a result, CDI now conducts live horse racing at Churchill Downs (Louisville Kentucky), Calder Race Course (Miami, Florida), Ellis Park (Henderson, Kentucky), Hollywood Park (Inglewood, California), Hoosier Park (Anderson, Indiana), and Arlington (Arlington Heights, Illinois).

CDI also manages the off-track wagering facilities and simulcast fees associated with these tracks. In the Commission's Wagering in Illinois: 2000 Update, it was noted... "*this merger should increase Arlington's total handle and national presence by increasing its exposure in the areas of intertrack and simulcast wagering.*" Although it is too early to assess the merger's impact on Arlington's total handle, it is apparent that the merger has enhanced Arlington's national presence. In fact, Arlington is hosting

the Breeders' Cup Championship for the first time on October 26, 2002. This event will be televised nationally on NBC.

LEGISLATION

During the previous legislative session, several pieces of legislation were introduced regarding the Illinois horse racing industry. The following sections detail the most significant proposals.

Mandated Purse Recapture Reimbursement

During the first half of the 1990s, the horse racing industry worried that the introduction of and competition associated with riverboat casinos would adversely impact their business. To alleviate these fears, the Illinois General Assembly passed legislation creating the mandated purse recapture reimbursement. This reimbursement, defined within the Horse Racing Act of 1975, stated that if the State pari-mutuel handle of a given calendar year was less than 75 percent of the total handle associated with calendar year 1994, then each wagering facility that experienced a total handle of less than 75 percent of the 1994 total shall be permitted to receive an amount equal to 2 percent of the differential between the calendar year total and that associated with 1994.

As enacted, the mandated purse recapture reimbursement was paid from any amount otherwise payable to the purse account at the racetrack with which the racing facility was affiliated in the succeeding calendar year. Public Act 91-0040 altered this arrangement by requiring the General Assembly to appropriate sufficient funds to reimburse all purse accounts equal to the purse recapture amounts deducted by the racetracks. Despite this arrangement, Governor George Ryan line item vetoed the recapture provision out of the FY 2003 budget, thereby eliminating State liability for using General Revenue Funds as a means of funding the recapture amount. Although this measure will save the State \$15 million, it will likely affect purse accounts.

Horse Racetrack Mergers

In the closing days of the 92nd General Assembly, legislation was introduced that sought to allow two or more racing licensees to merge into a single consolidated organization license without the licensees forfeiting their current benefits. HB 4605 and SB 2291 would have entitled consolidating licensees to all of their current rights, powers, and benefits (including those specifically granted in P.A. 91-0040), regardless of whether all or a portion of a pre-consolidation licensee were sold, transferred, or not utilized. These proposals would have required a consolidated licensee to pay the same taxes and fees as other racetrack licensees and would have terminated the pari-mutuel tax credit associated with any facility belonging to the consolidated licensee, which hosted no activity during a calendar year. As a result, the bills remained revenue neutral.

Despite the legislation's attempt to encourage consolidation as a means of enhancing the viability of the State horse racing industry, arguments emerged. Advocates of Public Act 91-0040 supported the concessions to the horse racing industry as a means of expanding the Illinois horse racing industry. These advocates, then, argued that encouraging consolidation was contrary to the intent of the earlier legislation. Furthermore, although the legislation included language allowing for the consolidation of any of the racetrack licensees, it was widely understood that the legislation's goal was the merger of Hawthorne Racecourse and Sportsman's Park. Given the financial status of Sportsman's Park, many critics viewed the proposals as a State "bail-out" of Sportsman's. Regardless of the reasoning, neither bill passed.

LOTTERY

The Illinois State Lottery was authorized in 1974 and began operation in 1975. It is administered by the Department of Lottery, which generates revenue via ticket sales, agent fees, and interest-earning accounts. Following the payment of prizes, agent commissions, and administrative costs, net lottery receipts are transferred into the Common School Fund. Since its inception, total lottery sales have reached approximately \$29.9 billion. Table 6 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.

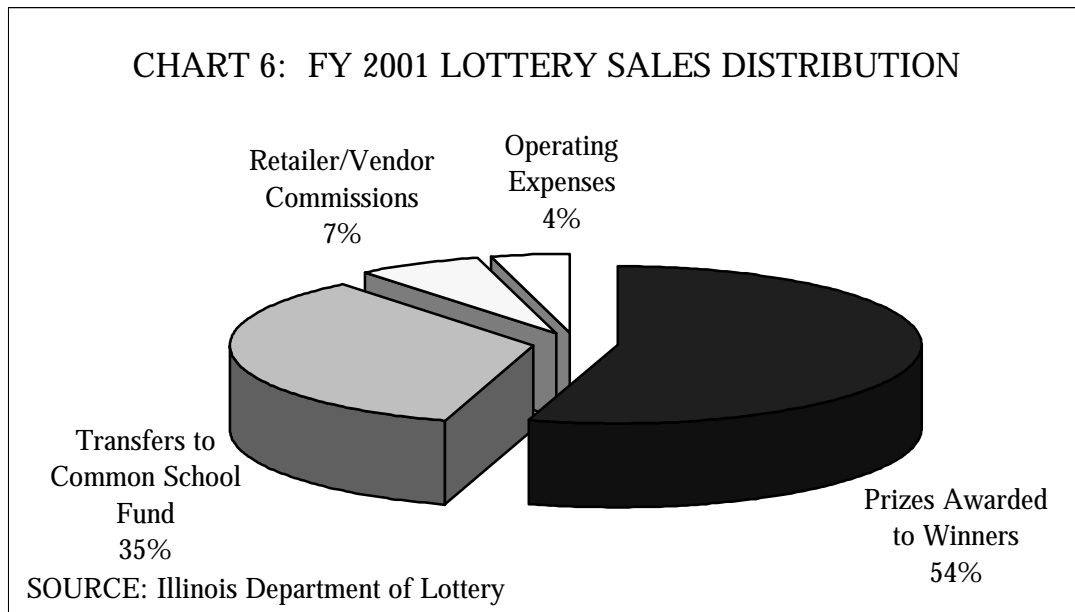
TABLE 6: LOTTERY SALES BY GAME, TOTAL SALES, TRANSFERS, & PERCENTAGE TRANSFERRED: FY 1975 - FY 2002 (IN MILLIONS)													
FISCAL YEAR	\$.50, \$1, KENO '93	INSTANT	PICK 3	EXTRA	PICK 4	LOTTO	LITTLE LOTTO	BIG GAME	TOTAL SALES	LOTTERY TRANSFERS TO CSF	TRANSFERS AS A % OF TOTAL SALES		
1975	\$ 129.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 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%		
2001	\$ -	\$ 586.1	\$ 326.6	\$ -	\$ 151.3	\$ 143.5	\$ 88.3	\$ 153.9	\$1,449.8	\$501.0	34.6%		
2002	\$ -	\$ 643.8	\$ 327.9	\$ 22.7	\$ 158.0	\$ 134.9	\$ 81.7	\$ 221.1	\$1,590.0	\$555.1	34.9%		
TOTALS	\$ 359.9	\$ 9,058.4	\$ 7,407.6	\$ 22.7	\$ 2,298.9	\$ 8,039.4	\$ 1,700.9	\$ 974.0	\$ 29,861.6	\$ 11,171.0	37.4%		

SOURCE: ILLINOIS DEPARTMENT OF LOTTERY

Table 6 reveals that FY 2002 lottery sales totaled approximately \$1.590 billion. This figure is significant as it was a 10 percent increase over the FY 2001 figure of roughly \$1.450 billion, and represented the first increase in total sales since FY 1996. From this sum, \$555.1 million was transferred into the Common School Fund, an 11 percent increase over the FY 2001 transfer of \$501.0 million. A closer look reveals that the overall increase resulted from a \$67.2 million increase in Big Game/Mega Millions

sales and a \$57.7 million increase in Instant Game sales. Furthermore, all games—with the exception of Lotto and Little Lotto—experienced increased sales.

Since the official distribution of FY 2002 sales revenue is not available, it is important to examine the most relevant data. In FY 2001, lottery winners received \$792 million, the Common School Fund received \$501 million, retailers and vendors received \$95 million, and the Department of Lottery used the remaining \$62 million to cover its operating expenses. Chart 6 illustrates the FY 2001 lottery sales distribution by percentage and although FY 2002 revenue may not be distributed according to these exact percentages, recent trends indicate that these figures provide an accurate baseline.



FY 2002 data continued many of the lottery trends discussed in the 2000 Commission report. As Table 7 details, instant games continue to comprise the greatest percentage (40 percent) of lottery sales. In addition, the Big Game maintained approximately 15 percent of total lottery sales, which confirmed its popularity among lottery players. In FY 2002, the Big Game generated approximately \$221 million. Once again, Lotto and Little Lotto sales declined comprising only 8 percent and 5 percent of total lottery sales, respectively. Given these figures, it still appears that much of the Big Game's (Mega Millions) popularity has been gained at Lotto's expense.

TABLE 7: COMPOSITION OF LOTTERY SALES BY GAME

FISCAL YEAR	\$.50, \$1, KENO '93	INSTANT	PICK 3	EXTRA	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	-	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	-	36%	23%	-	10%	10%	7%	15%	\$1,503.9
2001	-	40%	23%	-	10%	10%	6%	11%	\$1,449.8
2002	-	40%	21%	1%	10%	8%	5%	14%	\$1,590.0

SOURCE: ILLINOIS DEPARTMENT OF LOTTERY

What stimulated the growth in FY 2002 lottery sales? Industry experts believe that jackpot size is the most significant factor contributing to lottery performance, especially in heavily saturated gaming states. This was definitely the case in Illinois as the State lottery benefited from a \$331 million Big Game jackpot. This jackpot, the result of eighteen Big Game rollovers, occurred during the latter half of March and was won on April 17th. Its effect on lottery sales was obvious as April Big Game sales totaled \$77.8 million, which was a \$63.3 million increase over the April FY 2001 total of \$14.5 million. Furthermore, total FY 2002 Big Game Sales totaled \$221.1 million, which was a 44 percent over the FY 2001 total of \$153.8 million. While large jackpots increase lottery sales, this relationship generates instability regarding lottery revenues. Therefore, there is no guarantee that this increase will be repeated in future years.

In fact, recent data reveal that Illinois residents have once again reduced the amount of money they are willing to spend on lottery games. 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. In 1999, Illinois fell to 21st, with per-capita spending of \$126.00. This trend continued in 2001 as Illinois dropped to 22nd, with per-capita spending of \$116.00. While these figures continue the downward trend, they do not address the FY 2002 increase. (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.)

These previously discussed figures lend further proof to the fact that the Illinois lottery has reached maturity, and large swings in sales are more dependent on jackpot size (a function of rollovers) than any other reason. This notion was also supported by the findings of the 2000 Gross Annual Wager of the United States, whose findings concluded that “*mature lotteries are coming under pressure from other forms of competing gambling, leading to sales declines in Michigan, and flat results in many other states.*” The 2000 Gross Annual Wager of the United States supported this belief by stating that lotteries are largely a victim of their own success, as the product is easily available to its target audience in thousands of retail outlets. While this arrangement has traditionally been viewed as a positive for State lotteries, it leaves very little room for growth.

WHAT WILL THE FUTURE HOLD FOR THE ILLINOIS LOTTERY?

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 modification of existing games and the development of new games to generate increased sales. While these strategies have proven successful, two recent developments in the State lottery will test this theory.

Modification of Existing Games – Mega Millions

In May 2002, the Ohio and New York lotteries joined the list of Big Game states. Although these additions satisfied the game’s goal of increasing the population base in hopes of increasing overall jackpots, the additions necessitated a change in the game’s format. In response, Mega Millions—an enhanced version of the Big Game—replaced the Big Game on May 15, 2002. The participating Mega Millions states include: Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio and Virginia. The State of Washington will join Mega Millions in September 2002. The Department of Lottery estimates that the Mega-Millions game could increase State lottery revenue by approximately \$30 million annually.

The addition of Ohio and New York forced the Big Game to alter its gaming formula. In response, Mega Millions players now choose six numbers from two different pools of numbers: five different numbers ranging from 1 to 52, and one Gold Mega Ball

number ranging from 1 to 52. In comparison, Big Game players chose six numbers from two pools: five different numbers ranging from 1 to 50 and one Big Money Ball number ranging from 1 to 36. The Mega Millions jackpot is won by matching all six numbers, with secondary prizes awarded for other matching combinations. This format ensures a minimum jackpot of \$10 million, offers nine ways to win, and provides players with a 1 in 43 chance of winning a cash prize.

In order to address the decreased odds of winning that result from increasing the range of numbers, Mega Millions jackpots have been adjusted to reward players. Mega Millions offers a minimum jackpot of \$10 million (\$5 million – Big Game) and an average jackpot of \$80 million (\$26 million – Big Game). Additionally, the prize for players matching five numbers has been increased to \$175,000 (\$150,000 – Big Game). Furthermore, larger secondary prizes accompany the game. Buddy Roogow, director of the Maryland Lottery, believes that the increased secondary prizes are necessary as there “is a delicate balance between having an attractive jackpot to bring players into the game, and having enough prizes at other tiers that will keep them playing.”

Expansion of the Gaming Mix – Social Gaming

As lotteries diversify their product lines in an effort to boost sales, some states have tested new games for the social market and tinkered with existing products, primarily keno, that are deemed “social games.” The efforts stem from a belief that social games, played where people congregate in their spare time, are a huge source of untapped revenue. Despite this potential, the introduction of keno and other monitor style games into social settings has generated apprehension, as it has been regarded as an introduction to video gaming. As a result, only eleven U.S. lotteries offer keno in their gaming mix. These states include: California, Georgia, Kansas, Maryland, Massachusetts, Michigan, New York, Oregon, Rhode Island, Washington, and West Virginia.

As the U.S. economy slowed and state budgets tightened, many states discussed the various aspects associated with social gaming. These rumblings made their way to Illinois where fiscal concerns led to the introduction of keno and the licensing of video gambling machines as two steps in the process of closing the State’s FY 2003 budget gap. According to industry estimates, keno would have increased annual gaming revenues by \$100 million and increasing the fees associated with amusement-only video gaming licenses would have added another \$50 million. Although neither proposal was included in the State budget, their discussion was significant as it represented the first time that social gaming was mentioned as a means of expanding the lottery market with the ultimate goal of increasing State revenues.

TABLE 8: PER-CAPITA HANDLE AS A PERCENTAGE OF PERSONAL INCOME (FY 2001)

STATE	POPULATION (MILLIONS)	PER-CAPITA PERSONAL INCOME	* TOTAL LOTTERY SALES (MILLIONS)	PER-CAPITA SALES	PER-CAPITA SALES AS A % OF PER-CAPITA PERSONAL INCOME
RHODE ISLAND	1.1	\$ 29,984	\$ 978.2	\$ 924	3.08%
SOUTH DAKOTA	0.8	\$ 26,301	\$ 586.8	\$ 776	2.95%
DELAWARE	0.8	\$ 32,121	\$ 601.2	\$ 755	2.35%
MASSACHUSETTES	6.4	\$ 38,845	\$ 3,922.8	\$ 615	1.58%
DISTRICT OF COLUMBIA	0.6	\$ 40,498	\$ 222.7	\$ 389	0.96%
WEST VIRGINIA	1.8	\$ 22,725	\$ 596.9	\$ 331	1.46%
GEORGIA	8.4	\$ 28,483	\$ 2,193.8	\$ 262	0.92%
CONNECTICUT	3.4	\$ 41,930	\$ 840.8	\$ 245	0.59%
OREGON	3.5	\$ 28,000	\$ 787.9	\$ 227	0.81%
MARYLAND	5.4	\$ 34,950	\$ 1,212.7	\$ 226	0.65%
NEW YORK	19.0	\$ 35,884	\$ 4,177.9	\$ 220	0.61%
NEW JERSEY	8.5	\$ 38,153	\$ 1,806.7	\$ 213	0.56%
OHIO	11.4	\$ 28,619	\$ 1,918.7	\$ 169	0.59%
MICHIGAN	10.0	\$ 29,538	\$ 1,614.9	\$ 162	0.55%
NEW HAMPSHIRE	1.3	\$ 33,928	\$ 196.6	\$ 156	0.46%
KENTUCKY	4.1	\$ 25,057	\$ 589.5	\$ 145	0.58%
PENNSYLVANIA	12.3	\$ 30,617	\$ 1,779.9	\$ 145	0.47%
FLORIDA	16.4	\$ 28,493	\$ 2,360.6	\$ 144	0.51%
VIRGINIA	7.2	\$ 32,295	\$ 1,002.8	\$ 140	0.43%
TEXAS	21.3	\$ 28,486	\$ 2,825.5	\$ 132	0.47%
VERMONT	0.6	\$ 27,992	\$ 79.3	\$ 129	0.46%
ILLINOIS	12.5	\$ 32,755	\$ 1,449.8	\$ 116	0.35%
MAINE	1.3	\$ 26,385	\$ 146.8	\$ 114	0.43%
MISSOURI	5.6	\$ 28,029	\$ 507.9	\$ 90	0.32%
INDIANA	6.1	\$ 27,532	\$ 548.3	\$ 90	0.33%
CALIFORNIA	34.5	\$ 32,678	\$ 2,895.8	\$ 84	0.26%
WASHINGTON	6.0	\$ 31,582	\$ 483.9	\$ 81	0.26%
COLORADO	4.4	\$ 32,957	\$ 350.6	\$ 79	0.24%
WISCONSIN	5.4	\$ 28,911	\$ 401.2	\$ 74	0.26%
MINNESOTA	5.0	\$ 32,791	\$ 366.2	\$ 74	0.22%
KANSAS	2.7	\$ 28,507	\$ 193.3	\$ 72	0.25%
LOUISIANA	4.5	\$ 24,084	\$ 284.5	\$ 64	0.26%
NEW MEXICO	1.8	\$ 23,162	\$ 115.7	\$ 63	0.27%
IDAHO	1.3	\$ 24,257	\$ 81.7	\$ 62	0.25%
IOWA	2.9	\$ 27,283	\$ 175.0	\$ 60	0.22%
ARIZONA	5.3	\$ 25,479	\$ 272.7	\$ 51	0.20%
NEBRASKA	1.7	\$ 28,564	\$ 66.5	\$ 39	0.14%
MONTANA	0.9	\$ 23,532	\$ 30.4	\$ 34	0.14%
ALABAMA	4.5	\$ 24,426	\$ 0.0	\$ 0	0.00%
ALASKA	0.6	\$ 30,997	\$ 0.0	\$ 0	0.00%
ARKANSAS	2.7	\$ 22,912	\$ 0.0	\$ 0	0.00%
HAWAII	1.2	\$ 28,554	\$ 0.0	\$ 0	0.00%
MISSISSIPPI	2.9	\$ 21,643	\$ 0.0	\$ 0	0.00%
NEVADA	2.1	\$ 29,860	\$ 0.0	\$ 0	0.00%
NORTH CAROLINA	8.2	\$ 27,418	\$ 0.0	\$ 0	0.00%
NORTH DAKOTA	0.6	\$ 25,538	\$ 0.0	\$ 0	0.00%
OKLAHOMA	3.5	\$ 24,787	\$ 0.0	\$ 0	0.00%
SOUTH CAROLINA	4.1	\$ 24,594	\$ 0.0	\$ 0	0.00%
TENNESSEE	5.7	\$ 26,758	\$ 0.0	\$ 0	0.00%
UTAH	2.3	\$ 24,202	\$ 0.0	\$ 0	0.00%
WYOMING	0.5	\$ 28,807	\$ 0.0	\$ 0	0.00%
TOTALS	284.8	\$ 29,057	\$ 38,666.5	\$ 136	0.47%

* FISCAL YEAR 2001 UNAUDITED TOTAL LOTTERY SALES

SOURCES: LAFLEUR'S LOTTERY WORLD, STATE RANKINGS 2002: A STATISTICAL VIEW OF THE 50 STATES, SURVEY OF CURRENT BUSINESS (MAY 2002)

RIVERBOAT GAMBLING

Illinois became the second state to legalize riverboat casinos in February 1990 with the passage of the Riverboat Gambling Act (Public Act 86-1029). Riverboat gambling is administered by the Illinois Gaming Board, and generates revenues via license fees, wagering taxes, and admission taxes. The Riverboat Gambling Act set the original wagering tax at an amount equal to 20 percent of a licensee's annual adjusted gross receipts. It also authorized ten riverboat casino licenses, and specified that each licensee may operate two riverboat casinos at a single-specified location. There are currently nine active licenses operating in Illinois.

The Illinois riverboat industry has experienced four major changes since the State's first riverboat casino—the Alton Belle—was launched on September 11, 1991. These changes include: the closure of the Silver Eagle; the creation of the graduated tax structure; the approval of dockside gambling; and the recently-revised wagering and admission tax levels. The following sections briefly discuss each of the changes.

Closure of the Silver Eagle

The Silver Eagle riverboat, located in JoDaviess County, closed in July 1997. It was the first and only closure of an Illinois riverboat. 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.

Graduated Wagering Tax Structure

The implementation of a graduated tax structure on January 1, 1998 altered the State riverboat industry as it effectively increased State tax receipts. Prior to this change, the wagering tax had been a simple flat tax equal to 20 percent of a licensee's annual adjusted gross receipts. 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. The original graduated tax, which was effective until July 1, 2002, was imposed as follows:

If Adjusted Gross Receipts are	tax rate is
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

[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 P.A. 91-0040 – Dockside Gambling

When enacted on June 25, 1999, many considered P.A. 91-0040 the most important legislation to affect Illinois riverboats since the passage of the Riverboat Gambling Act. This legislation amended the original Act by authorizing dockside gambling on any Illinois body of water except Lake Michigan. Thus, riverboat casinos were no longer required to make excursions. The riverboats responded by replacing minimum cruise lengths with the continuous entrance and exit of patrons during operating hours. This change was accompanied by a change in the term “admission” to include the actual number of people entering the gaming area instead of the sum of both turnstile patron count and passengers remaining on board for one or more subsequent excursions. As a result, riverboat licensees were only required to levy the \$2 admission tax against each person that boarded a riverboat, regardless of how long he or she stayed on board.

Increased Wagering and Admission Taxes

The landscape of riverboat gambling industry was recently altered with the passage of P.A. 92-0595 on June 28, 2002. In an effort to address the FY 2003 budget shortfall, the General Assembly increased the wagering taxes imposed on adjusted gross receipts and also increased the admissions tax. The following table compares the revised graduated tax schedule against the previous tax structure.

Adjusted Gross Receipts	Previous Rates	Revised Rates
\$0 - \$25 million	15 percent	15.0 percent
\$25 - \$50 million	20 percent	22.5 percent
\$50 - \$75 million	25 percent	27.5 percent
\$75 - \$100 million	30 percent	32.5 percent
Over \$100 million	35 percent	n/a
\$100 - \$150 million	n/a	37.5 percent
\$150 - \$200 million	n/a	45.0 percent
Over \$200 million	n/a	50.0 percent

P.A. 92-0595 also amended the riverboat admissions tax. The act increased the tax to \$3 per admission and distributed \$2 to the State and \$1 to local governments. The previous admissions tax had been \$2 per admission, shared equally by the State and local governments.

These increased tax rates are expected to increase FY 2003 State revenue by approximately \$142 million. Of this additional revenue, \$19 million is expected as a result of the additional \$1 admission tax, while \$123 million is expected due to the revised graduated wagering tax schedule.

UPDATE

The Commission's Wagering in Illinois: 2000 Update focused on the changes associated with P.A. 91-0040. In regard to riverboat gaming, these changes revolved around the introduction of dockside gambling and the relocation of the dormant tenth riverboat license. While many of the predictions made in the 2000 update occurred, they were based on only a single year of data. Therefore, it is necessary to review these topics given the fact that three years have elapsed since the implementation of P.A. 91-0040.

Dockside Gambling

While the authorization of dockside gambling was expected to increase State and local revenues, few predicted the widespread success experienced by all nine Illinois riverboats. P.A. 91-0040 authorized dockside gambling effective June 25, 1999. After only one complete fiscal year of dockside gambling, the Commission stated that although very few of the Act's provisions related to riverboat gaming had been implemented,

...“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.”

Given two years of additional data, it is apparent that dockside gambling has played an important part in maintaining the vitality of riverboat gambling. The following tables examine the performance of each of the State's nine active riverboat licenses during fiscal years 1998 – 2002. (Keep in mind, dockside gambling is only reflected in the FY 2000 – FY 2002 figures. The other two years are included for comparison purposes.)

TABLE 9: ILLINOIS RIVERBOAT ADJUSTED GROSS RECEIPTS (FY 1998 - FY 2002)

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
ELGIN	\$246,793,000	\$267,876,000	\$374,666,000	\$399,304,000	\$421,718,000
JOLIET HARRAH'S	\$152,494,000	\$177,635,000	\$263,262,000	\$287,510,000	\$318,212,000
JOLIET EMPRESS	\$139,712,000	\$168,937,000	\$224,731,000	\$251,213,000	\$250,504,000
AURORA	\$153,672,000	\$168,811,000	\$211,891,000	\$222,019,000	\$250,640,000
EAST ST. LOUIS	\$115,737,000	\$121,105,000	\$154,536,000	\$155,949,000	\$155,866,000
EAST PEORIA	\$97,320,000	\$101,552,000	\$127,384,000	\$134,273,000	\$144,953,000
METROPOLIS	\$80,910,000	\$79,517,000	\$104,424,000	\$110,765,000	\$132,685,000
ALTON	\$63,965,000	\$71,628,000	\$103,183,000	\$117,498,000	\$121,431,000
ROCK ISLAND	\$15,247,000	\$13,787,000	\$25,346,000	\$34,383,000	\$37,850,000
JODAVIESS	\$71,000	\$0	\$0	\$0	\$0
TOTAL	\$1,065,921,000	\$1,170,848,000	\$1,589,423,000	\$1,712,914,000	\$1,833,859,000
% INCREASE		9.8%	35.7%	7.8%	7.1%

SOURCE: ILLINOIS GAMING BOARD

TABLE 10: ILLINOIS RIVERBOAT ADMISSIONS (FY 1998 - FY 2002)

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
ELGIN	2,253,006	2,323,887	3,607,894	3,542,209	3,312,057
JOLIET HARRAH'S	1,539,503	1,664,059	2,387,079	2,429,341	3,122,243
JOLIET EMPRESS	1,786,938	1,948,853	2,539,641	2,456,560	2,188,890
AURORA	1,837,660	1,885,163	2,845,450	2,367,235	2,499,683
EAST ST. LOUIS	1,903,265	1,705,093	2,185,336	2,058,016	2,012,569
EAST PEORIA	1,315,902	1,354,734	1,848,899	1,878,355	1,948,729
METROPOLIS	1,082,231	1,045,892	1,458,371	1,357,368	1,526,467
ALTON	1,226,556	1,201,360	1,680,240	1,705,029	1,691,891
ROCK ISLAND	405,911	366,548	688,567	794,525	831,552
JODAVIESS	4,355	0	0	0	0
TOTAL	13,355,327	13,495,589	19,241,477	18,588,638	19,134,081
% INCREASE		1.1%	42.6%	-3.4%	2.9%

SOURCE: ILLINOIS GAMING BOARD

TABLE 11: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 1998 - FY 2002)

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
ELGIN	\$46,979,521	\$71,804,654	\$103,507,694	\$110,833,409	\$117,327,457
JOLIET HARRAH'S	\$26,185,070	\$43,278,654	\$68,509,429	\$76,182,341	\$86,085,843
JOLIET EMPRESS	\$24,129,568	\$40,855,666	\$56,815,041	\$65,320,460	\$64,840,090
AURORA	\$26,563,296	\$40,890,910	\$53,313,950	\$56,472,935	\$65,191,683
EAST ST. LOUIS	\$20,035,723	\$26,777,580	\$34,644,136	\$36,390,566	\$36,235,719
EAST PEORIA	\$16,001,728	\$20,348,015	\$26,295,499	\$29,182,155	\$32,520,229
METROPOLIS	\$13,003,269	\$14,582,616	\$18,795,221	\$21,839,268	\$27,531,467
ALTON	\$10,491,746	\$12,513,651	\$18,445,690	\$23,922,529	\$25,667,191
ROCK ISLAND	\$2,575,814	\$1,956,996	\$3,223,167	\$4,533,425	\$5,143,952
TENTH LICENSE	\$16,316	\$0	\$0	\$0	\$0
TOTAL	\$185,982,051	\$273,008,742	\$383,549,827	\$424,677,088	\$460,543,631
% INCREASE		46.8%	40.5%	10.7%	8.4%

SOURCE: ILLINOIS GAMING BOARD

TABLE 12: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 1998 - FY 2002)					
	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
ELGIN	\$16,116,371	\$17,335,654	\$22,341,194	\$23,507,409	\$24,397,957
JOLIET HARRAH'S	\$10,678,670	\$12,135,154	\$15,550,179	\$16,804,841	\$19,032,843
JOLIET EMPRESS	\$10,330,118	\$12,071,016	\$13,776,191	\$15,017,210	\$14,714,090
AURORA	\$11,107,296	\$11,794,960	\$13,440,000	\$13,468,185	\$15,031,683
EAST ST. LOUIS	\$9,272,723	\$9,455,330	\$9,912,136	\$9,855,466	\$9,805,869
EAST PEORIA	\$7,519,728	\$7,773,615	\$8,218,099	\$8,592,005	\$9,196,379
METROPOLIS	\$6,162,269	\$6,064,616	\$6,679,571	\$6,895,618	\$8,160,717
ALTON	\$5,345,246	\$5,712,551	\$6,839,390	\$7,579,929	\$7,763,441
ROCK ISLAND	\$1,428,764	\$1,267,646	\$1,955,867	\$2,513,675	\$2,724,052
TENTH LICENSE	\$9,216	\$0	\$0	\$0	\$0
TOTAL	\$77,970,401	\$83,610,542	\$98,712,627	\$104,234,338	\$110,827,031
% INCREASE		7.2%	18.1%	5.6%	6.3%
SOURCE: ILLINOIS GAMING BOARD					

TABLE 13: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 1998 - FY 2002)					
	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
ELGIN	\$63,095,892	\$89,140,308	\$125,848,888	\$134,340,818	\$141,725,414
JOLIET HARRAH'S	\$36,863,740	\$55,413,808	\$84,059,608	\$92,987,182	\$105,118,686
JOLIET EMPRESS	\$34,459,686	\$52,926,682	\$70,591,232	\$80,337,670	\$79,554,180
AURORA	\$37,670,592	\$52,685,870	\$66,753,950	\$69,941,120	\$80,223,366
EAST ST. LOUIS	\$29,308,446	\$36,232,910	\$44,556,272	\$46,246,032	\$46,041,588
EAST PEORIA	\$23,521,456	\$28,121,630	\$34,513,598	\$37,774,160	\$41,716,608
METROPOLIS	\$19,165,538	\$20,647,232	\$25,474,792	\$28,734,886	\$35,692,184
ALTON	\$15,836,992	\$18,226,202	\$25,285,080	\$31,502,458	\$33,430,632
ROCK ISLAND	\$4,004,578	\$3,224,642	\$5,179,034	\$7,047,100	\$7,868,004
TENTH LICENSE	\$25,532	\$0	\$0	\$0	\$0
TOTAL	\$263,952,452	\$356,619,284	\$482,262,454	\$528,911,426	\$571,370,662
% INCREASE		35.1%	35.2%	9.7%	8.0%
SOURCE: ILLINOIS GAMING BOARD					

Dockside gambling was introduced in Illinois just prior to FY 2000, and was the key component behind the 36 percent increase in adjusted gross receipts in FY 2000 (over the FY 1999 amount). However, this increase was not limited to FY 2000, adjusted gross receipts continued to grow exhibiting an 8 percent increase between FY 2000 and FY 2001 and a 7 percent increase between FY 2001 and FY 2002.

These increases are interesting in light of the effect that dockside gambling had on riverboat admissions. In the first year of dockside gambling (FY 2000), admissions increased by nearly 43 percent over the previous fiscal year total. Since that time, admission levels have steadily decreasing by approximately 3 percent in FY 2001 before rebounding with a 3 percent increase in FY 2002.

Although dockside gambling initially increased the adjusted gross receipts and admissions totals associated with the entire industry, its long-term effects differ from

boat to boat. Between FY 2000 and FY 2002, all Illinois riverboats, with the exception of Joliet Empress and East St. Louis, experienced annual increases in their adjusted gross receipts. However, only three licenses — East Peoria, Joliet Harrah's, and Rock Island—sustained admissions increases over this same time period. The following table compares the adjusted gross receipts and admissions for each license between FY 2000 and FY 2002.

TABLE 14: ILLINOIS RIVERBOATS BY ADJUSTED GROSS RECEIPTS AND ADMISSIONS: PERCENTAGE CHANGE COMPARISON			
ADJUSTED GROSS RECEIPTS			
	% CHANGE FY 2000 OVER FY 1999	% CHANGE FY 2001 OVER FY 2000	% CHANGE FY 2002 OVER FY 2001
ELGIN	39.9%	6.6%	5.6%
JOLIET HARRAH'S	48.2%	9.2%	10.7%
JOLIET EMPRESS	33.0%	11.8%	-0.3%
AURORA	25.5%	4.8%	12.9%
EAST ST. LOUIS	27.6%	0.9%	-0.1%
EAST PEORIA	25.4%	5.4%	8.0%
METROPOLIS	31.3%	6.1%	19.8%
ALTON	44.1%	13.9%	3.3%
ROCK ISLAND	83.8%	35.7%	10.1%
TENTH LICENSE	N/A	N/A	N/A
TOTAL	35.7%	7.8%	7.1%
ADMISSIONS			
	% CHANGE FY 2000 OVER FY 1999	% CHANGE FY 2001 OVER FY 2000	% CHANGE FY 2002 OVER FY 2001
ELGIN	55.3%	-1.8%	-6.5%
JOLIET HARRAH'S	43.4%	1.8%	28.5%
JOLIET EMPRESS	30.3%	-3.3%	-10.9%
AURORA	50.9%	-16.8%	5.6%
EAST ST. LOUIS	28.2%	-5.8%	-2.2%
EAST PEORIA	36.5%	1.6%	3.7%
METROPOLIS	39.4%	-6.9%	12.5%
ALTON	39.9%	1.5%	-0.8%
ROCK ISLAND	87.9%	15.4%	4.7%
TENTH LICENSE	N/A	N/A	N/A
TOTAL	42.6%	-3.4%	2.9%
SOURCE: ILLINOIS GAMING BOARD			

Status of the Tenth Riverboat License

In Wagering in Illinois: 2000 Update, the Commission discussed a variety of issues regarding the relocation of the dormant tenth riverboat license. These issues included the possible location of a reactivated license, who would benefit from such a move, and the impact that such a move would have on existing riverboats. More than two years has elapsed since the passage of Public Act 91-0040, and the fate of the dormant tenth license is still being debated. Throughout this process, however, the Illinois Gaming Board has made it clear that it retains the power to decide when and if the license will be activated.

As of August 9, 2002, the Gaming Board has agreed to a tentative settlement with the Emerald Casino shareholders. Under the terms of the settlement, the Gaming Board will accept bids for the dormant license and make a final decision. This decision will be based on the cash amount, location, and benefit to surrounding towns. From the winning bid, \$63 million will be paid to the Emerald shareholders (equal to their initial investment), \$103 million will be paid to cover a portion of Emerald's liabilities, an unspecified amount will be used to cover the Gaming Board expenses, and the remaining amount will be paid to the State. However, if the license is not sold within eighteen months, the agreement is void and the situation will revert to its current status. Although this agreement would allow the tenth license to be located in any Illinois city, Rosemont is seeking to require that the riverboat be located in the village.

In the event that the tenth license becomes operational, its proceeds would be distributed according to the following schedule. 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.

LEGISLATION

Due to the budgetary crises experienced by the State of Illinois during FY 2002, lawmakers and other State officials looked to gambling taxes as a source of additional

State revenue. During the Spring 2002 legislative session, many proposals were introduced as a possible solution to the State's budget woes; some are discussed below.

Competitive Bidding

Competitively bidding casino licenses was mentioned numerous times in the most recent legislative session. The State of Illinois could benefit financially by competitively bidding the dormant tenth riverboat license, held until now by Emerald Casino. Although this is a new proposal in the gaming industry, many estimate that competitively bidding this license could generate hundreds of millions for the State of Illinois. In recent months, MGM Mirage Inc. offered to purchase Emerald Casino's riverboat owners license for \$615 million. Although the offer was rescinded following the passage of the recently-passed graduated tax increase, the offer could serve as a baseline when determining the fair market value of the tenth riverboat license.

Gaming Positions

At least one proposal recommended the reallocation of unused gaming positions. Under current law, each licensee is allowed 1,200 gaming positions. Only two active licensees (Alton – 1,073 and Rock Island – 728) have unused gaming positions. However, the tenth license, due to its inactive status, has 1,200 unused gaming positions. While these riverboats have unused gaming positions, other licensees are fully utilizing all of their allotted gaming positions. Furthermore, several of these licensees currently have a steady stream of customers who would also utilize additional gaming positions. Therefore, legislation sought to distribute these unused gaming positions as a means of introducing additional gaming opportunities on specified riverboats. As a result, the redistribution of unused gaming positions could increase State gaming revenue.

Cap on the Amount Transferred from Tenth License to Horse Racing Equity Fund

P.A. 91-0040 provided that 15 percent of the adjusted gross receipts associated with a reactivated tenth riverboat license would be paid from the State Gaming Fund to the Horse Racing Equity Fund (HREF). An additional provision mandated that the General Assembly replace this loss to the State Gaming Fund by appropriating an amount equal to the amount that was paid from the State Gaming Fund to the HREF in the prior calendar year. Original estimates set this transfer at approximately \$30 million annually. Despite this estimate, if the tenth license generated \$400 million in adjusted gross receipts in a fiscal year, the HREF would receive \$60 million. Furthermore, should adjusted gross receipts reach \$500 million, the HREF would receive \$75 million. As a result of this unlimited growth potential, capping the transfer amount would limit State liability while maintaining the original intent of the transfer.

TABLE 15: ILLINOIS RIVERBOAT CASINOS BY LICENSE

LICENSEE	CITY	RIVERBOAT NAME(S)	START DATE
ALTON GAMING COMPANY	ALTON	THE ALTON BELLE II	9/11/1991
PAR-A-DICE GAMING CORPORATION	EAST PEORIA	PAR-A-DICE	11/20/1991
ROCK ISLAND BOATWORKS, INC.	ROCK ISLAND	CASINO ROCK ISLAND	3/11/1992
EMPRESS CASINO - JOLIET CORPORATION	JOLIET	EMPRESS I EMPRESS II	6/17/1992
EMERALD CASINO, INC. (H.P. INC.)	* SEE NOTE		6/18/1992
SOUTHERN ILLINOIS RIVERBOAT CASINO CRUISES, INC.	METROPOLIS	HARRAH'S METROPOLIS CASINO	2/23/1993
HARRAH'S CASINO CRUISES JOLIET	JOLIET	HARRAH'S CASINO - JOLIET	5/4/1993
HOLLYWOOD CASINO - AURORA, INC.	AURORA	CITY OF LIGHTS I CITY OF LIGHTS II	6/17/1993
CASINO QUEEN, INC.	EAST ST. LOUIS	CASINO QUEEN	6/23/1993
ELGIN RIVERBOAT RESORT	ELGIN	GRAND VICTORIA	10/6/1994
* THE ILLINOIS GAMING BOARD ISSUED A "NOTICE OF DENIAL" REGARDING THE RENEWAL OF THIS LICENSE ON MARCH 6, 2001. AS OF JULY 1, 2002, THE ILLINOIS GAMING BOARD ACCEPTED A SETTLEMENT WITH EMERALD CASINO THAT WILL ALLOW IT TO SELECT THE BUYER AND LOCATION OF A NEW RIVERBOAT CASINO.			
SOURCE: ILLINOIS GAMING BOARD - 2001 ANNUAL REPORT			

RECENT GAMING DEVELOPMENTS IN BORDERING STATES

IOWA

The most significant event affecting Iowa Riverboat Gambling was the June 12, 2002 Iowa Supreme Court decision overturning differential (higher) tax rates for racetrack casino slot machines. In Iowa, slot machines located at racetracks, are taxed at progressively higher rates each year. As of January 1, 2002, receipts from the slot machines were taxed at 32 percent. However, the racetracks disagreed with paying this escalating tax, and challenged it in court. They contended that the racetrack slot machines should not be taxed at a higher rate than slot machines on Iowa riverboats, which are capped at 20 percent on receipts over \$3 million. The latest legal ruling supported the racetracks, and capped both racetrack and riverboat taxes at 20 percent. As a result, the State may experience lower gaming revenues in FY 2003.

INDIANA

In 2002, Indiana Governor Frank O'Bannon signed House Enrolled Act 1001, which increased wagering taxes and authorized dockside gambling effective July 1, 2002. Prior to this Act, Indiana riverboats were subject to a 20 percent wagering tax against their adjusted gross receipts. This Act increased the wagering tax to 22.5 percent for all riverboats choosing not to conduct dockside gambling. For those riverboats choosing dockside, it requires that they pay higher taxes in the form of a graduated rate schedule that will require riverboats in the highest profit bracket to pay a 35 percent tax on all receipts greater than \$150 million. Additional provisions require all riverboats to withhold State income tax for slot jackpots exceeding \$1,200 and keno winnings that exceed \$1,500; a move that is expected to yield \$35 million annually. Should all ten riverboats choose dockside, State revenue could increase by \$300 million annually.

MISSOURI

The State of Missouri made no changes to their riverboat gambling policy in FY 2002. Therefore, Missouri riverboats are still required to pay a flat wagering tax equal to 20 percent (18 percent State and 2 percent local) of their adjusted gross receipts. In addition, Missouri riverboats also levy a \$2 admission tax (per excursion), which is divided equally between the State and local governments.

CONCLUSION

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

The restructuring of horse racing taxes associated with P.A. 91-0040 significantly reduced both total and State racing-related revenue. In 1999 (the last year prior to the implementation of Public Act 91-0040), the State received approximately \$42 million in pari-mutuel wagering revenues. In 2001, the State received only \$13 million. Under the terms of P.A. 91-0040, horse racing revenues 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.

FY 2002 witnessed an increase in State lottery revenue as well as the introduction of the new Mega-Millions multi-state lottery game. Riding the momentum associated with a near-record \$331 million Big Game jackpot, State lottery transfers increased to \$550 million in FY 2002. Despite this increase and the addition of Mega-Millions, recent data still indicate 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. Although the addition of the Mega-Millions game could increase State revenue by approximately \$30 million annually, its long-term impact has yet to be seen.

Based on the success of dockside, riverboat gambling continues to comprise a larger share of Illinois wagering. In FY 2002, adjusted gross receipts increased by 7 percent and admissions increased by 3 percent. These increases are important, as the landscape of riverboat gambling industry changed with the Passage of P.A. 92-0595 on June 28, 2002. This legislation increased the wagering taxes imposed on adjusted gross receipts and also increased the admissions tax. These increased tax rates are expected to increase FY 2003 State revenue by approximately \$142 million. While this change, accompanied by the potential reactivation of the tenth riverboat license, should increase gaming revenue into the near future, history indicates that even revenues from this fast-growing form of gaming eventually will stabilize.

In Wagering in Illinois: 2000 Update, the Commission concluded by stating that although gaming revenues appeared to be expanding, continued growth was uncertain based on gaming saturation, as well as changes in the economic climate and gaming policy. The following statement summarized this uncertainty:

“Should Illinois experience a period of minimal growth or recession, these areas of revenue [gaming revenues] 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.”

Although the Commission had no way of accurately predicting such changes, this forecast has proven prophetic. In FY 2002, Illinois experienced a recession that significantly reduced total State revenues. The General Assembly responded by increasing taxes on State riverboat casinos. While it does not appear that the downturn in the Illinois economy significantly affected FY 2002 gaming revenues, it is important to realize that the gaming industry is still dependent upon the economic and political environment.

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
- 5) 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