



---

*Commission on Government  
Forecasting and Accountability*

---

**COMMISSION CO-CHAIRMEN**

Senator Jeffrey M. Schoenberg  
Representative Richard Myers

**SENATE**

Senator Bill Brady  
Senator Michael Frerichs  
Senator Matt Murphy  
Senator Dave Syverson  
Senator Donne Trotter

**HOUSE**

Representative Patricia Bellock  
Representative Kevin McCarthy  
Representative Elaine Nekritz  
Representative Raymond Poe  
Representative Al Riley

---

**EXECUTIVE DIRECTOR**

Dan R. Long

**DEPUTY DIRECTOR**

Trevor J. Clatfelter

**REVENUE MANAGER**

Jim Muschinske

**AUTHORS OF REPORT**

Eric Noggle  
Benjamin L. Varner

**EXECUTIVE SECRETARY**

Donna K. Belknap

---

## TABLE OF CONTENTS

### *WAGERING IN ILLINOIS: 2009 UPDATE*

	<u>PAGE</u>
Executive Summary	i
Introduction	1
Riverboat Gambling	7
Lottery	39
Horse Racing	49
Video Gaming	59
Conclusion	67

#### TABLES:

1	State Gaming Revenue	1
2	The Status of Illinois Gaming	4
3	Illinois Riverboat Adjusted Gross Receipts (FY 2004 – FY 2009)	11
4	Illinois Riverboat Admissions (FY 2004 – FY 2009)	11
5	State Revenue Generated from Illinois Riverboats (FY 2004 – FY 2009)	12
6	Local Revenue Generated from Illinois Riverboats (FY 2004 – FY 2009)	12
7	Total Revenue Generated from Illinois Riverboats (FY 2004 – FY 2009)	12
8	Illinois Riverboats by Adjusted Gross Receipts and Admissions	14
9	Annual Percent Change of Riverboat State Revenues	15
10	Performance of Illinois Riverboats Since Smoking Ban Began	17
11	Performance of Casinos by Region Since Smoking Ban Began	17
12	Operating Tax Rates for Illinois Riverboats (FY 2004 – FY 2009)	19
13	Top 10 U.S. Casino Markets by Annual Revenue	21
14	Commercial Casino Tax Revenue by State	22
15	Overview of Midwest Riverboat States	23
16	Adjusted Gross Receipts in the Quad City Region	24
17	Adjusted Gross Receipts in the St. Louis Region	25
18	Adjusted Gross Receipts in the Chicago Region	26
19	Lottery Sales by Game, Total Sales, Transfers and Percentage Transferred	41
20	Composition of Lottery Sales by Game	43
21	Mega Millions Results	44
22	Lottery Per-Capita Sales as a Percentage of Personal Income (FY 2008)	45
23	Sources and Allocation of Horse Racing Revenue for CY 2008	51
24	Horse Racing Revenues and Associated Allocations by Calendar Year	52
25	Illinois Horse Racing Tracks and Associated OTB's	54

#### CHARTS:

1	Composition of Illinois Gaming Revenue	3
2	Illinois Riverboat Adjusted Gross Receipts and Admissions (FY 1999 – FY 2009)	13
3	Annual Percent Change of AGR for Illinois and Bordering States	20
4	AGR per Table Game and per Electronic Gaming Device	29
5	Current Number of Gaming Positions Used per Riverboat in the Chicago Region	30
6	FY 2009 Lottery Sales Distribution	43
7	Illinois Horse Racing Handle (Composition by Amount Wagered)	52
8	Illinois Horse Racing Handle (Composition by Percentage)	53
9	Miscellaneous Gaming Revenue in Illinois	66





## EXECUTIVE SUMMARY

The following document is the Commission's 2009 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. A brief description of the recently enacted video gaming legislation is also included. The highlights of these topics are shown below.

- In FY 2009, the State's share of horse racing, lottery, and riverboat revenue reached \$1.062 billion, a \$168 million or 13.7% decrease from FY 2008 levels. The \$168 million decrease consisted of a \$32 million decline in lottery transfers to the Common School Fund, a \$134 million decrease in State riverboat transfers to the Education Assistance Fund, and a \$2 million decline in horse racing revenues.
- In FY 2009, lottery transfers comprised 58.9% of total gaming revenues, whereas riverboat transfers comprised 40.5%, and horse racing comprised of 0.7%. Overall gaming per-capita spending declined 13.2% in FY 2009 to \$194. This was the second consecutive year of a decline in overall per-capita spending after three consecutive years of increases.
- Statewide adjusted gross receipts (AGR) for Illinois riverboats in FY 2009 were down 18.3% while admissions were down 10.7% from FY 2008 levels. This is the second consecutive year of declines for these figures. State revenues from riverboat gambling totaled \$444.0 million, which was a 25.0% decline from FY 2008 levels and was the lowest amount generated since FY 2000.
- Several factors have contributed to the dramatic turnaround in riverboat figures over the last two fiscal years. These factors include the struggling economy, increased competition from other states, the effects of the graduated tax structure, and the fire at the Joliet Empress Casino. However, the numbers suggest that the biggest contributor to the drop in Illinois casino revenues is the indoor smoking ban. Since the indoor smoking ban began in January 2008, adjusted gross receipts for Illinois riverboats have fallen a combined 22.1%.
- From a regional standpoint, the adjusted gross receipts for the Chicago area riverboats have dropped 24.7% since the indoor smoking ban began, while the receipts for Indiana's four closest riverboats in the Chicago area have actually increased 3.1%. These numbers would suggest that enforcing an indoor smoking ban at Illinois casinos not only hurts Illinois riverboat revenues, but entices smoking gamblers to go to other states to gamble, thereby benefiting out-of-state competitors.

- Using FY 2009 adjusted gross receipts as a guideline, Illinois made up 26.2% of total receipts in the Quad City region (compared to Iowa's 73.8%), 23.3% of total receipts in the St. Louis region (compared to Missouri's 76.7%), and 47.8% of total receipts in the Chicago region (compared to Indiana's 52.2%).
- 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, and adding new riverboats/casinos. These ideas have again failed to gather enough support for passage.
- There is hope that additional revenues could soon come from the 10th license. Once the license receives suitability approval from the Illinois Gaming Board, construction would begin on a new riverboat casino in Des Plaines. The Gaming Board believes that it would take at least 12 to 15 months after construction begins before the new casino would become operational.
- In FY 2009, lottery sales totaled approximately \$2.079 billion, a 1.1% increase from the FY 2008 total of \$2.058 billion. FY 2009 was the third year that sales topped \$2 billion in the lottery's 34-year history. From this sum, 30.0% or \$625 million was transferred into the Common School Fund, a 4.9% decrease from the FY 2008 transfer amount of \$657 million.
- The largest dollar increase came from the Instant games, which rose \$28.4 million or 2.6%. The largest percentage growth came from the St. Patrick's Raffle which grew almost 19% but this equated to only an increase of \$3.0 million. Lotto and Pick 4 both showed solid growth as they increased by 8.7% and 5.4%, respectively. The biggest decrease in terms of dollar amount was the Mega Millions which decreased \$16.5 million, a growth rate of -7.5%.
- Instant games continue to comprise the greatest percentage with 54.0% of lottery sales. The Pick 3 game had the second highest percentage at 14.3%. Most of the remaining revenues come from Mega Millions (9.8%), the Pick 4 game (8.5%), Little Lotto (6.2%) and Lotto (5.9%).
- As part of Public Act 096-0034, the Illinois lottery is to be operated with the assistance of a private manager, whose selection is to be based on a competitive request for qualifications process. The private management agreement is to be entered into by March 1, 2010. The Public Act also allows for an Internet pilot program for the sale of lottery tickets that would only be allowed pending a clarifying memorandum from the federal Department of Justice that Internet lottery sales are legal.
- The Illinois Racing Board reported that 582 race programs were conducted during CY 2008. A total handle amount of \$819 million resulted, which was a decrease

of 11.9% over the 2007 amount and the lowest handle amount since 1975. The thoroughbred total handle (\$568M) dropped 10%, while the standardbred total handle (\$251M) dropped 16%.

- Between 1992 and 2008, the percentage of the total handle generated from on-track wagering fell from 39% to 20%. This decline coincided with a dramatic increase in participation at off-track betting locations. Over the previously mentioned time frame, the percentage of the total handle generated at off-track wagering facilities increased from 35% to 56%. Despite this shift, inter-track wagering remained stable and generally comprised between 24% and 30% of the total handle.
- 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 for a two-year period. This surcharge was re-established in December 2008 for as many as three more years. However, the horse racing industry has yet to receive this revenue as the impact fees have been mired in litigation since the law was first enacted. Nearly \$100 million in collected fees have remained in a protest fund waiting to be released by the courts.
- Public Act 96-0762 (SB 1298) allows advance deposit wagering to be conducted throughout the State. The Racing Board indicates that when fully implemented, approximately \$100 million in horse racing revenues could be collected from advance deposit wagering. It is unknown what cannibalization effect that advance deposit wagering will have on other forms of horse wagering.
- In July 2009, Governor Quinn signed into law Public Act 96-0034, which became the first comprehensive capital bill in many years. It is estimated the revenues under this public act could generate between \$943 million and \$1.189 billion for the Capital Projects Fund to pay for a variety of capital projects across Illinois. These new revenues will come from a variety of sources including an expansion of the Sales and Use Tax (\$65M), private management of Lottery/online Lottery program (\$150M), increasing the liquor tax (\$108M), and increasing motor vehicle fees (\$332M). However, the largest portion of the new revenues could come from the legalization of video gaming machines in Illinois (\$288M to \$534M).
- While it may be over a year before any revenue will be generated from these machines, the allowance of video gaming in Illinois will undoubtedly bring new gaming revenues to the State. While the number of local jurisdictions that will allow video gaming at bars, truck stop establishments, fraternal establishments, or veteran's establishments remains unclear, there is little doubt that the competition for the gaming dollar will soon be higher than it has ever been before in the State of Illinois.





## INTRODUCTION

Fiscal Year 2009 was a tumultuous period for our country. The dramatic struggles of the economy have impacted businesses throughout the nation resulting in a significant falloff in sales, which in turn has caused unemployment rates to rise to levels not seen in years. As a consequence, Illinois, like states across the country, has seen personal income and spending levels falter, causing tax revenues from a number of State sources to stumble. The State's gaming industry, including riverboats, lottery, and horse racing, were not immune to this falloff as overall gaming revenues fell from \$1.320 billion in FY 2008 to \$1.082 billion in FY 2009, a decline of \$168 million or 13.7%.

The \$168 million decline in overall gaming receipts included a \$134 million falloff in riverboat transfers to the Education Assistance Fund (to \$430 million), a \$32 million decline in lottery transfers to the Common School Fund (to \$625 million), and a \$2 million drop in State horse racing revenues (to \$7 million). The combined decline of 13.7% over FY 2008 marked the third consecutive year of decreases in combined gaming revenues after eight consecutive years of positive growth. 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%
2009	\$625	\$7	\$430	\$1,062	-13.7%

(1) FIGURES REPRESENT TRANSFERS INTO THE COMMON SCHOOL FUND.  
(2) FIGURES EQUAL STATE REVENUE GENERATED, NOT ALLOCATED.  
(3) FIGURES REPRESENT APPROPRIATIONS (FY 1992-FY 1995) AND TRANSFERS (FY 1996-FY 2009) 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

While combined FY 2009 gaming receipts are still 24% higher than FY 2000 levels, the \$1.062 billion mark is 22% lower than its FY 2006 high-mark of \$1.370 billion. As the previous table indicates, horse racing revenues have maintained a steady decline over the past decade falling from \$13 million in 2000 to its current level of nearly \$7 million. But its totals in relation to the other gaming sources show that the main contributors to the revenue fluctuation come from the lottery program and Illinois' riverboat casinos.

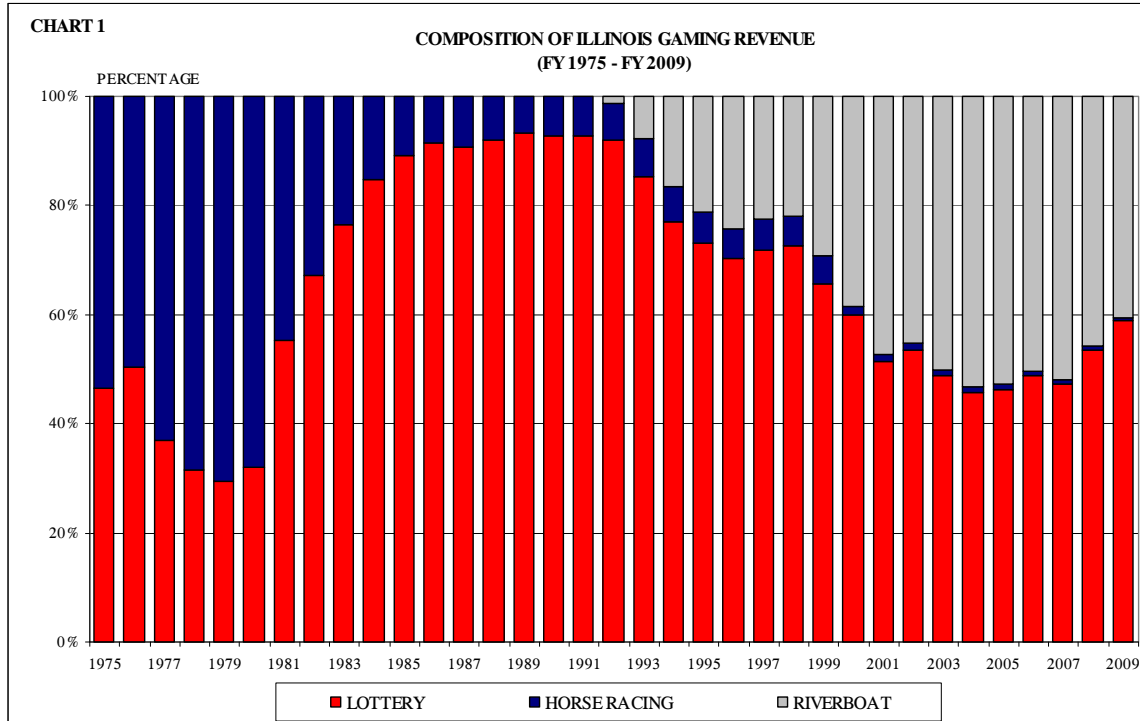
Since FY 2000, State lottery transfers have increased 21.4%, including a 21.7% increase between FY 2003 and FY 2008. The main reason for this was due to strong increases in Mega Millions revenues in FY 2006 and FY 2008. While lottery transfers dropped 4.9% in FY 2009, total lottery sales did increase 1.1% over this time period. This apparent discrepancy in the figures is because the transfer ratio to the Common School Fund fell to 30.0% in FY 2009, an all-time low. This lower ratio is likely due to increased expenses, such as advertising or commissions. It should be noted, however, that while the FY 2009 transfer total was down, it was still the third highest fiscal year total on record for lottery transfers to the Common School Fund.

While State riverboat transfers in FY 2009 still remain 30.3% higher than FY 2000 levels, the \$134 million drop in transfers in FY 2009 was the largest decline ever for this revenue source and the main contributor for the reduction in overall gaming revenues. This falloff followed the \$121 million drop in transfers in FY 2008, which was the second largest decline ever. The FY 2009 transfer amount of \$430 million is the lowest level since FY 2000, and even lower than FY 2001 and FY 2002 totals in which the graduated tax rate maxed out at 35% (compared to the 50% maximum rate under current law).

The 23.8% decline in riverboat transfers from FY 2008 to FY 2009 is due to a combination of factors. First of all, few would argue that the economic conditions of FY 2009 lessened the amount of discretionary spending that consumers were willing to spend on riverboats. The uncertainty of the economy has forced consumers to be more diligent with their personal budgets. As a result, admission and receipts totals at Illinois' riverboats have suffered. However, Illinois riverboat totals are significantly worse than the riverboat totals of states surrounding Illinois. Therefore, as discussed in last year's report, it appears that the indoor smoking ban has continued to have a major negative 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. During the 1990s and into the 2000s, riverboat revenues as a percentage of total gaming revenues increased dramatically. After years of the lottery being the top revenue producer of gaming revenues, FY 2003 was the first of five consecutive years that riverboat revenues topped lottery revenues as the largest source. However, the decline in riverboat transfers in FY 2008 and FY 2009 again placed the lottery as the largest contributor of gaming revenues in Illinois. In FY 2009, lottery transfers comprised 58.9% of total gaming revenues, whereas riverboat transfers comprised

40.5%, and horse racing comprised of 0.7%. 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 2009 State gaming revenues totaled \$1.062 billion. The gaming industry’s FY 2009 gaming hold total of \$2.498 billion declined approximately 13.2% from FY 2008 levels. Per-capita spending declined 13.4% to

approximately \$194 in FY 2009. This was the second consecutive year of a decline in per-capita spending after three consecutive years of increases.

Because of the wide fluctuation of adjusted gross receipts over the last several years, the volatility of the gaming hold and per-capita spending becomes mostly dependent on the behavior of the riverboats. For example, the 13.2% decline in overall per-capita spending was due mostly because of the large decline in the gaming hold (adjusted gross receipts) of the riverboats (-18.3%). However, declines in the gaming hold of lottery (-2.7%) and horse racing (-13.5%) also contributed to the overall decline in the gaming hold in FY 2009.

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
<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	12.90
<b>HORSE RACING (CY)</b>											
STATE REVENUE (IN MILLIONS)	\$ 42	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 12	\$ 11	\$ 9	\$ 9	\$ 7
GAMING HOLD (IN MILLIONS)	\$ 247	\$ 247	\$ 248	\$ 252	\$ 240	\$ 238	\$ 225	\$ 215	\$ 209	\$ 184	\$ 159
% CHANGE IN GAMING HOLD	1.9%	-0.2%	0.3%	1.8%	-4.9%	-0.8%	-5.3%	-4.4%	-3.0%	-11.8%	-13.5%
** PER-CAPITA SPENDING	\$ 20.4	\$ 19.8	\$ 19.8	\$ 20.0	\$ 18.9	\$ 18.7	\$ 17.6	\$ 16.8	\$ 16.2	\$ 14.3	\$ 12.3
% CHANGE IN PER-CAPITA SPENDING	1.4%	-2.7%	-0.4%	1.1%	-5.2%	-1.3%	-5.7%	-5.0%	-3.2%	-11.9%	-13.7%
<b>LOTTERY (FY)</b>											
TRANSFERS TO CSF (IN MILLIONS)	\$ 540	\$ 515	\$ 501	\$ 555	\$ 540	\$ 570	\$ 614	\$ 670	\$ 622	\$ 657	\$ 625
GAMING HOLD (IN MILLIONS)	\$ 704	\$ 674	\$ 658	\$ 722	\$ 705	\$ 735	\$ 803	\$ 920	\$ 890	\$ 884	\$ 860
% CHANGE IN GAMING HOLD	-5.0%	-4.2%	-2.4%	9.8%	-2.4%	4.3%	9.2%	14.6%	-3.3%	-0.6%	-2.7%
** PER-CAPITA SPENDING	\$ 58.0	\$ 54.2	\$ 52.5	\$ 57.3	\$ 55.7	\$ 57.8	\$ 62.9	\$ 71.7	\$ 69.2	\$ 68.7	\$ 66.7
% 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%	-2.9%
<b>RIVERBOATS (FY)</b>											
AMOUNT TO EAF & CSF (IN MILLIONS)	\$ 240	\$ 330	\$ 460	\$ 470	\$ 554	\$ 661	\$ 699	\$ 689	\$ 685	\$ 564	\$ 430
GAMING HOLD (IN MILLIONS)	\$ 1,171	\$ 1,589	\$ 1,713	\$ 1,834	\$ 1,798	\$ 1,657	\$ 1,752	\$ 1,870	\$ 1,958	\$ 1,810	\$ 1,479
% CHANGE IN GAMING HOLD	9.9%	35.6%	7.8%	7.1%	-2.0%	-7.8%	5.7%	6.8%	4.7%	-7.6%	-18.3%
** PER-CAPITA SPENDING	\$ 96.6	\$ 127.8	\$ 136.8	\$ 145.5	\$ 142.1	\$ 130.3	\$ 137.3	\$ 145.8	\$ 152.3	\$ 140.6	\$ 114.6
% 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%	-18.5%
<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	\$ 1,062
GAMING HOLD (IN MILLIONS)	\$ 2,122	\$ 2,510	\$ 2,618	\$ 2,808	\$ 2,742	\$ 2,630	\$ 2,780	\$ 3,005	\$ 3,056	\$ 2,878	\$ 2,498
% CHANGE IN GAMING HOLD	3.6%	18.2%	4.3%	7.2%	-2.3%	-4.1%	5.7%	8.1%	1.7%	-5.8%	-13.2%
** PER-CAPITA SPENDING	\$ 175.0	\$ 201.8	\$ 209.1	\$ 222.8	\$ 216.8	\$ 206.9	\$ 217.8	\$ 234.2	\$ 237.8	\$ 223.6	\$ 193.6
% CHANGE IN PER-CAPITA SPENDING	3.1%	15.3%	3.6%	6.5%	-2.7%	-4.6%	5.3%	7.5%	1.5%	-6.0%	-13.4%
*THE FY 2009 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 then horse racing.

The riverboat section begins with a summary of the legislative changes that have affected Illinois casinos. This is followed by an analysis of FY 2009 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, and compares Illinois to other states in per-capita sales as a percentage of personal income. Also included is a synopsis of P.A. 96-0034, which allows the Illinois lottery to be operated with the assistance of a private manager and allows for an Internet pilot program for the sale of lottery tickets.

The horse racing section looks at how the horse racing industry performed in CY 2008 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. A brief discussion on the potential of advance deposit wagering in Illinois is also included.

The report concludes with a look at Illinois' newest form of legalized gambling, video gaming, and a brief look at miscellaneous gaming in Illinois including bingo, pull-tabs, and charitable games.



# 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 2009 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 year-and-a-half 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 2009 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%

The local governments where each riverboat docks 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 \$5 per admission to \$2 to \$3 per admission. The precise amount for each riverboat is dependent on a riverboat's admission totals for the previous calendar year. The local governments receive \$1 of each admission tax collected, with the State receiving the remaining 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. This fee was collected over a two-year period ending June 2008.

P.A. 95-1008 provided that this fee would continue to be collected starting December 15, 2008 until the first to occur of (i) December 15, 2011, (ii) the date a horse racing track begins operating a slot machine or video game of chance, (iii) the date that payments to the Horse Racing Equity Fund begin, or (iv) the date that current wagering tax is increased to at least the rates that were in effect on July 1, 2003.

*(A brief synopsis of litigation relating to this impact fee is discussed in the Horse Racing section of this report).*

### **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 2004 thru 2009 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 2004 - FY 2009)

(\$ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
ELGIN	\$389.0	\$408.1	\$415.7	\$436.1	\$396.2	\$311.8
JOLIET HARRAH'S	\$249.2	\$292.3	\$332.9	\$364.6	\$349.2	\$292.1
AURORA	\$221.4	\$231.8	\$250.2	\$272.6	\$249.4	\$215.0
JOLIET EMPRESS	\$218.5	\$232.1	\$256.8	\$252.6	\$210.8	\$127.9
EAST ST. LOUIS	\$163.5	\$165.4	\$172.2	\$172.1	\$185.2	\$154.4
METROPOLIS	\$140.4	\$140.5	\$152.2	\$166.7	\$151.9	\$123.0
EAST PEORIA	\$132.8	\$132.3	\$133.4	\$130.3	\$125.1	\$116.2
ALTON	\$103.6	\$110.4	\$117.6	\$125.4	\$109.0	\$86.9
ROCK ISLAND	\$38.9	\$39.3	\$39.4	\$37.6	\$33.4	\$52.3
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$1,657.2	\$1,752.2	\$1,870.4	\$1,958.1	\$1,810.4	\$1,479.5
% INCREASE	-7.8%	5.7%	6.7%	4.7%	-7.5%	-18.3%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 4: ILLINOIS RIVERBOAT ADMISSIONS (FY 2004 - FY 2009)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
ELGIN	2,854,598	2,795,134	2,677,440	2,531,559	2,375,400	2,117,970
JOLIET HARRAH'S	1,831,518	2,073,659	2,417,781	2,816,788	2,896,912	2,535,895
AURORA	1,446,951	1,428,536	2,082,147	1,860,184	1,745,324	1,609,036
JOLIET EMPRESS	1,666,841	1,828,809	1,726,414	2,164,586	1,920,951	1,155,386
EAST ST. LOUIS	2,152,041	2,122,913	2,098,942	2,024,667	2,457,774	2,273,300
METROPOLIS	1,394,316	1,214,268	1,184,008	1,412,307	1,265,813	1,069,036
EAST PEORIA	1,682,744	1,584,379	1,432,655	1,342,423	1,370,631	1,345,020
ALTON	1,381,943	1,424,604	1,476,971	1,455,514	1,325,645	1,155,978
ROCK ISLAND	763,370	746,355	716,949	649,612	612,551	1,000,453
TENTH LICENSE	0	0	0	0	0	0
TOTAL	15,174,322	15,218,657	15,813,307	16,257,640	15,971,001	14,262,074
% INCREASE	-16.9%	0.3%	3.9%	2.8%	-1.8%	-10.7%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 5: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2004 - FY 2009)

(\$ in millions)

	FY 2004	FY 2005	FY 2006*	FY 2007*	FY 2008	FY 2009
ELGIN	\$194.5	\$206.8	\$204.2	\$203.1	\$149.8	\$111.5
JOLIET HARRAH'S	\$105.3	\$125.0	\$119.6	\$134.5	\$130.2	\$102.4
AURORA	\$86.6	\$90.5	\$90.5	\$91.2	\$84.3	\$66.2
JOLIET EMPRESS	\$85.2	\$91.8	\$89.7	\$90.3	\$68.2	\$38.4
EAST ST. LOUIS	\$61.6	\$62.7	\$53.0	\$52.5	\$55.1	\$42.7
METROPOLIS	\$48.5	\$49.0	\$47.6	\$47.8	\$41.7	\$29.3
EAST PEORIA	\$47.3	\$46.2	\$46.1	\$45.7	\$31.1	\$27.4
ALTON	\$33.3	\$35.4	\$34.2	\$33.9	\$26.7	\$18.5
ROCK ISLAND	\$7.3	\$7.1	\$5.9	\$5.5	\$4.8	\$7.6
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$669.7	\$714.6	\$690.7	\$704.5	\$591.8	\$444.0
% INCREASE	16.4%	6.7%	-3.3%	2.0%	-16.0%	-25.0%

\* Includes Hold-Harmless Revenues

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 6: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2004 - FY 2009)

(\$ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
ELGIN	\$22.3	\$23.2	\$23.5	\$24.3	\$22.2	\$17.7
JOLIET HARRAH'S	\$14.3	\$16.7	\$19.1	\$21.0	\$20.4	\$17.1
AURORA	\$12.5	\$13.0	\$14.6	\$15.5	\$14.2	\$12.4
JOLIET EMPRESS	\$12.6	\$13.4	\$14.6	\$14.8	\$12.5	\$7.5
EAST ST. LOUIS	\$10.3	\$10.4	\$10.7	\$10.6	\$11.7	\$10.0
METROPOLIS	\$8.4	\$8.2	\$8.8	\$9.7	\$8.9	\$7.2
EAST PEORIA	\$8.3	\$8.2	\$8.1	\$7.9	\$7.6	\$7.2
ALTON	\$6.6	\$6.9	\$7.4	\$7.7	\$6.8	\$5.5
ROCK ISLAND	\$2.7	\$2.7	\$2.7	\$2.5	\$2.3	\$3.6
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$98.0	\$102.8	\$109.3	\$114.2	\$106.5	\$88.2
% INCREASE	-9.3%	4.9%	6.3%	4.4%	-6.7%	-17.1%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 7: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2004 - FY 2009)

(\$ in millions)

	FY 2004	FY 2005	FY 2006*	FY 2007*	FY 2008	FY 2009
ELGIN	\$216.8	\$230.0	\$227.7	\$227.4	\$171.9	\$129.2
JOLIET HARRAH'S	\$119.6	\$141.7	\$138.7	\$155.5	\$150.5	\$119.6
AURORA	\$99.1	\$103.5	\$105.1	\$106.7	\$98.5	\$78.6
JOLIET EMPRESS	\$97.8	\$105.3	\$104.3	\$105.1	\$80.7	\$45.9
EAST ST. LOUIS	\$72.0	\$73.1	\$63.7	\$63.2	\$66.8	\$52.6
METROPOLIS	\$56.9	\$57.2	\$56.3	\$57.6	\$50.6	\$36.6
EAST PEORIA	\$55.7	\$54.4	\$54.2	\$53.5	\$38.7	\$34.6
ALTON	\$39.9	\$42.4	\$41.5	\$41.6	\$33.5	\$24.0
ROCK ISLAND	\$10.0	\$9.8	\$8.6	\$8.0	\$7.0	\$11.2
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$767.7	\$817.4	\$800.1	\$818.6	\$698.2	\$532.2
% INCREASE	12.3%	6.5%	-2.1%	2.3%	-14.7%	-23.8%

\* Includes Hold-Harmless Revenues

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

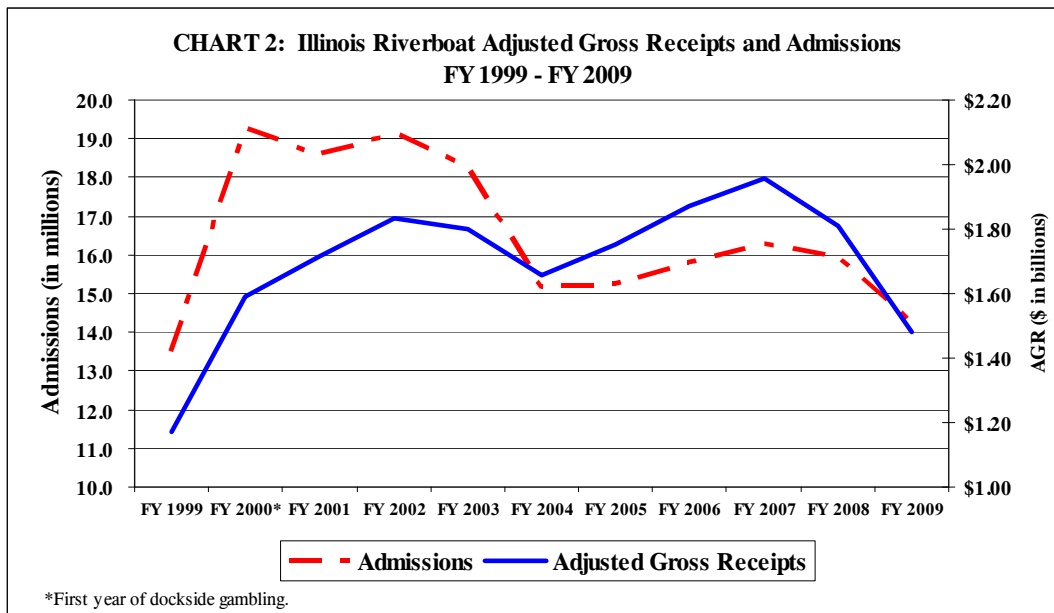
**Statewide Perspective**

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, 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 and 4.7% in FY 2007.

Through the first portion of FY 2008 this growth continued as adjusted gross receipts were up 4.2% for the first quarter. However, 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.

The decline in riverboat figures continued, even more sharply, in FY 2009. For the 12-month period ending on June 30, 2009, adjusted gross receipts were down nearly \$331 million or 18.3%. Admissions were down 1.7 million patrons or 10.7%. A graph depicting how AGR and admission figures have changed between FY 1999 and FY 2009 is shown below.



### Boat-by-Boat Perspective

As stated previously, adjusted gross receipts (AGR), Statewide, fell 18.3% in FY 2009. As shown below, looking at the riverboats individually, the largest decrease came from Joliet Empress which saw its adjusted gross receipts fall 39.4%. Much of this decrease was due to a fire at the facility in March 2009 which closed gaming operations until mid June. However, even before the fire, Empress was down 20.3% thru the first three quarters of the fiscal year.

Other significant declines in AGR came from Elgin (-21.3%), Alton (-20.3%), Metropolis (-19.1%), East St. Louis (-16.6%), Joliet Harrah's (-16.4%), Aurora (-13.8%), and East Peoria (-7.1%). Only one Illinois riverboat experienced an increase in adjusted gross receipts in FY 2009, Jumer's Casino in Rock Island. Its 56.5% increase was in large part, due to their brand new riverboat which opened in December 2008.

Attendance wise, again the largest decline came from Joliet Empress, reflecting the impact its fire had on fiscal year attendance totals (-39.9%). Other double-digit percentage declines came from Metropolis (-15.5%), Alton (-12.8%), Harrah's Casino in Joliet (-12.5%), and Elgin (-10.8%). As with the adjusted gross receipts, the only increase in attendance came from Rock Island's brand new casino (+63.3%). It should be noted, however, that even with this large increase, Rock Island was still the lowest attended riverboat casino in the State with just over one million patrons.

TABLE 8: ILLINOIS RIVERBOATS BY ADJUSTED GROSS RECEIPTS AND ADMISSIONS: PERCENTAGE CHANGE COMPARISON							
ADJUSTED GROSS RECEIPTS							
	Annual Percent Change						
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
ELGIN	-9.1%	1.5%	4.9%	1.9%	4.9%	-9.1%	-21.3%
JOLIET HARRAH'S	-4.1%	-18.3%	17.3%	13.9%	9.5%	-4.2%	-16.4%
AURORA	11.9%	-21.0%	4.7%	10.8%	6.2%	-8.5%	-13.8%
JOLIET EMPRESS	-5.3%	-7.9%	6.2%	7.8%	0.9%	-16.5%	-39.4%
EAST ST. LOUIS	1.3%	3.6%	1.1%	4.1%	0.0%	7.6%	-16.6%
METROPOLIS	1.2%	4.5%	0.1%	8.3%	9.5%	-8.9%	-19.1%
EAST PEORIA	-0.6%	-7.8%	-0.4%	0.9%	-2.3%	-4.0%	-7.1%
ALTON	-4.4%	-10.8%	6.5%	6.6%	6.6%	-13.1%	-20.3%
ROCK ISLAND	4.3%	-1.4%	1.0%	0.1%	-4.4%	-11.2%	56.5%
TENTH LICENSE	N/A	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>-18.3%</b>
ADMISSIONS							
	Annual Percent Change						
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
ELGIN	-16.5%	3.2%	-2.1%	-4.2%	-5.4%	-6.2%	-10.8%
JOLIET HARRAH'S	-3.7%	-39.1%	13.2%	16.6%	16.5%	2.8%	-12.5%
AURORA	-0.4%	-41.9%	-1.3%	20.9%	7.7%	-6.2%	-7.8%
JOLIET EMPRESS	1.4%	-24.9%	9.7%	13.9%	4.0%	-11.3%	-39.9%
EAST ST. LOUIS	0.5%	6.4%	-1.4%	-1.1%	-3.5%	21.4%	-7.5%
METROPOLIS	-5.0%	-3.9%	-12.9%	-2.5%	19.3%	-10.4%	-15.5%
EAST PEORIA	-3.1%	-10.9%	-5.8%	-9.6%	-6.3%	2.1%	-1.9%
ALTON	-5.4%	-13.7%	3.1%	3.7%	-1.5%	-8.9%	-12.8%
ROCK ISLAND	-2.9%	-5.5%	-2.2%	-3.9%	-9.4%	-5.7%	63.3%
TENTH LICENSE	N/A	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>	<b>-10.7%</b>
SOURCE: ILLINOIS GAMING BOARD							

## Revenue Analysis

Illinois' declining adjusted gross receipt figures had a direct impact on State revenues. In FY 2009, State revenues from riverboat gambling fell sharply, totaling \$444.0 million, which was a 25.0% decline from the FY 2008 level of \$591.8 million and a 37.0% decline from FY 2007 levels. The FY 2009 amount was the lowest amount of State revenues collected since FY 2000. 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 2006 STATE REVENUE*	Annual % change	FY 2007 STATE REVENUE*	Annual % change	FY 2008 STATE REVENUE	Annual % change	FY 2009 STATE REVENUE	Annual % change
ELGIN	\$204.2	-1.3%	\$203.1	-0.6%	\$149.8	-26.3%	\$111.5	-25.5%
JOLIET HARRAH'S	\$119.6	-4.3%	\$134.5	12.4%	\$130.2	-3.2%	\$102.4	-21.3%
AURORA	\$90.5	0.0%	\$91.2	0.8%	\$68.2	-25.2%	\$66.2	-2.9%
JOLIET EMPRESS	\$89.7	-2.3%	\$90.3	0.7%	\$84.3	-6.7%	\$38.4	-54.5%
EAST ST. LOUIS	\$53.0	-15.5%	\$52.5	-0.9%	\$55.1	4.8%	\$42.7	-22.6%
METROPOLIS	\$47.6	-3.0%	\$47.8	0.6%	\$41.7	-12.8%	\$29.3	-29.7%
EAST PEORIA	\$46.1	-0.2%	\$45.7	-0.9%	\$31.1	-32.0%	\$27.4	-11.8%
ALTON	\$34.2	-3.5%	\$33.9	-0.8%	\$26.7	-21.2%	\$18.5	-30.9%
ROCK ISLAND	\$5.9	-17.7%	\$5.5	-6.8%	\$4.8	-13.0%	\$7.6	60.0%
<b>TOTAL</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>	<b>\$444.0</b>	<b>-25.0%</b>
\$ Change over Prior Year	-\$23.9		\$13.8		-\$112.7		-\$147.8	
* Includes Hold-Harmless Revenues								

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 2009 activity may be receipted and transferred into the State Gaming Fund in July FY 2010. 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).*



## Reasons for the Decline in Riverboat Revenues

**The Economy.** Several factors have contributed to the dramatic turnaround in riverboat figures over the last two fiscal years. The most obvious contributor is the economy. The recent falloff in the stock market has made its mark on nearly every sector of the economy, including the gaming industry. In an AllBusiness.com article entitled, “A Dicey Economy Hurts Casino Revenue”, the author writes,

*It's an awful time to run a casino. The only machines most people can afford to pump money into these days spit out gasoline, not shiny coins and dreams of early retirement. Those other machines – the ones with bright lights and names like Wheel of Fortune – on some days sit emptier than your 401(k) account.*

Reports indicate that the income available to spend on items such as gambling has dwindled over the past year. The Bureau of Economic Analysis reported that disposable personal income (current dollars) declined 3.9% in the 3<sup>rd</sup> Quarter of 2008 and another 2.1% in the 4<sup>th</sup> Quarter of 2008. In addition, Illinois' unemployment rate has now surpassed the 10% mark for the first time since 1983. As the number of employed declines, so does the money available to spend on activities such as gambling.

And even if money is available, it appears the current struggles of the nation's economy have changed spending habits. A June 2009 article from the Wall Street Journal reports that “Americans are saving more of their paychecks than at any time since February 1995.” The conscientious decision of Americans to save more of their money instead of spending it on gambling has no doubt contributed to the decline in riverboat figures.

**The Indoor Smoking Ban.** Because of the nation's financial atmosphere, it is not surprising that an industry that relies on consumer spending would be, at least, stagnant. But when comparing Illinois' FY 2009 annual change in adjusted gross receipts with those from surrounding states (Indiana +9.0%, Missouri +4.1%, Iowa -0.2%), it is apparent that some other factor must be contributing to the State's 18.3% decline in adjusted gross receipts. Data suggests that the biggest factor that has affected Illinois casinos is the Statewide indoor smoking ban.

Illinois riverboats have struggled since the indoor smoking ban went into effect on January 1, 2008. As shown in the following table, since the ban began (thru June 2009), adjusted gross receipts for Illinois riverboats have fallen a combined 22.1% compared to the 18-month period prior to the indoor smoking ban. Similarly, admissions have dropped a combined 11.8% for that same time period. The only riverboat with an increase is Rock Island, which has benefited from a new, larger facility.

**Table 10: Performance of Illinois Riverboats Since Smoking Ban Began**  
*(January 2008-June 2009 vs. Prior 18-month Period)*

	Adjusted Gross Receipts Annual % Change	Admissions Annual % Change
ALTON	-27.9%	-18.4%
EAST PEORIA	-10.0%	-0.7%
ROCK ISLAND	24.8%	35.6%
JOLIET EMPRESS	-39.1%	-36.4%
METROPOLIS	-26.2%	-24.4%
JOLIET HARRAH'S	-19.2%	-11.0%
AURORA	-18.6%	-10.0%
EAST ST. LOUIS	-13.9%	3.0%
ELGIN	-25.0%	-13.3%
<b>TOTAL</b>	<b>-22.1%</b>	<b>-11.8%</b>

Illinois' large declines are especially noteworthy when they are compared to the percentage changes of the casinos in states surrounding Illinois, specifically on a regional basis. For example, as shown in the table below, in the Chicago region, Illinois' four riverboat's AGR totals have fallen a combined 24.7% for the first 18-months since the indoor smoking ban went into effect. However, Indiana's Chicago area riverboats actually increased 3.1% over that same time period. Because the clientele and economic conditions of these locations should be very similar, it appears that the smoking ban must be a major contributing factor for the large discrepancy between Illinois and Indiana's riverboat figures.

**Table 11: Performance of Casinos by Region Since Smoking Ban Began**  
*(January 2008-June 2009 vs. Prior 18-month Period)*

	Adjusted Gross Receipts Annual % Change	Admissions Annual % Change
Chicago-Area (Illinois)	-24.7%	-17.2%
Chicago-Area (Indiana)	3.1%	-0.7%
St. Louis-Area (Illinois)	-19.6%	-5.4%
St. Louis-Area (Missouri)	15.5%	22.6%

Also, as shown above, a similar argument can be made for the St. Louis region. Illinois' AGR figures are down 19.6% for Illinois' two St. Louis area riverboats. However, the AGR of Missouri's St. Louis region riverboats are up 15.5% (although, a portion of this significant increase in Missouri is due to a new riverboat in St. Louis). Again, the smoking ban is likely a major 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. An article from mainetoday.com reports that "surveys show 35 to 40 percent of casino customers

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.

Because many casino patrons like to smoke when gambling, the obvious reaction of smoking gamblers would be to look for a casino that allows them to light up. Unfortunately for most Illinois casinos, due to their close proximity to the casinos of neighboring states that do not enforce an indoor smoking ban, an alternative choice to gamble and smoke is easy to find. As a result, enforcing an indoor smoking ban at Illinois casinos appears to be enticing smoking gamblers to go to other states to gamble, thereby hurting Illinois casinos while benefiting the State’s out-of-state competitors.

**The Effects from the Graduated Tax Structure.** The economy and the indoor smoking ban have no doubt contributed to the 18.3% decline in adjusted gross receipts in FY 2009. As alarming as this decline is, State revenues were down even sharper at 25%. The reason for a more pronounced State revenue decline is due to the effects that the graduated tax structure has on revenues.

In the graduated tax structure, as a riverboat’s adjusted gross receipts increase, the taxable rate imposed on these receipts also increases. In years where revenues are struggling, however, it takes longer for the higher tax rates to take effect. Consequently, in years like FY 2009, not only are revenues down due to struggling adjusted gross receipts, but these receipts are slower to reach levels that impose a higher tax rate, creating a sort of “double whammy” effect on revenue totals.

To understand this relationship a little more clearly, it may be helpful to look at the operating tax rates for Illinois riverboats over the past several fiscal years. The chart below identifies the operating tax rate for each of the nine operating riverboats over the past six fiscal years. The operating tax rate in this instance refers to the wagering tax collected from a riverboat divided by its adjusted gross receipts. (This calculation does not include tax revenues from the admission tax). In FY 2009 (as well as for FY 2006 and thereafter) the graduated tax structure starts imposing a tax rate of 15% and incrementally increases the tax rate up to 50% once a casino reaches \$200 million in adjusted gross receipts. In FY 2004 and FY 2005, the rate increased to as high as 70%, which is why the figures below are shown to be higher in those years.

TABLE 12: OPERATING TAX RATES FOR ILLINOIS RIVERBOATS (FY 2004 - FY 2009)						
(\$ in millions)						
	FY 2004*	FY 2005*	FY 2006	FY 2007	FY 2008	FY 2009
ELGIN	53.5%	54.3%	41.9%	42.1%	41.6%	39.4%
JOLIET HARRAH'S	45.8%	46.3%	39.5%	40.3%	40.6%	38.3%
AURORA	42.8%	42.8%	36.8%	37.1%	37.4%	34.3%
JOLIET EMPRESS	42.5%	43.0%	35.0%	36.4%	35.5%	33.2%
EAST ST. LOUIS	40.1%	40.4%	30.8%	31.0%	32.1%	29.7%
METROPOLIS	37.6%	38.1%	28.6%	29.9%	30.8%	27.1%
EAST PEORIA	38.1%	37.5%	27.8%	27.5%	27.6%	26.3%
ALTON	34.5%	34.5%	26.1%	26.7%	27.1%	23.6%
ROCK ISLAND	21.9%	21.2%	18.1%	17.8%	17.4%	17.7%
Average Tax Rate	39.6%	39.8%	31.6%	32.1%	32.2%	29.9%

\* Maximum tax rate at 70%, instead of current maximum of 50%.

In FY 2009, the average operating tax rate for the nine Illinois riverboats was 29.9%. This value was 2.3 percentage points lower than the 32.2% average operating tax rate imposed in FY 2008. Again, this is because the riverboat's adjusted gross receipts were slow to reach levels to trigger higher tax rates. Therefore, not only were FY 2009 adjusted gross receipts down 18.3% from FY 2008 levels, but these receipts were taxed at a lower operating tax rate. This is a major reason why an 18.3% drop in adjusted gross receipts resulted in a 25.0% drop in State tax receipts.

Complicating this phenomenon even further is the fact that the graduated tax structure is on a calendar year basis. Therefore, slow revenues in the beginning of CY 2009 not only hurt tax payments at the end of FY 2009, but will also hurt future FY 2010 tax collections because the base upon which the graduated tax rates are calculated will be slower to reach higher tax rates in FY 2010.

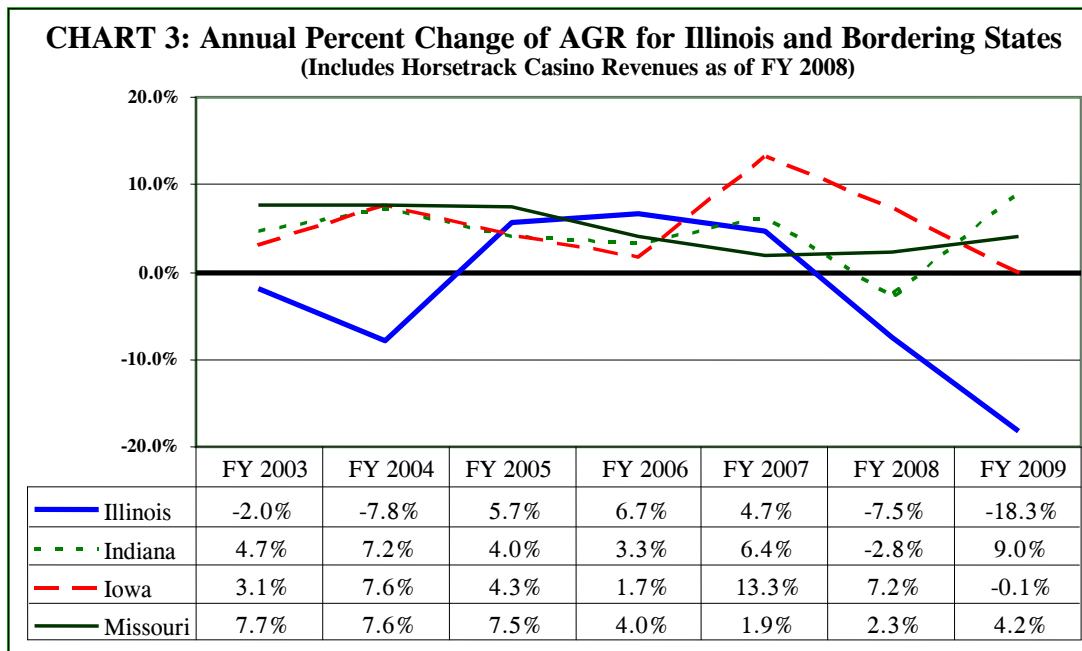
This will especially be the case for the Joliet Empress casino. The fire at Joliet Empress halted revenue collections near the end of FY 2009. Because FY 2010 tax rates for the months of July through December will be based on CY 2009's accumulated adjusted gross receipt totals, the lack of revenues at the beginning of CY 2009 will thereby cause the tax rates in FY 2010 to be effectively lower. Consequently Joliet Empress' tax revenues will likely comparatively struggle (with a lower tax rate) in comparison to past years, even though their FY 2010 adjusted gross receipt levels may have improved.

### *More on Competition from Other States*

As previously discussed, 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 has 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 in Chart 3 as Illinois' growth in FY 2006 improved during this time while the surrounding states' AGR growth levels noticeably slowed. 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.

Illinois' AGR declined 7.5% in FY 2008 and 18.3% in FY 2009, which were well below the surrounding states rates of change. Again, it appears that the indoor smoking ban and the State's 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.

Over the last decade, the Midwest Region has become one of the top areas for gaming in the country. Illinois' casinos are part of two of the largest casino markets in the nation. According to the American Gaming Association, the Chicagoland area is the third largest casino market in the country, trailing only Las Vegas and Atlantic City. The St. Louis metropolitan area is the 7th largest market. A list of the top ten markets, as based on 2008 revenues, is shown below.

<b>Table 13: Top 10 U.S. Casino Markets by Annual Revenue</b>		
<i>Casino Market</i>	<i>2008 Annual Revenues</i>	<i>2008 Annual Change</i>
1 Las Vegas Strip	\$6.121 billion	-9.3%
2 Atlantic City, N.J.	\$4.545 billion	-7.6%
3 Chicagoland, Ind./Ill.	\$2.251 billion	-13.5%
4 Connecticut	\$1.571 billion	-6.8%
5 Detroit	\$1.360 billion	1.9%
6 Tunica/Lula, Miss.	\$1.105 billion	-11.1%
7 St. Louis, Mo./Ill.	\$1.031 billion	3.2%
8 Biloxi, Miss.	\$951.3 million	-5.5%
9 Shreveport, La	\$847.6 million	0.4%
10 Boulder Strip, Nev.	\$836.6 million	-9.8%

Source: The American Gaming Association

The American Gaming Association also reports that Illinois was the fifth highest commercial casino tax revenue producing state in the nation in CY 2008, down from its 2007 ranking of 3rd. The state with the highest amount of commercial gaming tax revenue was Nevada with revenue totaling \$925 million. In second was Indiana with casino tax revenues totaling \$838 million in CY 2008. Pennsylvania, with the opening of new casinos, increased their ranking from 6<sup>th</sup> to 3<sup>rd</sup> with tax revenues in 2008 at \$767 million. Louisiana (\$626 million) rounded out the top five.

A popular national media story is how Nevada gaming tax revenues have struggled. For this time period, the American Gaming Association reports Nevada with a 10.6% decline in tax revenues. As bad as this falloff is, it dwarfs in comparison to Illinois' 32.0% decline over this same time period. The data used in this analysis is shown on the following page.

**TABLE 14: Commercial Casino Tax Revenue by State**

	2007		2008		% Change
	2007	Ranking	2008	Ranking	
Nevada	\$1,033.9	1	\$924.5	1	-10.6%
Indiana	\$842.0	2	\$838.2	2	-0.5%
Pennsylvania	\$472.8	6	\$766.6	3	62.1%
Louisiana	\$607.2	4	\$626.3	4	3.1%
Illinois	\$833.9	3	\$566.8	5	-32.0%
Missouri	\$417.3	7	\$442.8	6	6.1%
New Jersey	\$474.7	5	\$426.8	7	-10.1%
Mississippi	\$350.4	9	\$326.9	8	-6.7%
Iowa	\$314.8	10	\$324.0	9	2.9%
Michigan	\$365.6	8	\$321.6	10	-12.0%
Colorado	\$115.4	11	\$88.4	11	-23.4%
South Dakota	\$14.9	12	\$15.4	12	3.4%

Note: These tax revenues are on a calendar year basis, not on a fiscal year, as shown in other tables in this report.

Source: American Gaming Association's 2009 State of the States Report.

The table on the following page displays a summary of riverboat statistics for the Midwestern Riverboat States: Illinois, Indiana, Iowa, and Missouri. The overview shows the tax rates for each state, the number of gaming positions allowed, how riverboat revenues are spent, as well as other pertinent information. 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 15: 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 (7 riverboats, 7 land-based casinos, 3 racetrack casinos)	12 Riverboats
<b>State Population (Census Bureau 2008 estimate)</b>	12.9 million	6.4 million	3.0 million	5.9 million
<b>Gaming Format</b>	Riverboat/Dockside	Riverboat, racetrack casinos	Riverboat, land-based, racetrack casinos	Riverboat
<b>Legalization Date</b>	February 1990	November 1993	July 1989	August 1993
<b>First Casino Operating Date</b>	September 1991	December 1995	September 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>Application Fee</b>	\$50,000	Determined by the Commission	Between \$5M and \$20M (dependent on population of county)	At least, \$50,000
<b>Annual Fee</b>	\$25,000 in first year, \$5,000 every year thereafter	\$25,000 in first year, \$5,000 every year thereafter	\$5 per person capacity	\$25,000
<b>Maximum Number of Gaming Positions</b>	1,200 per riverboat	No Limit	No Limit	No Limit
<b>Number of Gaming Positions (May/June 2009)</b>	219 Table Games, 9,089 Slots	762 Table Games, 23,906 Slots	490 Table Games, 17,644 Slots	545 Table Games, 19,130 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 with over \$100M in revenues	21% 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, schools and universities, the environment, tourism projects, cultural initiatives, general fund	Education, local public safety programs, compulsive gambling treatment, veterans' programs, early childhood programs
<b>Admissions (FY 2009) (Riverboats, land-based, and racetrack casinos)</b>	14.3 million	25.9 million	22.8 million	25.1 million
<b>Admissions % Change (FY 2008 to FY 2009)</b>	-10.7%	-1.2%	-4.0%	6.9%
<b>Adjusted Gross Receipts (AGR) FY 2009</b>	\$1.479 billion	\$2.802 billion	\$1.413 billion	\$1.704 billion
<b>AGR % Change (FY 2008 to FY 2009)</b>	-18.3%	9.0%	-0.2%	4.1%
<b>AGR per Admission (FY 2009)</b>	\$103.73	\$108.17	\$62.09	\$67.96
<b>AGR/Table/Day (May/June 2009)</b>	\$2,232	\$1,318	\$664	\$1,019
<b>AGR/Slot/Day (May/June 2008)</b>	\$385.0	\$264.0	\$193.0	\$227.0
<b>FY 2009 Gaming Tax Revenue (State and Local Revenues)</b>	\$532.2 million	\$875.7 million	\$322.0 million	\$456.7 million
<b>Gaming Tax Revenue % Chg (FY 08 to FY 09)</b>	-23.8%	6.9%	-1.3%	6.6%
<b>Casino Employees (2008)</b>	7,711	16,040	9,946	11,658
<b>Casino Employee Wages (includes benefits and tips)</b>	\$326.9 million	\$617.0 million	\$336.0 million	\$360.3 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

<b>TABLE 16: Adjusted Gross Receipts (AGR) in the Quad City Region</b>								
\$ in millions								
<i>(IOWA)</i>								
Riverboat	FY 06	% Change	FY 07	% Change	FY 08	% Change	FY 09	% Change
Rhythm City (Davenport)	\$77.3	-1.2%	\$66.9	-13.5%	\$56.7	-15.3%	\$58.2	2.7%
Isle of Capri (Bettendorf)	\$98.7	-5.0%	\$91.3	-7.5%	\$96.6	5.7%	\$89.0	-7.9%
<b>Quad City Area</b>	<b>\$176.0</b>	<b>-3.4%</b>	<b>\$158.2</b>	<b>-10.1%</b>	<b>\$153.2</b>	<b>-3.1%</b>	<b>\$147.2</b>	<b>-4.0%</b>
AGR % of Quad City Area	81.7%		80.8%		82.1%		73.8%	
<i>(ILLINOIS)</i>								
Riverboat	FY 06	% Change	FY 07	% Change	FY 08	% Change	FY 09	% Change
Rock Island	\$39.4	0.1%	\$37.6	-4.4%	\$33.4	-11.2%	\$52.3	56.5%
<b>Quad City Area</b>	<b>\$39.4</b>	<b>0.1%</b>	<b>\$37.6</b>	<b>-4.4%</b>	<b>\$33.4</b>	<b>-11.2%</b>	<b>\$52.3</b>	<b>56.5%</b>
AGR % of Quad City Area	18.3%		19.2%		17.9%		26.2%	
<b>TOTAL QUAD CITY AGR</b>	<b>\$215.4</b>	<b>-3.2%</b>	<b>\$195.8</b>	<b>-14.5%</b>	<b>\$186.7</b>	<b>-14.3%</b>	<b>\$199.5</b>	<b>52.6%</b>

### Observations

- Over the last four fiscal years, Iowa's two Quad City area riverboats have been on a downward trend. The combined AGR levels declined 3.4% in FY 2006, 10.1% in FY 2007, 3.1% in FY 2008, and another 4.0% in FY 2009. In comparison, Illinois' Rock Island riverboat's AGR stayed stagnant in FY 2006 (+0.1%), dropped in FY 2007 (-4.4%) and FY 2008 (-11.2%), but rebounded sharply in FY 2009 (+56.5%) due to its new casino.
- Much of the decline experienced for Iowa's Quad City's riverboats is likely due to an increase in competition. In FY 2007, a new casino just south of Iowa City in Riverside, Iowa. Another updated facility opened in Clinton, Iowa in July 2008. (Both facilities are within an hour's drive of the Quad City area). The opening of the new Rock Island Casino also likely contributed to the declines in FY 2009.
- In FY 2009, Iowa's riverboats made up approximately 73.8% of the Quad City region's AGR, while Illinois' riverboat made up 26.2% of the total. This is a significant change from the ratio in past years (For example ratio in FY 2008 was: 82.1% in Iowa, 17.9% in Illinois). 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, despite the large increase in FY 2009, is still losing casino patrons to Iowa.

## ST. LOUIS AREA

<b>TABLE 17: Adjusted Gross Receipts (AGR) in St. Louis Region</b>									
\$ in millions									
<i>(MISSOURI)</i>									
Riverboat	FY 06	% Change	FY 07	% Change	FY 08	% Change	FY 09	% Change	
Harrah's (Maryland Heights)	\$310.5	3.2%	\$325.2	4.7%	\$303.0	-6.8%	\$292.4	-3.5%	
President (St. Louis)	\$71.8	0.6%	\$67.3	-6.3%	\$45.0	-33.1%	\$23.3	-48.3%	
Ameristar (St. Charles)	\$309.5	3.9%	\$300.2	-3.0%	\$294.9	-1.8%	\$297.0	0.7%	
Lumiere (St. Louis)	\$0.0	N/A	\$0.0	N/A	\$86.1	N/A	\$181.1	110.3%	
<b>St. Louis Area</b>	<b>\$691.8</b>	<b>3.3%</b>	<b>\$692.8</b>	<b>0.1%</b>	<b>\$729.0</b>	<b>5.2%</b>	<b>\$793.7</b>	<b>8.9%</b>	
AGR % of St. Louis Area	70.5%		70.0%		71.3%		76.7%		
<i>(ILLINOIS)</i>									
Riverboat	FY 06	% Change	FY 07	% Change	FY 07	% Change	FY 08	% Change	
E. St. Louis	\$172.2	4.1%	\$172.1	0.0%	\$185.2	7.6%	\$154.4	-16.6%	
Alton	\$117.6	6.6%	\$125.4	6.6%	\$109.0	-13.1%	\$86.9	-20.3%	
<b>St. Louis Area</b>	<b>\$289.8</b>	<b>5.1%</b>	<b>\$297.5</b>	<b>2.7%</b>	<b>\$294.2</b>	<b>-1.1%</b>	<b>\$241.3</b>	<b>-18.0%</b>	
AGR % of St. Louis Area	29.5%		30.0%		28.7%		23.3%		
<b>TOTAL ST. LOUIS AGR</b>	<b>\$981.6</b>	<b>3.8%</b>	<b>\$990.3</b>	<b>0.9%</b>	<b>\$1,023.2</b>	<b>3.3%</b>	<b>\$1,035.0</b>	<b>1.2%</b>	

### Observations

- After moderate gains in FY 2006 and FY 2007, the four St. Louis area riverboats in Missouri have combined to see their AGR levels grow 5.2% in FY 2008 and 8.9% in FY 2009. At the same time, Illinois' St. Louis area riverboats fell 1.1% in FY 2008 and 18.0% in FY 2009.
- Missouri has benefited from its newest casino, Lumiere, which opened in FY 2008. It is located across the river from the East St. Louis riverboat and has likely contributed to the AGR declines in E. St. Louis and in Alton.
- The new St. Louis casino has also had a negative impact on the existing President Casino in St. Louis. This casino has seen its AGR levels fall from \$71.4 million in FY 2005 to only \$23.3 million in FY 2009. In July 2009, managers of the casino urged Missouri state regulators to allow them to replace the aging riverboat without risking its operating license. The Missouri Gaming Commission is expected to announce their decision on this matter in the near future.
- In FY 2008, Missouri's portion of total AGR was at 71.3%, while Illinois composed 28.7% of the total. In FY 2009, Missouri's composition in the region increased to 76.7%, while Illinois's two locations made up the remaining 23.3%.
- An additional casino in south St. Louis County, to be called River City Casino and Hotel, is expected to open in Spring 2010, pending receipt of regulatory and other approvals. The casino will be less than five miles from the Illinois border and no doubt will have another negative impact on Illinois casinos.

## CHICAGO AREA

<b>TABLE 18: Adjusted Gross Receipts (AGR) in Chicago Region</b>								
\$ in millions								
<i>(INDIANA)</i>								
Riverboat	FY 06	% Change	FY 07	% Change	FY 08	% Change	FY 09	% Change
Ameristar (E Chicago)	\$301.9	-2.8%	\$321.0	6.3%	\$319.6	-0.4%	\$289.5	-9.4%
Horseshoe (Hammond)	\$419.6	2.5%	\$444.6	5.9%	\$448.0	0.8%	\$527.2	17.7%
Majestic Star (Gary)	\$143.5	-3.0%	\$138.1	-3.7%	\$130.0	-5.9%	\$120.0	-7.7%
Trump/Majestic II (Gary)	\$130.9	-3.4%	\$115.6	-11.7%	\$115.6	0.0%	\$98.7	-14.6%
<b>Chicago Area</b>	<b>\$995.9</b>	<b>-0.7%</b>	<b>\$1,019.3</b>	<b>2.4%</b>	<b>\$1,013.2</b>	<b>-0.6%</b>	<b>\$1,035.4</b>	<b>2.2%</b>
AGR % of Chicago Area	44.2%		43.5%		45.7%		52.2%	
<i>(ILLINOIS)</i>								
Riverboat	FY 06	% Change	FY 07	% Change	FY 08	% Change	FY 09	% Change
Elgin	\$415.7	1.9%	\$436.1	4.9%	\$396.2	-9.1%	\$311.8	-21.3%
Joliet Harrah's	\$332.9	13.9%	\$364.6	9.5%	\$349.2	-4.2%	\$292.1	-16.4%
Joliet Empress	\$250.2	7.8%	\$252.6	0.9%	\$210.8	-16.5%	\$127.9	-39.4%
Aurora	\$256.8	10.8%	\$272.6	6.2%	\$249.4	-8.5%	\$215.0	-13.8%
<b>Chicago Area</b>	<b>\$1,255.5</b>	<b>7.8%</b>	<b>\$1,325.8</b>	<b>5.6%</b>	<b>\$1,205.8</b>	<b>-9.1%</b>	<b>\$946.7</b>	<b>-21.5%</b>
AGR % of Chicago Area	55.8%		56.5%		54.3%		47.8%	
<b>TOTAL CHICAGO AREA AGR</b>	<b>\$2,251.4</b>	<b>3.9%</b>	<b>\$2,345.2</b>	<b>4.2%</b>	<b>\$2,219.0</b>	<b>-5.4%</b>	<b>\$1,982.1</b>	<b>-10.7%</b>

### Observations

- In FY 2006, the AGR for Illinois riverboats in this area increased 7.8%, while Indiana experienced a decline of 0.7%. This differential was mainly due to the return of gamblers back to Illinois riverboats following the 70% maximum tax rate.
- 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. The indoor smoking ban is believed to be the primary reason for this discrepancy.
- In FY 2009, Illinois riverboats in this area saw their AGR levels fall a combined 21.5% compared to a 2.2% increase for the Indiana locations. While part of this change can be attributed to the fire at the Joliet Empress Casino, a large part of this shift is likely due to the indoor smoking ban.
- In FY 2006, the majority of total gross receipts were in Illinois (55.8% vs. 44.2%). However, in FY 2009, Indiana now holds the majority of adjusted gross receipts at 52.2% compared to Illinois portion of 47.8%. This is despite the fact that the vast majority of the population in the Chicago area is in Illinois.
- 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 with new casinos being proposed or developed every year. While some of the new facilities are the replacement of older casinos, many of the casinos are proposed to be built on entirely new locations. Some of these new facilities could have a direct impact on Illinois' gaming industry. The following section provides a brief summary of gaming news surrounding Illinois.

#### WISCONSIN

- In Wisconsin, over the past several years, Indian tribes have seriously considered building two casinos on the Illinois border, one in Kenosha and one in Beloit.

The casino in Kenosha has been advertised as an \$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. However in January 2009, the federal government rejected the casino project, despite the fact that city and county governments had passed the Intergovernmental Agreement for the project and had received referendum approval. In May 2009, the Menominee Tribe filed a legal action challenging the U.S. Department of Interior's decision.

In January 2009, the Federal Government also denied the Bad River Band of Lake Superior Chippewa and the St. Croix Chippewa of Wisconsin the right to build a casino in Beloit, just north of Rockford, Illinois. The tribes have appealed the federal government's decision, but still await a decision.

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 Michigan Gaming Control Board estimates that the casino brought in nearly \$300 million for the one-year period ending July 31, 2008. Due to their efforts to attract the Chicago Market, undoubtedly, a significant portion of the \$300 million in revenues comes from Illinois residents, thereby "taking" revenues away from Illinois casinos. In July 2009, the casino was voted "Best Casino" by readers of Shore Magazine and the Times of Northwest Indiana. Perhaps even more discouraging to Illinois casinos is that Indiana riverboats continue to perform well despite their closer proximity to this popular casino.

### *How Can Revenues Improve?*

During the Spring 2009 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 would be welcomed to fund the various areas of need throughout the State. 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?

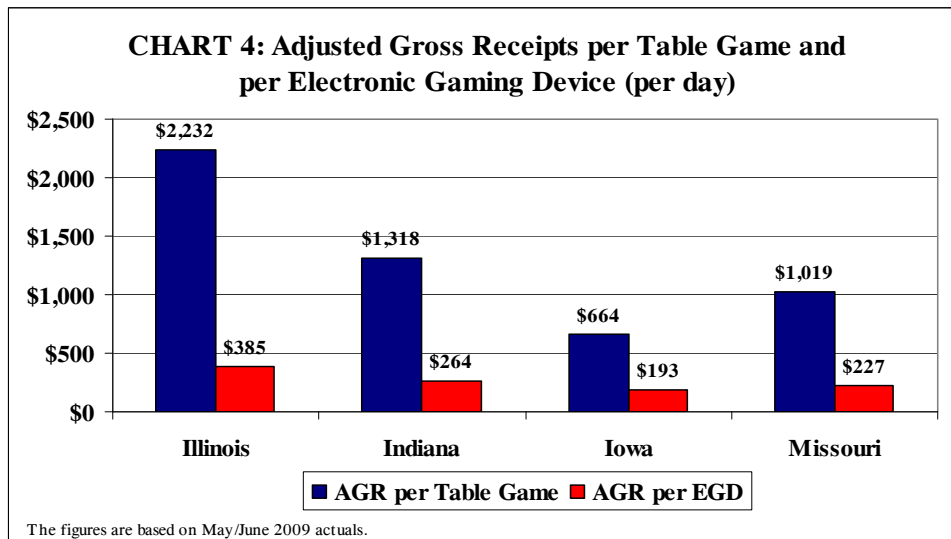
At the end of the Spring 2009 Session, the most prominent gaming expansion bill was SB 0744, as amended by Senate Amendments 5, 6, 7, & 9. This piece of legislation creates four new casinos (Chicago, Rockford, Park City near Waukegan, and Danville), allows slot machines at racetracks, and increases the number of gaming positions allowed at the existing riverboats. While the legislation advanced in the Senate, the bill failed to gather the support for votes in the House.

As the desire for new revenues 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 ideas of how gaming revenues could increase. These include adding additional gaming positions at the current riverboat facilities, allowing slot machines at Illinois horse tracks, changing the tax structure, and opening new riverboats/casinos. Also discussed is cannibalization and the impact that gaming expansion has on other locations.

### *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/June 2009. (EGD stands for electronic gaming device, i.e. slot machines). Highlights of the graph are pointed out on the following page.

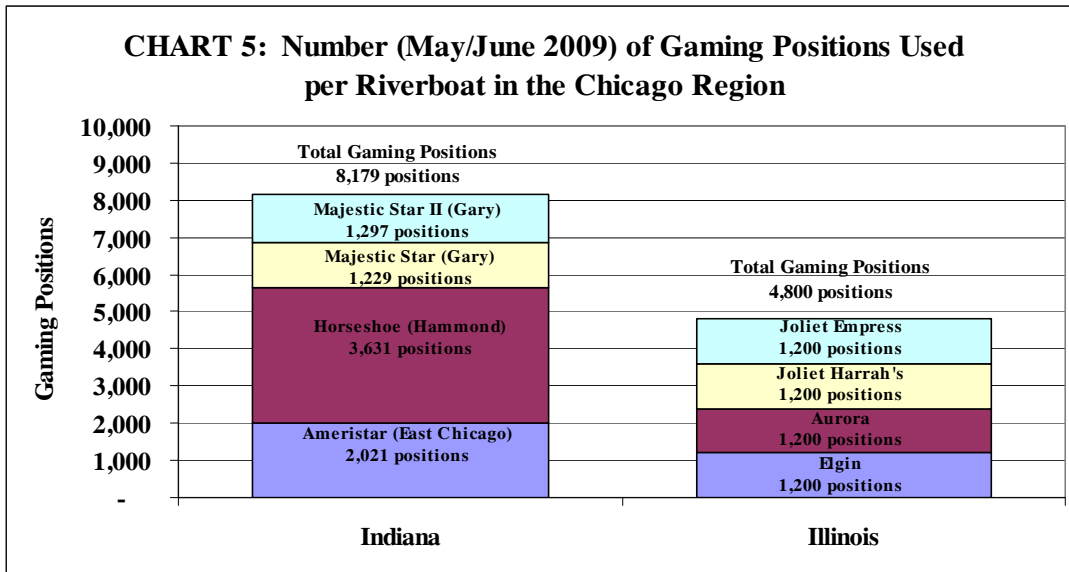


- Illinois’ AGR per Table Game and AGR per EGD are significantly higher than the other neighboring states.
- These figures suggest that Illinois gamblers spend more money on gambling than other states and that the gaming positions in Illinois are being utilized more frequently than other locations.
- 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 graph on the following page 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 2009 monthly gaming report, the four Indiana riverboats closest to Chicago had 8,179 gaming positions. That is 3,379 more positions than the four Illinois Chicago area riverboats. These figures do not include Indiana’s Michigan City location, which has an additional 2,046 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 5,400 more gaming positions than Illinois in the Lake Michigan area.



Based on these figures, the four Indiana riverboats closest to Chicago make up 63% of all gaming positions in that region. If the Michigan City location was included, Indiana would make up over 68% of all gaming positions in the Lake Michigan area. Again, this is despite the fact that the majority of the population is in Illinois.

The average number of positions for the five Indiana riverboats in this region is 2,045 positions. Therefore, if Illinois decided to increase the maximum number of positions, these numbers would suggest that at least 2,045 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's report entitled "State of the States: 2009", "In 2008 racetrack casinos alone contributed \$2.59 billion to state and local governments in the communities where they operated, a 16.6 percent increase over 2007 figures." The strong growth in racetrack casinos in 2008 was due, in large part, to the recent expansion of this industry. The Association reports that the three new properties that opened in Indiana and Pennsylvania helped consumer spending at racetrack casinos to reach \$6.19 billion in 2008, an increase of 17.2 percent over 2007's then-record figure.

Fiscal Year 2009 was the first full fiscal year of racetrack casinos at Indiana's two locations, Hoosier Park in Anderson and Indiana Live near Shelbyville. Hoosier Park opened in May 2008, while Indiana Live opened in June 2008. In FY 2009, these two

racetracks combined for an AGR total of \$392 million. This resulted in nearly \$108 million in tax revenues coming from its limit of 4,000 slot machines (2,000 each).

When Indiana entered into the racetrack casino market, it joined Iowa as the only states in the Midwest Region to offer this form of gambling. In FY 2009, Iowa had 6.3 million visitors to their three locations in Council Bluffs, Altoona, and Dubuque, generating a combined \$452 million in adjusted gross revenue. Nearly \$105 million in State and local tax revenues and fees were collected from these receipts in FY 2009.

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 would this help bring additional revenues to the State, but it would 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 \$819 million in 2008 was down 12% over the 2007 amount and marked the sixth consecutive year of declining revenues. The 2008 handle amount was the lowest experienced in the last 30 years of Illinois racing. 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.

### *Changing the Tax Structure*

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

The decline in riverboat figures was primarily due to the reaction of the riverboats in response to the high tax rates. Many Illinois riverboats lowered expenses by reducing operating hours, passing the admission tax onto the consumer, and by cutting payroll. For example, four casinos were granted permission by the Illinois Gaming Board to reduce operating hours. Not surprisingly, these were the same four boats that experienced the largest declines in admissions in FY 2004.

It became apparent that the financial strategy of the riverboats changed under the higher tax rate. Many experts believe that riverboat operators who also owned casinos outside



of Illinois chose to redirect their marketing, capital, and operating expenses to their riverboats in lower-taxed states, such as Indiana, in order to maximize profits. This decision likely caused many Illinois residents to go elsewhere to gamble, which is why Illinois' attendance figures fell during the higher tax period.

In FY 2006, the wagering tax on Illinois riverboats was allowed to revert back to a maximum 50% tax rate from the 70% tax rate. As a result, Illinois' riverboat figures improved significantly as adjusted gross receipts increased 6.7% while admissions rose 3.9%. Again, the likely reason for the turn-around in riverboat figures is due to increased marketing in response to the rollback of the wagering tax rates.

Despite the fall-off in admission and AGR figures under the tax change, the fact remains that the higher graduated tax rate in FY 2004 did generate 16.4% more State revenues than in FY 2003. However, repeating this tax change under today's conditions could have a much different result. As it currently stands, Illinois is already the highest riverboat taxing state in the nation. It also is the only state that bans smoking in the casinos in this region of the country. If Illinois raised their tax again, the competition for Illinois' gaming dollars would only intensify. It is quite possible, that even with a higher tax rate, the resulting revenues would be similar, if not even lower, than it is under current law.

### *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, but hopes to open soon. 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 choosing a new home for a 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.

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 \$312 million in adjusted gross receipts in FY 2009, which equated to \$129 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).

### *Cannibalization of Gaming Revenues*

When choosing a new location for a casino, the concept of cannibalization is an important factor that must be considered. Most agree that placing a new casino in close proximity to an existing casino would have a negative impact on existing casinos. The difficulty comes in trying to predict the extent that existing casinos would be affected by a new facility.

There have been several examples of gaming cannibalization over the past several years in the Midwest Region. 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 and another 8.9% in FY 2009, positive increases were not experienced by all riverboats. For example, the President Casino in St. Louis, which is only blocks away from Lumiere, saw their adjusted gross receipts fall 33.1% in FY 2008 and another 48.3% in FY 2009.

In fact, in late July 2009, managers of the President Casino are hoping to urge state regulators to allow them to replace their aging riverboat and perhaps move the casino up-river to a different part of the city to avoid this direct competition. However, the Missouri Gaming Commission believes that the state would deny this move and instead put the license up for bid and seek a more lucrative development. A decision on this matter has yet to be made at the time of this report. It should be noted that Lumiere and the President Casino are owned by the same company, Pinnacle Entertainment of Las Vegas.

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 riverboat patrons, the Blue Chip opened a new 22-story, 302-room hotel tower in January 2009, with the hope of regaining many of the patrons that likely left for the Four Winds Casino in Michigan. Since the opening, receipts are up 4.5%. However, revenues are still far from the levels seen before the opening of the Four Winds Casino as June 2009 AGR totals were at \$15.4 million compared to \$24.6 million just two years prior.

Sometimes a form of cannibalization can come from pre-existing casinos when they open brand new facilities. For example, also hurting the Blue Chip Casino and other casinos in the Chicagoland area is the opening of a brand new casino in August 2008 for the Horseshoe Casino in Hammond, Indiana. This casino is advertised as twice the size of the original location with over 3,600 gaming positions (compared to around 2,000 at the old facility). In FY 2009, the Horseshoe saw their AGR levels climb 17.7%. Consequently, the three Indiana casinos closest to the Horseshoe saw their AGR levels fall a combined 11.3%. This new facility also likely contributed to the falloff in Illinois levels as well. But from an overall revenue perspective, despite a drop-off in revenues at most of the casinos, when combining the adjusted gross receipts for all locations in this area, Indiana receipts were still up 2.2% for the fiscal year.

While few would argue that cannibalization would exist if new casinos were added to the Chicago metropolitan area, it is difficult to know whether the levels of cannibalization seen at other states would 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.

## *The Tenth License*

One method of increasing State gaming revenues that is close to becoming a reality is the opening of the 10<sup>th</sup> riverboat license. On December 22, 2008, the Illinois Gaming Board announced that they awarded its 10th gambling license to Midwest Gaming LLC, which plans to build their casino in Des Plaines. The location in Des Plaines was chosen over two other finalist bidders in Rosemont and Waukegan.

The Illinois Gaming Board's five-member board voted 3-1 for the Des Plaines location with one member voting for Waukegan and one member declining to vote because he felt that all of the proposals were "unacceptable". The Des Plaines proposal includes \$704 million worth of investments that will consist of a casino, four restaurants, a parking garage, and eventually a 10,000-square-foot night club.

Midwest Gaming was selected despite the fact that their proposal offered the lowest upfront bid of the three finalists. Des Plaines pledged to pay \$125 million, which was higher than their \$100 million initial offer, but significantly lower than the other finalists (Waukegan at \$225 million and Rosemont at \$435 million). However, Midwest also agreed to pay the State an additional \$300 million to be paid at about \$10 million per year over 30 years.

The value of the winning bid is noteworthy because of how it compares to bids from the previous application process. In 2004, the Isle of Capri Casinos Inc. was selected to operate the 10th riverboat license with a winning bid of \$518 million, which is significantly higher than Des Plaines' upfront pledge of \$125 million. In many respects, this bid amount reflects the current conditions of Illinois' riverboat market.

While the new revenues that will be generated from this 10th license will be indeed welcomed, it may be several months or perhaps years before any new revenues will be received. This is because Gaming Board investigators must first conduct a six to twelve month review of the winning bid to make sure all Midwest Gaming's investors and key employees meet State regulation guidelines. Even after final approval is granted, reports are that it will take approximately 15 months for the new riverboat to be built and become active. And this, of course, assumes that no new lawsuits regarding this 10th riverboat selection re-appear.

A small portion (\$2.5 million) of the \$125 million bid has already been paid. When the suitability portion of the investigative process is complete, an additional \$47.5 million will be paid (likely in FY 2010). The remaining \$75 million would be paid when the new casino is opened (FY 2011 or FY 2012). Similarly, the new recurring revenues generated by the new Des Plaines casino would not be anticipated until some time in FY 2011 or FY 2012 as well. If Des Plaines were to match the performance of other casinos in the Chicago area, under the current tax structure, State revenues would likely grow by another \$100 million due to this new casino.

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

With overall adjusted gross receipts totaling nearly \$1.5 billion, at first glance, it would appear that gaming in Illinois is a thriving industry. But just two short years ago, revenues approached nearly \$2.0 billion - a near 25% falloff in revenues. Riverboat gambling in Illinois has taken an abrupt downward trend. The causes for this falloff are many, but it really can be dwindled down to the fact that Illinois is at a competitive disadvantage in comparison to the gaming environments of neighboring states.

The competition from surrounding states continues to grow with more casinos being built and updated eager to take advantage of the perceived negative aspects of gaming in Illinois (i.e. higher taxes, smoking ban, position limits, etc.). While ideas have arisen on how to improve Illinois' competitiveness, no such changes have occurred.

Because Illinois casinos are taxed higher than any other state, industry experts desire lower taxes to free money for marketing and improvements at Illinois casinos. While this would likely improve admission numbers and riverboat receipts, it likely would have a negative affect on tax revenues, thus, this idea has been ignored and likely will continue to be disregarded until economic conditions improve.

Few would argue that lifting the indoor smoking ban at casinos would help Illinois become more competitive with the neighboring casinos that allow smoking. However, support for this change has failed to gather momentum, as the desire for a healthier smoke-free casino has thus far outweighed the desire for higher revenues.

The most prominent ideas for improving State revenues 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.

Assuming no changes to the current tax structure or the indoor smoking ban law, the Commission expects State riverboat revenues to continue to struggle again in FY 2010. Since a new "smoking ban" base has now been established, a continued sharp decline in revenues is no longer expected. But without significant changes to the industry and considering the economic conditions of today, FY 2010 revenues will likely be stagnant at best, and remain well below levels seen just a few years ago.

While Illinois' situation appears dire, there is some reason for hope. Improvements to the Rock Island facility has resulted in impressive numbers, with monthly receipts more than doubling levels seen a year prior. But even with this vast improvement, the Rock Island casino continues to be lowest revenue producing facility in the State. The reopening of the bidding for the 10<sup>th</sup> riverboat license hopes to bring in new revenues in

the near future. But it will likely be the end of FY 2011 or even FY 2012 before its revenue impact will be felt.

Finally, it remains unclear what kind of impact that the imposition of video gaming in Illinois will have on riverboat revenues. Some feel that video gaming will have little impact on Illinois casinos as it will mostly be played by those who would not normally be traveling to the various casinos throughout the State. Others feel that riverboats will struggle because the convenience of gambling in the neighborhood bar will be far more appealing than making the drive to a busy casino. While the truth likely lies somewhere in the middle, the fact of the matter is, the competition for the gaming dollar will soon be higher than it has ever been before.



# 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 19 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.

<b>TABLE 19: LOTTERY SALES BY GAME, TOTAL SALES, TRANSFERS, &amp; PERCENTAGE TRANSFERRED: FY 1975 - FY 2009 (IN MILLIONS)*</b>														
FISCAL YEAR	\$ .50, \$1.		NUMBERS						LITTLE LOTTO	BIG GAME/MEGA MIL.	TOTAL SALES	LOTTERY TRANSFERS TO CSF	TRANSFERS AS A % OF TOTAL SALES	
	KENO '93	INSTANT	PICK 3	St. Patrick's Raffle	NOW / Pick N Play	PICK 4	LOTTO							
1975	\$ 129.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$129.3	\$55.2	42.7%	
1976	\$ 107.3	\$ 56.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$163.9	\$75.9	46.3%	
1977	\$ 50.0	\$ 62.9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$112.9	\$43.6	38.6%	
1978	\$ 31.6	\$ 57.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$89.1	\$33.5	37.6%	
1979	\$ 20.4	\$ 56.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$76.7	\$32.6	42.5%	
1980	\$ 13.7	\$ 41.4	\$ 42.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$97.5	\$33.1	33.9%	
1981	\$ 7.5	\$ 43.0	\$ 164.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$214.7	\$90.4	42.1%	
1982	\$ 0.0	\$ 78.2	\$ 248.2	\$ -	\$ -	\$ 17.7	\$ -	\$ -	\$ -	\$ -	\$344.1	\$138.6	40.3%	
1983	\$ -	\$ 158.1	\$ 283.8	\$ -	\$ -	\$ 46.0	\$ 26.9	\$ -	\$ -	\$ -	\$514.8	\$216.3	42.0%	
1984	\$ -	\$ 196.6	\$ 367.4	\$ -	\$ -	\$ 49.4	\$ 298.8	\$ -	\$ -	\$ -	\$912.2	\$365.4	40.1%	
1985	\$ -	\$ 233.7	\$ 356.2	\$ -	\$ -	\$ 75.5	\$ 567.4	\$ 2.8	\$ -	\$ -	\$1,235.6	\$502.8	40.7%	
1986	\$ -	\$ 237.6	\$ 347.6	\$ -	\$ -	\$ 88.1	\$ 642.3	\$ -	\$ -	\$ -	\$1,315.6	\$551.8	41.9%	
1987	\$ -	\$ 227.3	\$ 335.1	\$ -	\$ -	\$ 93.0	\$ 678.5	\$ -	\$ -	\$ -	\$1,333.9	\$553.1	41.5%	
1988	\$ -	\$ 260.1	\$ 352.6	\$ -	\$ -	\$ 105.9	\$ 600.6	\$ 16.3	\$ -	\$ -	\$1,335.5	\$524.4	39.3%	
1989	\$ -	\$ 321.9	\$ 369.6	\$ -	\$ -	\$ 108.6	\$ 607.1	\$ 164.1	\$ -	\$ -	\$1,571.3	\$586.1	37.3%	
1990	\$ -	\$ 341.2	\$ 382.5	\$ -	\$ -	\$ 114.1	\$ 588.7	\$ 143.7	\$ -	\$ -	\$1,570.2	\$594.0	37.8%	
1991	\$ -	\$ 364.6	\$ 368.5	\$ -	\$ -	\$ 109.0	\$ 601.0	\$ 123.4	\$ -	\$ -	\$1,566.5	\$580.0	37.0%	
1992	\$ -	\$ 406.0	\$ 362.0	\$ -	\$ -	\$ 112.3	\$ 633.5	\$ 123.1	\$ -	\$ -	\$1,636.9	\$610.5	37.3%	
1993	\$ 0.1	\$ 493.2	\$ 350.5	\$ -	\$ -	\$ 112.3	\$ 489.9	\$ 129.9	\$ -	\$ -	\$1,575.9	\$587.6	37.3%	
1994	\$ -	\$ 548.7	\$ 344.5	\$ -	\$ -	\$ 109.7	\$ 403.0	\$ 122.7	\$ -	\$ -	\$1,528.6	\$552.1	36.1%	
1995	\$ -	\$ 630.7	\$ 358.4	\$ -	\$ -	\$ 123.7	\$ 386.6	\$ 130.1	\$ -	\$ -	\$1,629.5	\$588.3	36.1%	
1996	\$ -	\$ 646.7	\$ 357.5	\$ -	\$ -	\$ 140.3	\$ 363.4	\$ 129.4	\$ -	\$ -	\$1,637.3	\$594.1	36.3%	
1997	\$ -	\$ 636.2	\$ 340.7	\$ -	\$ -	\$ 139.8	\$ 295.3	\$ 118.8	\$ 92.4	\$ -	\$1,623.2	\$590.2	36.4%	
1998	\$ -	\$ 618.3	\$ 344.7	\$ -	\$ -	\$ 145.3	\$ 263.0	\$ 111.8	\$ 93.8	\$ -	\$1,576.9	\$560.0	35.5%	
1999	\$ -	\$ 570.1	\$ 335.3	\$ -	\$ -	\$ 144.5	\$ 168.8	\$ 113.7	\$ 193.5	\$ -	\$1,525.9	\$540.0	35.4%	
2000	\$ -	\$ 541.5	\$ 341.4	\$ -	\$ -	\$ 154.4	\$ 146.3	\$ 101.0	\$ 219.3	\$ -	\$1,503.9	\$515.3	34.3%	
2001	\$ -	\$ 586.1	\$ 326.6	\$ -	\$ -	\$ 151.3	\$ 143.5	\$ 88.3	\$ 153.9	\$ -	\$1,449.8	\$501.0	34.6%	
2002	\$ -	\$ 643.8	\$ 327.9	\$ -	\$ 22.7	\$ 158.0	\$ 134.9	\$ 81.7	\$ 221.1	\$ -	\$1,590.0	\$555.1	34.9%	
2003	\$ -	\$ 697.9	\$ 314.1	\$ -	\$ 12.9	\$ 161.9	\$ 121.2	\$ 78.0	\$ 199.7	\$ -	\$1,585.8	\$540.3	34.1%	
2004	\$ -	\$ 780.5	\$ 308.9	\$ -	\$ 9.0	\$ 167.2	\$ 117.4	\$ 99.7	\$ 226.5	\$ -	\$1,709.2	\$570.1	33.4%	
2005	\$ -	\$ 907.1	\$ 307.4	\$ -	\$ 4.0	\$ 168.4	\$ 131.6	\$ 131.8	\$ 192.6	\$ -	\$1,842.9	\$614.0	33.3%	
2006	\$ -	\$ 976.7	\$ 309.2	\$ -	\$ 13.4	\$ 170.1	\$ 125.3	\$ 126.2	\$ 243.8	\$ -	\$1,964.7	\$670.5	34.1%	
2007	\$ -	\$ 1,041.6	\$ 308.7	\$ 14.1	\$ 30.8	\$ 170.2	\$ 112.1	\$ 127.9	\$ 195.9	\$ -	\$2,001.3	\$622.6	31.1%	
2008	\$ -	\$ 1,094.0	\$ 299.0	\$ 15.9	\$ 18.4	\$ 167.8	\$ 112.9	\$ 128.4	\$ 221.1	\$ -	\$2,057.5	\$657.0	31.9%	
2009	\$ -	\$ 1,122.4	\$ 297.7	\$ 18.9	\$ 7.7	\$ 176.9	\$ 122.7	\$ 129.0	\$ 204.6	\$ -	\$2,079.9	\$625.0	30.0%	
<b>TOTALS</b>	<b>\$ 359.9</b>	<b>\$ 15,678.6</b>	<b>\$ 9,552.5</b>		<b>\$ 118.9</b>	<b>\$ 3,481.3</b>	<b>\$ 8,882.6</b>	<b>\$ 2,521.9</b>	<b>\$ 2,458.2</b>	<b>\$ 41,023.0</b>	<b>\$ 15,470.6</b>	<b>37.7%</b>		

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

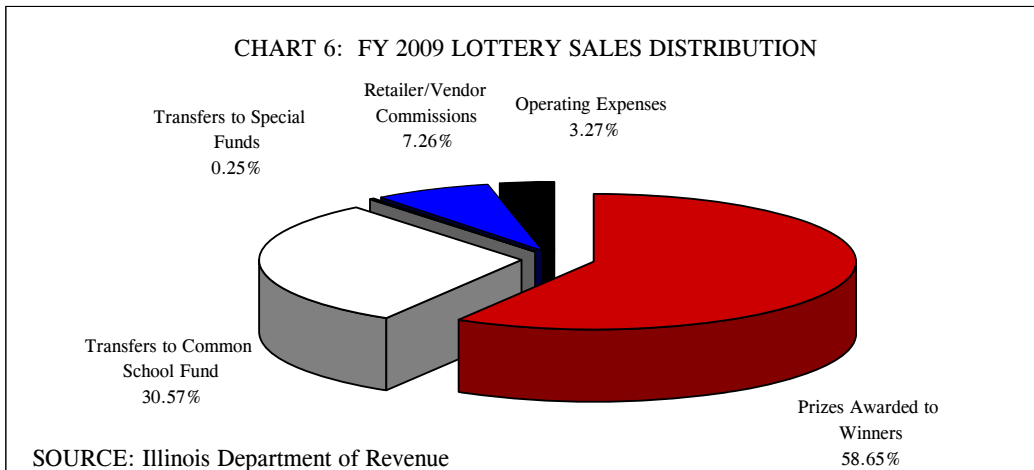
Table 19 reveals that lottery sales totaled \$2.079 billion in FY 2009. This figure represents a \$22.4 million increase (1.1% annual growth) from the FY 2008 amount of \$2.058 billion. From this sum, 30.0% or \$625 million was transferred into the Common School Fund, a 4.9% decrease from the FY 2008 transfer amount of \$657 million. The transfer ratio of 30.0% is an all-time low. This ratio has routinely dropped since the late 1980's. This would indicate that the Lottery's profit margin has continually declined. This may have been done intentionally as increased expenses, such as advertising or commissions, could lead to higher sales that lead to higher total profits though a lower profit margin.

A closer look reveals that the largest dollar increase came from the Instant games, which rose \$28.4 million or 2.6%. The largest percentage growth came from the St. Patrick's Raffle which grew almost 19% but this equated to only an increase of \$3.0 million as the total amount for FY 2009 was just \$18.9 million. Lotto and Pick 4 both showed solid growth as they increased by 8.7% and 5.4%, respectively. Unfortunately, these games are the 6<sup>th</sup> (\$122.7 million) and 4<sup>th</sup> (\$176.9 million) biggest revenue producers for the lottery and only grew an additional \$18.9 million combined. Little Lotto came in at \$129.0 million, which was positive but basically flat at growth of 0.5% or \$0.6 million.

Similar to last fiscal year, the Pick N Play game had disappointing results. Pick N Play sales were down over 58%, falling \$10.7 million to \$7.7 million. This game had sales of over \$30 million only two fiscal years ago. The biggest decrease in terms of dollar amount was the Mega Millions which decreased \$16.5 million, a growth rate of -7.5%. The Pick 3 game was basically flat at \$297.7 million which was a decrease of \$1.3 million or -0.4% annual growth.

Special cause lottery sales raised approximately \$5.1 million in FY 2009, an increase of 12.4% or approximately \$0.6 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 2009, \$1.2 million was transferred into this fund. This was basically the same amount that was transferred in FY 2008. 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 \$1.3 million in FY 2009. This was a decrease of over 48% from FY 2008. Another 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. This game had revenue of \$0.6 million. A new special cause game benefiting multiple sclerosis began sales in September of 2008. As part of PA 095-0673, the Multiple Sclerosis Research Fund was created that would benefit research pertaining to multiple sclerosis. Revenues from this scratch-off equaled \$2.1 million in FY 2009.

The following chart shows how revenues from the lottery were distributed. In FY 2009, lottery winners received \$1.20 billion, the Common School Fund received \$625 million, retailers and vendors received \$148 million, and the Department of Lottery used the remaining \$67 million to cover its operating expenses. Chart 6 illustrates the FY 2009 lottery sales distribution by percentage. These results are through June of 2009 and do not include any lapse period spending.



As shown in Table 20, instant games continue to comprise the greatest percentage with 54% of lottery sales, an increase of 0.8% from FY 2008. The Pick 3 game had the second highest a percentage at 14.5%, which was a decreased of 0.2%. Mega Millions decreased from 10.7% of total sales to 9.8%. Most of the remaining revenues come from the Pick 4 game (8.5%), Little Lotto (6.2%) and Lotto (5.9%).

**TABLE 20: COMPOSITION OF LOTTERY SALES BY GAME**

FISCAL YEAR	\$.50, \$1, KENO '93	INSTANT	PICK 3	ST. PAT'S			LITTLE LOTTO	BIG GAME/ MEGA MIL.	TOTAL SALES
				RAFFLE	EXTRA	PICK 4	LOTTO		
1975	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	\$129.3
1976	65.5%	34.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	\$163.9
1977	44.3%	55.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	\$112.9
1978	35.5%	64.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	\$89.1
1979	26.6%	73.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	\$76.7
1980	14.1%	42.5%	43.5%	0.0%	0.0%	0.0%	0.0%	0.0%	\$97.5
1981	3.5%	20.0%	76.5%	0.0%	0.0%	0.0%	0.0%	0.0%	\$214.7
1982	0.0%	22.7%	72.1%	0.0%	0.0%	5.1%	0.0%	0.0%	\$344.1
1983	0.0%	30.7%	55.1%	0.0%	0.0%	8.9%	5.2%	0.0%	\$514.8
1984	0.0%	21.6%	40.3%	0.0%	0.0%	5.4%	32.8%	0.0%	\$912.2
1985	0.0%	18.9%	28.8%	0.0%	0.0%	6.1%	45.9%	0.2%	\$1,235.6
1986	0.0%	18.1%	26.4%	0.0%	0.0%	6.7%	48.8%	0.0%	\$1,315.6
1987	0.0%	17.0%	25.1%	0.0%	0.0%	7.0%	50.9%	0.0%	\$1,333.9
1988	0.0%	19.5%	26.4%	0.0%	0.0%	7.9%	45.0%	1.2%	\$1,335.5
1989	0.0%	20.5%	23.5%	0.0%	0.0%	6.9%	38.6%	10.4%	\$1,571.3
1990	0.0%	21.7%	24.4%	0.0%	0.0%	7.3%	37.5%	9.2%	\$1,570.2
1991	0.0%	23.3%	23.5%	0.0%	0.0%	7.0%	38.4%	7.9%	\$1,566.5
1992	0.0%	24.8%	22.1%	0.0%	0.0%	6.9%	38.7%	7.5%	\$1,636.9
1993	0.0%	31.3%	22.2%	0.0%	0.0%	7.1%	31.1%	8.2%	\$1,575.9
1994	0.0%	35.9%	22.5%	0.0%	0.0%	7.2%	26.4%	8.0%	\$1,528.6
1995	0.0%	38.7%	22.0%	0.0%	0.0%	7.6%	23.7%	8.0%	\$1,629.5
1996	0.0%	39.5%	21.8%	0.0%	0.0%	8.6%	22.2%	7.9%	\$1,637.3
1997	0.0%	39.2%	21.0%	0.0%	0.0%	8.6%	18.2%	7.3%	\$1,623.2
1998	0.0%	39.2%	21.9%	0.0%	0.0%	9.2%	16.7%	7.1%	\$1,576.9
1999	0.0%	37.4%	22.0%	0.0%	0.0%	9.5%	11.1%	7.5%	\$1,525.9
2000	0.0%	36.0%	22.7%	0.0%	0.0%	10.3%	9.7%	6.7%	\$1,503.9
2001	0.0%	40.4%	22.5%	0.0%	0.0%	10.4%	9.9%	6.1%	\$1,449.8
2002	0.0%	40.5%	20.6%	0.0%	1.4%	9.9%	8.5%	5.1%	\$1,590.0
2003	0.0%	44.0%	19.8%	0.0%	0.8%	10.2%	7.6%	4.9%	\$1,585.8
2004	0.0%	45.7%	18.1%	0.0%	0.5%	9.8%	6.9%	5.8%	\$1,709.2
2005	0.0%	49.2%	16.7%	0.0%	0.2%	9.1%	7.1%	7.2%	\$1,842.9
2006	0.0%	49.7%	15.7%	0.0%	0.7%	8.7%	6.4%	6.4%	\$1,964.7
2007	0.0%	52.0%	15.4%	0.7%	1.5%	8.5%	5.6%	6.4%	\$2,001.3
2008	0.0%	53.2%	14.5%	0.8%	0.9%	8.2%	5.5%	6.2%	\$2,057.5
2009	0.0%	54.0%	14.3%	0.9%	0.4%	8.5%	5.9%	6.2%	\$2,079.9

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

SOURCE: ILLINOIS DEPARTMENT OF REVENUE

The \$16.5 million decrease in the Mega Millions game was discouraging after a good year in FY 2008. 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.

In the latest year, Mega Millions sales decreased partly due to fewer large jackpots in FY 2009. 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 decrease in rollovers can be seen in the number of drawings that the Mega Millions jackpot was over \$100 million. In FY 2008, the jackpot was over \$100 million during 25 drawings, while in FY 2009 the jackpot was over \$100 million in only 19 drawings. Mega Millions results for the past 5 fiscal years can be found in Table 21.

<b>TABLE 21: MEGA MILLIONS RESULTS</b>					
(\$ Million)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Average Jackpot Drawing	\$52.1	\$80.1	\$55.9	\$68.1	\$57.7
Jackpots over \$100 M	14	30	14	25	19
Jackpots over \$200 M	2	9	3	5	3
Mega Millions Sales	\$192.6	\$243.8	\$195.9	\$221.1	\$204.6

SOURCE: www.lottoreport.com

In 1992, Laflour'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 2009, Illinois's per-capita spending totaled \$161 per capita, which was 1.3% higher than in 2008. 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 25<sup>th</sup> out of the 43 lotteries.

Similarly, Illinois ranked 27<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 5.6% on average. With \$2.1 billion in sales, Illinois had the twelfth highest level of sales in the U.S. in FY 2008.

The figures for FY 2008 are shown in the table below. FY 2009 per capita spending was approximately \$161, though comparison data for other states is not yet available.

STATE	POPULATION (MILLIONS)	PER-CAPITA PERSONAL INCOME	TOTAL LOTTERY SALES (MILLIONS)	PER-CAPITA SALES	PER-CAPITA SALES AS A % OF PER-CAPITA PERSONAL INCOME
RHODE ISLAND	1.1	\$ 41,008	\$ 2,398.9	\$ 2,283	5.57%
SOUTH DAKOTA	0.8	\$ 37,375	\$ 704.3	\$ 876	2.34%
DELAWARE	0.9	\$ 40,852	\$ 736.4	\$ 843	2.06%
WEST VIRGINIA	1.8	\$ 30,831	\$ 1,523.0	\$ 839	2.72%
MASSACHUSETTES	6.5	\$ 50,735	\$ 4,709.0	\$ 725	1.43%
DISTRICT OF COLUMBIA	0.6	\$ 64,991	\$ 252.3	\$ 426	0.66%
NEW YORK	19.5	\$ 48,076	\$ 7,548.4	\$ 387	0.81%
GEORGIA	9.7	\$ 33,975	\$ 3,520.0	\$ 363	1.07%
OREGON	3.8	\$ 35,956	\$ 1,245.5	\$ 329	0.91%
MARYLAND	5.6	\$ 48,091	\$ 1,673.0	\$ 297	0.62%
NEW JERSEY	8.7	\$ 50,919	\$ 2,538.5	\$ 292	0.57%
CONNECTICUT	3.5	\$ 56,248	\$ 998.1	\$ 285	0.51%
PENNSYLVANIA	12.4	\$ 40,265	\$ 3,089.2	\$ 248	0.62%
MICHIGAN	10.0	\$ 35,299	\$ 2,330.2	\$ 233	0.66%
FLORIDA	18.3	\$ 39,070	\$ 4,170.0	\$ 228	0.58%
SOUTH CAROLINA	4.5	\$ 31,884	\$ 992.5	\$ 222	0.69%
OHIO	11.5	\$ 35,511	\$ 2,325.1	\$ 202	0.57%
NEW HAMPSHIRE	1.3	\$ 42,830	\$ 261.1	\$ 198	0.46%
KENTUCKY	4.3	\$ 31,826	\$ 778.2	\$ 182	0.57%
VIRGINIA	7.8	\$ 42,876	\$ 1,386.4	\$ 178	0.42%
MAINE	1.3	\$ 35,381	\$ 228.5	\$ 174	0.49%
TENNESSEE	6.2	\$ 34,330	\$ 1,065.0	\$ 171	0.50%
MISSOURI	5.9	\$ 35,228	\$ 995.5	\$ 168	0.48%
VERMONT	0.6	\$ 38,880	\$ 102.0	\$ 164	0.42%
<b>ILLINOIS</b>	<b>12.9</b>	<b>\$ 42,397</b>	<b>\$ 2,057.5</b>	<b>\$ 159</b>	<b>0.38%</b>
TEXAS	24.3	\$ 38,575	\$ 3,671.2	\$ 151	0.39%
INDIANA	6.4	\$ 34,103	\$ 822.8	\$ 129	0.38%
NORTH CAROLINA	9.2	\$ 34,439	\$ 1,078.1	\$ 117	0.34%
COLORADO	4.9	\$ 42,377	\$ 505.8	\$ 102	0.24%
IDAHO	1.5	\$ 32,133	\$ 136.8	\$ 90	0.28%
MINNESOTA	5.2	\$ 42,772	\$ 461.5	\$ 88	0.21%
WISCONSIN	5.6	\$ 37,314	\$ 494.7	\$ 88	0.24%
LOUISIANA	4.4	\$ 36,271	\$ 373.7	\$ 85	0.23%
KANSAS	2.8	\$ 37,978	\$ 236.7	\$ 84	0.22%
CALIFORNIA	36.8	\$ 42,696	\$ 3,049.6	\$ 83	0.19%
IOWA	3.0	\$ 36,680	\$ 249.0	\$ 83	0.23%
WASHINGTON	6.5	\$ 42,356	\$ 521.1	\$ 80	0.19%
NEW MEXICO	2.0	\$ 32,091	\$ 147.1	\$ 74	0.23%
ARIZONA	6.5	\$ 32,953	\$ 472.9	\$ 73	0.22%
NEBRASKA	1.8	\$ 37,730	\$ 121.9	\$ 68	0.18%
OKLAHOMA	3.6	\$ 36,899	\$ 203.8	\$ 56	0.15%
MONTANA	1.0	\$ 34,256	\$ 43.8	\$ 45	0.13%
NORTH DAKOTA	0.6	\$ 39,321	\$ 22.1	\$ 34	0.09%
ALABAMA	4.7	\$ 33,643	\$ 0.0	\$ 0	0.00%
ALASKA	0.7	\$ 43,321	\$ 0.0	\$ 0	0.00%
ARKANSAS	2.9	\$ 31,266	\$ 0.0	\$ 0	0.00%
HAWAII	1.3	\$ 40,490	\$ 0.0	\$ 0	0.00%
MISSISSIPPI	2.9	\$ 29,569	\$ 0.0	\$ 0	0.00%
NEVADA	2.6	\$ 40,353	\$ 0.0	\$ 0	0.00%
UTAH	2.7	\$ 30,291	\$ 0.0	\$ 0	0.00%
WYOMING	0.5	\$ 49,719	\$ 0.0	\$ 0	0.00%
<b>TOTALS</b>	<b>304.1</b>	<b>\$ 38,611</b>	<b>\$ 60,241.3</b>	<b>\$ 198</b>	<b>0.51%</b>

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

### Legislation Affecting FY 2010 & Beyond

As part of Public Act 096-0034, the Illinois lottery is to be operated with the assistance of a private manager. The private management agreement is to be entered into by March 1, 2010. Existing contracts with other providers are to be terminated as expeditiously as possible. The management agreement is not to exceed 10 years, allows the State final authority on operating decisions, and allows for the private manager to receive up to 5% of Lottery ticket and share sales. The State would retain ownership of all trade names, trademarks, and intellectual property associated with the lottery.

The Lottery is to select a private manager based on a competitive request for qualifications process. The public act specifically identifies four factors on which the Lottery should evaluate the prospective private managers. These factors are listed below.

1. The potential manager's ability to market the Lottery to those who are new, infrequent, or lapsed players of the Lottery, especially those who are most likely to make regular purchases on the Internet.
2. The ability to address the State's concern with the social effects of gambling on those who can least afford to do so.
3. The ability to provide the most successful management of the Lottery for the benefit of the people of the State based on current and past business practices or plans of the potential manager.
4. The private manager's poor or inadequate past performance in servicing, equipping, operating or managing a lottery on behalf of Illinois, another State or foreign government and attracting persons who are not currently regular players of a lottery.

Requests of the Lottery for further information on this process and where it currently stands were not fulfilled at the time of the printing of this report.

The Public Act also allows for an Internet pilot program for the sale of lottery tickets that would only be allowed pending a clarifying memorandum from the federal Department of Justice that Internet lottery sales are legal. The Lottery shall limit the individual authorized to purchase lottery on the internet to individuals who are 18 years of age or older and Illinois residents, unless the clarifying memorandum from the federal Department of Justice indicates that it is legal for non-Illinois residents to purchase lottery tickets on the Internet. The Lottery shall also set a limitation on the monthly purchases that may be made through any one individual's lottery account. The Lottery shall also a voluntary self-exclusion program for Internet lottery sales.

With the interest in growing the lottery, a question has arisen as to how much of a potential gain could be accomplished through whatever means (new games, better management, online sales, etc.). To estimate the realistic growth of the lottery, the Commission has estimated what lottery revenues would be if it grew to similar results as the lotteries in Michigan, Ohio, and Pennsylvania. These states were chosen due to their similar demographics, economies, and population size as Illinois.

In FY 2008, these states lotteries averaged per capita lottery sales of \$236 compared to Illinois' lottery which averaged \$159 per capita. If Illinois were able to raise its sales per capita to a similar level as these other states, it would raise sales to an approximate level of \$3.047 billion compared to the FY 2009 results of \$2.079 billion. This would be an increase of \$968 million which is an increase of 46.6% over FY 2009. Assuming a profit margin of 30.6%, which is what the profit margin was in FY 2009 and is similar to the other states, lottery profits would rise to approximately \$932 million. This would be an increase of approximately **\$300 million** over the FY 2009 profit of \$625.

The current capital plan assumes an increase of approximately \$150 million for this portion of the bill which would be under the \$300 million in potential improvement that the Commission estimates is possible. Newspaper reports have questioned the \$150 million amount as Lottery personnel have been quoted as estimating that the online lottery sales would bring in approximately \$30 million a year and improved efficiency under private management would increase the lotteries profitability by another \$50 million per year.

### ***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 16 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, Pick 4, and Lotto in FY 2009 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 despite having a good year in FY 2009. 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.

Changes are sure to come to the Lottery with the use of a private management firm and the potential offering of online lottery sales. Prior to the private management legislation, the Lottery was scheduled to introduce a \$30 instant ticket to the Lottery's game mix and had contracted with a new advertising agency for FY 2010. These changes were expected to contribute an additional \$20 million to the Common School Fund.





# HORSE RACING





## HORSE RACING

Horse racing is the oldest form of legalized gaming in Illinois. Each year, millions of dollars are wagered on horse racing at the State's numerous on-track and off-track wagering facilities. In calendar year 2008, Illinois horse racing wagering generated \$18.5 million in total revenues with the State receiving nearly \$8.0 million and local governments receiving \$10.6 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 23 examines the sources and allocation of CY 2008 horse racing revenues while Table 24 details State and local racing revenues over the past ten years.

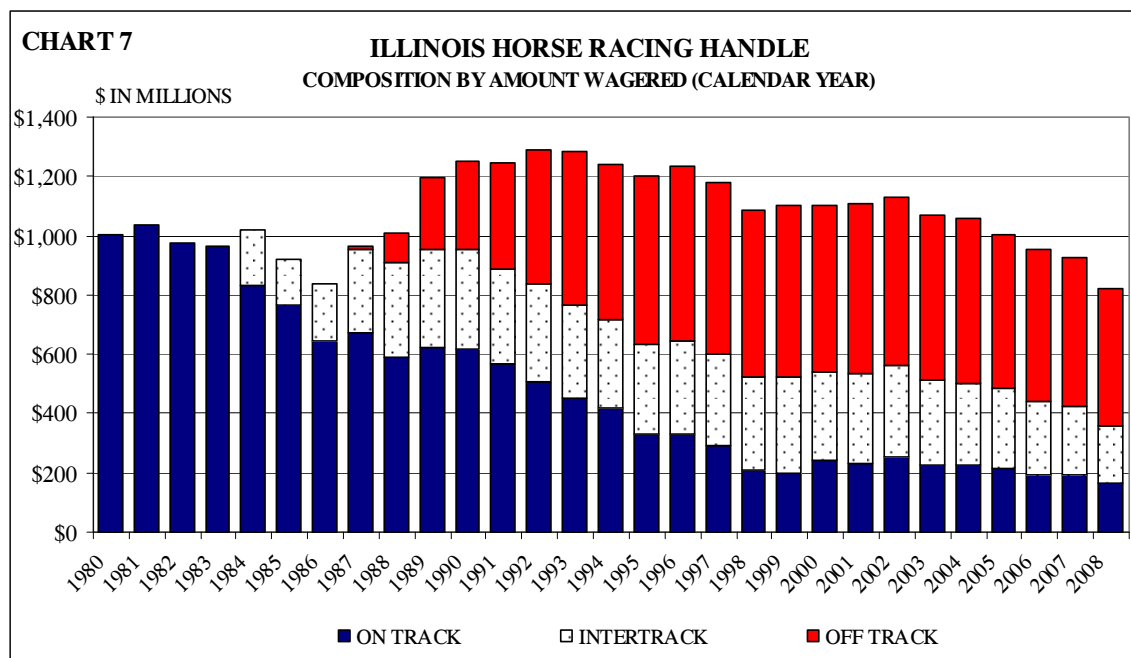
**TABLE 23: SOURCES AND ALLOCATION OF HORSE RACING REVENUE FOR CALENDAR YEAR 2008**

<b>REVENUE SOURCE</b>	
Application and License Fees of Racing Associations	\$90,145
Admission Taxes	\$81,038
Pari-mutuel Tax	\$11,308,661
Pari-mutuel Tax Credit	(\$3,943,937)
Licensing of Racing Personnel	\$247,774
Fingerprint Fees	\$95,554
Horsemen's Fines	\$69,725
Miscellaneous Sources	\$1,401
<b>* TOTAL STATE REVENUES RECEIVED</b>	<b>\$7,950,361</b>
2% of OTB Handle to City and County	\$9,185,907
OTB Admission Tax to City of Chicago	\$308,343
OTB Admission Tax to Cook County	\$596,436
On Track City Admission Tax	\$40,081
Intertrack Surcharge to County (20%)	\$457,913
<b>* TOTAL LOCAL REVENUES RECEIVED</b>	<b>\$10,588,680</b>
<b>TOTAL REVENUES RECEIVED</b>	<b>\$18,539,041</b>
<b>ALLOCATION OF REVENUE</b>	
Horse Racing Fund	\$7,346,649
General Revenue Fund	\$490,083
Quarterhorse Breeders' Fund	\$18,075
Fingerprint License Fund	\$95,554
<b>* TOTAL STATE REVENUES ALLOCATED</b>	<b>\$7,950,361</b>
To Cities	\$4,941,378
To Counties	\$5,647,302
<b>* TOTAL LOCAL</b>	<b>\$10,588,680</b>
<b>TOTAL REVENUES ALLOCATED</b>	<b>\$18,539,041</b>
<b>SOURCE: ILLINOIS RACING BOARD - 2008 ANNUAL REPORT</b>	

TABLE 24: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
TOTAL STATE REVENUE	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9	\$8.0
TOTAL LOCAL REVENUE	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6	\$10.6
<b>* TOTAL REVENUES RECEIVED</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>	<b>\$18.5</b>
TOTAL STATE ALLOCATIONS	\$42.4	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9	\$8.0
TOTAL LOCAL ALLOCATIONS	\$13.6	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6	\$10.6
TO CITIES	\$6.7	\$6.4	\$6.5	\$6.4	\$6.2	\$6.2	\$5.7	\$5.6	\$5.5	\$4.9
TO COUNTIES	\$6.9	\$6.3	\$6.4	\$6.4	\$6.2	\$6.2	\$5.9	\$5.7	\$6.1	\$5.6
<b>*TOTAL REVENUES ALLOCATED</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>	<b>\$18.5</b>

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

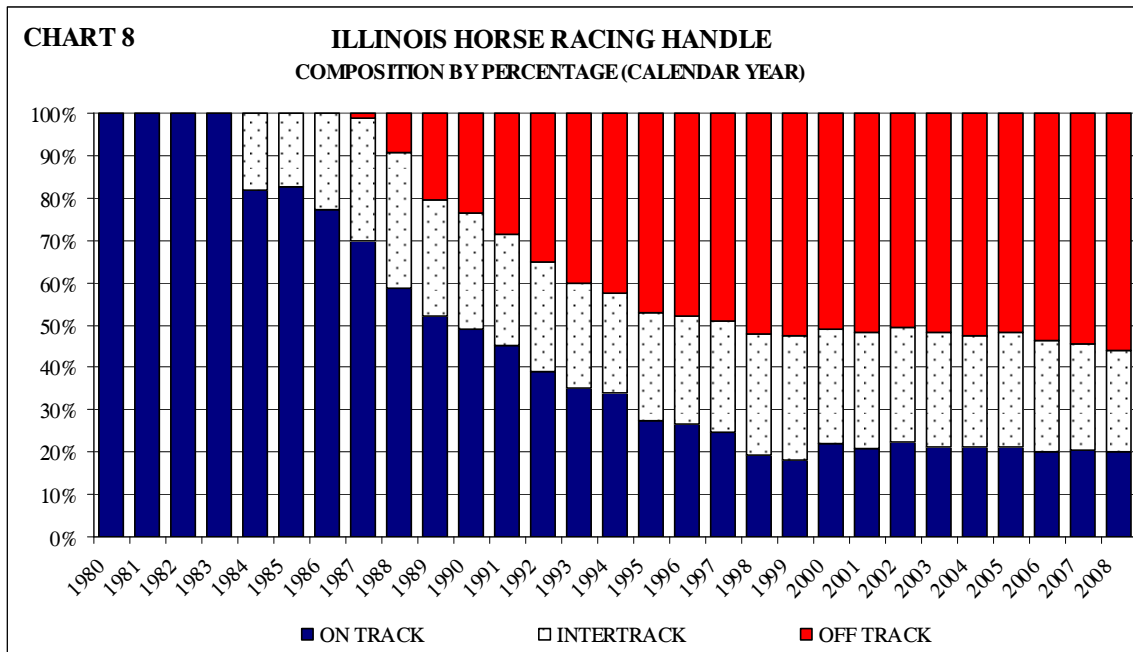
In its 2008 Annual Report, the Illinois Racing Board reported that 582 race programs were conducted during CY 2008 (down from 621 race programs in CY 2007 and 646 race programs in CY 2006). A total handle amount of \$819 million resulted, which was a decrease of 11.9% over the 2007 amount. As shown in Chart 7, this handle amount was the sixth consecutive year of declining revenues and the lowest experienced since 1975. The thoroughbred total handle (\$568M) dropped 10%, while the standardbred total handle (\$251M) dropped 16%.



The Illinois Racing Board's latest report states that \$220 million of the total handle in CY 2008 was wagered on Illinois races. Approximately \$599 million was wagered in Illinois on simulcast races broadcast from other states. An additional \$846 million was wagered on Illinois races broadcast to other states, which was a 1% increase over CY 2007. The Board notes that 2008 was the eighth 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 2008, the percentage of the total handle generated from on-track wagering fell from 39% to 20%. This decline coincided with a dramatic increase in participation at off-track betting locations. Over the previously mentioned time frame, the percentage of the total handle generated at off-track wagering facilities increased from 35% to 56%. Despite this shift, inter-track wagering remained stable and generally comprised between 24% 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 2008, the Illinois Racing Board granted thirty off-track licenses. The Racing Board’s Annual Report states that one new OTB opened in 2008 (Champaign) and three closed (Wauconda, Homewood, and Urbana). 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 10 additional OTB locations. A list of Illinois OTBs is shown in Table 25.

<b>TABLE 25: 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) PEORIA CHAMPAIGN**
FAIRMOUNT PARK	MADISON	ALTON CARBONDALE SAUGET SPRINGFIELD
HAWTHORNE RACE COURSE	COOK	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 2008 ** NEW IN 2008		

What tracks did Illinois bettors wager on in 2008? The largest handle at Illinois tracks came from Arlington Racetrack with \$82.7 million, followed by Hawthorne (\$55.5 million), Balmoral (\$46.2 million), Maywood (\$23.0 million), Fairmount (\$11.3 million), and State/County fairs (\$1.5 million). The largest handle from out-of-state tracks came from Churchill (\$29.7 million), Santa Anita (\$29.7 million), Belmont (\$29.2 million), Meadowlands (\$25.4 million), and Aqueduct (\$23.9 million).

Of all Illinois meets in 2008, thoroughbred races make up the largest percentage at 72.7% followed by harness races with 25.5% and quarterhorse races the remaining 1.7%.

### *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, the four Chicago-area casinos asked the courts to reconsider the Illinois Supreme Court ruling. The casinos filed a motion which asked the courts 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." Despite the legal questions regarding the impact fee, lawmakers re-established the fee starting on December 15, 2008. Unless substantial changes to horseracing occur, this fee could last for as many as three more years.

In June 2009, it was reported that the U.S. Supreme Court decided, without comment, to let the State Supreme Court ruling stand. Soon after this ruling, the four casinos continued the fight by suing former Governor Rod Blagojevich regarding the impact fee claiming that they (the casinos) were "directly victimized" by Blagojevich's alleged criminal conduct. The Mercury News reported that the casinos "want a constructive trust put in place over the \$89.2 million they've paid into the fund for the horse racing owners." The suit also seeks unspecified damages, attorney fees and costs, according to the source (Mercury News 6-12-09).

Until litigation is complete, monies collected from the 3% tax will remain in a protest fund. Over \$76 million was deposited into this protest fund from the first two-year fee. Since the fee was again collected in December 2008, \$14.5 million was deposited into the protest fund in FY 2009. As stated previously, this fee could be collected until December 15, 2011. Because money has been put into the protest fund, the horse tracks have yet to receive any money from this fee. If the money was allowed to be released, the money would 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.



### **Advance Deposit Wagering**

Like many sessions before it, the Spring 2009 legislative session was again full of discussions of making vast changes to the gaming industry in Illinois, including changes to the horse racing industry. While many substantial changes were proposed, there was only one piece of legislation that garnered approval. This came in the form of Public Act 96-0762 (SB 1298) which allows advance deposit wagering in Illinois.

Under P.A. 96-0762, an individual will be allowed to establish an account, deposit money into the account, and use the account balance to pay for pari-mutuel wagering. An advance deposit wager may be placed in person at a wagering facility or from any other location via a telephone-type device or any other electronic means. All advance deposit wagers placed from within Illinois must be placed through an Illinois Racing Board-approved advance deposit wagering licensee. Advance deposit wagering licensees shall not be permitted to accept out-of-state wagers on any Illinois signal without the approval and consent of the organization licensee providing the signal.

The State will receive additional revenue from advance deposit wagering through a flat pari-mutuel tax at the rate of 1.5% of the daily pari-mutuel handle on advance deposit wagering from a location other than a wagering facility. In addition to this tax, an additional pari-mutuel tax at the rate of 0.25% shall be imposed on advance deposit wagering, the amount of which shall not exceed \$250,000 in each calendar year. The additional tax shall be deposited into the Quarter Horse Purse Fund.

The Illinois Racing Board has stated that insiders estimate that as much as \$100 million could be collected from advance deposit wagering once the program is fully implemented. In the initial years, however, the Board anticipates totals near \$60 million to \$75 million. It is unclear if there will be a cannibalization effect on other wagering methods due to a predicted popularity of advance deposit wagering which may lower revenue totals from other forms of wagering.

Based on the \$100 million estimate, a tax of 1.5% would generate approximately \$1.5 million to the State per year. Using this figure, an additional tax of 0.25% would generate an additional \$250,000 to be deposited into the Quarter Horse Purse Fund.

### **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 badly. Illinois' horse racing handle is down nearly 25% over the last 10 years and is at its lowest levels in over 30 years. 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 July 2009, Fairmount Park announced that it was closing its live season August 15<sup>th</sup>, a month before scheduled. The track stated that the early closing was due to the struggling economy and the pending lawsuit. According to a

Belleville News-Democrat story, “officials say they can’t afford to pay out money while a court is still debating a law that would provide casino money to racetracks.”

While the subsidy to the horse racing industry, if allowed to occur, would be a significant boost to horse racing in Illinois, the funds are only a temporary fix. Unless the subsidy is permanently implemented, 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. Current law provides that 15% of the adjusted gross receipts from the 10<sup>th</sup> license will be deposited into the Horse Racing Equity Fund. But the various changes and proposals affecting the riverboat industry over the last several years causes the horse tracks to be hesitant about being excited about this potential revenue.

Advance deposit wagering, once established, will be a welcomed revenue stream. But the reality is these revenues will likely not be significant enough to turn this industry around. For a dramatic change to occur, another revenue stream would have to be developed such as allowing slot machines at the horse tracks, which Indiana has recently done.

Indiana’s decision to add slot machines to their horse tracks makes Illinois’ situation even more calamitous. The addition of slot machines has allowed Indiana to be able to increase their purses for their horse races. Higher purses lead to increased interest, not only from the horsemen, but also from the fans of horseracing. This new excitement brings in larger handles and attendance figures. As Indiana’s purses increase, horses that would normally race in Illinois are now making the short trip to Indiana. Consequently, Illinois is losing racers, thus, escalating the downward spiral of horseracing in Illinois.

While implementing slot machines at Illinois racetracks is discussed year after year, it continues to fail to get the support needed for passage. Until State officials can agree on a gaming package that will bring additional gamblers to their tracks, the horse racing industry will likely see its dramatic declines continue.



# VIDEO GAMING





## Video Gaming in Illinois

In July 2009, Governor Quinn signed into law Public Act 96-0034 (HB 0255, as amended by Senate Amendment 1), which became the first comprehensive capital bill in many years. It is estimated that this public act could generate roughly \$1 billion per year in new State revenues that will be distributed to the Capital Projects Fund to pay for a variety of capital projects across Illinois. As shown below, these anticipated new revenues will come from a variety of sources including an expansion of the Sales and Use Tax, an online lottery program, increasing the liquor tax, and increasing motor vehicle fees. However, the largest portion of the new revenues could come from the legalization of video gaming machines in Illinois.

<b>REVENUES FUNDING THE NEW CAPITAL PLAN (P.A. 96-0034)</b>	
<b>REVENUE SOURCE</b>	<b>REVENUE PER YEAR (Million)</b>
Video Gaming	\$288 to \$534
Private management of Lottery/ Online Lottery	\$150
Sales and Use Tax Expansion	\$65
Liquor Tax	\$108
Increase Motor Vehicle Fees	\$332
<b>TOTAL</b>	<b>\$943 to \$1,189</b>

While video poker machines are currently prevalent in establishments across Illinois, these machines are for “entertainment purposes only”. Because of this, the State has never benefited from the collection of taxes from these machines, even if these machines have been “paying out”. This new public act will allow the State to regulate the video gaming market and collect tax revenues from these electronic games.

Under the provisions of P.A. 96-0034 (and provisions under trailer bills in the forms of P.A. 96-0037 (HB 2424) and P.A. 96-0038 (SB 0349)), the State will now allow video gaming terminals (including but not limited to video poker, line up, and blackjack) to be offered for play for cash in the State of Illinois at bars, truck stop establishments, fraternal establishments, or veterans establishments that possess a valid liquor license. The language specifies that a facility operated by (or in close proximity to) an organization licensee (casino), an intertrack wagering licensee, or an intertrack wagering location licensee, a school, or a place of worship is ineligible to operate a video gaming terminal.

Each qualified establishment will be allowed to operate up to 5 video gaming terminals on its premises at any time.

Each video gaming terminal shall have accounting software that keeps an electronic record which includes, but is not limited to, the following: total cash inserted into the video gaming terminal; the value of winning tickets claimed by players; the total credits played; and the total credits awarded by a video gaming terminal. The terminals shall be linked by a central communications system to provide auditing program information as approved by the Illinois Gaming Board. This system would have the functionality to enable the Board to activate or deactivate individual gaming devices from the central communications system.

All video gaming devices in violation of the Video Gaming Act, including those video gaming terminals operated for amusement only, will have to be removed from operation no later than 30 days after the Gaming Board establishes that the central communications system is functional. Therefore, terminals for “amusement only” could not legally co-exist with the 5 video gaming terminals allowed under this public act.

While the public act allows video gaming terminals to be located throughout Illinois, it does state, however, that a municipality may pass an ordinance prohibiting video gaming within the corporate limits of the municipality. Similarly, a county board may, for the unincorporated area of the county, pass an ordinance prohibiting video gaming within the unincorporated area of the county. As of early August, several jurisdiction boards including the Village of Rochester and DuPage County (unincorporated parts) have voted to ban video gambling machines in their communities.

Because it is unknown how many local government entities will decide to prohibit video gaming in their municipalities, it is very difficult to predict the number of video gaming terminals that will become operational due to this legislation. The Illinois Coin Machine Operators estimate that there are approximately 15,000 liquor pouring establishments in Illinois. If each of these establishments were to operate 5 terminals as allowed under this legislation, there could be as many as 75,000 video gaming terminals throughout the State. However, if more local governments were to pass ordinances banning video gaming terminals in their jurisdiction, this number would obviously be lower.

Many wonder how much revenue can be generated from these video gaming machines. In formulating an estimate, the Commission looked at the handful of states that currently offer legalized video poker. The average “revenue-per-machine-per-day” values ranged from around \$70 per day in Montana and South Dakota to as high as around \$240 per day in Delaware, New York, and Rhode Island. (Revenue per machine would be machine revenues after payouts or, as sometimes called, adjusted gross receipts). However, the states with these higher values only offer video gaming at horse tracks, thus, distorting the values.

The states of West Virginia and Louisiana (with 24-hour bars) had values of around \$135 per day. The State of Pennsylvania, in contemplating the legalization of video poker in their state, estimated their average daily net revenue would be about \$86 per machine per day. With these figures in mind and in lieu of the existing competition that would exist from the already established riverboats and State lottery, the Commission estimates that Illinois video gaming machines could generate an average daily net revenue amount between **\$70 and \$90 per day** per machine.

The tax revenue that would be generated from these machines would thereby be dependent on the average revenue per machine per day, the operating tax rate, which is established in the public act to be **30%**, as well as the number of video gaming terminals in operation. But as stated earlier, the number of gaming devices that will be used is difficult to determine because it is not known how many local governments will ban video gaming in their communities. In May 2009 in a presentation before the Pennsylvania House Gaming Oversight Committee, Susan Walker, a lottery and gaming consultant, discussed the participation levels of alcohol pouring establishments in other states. In her remarks, she stated:

*The percentage of video lottery establishments of the total eligible on-premises alcohol establishments in the three state-wide video lottery program operations is estimated at: Oregon 36%; South Dakota 85%; and West Virginia 78%. Based on the percentages of eligible liquor licensees participating in video lottery, Oregon has a much lower level indicating a loss of potential revenue.*

Without knowing how many video gaming machines will be implemented in Illinois due to this public act, only a range of potential tax revenues is provided. The following table provides estimates to potential revenue that could be generated at a 30% tax rate if certain values are met.

**Possible Revenue from Video Gaming (\$ in millions)**

Tax Rate at: 30%		Video Gaming Machines				
		45,000	50,000	55,000	60,000	65,000
Net Income per Machine per Day	\$70	\$344.9	\$383.3	\$421.6	\$459.9	\$498.2
	\$80	\$394.2	\$438.0	\$481.8	\$525.6	\$569.4
	\$90	\$443.5	\$492.8	\$542.0	\$591.3	\$640.6

Therefore, 45,000 to 65,000 video gaming machines with an average daily net revenue amount of \$70 to \$90 per day, a net total of \$1.15 billion to \$2.14 billion would be generated from these machines in a year. If this value were taxed at the 30% tax rate, the revenue that would be generated would range between **\$344.9 million and \$640.6 million per year**.



Of the amounts collected, five-sixths shall be deposited into the Capital Projects Fund and one-sixth shall be deposited into the Local Government Video Gaming Distributive Fund. Therefore, under the estimate provided, approximately **\$287.4 million to \$533.8 million** would be deposited into the Capital Projects Fund and approximately \$57.5 million to \$106.8 million would be deposited into the Local Government Video Gaming Distributive Fund.

Since a municipality (or county) may prohibit video gaming, the moneys deposited into the Local Government Video Gaming Distributive Fund would only be allocated to all municipalities (and counties) that have not prohibited video gaming. Public Act 96-0034 provides that the amount of funds allocable to each eligible municipality and county shall be in proportion to the tax revenue generated from video gaming within the eligible municipality or county compared to the tax revenue generated from video gaming Statewide. While video gaming is anticipated to be one of the major revenue sources for the Capital Projects Fund, it should be noted that there is no provision restricting local governments from receiving projects from the Capital Projects Fund, even if that governmental body bans video gaming in their area.

In addition to the tax revenues from the video gaming receipts, the video gaming legislation would also generate additional State revenues from application and license fees.

The legislation provides that a non-refundable application fee shall be paid at the time an application for a license is filed with the Gaming Board in the following amounts:

- |                          |                           |
|--------------------------|---------------------------|
| 1) Manufacturer: \$5,000 | 4) Supplier: \$2,500      |
| 2) Distributor: \$5,000  | 5) Technician: \$100      |
| 3) Operator: \$5,000     | 6) Terminal Handler: \$50 |

In addition, the Gaming Board shall establish an annual fee for each license not to exceed the following:

- |                           |                                 |
|---------------------------|---------------------------------|
| 1) Manufacturer: \$10,000 | 5) Technician: \$100            |
| 2) Distributor: \$10,000  | 6) Establishments: \$100        |
| 3) Operator: \$5,000      | 7) Video Gaming Terminal: \$100 |
| 4) Supplier: \$2,000      | 8) Terminal Handler: \$50       |

The exact amount of the new revenues from these fees would, therefore, depend upon the number of licensed technicians, suppliers, distributors, manufacturers, establishments, and terminals. It is roughly estimated that the value of these fees would be around \$6 million to \$10 million per year.

All fees collected shall be deposited into the State Gaming Fund. Of these fees, 25% shall be paid, subject to appropriation, to the Department of Human Services for administration of programs for the treatment of compulsive gambling and 75% shall be used for the administration of this Act.

Of the after-tax profits from a video gaming terminal, 50% shall be paid to the terminal operator and 50% shall be paid to the establishment conducting video gaming.

While video gaming is now legally permitted, it will take some time before video gaming will become a reality in Illinois. This is because the Gaming Board must first promulgate administrative rules for the machines. The rules, according to the Board, “will provide guidance on matters such as, but not limited to, standard, testing requirements, application procedures, and hearings.” The Board has stated that no date can be set as to when those Administrative Rules will be submitted to the Joint Committee on Administrative Rules or adopted by the Board.

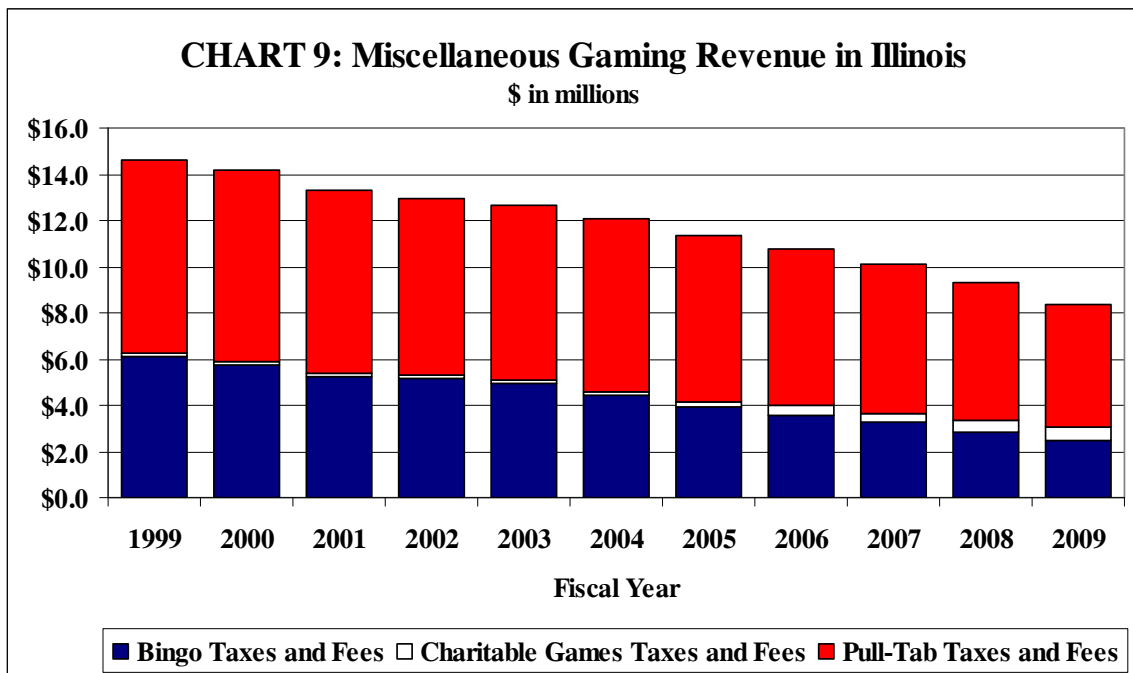
Due to the complexity of the situation, the Gaming Board believes that it could be over a year before video gaming will become operational in the State. The Commission will continue to monitor the situation and will provide updates when necessary.

### 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 2009, the State generated \$0.2 million in bingo license fees and \$2.3 million in bingo taxes. Total bingo receipts were down 12.9% from FY 2008 levels.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2009, the State received \$69,300 in license fees and \$465,699 from the charitable games tax. Total charitable games receipts were up 10.0% from FY 2008 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 2009, the State received \$0.5 million in license fees and \$4.9 million from the pull tabs and jar games tax. Total pull-tabs and jar games receipts were down 10.3% from FY 2008 levels.

In total, these miscellaneous gaming revenue sources generated approximately \$8.4 million in FY 2009. This figure is 10.1% below the FY 2008 total of \$9.3 million. In fact, as shown below in Chart 9, total miscellaneous gaming revenue has been on a steady downward trend with FY 2009 figures now at the lowest level experienced over the last ten years.



## CONCLUSION

In conclusion, FY 2009 was another disappointing year for gaming revenues in Illinois as the combined total of \$1.1 billion was down 13.7% from FY 2008 levels. This is the fourth consecutive year of declining receipts. While the combined totals in FY 2009 are still 29% higher than they were just a decade ago, they are also 22% below their peak in overall receipts reached just three years ago. This is concerning because the combined \$1.1 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 2009 came mostly from a drop in revenues from Illinois riverboats. Adjusted gross receipts from Illinois riverboats fell 18.2% in FY 2009, generating \$1.5 billion. This decline caused State revenues generated from Illinois riverboats to fall 25.0% in FY 2009. Illinois' decline in adjusted gross receipts is alarming, considering that gambling states surrounding Illinois performed much better (Indiana: 9.0%; Iowa: -0.2%; Missouri: 4.1%).

Numbers suggest that it is no coincidence that the struggles of Illinois riverboat figures have coincided with the enforcement of the indoor smoking ban on January 1, 2008. Since the implementation of the smoking ban, adjusted gross receipts for Illinois riverboats have fallen a combined 22.1%. Admissions declined 11.8% compared to this time period a year prior. Every Illinois riverboat, besides the Casino Rock Island, has experienced double-digit losses in adjusted gross receipts since the ban went into effect. For this same time period, Indiana riverboats in the Chicago area have actually seen their adjusted gross receipts rise 3.1%. This would suggest that not only is the indoor smoking ban hurting Illinois riverboats, but neighboring states may be benefiting from Illinois' law.

What does the future hold for State riverboats? Since a new "smoking ban" base has now been established, a continued sharp decline in revenues is no longer expected. But without significant changes to the industry and considering the economic conditions of today, FY 2010 revenues will likely be stagnant at best, and remain well below levels seen just a few years ago. Year after year, gaming becomes a popular option that lawmakers look towards to bring additional revenues to the State. The most prominent ideas to generate these revenues include adding additional gaming positions at the current riverboat facilities, allowing slot machines at Illinois horse tracks, and adding new riverboats/casinos. 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, despite a small decline in lottery transfers to the Common School Fund, overall lottery sales actually rose 1.1% in FY 2009 to \$2.080 billion. This was the highest sales total realized since the inception of lottery in 1975. The largest dollar increase came from the Instant games, which rose \$28 million or 2.6%. Lotto and Pick 4 both showed solid growth as they increased by 8.7% and 5.4%, respectively. These increases offset disappointing sales from Pick N Play (down over 58%), and the Mega Millions game (down 7.5%).

For the future, 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. However, significant changes to the Lottery are likely to come with the use of a private management firm and the potential offering of online lottery sales. The extent of the impact that these changes will have on Lottery revenues remains unclear.

Horse racing in Illinois continues to struggle. The CY 2008 handle amount of \$819 million was the lowest level in the last three decades. The 2008 decline of 11.9% was the seventh consecutive year of declining revenues. All three components of horse-racing, off-track, inter-track, and on-track betting, experienced declines in 2008. While the racetracks have been eagerly waiting for new revenues from the 3% impact fee on riverboats to give a boost to this struggling industry, this fee has been in litigation since the fee was implemented in 2006 and again in 2008. Nearly \$100 million in revenues from these fees remains in a protest fund and cannot be used by the horse tracks until the courts release these funds.

The horse racing industry will likely continue to struggle unless significant changes are made. If the courts indeed allow the revenues from the riverboat impact fee to go to the horse tracks, this could potentially be a huge boost to the industry. The new revenue could be used to increase purses, which would likely lead to higher handle and revenue totals. In addition, the recent enactment of advance deposit wagering in Illinois should be a welcomed "shot in the arm" for this hurting industry. But, realistically, for a huge turn-around in horseracing to occur, further changes would have to be made.

In its current form, considering the economic and competitive conditions of today, there appears to be little expectation for progress in gaming revenue over the next couple of years. But two major additions, the 10<sup>th</sup> license and video gaming, should help overall gaming receipts improve in the future. The 10<sup>th</sup> license, once it passes through the long process of suitability and construction, should generate new revenues in the Des Plaines area beginning in FY 2011 or FY 2012. If this location mimicked the success of other riverboats in that area, around \$100 million in new tax revenues could be collected.

Perhaps the biggest unknown for the future of gaming in Illinois is the allowance of video gaming machines throughout Illinois. While it may be over a year before any revenue will be generated from these machines, this new legalized form of gaming will undoubtedly bring new gaming revenues to the State. What the impact will be on present gaming methods, especially riverboats, remains unclear. Some feel that video gaming will have little impact on other forms of gambling while others feel that the impact will be significant. While the truth likely lies somewhere in the middle, the fact of the matter is, the competition for the gaming dollar will soon be higher than it has ever been before in the State of Illinois.

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>