



WAGERING IN ILLINOIS 2007 UPDATE



Commission on Government Forecasting and Accountability
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and Accountability*

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EXECUTIVE SUMMARY

The following document is the Commission's 2007 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 2007, the State's share of horse racing, lottery, and riverboat revenue reached \$1.316 billion, a \$54 million or 3.9% decrease from FY 2006 levels. The \$54 million decrease consisted of a \$48 million decrease in lottery transfers to the Common School Fund, a \$4 million decrease in State riverboat transfers to the Education Assistance Fund, and a \$2 million decline in horse racing revenues.
- In FY 2007, riverboat taxes and fees comprised 52% of total gaming revenues, lottery revenues 47%, and horse racing the remaining 1%. Overall gaming per-capita spending increased 0.5% to \$236 in FY 2007. While small, this was the third consecutive increase in per-capita spending after two years of declines.
- Statewide adjusted gross receipts (AGR) for Illinois riverboats in FY 2007 were up 4.7% while admissions were up 2.8% from FY 2006 levels. This is the third consecutive year that AGR and admissions have experienced increases. Lowering the tax rate from a maximum 70% tax rate to a maximum 50% tax rate is likely one of the main reasons for the increase in riverboat figures over the last several years.
- Because of the lower tax rates in FY 2006 and FY 2007, State revenues from Illinois riverboats in these years were slightly lower than FY 2005 levels. Revenues would have been even lower if it were not for the hold-harmless provision created under P.A. 94-0673. Illinois riverboats had to pay an additional \$94.3 million due to this provision in FY 2006 and an additional \$67.4 million in FY 2007.
- The hold-harmless provision was a two-year period statutorily ending in FY 2007. Subsequently, for FY 2008 and beyond, this provision can no longer be relied upon for additional revenues. Current trends indicate that Illinois riverboats could generate similar amounts of revenue under the maximum 50% tax rate as they did under the maximum 70% tax rate. However, increased competition from other states threatens to slow these positive trends.
- 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 2007 has increased to 56.5% while Indiana fell to 43.5%.

- Competition from other states in casino gambling is likely to intensify. Two new riverboats are set to open in Missouri near St. Louis in the next year. New casinos have opened in Iowa and Michigan. Indian tribes in Wisconsin continue to discuss developing casinos near the Illinois border. In addition, Indiana just approved slot machines at their racetracks.
- There continues to be numerous discussions on changes that could be made to Illinois' gaming industry to increase revenues for the State. These include adding additional gaming positions at the current riverboat facilities, allowing slot machines at Illinois horse tracks, adding new riverboats/casinos, and reissuing the 10th license.
- Illinois' AGR per Table Game and AGR per Electronic Gaming Device are significantly higher than neighboring states. Possible reasons for this include: Illinois gamblers spend more money on gambling than other states, Illinois limits the number of positions allowed, and gaming positions in Illinois are being utilized more frequently than other locations. This also suggests that Illinois has not yet reached its gaming saturation point.
- In FY 2007, lottery sales totaled approximately \$1.984 billion, slightly below FY 2006 total of 1.985 billion. It represented the second highest sales total realized since the inception of lottery in 1975. The amount transferred into the Common School Fund was \$622 million. While this was a 7.2% decrease from FY 2006 levels, it was still the second highest transfer amount in lottery's history.
- The largest dollar increase in lottery sales came from the Instant games, which rose \$42 million or 4.2%. Pick N Play increased \$16.2 million or 110.5% over FY 2006. Little Lotto showed limited growth, gaining \$1.3 million or 1.0% over FY 2006. Mega Millions fell \$47.3 million, while Lotto fell \$13.2 million. The \$47.3 million fall in Mega Millions accounts for a large portion of the \$47.9 million drop off in transfers to the Common School Fund.
- The instant games continue to comprise the largest percentage of lottery sales at 53% followed by Pick 3 (16%), Mega Millions (10%), Pick 4 (9%), Little Lotto (6%), and Lotto (6%).
- In 2006, \$952 million was wagered on horse racing, which generated approximately \$10.3 million in State revenue and \$11.3 million in local revenue. Off-track wagering continues to comprise the largest percentage of horse racing wagering accounting for 54% of the total handle, followed by intertrack wagering (26%) and on-track wagering (20%).
- The 2006 handle total of \$952 million was down 22.8% from 1996 levels and was the lowest total realized since 1986. Many of the racetracks are seriously considering, or are in the process of, making drastic cuts to their budget to stay in business. Ideas being discussed to help the horse racing industry include allowing slots at the horse tracks, providing additional State subsidies, and introducing advance deposit wagering.

INTRODUCTION

Gaming in Illinois continues to be a significant source of revenue for the State of Illinois. In FY 2007, \$1.3 billion was deposited into the State's general funds from Illinois' gaming sources. This included \$685 million in riverboat transfers to the Education Assistance Fund, \$622 million in lottery transfers to the Common School Fund, and approximately \$9 million in State horse racing revenues. The combined amount of \$1.3 billion was a 3.9% decline over FY 2006 and marked the first year of a decline in combined gaming revenues after eight consecutive years of positive growth. The decline in FY 2007 was primarily due to a significant decline in lottery sales stemming from a comparatively high FY 2006. Also contributing were 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	28.0%
1977	\$44	\$75	\$0	\$119	-21.2%
1978	\$34	\$74	\$0	\$108	-9.2%
1979	\$33	\$79	\$0	\$112	3.7%
1980	\$33	\$70	\$0	\$103	-8.0%
1981	\$90	\$73	\$0	\$163	58.3%
1982	\$139	\$68	\$0	\$207	27.0%
1983	\$216	\$66	\$0	\$282	36.2%
1984	\$365	\$65	\$0	\$430	52.5%
1985	\$503	\$61	\$0	\$564	31.2%
1986	\$552	\$51	\$0	\$603	6.9%
1987	\$553	\$57	\$0	\$610	1.2%
1988	\$524	\$46	\$0	\$570	-6.6%
1989	\$586	\$43	\$0	\$629	10.4%
1990	\$594	\$46	\$0	\$640	1.7%
1991	\$580	\$46	\$0	\$626	-2.2%
1992	\$611	\$45	\$8	\$664	6.1%
1993	\$588	\$48	\$54	\$690	3.9%
1994	\$552	\$47	\$118	\$717	3.9%
1995	\$588	\$45	\$171	\$804	12.1%
1996	\$594	\$46	\$205	\$845	5.1%
1997	\$590	\$45	\$185	\$820	-3.0%
1998	\$560	\$42	\$170	\$772	-5.9%
1999	\$540	\$42	\$240	\$822	6.5%
2000	\$515	\$13	\$330	\$858	4.4%
2001	\$501	\$13	\$460	\$974	13.5%
2002	\$555	\$13	\$470	\$1,038	6.6%
2003	\$540	\$13	\$554	\$1,107	6.6%
2004	\$570	\$13	\$661	\$1,244	12.4%
2005	\$614	\$12	\$699	\$1,325	6.5%
2006	\$670	\$11	\$689	\$1,370	3.4%
2007	\$622	\$9	\$685	\$1,316	-3.9%

(1) FIGURES REPRESENT TRANSFERS INTO THE COMMON SCHOOL FUND.
(2) FIGURES EQUAL STATE REVENUE GENERATED, NOT ALLOCATED, BASED ON A CALENDAR YEAR. THE 2006 FIGURE IS AN ESTIMATE.
(3) FIGURES REPRESENT APPROPRIATIONS (FY 1992 - 1995) AND TRANSFERS (FY 1996-FY 2007) 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

Despite the decline in gaming receipts in FY 2007, the combined total of State revenues from riverboat gaming, lottery, and horse racing have increased 53% 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 21%. Between FY 2003 and FY 2006, lottery transfers rose 24.1%. The main reason for this was due to 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. While lottery transfers declined 7.2% in FY 2007, its total of \$622 million was still the second highest total ever for this revenue source.

Even though State riverboat revenues decreased \$4 million in FY 2007, this revenue source is still up nearly 108% 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.

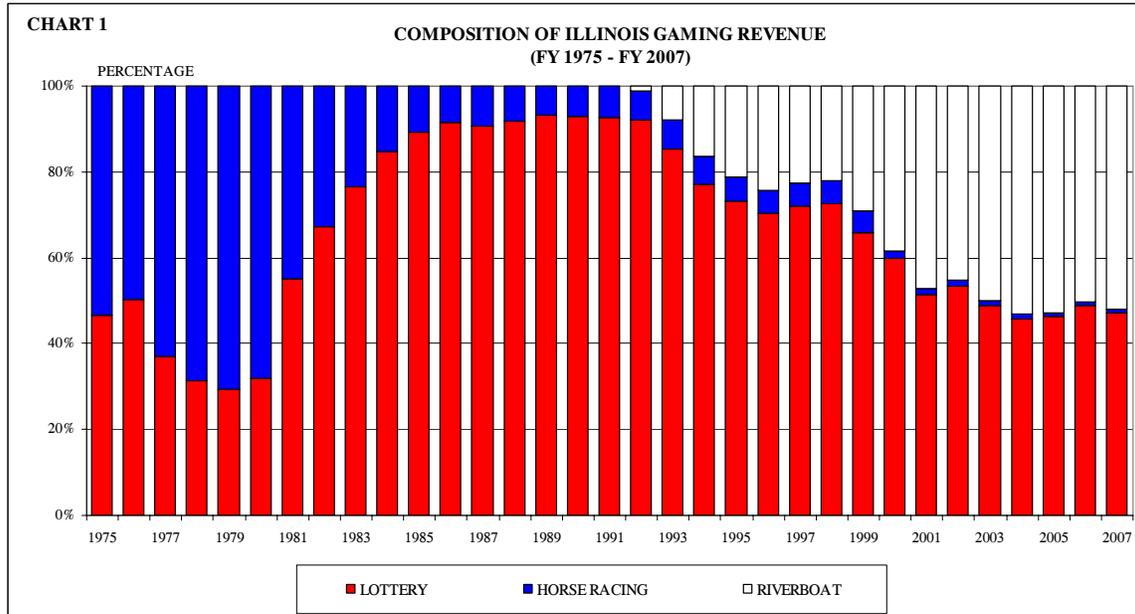
Although State riverboat transfers have fallen over the last two fiscal years, the admission and adjusted gross receipts of Illinois riverboats have seen steady improvement. The reason that revenues declined in FY 2006 was not due to a decline in admissions and adjusted gross receipts (which saw their respective numbers increase), but rather due to the lowering of the graduated tax rates from a maximum rate of 70% to 50%.

While the decline in riverboat transfers was small in FY 2006 (\$10 million), the lower tax rate would have amounted to a much larger 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. This will be discussed in further detail in the riverboat section of this report.

It should be noted that while FY 2007 gaming revenues from riverboats are shown to be less than FY 2006 in this section (by \$4 million), this is due to the timing of when transfers were made. Reports from the Illinois Gaming Board indicate that State revenues from Illinois riverboats actually increased 2.0% from FY 2006 levels.

Chart 1, on the following page, 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 2007, riverboat casinos comprised 52% of total gaming revenues, whereas lottery revenues comprised 47%, 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.

As Table 2 on page 4 reveals, FY 2007 State gaming revenues totaled \$1.316 billion. The gaming industry’s FY 2007 gaming hold total of \$3.038 billion increased approximately 1.1% from FY 2006 levels. Per-capita spending increased 0.5% to approximately \$236 in FY 2007. This was the third 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, per-capita spending was up 1.1% in FY 2007 despite per-capita spending declines in Lottery (-5.3%) and in horse racing (-5.5%) because of the 4.1% increase in the riverboat's per-capita spending.

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	2007*
POPULATION (IN MILLIONS)	12.01	12.07	12.13	12.44	12.52	12.60	12.65	12.71	12.76	12.83	12.90
HORSE RACING (CY)											
STATE REVENUE (IN MILLIONS)	\$ 45	\$ 42	\$ 42	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 12	\$ 11	\$ 9
GAMING HOLD (IN MILLIONS)	\$ 264	\$ 243	\$ 247	\$ 247	\$ 248	\$ 252	\$ 240	\$ 238	\$ 225	\$ 215	\$ 204
% CHANGE IN GAMING HOLD	-4.4%	-8.2%	1.9%	-0.2%	0.3%	1.8%	-4.9%	-0.8%	-5.3%	-4.4%	-5.0%
** PER-CAPITA SPENDING	\$ 22.0	\$ 20.1	\$ 20.4	\$ 19.8	\$ 19.8	\$ 20.0	\$ 18.9	\$ 18.7	\$ 17.6	\$ 16.8	\$ 15.8
% CHANGE IN PER-CAPITA SPENDING	-5.0%	-8.6%	1.4%	-2.7%	-0.4%	1.1%	-5.2%	-1.3%	-5.7%	-5.0%	-5.5%
LOTTERY (FY)											
TRANSFERS TO CSF (IN MILLIONS)	\$ 590	\$ 560	\$ 540	\$ 515	\$ 501	\$ 555	\$ 540	\$ 570	\$ 614	\$ 670	\$ 622
GAMING HOLD (IN MILLIONS)	\$ 796	\$ 741	\$ 704	\$ 674	\$ 658	\$ 722	\$ 705	\$ 735	\$ 803	\$ 920	\$ 876
% CHANGE IN GAMING HOLD	-0.3%	-6.9%	-5.0%	-4.2%	-2.4%	9.8%	-2.4%	4.3%	9.2%	14.6%	-4.8%
** PER-CAPITA SPENDING	\$ 66.2	\$ 61.4	\$ 58.0	\$ 54.2	\$ 52.5	\$ 57.3	\$ 55.7	\$ 57.8	\$ 62.9	\$ 71.7	\$ 67.9
% CHANGE IN PER-CAPITA SPENDING	-1.0%	-7.4%	-5.5%	-6.6%	-3.0%	9.1%	-2.7%	3.8%	8.8%	14.0%	-5.3%
RIVERBOATS (FY)											
AMOUNT TO EAF & CSF (IN MILLIONS)	\$ 185	\$ 170	\$ 240	\$ 330	\$ 460	\$ 470	\$ 554	\$ 661	\$ 699	\$ 689	\$ 685
GAMING HOLD (IN MILLIONS)	\$ 1,052	\$ 1,066	\$ 1,171	\$ 1,589	\$ 1,713	\$ 1,834	\$ 1,798	\$ 1,657	\$ 1,752	\$ 1,870	\$ 1,958
% CHANGE IN GAMING HOLD	-13.4%	1.4%	9.9%	35.6%	7.8%	7.1%	-2.0%	-7.8%	5.7%	6.8%	4.7%
** PER-CAPITA SPENDING	\$ 87.6	\$ 88.3	\$ 96.6	\$ 127.8	\$ 136.8	\$ 145.5	\$ 142.1	\$ 130.3	\$ 137.3	\$ 145.8	\$ 151.8
% CHANGE IN PER-CAPITA SPENDING	-14.0%	0.9%	9.4%	32.3%	7.1%	6.4%	-2.3%	-8.3%	5.3%	6.2%	4.1%
ALL WAGERING											
TOTAL REVENUE (IN MILLIONS)	\$ 820	\$ 772	\$ 822	\$ 858	\$ 974	\$ 1,038	\$ 1,107	\$ 1,244	\$ 1,325	\$ 1,370	\$ 1,316
GAMING HOLD (IN MILLIONS)	\$ 2,112	\$ 2,049	\$ 2,122	\$ 2,510	\$ 2,618	\$ 2,808	\$ 2,742	\$ 2,630	\$ 2,780	\$ 3,005	\$ 3,038
% CHANGE IN GAMING HOLD	-7.8%	-3.0%	3.6%	18.2%	4.3%	7.2%	-2.3%	-4.1%	5.7%	8.1%	1.1%
** PER-CAPITA SPENDING	\$ 175.8	\$ 169.8	\$ 175.0	\$ 201.8	\$ 209.1	\$ 222.8	\$ 216.8	\$ 206.9	\$ 217.8	\$ 234.2	\$ 235.5
% CHANGE IN PER-CAPITA SPENDING	-8.4%	-3.4%	3.1%	15.3%	3.6%	6.5%	-2.7%	-4.6%	5.3%	7.5%	0.5%

*THE FY 2007 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.

The remainder of this report takes a detailed 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 impact of the hold-harmless provision. This is followed by an analysis of FY 2007 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 the changes that these states are making to compete for Illinois' gaming dollar. It then discusses various ways that more gaming revenues could be generated in Illinois.

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.

RIVERBOAT GAMBLING



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 changes to the wagering and admission tax rate structure, 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 2007 and beyond. These include: the lowering of the admission and wagering tax rates in FY 2006 and the second and final year of the hold harmless provision – the two-year period where riverboats had to generate set amounts of revenue or pay the difference.

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:

Admission Tax Rate Reduction: 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 had to 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 was set as follows:

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 provided that this “hold harmless” provision terminate 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. **(Note: Based upon this language, the hold harmless provision was terminated July 1, 2007).**

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 amended the Riverboat Gambling Act to restate and clarify the intent of P.A. 94-0673. The new language clarified 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 amended the Riverboat Gambling Act to provide 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.

However, casinos affected by this public act filed a lawsuit with the Illinois State Court challenging the new provision as unconstitutional. **On March 26, 2007, the courts ruled that P.A. 94-0804 violated the Uniformity Clause of the Constitution in its classification of taxed vs. non-taxed.** The State is appealing this ruling. In the meantime, monies collected from the 3% tax have been deposited into a protest fund.

The payments into the Horse Racing Equity Trust Fund were to be made for a period of two years (FY 2007 and FY 2008). The Commission estimated at the time of enactment that approximately \$39.0 million per year would be paid to the Horse Racing Equity Trust Fund due to P.A. 94-0804.

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 – 2007 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 2007)						
(\$ in millions)						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
ELGIN	\$421.7	\$383.2	\$389.0	\$408.1	\$415.7	\$436.1
JOLIET HARRAH'S	\$318.2	\$305.0	\$249.2	\$292.3	\$332.9	\$364.6
JOLIET EMPRESS	\$250.5	\$237.3	\$218.5	\$232.1	\$256.8	\$252.6
AURORA	\$250.6	\$280.4	\$221.4	\$231.8	\$250.2	\$272.6
EAST ST. LOUIS	\$155.9	\$157.9	\$163.5	\$165.4	\$172.2	\$172.1
METROPOLIS	\$132.7	\$134.3	\$140.4	\$140.5	\$152.2	\$166.7
EAST PEORIA	\$145.0	\$144.0	\$132.8	\$132.3	\$133.4	\$130.3
ALTON	\$121.4	\$116.1	\$103.6	\$110.4	\$117.6	\$125.4
ROCK ISLAND	\$37.9	\$39.5	\$38.9	\$39.3	\$39.4	\$37.6
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$1,833.9	\$1,797.7	\$1,657.2	\$1,752.2	\$1,870.4	\$1,958.1
% INCREASE	7.1%	-2.0%	-7.8%	5.7%	6.7%	4.7%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 4: ILLINOIS RIVERBOAT ADMISSIONS (FY 2001 - FY 2007)						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
ELGIN	3,312,057	2,765,342	2,854,598	2,795,134	2,677,440	2,531,559
JOLIET HARRAH'S	3,122,243	3,007,687	1,831,518	2,073,659	2,417,781	2,816,788
JOLIET EMPRESS	2,188,890	2,219,458	1,666,841	1,828,809	1,726,414	2,164,586
AURORA	2,499,683	2,490,552	1,446,951	1,428,536	2,082,147	1,860,184
EAST ST. LOUIS	2,012,569	2,023,378	2,152,041	2,122,913	2,098,942	2,024,667
METROPOLIS	1,526,467	1,450,530	1,394,316	1,214,268	1,184,008	1,412,307
EAST PEORIA	1,948,729	1,887,695	1,682,744	1,584,379	1,432,655	1,342,423
ALTON	1,691,891	1,601,270	1,381,943	1,424,604	1,476,971	1,455,514
ROCK ISLAND	831,552	807,731	763,370	746,355	716,949	649,612
TENTH LICENSE	0	0	0	0	0	0
TOTAL	19,134,081	18,253,643	15,174,322	15,218,657	15,813,307	16,257,640
% INCREASE	2.9%	-4.6%	-16.9%	0.3%	3.9%	2.8%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 5: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2001 - FY 2007)						
(\$ in millions)						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
ELGIN	\$117.3	\$144.2	\$194.5	\$206.8	\$204.2	\$203.1
JOLIET HARRAH'S	\$86.1	\$109.4	\$105.3	\$125.0	\$119.6	\$134.5
JOLIET EMPRESS	\$64.8	\$76.9	\$85.2	\$91.8	\$89.7	\$90.3
AURORA	\$65.2	\$95.8	\$86.6	\$90.5	\$90.5	\$91.2
EAST ST. LOUIS	\$36.2	\$42.7	\$61.6	\$62.7	\$53.0	\$52.5
METROPOLIS	\$27.5	\$33.9	\$48.5	\$49.0	\$47.6	\$47.8
EAST PEORIA	\$32.5	\$37.7	\$47.3	\$46.2	\$46.1	\$45.7
ALTON	\$25.7	\$28.1	\$33.3	\$35.4	\$34.2	\$33.9
ROCK ISLAND	\$5.1	\$6.7	\$7.3	\$7.1	\$5.9	\$5.5
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$460.5	\$575.3	\$669.7	\$714.6	\$690.7	\$704.5
% INCREASE	8.4%	24.9%	16.4%	6.7%	-3.3%	2.0%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 6: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2001 - FY 2007)						
(\$ in millions)						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
ELGIN	\$24.4	\$21.9	\$22.3	\$23.2	\$23.5	\$24.3
JOLIET HARRAH'S	\$19.0	\$18.3	\$14.3	\$16.7	\$19.1	\$21.0
JOLIET EMPRESS	\$14.7	\$14.1	\$12.6	\$13.4	\$14.6	\$14.8
AURORA	\$15.0	\$16.5	\$12.5	\$13.0	\$14.6	\$15.5
EAST ST. LOUIS	\$9.8	\$9.9	\$10.3	\$10.4	\$10.7	\$10.6
METROPOLIS	\$8.2	\$8.2	\$8.4	\$8.2	\$8.8	\$9.7
EAST PEORIA	\$9.2	\$9.1	\$8.3	\$8.2	\$8.1	\$7.9
ALTON	\$7.8	\$7.4	\$6.6	\$6.9	\$7.4	\$7.7
ROCK ISLAND	\$2.7	\$2.8	\$2.7	\$2.7	\$2.7	\$2.5
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$110.8	\$108.1	\$98.0	\$102.8	\$109.3	\$114.2
% INCREASE	6.3%	-2.4%	-9.3%	4.9%	6.3%	4.4%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 7: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2001 - FY 2007)						
(\$ in millions)						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
ELGIN	\$141.7	\$166.1	\$216.8	\$230.0	\$227.7	\$227.4
JOLIET HARRAH'S	\$105.1	\$127.7	\$119.6	\$141.7	\$138.7	\$155.5
JOLIET EMPRESS	\$79.6	\$91.0	\$97.8	\$105.3	\$104.3	\$105.1
AURORA	\$80.2	\$112.3	\$99.1	\$103.5	\$105.1	\$106.7
EAST ST. LOUIS	\$46.0	\$52.6	\$72.0	\$73.1	\$63.7	\$63.2
METROPOLIS	\$35.7	\$42.0	\$56.9	\$57.2	\$56.3	\$57.6
EAST PEORIA	\$41.7	\$46.7	\$55.7	\$54.4	\$54.2	\$53.5
ALTON	\$33.4	\$35.5	\$39.9	\$42.4	\$41.5	\$41.6
ROCK ISLAND	\$7.9	\$9.5	\$10.0	\$9.8	\$8.6	\$8.0
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$571.4	\$683.4	\$767.7	\$817.4	\$800.1	\$818.6
% INCREASE	8.0%	19.6%	12.3%	6.5%	-2.1%	2.3%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

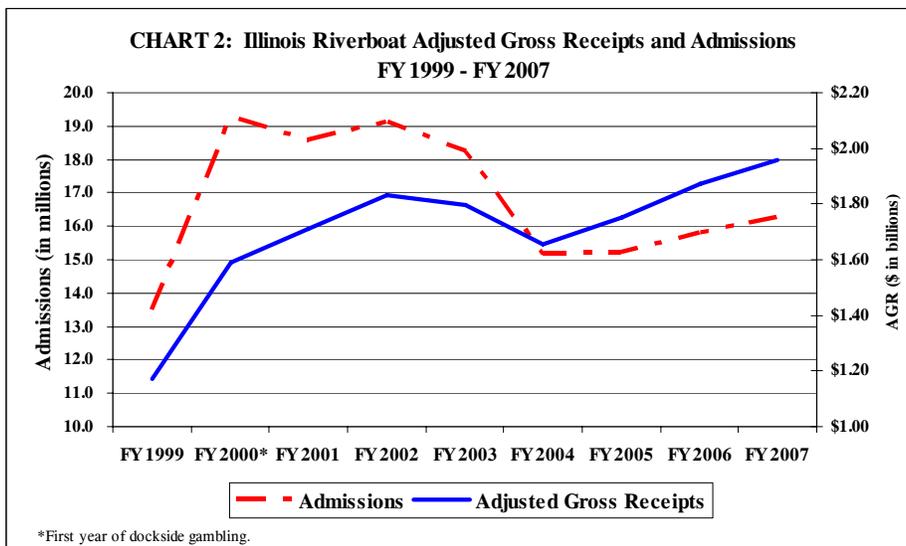
Impact of Tax Changes on Illinois Riverboats

As a way to increase State revenues, in FY 2004, the wagering tax on Illinois riverboats was increased to a maximum 70% tax rate and admission tax rates were increased to as high as \$5 per patron. During the time of these higher tax rates, while State revenues did increase, Illinois riverboats saw their admissions and adjusted gross receipt figures decline. In FY 2004, total adjusted gross receipts fell 7.8% and riverboat admissions fell 16.9%. 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. Because of these lower figures, State revenues did not grow to levels originally expected.

The decline in riverboat figures was primarily due to the reaction of the riverboats in response to the high tax rates. Many Illinois riverboats lowered expenses by reducing operating hours, passing the admission tax onto the consumer, and by 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.

It became apparent that the financial strategy of the riverboats changed under the higher tax rate. Many experts believe that riverboat operators who also owned 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 decision likely caused many Illinois residents to go elsewhere to gamble, which is why Illinois’ attendance figures fell during the higher tax period.

In FY 2006, the wagering tax on Illinois riverboats was allowed to revert back to a maximum 50% tax rate from the 70% tax rate. As a result, Illinois’ riverboat figures improved significantly as adjusted gross receipts increased 6.7% while admissions rose 3.9%. In FY 2007, the rebound continued as adjusted gross receipts increased 4.7% and admissions rose 2.8%. A graph depicting how AGR and admission figures have changed between FY 1999 and FY 2007 is shown below. Again, the likely reason for the turnaround in riverboat figures is due to increased marketing in response to the rollback of the wagering tax rates.



The graph shows that adjusted gross receipts have now met and surpassed levels experienced 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

As stated previously, adjusted gross receipts grew 4.7% in FY 2007. However, not every Illinois riverboat saw an increase in their figures. As shown in Table 8 below, the riverboats in East Peoria (-2.3%) and Rock Island (-4.4%) experienced declines in FY 2007. However, their declines were offset by increases from the other boats. The largest increase came from Joliet Harrah's (9.5%) and Metropolis (9.5%), followed by Alton (6.6%), Aurora (6.2%), Elgin (4.9%), and Joliet Empress (0.9%). East St. Louis' AGR total was virtually flat from the previous year.

Attendance wise, the increases in Metropolis (19.3%) and Joliet Harrah's (16.5%) were a big reason for the statewide 2.8% increase in admissions over FY 2006. Also with notable increases include Aurora (7.7%) and Joliet Empress (4.0%). The largest decline in attendance came from E. Peoria, which declined 6.3%. 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 2003 OVER FY 2002	% CHANGE FY 2004 OVER FY 2003	% CHANGE FY 2005 OVER FY 2004	% CHANGE FY 2006 OVER FY 2005	% CHANGE FY 2007 OVER FY 2006
ELGIN	-9.1%	1.5%	4.9%	1.9%	4.9%
JOLIET HARRAH'S	-4.1%	-18.3%	17.3%	13.9%	9.5%
AURORA	11.9%	-21.0%	4.7%	10.8%	6.2%
JOLIET EMPRESS	-5.3%	-7.9%	6.2%	7.8%	0.9%
EAST ST. LOUIS	1.3%	3.6%	1.1%	4.1%	0.0%
METROPOLIS	1.2%	4.5%	0.1%	8.3%	9.5%
EAST PEORIA	-0.6%	-7.8%	-0.4%	0.9%	-2.3%
ALTON	-4.4%	-10.8%	6.5%	6.6%	6.6%
ROCK ISLAND	4.3%	-1.4%	1.0%	0.1%	-4.4%
TENTH LICENSE	N/A	N/A	N/A	N/A	N/A
TOTAL	-2.0%	-7.8%	5.7%	6.7%	4.7%
ADMISSIONS					
	% CHANGE FY 2003 OVER FY 2002	% CHANGE FY 2004 OVER FY 2003	% CHANGE FY 2005 OVER FY 2004	% CHANGE FY 2006 OVER FY 2005	% CHANGE FY 2007 OVER FY 2006
ELGIN	-16.5%	3.2%	-2.1%	-4.2%	-5.4%
JOLIET HARRAH'S	-3.7%	-39.1%	13.2%	16.6%	16.5%
AURORA	-0.4%	-41.9%	-1.3%	20.9%	7.7%
JOLIET EMPRESS	1.4%	-24.9%	9.7%	13.9%	4.0%
EAST ST. LOUIS	0.5%	6.4%	-1.4%	-1.1%	-3.5%
METROPOLIS	-5.0%	-3.9%	-12.9%	-2.5%	19.3%
EAST PEORIA	-3.1%	-10.9%	-5.8%	-9.6%	-6.3%
ALTON	-5.4%	-13.7%	3.1%	3.7%	-1.5%
ROCK ISLAND	-2.9%	-5.5%	-2.2%	-3.9%	-9.4%
TENTH LICENSE	N/A	N/A	N/A	N/A	N/A
TOTAL	-4.6%	-16.9%	0.3%	3.9%	2.8%
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. This decline was because wagering tax rates reverted back to a maximum tax rate of 50% and admission tax rates were lowered. In FY 2007, State revenues increased 2.0% to nearly \$705 million. Below is a table showing the annual percentage changes in State revenues over the last four fiscal years.

	FY 2004 STATE REVENUE	Annual % change	FY 2005 STATE REVENUE	Annual % change	FY 2006 STATE REVENUE	Annual % change	FY 2007 STATE REVENUE	Annual % change
ELGIN	\$194.5	34.9%	\$206.8	6.3%	\$204.2	-1.3%	\$203.1	-0.6%
JOLIET HARRAH'S	\$105.3	-3.8%	\$125.0	18.7%	\$119.6	-4.3%	\$134.5	12.4%
JOLIET EMPRESS	\$85.2	10.8%	\$91.8	7.8%	\$89.7	-2.3%	\$90.3	0.7%
AURORA	\$86.6	-9.6%	\$90.5	4.5%	\$90.5	0.0%	\$91.2	0.8%
EAST ST. LOUIS	\$61.6	44.2%	\$62.7	1.8%	\$53.0	-15.5%	\$52.5	-0.9%
METROPOLIS	\$48.5	43.3%	\$49.0	1.0%	\$47.6	-3.0%	\$47.8	0.6%
EAST PEORIA	\$47.3	25.7%	\$46.2	-2.4%	\$46.1	-0.2%	\$45.7	-0.9%
ALTON	\$33.3	18.6%	\$35.4	6.3%	\$34.2	-3.5%	\$33.9	-0.8%
ROCK ISLAND	\$7.3	9.6%	\$7.1	-2.7%	\$5.9	-17.7%	\$5.5	-6.8%
TOTAL	\$669.7	16.4%	\$714.6	6.7%	\$690.7	-3.3%	\$704.5	2.0%
\$ Change over Prior Year	\$94.5		\$44.9		-\$23.9		\$13.8	

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 with the amount of State transfers into the State Gaming Fund. For example, June FY 2007 activity may be receipted and transferred into the State Gaming Fund in July FY 2008. 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).

For the last two years, the State revenue totals of \$691 million and \$705 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, Illinois riverboats had to pay an additional \$94.3 million due to this provision in FY 2006 and an additional \$67.4 million in FY 2007. Therefore, without these payments, State revenues in FY 2006 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. In FY 2007, State revenues would have totaled \$637.1 million, which is above FY 2006 totals, but still well below the totals reached under the higher tax rates. A look at the additional payment that each riverboat had to pay in FY 2006 and FY 2007 due to the hold-harmless provision is shown in Table 10.

Table 10: Additional Gaming Revenue due to the Hold Harmless Provision Applied to Illinois Riverboats

	Required Payment	FY 2006 Wagering Tax	Held Harmless to State	Required Payment	FY 2007 Wagering Tax	Held Harmless to State
ALTON	\$31.0	\$24.6	\$6.4	\$31.0	\$27.3	\$3.7
E. PEORIA	\$43.0	\$30.1	\$12.9	\$43.0	\$29.3	\$13.7
ROCK ISLAND	\$0.0	\$5.0	\$0.0	\$0.0	\$4.8	\$0.0
JOLIET EMPRESS	\$86.0	\$76.7	\$9.3	\$86.0	\$79.4	\$6.6
METROPOLIS	\$45.0	\$35.7	\$9.3	\$45.0	\$41.5	\$3.5
JOLIET HARRAH'S	\$114.0	\$114.5	\$0.0	\$114.0	\$128.8	\$0.0
AURORA	\$86.0	\$79.2	\$6.8	\$86.0	\$87.4	\$0.0
E. ST. LOUIS	\$48.5	\$44.1	\$4.4	\$48.5	\$44.8	\$3.7
ELGIN	\$198.0	\$152.7	\$45.3	\$198.0	\$161.9	\$36.1
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$651.5	\$562.7	\$94.3	\$651.5	\$605.2	\$67.4

As the above table indicates, only two riverboats in FY 2007, Joliet Harrah's and Aurora, did not have to pay additional amounts due to the hold-harmless provision. This is because their FY 2007 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 \$36.1 million. In fact, Elgin's two-year total of \$81.4 million in hold-harmless payments made up 50.3% of all hold-harmless payments during the two-year period of this 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. While they are getting closer to proving their argument, the FY 2007 State revenue total without the hold-harmless revenues would have been still nearly \$78 million less than the amount generated under the maximum 70% tax rate in FY 2005.

Whether reverting to a lower tax rate is beneficial to the State is up for debate. During a 2005 Commission 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. Mr. Falcone stated that he believed that the tax rates should be lowered adding, "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." Dr. Matheson offered a different opinion, acknowledging that raising wagering tax rates reduces AGR, but emphasized the fact that, "tax receipts were indeed higher under a 70% tax rate than under a 50% tax rate".

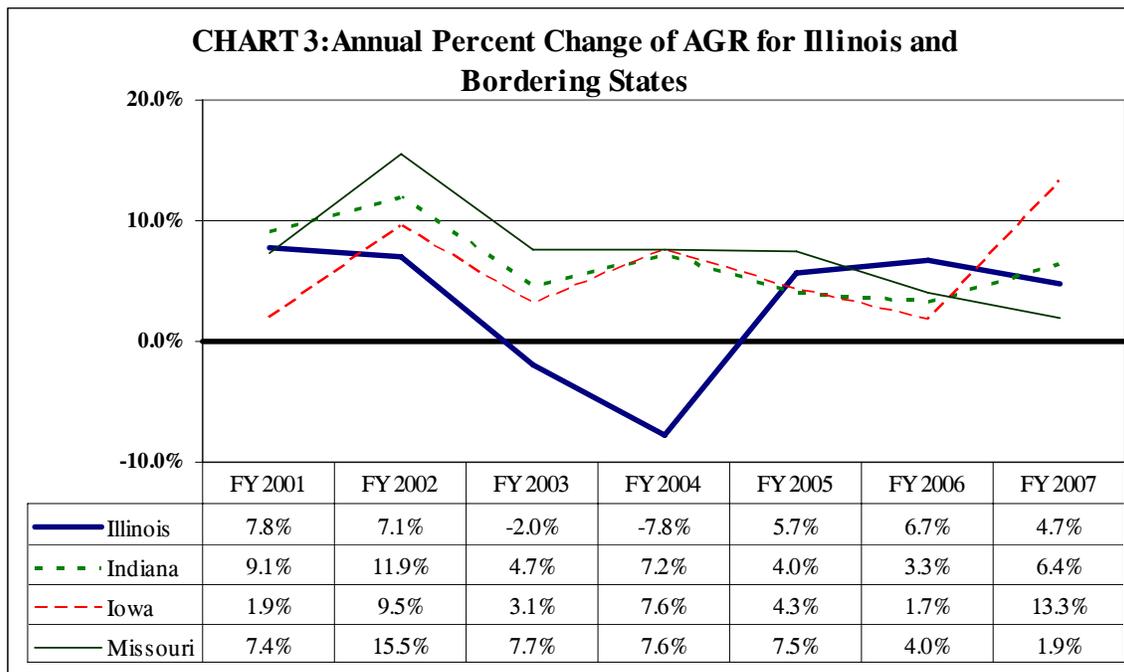
Current trends indicate that if Illinois' riverboat figures continue to climb, it is possible that Illinois riverboats will actually generate similar or more revenues under a 50% tax rate than they did under the 70% tax rate. For example, if no major changes to the riverboat industry develop, the Commission estimates that State revenues from riverboats could reach approximately \$675 million in FY 2008 and approximately \$700 million in FY 2009. These figures are above the \$670 million in State revenues that were generated in FY 2004 under the maximum 70% tax rate. However, the increased competition from other states for the gaming dollar may slow these trends. This concern is addressed in the next section.

Competition from Other States

Over the last three years, Illinois' total adjusted gross receipts have increased by an average of 5.7%. For this trend to continue, Illinois riverboats will have to thwart off the efforts of riverboats in surrounding states that will be looking to entice the Illinois gambler to their state's location. The competition for the gaming dollar continues to grow. The development of new casinos bordering Illinois are being developed or have already come to fruition in many locations. The objective of Illinois riverboats will be to do what is necessary to keep their patrons in this State.

As stated earlier, riverboat numbers suggest that many Illinois patrons may have crossed the border into Indiana or other states to gamble when the State increased their graduated tax rates. This was likely because Illinois operators who also owned casinos outside of Illinois chose to redirect their marketing, capital, and operating expenses to their riverboats in lower-taxed states to maximize profits. However, now that the taxes have been lowered and more money is available to spend on regaining these lost patrons, it appears that Illinois has seen some of these gamblers return to Illinois. The following chart illustrates this point.

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 three fiscal years, as the period of higher tax rates concluded and the period of lower rates began, Illinois' AGR totals have increased an average of 5.7%. 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 regained some of the AGR lost during the period of Illinois' higher taxes.

In FY 2007, Illinois had a solid AGR growth rate of 4.7%. However, its growth was less than the rates of increase in Indiana (6.4%) and in Iowa (13.3%). The main reason for the significant growth in these states is the development of new casinos. In FY 2007, Indiana added a new casino in French Lick. Iowa has opened new casinos in Emmetsburg, Waterloo, Worth, and one just south of Iowa City over the last year and a half. Missouri only experienced a 1.9% increase in FY 2007, but is set to open two new locations near St. Louis in the next couple of years. Specifics of these locations will be discussed later in the report.

While Illinois may not be the home of top gaming destinations like Las Vegas or Atlantic City, it borders or is the home to two of the top ten U.S. casino markets, in terms of annual revenue, in the nation. According to the American Gaming Association, the Chicagoland area is the third largest casino market in the nation, trailing only Las Vegas and Atlantic City. The St. Louis metropolitan area is the 7th largest market. A list of the top ten markets, as based on 2006 revenues, is shown below.

TOP 10 U.S. CASINO MARKETS BY ANNUAL REVENUE	
CASINO MARKET	2006 ANNUAL REVENUES
1 Las Vegas Strip, Nev.	\$6.689 billion
2 Atlantic City, N.J.	\$5.208 billion
3 Chicagoland, Ind./Ill.	\$2.595 billion
4 Connecticut	\$1.734 billion
5 Detroit, Mich.	\$1.303 billion
6 Tunica/Lula, Miss.	\$1.252 billion
7 St. Louis, Mo./Ill.	\$990.98 million
8 Reno/Sparks, Nev.	\$939.50 million
9 Boulder Strip, Nev.	\$929.70 million
10 Shreveport, La.	\$847.18 million

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

Source: The American Gaming Association

The American Gaming Association also reports that Illinois was the third highest commercial casino tax revenue producing state in the nation in 2006. The state with the highest amount of commercial gaming tax revenue was Nevada with revenue totaling \$1.013 billion. In second was Indiana with casino tax revenues totaling \$833.7 million in CY 2006. Louisiana (\$527.8 million) and New Jersey (\$508.8 million) rounded out the top five.

The below table 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. Despite the tax reduction in FY 2006, Illinois continues to be the highest riverboat taxing state in the Midwest (and the nation). One of the most significant differences between Illinois and the other Midwest gaming states is that Illinois is the only state 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	11	16 (13 riverboats/casinos, 3 racetrack casinos)	11
State Population (Census Bureau 2006 estimate)	12.8 million	6.3 million	3.0 million	5.8 million
Gaming Format	Riverboat/Dockside	Riverboat/Dockside and land-based casinos	Riverboat, land-based, and racetrack casino	Riverboat (continuous boarding)
Legalization Date	February 1990	November 1993	July 1989	August 1993
First Casino Operating Date	September 1991	December 1995	April 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
Maximum Number of Gaming Positions	1,200 per riverboat	No Limit	No Limit	No Limit
Number of Gaming Positions (June 2007)	221 Table Games, 9,954 Slots	681 Table Games, 18,600 Slots	351 Table Games, 13,109 Slots	534 Table Games, 17,900 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, disordered gambling treatment, veterans' programs, early childhood programs
Admissions (FY 2007)	16.3 million	27.5 million	14.8 million (riverboats only)	23.5 million
Admissions % Change (FY 2006 to FY 2007)	2.8%	1.8%	10.1%	-4.7%
Adjusted Gross Receipts (AGR) FY 2007	\$1.958 billion	\$2.642 billion	\$860 million	\$1.600 billion
AGR % Change (FY 2006 to FY 2007)	4.7%	6.4%	13.3%	1.9%
AGR per Admission (FY 2007)	\$120.4	\$96.1	\$58.2	\$68.1
AGR per Table per Day (June 2007)	\$2,842.0	\$1,777.0	\$627.0	\$882.7
AGR per Slot per Day (June 2007)	\$489.0	\$331.0	\$173.0	\$223.3
FY 2007 Gaming Tax Revenue	\$818.6 million	851.5	\$193.7 million (riverboats only)	\$422.3 million
Gaming Tax Revenue % Chg (FY 06 to FY 07)	2.3%	6.0%	15.2%	0.1%
Casino Employees (2006)	8,819	16,000	9,732	10,900
Casino Employee Wages (includes benefits and tips)	\$332.8 million	\$609.5 million	\$330.5 million	\$330 million
Sources	American Gaming Association, Illinois Casino Gaming Association, Illinois Gaming Board	American Gaming Association, Indiana Gaming Commission, Casino Association of Indiana	American Gaming Association, Iowa Racing and Gaming Commission, Iowa Gaming Association	American Gaming Association, Missouri Gaming Commission, Missouri Riverboat Gaming Association

REGION-BY-REGION ANALYSIS

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

QUAD CITY AREA

TABLE 12: Adjusted Gross Receipts (AGR) in the Quad City Region								
<i>(IOWA)</i>								
Riverboat	FY 04	% Change	FY 05	% Change	FY 06	% Change	FY 07	% Change
Rhythm City (Davenport)	\$76,079,830	15.6%	\$78,210,269	2.8%	\$77,296,826	-1.2%	\$66,883,539	-13.5%
Isle of Capri (Bettendorf)	\$105,415,990	5.8%	\$103,900,655	-1.4%	\$98,687,226	-5.0%	\$91,325,473	-7.5%
Quad City Area	\$181,495,820	9.7%	\$182,110,924	0.3%	\$175,984,052	-3.4%	\$158,209,012	-10.1%
AGR % of Quad City Area	82.3%		82.2%		81.7%		80.8%	
<i>(ILLINOIS)</i>								
Riverboat	FY 04	% Change	FY 05	% Change	FY 06	% Change	FY 07	% Change
Rock Island	\$38,928,000	-1.4%	\$39,328,000	1.0%	\$39,376,000	0.1%	\$37,639,000	-4.4%
Quad City Area	\$38,928,000	-1.4%	\$39,328,000	1.0%	\$39,376,000	0.1%	\$37,639,000	-4.4%
AGR % of Quad City Area	17.7%		17.8%		18.3%		19.2%	
TOTAL QUAD CITY AGR	\$220,423,820	7.6%	\$221,438,924	1.4%	\$215,360,052	-3.2%	\$195,848,012	-14.5%

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, a 3.4% decline in FY 2006, and a 10.1% decline in FY 2007. In comparison, Illinois' Rock Island riverboat's AGR declined 1.4% in FY 2004, followed by a 1.0% increase in FY 2005, a 0.1% increase in AGR in FY 2006, and a 4.4% decline in FY 2007.
- Much of the decline experienced in FY 2007 for this area is likely due to the opening of a new casino just south of Iowa City, which is about an hour drive from the Quad City area riverboats. Because this casino is closer to the Davenport and Bettendorf locations, this new casino will continue to have a larger impact on the Iowa locations than Illinois' Rock Island riverboat.
- Iowa's riverboats make up approximately 81% of the Quad City region's AGR (\$158 million in FY 2007), while Illinois' riverboat makes up 19% of the total (\$38 million in FY 2007). 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 suggest that Illinois may be losing patrons to the Iowa riverboats.
- Casino Rock Island was granted approval from the Gaming Board to build a new \$150 million casino off the Mississippi River on July 23, 2007. This new 42,000-square-foot casino is expected to open in early 2009.

ST. LOUIS AREA

TABLE 13: Adjusted Gross Receipts (AGR) in St. Louis Region								
(MISSOURI)								
Riverboat	FY 04	% Change	FY 05	% Change	FY 06	% Change	FY 07	% Change
Harrah's (Maryland Heights)	\$254,674,008	7.7%	\$300,768,893	18.1%	\$310,548,463	3.3%	\$325,249,730	4.7%
President (St. Louis)	\$71,843,573	-2.2%	\$71,345,739	-0.7%	\$71,798,659	0.6%	\$67,269,234	-6.3%
Ameristar (St. Charles)	\$284,747,393	17.0%	\$297,873,442	4.6%	\$309,484,109	3.9%	\$300,247,313	-3.0%
St. Louis Area	\$611,264,974	10.5%	\$669,988,073	9.6%	\$691,831,232	3.3%	\$692,766,277	0.1%
AGR % of St. Louis Area	69.6%		70.8%		70.5%		70.0%	
(ILLINOIS)								
Riverboat	FY 04	% Change	FY 05	% Change	FY 06	% Change	FY 06	% Change
E. St. Louis	\$163,513,000	3.6%	\$165,382,000	1.1%	\$172,193,000	4.1%	\$172,139,000	0.0%
Alton	\$103,589,000	-10.8%	\$110,354,000	6.5%	\$117,616,000	6.6%	\$125,408,000	6.6%
St. Louis Area	\$267,102,000	-2.5%	\$275,736,000	3.2%	\$289,809,000	5.1%	\$297,547,000	2.7%
AGR % of St. Louis Area	30.4%		29.2%		29.5%		30.0%	
TOTAL ST. LOUIS AGR	\$878,366,974.00	6.2%	\$945,724,073.05	7.7%	\$981,640,231.67	3.8%	\$990,313,276.75	0.9%

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 2007, Missouri locations only increased by 0.1%. For the second consecutive year, Illinois' locations increased at a higher rate, growing 2.7%.
- 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 2007, Missouri dropped slightly to 70.0% of St. Louis area AGR, while Illinois's two locations made up the remaining 30.0%.
- According to the American Gaming Association, the St. Louis area is the 7th largest casino market in the nation in 2006, in terms of annual revenue (taxes not included).
- Illinois' E. St. Louis Queen opened a new 207,500-square-foot facility in August 2007, which should increase attendance for the first half of FY 2008. However, a brand new casino on the St. Louis side of the Mississippi River is set to open at the end of 2007, which will be in direct competition with the E. St. Louis location. An additional casino in south St. Louis County in Missouri is scheduled to open sometime in 2008, further hurting Illinois' riverboat industry in this area.

CHICAGO AREA

TABLE 14: Adjusted Gross Receipts (AGR) in Chicago Region								
<i>(INDIANA)</i>								
Riverboat	FY 04	% Change	FY 05	% Change	FY 06	% Change	FY 07	% Change
Harrah's/Resorts (E Chicago)	\$312,825,725	7.9%	\$310,490,756	-0.7%	\$301,904,367	-2.8%	\$321,012,749	6.3%
Horseshoe (Hammond)	\$362,136,764	6.7%	\$409,242,447	13.0%	\$419,640,990	2.5%	\$444,567,998	5.9%
Majestic Star (Gary)	\$145,562,089	5.0%	\$147,942,400	1.6%	\$143,453,449	-3.0%	\$138,148,594	-3.7%
Trump/Majestic II (Gary)	\$143,863,604	11.7%	\$135,406,401	-5.9%	\$130,860,087	-3.4%	\$115,595,959	-11.7%
Chicago Area	\$964,388,182	7.5%	\$1,003,082,004	4.0%	\$995,858,893	-0.7%	\$1,019,325,300	2.4%
AGR % of Chicago Area	47.2%		46.3%		44.2%		43.5%	
<i>(ILLINOIS)</i>								
Riverboat	FY 04	% Change	FY 05	% Change	FY 06	% Change	FY 07	% Change
Elgin	\$388,975,000	1.5%	\$408,092,000	4.9%	\$415,655,000	1.9%	\$436,106,000	4.9%
Joliet Harrah's	\$249,157,000	-18.3%	\$292,261,000	17.3%	\$332,890,000	13.9%	\$364,597,000	9.5%
Joliet Empress	\$218,527,000	-7.9%	\$232,132,000	6.2%	\$250,211,000	7.8%	\$252,553,000	0.9%
AURORA	\$221,380,000	-21.0%	\$231,812,000	4.7%	\$256,770,000	10.8%	\$272,585,000	6.2%
Chicago Area	\$1,078,039,000	-10.6%	\$1,164,297,000	8.0%	\$1,255,526,000	7.8%	\$1,325,841,000	5.6%
AGR % of Chicago Area	52.8%		53.7%		55.8%		56.5%	
TOTAL CHICAGO AREA AGR	\$2,042,427,182	-2.9%	\$2,167,379,004	6.1%	\$2,251,384,893	3.9%	\$2,345,166,300	4.2%

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 (back) to Illinois continued as AGR levels increased 7.8% in Illinois while Indiana's AGR figures fell 0.7% in the Chicago area.
- In FY 2007, Illinois' riverboats continued to outpace Indiana's locations growing an average of 5.6%, compared to Indiana's growth rate of 2.4%
- 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.
- Since then, Illinois portion of the riverboat dollar in this area has steadily increased. In FY 2007, Illinois's AGR portion has now increased to 56.5% compared to Indiana's portion of 43.5%. While Illinois' composition of Chicago area AGR has improved, it is still slightly 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

The riverboat industry is rapidly changing in the Midwest. Many new casinos are being built every year. While some of the new facilities are the replacement of older casinos, many of the casinos being built are in entirely new locations. These new facilities will likely have a direct impact on Illinois' gaming industry. The following section provides a brief summary of gaming news surrounding Illinois.

MISSOURI

- 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.

The first new development, named Lumière Place, is a \$495 million project located at Laclede's Landing, near the Gateway Arch, and just across the river from Illinois' East St. Louis riverboat. It will feature a large casino, a 200-room luxury hotel, spa, business center, fine restaurants and 12,000-square-feet of meeting and convention space. The casino project is estimated to create 4,500 jobs: 700 construction jobs, 1,300 permanent jobs, and an additional 2,500 ancillary service jobs in the region. Lumière Place is expected to open in late 2007.

The second new development, named Lemay, will sit on more than 80 acres, 1.3 miles from Interstate 55. The gaming floor will be approximately 90,000 square feet, and will include 3,000 slot machines and 60 table games. Pinnacle broke ground on its River City facility on November 8, 2005, with an anticipated opening in 2008, upon approval from the Missouri Gaming Commission.

WISCONSIN

- In Wisconsin, Indian tribes are seriously considering building two casinos on the Illinois border, one in Beloit and one in Kenosha.

In January 2007, the Regional Director of the Bureau of Indian Affairs (BIA) signed off on the Beloit Casino Project Trust Land Application, and sent it to the Central Offices of the BIA in Washington D.C. with an endorsement for approval. The application is currently undergoing final Agency review. If approved, the casino complex is projected to cost \$175 million and generate 3,000 new jobs to the area.

The Kenosha casino would be a \$808 million, 116,000-square-foot gaming facility located at the site of the Dairyland greyhound track off Interstate 94 in Kenosha, about five miles from the Illinois border in Lake County. The casino would include 3,100 slot machines and 75 table games. 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. If the casino proposal receives a favorable ruling from the BIA, the approval process then moves to the governor of Wisconsin.

There is little doubt that much of the market for the proposed casinos would come from the “untapped” northern sections of Illinois. Therefore, if opened, these casinos would have a significant negative impact on Illinois

INDIANA

- On November 3, 2006, an 11th riverboat casino was opened in Indiana in French Lick. This resort and casino features 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 Indiana General Assembly passed legislation this year that allows up to 2,000 slot machines at each of Indiana’s two horse racing tracks, Hoosier Park in Anderson and Indiana Downs near Shelbyville. Tracks must pay an initial licensing fee of \$250 million in order to utilize the gaming positions.

Based on the central Indiana location of these facilities, it is expected that both the French Lick casino and the two horse racing tracks will have only a minimal impact on Illinois.

MICHIGAN

- In August 2007, Four Winds Casino Resort opened in New Buffalo, Michigan. Managed by Lakes Entertainment, Inc., the resort offers 130,000 square feet of gaming with 3,000 slot machines and 100 table games including poker. It also features six restaurants, entertainment bars and retail venues, and a 165-room suite hotel, making it a premier destination resort for Midwest tourism. The casino is located just off Lake Michigan on I-94, 75 miles east of Chicago. This large casino brings more competition to the gaming industry in the Chicago metropolitan area, and therefore, will likely have a negative impact on Illinois’ riverboats.

Potential Changes to the Gaming Industry

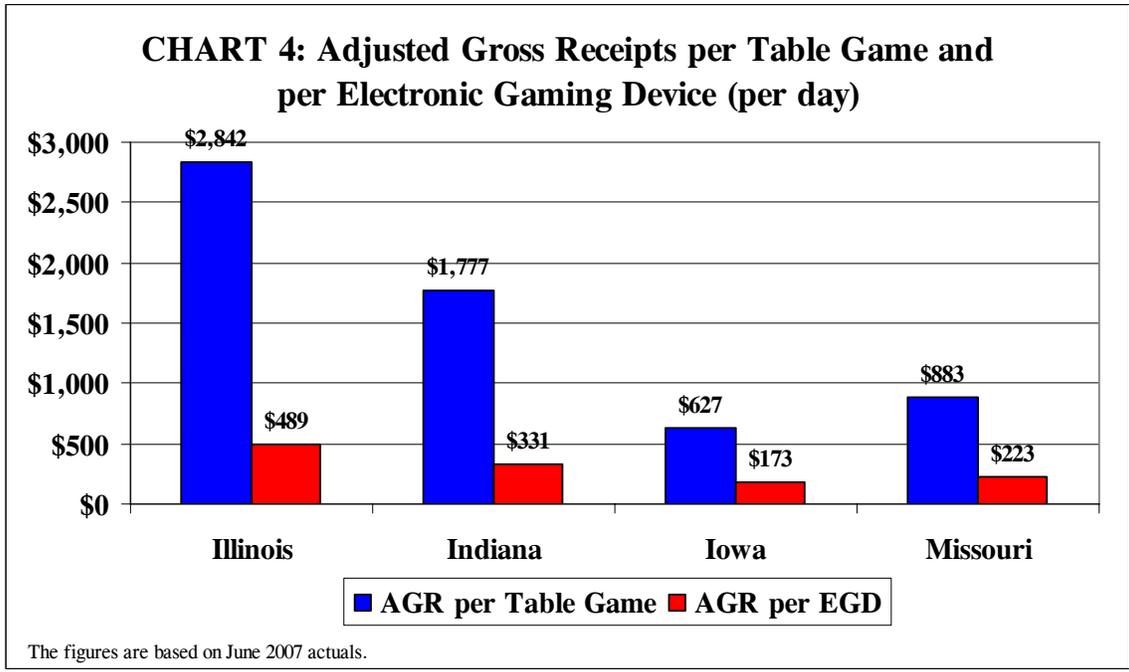
During the Spring 2007 Legislative Session, like many sessions before it, there were numerous discussions on what changes could be made to Illinois' gaming industry to increase revenues. While ideas were plentiful, most were met with controversy as any change that would add additional gaming areas is perceived to many as an "expansion of gambling", a negative connotation in many people's eyes. Few would argue that additional revenues are needed in the State to rebuild roads, improve schools, and fund the many different areas of need in Illinois. But determining whether gambling is the route to be taken to obtain these desired revenues continues to be the question that lawmakers must face on an annual basis. The question then becomes, if an "expansion of gambling" is allowed to occur, in which manner should it be accomplished?

The following section looks at several of the most talked about gaming expansion proposals. These include adding additional gaming positions at the current riverboat facilities, allowing slot machines at Illinois horse tracks, adding new riverboats/casinos, and reissuing the 10th license. Only time will tell if all, if any, of these proposals will become a reality as a source of additional revenue for the State of Illinois.

Gaming Positions

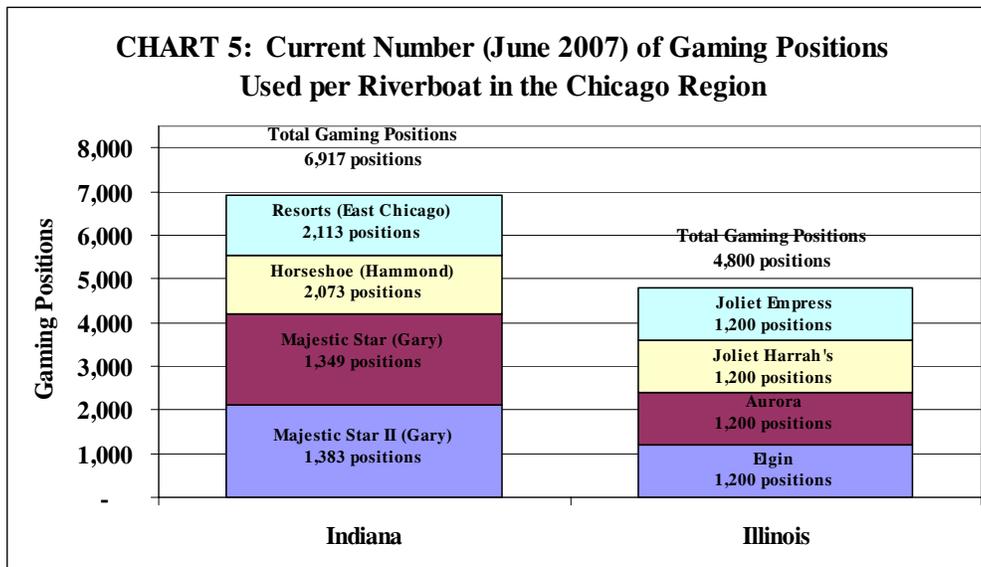
There are many that feel that Illinois riverboats are at a competitive disadvantage with other states because Illinois only allows a maximum of 1,200 gaming positions per riverboat. The capping of the number of slots and table games that a riverboat may operate prevents riverboats from increasing certain 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 for June, 2007. (EGD stands for electronic gaming device, i.e. slot machines). Highlights of the graph are pointed out on the following page.



- Illinois’ AGR per Table Game and AGR per EGD are significantly higher than the other neighboring states.
- These figures 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 locations.
- These numbers also suggest that Illinois has not yet reached its saturation point.
- 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, according to Indiana’s June 2007 monthly gaming report, the four Indiana riverboats closest to Chicago had 6,917 gaming positions. That is 2,117 more positions than the four Illinois Chicago area riverboats. These figures do not include Indiana’s Michigan City location, which has an additional 2,263 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 4,400 more gaming positions than Illinois in the Lake Michigan area.

Based on these figures, the four Indiana riverboats closest to Chicago make up 59% 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 1,836 positions. Therefore, if Illinois decided to increase the maximum number of positions, these numbers would suggest that at least 1,836 positions would be necessary to be closer to the optimal number of positions in Illinois for the Chicago area. While this is the optimal number for Indiana casinos in this area, it is likely that Illinois’ optimal number could be higher than this due to the higher concentration of the population on the Illinois side of the border.

Slot Machines at Racetracks

A growing area of gaming throughout the country is the development of casinos at racetracks. According to the American Gaming Association, 36 racetrack casinos in 11 states generated \$3.62 billion in gross gaming revenues in 2006. This amount was a 16% increase over 2005 figures. The Association reports that these 36 racetrack casinos contributed \$1.44 billion in direct gaming taxes to state and local governments in 2006, which was a 12.5% increase over 2005.

The strong growth in racetrack casinos in 2006 was due, in large part, to the recent expansion of this industry. The Association reports that 2006 marked the first full year of racetrack casino operations in Maine and Oklahoma, the opening of new facilities in Florida and Pennsylvania, and the debut of three new racetrack casinos in New York. Of the 11 states with racetrack casinos, all but Rhode Island, which underwent renovations, experienced an increase in their 2006 figures.

In 2006, the only state in the Midwest Region with racetrack casinos was Iowa. In FY 2007, Iowa had 7.4 million visitors to their three locations in Council Bluffs, Altoona, and Dubuque, generating a combined \$460 million in adjusted gross revenue. A total of \$98 million in State revenues were collected from these receipts.

As stated earlier, Iowa will be joined by Indiana in the racetrack casino market in the near future. The Indiana General Assembly passed legislation this year that allows up to 2,000 slot machines at each of Indiana's two horse racing tracks, Hoosier Park in Anderson and Indiana Downs near Shelbyville.

Many in Illinois' horseracing industry are hoping that Illinois follows suit and allows casinos at its five major horse tracks. Proponents contend that not only will this help bring additional revenues to the State, but it will also assist in revitalizing the struggling horseracing industry in Illinois.

For example, when Oklahoma's Remington Park opened a new casino at its horse track facility, not only did it see its attendance increase, but also its mutuel handle numbers. According to Oklahoma City's Journal Record, Remington Park's average attendance during the 50-day quarter horse racing was 5,400, up 183.6% against a corresponding season that did not have the luxury of casino attendance figures. The mutuel handle numbers - money bet only on live and simulcast horse racing - increased 12.5% over the last quarter horse season and helped allow track officials to offer more than \$8.7 million in purse money. The all-source handle was the highest locally since 1997.

Few would argue that Illinois' horse racing industry has struggled. As will be discussed later in the report, Illinois' total handle amount of \$952 million in 2006 was down 5% over the 2005 amount and marked the fourth consecutive year of declining revenues. The 2006 handle amount was the lowest experienced since 1986. It is probably not coincidence that Illinois' declining revenues over the last several years come at the same time that the numbers of racetrack casinos have increased in other states throughout the nation. As attendance at racetracks increase, so do their revenue, which allows them to offer larger purses. These larger purses at other tracks are enticing enough to persuade horse racers to forgo Illinois' races and attend races in other states.

New Riverboats and Casinos

Under current law, Illinois has only ten licenses available for riverboat gambling operations. Nine of those licenses are active, while the 10th license is presently dormant. When the discussion of expanding gaming in Illinois arises, inevitably these talks include increasing the number of gaming licenses to add possibly more riverboats or a land-based casino in the City of Chicago.

There is little doubt that new casinos, especially a land-based casino in Chicago, would generate millions of dollars to the State and local governments. The Commission is often asked how much revenue these new casinos would generate. This is a very difficult question to answer because there are many factors that affect the amount of receipts generated by a casino. These factors include the tax structure used, the number of gaming positions allowed per facility, whether other forms of gaming, such as slot-machines at horse tracks, are also implemented, and the location of the new facility.

The location of a new facility is often the most difficult decision when developing a new casino. Many cities throughout Illinois fight for the right to obtain a new casino because of the potential financial benefit that a new casino could bring to their community. When deciding which community is the best location to host a new casino, many factors are considered, such as the infrastructure available, its location compared to other casinos, and the number of potential patrons near that area. In fact, a recent gaming bill included in the legislation's language that, "The Illinois Gaming Board shall award the licenses to applicants whose plans (i) generate the highest amount of revenue to the State and (ii) provide for the least amount of cannibalization of existing licensees' revenues generated".

The concept of cannibalization is an important factor in the estimation of gaming revenues, but one that is difficult to estimate with any degree of certainty. Most agree that placing a new casino in close proximity to an existing casino would have a negative impact on existing casinos, but the extent that existing casinos would be affected is difficult to determine.

There have been scenarios of gaming cannibalization in other states. For example, in August 2006, the Riverside Casino & Golf Resort opened along the Iowa River near Iowa City, Iowa. The 375-acre, \$140 million resort consists of 58,000-sq.-ft. of gaming space, including 1,186 slot machines. The Iowa City casino is about an hours drive from the riverboat casinos in Davenport and Bettendorf, Iowa. The close proximity of the new casino gave gamblers another choice for a location to gamble. The result: Davenport and Bettendorf's AGR totals for FY 2007 were down 13.5% and 7.5% respectively. This shows that some cannibalization did take place for these Iowa locations. Whether this downward turn will continue remains to be seen, however, it does show the immediate impact that a new riverboat could have on other locations.

While the Iowa situation gives an example of cannibalization, it is difficult to know whether opening a new casino in or near the City of Chicago would have the same effect on existing Chicago area riverboats. Some feel that because there are no casinos in the City of Chicago, there is a large area of available gaming dollars that remains untapped. However, others feel that the Chicago area is already saturated and that any new casino in this area would just spread out the gaming dollar that already exists. As discussed earlier, the Chicago Metropolitan area is already the third largest casino market in the country, even without the development of more casinos in the City of Chicago.

When the Commission estimates the potential revenue from new casinos, a cannibalization factor is always taken into account. For example, in estimating recent legislation adding two new riverboats, a Chicago land-based casino, and additional positions at pre-existing riverboats, the Commission applied a dilution factor of as much as 35% to the AGR/position/day levels at locations near Chicago. Only after these proposals become a reality will it be clear if this dilution factor is accurate.

Even with cannibalization factored in, any increase in the number of gaming licenses will likely increase State gaming revenues significantly. In Iowa's scenario, despite a combined \$17.8 million decline in gaming receipts at the Davenport and Bettendorf locations, the \$71.5 million generated by the new Iowa City location resulted in a \$53.7 million total increase in adjusted gross receipts when combining all three casino's figures.

Most expect that a new riverboat strategically located near an untapped population area of Chicago would equal and likely exceed Elgin's figures. Again, Elgin brought in \$436 million in adjusted gross receipts in FY 2007, which equated to \$227 million in tax revenues for State and local governments. (A riverboat placed at a lower populated area i.e. downstate, would likely generate less revenue). Of course, this amount would depend on what other gaming ideas are implemented at the time of a riverboat's operation year (such as additional positions or location of other riverboats/casino).

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 appealed the final Board order to the Appellate Court of Illinois, Fourth Judicial District, thus preventing the State from auctioning the Tenth License. In April 2007, a federal appeals court in Chicago upheld the Illinois Gaming Board's authority to revoke the casino operator's license. Currently, the status of the license remains in limbo awaiting decisions on further appeals.

So when will the 10th license finally become operational? While experts believe closure for the court battles involving the 10th license is close, the timing of selecting another bidder for the 10th license is unknown. As in the last several years, the FY 2008 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. As stated previously, the Commission believes that another riverboat located near Chicago would rival the success experienced by the Grand Victoria in Elgin, generating at least \$227 million in tax revenues for State and local governments. While the effect that another casino would have on the other Illinois riverboats is speculative, there is little argument 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.

The hold-harmless provision has presented itself as a transition stage between the 70% maximum tax rate and the 50% maximum tax rate. It allowed AGR levels to again increase, while at the same time guaranteeing desired revenues for the State. However, now that the hold-harmless provision period is complete, this “security blanket” is no longer available for the State and revenues will be strictly dependent on the amount of gross receipts and admission totals of riverboats in FY 2008 and beyond.

Current trends indicate that without the hold-harmless provision, State revenues may decline to approximately \$670 million in FY 2008. But, if current patterns continue, State revenues, even under the lower 50% maximum tax rate, will surpass the \$700 million mark by FY 2010, which is more than what was generated under the maximum 70% tax rate. This is assuming no further changes to the industry are implemented.

Current and future improvements to Illinois riverboats may help the recent success in riverboat figures to continue. The riverboat in Metropolis has enjoyed the success of their new hotel at its casino. Rock Island will be constructing a new casino and hotel that is expected to be finished in late 2008. The East St. Louis location just opened their new facility and initial figures show large increases in attendance. 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 impact the riverboat industry in Illinois. One is the fact that Illinois continues to be the highest riverboat taxing state in the country, even at a maximum tax rate of 50%. Casinos in states with lower tax rates have more financial flexibility in marketing their product than Illinois. An increase in marketing in these states could be enticing enough for Illinois gamblers to gamble in these other locations.

Secondly, many in the industry are concerned about the effect that the Statewide smoking ban will have on their casinos. Starting January 1, 2008 the Statewide ban on smoking in public places will take effect, and as of now, this will include casinos. Some insiders believe that the smoking ban could hurt their revenues as high as 20%. Their numbers are based on similar bans in Delaware and Canada and because some casino surveys have shown that between 60% to nearly 70% of riverboat patrons were smokers. Riverboats near the borders of states without the smoking ban may be especially susceptible to this decline.

However, perhaps 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 and Michigan's new facility will continue to be a concern to the Illinois riverboats as these states will continue to market the Chicago area to bring riverboat gamblers to their casinos.

So what more can be done to help Illinois riverboats in the future? As discussed earlier most ideas 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 continue to resurface 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 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



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 approximately \$39 billion. Table 15 presents a brief history of the Illinois State Lottery highlighting sales by game, total sales, transfers to the Common School Fund, and the amount transferred as a percentage of total sales.

FISCAL YEAR	\$.50, \$1, KENO '93	INSTANT	PICK 3	NUMBERS			LITTLE LOTTO	BIG GAME/MEGA MIL.	TOTAL SALES	LOTTERY TRANSFERS TO CSF	TRANSFERS AS A % OF TOTAL SALES
				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%
2007	\$ -	\$ 1,041.6	\$ 308.7	\$ 30.8	\$ 170.2	\$ 109.6	\$ 126.8	\$ 195.9	\$1,983.6	\$622.6	31.4%
TOTALS	\$ 359.9	\$ 13,485.0	\$ 8,955.8	\$ 94.0	\$ 3,136.5	\$ 8,642.0	\$ 2,262.7	\$ 2,031.9	\$ 38,967.9	\$ 14,188.6	36.4%

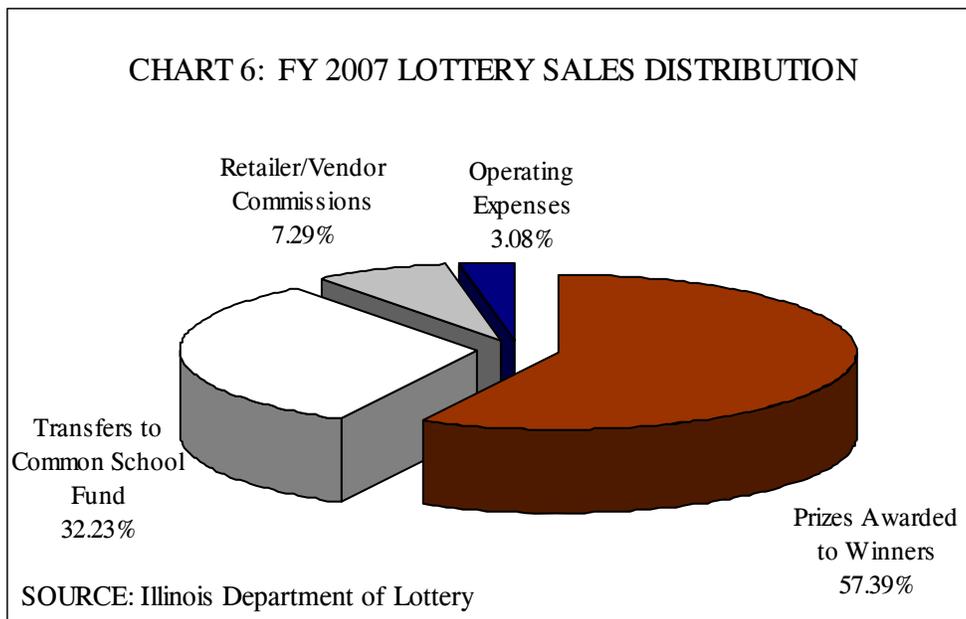
* Preliminary, unaudited data
Note: Mega Millions replaced the Big Game in May of 2002.
SOURCE: ILLINOIS DEPARTMENT OF REVENUE

Table 15 reveals that lottery sales totaled \$1.984 billion in FY 2007. This figure represents a \$1.2 million decrease from the FY 2006 amount of \$1.985 billion, and was the second highest sales total realized since the inception of lottery in 1975. From this sum, 31.4% or \$622.5 million was transferred into the Common School Fund, a 7.1% decrease from the FY 2006 transfer amount of \$670.5 million. A closer look reveals that the largest dollar increase came from the Instant games, which rose \$42 million or 4.2%. The other game that showed a large amount of growth was Pick N Play which increased \$16.2 million or 110.5% over FY 2006. Little Lotto showed limited growth,

gaining \$1.3 million or 1.0% over FY 2006. The Pick 3 and Pick 4 games have remained flat in recent years with both fluctuating within about a \$2 million range since FY 2004. Mega Millions and Lotto, on the other hand, had relatively bad years. Mega Millions fell \$47.30 million, while Little Lotto fell \$13.2 million. These were declines of -19.5% and -10.8% over FY 2006. The \$47.3 million fall in Mega Millions accounts for a large portion of the \$47.9 million drop off in transfers to the Common School Fund.

Special cause lottery sales raised approximately \$4.1 million in FY 2007, an increase of 11.3% or approximately \$0.4 million. As part of PA 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 2007, \$1.9 million was transferred into this fund. This was a decrease of over 18% from FY 2006, when \$2.4 million was transferred. Another special instant scratch-off was created by PA 94-0585 to fund grants for veterans' related issues. The Veteran's Cash game had revenues of \$2.1 million in FY 2007. This was an increase of over 65% from FY 2006.

The chart below shows how revenues from the lottery are distributed. In FY 2007, lottery winners received \$1.11 billion, the Common School Fund received \$622 million, retailers and vendors received \$141 million, and the Department of Lottery used the remaining \$60 million to cover its operating expenses. Chart 7 illustrates the FY 2007 lottery sales distribution by percentage.



As shown in Table 6, instant games continue to comprise the greatest percentage with 52.5% of lottery sales, an increase of 2.1% from FY 2006. The Numbers Now/Pick N Play category was the only other category to gain significantly, rising from 0.7% in FY

2006 to 1.6% in FY 2007. The Pick 3 game had the second highest a percentage at 15.6%, which was the same as last year. The Mega Millions saw its composition rate shrink from 12.3% of total lottery sales in FY 2007, to 9.9% in FY 2006. The remaining revenues come from the Pick 4 game (8.6%), Little Lotto (6.4%) and Lotto (5.5%).

The \$47 million decrease in the Mega Millions game was discouraging after an up year in FY 2006. 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.

Mega Millions sales were depressed by a limited number of large jackpots in FY 2007. 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. FY 2007 did not experience as many rollovers and higher jackpots as FY 2006, resulting in lower Mega Millions sales. It is expected that Mega Millions sales will improve in FY 2008 due to an expected increase in the number of rollovers.

TABLE 16: COMPOSITION OF LOTTERY SALES BY GAME

FISCAL YEAR	\$.50, \$1, KENO '93	INSTANT	PICK 3	EXTRA	PICK 4	LOTTO	LITTLE LOTTO	BIG GAME/ MEGA MIL.	TOTAL SALES
1975	100.0%	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
2007	0.0%	52.5%	15.6%	1.6%	8.6%	5.5%	6.4%	9.9%	\$1,983.6

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 2006, Illinois’s per-capita spending totaled \$155, which was \$11 higher than in 2005. 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 ranked 26th out of 42 lottery states. With \$2.0 billion in sales, Illinois had the eleventh highest level of sales in the U.S. in FY 2006. The figures for FY 2006 are shown in Table 17 on page 36. FY 2007 per capita spending is estimated to be approximately \$155 again, though comparison data for other states is not yet available.

TABLE 17: PER-CAPITA SALES AS A PERCENTAGE OF PERSONAL INCOME (FY 2006)						
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	\$ 35,219	\$ 1,731.5	\$ 1,612	4.58%	
SOUTH DAKOTA	0.8	\$ 32,642	\$ 686.2	\$ 885	2.71%	
DELAWARE	0.8	\$ 37,084	\$ 728.0	\$ 865	2.33%	
WEST VIRGINIA	1.8	\$ 26,029	\$ 1,522.0	\$ 839	3.22%	
MASSACHUSETTES	6.4	\$ 43,702	\$ 4,534.1	\$ 705	1.61%	
DISTRICT OF COLUMBIA	0.6	\$ 56,329	\$ 266.2	\$ 457	0.81%	
NEW YORK	19.3	\$ 40,072	\$ 6,803.0	\$ 352	0.88%	
GEORGIA	9.1	\$ 31,191	\$ 3,177.6	\$ 348	1.12%	
OREGON	3.6	\$ 32,174	\$ 1,104.0	\$ 303	0.94%	
MARYLAND	5.6	\$ 41,996	\$ 1,560.9	\$ 279	0.66%	
CONNECTICUT	3.5	\$ 47,519	\$ 970.3	\$ 277	0.58%	
NEW JERSEY	8.7	\$ 43,822	\$ 2,406.6	\$ 277	0.63%	
SOUTH CAROLINA	4.2	\$ 28,212	\$ 1,144.6	\$ 270	0.96%	
PENNSYLVANIA	12.4	\$ 34,848	\$ 3,070.0	\$ 247	0.71%	
FLORIDA	17.8	\$ 34,099	\$ 4,030.0	\$ 227	0.67%	
MICHIGAN	10.1	\$ 32,735	\$ 2,212.4	\$ 219	0.67%	
NEW HAMPSHIRE	1.3	\$ 37,835	\$ 262.7	\$ 201	0.53%	
OHIO	11.5	\$ 31,867	\$ 2,221.0	\$ 194	0.61%	
VIRGINIA	7.6	\$ 37,552	\$ 1,365.0	\$ 180	0.48%	
KENTUCKY	4.2	\$ 28,317	\$ 742.3	\$ 178	0.63%	
MAINE	1.3	\$ 30,808	\$ 229.7	\$ 174	0.57%	
VERMONT	0.6	\$ 32,731	\$ 104.9	\$ 169	0.52%	
TENNESSEE	6.0	\$ 30,952	\$ 996.3	\$ 167	0.54%	
TEXAS	22.9	\$ 32,604	\$ 3,774.7	\$ 165	0.50%	
MISSOURI	5.8	\$ 31,299	\$ 913.5	\$ 158	0.50%	
ILLINOIS	12.8	\$ 36,264	\$ 1,984.8	\$ 155	0.43%	
INDIANA	6.3	\$ 31,150	\$ 816.4	\$ 130	0.42%	
IOWA	3.0	\$ 31,795	\$ 339.5	\$ 114	0.36%	
ALABAMA	4.5	\$ 29,623	\$ 468.7	\$ 103	0.35%	
COLORADO	4.6	\$ 37,459	\$ 468.8	\$ 101	0.27%	
CALIFORNIA	36.2	\$ 36,890	\$ 3,585.0	\$ 99	0.27%	
WISCONSIN	5.5	\$ 33,251	\$ 508.9	\$ 92	0.28%	
IDAHO	1.4	\$ 28,398	\$ 131.1	\$ 92	0.32%	
MINNESOTA	5.1	\$ 37,322	\$ 450.0	\$ 88	0.24%	
KANSAS	2.7	\$ 32,948	\$ 236.1	\$ 86	0.26%	
NEW MEXICO	1.9	\$ 27,912	\$ 154.7	\$ 80	0.29%	
WASHINGTON	6.3	\$ 35,234	\$ 477.9	\$ 76	0.22%	
LOUISIANA	4.5	\$ 24,582	\$ 332.1	\$ 74	0.30%	
NEBRASKA	1.8	\$ 32,988	\$ 113.1	\$ 64	0.20%	
OKLAHOMA	3.5	\$ 29,908	\$ 204.8	\$ 58	0.19%	
MONTANA	0.9	\$ 28,906	\$ 39.9	\$ 43	0.15%	
NORTH DAKOTA	0.6	\$ 31,230	\$ 22.3	\$ 35	0.11%	
NORTH CAROLINA	8.7	\$ 31,029	\$ 229.5	\$ 26	0.09%	
ALASKA	0.7	\$ 35,433	\$ 0.0	\$ 0	0.00%	
ARIZONA	6.0	\$ 30,157	\$ 0.0	\$ 0	0.00%	
ARKANSAS	2.8	\$ 26,641	\$ 0.0	\$ 0	0.00%	
HAWAII	1.3	\$ 34,468	\$ 0.0	\$ 0	0.00%	
MISSISSIPPI	2.9	\$ 24,925	\$ 0.0	\$ 0	0.00%	
NEVADA	2.4	\$ 35,780	\$ 0.0	\$ 0	0.00%	
UTAH	2.5	\$ 27,497	\$ 0.0	\$ 0	0.00%	
WYOMING	0.5	\$ 37,270	\$ 0.0	\$ 0	0.00%	
TOTALS	296.5	\$ 33,739	\$ 57,121.2	\$ 193	0.57%	

SOURCES: NORTH AMERICAN ASSOCIATION OF STATE AND PROVINCIAL LOTTERIES,
STATE RANKINGS 2007: A STATISTICAL VIEW OF THE 50 STATES

Legislation Affecting FY 2008 & Beyond

There were no major changes during the latest legislative session that will change the way lottery revenues are collected or distributed. One area that could potentially affect lottery revenues is the introduction of new, special cause games such as the Race for the Cure game. These games are insignificant currently but with each new game more revenue is diverted from the Common School Fund.

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. 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. The Governor re-iterated his proposal to privatize the lottery in his FY 2008 budget speech. After holding a Committee of the Whole, support for this proposal was found lacking in the spring legislative session of 2007.

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 15 years.

Can the lottery rebound in FY 2008? Since jackpot size and rollovers have a significant impact on sales, it is difficult to predict year-to-year success. The lottery's success in instant games in FY 2007 was offset by the drop in the Mega Millions game. Instant games are expected to continue to rise, while Mega Millions is expected to recover due to more rollovers. The Pick 3 game and the Pick 4 game have remained relatively stagnant for several years and it is expected that they will continue to maintain their current levels. Lotto has been decreasing steadily over the last 15 years and is expected to continue to lose revenue to other games. Little Lotto has been in the \$120 million to \$130 million range pretty steadily over the last 15 years and it is expected to remain.

HORSE RACING



HORSE RACING

Horse racing is the oldest form of legalized gaming in Illinois. Each year, nearly \$1 billion is wagered on horse racing at the State's numerous on-track and off-track wagering facilities. In calendar year 2006, Illinois horse racing wagering generated \$21.6 million in total revenues with the State receiving \$10.3 million and local governments receiving \$11.3 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 2006 horse racing revenues while Table 19 details State and local racing revenues over the past ten years.

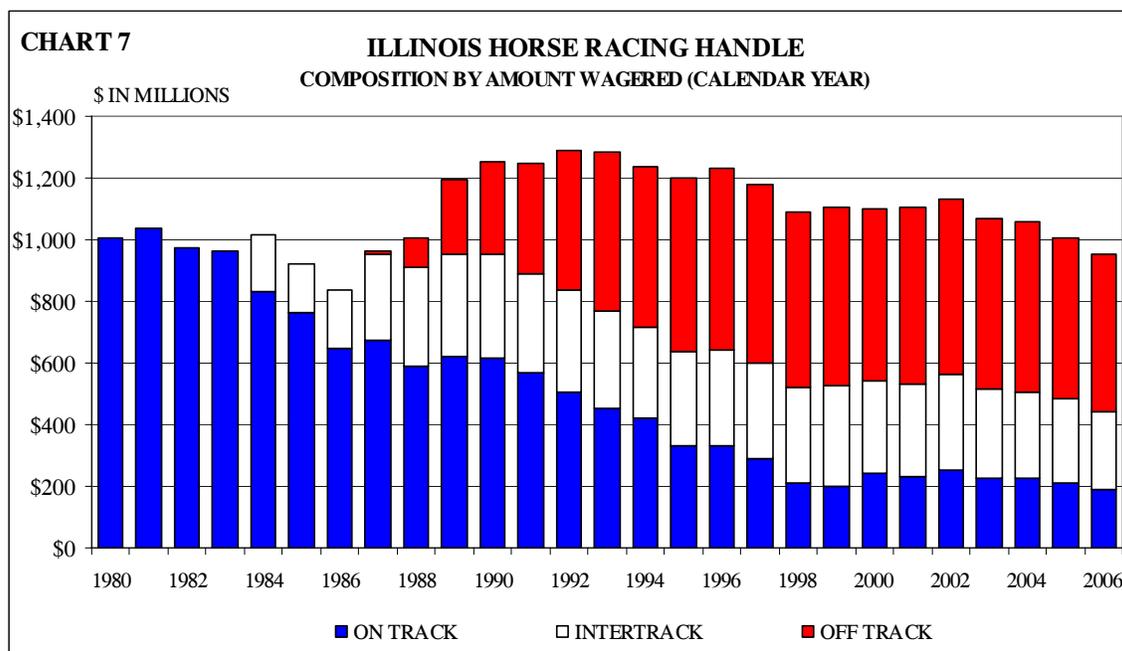
**TABLE 18: SOURCES AND ALLOCATION OF HORSE RACING
REVENUE FOR CALENDAR YEAR 2006**

REVENUE SOURCE	
LICENSE FEES	\$103,565
ADMISSION TAXES	\$94,664
PARI-MUTUEL TAX	\$13,589,301
PARI-MUTUEL TAX CREDIT	(\$3,910,705)
LICENSING	\$250,975
FINGERPRINT FEES	\$97,560
HORSEMEN'S FINES	\$116,445
MISCELLANEOUS	\$5,339
* TOTAL STATE	\$10,347,144
2% OF OTB HANDLE TO CITY AND COUNTY	\$10,191,692
CITY (CHICAGO) OTB ADMISSION TAX	\$415,348
ON TRACK CITY ADMISSION TAX	\$44,432
INTERTRACK SURCHARGE TO COUNTY (20%)	\$612,627
* TOTAL LOCAL	\$11,264,100
TOTAL REVENUES	\$21,611,244
ALLOCATION OF REVENUE	
HORSE RACING FUND	\$9,658,250
GENERAL REVENUE FUND	\$570,988
QUARTERHORSE BREEDERS' FUND	\$20,346
FINGERPRINT LICENSE FUND	\$97,560
* TOTAL STATE	\$10,347,144
TO CITIES	\$5,555,626
TO COUNTIES	\$5,708,474
* TOTAL LOCAL	\$11,264,100
TOTAL REVENUES ALLOCATED	\$21,611,244
SOURCE: ILLINOIS RACING BOARD - 2006 ANNUAL REPORT	

TABLE 19: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
TOTAL STATE REVENUE	\$45.1	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3
TOTAL LOCAL REVENUE	\$13.7	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3
* TOTAL REVENUES RECEIVED	\$58.8	\$55.4	\$56.0	\$26.1	\$26.4	\$25.7	\$25.1	\$25.1	\$23.4	\$21.6
TOTAL STATE ALLOCATIONS	\$45.1	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3
TOTAL LOCAL ALLOCATIONS	\$13.7	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3
TO CITIES	\$6.9	\$6.6	\$6.7	\$6.4	\$6.5	\$6.4	\$6.2	\$6.2	\$5.7	\$5.6
TO COUNTIES	\$6.8	\$6.7	\$6.9	\$6.3	\$6.4	\$6.4	\$6.2	\$6.2	\$5.9	\$5.7
*TOTAL REVENUES ALLOCATED	\$58.8	\$55.4	\$56.0	\$26.1	\$26.4	\$25.7	\$25.1	\$25.1	\$23.4	\$21.6

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

In its 2006 Annual Report, the Illinois Racing Board reported that 646 race programs were conducted during CY 2006 (down from 694 race programs in CY 2005). A total handle amount of \$952 million resulted, which was a decrease of 5% over the 2005 amount. As shown in Chart 7, this handle amount was the fourth consecutive year of declining revenues and the lowest experienced since 1986. This decline consisted of a 4% decrease in the thoroughbred handle and a 7% decline in the standardbred handle.

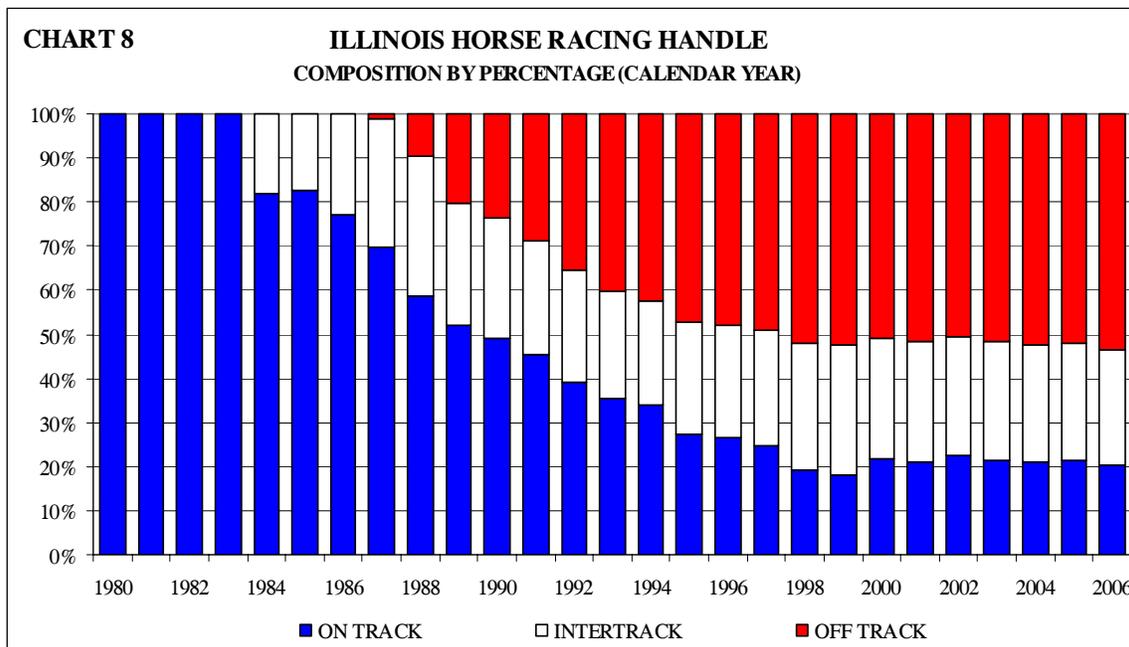


The Illinois Racing Board's latest report states that 27% or \$259.0 million of the total handle in CY 2006 was wagered on Illinois races. An additional \$844.8 million was wagered on Illinois races broadcast to other states, which was a decrease of 6% over CY 2005. The Board notes that 2006 was the sixth time 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 2006, the percentage of the total handle generated from on-track wagering fell from 39% to 20%. 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 54%. 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 2006, the Illinois Racing Board granted twenty-nine off-track licenses. The Racing Board’s Annual Report states that two new OTBs opened in 2006 (Normal and Niles) and two closed (Bloomington and Grayville). In 2007, Chicago’s State Street OTB and Danville’s OTB both closed. However, a new location opened in Rockport bringing the current total to 24. 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 13 additional OTB locations. A list of Illinois OTBs is 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* NORMAL** URBANA CHICAGO (CORLISS) DANVILLE*** PEORIA TINLEY PARK
FAIRMOUNT PARK	MADISON	ALTON CARBONDALE GRAYVILLE* SAUGET SPRINGFIELD
HAWTHORNE RACE COURSE	COOK	CHICAGO (STATE STREET)*** OAKBROOK TERRACE CRESTWOOD JOLIET PERU
MAYWOOD PARK	COOK	CHICAGO (WEST JACKSON) NILES** MOKENA AURORA
QUAD CITY DOWNS	ROCK ISLAND	MCHENRY SOUTH BELOIT ROCKFORD SOUTH ELGIN LOCKPORT****
* CLOSED IN 2006	*** CLOSED IN 2007	
** NEW IN 2006	**** NEW IN 2007	

The largest handle at Illinois tracks came from Arlington Racetrack with \$76.4 million, followed by Hawthorne (\$71.2 million), Balmoral (\$62.1 million), Maywood (\$29.4 million), Fairmount (\$18.2 million), and State/County fairs (\$1.7 million). The largest handle from out-of-state tracks came from Churchill (\$40.0 million), Belmont (\$30.9 million), Aqueduct (\$29.4 million), and Meadowlands (\$28.8 million).

Of all Illinois meets, thoroughbred races make up the largest percentage at 71.9% followed by harness races with 26.4% and quarterhorse races the remaining 1.7%.

What Will the Future Hold for Illinois Horse Racing?

As the declining numbers indicate, the horse racing industry in Illinois is struggling. Illinois' horse racing handle is down nearly 23% over the last 10 years and is at its lowest levels since 1986. Many of the racetracks are seriously considering, or are in the process of, making drastic cuts to their budget to stay in business. For example, in September 2007, the St. Louis Today reported that Fairmount Park has decided to scale back by a third the number of yearly race dates in 2008, from 90 days to 60. The article points out that as recently as a decade ago, the track hosted 214 race days. The track states that the reduction was needed, "because money isn't what it used to be in the horse racing business, thanks largely to neighboring casinos."

While there were many discussions on horse racing during the Spring 2007 legislative session, including a gaming committee specifically on the recent hardships of this industry, no significant revenue-related legislation was passed to help horseracing in Illinois. Last year, Illinois lawmakers made a concerted effort to revitalize the horse racing industry in Illinois by allowing riverboats to receive a portion of the revenues generated by riverboats. However, this subsidy has been ruled unconstitutional, and the revenues intended for horseracing have been placed in a protest fund until a final decision from the courts is reached.

A spokesman from the Illinois Racing Board stated that these new funds would have helped the Illinois horse racing become more competitive both regionally and nationally. By increasing the amount of purses offered, most in the industry believe that this would 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.

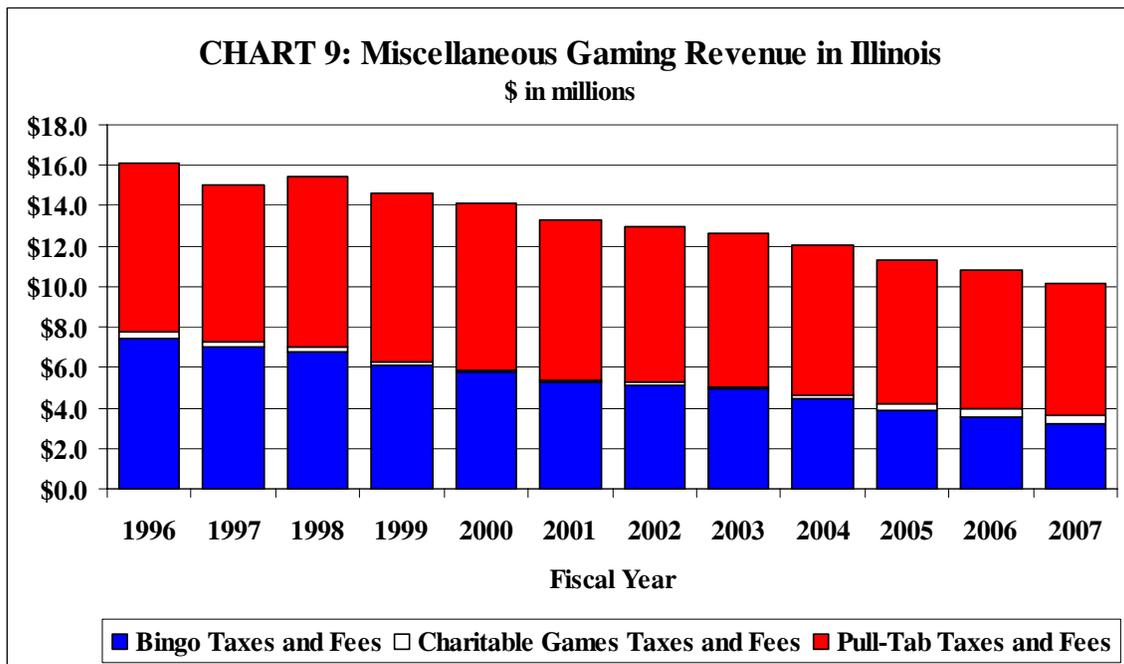
Until this money becomes available, the horse racing industry will continue to look for other ways to help their industry grow. Ideas already being discussed include allowing slots at the horse tracks, providing additional State subsidies, and introducing advance deposit wagering in Illinois where bettors 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 decline in the years to come.

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 2007, the State generated \$0.2 million in bingo license fees and \$3.1 million in bingo taxes. Total bingo receipts were down 9% from FY 2006 levels.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2007, the State received \$59,850 in license fees and \$306,241 from the charitable games tax. Total charitable games receipts were down 6.8% from FY 2006 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 2007, the State received \$0.5 million in license fees and \$6.0 million from the pull tabs and jar games tax. Total pull-tabs and jar games receipts were down 4% from FY 2006 levels.

In total, these miscellaneous gaming revenue sources generated approximately \$10.1 million in FY 2007. This figure is 6.1% below the FY 2006 total of \$10.8 million. In fact, as shown below in Chart 9, total miscellaneous gaming revenue has been on a steady downward trend with FY 2007 figures now at the lowest level experienced over the last ten years.



CONCLUSION

In conclusion, FY 2007 was another strong year for gaming revenues in Illinois. The combined \$1.3 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. Even though State transfers from these gaming sources were down 3.9% from 2006's record breaking levels, its combined totals are still 60% higher than they were just a decade ago. Much of this improvement is due the performance of the Illinois riverboats.

Adjusted gross receipts from Illinois riverboats reached a new high in FY 2007, generating \$1.96 billion. However, tax revenues from riverboats remain below levels experienced in the past because of the change in tax rates in FY 2006 from a maximum 70% graduated tax rate to the current 50% maximum tax rate. While FY 2007 State riverboats transfers were only \$14 million below FY 2005 levels, the difference would have been much wider if it were not for the hold harmless provision created under P.A. 94-0673, which guaranteed a certain amount of revenues to the State.

Illinois riverboats had to pay an additional \$94.3 million due to the hold-harmless provision in FY 2006 and an additional \$67.4 million in FY 2007. Therefore, without these payments, State revenues in FY 2006 and FY 2007 would have totaled only \$596 million and \$637 million, respectively, which would have been significantly lower than levels reached in FY 2005 under the higher tax rate. While the lower tax rates have brought in fewer revenues thus far, the performance of the riverboats has continued to improve since the tax rates have been dropped. In FY 2006, the first year of the reduced tax rates, Illinois' riverboat figures improved significantly as adjusted gross receipts increased 6.7% while admissions rose 3.9%. In FY 2007, the rebound continued as adjusted gross receipts increased 4.7% and admissions rose 2.8%.

The hold-harmless provision was established as a two-year program, thus, the provision is statutorily no longer in effect for FY 2008 and beyond. Current trends indicate that without the hold-harmless provision, State revenues may decline to approximately \$670 million in FY 2008. However, if the performance of the riverboats remain at its current pace, State revenues, even under the lower 50% maximum tax rate, will surpass the \$700 million mark by FY 2010, which is more than what was generated under the maximum 70% tax rate. This is assuming no further changes to the industry are implemented.

Although riverboat performance has improved over the last several years, there continues to be discussions on making several changes to the industry. There are two primary reasons for this. First, competition for the gaming dollar continues to grow as states surrounding Illinois have expanded their efforts to reel in the casino patron to their state through adding more riverboats/casinos near Illinois' border (Iowa, Missouri, and Michigan) or by allowing slot machines at their racetracks (Indiana). All of the changes create added pressure on Illinois's riverboats to do what is needed to keep pace or else risk seeing their gaming dollars cross borders to other states.

The other reason for making changes to the gaming industry is to generate additional revenues to the State. Most would agree that additional revenues are needed to rebuild

roads, improve schools, and fund the many different areas of need in Illinois. Year after year, gaming becomes the potential source that lawmakers look towards to bring these desired revenues to the State. The most prominent ideas to how these revenues could be generated include adding additional gaming positions at the current riverboat facilities, allowing slot machines at Illinois horse tracks, adding new riverboats/casinos, and reissuing the 10th license. Although prominent, these ideas continue to be met with controversy as any “expansion of gambling” in Illinois will be received with an abundance of scrutiny and pessimism.

As for the Lottery, the FY 2007 amount of \$1.984 billion was the second highest sales total realized since the inception of lottery in 1975. The largest dollar increase came from the Instant games, which rose \$42 million or 4.2%. The other game that showed a large amount of growth was Pick N Play which increased \$16.2 million or 110.5% over FY 2006. Mega Millions and Lotto, on the other hand, had relatively bad years. Mega Millions fell \$47.3 million, while Little Lotto fell \$13.2 million. These were declines of -19.5% and -10.8% over FY 2006. The \$47.3 million fall in Mega Millions accounts for a large portion of the \$47.9 million drop off in transfers to the Common School Fund. However, FY 2007’s transfer amount of \$622 million was still the second highest transfer amount in the program’s history.

While riverboat gambling and lottery sales continue to perform well, horse racing in Illinois continues to struggle. The CY 2006 handle amount of \$952 million was the lowest level experienced since 1986. All three components of horse-racing, off-track, inter-track, and on-track betting, experienced declines in 2006. Off-track betting continues to generate the largest handle composing 54% in 2006 followed by inter-track betting with 26% and on-track betting the remaining 20%. The largest handle at Illinois tracks came from Arlington Racetrack with \$76.4 million, followed by Hawthorne (\$71.2 million), Balmoral (\$62.1 million), Maywood (\$29.4 million), Fairmount (\$18.2 million), and State/County fairs (\$1.7 million).

What does the future hold for State gaming revenue? For riverboats, revenues should continue to improve, but there are obvious ways that additional revenues can be generated. The question becomes, is proposed increases in gaming devices and facilities good public policy? The lottery will likely remain solid as long as it continues to modify and develop new games and benefit from the revenue-producing excitement of Mega Million’s rollovers. As for the horseracing industry, it will likely continue to struggle unless significant changes (slots at the tracks, State subsidies, advance deposit wagering, etc.) are made. As with any year, much of the future success of gaming in Illinois depends on the decision of lawmakers on whether to make the changes necessary to help these State revenue sources. As always, 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>