

ILLINOIS ECONOMIC and FISCAL COMMISSION



**WAGERING IN ILLINOIS
2003 UPDATE**



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SPRINGFIELD, ILLINOIS 62706

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EXECUTIVE SUMMARY

The following document is the Commission's sixth 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, 2000, and 2002. These reports updated the previous releases and provided further analysis of State gaming. This report addresses the current status of Illinois wagering, the highlights of which are shown below.

- In FY 2003, the State's share of horse racing, lottery, and riverboat revenue reached \$1.107 billion, a \$69 million increase over FY 2002. Horse racing experienced no revenue growth. Lottery transfers into the Common School Fund fell nearly 3 percent while Gaming Fund transfers into the Education Assistance Fund increased by 18 percent.
- In FY 2003, riverboat taxes and fees comprised 50.0 percent of total gaming revenues, whereas lottery revenues comprised 48.8 percent, and horse racing comprised 1.2 percent. This was the first year that riverboat revenues surpassed the lottery as the largest source of State gaming revenue due in large part to the FY 2003 graduated tax increase.
- In 2002, more than \$1 billion was wagered on horse racing, which generated approximately \$13 million in State revenue and \$13 million in local revenue. Off-track wagering continues to comprise the largest percentage of horse racing wagering accounting for 50 percent of the total handle, followed by intertrack wagering (27 percent) and on-track wagering (22 percent).
- In FY 2003, lottery sales totaled approximately \$1.586 billion, a 0.3 percent decrease over FY 2002. The amount transferred into the Common School Fund was \$540.3 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. Lottery sales declined by \$4 million in FY 2003; largely due to the lack of rollovers in the new Mega Millions game.
- The instant games continue to comprise the largest percentage of lottery sales at 44 percent followed by Pick 3 (20 percent), Mega Millions (13 percent), Pick 4 (10 percent), Lotto (8 percent), and Little Lotto (5 percent).

- Riverboat casinos experienced decreases in both adjusted gross receipts and admissions in FY 2003, the first decline in several years. Adjusted gross receipts equaled \$1.798 billion (a 2.0 percent decrease over FY 2002) and admissions totaled 18.3 million (a 4.6 percent decrease over FY 2002).
- There are several possible explanations for the decline in adjusted gross receipts and admissions. These include the new graduated tax increases, competition from bordering states, congestion during peak times at some locations due to Illinois' limited number of gaming positions per facility, the recent recession, or simply that the novelty of dockside gambling in Illinois has worn off.
- Several pieces of legislation passed during the latest legislative session will affect the gaming industry. Among them was P.A. 93-0027 (SB 0606), which again increased the wagering taxes levied against adjusted gross receipts and the riverboat admissions tax. This legislation raised the maximum wagering tax rate to 70 percent and introduced a graduated admissions tax system up to \$5 per admission.
- While Illinois' adjusted gross receipts declined in FY 2003, the gaming states bordering Illinois (Indiana, Iowa, and Missouri) all experienced increases. Indiana is reported to have brought in an additional \$232 million in revenues in FY 2003 as a result of their switch to dockside gambling.
- Illinois continues to be the highest riverboat taxing state in the nation. Because of this, other states will continue to monitor Illinois' progress in the area of riverboat gaming very closely to see if raising riverboat taxes is a formidable way to raise revenues during periods of budget shortfalls.

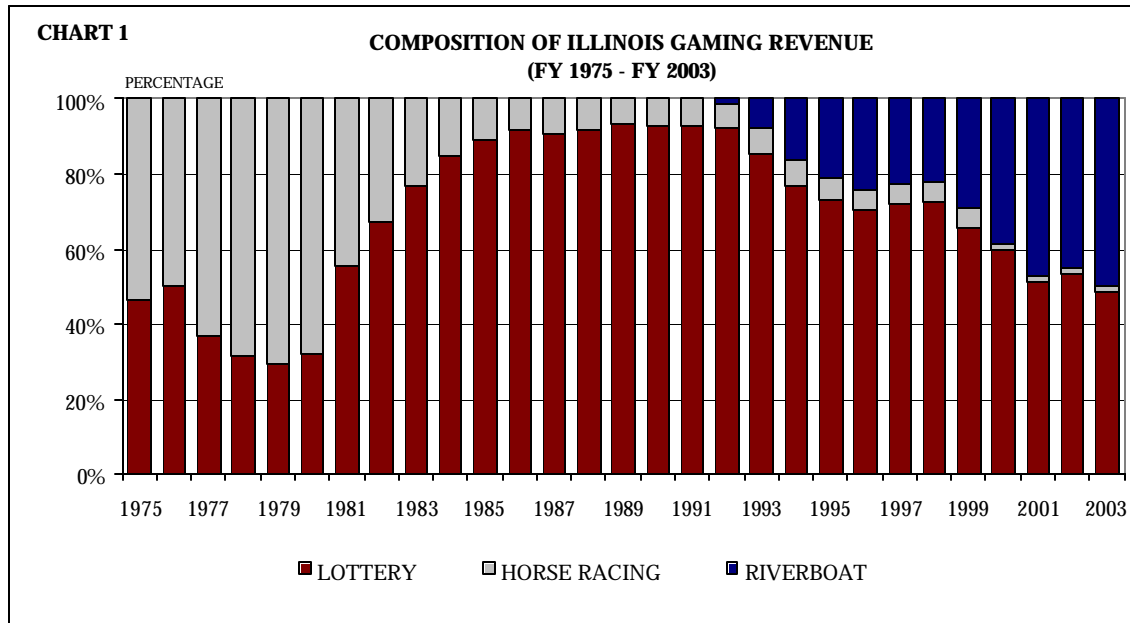
INTRODUCTION

Since the Commission published Wagering in Illinois: 2002 Update, numerous changes have altered the landscape of Illinois gaming. Some of these changes affected FY 2003 revenues while others will affect future fiscal years. In FY 2003, riverboat revenues transferred to the Education Assistance Fund increased 18 percent due to a new graduated tax increase. The Illinois Lottery saw revenues transferred to the Common School Fund fall 2.7 percent from the levels experienced in FY 2002, while State horse racing revenues were relatively flat for the fourth consecutive year. Table 1 provides 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%
2003	\$540	\$13	\$554	\$1,107	7%

(1) FIGURES REPRESENT TRANSFERS INTO THE COMMON SCHOOL FUND.
(2) FIGURES EQUAL STATE REVENUE GENERATED, NOT ALLOCATED, BASED ON A CALENDER YEAR. THE 2003 FIGURE IS AN ESTIMATE.
(3) FIGURES REPRESENT APPROPRIATIONS (FY 1992 - 1995) AND TRANSFERS (FY 1996 - FY 2003) INTO THE EDUCATION ASSISTANCE FUND.

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



In FY 2003, the State's share of horse racing, lottery, and riverboat revenue reached \$1.107 billion, which was a 7 percent increase over FY 2002. The \$69 million increase consisted of an \$84 million increase in riverboat transfers to the Education Assistance Fund, a \$15 million decrease in lottery transfers to the Common School Fund, and stagnant horse racing revenues. However, the composition of the FY 2003 gaming revenue increase is based primarily on the riverboat's increased graduated tax schedule that was implemented for FY 2003 (See Chart 1). As highlighted in the riverboat section of this report, gaming revenues would have actually decreased as FY 2003 admissions and adjusted gross receipt totals declined from their FY 2002 levels.

Since the inception of riverboat gaming, riverboat revenues have increased dramatically as a percentage of total gaming revenues, while the lottery's percentage has declined. FY 2003 was the first year that riverboat revenues surpassed lottery revenues as the largest source of State gaming revenue. In FY 2003, riverboat casinos comprised 50.0 percent of total gaming revenues, whereas lottery revenues comprised 48.8 percent, and horse racing comprised 1.2 percent. 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 four years can be traced to the implementation of P.A. 91-0040, which changed the privilege tax levied against the total pari-mutuel handle from a graduated schedule to a flat tax of 1.5 percent.

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 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, which is defined as gross receipts less winnings paid to wagerers. Since identifying the exact point at which a market is saturated is near impossible, 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 on page 4 reveals, while FY 2003 State gaming revenues totaled \$1.107 billion or a 7 percent increase over FY 2002, the gaming industry’s \$2.767 billion gaming hold declined 1.5 percent from FY 2002 levels. Furthermore, per-capita spending on gaming decreased by 2.4 percent to \$217 in FY 2003. The decline in per-capita spending was the first decline since 1998, indicating that, absent more gaming opportunities, the Illinois gaming market may be at a leveling off point. This slowdown is not surprising if a closer examination is taken.

The information in Table 2 reveals that during the six years preceding FY 2003, both horse racing and lottery were each experiencing decreasing or stagnating revenues, gaming hold, and per-capita spending. During this same time period, riverboat gaming experienced revenue, gaming hold, and per-capita spending increases. However, in FY 2003, the gaming hold and the per-capita spending for riverboats experienced declines. Because of riverboats large percentage of total gaming, the declines in riverboats translate to a similar decrease in total State gaming.

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, FY 2003 revenues fell again, despite the change to the new Mega-Millions game. As stated previously, horse racing revenue has been at a stagnant level for the last four years. Unless dramatic changes in lottery and horse racing are made, there is little evidence to indicate a turnaround in those sources in the immediate future. Therefore, it appears that any increases in State gaming revenue will be dependent upon the performance of the riverboat gaming industry.

Due to the popularity of dockside gambling combined with the graduated tax increases of FY 2003, riverboat revenues continued to experience an upward trend. The additional graduated tax increases recently implemented will help continue the increase in FY 2004. However, as will be discussed later in the report, recent data indicate that without the graduated tax increases, riverboat revenues would have fallen because both adjusted gross receipts and riverboat admissions fell in FY 2003. This would seem to call into question future revenue increases once the most recent changes are incorporated into the base.

Has Illinois reached its saturation point in riverboat gaming? Although this question is debatable, a recent study entitled “Revenue Optimization Initiative” may shed some light on this issue. The study shows that Illinois’ win-per-position amount of \$637 is much higher than Indiana’s win-per-position amount of \$299, which could be interpreted to mean that Illinois may have some room to grow if Illinois utilized more gaming positions to approach the win-per-position levels of Indiana. Certain Illinois riverboats remain capacity constrained during peak periods, indicating they could utilize additional positions. As proposed by a number of entities, these additional gaming positions could come from: the unused 10th riverboat license and the opening of a riverboat near the prime area of Chicago; changing the law that statutorily limits the number of positions at Illinois’ riverboats; or, by allowing gaming positions at other facilities besides riverboats. Without change, based on history, it is likely that once the new tax rates have been established, the revenue increases seen in recent years may approach stagnant levels and over time even begin to erode.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
POPULATION (IN MILLIONS)	11.73	11.79	11.93	12.01	12.07	12.13	12.44	12.52	12.60	12.72
HORSE RACING (CY)										
STATE REVENUE (IN MILLIONS)	\$ 47	\$ 45	\$ 46	\$ 45	\$ 42	\$ 42	\$ 13	\$ 13	\$ 13	\$ 13
GAMING HOLD (IN MILLIONS)	\$ 277	\$ 271	\$ 276	\$ 264	\$ 243	\$ 247	\$ 247	\$ 248	\$ 252	\$ 249
* PER-CAPITA SPENDING	\$ 23.6	\$ 23.0	\$ 23.2	\$ 22.0	\$ 20.1	\$ 20.4	\$ 19.8	\$ 19.8	\$ 20.0	\$ 19.6
% CHANGE IN PER-CAPITA SPENDING	-1.7%	-2.6%	0.8%	-5.0%	-8.6%	1.4%	-2.7%	-0.4%	1.1%	-2.1%
LOTTERY (FY)										
TRANSFERS TO CSF (IN MILLIONS)	\$ 552	\$ 588	\$ 594	\$ 590	\$ 560	\$ 540	\$ 515	\$ 501	\$ 555	\$ 540
GAMING HOLD (IN MILLIONS)	\$ 734	\$ 770	\$ 798	\$ 796	\$ 741	\$ 704	\$ 674	\$ 658	\$ 722	\$ 720
* PER-CAPITA SPENDING	\$ 62.5	\$ 65.3	\$ 66.9	\$ 66.2	\$ 61.4	\$ 58.0	\$ 54.2	\$ 52.5	\$ 57.3	\$ 56.6
% CHANGE IN PER-CAPITA SPENDING	-8.0%	4.4%	2.4%	-1.0%	-7.4%	-5.5%	-6.6%	-3.0%	9.1%	-1.2%
RIVERBOATS (FY)										
TRANSFERS TO EAF (IN MILLIONS)	\$ 118	\$ 171	\$ 205	\$ 185	\$ 170	\$ 240	\$ 330	\$ 460	\$ 470	\$ 554
GAMING HOLD (IN MILLIONS)	\$ 844	\$ 1,098	\$ 1,215	\$ 1,052	\$ 1,066	\$ 1,171	\$ 1,589	\$ 1,713	\$ 1,834	\$ 1,798
* PER-CAPITA SPENDING	\$ 71.9	\$ 93.1	\$ 101.8	\$ 87.6	\$ 88.3	\$ 96.6	\$ 127.8	\$ 136.8	\$ 145.5	\$ 141.3
% CHANGE IN PER-CAPITA SPENDING	124.8%	29.4%	9.4%	-14.0%	0.9%	9.4%	32.3%	7.1%	6.4%	-2.9%
ALL WAGERING										
TOTAL REVENUE (IN MILLIONS)	\$ 717	\$ 804	\$ 845	\$ 820	\$ 772	\$ 822	\$ 858	\$ 974	\$ 1,038	\$ 1,107
GAMING HOLD (IN MILLIONS)	\$ 1,855	\$ 2,139	\$ 2,290	\$ 2,112	\$ 2,049	\$ 2,122	\$ 2,510	\$ 2,618	\$ 2,808	\$ 2,767
* PER-CAPITA SPENDING	\$ 158.1	\$ 181.4	\$ 191.9	\$ 175.8	\$ 169.8	\$ 175.0	\$ 201.8	\$ 209.1	\$ 222.8	\$ 217.5
% CHANGE IN PER-CAPITA SPENDING	27.5%	14.7%	5.8%	-8.4%	-3.4%	3.1%	15.3%	3.6%	6.5%	-2.4%
* PER CAPITA SPENDING EQUALS GAMING HOLD DIVIDED BY POPULATION.										
SOURCES: ILLINOIS RACING BOARD, ILLINOIS DEPT. OF LOTTERY, ILLINOIS GAMING BOARD, STATE RANKINS: A STATISTICAL VIEW OF THE 50 STATES.										

Miscellaneous State Gaming

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 2002, the State generated \$240,770 in bingo license fees and \$4.7 million in bingo receipts taxes.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2002, the State received \$47,650 in license fees and \$109,070 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 2002, the State received \$617,550 in license fees and \$7.0 million in receipts taxes.

In total, these miscellaneous gaming revenue sources generated approximately \$12.7 million in FY 2002. This figure is 4.6 percent below the FY 2001 total of \$13.3 million. In fact, the FY 2002 figures are the lowest that they have been in the last ten years.

HORSE RACING

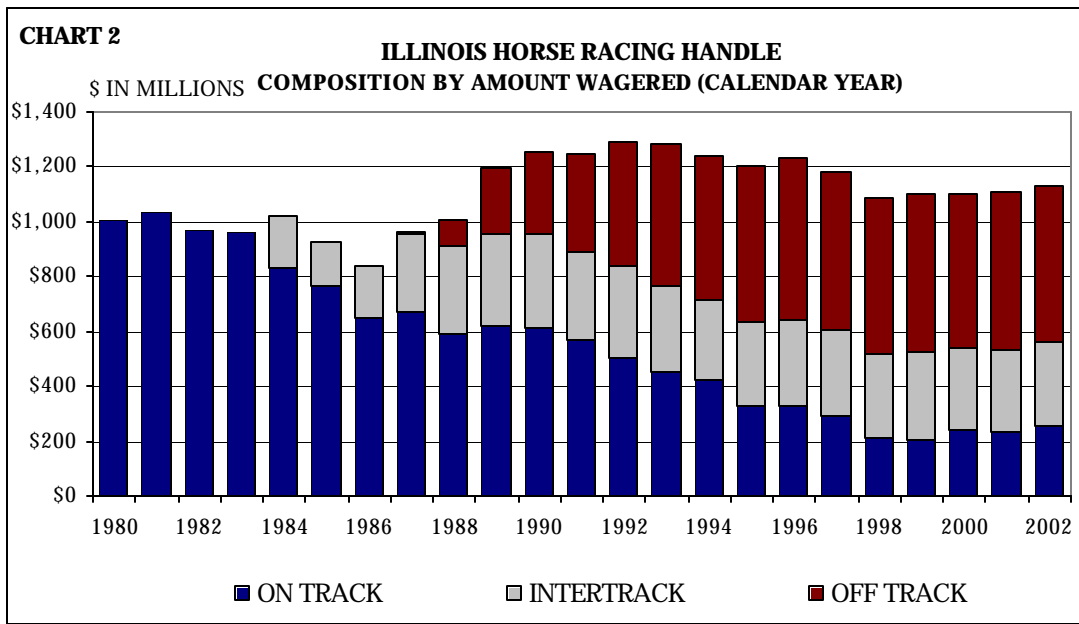
Horse racing is the oldest form of legalized gaming in Illinois. Each year more than \$1 billion is wagered on horse racing at the State's five on-track and twenty-three off-track wagering facilities. In calendar year 2002, wagering generated nearly \$26 million in total revenues with the State and local 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 (For a detailed analysis of 91-0040, please see the Commission's 2000 report). Table 3 examines the sources and allocation of CY 2002 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 2002		
REVENUE SOURCE		
LICENSE FEES	\$	105,600
ADMISSION TAXES	\$	123,276
PARI-MUTUEL TAX	\$	16,978,757
PARI-MUTUEL TAX CREDIT	\$	(4,923,216)
LICENSING	\$	268,569
FINGERPRINT FEES	\$	140,878
HORSEMEN'S FINES	\$	133,128
MISCELLANEOUS	\$	12,713
* TOTAL STATE	\$	12,839,705
2% OF OTB HANDLE TO CITY AND COUNTY	\$	11,414,880
CITY (CHICAGO) OTB ADMISSION TAX	\$	655,706
ON TRACK CITY ADMISSION TAX	\$	60,821
INTERTRACK SURCHARGE TO COUNTY (20%)	\$	717,915
* TOTAL LOCAL	\$	12,849,322
TOTAL REVENUES	\$	25,689,027
ALLOCATION OF REVENUE		
HORSE RACING FUND	\$	12,030,821
GENERAL REVENUE FUND	\$	643,286
QUARTERHORSE BREEDERS' FUND	\$	24,720
FINGERPRINT LICENSE FUND	\$	140,878
* TOTAL STATE	\$	12,839,705
TO CITIES	\$	6,423,967
TO COUNTIES	\$	6,425,355
* TOTAL LOCAL	\$	12,849,322
TOTAL REVENUES ALLOCATED	\$	25,689,027
SOURCE: ILLINOIS RACING BOARD - 2002 ANNUAL REPORT		

TABLE 4: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)					
	1998	1999	2000	2001	2002
TOTAL STATE REVENUE	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8
TOTAL LOCAL REVENUE	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8
* TOTAL REVENUES RECEIVED	\$55.4	\$56.0	\$26.1	\$26.4	\$25.7
TOTAL STATE ALLOCATIONS	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8
TOTAL LOCAL ALLOCATIONS	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8
TO CITIES	\$6.6	\$6.7	\$6.4	\$6.5	\$6.4
TO COUNTIES	\$6.7	\$6.9	\$6.3	\$6.4	\$6.4
*TOTAL REVENUES ALLOCATED	\$55.4	\$56.0	\$26.1	\$26.4	\$25.7

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

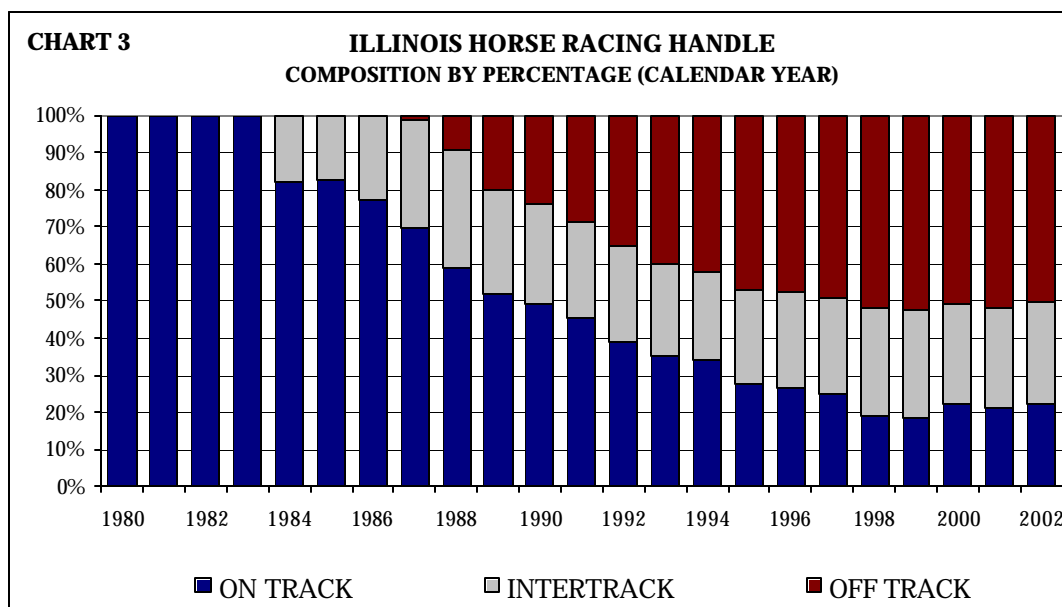
The 2002 Illinois horse racing handle increased by 2.4 percent over its 2001 amount. While any increase is noteworthy, little evidence exists supporting a long-term increase in the total handle. Instead, this increase - combined with data gathered over the past fourteen years - appears to prove the consistent nature of the total handle. As shown in Chart 2, the total racing handle has remained relatively stable since 1989, with the highest level occurring in 1992. The latest figures suggest a modest upward trend in the total handle. However, it is too early to predict a return to the wagering levels seen in the early 1990s.



In its 2002 Annual Report, the Illinois Racing Board reported that 34 percent, or \$382 million of the total handle in CY 2002 was wagered on Illinois races. The Racing Board points out that 2002 was only the second year since full-card simulcasting began in 1995 that other states wagered more on Illinois races than Illinois wagered on other states. A likely reason for this occurrence is due to the Breeders' Cup World Thoroughbred Championships, which were held at Arlington Park on October 26th, 2002. Wagering during this racing program totaled \$115.5 million, which included \$13.5 million in on-track wagering. The \$115.5 million figure set an all-time record Breeders' Cup handle.

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.

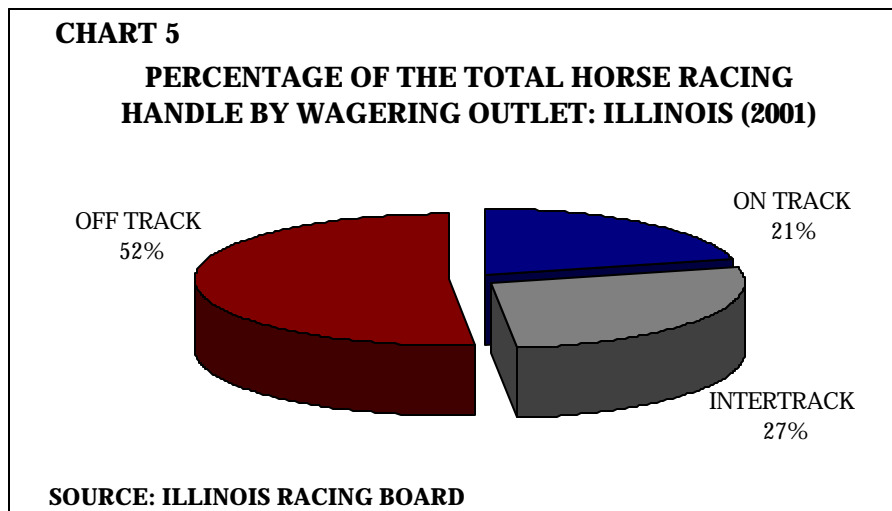
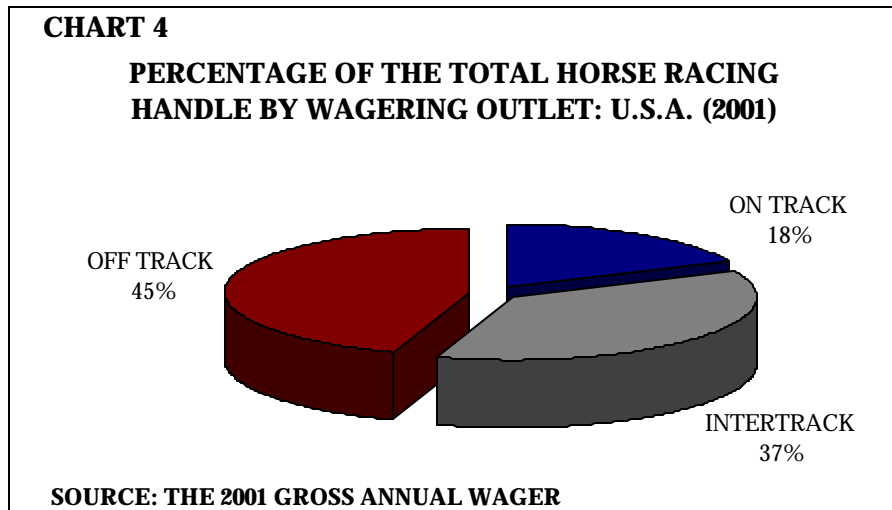
As these alternative means of wagering matured, they significantly altered the composition of the total racing handle. Between 1992 and 2002, the percentage of the total handle generated from on-track wagering fell from 39 to 22 percent. This decline coincided with a dramatic increase in participation 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 50 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 Fairmount Park which is entitled to a seventh license. In 2002, the Illinois Racing Board granted twenty-five off-track licenses; an increase of three licenses from calendar year 2001. These additional facilities included Fairmount Park's new OTB in Alton, National Jockey Club's new OTB in Mokena, and Arlington Park's new facility in South Elgin. However, the new OTB in Mokena subsequently closed at the end of 2002 and the parlor located at the Empress Riverboat Casino in Joliet closed as well. 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 additional OTB locations.

TABLE 5: ILLINOIS RACING TRACKS AND ASSOCIATED OTB'S (CY 2002)		
TRACK	COUNTY	OTB LOCATIONS
ARLINGTON RACECOURSE	COOK	CHICAGO (WEED STREET) SOUTH ELGIN WAUKEGAN
BALMORAL PARK	WILL	BLOOMINGTON CHAMPAIGN CHICAGO (CORLISS) DANVILLE PEORIA
FAIRMOUNT PARK	MADISON	ALTON CARBONDALE EFFINGHAM GRAYVILLE SAUGET SPRINGFIELD
HAWTHORNE RACE COURSE	COOK	CHICAGO (STATE STREET) OAKBROOK TERRACE ROMEDEVILLE
MAYWOOD PARK	COOK	CHICAGO (WEST JACKSON) NORTH AURORA
* QUAD CITY DOWNS	ROCK ISLAND	ROCKFORD
** SPORTSMAN'S PARK	COOK	CRESTWOOD JOLIET PERU
* DISCONTINUED ON-TRACK RACING IN 1994		
** DISCONTINUED ON-TRACK RACING IN 2002		

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



WHAT WILL THE FUTURE HOLD FOR THE ILLINOIS HORSE RACING?

Since the Commission's latest gaming report, Wagering in Illinois: 2002 Update, no significant changes to the horse racing industry has taken place that will affect State revenues. One change that did take place was the merger of Hawthorne Racecourse and Sportsman's Park. Many in the industry believe that this merger was a positive move for horse racing. However, the Illinois Racing Board has stated that this change is not expected to have an immediate impact on the horse racing handle or on revenues. Another change, albeit an administrative one, is associated with Executive Order 2003-9 (discussed on page 14). However, this too is not expected to impact revenues. Until more revenue-related changes to the industry occur, horse racing revenue in Illinois will likely continue to be stagnant.

LOTTERY

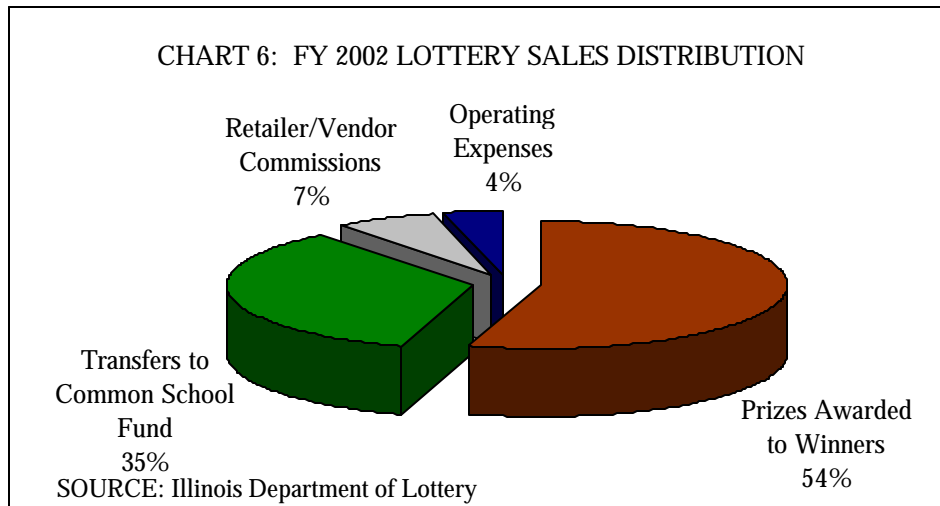
The Illinois State Lottery was authorized in 1974 and began operation in 1975. It is administered by the Department of Lottery, which generates revenue via ticket sales, agent fees, and interest-earning accounts. Following the payment of prizes, agent commissions, and administrative costs, net lottery receipts are transferred into the Common School Fund. Since its inception, total lottery sales have reached approximately \$31.4 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 2003 (IN MILLIONS)												
FISCAL YEAR	\$ 50, KENO '93	\$ 1, INSTANT	\$ 3, PICK 3	\$ 4, EXTRA	\$ 5, PICK 4	\$ 6, LOTTO	\$ 7, LITTLE LOTTO	\$ 8, BIG GAME/ MEGA MIL.	\$ 9, TOTAL SALES	\$ 10, LOTTERY TRANSFERS TO CSF	\$ 11, 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%	
2003	\$ -	\$ 697.9	\$ 314.1	\$ 12.9	\$ 161.9	\$ 121.2	\$ 78.0	\$ 199.7	\$ 1,585.8	\$ 540.3	34.1%	
TOTALS	\$ 359.9	\$ 9,756.3	\$ 7,721.7	\$ 35.6	\$ 2,460.8	\$ 8,160.6	\$ 1,778.9	\$ 1,173.7	\$ 31,447.4	\$ 11,711.4	37.2%	

Note: Mega Millions replaced the Big Game in May of 2002.
SOURCE: ILLINOIS DEPARTMENT OF LOTTERY

Table 6 reveals that FY 2003 lottery sales totaled approximately \$1.586 billion. This figure represented a 0.3 percent decline from the FY 2002 amount of \$1.590 billion, but was still the second highest total realized over the last six fiscal years. From this sum, \$540.3 million was transferred into the Common School Fund, a 2.7 percent decrease from the FY 2002 transfer amount of \$555.1 million. A closer look reveals that a \$54 million increase in the instant game and a small increase in Pick 4 sales were offset by sales declines in Pick 3, Lotto, Little Lotto, and Mega Millions.

Since the official distribution of FY 2003 sales revenue is not available, it is important to examine the most relevant data. In FY 2002, lottery winners received \$868 million, the Common School Fund received \$555 million, retailers and vendors received \$106 million, and the Department of Lottery used the remaining \$61 million to cover its operating expenses. Chart 6 illustrates the FY 2002 lottery sales distribution by percentage and although FY 2003 revenue may not be distributed according to these exact percentages, recent trends indicate that these figures provide an accurate baseline.



FY 2003 data continued many of the lottery trends discussed in the 2002 Commission report. As Table 7 details, instant games continue to comprise the greatest percentage with 44 percent of lottery sales, up from 40 percent in FY 2002. Mega Millions maintained approximately 13 percent of total lottery sales. Once again, Lotto and Little Lotto sales comprised only 8 percent and 5 percent of total lottery sales, respectively.

Recent trends have shown that Mega Millions' percentage of the total is dependent on the number of rollovers during a year. The more rollovers Mega Millions has, the more sales realized, thus a higher percentage of total lottery sales. For example, in FY 2002 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 2002 and was won on April 17th, 2002. 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 increase over the FY 2001 total of \$153.8 million. In FY 2003, fewer rollovers resulted in a decline in Mega Millions sales, which in turn reduced total lottery sales.

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/ MEGA MIL.	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
2003	-	44%	20%	1%	10%	8%	5%	13%	\$1,585.8

Note: Mega Millions replaced the Big Game in May of 2002.

SOURCE: ILLINOIS DEPARTMENT OF LOTTERY

In 1992, Laflaur'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. By 1995, Illinois ranked 19th with per-capita spending of \$134. In 2001, Illinois dropped to 22nd, with per-capita spending of \$116. Given these statistics, it appeared that Illinois' per-capita spending was on a downward trend. However, in 2002, Illinois's per-capita spending totaled \$126; an increase likely caused by the increase in Mega Millions sales. Although FY 2003 figures are not yet available, given the FY 2003 decline in sales, it is likely that FY 2003 per-capita spending will remain flat or once again continue the overall downward trend.

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. In FY 2003, the change from the Big Game to Mega Millions and the inclusion of Ohio and New York hoped to generate new enthusiasm and, thus, more revenues to the State. Although Lottery receipts were solid, Lottery transfers still declined 2.7 percent from FY 2002.

In FY 2004, no additional changes are expected to the overall gaming structure of the State Lottery program. The only significant change that will affect lottery in FY 2004 is Executive Order 2003-9 (discussed below), but this is not expected to impact revenues. Without new games scheduled, any significant increase in Lottery receipts will have to come from existing games. As mentioned previously, these increases would likely come from the Mega Millions game, with the hope that many rollovers occur leading to a huge jackpot which would generate excitement for the program and increase Mega Millions sales all over the country. If a more reliable and stable increase in Lottery revenues were desired, major changes to the Lottery structure would have to be implemented.

Executive Order 2003-9

Governor Blagojevich issued Executive Order 2003-9 as a means of transferring functions previously assigned to the Department of Lottery, the Liquor Control Commission, and the Illinois Racing Board to the Department of Revenue. Although each agency was in some way affected, the order completely abolished the Department of Lottery and transferred all of its powers, duties, rights and responsibilities to the Department of Revenue. On the other hand, the Executive Order did not severely impact the Liquor Control Board. Its powers, duties, rights and responsibilities were not affected, except that clerks and other management and staff support will now be provided by the Department of Revenue. Likewise, the Illinois Racing Board was only modestly affected, as its responsibilities were not altered, except that State veterinarians and representatives, licensing personnel, State seasonal employees, other management and staff support or employees or other resources necessary to the operation of the Board will now be provided by the Department of Revenue. The Executive Order clearly states that personnel under the Department of Lottery, the Liquor Control Commission and the Illinois Racing Board affected by this Executive Order shall continue their service within the Department of Revenue.

TABLE 8: PER-CAPITA SALES AS A PERCENTAGE OF PERSONAL INCOME (FY 2002)

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	\$ 31,319	\$ 1,171.1	\$ 1,095	3.50%
DELAWARE	0.8	\$ 32,779	\$ 674.0	\$ 835	2.55%
SOUTH DAKOTA	0.8	\$ 26,894	\$ 630.0	\$ 828	3.08%
MASSACHUSETTES	6.4	\$ 39,244	\$ 4,213.2	\$ 655	1.67%
WEST VIRGINIA	1.8	\$ 23,688	\$ 848.6	\$ 471	1.99%
DISTRICT OF COLUMBIA	0.6	\$ 42,120	\$ 211.1	\$ 370	0.88%
GEORGIA	8.6	\$ 28,821	\$ 2,449.4	\$ 286	0.99%
CONNECTICUT	3.5	\$ 42,706	\$ 907.9	\$ 262	0.61%
NEW YORK	19.2	\$ 36,043	\$ 4,753.6	\$ 248	0.69%
NEW JERSEY	8.6	\$ 39,453	\$ 2,068.5	\$ 241	0.61%
MARYLAND	5.5	\$ 36,298	\$ 1,306.6	\$ 239	0.66%
OREGON	3.5	\$ 28,731	\$ 816.9	\$ 232	0.81%
OHIO	11.4	\$ 29,405	\$ 1,983.1	\$ 174	0.59%
MICHIGAN	10.1	\$ 30,296	\$ 1,688.0	\$ 168	0.55%
NEW HAMPSHIRE	1.3	\$ 34,334	\$ 212.9	\$ 167	0.49%
PENNSYLVANIA	12.3	\$ 31,727	\$ 1,934.2	\$ 157	0.49%
KENTUCKY	4.1	\$ 25,579	\$ 638.7	\$ 156	0.61%
VIRGINIA	7.3	\$ 32,922	\$ 1,108.1	\$ 152	0.46%
FLORIDA	16.7	\$ 29,596	\$ 2,330.4	\$ 139	0.47%
TEXAS	21.8	\$ 28,551	\$ 2,966.3	\$ 136	0.48%
VERMONT	0.6	\$ 29,567	\$ 82.0	\$ 133	0.45%
ILLINOIS	12.6	\$ 33,404	\$ 1,590.2	\$ 126	0.38%
MAINE	1.3	\$ 27,744	\$ 157.9	\$ 122	0.44%
MISSOURI	5.7	\$ 28,936	\$ 585.2	\$ 103	0.36%
INDIANA	6.2	\$ 28,240	\$ 626.3	\$ 102	0.36%
COLORADO	4.5	\$ 33,276	\$ 408.0	\$ 91	0.27%
CALIFORNIA	35.1	\$ 32,996	\$ 2,915.9	\$ 83	0.25%
WISCONSIN	5.4	\$ 29,923	\$ 427.6	\$ 79	0.26%
SOUTH CAROLINA	4.1	\$ 25,400	\$ 320.0	\$ 78	0.31%
MINNESOTA	5.0	\$ 34,071	\$ 377.4	\$ 75	0.22%
WASHINGTON	6.1	\$ 32,677	\$ 438.6	\$ 72	0.22%
NEW MEXICO	1.9	\$ 23,941	\$ 134.0	\$ 72	0.30%
KANSAS	2.7	\$ 29,141	\$ 190.1	\$ 70	0.24%
LOUISIANA	4.5	\$ 25,446	\$ 311.6	\$ 70	0.27%
IDAHO	1.3	\$ 25,057	\$ 92.7	\$ 69	0.28%
IOWA	2.9	\$ 28,280	\$ 181.2	\$ 62	0.22%
ARIZONA	5.5	\$ 26,183	\$ 294.8	\$ 54	0.21%
NEBRASKA	1.7	\$ 29,771	\$ 73.9	\$ 43	0.14%
MONTANA	0.9	\$ 25,020	\$ 33.6	\$ 37	0.15%
ALABAMA	4.5	\$ 25,128	\$ 0.0	\$ 0	0.00%
ALASKA	0.6	\$ 32,151	\$ 0.0	\$ 0	0.00%
ARKANSAS	2.7	\$ 23,512	\$ 0.0	\$ 0	0.00%
HAWAII	1.2	\$ 30,001	\$ 0.0	\$ 0	0.00%
MISSISSIPPI	2.9	\$ 22,372	\$ 0.0	\$ 0	0.00%
NEVADA	2.2	\$ 30,180	\$ 0.0	\$ 0	0.00%
NORTH CAROLINA	8.3	\$ 27,711	\$ 0.0	\$ 0	0.00%
NORTH DAKOTA	0.6	\$ 26,982	\$ 0.0	\$ 0	0.00%
OKLAHOMA	3.5	\$ 25,575	\$ 0.0	\$ 0	0.00%
TENNESSEE	5.8	\$ 27,671	\$ 0.0	\$ 0	0.00%
UTAH	2.3	\$ 24,306	\$ 0.0	\$ 0	0.00%
WYOMING	0.5	\$ 30,578	\$ 0.0	\$ 0	0.00%
TOTALS	288.4	\$ 29,917	\$ 42,153.4	\$ 146	0.49%

SOURCES: NORTH AMERICAN ASSOCIATION OF STATE AND PROVINCIAL LOTTERIES, STATE RANKINGS 2002:
A STATISTICAL VIEW OF THE 50 STATES, SURVEY OF CURRENT BUSINESS (MAY 2003)

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 several 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 in 1997; the creation of the graduated tax structure in 1998; the approval of dockside gambling in 1999; and two increases in the wagering and admission tax rates, the first for FY 2003 and the second for FY 2004. Since many of these topics were covered in earlier Commission reports, this update focuses on the changes associated with the increases related to the FY 2003 and FY 2004 graduated wagering tax schedule. In addition, this section summarizes other related legislation passed during the latest legislative session.

P.A. 92-0595 (Increased Wagering and Admission Taxes for FY 2003)

The State replaced its flat wagering tax of 20 percent with a graduated tax structure on January 1, 1998. This schedule levied a maximum tax rate of 35 percent against adjusted gross receipts exceeding \$100 million. However, the landscape of riverboat gambling industry was dramatically altered in 2002 with the passage of P.A. 92-0595. In an effort to address the FY 2003 budget shortfall, the General Assembly increased the wagering taxes imposed on adjusted gross receipts and increased the admissions tax. The following table compares the revised graduated tax schedule to the previous tax structure.

Adjusted Gross Receipts	Previous Rates	FY 2003 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.

P.A. 93-0027 (Increased Wagering and Admission Taxes for FY 2004)

On July 1, 2003, P.A. 93-0027 (SB 1606) amended the Riverboat Gambling Act by adjusting the admissions and wagering taxes associated with riverboat gaming. The Act introduces a graduated admissions tax levying a \$4 admission tax (\$3 State/\$1 Local) against each riverboat that admitted up to 2.3 million persons in the previous calendar year, and a \$5 admissions tax (\$4 State/\$1 Local) against each riverboat that admitted more than 2.3 million persons in the previous calendar year. The Act revises the wagering tax schedule levied against the adjusted gross receipts of the State's riverboats and specifies that the additional wagering tax revenues shall be paid into the Common School Fund. The new rates are as follows:

Adjusted Gross Receipts			Revised Rates
up to	- \$25.0	million	15.0%
\$25.0	- \$37.5	million	27.5%
\$37.5	- \$50.0	million	32.5%
\$50.0	- \$75.0	million	37.5%
\$75.0	- \$100.0	million	45.0%
\$100.0	- \$250.0	million	50.0%
over	\$250.0	million	70.0%

However, these tax rates would cease to be imposed beginning on the earlier of (i) July 1, 2005; (ii) the first date after the effective date of this Act that riverboat gambling operations commence pursuant to a dormant riverboat license or (iii) the first day that riverboat gambling operations are conducted under the authority of a riverboat license that is in addition to the currently authorized 10 riverboat licenses. At that time, the tax rates would return to previous levels. These rates are as follows:

Adjusted Gross Receipts			Current Rates
up to	- \$25.0	million	15.0%
\$25.0	- \$50.0	million	22.5%
\$50.0	- \$75.0	million	27.5%
\$75.0	- \$100.0	million	32.5%
\$100.0	- \$150.0	million	37.5%
\$150.0	- \$200.0	million	45.0%
over	\$200.0	million	50.0%

P.A. 93-0028 (SB 1607)

P.A. 93-0028 (SB 1607) amends the Riverboat Gambling Act by adding provisions regarding the re-issuance of a revoked or non-renewed owners license. The provisions provide that if an owners license terminates or expires without renewal or the Illinois Gaming Board (the Board) revokes or determines not to renew an owners license, the Board may re-issue the owners license pursuant to a competitive bidding process. However, the Board may not re-issue an owners license unless its revocation or determination not to renew the license is final. The Board shall consider all defined criteria as well as the amounts of the license bids when awarding a re-issued license.

If, after reviewing each application, the Gaming Board determines that the highest prospective total revenue to the State would be derived from State conduct of the gambling operation, the Act authorizes the State to assume such gambling operations. Given this condition, the Board shall inform each applicant and commence a competitive bidding process for issuance of a manager's license. Should the Board elect to conduct riverboat gambling operations, it may do so without an owner's license and the number of owner's licenses that the Board may issue shall be reduced by one. The manager's license shall be for a term not to exceed 10 years, with an option for renewal.

The Act amends other provisions of the Riverboat Gambling Act by authorizing all owners licensees that operate from home docks on the Mississippi River to relocate to new home dock locations that meet specified requirements and replacing the flat admissions tax with a graduated schedule. The revised graduated rates levy a \$3 admissions tax (\$2 State/\$1 Local) on each riverboat that admitted 1 million or fewer persons in the previous calendar year, a \$4 admissions tax (\$3 State/\$1 Local) on each riverboat that admitted between 1 million and 2.3 million persons in the previous calendar year, and a \$5 admissions tax (\$4 State/\$1 Local) on each riverboat that admitted in excess of 2.3 million persons in the previous calendar year. Although this graduated schedule conflicts with the schedule introduced by P.A. 93-0027, this revised schedule takes precedence. Furthermore, the Act amends P.A. 91-0040 by replacing the Public Act's inseverability clause with a severability clause.

Impact of P.A. 93-0027 (SB 1606) and P.A. 93-0028 (SB 1607)

So, how will these two pieces of legislation impact State gaming revenue? That depends in large part who is being asked the question. While the Governor's Office of Management and Budget earlier projected the increased gaming revenues would total approximately \$200 million, a representative of the gaming industry stated the impact could be less than half of that amount. At this time, the Commission would gauge the most likely range to run between the \$125 million to \$175 million, but it will take a number of months of actual data to refine that estimate.

Furthermore, the changes associated with the re-issuance of an inactive riverboat license will increase State revenue by an additional amount dependent upon the eventual outcome. Should the Board choose to re-issue the dormant 10th license, the amount of additional State revenue will be dependent upon the licensed bid amount associated with the “winning” bid and the tax revenue generated via the adjusted gross receipts and admissions of a re-issued 10th riverboat license. If, however, the Board decides against re-issuing the 10th riverboat license and opts for State control, the amount will depend upon the “winning” managers license bid amount and the adjusted gross receipts and admissions associated with a re-issued 10th riverboat license.

Despite this uncertainty, there is little doubt regarding the ultimate success of an additional riverboat located in the Chicago area. The Commission believes that such a riverboat would rival the success experienced by the Grand Victoria in Elgin. In FY 2003, the Grand Victoria’s adjusted gross receipts totaled \$383.2 million and admissions equaled 2.8 million. Given these figures, the Grand Victoria generated approximately \$166.1 million in total FY 2003 tax revenue (\$144.2 million State/\$21.9 million Local). The Commission estimates that the Grand Victoria’s adjusted gross receipts will equal \$358.3 million and admissions will equal 2.6 million in FY 2004. Utilizing the increased FY 2004 wagering tax schedule, the Commission expects the Grand Victoria to generate approximately \$195.7 million in total FY 2004 tax revenue (\$175.2 million State/\$20.5 million Local).

CURRENT STATUS OF RIVERBOAT GAMING

On June 25, 1999, P.A. 91-0040 authorized dockside gambling in Illinois. When dockside gambling was authorized, it was created with expectations that this allowance would play an important part in maintaining the vitality of riverboat gambling. These expectations were realized as adjusted gross receipts and the “patron” (admissions) count of all nine active riverboat licenses in Illinois saw significant gains in the first year of dockside gambling. This is shown in Tables 9 - 13, which examine the performance of each of the State’s nine active riverboat licenses during fiscal years 1999 – 2003. (Keep in mind, dockside gambling is only reflected in the FY 2000 – FY 2003 figures. FY 1999 is included for comparison purposes only.)

Dockside Gambling was the key component behind the near-36 percent increase in adjusted gross receipts in FY 2000 (over the FY 1999 amount). This is shown in Table 9. This increase was not limited to FY 2000 as 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. However, the upward trend in adjusted gross receipts dramatically changed in FY 2003 as receipts fell nearly 2 percent and admissions decreased 4.6 percent.

What caused the decrease in adjusted gross receipts and admissions for Illinois riverboats? Gaming experts have offered several different reasons for this occurrence. The following paragraphs examine these different points of view.

- Several gaming associations argue that one reason for the decline in receipts and attendance is based on the recent increases in Illinois’ tax structure. Illinois replaced its flat wagering tax with a graduated tax in 1998 and has since revised the corresponding tax rates for FY 2003 and again for FY 2004, leaving Illinois as the highest taxing gaming state in the nation. As a consequence, gaming operators who own casinos in Illinois and pay higher taxes have less profitable income to reinvest into their own casinos. Less reinvestment means casino operators are not able to offer as many incentives to potential riverboat patrons, such as cheaper food/accommodations, give-a-ways, non-gambling entertainment, or improved facilities. Without these incentives, casinos may be having trouble keeping their regular attendees or attracting other potential patrons.

Casino operators argue that this instability in the tax structure has created uncertainty as they prepare for future marketing, capital, and operating expenses. Several Illinois operators own casinos in other states and may choose to spend their money outside Illinois. This opinion is supported by the Missouri Gaming Commission, which stated in its 2002 Annual Report that their flat wagering tax of 20 percent gives them an advantage over Illinois, as “Missouri’s flat tax on adjusted gross receipts is more conducive to larger capital investments, thus producing more attractive facilities with more non-gaming amenities.” In their view, Illinois’s graduated tax system is an “ill-advised economic policy that should not be adopted in (Missouri).”

In response to the tax changes, casino operators are looking for ways to maintain their profit margins, realizing that more of their gross income must be paid as taxes. Remedies for reducing expenses include reducing marketing expenses, operating hours, and payroll. For example, the Illinois Gaming Board recently agreed to let four casinos (Alton, Aurora, Joliet Empress, and Joliet Harrah's) to scale back in operating hours as a means of reducing their operating expenses. In addition, some riverboats are reducing personnel by replacing popular table games with more profitable electronic gaming devices. Again, these cutbacks may be contributing to the reduction in admissions and adjusted gross receipts.

- A second possibility for the decline in adjusted gross receipts and admissions is competition from neighboring states, especially the state of 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. The allowance of dockside gambling put Indiana on equal footing with Illinois in the area of accessibility to boarding riverboats. In fact, the Indianapolis Star reports that dockside gambling brought Indiana's casinos an additional \$232 million in revenues in FY 2003, which set new state records in casino receipts. Unfortunately for Illinois, much of this increase in receipts may have come from Illinois residents that crossed the border to visit Indiana's five Chicagoland casinos.

One possible reason why Indiana may be attracting Illinois residents to their casinos is that the casinos in northwest Indiana are more easily accessed than the casinos in the Chicago suburbs, thus intercepting riverboat patrons coming from the densely populated core of Chicago. Because the City of Chicago is currently without a casino near the city's center, many potential gamers are attending the easily accessible Indiana casinos rather than traveling to casinos in Elgin, Aurora, or Joliet.

- Another possible reason for the decline is because of the congestion problems occurring at some of Illinois' riverboats. Some argue that many of the casinos in Illinois, particularly those in the Chicagoland area, remain capacity constrained during peak periods, thereby inhibiting additional growth. A contributing factor to this is Illinois' limit on the number of gaming positions per facility. While Illinois limits the number of gaming positions that each casino may operate at 1,200, Indiana is able to offer more gaming positions, which in turn minimizes congestion and creates a more comfortable environment. The latest figures indicate that Indiana currently has approximately 10,000 gaming positions at its five Chicago area boats, while Illinois is limited to 4,800 gaming positions at its four locations.

- Some argue that the decline in AGR and admissions is due to the country's recent economic climate. In FY 2002, Illinois experienced a recession that had a significant effect on the State's economy. Although economists have stated that the recession is now over, the economy has been slow to recover. Because of this, people throughout the nation have had less money to spend on non-essential items such as gaming entertainment. While the extent of the impact that the recession had on the riverboat industry is not known, it certainly could have played a part in the declines.
- The final argument for the decline in AGR and admissions is simply that the novelty of dockside gambling may have lost its draw. When dockside gambling was first allowed in Illinois, it generated new excitement over the increased accessibility, as patrons no longer had to rely on mandated cruise schedules to participate on the boats. However, now that dockside gambling has matured, the excitement over this accessibility may have worn off, and a new patron "base" may have been established.

TABLE 9: ILLINOIS RIVERBOAT ADJUSTED GROSS RECEIPTS (FY 1999 - FY 2003)

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
ELGIN	\$267,876,000	\$374,666,000	\$399,304,000	\$421,718,000	\$383,221,000
JOLIET HARRAH'S	\$177,635,000	\$263,262,000	\$287,510,000	\$318,212,000	\$305,030,000
JOLIET EMPRESS	\$168,937,000	\$224,731,000	\$251,213,000	\$250,504,000	\$237,282,000
AURORA	\$168,811,000	\$211,891,000	\$222,019,000	\$250,640,000	\$280,356,000
EAST ST. LOUIS	\$121,105,000	\$154,536,000	\$155,949,000	\$155,866,000	\$157,876,000
EAST PEORIA	\$101,552,000	\$127,384,000	\$134,273,000	\$144,953,000	\$144,043,000
METROPOLIS	\$79,517,000	\$104,424,000	\$110,765,000	\$132,685,000	\$134,279,000
ALTON	\$71,628,000	\$103,183,000	\$117,498,000	\$121,431,000	\$116,136,000
ROCK ISLAND	\$13,787,000	\$25,346,000	\$34,383,000	\$37,850,000	\$39,473,000
JODAVIESS	\$0	\$0	\$0	\$0	\$0
TOTAL	\$1,170,848,000	\$1,589,423,000	\$1,712,914,000	\$1,833,859,000	\$1,797,696,000
% INCREASE	9.84%	35.75%	7.77%	7.06%	-1.97%

SOURCE: ILLINOIS GAMING BOARD

TABLE 10: ILLINOIS RIVERBOAT ADMISSIONS (FY 1999 - FY 2003)

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
ELGIN	2,323,887	3,607,894	3,542,209	3,312,057	2,765,342
JOLIET HARRAH'S	1,664,059	2,387,079	2,429,341	3,122,243	3,007,687
JOLIET EMPRESS	1,948,853	2,539,641	2,456,560	2,188,890	2,219,458
AURORA	1,885,163	2,845,450	2,367,235	2,499,683	2,490,552
EAST ST. LOUIS	1,705,093	2,185,336	2,058,016	2,012,569	2,023,378
EAST PEORIA	1,354,734	1,848,899	1,878,355	1,948,729	1,887,695
METROPOLIS	1,045,892	1,458,371	1,357,368	1,526,467	1,450,530
ALTON	1,201,360	1,680,240	1,705,029	1,691,891	1,601,270
ROCK ISLAND	366,548	688,567	794,525	831,552	807,731
JODAVIESS	0	0	0	0	0
TOTAL	13,495,589	19,241,477	18,588,638	19,134,081	18,253,643
% INCREASE	1.05%	42.58%	-3.39%	2.93%	-4.60%

SOURCE: ILLINOIS GAMING BOARD

TABLE 11: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 1999 - FY 2003)					
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
ELGIN	\$71,804,654	\$103,507,694	\$110,833,409	\$117,327,457	\$144,161,334
JOLIET HARRAH'S	\$43,278,654	\$68,509,429	\$76,182,341	\$86,085,843	\$109,413,874
JOLIET EMPRESS	\$40,855,666	\$56,815,041	\$65,320,460	\$64,840,090	\$67,119,094
AURORA	\$40,890,910	\$53,313,950	\$56,472,935	\$65,191,683	\$95,773,179
EAST ST. LOUIS	\$26,777,580	\$34,644,136	\$36,390,566	\$36,235,719	\$42,730,156
EAST PEORIA	\$20,348,015	\$26,295,499	\$29,182,155	\$32,520,229	\$37,656,565
METROPOLIS	\$14,582,616	\$18,795,221	\$21,839,268	\$27,531,467	\$33,858,335
ALTON	\$12,513,651	\$18,445,690	\$23,922,529	\$25,667,191	\$28,086,740
ROCK ISLAND	\$1,956,996	\$3,223,167	\$4,533,425	\$5,143,952	\$6,693,387
TENTH LICENSE	\$0	\$0	\$0	\$0	\$0
TOTAL	\$273,008,742	\$383,549,827	\$424,677,088	\$460,543,631	\$565,492,664
% INCREASE	46.79%	40.49%	10.72%	8.45%	22.79%
SOURCE: ILLINOIS GAMING BOARD					

TABLE 12: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 1999 - FY 2003)					
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
ELGIN	\$17,335,654	\$22,341,194	\$23,507,409	\$24,397,957	\$21,926,392
JOLIET HARRAH'S	\$12,135,154	\$15,550,179	\$16,804,841	\$19,032,843	\$18,259,187
JOLIET EMPRESS	\$12,071,016	\$13,776,191	\$15,017,210	\$14,714,090	\$14,083,558
AURORA	\$11,794,960	\$13,440,000	\$13,468,185	\$15,031,683	\$16,508,352
EAST ST. LOUIS	\$9,455,330	\$9,912,136	\$9,855,466	\$9,805,869	\$9,917,178
EAST PEORIA	\$7,773,615	\$8,218,099	\$8,592,005	\$9,196,379	\$9,089,845
METROPOLIS	\$6,064,616	\$6,679,571	\$6,895,618	\$8,160,717	\$8,164,480
ALTON	\$5,712,551	\$6,839,390	\$7,579,929	\$7,763,441	\$7,408,070
ROCK ISLAND	\$1,267,646	\$1,955,867	\$2,513,675	\$2,724,052	\$2,781,381
TENTH LICENSE	\$0	\$0	\$0	\$0	\$0
TOTAL	\$83,610,542	\$98,712,627	\$104,234,338	\$110,827,031	\$108,138,443
% INCREASE	7.23%	18.06%	5.59%	6.32%	-2.43%
SOURCE: ILLINOIS GAMING BOARD					

TABLE 13: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 1999 - FY 2003)					
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
ELGIN	\$89,140,308	\$125,848,888	\$134,340,818	\$141,725,414	\$166,087,726
JOLIET HARRAH'S	\$55,413,808	\$84,059,608	\$92,987,182	\$105,118,686	\$127,673,061
JOLIET EMPRESS	\$52,926,682	\$70,591,232	\$80,337,670	\$79,554,180	\$81,202,652
AURORA	\$52,685,870	\$66,753,950	\$69,941,120	\$80,223,366	\$112,281,531
EAST ST. LOUIS	\$36,232,910	\$44,556,272	\$46,246,032	\$46,041,588	\$52,647,334
EAST PEORIA	\$28,121,630	\$34,513,598	\$37,774,160	\$41,716,608	\$46,746,410
METROPOLIS	\$20,647,232	\$25,474,792	\$28,734,886	\$35,692,184	\$42,022,815
ALTON	\$18,226,202	\$25,285,080	\$31,502,458	\$33,430,632	\$35,494,810
ROCK ISLAND	\$3,224,642	\$5,179,034	\$7,047,100	\$7,868,004	\$9,474,768
TENTH LICENSE	\$0	\$0	\$0	\$0	\$0
TOTAL	\$356,619,284	\$482,262,454	\$528,911,426	\$571,370,662	\$673,631,107
% INCREASE	35.11%	35.23%	9.67%	8.03%	17.90%
SOURCE: ILLINOIS GAMING BOARD					

If the novelty of dockside gambling has worn off and the competition from other states has intensified, the adjusted gross receipts and admissions totals associated with the entire industry have predictably begun to decline. Although total adjusted gross receipts declined nearly 2 percent in FY 2003 and admissions declined 4.6 percent, individual riverboat's annual changes differ from boat to boat. For example, Aurora's adjusted gross receipts increased nearly 12 percent in FY 2003 compared to FY 2002, while Rock Island's receipts increased 4.3 percent. However, this increase was more than offset by adjusted gross receipt declines for Elgin (-9.1 percent), Joliet Empress (-5.3 percent), Alton (-4.4 percent), and Joliet Harrah's (-4.1 percent). The following table compares the adjusted gross receipts and admissions for each license over the past three fiscal years.

TABLE 14: ILLINOIS RIVERBOATS BY ADJUSTED GROSS RECEIPTS AND ADMISSIONS: PERCENTAGE CHANGE COMPARISON			
ADJUSTED GROSS RECEIPTS			
	% CHANGE FY 2001 OVER FY 2000	% CHANGE FY 2002 OVER FY 2001	% CHANGE FY 2003 OVER FY 2002
ELGIN	6.58%	5.61%	-9.13%
JOLIET HARRAH'S	9.21%	10.68%	-4.14%
JOLIET EMPRESS	11.78%	-0.28%	-5.28%
AURORA	4.78%	12.89%	11.86%
EAST ST. LOUIS	0.91%	-0.05%	1.29%
EAST PEORIA	5.41%	7.95%	-0.63%
METROPOLIS	6.07%	19.79%	1.20%
ALTON	13.87%	3.35%	-4.36%
ROCK ISLAND	35.65%	10.08%	4.29%
TENTH LICENSE	N/A	N/A	N/A
TOTAL	7.77%	7.06%	-1.97%
ADMISSIONS			
	% CHANGE FY 2001 OVER FY 2000	% CHANGE FY 2002 OVER FY 2001	% CHANGE FY 2003 OVER FY 2002
ELGIN	-1.82%	-6.50%	-16.51%
JOLIET HARRAH'S	1.77%	28.52%	-3.67%
JOLIET EMPRESS	-3.27%	-10.90%	1.40%
AURORA	-16.81%	5.60%	-0.37%
EAST ST. LOUIS	-5.83%	-2.21%	0.54%
EAST PEORIA	1.59%	3.75%	-3.13%
METROPOLIS	-6.93%	12.46%	-4.97%
ALTON	1.48%	-0.77%	-5.36%
ROCK ISLAND	15.39%	4.66%	-2.86%
TENTH LICENSE	N/A	N/A	N/A
TOTAL	-3.39%	2.93%	-4.60%
SOURCE: ILLINOIS GAMING BOARD			

WHAT WILL THE FUTURE HOLD FOR THE ILLINOIS RIVERBOATS?

The focus for Illinois' gaming has turned almost exclusively to riverboat gambling. As stated previously, riverboat gaming is now the largest component of gaming in the State. The dramatic growth of gaming in Illinois over the last several years was first fueled by the inception of dockside gambling. However, now that the novelty of dockside gambling has apparently worn off, the growth in gambling revenue is now fueled by the increases in the wagering and admissions taxes. The latest recent downturn in riverboat figures would indicate that once the new tax rates have been established, it may be likely that revenues would once again stagnate or possibly even decrease in out years.

Due to this development, most would agree that the future of riverboat revenues is dependent on the political environment. As stated before, the latest efforts to increase riverboat revenues have come from wagering and admission tax increases. However, because Illinois is already the highest taxing state in the country, it would seem unlikely that the State would increase riverboat taxes again to generate additional revenues. If the riverboat industry were again looked upon for an increase in State revenues, other options would likely be explored. Several entities during the latest legislative session offered various proposals that would generate additional revenues without increasing taxes. The following section summarizes these proposals.

Lang Gaming Package

During the latter half of the legislative session, Representative Lou Lang unveiled a comprehensive package of gaming legislation that sought to restructure State gaming, while simultaneously increasing State gaming revenues and easing the budget crisis. His gaming proposals, included within three pieces of legislation (HB 146, HB 147, and HB 148), included increasing the maximum number of gaming devices permitted at Illinois riverboats, adding slot machines at Illinois horse racing tracks, legalizing video poker machines at authorized retail and fraternal establishments, and authorizing a riverboat Casino license for the City of Chicago. Although the proposals were amended throughout the legislative process, Lang originally estimated that these gaming proposals would increase State gaming revenue by between \$1.8 billion and \$2.6 billion in FY 2004 and between \$1.3 billion and \$1.9 billion in the following years.

A Better Deal for Illinois

In January 2003, the Illinois Casino Gaming Association released "A Better Deal for Illinois". The proposal was the casino industry's attempt at increasing State gaming revenue as a means of addressing the State's budget shortfall, while improving the business climate for Illinois riverboat casino operators that resulted due to the increased graduated tax for FY 2003. In this effort, the proposal attempted to amend the Illinois Riverboat Gambling Act by increasing the number of electronic gaming devices and/or

table games permitted at each riverboat casino and returning the wagering and admissions tax rates to those enforced prior to 2002 (given the “reauthorization” of the inactive tenth riverboat license). At that time, the Illinois Casino Gaming Association estimated that these changes would increase State gaming tax revenue by \$274 million and local gaming tax revenue by \$75 million, as well as create additional jobs and incentives for both gaming and non-gaming related businesses.

Revenue Optimization Initiative

In March 2003, the Illinois horse racing industry released the Revenue Optimization Initiative (R.O.I.). This proposal was the horse racing industry’s attempt at increasing State gaming revenue as a means of addressing the State’s budget shortfall, while improving the business climate for both the horse racing industry as well as the riverboat casino industry. In this attempt, the R.O.I. attempted to amend the Horse Racing Act of 1975 and the Riverboat Gambling Act by increasing riverboat gaming positions by 6,700, adding 5,000 limited gaming positions (electronic gaming devices, a.k.a. slot machines) at the five active Illinois race tracks, levying the FY 2003 gaming tax rates against both riverboat and race track gaming, and requiring that race tracks may only conduct limited gaming as long as they maintained live racing. At the time, the racing industry estimated that this proposal would generate between \$234 and \$378 million in new State revenues, between \$45 and \$60 million in new funds to local governments, and eliminate between \$79 and \$94 million in horse racing subsidies. Furthermore, the proposal included an advance tax payment of between \$149 and \$180 million to help offset the State budget shortfall.

The Tenth Riverboat License

In Wagering in Illinois: 2002 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 three years has elapsed since the passage of Public Act 91-0040, and the fate of the dormant tenth license is still being debated. As of early August 2003, the process remains in bankruptcy court awaiting a decision. In early August, four companies emerged to offer bids on the 10th license. The location of the casino would depend on the winning bid. Two companies would place the boat in Rosemont, while the two others are looking at Waukegan and Des Plaines. However, there is still the possibility that the State could revoke the license and manage the boat by itself. An earlier bid for the riverboat license at Rosemont topped \$600 million. The Governor is counting on \$350 million from the sale of the 10th license. However, the Sun-Times reports that, “since Illinois boosted gaming taxes by 20 percent to a top rate of 70 percent, analysts believe the state would be lucky to get \$300 million.” Only time will tell what impact the 10th riverboat license will have on State revenues.

An Overview of Riverboat Gaming in Bordering States

A common question raised at many IEFC meetings is how does Illinois' riverboat structure compare to those states bordering Illinois. In response, the following section provides an overview of the riverboat structure in Iowa, Indiana, and Missouri. The section concludes by comparing the AGR figures of Illinois and the bordering states.

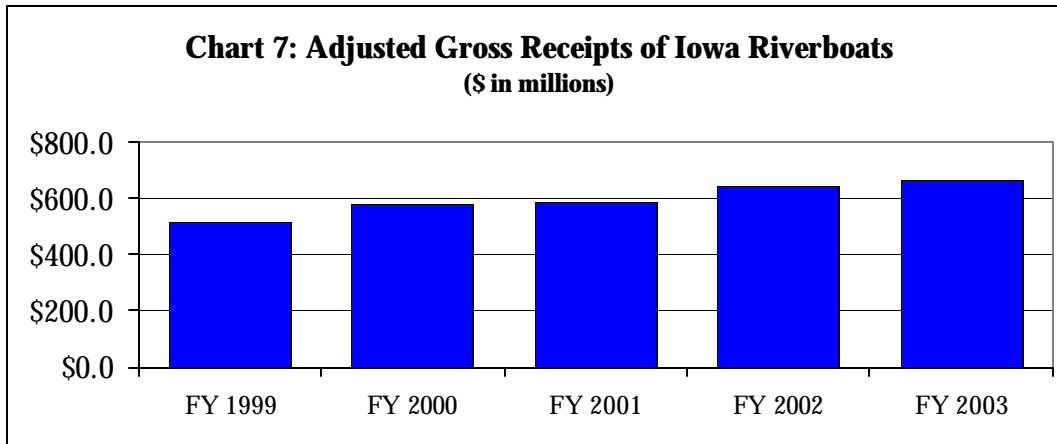
IOWA

IOWA AT A GLANCE

Population:	2.9 million	Number of Licenses in Operation:	10
First Year of Riverboats:	1991	Location of Licenses:	
Dockside Gambling:	Yes	Council Bluffs (Harrah's)	
24-hour Gambling:	Yes	Council Bluffs (Ameristar)	
		Marquette (Isle of Capri)	
		Dubuque (Diamond Jo)	*
		Ft. Madison/Burlington (Catfish Bend)	*
		Clinton (Mississippi Belle II)	*
		Sioux City (Belle of Sioux City)	*
		Davenport (Rhythm City)	*
		Bettendorf (Isle of Capri)	*
		Osceola (Lakeside Casino Resort)	
		* Near Illinois Border	

Taxation Rate for Riverboats	
Admissions:	Annually Determined
Wagering Tax:	(shown below)

AGR	Tax Rate
\$0-\$1 million	5%
\$1-\$3 million	10%
Over \$3 million	20%



The State of Iowa made no major changes to their riverboat gambling policy in FY 2003. The state continues to use a graduated tax system, with both racetrack and riverboat taxes capped at 20 percent. The state's admissions tax rate is annually determined by the Iowa Gaming Commission. One change that is still pending is Iowa's decision to tax slot machines located at racetracks a progressively higher rates each year (up to 36 percent). This tax increase is in court after the Iowa Supreme Court contended that the racetrack slot machines should not be taxed at a higher rate than slot machines on Iowa riverboats. If the ruling were overturned, state gaming

revenues would consequently increase. Below is an overview of riverboat information relating to the state of Iowa.

INDIANA

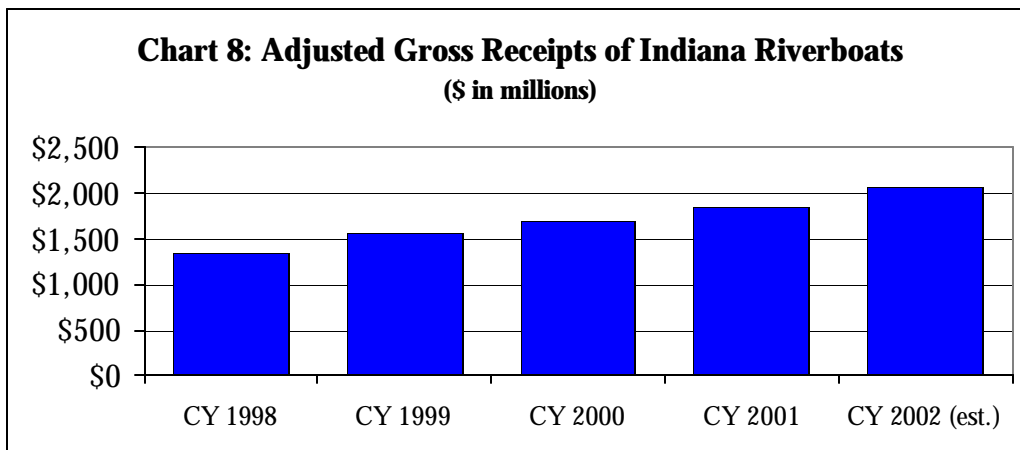
In 2002, Indiana Governor Frank O’Bannon signed House Enrolled Act 1001, which increased wagering taxes and authorized dockside gambling effective July 1, 2002. Prior to this Act, Indiana riverboats were subject to a 20 percent wagering tax against their adjusted gross receipts. This Act increased the wagering tax to 22.5 percent for all riverboats choosing not to conduct dockside gambling. However, all ten Indiana riverboats chose dockside gambling, requiring them to 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. The Indianapolis Star reported that dockside gambling brought Indiana’s casinos an additional \$232 million in revenues in FY 2003. The most recent change for Indiana’s riverboat industry is the inclusion of 24-hour gaming, a decision to encompass additional revenue for the state of Indiana. Below is an overview of Indiana’s riverboat information.

INDIANA AT A GLANCE

Population:	6.2 million	Number of Licenses in Operation:	10
First Year of Riverboats:	1995	Location of Licenses:	
Dockside Gambling:	Yes	Evansville (Aztar)	*
24-hour Gambling:	Yes	Belterra	
		Rising Sun (Grand Victoria)	
		Lawrenceburg (Argosy)	
		Elizabeth (Caesars)	
		Michigan City (Blue Chip)	*
		Hammond (Horseshoe)	*
		East Chicago (Harrah's)	*
		Gary (Majestic Star)	*
		Gary (Trump)	*
		* <i>Near Illinois Border</i>	

Taxation Rate for Riverboats	
Admissions:	\$3 Per Admission
Wagering Tax:	(shown below)

AGR	Tax Rate
\$0-\$25 million	15%
\$25-\$50 million	20%
\$50-\$75 million	25%
\$75-\$150 million	30%
Over \$150 million	35%



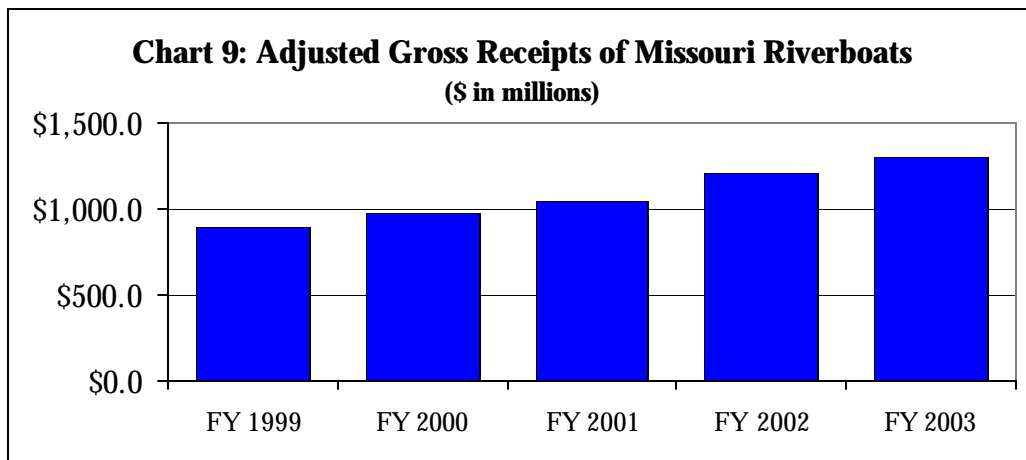
MISSOURI

The State of Missouri made no major changes to their riverboat gambling policy in FY 2003, however there have been discussions about increasing the wagering tax in the future. 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 2-hour excursion), which is divided equally between the State and local governments. One policy limiting Missouri's riverboat revenues is due to the state's \$500 loss limit. Patrons to Missouri's riverboats are only allowed a \$500 buy-in per 2-hour excursion. There have been discussions on eliminating this loss limit in the future.

MISSOURI AT A GLANCE

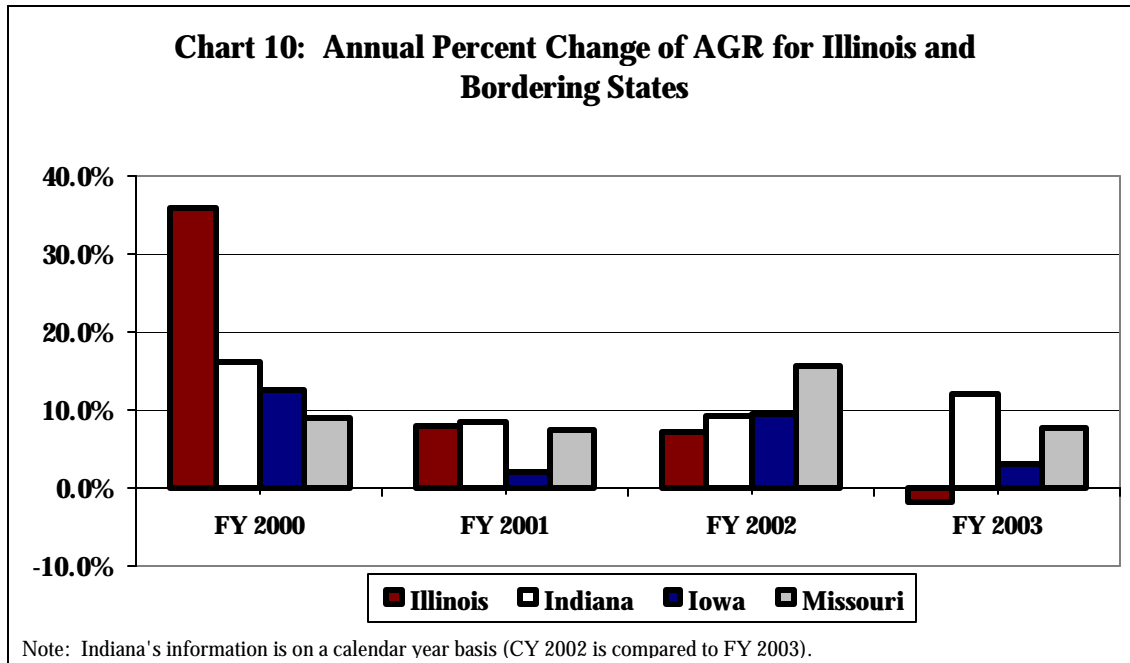
Population:	5.7 million	Number of Licenses in Operation:	12
First Year of Riverboats:	1994	Location of Licenses:	
Dockside Gambling:	Yes	St. Louis (President)	*
24-hour Gambling:	On weekends	St. Charles (Ameristar)	*
		Riverside (Argosy)	
		St. Joseph (St. Jo Frontier)	
		North Kansas City (Harrah's)	
		Caruthersville (Aztar)	
		Kansas City (Isle of Capri)	
		Kansas City (Ameristar)	
		Maryland Heights (2) (Harrah's)	*
		Boonville (Isle of Capri)	
		LaGrange (Mark Twain)	*
		* Near Illinois Border	

<u>Taxation Rate for Riverboats</u>	
Admissions:	\$2 per patron, per excursion
Wagering Tax:	20% of AGR



An AGR Comparison of the Bordering States

As shown in the previous graphs, Iowa, Indiana, and Missouri all experienced an increase in adjusted gross receipts over the last year. In fact, each state has continued to see growth in adjusted growth receipts over the last 5 years. While the reasons for this growth depends on each individual state, the fact remains that Illinois' recent downward turn in adjusted gross receipts is not mirrored in the surrounding states. Regardless of the reason, these figures support the argument that Illinois gaming patrons are looking elsewhere to board riverboats. The following chart displays the annual percent change of adjusted gross receipts for Illinois and the neighboring riverboat states for FY 2000 – FY 2003.



CONCLUSION

In conclusion, various analyses discussed earlier in this report indicate that while overall gaming revenues continued to grow in FY 2003, the growth was not evenly distributed across the various forms of gaming. Horse racing revenues continued to be stagnant, lottery receipts experienced a decline after a year of strong growth, leaving riverboat gaming as the contributing factor for the overall increase in gaming revenues. However, without the graduated tax increase of FY 2003, riverboat gaming revenues would have likely fallen as well. State gaming in Illinois has reached a point where new changes must be made in the industry for dramatic increases in revenues to continue.

In horse racing, the hope is that the consolidation between Hawthorne Racecourse and Sportsman's Park will spark new interest to this small gaming source in the years to come. However, even with this merger, horse racing revenues will likely continue to be stagnant in the future unless other significant changes are made.

For Lottery, the introduction of Mega Millions in FY 2003 was intended to increase revenues for the State by encompassing other states into the mix. However, a significant impact associated with the Mega Millions game has not yet been seen. As with horse racing, if a more reliable and stable increase in Lottery revenues were desired, major changes to the Lottery structure would have to be implemented.

The focus for Illinois' gaming has no doubt turned to riverboat gambling. In FY 2003, riverboat gaming became the largest component of gaming in the State; a spot that it likely will not relinquish in the foreseeable future. For the past several years, the success of dockside gambling fueled the increases in riverboat receipts experienced in the past. However, in FY 2003, riverboat gambling saw a dramatic turn of events as adjusted gross receipts and admission figures declined for the first time since the inception of dockside gambling. Although FY 2003 receipts increased, it was due to the graduated tax hikes that were implemented for that fiscal year.

As budget problems persisted into FY 2004, the Governor, along with the General Assembly, utilized riverboat gaming as a source for new revenues. As a result, the increased graduated wagering tax and admissions tax will again provide for an increase in riverboat receipts into FY 2004. However, the amount of the increases originally expected may not materialize if adjusted gross receipts and admissions continue to fall in FY 2004 as they did in FY 2003. Bordering gaming states like Indiana will likely be the beneficiary of these declines, as more Illinois gamers look elsewhere to gamble.

Illinois continues to be the highest riverboat taxing state in the nation. Because of this, states throughout the country will continue to monitor Illinois' progress in the area of riverboat gaming to see if raising riverboat taxes is a formidable way to raise revenues during periods of budget shortfalls. If adjusted gross receipts and admissions continue their downward trend, states may shy away from repeating these tax increases in their

state and look to other sources. However, if these figures stabilize and riverboats are not negatively affected, it is likely that other states will look to riverboat gambling tax increases as a means of reducing their budget deficits.

The future of riverboat gaming in Illinois is being held in the balance, awaiting the much-anticipated court decision regarding the reactivation of the tenth riverboat license. Many feel that the tenth riverboat would switch the focus away from the concerns associated with the tax increases and provide a positive spark to this industry. Only time will tell what impact this new riverboat would have on the State, but it would be sure to generate significant amounts of new revenues. Without this boost, it could be argued that riverboat gaming in Illinois may continue its downward turn in adjusted gross receipts and in admissions for the fiscal years to come.

In Wagering in Illinois: 2002 Update, the Commission concluded by stating,

“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.”

After a new year of information, it appears that this statement still holds true. However, as important as the economic environment is to stabilizing gaming in the State, recent legislative changes have shown that the political environment is the real driving force behind continuing the revenue growth in the Illinois gaming industry in FY 2003 and FY 2004. And, it's these political changes in the years to come that hold the key to determining the future of gaming revenue in Illinois.

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