

*Commission on Government
Forecasting and Accountability*



***WAGERING IN ILLINOIS
2005 UPDATE***



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SPRINGFIELD, ILLINOIS 62706*

*Commission on Government Forecasting
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EXECUTIVE SUMMARY

The following document is the Commission's 2005 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 riverboat gambling, lottery, and horse racing, the highlights of which are shown below.

- In FY 2005, the State's share of horse racing, lottery, and riverboat revenue reached \$1.325 billion, an \$81 million or 6.5% increase over FY 2004. The \$81 million increase consisted of a \$38 million increase in State riverboat revenues, a \$44 million increase in lottery transfers to the Common School Fund, and a \$1 million decline in horse racing revenues.
- In FY 2005, riverboat taxes and fees comprised 53% of total gaming revenues, lottery revenues 46%, and horse racing the remaining 1%.
- Overall gaming per-capita spending increased 5.2% to \$218 in FY 2005. This was the first increase in per-capita spending after two years of declines.
- While FY 2005 adjusted gross receipts (AGR) levels were up 5.7% and admissions up 0.3% from FY 2004 levels, overall adjusted gross receipts (AGR) in FY 2005 are still down 2.6% from FY 2003 levels and admissions are down 16.6% for the same time period.
- FY 2005 was the second year that P.A. 93-0027 and P.A. 93-0028 were in effect. These public acts increased the wagering taxes levied against adjusted gross receipts up to as much as 70% and increased the riverboat admissions tax up to as much as \$5 per admission. Few would argue that it was these tax changes that have had the biggest impact on the disappointing AGR and admission figures in FY 2004 and FY 2005.
- The higher tax rates led some Illinois riverboats to make changes, such as, reducing operating hours, cutting payroll, reducing the number of incentives offered, or charging an admission fee. As a result, it appears that Illinois has lost potential riverboat patrons to other states. For example, Indiana's portion of total riverboat AGR in the Chicago area increased from 42.7% in FY 2003 to 47.2% in FY 2004, while Illinois' portion dropped from 57.3% to 52.8% in FY 2004. Illinois experienced slight improvement in FY 2005, generating 53.7%.
- Although the tax changes affecting FY 2004 and FY 2005 did not bring in as much revenue as was originally estimated, it must be pointed out that the higher graduated tax rate in FY 2004 did generate 16.4% more State revenues than in FY 2003. In FY 2005, \$714.6 million in State revenues were collected, which

was a 6.7% increase over FY 2004 levels. The FY 2005 total amount is 24.2% higher than the amount of State revenues collected in FY 2003 under the maximum 50% tax rate.

- On July 1, 2005, the maximum wagering tax rate statutorily declined to 50%. Also affecting FY 2006 is P.A. 94-0673, which provides a hold-harmless provision in which riverboats must pay to the State set amounts that are similar to what was collected under the 70% maximum tax rate. Therefore, if the riverboats do not generate enough revenues under the lower tax rate, the riverboats will have to make up the difference, providing incentive for riverboat operators to increase their marketing. The admission tax is also lowered under this public act.
- Illinois' AGR per Table Game and AGR per Electronic Gaming Device are significantly higher than neighboring states. This would appear to suggest that Illinois gamblers spend more money on gambling than other states and/or that the gaming positions in Illinois are being utilized more frequently than other states, which would support the argument that the Illinois riverboats are often overcrowded due to lack of additional positions.
- In FY 2005, lottery sales totaled approximately \$1.843 billion, a 7.8% increase over FY 2004, and was the highest sales total realized since the inception of lottery in 1975. The amount transferred into the Common School Fund was \$614 million, a 7.7% increase over FY 2004.
- Instant games experienced the largest increase in sales in FY 2005, growing \$127 million. Other significant increases came from Little Lotto (up \$32 million) and from Lotto (up \$14 million). Mega Millions sales fell \$34 million in FY 2005, a decline of 15.0%.
- The instant games continue to comprise the largest percentage of lottery sales at 49% followed by Pick 3 (17%), Mega Millions (11%), Pick 4 (9%), Little Lotto (7%), and Lotto (7%).
- In 2004, 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 53% of the total handle, followed by intertrack wagering (26%) and on-track wagering (21%).
- Overall gaming revenues in FY 2006 and FY 2007 will likely remain relatively steady unless there is progress in the litigation surrounding the 10th license or other legislative changes are made. These possible changes include adding additional riverboats, increasing the number of gaming positions at current boats, and allowing slot machines at racetracks.

OVERVIEW

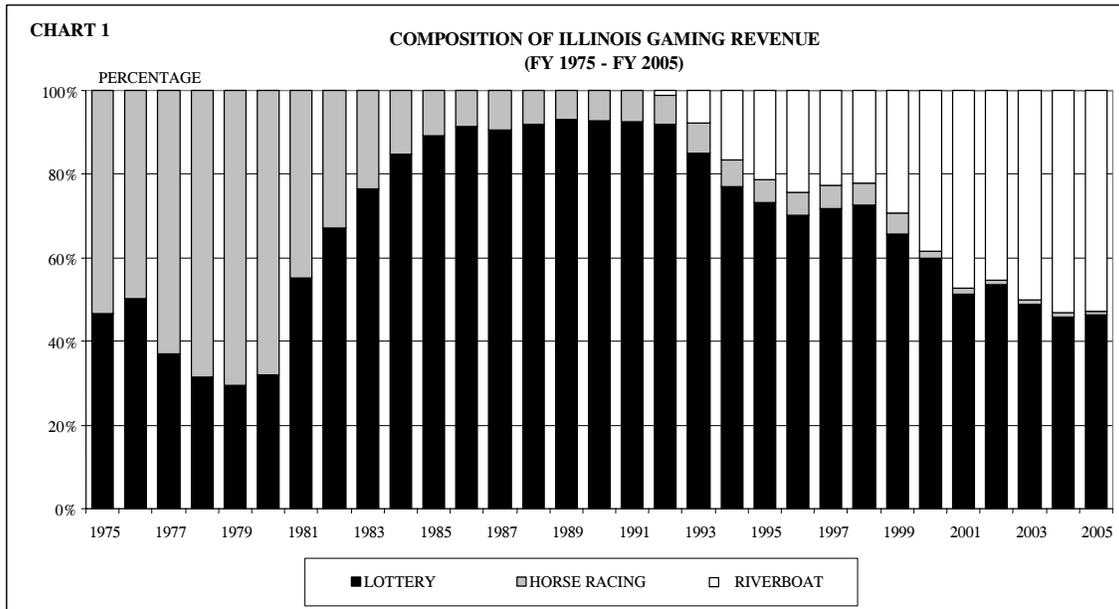
In the *Wagering in Illinois: 2004 Update*, the Commission discussed the many changes that altered the landscape of Illinois gaming in FY 2004. These modifications have continued to impact the State in FY 2005, resulting in significant changes to Illinois gaming numbers, especially in the ever-changing riverboat industry. During FY 2005, the riverboat industry went through its second year of graduated tax rates maxing out at 70%. During that time, riverboat tax revenues going into the general funds increased from \$554 million in FY 2003 to \$699 million in FY 2005, the highest levels since the inception of riverboat gambling. However, despite the increase in tax revenue, admissions and adjusted gross receipts to Illinois riverboats have apparently struggled as a result of these higher rates, causing concern that Illinois is losing potential riverboat patrons to other states. The Illinois Lottery had a strong FY 2005 in which revenues transferred to the Common School Fund increased 7.7% from levels experienced in FY 2004. State horse racing revenues fell slightly in FY 2005 to \$12 million after five years at \$13 million. 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 %
2005	\$614	\$12	\$699	\$1,325	7 %

(1) FIGURES REPRESENT TRANSFERS INTO THE COMMON SCHOOL FUND.
(2) FIGURES EQUAL STATE REVENUE GENERATED, NOT ALLOCATED, BASED ON A CALENDAR YEAR. THE 2005 FIGURE IS AN ESTIMATE.
(3) FIGURES REPRESENT APPROPRIATIONS (FY 1992 - 1995) AND TRANSFERS (FY 1996-FY 2005) INTO THE ED. ASSIST. FUND AND REVENUES DEPOSITED INTO THE COMMON SCHOOL FUND.

SOURCES: COMPTROLLER'S OFFICE, ILLINOIS DEPARTMENT OF REVENUE, ILLINOIS GAMING BOARD, AND ILLINOIS RACING BOARD

In FY 2005, the State’s share of horse racing, lottery, and riverboat revenue reached \$1.325 billion, which was a 6.5% increase over FY 2004. The \$81 million increase consisted of a \$38 million increase in State riverboat revenues (transfers to the Education Assistance Fund and deposits into the Common School Fund), a \$44 million increase in lottery transfers to the Common School Fund, and a \$1 million decline in horse racing revenues. The composition of FY 2005 gaming revenue in Illinois is shown below (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 2005, riverboat casinos comprised 53% of total gaming revenues, whereas lottery revenues comprised 46%, and horse racing comprised of 1%. This is in contrast to 1993 when lottery transfers amounted to 85%, riverboats 8%, and horse racing 7%. 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%.

In the earliest wagering 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, FY 2005 State gaming revenues totaled \$1.325 billion or a 6.5% increase over FY 2004. The gaming industry's FY 2005 gaming hold estimate of \$2.781 billion increased 5.7% from FY 2004 levels. Per-capita spending increased 5.2% to approximately \$218 in FY 2005. This was the first increase in per-capita spending after two years of declines.

	1997	1998	1999	2000	2001	2002	2003	2004	2005
POPULATION (IN MILLIONS)	12.01	12.07	12.13	12.44	12.52	12.60	12.65	12.71	12.78
HORSE RACING (CY)									
STATE REVENUE (IN MILLIONS)	\$ 45	\$ 42	\$ 42	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 12
GAMING HOLD (IN MILLIONS)	\$ 264	\$ 243	\$ 247	\$ 247	\$ 248	\$ 252	\$ 240	\$ 238	\$ 236
% CHANGE IN GAMING HOLD	-4.4%	-8.2%	1.9%	-0.2%	0.3%	1.8%	-4.9%	-0.8%	-0.8%
* PER-CAPITA SPENDING	\$ 22.0	\$ 20.1	\$ 20.4	\$ 19.8	\$ 19.8	\$ 20.0	\$ 18.9	\$ 18.7	\$ 18.5
% CHANGE IN PER-CAPITA SPENDING	-5.0%	-8.6%	1.4%	-2.7%	-0.4%	1.1%	-5.2%	-1.3%	-1.3%
LOTTERY (FY)									
TRANSFERS TO CSF (IN MILLIONS)	\$ 590	\$ 560	\$ 540	\$ 515	\$ 501	\$ 555	\$ 540	\$ 570	\$ 614
GAMING HOLD (IN MILLIONS)	\$ 796	\$ 741	\$ 704	\$ 674	\$ 658	\$ 722	\$ 705	\$ 735	\$ 793
% CHANGE IN GAMING HOLD	-0.3%	-6.9%	-5.0%	-4.2%	-2.4%	9.8%	-2.4%	4.3%	7.8%
* PER-CAPITA SPENDING	\$ 66.2	\$ 61.4	\$ 58.0	\$ 54.2	\$ 52.5	\$ 57.3	\$ 55.7	\$ 57.8	\$ 62.0
% CHANGE IN PER-CAPITA SPENDING	-1.0%	-7.4%	-5.5%	-6.6%	-3.0%	9.1%	-2.7%	3.8%	7.3%
RIVERBOATS (FY)									
AMOUNT TO EAF & CSF (IN MILLIONS)	\$ 185	\$ 170	\$ 240	\$ 330	\$ 460	\$ 470	\$ 554	\$ 661	\$ 699
GAMING HOLD (IN MILLIONS)	\$ 1,052	\$ 1,066	\$ 1,171	\$ 1,589	\$ 1,713	\$ 1,834	\$ 1,798	\$ 1,657	\$ 1,752
% CHANGE IN GAMING HOLD	-13.4%	1.4%	9.9%	35.6%	7.8%	7.1%	-2.0%	-7.8%	5.7%
*PER-CAPITA SPENDING	\$ 87.6	\$ 88.3	\$ 96.6	\$ 127.8	\$ 136.8	\$ 145.5	\$ 142.1	\$ 130.3	\$ 137.1
% CHANGE IN PER-CAPITA SPENDING	-14.0%	0.9%	9.4%	32.3%	7.1%	6.4%	-2.3%	-8.3%	5.2%
ALL WAGERING									
TOTAL REVENUE (IN MILLIONS)	\$ 820	\$ 772	\$ 822	\$ 858	\$ 974	\$ 1,038	\$ 1,107	\$ 1,244	\$ 1,325
GAMING HOLD (IN MILLIONS)	\$ 2,112	\$ 2,049	\$ 2,122	\$ 2,510	\$ 2,618	\$ 2,808	\$ 2,742	\$ 2,630	\$ 2,781
% CHANGE IN GAMING HOLD	-7.8%	-3.0%	3.6%	18.2%	4.3%	7.2%	-2.3%	-4.1%	5.7%
* PER-CAPITA SPENDING	\$ 175.8	\$ 169.8	\$ 175.0	\$ 201.8	\$ 209.1	\$ 222.8	\$ 216.8	\$ 206.9	\$ 217.6
% CHANGE IN PER-CAPITA SPENDING	-8.4%	-3.4%	3.1%	15.3%	3.6%	6.5%	-2.7%	-4.6%	5.2%
NOTE: THE FY 2005 GAMING HOLD FIGURES FOR HORSE RACING AND LOTTERY ARE ESTIMATES.									
* 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, the main reason for the turnaround in the overall gaming hold figures in FY 2005 was due to the 5.7% increase in the riverboat's gaming hold, which followed declines of 2.0% and 7.8% in FY 2003 and FY 2004, respectively. (The previous declines were largely due to the increased wagering tax rates, which will be discussed in further detail later in the report). Lottery per-capita spending in FY 2005 is estimated to be up approximately 7.8%, while horse racing per-capita spending is estimated to fall slightly at -1.3%.

What does the future hold for State gaming revenue? While FY 2005 was encouraging, having experienced record high transfers from both riverboats and lottery, the future of gaming in Illinois remains unclear. The graduated tax rates for riverboats reverted to lower rates in FY 2006, going from a maximum rate of 70% to 50%. The riverboat industry is hoping to capitalize from these lower rates and improve their admissions and adjusted gross income figures. This is important because the State leaders enacted a hold-harmless provision that requires the riverboats to pay to the State set amounts that are similar to what was collected under the 70% maximum tax rate. Therefore, if the riverboats do not generate enough revenues under the lower tax rate, the riverboats will have to make up the difference, providing incentive for riverboat operators to increase their marketing. Because of this set hold-harmless amount, riverboat transfers to the State should remain relatively flat for the next two fiscal years. This is explained in further detail later in the report.

As for the lottery, prior to FY 2005, the amount of transfers into the Common School Fund had remained relatively flat, having varied between \$500 million and \$600 million for the last 12 years. In FY 2005, however, lottery transfers increased to \$614 million. Its success was primarily due to large increases in instant ticket sales. It appears that the State's Lottery program is in the midst of a positive trend, having just completed its second consecutive year of strong growth. For the future, the lottery is hoping that the multi-state Mega Millions game will be a strong revenue producer for the State. Its success, however, from one fiscal year to the next continues to rely on unpredictable jackpot size. If the popular newer games continue to outweigh the performance of the struggling older games, lottery revenues should continue to increase in the future, although significant increases are not anticipated. As stated previously, horseracing revenue has remained stagnant for the last six years, and unless dramatic changes in the horse racing industry are made, there is little evidence to indicate a significant change in this source in the immediate future.

In summary, because of the new hold-harmless provision for riverboats, overall gaming revenues for the next two fiscal years will likely remain relatively stagnant. While lottery increases are possible, historically, any shift in overall State gaming revenue is dependent upon the performance of the riverboat gaming industry. For significant increases in riverboat revenues to occur, major changes in the industry will have to be made, which could include: opening new riverboats near the prime area of Chicago; changing the law that statutorily limits the number of positions at Illinois' riverboats; and, allowing gaming positions at other facilities besides riverboats. While these ideas have failed to gain the necessary amount of support thus far, as the demand for additional State revenues grows, legislators will likely be forced to repeatedly examine these gaming proposals in the fiscal years to come.

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 and FY 2005.

Since many of these topics were covered in earlier Commission reports, this update focuses on the impact of the changes associated with the increases related to the FY 2004 and FY 2005 graduated wagering tax schedule (which increased the tax to as high as 70%), the estimated effect on State revenues from rates reverting to lower levels in FY 2006, as well as the potential impact of newly enacted P.A. 94-0673. A summary of these legislative changes is provided below.

P.A. 93-0027 and P.A. 93-0028 (Increased Wagering and Admission Taxes for FY 2004 and FY 2005)

On July 1, 2003, P.A. 93-0027 and P.A. 93-0028 amended the Riverboat Gambling Act by adjusting the admissions and wagering taxes associated with riverboat gaming. 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. These rates were 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%

As obligated by statute, on July 1, 2005 these tax rates returned to previous levels. The new rates (and current 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%

The Riverboat Gambling Act also was amended on July 1, 2003 to create a graduated admission tax structure as follows: 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. Unlike the wagering tax schedule, the admission tax schedule did not include language that would revert these rates back to previous law after a certain time period. As a consequence, on July 1, 2005, when the wagering tax rate schedule changed, the admission tax rates remained the same.

P.A. 94-0673 (New Admission Tax Rate Structure and Wagering Tax Hold-Harmless Provision)

On August 23, 2005, the Governor signed into law P.A. 94-0673 (SB 0316), which makes the following significant changes to the Riverboat Gambling Act and its tax structure:

Reduces the Admission Tax: Under P.A. 94-0673, the admission tax is reduced from \$3 to \$5 per admission to \$2 to \$3 per admission. The precise amount for each riverboat is dependent on a riverboat's admission totals for the previous calendar year. As is under current law, the local governments receive \$1 of each admission tax

collected, with the State receiving the remaining revenues. *Since this new admission tax structure did not go into effect until the Governor approved the legislation, in FY 2006, the higher admission tax rates were imposed on riverboats up until August 23, 2005, the date the bill was signed into law.*

Hold Harmless Provision to Wagering Tax: On July 1, 2005, under current statute, the wagering tax graduated rate schedule declined from a 70% maximum tax rate to a maximum tax rate of 50%. P.A. 94-0673 does not alter this statutory rate schedule. However, the legislation does provide that, in addition to the amounts collected from the wagering tax rate, each riverboat must pay to the Illinois Gaming Board the amount, if any, by which the base amount for the licensed owner exceeds the amount of wagering tax paid. The base amount for each riverboat is as follows:

Riverboat	Minimum Wagering Tax (Base Amount)
Alton	\$31 million
East Peoria	\$43 million
Rock Island	\$0
Joliet Empress	\$86 million
Metropolis	\$45 million
Joliet Harrah's	\$114 million
Aurora	\$86 million
E. St. Louis	\$48.5 million
Elgin	\$198 million

P.A. 94-0673 provides that this “hold harmless” provision terminates on the earliest of: (i) July 1, 2007, (ii) the first day that riverboat gambling operations are conducted pursuant to a dormant license (10th riverboat license), (iii) the first day that riverboat gambling operations are conducted in Illinois in addition to the 10 owners licenses initially authorized under this Act, or (iv) the first day that a license under the Illinois Horse Racing Act of 1975 conducts gaming operations with slot machines or other electronic gaming devices.

Under P.A. 94-0673, the State will be guaranteed to receive at least \$651.5 million from the riverboats (established base amounts); plus approximately \$5 million from the wagering tax revenues from the Rock Island riverboat (which has no obligated base amount); plus approximately \$31 million from the admission tax (which is approximately \$20 million less than current law due to lower admission tax rates). **Therefore, at a minimum, the State can expect to receive at least \$687.5 million in FY 2006 and FY 2007 from riverboat gaming, with the potential for more if receipts exceed base amounts outlined in the public act.** Local governments will continue to receive 5% of a riverboat’s adjusted gross receipts and \$1 per admission.

Data Analysis

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 2001 – 2005 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(s)*.

TABLE 3: ILLINOIS RIVERBOAT ADJUSTED GROSS RECEIPTS (FY 2001 - FY 2005)					
(\$ in millions)					
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
ELGIN	\$399.3	\$421.7	\$383.2	\$389.0	\$408.1
JOLIET HARRAH'S	\$287.5	\$318.2	\$305.0	\$249.2	\$292.3
JOLIET EMPRESS	\$251.2	\$250.5	\$237.3	\$218.5	\$232.1
AURORA	\$222.0	\$250.6	\$280.4	\$221.4	\$231.8
EAST ST. LOUIS	\$155.9	\$155.9	\$157.9	\$163.5	\$165.4
METROPOLIS	\$110.8	\$132.7	\$134.3	\$140.4	\$140.5
EAST PEORIA	\$134.3	\$145.0	\$144.0	\$132.8	\$132.3
ALTON	\$117.5	\$121.4	\$116.1	\$103.6	\$110.4
ROCK ISLAND	\$34.4	\$37.9	\$39.5	\$38.9	\$39.3
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$1,712.9	\$1,833.9	\$1,797.7	\$1,657.2	\$1,752.2
% INCREASE	7.8%	7.1%	-2.0%	-7.8%	5.7%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 4: ILLINOIS RIVERBOAT ADMISSIONS (FY 2001 - FY 2005)					
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
ELGIN	3,542,209	3,312,057	2,765,342	2,854,598	2,795,134
JOLIET HARRAH'S	2,429,341	3,122,243	3,007,687	1,831,518	2,073,659
JOLIET EMPRESS	2,456,560	2,188,890	2,219,458	1,666,841	1,828,809
AURORA	2,367,235	2,499,683	2,490,552	1,446,951	1,428,536
EAST ST. LOUIS	2,058,016	2,012,569	2,023,378	2,152,041	2,122,913
METROPOLIS	1,357,368	1,526,467	1,450,530	1,394,316	1,214,268
EAST PEORIA	1,878,355	1,948,729	1,887,695	1,682,744	1,584,379
ALTON	1,705,029	1,691,891	1,601,270	1,381,943	1,424,604
ROCK ISLAND	794,525	831,552	807,731	763,370	746,355
TENTH LICENSE	0	0	0	0	0
TOTAL	18,588,638	19,134,081	18,253,643	15,174,322	15,218,657
% INCREASE	-3.4%	2.9%	-4.6%	-16.9%	0.3%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 5: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2001 - FY 2005)					
(\$ in millions)					
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
ELGIN	\$110.8	\$117.3	\$144.2	\$194.5	\$206.8
JOLIET HARRAH'S	\$76.2	\$86.1	\$109.4	\$105.3	\$125.0
JOLIET EMPRESS	\$65.3	\$64.8	\$76.9	\$85.2	\$91.8
AURORA	\$56.5	\$65.2	\$95.8	\$86.6	\$90.5
EAST ST. LOUIS	\$36.4	\$36.2	\$42.7	\$61.6	\$62.7
METROPOLIS	\$21.8	\$27.5	\$33.9	\$48.5	\$49.0
EAST PEORIA	\$29.2	\$32.5	\$37.7	\$47.3	\$46.2
ALTON	\$23.9	\$25.7	\$28.1	\$33.3	\$35.4
ROCK ISLAND	\$4.5	\$5.1	\$6.7	\$7.3	\$7.1
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$424.7	\$460.5	\$575.3	\$669.7	\$714.6
% INCREASE	10.7%	8.4%	24.9%	16.4%	6.7%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 6: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2001 - FY 2005)					
(\$ in millions)					
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
ELGIN	\$23.5	\$24.4	\$21.9	\$22.3	\$23.2
JOLIET HARRAH'S	\$16.8	\$19.0	\$18.3	\$14.3	\$16.7
JOLIET EMPRESS	\$15.0	\$14.7	\$14.1	\$12.6	\$13.4
AURORA	\$13.5	\$15.0	\$16.5	\$12.5	\$13.0
EAST ST. LOUIS	\$9.9	\$9.8	\$9.9	\$10.3	\$10.4
METROPOLIS	\$6.9	\$8.2	\$8.2	\$8.4	\$8.2
EAST PEORIA	\$8.6	\$9.2	\$9.1	\$8.3	\$8.2
ALTON	\$7.6	\$7.8	\$7.4	\$6.6	\$6.9
ROCK ISLAND	\$2.5	\$2.7	\$2.8	\$2.7	\$2.7
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$104.2	\$110.8	\$108.1	\$98.0	\$102.8
% INCREASE	5.6%	6.3%	-2.4%	-9.3%	4.9%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 7: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2001 - FY 2005)					
(\$ in millions)					
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
ELGIN	\$134.3	\$141.7	\$166.1	\$216.8	\$230.0
JOLIET HARRAH'S	\$93.0	\$105.1	\$127.7	\$119.6	\$141.7
JOLIET EMPRESS	\$80.3	\$79.6	\$91.0	\$97.8	\$105.3
AURORA	\$69.9	\$80.2	\$112.3	\$99.1	\$103.5
EAST ST. LOUIS	\$46.2	\$46.0	\$52.6	\$72.0	\$73.1
METROPOLIS	\$28.7	\$35.7	\$42.0	\$56.9	\$57.2
EAST PEORIA	\$37.8	\$41.7	\$46.7	\$55.7	\$54.4
ALTON	\$31.5	\$33.4	\$35.5	\$39.9	\$42.4
ROCK ISLAND	\$7.0	\$7.9	\$9.5	\$10.0	\$9.8
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$528.9	\$571.4	\$683.4	\$767.7	\$817.4
% INCREASE	9.7%	8.0%	19.6%	12.3%	6.5%

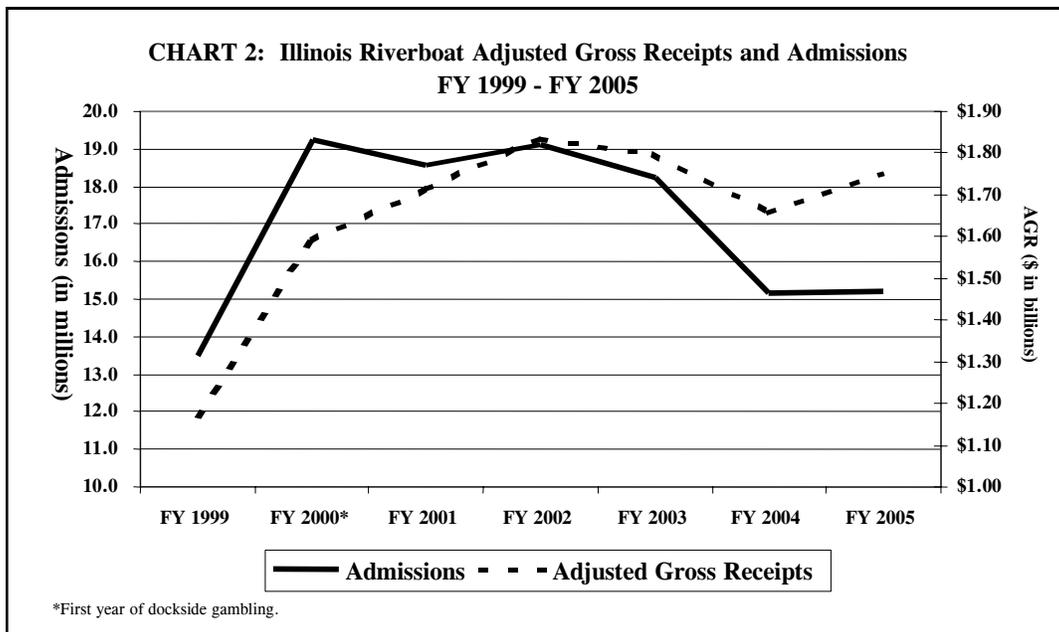
SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

Impact of P.A. 93-0027 and P.A. 93-0028

Two years of the higher tax structure under P.A. 93-0027 and P.A. 93-0028 have now been completed. So, how have these public acts impacted State gaming revenue? When the FY 2004 budget was enacted, it was estimated that P.A. 93-0027 and P.A. 93-0028 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 million higher than in FY 2003. Although, FY 2005 revenues were up \$38 million from FY 2004 levels, these totals were still well below the amounts expected when the tax increase was created.

In order to understand these disappointing revenue figures, a closer look at the riverboat data provided by the Illinois Gaming Board is in order. In FY 2002, the maximum tax rate was 35%. During this year, admissions reached 19.1 million and adjusted gross receipts reached a high-mark of \$1.834 billion. In FY 2003, a tax increase raised the maximum tax rate to 50%. During this year, riverboat admissions fell 4.6% to 18.3 million, while adjusted gross receipts fell 2.0% to \$1.798 billion.

During FY 2004, the first year of the maximum 70% tax rate, while State revenues increased 16.4% due to the higher tax rates, local revenues declined 9.3%. This decline in local receipts was due to the fact that the base upon which local revenues is calculated (5% of each riverboat's adjusted gross receipts plus \$1 for each admission) decreased considerably. In FY 2004, total adjusted gross receipts fell 7.8% and riverboat admissions fell 16.9%. 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 2.



In FY 2005, the second year under the 70% maximum tax rate, riverboat admissions increased approximately 0.3% from FY 2004 levels, but were still well below levels experienced in prior years. Adjusted gross receipts increased 5.7% to \$1.752 billion, but are also below levels experienced in the past. Many feel that the reason for the recent turn-around in adjusted gross receipts is due to the increased marketing put into operation in anticipation of the rollback of the wagering tax rates.

Boat-by-Boat Perspective

The FY 2004 decline in adjusted gross receipts and admissions were not experienced by every riverboat. Riverboats in Elgin, East St. Louis, and Metropolis saw their AGR and admission totals improve from the previous fiscal year. However, the growth seen at these locations could not outweigh the significant declines in AGR and admissions at the other Illinois locations in FY 2004. For example, Aurora’s riverboat saw their FY 2004 AGR totals fall 21% from FY 2003 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.

TABLE 8: ILLINOIS RIVERBOATS BY ADJUSTED GROSS RECEIPTS AND ADMISSIONS: PERCENTAGE CHANGE COMPARISON				
ADJUSTED GROSS RECEIPTS				
	% CHANGE FY 2002 OVER FY 2001	% CHANGE FY 2003 OVER FY 2002	% CHANGE FY 2004 OVER FY 2003	% CHANGE FY 2005 OVER FY 2004
ELGIN	5.61%	-9.13%	1.50%	4.91%
JOLIET HARRAH'S	10.68%	-4.14%	-18.32%	17.30%
JOLIET EMPRESS	-0.28%	-5.28%	-7.90%	6.23%
AURORA	12.89%	11.86%	-21.04%	4.71%
EAST ST. LOUIS	-0.05%	1.29%	3.57%	1.14%
METROPOLIS	19.79%	1.20%	4.52%	0.14%
EAST PEORIA	7.95%	-0.63%	-7.80%	-0.39%
ALTON	3.35%	-4.36%	-10.80%	6.53%
ROCK ISLAND	10.08%	4.29%	-1.38%	1.03%
TENTH LICENSE	N/A	N/A	N/A	N/A
TOTAL	7.06%	-1.97%	-7.81%	5.73%
ADMISSIONS				
	% CHANGE FY 2002 OVER FY 2001	% CHANGE FY 2003 OVER FY 2002	% CHANGE FY 2004 OVER FY 2003	% CHANGE FY 2005 OVER FY 2004
ELGIN	-6.50%	-16.51%	3.23%	-2.08%
JOLIET HARRAH'S	28.52%	-3.67%	-39.11%	13.22%
JOLIET EMPRESS	-10.90%	1.40%	-24.90%	9.72%
AURORA	5.60%	-0.37%	-41.90%	-1.27%
EAST ST. LOUIS	-2.21%	0.54%	6.36%	-1.35%
METROPOLIS	12.46%	-4.97%	-3.88%	-12.91%
EAST PEORIA	3.75%	-3.13%	-10.86%	-5.85%
ALTON	-0.77%	-5.36%	-13.70%	3.09%
ROCK ISLAND	4.66%	-2.86%	-5.49%	-2.23%
TENTH LICENSE	N/A	N/A	N/A	N/A
TOTAL	2.93%	-4.60%	-16.87%	0.29%
SOURCE: ILLINOIS GAMING BOARD				

As stated earlier, in FY 2005, total adjusted gross receipts increased 5.7%, while overall admissions increased slightly at 0.3%. Although these figures are encouraging, the FY 2005 figures are compared to disappointing FY 2004 figures, which softens any excitement over significant increases in FY 2005, especially when looking at the annual percentage changes on a boat-by-boat perspective.

For example, Joliet Harrah's experienced an AGR increase of 17.3% in FY 2005, but this followed an 18.3% decline in FY 2004. Consequently, Joliet Harrah's FY 2005 AGR total of \$292 million is less than the amount generated in FY 2003, before the tax change (\$305 million). In fact, only three of the nine Illinois riverboats (Elgin, E. St. Louis, and Metropolis) had AGR totals that were higher in FY 2005 than in FY 2003. Similarly, only Elgin and E. St. Louis had admission levels higher in FY 2005 than in FY 2003.

Reasons for the Decline in Illinois Riverboat Figures

What caused the overall decline in adjusted gross receipts and admissions for Illinois riverboats the last couple of years? In past *Wagering Update* editions, the Commission offered several different reasons for previous declines, including competition from bordering states and the economic conditions of the State. While these same factors have contributed to the poor performance of the Illinois riverboats, few would argue that it was the FY 2004 tax changes that was the catalyst behind the disappointing adjusted gross receipts and admissions figures in FY 2004 and in FY 2005. The following dot points summarize the effects that the maximum 70% tax rate has had on Illinois riverboats and the reasons why Illinois figures have struggled.

- Illinois' graduated wagering tax schedule of up to 70% was by far the highest in the nation. In fact, Illinois continues to be the highest taxing riverboat state in the nation, even now with the tax rates reverting back to the maximum tax rate of 50% in FY 2006.
- In response to the high tax rates, certain Illinois riverboats lowered 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. Not surprisingly, these were the same four boats that experienced the largest declines in admissions in FY 2004.
- In addition to the higher wagering taxes, the admissions tax was also increased to as much as \$5 per admission in FY 2004. In past years Illinois riverboats have paid this tax themselves, in order to offer, as an incentive, free admission. However, in FY 2004, some riverboats 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 or have dropped the admission fee all together, it appears that the negative tone set by

having to potentially pay an admission price may have scared many riverboat patrons away.

- Illinois residents are likely going elsewhere to gamble. Some believe that Illinois operators who also own casinos outside of Illinois may have chosen to redirect their marketing, capital, and operating expenses to their riverboats in lower-taxed states, such as Indiana, in order to maximize profits.
- According to the American Gaming Association, “While figures in most states remained relatively unchanged from 2002 to 2003, there were some noteworthy differences. In Illinois, a significant tax increase translated to fewer employees, lower wages paid and a drop in admissions as well as in overall casino revenue. Neighboring Indiana was the beneficiary, with a nearly 13 percent increase in admissions, a 6 percent increase in gross gaming revenue and a 29 percent increase in tax revenue.”

Although the tax changes affecting FY 2004 and FY 2005 did not bring in as much revenue as was originally estimated, it must be pointed out that the higher graduated tax rate in FY 2004 did generate 16.4% more State revenues than in FY 2003. In FY 2005, nearly \$715 million in State revenues were collected, which was a 6.7% increase over FY 2004 levels. The FY 2005 total amount is 24.2% higher than the amount of State revenues collected in FY 2003 under the maximum 50% tax rate.

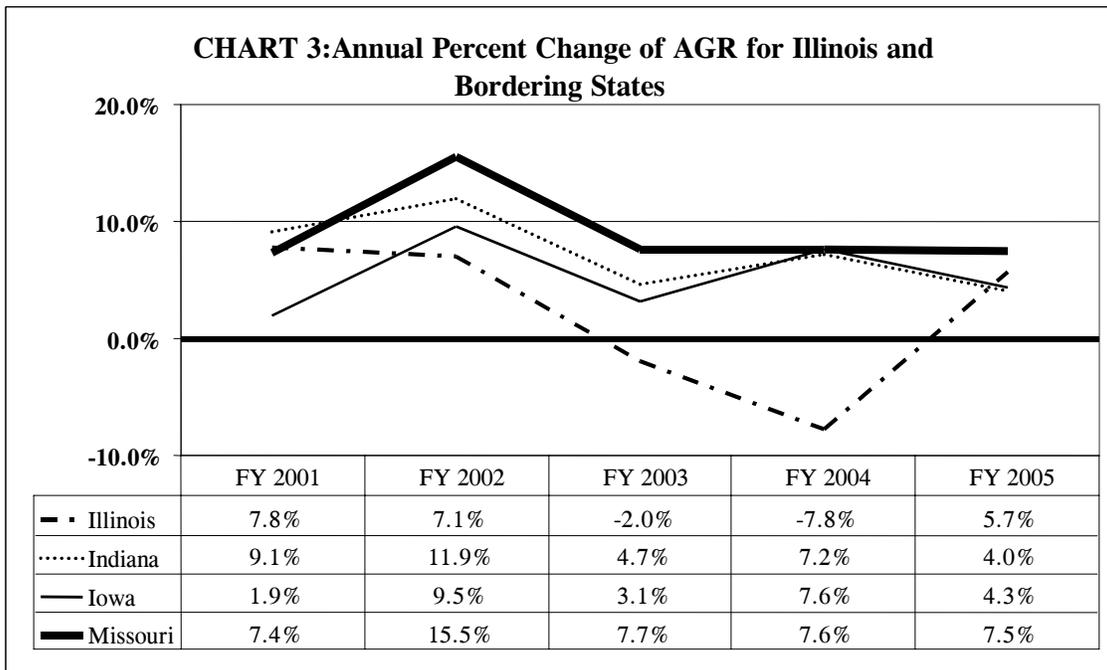
However, despite the increase in tax rates, two riverboats, Joliet Harrah’s and Aurora, actually brought in less revenue to the State in FY 2004 than they did in FY 2003. These two locations rebounded with increases in FY 2005. Still, even with its 4.5% increase in FY 2005, Aurora’s State revenue amount was below the amount collected before the tax increase. A summary of the annual percentage changes of each riverboat’s state revenue totals are shown below.

TABLE 9: ANNUAL PERCENT CHANGE OF RIVERBOAT STATE REVENUES					
Comparison of FY 2003, FY 2004, & FY 2005					
\$ in millions					
	FY 2003 STATE REVENUE	FY 2004 STATE REVENUE	Annual % change	FY 2005 STATE REVENUE	Annual % change
ELGIN (Grand Victoria)	\$144.2	\$194.5	34.9%	\$206.8	6.3%
JOLIET HARRAH'S	\$109.4	\$105.3	-3.8%	\$125.0	18.7%
JOLIET EMPRESS (I & II)	\$76.9	\$85.2	10.8%	\$91.8	7.8%
AURORA (City Lights I & II)	\$95.8	\$86.6	-9.6%	\$90.5	4.5%
EAST ST. LOUIS (Casino Queen)	\$42.7	\$61.6	44.2%	\$62.7	1.8%
METROPOLIS	\$33.9	\$48.5	43.3%	\$49.0	1.0%
EAST PEORIA (Par-A-Dice)	\$37.7	\$47.3	25.7%	\$46.2	-2.4%
ALTON (Alton Belle)	\$28.1	\$33.3	18.6%	\$35.4	6.3%
ROCK ISLAND (Casino RI)	\$6.7	\$7.3	9.6%	\$7.1	-2.7%
TOTAL	\$575.3	\$669.7	16.4%	\$714.6	6.7%
\$ Change over Prior Year		\$94.5		\$44.9	

Source: Illinois Gaming Board Monthly Riverboat Casino Report, CGFA FY05 Estimates

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. As stated earlier, some believe that Illinois operators who also own casinos outside of Illinois are 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.

The following chart appears to support this argument. As Chart 3 shows, over the last five fiscal years, Illinois is the only midwestern state to experience a decline in riverboat adjusted gross receipts (AGR). (Illinois had declines of 2.0% in FY 2003 and 7.8% in FY 2004). While Illinois' AGR dropped 7.8% in FY 2004, the surrounding states' AGR increased an average of 7.5%, suggesting that many Illinois residents may have crossed borders to gamble.



In FY 2005, Illinois' AGR totals increased 5.7%. This was higher than Iowa's annual change of 4.3% and Indiana's change of 4.0%, but still below Missouri's growth of 7.5%. While Illinois' AGR growth percentage would seem encouraging, Illinois' AGR totals were compared with a year of declining revenues, whereas the other states were compared to years of continued growth. Therefore, Illinois' annual percentage change may not be as encouraging as it appears.

State	Rank	Revenue	State	Rank	Revenue
Nevada	1	\$887.00	Mississippi	7	\$333.00
Illinois	2	\$801.70	Michigan	8	\$279.40
Indiana	3	\$760.50	Iowa	9	\$252.70
New Jersey	4	\$470.60	Colorado	10	\$99.50
Louisiana	5	\$436.90	South Dakota	11	\$11.90
Missouri	6	\$403.10			

Note: These figures are based on total revenues (State and local) and are on a calendar year basis. Therefore, Illinois' total does not match the fiscal year totals shown throughout this report.

Source: American Gaming Association

According to the American Gaming Association, there were 11 states with commercial casinos in operation in 2004, contributing more than \$4.7 billion in tax revenue to state and local governments, a nearly 10% increase over 2003 data. The tax rate for the casino industry ranged in 2004 from a low of 6.75% in Nevada to a high of 70% in Illinois. As shown in Table 10, in 2004, Illinois generated the second highest amount of gaming tax revenue in the nation, following only Nevada. Throughout the country, the revenue from those taxes benefits education, public safety, economic development and infrastructure improvements, as well as other various state and local programs.

Table 11 displays a summary of riverboat statistics for the Midwestern Riverboat States: Illinois, Indiana, Iowa, and Missouri. The overview shows the tax rates for each state, the number of gaming positions allowed, how riverboat revenues are spent, as well as other pertinent information. There are several aspects where Illinois differs from the other states. One, of course, is Illinois' higher tax rate. Another is the fact that Illinois is the only state in the Midwest that limits the number of gaming positions that it can utilize. As a result, Illinois' AGR/Table/Day and AGR/Slot/Day statistics are noticeably higher than the surrounding states (This point will be discussed in further detail later in the report).

The other statistic that stands out is Illinois' casino job percentage change. According to the American Gaming Association, Illinois casinos had 8,628 employees in 2004, which is a decline of 5.2% over 2003. This follows a year where Illinois casino jobs declined 17% from 2002 to 2003. As shown in Table 11, Illinois was the only midwestern state to have a decline in the number of casino jobs in 2004. Undoubtedly, a main reason for this drop in jobs is due to business decision of gaming operators in reaction to the higher riverboat taxes. Whether these figures will improve in the following years now that the tax rate has receded will be closely monitored and will be discussed in future wagering reports.

TABLE 11: Overview of Midwest Riverboat States

	Illinois	Indiana	Iowa	Missouri
Current # of Operating Casinos	9	10	13 (10 riverboats, 3 racetrack casinos)	11
State Population (Census Bureau 2003 estimate)	12.7 million	6.2 million	2.9 million	5.7 million
Gaming Format	Riverboat/Dockside	Riverboat/Dockside	Riverboat, racetrack casino	Riverboat
Legalization Date	February 1990	November 1993	July 1989	August 1993
First Casino Operating Date	September 1991	December 1995	September 1991	May 1994
Mode of Legalization	Legislative action	Legislative action, local option vote	Legislative action, local option vote	Legislative action, statewide vote, local option vote
Application Fee	\$50,000	Determined by the Commission	Between \$5M and \$20M (dependent on population of county)	At least, \$50,000
Annual Fee	\$25,000 in first year, \$5,000 every year thereafter	\$25,000 in first year, \$5,000 every year thereafter	\$5 per person capacity	\$25,000
Maximum Number of Gaming Positions	1,200 per riverboat	No Limit	No Limit	No Limit
Current # of Gaming Positions (Latest Figures Available)	230 Table Games, 9,800 Slots	645 Table Games, 17,906 Slots	241 Table Games, 8,988 Slots	554 Table Games, 17,753 Slots
State Gaming Tax Rate	Greater of graduated tax rate from 15% to 50% of gross gaming revenue or statutory base amount, \$2 - \$3 per patron admissions tax (FY 06 rates, pending Governor	Graduated tax rate from 15% to 35% of gross gaming revenue, \$3 per patron admissions tax	Graduated tax rate with a maximum tax of 20% on gross gaming revenue	20% tax on gross gaming revenue, \$2 per patron admission fee per excursion split between home dock community and the state
How Taxes Spent	Education assistance, local government	Economic development, local government	Infrastructure improvements, local government, general fund, schools and universities, the environment	Education, local public safety programs, compulsive gambling treatment, veterans programs, early childhood programs
Admissions (FY 2005)	15.2 million	26.7 million	13.4 million (riverboats only)	25.1 million
Admissions % Change (FY 2004 to FY 2005)	0.3%	0.6%	3.9%	0.9%
Adjusted Gross Receipts (AGR) FY 2005	\$1.752 billion	\$2.405 billion	\$746 million	\$1.509 billion
AGR % Change (FY 2004 to FY 2005)	5.7%	4.0%	4.3%	7.5%
AGR per Admission (FY 2005)	\$115.13	\$90.09	\$55.68	\$60.02
AGR per Table per Day	\$2,784.04	\$1,788.92	\$980.54	\$904.80
AGR per Slot per Day	\$424.44	\$303.90	\$201.10	\$204.69
FY 2005 Gaming Tax Revenue	\$812.7 million	\$774.9 million	\$165.6 million (riverboats only)	\$410.5 million
Gaming Tax Revenue % Chg (FY 04 to FY 05)	5.9%	4.4%	13.9%	6.2%
Casino Employees (2003)	9,101	16,555	8,764	10,700
Casino Jobs % Change (CY 02 to CY 03)	-17.0%	0.0%	-0.4%	-7.0%
Casino Employee Wages (includes benefits and tips)	\$376.4 million	\$589.5 million	\$278.5 million	\$310 million
Sources	American Gaming Association, Illinois Casino Gaming Association, Illinois Gaming Board	American Gaming Association, Indiana Gaming Commission, Casino Association of Indiana	American Gaming Association, Iowa Racing and Gaming Commission, Iowa Gaming Association	American Gaming Association, Missouri Gaming Commission, Missouri Riverboat Gaming Association

REGION-BY-REGION ANALYSIS

In order to better understand Illinois' gaming landscape and the competition that exists with other states, the following sections briefly analyze Illinois riverboat gaming in the three largest metropolitan border areas of the State: Quad City area, Chicago area, and the St. Louis area.

QUAD CITY AREA

TABLE 12: Adjusted Gross Receipts (AGR) in the Quad City Region					
<i>(IOWA)</i>					
Riverboat	FY 03	FY 04	% Change	FY 05	% Change
Rhythm City (Davenport)	\$65,819,053	\$76,079,830	15.6%	\$78,210,269	2.8%
Isle of Capri (Bettendorf)	\$99,591,614	\$105,415,990	5.8%	\$103,900,655	-1.4%
Quad City Area	\$165,410,667	\$181,495,820	9.7%	\$182,110,924	0.3%
AGR % of Quad City Area	80.7%	82.3%		82.2%	
<i>(ILLINOIS)</i>					
Riverboat	FY 03	FY 04	% Change	FY 05	% Change
Rock Island	\$39,473,000	\$38,928,000	-1.4%	\$39,328,000	1.0%
Quad City Area	\$39,473,000	\$38,928,000	-1.4%	\$39,328,000	1.0%
AGR % of Quad City Area	19.3%	17.7%		17.8%	
TOTAL QUAD CITY AREA AGR	\$204,883,667	\$220,423,820	7.6%	\$221,438,924	1.4%

Observations

- Iowa's two Quad City area riverboats experienced a 9.7% increase in AGR in FY 2004. In comparison, Illinois' Rock Island riverboat's AGR declined by 1.4%. In FY 2005, the Iowa riverboats increased by only 0.3%, with Rock Island increasing by 1.0%.
- Iowa's riverboats make up approximately 82% of the Quad City region's AGR (\$182 million in FY 2005), while Illinois' riverboat makes up 18% of the total (\$39 million in FY 2005). In perspective, in the Quad City metropolitan area, Iowa (Scott County) makes up approximately 51.5% of the population, while Illinois (Rock Island County) makes up 48.5%. This would appear to indicate that Illinois is losing patrons to the Iowa riverboats.

ST. LOUIS AREA

TABLE 13: Adjusted Gross Receipts (AGR) in St. Louis Region					
<i>(MISSOURI)</i>					
Riverboat	FY 03	FY 04	% Change	FY 05	% Change
Harrah's (Maryland Heights)	\$236,467,336	\$254,674,008	7.7%	\$300,774,902	18.1%
President (St. Louis)	\$73,444,145	\$71,843,573	-2.2%	\$71,371,201	-0.7%
Ameristar (St. Charles)	\$243,416,402	\$284,747,393	17.0%	\$297,873,441	4.6%
St. Louis Area	\$553,327,883	\$611,264,974	10.5%	\$670,019,544	9.6%
AGR % of St. Louis Area	66.9%	69.6%		70.8%	
<i>(ILLINOIS)</i>					
Riverboat	FY 03	FY 04	% Change	FY 05	% Change
E. St. Louis	\$157,876,000	\$163,513,000	3.6%	\$165,382,000	1.1%
Alton	\$116,136,000	\$103,589,000	-10.8%	\$110,354,000	6.5%
St. Louis Area	\$274,012,000	\$267,102,000	-2.5%	\$275,736,000	3.2%
AGR % of St. Louis Area	33.1%	30.4%		29.2%	
TOTAL ST. LOUIS AREA AGR	\$827,339,883.00	\$878,366,974.00	6.2%	\$945,755,544.47	7.7%

Observations

- Missouri's three St. Louis area riverboat's total AGR increased by 10.5% to \$611.3 million in FY 2004. In comparison, Illinois two St. Louis area location's (Alton and E. St. Louis) total AGR decreased by 2.5%.
- While Illinois' St. Louis area riverboat's FY 2005 AGR was up 3.2% in FY 2005, it was still well below Missouri's FY 2005 AGR percentage change of 9.6%.
- In FY 2003, the Missouri riverboats made up 67% of the St. Louis area's total AGR, while Illinois locations made up 33%. In FY 2005, Missouri's portion of total AGR has increased to nearly 71%, while Illinois has dropped to near 29%.
- According to the American Gaming Association, the St. Louis area is the 10th largest casino market in the nation, in terms of annual revenue.

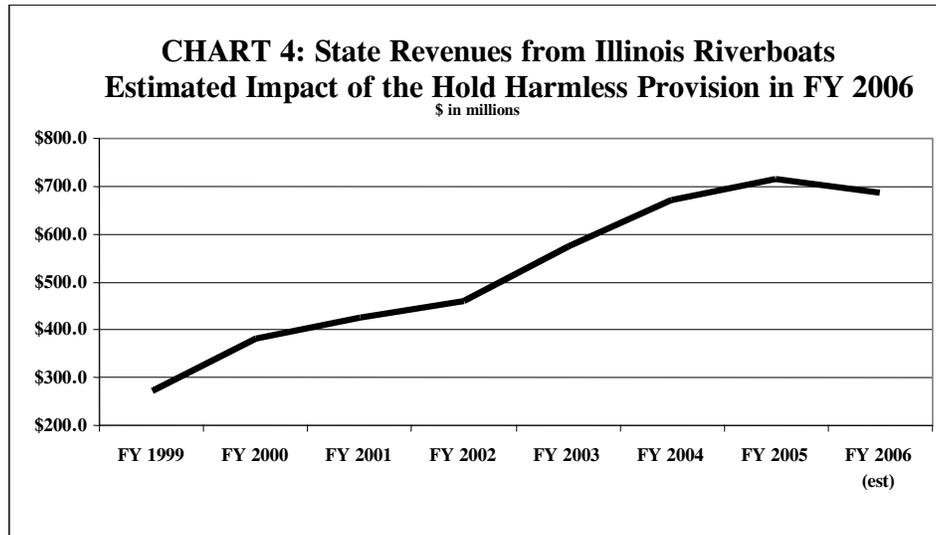
CHICAGO AREA

TABLE 14: Adjusted Gross Receipts (AGR) in Chicago Region					
<i>(INDIANA)</i>					
Riverboat	FY 03	FY 04	% Change	FY 05	% Change
Harrah's/Resorts (East Chicago)	\$289,933,986	\$312,825,725	7.9%	\$310,490,756	-0.7%
Horseshoe (Hammond)	\$339,549,872	\$362,136,764	6.7%	\$409,242,447	13.0%
Majestic Star (Gary)	\$138,695,175	\$145,562,089	5.0%	\$147,942,400	1.6%
Trump (Gary)	\$128,844,668	\$143,863,604	11.7%	\$135,406,401	-5.9%
Chicago Area	\$897,023,701	\$964,388,182	7.5%	\$1,003,082,004	4.0%
AGR % of Chicago Area	42.7%	47.2%		46.3%	
<i>(ILLINOIS)</i>					
Riverboat	FY 03	FY 04	% Change	FY 05	% Change
ELGIN	\$383,221,000	\$388,975,000	1.5%	\$408,092,000	4.9%
JOLIET HARRAH'S	\$305,030,000	\$249,157,000	-18.3%	\$292,261,000	17.3%
JOLIET EMPRESS	\$237,282,000	\$218,527,000	-7.9%	\$232,132,000	6.2%
AURORA	\$280,356,000	\$221,380,000	-21.0%	\$231,812,000	4.7%
Chicago Area	\$1,205,889,000	\$1,078,039,000	-10.6%	\$1,164,297,000	8.0%
AGR % of Chicago Area	57.3%	52.8%		53.7%	
TOTAL CHICAGO AREA AGR	\$2,102,912,701	\$2,042,427,182	-2.9%	\$2,167,379,004	\$0

Observations

- The four Indiana riverboats across the border from Chicago saw their AGR increase by an average of 7.5% in FY 2004 to \$964 million (a gain of \$67.4 million). Conversely, Illinois' four Chicago area riverboats' AGR fell 10.6% from FY 2003 levels to \$1,078 million (a loss of \$127.9 million).
- In FY 2005, the AGR for Illinois riverboats in this area increased 8.0%, while Indiana's rate of growth has slowed to 4.0%. This may be indicating the shift of Illinois residents back to Illinois riverboats.
- While the vast majority of the population in the Chicago area is in Illinois, Indiana makes up nearly half of the total AGR in that area. Indiana's portion of total riverboat AGR in the Chicago area increased from 42.7% in FY 2003 to 47.2% in FY 2004, while Illinois' portion dropped from 57.3% to 52.8% in FY 2004. In FY 2005, Indiana made up 46.3% of this area's AGR, compared to Illinois' portion of 53.7%.
- According to the American Gaming Association, the Chicago Metropolitan area is the third largest casino market in terms of annual revenue in the nation, following only the Las Vegas Strip and Atlantic City.

What is the Impact of the Tax Rates Reverting to the 50% Maximum Tax Rate?



Now that the graduated taxing structure for riverboats has returned to lower levels (maximum tax rate of 50%) for FY 2006, many gaming experts believe that, because riverboat operators will likely again direct a significant portion of their marketing, capital, and operating expenses towards the Illinois market, Illinois riverboats will regain much of the market lost to neighboring states over the last couple of years.

The riverboat industry has argued in the past similar amounts of revenue could be generated under a 50% maximum tax rate as can be under a 70% maximum tax rate because of greater marketing flexibility under a lower tax rate. The new hold harmless provision will allow the industry to prove their argument. This new provision could be considered a “win-win” for the State. If the gaming industry is correct and the riverboats do generate as much or even more for the State than under a maximum 70% tax rate, then the State will reap the benefits of higher tax collections. If the riverboats are unable to generate the amount of revenues similar to what was collected in the past under a maximum 70% tax rate (the new base amount), as defined in P.A. 94-0673, the State will still collect its desired amount of taxes.

(Note: There is concern over the hold harmless provision’s language as the intent of the bill was for the base amount to refer to State revenue only, but current language would appear to include local revenues as well. As a result, including local revenues would mean that riverboats would be required to pay to the State less than what was intended. It is believed this language will be corrected in the Fall Veto Session).

As mentioned previously, the State will be guaranteed to receive at least \$651.5 million (total base amounts) from the riverboats; plus approximately \$5 million from the wagering tax revenues from the Rock Island riverboat (which has no obligated base amount); plus approximately \$31 million from the admission tax. Therefore, at a minimum, the State can expect to receive at least \$688 million in FY 2006 and FY 2007, with the potential for more if receipts exceed base amounts outlined in the

bill. (*The FY 2006 estimated amount of \$688 million is slightly lower than the FY 2005 amount of \$710 million, despite the hold harmless provision, primarily due to the lower admission tax rates*).

Whether reverting to a lower tax rate is beneficial to the State is up for debate. In May 2005, the Commission held a meeting discussing riverboat gambling in Illinois. At the meeting, two recognized industry experts Marc Falcone from Deutsche Bank and Dr. Victor Matheson from the College of the Holy Cross presented their opinions on Illinois' gaming landscape and whether a higher tax rate is beneficial to Illinois. While the two economists agreed on many points, they tended to disagree when it came to the tax rate.

Mr. Falcone stated that he believed that the tax rates should be lowered to encourage investment. In the meeting, Mr. Falcone presented the following:

The Chicago market remains one of the best fundamental markets in the country. The state's best option is to ease the taxes and regulation and allow the capital investment and market fundamentals to drive higher taxes for the long-term. However, we believe that in order to be effective, both the gaming tax, as well as the admissions tax need to be rolled back to their prior levels...Until the tax/regulatory environment becomes more reasonable in Illinois, Wall Street will continue to recommend that public companies invest minimal capital in the state.

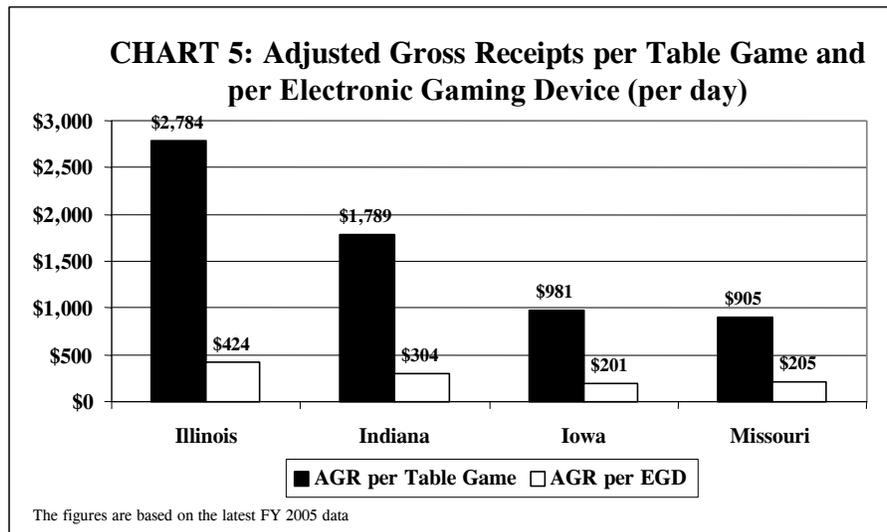
Dr. Matheson offered a different opinion. In his presentation, Dr. Matheson discussed the "Laffer Curve", an illustration of how, at tax rates of either 0% or 100%, the government collects no revenue, while positive revenues exist at tax rates in between. The challenge, he adds, is to find that certain point where maximum revenues can be collected. He states, "Governments can collect additional revenue by raising tax rates only up to a certain point. After that maximum point, the government is essentially killing the goose that lays the golden egg by overtaxation."

While Dr. Matheson acknowledges that raising wagering tax rates reduces AGR, he points out that tax receipts were indeed higher under a 70% tax rate than under a 50% tax rate. He argues that the 50% rate structure is clearly to the left of the peak on the Laffer Curve, but cautiously notes that "at a 70% marginal rate, profit margins are likely to be quite thin for riverboat operators, and significant increases beyond the 70% figure will undoubtedly 'kill the golden goose'."

Gaming Positions

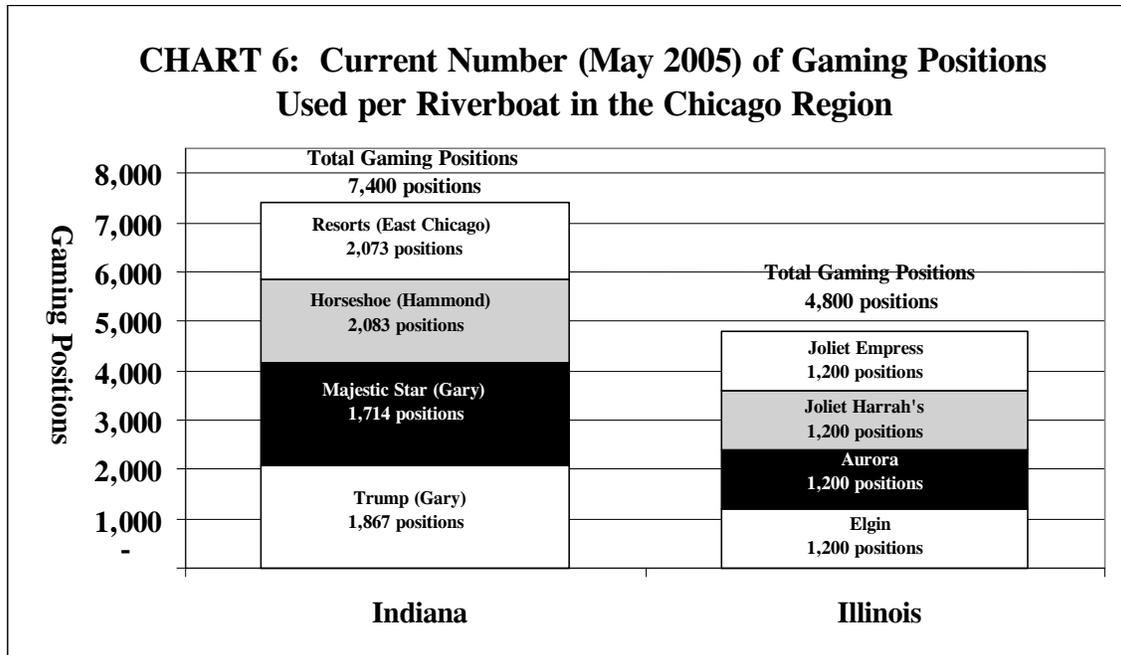
At the Commission's May meeting regarding riverboat gaming, one area that the two industry experts did agree on was that there is no reason Illinois should limit the number of gaming positions. There are many in the gaming industry that feel that Illinois riverboats are at a competitive disadvantage with other states because Illinois only allows a maximum of 1,200 gaming positions per riverboat. While this law controls the number of slots and table games that a riverboat may operate, it also creates waiting times for the more popular games during the peak hours at many of the competitive locations. This creates a disincentive for the riverboat patron, which some would argue causes them to go to locations with no position limit.

To illustrate this point, the following graph displays the AGR per Table Game (per day) and the AGR per EGD (per day) for each of the midwestern riverboat states in FY 2005. (EGD stands for electronic gaming device, i.e. slot machines). Highlights of the graph are pointed out below.



- Illinois' AGR per Table Game and AGR per EGD are significantly higher than the other neighboring states.
- These figures would suggest that Illinois gamblers spend more money on gambling than other states and that the gaming positions in Illinois are being utilized more frequently than other states, which would support the argument that the Illinois riverboats are overcrowded.
- Often riverboats will increase the minimum on table games during peak hours to maximize revenue in the positions allowed. While this entices "high-rollers" to play and creates larger AGR totals, it creates a deterrent for the "casual" table player.

There is a question of how many additional gaming positions would be necessary to put Illinois on an equal footing with the riverboats of other states. Since states like Indiana do not have a gaming position limit, the number of positions that they utilize should give a good representation of the optimal number of positions that would meet the economics of supply and demand. The following graph displays the number of gaming positions available at the Chicago Area riverboats for Indiana and Illinois. (Gaming positions are calculated using the following formula: slot machines count as 0.9 positions, craps tables count as 10 positions, and other tables count as 5 positions).



Observations

- The four Indiana riverboats closest to Chicago have a total of 7,400 gaming positions. That is 2,600 more positions than the four Illinois Chicago area riverboats. (Note: Indiana's figures do not include the Michigan City location, which has an additional 1,800 positions. It was not included in this analysis, despite its Lake Michigan location, under the assumption that few Illinois residents would travel to Michigan City to gamble).
- The four Indiana riverboats closest to Chicago make up nearly 61% of all gaming positions in that region.
- The average number of positions for the Indiana riverboats in this region is 1,850 positions. Therefore, recent proposals that would have increased Illinois' maximum number of positions to 2,000 would appear to adequately fill the riverboat market's demand in this area.

What is the Fiscal Impact of Increasing the Number of Positions?

Many wonder what the impact on State revenues would be from increasing the maximum number of gaming positions on State revenues. The following discusses this question. *However, it must be stressed that comprehensive changes to the gaming landscape are highly unpredictable and therefore very difficult to estimate with any degree of certainty.*

Most of the proposals dealing with increased positions have contained provisions that state that additional positions must be purchased in packs. For example, SB 0019, as amended by Senate Amendment 1, allowed 800 additional positions per riverboat, sold in packs of 100 at \$3.0 million per pack. In this scenario, if every existing riverboat purchased these extra positions, the State would receive a one-time revenue amount of \$216 million. However, some of the boats may not purchase all of the possible positions due to lack of floor space. For example, the riverboats in Alton and Rock Island have less than the 1,200 gaming positions currently allowed. *(However, gaming experts believe that more floor space would be constructed to allow for additional positions now that the tax rate has been lowered and more money could be used towards these improvements).*

Additional gaming positions would likely benefit the E. St. Louis boat and the Chicago area boats the most, while the smaller downstate boats in lower densely populated areas may not use the maximum number of positions allowed. Every license holder would have to conduct their own feasibility studies to determine the most economically beneficial number of gaming positions to purchase due to diminishing returns as the number of positions increase. Each additional bundle would incrementally become less valuable as dilution of profit considerations would come into play.

In determining estimates, the Commission generally takes a riverboat's current AGR per position figure and multiplies it by the number of new positions. To account for some cannibalism due to the increase in position availability, the Commission generally assumes a 10% dilution factor to this product to determine a rough estimate.

For example, if the FY 2005 statewide AGR amount of \$1.752 billion were divided by 10,210 (the number of gaming positions currently used), an AGR/position amount of \$171,596 would result. If this amount were multiplied by 7,200 positions (800 new positions x 9 boats) an additional \$1.235 billion would result for a total AGR amount of \$2.987 billion. After the 10% dilution factor is accounted for, the total AGR amount would be \$2.688 billion. Multiplying this amount by the approximate overall blended tax rate of 32% (at the statutory FY 2006 50% max tax rate), a total of \$860 million in State revenues would be collected. (If no additional gaming positions were added, approximately \$560 million in State revenues would be collected). Therefore, adding 7,200 additional positions would roughly generate \$300 million in additional revenues for the State. *However, due to the many uncertainties that accompany this estimate, it is impossible for the Commission to precisely determine the amount of revenue that each riverboat would generate from these additional positions.*

Other Gaming News from Surrounding States

- Indiana has approved an 11th license to be located in French Lick, Indiana. This riverboat will be State owned and managed by Blue Sky Casino who was selected to operate the casino in June 2005. The casino must be operational by Dec. 23, 2006 or Blue Sky will face financial penalties from the commission. According to the Indianapolis Star, the centerpiece of the casino project will be an 80,000-square-foot casino with 1,000 slot machines and at least 25 tables for games such as poker. In all, the developers plan to spend more than \$250 million.

Note: According to the Indiana Gaming Commission, legislation approving the 11th license specifically states that French Lick would be the recipient of this new riverboat. In drafting gaming legislation in Illinois, some legislators have asked whether other states have specified the exact location of a riverboat in writing their legislation. This appears to answer that question.

- In September of 2004, the Missouri Gaming Commission chose Pinnacle Entertainment Inc. to develop two casinos in the St. Louis region, one on the Landing in the City of St. Louis and one in south St. Louis County. This, of course, would have a significant negative impact on Illinois' two St. Louis region riverboats. According to St. Louis Post-Dispatch, the 75,000-square-foot casino in St. Louis is expected to open in early 2007. The hotel and entertainment development in south St. Louis County would open about a year later.
- Wisconsin Indian tribes are seriously considering building casinos on the Illinois border, one in Beloit and one in Kenosha. These locations would be aimed at the "untapped" Illinois gaming markets of Rockford and the Northern Suburbs of Chicago. One report states that the Beloit Casino would be a 100,000 square foot facility with approximately 3,000 slots and 75 gaming tables and would result in \$150 million in operating expenses per year. According to the Beloit Daily News, the Bureau of Indian Affairs is currently reviewing public responses to the casino's Environmental Impact Study and is expected to make a decision on the casino in the near future.

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 11, 2004, Attorney General Lisa Madigan 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.

Later, the Illinois Gaming Board voted not to renew Emerald's license. In addition, the Board also decided to revoke Emerald's license because it said some investors had mob connections and that company officials lied to the Board. Emerald appealed the denial of its license and also appealed the revocation of its license, which led to the hearing in which Board and Emerald attorneys have been arguing about the license revocation.

In June 2005, a Cook County judge essentially ordered the Illinois Gaming Board to approve Emerald's license, finding that State law required gambling regulators to

approve renewal and let Emerald move to Rosemont. In response, members of the Illinois Gaming Board renewed its license on June 29, 2005 for four years — but started the clock from the casino's 1999 renewal application, meaning the license already has expired. The judge later ruled that the gaming board was not in contempt of court when it renewed Emerald's gambling license retroactively. However, the judge stated that Emerald could file another renewal request. This ruling is not believed to interfere with the hearings currently under way to revoke Emerald's license.

Over the last several months, Emerald has announced it had rejected two proposed shareholders who have alleged mob ties. It also said one of the chief investors in the proposed casino would withdraw as a proposed shareholder and a member of its board of directors had resigned. These moves were intended to rid the casino of any shareholders who have been singled out by the gaming board and Attorney General Lisa Madigan as questionable. This move was also believed to be part of the casino's fight to stop the State from revoking its license.

So when will the 10th license finally become operational? Unfortunately, no one knows for sure. In the near future, analysts believe that the revocation hearings will continue to tie up the riverboat license in litigation for several more months, if not years. It should be noted that the FY 2006 budget was passed under the assumption that no revenues would be received from the 10th license during this fiscal year.

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 2005, the Grand Victoria's adjusted gross receipts totaled \$408.1 million and admissions equaled nearly 2.8 million. These figures resulted in \$230 million in total tax revenues in FY 2005. 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.

On a different note, the Illinois Gaming Board is now fully functional after several months of inactivity. In March 2005, Governor Blagojevich named three replacements to the to the five-panel board. For several months, the Board only had two members on the Board, which meant that it could not carry on business until new members were appointed and officially approved. The board's inability to take action delayed construction for casinos in East St. Louis, Joliet, Metropolis and Rock Island, which needed Board approval to begin expansion projects. The two members who remained during the period of inactivity, left the Board in July 2005 after their terms had expired. However, the Board is still functional with only three members.

What Will the Future Hold for the Illinois Riverboats?

The focus for gaming in Illinois has turned almost exclusively to riverboat gambling. Total revenues from riverboat taxes have increased nearly 129% since FY 1999 making the riverboat industry the largest component of gaming in the State. This dramatic growth was first fueled by the inception of dockside gambling, but for the past several years, the continued growth in gambling revenue has been fueled by the increases in the wagering and admissions taxes. This strong growth, however, has likely come to an end, unless other changes to the gaming industry are made.

The effect the higher tax rates have had on admissions and adjusted gross receipts is worrisome. FY 2005 admission totals were over four million less than FY 2000 levels. The latest adjusted gross receipts figures, despite a 5.7% annual growth in FY 2005, are still 4.5% less than FY 2002 levels. Adding to the concern is, while the numbers for Illinois riverboats have been disappointing, neighboring state's riverboat figures have continued to thrive, appearing to be the beneficiaries of Illinois struggles.

The struggles of Illinois riverboat figures along with the success of surrounding states would seem to indicate an immediate need to alter the State's riverboat tax structure. Still, the fact remains that the amount of State revenues generated from Illinois riverboats at a 70% tax rate was higher than the amounts previously collected under the maximum 50% tax rates. The riverboat industry, however, contends that Illinois riverboats could generate as much revenue under a 50% tax rate than with the higher 70% tax rate due to greater marketing flexibility. Recent changes will allow the riverboats to prove this point.

In the spring, government leaders decided to allow the rollback of the wagering taxes to a maximum 50% tax rate. The Illinois Casino Gaming Commission has stated in the past that several riverboats would likely expand their current riverboats or build new facilities in the near future if the rollback in taxes were to take place. If this does occur, these improved facilities would likely provide a welcome boost to a struggling industry and generate the revenues necessary to show that a lower tax rate can be economically beneficial to the State. However, if similar amounts of revenue are not generated through the lower tax rates, the recently enacted hold-harmless provision will require riverboats to make up the difference. Therefore, the State is not in danger of significant decreases in riverboat revenues in FY 2006 and FY 2007 regardless of how the industry reacts to the lower rates.

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. These included establishing new riverboats near Chicago, increasing the number of gaming positions allowed, and allowing slot machines at racetracks. While these proposals failed to gather enough support for passage during the regular session, there is little doubt that these proposals will resurface again in the future.

Any of the changes previously discussed 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 gaming receipts, 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 determining the fiscal impact of any change very difficult to estimate. 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.

The Commission will continue to monitor the progress of the riverboat industry and how it once again reacts to the lower 50% wagering tax rate. The Commission will also continue to track the proceedings surrounding the 10th riverboat license, as well as any other riverboat related information, and report any findings when necessary.

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 \$35 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.

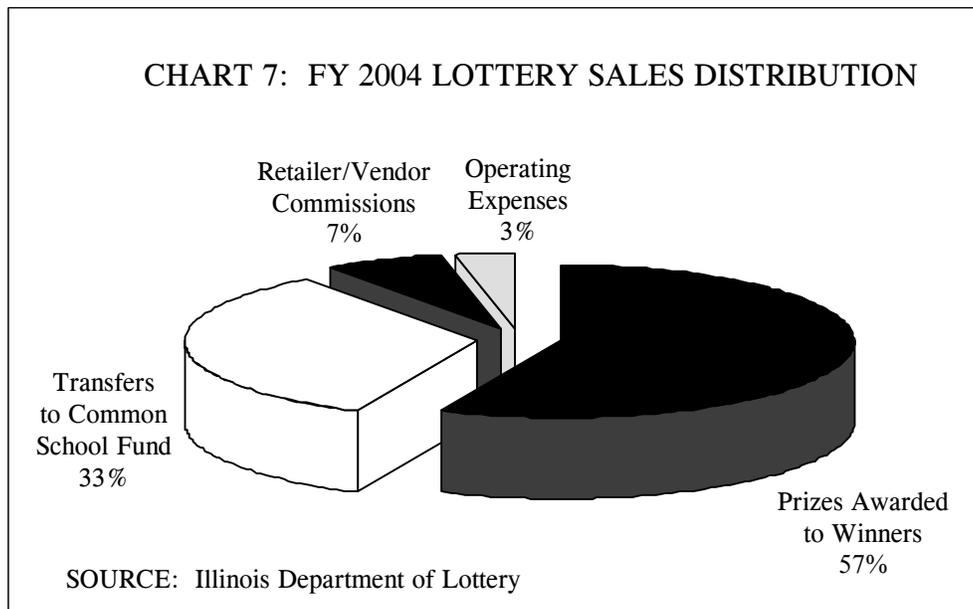
FISCAL YEAR	\$.50, \$1,		EXTRA/ NUMBERS				LITTLE LOTTO	BIG GAME/ MEGA MIL.	TOTAL SALES	LOTTERY TRANSFERS TO CSF	TRANSFERS AS A % OF TOTAL SALES
	KENO '03	INSTANT	PICK 3	NOW	PICK 4	LOTTO					
1975	\$ 129.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 129.3	\$55.2	42.7%
1976	\$ 107.3	\$ 56.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$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%
2005	\$ -	\$ 907.1	\$ 307.4	\$ 4.0	\$ 168.4	\$ 131.6	\$ 131.8	\$ 192.6	\$1,842.9	\$614.0	33.3%
TOTALS	\$ 359.9	\$ 11,443.9	\$ 8,337.9	\$ 48.6	\$ 2,796.3	\$ 8,409.6	\$ 2,010.4	\$ 1,592.8	\$ 34,999.5	\$ 12,895.5	36.8%

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

Table 15 reveals that lottery sales totaled \$1.843 billion in FY 2005. This figure represents a 7.8% increase from the FY 2004 amount of \$1.709 billion, and was the highest sales total realized since the inception of lottery in 1975. From this sum, 33.3% or \$614 million was transferred into the Common School Fund, a 7.7% increase from the FY 2004 transfer amount of \$570 million. A closer look reveals that the largest dollar increase came from the Instant games, which rose nearly \$127 million or 16.2%. Other games that experienced noticeable increases were Little Lotto, which

increased \$32 million or 32.2%, and the Lotto game, which increased approximately \$14 million or 12.1%. However, Mega Millions fell \$34 million, or 15.0% from its strong FY 2004 totals. The Pick 3 and Pick 4 games remained relatively flat.

The chart below shows how revenues from the lottery are distributed. Although the official distribution of FY 2005 sales revenue is not yet available, FY 2004 data gives a good illustration of how the lottery sales are distributed in Illinois. In FY 2004, lottery winners received \$974 million, the Common School Fund received \$570 million, retailers and vendors received \$115 million, and the Department of Lottery used the remaining \$57 million to cover its operating expenses. Chart 7 illustrates the FY 2004 lottery sales distribution by percentage and although FY 2005 revenue may not be distributed according to these exact percentages, recent trends indicate that these figures provide an accurate baseline.



As shown in Table 16, instant games continue to comprise the greatest percentage with 49% of lottery sales, up from 46% in 2004 and from 40% in FY 2003. Representatives from the lottery have stated that the significant increase in instant tickets is due to the lottery's first \$20 instant ticket game. The Pick 3 game had the next highest percentage at 17%. The Mega Millions saw its composition rate drop from 13% of total lottery sales in FY 2003, to 10.5% in FY 2005. The remaining revenues come from the Pick 4 game (9%), Little Lotto (7%) and Little Lotto (7%)

While the large increase in instant tickets was encouraging for the State Lottery from a revenue perspective, the \$34 million decline in Mega Millions sales was somewhat disappointing. 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. California is the newest member, having joined Mega Millions in June of 2005. The hope is, with more states joining the program, more and more people will be playing, allowing jackpots to roll to even higher levels at a faster rate.

As indicated in previous reports, 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 2005 did not experience as many rollovers and higher jackpots as FY 2004, resulting in lower Mega Millions sales.

FISCAL YEAR	\$.50, \$1, KENO '93	INSTANT	PICK 3	EXTRA	PICK 4	LOTTO	LITTLE LOTTO	BIG GAME/ MEGA MIL.	TOTAL SALES
1975	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	\$129.3
1976	65.5%	34.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	\$163.9
1977	44.3%	55.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	\$112.9
1978	35.5%	64.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	\$89.1
1979	26.6%	73.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	\$76.7
1980	14.1%	42.5%	43.5%	0.0%	0.0%	0.0%	0.0%	0.0%	\$97.5
1981	3.5%	20.0%	76.5%	0.0%	0.0%	0.0%	0.0%	0.0%	\$214.7
1982	0.0%	22.7%	72.1%	0.0%	5.1%	0.0%	0.0%	0.0%	\$344.1
1983	0.0%	30.7%	55.1%	0.0%	8.9%	5.2%	0.0%	0.0%	\$514.8
1984	0.0%	21.6%	40.3%	0.0%	5.4%	32.8%	0.0%	0.0%	\$912.2
1985	0.0%	18.9%	28.8%	0.0%	6.1%	45.9%	0.2%	0.0%	\$1,235.6
1986	0.0%	18.1%	26.4%	0.0%	6.7%	48.8%	0.0%	0.0%	\$1,315.6
1987	0.0%	17.0%	25.1%	0.0%	7.0%	50.9%	0.0%	0.0%	\$1,333.9
1988	0.0%	19.5%	26.4%	0.0%	7.9%	45.0%	1.2%	0.0%	\$1,335.5
1989	0.0%	20.5%	23.5%	0.0%	6.9%	38.6%	10.4%	0.0%	\$1,571.3
1990	0.0%	21.7%	24.4%	0.0%	7.3%	37.5%	9.2%	0.0%	\$1,570.2
1991	0.0%	23.3%	23.5%	0.0%	7.0%	38.4%	7.9%	0.0%	\$1,566.5
1992	0.0%	24.8%	22.1%	0.0%	6.9%	38.7%	7.5%	0.0%	\$1,636.9
1993	0.0%	31.3%	22.2%	0.0%	7.1%	31.1%	8.2%	0.0%	\$1,575.9
1994	0.0%	35.9%	22.5%	0.0%	7.2%	26.4%	8.0%	0.0%	\$1,528.6
1995	0.0%	38.7%	22.0%	0.0%	7.6%	23.7%	8.0%	0.0%	\$1,629.5
1996	0.0%	39.5%	21.8%	0.0%	8.6%	22.2%	7.9%	0.0%	\$1,637.3
1997	0.0%	39.2%	21.0%	0.0%	8.6%	18.2%	7.3%	5.7%	\$1,623.2
1998	0.0%	39.2%	21.9%	0.0%	9.2%	16.7%	7.1%	5.9%	\$1,576.9
1999	0.0%	37.4%	22.0%	0.0%	9.5%	11.1%	7.5%	12.7%	\$1,525.9
2000	0.0%	36.0%	22.7%	0.0%	10.3%	9.7%	6.7%	14.6%	\$1,503.9
2001	0.0%	40.4%	22.5%	0.0%	10.4%	9.9%	6.1%	10.6%	\$1,449.8
2002	0.0%	40.5%	20.6%	1.4%	9.9%	8.5%	5.1%	13.9%	\$1,590.0
2003	0.0%	44.0%	19.8%	0.8%	10.2%	7.6%	4.9%	12.6%	\$1,585.8
2004	0.0%	45.7%	18.1%	0.5%	9.8%	6.9%	5.8%	13.3%	\$1,709.2
2005	0.0%	49.2%	16.7%	0.2%	9.1%	7.1%	7.2%	10.5%	\$1,842.9

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

SOURCE: ILLINOIS DEPARTMENT OF LOTTERY

In 1992, Laflour'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 2004, Illinois's per-capita spending totaled \$135. The recent turnaround in per-capita spending is largely due to the increase in instant games sales. Although FY 2005 figures are not yet available, given the 7.7% increase in FY 2005 sales, it is likely that FY 2005 per-capita spending will once again increase. The estimated FY 2004 figures are shown in Table 17 on page 35.

Legislation Affecting FY 2006 & Beyond

There were no major changes during the latest legislative session that will change the way lottery revenues are collected or distributed. However, two pieces of legislation approved by the General Assembly could potentially impact lottery receipts in the future. Analyses of each of these pieces of legislation are provided below.

P.A. 94-0120 (SB 0001)

P.A. 94-0120 (SB 0001) amends the Illinois Lottery Law by requiring the Department of Revenue to offer a special instant scratch-off game with the title of "Ticket For The Cure". The game would commence on January 1, 2006 or as soon thereafter, in the discretion of the Director, and shall be discontinued on December 31, 2011. The net revenue from the Ticket For The Cure special instant scratch-off game shall be deposited into the Fund for appropriation by the General Assembly solely to the Department of Public Health for the purpose of making grants to public or private entities in Illinois for the purpose of funding research concerning breast cancer and for funding services for breast cancer victims.

P.A. 94-0120 will only impact State revenues if those purchasing the Ticket For The Cure purchase this game instead of the regular scratch-off games; thus reducing the amount of lottery transfers into the Common School Fund. However, P.A. 94-0120 states that during the time that tickets are sold for the Ticket For The Cure game, the Department shall not unreasonably diminish the efforts devoted to marketing any other instant scratch-off lottery game. Therefore, any impact on lottery transfers into the Common School Fund is assumed to be minimal.

P.A. 94-0585 (HB 3472)

P.A. 94-0585 (HB 3472) amends the Illinois Lottery Law by requiring the Department of Revenue to offer a special instant scratch-off game for the benefit of Illinois veterans. The game would commence on January 1, 2006 or as soon thereafter, in the discretion of the Director, as is reasonably practical. The net revenue from the Illinois veterans scratch-off game shall be deposited into the Fund for appropriation by the General Assembly solely to the Department of Veterans Affairs for the purpose of making grants, funding additional services, or conducting additional research projects relating to:

- i) veterans' post traumatic stress disorder;
- ii) veterans' homelessness;
- iii) the health insurance costs of veterans;
- iv) veterans' disability benefits, including but not limited to, disability benefits provided by veterans service organizations and veterans assistance commissions or centers; and
- v) the long-term care of veterans

The public act provides that moneys collected from the special instant scratch-off game shall be used only as a supplemental financial resource and shall not supplant existing moneys that the Department of Veterans Affairs may currently expend. P.A. 94-0585 became effective upon becoming law.

P.A. 94-0585 would only impact State revenues if players purchased the new veterans game instead of the regular scratch-off games; thus reducing the amount of lottery transfers into the Common School Fund. Similar to P.A. 94-0120, P.A. 94-0585 states that during the time that tickets are sold for the Illinois veteran's scratch-off game, the Department shall not unreasonably diminish the efforts devoted to marketing any other instant scratch-off lottery game. Therefore, any impact on transfers into the Common School Fund is assumed to be minimal.

Other Legislation

There was one other piece of legislation affecting lottery that received attention during the Spring session of the 94th General Assembly, but failed to make it out of the House. SB 0198, as engrossed, would have amended the Illinois Lottery Law by creating an Internet pilot program to allow the purchase of Illinois lottery tickets or shares on the Internet. The bill also provided for the licensing of agents to sell lottery tickets or shares over the Internet. SB 0198 passed the Senate by a vote of 32-24-1, but never was called for a vote in the House.

TABLE 17: PER-CAPITA SALES AS A PERCENTAGE OF PERSONAL INCOME (FY 2004)

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	\$ 31,937	\$ 1,480.6	\$ 1,371	4.29%
SOUTH DAKOTA	0.8	\$ 28,299	\$ 664.4	\$ 874	3.09%
WEST VIRGINIA	1.8	\$ 24,672	\$ 1,303.5	\$ 720	2.92%
DELAWARE	0.8	\$ 33,321	\$ 640.9	\$ 782	2.35%
MASSACHUSETTES	6.4	\$ 39,408	\$ 4,381.3	\$ 681	1.73%
GEORGIA	8.7	\$ 29,259	\$ 2,710.5	\$ 312	1.07%
DISTRICT OF COLUMBIA	0.6	\$ 47,305	\$ 245.0	\$ 438	0.93%
SOUTH CAROLINA	4.2	\$ 26,138	\$ 950.0	\$ 229	0.88%
OREGON	3.6	\$ 28,806	\$ 893.3	\$ 251	0.87%
NEW YORK	19.2	\$ 36,296	\$ 5,847.5	\$ 305	0.84%
MARYLAND	5.5	\$ 37,424	\$ 1,395.4	\$ 253	0.68%
KENTUCKY	4.1	\$ 26,352	\$ 725.3	\$ 176	0.67%
NEW JERSEY	8.6	\$ 40,002	\$ 2,188.5	\$ 253	0.63%
OHIO	11.4	\$ 29,953	\$ 2,154.7	\$ 188	0.63%
MICHIGAN	10.1	\$ 31,196	\$ 1,967.8	\$ 195	0.63%
CONNECTICUT	3.5	\$ 43,292	\$ 907.7	\$ 261	0.60%
FLORIDA	17.0	\$ 29,972	\$ 3,071.0	\$ 180	0.60%
PENNSYLVANIA	12.4	\$ 31,706	\$ 2,352.1	\$ 190	0.60%
NEW HAMPSHIRE	1.3	\$ 34,703	\$ 237.1	\$ 184	0.53%
VIRGINIA	7.4	\$ 33,651	\$ 1,262.4	\$ 171	0.51%
MAINE	1.3	\$ 28,935	\$ 185.9	\$ 142	0.49%
VERMONT	0.6	\$ 30,534	\$ 92.3	\$ 149	0.49%
MISSOURI	5.7	\$ 29,094	\$ 791.5	\$ 139	0.48%
TEXAS	22.1	\$ 29,076	\$ 2,904.9	\$ 131	0.45%
INDIANA	6.2	\$ 28,797	\$ 734.9	\$ 119	0.41%
ILLINOIS	12.7	\$ 33,205	\$ 1,709.2	\$ 135	0.41%
IDAHO	1.4	\$ 25,583	\$ 109.3	\$ 80	0.31%
NEW MEXICO	1.9	\$ 25,502	\$ 148.7	\$ 80	0.31%
LOUISIANA	4.5	\$ 26,038	\$ 340.1	\$ 76	0.29%
WISCONSIN	5.5	\$ 30,723	\$ 482.9	\$ 88	0.29%
TENNESSEE	5.8	\$ 28,565	\$ 427.7	\$ 73	0.26%
COLORADO	4.6	\$ 34,510	\$ 401.3	\$ 88	0.26%
IOWA	2.9	\$ 28,398	\$ 209.9	\$ 71	0.25%
CALIFORNIA	35.5	\$ 33,403	\$ 2,945.9	\$ 83	0.25%
ARIZONA	5.6	\$ 26,931	\$ 366.6	\$ 66	0.24%
WASHINGTON	6.1	\$ 33,264	\$ 481.4	\$ 79	0.24%
MINNESOTA	5.1	\$ 34,039	\$ 386.9	\$ 76	0.22%
KANSAS	2.7	\$ 39,545	\$ 224.2	\$ 82	0.21%
NEBRASKA	1.7	\$ 30,331	\$ 92.6	\$ 53	0.18%
MONTANA	0.9	\$ 25,775	\$ 36.7	\$ 40	0.15%
NORTH DAKOTA	0.6	\$ 28,521	\$ 5.8	\$ 9	0.03%
ALABAMA	4.5	\$ 26,276	\$ 0.0	\$ 0	0.00%
ALASKA	0.6	\$ 33,254	\$ 0.0	\$ 0	0.00%
ARKANSAS	2.7	\$ 24,296	\$ 0.0	\$ 0	0.00%
HAWAII	1.3	\$ 30,589	\$ 0.0	\$ 0	0.00%
MISSISSIPPI	2.9	\$ 23,343	\$ 0.0	\$ 0	0.00%
NEVADA	2.2	\$ 31,487	\$ 0.0	\$ 0	0.00%
NORTH CAROLINA	8.4	\$ 28,301	\$ 0.0	\$ 0	0.00%
OKLAHOMA	3.5	\$ 26,567	\$ 0.0	\$ 0	0.00%
UTAH	2.4	\$ 25,230	\$ 0.0	\$ 0	0.00%
WYOMING	0.5	\$ 32,235	\$ 0.0	\$ 0	0.00%
TOTALS	290.8	\$ 30,903	\$ 48,457.6	\$ 167	0.54%

SOURCES: NORTH AMERICAN ASSOCIATION OF STATE AND PROVINCIAL LOTTERIES,
STATE RANKINGS 2005: A STATISTICAL VIEW OF THE 50 STATES

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 State's lottery system 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, such as the \$20 instant game, has allowed the instant games to remain the most popular lottery format in the State, in terms of sales, for the last 13 years. After years of disappointing revenues in the past, the Lotto and Little Lotto rebounded nicely in FY 2005, generating a combined \$46 million in additional sales compared to FY 2004 totals. The success of these gaming formats were the major factors for the nearly 8% total increase in lottery sales in FY 2005 and the reason for the record-high amount of \$614 million that was transferred into the Common School Fund.

Can the recent success of the lottery continue into FY 2006? Since jackpot size and rollovers have a significant impact on sales, it is difficult to predict year-to-year success. The lottery's success in many of the games in FY 2005 is humbled by the disappointment and/or unpredictability of others. The Pick 3 game and the Pick 4 game have remained relatively stagnant for several years. Lotto and Little Lotto, even after a strong FY 2005, are still below levels experienced in the past, and their progress will have to be watched closely.

It appears, however, that the State's lottery program is in the middle of a positive trend, having just completed its second consecutive year of strong growth. After a disappointing FY 2005, Mega Millions is hoping that the addition of California to its program will help jackpots increase rapidly, resulting in more sales from this game. Instant game sales have increased 67.5% over the last five years, and with new games always being developed, there is no reason to believe that the increase in instant game sales won't continue. The Pick 4 game saw record levels in FY 2005 and the upward trend in their figures are anticipated to continue in the future. Also, lottery representatives have indicated the desire to increase the number of lottery retailers in the State, which will assist in the further likelihood of increased lottery revenues in the future. From a State revenue perspective, the hope is that this growth will continue for fiscal years to come.

HORSE RACING

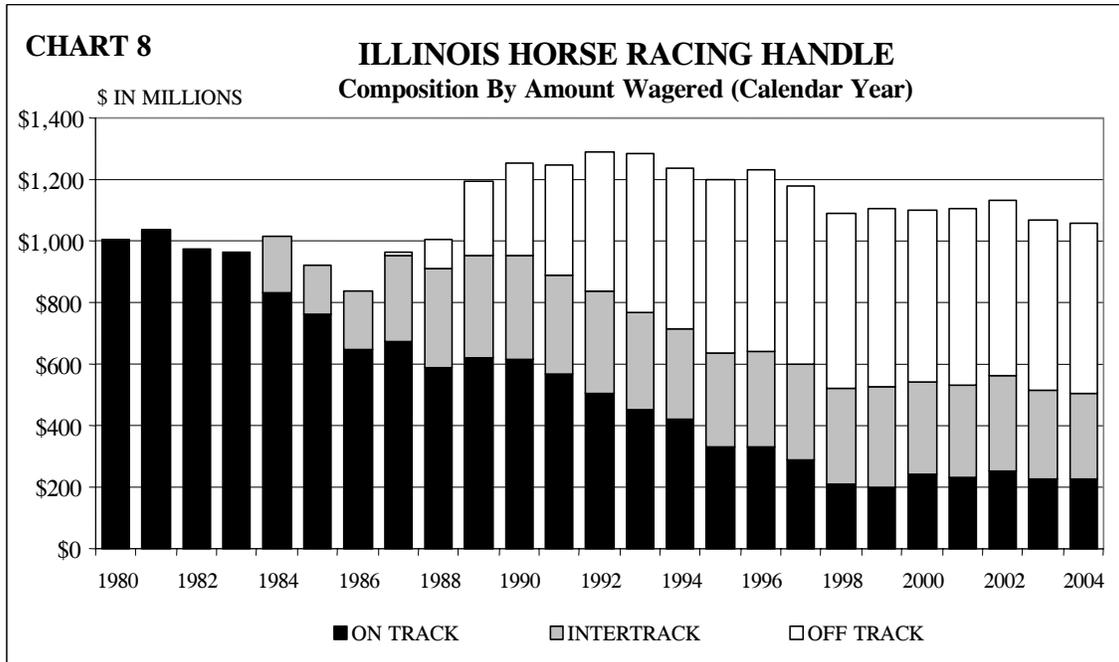
Horse racing is the oldest form of legalized gaming in Illinois. Each year more than \$1 billion is wagered on horse racing at the State's numerous on-track and off-track wagering facilities. In calendar year 2004, Illinois horse racing wagering generated \$25.1 million in total revenues with the State receiving \$12.8 million and local governments receiving approximately \$12.4 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 18 examines the sources and allocation of CY 2004 horse racing revenues while Table 19 details State and local racing revenues over the past six years.

TABLE 18: SOURCES AND ALLOCATION OF HORSE RACING REVENUE FOR CALENDAR YEAR 2004	
REVENUE SOURCE	
LICENSE FEES	\$101,665
ADMISSION TAXES	\$123,047
PARI-MUTUEL TAX	\$15,891,486
PARI-MUTUEL TAX CREDIT	(\$3,852,952)
LICENSING	\$259,325
FINGERPRINT FEES	\$110,449
HORSEMEN'S FINES	\$118,675
MISCELLANEOUS	\$6,046
* TOTAL STATE	\$12,757,741
2% OF OTB HANDLE TO CITY AND COUNTY	\$11,115,298
CITY (CHICAGO) OTB ADMISSION TAX	\$545,381
ON TRACK CITY ADMISSION TAX	\$59,038
INTERTRACK SURCHARGE TO COUNTY (20%)	\$650,981
* TOTAL LOCAL	\$12,370,698
TOTAL REVENUES	\$25,128,439
ALLOCATION OF REVENUE	
HORSE RACING FUND	\$12,015,905
GENERAL REVENUE FUND	\$608,758
QUARTERHORSE BREEDERS' FUND	\$22,629
FINGERPRINT LICENSE FUND	\$110,449
* TOTAL STATE	\$12,757,741
TO CITIES	\$6,162,068
TO COUNTIES	\$6,208,630
* TOTAL LOCAL	\$12,370,698
TOTAL REVENUES ALLOCATED	\$25,128,439
SOURCE: ILLINOIS RACING BOARD - 2004 ANNUAL REPORT	

TABLE 19: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)							
	1998	1999	2000	2001	2002	2003	2004
TOTAL STATE REVENUE	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8
TOTAL LOCAL REVENUE	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4
* TOTAL REVENUES RECEIVED	\$55.4	\$56.0	\$26.1	\$26.4	\$25.7	\$25.1	\$25.1
TOTAL STATE ALLOCATIONS	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8
TOTAL LOCAL ALLOCATIONS	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4
TO CITIES	\$6.6	\$6.7	\$6.4	\$6.5	\$6.4	\$6.2	\$6.2
TO COUNTIES	\$6.7	\$6.9	\$6.3	\$6.4	\$6.4	\$6.2	\$6.2
*TOTAL REVENUES ALLOCATED	\$55.4	\$56.0	\$26.1	\$26.4	\$25.7	\$25.1	\$25.1

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

In its 2004 Annual Report, the Illinois Racing Board reported that 685 race programs were conducted during CY 2004. A total handle amount of \$1.059 billion resulted, which was a decrease of 0.8% over the 2003 amount. As shown in Chart 8, this handle amount was the second consecutive year of declining revenues and the lowest experienced since 1988. This decline consisted of a 3.9% increase in the standardbred handle, offset by a 3.2% decline in the thoroughbred handle.

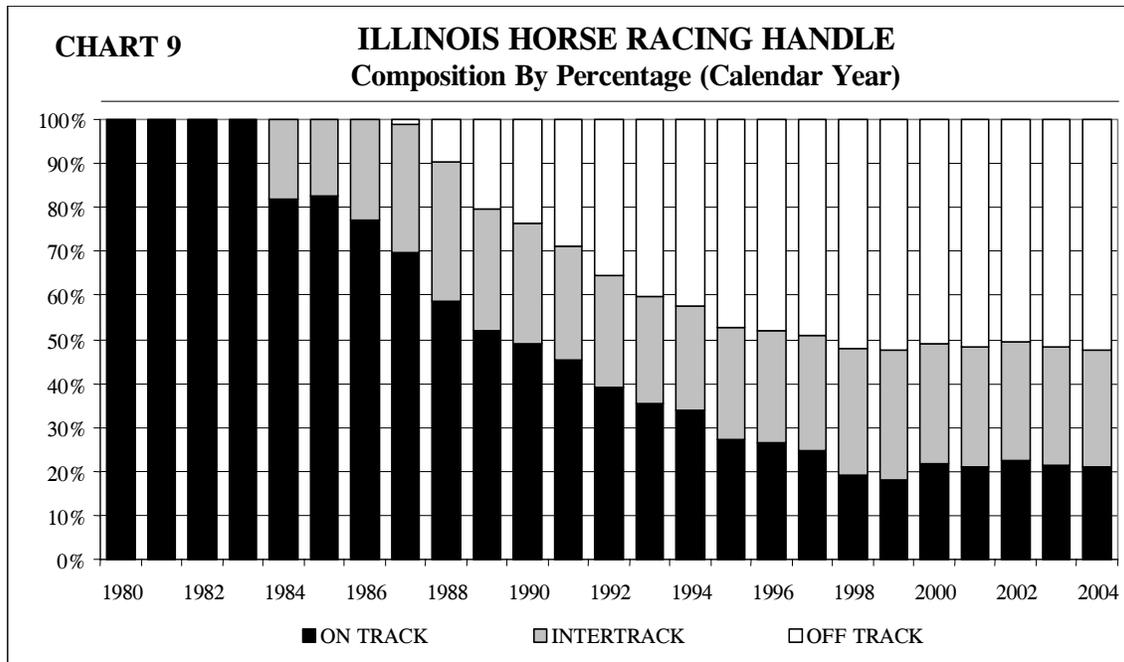


The Illinois Racing Board latest report states that 31%, or \$327 million of the total handle in CY 2004 was wagered on Illinois races. An additional \$834 million was wagered on Illinois races broadcast to other states, which was an increase of 8.9% over CY 2003. The Board highlights that 2004 was the fourth 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 2004, the percentage of the total handle generated from on-track wagering fell from 39% to 21%. 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%. Despite this shift, inter-track wagering remained stable and generally comprised between 25% and 30% of the total handle. Chart 9 illustrates the shift in the composition of the racing handle.

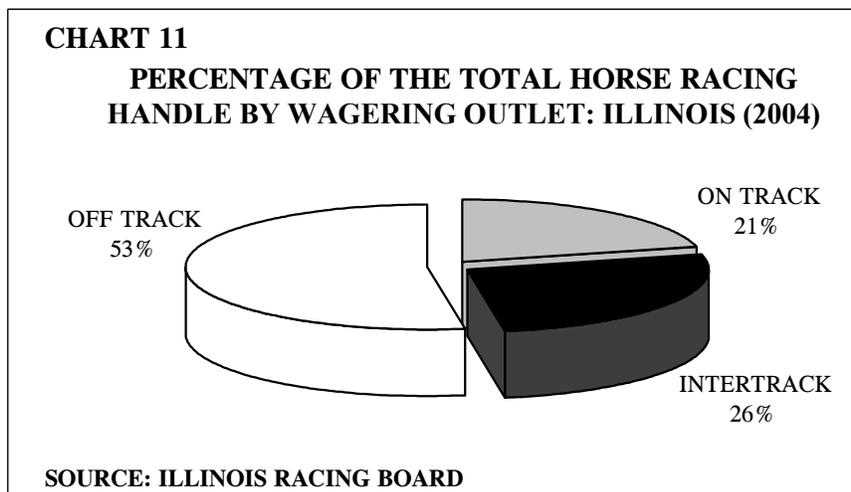
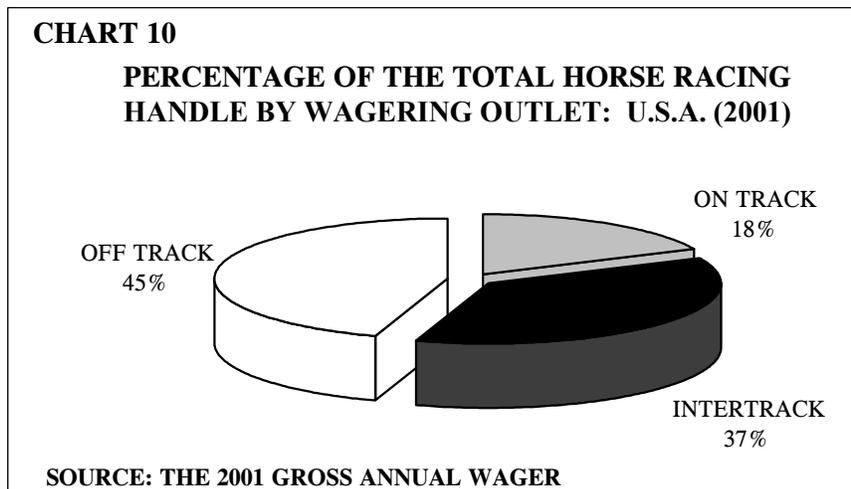


The Horse Racing Act of 1975 authorized the Illinois Racing Board to issue a maximum of forty-three off-track betting (OTB) licenses, as each racetrack is entitled to six OTB licenses, with an exception made for Fairmont Park which is entitled to a seventh license. In 2004, the Illinois Racing Board granted twenty-five off-track licenses. One new OTB opened in 2004 (Quad City Downs location in South Beloit), and one closed in 2004 (Fairmount Park location in Effingham). In December 2004, the Illinois Racing Board approved for Maywood Park, a new license to be located in Aurora.

This location opened in the spring of 2005, bringing the current number of OTB licenses to twenty-six. 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 seventeen additional OTB locations. A list of Illinois OTB's are shown below in Table 20.

TABLE 20: ILLINOIS RACING TRACKS AND ASSOCIATED OTB'S		
TRACK	COUNTY	OTB LOCATIONS
ARLINGTON RACECOURSE	COOK	CHICAGO (WEED STREET) WAUKEGAN
BALMORAL PARK	WILL	BLOOMINGTON CHAMPAIGN CHICAGO (CORLISS) DANVILLE PEORIA
FAIRMOUNT PARK	MADISON	ALTON CARBONDALE EFFINGHAM** GRAYVILLE SAUGET SPRINGFIELD
HAWTHORNE RACE COURSE	COOK	CHICAGO (STATE STREET) OAK BROOK TERRACE ROMEDEVILLE
MAYWOOD PARK	COOK	CHICAGO (WEST JACKSON) NORTH AURORA MOKENA AURORA***
QUAD CITY DOWNS	ROCK ISLAND	MCHENRY SOUTH BELOIT* ROCKFORD SOUTH ELGIN
NATIONAL JOCKEY CLUB	COOK	CRESTWOOD JOLIET PERU
* NEW IN 2004 ** CLOSED IN 2004 *** NEW IN 2005		

Charts 10 and 11 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: 2004 Update, no significant changes to the horse racing industry has taken place that will affect State revenues. While the opening of an additional OTB 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, horse racing revenue in Illinois will likely continue to be stagnant.

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 2005, the State generated \$0.2 million in bingo license fees and \$3.7 million in bingo taxes. Total bingo receipts were down 11.8% from FY 2004 levels.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2005, the State received \$47,200 in license fees and \$224,002 from the charitable games tax. Total charitable games receipts were up 53.9% compared to FY 2004 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 2005, the State received \$0.6 million in license fees and \$6.6 million from the pull tabs and jar games tax. Total pull-tabs and jar games receipts were down 3.6% from FY 2004 levels.

In total, these miscellaneous gaming revenue sources generated approximately \$11.3 million in FY 2005. This figure is 6.6% below the FY 2004 total of \$12.1 million. In fact, total miscellaneous gaming revenue has been on a steady downward trend over the last seven years with FY 2005 figures now at the lowest level experienced over the last ten years.

CONCLUSION

In conclusion, FY 2005 was a record-breaking year for gaming revenues in Illinois. Although horse racing revenues remained relatively unchanged, State revenues from both the lottery and riverboats reached levels never experienced before. Due to a graduated wagering tax increase up to as much as 70%, the amount of State transfers from the Gaming Fund were up 5.7% in FY 2005 and up 26.2% from FY 2003 levels. State lottery transfers, as a result of strong instant game sales, were up 7.7% in FY 2005, and up 13.6% from FY 2003 levels.

Can these increases continue in the future? That depends on each specific area of gaming. State revenues from horse racing have been relatively stagnant for six 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, Lotto, and Little Lotto, helped fuel the 7.8% growth in total sales in FY 2005. The lottery's successes in these games are humbled by the disappointment and/or unpredictability of others. However, it appears that the State's lottery program is in the middle of a positive trend, having just completed its second consecutive year of strong growth. After a disappointing FY 2005, Mega Millions is hoping that the addition of California to its program will help jackpots increase rapidly, resulting in more sales from this game. Instant game sales have increased 67.5% over the last five years, and with new games always being developed, there is no reason to believe that the increase in instant game sales won't continue in the future. And with lottery representatives indicating the desire to increase the number of lottery retailers in the State, it appears that the lottery's recent growth in total sales has an excellent chance of continuing.

The focus for Illinois' gaming over the last couple of years has no doubt shifted to riverboat gambling. In FY 2005, for the third 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 successive graduated tax increases in FY 2003 and again for FY 2004 and FY 2005 that are responsible for the significant revenue increases experienced over the last several 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 7.8% in FY 2004, while admissions fell a whopping 16.9%. Although, adjusted gross receipts increased 5.7% and admissions increased 0.3% in FY 2005, these figures are still well below levels experienced in the past. While Illinois' riverboats have struggled, the gaming states surrounding Illinois continue to see their numbers grow. From a regional gaming perspective, it appears

that the marketing decisions of Illinois riverboat operators in response to the higher taxes have prompted riverboat gamblers to leave Illinois to gamble in other states.

Now that the tax rate has reverted from a maximum 70% tax rate to a maximum 50% tax rate in FY 2006, the question becomes, will this tax change provide a gaming environment that will bring gamblers back to Illinois? The answer is unclear. Even with the 50% maximum tax rate, Illinois continues to have the highest tax on gaming in the country. However, the new hold-harmless provision under P.A. 94-0673 may provide the spark needed for gaming operators to entice the riverboat patron back to Illinois boats.

The riverboat industry has argued in the past similar amounts of revenue could be generated under a 50% maximum tax rate as can be under a 70% maximum tax rate because of greater marketing flexibility under a lower tax rate. P.A. 94-0673 could be considered be a “win-win” for the State. If the gaming industry is correct and the riverboats do generate as much or even more for the State than under a maximum 70% tax rate, then the State will reap the benefits of higher tax collections. If the riverboats are unable to generate the amount of revenues similar to what was collected in the past under a maximum 70% tax rate (the new base amount), as defined in the public act, the State will still collect its desired amount of taxes from these riverboats.

Because of P.A. 94-0673, State revenues from riverboats will likely remain stable for FY 2006 and FY 2007. The 10th riverboat license continues to remain in litigation, with no ending date in site. As a result, no revenues are expected from the 10th license in the foreseeable future. Therefore, if a significant change in gaming revenues is desired for the following years, new changes must be made in the industry for dramatic increases in revenues to occur. A number of proposals have been offered as a way of generating these revenues, including adding additional riverboats near Chicago, increasing the number of gaming positions at the current boats, and adding slot machines at racetracks. However, thus far, not enough support has been generated to make these proposals a reality.

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), 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;
- 5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
- 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;
- 7) Administration of the State Facility Closure Act.

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 several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Illinois Bond Watcher" report 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. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission's website.

These reports are available from:

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http://www.ilga.gov/commission/cgfa/cgfa_home.html