

# WAGERING IN ILLINOIS 2008 UPDATE



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*Commission on Government Forecasting  
and Accountability*

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## TABLE OF CONTENTS

### ***WAGERING IN ILLINOIS: 2008 UPDATE***

	<u>PAGE</u>
Executive Summary	i
Introduction	1
Riverboat Gambling	5
Lottery	35
Horse Racing	43
Miscellaneous State Gaming	51
Conclusion	52

#### TABLES:

1	State Gaming Revenue	1
2	The Status of Illinois Gaming, Based on State Revenue, Gaming Hold and Per-Capita Spending	4
3	Illinois Riverboat Adjusted Gross Receipts (FY 2003 – FY 2008)	9
4	Illinois Riverboat Admissions (FY 2003 – FY 2008)	9
5	State Revenue Generated from Illinois Riverboats (FY 2003 – FY 2008)	10
6	Local Revenue Generated from Illinois Riverboats (FY 2003 – FY 2008)	10
7	Total Revenue Generated from Illinois Riverboats (FY 2003 – FY 2008)	10
8	Illinois Riverboats by Adjusted Gross Receipts and Admissions	12
9	Annual Percent Change of Riverboat State Revenues	13
10	Performance of Illinois Riverboats Since Smoking Ban Began	14
11	Performance of Casinos by Region Since Smoking Ban Began	15
12	Top 10 U.S. Casino Markets by Annual Revenue	19
13	Overview of Midwest Riverboat States	20
14	Adjusted Gross Receipts in the Quad City Region	21
15	Adjusted Gross Receipts in the St. Louis Region	22
16	Adjusted Gross Receipts in the Chicago Region	23
17	Lottery Sales by Game, Total Sales, Transfers and Percentage Transferred	37
18	Composition of Lottery Sales by Game	39
19	Per-Capita Sales as a Percentage of Personal Income (FY 2007)	41
20	Sources and Allocation of Horse Racing Revenue for CY 2007	45
21	Horse Racing Revenues and Associated Allocations by Calendar Year	46
22	Illinois Horse Racing Tracks and Associated OTB's	48

#### CHARTS:

1	Composition of Illinois Gaming Revenue	3
2	Illinois Riverboat Adjusted Gross Receipts and Admissions (FY 1999 – FY 2008)	11
3	Annual Percent Change of AGR for Illinois and Bordering States	18
4	AGR per Table Game and per Electronic Gaming Device	26
5	Current Number of Gaming Positions Used per Riverboat in the Chicago Region	27
6	FY 2008 Lottery Sales Distribution	38
7	Illinois Horse Racing Handle (Composition by Amount Wagered)	46
8	Illinois Horse Racing Handle (Composition by Percentage)	47
9	Miscellaneous Gaming Revenue in Illinois	51

## EXECUTIVE SUMMARY

The following document is the Commission's 2008 edition of Wagering in Illinois. In accordance with Senate Resolution 875 (87<sup>th</sup> 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 2008, the State's share of horse racing, lottery, and riverboat revenue reached \$1.230 billion, an \$86 million or 6.5% decrease from FY 2007 levels. The \$86 million decrease consisted of a \$35 million increase in lottery transfers to the Common School Fund, which was offset by a \$121 million decrease in State riverboat transfers to the Education Assistance Fund. Horse racing revenues held relatively flat.
- In FY 2008, lottery transfers comprised 53% of total gaming revenues, whereas riverboat transfers comprised 46%, and horse racing comprised of 1%. Overall gaming per-capita spending declined 5.3% in FY 2008 to a value of \$225. This was the first year of decline after three consecutive increases in per-capita spending.
- Statewide adjusted gross receipts (AGR) for Illinois riverboats in FY 2008 were down 7.5% while admissions were down 1.8% from FY 2007 levels. This is the first decline in these figures since FY 2004 (the first year of the two-year 70% maximum tax rate). State revenues from riverboat gambling totaled \$591.8 million, which was a 16.0% decline from FY 2007 levels and was the lowest amount generated since FY 2003.
- The hold-harmless provision, which guaranteed certain amounts of State revenues from riverboats, statutorily ended in FY 2007. If these hold-harmless payments are removed, the FY 2008 totals would have only been 6.7% below FY 2007 levels. However, this shows that the lack of hold-harmless payments was only part of the reason for the significant decline in FY 2008 State revenues. The indoor smoking ban, weather conditions, higher motor fuel prices, and the slowing economy were other contributing factors to the decline in State riverboat tax receipts.
- Illinois riverboats have struggled since the indoor smoking ban began on January 1, 2008. Adjusted gross receipts fell 17.5% and admissions declined 6.8% for the first six months of the smoking ban. For that same period, the adjusted gross receipts for the Chicago area riverboats were down 18.6% for the four Illinois boats in that region, while Indiana's four closest riverboats in the Chicago area were only down 0.2%.
- Using FY 2008 adjusted gross receipts as a guideline, Illinois made up 17.9% of total receipts in the Quad City region (compared to Iowa's 82.1%), 28.7% of total receipts in the St. Louis region (compared to Missouri's 71.3%), and 54.3% of total receipts in the Chicago region (compared to Indiana's 45.7%).

- Competition from other states in casino gambling is likely to intensify. Two new riverboats have or will open in Missouri near St. Louis in the next year. New casinos, within a short drive to Illinois' border, have also opened in Iowa and Michigan. In addition, Indiana has begun offering 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, which appears close to becoming a reality.
- 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 2008, lottery sales totaled approximately \$2.054 billion, a 2.8% increase from the FY 2007 total of \$1.998 billion. FY 2008 was the first year sales topped \$2 billion in the lottery's 33-year history. From this sum, 32% or \$657 million was transferred into the Common School Fund, a 5.5% increase from the FY 2007 transfer amount of \$622.6 million.
- The largest dollar increase in lottery sales came from the Instant games, which rose \$52 million or 5.0%. Mega Millions grew \$25 million or 12.8% over FY 2007. The St. Patrick's Raffle, Lotto, and Little Lotto experienced minimal growth. These increases offset losses from Pick N Play (-40%), Pick 3 (-3.1%), and the Pick 4 Game (-1.4%).
- Instant games continue to comprise the greatest percentage with 53.3% of lottery sales. The Pick 3 game had the second highest a percentage at 14.6%. Most of the remaining revenues come from Mega Millions (10.8%), the Pick 4 game (8.2%), Little Lotto (6.2%) and Lotto (5.4%).
- The Illinois Racing Board reported that 621 race programs were conducted during CY 2007. A total handle amount of \$929 million resulted, which was a decrease of 2.4% over the 2006 amount and the lowest amount experienced since 1986. The thoroughbred total handle (\$630M) dropped less than 1%, while the standardbred total handle (\$299M) dropped nearly 7%.
- Between 1992 and 2007, the percentage of the total handle generated from on-track wagering fell from 39% to 21%. This decline coincided with a dramatic increase in participation at off-track betting locations. Over the previously mentioned time frame, the percentage of the total handle generated at off-track wagering facilities increased from 35% to 55%. Despite this shift, inter-track wagering remained stable and generally comprised between 25% and 30% of the total handle.

## INTRODUCTION

Gaming in Illinois continues to be a significant source of revenue for the State of Illinois. In FY 2008, \$1.2 billion was deposited into the State's general funds from Illinois' gaming sources. This included \$564 million in riverboat transfers to the Education Assistance Fund, \$657 million in lottery transfers to the Common School Fund, and approximately \$9 million in State horse racing revenues. The combined amount of \$1.2 billion was a 6.5% decline over FY 2007 and marked the second consecutive year of a decline in combined gaming revenues after eight consecutive years of positive growth. The decline in FY 2008 was due to a significant drop in riverboat transfers to the Education Assistance Fund. Table 1 provides a history of State gaming revenues since 1975.

TABLE 1: STATE GAMING REVENUE (\$ in Millions)					
FISCAL YEAR	LOTTERY <sup>(1)</sup>	HORSE RACING <sup>(2)</sup>	RIVERBOAT <sup>(3)</sup>	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%
2008	\$657	\$9	\$564	\$1,230	-6.5%

(1) FIGURES REPRESENT TRANSFERS INTO THE COMMON SCHOOL FUND.  
(2) FIGURES EQUAL STATE REVENUE GENERATED, NOT ALLOCATED, BASED ON A CALENDER YEAR. THE 2007 FIGURE IS AN ESTIMATE.  
(3) FIGURES REPRESENT APPROPRIATIONS (FY 1992-FY 1995) AND TRANSFERS (FY 1996-FY 2008) 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 2008, the combined total of State revenues from riverboat gaming, lottery, and horse racing have increased 43% 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.

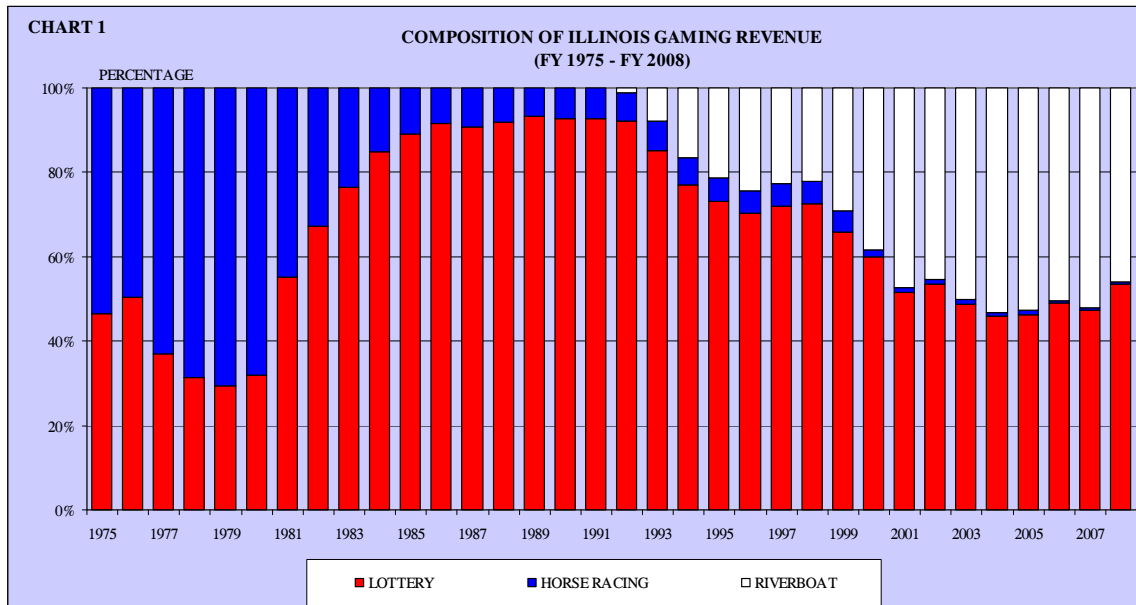
Since FY 2000, State lottery transfers have increased 27.6%, including a 21.7% increase between FY 2003 and FY 2008. The main reason for this was due to strong increases in FY 2006 and FY 2008. Much of the FY 2008 increase was due to a 5.0% increase in Instant game sales and a 12.8% increase in Mega Millions receipts.

While State riverboat transfers in FY 2008 are up 70.9% from FY 2000 levels, the \$121 million drop in transfers in FY 2008 was the largest decline ever for this revenue source. The FY 2008 transfer amount of \$564 million was the lowest level since FY 2003, the first year that the wagering tax rate was increased to 50%. The 17.7% decline in riverboat transfers between FY 2008 and FY 2007 is likely due to a combination of factors.

First of all, FY 2008 was the first year without the hold-harmless provision – a provision obligating riverboats to meet certain revenue amounts or pay the difference. Secondly, economic factors, including higher motor fuel prices have lessened the amount of discretionary spending that consumers are willing to spend on riverboats. Thirdly, extreme weather conditions throughout the fiscal year, including a wet spring on top of a harsh winter likely contributed to weaker attendance levels. Finally, and possibly most significantly, the indoor smoking ban which took effect on January 1, 2008, has had a major impact on the riverboat industry. Statistics supporting this suggested factor are discussed later in the report.

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. After years of the lottery being the top revenue producer of gaming revenues, FY 2003 was the first year that riverboat revenues surpassed lottery revenues as the largest revenue source. However, the decline in riverboat transfers in FY 2008 again placed the lottery as the largest contributor of gaming revenues in Illinois. In FY 2008, lottery transfers comprised 53% of total gaming revenues, whereas riverboat transfers comprised 46%, and horse racing comprised of 1%. This is in contrast to 1993 when lottery transfers amounted to 85%, riverboats 8%, and horse racing 7%. While horse racing generally comprises the smallest percentage of total gaming revenues, its lower levels over the 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 utilized 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 2008 State gaming revenues totaled \$1.230 billion. The gaming industry’s FY 2008 gaming hold total of \$2.898 billion declined approximately 5.2% from FY 2007 levels. Per-capita spending declined 5.3% to approximately \$225 in FY 2008. This was the first decline in per-capita spending after three consecutive years of increases.

As the riverboat industry takes a more prominent role in generating gaming revenues in Illinois, the volatility of the gaming hold and per-capita spending becomes mostly dependent on the behavior of the riverboats. For example, the 5.2% decline in overall per-capita spending was due mostly because of the large decline in the gaming hold (adjusted gross receipts) of the riverboats (-7.6%). However, declines in the gaming hold of lottery (-0.6%) and horse racing (-2.1%) also contributed to the overall decline in the gaming hold in FY 2008.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*
<b>POPULATION (IN MILLIONS)</b>	12.13	12.44	12.52	12.60	12.65	12.71	12.76	12.83	12.85	12.87
<b>HORSE RACING (CY)</b>										
STATE REVENUE (IN MILLIONS)	\$ 42	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 12	\$ 11	\$ 9	\$ 9
GAMING HOLD (IN MILLIONS)	\$ 247	\$ 247	\$ 248	\$ 252	\$ 240	\$ 238	\$ 225	\$ 215	\$ 209	\$ 204
% CHANGE IN GAMING HOLD	1.9%	-0.2%	0.3%	1.8%	-4.9%	-0.8%	-5.3%	-4.4%	-3.0%	-2.1%
** PER-CAPITA SPENDING	\$ 20.4	\$ 19.8	\$ 19.8	\$ 20.0	\$ 18.9	\$ 18.7	\$ 17.6	\$ 16.8	\$ 16.2	\$ 15.9
% CHANGE IN PER-CAPITA SPENDING	1.4%	-2.7%	-0.4%	1.1%	-5.2%	-1.3%	-5.7%	-5.0%	-3.2%	-2.2%
<b>LOTTERY (FY)</b>										
TRANSFERS TO CSF (IN MILLIONS)	\$ 540	\$ 515	\$ 501	\$ 555	\$ 540	\$ 570	\$ 614	\$ 670	\$ 622	\$ 657
GAMING HOLD (IN MILLIONS)	\$ 704	\$ 674	\$ 658	\$ 722	\$ 705	\$ 735	\$ 803	\$ 920	\$ 890	\$ 884
% CHANGE IN GAMING HOLD	-5.0%	-4.2%	-2.4%	9.8%	-2.4%	4.3%	9.2%	14.6%	-3.3%	-0.6%
** PER-CAPITA SPENDING	\$ 58.0	\$ 54.2	\$ 52.5	\$ 57.3	\$ 55.7	\$ 57.8	\$ 62.9	\$ 71.7	\$ 69.2	\$ 68.7
% CHANGE IN PER-CAPITA SPENDING	-5.5%	-6.6%	-3.0%	9.1%	-2.7%	3.8%	8.8%	14.0%	-3.4%	-0.8%
<b>RIVERBOATS (FY)</b>										
AMOUNT TO EAF & CSF (IN MILLIONS)	\$ 240	\$ 330	\$ 460	\$ 470	\$ 554	\$ 661	\$ 699	\$ 689	\$ 685	\$ 564
GAMING HOLD (IN MILLIONS)	\$ 1,171	\$ 1,589	\$ 1,713	\$ 1,834	\$ 1,798	\$ 1,657	\$ 1,752	\$ 1,870	\$ 1,958	\$ 1,810
% CHANGE IN GAMING HOLD	9.9%	35.6%	7.8%	7.1%	-2.0%	-7.8%	5.7%	6.8%	4.7%	-7.6%
** PER-CAPITA SPENDING	\$ 96.6	\$ 127.8	\$ 136.8	\$ 145.5	\$ 142.1	\$ 130.3	\$ 137.3	\$ 145.8	\$ 152.3	\$ 140.6
% CHANGE IN PER-CAPITA SPENDING	9.4%	32.3%	7.1%	6.4%	-2.3%	-8.3%	5.3%	6.2%	4.5%	-7.7%
<b>ALL WAGERING</b>										
TOTAL REVENUE (IN MILLIONS)	\$ 822	\$ 858	\$ 974	\$ 1,038	\$ 1,107	\$ 1,244	\$ 1,325	\$ 1,370	\$ 1,316	\$ 1,230
GAMING HOLD (IN MILLIONS)	\$ 2,122	\$ 2,510	\$ 2,618	\$ 2,808	\$ 2,742	\$ 2,630	\$ 2,780	\$ 3,005	\$ 3,056	\$ 2,898
% CHANGE IN GAMING HOLD	3.6%	18.2%	4.3%	7.2%	-2.3%	-4.1%	5.7%	8.1%	1.7%	-5.2%
** PER-CAPITA SPENDING	\$ 175.0	\$ 201.8	\$ 209.1	\$ 222.8	\$ 216.8	\$ 206.9	\$ 217.8	\$ 234.2	\$ 237.8	\$ 225.2
% CHANGE IN PER-CAPITA SPENDING	3.1%	15.3%	3.6%	6.5%	-2.7%	-4.6%	5.3%	7.5%	1.5%	-5.3%
*THE FY 2008 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 affected Illinois casinos. This is followed by an analysis of FY 2008 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. Included is a detailed analysis on the impact of the indoor smoking ban. 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 are struggling. Also included is a table showing how Illinois compares to other states in per-capita sales as a percentage of personal income.

The horse racing section looks at how the horse racing industry performed in CY 2007 compared to past years. It identifies the top horse tracks in Illinois in terms of total handle, as well as identifying the components that make up the handle. The section also discusses the riverboat impact fee that is to be paid to the horse tracks but has been held up in the courts.

# 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; multiple changes to the wagering and admission tax rate structure, and the hold harmless provision in FY 2006 and FY 2007.

Since many of these topics were covered in earlier Commission reports, this section of the report will focus on the recent changes affecting FY 2008 and beyond. This includes a detailed look at the indoor smoking ban and the impact that this law appears to have had on the riverboat industry through the first half-year of the law's existence. It discusses the competition that exists from other states and how Illinois compares on a region-by-region basis. It then identifies the various ideas for gaming expansion and the factors that are considered in choosing certain areas of expansion. The section opens by providing a basic summary of Illinois' riverboat tax structure, as well as a synopsis of FY 2008 riverboat statistics and how these numbers compare to years past.

**Wagering Tax Graduated Structure:** 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%

Local governments receive 5% of the AGR of the riverboats with the State receiving the remainder of the wagering tax revenue.

**Admission Tax Rate:** Under P.A. 94-0673, the admission tax was reduced from \$3 to \$2 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 admission tax revenues.

**Hold Harmless Provision to Wagering Tax (Expired):** The hold-harmless provision, which was in effect for FY 2006 and FY 2007, stated that, in addition to the amounts collected from the wagering tax rate, each riverboat had to pay to the Illinois Gaming Board a certain amount of money, or pay the difference. 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 statutorily ended on July 1, 2007.

**Impact Fee to Horse Racing Equity Trust Fund:** P.A. 94-0804 provided 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.

The four Chicago-area casinos affected by this public act filed a lawsuit with the Illinois State Court challenging the new provision as unconstitutional. In March 2007, the courts ruled that P.A. 94-0804 violated the Uniformity Clause of the Constitution in its classification of taxed vs. non-taxed. However, in June 2008, this decision was overturned by the Illinois Supreme Court, which ruled that the casinos failed to prove there was no real difference between the Chicago-area and downstate casinos.

In July 2008, the casinos filed a motion which asks the court to reconsider their ruling. It is not immediately known when the courts will respond to this motion. Until litigation is complete, monies collected from the 3% tax will remain in a protest fund. Over \$76 million has been placed in this protest fund since it was first collected in June 2006. The two-year period for the subsidy was statutorily over in June 2008, unless new legislation extends this impact fee to future years.

## 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 2003 thru 2008 based on 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 2003 - FY 2008)						
(\$ in millions)						
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
ELGIN	\$383.2	\$389.0	\$408.1	\$415.7	\$436.1	\$396.2
JOLIET HARRAH'S	\$305.0	\$249.2	\$292.3	\$332.9	\$364.6	\$349.2
AURORA	\$280.4	\$221.4	\$231.8	\$250.2	\$272.6	\$249.4
JOLIET EMPRESS	\$237.3	\$218.5	\$232.1	\$256.8	\$252.6	\$210.8
EAST ST. LOUIS	\$157.9	\$163.5	\$165.4	\$172.2	\$172.1	\$185.2
METROPOLIS	\$134.3	\$140.4	\$140.5	\$152.2	\$166.7	\$151.9
EAST PEORIA	\$144.0	\$132.8	\$132.3	\$133.4	\$130.3	\$125.1
ALTON	\$116.1	\$103.6	\$110.4	\$117.6	\$125.4	\$109.0
ROCK ISLAND	\$39.5	\$38.9	\$39.3	\$39.4	\$37.6	\$33.4
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$1,797.7	\$1,657.2	\$1,752.2	\$1,870.4	\$1,958.1	\$1,810.4
% INCREASE	-2.0%	-7.8%	5.7%	6.7%	4.7%	-7.5%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 4: ILLINOIS RIVERBOAT ADMISSIONS (FY 2003 - FY 2008)						
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
ELGIN	2,765,342	2,854,598	2,795,134	2,677,440	2,531,559	2,375,400
JOLIET HARRAH'S	3,007,687	1,831,518	2,073,659	2,417,781	2,816,788	2,896,912
AURORA	2,490,552	1,446,951	1,428,536	2,082,147	1,860,184	1,745,324
JOLIET EMPRESS	2,219,458	1,666,841	1,828,809	1,726,414	2,164,586	1,920,951
EAST ST. LOUIS	2,023,378	2,152,041	2,122,913	2,098,942	2,024,667	2,457,774
METROPOLIS	1,450,530	1,394,316	1,214,268	1,184,008	1,412,307	1,265,813
EAST PEORIA	1,887,695	1,682,744	1,584,379	1,432,655	1,342,423	1,370,631
ALTON	1,601,270	1,381,943	1,424,604	1,476,971	1,455,514	1,325,645
ROCK ISLAND	807,731	763,370	746,355	716,949	649,612	612,551
TENTH LICENSE	0	0	0	0	0	0
TOTAL	18,253,643	15,174,322	15,218,657	15,813,307	16,257,640	15,971,001
% INCREASE	-4.6%	-16.9%	0.3%	3.9%	2.8%	-1.8%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 5: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2003 - FY 2008)  
(\$ in millions)

	FY 2003	FY 2004	FY 2005	FY 2006*	FY 2007*	FY 2008
ELGIN	\$144.2	\$194.5	\$206.8	\$204.2	\$203.1	\$149.8
JOLIET HARRAH'S	\$109.4	\$105.3	\$125.0	\$119.6	\$134.5	\$130.2
AURORA	\$95.8	\$86.6	\$90.5	\$90.5	\$91.2	\$84.3
JOLIET EMPRESS	\$76.9	\$85.2	\$91.8	\$89.7	\$90.3	\$68.2
EAST ST. LOUIS	\$42.7	\$61.6	\$62.7	\$53.0	\$52.5	\$55.1
METROPOLIS	\$33.9	\$48.5	\$49.0	\$47.6	\$47.8	\$41.7
EAST PEORIA	\$37.7	\$47.3	\$46.2	\$46.1	\$45.7	\$31.1
ALTON	\$28.1	\$33.3	\$35.4	\$34.2	\$33.9	\$26.7
ROCK ISLAND	\$6.7	\$7.3	\$7.1	\$5.9	\$5.5	\$4.8
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$575.3	\$669.7	\$714.6	\$690.7	\$704.5	\$591.8
% INCREASE	24.9%	16.4%	6.7%	-3.3%	2.0%	-16.0%

\* Includes Hold-Harmless Revenues

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 6: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2003 - FY 2008)  
(\$ in millions)

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
ELGIN	\$21.9	\$22.3	\$23.2	\$23.5	\$24.3	\$22.2
JOLIET HARRAH'S	\$18.3	\$14.3	\$16.7	\$19.1	\$21.0	\$20.4
AURORA	\$16.5	\$12.5	\$13.0	\$14.6	\$15.5	\$14.2
JOLIET EMPRESS	\$14.1	\$12.6	\$13.4	\$14.6	\$14.8	\$12.5
EAST ST. LOUIS	\$9.9	\$10.3	\$10.4	\$10.7	\$10.6	\$11.7
METROPOLIS	\$8.2	\$8.4	\$8.2	\$8.8	\$9.7	\$8.9
EAST PEORIA	\$9.1	\$8.3	\$8.2	\$8.1	\$7.9	\$7.6
ALTON	\$7.4	\$6.6	\$6.9	\$7.4	\$7.7	\$6.8
ROCK ISLAND	\$2.8	\$2.7	\$2.7	\$2.7	\$2.5	\$2.3
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$108.1	\$98.0	\$102.8	\$109.3	\$114.2	\$106.5
% INCREASE	-2.4%	-9.3%	4.9%	6.3%	4.4%	-6.7%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 7: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2003 - FY 2008)  
(\$ in millions)

	FY 2003	FY 2004	FY 2005	FY 2006*	FY 2007*	FY 2008
ELGIN	\$166.1	\$216.8	\$230.0	\$227.7	\$227.4	\$171.9
JOLIET HARRAH'S	\$127.7	\$119.6	\$141.7	\$138.7	\$155.5	\$150.5
AURORA	\$112.3	\$99.1	\$103.5	\$105.1	\$106.7	\$98.5
JOLIET EMPRESS	\$91.0	\$97.8	\$105.3	\$104.3	\$105.1	\$80.7
EAST ST. LOUIS	\$52.6	\$72.0	\$73.1	\$63.7	\$63.2	\$66.8
METROPOLIS	\$42.0	\$56.9	\$57.2	\$56.3	\$57.6	\$50.6
EAST PEORIA	\$46.7	\$55.7	\$54.4	\$54.2	\$53.5	\$38.7
ALTON	\$35.5	\$39.9	\$42.4	\$41.5	\$41.6	\$33.5
ROCK ISLAND	\$9.5	\$10.0	\$9.8	\$8.6	\$8.0	\$7.0
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$683.4	\$767.7	\$817.4	\$800.1	\$818.6	\$698.2
% INCREASE	19.6%	12.3%	6.5%	-2.1%	2.3%	-14.7%

\* Includes Hold-Harmless Revenues

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

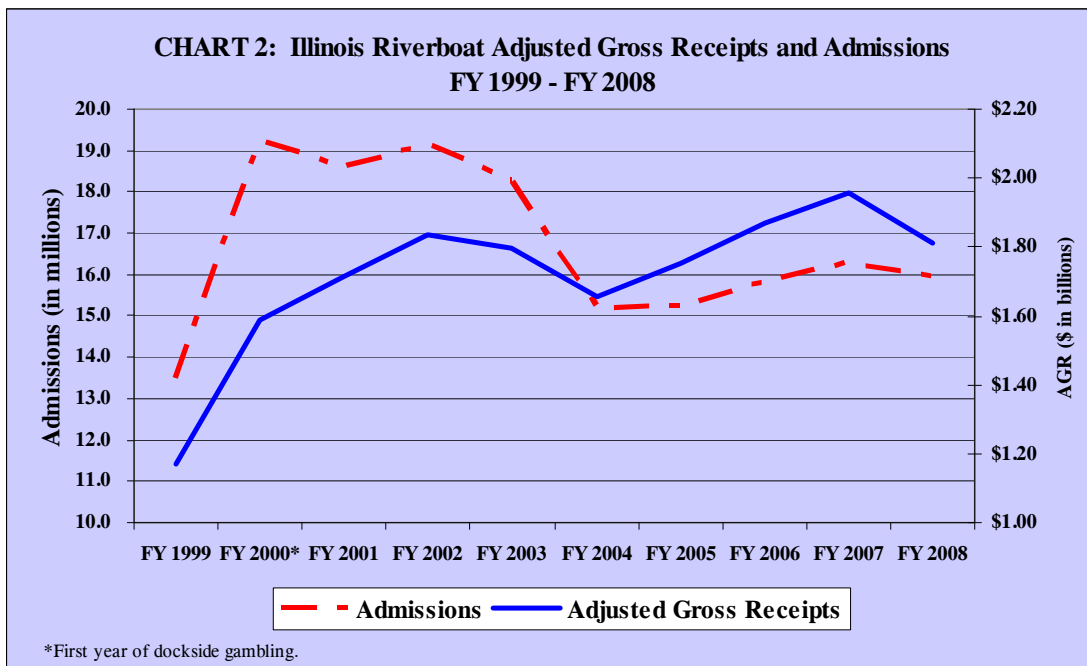


**Statewide Perspective**

Over the last several years, the environment for Illinois riverboats has been a tumultuous one. Many factors, including dockside gambling, tax increases and decreases, hold harmless provisions, smoking bans, extreme weather conditions, etc. has led to dramatic fluctuations in the performance of the State’s riverboats, specifically, in terms of adjusted gross receipts.

For example, in the first full fiscal year that the wagering tax rate was increased to as much as 70% (FY 2004), adjusted gross receipts Statewide fell 7.8%. In FY 2005, receipts bounced back, increasing 5.7%, but its totals were still below levels experienced before the tax rate increase. Consequently, the tax rate 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% in FY 2006. In FY 2007, the rebound continued as adjusted gross receipts increased 4.7%.

Through the first portion of FY 2008 this growth continued as adjusted gross receipts were up 4.2% for the first quarter. Although growth slowed for the second quarter, adjusted gross receipts were still up 2.7% for the first half of the fiscal year. However, things changed dramatically in the second half of the fiscal year. By the end of FY 2008, adjusted gross receipts were down 7.5% Statewide due to the 17.5% decline in adjusted gross receipts totals for the second half of the fiscal year (January thru June). In addition, admissions also fell in FY 2008, down 1.8% for the fiscal year, but down 6.8% for the second half of the fiscal year. A graph depicting how AGR and admission figures have changed between FY 1999 and FY 2008 is shown below.



### Boat-by-Boat Perspective

As stated previously, adjusted gross receipts fell 7.5% in FY 2008. Looking at the riverboats individually, the largest decreases in adjusted gross receipts came from Joliet Empress (-16.5%), Alton (-13.1%), Rock Island (-11.2%), Elgin (-9.1%), Metropolis (-8.9%), and Aurora (-8.5%). Other decreases came from Joliet Harrah's (-4.2%) and East Peoria (-4.0%). Only one Illinois riverboat experienced an increase in adjusted gross receipts in FY 2008, the Casino Queen in East St. Louis. The 7.6% increase in adjusted gross receipts for the Casino Queen was in most part, likely due to their brand new riverboat which opened in August 2007.

Attendance wise, Statewide totals at first glance do not look that bad, down only 1.8% for the fiscal year. However, a deeper look shows that most of the growth in attendance came from the Casino Queen (up 21.4% for the fiscal year). Other slight increases came from Joliet Harrah's (2.8%) and East Peoria (2.1%). More than offsetting the attendance growth from these three riverboats were Joliet Empress (-11.3%), Metropolis (-10.4%), Alton (-8.9%), Aurora (-6.2%), Elgin (-6.2%), and Rock Island (-5.7%).

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

<b>TABLE 8: ILLINOIS RIVERBOATS BY ADJUSTED GROSS RECEIPTS AND ADMISSIONS: PERCENTAGE CHANGE COMPARISON</b>						
<b>ADJUSTED GROSS RECEIPTS</b>						
	<b>Annual Percent Change</b>					
	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
ELGIN	-9.1%	1.5%	4.9%	1.9%	4.9%	-9.1%
JOLIET HARRAH'S	-4.1%	-18.3%	17.3%	13.9%	9.5%	-4.2%
AURORA	11.9%	-21.0%	4.7%	10.8%	6.2%	-8.5%
JOLIET EMPRESS	-5.3%	-7.9%	6.2%	7.8%	0.9%	-16.5%
EAST ST. LOUIS	1.3%	3.6%	1.1%	4.1%	0.0%	7.6%
METROPOLIS	1.2%	4.5%	0.1%	8.3%	9.5%	-8.9%
EAST PEORIA	-0.6%	-7.8%	-0.4%	0.9%	-2.3%	-4.0%
ALTON	-4.4%	-10.8%	6.5%	6.6%	6.6%	-13.1%
ROCK ISLAND	4.3%	-1.4%	1.0%	0.1%	-4.4%	-11.2%
TENTH LICENSE	N/A	N/A	N/A	N/A	N/A	N/A
<b>TOTAL</b>	<b>-2.0%</b>	<b>-7.8%</b>	<b>5.7%</b>	<b>6.7%</b>	<b>4.7%</b>	<b>-7.5%</b>
<b>ADMISSIONS</b>						
	<b>Annual Percent Change</b>					
	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
ELGIN	-16.5%	3.2%	-2.1%	-4.2%	-5.4%	-6.2%
JOLIET HARRAH'S	-3.7%	-39.1%	13.2%	16.6%	16.5%	2.8%
AURORA	-0.4%	-41.9%	-1.3%	20.9%	7.7%	-6.2%
JOLIET EMPRESS	1.4%	-24.9%	9.7%	13.9%	4.0%	-11.3%
EAST ST. LOUIS	0.5%	6.4%	-1.4%	-1.1%	-3.5%	21.4%
METROPOLIS	-5.0%	-3.9%	-12.9%	-2.5%	19.3%	-10.4%
EAST PEORIA	-3.1%	-10.9%	-5.8%	-9.6%	-6.3%	2.1%
ALTON	-5.4%	-13.7%	3.1%	3.7%	-1.5%	-8.9%
ROCK ISLAND	-2.9%	-5.5%	-2.2%	-3.9%	-9.4%	-5.7%
TENTH LICENSE	N/A	N/A	N/A	N/A	N/A	N/A
<b>TOTAL</b>	<b>-4.6%</b>	<b>-16.9%</b>	<b>0.3%</b>	<b>3.9%</b>	<b>2.8%</b>	<b>-1.8%</b>
SOURCE: ILLINOIS GAMING BOARD						

## Revenue Analysis

Illinois' declining adjusted gross receipt figures have had a direct impact on State revenues. In FY 2008, State revenues from riverboat gambling came in much below initial estimates, totaling \$591.8 million, which was a 16.0% decline from the FY 2007 level of \$704.5 million. This was the lowest amount of State revenues collected since FY 2003. Below is a table showing the annual percentage changes in State revenues over the last four fiscal years on a boat-by-boat basis.

	FY 2005 STATE REVENUE	Annual % change	FY 2006 STATE REVENUE*	Annual % change	FY 2007 STATE REVENUE*	Annual % change	FY 2008 STATE REVENUE	Annual % change
ELGIN	\$206.8	6.3%	\$204.2	-1.3%	\$203.1	-0.6%	\$149.8	-26.3%
JOLIET HARRAH'S	\$125.0	18.7%	\$119.6	-4.3%	\$134.5	12.4%	\$130.2	-3.2%
AURORA	\$90.5	4.5%	\$90.5	0.0%	\$91.2	0.8%	\$68.2	-25.2%
JOLIET EMPRESS	\$91.8	7.8%	\$89.7	-2.3%	\$90.3	0.7%	\$84.3	-6.7%
EAST ST. LOUIS	\$62.7	1.8%	\$53.0	-15.5%	\$52.5	-0.9%	\$55.1	4.8%
METROPOLIS	\$49.0	1.0%	\$47.6	-3.0%	\$47.8	0.6%	\$41.7	-12.8%
EAST PEORIA	\$46.2	-2.4%	\$46.1	-0.2%	\$45.7	-0.9%	\$31.1	-32.0%
ALTON	\$35.4	6.3%	\$34.2	-3.5%	\$33.9	-0.8%	\$26.7	-21.2%
ROCK ISLAND	\$7.1	-2.7%	\$5.9	-17.7%	\$5.5	-6.8%	\$4.8	-13.0%
<b>TOTAL</b>	<b>\$714.6</b>	<b>6.7%</b>	<b>\$690.7</b>	<b>-3.3%</b>	<b>\$704.5</b>	<b>2.0%</b>	<b>\$591.8</b>	<b>-16.0%</b>
\$ Change over Prior Year	\$44.9		-\$23.9		\$13.8		-\$112.7	
<i>* Includes Hold-Harmless Revenues</i>								

Source: Illinois Gaming Board Monthly Riverboat Casino Report

*(Note: The 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 as shown in Table 1. For example, June FY 2008 activity may be receipted and transferred into the State Gaming Fund in July FY 2009. 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 previous two fiscal years, the State revenue totals of \$690.7 million and \$704.5 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.

**If these hold-harmless payments are removed from the above totals, the FY 2008 total of \$591.8 million would have only been 6.7% below FY 2007 levels, rather than the 16.0% decline shown above. However, this shows that the lack of hold-harmless payments in FY 2008 is only part of the reason for the significant decline**

**in FY 2008 State revenues.** As discussed previously, other factors, such as the indoor smoking ban and the slowing economy, are other contributing factors to the decline in State receipts.

**Reasons for the FY 2008 Declines**

Several factors contributed to the dramatic turnaround in riverboat figures in FY 2008. The struggling economy along with the higher motor fuel prices likely lowered the amount of income that consumers felt that they could afford to spend on gambling. The 2007-2008 winter season was particularly harsh, producing several weekend storms that likely prevented gaming during normally busy weekend periods. The historic rains during the Spring/Summer of 2008 undoubtedly hurt the Illinois riverboats affected by flooding in those areas. However, it appears that the biggest factor that has affected Illinois casinos is the Statewide smoking ban that went into effect on January 1, 2008.

As discussed previously, Illinois riverboats have struggled since the beginning of the calendar year. As shown below, adjusted gross receipts for Illinois riverboats fell a combined 17.5% for the first six months of the indoor smoking ban. Admissions declined 6.8% compared to this time period a year prior. Every Illinois riverboat, besides the Casino Queen in East St. Louis, experienced double-digit losses in adjusted gross receipts during the first six months of CY 2008. Even the Casino Queen, which was the only Illinois riverboat to finish with positive growth in adjusted gross receipts for the fiscal year, also experienced a 4.4% decline in adjusted gross receipts during the second half of FY 2008, despite its brand new facility.

<b>Table 10: Performance of Illinois Riverboats Since Smoking Ban Began</b>		
<i>(January-June 2008 vs. January-June 2007)</i>		
	Adjusted Gross Receipts	Admissions
	Annual % Change	Annual % Change
ALTON	-26.0%	-15.5%
EAST PEORIA	-11.3%	-0.3%
ROCK ISLAND	-12.6%	-3.4%
JOLIET EMPRESS	-23.4%	-17.6%
METROPOLIS	-21.9%	-22.3%
JOLIET HARRAH'S	-16.8%	-6.6%
AURORA	-16.7%	-7.6%
EAST ST. LOUIS	-4.4%	17.2%
ELGIN	-18.5%	-7.0%
<b>TOTAL</b>	<b>-17.5%</b>	<b>-6.8%</b>

These figures appear to indicate that the smoking ban has had a significant impact on State riverboat performance. By enforcing an indoor smoking ban at Illinois casinos, many believe that this action may be enticing smoking gamblers to go to other states to gamble. While it is impossible to know how much of Illinois' large decline in riverboat figures is directly attributable to the smoking ban, a look at the three major riverboat

regions throughout the State and how Illinois' riverboat figures compare to states bordering these areas (without a smoking ban) may offer some perspective.

<b>Table 11: Performance of Casinos by Region Since Smoking Ban Began</b> <i>(January-June 2008 vs. January-June 2007)</i>		
	Adjusted Gross Receipts Annual % Change	Admissions Annual % Change
Chicago-Area (Illinois)	-18.6%	-9.4%
Chicago-Area (Indiana)	-0.2%	0.6%
St. Louis-Area (Illinois)	-13.7%	3.3%
St. Louis-Area (Missouri)	12.6%	18.4%
Quad City-Area (Illinois)	-12.6%	-3.4%
Quad City-Area (Iowa)	1.2%	-7.6%

In the Chicago region, Illinois' four riverboat's AGR are down a combined 18.6% for the first six months after the indoor smoking ban went into effect. However, Indiana's Chicago area riverboats are only down 0.2% thru the first six months of 2008 (see the table above). While the Chicago Area region was affected by many factors that hurt both Illinois and Indiana's riverboat performance (economy, motor fuel prices, weather, etc), there is one major difference between the two states: the smoking ban. Therefore, it appears that the smoking ban is the major contributing factor for the large discrepancy between Illinois and Indiana's riverboat figures so far this calendar year.

Also, as shown above, a similar argument can be made for the St. Louis region and the Quad City region. Illinois' AGR figures for CY 2008 are down 13.7% for Illinois' two St. Louis area riverboats. However, the AGR of Missouri's St. Louis region riverboats are up 12.6% (although, a portion of this significant increase in Missouri is due to a new riverboat in St. Louis). For the Quad City region, Rock Island's AGR is down 12.6% in 2008, while the AGR for the two Iowa riverboats in the Quad City region are up a combined 1.2% (despite the temporary closing of the Bettendorf, Iowa casino due to flooding). Again, the smoking ban is likely the main contributing factor for the difference between the performance of riverboats in Illinois and the neighboring states.

The smoking ban impacts the gaming industry because of the high percentage of casino patrons that also smoke and desire to do so when gambling. The American Gaming Association has estimated that 35 to 40 percent of casino customers nationwide smoke, compared with roughly 20 percent of the general population. Some Illinois casinos indicated in the past that they believe that as much as 60% to 70% of their patrons smoked while attending their riverboats.

### *Why Are the St. Louis Market Figures So Different?*

Again, looking at Illinois' riverboats on a boat-by-boat basis, all nine of Illinois' operating riverboats have brought in less revenue in CY 2008 than they did during this same time period in CY 2007. The declines have been as large as 26.0% in Alton to only 4.4% at the East St. Louis location. At first glance, it may appear odd that two locations in the same general market would have such a significant difference in rates of change, but a more detailed look indicates that the St. Louis Market has experienced several significant changes in the gaming industry over the past year.

A major reason to why East St. Louis has not seen the large levels of decline as experienced by other riverboats is because East St. Louis' riverboat, the Casino Queen, opened a brand new facility in August 2007. Following a fiscal year of no growth in adjusted gross receipts (AGR) and a 3.5% drop in admissions in FY 2007, the excitement over the brand new facility brought in new growth, in both admissions and receipts, for the riverboat. Through the first half of the fiscal year, adjusted gross receipts rose 19.6% while admissions increased 25.3% compared to the previous year.

However, after the calendar year began, the strong numbers, especially for adjusted gross receipts, dramatically changed. Again, the Casino Queen's AGR levels have fallen 4.4% since the calendar year began. Comparing the Casino Queen's figures with the other Illinois riverboats, a 4.4% decline does not look that bad. But considering that the brand new casino, which typically is a sure way of generating new revenues, has actually generated less revenue in the last six months than it did at its old facility, the disappointment in these figures can be understood. If East St. Louis did not have a new facility to generate excitement, it is likely that the Casino Queen's AGR figures would have been in line with the other disappointing AGR figures experienced throughout the State.

Why have East St. Louis' riverboat figures fallen after such a promising start to the fiscal year? There are two major contributing factors. The first, as previously discussed, is due to the smoking ban. The second is due to Lumiere Place, a brand new casino which opened in December directly across the Mississippi River in St. Louis, Missouri. This new casino generated \$86.1 million in adjusted gross receipts in the first seven months of its existence. That is \$86.1 million in gambling money that did not go towards Illinois gaming revenues. Nearly 1.6 million patrons have visited Lumiere Place in the six and one-half months since the casino opened.

While it is impossible to know which factor has had the greatest impact on the negative turnaround in the Casino Queen's performance, the Commission believes that it is not just one of these items but likely a combination. For example, the website of Lumiere Place may be proof that Missouri casinos (as well as other out-of-state casinos) are eager to take advantage of Illinois' smoking ban and attract the common smoking gambler to their facility. The site's casino opening webpage shows a man smoking a cigar while gambling at their facility.

It appears that this marketing strategy is working as not only has the Casino Queen seen a dramatic slowdown in adjusted gross receipts, but also Alton (which has to compete with two new gaming facilities) has seen their AGR levels fall 26% since the beginning of the calendar year. While there is little argument that Illinois casinos are healthier in a smoking ban environment, early indications are that Illinois riverboats in direct competition with casinos without a smoking ban have struggled in terms of adjusted gross receipts.

Interestingly, despite the noticeable turnaround in adjusted gross receipts (down 4.4% in CY 2008), admission levels have remained strong for the Casino Queen. For the calendar year, East St. Louis' admission levels are still up 17.2%, only slightly below the 25.3% increases experienced through the first half of the fiscal year. So what is the possible reason for the discrepancy between AGR and admission figures? While only speculation, this may show that while many gamblers are still attending Illinois riverboats, such as the Casino Queen, they are not gambling as long because they are either taking "smoke breaks" or deciding to leave the casino all together during these smoke breaks. Obviously, the more time gamblers are on smoke breaks, the less time they are spending at the Illinois casinos.

Some suggest that smoking gamblers may be taking this smoke break as a time to relocate to another gaming facility. The Casino Queen is at a competitive disadvantage because of how easy it is for a smoking gambler to leave Illinois' non-smoking facility and relocate to a smoking casino, like Lumiere Place, which is an easy train ride across the Mississippi River. A gambler can relocate from one facility to another in a matter of minutes.

Another reason why admission levels have continued to remain solid at the Casino Queen is due its location. Not only is the riverboat a short train ride from the other casino, but also from the popular downtown St. Louis destinations, such as Busch Stadium. In fact, many fans attending St. Louis Cardinal games park at the Casino Queen and ride over to the game on the train. After a game is over, it is not uncommon to see baseball fans drop by the Casino Queen to see the "brand new" casino. However, because this is not their primary destination location for the evening, often the casino visit is a relatively short stay for these patrons. Riverboat patrons like these, of course, add to admission totals for the riverboat, but due to their limited time and likely limited spending on the boats, do little to add to the adjusted gross receipts of the casino.

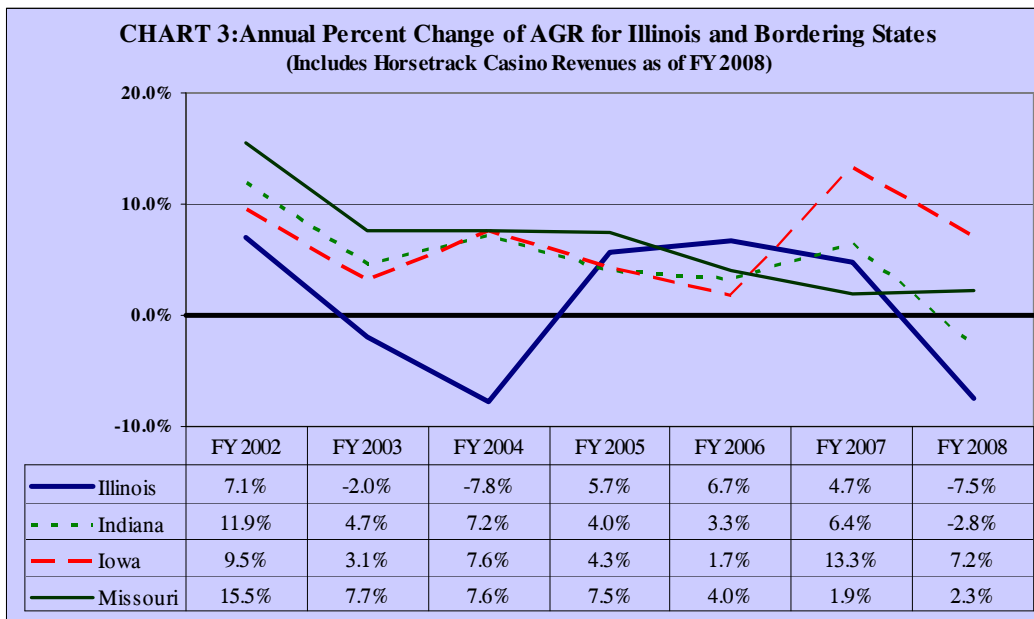
Despite the strong admission levels, the fact remains that the Casino Queen and other Illinois riverboats throughout the State have seen a dramatic fall off in their adjusted gross receipts. While having stable admission levels are nice, approximately 95% of the State revenues generated come from the wagering tax, which is based on adjusted gross receipts. Conversely, only 5% of State revenues from riverboats are directly related to admissions. Therefore, from a revenue perspective, the fact that people are still coming in decent numbers is not good enough. If revenues are to improve, it must come from increases in the AGR levels of riverboats, not just admissions.

Competition from Other States

Illinois is at a competitive disadvantage in the casino industry because the majority of Illinois’ population is near the border of other gaming states. The competition for the gaming dollar of Illinois residents 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 thwart off the efforts of riverboats in surrounding states that seek to entice the Illinois gambler to their state’s location.

History as shown that the political decisions relating to riverboat gambling over the past several years have a significant effect on the fluctuation of the amount of revenues generated in Illinois from gambling. These decisions often contribute to whether Illinois gamblers will go to other states to gamble. For example, when the State increased their graduated tax rates in FY 2004, riverboat numbers suggested that many Illinois patrons crossed the border into Indiana or other states to gamble. This is illustrated in Chart 3 as Illinois’ AGR dropped 7.8% in FY 2004, while the surrounding states all saw their AGR levels improve. The State’s decline 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.

After the tax rates reverted back to previous levels and more money was available to spend on regaining these lost patrons, numbers suggest that Illinois saw some of these gamblers return to Illinois. This is illustrated below as Illinois’ growth in FY 2006 improved during this time while the surrounding states’ AGR growth levels 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 appear to imply 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 gaming facilities. 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 couple of years.

As previously mentioned, Illinois' AGR declined 7.5% in FY 2008, which was well below the surrounding states growth rates. Again, Illinois' indoor smoking ban, economic factors, harsh weather conditions, and its lack of gaming expansion, especially as compared to other states, is likely why other states have not seen the declines in receipts as experienced in Illinois. The assumption that Illinois residents crossed borders to other state's casinos because of these factors likely contributed to the relatively higher growth rates of other states.

While Missouri only experienced a 1.9% increase in FY 2007, it opened a new riverboat casino in St. Louis in 2008 and is set to open an additional new casino in St. Louis County in 2009. In large part due to the new 2008 casino, Missouri's AGR grew 2.3% in FY 2008, despite the temporary closing of two Missouri casinos in June 2008 due to flooding. Iowa, benefiting from a full fiscal year of new facilities, grew 7.2% in FY 2008. Indiana's AGR fell 2.8% in FY 2008, but, the AGR of the four riverboats closest to the Chicago metropolitan area declined only 0.6% despite the volatile weather and economic conditions in that area. Again, these Indiana riverboats likely benefited from the indoor smoking ban in Illinois.

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 8th largest market. A list of the top ten markets, as based on 2007 revenues, is shown below.

<b>Table 12: Top 10 U.S. Casino Markets by Annual Revenue</b>	
<i>Casino Market</i>	<i>2007 Annual Revenues</i>
1 Las Vegas Strip	\$6.750 billion
2 Atlantic City, N.J.	\$4.921 billion
3 Chicagoland, Ind./Ill.	\$2.602 billion
4 Connecticut	\$1.685 billion
5 Detroit	\$1.335 billion
6 Tunica/Lula, Miss.	\$1.243 billion
7 Biloxi, Miss.	\$1.007 billion
8 St. Louis, Mo./Ill.	\$999.37 million
9 Boulder Strip, Nev.	\$927.70 million
10 Reno/Sparks, Nev.	\$927.60 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 2007. The state with the highest amount of commercial gaming tax revenue was Nevada with revenue totaling \$1.034 billion. In second was Indiana with casino tax revenues totaling \$842 million in CY 2007. Louisiana (\$559 million) and New Jersey (\$475 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.

<b>TABLE 13: Overview of Midwest Gambling States</b>				
	<b>Illinois</b>	<b>Indiana</b>	<b>Iowa</b>	<b>Missouri</b>
<b>Current # of Operating Casinos</b>	9 Riverboats (1 Dormant)	13 (11 riverboats, 2 racetrack casinos)	17 (10 riverboats, 4 land-based casinos, 3 racetrack casinos)	12 Riverboats
<b>State Population (Census Bureau 2007 estimate)</b>	12.9 million	6.3 million	3.0 million	5.9 million
<b>Gaming Format</b>	Riverboat/Dockside	Riverboat, racetrack casinos	Riverboat, land-based, racetrack casinos	Riverboat (continuous boarding)
<b>Legalization Date</b>	February 1990	November 1993	July 1989	August 1993
<b>First Casino Operating Date</b>	September 1991	December 1995	April 1991	May 1994
<b>Mode of Legalization</b>	Legislative action	Legislative action, local option vote	Legislative action, local option vote	Legislative action, statewide vote, local option vote
<b>Maximum Number of Gaming Positions</b>	1,200 per riverboat	No Limit	No Limit	No Limit
<b>Number of Gaming Positions (June 2008)</b>	221 Table Games, 9,954 Slots	619 Table Games, 21,678 Slots	499 Table Games, 17,629 Slots	586 Table Games, 19,430 Slots
<b>State Gaming Tax Rate</b>	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 land-based casinos 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
<b>How Taxes Spent</b>	Education assistance, local government	Economic development, local government	Infrastructure improvements, local government, general fund, schools and universities, the environment, tourism	Education, local public safety programs, compulsive gambling treatment, veterans' programs, early childhood programs
<b>Admissions (FY 2008) (Riverboats, land-based, and racetrack casinos)</b>	16.0 million	26.2 million	23.7 million	23.4 million
<b>Admissions % Change (FY 2007 to FY 2008)</b>	-1.8%	-4.8%	5.4%	-0.2%
<b>Adjusted Gross Receipts (AGR) FY 2008</b>	\$1.810 billion	\$2.570 billion	\$1.415 billion	\$1.636 billion
<b>AGR % Change (FY 2007 to FY 2008)</b>	-7.5%	-2.8%	7.2%	2.3%
<b>AGR per Admission (FY 2008)</b>	\$113.36	\$98.01	\$59.63	\$69.80
<b>AGR per Table per Day (May 2008)</b>	\$2,521	\$1,757	\$699	\$881
<b>AGR per Slot per Day (May 2008)</b>	\$408.0	\$309.6	\$198.0	\$228.4
<b>FY 2008 Gaming Tax Revenue (State and Local Revenues)</b>	\$698.2 million	\$819.0 million	\$326.1 million	\$428.6 million
<b>Gaming Tax Revenue % Chg (FY 07 to FY 08)</b>	-14.7%	-3.8%	7.0%	1.5%
<b>Casino Employees (2007)</b>	8,337	15,671	10,434	12,160
<b>Casino Employee Wages (includes benefits and tips)</b>	\$347.7 million	\$618.3 million	\$314.8 million	\$417.3 million
<b>Sources</b>	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 14: Adjusted Gross Receipts (AGR) in the Quad City Region								
<i>(IOWA)</i>								
Riverboat	FY 05	% Change	FY 06	% Change	FY 07	% Change	FY 08	% Change
Rhythm City (Davenport)	\$78,210,269	2.8%	\$77,296,826	-1.2%	\$66,883,539	-13.5%	\$56,663,557	-15.3%
Isle of Capri (Bettendorf)	\$103,900,655	-1.4%	\$98,687,226	-5.0%	\$91,325,473	-7.5%	\$96,563,711	5.7%
<b>Quad City Area</b>	<b>\$182,110,924</b>	<b>0.3%</b>	<b>\$175,984,052</b>	<b>-3.4%</b>	<b>\$158,209,012</b>	<b>-10.1%</b>	<b>\$153,227,268</b>	<b>-3.1%</b>
AGR % of Quad City Area	82.2%		81.7%		80.8%		82.1%	
<i>(ILLINOIS)</i>								
Riverboat	FY 05	% Change	FY 06	% Change	FY 07	% Change	FY 08	% Change
Rock Island	\$39,328,000	1.0%	\$39,376,000	0.1%	\$37,639,000	-4.4%	\$33,431,000	-11.2%
<b>Quad City Area</b>	<b>\$39,328,000</b>	<b>1.0%</b>	<b>\$39,376,000</b>	<b>0.1%</b>	<b>\$37,639,000</b>	<b>-4.4%</b>	<b>\$33,431,000</b>	<b>-11.2%</b>
AGR % of Quad City Area	17.8%		18.3%		19.2%		17.9%	
<b>TOTAL QUAD CITY AGR</b>	<b>\$221,438,924</b>	<b>1.4%</b>	<b>\$215,360,052</b>	<b>-3.2%</b>	<b>\$195,848,012</b>	<b>-14.5%</b>	<b>\$186,658,268</b>	<b>-14.3%</b>

### Observations

- After a 9.7% increase in FY 2004, Iowa's two Quad City area riverboats' AGR levels have slowed 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 was 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.
- In FY 2008, the Iowa casinos in the Quad City area declined 3.1%. However, part of this decline was due to the temporary closure of the Isle of Capri casino in Bettendorf due to flooding. The Rock Island casino declined 11.2% in FY 2008. The AGR for the Quad City area combined decreased 14.3% in FY 2008.
- Iowa's riverboats made up approximately 82% of the Quad City region's AGR, while Illinois' riverboat made up 18% of the total. 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 is expected to open a brand new facility in early 2009. A brand new casino will also be opened in Clinton, Iowa in July 2008, which is less than an hour away from the Quad Cities, which could negatively impact the existing riverboats.

## ST. LOUIS AREA

<b>TABLE 15: Adjusted Gross Receipts (AGR) in St. Louis Region</b>								
<i>(MISSOURI)</i>								
Riverboat	FY 05	% Change	FY 06	% Change	FY 07	% Change	FY 08	% Change
Harrah's (Maryland Heights)	\$300,768,893	18.1%	\$310,548,463	3.3%	\$325,249,730	4.7%	\$303,047,067	-6.8%
President (St. Louis)	\$71,345,739	-0.7%	\$71,798,659	0.6%	\$67,269,234	-6.3%	\$44,988,902	-33.1%
Ameristar (St. Charles)	\$297,873,442	4.6%	\$309,484,109	3.9%	\$300,247,313	-3.0%	\$294,882,458	-1.8%
Lumiere (St. Louis)							\$86,111,970	N/A
<b>St. Louis Area</b>	<b>\$669,988,073</b>	<b>9.6%</b>	<b>\$691,831,232</b>	<b>3.3%</b>	<b>\$692,766,277</b>	<b>0.1%</b>	<b>\$729,030,397</b>	<b>5.2%</b>
AGR % of St. Louis Area	70.8%		70.5%		70.0%		71.3%	
<i>(ILLINOIS)</i>								
Riverboat	FY 05	% Change	FY 06	% Change	FY 07	% Change	FY 08	% Change
E. St. Louis	\$165,382,000	1.1%	\$172,193,000	4.1%	\$172,139,000	0.0%	\$185,173,000	7.6%
Alton	\$110,354,000	6.5%	\$117,616,000	6.6%	\$125,408,000	6.6%	\$108,984,000	-13.1%
<b>St. Louis Area</b>	<b>\$275,736,000</b>	<b>3.2%</b>	<b>\$289,809,000</b>	<b>5.1%</b>	<b>\$297,547,000</b>	<b>2.7%</b>	<b>\$294,157,000</b>	<b>-1.1%</b>
AGR % of St. Louis Area	29.2%		29.5%		30.0%		28.7%	
<b>TOTAL ST. LOUIS AGR</b>	<b>\$945,724,073</b>	<b>7.7%</b>	<b>\$981,640,232</b>	<b>3.8%</b>	<b>\$990,313,277</b>	<b>0.9%</b>	<b>\$1,023,187,397</b>	<b>3.3%</b>

### Observations

- 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 2008, Missouri locations increased by a combined 5.2% with the help of a new riverboat in St. Louis. Illinois riverboats in the St. Louis area, despite a brand new casino for the East St. Louis license, decreased a combined 1.1%.
- In FY 2005, Missouri's portion of total AGR was at 70.8%, while Illinois composed 29.2% of the total. In FY 2008, Missouri's composition in the region increased to 71.3%, while Illinois's two locations made up the remaining 28.7%.
- According to the American Gaming Association, the St. Louis area is the 8<sup>th</sup> largest casino market in the nation in 2007, in terms of annual revenue (taxes not included).
- An additional casino in south St. Louis County, to be called River City Casino and Hotel, is expected to open in 2009, pending receipt of regulatory and other approvals. The new casino 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. The casino will be less than five miles from the Illinois border.

## CHICAGO AREA

<b>TABLE 16: Adjusted Gross Receipts (AGR) in Chicago Region</b>								
<i>(INDIANA)</i>								
Riverboat	FY 05	% Change	FY 06	% Change	FY 07	% Change	FY 08	% Change
Ameristar (E Chicago)	\$310,490,756	-0.7%	\$301,904,367	-2.8%	\$321,012,749	6.3%	\$319,584,861	-0.4%
Horseshoe (Hammond)	\$409,242,447	13.0%	\$419,640,990	2.5%	\$444,567,998	5.9%	\$447,974,375	0.8%
Majestic Star (Gary)	\$147,942,400	1.6%	\$143,453,449	-3.0%	\$138,148,594	-3.7%	\$130,027,005	-5.9%
Trump/Majestic II (Gary)	\$135,406,401	-5.9%	\$130,860,087	-3.4%	\$115,595,959	-11.7%	\$115,599,511	0.0%
<b>Chicago Area</b>	<b>\$1,003,082,004</b>	<b>4.0%</b>	<b>\$995,858,893</b>	<b>-0.7%</b>	<b>\$1,019,325,300</b>	<b>2.4%</b>	<b>\$1,013,185,752</b>	<b>-0.6%</b>
AGR % of Chicago Area	46.3%		44.2%		43.5%		45.7%	
<i>(ILLINOIS)</i>								
Riverboat	FY 05	% Change	FY 06	% Change	FY 07	% Change	FY 08	% Change
Elgin	\$408,092,000	4.9%	\$415,655,000	1.9%	\$436,106,000	4.9%	\$396,246,000	-9.1%
Joliet Harrah's	\$292,261,000	17.3%	\$332,890,000	13.9%	\$364,597,000	9.5%	\$349,242,000	-4.2%
Joliet Empress	\$232,132,000	6.2%	\$250,211,000	7.8%	\$252,553,000	0.9%	\$210,838,000	-16.5%
<b>AURORA</b>	<b>\$231,812,000</b>	<b>4.7%</b>	<b>\$256,770,000</b>	<b>10.8%</b>	<b>\$272,585,000</b>	<b>6.2%</b>	<b>\$249,441,000</b>	<b>-8.5%</b>
<b>Chicago Area</b>	<b>\$1,164,297,000</b>	<b>8.0%</b>	<b>\$1,255,526,000</b>	<b>7.8%</b>	<b>\$1,325,841,000</b>	<b>5.6%</b>	<b>\$1,205,767,000</b>	<b>-9.1%</b>
AGR % of Chicago Area	53.7%		55.8%		56.5%		54.3%	
<b>TOTAL CHICAGO AREA AGR</b>	<b>\$2,167,379,004</b>	<b>6.1%</b>	<b>\$2,251,384,893</b>	<b>3.9%</b>	<b>\$2,345,166,300</b>	<b>4.2%</b>	<b>\$2,218,952,752</b>	<b>-5.4%</b>

### Observations

- 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%
- In FY 2008, Illinois riverboats in the Chicago area fell 9.1% compared to an only 0.6% decline for the Indiana riverboats. Again, the indoor smoking ban is believed to be the primary reason for this discrepancy.
- While the vast majority of the population in the Chicago area is in Illinois, Indiana comprises nearly half of the AGR in that area. During the first year of Illinois' higher tax rates (max at 70%), Indiana's portion of total riverboat AGR in the Chicago area was at 47.2% compared to Illinois portion of 52.8%.
- After taxes reverted to a maximum rate of 50%, Illinois portion of the riverboat dollar in this area steadily increased. In FY 2007, Illinois's AGR portion increased to 56.5% compared to Indiana's portion of 43.5%.
- However, in FY 2008, the portion of the riverboat dollar increased again towards Indiana as Chicago area riverboats in Indiana made up 45.7% of the area's total, compared to 54.3% in Illinois. The indoor smoking ban likely contributed to this shift.
- 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 casino 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.

#### 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 still awaiting final Agency review.

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.

In early 2008, however, the U.S. Department of Interior issued new policies that will further restrict the ability of Indian tribes to add land for casinos to their reservation land-base if the properties are not close to their reservation. For the time being, the latest rulings appear to hurt Wisconsin's chances for new casinos on the Illinois border in the near future. However, if these casinos were to become a reality, there is little doubt that much of the market for the proposed casinos would come from the "untapped" northern sections of Illinois.

#### MICHIGAN

- In August 2007, Four Winds Casino Resort opened in New Buffalo, Michigan. The resort offers 130,000 square feet of gaming with 3,000 slot machines and 100 table games including poker. The casino is located just off Lake Michigan on I-94, 75 miles east of Chicago. In an effort to tap into Chicago's gaming dollar, the casino offers shuttle bus service to several locations in the Chicago metropolitan area. In some areas, this shuttle is free. The casino recently reported that it is taking in \$24.4 million per month. Due to their efforts to attract the Chicago Market, undoubtedly, a significant portion of the \$24.4 million in monthly revenues comes from Illinois residents, thereby "taking" revenues away from Illinois casinos.

### *Potential Changes to the Gaming Industry*

During the Spring 2008 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?

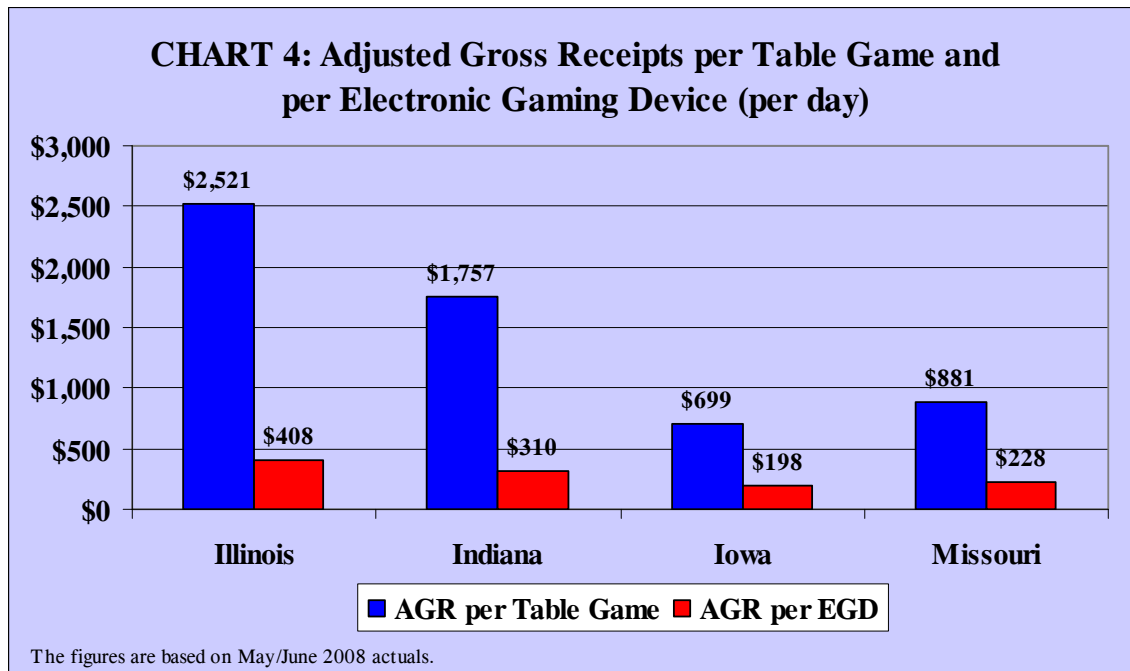
At the end of the Spring 2008 Session, the most prominent gaming bill was HB 2651, as amended by Senate Amendments 1 thru 6. This piece of legislation would have created two new land-based casinos (including one in the City of Chicago), an additional riverboat license, allowed slot machines at racetracks, as well as increasing the number of gaming positions allowed at the existing riverboats. While the legislation advanced in the Senate, the bill failed to receive the required number of votes in the House.

As the desire for new revenues for capitol continues to grow in Illinois, undoubtedly, gaming revenues will be looked upon again in the future as a targeted revenue source. To assist in evaluating the different areas of gaming expansion, the following section summarizes 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 10<sup>th</sup> 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 riverboat from increasing certain games that are in demand. This often creates waiting times for the more popular games during the peak hours at many of the competitive locations and creates a disincentive for the riverboat patron, which some would argue causes them to go to locations with no position limit.

To illustrate this point, the following graph displays the AGR per Table Game (per day) and the AGR per EGD (per day) for each of the Midwestern riverboat states for May, 2008. (EGD stands for electronic gaming device, i.e. slot machines). Highlights of the graph are pointed out on the following page.

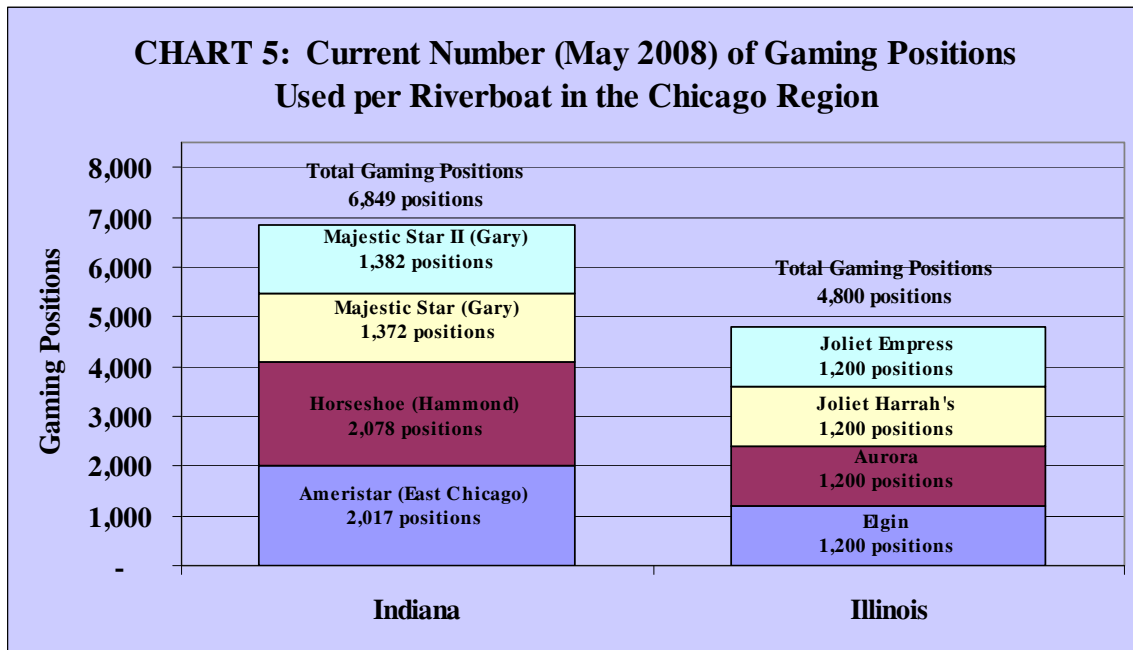


- Illinois’ AGR per Table Game and AGR per EGD are significantly higher than the other neighboring states.
- These figures suggest that Illinois gamblers spend more money on gambling than other states and that the gaming positions in Illinois are being utilized more frequently than other locations.
- 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 6,849 gaming positions (May 2008). That is 2,049 more positions than the four Illinois Chicago area riverboats. These figures do not include Indiana’s Michigan City location, which has an additional 2,060 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 over 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 65% of all gaming positions in the Lake Michigan area.

The average number of positions for the five Indiana riverboats in this region is 1,781 positions. Therefore, if Illinois decided to increase the maximum number of positions, these numbers would suggest that at least 1,781 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, 41 racetrack casinos in 11 states generated \$5.28 billion in gross gaming revenues in 2007. This amount was a 45.6% increase over 2006 figures. The Association reports that these 41 racetrack casinos contributed \$2.22 billion in direct gaming taxes to state and local governments in 2007, which was a 54.6% increase over 2006.

The strong growth in racetrack casinos in 2007 was due, in large part, to the recent expansion of this industry. The Association reports that three new racetracks opened casinos in Pennsylvania in 2007, and one new racetrack casino opened in Florida. In addition, 2007 marked the first full year of operations for three racetrack casinos that opened in New York in 2006.

For most of FY 2008, the only state in the Midwest Region with racetrack casinos was Iowa. In FY 2008, Iowa had 6.7 million visitors to their three locations in Council Bluffs, Altoona, and Dubuque, generating a combined \$463 million in adjusted gross revenue. A total of \$111.9 million in State revenues and fees were collected from these receipts in FY 2008.

As stated earlier, Iowa was joined by Indiana in the racetrack casino market in the Midwest Region in 2008. The Indiana General Assembly passed legislation to allow up to 2,000 slot machines at each of Indiana's two horse racing tracks, Hoosier Park in Anderson and Indiana Live near Shelbyville. Hoosier Park opened in May 2008, while Indiana Live opened in June 2008. According to the Indiana Gaming Commission's monthly report, in June 2008, Hoosier Park had 1,962 slot machines generating \$15.7 million. Indiana Live had 1,889 slot machines generating \$10.2 million in its opening month.

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 horseracing industry in Illinois.

Few would argue that Illinois' horse racing industry has struggled. As will be discussed later in the report, Illinois' total handle amount of \$929 million in 2007 was down 2.4% over the 2006 amount and marked the fifth consecutive year of declining revenues. The 2007 handle amount was the lowest experienced since 1986. It is probably not coincidence that Illinois' declining revenues over the last several years came 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 10<sup>th</sup> 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.

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 examples 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 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.

As stated earlier, St. Louis' new riverboat, Lumiere, opened in December 2008. While Missouri's St. Louis market's adjusted gross receipts increased 5.2% in FY 2008, positive increases were not experienced by all riverboats. For example, the President Casino in St. Louis saw their adjusted gross receipts fall 33.1% in FY 2008. While a portion of this loss was due to the temporary closing of the facility in June 2008 due to flooding, it undoubtedly was hurt by the newly opened Lumiere (as well as the new riverboat in East St. Louis). Even when removing June 2008 from the data, since the Lumiere opened; the President Casino's receipts were down a whopping 42.8%

compared to a year earlier. While not as dire, the other two Missouri casinos in the St. Louis region also experienced losses since the opening of the new St. Louis casino (Harrah's in Maryland Heights down 10.2% and Ameristar in St. Charles down 3.4%).

Another example of cannibalization likely occurred in Michigan City, Indiana. In FY 2008, the Blue Chip Casino in Michigan City saw their adjusted gross receipts fall 33.6%. The reason: the opening of the Four Winds Casino in New Buffalo, Michigan. The two casinos are less than 20 minutes apart and compete for the same gaming dollar. In an effort to fight for this gaming dollar, the Blue Chip is planning to open a new 22-story, 302-room hotel tower in late 2008, hoping to regain many of the patrons that likely left for the Four Winds Casino in Michigan.

While few would argue that cannibalization will exist if new casinos are added to the Chicago metropolitan area, it is difficult to know whether the levels of cannibalization seen at other states will be duplicated at pre-existing Illinois 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.

Even with cannibalization factored in, any increase in the number of gaming licenses will likely increase State gaming revenues significantly. In the Quad City example, 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. In St. Louis's scenario, even with the losses from the majority of the riverboat in that area, Missouri's St. Louis region as a whole was up \$35.7 million or 10.1% since Lumiere opened.

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 \$396 million in adjusted gross receipts in FY 2008, which equated to \$172 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*

For the first time in several years, the notion of the State receiving revenues from the 10<sup>th</sup> riverboat license looks promising. After years of litigation over the failed attempt to relocate the 10<sup>th</sup> license in Rosemont Illinois, it appears that the State is again ready to auction the Emerald Casino License. The Illinois Gaming Board announced in July 2008 that they have hired Credit Suisse Securities LLC to handle the new bidding process. The Gaming Board has opened the application process for the 10<sup>th</sup> license and has established an October 14<sup>th</sup> deadline for all applications. According to the Gaming Board, finalists for the license will be selected “as soon as practical” after all applications have been received.

With the recent downfall in State revenues from Illinois riverboats, any new revenue from the 10<sup>th</sup> license would be welcomed. While this news is promising, it still could be some time before the State would see any new recurring revenues from a new riverboat. The bidding and selection process, along with the time to prepare and build a new casino could take several years. However, barring any new setbacks to the selection process, there is the possibility that the State could receive a one-time revenue jolt from the bidding of the 10<sup>th</sup> license in late FY 2009 or early FY 2010.

The amount that the State would receive from the bidding of the 10<sup>th</sup> license is unknown. In 2004, when it was announced that the Isle of Capri Casinos Inc. was selected to operate the 10<sup>th</sup> license in Rosemont, the winning bid was \$518 million. However, it is uncertain whether the State would be able to fetch that level of bid in FY 2009 due to the negative effect that that the indoor smoking ban and the economy has apparently had on riverboat revenues. On the other hand, a recent article on southtownstar.com reported that one group seriously interested in the riverboat license indicated that if the State was looking for \$400 million to \$500 million for the license, they would, “be able to compete in that range.”

The circumstances surrounding the 10<sup>th</sup> 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 \$171 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 10<sup>th</sup> license would cause overall State revenues to increase significantly. Below is a history of the licensing of the 10<sup>th</sup> license and its current status.

In 1997, the Illinois Gaming Board denied the Emerald Casino’s license application, thereby forcing Emerald to cease gaming operations in East Dubuque, Illinois. 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’ 10<sup>th</sup> 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 10<sup>th</sup> license in Rosemont. The winning bid was for \$518 million.

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 10<sup>th</sup> 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.

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.

In November 2007, an Illinois Appellate Court ruled a state law that allowed the move of the Emerald Casino to Rosemont does not prevent the Illinois Gaming Board from revoking the firm's gambling license. In December 2007, the Attorney General announced that the Emerald Casino will not continue its lengthy court fight to win back

control of the state's 10th casino license. In July 2008, after Bear Stearns & Co. withdrew from a contract to help the Illinois Gaming Board auction the 10<sup>th</sup> license, the Board hired Credit Suisse Securities LLC to handle the new bidding process. Again, October 14, 2008 was established by the Board as the deadline for all new applications for the 10<sup>th</sup> riverboat license.

### **What Will the Future Hold for Illinois Riverboats?**

In the Commission's 2007 Wagering Report, the Commission warned of several factors that may negatively impact the riverboat industry in Illinois in FY 2008. These factors included Illinois higher gaming tax structure as compared to other states, the indoor smoking ban, as well as increased competition coming from gaming expansion in other states. The following is an excerpt from last year's report:

*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 gamers 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.*

These same factors continue to be the areas of concern to those in the industry for FY 2009 and beyond. The tax rate has not changed. Attempts to exempt the riverboats from the indoor smoking ban have failed. Finally, the competition from surrounding states continues to grow as more casinos continue to be developed along with newer hotels and facilities, eager to take advantage of the perceived negative aspects of gaming in Illinois (i.e. higher taxes, smoking ban, etc.).

Assuming no changes to the current tax structure or the indoor smoking ban law, the Commission expects State riverboat revenues to continue to struggle and decline again in FY 2009. This is because, if current trends continue, the first six months of FY 2009 (the second half of the first year of the indoor smoking ban) will likely be lower than the same period one year prior without an indoor smoking ban (July 2007 – December 2007). Also, because the graduated tax rate structure is on a calendar year basis, the lower levels of adjusted gross receipts experienced in the latter half of FY 2008, directly impact the amount of receipts collected in FY 2009. Therefore, it will take longer to hit the higher graduated tax rates, thereby keeping revenue totals relatively low in FY 2009.

With these factors in mind, the Commission currently estimates that State revenues generated from riverboats could fall below \$525 million in FY 2009, before rebounding in FY 2010 once a new “smoking-ban” base is established. Of course, any changes affecting Illinois’ riverboat industry would cause this estimate to be revisited.

While Illinois’ situation appears dire, there is some reason for hope. Current and future improvements to Illinois riverboats may help revitalize Illinois’ gaming market. For example, Rock Island will be constructing a new casino and hotel that is expected to be finished in 2009. The East St. Louis’ brand new facility hopes to continue to bring in new gamblers. The reopening of the bidding for the 10<sup>th</sup> riverboat license hopes to bring in new revenues in the near future. And once a new indoor smoking ban “base” is established, growth for Illinois riverboats should again occur. But even with these changes, Illinois will struggle to achieve significant levels of growth unless additional changes are put into place.

So what more can be done to generate more gaming tax revenue? 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, lottery sales have totaled \$41 billion. Table 17 presents a brief history of the Illinois State Lottery highlighting sales by game, total sales, transfers to the Common School Fund, and the amount transferred as a percentage of total sales.

TABLE 17: LOTTERY SALES BY GAME, TOTAL SALES, TRANSFERS, & PERCENTAGE TRANSFERRED: FY 1975 - FY 2008 (IN MILLIONS)*													
FISCAL YEAR	\$.50, \$1, KENO '93	INSTANT	PICK 3	St. Patrick's Raffle	Pick N Play	PICK 4	LOTTO	LITTLE LOTTO	BIG GAME/ MEGA MIL.	TOTAL SALES	LOTTERY TRANSFERS TO CSF	TRANSFERS AS A % OF TOTAL SALES	
1975	\$ 129.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 129.3	\$55.2	42.7%	
1976	\$ 107.3	\$ 56.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$163.9	\$75.9	46.3%	
1977	\$ 50.0	\$ 62.9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$112.9	\$43.6	38.6%	
1978	\$ 31.6	\$ 57.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$89.1	\$33.5	37.6%	
1979	\$ 20.4	\$ 56.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$76.7	\$32.6	42.5%	
1980	\$ 13.7	\$ 41.4	\$ 42.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$97.5	\$33.1	33.9%	
1981	\$ 7.5	\$ 43.0	\$ 164.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$214.7	\$90.4	42.1%	
1982	\$ 0.0	\$ 78.2	\$ 248.2	\$ -	\$ -	\$ 17.7	\$ -	\$ -	\$ -	\$344.1	\$138.6	40.3%	
1983	\$ -	\$ 158.1	\$ 283.8	\$ -	\$ -	\$ 46.0	\$ 26.9	\$ -	\$ -	\$514.8	\$216.3	42.0%	
1984	\$ -	\$ 196.6	\$ 367.4	\$ -	\$ -	\$ 49.4	\$ 298.8	\$ -	\$ -	\$912.2	\$365.4	40.1%	
1985	\$ -	\$ 233.7	\$ 356.2	\$ -	\$ -	\$ 75.5	\$ 567.4	\$ 2.8	\$ -	\$1,235.6	\$502.8	40.7%	
1986	\$ -	\$ 237.6	\$ 347.6	\$ -	\$ -	\$ 88.1	\$ 642.3	\$ -	\$ -	\$1,315.6	\$551.8	41.9%	
1987	\$ -	\$ 227.3	\$ 335.1	\$ -	\$ -	\$ 93.0	\$ 678.5	\$ -	\$ -	\$1,333.9	\$553.1	41.5%	
1988	\$ -	\$ 260.1	\$ 352.6	\$ -	\$ -	\$ 105.9	\$ 600.6	\$ 16.3	\$ -	\$1,335.5	\$524.4	39.3%	
1989	\$ -	\$ 321.9	\$ 369.6	\$ -	\$ -	\$ 108.6	\$ 607.1	\$ 164.1	\$ -	\$1,571.3	\$586.1	37.3%	
1990	\$ -	\$ 341.2	\$ 382.5	\$ -	\$ -	\$ 114.1	\$ 588.7	\$ 143.7	\$ -	\$1,570.2	\$594.0	37.8%	
1991	\$ -	\$ 364.6	\$ 368.5	\$ -	\$ -	\$ 109.0	\$ 601.0	\$ 123.4	\$ -	\$1,566.5	\$580.0	37.0%	
1992	\$ -	\$ 406.0	\$ 362.0	\$ -	\$ -	\$ 112.3	\$ 633.5	\$ 123.1	\$ -	\$1,636.9	\$610.5	37.3%	
1993	\$ 0.1	\$ 493.2	\$ 350.5	\$ -	\$ -	\$ 112.3	\$ 489.9	\$ 129.9	\$ -	\$1,575.9	\$587.6	37.3%	
1994	\$ -	\$ 548.7	\$ 344.5	\$ -	\$ -	\$ 109.7	\$ 403.0	\$ 122.7	\$ -	\$1,528.6	\$552.1	36.1%	
1995	\$ -	\$ 630.7	\$ 358.4	\$ -	\$ -	\$ 123.7	\$ 386.6	\$ 130.1	\$ -	\$1,629.5	\$588.3	36.1%	
1996	\$ -	\$ 646.7	\$ 357.5	\$ -	\$ -	\$ 140.3	\$ 363.4	\$ 129.4	\$ -	\$1,637.3	\$594.1	36.3%	
1997	\$ -	\$ 636.2	\$ 340.7	\$ -	\$ -	\$ 139.8	\$ 295.3	\$ 118.8	\$ 92.4	\$1,623.2	\$590.2	36.4%	
1998	\$ -	\$ 618.3	\$ 344.7	\$ -	\$ -	\$ 145.3	\$ 263.0	\$ 111.8	\$ 93.8	\$1,576.9	\$560.0	35.5%	
1999	\$ -	\$ 570.1	\$ 335.3	\$ -	\$ -	\$ 144.5	\$ 168.8	\$ 113.7	\$ 193.5	\$1,525.9	\$540.0	35.4%	
2000	\$ -	\$ 541.5	\$ 341.4	\$ -	\$ -	\$ 154.4	\$ 146.3	\$ 101.0	\$ 219.3	\$1,503.9	\$515.3	34.3%	
2001	\$ -	\$ 586.1	\$ 326.6	\$ -	\$ -	\$ 151.3	\$ 143.5	\$ 88.3	\$ 153.9	\$1,449.8	\$501.0	34.6%	
2002	\$ -	\$ 643.8	\$ 327.9	\$ -	\$ 22.7	\$ 158.0	\$ 134.9	\$ 81.7	\$ 221.1	\$1,590.0	\$555.1	34.9%	
2003	\$ -	\$ 697.9	\$ 314.1	\$ -	\$ 12.9	\$ 161.9	\$ 121.2	\$ 78.0	\$ 199.7	\$1,585.8	\$540.3	34.1%	
2004	\$ -	\$ 780.5	\$ 308.9	\$ -	\$ 9.0	\$ 167.2	\$ 117.4	\$ 99.7	\$ 226.5	\$1,709.2	\$570.1	33.4%	
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	\$ 14.1	\$ 30.8	\$ 170.2	\$ 109.6	\$ 126.8	\$ 195.9	\$1,997.7	\$622.6	31.2%	
2008	\$ -	\$ 1,094.0	\$ 299.0	\$ 15.9	\$ 18.4	\$ 167.8	\$ 110.4	\$ 127.4	\$ 221.1	\$2,054.0	\$657.0	32.0%	
TOTALS	\$ 359.9	\$ 14,579.0	\$ 9,254.8	\$ -	\$ 112.4	\$ 3,304.3	\$ 8,752.4	\$ 2,390.1	\$ 2,253.0	\$ 41,036.0	\$ 14,845.6	36.2%	

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

Table 17 reveals that lottery sales totaled \$2.054 billion in FY 2008. This figure represents a \$56.3 million increase (2.8% annual growth) from the FY 2007 amount of \$1.998 billion. FY 2008 was the first year sales topped \$2 billion in the lottery's 33-year history. From this sum, 32% or \$657 million was transferred into the Common School Fund, a 5.5% increase from the FY 2007 transfer amount of \$622.6 million.

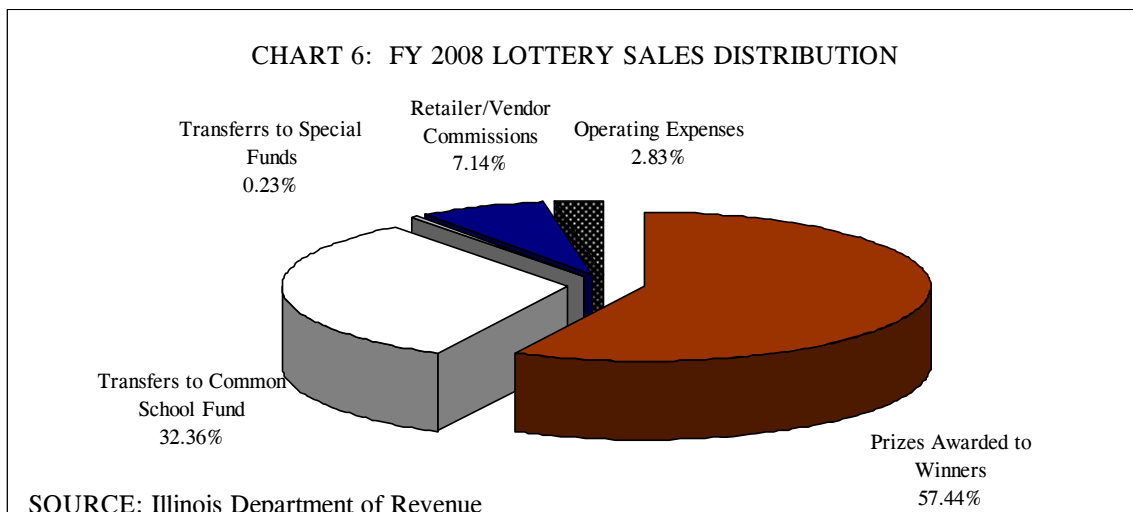
A closer look reveals that the largest dollar increase came from the Instant games, which rose \$52 million or 5.0%. The other game that showed a large amount of growth was Mega Millions which grew \$25 million to \$221.1 million, which was an increase of over 12.8% from FY 2007. The St. Patrick's Raffle had a large percentage

change (12.8%) but this only equaled an increase of \$1.8 million as total sales from this game were only \$15.9 million. Sales of Lotto and Little Lotto were basically flat, each growing by less than \$1 million.

One disappointment for the lottery this year was the Pick N Play game. Pick N Play sales were down over 40%, falling \$12.4 million to \$18.4 million. Sales for two other games also decreased. Sales of the Pick 3 game decreased \$9.7 million, or -3.1%, to \$299 million, while the Pick 4 game was down \$2.4 million, (-1.4%) to \$167.8 million.

Special cause lottery sales raised approximately \$4.6 million in FY 2008, an increase of 12.2% or approximately \$0.5 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 2008, \$1.2 million was transferred into this fund. This was a decrease of over 37% from FY 2007, when \$1.9 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 \$2.5 million in FY 2008. This was an increase of 16.6% from FY 2007. The last special game that is sold in Illinois is the Quality of Life Ticket, named "Red Ribbon Cash". This game was created as part of PA 095-0674. Revenues from this game go towards HIV/AIDS prevention and education. Sales of this game began in March of 2008 and had sales of \$0.9 million through the end of FY 2008.

The chart below shows how revenues from the lottery were distributed. In FY 2008, lottery winners received \$1.17 billion, the Common School Fund received \$657 million, retailers and vendors received \$145 million, and the Department of Lottery used the remaining \$57 million to cover its operating expenses. Chart 6 illustrates the FY 2008 lottery sales distribution by percentage.



As shown in Table 18, instant games continue to comprise the greatest percentage with 53.3% of lottery sales, an increase of 1.2% from FY 2007. The Pick 3 game had the second highest a percentage at 14.6%, which was a decreased of 0.9%. Mega Millions increased from 9.8% of total sales to 10.8%. Most of the remaining revenues come from the Pick 4 game (8.2%), Little Lotto (6.2%) and Lotto (5.4%).

FISCAL YEAR	\$ .50, \$1.		ST. PAT'S				LOTTO	LITTLE LOTTO	BIG GAME/ MEGA MIL.	TOTAL SALES
	KENO '93	INSTANT	PICK 3	RAFFLE	EXTRA	PICK 4				
1975	100.0%	0.0%	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%	0.0%	\$163.9
1977	44.3%	55.7%	0.0%	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%	0.0%	\$89.1
1979	26.6%	73.4%	0.0%	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%	0.0%	\$97.5
1981	3.5%	20.0%	76.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	\$214.7
1982	0.0%	22.7%	72.1%	0.0%	0.0%	5.1%	0.0%	0.0%	0.0%	\$344.1
1983	0.0%	30.7%	55.1%	0.0%	0.0%	8.9%	5.2%	0.0%	0.0%	\$514.8
1984	0.0%	21.6%	40.3%	0.0%	0.0%	5.4%	32.8%	0.0%	0.0%	\$912.2
1985	0.0%	18.9%	28.8%	0.0%	0.0%	6.1%	45.9%	0.2%	0.0%	\$1,235.6
1986	0.0%	18.1%	26.4%	0.0%	0.0%	6.7%	48.8%	0.0%	0.0%	\$1,315.6
1987	0.0%	17.0%	25.1%	0.0%	0.0%	7.0%	50.9%	0.0%	0.0%	\$1,333.9
1988	0.0%	19.5%	26.4%	0.0%	0.0%	7.9%	45.0%	1.2%	0.0%	\$1,335.5
1989	0.0%	20.5%	23.5%	0.0%	0.0%	6.9%	38.6%	10.4%	0.0%	\$1,571.3
1990	0.0%	21.7%	24.4%	0.0%	0.0%	7.3%	37.5%	9.2%	0.0%	\$1,570.2
1991	0.0%	23.3%	23.5%	0.0%	0.0%	7.0%	38.4%	7.9%	0.0%	\$1,566.5
1992	0.0%	24.8%	22.1%	0.0%	0.0%	6.9%	38.7%	7.5%	0.0%	\$1,636.9
1993	0.0%	31.3%	22.2%	0.0%	0.0%	7.1%	31.1%	8.2%	0.0%	\$1,575.9
1994	0.0%	35.9%	22.5%	0.0%	0.0%	7.2%	26.4%	8.0%	0.0%	\$1,528.6
1995	0.0%	38.7%	22.0%	0.0%	0.0%	7.6%	23.7%	8.0%	0.0%	\$1,629.5
1996	0.0%	39.5%	21.8%	0.0%	0.0%	8.6%	22.2%	7.9%	0.0%	\$1,637.3
1997	0.0%	39.2%	21.0%	0.0%	0.0%	8.6%	18.2%	7.3%	5.7%	\$1,623.2
1998	0.0%	39.2%	21.9%	0.0%	0.0%	9.2%	16.7%	7.1%	5.9%	\$1,576.9
1999	0.0%	37.4%	22.0%	0.0%	0.0%	9.5%	11.1%	7.5%	12.7%	\$1,525.9
2000	0.0%	36.0%	22.7%	0.0%	0.0%	10.3%	9.7%	6.7%	14.6%	\$1,503.9
2001	0.0%	40.4%	22.5%	0.0%	0.0%	10.4%	9.9%	6.1%	10.6%	\$1,449.8
2002	0.0%	40.5%	20.6%	0.0%	1.4%	9.9%	8.5%	5.1%	13.9%	\$1,590.0
2003	0.0%	44.0%	19.8%	0.0%	0.8%	10.2%	7.6%	4.9%	12.6%	\$1,585.8
2004	0.0%	45.7%	18.1%	0.0%	0.5%	9.8%	6.9%	5.8%	13.3%	\$1,709.2
2005	0.0%	49.2%	16.7%	0.0%	0.2%	9.1%	7.1%	7.2%	10.5%	\$1,842.9
2006	0.0%	50.4%	15.6%	0.0%	0.7%	8.6%	6.2%	6.3%	12.3%	\$1,984.8
2007	0.0%	52.1%	15.5%	0.7%	1.5%	8.5%	5.5%	6.3%	9.8%	\$1,997.7
2008	0.0%	53.3%	14.6%	0.8%	0.9%	8.2%	5.4%	6.2%	10.8%	\$2,054.0

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

The \$25 million increase in the Mega Millions game was encouraging after a down year in FY 2007. While most of the games issued by the lottery are just for players purchasing a ticket in Illinois, the Mega Millions game 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 increased partly due to a higher amount of large jackpots in FY 2008. As indicated in previous reports, 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. This increase in rollovers can be seen in the number of drawings that the Mega Millions jackpot was over \$100 million. In FY 2007, the jackpot was over \$100 million during 14 drawings, while in FY 2008 the jackpot was over \$100 million in 25 drawings.

In 1992, Lafleur's Lottery World ranked Illinois 9<sup>th</sup> 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 19<sup>th</sup> with per-capita spending of \$134. In 2001, Illinois dropped to 22<sup>nd</sup>, 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 2007, 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 26<sup>th</sup> out of 42 lottery states.

Similarly, Illinois ranked 26<sup>th</sup> in the percentage of personal income that Illinoisans spent on lottery. Illinois residents spent 0.38% of their personal income on lottery which was far behind the leading state of Rhode Island, which spent 4.16% on average. With \$2.0 billion in sales, Illinois had the eleventh highest level of sales in the U.S. in FY 2007. The figures for FY 2007 are shown in Table 19 on the following page. FY 2008 per capita spending was approximately \$159, though comparison data for other states is not yet available.

### **Legislation Affecting FY 2009 & 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.

<b>TABLE 19: PER-CAPITA SALES AS A PERCENTAGE OF PERSONAL INCOME (FY 2007)</b>						
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	\$ 39,463	\$ 1,806.2	\$ 1,642	4.16%	
WEST VIRGINIA	1.8	\$ 29,537	\$ 1,562.3	\$ 868	2.94%	
SOUTH DAKOTA	0.8	\$ 33,905	\$ 692.5	\$ 866	2.55%	
DELAWARE	0.9	\$ 40,608	\$ 753.9	\$ 838	2.06%	
MASSACHUSETTES	6.4	\$ 49,082	\$ 4,460.9	\$ 697	1.42%	
DISTRICT OF COLUMBIA	0.6	\$ 61,092	\$ 257.8	\$ 430	0.70%	
NEW YORK	19.3	\$ 47,385	\$ 7,175.1	\$ 372	0.78%	
GEORGIA	9.5	\$ 33,457	\$ 3,421.7	\$ 360	1.08%	
OREGON	3.7	\$ 34,784	\$ 1,221.9	\$ 330	0.95%	
MARYLAND	5.6	\$ 46,021	\$ 1,577.3	\$ 282	0.61%	
CONNECTICUT	3.5	\$ 54,117	\$ 957.0	\$ 273	0.51%	
NEW JERSEY	8.7	\$ 49,194	\$ 2,351.0	\$ 270	0.55%	
PENNSYLVANIA	12.4	\$ 38,788	\$ 3,076.3	\$ 248	0.64%	
MICHIGAN	10.1	\$ 35,086	\$ 2,342.6	\$ 232	0.66%	
FLORIDA	18.3	\$ 38,444	\$ 4,122.2	\$ 225	0.59%	
SOUTH CAROLINA	4.4	\$ 31,013	\$ 988.2	\$ 225	0.72%	
NEW HAMPSHIRE	1.3	\$ 41,512	\$ 263.9	\$ 203	0.49%	
OHIO	11.5	\$ 34,874	\$ 2,259.4	\$ 196	0.56%	
MAINE	1.3	\$ 33,722	\$ 231.6	\$ 178	0.53%	
KENTUCKY	4.2	\$ 31,111	\$ 744.2	\$ 177	0.57%	
VIRGINIA	7.7	\$ 41,347	\$ 1,362.3	\$ 177	0.43%	
VERMONT	0.6	\$ 36,670	\$ 104.5	\$ 174	0.48%	
TENNESSEE	6.2	\$ 33,280	\$ 1,058.4	\$ 171	0.51%	
MISSOURI	5.9	\$ 34,389	\$ 935.1	\$ 158	0.46%	
TEXAS	23.9	\$ 37,187	\$ 3,774.2	\$ 158	0.42%	
<b>ILLINOIS</b>	<b>12.9</b>	<b>\$ 40,322</b>	<b>\$ 1,997.7</b>	<b>\$ 155</b>	<b>0.38%</b>	
INDIANA	6.3	\$ 33,616	\$ 789.1	\$ 125	0.37%	
NORTH CAROLINA	9.0	\$ 33,636	\$ 889.3	\$ 99	0.29%	
COLORADO	4.9	\$ 41,042	\$ 455.9	\$ 93	0.23%	
CALIFORNIA	36.6	\$ 41,571	\$ 3,318.0	\$ 91	0.22%	
WISCONSIN	5.6	\$ 36,047	\$ 492.6	\$ 88	0.24%	
IDAHO	1.5	\$ 31,197	\$ 130.5	\$ 87	0.28%	
KANSAS	2.8	\$ 36,768	\$ 240.0	\$ 86	0.23%	
LOUISIANA	4.3	\$ 34,756	\$ 354.2	\$ 82	0.24%	
MINNESOTA	5.2	\$ 41,034	\$ 422.6	\$ 81	0.20%	
IOWA	3.0	\$ 35,023	\$ 235.1	\$ 78	0.22%	
WASHINGTON	6.5	\$ 40,414	\$ 492.6	\$ 76	0.19%	
NEW MEXICO	2.0	\$ 31,474	\$ 148.0	\$ 74	0.24%	
ARIZONA	6.3	\$ 33,029	\$ 462.2	\$ 73	0.22%	
NEBRASKA	1.8	\$ 36,471	\$ 114.5	\$ 64	0.17%	
OKLAHOMA	3.6	\$ 34,153	\$ 215.1	\$ 60	0.17%	
MONTANA	1.0	\$ 32,458	\$ 41.6	\$ 42	0.13%	
NORTH DAKOTA	0.6	\$ 34,846	\$ 22.6	\$ 38	0.11%	
ALABAMA	4.6	\$ 32,404	\$ 0.0	\$ 0	0.00%	
ALASKA	0.7	\$ 40,352	\$ 0.0	\$ 0	0.00%	
ARKANSAS	2.8	\$ 30,060	\$ 0.0	\$ 0	0.00%	
HAWAII	1.3	\$ 39,239	\$ 0.0	\$ 0	0.00%	
MISSISSIPPI	2.9	\$ 28,845	\$ 0.0	\$ 0	0.00%	
NEVADA	2.6	\$ 40,480	\$ 0.0	\$ 0	0.00%	
UTAH	2.6	\$ 31,189	\$ 0.0	\$ 0	0.00%	
WYOMING	0.5	\$ 43,226	\$ 0.0	\$ 0	0.00%	
<b>TOTALS</b>	<b>301.5</b>	<b>\$ 38,611</b>	<b>\$ 58,322.2</b>	<b>\$ 193</b>	<b>0.50%</b>	

SOURCES: NORTH AMERICAN ASSOCIATION OF STATE AND PROVINCIAL LOTTERIES,  
U.S. Census Bureau

### *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.

During FY 2008, this proposal was re-introduced as an 80% lease of the lottery over a period of 50 years. As of August 2008, the potential revenues from a partial lottery lease are being considered as a foundation for a \$25 billion capital program.

### *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.

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 and the Mega Millions game in FY 2008 was somewhat offset by low or negative growth rates in other games. Instant games are expected to continue to rise, while Mega Millions is highly dependent upon rollovers. The Pick 3 game has had steadily decreasing sales since its high of \$383 million in 1990 and is expected to continue to slowly decrease. The Pick 4 game has remained relatively stagnant for several years and is expected to continue to maintain its current level. Lotto sales have been decreasing over the last 15 years and are 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 there.



# 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 2007, Illinois horse racing wagering generated \$20.6 million in total revenues with the State receiving \$8.9 million and local governments receiving \$11.6 million. While the local portion was consistent with historical trends, State racing-related revenues have remained relatively low since the January 1, 2000 implementation of Public Act 91-0040 (For a detailed analysis of 91-0040, please see the Commission's 2000 Gaming report). Table 20 examines the sources and allocation of CY 2007 horse racing revenues while Table 21 details State and local racing revenues over the past ten years.

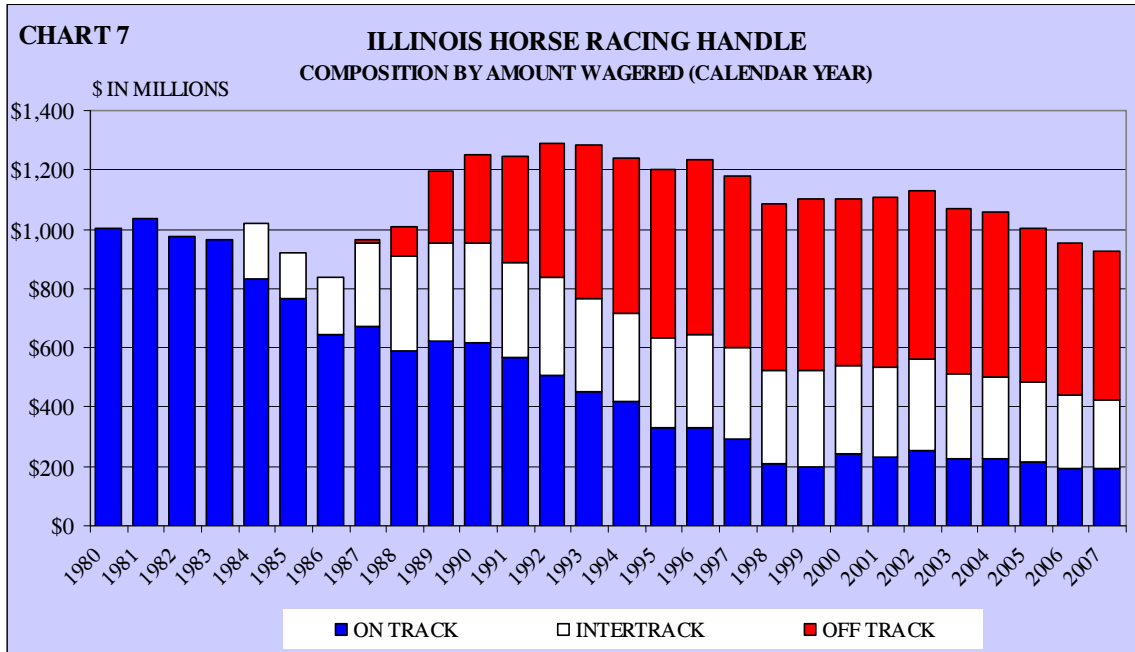
**TABLE 20: SOURCES AND ALLOCATION OF HORSE RACING REVENUE FOR CALENDAR YEAR 2007**

<b>REVENUE SOURCE</b>	
Application and License Fees of Racing Associations	\$99,710
Admission Taxes	\$90,965
Pari-mutuel Tax	\$12,790,744
Pari-mutuel Tax Credit	(\$4,501,606)
Licensing of Racing Personnel	\$251,973
Fingerprint Fees	\$107,460
Horsemen's Fines	\$95,650
Miscellaneous Sources	\$4,226
<b>* TOTAL STATE REVENUES RECEIVED</b>	<b>\$8,939,122</b>
2% of OTB Handle to City and County	\$10,127,636
OTB Admission Tax to City of Chicago	\$361,215
OTB Admission Tax to Cook County	\$543,023
On Track City Admission Tax	\$43,984
Intertrack Surcharge to County (20%)	\$537,657
<b>* TOTAL LOCAL REVENUES RECEIVED</b>	<b>\$11,613,514</b>
<b>TOTAL REVENUES RECEIVED</b>	<b>\$20,552,636</b>
<b>ALLOCATION OF REVENUE</b>	
Horse Racing Fund	\$8,266,082
General Revenue Fund	\$542,524
Quarterhorse Breeders' Fund	\$23,056
Fingerprint License Fund	\$107,460
<b>* TOTAL STATE REVENUES ALLOCATED</b>	<b>\$8,939,122</b>
To Cities	\$5,469,017
To Counties	\$6,144,497
<b>* TOTAL LOCAL</b>	<b>\$11,613,514</b>
<b>TOTAL REVENUES ALLOCATED</b>	<b>\$20,552,636</b>
<b>SOURCE: ILLINOIS RACING BOARD - 2007 ANNUAL REPORT</b>	

TABLE 21: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
TOTAL STATE REVENUE	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9
TOTAL LOCAL REVENUE	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6
<b>* TOTAL REVENUES RECEIVED</b>	<b>\$55.4</b>	<b>\$56.0</b>	<b>\$26.1</b>	<b>\$26.4</b>	<b>\$25.7</b>	<b>\$25.1</b>	<b>\$25.1</b>	<b>\$23.4</b>	<b>\$21.6</b>	<b>\$20.6</b>
TOTAL STATE ALLOCATIONS	\$42.1	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9
TOTAL LOCAL ALLOCATIONS	\$13.3	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6
TO CITIES	\$6.6	\$6.7	\$6.4	\$6.5	\$6.4	\$6.2	\$6.2	\$5.7	\$5.6	\$5.5
TO COUNTIES	\$6.7	\$6.9	\$6.3	\$6.4	\$6.4	\$6.2	\$6.2	\$5.9	\$5.7	\$6.1
<b>*TOTAL REVENUES ALLOCATED</b>	<b>\$55.4</b>	<b>\$56.0</b>	<b>\$26.1</b>	<b>\$26.4</b>	<b>\$25.7</b>	<b>\$25.1</b>	<b>\$25.1</b>	<b>\$23.4</b>	<b>\$21.6</b>	<b>\$20.6</b>

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

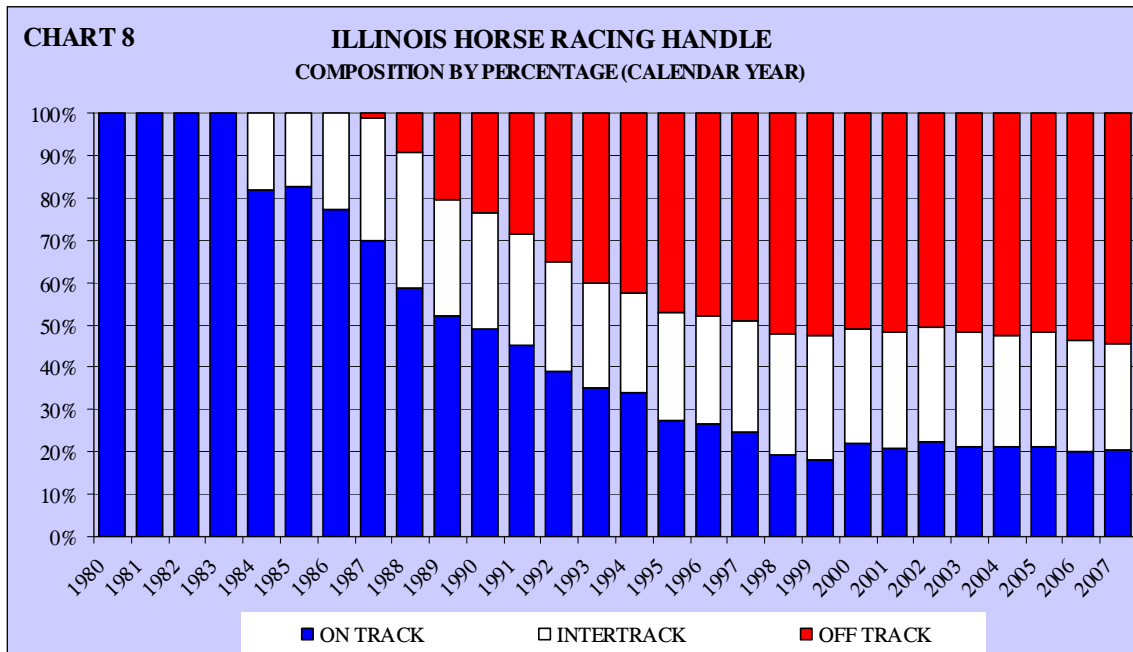
In its 2007 Annual Report, the Illinois Racing Board reported that 621 race programs were conducted during CY 2007 (down from 646 race programs in CY 2006 and 694 race programs in CY 2005). A total handle amount of \$929 million resulted, which was a decrease of 2.4% over the 2006 amount. As shown in Chart 7, this handle amount was the fifth consecutive year of declining revenues and the lowest experienced since 1986. The thoroughbred total handle (\$630M) dropped less than 1%, while the standardbred total handle (\$299M) dropped nearly 7%.



The Illinois Racing Board's latest report states that 27% or \$254 million of the total handle in CY 2007 was wagered on Illinois races. An additional \$841 million was wagered on Illinois races broadcast to other states, which was a decrease of less than 1% over CY 2006. The Board notes that 2007 was the seventh 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 2007, the percentage of the total handle generated from on-track wagering fell from 39% to 21%. This decline coincided with a dramatic increase in participation at off-track betting locations. Over the previously mentioned time frame, the percentage of the total handle generated at off-track wagering facilities increased from 35% to 55%. 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 2007, the Illinois Racing Board granted twenty-nine off-track licenses. The Racing Board's Annual Report states that seven new OTBs opened in 2007 (North Aurora, Wauconda, Elk Grove Village, Chicago - LaSalle/Ohio Streets, Hodgkins, Homewood, and Lockport) and three closed (Tinley Park, Danville, and Chicago - State/Lake Streets). 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 22.

<b>TABLE 22: ILLINOIS RACING TRACKS AND ASSOCIATED OTB'S</b>		
<b>TRACK</b>	<b>COUNTY</b>	<b>OTB LOCATIONS</b>
ARLINGTON RACECOURSE	COOK	CHICAGO (WEED STREET) WAUKEGAN HODGKINS** HOMEWOOD**
BALMORAL PARK	WILL	NORMAL URBANA CHICAGO (CORLISS) DANVILLE* PEORIA TINLEY PARK*
FAIRMOUNT PARK	MADISON	ALTON CARBONDALE SAUGET SPRINGFIELD
HAWTHORNE RACE COURSE	COOK	CHICAGO (STATE STREET)* OAKBROOK TERRACE CRESTWOOD JOLIET PERU CHICAGO (LASALLE/OHIO STREET)** ELK GROVE VILLAGE**
MAYWOOD PARK	COOK	CHICAGO (WEST JACKSON) NILES MOKENA AURORA NORTH AURORA** WAUCONDA**
QUAD CITY DOWNS	ROCK ISLAND	MCHENRY SOUTH BELOIT ROCKFORD SOUTH ELGIN LOCKPORT**
* CLOSED IN 2007 ** NEW IN 2007		

What tracks did Illinois bettors wager on in 2007? The largest handle at Illinois tracks came from Arlington Racetrack with \$89.5 million, followed by Hawthorne (\$64.0 million), Balmoral (\$55.6 million), Maywood (\$27.3 million), Fairmount (\$16.1 million), and State/County fairs (\$1.5 million). The largest handle from out-of-state tracks came from Churchill (\$31.5 million), Belmont (\$30.1 million), Santa Anita (\$27.2 million), Meadowlands (\$25.8 million), and Aqueduct (\$25.5 million), and Meadowlands (\$28.8 million).

Of all Illinois meets, thoroughbred races make up the largest percentage at 72.4% followed by harness races with 25.7% and quarterhorse races the remaining 1.9%.

### **The Riverboat Impact Fee to Horsetracks**

In 2006, Illinois lawmakers made a concerted effort to revitalize the struggling horse racing industry in Illinois by allowing riverboats to receive a portion of the revenues generated by riverboats. The law provided that the four Chicago-area riverboats must pay a 3% surcharge (of AGR) to the horse tracks over a two-year period. However, this subsidy was ruled unconstitutional by a Will County judge, who sided with the casinos in their argument that they were unfairly targeted because the law would not have passed if it included downstate riverboat casinos. In June 2008, this decision was overturned by the Illinois Supreme Court, ruling that the casinos failed to prove there was no real difference between the Chicago-area and downstate casinos.

In July 2008, stltoday.com reported that the four Chicago-area casinos are asking the Illinois Supreme Court to reconsider its June ruling. The casinos filed a motion which asks the court to take another look at their argument that it's unfair to "take tens of millions of dollars out of the pockets of casinos to subsidize the horse-racing industry, especially when that burden falls on some casinos but not others." It is not immediately known when the courts will respond to this motion.

During the time that the tax subsidy was in courts, the revenues intended for horseracing have been placed in a protest fund. Over \$76 million has been placed in this protest fund since it was first collected in June 2006. The two-year period for the subsidy is statutorily over in June 2008. If no further court action occurs and the money is allowed to be released, the \$76 million account will be divided among the state's five race tracks for operational expenses and prize money for winning horses.

Receiving these funds would be a much-welcomed boost to an industry that overall has had a difficult time in generating revenues. A spokesman from the Illinois Racing Board stated that these new funds would help 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. 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.

### **What Will the Future Hold for Illinois Horse Racing?**

As the State's horse racing numbers indicate, the horse racing industry in Illinois is struggling. Illinois' horse racing handle is down over 21% 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, Fairmount Park announced that it would scale back by a third the number of yearly race dates in 2008, from 90 days to 60 days. The track stated that the reduction was needed, "because money isn't what it used to be in the horse racing business, thanks largely to neighboring casinos."

Like many sessions before it, the Spring 2008 legislative session was again full of discussions of making vast changes to the gaming industry in Illinois, including changes to the horse racing industry. Among the possible changes discussed that would impact Illinois horse tracks were allowing slot machines at the horse tracks (which Indiana has recently done), providing additional State subsidies, and introducing advance deposit wagering in Illinois where bettors could use formats like the Internet to wager on races. However, again, like sessions before it, a gaming package has yet to be agreed upon.

While the subsidy to the horse racing industry, if allowed to occur, will be a significant boost to horse racing in Illinois, the funds are only a temporary fix. Unless the subsidy is allowed to be extended, the horse tracks will have to hope that the investments that they can make with the revenues from the impact fee will be enough to revitalize this struggling industry for years to come. They will also continue to hope that State officials will agree on a gaming package that will bring additional gamblers to their tracks and bring new excitement and new dollars to the horse tracks and horsemen of Illinois.

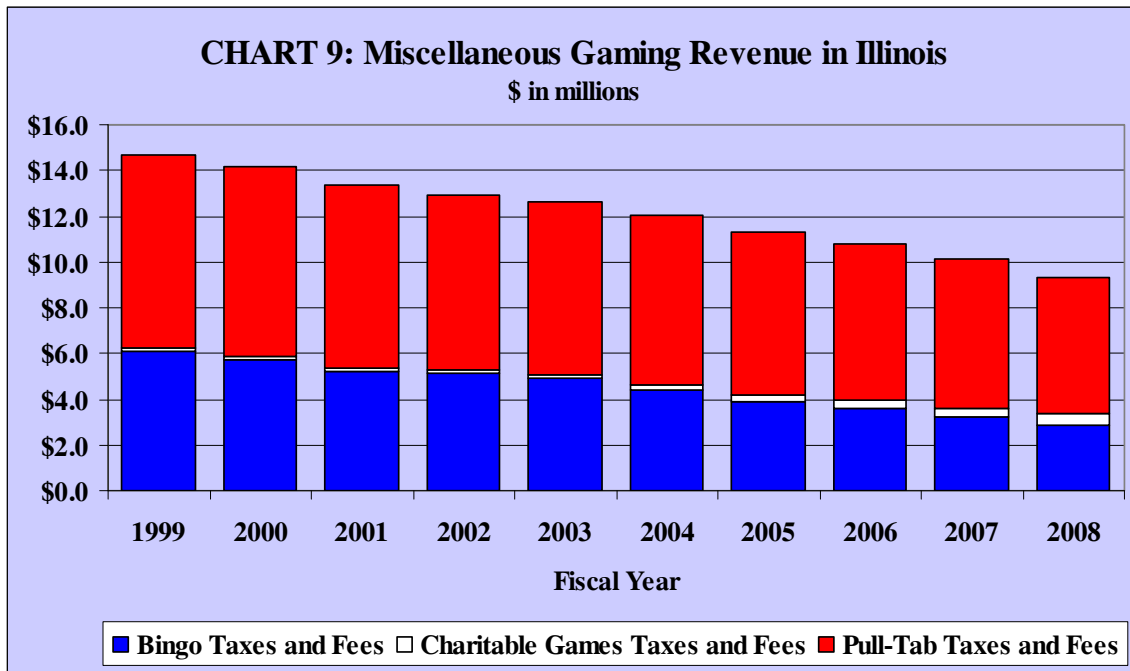


### Miscellaneous State Gaming

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 2008, the State generated \$0.2 million in bingo license fees and \$2.7 million in bingo taxes. Total bingo receipts were down 11.8% from FY 2007 levels.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2008, the State received \$60,800 in license fees and \$425,680 from the charitable games tax. Total charitable games receipts were up 32.9% from FY 2007 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 2008, the State received \$0.5 million in license fees and \$5.5 million from the pull tabs and jar games tax. Total pull-tabs and jar games receipts were down 8.5% from FY 2007 levels.

In total, these miscellaneous gaming revenue sources generated approximately \$9.3 million in FY 2008. This figure is 8.0% below the FY 2007 total of \$10.1 million. In fact, as shown below in Chart 9, total miscellaneous gaming revenue has been on a steady downward trend with FY 2008 figures now at the lowest level experienced over the last ten years.



## CONCLUSION

In conclusion, FY 2008 was a rather disappointing year for gaming revenues in Illinois as the combined total of \$1.2 billion was down 6.5% from FY 2007 levels. But even with this decline, the combined totals in FY 2008 are still 59% higher than they were just a decade ago, mainly due to the increases in lottery sales and riverboat receipts over that time period. The combined \$1.2 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.

The decline in gaming revenues in FY 2008 came mostly from a drop in revenues from Illinois riverboats. Adjusted gross receipts from Illinois riverboats fell 7.5% in FY 2008, generating \$1.8 billion. This decline, along with the absence of the hold-harmless provision, caused State revenues generated from Illinois riverboats to fall 16.0% in FY 2008. Illinois' decline in adjusted gross receipts is alarming, considering that gambling states surrounding Illinois performed much better (Indiana: -2.8%), (Iowa: 7.2%), Missouri (2.3%). Illinois' indoor smoking ban, economic factors, harsh weather conditions, and its lack of gaming expansion, especially as compared to other states, all likely contributed to Illinois' decline in receipts. The assumption that Illinois residents crossed borders to other state's casinos because of these factors likely contributed to the relatively higher rates of other states.

It is no coincidence that the struggles of Illinois riverboat figures since the beginning of the calendar year coincides with the enforcement of the indoor smoking ban on January 1, 2008. Through the first six months of the smoking ban, adjusted gross receipts for Illinois riverboats fell a combined 17.5%. Admissions declined 6.8% compared to this time period a year prior. Every Illinois riverboat, besides the Casino Queen in East St. Louis, experienced double-digit losses in adjusted gross receipts during the first six months of CY 2008. Even the Casino Queen in East St. Louis, which was the only Illinois riverboat to finish with positive growth in adjusted gross receipts for the fiscal year, also experienced a 4.4% decline in adjusted gross receipts during the second half of FY 2008 despite its brand new facility.

In FY 2008, there continued to be discussions on making significant changes to the gaming 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). The expansion of gaming in nearby states creates added pressure on Illinois's riverboats to do what is needed to keep pace or 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 10<sup>th</sup> 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 2008 amount of \$2.054 billion was the highest sales total realized since the inception of lottery in 1975. The largest dollar increase came from the Instant games, which rose \$52 million or 5.0%. The other game that showed a large amount of growth was Mega Millions which grew \$25 million or 12.8% over FY 2007. These increases offset disappointing sales from Pick N Play (down over 40%), Pick 3 (down 3.1%), and Pick 4 (down 1.4%).

Horse racing in Illinois continues to struggle. The CY 2007 handle amount of \$929 million was the lowest level experienced since 1986. The 2007 decline of 2.4% was the sixth consecutive year of declining revenues. All three components of horse-racing, off-track, inter-track, and on-track betting, experienced declines in 2007. Off-track betting continues to generate the largest handle composing 55% in 2007 followed by inter-track betting with 25% and on-track betting the remaining 21%. The largest handle at Illinois tracks came from Arlington Racetrack with \$89.5 million, followed by Hawthorne (\$64.0 million), Balmoral (\$55.6 million), Maywood (\$27.3 million), Fairmount (\$16.1 million), and State/County fairs (\$1.5 million).

What does the future hold for State gaming revenue? For riverboats, the apparent impact of the indoor smoking ban will likely continue to cause revenues to decline in the near future. Add this factor to the sluggish economy and the increased competition from other states, a significant rise in revenues from Illinois riverboats should not be expected; that is, unless other ways of generating additional revenues are pursued. The question remains, are 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 horse racing industry, it will likely continue to struggle unless significant changes (slots at the tracks, State subsidies, advance deposit wagering, etc.) are made. If the courts indeed allow the riverboat impact fee to go to the horse tracks, this could potentially be a huge boost to the industry as any way of increasing purses which would likely lead to higher handle and revenue totals. However, any revenue that goes towards this impact fee is less many that can go towards Illinois riverboats in the competitive Chicago market.

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>