

ILLINOIS ECONOMIC and FISCAL COMMISSION



**WAGERING IN ILLINOIS
2004 UPDATE**

\$661 Million



\$570 Million



\$13 Million



SEPTEMBER 2004
703 STRATTON BUILDING
SPRINGFIELD, ILLINOIS 62706

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EXECUTIVE SUMMARY

The following document is the Commission's 2004 edition of Wagering in Illinois. 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. This report updates previous releases and provides further analysis of State gaming with the focus on horse racing, lottery, and riverboat gambling, the highlights of which are shown below.

- In FY 2004, the State's share of horse racing, lottery, and riverboat revenue reached \$1.244 billion, a \$137 million or 12.4% increase over FY 2003. While horse racing experienced no revenue growth, lottery transfers into the Common School Fund increased \$30 million or 5.6 percent, while State Riverboat revenue (Gaming Fund transfers into the Education Assistance Fund and deposits into the Common School Fund) increased \$107 million or 19.3 percent.
- FY 2003 was the first year that riverboat revenues surpassed lottery revenues as the largest source of State gaming revenue. FY 2004 became the second year, as riverboat taxes and fees comprised 53.1 percent of total gaming revenues, lottery revenues 45.8 percent, and horse racing the remaining 1.1 percent.
- In 2003, more than \$1 billion was wagered on horse racing, which generated approximately \$12.8 million in State revenue and \$12.4 million in local revenue. Off-track wagering continues to comprise the largest percentage of horse racing wagering accounting for 52 percent of the total handle, followed by intertrack wagering (27 percent) and on-track wagering (21 percent).
- In FY 2004, lottery sales totaled approximately \$1.709 billion, a 7.8 percent increase over FY 2003, and was the highest sales total realized since the inception of lottery in 1975. The amount transferred into the Common School Fund was \$570.1 million, a 5.6 percent increase over FY 2003.
- Instant games experienced the largest increase in sales in FY 2004, growing \$83 million. Other significant increases came from Mega Millions (up \$27 million) and from Little Lotto (up \$22 million). These increases outweighed decreasing sales from Lotto and the Pick 3 game.
- The instant games continue to comprise the largest percentage of lottery sales at 46 percent followed by Pick 3 (18 percent), Mega Millions (13 percent), Pick 4 (10 percent), Lotto (7 percent), and Little Lotto (6 percent).
- While total revenue from riverboats increased nearly 14 percent in FY 2004, the increases were due to tax changes as riverboats experienced decreases in

adjusted gross receipts (AGR) and admissions, the second consecutive year that these figures declined. Adjusted gross receipts equaled \$1.657 billion (a 7.8 percent decrease over FY 2003) and admissions totaled 15.2 million (a 16.9 percent decrease over FY 2003).

- FY 2004 was the first year that P.A. 93-0027 and P.A. 93-0028 became effective, 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. Few would argue that it was the FY 2004 graduated tax rate change that had the biggest impact on the declines in AGR and admissions in FY 2004.
- The higher tax rates have led some Illinois riverboats to lower expenses by reducing operating hours and cutting payroll. For example, four casinos (Alton, Aurora, Joliet Empress, and Joliet Harrah's) reduced operating hours as a means of reducing their operating expenses. Not surprisingly, these are the same four boats that have seen the largest declines in admissions.
- On March 15, 2004, it was announced that the Isle of Capri Casinos Inc. was selected to operate the dormant 10th license in Rosemont. However, controversy arose over the Gaming Board's selection, leading the Governor to ask for a review of the selection process. Since then the Attorney General stated that she plans on reopening the revocation hearings, which many believe will tie up the riverboat license in litigation for many months, if not years. The FY 2005 budget was enacted under the assumption that no revenues would be received from the 10th license during the fiscal year.
- While Illinois' adjusted gross receipt totals declined in FY 2004 by 7.8 percent, the gaming states bordering Illinois (Indiana, Iowa, and Missouri) continue to see their totals grow by nearly 8 percent. This leads to the concern that riverboat gamers may be leaving Illinois to gamble. It is possible that in FY 2005, Illinois could experience the first decline in riverboat revenues in seven years.

INTRODUCTION

In the previous *Wagering in Illinois: 2003 Update*, the Commission discussed the many changes that altered the landscape of Illinois gaming in FY 2003. Additional modifications took effect in FY 2004, resulting in significant changes to Illinois' gaming numbers, especially in the ever-changing riverboat industry. During FY 2004, the graduated tax rates imposed on riverboats increased to a maximum rate of 70%. While this resulted in an increase in State revenue transfers and deposits of 19.3%, admissions to Illinois riverboats declined nearly 17%. The Illinois Lottery saw revenues transferred to the Common School Fund increase 5.6 percent from the levels experienced in FY 2003, while State horse racing revenues were relatively flat for the fifth consecutive year. Table 1 provides a history of State gaming revenues.

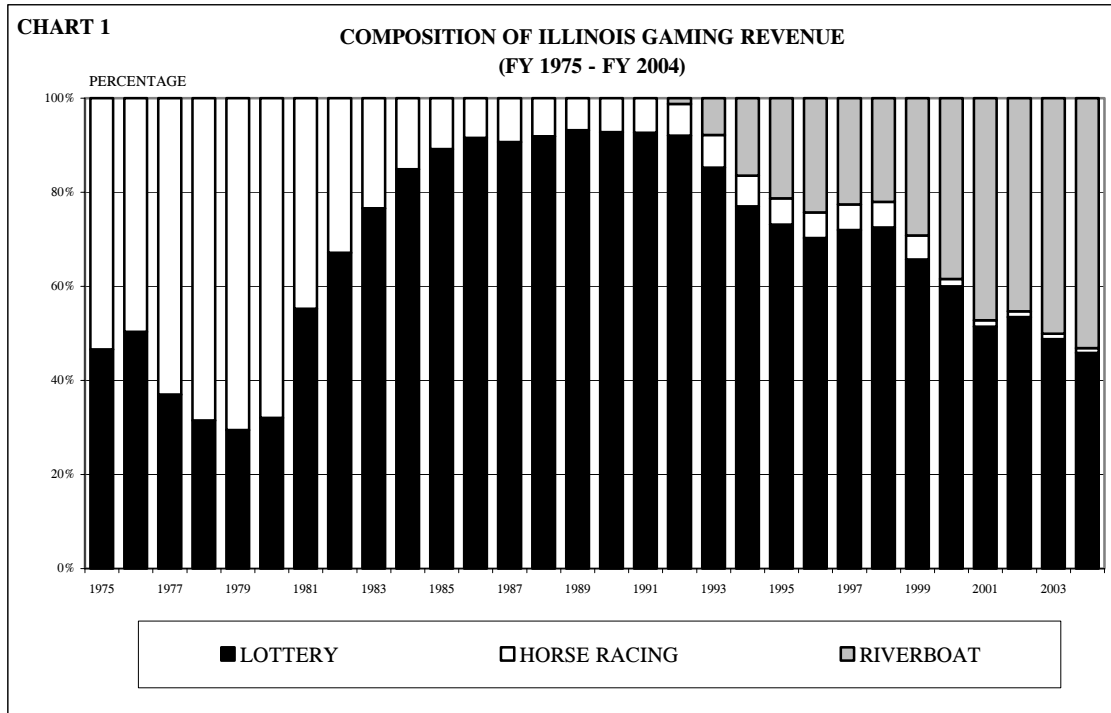
TABLE 1: STATE GAMING REVENUE (\$ in Millions)					
FISCAL YEAR	LOTTERY ⁽¹⁾	HORSE RACING ⁽²⁾	RIVERBOAT ⁽³⁾	TOTAL	PRIOR YEAR % CHANGE
1975	\$55	\$63	\$0	\$118	N/A
1976	\$76	\$75	\$0	\$151	28%
1977	\$44	\$75	\$0	\$119	-21%
1978	\$34	\$74	\$0	\$108	-9%
1979	\$33	\$79	\$0	\$112	4%
1980	\$33	\$70	\$0	\$103	-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%
2004	\$570	\$13	\$661	\$1,244	12%

(1) FIGURES REPRESENT TRANSFERS INTO THE COMMON SCHOOL FUND.
(2) FIGURES EQUAL STATE REVENUE GENERATED, NOT ALLOCATED, BASED ON A CALENDER YEAR. THE 2004 FIGURE IS AN ESTIMATE.
(3) FIGURES REPRESENT APPROPRIATIONS (FY 1992 - 1995) AND TRANSFERS (FY 1996-FY 2004) INTO THE ED. ASSIST. FUND AND REVENUES DEPOSITED INTO THE COMMON SCHOOL FUND.

SOURCES: GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET, ILLINOIS DEPARTMENT OF LOTTERY, AND ILLINOIS RACING BOARD

In FY 2004, the State's share of horse racing, lottery, and riverboat revenue reached \$1.244 billion, which was a 12.4 percent increase over FY 2003. The \$137 million increase consisted of a \$107 million increase in State riverboat revenues (transfers to

the Education Assistance Fund and deposits into the Common School Fund), a \$30 million increase in lottery transfers to the Common School Fund, and stagnant horse racing revenues. However, the composition of the FY 2004 gaming revenue increase is based primarily on the riverboat's increased graduated tax schedule that was implemented for FY 2004 (See Chart 1).



Since the inception of riverboat gaming, riverboat revenues as a percentage of total gaming revenues have increased dramatically, 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 2004, riverboat casinos comprised 53 percent of total gaming revenues, whereas lottery revenues comprised 46 percent, and horse racing comprised of 1 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 lower levels over the past five 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.

In the earliest report, 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 reveals below, while FY 2004 State gaming revenues totaled \$1.244 billion or a 12.4 percent increase over FY 2003, the gaming industry’s \$2.67 billion gaming hold declined 2.6 percent from FY 2003 levels. Furthermore, per-capita spending on gaming decreased by 3.6 percent to approximately \$208 in FY 2004. This was the second consecutive year of declines in per-capita spending. These declines are not surprising if a closer examination is taken.

	1997	1998	1999	2000	2001	2002	2003	2004
POPULATION (IN MILLIONS)	12.01	12.07	12.13	12.44	12.52	12.60	12.72	12.85
HORSE RACING (CY)								
STATE REVENUE (IN MILLIONS)	\$ 45	\$ 42	\$ 42	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13
GAMING HOLD (IN MILLIONS)	\$ 264	\$ 243	\$ 247	\$ 247	\$ 248	\$ 252	\$ 240	\$ 240
% CHANGE IN GAMING HOLD	-4.4%	-8.2%	1.9%	-0.2%	0.3%	1.8%	-4.9%	0.0%
* PER-CAPITA SPENDING	\$ 22.0	\$ 20.1	\$ 20.4	\$ 19.8	\$ 19.8	\$ 20.0	\$ 18.8	\$ 18.6
% CHANGE IN PER-CAPITA SPENDING	-5.0%	-8.6%	1.4%	-2.7%	-0.4%	1.1%	-5.8%	-1.0%
LOTTERY (FY)								
TRANSFERS TO CSF (IN MILLIONS)	\$ 590	\$ 560	\$ 540	\$ 515	\$ 501	\$ 555	\$ 540	\$ 570
GAMING HOLD (IN MILLIONS)	\$ 796	\$ 741	\$ 704	\$ 674	\$ 658	\$ 722	\$ 705	\$ 773
% CHANGE IN GAMING HOLD	-0.3%	-6.9%	-5.0%	-4.2%	-2.4%	9.8%	-2.4%	9.7%
* PER-CAPITA SPENDING	\$ 66.2	\$ 61.4	\$ 58.0	\$ 54.2	\$ 52.5	\$ 57.3	\$ 55.4	\$ 60.2
% CHANGE IN PER-CAPITA SPENDING	-1.0%	-7.4%	-5.5%	-6.6%	-3.0%	9.1%	-3.3%	8.6%
RIVERBOATS (FY)								
AMOUNT TO EAF & CSF (IN MILLIONS)	\$ 185	\$ 170	\$ 240	\$ 330	\$ 460	\$ 470	\$ 554	\$ 661
GAMING HOLD (IN MILLIONS)	\$ 1,052	\$ 1,066	\$ 1,171	\$ 1,589	\$ 1,713	\$ 1,834	\$ 1,798	\$ 1,657
% CHANGE IN GAMING HOLD	-13.4%	1.4%	9.9%	35.6%	7.8%	7.1%	-2.0%	-7.8%
*PER-CAPITA SPENDING	\$ 87.6	\$ 88.3	\$ 96.6	\$ 127.8	\$ 136.8	\$ 145.5	\$ 141.3	\$ 129.0
% CHANGE IN PER-CAPITA SPENDING	-14.0%	0.9%	9.4%	32.3%	7.1%	6.4%	-2.9%	-8.7%
ALL WAGERING								
TOTAL REVENUE (IN MILLIONS)	\$ 820	\$ 772	\$ 822	\$ 858	\$ 974	\$ 1,038	\$ 1,107	\$ 1,244
GAMING HOLD (IN MILLIONS)	\$ 2,112	\$ 2,049	\$ 2,122	\$ 2,510	\$ 2,618	\$ 2,808	\$ 2,742	\$ 2,670
% CHANGE IN GAMING HOLD	-7.8%	-3.0%	3.6%	18.2%	4.3%	7.2%	-2.3%	-2.6%
* PER-CAPITA SPENDING	\$ 175.8	\$ 169.8	\$ 175.0	\$ 201.8	\$ 209.1	\$ 222.8	\$ 215.5	\$ 207.8
% CHANGE IN PER-CAPITA SPENDING	-8.4%	-3.4%	3.1%	15.3%	3.6%	6.5%	-3.3%	-3.6%
* 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.								

As the riverboat industry takes a more prominent role in generating gaming revenues in Illinois, the volatility of the gaming hold and per-capita spending becomes mostly dependent on the behavior of the riverboats. For example, in FY 2004, lottery per-capita spending was estimated to be up approximately 8.6 percent. However, overall

per-capita spending dropped 3.6 percent, as lottery's increase was more than offset by an 8.7 percent decline in riverboat per-capita spending. This decline in spending is believed to be due to the riverboats response to the graduated tax increases of FY 2004 and FY 2005. This reaction will be discussed in further detail later in the report.

So, what does the future hold for State gaming revenue? While State revenues from the lottery increased 5.6 percent in FY 2004, the amount of transfers into the Common School Fund have remained relatively flat, having varied between \$500 million and \$600 million for the last 12 years. Its success from one fiscal year to the next continues to rely on unpredictable jackpot size and whether increases in popular newer games outweigh the performance of struggling older games. As stated previously, horse racing revenue has been at a stagnant level for the last five years. Unless dramatic changes in lottery and horse racing are made, there is little evidence to indicate a significant change in those sources in the immediate future. **Therefore, it again appears that any shift in State gaming revenue will be dependent upon the performance of the riverboat gaming industry.**

Between FY 1999 and FY 2002, the popularity of dockside gambling was the main catalyst for the upward trend in riverboat revenues. In FY 2003, the growth in riverboat revenues stemmed from the first of two eventual graduated tax increases. When the FY 2004 graduated tax increase took place, riverboat revenues continued their upward trend, but the effect that these tax increases have had on adjusted gross receipts and riverboat admissions were quickly evident. Adjusted gross receipts and admission totals are now at the lowest level experienced in several years.

Before the recent tax increases took place, gaming receipts were already starting to slow, leading some to question if Illinois had began to reach its saturation point in riverboat gaming. While that may have been true in certain locations at that time, it now would seem that it is no longer the case. The majority of the Illinois riverboat's admissions totals in FY 2004 are well below levels experienced in the past. Therefore the leading question is not whether riverboat's have hit their saturation point, but rather, how are these riverboats going to be able to recover from this decline and return to the levels in adjusted gross receipts and admissions experienced in the past.

In fact, the riverboat industry argues that the change must start with reducing the tax rate structure. The tax rates will statutorily return to FY 2003 levels at the beginning of FY 2006. However, some in the industry are concerned that the damage has already been done and players have been lost. **In fact, even with no further tax increases this year, it is possible that FY 2005 revenues could experience the first year of declining revenues since FY 1998.**

Based on a number of legislative proposals, many believe that reducing the tax rates and then increasing the number of gaming positions would assist in this recovery. As discussed later in this report, 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. The fact remains, if riverboats are desired to be the continuing source of significant revenues for the State of Illinois, changes will have to be made or it is likely that the revenue increases seen in recent years will revert to stagnant or declining levels in the foreseeable future.

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 2004, the State generated \$0.2 million in bingo license fees and \$4.2 million in bingo taxes. Total bingo receipts were down 4.6 percent from FY 2003 levels.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2004, the State received \$51,550 in license fees and \$136,583 from the charitable games tax. Total charitable games receipts were up 24.5 percent compared to FY 2003 levels.
- 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 2004, the State received \$0.6 million in license fees and \$6.8 million from the pull tabs and jar games tax. Total pull-tabs and jar games receipts were down 2.9 percent from FY 2003 levels.

In total, these miscellaneous gaming revenue sources generated approximately \$12.1 million in FY 2004. This figure is 3.2 percent below the FY 2003 total of \$12.4 million. In fact, total miscellaneous gaming revenue has been on a steady downward trend over the last six years with FY 2004 figures now at the lowest level experienced over the last ten years.

HORSE RACING

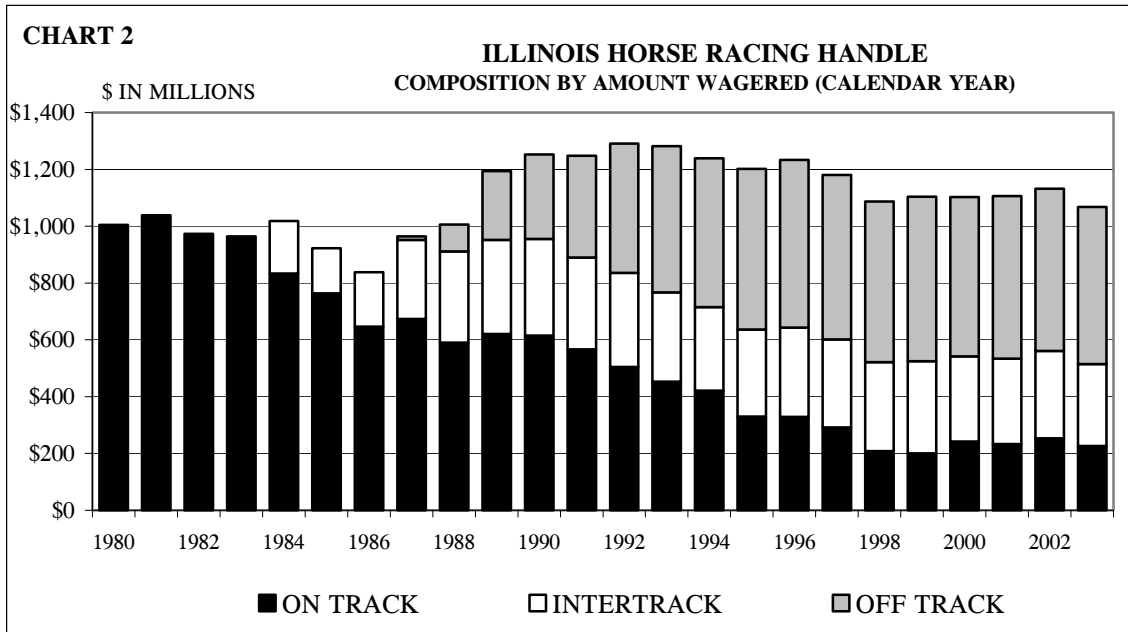
Horse racing is the oldest form of legalized gaming in Illinois. Each year more than \$1 billion is wagered on horse racing at the State's numerous on-track and off-track wagering facilities. In calendar year 2003, Illinois horse racing wagering generated \$25 million in total revenues with the State receiving nearly \$13 million and local governments receiving approximately \$12 million. While the local portion was consistent with historical trends, State racing-related revenues have remained relatively low since the January 1, 2000 implementation of Public Act 91-0040 (For a detailed analysis of 91-0040, please see the Commission's 2000 Gaming report). Table 3 examines the sources and allocation of CY 2003 horse racing revenues while Table 4 details State and local racing revenues over the past six years.

TABLE 3: SOURCES AND ALLOCATION OF HORSE RACING REVENUE FOR CALENDAR YEAR 2003	
REVENUE SOURCE	
LICENSE FEES	\$116,100
ADMISSION TAXES	\$120,136
PARI-MUTUEL TAX	\$16,019,471
PARI-MUTUEL TAX CREDIT	(\$3,925,846)
LICENSING	\$251,875
FINGERPRINT FEES	\$114,800
HORSEMEN'S FINES	\$79,250
MISCELLANEOUS	\$7,779
* TOTAL STATE	\$12,783,565
2% OF OTB HANDLE TO CITY AND COUNTY	\$11,057,866
CITY (CHICAGO) OTB ADMISSION TAX	\$588,112
ON TRACK CITY ADMISSION TAX	\$57,467
INTERTRACK SURCHARGE TO COUNTY (20%)	\$651,734
* TOTAL LOCAL	\$12,355,179
TOTAL REVENUES	\$25,138,744
ALLOCATION OF REVENUE	
HORSE RACING FUND	\$12,070,133
GENERAL REVENUE FUND	\$575,140
QUARTERHORSE BREEDERS' FUND	\$23,492
FINGERPRINT LICENSE FUND	\$114,800
* TOTAL STATE	\$12,783,565
TO CITIES	\$6,174,512
TO COUNTIES	\$6,180,667
* TOTAL LOCAL	\$12,355,179
TOTAL REVENUES ALLOCATED	\$25,138,744
SOURCE: ILLINOIS RACING BOARD - 2003 ANNUAL REPORT	

TABLE 4: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)						
	1998	1999	2000	2001	2002	2003
TOTAL STATE REVENUE	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8
TOTAL LOCAL REVENUE	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4
* TOTAL REVENUES RECEIVED	\$55.4	\$56.0	\$26.1	\$26.4	\$25.7	\$25.1
TOTAL STATE ALLOCATIONS	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8
TOTAL LOCAL ALLOCATIONS	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4
TO CITIES	\$6.6	\$6.7	\$6.4	\$6.5	\$6.4	\$6.2
TO COUNTIES	\$6.7	\$6.9	\$6.3	\$6.4	\$6.4	\$6.2
*TOTAL REVENUES ALLOCATED	\$55.4	\$56.0	\$26.1	\$26.4	\$25.7	\$25.1

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

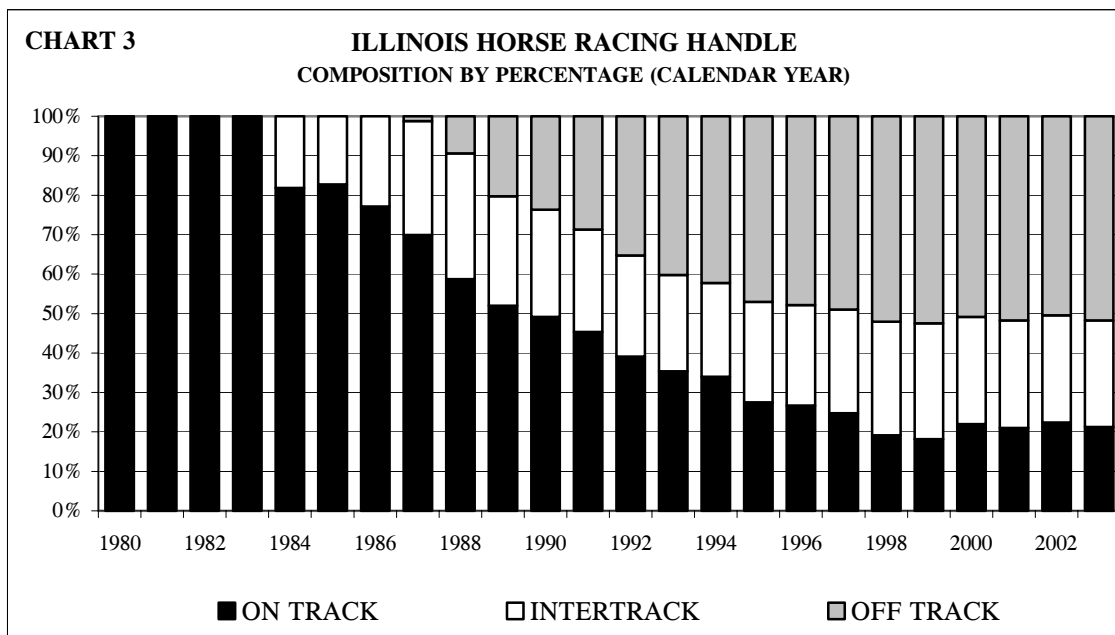
In its 2003 Annual Report, the Illinois Racing Board reported that 607 race programs were conducted during CY 2003. A total handle amount of \$1.067 billion resulted, which was a decrease of 5.7 percent over the 2002 amount. As shown in Chart 2, this handle amount was the lowest experienced since 1988. This decline consisted of a 2.6% decline in the thoroughbred handle and an 11.2% decline in the standardbred handle. The Board states that a contract impasse between the harness horsemen and Maywood/Balmoral, which delayed the opening of the Chicagoland harness racing circuit until March 15, was a major factor for this decrease. The Board reported that a total of 86 live harness programs were lost due to this contract dispute. While this decrease is noteworthy, the decline in 2003 followed three years of growth.



The Illinois Racing Board latest report states that 29 percent, or \$308 million of the total handle in CY 2003 was wagered on Illinois races. An additional \$765.8 million was wagered on Illinois races broadcast to other states. While this amount is a 16% decline over 2002, the Board points out that much of this decrease is attributable to the fact that in 2002, Illinois' Arlington Park held the Breeders' Cup, which brought in \$91.5 million on that day alone. However, despite this decrease, the Board highlights that 2003 was only the third year since full-card simulcasting began in 1995 that other states wagered more on Illinois races than Illinois wagered on other states.

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.

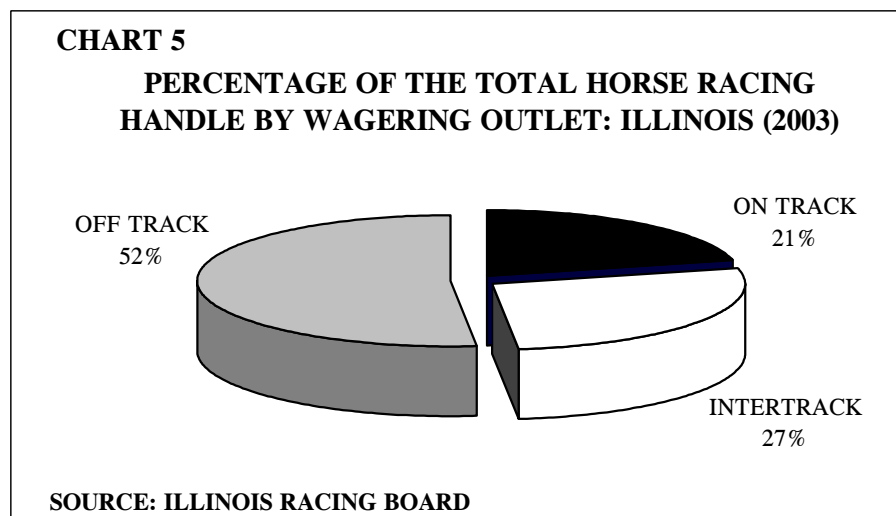
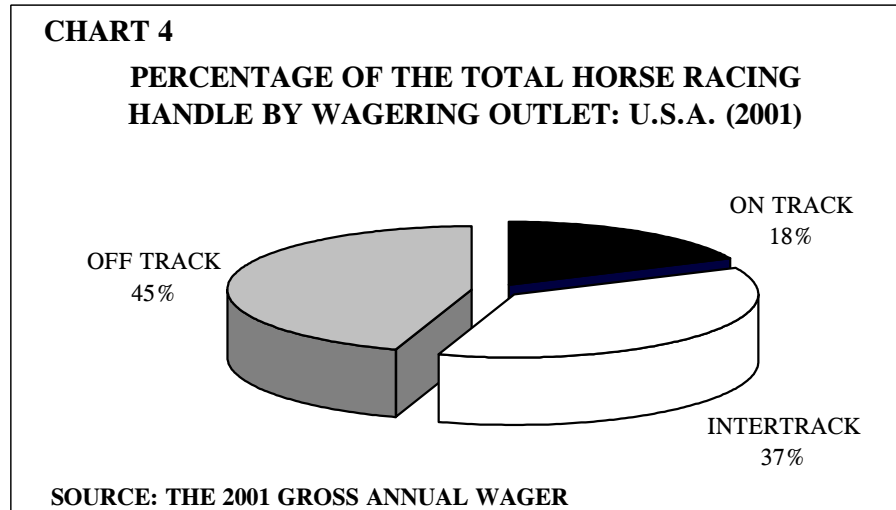
As these alternative means of wagering matured, they significantly altered the composition of the total racing handle. Between 1992 and 2003, the percentage of the total handle generated from on-track wagering fell from 39 to 21 percent. This decline coincided with a dramatic increase in participation 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 2003, the Illinois Racing Board granted twenty-five off-track licenses. Two new OTB's were opened in 2003, including Maywood Park, which opened an OTB facility in Mokena, and Quad City Downs, which opened an OTB in McHenry. On February 17, 2004, Quad City Downs opened an additional OTB in South Beloit. 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 eighteen additional OTB locations.

TABLE 5: ILLINOIS RACING TRACKS AND ASSOCIATED OTB'S		
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 MOKENA*
QUAD CITY DOWNS	ROCK ISLAND	MCHENRY* SOUTH BELOIT**
NATIONAL JOCKEY CLUB	COOK	CRESTWOOD JOLIET PERU
* NEW IN 2003 ** NEW IN 2004		

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: 2003 Update, no significant changes to the horse racing industry has taken place that will affect State revenues. While the opening of additional OTB's will generate new revenues, their impact is assumed to be minimal. During the latest legislative session, there were discussions of allowing slot machines at horse tracks. However, the legislation was not taken up for a vote. Until significant revenue-related changes to the industry occur, horseracing revenue in Illinois will likely continue to be stagnant.

LOTTERY

The Illinois State Lottery was authorized in 1974 and began operation in 1975. The State's Lottery system 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 \$33.2 billion. Table 6 presents a 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.

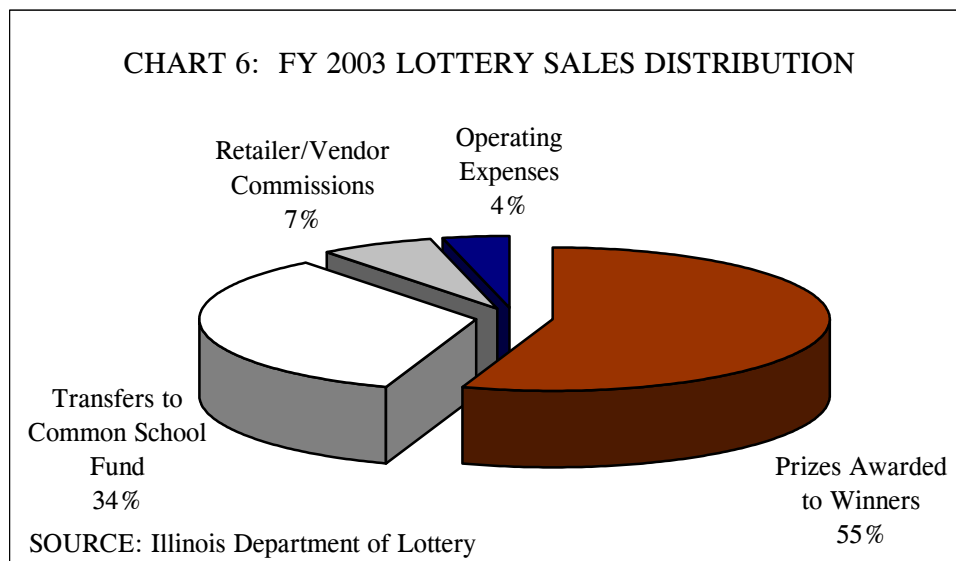
TABLE 6: LOTTERY SALES BY GAME, TOTAL SALES, TRANSFERS, & PERCENTAGE TRANSFERRED: FY 1975 - FY 2004 (IN MILLIONS)												
FISCAL YEAR	\$.50, \$1, KENO '93	INSTANT	PICK 3	EXTRA	PICK 4	LOTTO	LITTLE LOTTO	BIG GAME/ MEGA MIL.	TOTAL SALES	LOTTERY TRANSFERS TO CSF	TRANSFERS AS A % OF TOTAL SALES	
1975	\$ 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%	
2003	\$ -	\$ 697.9	\$ 314.1	\$ 12.9	\$ 161.9	\$ 121.2	\$ 78.0	\$ 199.7	\$1,585.8	\$540.3	34.1%	
2004	\$ -	\$ 780.5	\$ 308.9	\$ 9.0	\$ 167.2	\$ 117.4	\$ 99.7	\$ 226.5	\$1,709.2	\$570.1	33.4%	
TOTALS	\$ 359.9	\$ 10,536.8	\$ 8,030.6	\$ 44.6	\$ 2,628.0	\$ 8,278.0	\$ 1,878.6	\$ 1,400.2	\$ 33,156.6	\$ 12,281.5	37.0%	

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

Table 6 reveals that lottery sales totaled approximately \$1.709 billion in FY 2004. **This figure represents a 7.8 percent increase from the FY 2003 amount of \$1.586 billion, and was the highest sales total realized since the inception of lottery in 1975.** From this sum, 33.4 percent or \$570.1 million was transferred into the Common School Fund, a 5.6 percent increase from the FY 2003 transfer amount of \$540.3 million. A closer look reveals that the largest dollar increase came from the Instant games, which rose nearly \$83 million or 11.8 percent. Other games that experienced noticeable increases were the Mega Millions game, which increased nearly \$27 million

or 13.4 percent, and the Little Lotto game, which increased approximately \$22 million or 27.8 percent. However, Lotto and Pick 3 sales declined by 3.1 percent and 1.7 percent, respectively.

The chart below shows how revenues from the Lottery are distributed. Although the official distribution of FY 2004 sales revenue is not yet available, FY 2003 data gives a good illustration of how the lottery sales are distributed in Illinois. In FY 2003, lottery winners received \$881 million, the Common School Fund received \$540 million, retailers and vendors received \$106 million, and the Department of Lottery used the remaining \$63 million to cover its operating expenses. Chart 6 illustrates the FY 2003 lottery sales distribution by percentage and although FY 2004 revenue may not be distributed according to these exact percentages, recent trends indicate that these figures provide an accurate baseline.



FY 2004 data continued many of the lottery trends discussed in the 2003 Commission report. As shown in Table 7, instant games continue to comprise the greatest percentage with 46 percent of lottery sales, up from 44 percent in 2003 and from 40 percent in FY 2002. The Pick 3 game had the next highest a percentage at 18%. Mega Millions maintained approximately 13 percent of total lottery sales, while the Pick 4 game made up 10% of the total. Lotto and Little Lotto sales comprised only 7 percent and 6 percent of total lottery sales, respectively.

While most of the games issued by the Lottery are just for players purchasing a ticket in Illinois, the Mega Millions games is a multi-state game that offers jackpots starting at \$10 million. In May 2002, Illinois, along with the other Big Game states (Georgia, Maryland, Massachusetts, Michigan, New Jersey, and Virginia), joined New York and Ohio to create Mega Millions. Since then, Washington (September 2002) and Texas (December 2003) have joined Mega Millions. The intent of allowing more states to join the program is that, with millions of people playing (more than any other multi-

state, mega-jackpot game in the U.S.), jackpots can roll to even higher levels at a faster rate.

Recent trends have shown that Mega Millions' percentage of total sales 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, on July 2, 2004, the State lottery benefited from a \$290 million Big Game jackpot. Although this jackpot was won at the beginning of FY 2005, most of the sales, as a result of these multiple rollovers, occurred at the end of FY 2004. Its effect on lottery sales was obvious as June Mega Millions sales totaled \$30.5 million, which was nearly three times the amount of sales in the previous month. FY 2004 benefited from more rollovers and higher jackpots than FY 2003 resulting in the increase in Mega Millions sales for the year, and thus, part of the reason for the total increase in lottery revenues.

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
2004	-	46%	18%	1%	10%	7%	6%	13%	\$1,709.2

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

SOURCE: ILLINOIS DEPARTMENT OF LOTTERY

In 1992, LaFleur's Lottery World ranked Illinois 9th in the nation in terms of per-capita lottery sales as a percentage of personal income. At that time, per-capita spending on lottery tickets amounted to \$143. 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 the last couple of years, this figure has rebounded. In 2003, Illinois's per-capita spending totaled \$125. The recent turnaround in per-capita spending is likely caused by the increase in Mega Millions and instant games sales. Although FY 2004 figures are not yet available, given the FY 2004 increase in sales, it is likely that FY 2004 per-capita spending will once again increase. The FY 2003 figures are shown in Table 8 on the following page.

Executive Order 2003-9

In FY 2004, there was no major change to the gaming structure of the State's Lottery system. However, there was a major administrative change, which came when Governor Blagojevich's issued Executive Order 2003-9. This order transferred 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.

TABLE 8: PER-CAPITA SALES AS A PERCENTAGE OF PERSONAL INCOME (FY 2003)

STATE	POPULATION (MILLIONS)	PER-CAPITA		* TOTAL		PER-CAPITA SALES AS		
		PERSONAL INCOME	PERSONAL INCOME	LOTTERY SALES (MILLIONS)	LOTTERY SALES (MILLIONS)	PER-CAPITA SALES	A % OF PER-CAPITA PERSONAL INCOME	
RHODE ISLAND	1.1	\$	31,916	\$	1,290.5	\$	1,195	3.74%
SOUTH DAKOTA	0.8	\$	29,234	\$	647.0	\$	851	2.91%
DELAWARE	0.8	\$	32,810	\$	628.1	\$	766	2.33%
WEST VIRGINIA	1.8	\$	34,379	\$	1,081.9	\$	598	1.74%
MASSACHUSETTES	6.4	\$	39,815	\$	4,197.8	\$	653	1.64%
GEORGIA	8.7	\$	29,442	\$	2,604.4	\$	300	1.02%
DISTRICT OF COLUMBIA	0.6	\$	48,342	\$	237.6	\$	424	0.88%
OREGON	3.6	\$	29,340	\$	853.2	\$	240	0.82%
NEW YORK	19.2	\$	36,574	\$	5,396.0	\$	281	0.77%
SOUTH CAROLINA	4.2	\$	26,132	\$	724.3	\$	175	0.67%
MARYLAND	5.5	\$	37,331	\$	1,322.6	\$	240	0.64%
KENTUCKY	4.1	\$	26,252	\$	673.5	\$	163	0.62%
OHIO	11.4	\$	29,944	\$	2,078.2	\$	182	0.61%
NEW JERSEY	8.6	\$	40,427	\$	2,074.1	\$	240	0.59%
MICHIGAN	10.1	\$	30,439	\$	1,783.4	\$	177	0.58%
CONNECTICUT	3.5	\$	43,173	\$	865.3	\$	249	0.58%
FLORIDA	17.0	\$	30,446	\$	2,868.0	\$	169	0.55%
PENNSYLVANIA	12.4	\$	31,998	\$	2,133.0	\$	172	0.54%
NEW HAMPSHIRE	1.3	\$	34,702	\$	221.2	\$	171	0.49%
TEXAS	22.1	\$	29,372	\$	3,130.7	\$	142	0.48%
VIRGINIA	7.4	\$	33,671	\$	1,135.7	\$	154	0.46%
MAINE	1.3	\$	28,831	\$	164.6	\$	126	0.44%
MISSOURI	5.7	\$	29,252	\$	708.6	\$	124	0.42%
VERMONT	0.6	\$	30,740	\$	79.5	\$	128	0.42%
INDIANA	6.2	\$	28,783	\$	664.4	\$	107	0.37%
ILLINOIS	12.7	\$	33,690	\$	1,585.6	\$	125	0.37%
NEW MEXICO	1.9	\$	25,541	\$	137.3	\$	73	0.29%
IDAHO	1.4	\$	25,911	\$	98.0	\$	72	0.28%
LOUISIANA	4.5	\$	26,100	\$	311.5	\$	69	0.27%
KANSAS	2.7	\$	29,935	\$	210.8	\$	78	0.26%
WISCONSIN	5.5	\$	30,898	\$	435.1	\$	80	0.26%
COLORADO	4.6	\$	34,283	\$	391.5	\$	86	0.25%
CALIFORNIA	35.5	\$	33,749	\$	2,781.6	\$	78	0.23%
WASHINGTON	6.1	\$	33,332	\$	460.3	\$	75	0.23%
IOWA	2.9	\$	29,043	\$	187.8	\$	64	0.22%
ARIZONA	5.6	\$	26,838	\$	322.3	\$	58	0.22%
MINNESOTA	5.1	\$	34,443	\$	351.8	\$	70	0.20%
NEBRASKA	1.7	\$	30,758	\$	80.9	\$	47	0.15%
MONTANA	0.9	\$	25,920	\$	34.7	\$	38	0.15%
ALABAMA	4.5	\$	26,338	\$	0.0	\$	0	0.00%
ALASKA	0.6	\$	33,568	\$	0.0	\$	0	0.00%
ARKANSAS	2.7	\$	24,289	\$	0.0	\$	0	0.00%
HAWAII	1.3	\$	30,913	\$	0.0	\$	0	0.00%
MISSISSIPPI	2.9	\$	23,448	\$	0.0	\$	0	0.00%
NEVADA	2.2	\$	31,266	\$	0.0	\$	0	0.00%
NORTH CAROLINA	8.4	\$	28,235	\$	0.0	\$	0	0.00%
NORTH DAKOTA	0.6	\$	29,204	\$	0.0	\$	0	0.00%
OKLAHOMA	3.5	\$	26,656	\$	0.0	\$	0	0.00%
TENNESSEE	5.8	\$	28,455	\$	0.0	\$	0	0.00%
UTAH	2.4	\$	24,977	\$	0.0	\$	0	0.00%
WYOMING	0.5	\$	32,808	\$	0.0	\$	0	0.00%
TOTALS	290.8	\$	31,058	\$	44,952.6	\$	155	0.50%

SOURCES: NORTH AMERICAN ASSOCIATION OF STATE AND PROVINCIAL LOTTERIES, STATE RANKINGS 2004:
A STATISTICAL VIEW OF THE 50 STATES, SURVEY OF CURRENT BUSINESS (JUN 2004)

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. The continued effort to create new games has allowed the instant games to remain the most popular Lottery format in the State, in terms of sales, for the last 12 years. For Mega Millions, the recent inclusions of Washington and Texas and the enticement of multiple rollovers helped generate new enthusiasm and, thus, more revenues to the State. The successes of these two gaming formats were the major factors for the nearly 8 percent total increase in Lottery sales in FY 2004.

Can the recent success of the Lottery continue into FY 2005? Since jackpot size and rollovers have a significant impact on sales, it is difficult to predict year-to-year success. However, current trends are encouraging. Instant game sales have increased 44 percent over the last five years, and while the level of growth may slow, there is no reason to believe that the increase in instant game sales won't continue. The Pick 4 game and Mega Millions saw record levels in FY 2004 and the upward trend in their figures are anticipated to continue in the future. Also, recently enacted administrative cuts and increased license fees under P.A. 93-0840 should result in slightly more revenue being transferred to the general funds.

However, the Lottery's successes experienced in these games are humbled by the continued disappointment of the Pick 3 game and Lotto. In FY 1992, sales from Lotto totaled nearly \$634 million. In FY 2004 this total has declined all the way to \$117 million. The Pick 3 game has seen sales drop 16% over the last decade. For total lottery revenues in FY 2005 and thereafter to continue the increases experienced in FY 2004, the popularity of the instant games, Mega Millions, and Pick 4 will have to outweigh the disappointments of the other Lottery games. However, if a more reliable and stable increase in Lottery revenues were desired, major changes to the Lottery structure would have to be implemented.

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). The State receives revenue from licensed riverboat gambling through license fees, wagering taxes, and admission taxes. The wagering tax is based on the adjusted gross receipts (AGR) of a riverboat, while the admission tax is based on the number of patrons visiting the facility. Because of this tax structure, adjusted gross receipts and admissions figures are the principal components that determine the amount of revenue collected by the State each year. While the State receives the majority of the revenue from riverboat gaming, a portion of the wagering tax and the admissions tax is distributed to the county and municipality where a gambling boat docks.

The Riverboat Gambling Act set the original wagering tax at an amount equal to 20 percent of a licensee's annual adjusted gross receipts. At that time, it authorized ten riverboat casino licenses, and specified that each licensee may operate two riverboat casinos at a single-specified location. Since the State's first riverboat casino – the Alton Belle – was launched on September 11, 1991, Illinois has experienced several major changes in the riverboat industry. 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 2004 graduated wagering tax schedule.

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 introduced 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 revised the wagering tax schedule levied against the adjusted gross receipts of the State's riverboats and specified that the additional wagering tax revenues shall be paid into the Common School Fund. The current 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%

Under current law, these tax rates will 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 will return to previous levels. The new rates will be 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. 92-0028 (SB 1607) amended the Riverboat Gambling Act by adding provisions regarding the re-issuance of a revoked or non-renewed owners license. These provisions provided 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.

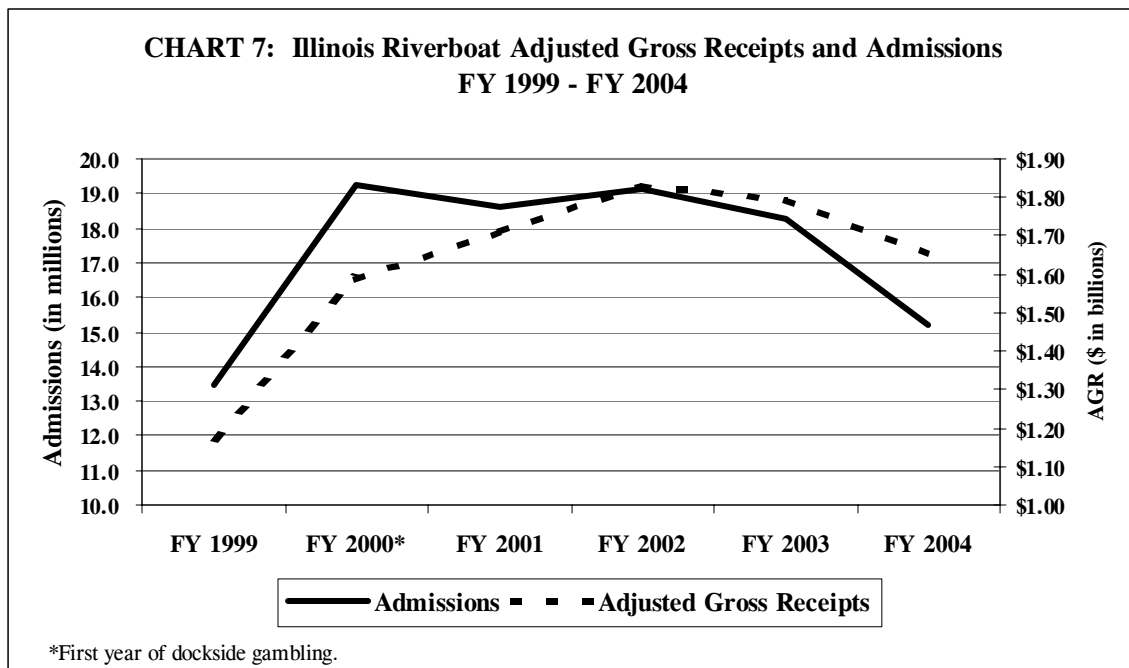
The Act amended other provisions of the Riverboat Gambling Act by authorizing all owners licensees that operate from home docks on the Mississippi River to relocate to new home dock locations that meet specified requirements and replacing the flat admissions tax with a graduated schedule. The revised graduated rates levy a \$3 admissions tax (\$2 State/\$1 Local) on each riverboat that 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 amended 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 now, with one year completed, how have these tax changes impacted State gaming revenue? When the FY 2004 budget was enacted, it was estimated that P.A. 93-0027 (SB 1606) and P.A. 0028 (SB 1607) would increase State gaming tax revenue by approximately \$200 million over what would have otherwise been generated. However, these estimates fell well short of actuals as the amount of transfers into the Education Assistance Fund plus the amount deposited into the Common School Fund in FY 2004 was only \$107.5 million higher than in FY 2003.

In order to understand these disappointing revenue figures, a closer look at the riverboat data provided by the Illinois Gaming Board must be taken. During FY 2004, total revenues generated from Illinois riverboats increased nearly 14.0%, including an 18.4% increase in State revenues due primarily to the higher tax rates. However, this total also consisted of a 9.3% decline in local revenues, which were not directly affected by the higher tax rates. The decline was due to a 7.8% decrease in adjusted gross receipts and a 16.9% decrease in riverboat admissions. **In fact, the FY 2004 admissions totals were the lowest levels experienced since dockside gambling was introduced in FY 2000.** This decline is shown below in Chart 7.



The decline in adjusted gross receipts and admissions was not experienced by every riverboat. Riverboats in Elgin and East St. Louis both saw their AGR and admission totals improve from the previous fiscal year. However, the growth seen at these two locations far from outweighed the significant declines in AGR and admissions at the other Illinois locations. For example, Aurora's riverboat saw their FY 2004 AGR totals fall 21% from FY 03 levels, while their admission totals dropped a whopping 42%. Joliet Harrah's experienced similar declines with AGR and admissions totals falling 18% and 39%, respectively.

The tables below and on the following page provide a summary of the performance of each of the State's nine active riverboat licenses during fiscal years 1999 - 2004 in the areas of adjusted gross receipts, admissions, and State, local, and total revenue generated. The information comes from the Illinois Gaming Board's *Monthly Riverboat Casino Report*. (Keep in mind, dockside gambling is only reflected in the FY 2000 - FY 2004 figures. FY 1999 is included for comparison purposes only.)

TABLE 9: ILLINOIS RIVERBOAT ADJUSTED GROSS RECEIPTS (FY 1999 - FY 2004)						
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
ELGIN	\$267,876,000	\$374,666,000	\$399,304,000	\$421,718,000	\$383,221,000	\$388,975,000
JOLIET HARRAH'S	\$177,635,000	\$263,262,000	\$287,510,000	\$318,212,000	\$305,030,000	\$249,157,000
AURORA	\$168,811,000	\$211,891,000	\$222,019,000	\$250,640,000	\$280,356,000	\$221,380,000
JOLIET EMPRESS	\$168,937,000	\$224,731,000	\$251,213,000	\$250,504,000	\$237,282,000	\$218,527,000
EAST ST. LOUIS	\$121,105,000	\$154,536,000	\$155,949,000	\$155,866,000	\$157,876,000	\$163,513,000
METROPOLIS	\$79,517,000	\$104,424,000	\$110,765,000	\$132,685,000	\$134,279,000	\$140,351,000
EAST PEORIA	\$101,552,000	\$127,384,000	\$134,273,000	\$144,953,000	\$144,043,000	\$132,812,000
ALTON	\$71,628,000	\$103,183,000	\$117,498,000	\$121,431,000	\$116,136,000	\$103,589,000
ROCK ISLAND	\$13,787,000	\$25,346,000	\$34,383,000	\$37,850,000	\$39,473,000	\$38,928,000
TENTH LICENSE	\$0	\$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	\$1,657,232,000
% INCREASE	9.84%	35.75%	7.77%	7.06%	-1.97%	-7.81%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 10: ILLINOIS RIVERBOAT ADMISSIONS (FY 1999 - FY 2004)						
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
ELGIN	2,323,887	3,607,894	3,542,209	3,312,057	2,765,342	2,854,598
JOLIET HARRAH'S	1,664,059	2,387,079	2,429,341	3,122,243	3,007,687	1,831,518
AURORA	1,885,163	2,845,450	2,367,235	2,499,683	2,490,552	1,446,951
JOLIET EMPRESS	1,948,853	2,539,641	2,456,560	2,188,890	2,219,458	1,666,841
EAST ST. LOUIS	1,705,093	2,185,336	2,058,016	2,012,569	2,023,378	2,152,041
METROPOLIS	1,045,892	1,458,371	1,357,368	1,526,467	1,450,530	1,394,316
EAST PEORIA	1,354,734	1,848,899	1,878,355	1,948,729	1,887,695	1,682,744
ALTON	1,201,360	1,680,240	1,705,029	1,691,891	1,601,270	1,381,943
ROCK ISLAND	366,548	688,567	794,525	831,552	807,731	763,370
TENTH LICENSE	0	0	0	0	0	0
TOTAL	13,495,589	19,241,477	18,588,638	19,134,081	18,253,643	15,174,322
% INCREASE	1.05%	42.58%	-3.39%	2.93%	-4.60%	-16.87%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 11: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 1999 - FY 2004)

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
ELGIN	\$71,804,654	\$103,507,694	\$110,833,409	\$117,327,457	\$144,161,334	\$194,510,142
JOLIET HARRAH'S	\$43,278,654	\$68,509,429	\$76,182,341	\$86,085,843	\$109,413,874	\$105,282,322
AURORA	\$40,890,910	\$53,313,950	\$56,472,935	\$65,191,683	\$95,773,179	\$86,556,159
JOLIET EMPRESS	\$40,855,666	\$56,815,041	\$65,320,460	\$64,840,090	\$67,119,094	\$85,212,673
EAST ST. LOUIS	\$26,777,580	\$34,644,136	\$36,390,566	\$36,235,719	\$42,730,156	\$61,630,423
METROPOLIS	\$14,582,616	\$18,795,221	\$21,839,268	\$27,531,467	\$33,858,335	\$48,514,898
EAST PEORIA	\$20,348,015	\$26,295,499	\$29,182,155	\$32,520,229	\$37,656,565	\$47,349,632
ALTON	\$12,513,651	\$18,445,690	\$23,922,529	\$25,667,191	\$28,086,740	\$33,320,879
ROCK ISLAND	\$1,956,996	\$3,223,167	\$4,533,425	\$5,143,952	\$6,693,387	\$7,333,790
TENTH LICENSE	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$273,008,742	\$383,549,827	\$424,677,088	\$460,543,631	\$565,492,664	\$669,710,918
% INCREASE	46.79%	40.49%	10.72%	8.45%	22.79%	18.43%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 12: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 1999 - FY 2004)

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
ELGIN	\$17,335,654	\$22,341,194	\$23,507,409	\$24,397,957	\$21,926,392	\$22,303,348
JOLIET HARRAH'S	\$12,135,154	\$15,550,179	\$16,804,841	\$19,032,843	\$18,259,187	\$14,289,368
AURORA	\$11,794,960	\$13,440,000	\$13,468,185	\$15,031,683	\$16,508,352	\$12,515,951
JOLIET EMPRESS	\$12,071,016	\$13,776,191	\$15,017,210	\$14,714,090	\$14,083,558	\$12,593,191
EAST ST. LOUIS	\$9,455,330	\$9,912,136	\$9,855,466	\$9,805,869	\$9,917,178	\$10,327,691
METROPOLIS	\$6,064,616	\$6,679,571	\$6,895,618	\$8,160,717	\$8,164,480	\$8,411,866
EAST PEORIA	\$7,773,615	\$8,218,099	\$8,592,005	\$9,196,379	\$9,089,845	\$8,323,344
ALTON	\$5,712,551	\$6,839,390	\$7,579,929	\$7,763,441	\$7,408,070	\$6,561,393
ROCK ISLAND	\$1,267,646	\$1,955,867	\$2,513,675	\$2,724,052	\$2,781,381	\$2,709,770
TENTH LICENSE	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$83,610,542	\$98,712,627	\$104,234,338	\$110,827,031	\$108,138,443	\$98,035,922
% INCREASE	7.23%	18.06%	5.59%	6.32%	-2.43%	-9.34%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 13: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 1999 - FY 2004)

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
ELGIN	\$89,140,308	\$125,848,888	\$134,340,818	\$141,725,414	\$166,087,726	\$216,813,490
JOLIET HARRAH'S	\$55,413,808	\$84,059,608	\$92,987,182	\$105,118,686	\$127,673,061	\$119,571,690
AURORA	\$52,685,870	\$66,753,950	\$69,941,120	\$80,223,366	\$112,281,531	\$99,072,110
JOLIET EMPRESS	\$52,926,682	\$70,591,232	\$80,337,670	\$79,554,180	\$81,202,652	\$97,805,864
EAST ST. LOUIS	\$36,232,910	\$44,556,272	\$46,246,032	\$46,041,588	\$52,647,334	\$71,958,114
METROPOLIS	\$20,647,232	\$25,474,792	\$28,734,886	\$35,692,184	\$42,022,815	\$56,926,764
EAST PEORIA	\$28,121,630	\$34,513,598	\$37,774,160	\$41,716,608	\$46,746,410	\$55,672,976
ALTON	\$18,226,202	\$25,285,080	\$31,502,458	\$33,430,632	\$35,494,810	\$39,882,272
ROCK ISLAND	\$3,224,642	\$5,179,034	\$7,047,100	\$7,868,004	\$9,474,768	\$10,043,560
TENTH LICENSE	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$356,619,284	\$482,262,454	\$528,911,426	\$571,370,662	\$673,631,107	\$767,746,840
% INCREASE	35.11%	35.23%	9.67%	8.03%	17.90%	13.97%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

The 7.8% drop in total adjusted gross receipts in FY 2004 was the second consecutive year of declining receipts (see Table 14). In FY 2003, adjusted gross receipts fell nearly 2.0%. What caused the decrease in adjusted gross receipts and admissions for Illinois riverboats the last couple of years? In the *2003 Wagering Update*, the Commission offered several different reasons for the FY 2003 declines, including the FY 2003 tax structure change, competition from bordering states, and the struggling economy. In part, these same factors continued to hurt the gaming industry in FY 2004. However, few would argue that it was the FY 2004 graduated tax rate change that had the biggest impact on the declines in adjusted gross receipts and admissions in FY 2004.

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	% CHANGE FY 2004 OVER FY 2003
ELGIN	6.58%	5.61%	-9.13%	1.50%
JOLIET HARRAH'S	9.21%	10.68%	-4.14%	-18.32%
AURORA	4.78%	12.89%	11.86%	-21.04%
JOLIET EMPRESS	11.78%	-0.28%	-5.28%	-7.90%
EAST ST. LOUIS	0.91%	-0.05%	1.29%	3.57%
METROPOLIS	6.07%	19.79%	1.20%	4.52%
EAST PEORIA	5.41%	7.95%	-0.63%	-7.80%
ALTON	13.87%	3.35%	-4.36%	-10.80%
ROCK ISLAND	35.65%	10.08%	4.29%	-1.38%
TENTH LICENSE	N/A	N/A	N/A	N/A
TOTAL	7.77%	7.06%	-1.97%	-7.81%
ADMISSIONS				
	% CHANGE FY 2001 OVER FY 2000	% CHANGE FY 2002 OVER FY 2001	% CHANGE FY 2003 OVER FY 2002	% CHANGE FY 2004 OVER FY 2003
ELGIN	-1.82%	-6.50%	-16.51%	3.23%
JOLIET HARRAH'S	1.77%	28.52%	-3.67%	-39.11%
AURORA	-16.81%	5.60%	-0.37%	-41.90%
JOLIET EMPRESS	-3.27%	-10.90%	1.40%	-24.90%
EAST ST. LOUIS	-5.83%	-2.21%	0.54%	6.36%
METROPOLIS	-6.93%	12.46%	-4.97%	-3.88%
EAST PEORIA	1.59%	3.75%	-3.13%	-10.86%
ALTON	1.48%	-0.77%	-5.36%	-13.70%
ROCK ISLAND	15.39%	4.66%	-2.86%	-5.49%
TENTH LICENSE	N/A	N/A	N/A	N/A
TOTAL	-3.39%	2.93%	-4.60%	-16.87%
SOURCE: ILLINOIS GAMING BOARD				

When the current tax structure went into effect on July 1, 2003, the graduated wagering taxes imposed on adjusted gross receipts were increased to as high as 70%, the highest wagering tax rate in the country. In addition, a graduated admissions tax was introduced at rates ranging from \$3 to \$5 per admission (up from the \$3 flat tax). As a result of these tax increases, gaming operators argued they had less profitable income to reinvest into their own casinos. They contended that less reinvestment meant they were 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 appear to be having trouble keeping their regular attendees or attracting other potential patrons.

Contributing to the declining gaming numbers is the decision of certain Illinois riverboats to lower expenses by reducing operating hours and cutting payroll. For example, four casinos (Alton, Aurora, Joliet Empress, and Joliet Harrah's) were granted permission by the Illinois Gaming Board to reduce operating hours as a means of reducing their operating expenses. Not surprisingly, these are the same four boats that have seen the largest declines in admissions. In addition, some riverboats have reduced personnel by replacing popular table games with more profitable and less labor intensive electronic gaming devices. Again, these cutbacks have likely contributed to the reduction in admissions and adjusted gross receipts.

As mentioned earlier, there is an admissions tax imposed in Illinois at a rate of \$3 to \$5 per admission, depending on the previous year's AGR intake of the riverboat. In past years, Illinois riverboats have paid this tax themselves in order to offer, as an incentive, free admission. However, some riverboats have decided to pass this admissions tax onto the patron, creating a disincentive for the riverboat consumer and, thus, another reason for the decline in admissions and in AGR. While these riverboats now offer many free admission coupons to their potential customers to respond to this admission fee, it appears that the negative tone set by having to potentially pay an admission price may have scared many riverboat patrons away.

As shown in Table 15, on a statewide basis, the higher graduated tax rate in FY 2004 generated 14% more State and local revenues than in FY 2003. However, despite the increase in tax rates, two riverboats, Joliet Harrah's and Aurora, actually brought in less revenue to the State in FY 2004 than they did in FY 2003. Again, this decline in receipts is likely caused by the previously mentioned business response of these riverboats in reaction to the higher tax rates.

	FY 2003 YTD State Revenue	FY 2004 YTD State Revenue	YTD % Change	FY 2003 YTD Total Revenue	FY 2004 YTD Total Revenue	YTD % Change
ELGIN (Grand Victoria)	\$144,161,334	\$194,510,142	34.9%	\$166,087,726	\$216,813,490	30.5%
JOLIET HARRAH'S	\$109,413,874	\$105,282,322	-3.8%	\$127,673,061	\$119,571,690	-6.3%
AURORA (City Lights I & II)	\$95,773,179	\$86,556,159	-9.6%	\$112,281,531	\$99,072,110	-11.8%
JOLIET EMPRESS (I & II)	\$67,119,094	\$85,212,673	27.0%	\$81,202,652	\$97,805,864	20.4%
EAST ST. LOUIS (Casino Queen)	\$42,730,156	\$61,630,423	44.2%	\$52,647,334	\$71,958,114	36.7%
METROPOLIS	\$33,858,335	\$48,514,898	43.3%	\$42,022,815	\$56,926,764	35.5%
EAST PEORIA (Par-A-Dice)	\$37,656,565	\$47,349,632	25.7%	\$46,746,410	\$55,672,976	19.1%
ALTON (Alton Belle)	\$28,086,740	\$33,320,879	18.6%	\$35,494,810	\$39,882,272	12.4%
ROCK ISLAND (Casino RI)	\$6,693,387	\$7,333,790	9.6%	\$9,474,768	\$10,043,560	6.0%
TOTAL	\$565,492,664	\$669,710,918	18.4%	\$673,631,107	\$767,746,840	14.0%

SOURCE: Illinois Gaming Board Monthly Riverboat Casino Report

So where did the patrons from these struggling riverboats go? Some may have stayed in the State and attended other Illinois riverboats, such as Elgin (again, Elgin chose not to pass the admission fee onto the patron, and as a result, experienced growth in AGR and admissions). However, many of the patrons in the Chicago area may have crossed the border into Indiana to gamble. Some believe that Illinois operators who also own casinos outside of Illinois may be choosing to redirect their marketing, capital, and operating expenses to their riverboats in lower-taxed states, such as Indiana, in order to maximize profits. As a result, many feel that Illinois is losing riverboat patrons to Indiana and other neighboring states that may be benefiting from Illinois' higher taxes.

Statistics from the Indiana Gaming Commission back this argument. In FY 2004, Indiana total admissions increased 1.0% over FY 2003 levels. The percentage change for the Chicago area Indiana riverboats (Hammond Horseshoe, East Chicago Harrah's, Gary Majestic Star, and Gary Trump) was even higher at 3.0%. (Remember this is compared to Illinois' FY 2004 admission totals, which declined 16.9%). Helping these riverboats is the fact that they have a maximum tax rate of only 35%, they offer free admission to the riverboat patron, and the location of Indiana's northwestern boats are easily accessible and only minutes away from the highly populated metropolitan area of Chicago. **In fact, as shown at the end of this section, while Illinois' AGR totals have declined over the last two fiscal years, the surrounding gaming states (Indiana, Iowa, and Missouri) have continued to see their adjusted gross receipts grow.**

The Tenth License

As Illinois riverboat revenues struggled in FY 2004, questions arose on how the State would be able to persuade riverboat patrons back to Illinois casinos. One situation that hoped to give the State riverboat industry a boost was the selling of the 10th riverboat license. In November 2003, the Attorney General reached a settlement with Emerald Casino on a proposed Plan of Reorganization. The proposed plan would have paved the way for Illinois' 10th riverboat license to become operational after years of litigation and controversy stemming from allegations of wrongdoing.

However, before the selling of the license could occur, the plan had to be approved by the Illinois Gaming Board and in bankruptcy court. On December 15, 2003, the Illinois Gaming Board unanimously approved the settlement. Therefore, the future of the 10th license awaited the decision of the bankruptcy court. Once approval from bankruptcy court was granted, the Illinois Gaming Board began evaluating proposals and selected three finalists on Feb. 23, 2004. After hearing presentations, the board identified a leading bidder, and an auction was held. On March 15, 2004 it was announced that the Isle of Capri Casinos Inc. was selected to operate the 10th license in Rosemont.

The winning bid was for \$518 million. The *Chicago Tribune* reported that the proposed casino would bring in approximately \$2.6 billion in casino revenue over the

first five years and would generate approximately \$1.1 billion in State gaming tax revenue over the five-year period. Again, once the casino became operational, the tax rates would revert back to FY 2003 levels. It was hopeful that these factors would bring AGR and admission totals back to previous levels.

However, complications to the sale quickly developed. It was discovered that the Gaming Board staff had reviewed the bids and recommended a riverboat to be located in Des Plaines. Despite the staff's recommendations, the Gaming Board chose the Rosemont location anyway. As complaints over the selection escalated, on March 17, 2004, Governor Blagojevich called for a full public review of concerns surrounding the 10th casino license location. On May 11th, Attorney General Lisa Madigan went one step further as she announced that she was reopening the revocation hearings on the Rosemont boat. The Attorney General said that she was dissatisfied with the Gaming Board's response to her concerns over the selection process and did not think the license should have been awarded to the Isle of Capri for operation in Rosemont.

The circumstances surrounding the 10th license have gained much attention because 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 2004, the Grand Victoria's adjusted gross receipts totaled \$389.0 million and admissions equaled nearly 2.9 million. These figures resulted in \$216.8 million in total tax revenues in FY 2004. While the effect that another casino would have on the other Illinois riverboats is speculative, there is little doubt that an operating 10th license would cause overall State revenues to increase significantly.

So when will the 10th license finally become operational? Although the Gaming Board has been moving forward with Isle of Capri plans, analysts believe that the decision to reopen the revocation hearings will tie up the riverboat license in litigation for many months, if not years. It should be noted that the FY 2005 budget was passed under the assumption that no revenues would be received from the 10th license during this fiscal year.

Adding to this uncertainty is the recent resignations of two Illinois Gaming Board members. These resignations, in addition to the Senate's rejection of a Governor Blagojevich's appointee, leave only two members on the five-panel board. With only two members, the Board cannot carry on business until new members are appointed and officially approved. The Commission will continue to monitor the progress of the Illinois Gaming Board, the 10th riverboat license, as well as other riverboat related information, and report of any findings when necessary.

What Will the Future Hold for the Illinois Riverboats?

The focus for Illinois' gaming has turned almost exclusively to riverboat gambling. Total revenues from riverboat taxes have grown by an average of nearly 20% per year over the last six years, making the riverboat industry the largest component of gaming in the State. This dramatic growth was first fueled by the inception of dockside gambling. However, now that the novelty of dockside gambling has 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 suggest that absent expansion in one form or another, it is likely that State revenues will once again stagnate or possibly even decrease in out years, beginning in FY 2005.

The Illinois Casino Gaming Commission has stated that several riverboats are seriously considering expanding their current riverboats or building new facilities in the near future in anticipation of the rollback in taxes that is set to begin in FY 2006. These improved facilities would likely provide a welcome boost to a struggling industry. However, if the rollback in taxes were not allowed to occur as scheduled, the Gaming Commission believes that these expansion plans would likely be altered.

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 and because of the effect that higher tax rates appear to have had on AGR and admission figures, 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.

During the latest legislative session, several proposals were offered that attempted to make changes to the riverboat industry as a means of generating additional State revenue. While these proposals failed to gather enough support for passage during the regular session, there is discussion that these proposals may resurface during the fall 2004 veto session. The following section summarizes the highlights of the most prominent proposal, HB 1067.

HB 1067

HB 1067 proposed several changes to the Riverboat Gaming Act and the Horse Racing Act. The latest version, Senate Amendment 3 to HB 1067, would have done the following:

- Establish three new riverboats (located in the south suburbs, Waukegan, and Rockford) at a minimum bid of \$350 million for each license. An additional land-based casino would be located in the city of Chicago, which would require a \$350 million payment to the State.

- Allow the purchase of 800 new gaming positions for all riverboat licensees. The positions would be sold in packs of 100 at \$2.5 million per 100 positions.
- Allow the possible addition of 3,850 gaming positions to the five horse racing facilities in the State. The 3,850 gaming positions would be sold at \$50,000 per position for all Cook County racetracks (Arlington, Hawthorne, and Maywood) and \$25,000 per position for all other racetracks (Balmoral, Fairmount, and Quad City).
- Lower the Admission Tax. The admission tax schedule would change to \$1 per person admitted at Rock Island, and \$3 per person at all other locations. An additional admission tax would be implemented for horse tracks.
- Lower the Wagering Tax Rates. The wagering tax graduated schedule would be lowered to a maximum rate of 50% (instead of 70%).
- Change Distributions. The legislation would change the current distribution amounts and would allow distributions to several new funds including the Illinois Community Services Block Grant Fund, the Compulsive Gambling Prevention Fund, the School Infrastructure Fund, the Department of Human Services, and the Road Fund.
- Make various other changes, including, establishing a \$500 application fee for Illinois-eligible stallions, phasing out the Purse Recapture, eliminating the Horse Racing Equity Fund Transfer, phasing out the Pari-mutuel Tax Credit, and continuing the GRF Backfill to the Education Assistance Fund.

Several of the changes previously discussed (establishing three new boats, establishing a land-based casino in Chicago, increasing gaming positions at riverboats, slot machines at racetracks) would significantly affect admission totals and the amount of adjusted gross receipts generated and, thus, the amount of tax revenue collected from these gaming operations. While the changes to the tax schedules would impact revenues, it is the one-time revenue provisions dealing with the sale of licenses and positions that would have the biggest immediate impact on revenues. The amount of revenue generated from any gaming proposal would ultimately depend on the final language of the legislation.

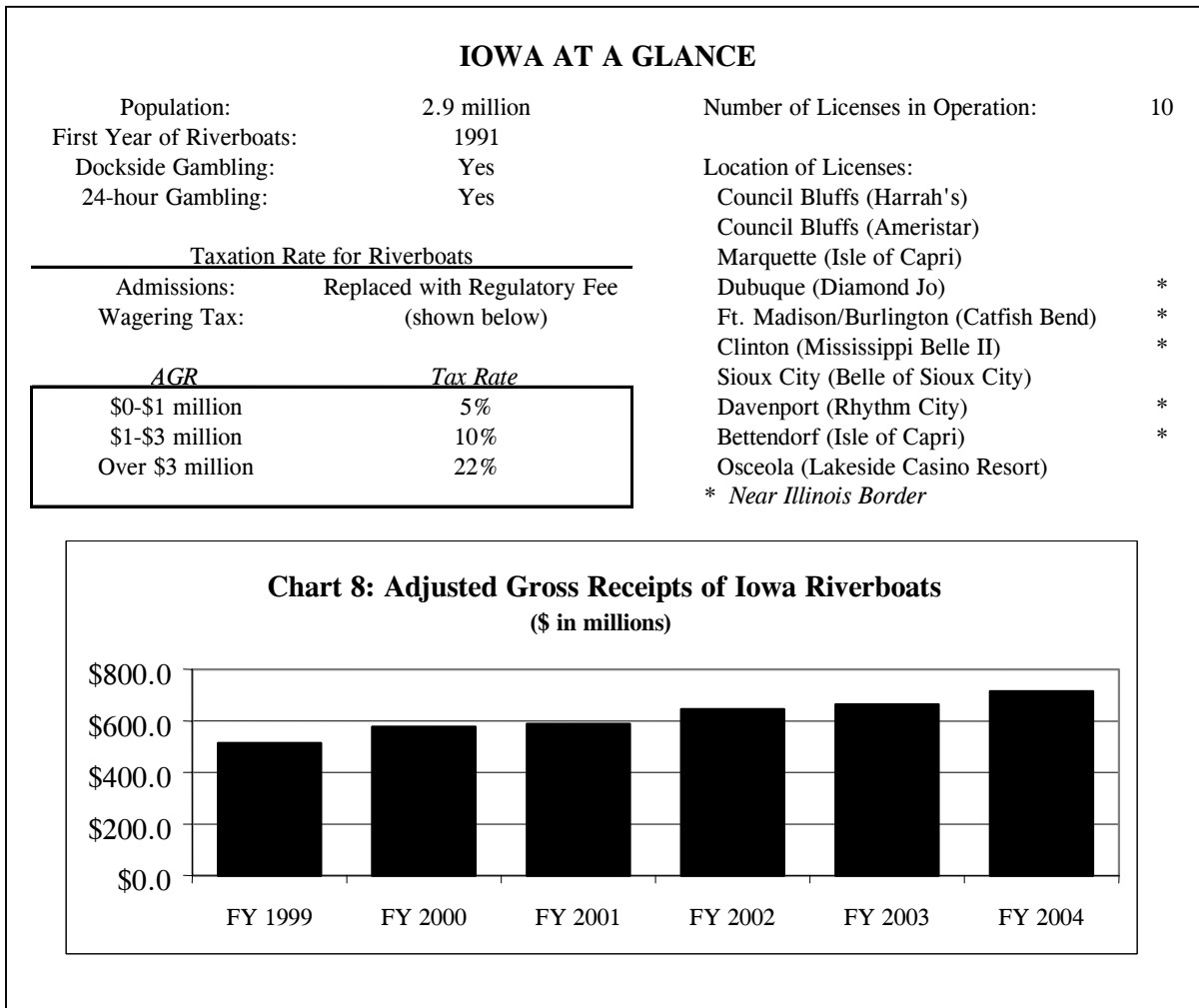
Once final language is established, estimating the amount of new revenues that would be generated as a result of these changes requires numerous assumptions, which makes estimating very difficult. These assumptions include predicting the number of positions that each riverboat would ultimately purchase, the economic value of the location of these new boats, determining dilution factors because of the availability of more gaming positions, and estimating the timing of when the boats would become operational. Again, while no riverboat legislation was passed during the latest legislative session, the ideas proposed may have laid the groundwork for gaming changes in the future.

An Overview of Riverboat Gaming in Bordering States

A common question raised is how does Illinois's 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

During the latest legislative session, the State of Iowa made several changes to their riverboat gambling policy. As of July 1, 2004, the state revised the graduated tax system, with riverboat taxes now capped at 22 percent (up from 20%) and racetrack wagering taxes capped at 22 to 24 percent (depending on the timing of the table license and the AGR of the casino). The state's admissions tax rate has now been replaced with a regulatory fee. Iowa has ten excursion gambling boats in operation and three horse tracks/casinos. Below is an overview of riverboat information relating to the state of Iowa.



INDIANA

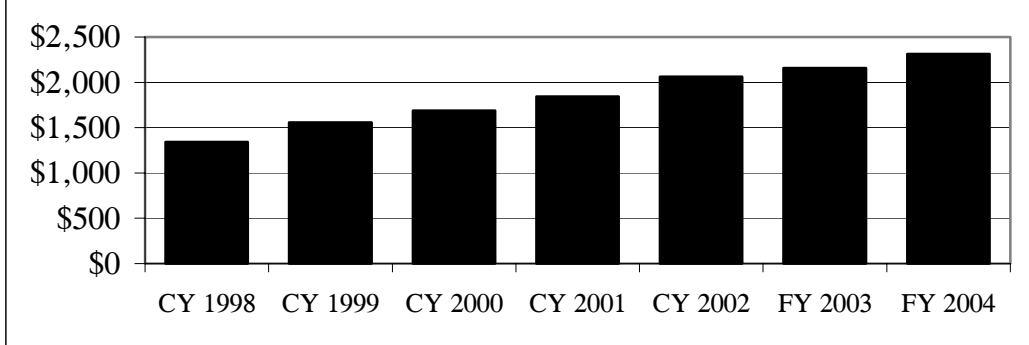
Beginning in FY 2003, Indiana increased wagering taxes and authorized dockside gambling. The wagering taxes were increased from a rate of 20 percent to 22.5 percent for all riverboats choosing not to conduct dockside gambling. However, all ten Indiana riverboats chose dockside gambling, requiring them 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. In FY 2004, Indiana also implemented 24-hour gaming, a decision to encompass additional revenue for the state of Indiana. This decision, along with Illinois' struggles to compete, allowed adjusted gross receipts in Indiana to increase by approximately 7% in FY 2004. 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 (Azstar)	*
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)
<i>AGR</i>	<i>Tax Rate</i>
\$0-\$25 million	15%
\$25-\$50 million	20%
\$50-\$75 million	25%
\$75-\$150 million	30%
Over \$150 million	35%

Chart 9: Adjusted Gross Receipts of Indiana Riverboats
(\$ in millions)



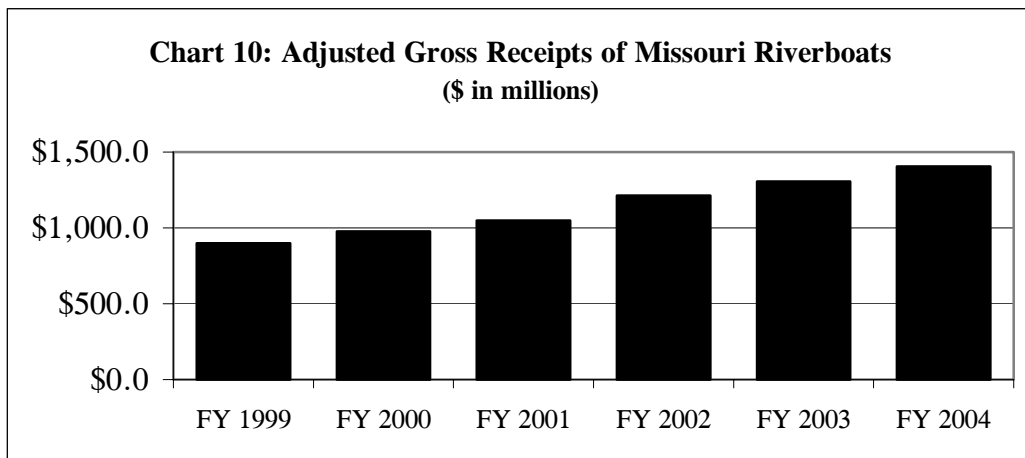
MISSOURI

The State of Missouri made no major changes to their riverboat gambling policy in FY 2004. Missouri riverboats continue 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 that the Missouri Gaming Commission believes is limiting Missouri's riverboat revenues is the state's \$500 loss limit. Patrons to Missouri's riverboats are only allowed a \$500 buy-in per 2-hour excursion. The Commission states that Missouri is now the only jurisdiction in the world that imposes a loss limit on its gambling customers. While there have been discussions on eliminating this loss limit in the future, the loss limit still exists for the time being.

MISSOURI AT A GLANCE

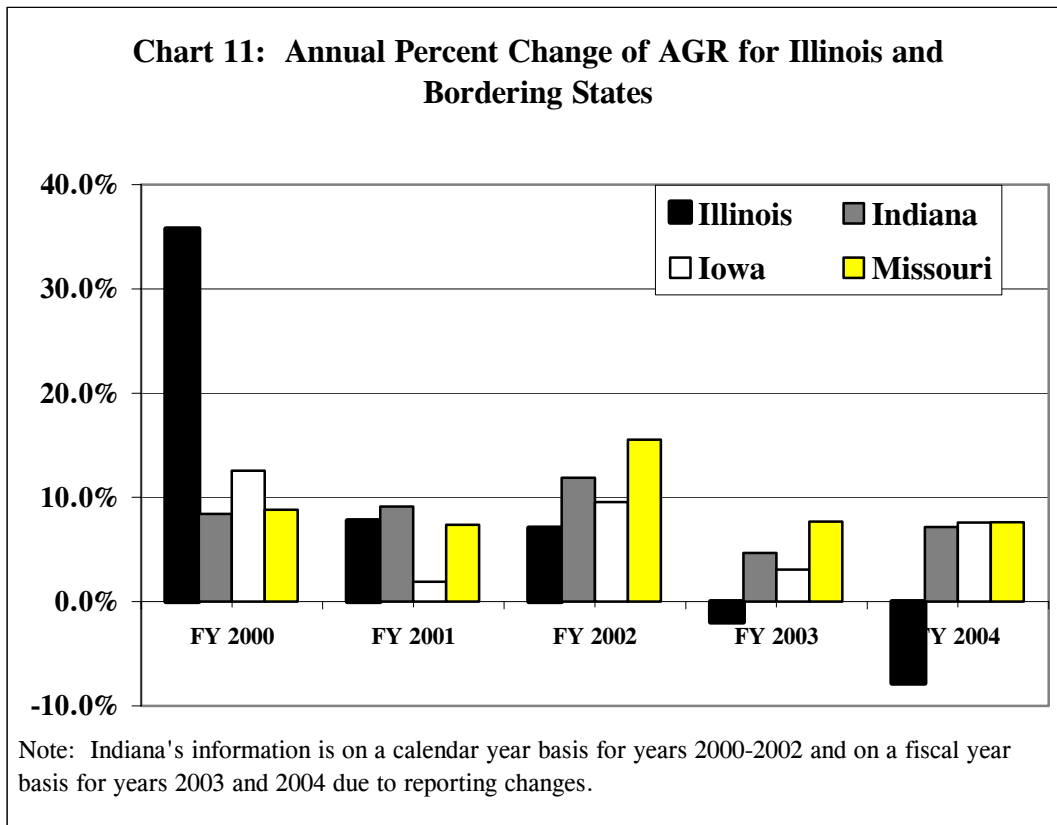
Population:	5.7 million	Number of Licenses in Operation:	12
First Year of Riverboats:	1994	Location of Licenses:	
Dockside Gambling:	Yes	St. Louis (President)	*
24-hour Gambling:	On weekends	St. Charles (Ameristar)	*
		Riverside (Argosy)	
		St. Joseph (St. Jo Frontier)	
		North Kansas City (Harrah's)	
		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	

Chart 10: Adjusted Gross Receipts of Missouri Riverboats
(\$ in millions)



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 6 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 gamble on riverboats. The following chart displays the annual percent change of adjusted gross receipts for Illinois and the neighboring riverboat states for FY 2000 - FY 2004.



CONCLUSION

In conclusion, various analyses discussed earlier in this report indicate that while overall gaming revenues continued to grow in FY 2004, the growth was not evenly distributed across the various forms of gaming. Horse racing revenues continued to be stagnant; lottery receipts were up after a disappointing year before; leaving riverboat gaming as the main contributing factor for the 12% increase in State gaming revenues, with that increase due to tax changes. State gaming in Illinois has reached a point that new changes must be made in the industry for dramatic increases in revenues to continue.

State revenues from horse racing have been stagnant for five consecutive years now. And, during the latest legislative session, no significant changes to the horse racing industry were created that would affect State revenues in the immediate future. Unless a major change in the horse racing industry, such as slot machines at racetracks, were to occur, horse racing revenues will likely continue to be stagnant in the future.

For Lottery, the significant increases in Instant games, Mega Millions, Pick 4, and Little Lotto helped fuel the nearly 8 percent increase in total sales and the 5.6 percent increase in transfers to the Common School Fund experienced in FY 2004. These increases outweighed the disappointing sales from the Pick 3 and the Lotto. For the Lottery to experience growth in the future, it must rely on the continued popularity of instant games and hope for multiple rollovers in the Mega Millions game.

The focus for Illinois' gaming over the last couple of years has shifted to riverboat gambling. In FY 2004, for the second consecutive year, riverboat gaming was the largest component of gaming in the State; a spot that it likely will not relinquish in the foreseeable future. While the success of dockside gambling fueled the increases in riverboat receipts experienced in the past, it is the graduated tax increases of FY 2003 and FY 2004 that are responsible for the increases experienced over the last couple of years.

Although riverboat revenues have increased, there is much concern surrounding the negative impact that these tax increases have had on adjusted gross receipts and admission figures. Adjusted gross receipts fell nearly 8% in FY 2004, while admissions fell a whopping 17%. While Illinois' AGR totals continue to decline, the gaming states surrounding Illinois continue to see their totals grow. This leads to the concern that riverboat gamers may be leaving Illinois to gamble. Because the tax structure will not change in FY 2005, it is possible that the State in FY 2005 will experience the first decline in riverboat revenues in seven years due to the high tax rates and its noticeable effect on Illinois' adjusted gross receipts and admission totals.

The future of riverboat gaming in Illinois is being held in the balance, awaiting the much-anticipated outcome of the tenth riverboat license. Although the Isle of Capri Casinos Inc. was selected to operate the 10th license in Rosemont, a wide array of

complaints arose over the selection process. This led the Governor to ask for a review of the decision and the Attorney General to announce that she was reopening the revocation hearings. As a result, the 10th license remains in limbo and its date of reopening continues to be uncertain.

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.”

Two years later, 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 has been the real driving force behind the continued 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 success of gaming revenue in Illinois for the future.

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 public pension funding requirements and preparation of pension impact notes; and
- 6) 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 three 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 "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. 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