

WAGERING IN ILLINOIS 2006 UPDATE



Commission on Government Forecasting and Accountability
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Springfield, Illinois 62706
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*Commission on Government Forecasting
and Accountability*

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EXECUTIVE SUMMARY

The following document is the Commission's 2006 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 2006, the State's share of horse racing, lottery, and riverboat revenue reached \$1.370 billion, a \$45 million or 3% increase over FY 2005. The \$45 million increase consisted of a \$56 million increase in lottery transfers to the Common School Fund, a \$10 million decrease in State riverboat revenues, and a \$1 million decline in horse racing revenues.
- In FY 2006, riverboat taxes and fees comprised 50% of total gaming revenues, lottery revenues 49%, and horse racing the remaining 1%. Overall gaming per-capita spending increased 5.8% to \$231 in FY 2006. This was the second consecutive increase in per-capita spending after two years of declines.
- Statewide adjusted gross receipts (AGR) for Illinois riverboats in FY 2006 were up 6.7% while admissions were up 3.9% from FY 2005 levels. This is in contrast to FY 2004 when adjusted gross receipts were down 7.8% and admissions were down 16.9%.
- In FY 2006, wagering tax rates returned to a maximum tax rate of 50%, down from the maximum tax rate of 70% that was in effect in FY 2004 and FY 2005. In addition, the admission tax was lowered in FY 2006 from a high of \$5 per patron to \$3 per patron. Few would argue that it was these tax changes that caused the fluctuation in AGR and admission figures over the last several years.
- Because of lower tax rates in FY 2006, State revenues from Illinois riverboats declined 3.3% from FY 2005 levels. Revenues would have been even lower if it were not for the hold-harmless provision created under P.A. 94-0673. An additional \$94.3 million was paid due to this provision. Without these payments, State revenues would have declined \$118 million or 16.5% from FY 2005 levels.
- Under a 70% tax rate it appeared that Illinois had 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. However, with the return to a 50% maximum tax rate, things have begun to change as Illinois' composition in the Chicago area in FY 2006 increased to 55.8% while Indiana fell to 44.2%.
- Illinois' AGR per Table Game and AGR per Electronic Gaming Device are significantly higher than neighboring states. This would 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.

- Competition from other states in casino gambling is likely to intensify. Two new riverboats are set to open in Missouri near St. Louis, one in 2007, and the other in 2008. In addition, Indian tribes in Wisconsin continue to discuss developing casinos near the Illinois border, one near Rockford, the other near the North Suburbs of Chicago.
- In FY 2006, lottery sales totaled approximately \$1.985 billion, a 7.7% increase over FY 2005, representing the highest sales total realized since the inception of lottery in 1975. The amount transferred into the Common School Fund was \$670.5 million, a 9.2% increase over FY 2005.
- Instant games experienced the largest increase in sales in FY 2006, growing \$92 million. Other significant increases came from Mega Millions, which grew nearly \$51 million.
- The instant games continue to comprise the largest percentage of lottery sales at 50% followed by Pick 3 (16%), Mega Millions (12%), Pick 4 (9%), Little Lotto (6%), and Lotto (6%).
- In 2005, more than \$1 billion was wagered on horse racing, which generated approximately \$11.8 million in State revenue and \$11.6 million in local revenue. Off-track wagering continues to comprise the largest percentage of horse racing wagering accounting for 52% of the total handle, followed by intertrack wagering (27%) and on-track wagering (21%).
- The horse-racing industry could get a financial boost from two new laws passed in 2006. P.A. 94-0805 lowered the pari-mutuel tax for Fairmount Park from 1.5% of the daily pari-mutuel handle to 0.25%. P.A. 94-0806 obligates four Illinois riverboats to pay 3% of their adjusted gross receipts to the Horse Racing Equity Trust Fund, which equates to an estimated \$39.0 million per year. This provision, however, is currently being challenged in court as being unconstitutional. This money, if allowed, would be used to improve, maintain, market, and otherwise operate racing facilities in Illinois to conduct live racing.
- With one more year of the hold-harmless provision for Illinois riverboats, overall gaming revenues will likely remain steady in FY 2007. However, without this provision in FY 2008, revenues could decline unless riverboat figures continue to grow or other legislative changes are made. Ideas that are continually discussed include adding additional riverboats, increasing the number of gaming positions at current boats, and allowing slot machines at racetracks.

INTRODUCTION

Gaming in Illinois continues to be a significant source of revenue for the State of Illinois. In FY 2006, \$1.37 billion was deposited into the State's general funds from Illinois' gaming sources. This included \$689 million in riverboat transfers to the Education Assistance Fund and deposits into the Common School Fund, \$670 million in lottery transfers to the Common School Fund, and approximately \$11 million in State horse racing revenues. The combined amount of \$1.37 billion was a 3% increase over FY 2005 and marked the eighth consecutive year of growth. The growth in FY 2006 was primarily due to a strong year in lottery sales which offset small declines in riverboat transfers and horse racing revenues. Table 1 provides a history of State gaming revenues since 1975.

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%
2006	\$670	\$11	\$689	\$1,370	3%

(1) FIGURES REPRESENT TRANSFERS INTO THE COMMON SCHOOL FUND.
(2) FIGURES EQUAL STATE REVENUE GENERATED, NOT ALLOCATED, BASED ON A CALENDER YEAR. THE 2006 FIGURE IS AN ESTIMATE.
(3) FIGURES REPRESENT APPROPRIATIONS (FY 1992 - 1995) AND TRANSFERS (FY 1996-FY 2006) 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

The combined total of State revenues from riverboat gaming, lottery, and horse racing have increased nearly 60% since FY 2000. As the previous chart shows, horse racing revenues have remained stagnant during this time period. Therefore, the large increases in gaming revenues have come from the lottery and riverboats.

Since FY 2000, State lottery transfers have increased 30%. Over the last three years lottery transfers have risen 24.1%, including a \$100 million increase over the last two years. The Illinois lottery had a strong FY 2006 in which revenues transferred to the Common School Fund increased 9.2% from levels experienced in FY 2005. Much of the FY 2006 increase was due to a 10.2% increase in Instant game sales and a 26.3% increase in Mega Millions receipts.

Even though State riverboat revenues decreased \$10 million in FY 2006, this revenue source is still up 109% since FY 2000. The reason for the dramatic increase in riverboat revenues during this time is because of the many changes affecting this competitive industry. This includes the introduction of dockside gambling and several tax increases. 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.

However, despite the increase in tax revenue, admissions and adjusted gross receipts to Illinois riverboats struggled as a result of these higher rates, causing concern that Illinois was losing potential riverboat patrons to other states. In FY 2006 the graduated tax rates were statutorily lowered to a maximum rate of 50%. Consequently, admission and adjusted gross receipts increased once again. The lower tax rate would have amounted to a significant decline in tax receipts, but the inclusion of a two-year hold-harmless provision obligating riverboats to meet certain revenue amounts or pay the difference allowed State riverboat revenues to remain at levels near \$700 million.

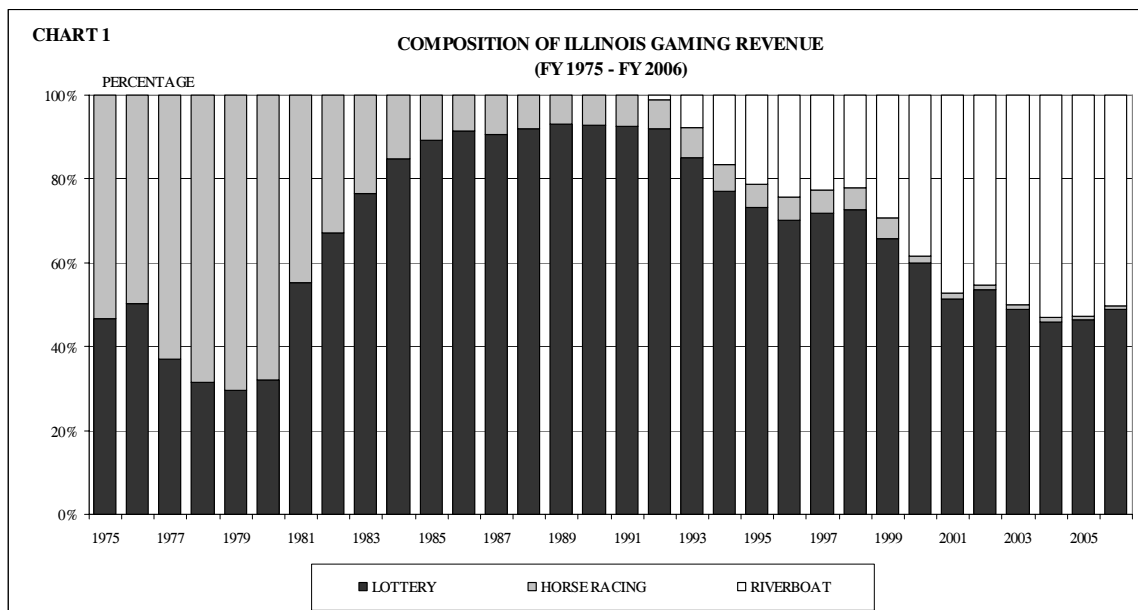


Chart 1 shows the composition of gaming revenue in Illinois since 1975. Over the last decade riverboat revenues as a percentage of total gaming revenues have increased

dramatically. FY 2003 was the first year that riverboat revenues surpassed lottery revenues as the largest source of State gaming revenue. In FY 2006, riverboat casinos comprised 50% of total gaming revenues, whereas lottery revenues comprised 49%, 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 last several 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. The following analysis uses State revenues, gaming hold, and per-capita spending as a means of assessing the current status of Illinois gaming.

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
POPULATION (IN MILLIONS)	12.01	12.07	12.13	12.44	12.52	12.60	12.65	12.71	12.76	12.81
HORSE RACING (CY)										
STATE REVENUE (IN MILLIONS)	\$ 45	\$ 42	\$ 42	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 12	\$ 11
GAMING HOLD (IN MILLIONS)	\$ 264	\$ 243	\$ 247	\$ 247	\$ 248	\$ 252	\$ 240	\$ 238	\$ 225	\$ 217
% CHANGE IN GAMING HOLD	-4.4%	-8.2%	1.9%	-0.2%	0.3%	1.8%	-4.9%	-0.8%	-5.3%	-3.5%
** PER-CAPITA SPENDING	\$ 22.0	\$ 20.1	\$ 20.4	\$ 19.8	\$ 19.8	\$ 20.0	\$ 18.9	\$ 18.7	\$ 17.6	\$ 17.0
% CHANGE IN PER-CAPITA SPENDING	-5.0%	-8.6%	1.4%	-2.7%	-0.4%	1.1%	-5.2%	-1.3%	-5.7%	-3.9%
LOTTERY (FY)										
TRANSFERS TO CSF (IN MILLIONS)	\$ 590	\$ 560	\$ 540	\$ 515	\$ 501	\$ 555	\$ 540	\$ 570	\$ 614	\$ 670
GAMING HOLD (IN MILLIONS)	\$ 796	\$ 741	\$ 704	\$ 674	\$ 658	\$ 722	\$ 705	\$ 735	\$ 803	\$ 866
% CHANGE IN GAMING HOLD	-0.3%	-6.9%	-5.0%	-4.2%	-2.4%	9.8%	-2.4%	4.3%	9.2%	7.8%
** PER-CAPITA SPENDING	\$ 66.2	\$ 61.4	\$ 58.0	\$ 54.2	\$ 52.5	\$ 57.3	\$ 55.7	\$ 57.8	\$ 62.9	\$ 67.6
% CHANGE IN PER-CAPITA SPENDING	-1.0%	-7.4%	-5.5%	-6.6%	-3.0%	9.1%	-2.7%	3.8%	8.8%	7.4%
RIVERBOATS (FY)										
AMOUNT TO EAF & CSF (IN MILLIONS)	\$ 185	\$ 170	\$ 240	\$ 330	\$ 460	\$ 470	\$ 554	\$ 661	\$ 699	\$ 689
GAMING HOLD (IN MILLIONS)	\$ 1,052	\$ 1,066	\$ 1,171	\$ 1,589	\$ 1,713	\$ 1,834	\$ 1,798	\$ 1,657	\$ 1,752	\$ 1,870
% CHANGE IN GAMING HOLD	-13.4%	1.4%	9.9%	35.6%	7.8%	7.1%	-2.0%	-7.8%	5.7%	6.8%
** PER-CAPITA SPENDING	\$ 87.6	\$ 88.3	\$ 96.6	\$ 127.8	\$ 136.8	\$ 145.5	\$ 142.1	\$ 130.3	\$ 137.3	\$ 146.0
% CHANGE IN PER-CAPITA SPENDING	-14.0%	0.9%	9.4%	32.3%	7.1%	6.4%	-2.3%	-8.3%	5.3%	6.3%
ALL WAGERING										
TOTAL REVENUE (IN MILLIONS)	\$ 820	\$ 772	\$ 822	\$ 858	\$ 974	\$ 1,038	\$ 1,107	\$ 1,244	\$ 1,325	\$ 1,370
GAMING HOLD (IN MILLIONS)	\$ 2,112	\$ 2,049	\$ 2,122	\$ 2,510	\$ 2,618	\$ 2,808	\$ 2,742	\$ 2,630	\$ 2,780	\$ 2,953
% CHANGE IN GAMING HOLD	-7.8%	-3.0%	3.6%	18.2%	4.3%	7.2%	-2.3%	-4.1%	5.7%	6.2%
** PER-CAPITA SPENDING	\$ 175.8	\$ 169.8	\$ 175.0	\$ 201.8	\$ 209.1	\$ 222.8	\$ 216.8	\$ 206.9	\$ 217.8	\$ 230.5
% CHANGE IN PER-CAPITA SPENDING	-8.4%	-3.4%	3.1%	15.3%	3.6%	6.5%	-2.7%	-4.6%	5.3%	5.8%
*THE FY 2006 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 RANKINGS: A STATISTICAL VIEW OF THE 50 STATES.										

As Table 2 reveals, FY 2006 State gaming revenues totaled \$1.370 billion or a 3.4% increase over FY 2005. The gaming industry's FY 2006 gaming hold estimate of \$2.953 billion increased 6.2% from FY 2005 levels. Per-capita spending increased 5.8% to approximately \$231 in FY 2006. This was the second consecutive increase in per-capita spending after two years of declines.

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. In FY 2006, riverboat's gaming hold increased another 6.8%. Lottery per-capita spending in FY 2006 is estimated to be up approximately 7.8%, while horse racing per-capita spending is estimated to have fallen 3.9%.

The remainder of this report takes a look at each of Illinois' gaming sources individually. The first section to be discussed is Illinois' riverboat industry, followed by the lottery, and horse racing, and a brief look at miscellaneous gaming in Illinois, including Bingo, pull-tabs, and charitable games. Each section concludes with a look at possible changes that could affect each of these gaming areas in the future.

The riverboat section begins with a summary of the legislative changes that have and will affect the Illinois casinos, including recent tax changes and the newly-imposed hold-harmless provision. This is followed by an analysis of FY 2006 riverboat statistics in total and on a boat-by-boat basis. It includes a section focusing on the impact that the tax changes have had on admissions and adjusted gross receipts, as well as State revenues. The report offers a summary of gaming in surrounding states and shows how other states may have benefited from Illinois' higher taxes. It then discusses how lowering the wagering and admissions taxes may be causing gamblers to come back to Illinois. The section concludes with an update on the 10th riverboat license.

The lottery section provides a detailed look at lottery sales on a game-by-game basis. It identifies the games that are performing well, and those that continue to struggle. Also included is a table showing how Illinois compares to other states in per-capita sales as a percentage of personal income. The section concludes by discussing lottery privatization and the aspects that would be involved if Illinois decided to sell or lease the State's lottery program.

The section on horse racing details the sources and allocation of horse racing revenue in Illinois for the previous calendar year. It shows the composition of Illinois' horse racing handle in total dollars and by percentage for the various areas of horse wagering: on-track, intertrack, and off-track. The section lists the various horse tracks across the State and their associated off-track betting parlors. Also included is a look at the two pieces of legislation that were passed during the spring session that could provide a boost to this industry.

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. Past 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 & FY 2005.

Since many of these topics were covered in earlier Commission reports, this report will focus on the recent changes affecting FY 2006 and beyond. These include: the lowering of the admission and wagering tax rates in FY 2006; the first year of the hold harmless provision – the two-year period where riverboats must generate set amounts of revenue or pay the difference; and the recently enacted provision in which Chicago area riverboats will be obligated to pay an additional 3% tax in FY 2007 and FY 2008, the revenues from which will be sent to the Illinois horse racing industry.

A summary of these legislative changes is provided below.

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

At the end of the Spring 2005 session P.A. 94-0673 was enacted, which made the following changes to the Riverboat Gambling Act and its tax structure:

Reduces the Admission Tax: Under P.A. 94-0673, the admission tax was 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. 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, the wagering tax graduated rate schedule statutorily declined from a 70% maximum tax rate to a maximum tax rate of 50%. The graduated rate schedule is now as follows:

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

P.A. 94-0673 did not alter this statutory rate schedule. However, the public act provided 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 was guaranteed to receive at least \$651.5 million from the riverboats (established base amounts); plus wagering tax revenues from the Rock Island riverboat; and revenues from the admission tax. Local governments continued to receive 5% of a riverboat’s adjusted gross receipts and \$1 per admission.

P.A. 94-0839 (Clarifies Intent of Wagering Tax Hold-Harmless Provision)

P.A. 94-0839 amends the Riverboat Gambling Act to restate and clarify the intent of P.A. 94-0673. The new language clarifies the amount of reconciliation payment, if any, that a riverboat licensed owner must pay. This payment is the amount by which the licensed owner's base amount exceeds the amount of net privilege tax (State taxes) paid by the licensed owner to the Illinois Gaming Board in the then current State fiscal year.

When P.A. 94-0673 was created, it was the intention that the hold harmless provision was applied to only the State portion of riverboat tax payments (not the local portion equal to 5% of a riverboat's AGR). Because this was not clear in the original language, P.A. 94-0839 clarified this to provide that if the amount of riverboat State taxes paid (as of June 15th) is less than the base amounts established under P.A. 94-0673, the riverboat licensed owner must pay the difference (the reconciliation payment).

P.A. 94-0804 (3% of Riverboat's AGR to Horse Racing Equity Trust Fund)

P.A. 94-0804 (HB 1918) amends the Riverboat Gambling Act by providing that Illinois riverboats, other than those with adjusted gross receipts in calendar year 2004 of less than \$200 million, must pay into the newly created Horse Racing Equity Trust Fund an amount equal to 3% of the adjusted gross receipts received by the owner's licensee. This amount is in addition to any other payments required under the Riverboat Gambling Act.

In addition, P.A. 94-0804 provides that the requirement that 15% of the adjusted gross receipts of a new riverboat license shall be paid from the State Gaming Fund into the Horse Racing Equity Fund shall be effective before the effective date of this amendatory Act of the 94th General Assembly and beginning 2 years after the effective date of this amendatory Act of the 94th General Assembly.

P.A. 94-0804 also amends the Illinois Horse Racing Act of 1975 by creating the Horse Racing Equity Trust Fund. This new fund shall be a non-appropriated trust fund held separate and apart from State moneys. The public act provides that moneys deposited into this fund shall be used for horse racing purses and horse track licensees. Money to the licensees shall be used to improve, maintain, market, and otherwise operate its racing facilities to conduct live racing, which shall include backstretch services and capital improvements related to live racing and the backstretch.

The payments into the Horse Racing Equity Trust Fund are for a period of 2 years beginning on the effective date of this amendatory Act of the 94th General Assembly. P.A. 94-0804 became effective upon becoming law on May 26, 2006. The Commission estimates that approximately \$39.0 million per year will be paid to the Horse Racing Equity Trust Fund for the next two fiscal years due to P.A. 94-0804.

It should be noted that the casinos affected by this public act have filed a lawsuit with the Illinois State Court challenging the new provision as unconstitutional. The casinos feel that the two-year subsidy is an "unjust tax aimed at supporting a competing gambling interest." Until a ruling is made, monies collected from the 3% tax will be deposited into a protest fund.

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 – 2006 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 2006)						
(\$ in millions)						
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
ELGIN	\$399.3	\$421.7	\$383.2	\$389.0	\$408.1	\$415.7
JOLIET HARRAH'S	\$287.5	\$318.2	\$305.0	\$249.2	\$292.3	\$332.9
JOLIET EMPRESS	\$251.2	\$250.5	\$237.3	\$218.5	\$232.1	\$256.8
AURORA	\$222.0	\$250.6	\$280.4	\$221.4	\$231.8	\$250.2
EAST ST. LOUIS	\$155.9	\$155.9	\$157.9	\$163.5	\$165.4	\$172.2
METROPOLIS	\$110.8	\$132.7	\$134.3	\$140.4	\$140.5	\$152.2
EAST PEORIA	\$134.3	\$145.0	\$144.0	\$132.8	\$132.3	\$133.4
ALTON	\$117.5	\$121.4	\$116.1	\$103.6	\$110.4	\$117.6
ROCK ISLAND	\$34.4	\$37.9	\$39.5	\$38.9	\$39.3	\$39.4
TENTH LICENSE	\$0.0	\$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	\$1,870.4
% INCREASE	7.8%	7.1%	-2.0%	-7.8%	5.7%	6.7%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 4: ILLINOIS RIVERBOAT ADMISSIONS (FY 2001 - FY 2006)						
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
ELGIN	3,542,209	3,312,057	2,765,342	2,854,598	2,795,134	2,677,440
JOLIET HARRAH'S	2,429,341	3,122,243	3,007,687	1,831,518	2,073,659	2,417,781
JOLIET EMPRESS	2,456,560	2,188,890	2,219,458	1,666,841	1,828,809	1,726,414
AURORA	2,367,235	2,499,683	2,490,552	1,446,951	1,428,536	2,082,147
EAST ST. LOUIS	2,058,016	2,012,569	2,023,378	2,152,041	2,122,913	2,098,942
METROPOLIS	1,357,368	1,526,467	1,450,530	1,394,316	1,214,268	1,184,008
EAST PEORIA	1,878,355	1,948,729	1,887,695	1,682,744	1,584,379	1,432,655
ALTON	1,705,029	1,691,891	1,601,270	1,381,943	1,424,604	1,476,971
ROCK ISLAND	794,525	831,552	807,731	763,370	746,355	716,949
TENTH LICENSE	0	0	0	0	0	0
TOTAL	18,588,638	19,134,081	18,253,643	15,174,322	15,218,657	15,813,307
% INCREASE	-3.4%	2.9%	-4.6%	-16.9%	0.3%	3.9%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 5: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2001 - FY 2006)
(\$ in millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
ELGIN	\$110.8	\$117.3	\$144.2	\$194.5	\$206.8	\$204.2
JOLIET HARRAH'S	\$76.2	\$86.1	\$109.4	\$105.3	\$125.0	\$119.6
JOLIET EMPRESS	\$65.3	\$64.8	\$76.9	\$85.2	\$91.8	\$89.7
AURORA	\$56.5	\$65.2	\$95.8	\$86.6	\$90.5	\$90.5
EAST ST. LOUIS	\$36.4	\$36.2	\$42.7	\$61.6	\$62.7	\$53.0
METROPOLIS	\$21.8	\$27.5	\$33.9	\$48.5	\$49.0	\$47.6
EAST PEORIA	\$29.2	\$32.5	\$37.7	\$47.3	\$46.2	\$46.1
ALTON	\$23.9	\$25.7	\$28.1	\$33.3	\$35.4	\$34.2
ROCK ISLAND	\$4.5	\$5.1	\$6.7	\$7.3	\$7.1	\$5.9
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$424.7	\$460.5	\$575.3	\$669.7	\$714.6	\$690.7
% INCREASE	10.7%	8.4%	24.9%	16.4%	6.7%	-3.3%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 6: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2001 - FY 2006)
(\$ in millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
ELGIN	\$23.5	\$24.4	\$21.9	\$22.3	\$23.2	\$23.5
JOLIET HARRAH'S	\$16.8	\$19.0	\$18.3	\$14.3	\$16.7	\$19.1
JOLIET EMPRESS	\$15.0	\$14.7	\$14.1	\$12.6	\$13.4	\$14.6
AURORA	\$13.5	\$15.0	\$16.5	\$12.5	\$13.0	\$14.6
EAST ST. LOUIS	\$9.9	\$9.8	\$9.9	\$10.3	\$10.4	\$10.7
METROPOLIS	\$6.9	\$8.2	\$8.2	\$8.4	\$8.2	\$8.8
EAST PEORIA	\$8.6	\$9.2	\$9.1	\$8.3	\$8.2	\$8.1
ALTON	\$7.6	\$7.8	\$7.4	\$6.6	\$6.9	\$7.4
ROCK ISLAND	\$2.5	\$2.7	\$2.8	\$2.7	\$2.7	\$2.7
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$104.2	\$110.8	\$108.1	\$98.0	\$102.8	\$109.3
% INCREASE	5.6%	6.3%	-2.4%	-9.3%	4.9%	6.3%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 7: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2001 - FY 2006)
(\$ in millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
ELGIN	\$134.3	\$141.7	\$166.1	\$216.8	\$230.0	\$227.7
JOLIET HARRAH'S	\$93.0	\$105.1	\$127.7	\$119.6	\$141.7	\$138.7
JOLIET EMPRESS	\$80.3	\$79.6	\$91.0	\$97.8	\$105.3	\$104.3
AURORA	\$69.9	\$80.2	\$112.3	\$99.1	\$103.5	\$105.1
EAST ST. LOUIS	\$46.2	\$46.0	\$52.6	\$72.0	\$73.1	\$63.7
METROPOLIS	\$28.7	\$35.7	\$42.0	\$56.9	\$57.2	\$56.3
EAST PEORIA	\$37.8	\$41.7	\$46.7	\$55.7	\$54.4	\$54.2
ALTON	\$31.5	\$33.4	\$35.5	\$39.9	\$42.4	\$41.5
ROCK ISLAND	\$7.0	\$7.9	\$9.5	\$10.0	\$9.8	\$8.6
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$528.9	\$571.4	\$683.4	\$767.7	\$817.4	\$800.1
% INCREASE	9.7%	8.0%	19.6%	12.3%	6.5%	-2.1%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

Impact of Tax Changes on Illinois Riverboats

The two years of the higher tax structure (maximum of 70%) had a significant impact on Illinois riverboats. It was originally estimated that a graduated tax schedule up to 70% 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.

The reason for the disappointing revenue figures was because the base upon which revenues are calculated, a riverboat's adjusted gross receipts and its admissions, 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.

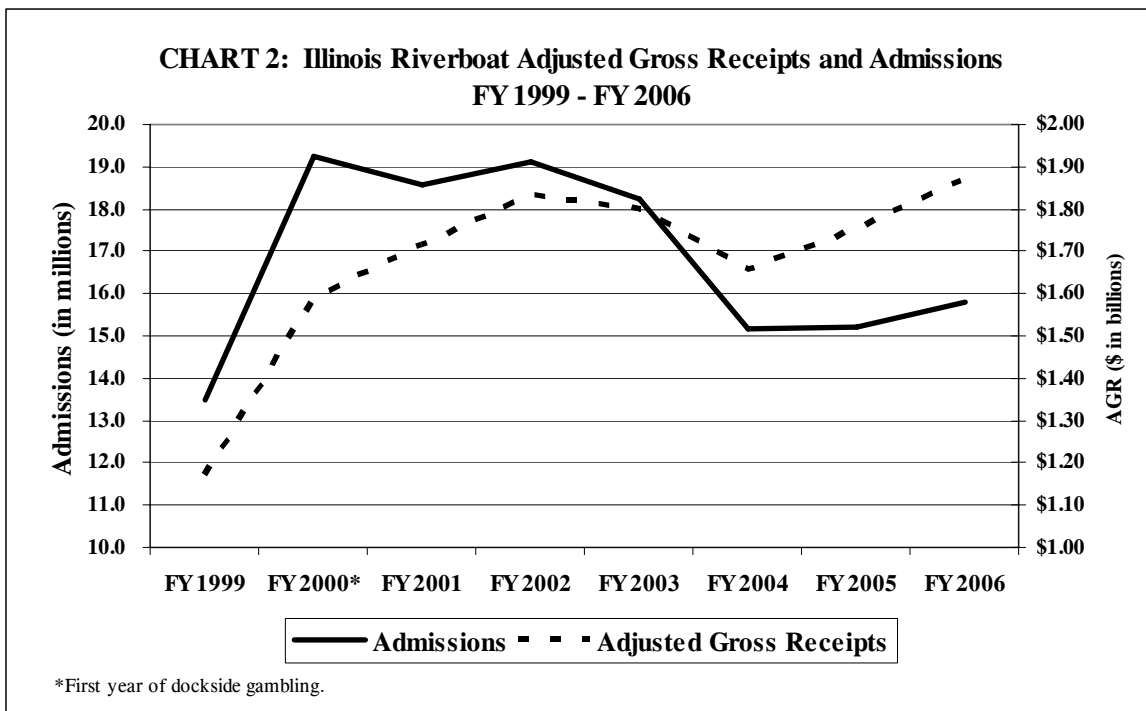
In FY 2005, the second year under the 70% maximum tax rate, riverboat admissions increased approximately 0.3% from FY 2004 levels, but were still well below levels experienced in prior years. Adjusted gross receipts increased 5.7% to \$1.752 billion in FY 2005, but were also below levels experienced in the past.

What caused the overall decline in adjusted gross receipts and admissions for Illinois riverboats the last couple of years? Most would agree that it was the 70% maximum tax rate 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 had on Illinois riverboats and the reasons why Illinois figures 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 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 paid this tax themselves, in order to offer, as an incentive, free admission. However, 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 having to potentially pay an admission price may have scared many riverboat patrons away.

- Illinois residents likely went 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.

In FY 2006, the wagering tax reverted back to a maximum 50% tax rate. In addition, the admission tax rates were also reduced. In FY 2006, Illinois' riverboat figures improved significantly as adjusted gross receipts increased 6.7% while admissions rose 3.9%. A graph depicting how AGR and admission figures have changed between FY 1999 and FY 2006 is shown below. The reason for the turn-around in riverboat figures is most likely due to increased marketing in response to the rollback of the wagering tax rates.



The above graph shows that adjusted gross receipts in FY 2006 have now surpassed levels experienced in the past, even before the previous wagering tax increase. However, admission levels are shown to be significantly lower than levels experienced previously. While the fact that admission totals are considerably lower may be true to an extent, some gaming experts have indicated that when admission taxes were raised in FY 2004, some casinos relocated their admission turnstiles to make sure they were only counting those patrons who were entering the casino to gamble (as opposed to entering for dining or other forms of entertainment) and to better keep under-age visitors from entering. Not only did this lower admission counts, but it also kept casino's admission tax payments at a minimum. Because of this, Illinois admission totals may be closer to levels experienced in the past than current data may suggest.

Boat-by-Boat Perspective

Every riverboat in Illinois saw their adjusted gross receipts increase in FY 2006. Some of the largest increases came from three of the Chicago area riverboats: Joliet Harrah's, Joliet Empress, and Aurora, which saw their AGR figures increase by 13.5%, 10.4%, and 7.5%, respectively. Not surprisingly, these were three of the riverboats with the largest declines in adjusted gross receipts in FY 2004, the first year that the 70% maximum tax rate took effect.

Despite the increase in adjusted gross receipts, six of the nine operating Illinois riverboats experienced declines in admission totals in FY 2006. However, these declines were more than offset by the other three riverboats, notably Joliet Harrah's and Aurora, which saw their admission totals increase 16.6% and 45.8%, respectively. While Aurora's FY 2006 increase of 45.8% is impressive, it follows declines of 41.9% in FY 2004 and 1.3% in FY 2005. Undoubtedly, the level of the graduated tax rate structure has a direct correlation to the attendance levels (and adjusted gross receipts) of many Illinois riverboats. Therefore, it appears that there is a concerted effort by riverboats to alter their marketing when the level of taxes those riverboats must pay changes.

The table below shows the annual percentage change in adjusted gross receipts and admissions for Illinois riverboats over the last five years.

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	% CHANGE FY 2006 OVER FY 2005
ELGIN	5.61%	-9.13%	1.50%	4.91%	1.85%
JOLIET HARRAH'S	10.68%	-4.14%	-18.32%	17.30%	13.90%
JOLIET EMPRESS	-0.28%	-5.28%	-7.90%	6.23%	10.61%
AURORA	12.89%	11.86%	-21.04%	4.71%	7.94%
EAST ST. LOUIS	-0.05%	1.29%	3.57%	1.14%	4.12%
METROPOLIS	19.79%	1.20%	4.52%	0.14%	8.31%
EAST PEORIA	7.95%	-0.63%	-7.80%	-0.39%	0.87%
ALTON	3.35%	-4.36%	-10.80%	6.53%	6.58%
ROCK ISLAND	10.08%	4.29%	-1.38%	1.03%	0.12%
TENTH LICENSE	N/A	N/A	N/A	N/A	N/A
TOTAL	7.06%	-1.97%	-7.81%	5.73%	6.75%
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	% CHANGE FY 2006 OVER FY 2005
ELGIN	-6.50%	-16.51%	3.23%	-2.08%	-4.21%
JOLIET HARRAH'S	28.52%	-3.67%	-39.11%	13.22%	16.59%
JOLIET EMPRESS	-10.90%	1.40%	-24.90%	9.72%	-5.60%
AURORA	5.60%	-0.37%	-41.90%	-1.27%	45.75%
EAST ST. LOUIS	-2.21%	0.54%	6.36%	-1.35%	-1.13%
METROPOLIS	12.46%	-4.97%	-3.88%	-12.91%	-2.49%
EAST PEORIA	3.75%	-3.13%	-10.86%	-5.85%	-9.58%
ALTON	-0.77%	-5.36%	-13.70%	3.09%	3.68%
ROCK ISLAND	4.66%	-2.86%	-5.49%	-2.23%	-3.94%
TENTH LICENSE	N/A	N/A	N/A	N/A	N/A
TOTAL	2.93%	-4.60%	-16.87%	0.29%	3.91%
SOURCE: ILLINOIS GAMING BOARD					

Revenue Analysis

Although the tax changes affecting FY 2004 and FY 2005 did not bring in as much revenue as was originally estimated, 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 was 24.2% higher than the amount of State revenues collected in FY 2003 under the maximum 50% tax rate. Therefore, even though AGR and admission figures fell during the 70% maximum tax rate, State revenues continued to climb.

In FY 2006, State revenues from Illinois riverboats totaled \$691 million, which was a 3.3% decline from FY 2005 totals. In FY 2006, wagering tax rates reverted back to a maximum tax rate of 50% and admission tax rates were lowered. This is why FY 2006 revenues were below FY 2005 levels despite the fact that AGR and admission totals increased. Below is a table showing the annual percentage changes in State revenues over the last four fiscal years.

	FY 2003 STATE REVENUE	FY 2004 STATE REVENUE	Annual % change	FY 2005 STATE REVENUE	Annual % change	FY 2006 STATE REVENUE	Annual % change
ELGIN	\$144.2	\$194.5	34.9%	\$206.8	6.3%	\$204.2	-1.3%
JOLIET HARRAH'S	\$109.4	\$105.3	-3.8%	\$125.0	18.7%	\$119.6	-4.3%
JOLIET EMPRESS	\$76.9	\$85.2	10.8%	\$91.8	7.8%	\$89.7	-2.3%
AURORA	\$95.8	\$86.6	-9.6%	\$90.5	4.5%	\$90.5	0.0%
EAST ST. LOUIS	\$42.7	\$61.6	44.2%	\$62.7	1.8%	\$53.0	-15.5%
METROPOLIS	\$33.9	\$48.5	43.3%	\$49.0	1.0%	\$47.6	-3.0%
EAST PEORIA	\$37.7	\$47.3	25.7%	\$46.2	-2.4%	\$46.1	-0.2%
ALTON	\$28.1	\$33.3	18.6%	\$35.4	6.3%	\$34.2	-3.5%
ROCK ISLAND	\$6.7	\$7.3	9.6%	\$7.1	-2.7%	\$5.9	-17.7%
TOTAL	\$575.3	\$669.7	16.4%	\$714.6	6.7%	\$690.7	-3.3%
\$ Change over Prior Year		\$94.5		\$44.9		-\$23.9	

Source: Illinois Gaming Board Monthly Riverboat Casino Report

(Note: The State revenues shown here are taken directly from the Gaming Board's Monthly Reports. Due to timing reasons, the totals shown here do not match exactly with the amount of State transfers into the State Gaming Fund. For example, June FY 2006 activity may be receipted and transferred into the State Gaming Fund in July FY 2007. The figures from the Gaming Board indicate the amount of State revenues generated in a particular year, not necessarily what was transferred in a given year).

The State revenue total amount of \$691 million would have been much lower if it were not for the hold-harmless provision created under P.A. 94-0673. According to the Illinois Gaming Board's June Monthly Report, Illinois riverboats had to pay an additional \$94.3 million due to this provision. Therefore, without these payments, State revenues would have totaled only \$596 million, which would have been a decline of \$118 million or 16.5% from the FY 2005 amount of \$714.6 million. A look at the additional payment that each riverboat had to pay in FY 2006 due to the hold-harmless provision is shown in Table 10.

Table 10: Additional State Revenue from Hold-Harmless Provision on Riverboats
\$ in Millions

	<u>FY 2006 State Base Revenues</u>	<u>Hold Harmless Revenues</u>	<u>Total FY 2006 State Revenues</u>
ELGIN	\$158.9	\$45.3	\$204.2
JOLIET HARRAH'S	\$119.6	\$0.0	\$119.6
AURORA	\$82.9	\$6.8	\$89.7
JOLIET EMPRESS	\$81.2	\$9.3	\$90.5
EAST ST. LOUIS	\$48.6	\$4.4	\$53.0
METROPOLIS	\$38.3	\$9.3	\$47.6
EAST PEORIA	\$33.2	\$12.9	\$46.1
ALTON	\$27.8	\$6.4	\$34.2
ROCK ISLAND	\$5.9	\$0.0	\$5.9
TOTAL	\$ 596.4	\$ 94.3	\$ 690.7
% Change over FY 05:	-16.5%		-3.3%

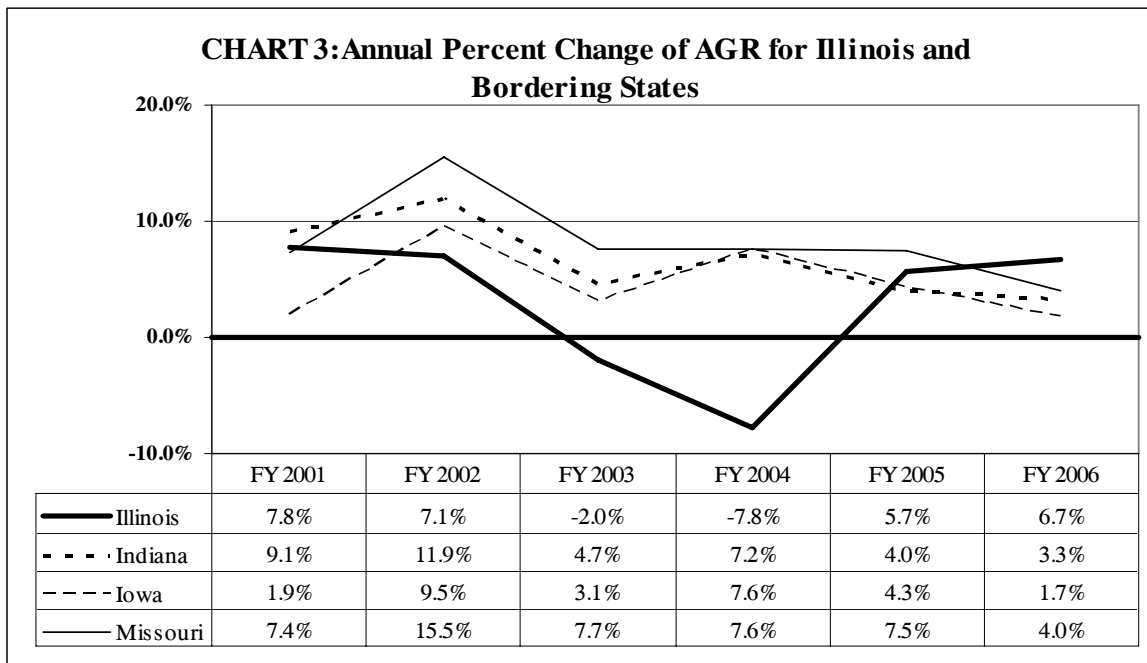
As the above table shows, only one riverboat, Joliet Harrah's, did not have to pay additional amounts due to the hold-harmless provision. This is because their FY 2006 State wagering tax revenue surpassed the base amounts set under P.A. 94-0673. (Rock Island did not have to pay additional amounts because they were exempt from this provision). Elgin had to pay the largest additional amount at \$45.3 million. The Commission estimates that, if riverboats continue their current trend, both Joliet Harrah's and Aurora will surpass the required amounts in FY 2007 and will not have to pay any additional amounts due to the hold-harmless provision.

Many riverboats argued in FY 2003 and FY 2004 that they could generate as much revenue under a 50% tax rate as they could under a 70% tax rate because of the ability to use the freed revenues towards marketing and perks for their potential guests. The hold-harmless provision allowed riverboats to prove their case, while at the same time, guaranteeing revenue for the State. In FY 2006, despite the fact that every Illinois riverboat saw their AGR levels increase, not one of them generated more State revenue under the lower tax rates than they did under the higher tax rates of FY 2005.

Industry experts, however, point out that it will take time to bring back some of the patrons that left Illinois riverboats under the higher tax rates. Again, while total admission figures were up 3.9% in FY 2006, the total of 15.8 million riverboat patrons is still well below the levels experienced prior to the higher tax rates. If riverboats can regain the attendance levels experienced in the past and AGR totals continue to climb, it is possible that Illinois riverboats could actually generate similar or more revenues under a 50% tax rate than under a 70% tax rate. For example, based on Commission calculations, if Illinois repeated the overall growth in AGR (6.7%) and admissions (3.9%) for FY 2007 and FY 2008, approximately \$711 million in State revenue would be generated in FY 2008, which is higher than the \$699 million in State riverboat transfers that occurred in FY 2005 under the 70% maximum tax rate and the \$689 million in State riverboat transfers that occurred in FY 2006 using the hold harmless provision. The challenge for Illinois riverboats is to bring back the riverboat patrons that may have left.

So, if the patrons left, where did they 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 while other Chicago area riverboat's figures declined. However, many Illinois patrons may have crossed the border into Indiana to gamble. As stated earlier, some believe that Illinois operators who also own casinos outside of Illinois chose to redirect their marketing, capital, and operating expenses to their riverboats in lower-taxed states, such as Indiana, in order to maximize profits. This may have led riverboat patrons to Indiana and other neighboring states during the period of higher taxes.

However, now that the taxes have been lowered and more money is available to spend on regaining these lost patrons, the hope was that Illinois would begin to see some of these gamblers return to Illinois. The following chart shows that this may very well be the case. As Chart 3 indicates, over the last several years, Illinois was 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%, again suggesting that many Illinois residents may have crossed borders to gamble.



Since that time, things have turned around. Over the last two fiscal years, as the period of higher tax rates concluded and the period of lower rates began, Illinois' AGR totals have increased by 5.7% and 6.7%. While Illinois' growth has improved during this time, the surrounding state's AGR growth levels have noticeably slowed. Illinois' AGR growth in FY 2006 was 6.7% while Missouri only had growth of 4.0%, Indiana 3.3%, and Iowa 1.7%. These figures would suggest that Illinois is regaining some of the AGR lost during the period of Illinois' higher taxes.

The table below displays the top 10 U.S. casino markets according to americangaming.org. As shown, Chicagoland is ranked 3rd, while the St. Louis area is ranked 7th. These rankings are based on 2005 annual revenues.

TOP 10 U.S. CASINO MARKETS BY ANNUAL REVENUE	
CASINO MARKET	2005 ANNUAL REVENUES
1 Las Vegas Strip	\$6.031 billion
2 Atlantic City, N.J.	\$5.018 billion
3 Chicagoland, Ind./Ill.	\$2.441 billion
4 Detroit, Mich.	\$1.229 billion
5 Tunica/Lula, Miss.	\$1.187 billion
6 Connecticut	\$982.65 million
7 St. Louis, Mo./Ill.	\$959.60 million
8 Reno/Sparks, Nev.	\$920.22 million
9 Boulder Strip, Nev.	\$885.99 million
10 Shreveport, La.	\$814.23 million

Gross revenue is earnings before taxes, salaries and expenses are paid — the equivalent of sales, not profit.

Table 11, on the following page, 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.

As shown in the table on the following page, there are several aspects where Illinois differs from the other states. Despite the tax reduction in FY 2006, Illinois continues to be the highest riverboat taxing state in the Midwest (and the nation). Another point of interest is even though Illinois has much lower admission and AGR levels than Indiana, the total amount of tax revenue generated is very similar. This, of course, is due to Illinois' higher tax rates. Another difference 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.

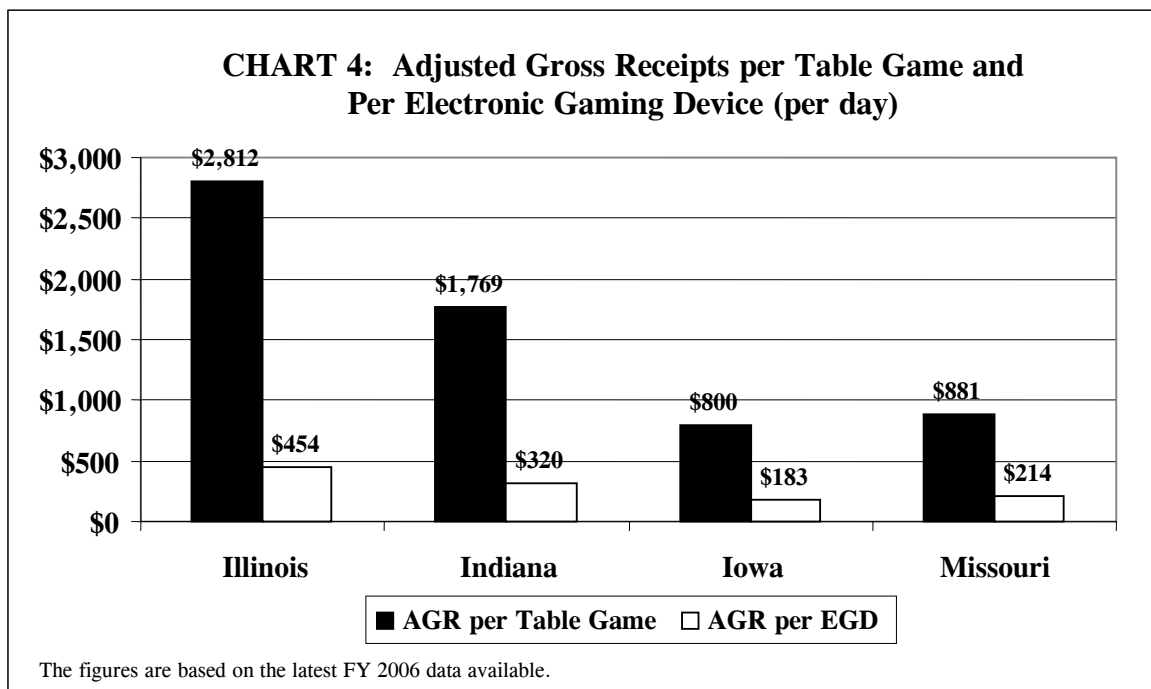
TABLE 11: Overview of Midwest Riverboat States

	Illinois	Indiana	Iowa	Missouri
Current # of Operating Casinos	9	10	15 (12 riverboats, 3 racetrack casinos)	11
State Population (Census Bureau 2005 estimate)	12.8 million	6.3 million	3.0 million	5.8 million
Gaming Format	Riverboat/Dockside	Riverboat/Dockside	Riverboat, racetrack casino	Riverboat (continuous boarding)
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)	229 Table Games, 9,869 Slots	651 Table Games, 17,654 Slots	278 Table Games, 10,164 Slots	542 Table Games, 17,894 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	Graduated tax rate from 15% to 35% of gross gaming revenue, \$3 per patron admissions tax	Graduated tax rate with a maximum tax of 22% on gross gaming revenue at riverboats and up to 24% at racetracks with slots and table games	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 2006)	15.8 million	27.1 million	13.4 million (riverboats only)	24.6 million
Admissions % Change (FY 2005 to FY 2006)	3.9%	1.4%	0.2%	-2.0%
Adjusted Gross Receipts (AGR) FY 2006	\$1.870 billion	\$2.484 billion	\$759 million	\$1.570 billion
AGR % Change (FY 2005 to FY 2006)	6.7%	3.3%	1.8%	4.0%
AGR per Admission (FY 2006)	\$118.4	\$91.7	\$56.6	\$63.8
AGR per Table per Day	\$2,812.1	\$1,768.6	\$799.7	\$881.4
AGR per Slot per Day	\$454.3	\$320.0	\$182.8	\$213.7
FY 2006 Gaming Tax Revenue	\$800.1 million	\$803.2 million	\$168.2 million (riverboats only)	\$421.8 million
Gaming Tax Revenue % Chg (FY 05 to FY 06)	-2.1%	3.7%	1.6%	2.8%
Casino Employees (2005)	8,987	15,060	8,987	11,000
Casino Employee Wages (includes benefits and tips)	\$340.1 million	\$571.1 million	\$340.1 million	\$285 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

Gaming Positions

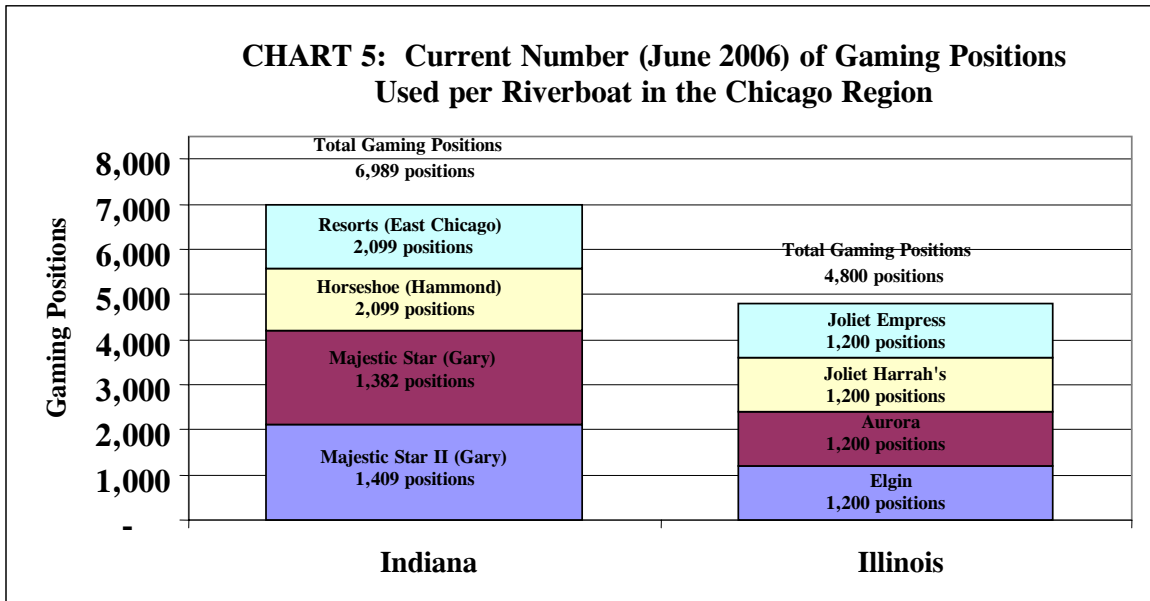
There are many in the gaming industry that feel that Illinois riverboats are at a competitive disadvantage with other states because Illinois only allows a maximum of 1,200 gaming positions per riverboat. The capping of the number of slots and table games that a riverboat may operate prevents riverboat from increasing certain games that are in demand. This often creates waiting times for the more popular games during the peak hours at many of the competitive locations and 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 2006. (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 some 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.

It is often asked 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).



As the graph indicates, the four Indiana riverboats closest to Chicago have nearly 7,000 gaming positions. That is approximately 2,600 more positions than the four Illinois Chicago area riverboats. These figures do not include Indiana's Michigan City location, which has an additional 2,200 positions. It was not included in the above graph, despite its Lake Michigan location, under the assumption that few Illinois residents would travel to Michigan City to gamble. However, if Michigan City was included, Indiana would have nearly 4,800 more gaming positions than Illinois in the Lake Michigan area.

Based on these figures (June 2006 data), the four Indiana riverboats closest to Chicago make up nearly 60% of all gaming positions in that region. If the Michigan City location was included, Indiana would make up nearly 66% of all gaming positions in the Lake Michigan area.

The average number of positions for the five Indiana riverboats in this region is around 1,840 positions, which is assumed to be the optimal number of positions for this area. Therefore, if Illinois decided to increase the maximum number of positions, these numbers would suggest that at least 1,840 positions would be necessary to be closer to the optimal number of positions in Illinois for the Chicago area.

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	FY 06	% Change
Rhythm City (Davenport)	\$65,819,053	\$76,079,830	15.6%	\$78,210,269	2.8%	\$77,296,826	-1.2%
Isle of Capri (Bettendorf)	\$99,591,614	\$105,415,990	5.8%	\$103,900,655	-1.4%	\$103,900,655	0.0%
Quad City Area	\$165,410,667	\$181,495,820	9.7%	\$182,110,924	0.3%	\$181,197,481	-0.5%
AGR % of Quad City Area	80.7%	82.3%		82.2%		82.1%	
<i>(ILLINOIS)</i>							
Riverboat	FY 03	FY 04	% Change	FY 05	% Change	FY 06	% Change
Rock Island	\$39,473,000	\$38,928,000	-1.4%	\$39,328,000	1.0%	\$39,376,000	0.1%
Quad City Area	\$39,473,000	\$38,928,000	-1.4%	\$39,328,000	1.0%	\$39,376,000	0.1%
AGR % of Quad City Area	19.3%	17.7%		17.8%		17.9%	
TOTAL QUAD CITY AGR	\$204,883,667	\$220,423,820	7.6%	\$221,438,924	1.4%	\$220,573,481	-0.4%

Observations

- After a 9.7% increase in FY 2004, Iowa's two Quad City area riverboats AGR levels have slowed since with a 0.3% increase in FY 2005 and a 0.5% decline in FY 2006. In comparison, Illinois' Rock Island riverboat's AGR declined 1.4% in FY 2004, followed by a 1.0% increase in FY 2005, and a 0.1% increase in AGR in FY 2006.
- Iowa's riverboats make up approximately 82% of the Quad City region's AGR (\$181 million in FY 2006), while Illinois' riverboat makes up 18% of the total (\$39 million in FY 2006). 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	FY 06	% Change
Harrah's (Maryland Heights)	\$236,467,336	\$254,674,008	7.7%	\$300,768,893	18.1%	\$310,548,463	3.3%
President (St. Louis)	\$73,444,145	\$71,843,573	-2.2%	\$71,345,739	-0.7%	\$71,798,659	0.6%
Ameristar (St. Charles)	\$243,416,402	\$284,747,393	17.0%	\$297,873,442	4.6%	\$309,484,109	3.9%
St. Louis Area	\$553,327,883	\$611,264,974	10.5%	\$669,988,073	9.6%	\$691,831,232	3.3%
AGR % of St. Louis Area	66.9%	69.6%		70.8%		70.5%	
<i>(ILLINOIS)</i>							
Riverboat	FY 03	FY 04	% Change	FY 05	% Change	FY 06	% Change
E. St. Louis	\$157,876,000	\$163,513,000	3.6%	\$165,382,000	1.1%	\$172,193,000	4.1%
Alton	\$116,136,000	\$103,589,000	-10.8%	\$110,354,000	6.5%	\$117,616,000	6.6%
St. Louis Area	\$274,012,000	\$267,102,000	-2.5%	\$275,736,000	3.2%	\$289,809,000	5.1%
AGR % of St. Louis Area	33.1%	30.4%		29.2%		29.5%	
TOTAL ST. LOUIS AGR	\$827,339,883.00	\$878,366,974.00	6.2%	\$945,724,073.05	7.7%	\$981,640,231.67	3.8%

Observations

- In FY 2004, the first year of Illinois' higher tax rates, Missouri's three St. Louis area riverboat's total AGR increased by 10.5%. 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 2006, (Illinois rates return to a maximum of 50%) Missouri's locations experienced a 3.3% increase in AGR. However, Illinois' locations increased by 5.1%.
- In FY 2003, the Missouri riverboats made up 66.9% of the St. Louis area's total AGR, while Illinois locations made up 33.1%. In FY 2005, Missouri's portion of total AGR increased to 70.8%, while Illinois dropped to 29.2%. In FY 2006, Missouri dropped slightly to 70.5% of St. Louis area AGR, while Illinois's two locations made up the remaining 29.5%.
- According to the American Gaming Association, the St. Louis area is the 7th largest casino market in the nation, in terms of annual revenue (taxes not included).

CHICAGO AREA

TABLE 14: Adjusted Gross Receipts (AGR) in Chicago Region

<i>(INDIANA)</i>							
Riverboat	FY 03	FY 04	% Change	FY 05	% Change	FY 06	% Change
Harrah's/Resorts (E Chicago)	\$289,933,986	\$312,825,725	7.9%	\$310,490,756	-0.7%	\$301,904,367	-2.8%
Horseshoe (Hammond)	\$339,549,872	\$362,136,764	6.7%	\$409,242,447	13.0%	\$419,640,990	2.5%
Majestic Star (Gary)	\$138,695,175	\$145,562,089	5.0%	\$147,942,400	1.6%	\$143,453,449	-3.0%
Trump/Majestic II (Gary)	\$128,844,668	\$143,863,604	11.7%	\$135,406,401	-5.9%	\$130,860,087	-3.4%
Chicago Area	\$897,023,701	\$964,388,182	7.5%	\$1,003,082,004	4.0%	\$995,858,893	-0.7%
AGR % of Chicago Area	42.7%	47.2%		46.3%		44.2%	
<i>(ILLINOIS)</i>							
Riverboat	FY 03	FY 04	% Change	FY 05	% Change	FY 06	% Change
Elgin	\$383,221,000	\$388,975,000	1.5%	\$408,092,000	4.9%	\$415,655,000	1.9%
Joliet Harrah's	\$305,030,000	\$249,157,000	-18.3%	\$292,261,000	17.3%	\$332,890,000	13.9%
Joliet Empress	\$237,282,000	\$218,527,000	-7.9%	\$232,132,000	6.2%	\$250,211,000	7.8%
AURORA	\$280,356,000	\$221,380,000	-21.0%	\$231,812,000	4.7%	\$256,770,000	10.8%
Chicago Area	\$1,205,889,000	\$1,078,039,000	-10.6%	\$1,164,297,000	8.0%	\$1,255,526,000	7.8%
AGR % of Chicago Area	57.3%	52.8%		53.7%		55.8%	
TOTAL CHICAGO AREA AGR	\$2,102,912,701	\$2,042,427,182	-2.9%	\$2,167,379,004	6.1%	\$2,251,384,893	3.9%

Observations

- The four Indiana riverboats closest to 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 slowed to 4.0%. This indicated the return of gamblers back to Illinois riverboats in response to the market reactions of Illinois riverboats in anticipation of lower tax rates.
- In FY 2006, the shift of riverboat patrons to Illinois continued as AGR levels increased 7.8% in Illinois while Indiana's AGR figures fell 0.7% in the Chicago area.
- While the vast majority of the population in the Chicago area is in Illinois, Indiana comprises nearly half of the 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 during the first year of the higher tax rates, 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%.
- In FY 2006, Illinois's AGR portion increased to 55.8% compared to Indiana's portion of 44.2%. While Illinois' composition of Chicago area AGR has improved, it is still below levels experienced in FY 2003 before the 70% maximum tax increase.
- 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.

Other Gaming News from Surrounding States

- In September 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 will have a significant negative impact on Illinois' two St. Louis region riverboats.

According to Pinnacle Entertainment's website, the city location is a \$400 million project located at Laclede's Landing, near the Gateway Arch. The location will feature a large casino, a 200-room luxury hotel, spa, business center, restaurants and 12,000-square-feet of meeting and convention space. Pinnacle broke ground on the facility in September 2005 with an expected opening date in 2007.

The hotel and entertainment development in south St. Louis County broke ground in November 2005 and will include a large casino with 3,000 slot machines and 60 table games, a 100-room hotel, full-service spa, restaurants, a bowling alley, a multiplex movie theatre, an indoor ice rink, a public park with athletic fields and a hatch-shell music and entertainment venue. The project has an expected opening date in 2008.

- Wisconsin Indian tribes are seriously considering building two casinos on the Illinois border, one in Beloit and one in Kenosha. According to gamblingmagazine.com, the proposed Beloit casino would have approximately 3,000-slot machines and would bring in around \$109 million per year. Of that, the analysis predicted \$28 million of that would come from Illinois' Winnebago County, which includes Rockford. The reports adds that this will be "a gambling palace that will dwarf the maximum 1,200 gambling positions Illinois gaming houses are allowed."

According to the Beloit Daily News, the Bureau of Indian Affairs requested technical changes to the intergovernmental agreement between the city of Beloit and the Indian tribes. A spokesman for the Beloit Casino project was quoted as saying, "The next step is, to the very best of my knowledge, the last piece of the application puzzle. As soon as the intergovernmental agreement work has been completed we are anticipating that the application will be moving forward."

As for the Kenosha casino, city and county governments have passed the Intergovernmental Agreement for the project and have received referendum approval. The casino is now seeking approval from the Bureau of Indian Affairs. The proposed \$808 million, 116,000-square-foot gaming facility would include 3,100 slot machines and 75 table games. Much of the market for the proposed casino would come from the "untapped" northern suburbs of Chicago.

- 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. Upon completion, this resort and casino will feature 684 guest rooms; an 84,000-square-foot casino with a 42,000-square foot, single-level gaming floor; 45 holes of golf; two full-service spas; and other dining and entertainment options. The new casino is set to open in November 2006. Based on its central Indiana location, the casino should have only a minimal impact on Illinois.

The Tenth License

In 1997, the Illinois Gaming Board denied the Emerald Casino's license application, thereby forcing Emerald to cease gaming operations in East Dubuque, Illinois. Ever since then, the State has waited for the licensing and opening of a 10th riverboat to obtain welcomed revenues. However, complications with the selling of the 10th license quickly emerged, causing the 10th riverboat to remain in limbo. Below is a history of the licensing of the 10th license and its current status.

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.

Before the selling of the license could occur, the plan had to be approved by the Illinois Gaming Board and approved in bankruptcy court. Once this occurred, 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.

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 organized crime 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 months that followed, Emerald announced it had rejected two proposed shareholders who have alleged organized crime 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.

In November 2005, an administrative law judge issued an opinion, recommending the Board revoke the Emerald license. On December 20, 2005, the Gaming Board issued a final order adopting the judge's decision and revoked Emerald's license. Emerald is now appealing the final Board order to the Appellate Court of Illinois, Fourth Judicial District, thus preventing the State from auctioning the Tenth License.

In May 2006, the Village of Rosemont announced that, after working for years to get the 10th license, they have decided to create a \$500 million entertainment and retail town center-style complex in its place. The complex would include an indoor water park, movie theater, hotel, bowling center, offices, retail stores, and an ice rink. Officials stated that the complex would still have room for a casino, but village leaders have decided to proceed without the casino in its plans. The village had already built a \$40 million casino garage that has not yet been utilized. This garage will now be used by the new entertainment complex, which hopes to be fully operational in 2008.

So when will the 10th license finally become operational? In the near future, analysts believe appeals and related litigation will continue to tie up the riverboat license for several more months, if not years. As in the last couple of years, the FY 2007 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 2006, the Grand Victoria's adjusted gross receipts totaled \$415.7 million and admissions totaled over 2.7 million. These figures resulted in \$228 million in total tax revenues in FY 2006. 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.

What Will the Future Hold for Illinois Riverboats?

Since the wagering taxes on Illinois riverboats have been lowered to a maximum rate of 50%, overall admission and AGR levels have increased. There is no doubt that the tax rates have a direct correlation to the market strategies of the license holders, and thus, the levels of receipts generated in Illinois. However, equally undeniable is the fact that despite the reduced levels of admissions and AGR under the higher rates, State revenues were at an all-time high under the 70% maximum tax rate.

Whether reverting to a lower tax rate is beneficial to the State is up for debate. As discussed in the Commission's 2005 report, 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 (from the 70% levels) 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'."

The current hold-harmless provision has presented itself to be a sort of a compromise between these two opinions. As Mr. Falcone suggested, wagering tax rates were lowered from a 70% maximum tax rate to a 50% maximum tax rate in FY 2006 allowing riverboats

more opportunities for marketing their product. Dr. Matheson's contention that fewer revenues would be generated under a lower tax was also addressed through the hold-harmless provision, which guaranteed desired revenues.

The hold-harmless provision is only in place for two years: FY 2006 and FY 2007. Once this period ends, total revenues will be dependent on the amount of revenues generated under the 50% tax rate. As discussed earlier in the report, the State would have received around \$94 million less if the hold-harmless provision was not in effect. However, if current trends continue, and the riverboat figures continues to improve, by the time FY 2008 is here State revenues may very well be near the \$700 million that is estimated to be received in FY 2007, even if the hold-harmless provision is allowed to expire as defined under current law.

Current and future improvements to Illinois riverboats may help the recent success to continue. For example, the riverboat in Metropolis has just opened a brand new hotel at its casino. Rock Island will be constructing a new casino and hotel that is expected to be finished by late 2007 or early 2008. The East St. Louis location plans on improving their casino to make it more easily accessible and is expected to be completed in the summer of 2007. All of these changes hope to bring in more patrons to Illinois riverboats and thus, more revenue for the State. Riverboats argue that they can make these improvements because the tax rates have been lowered.

While these changes will help the State's riverboats, there are other factors that may hurt the riverboat industry in Illinois. The first is the fact that Illinois continues to be the highest riverboat taxing state in the country, even at a maximum tax rate of 50%. The more money that goes to taxes and transfers is less money that could possibly go towards improving Illinois' riverboats. The latest law that requires the four Chicago Area riverboats to pay 3% of their AGR amounts to the horse racing industry will further reduce the amounts of monies that could go towards improvements.

The biggest factor that may hurt Illinois' riverboat future is the creation of new and improved riverboats in other states bordering Illinois. As discussed earlier, there are two new riverboats that will be opening on the Missouri side of St. Louis in the near future. These boats will likely have an immediate impact on Illinois' E. St. Louis and Alton locations. Also, if the Wisconsin proposed Indian tribe casinos bordering Illinois become a reality, this would also take tax dollars away from Illinois. Finally, the proximity of Indiana's riverboats will continue to be a concern to the Illinois riverboats as Indiana will continue to market the Chicago area to bring riverboat gamblers to their state.

So what more can be done to help Illinois riverboats in the future? Every legislative session there are an abundance of ideas on how to enhance the Illinois gaming industry. These include establishing new riverboats near Chicago, increasing the maximum number of gaming positions, and allowing slot machines at racetracks. While these proposals have failed to gather the support for passage in the past, undoubtedly these proposals will resurface again in the future. Any of these changes would significantly increase admission levels and adjusted gross receipts in Illinois. While these new gaming sources would generate a lot of additional revenue for the State, it would also generate a lot of opposition from interests who feel any expansion of gaming is an ill-advised policy decision.

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 \$37 billion. Table 15 presents a history of the Illinois State Lottery highlighting sales by game, total sales, transfers to the Common School Fund, and the amount transferred as a percentage of total sales.

FISCAL YEAR	\$.50, \$1,		NUMBERS				LITTLE LOTTO	BIG GAME/ MEGA MIL.	TOTAL SALES	LOTTERY TRANSFERS TO CSF	TRANSFERS AS A % OF TOTAL SALES
	KENO '93	INSTANT	PICK 3	<u>NOW /</u> Pick N Play	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%
2006	\$ -	\$ 999.5	\$ 309.2	\$ 14.6	\$ 170.0	\$ 122.8	\$ 125.5	\$ 243.2	\$1,984.8	\$670.5	33.8%
TOTALS	\$ 359.9	\$ 12,443.4	\$ 8,647.1	\$ 63.2	\$ 2,966.3	\$ 8,532.4	\$ 2,135.9	\$ 1,836.0	\$ 36,984.3	\$ 13,566.0	36.7%

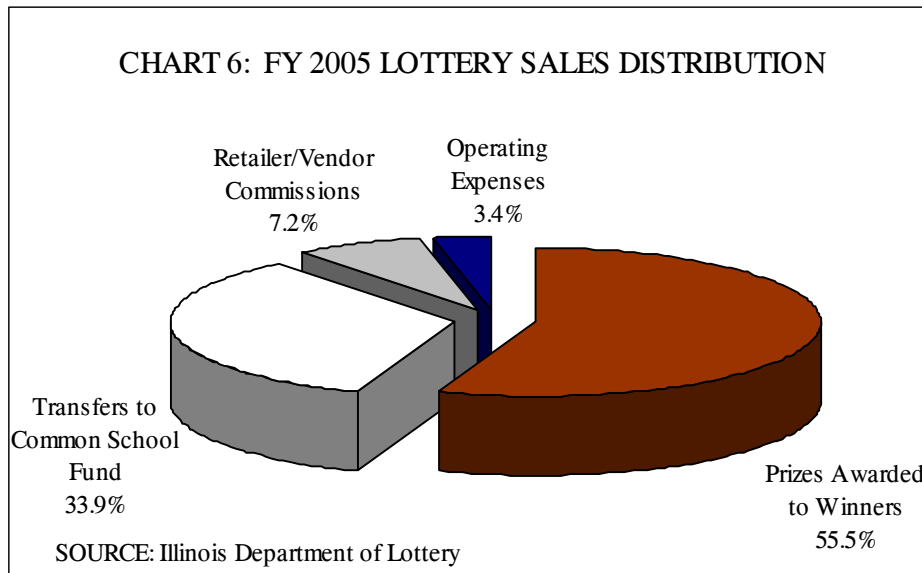
* Preliminary, unaudited data
 Note: Mega Millions replaced the Big Game in May of 2002.
 SOURCE: ILLINOIS DEPARTMENT OF LOTTERY, ILLINOIS DEPARTMENT OF REVENUE

Table 15 reveals that lottery sales totaled \$1.985 billion in FY 2006. This figure represents a 7.7% increase from the FY 2005 amount of \$1.843 billion, and was the highest sales total realized since the inception of lottery in 1975. From this sum, 33.8% or \$670.5 million was transferred into the Common School Fund, a 9.2% increase from the FY 2005 transfer amount of \$614 million. A closer look reveals that the largest dollar increase came from the Instant games, which rose \$92 million or 10.2%. The other game that showed a large amount of growth was Mega Millions which increased \$50.6 million or 26.3% over FY 2005. The Pick 3 and Pick 4 games have remained relatively flat in recent years with both growing less than 1%. Lotto and Little Lotto, on the other hand, had relatively bad

years. Lotto fell \$8.8 million, while Little Lotto fell \$6.3 million. These were declines of -6.7% and -4.8% over FY 2005.

Special cause lottery sales raised approximately \$3.7 million in FY 2006. As part of P.A. 94-0120, the Ticket For The Cure special instant scratch-off game was created. The proceeds from this game are sent to the Ticket For The Cure Fund which are used for cancer research grants. In FY 2006, \$2.4 million was transferred into this fund. Another special instant scratch-off was created by P.A. 94-0585 to fund grants for veterans' related issues. The Veteran's Cash game had revenues of \$1.3 million in FY 2006.

The chart below shows how revenues from the lottery are distributed. Although the official distribution of FY 2006 sales revenue is not yet available, FY 2005 data gives a good illustration of how the lottery sales are distributed in Illinois. In FY 2005, lottery winners received \$1.04 billion, the Common School Fund received \$614 million, retailers and vendors received \$131 million, and the Department of Lottery used the remaining \$61 million to cover its operating expenses. Chart 6 illustrates the FY 2005 lottery sales distribution by percentage and although FY 2006 revenue may not be distributed according to these exact percentages, recent trends indicate that these figures provide an accurate representation.



As shown in Table 16, instant games continue to comprise the greatest percentage with 50.4% of lottery sales, compared to 40% in FY 2003. The Pick 3 game had the next highest a percentage at 15.6%. The Mega Millions saw its composition rate rise from 10.5% of total lottery sales in FY 2005, to 12.3% in FY 2006. The remaining revenues come from the Pick 4 game (8.6%), Lotto (6.2%), Little Lotto (6.3%) and Numbers Now/Pick N Play (0.7%)

The \$50 million gain in the Mega Millions game was very encouraging after a down year in FY 2005. 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, in July 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 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
2006	0.0%	50.4%	15.6%	0.7%	8.6%	6.2%	6.3%	12.3%	\$1,984.8

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

SOURCE: ILLINOIS DEPARTMENT OF LOTTERY

In 1992, Laflleur'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 2005, Illinois's per-capita spending totaled \$144. The recent turnaround in per-capita spending is largely due to the increase in instant games sales. Although the per-capita spending has increased, Illinois still ranks 24th out of 42 lottery states. With \$1.8 billion in sales, Illinois had the eleventh highest level of sales in the U.S. in FY 2005. The figures for FY 2005 are shown in Table 17 below. FY 2006 per-capita spending is estimated to be approximately \$156 though comparison data for other states is not yet available.

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	\$ 36,153	\$ 1,636.8	\$ 1,521	4.21%
SOUTH DAKOTA	0.8	\$ 31,614	\$ 675.6	\$ 871	2.75%
DELAWARE	0.8	\$ 37,065	\$ 689.3	\$ 817	2.20%
WEST VIRGINIA	1.8	\$ 27,215	\$ 1,399.1	\$ 770	2.83%
MASSACHUSETTES	6.4	\$ 44,289	\$ 4,484.7	\$ 701	1.58%
DISTRICT OF COLUMBIA	0.6	\$ 54,985	\$ 233.4	\$ 424	0.77%
NEW YORK	19.3	\$ 40,507	\$ 6,270.5	\$ 326	0.80%
GEORGIA	9.1	\$ 31,121	\$ 2,922.3	\$ 322	1.03%
CONNECTICUT	3.5	\$ 47,819	\$ 932.9	\$ 266	0.56%
MARYLAND	5.6	\$ 41,760	\$ 1,485.7	\$ 265	0.64%
NEW JERSEY	8.7	\$ 43,771	\$ 2,273.8	\$ 261	0.60%
OREGON	3.6	\$ 32,103	\$ 943.1	\$ 259	0.81%
SOUTH CAROLINA	4.3	\$ 28,352	\$ 957.0	\$ 225	0.79%
PENNSYLVANIA	12.4	\$ 34,897	\$ 2,644.9	\$ 213	0.61%
MICHIGAN	10.1	\$ 33,116	\$ 2,069.5	\$ 204	0.62%
FLORIDA	17.8	\$ 33,219	\$ 3,470.7	\$ 195	0.59%
OHIO	11.5	\$ 32,478	\$ 2,159.1	\$ 188	0.58%
VIRGINIA	7.6	\$ 38,390	\$ 1,333.9	\$ 176	0.46%
NEW HAMPSHIRE	1.3	\$ 38,408	\$ 227.9	\$ 174	0.45%
KENTUCKY	4.2	\$ 28,513	\$ 707.3	\$ 169	0.59%
TEXAS	22.9	\$ 32,462	\$ 3,662.5	\$ 160	0.49%
MAINE	1.3	\$ 31,252	\$ 209.3	\$ 158	0.51%
VERMONT	0.6	\$ 33,327	\$ 92.6	\$ 149	0.45%
ILLINOIS	12.8	\$ 36,120	\$ 1,842.9	\$ 144	0.40%
TENNESSEE	6.0	\$ 31,107	\$ 844.3	\$ 142	0.46%
MISSOURI	5.8	\$ 31,899	\$ 785.0	\$ 135	0.42%
INDIANA	6.3	\$ 31,276	\$ 739.6	\$ 118	0.38%
CALIFORNIA	36.1	\$ 37,036	\$ 3,333.6	\$ 92	0.25%
COLORADO	4.7	\$ 37,946	\$ 417.0	\$ 89	0.24%
WISCONSIN	5.5	\$ 33,565	\$ 451.9	\$ 82	0.24%
MINNESOTA	5.1	\$ 37,373	\$ 408.6	\$ 80	0.21%
IDAHO	1.4	\$ 28,158	\$ 113.5	\$ 79	0.28%
KANSAS	2.7	\$ 32,836	\$ 206.7	\$ 75	0.23%
WASHINGTON	6.3	\$ 35,409	\$ 457.6	\$ 73	0.21%
NEW MEXICO	1.9	\$ 27,644	\$ 139.3	\$ 72	0.26%
IOWA	3.0	\$ 32,315	\$ 210.7	\$ 71	0.22%
LOUISIANA	4.5	\$ 24,820	\$ 307.0	\$ 68	0.27%
ARIZONA	5.9	\$ 30,267	\$ 397.6	\$ 67	0.22%
NEBRASKA	1.8	\$ 33,616	\$ 100.7	\$ 57	0.17%
MONTANA	0.9	\$ 29,387	\$ 33.8	\$ 36	0.12%
NORTH DAKOTA	0.6	\$ 31,395	\$ 19.2	\$ 30	0.10%
ALABAMA	4.6	\$ 29,136	\$ 0.0	\$ 0	0.00%
ALASKA	0.7	\$ 35,612	\$ 0.0	\$ 0	0.00%
ARKANSAS	2.8	\$ 26,874	\$ 0.0	\$ 0	0.00%
HAWAII	1.3	\$ 34,539	\$ 0.0	\$ 0	0.00%
MISSISSIPPI	2.9	\$ 25,318	\$ 0.0	\$ 0	0.00%
NEVADA	2.4	\$ 35,883	\$ 0.0	\$ 0	0.00%
NORTH CAROLINA	8.7	\$ 30,553	\$ 0.0	\$ 0	0.00%
OKLAHOMA	3.5	\$ 29,330	\$ 0.0	\$ 0	0.00%
UTAH	2.5	\$ 28,061	\$ 0.0	\$ 0	0.00%
WYOMING	0.5	\$ 36,778	\$ 0.0	\$ 0	0.00%
TOTALS	296.4	\$ 33,864	\$ 52,290.7	\$ 176	0.52%

SOURCES: NORTH AMERICAN ASSOCIATION OF STATE AND PROVINCIAL LOTTERIES, STATE RANKINGS 2006: A STATISTICAL VIEW OF THE 50 STATES

Legislation Affecting FY 2007 & Beyond

There were no major changes during the latest legislative session that will impact the way lottery revenues are collected or distributed. One area that could potentially affect lottery revenues is the introduction of new, special cause games. These games are currently insignificant but with each new game more revenue is potentially diverted from the Common School Fund. Another change that has been discussed is the privatization of the State's lottery program. Information regarding this possible change is discussed below.

Lottery Privatization

In May of 2006, Governor Rod Blagojevich proposed the sale or lease of the State's lottery to fund improvements in the States educational funding. In July of 2006, the Illinois Office of Management and Budget put out a request for proposals from firms interested in advising the state on the proposed privatization of its lottery. According to newspaper accounts, the proposal was based on an up-front purchase fee of approximately \$10 billion which was valued by an initial proposal by Goldman, Sachs & Co. In FY 2006, the lottery had revenues of \$1.985 billion and transferred \$670.5 million to the General Revenue Fund. This would indicate a revenue to purchase price multiple of 5.0 times and a profit to purchase price multiple of 14.9 times.

Several states, including Illinois, have outsourced various operational aspects of their lottery but no state has completely privatized their lottery since state lotteries were introduced in New Hampshire in 1964. During the 1800s, there were some private lotteries, though these were begun as private entities and not privatized from the public sector. Beyond the United States, a high level of privatization can be seen in the UK National Lottery, which is operated by the Camelot Group, and in lotteries run by Tattersall in Australia.

Though the sale or lease of a state lottery is novel in the United States, transactions such as this have occurred in a few other countries. As mentioned previously, the Camelot Group runs the National Lottery in the United Kingdom and the Tattersall's company runs numerous lotteries in Australia. Turkey is also currently considering the privatization of its national lottery. The potential cost of buying or leasing the Illinois Lottery could be a deterrent as the price would be in the billions of dollars. The Connecticut Lottery had problems with finding quality bidders during a similar privatization bid in the early 1990's.

Finding quality bidders would most likely be less problematic now than in the early 1990's, as public-private-partnerships have become more mainstream in recent years. Large institutional investors, such as pension systems, have shown interest in the stable returns offered from these kinds of public assets. These institutional investors could then outsource operational duties to lottery service providers. Also lottery service providers have formed consortiums to invest in lotteries. The Camelot Group was formed as a consortium of companies that had expertise in individual operational areas of running lotteries.

Some groups who might show interest in investing in the lottery include:

- GTECH (lottery service provider, merging with Lottomatica)
- Lottomatica S.p.A (operates the Italian lottery, merging with GTECH)
- Camelot Group (operates the U.K. national lottery)
- Tattersall Limited (operates lotteries in Australia)
- Scientific Games Corp. (lottery service provider)
- International Game Technology (lottery service provider)
- Institutional Investors
- Pension Funds

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 14 years.

Can the recent success of the lottery continue into FY 2007? Since jackpot size and rollovers have a significant impact on sales, it is difficult to predict year-to-year performance. The lottery's success in many of the games in FY 2006 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 had disappointing years and are well below levels experienced in the past. Mega Millions, on the other hand, had a revenue rebound from FY 2005.

It appears, however, that the State's lottery program is in the midst of a positive trend, having just completed its third consecutive year of strong growth. Instant game sales have increased 55.3% 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 2006 and the upward trend in their figures are anticipated to continue in the future though this growth is relatively slow. 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 a number of years to come.

HORSE RACING

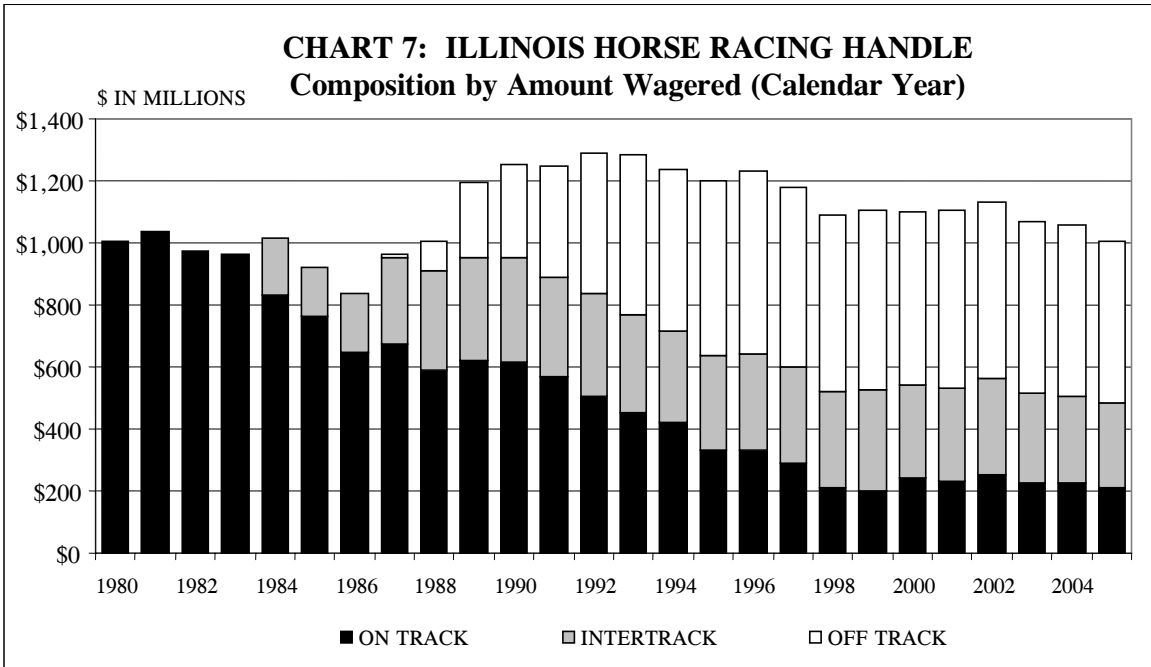
Horse racing is the oldest form of legalized gaming in Illinois. Each year more than \$1 billion is wagered on horse racing at the State's numerous on-track and off-track wagering facilities. In calendar year 2005, Illinois horse racing wagering generated \$23.4 million in total revenues with the State receiving \$11.8 million and local governments receiving approximately \$11.6 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 2005 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 2005	
REVENUE SOURCE	
LICENSE FEES	\$106,935
ADMISSION TAXES	\$107,596
PARI-MUTUEL TAX	\$15,043,037
PARI-MUTUEL TAX CREDIT	(\$3,939,562)
LICENSING	\$255,645
FINGERPRINT FEES	\$106,253
HORSEMEN'S FINES	\$109,400
MISCELLANEOUS	\$4,967
* TOTAL STATE	\$11,794,271
2% OF OTB HANDLE TO CITY AND COUNTY	\$10,401,647
CITY (CHICAGO) OTB ADMISSION TAX	\$488,776
ON TRACK CITY ADMISSION TAX	\$53,060
INTERTRACK SURCHARGE TO COUNTY (20%)	\$660,105
* TOTAL LOCAL	\$11,603,588
TOTAL REVENUES	\$23,397,859
ALLOCATION OF REVENUE	
HORSE RACING FUND	\$11,083,933
GENERAL REVENUE FUND	\$584,543
QUARTERHORSE BREEDERS' FUND	\$19,542
FINGERPRINT LICENSE FUND	\$106,253
* TOTAL STATE	\$11,794,271
TO CITIES	\$5,742,660
TO COUNTIES	\$5,860,929
* TOTAL LOCAL	\$11,603,588
TOTAL REVENUES ALLOCATED	\$23,397,859
SOURCE: ILLINOIS RACING BOARD - 2005 ANNUAL REPORT	

TABLE 19: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)								
	1998	1999	2000	2001	2002	2003	2004	2005
TOTAL STATE REVENUE	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8
TOTAL LOCAL REVENUE	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6
* TOTAL REVENUES RECEIVED	\$55.4	\$56.0	\$26.1	\$26.4	\$25.7	\$25.1	\$25.1	\$23.4
TOTAL STATE ALLOCATIONS	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8
TOTAL LOCAL ALLOCATIONS	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6
TO CITIES	\$6.6	\$6.7	\$6.4	\$6.5	\$6.4	\$6.2	\$6.2	\$5.7
TO COUNTIES	\$6.7	\$6.9	\$6.3	\$6.4	\$6.4	\$6.2	\$6.2	\$5.9
*TOTAL REVENUES ALLOCATED	\$55.4	\$56.0	\$26.1	\$26.4	\$25.7	\$25.1	\$25.1	\$23.4

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

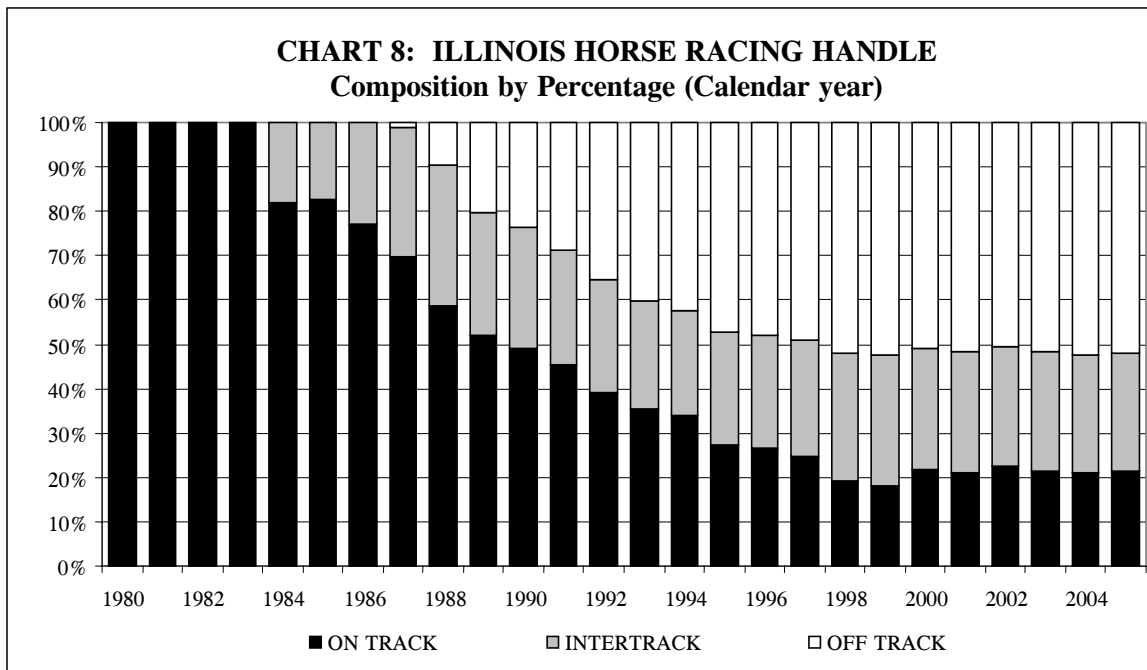
In its 2005 Annual Report, the Illinois Racing Board reported that 694 race programs were conducted during CY 2005. A total handle amount of \$1.003 billion resulted, which was a decrease of 5% over the 2004 amount. As shown in Chart 7, this handle amount was the third consecutive year of declining revenues and the lowest experienced since 1987. This decline consisted of a 4% decrease in the thoroughbred handle and a 7% decline in the standardbred handle.



The Illinois Racing Board’s latest report states that 30% or \$303.6 million of the total handle in CY 2005 was wagered on Illinois races. An additional \$896.7 million was wagered on Illinois races broadcast to other states, which was an increase of 7% over CY 2004. The Board highlights that 2005 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 2005, 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 8 illustrates the historic shift in the composition of the racing handle.



The Horse Racing Act of 1975 authorizes the Illinois Racing Board to issue a maximum of thirty-seven 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 2005, the Illinois Racing Board granted twenty-seven off-track licenses. The Racing Board’s Annual Report states that three new OTBs opened in 2005 (Urbana, Tinley Park, and Aurora), three closed (North Aurora, Romeoville, and Champaign) and two were relocated (McHenry and Bloomington). Although it is highly unlikely that all thirty-seven licenses would be granted in a single racing year, the potential exists for the future development of ten additional OTB locations. A list of Illinois OTB’s are shown 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* URBANA** CHICAGO (CORLISS) DANVILLE PEORIA TINLEY PARK**
FAIRMOUNT PARK	MADISON	ALTON CARBONDALE 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
* CLOSED IN 2005 ** NEW IN 2005		

The largest handle at Illinois tracks came from Arlington Racetrack with \$89.2 million, followed by Hawthorne (\$86.8 million), Balmoral (\$68.4 million), Maywood (\$38.6 million), Fairmount (\$19.1 million), and State/County fairs (\$1.5 million). The largest handle from out-of-state tracks came from Belmont racetrack (\$37.0 million), Meadowlands (\$33.3 million), and Churchill Downs (\$32.7 million).

Of all Illinois meets, thoroughbred races make up the largest percentage at 71.6% followed by harness races with 26.9% and quarterhorse races the remaining 1.5%.

Recent Legislative Developments in Horse Racing

There were two significant public acts that were enacted in 2006 that will have an effect on Illinois horse racing in the future. They are P.A. 94-0805 (HB 4377) and P.A. 94-0806 (HB 1918). A summary of these public acts are provided below.

P.A. 94-0805: P.A. 94-0805 (HB 4377) amends the Illinois Horse Racing Act of 1975 to provide that on and after the effective date of this amendatory Act of the 94th General Assembly (June 25, 2006), the pari-mutuel tax for Fairmount Park shall be at the rate of 0.25% (instead of the current rate of 1.5%) of the daily pari-mutuel handle. This rate shall remain at 0.25% until moneys deposited pursuant to Section 54 (deposits into the Horse Racing Equity Fund) are distributed and received, where upon the rate would return to 1.5%.

The deposits into the Horse Racing Equity Fund refers to a provision in the Riverboat Gambling Act which states that an amount equal to 15% of the adjusted gross receipts of 1) an owners license that relocates, 2) an owners licensee conducting riverboat gambling operations pursuant to an owners license that is initially issued after June 25, 1999, or 3) the first riverboat gambling operations conducted by a licensed manager on behalf of the State, whichever comes first, shall be paid from the State Gaming Fund into the Horse Racing Equity Fund. Because no new riverboats have been established in Illinois since this provision was established, this distribution has yet to take place.

It should be noted that payments into the Horse Racing Equity Fund will not occur for at least two more years as P.A. 94-0806 provides that these potential Horse Racing Equity Fund payments can only be made at the end of the two-year period in which 3% of certain riverboat's adjusted gross receipts are deposited into the Horse Racing Equity Trust Fund.

According to the Illinois Racing Board, the most recent statistics show that the total handle for Fairmount Park (and its associated off-track betting parlors) was approximately \$109 million. At the current pari-mutuel tax rate of 1.5%, the resulting tax revenue amount was approximately \$1.644 million. If the 0.25% rate were imposed on this handle amount, the pari-mutuel tax would have cost Fairmount Park approximately \$274,000, a difference of \$1.37 million. Therefore, assuming this amount will be typical of future years, the total amount of reduced revenues due to P.A. 94-0805 (HB 4377) is estimated to be approximately \$1.37 million.

P.A. 94-0806: P.A. 94-0806 (HB 1918), which is discussed in detail in the riverboat section of this report, amends the Riverboat Gambling Act to provide that 3% of riverboats with adjusted gross receipts in calendar year 2004 of less than \$200 million, or approximately \$39.0 million per year, will be paid to the Horse Racing Equity Trust Fund for two years. This amount is in addition to other payments paid by the Illinois riverboats.

This new fund shall be a non-appropriated trust fund held separate and apart from State moneys. The public act provides that moneys deposited into this fund from the Riverboat Gambling Act shall be distributed as follows: 60% for horse racing purses (of which 57% goes to thoroughbred races and 43% goes to standardbred races) and 40% to horse track licensees (of which 11% goes to Fairmount Park and the remaining 89% split between the

other racetrack facilities, based on the aggregate proportion of total handle from wagering on live races conducted in Illinois for CY 2004 and 2005).

The Commission estimates that, of the amounts collected, approximately \$23.4 million will be used for horse racing purses, while the remaining \$15.6 million will be used by the horse track licensees to improve, maintain, market, and otherwise operate its racing facilities to conduct live racing. These estimated amounts would increase or decrease, depending on the adjusted gross receipts collected.

Again, P.A. 94-0804 (HB 1918) also provides that the provision that 15% of the adjusted gross revenues from a new riverboat must be transferred from the State Gaming Fund into the Horse Racing Equity Fund shall not be effective for the two years that the transfers into the Horse Racing Equity Trust Fund are made.

What Will the Future Hold for Illinois Horse Racing?

The latest action by Illinois lawmakers indicates that the State is making a concerted effort to revitalize the horse racing industry in Illinois, which has been a stagnant, if not declining entity over the last several years. As stated previously, the additional funds that the racetracks will receive from the riverboats, as established in P.A. 94-0804, will be used by each organization licensee to improve, maintain, market, and otherwise operate its racing facilities to conduct live racing.

A spokesman from the Illinois Racing Board stated that these new funds will help the Illinois horse racing be more competitive both regionally and nationally. By increasing the amount of purses offered, the Racing Board believes that this will attract fuller fields, bigger crowds and larger handles. This is seen as a much needed boost, both competitively and economically, for the horse racing industry in Illinois. It has been testified at Illinois Racing Board meetings that between 30,000 and 37,000 jobs in Illinois are directly or indirectly attributed to horse racing.

However, there is still a question as to whether the horse racing industry will ever see the estimated \$39 million per year in additional funds from the riverboats. Because this subsidy is being contested as unconstitutional, the monies collected from the riverboats will be placed in a protest fund until a decision is reached. Due to the lengthy time it takes before court decisions are made, even if the courts rule in the industry's favor, it may take months, if not years before the money would be available for the horse tracks.

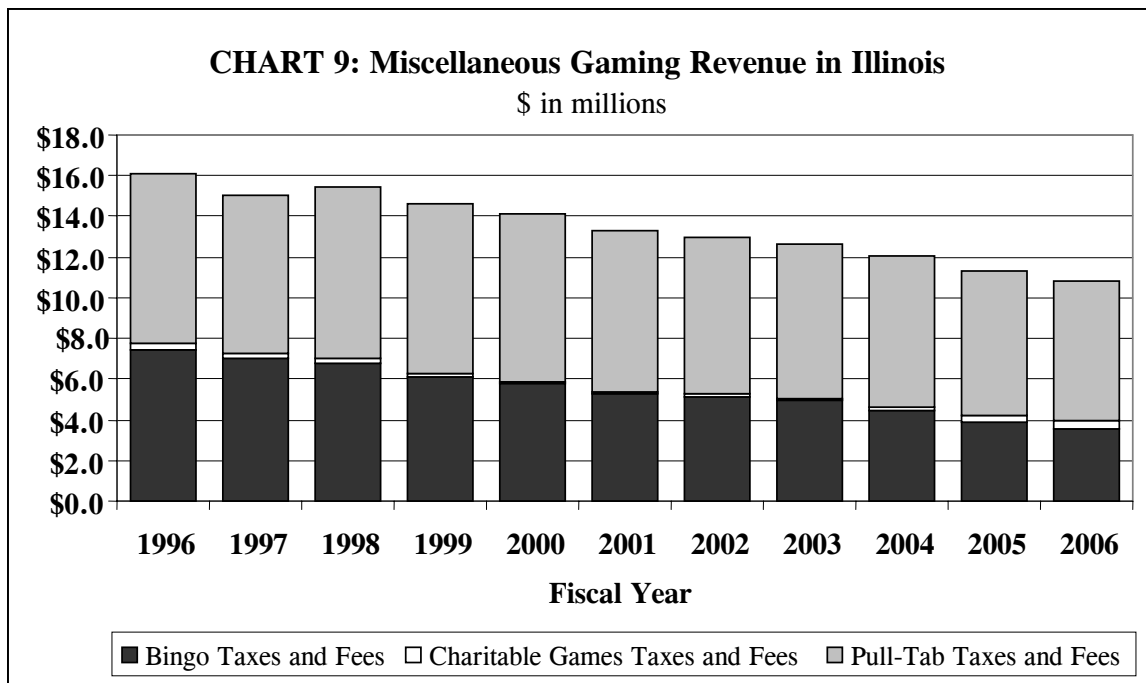
Until this money becomes available, the horse racing industry will continue to look for other ways to help their industry grow. Ideas already being discussed include allowing slots at the horse tracks, providing additional State subsidies, and introducing advance deposit wagering in Illinois where betters could use formats like the Internet to wager on races. However, if no significant revenue-related changes to the industry occur, horse racing revenue in Illinois will likely continue to be stagnant in the foreseeable future.

Miscellaneous State Gaming

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

- Illinois receives two forms of revenue from bingo games: license fees and the bingo game receipt tax. In FY 2006, the State generated \$0.2 million in bingo license fees and \$3.4 million in bingo taxes. Total bingo receipts were down 8% from FY 2005 levels.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2006, the State received \$57,200 in license fees and \$335,654 from the charitable games tax. Total charitable games receipts were up 45% compared to FY 2005 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 2006, the State received \$0.5 million in license fees and \$6.3 million from the pull tabs and jar games tax. Total pull-tabs and jar games receipts were down 5% from FY 2005 levels.

In total, these miscellaneous gaming revenue sources generated approximately \$10.8 million in FY 2006. This figure is 4.9% below the FY 2005 total of \$11.3 million. In fact, as shown below in Chart 9, total miscellaneous gaming revenue has been on a steady downward trend with FY 2006 figures now at the lowest level experienced over the last ten years.



CONCLUSION

In conclusion, FY 2006 was another record-breaking year for gaming revenues in Illinois. The combined \$1.37 billion in State revenues from riverboats, the lottery, and horse racing is crucial in funding education through the transfers into the Common School Fund and the Education Assistance Fund. Horse racing only generated \$11 million in FY 2006. Therefore, the majority of these revenues come from the Illinois riverboats and the lottery.

While riverboats did decline slightly in FY 2006, \$689 million in State revenues was still generated despite the fact that the wagering tax rate decreased from a maximum rate of 70% to 50%. The State revenue total amount would have been much lower if it were not for the hold-harmless provision created under P.A. 94-0673. Illinois riverboats had to pay an additional \$94 million due to this provision. Therefore, without these payments, State revenues would have declined \$118 million from FY 2005 amounts.

Illinois riverboats continue to compete with other states for the business of casino patrons. When the State raised the wagering tax rate to as much as 70% in FY 2004, Illinois' AGR and admission levels declined significantly. At the same time, neighboring states saw their riverboat figures improve. However, now that the rates have lowered to a max of 50%, Illinois' riverboat figures are again up. At the same time, neighboring states riverboat numbers have slowed. It is clear that the tax rates imposed upon the riverboats have a direct correlation to the market strategies of Illinois' casinos, and therefore, the number of gamblers visiting and betting at Illinois riverboats.

It appears that the State's lottery program is in the middle of a positive trend, having just completed its third consecutive year of strong growth. The significant increases in Instant games and Mega Millions helped fuel the 7.7% growth in total sales in FY 2006. Instant game sales have increased 84.6% since 2000. Mega Millions also reached a new high with \$243.2 million in sales in FY 2006. The lottery's successes in these games over the last couple of years have outweighed the disappointment and/or unpredictability of others.

While riverboat gambling and lottery sales continue to perform well, horse racing in Illinois continues to struggle. The CY 2005 handle amount of \$1.003 billion was the lowest level since off-track betting was introduced in 1987. All three components of horse-racing, off-track, inter-track, and on-track betting, experienced declines in 2005. Off-track betting continues to generate the largest handle composing 52% in 2005 followed by inter-track betting with 27% and on-track betting the remaining 21%. The largest handle at Illinois tracks came from Arlington Racetrack with \$89.2 million, followed by Hawthorne (\$86.8 million), Balmoral (\$68.4 million), Maywood (\$38.6 million), Fairmount (\$19.1 million), and State/County fairs (\$1.5 million).

What does the future hold for State gaming revenue? For riverboats, much depends on the marketing of the casinos now that wagering tax rate has decreased to a maximum of 50%. In FY 2006, adjusted gross receipts and admission levels improved significantly from years with a higher tax rate. Although State revenues fell because of the lower tax rate, the hold harmless provision allowed revenues to stay at consistent levels. However, this provision will only be in effect through FY 2007. Beginning in FY 2008, without the hold harmless provision to fall back on, the State will have to hope that adjusted gross receipts and

admissions rise to the point that State revenues will continue to come in at levels the State is used to receiving. If more revenue is desired from riverboats than what comes in from the wagering and admission taxes, changes to the riverboat industry would have to be made, such as raising the maximum number of gaming positions at each boat, increasing the number of riverboats in Illinois, or by adding slot machines at racetracks.

As for the future of the lottery, the hope is that the popularity of the instant games and the Mega Millions game continues to outweigh the struggles of the older games. The desire to increase the number of lottery retailers in the State and the continued development of brand new games should help the lottery's recent success to continue. As special cause lottery sales from the Ticket for the Cure and the Veteran's Cash game become more known, these games will likely grow as well. Aside from games, lawmakers will have to closely monitor discussions regarding the privatization of the lottery program and the impact that this could potentially have on Illinois and its revenues.

While horseracing has remained stagnant over the last six years, recent legislative action may give this industry some cause for optimism. Decisions to lower the pari-mutuel tax for the Fairmount Racetrack will free money for improvements to be made at this facility. The biggest boost will come from the new law which will obligate four Illinois riverboats to pay to the horseracing industry an amount equal to 3% of each riverboat's adjusted gross receipts. However, this law is currently being challenged in court and these payments are currently being deposited into a protest fund. If the horse racing industry is allowed to receive the estimated \$39 million in annual riverboat subsidies over two years, this should be a lift to horse racing as track improvements will be made and purses will be increased, which experts believe will create fuller fields, bigger crowds, and larger handles.

Gaming in Illinois is ever-changing. Because of the importance that gaming in Illinois is to State revenues, the Commission will continue to closely monitor legislation and discussions dealing with these changes and will provide updates to this report whenever necessary.

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 "Bonded Indebtedness 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:

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320
(217) 782-3513 (FAX)

<http://www.ilga.gov/commission/cgfa2006/home.aspx>