

# **Gaming in Illinois**

## **Video Gaming Projections**

### **The Current Gaming Climate**

### **Potential Impact of Allowing Video Gaming at Illinois Horse Tracks**

**A Presentation by the Commission on Government Forecasting  
and Accountability**

**December 1, 2009**

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# REVENUES FUNDING THE CAPITAL PLAN (P.A. 96-0034)\*

- Video Gaming: \$288 M to \$534 M
- Private management of Lottery/Online Lottery: \$150 M
- Sales and Use Tax Expansion: \$65 M
- Liquor Tax: \$108 M
- Increase Motor Vehicle Fees: \$332 M
  
- TOTAL: \$943 M to \$1,189 M

\* CGFA Estimates

# Video Gaming Estimate Methodology

- Illinois Coin Machine Operators estimate 15,000 liquor pouring establishments in Illinois.
- If each establishment had the allotted 5 video gaming machines, a potential of 75,000 video gaming machines could become operational.
- CGFA assumed a number of establishments would not participate, and based our estimate on total machines between 45,000 and 65,000 machines.
- The revenue-per-machine-per-day levels of other states 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. However, the states with these higher values only offer video gaming at horse tracks, thus, distorting the values.
- West Virginia and Louisiana (with 24-hour bars) had values of around \$135 per day.
- With these figures in mind, CGFA estimated Illinois machines could generate an average daily net revenue amount between \$70 and \$90 per day per machine. Based on other states' values, this would likely be considered a conservative estimate.

# Video Gaming Estimate Methodology (cont.)

*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 generating, on average, \$70 to \$90 per day would generate a range of approximately \$344.9 million to \$640.6 million per year (based on the enacted 30% flat tax rate).
- Under P.A. 96-0034, 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 \$57.5 million to \$106.8 million would be deposited into the Local Government Video Gaming Distributive Fund, leaving approximately \$287.4 million to \$533.8 million to be deposited into the Capital Projects Fund.

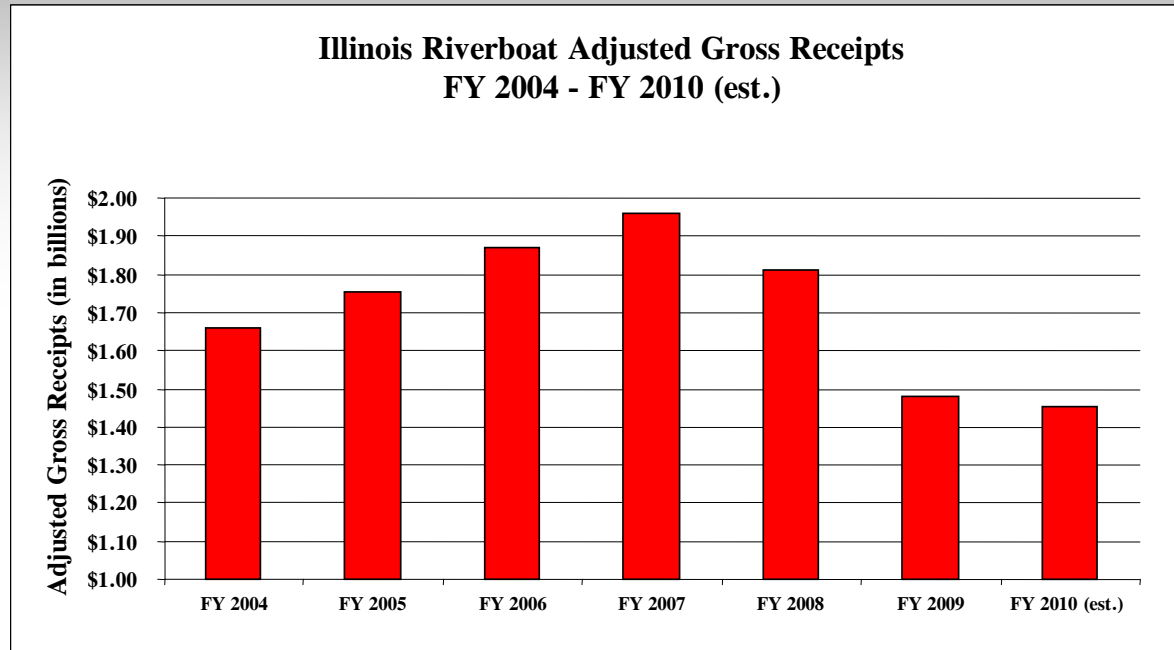
# Video Gaming Estimate too Optimistic?

- P.A. 96-0034 allows local governments the ability to pass an ordinance prohibiting video gaming.
- As of late November, forty-five governments have done so including forty-two villages/cities and three counties (unincorporated areas).
- Areas banning video gaming include largely populated areas such as Naperville, Evanston, and Wheaton, as well as unincorporated parts of Lake, Cook, and DuPage Counties.
- While noteworthy, the population of the banned areas still make up less than 10% of the State's total population.
- Therefore, while the recent trend of prohibiting video gaming is concerning, the areas that have banned video gaming (so far) are not significant enough that changes to the CGFA estimate are deemed necessary at this time.

# **If Video Gaming Revenues Fall Short, Can New Gaming Fill the Gap?**

- **Possible Solutions:**
  - **Increase the Number of Positions at Existing Riverboats (Current Max at 1,200).**
  - **Increase the Number of Riverboat Licenses (Currently at 10).**
  - **Allow a Land-Based Casino in Chicago.**
  - **Allow Slot-Machines at Illinois Horse Tracks.**

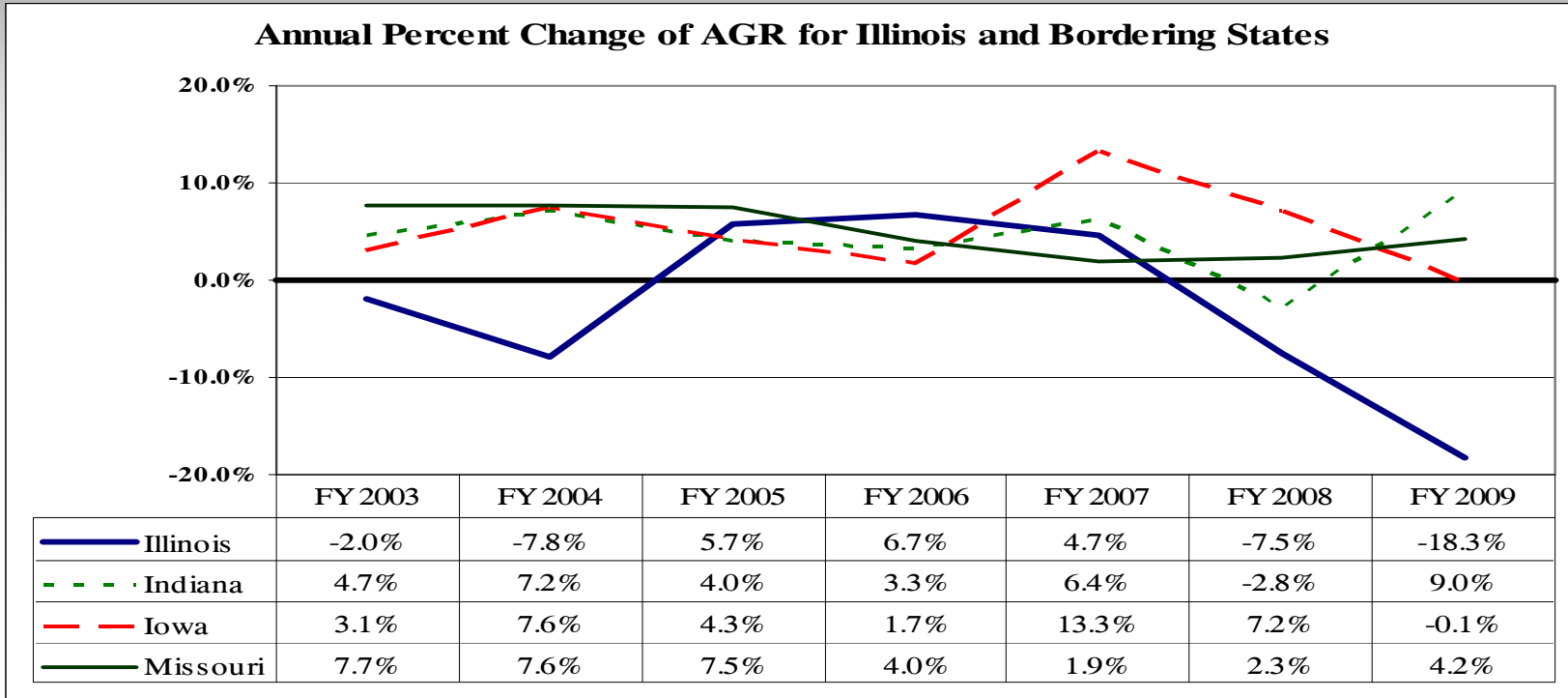
# Current Gaming Conditions



- After three consecutive years of positive growth, adjusted gross receipts (AGR) from Illinois riverboats have fallen 24.4% over the last two fiscal years.
- The FY 2009 AGR total of \$1.48 billion was the lowest level since FY 1999.
- Reasons for the decline in riverboat figures include the struggling economy, increased competition from other states, and the indoor-smoking ban.
- Since the indoor smoking ban began in January 2008, adjusted gross receipts for Illinois riverboats have fallen over 20%.
- AGR levels are expected to continue to struggle throughout FY 2010, albeit at a slower pace.



# Illinois' Struggles Not Seen In Other States



- Illinois' AGR declines in FY 2008 and FY 2009 were well below the surrounding states' rates of change.
- Despite the recent struggles of the economy, the AGR of other states' riverboats continue to hold steady.
- It appears that the indoor smoking ban and Illinois' lack of gaming expansion in recent years (especially as compared to other states) is likely why other states have not struggled like Illinois.
- In addition, it is likely that Illinois residents crossed borders to other state's casinos because of these factors, thereby contributing to the higher growth rates of other states.

# FY 2010 Riverboat Figures (thru Oct.)

## Performance of Illinois Riverboats through October 2009

(Adjusted Gross Receipts and Admissions FYTD)

	FY 2009 YTD AGR	FY 2010 YTD AGR	% change	FY 2009 YTD Admissions	FY 2010 YTD Admissions	% change
ALTON	\$ 29,991,000	\$ 28,106,000	-6.3%	396,572	405,648	2.3%
EAST PEORIA	\$ 39,450,000	\$ 38,856,000	-1.5%	474,869	466,798	-1.7%
ROCK ISLAND	\$ 10,555,000	\$ 25,341,000	140.1%	205,922	437,911	112.7%
JOLIET EMPRESS	\$ 62,599,000	\$ 56,349,000	-10.0%	570,202	541,817	-5.0%
METROPOLIS	\$ 42,745,000	\$ 39,160,000	-8.4%	370,102	378,362	2.2%
JOLIET HARRAH'S	\$ 98,089,000	\$ 86,776,000	-11.5%	845,196	838,276	-0.8%
AURORA	\$ 71,109,000	\$ 62,838,000	-11.6%	523,378	519,595	-0.7%
EAST ST. LOUIS	\$ 53,357,000	\$ 48,589,000	-8.9%	793,992	769,013	-3.1%
ELGIN	\$ 110,806,000	\$ 96,571,000	-12.8%	727,118	716,357	-1.5%
<b>TOTAL</b>	<b>\$ 518,701,000</b>	<b>\$ 482,586,000</b>	<b>-7.0%</b>	<b>4,907,351</b>	<b>5,073,777</b>	<b>3.4%</b>

- FY 2010 AGR levels are currently down a combined 7.0% thru October. Admissions are up slightly at 3.4%.
- The Chicago-Area riverboats continue to struggle, currently down a combined 11.7% for FY 2010.
- The large YTD increase from Rock Island is due to a new larger facility which opened in December 2008.

# Slot Machines at Racetracks

- Which horse tracks would receive these machines?
  - Arlington, Balmoral, Hawthorne, and Maywood Racetracks (in the Chicago Region) and Fairmount Racetrack (near St. Louis).
- How many gaming machines would be allotted?
  - Past legislative proposals have varied between 3,500 total machines (HB 4194) to around 5,000 machines (SB 0744).
- How would they be taxed?
  - Past legislation has proposed taxing revenues from horse tracks the same as riverboats (graduated tax structure ranging from 15% to 50%).
  - Another possibility is a flat tax equal to the tax on video gaming machines (30% flat tax).

# How Much Revenue Could be Generated from Slots at Tracks?

- Estimate Depends on Number of Slots per Track, Tax Rate, and AGR/EGD/Day.
  
- AGR/EGD/Day Values in Other Locations.
  - September 2009 IL Riverboat (Slots Only) Avg.: \$326
  - Indiana Live Racetrack, FY 2009 Avg.: \$258
  - Hoosier Park Racetrack, FY 2009 Avg.: \$278
  - Prairie Meadows (Iowa), FY 2009 Avg.: \$252
  - Horseshoe Greyhound Park (Iowa), FY 2009 Avg.: \$252
  - Dubuque Greyhound Park (Iowa), FY 2009 Avg.: \$192
  
- Based on these figures, CGFA estimates with the following values:
  - Chicago Area Horsetracks: \$300
  - Fairmount: \$250

# Slots at Tracks Estimate

5,000 Slots (SB 0744) Based on Current Riverboat Graduated Tax Structure						
Dilution on Horsetrack-Area Riverboats	AGR at Horsetracks	AGR Change at Riverboats	Net "New" AGR	State Revenues from Horsetracks	Revenue Change at Riverboats	Net "New" State Revenues*
	0%	\$502.8	\$0.0	<b>\$502.8</b>	\$105.0	\$0.0
5%	\$502.8	-\$71.5	<b>\$431.3</b>	\$105.0	-\$31.2	<b>\$73.8</b>
10%	\$502.8	-\$143.0	<b>\$359.8</b>	\$105.0	-\$62.0	<b>\$43.0</b>

- Under the above example of 5,000 slots:
  - Approximately \$502.8 M would be generated.
  - This equates to \$105.0 M (under the graduated tax structure).
  - This leaves nearly \$400 M for the Horse Tracks.
  
- However, increased gaming competition could impact Illinois riverboats.
  - If there is a 5% falloff at horsetrack area riverboats, AGR levels would decline by \$71.5 M, resulting in a State revenue decline of \$31.2 M. Therefore the net gain in State receipts would be only **\$73.8 M**.
  - If there is a 10% falloff at horsetrack area riverboats, AGR levels would decline by \$143.0 M, resulting in a State revenue decline of \$62.0 M. Therefore the net gain in State receipts would be only **\$43.0 M**.

# Slots at Tracks Estimate

3,500 Slots (HB 4194) Based on Current Riverboat Graduated Tax Structure						
Dilution on Horsetrack-Area Riverboats	AGR at Horsetracks	AGR Change at Riverboats	Net "New" AGR	State Revenues from Horsetracks	Revenue Change at Riverboats	Net "New" State Revenues*
	0%	\$355.4	\$0.0	<b>\$355.4</b>	\$67.5	\$0.0
5%	\$355.4	-\$71.5	<b>\$283.9</b>	\$67.5	-\$31.2	<b>\$36.3</b>
10%	\$355.4	-\$143.0	<b>\$212.4</b>	\$67.5	-\$62.0	<b>\$5.5</b>

- Under the above example of 3,500 slots:
  - Approximately \$355.4 M would be generated.
  - This equates to \$67.5 M (under the graduated tax structure).
  - This leaves \$287.8 M for the Horse Tracks.
  
- However, increased gaming competition could impact Illinois riverboats.
  - If there is a 5% falloff at horsetrack area riverboats, AGR levels would decline by \$71.5 M, resulting in a State revenue decline of \$31.2 M. Therefore the net gain in State receipts would be only **\$36.3 M**.
  - If there is a 10% falloff at horsetrack area riverboats, AGR levels would decline by \$143.0 M, resulting in a State revenue decline of \$62.0 M. Therefore the net gain in State receipts would be only **\$5.5 M**

# Slots at Tracks Estimate

3,500 Slots (HB 4194) Based on Current Riverboat Graduated Tax Structure						
Dilution on Horsetrack-Area Riverboats	AGR at Horsetracks	AGR Change at Riverboats	Net "New" AGR	State Revenues from Horsetracks	Revenue Change at Riverboats	Net "New" State Revenues*
	0%	\$355.4	\$0.0	<b>\$355.4</b>	\$67.5	\$0.0
5%	\$355.4	-\$71.5	<b>\$283.9</b>	\$67.5	-\$31.2	<b>\$36.3</b>
10%	\$355.4	-\$143.0	<b>\$212.4</b>	\$67.5	-\$62.0	<b>\$5.5</b>

- Under the example of 3,500 slots, at a 10% dilution, overall net receipts grow by \$212.4 million, yet State net revenues only grow by \$5.5 M. Why?
  - Increased competition from nearby racetracks likely means some gamblers will spend their money at the racetrack casinos instead of the riverboats. This (dilution) would lower riverboat revenue totals.
  - Under the graduated tax structure, the higher the cumulated revenues, the higher the tax on those revenues.
  - This means the gambling revenues that would have been taxed as high as 50% at the riverboats, would instead be taxed at the lower tax rates at the racetracks (starting at 15%). [Indiana's racino tax rates begin at 25%].
  - Therefore, even though over \$200 M in new gambling revenues are generated, State revenues would remain nearly unchanged.



# Examples of dilution when Indiana allowed slots at tracks.

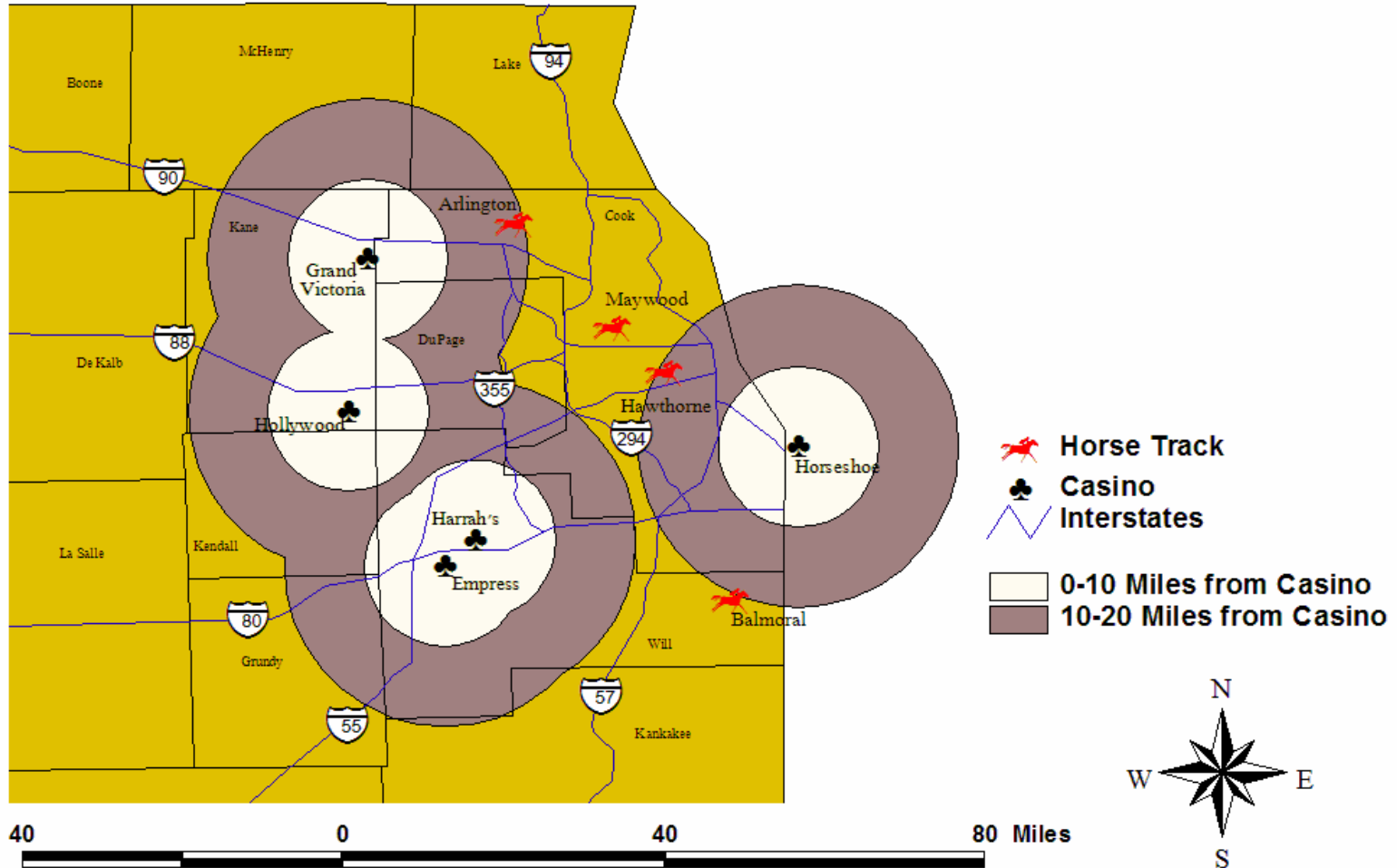
- **New Casino: Indiana Live Casino, Shelbyville, IN (Racetrack)**
  - Distance from Indianapolis: 27 miles
  - AGR in FY 2009: \$189.7 M.
- **New Casino: Hoosier Park Casino, Anderson, IN (Racetrack)**
  - Distance from Indianapolis: 45 miles
  - AGR in FY 2009: \$202.3 M.

## Existing Indiana Casinos Closest to Indianapolis:

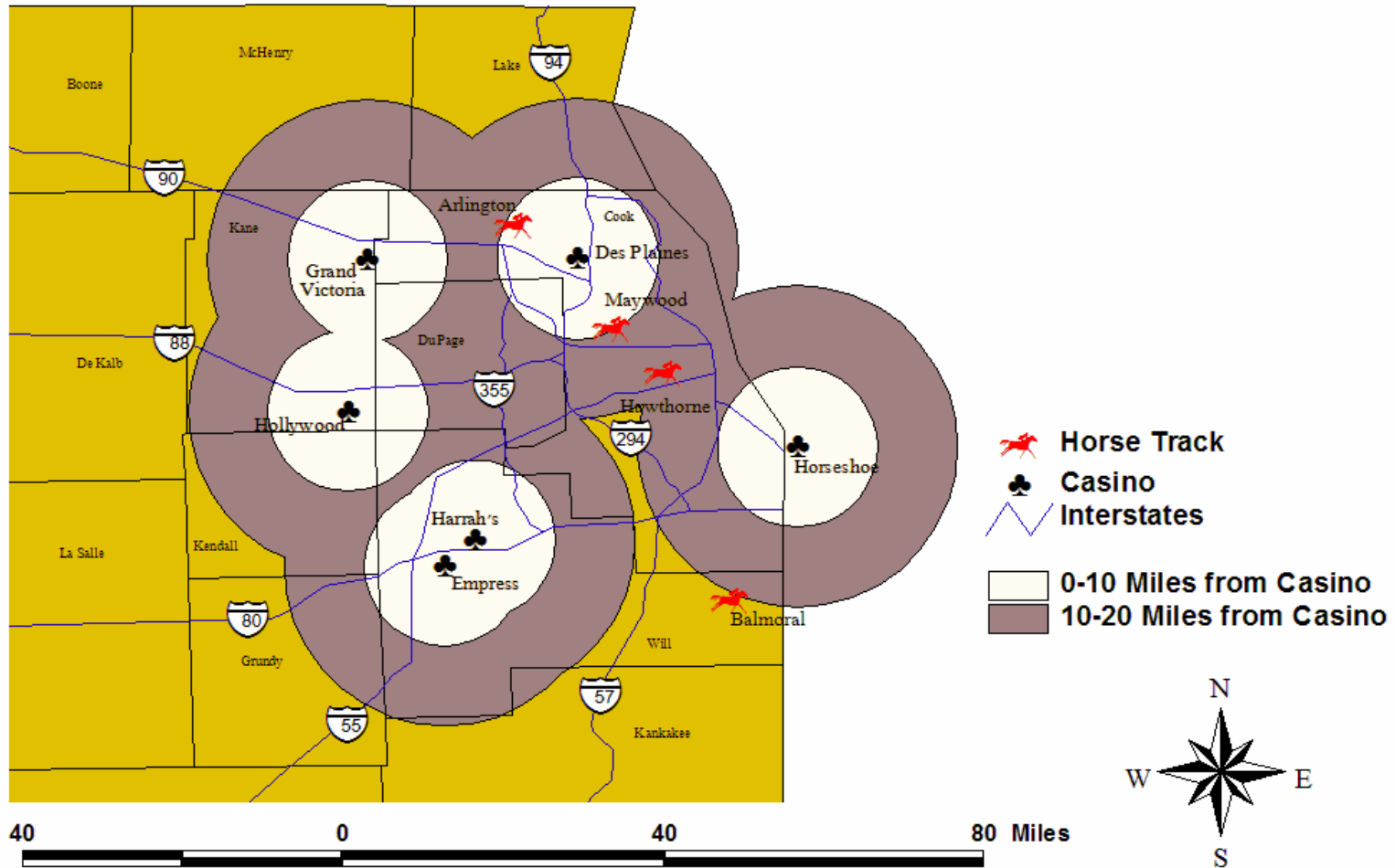
- **Hollywood Casino, Lawrenceburg, IN**
  - Distance from Indianapolis: 96 miles.
  - FY 2009 Decline: -\$60.0M or -12.9%.
- **Grand Victoria Casino, Rising Sun, IN**
  - Distance from Indianapolis: 102 miles.
  - FY 2009 Decline: -\$29.1M or -19.8%.
- **Belterra Casino, Switzerland County, IN**
  - Distance from Indianapolis: 107 miles.
  - FY 2009 Decline: -\$10.7M or -6.4%.
- **When looking at these casinos combined, there was a net gain in AGR of \$292M.**
- **However, the AGR of the three existing riverboats fell nearly \$100M or -12.8%.**
- **Slots at Indiana horse tracks gave Indianapolis residents a closer gambling option, which may have hurt the competing Indiana riverboats.**



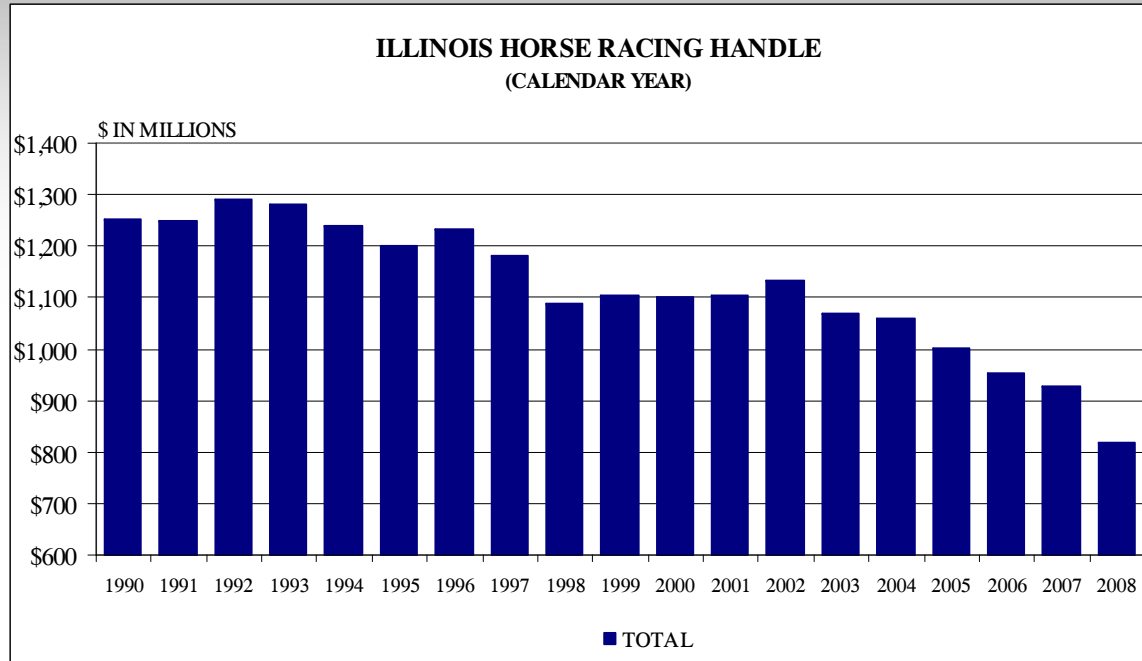
# Chicago Area Casinos



# Chicago Area Casinos with Des Plaines Casino



# Illinois Horse Racing Handle



- The 2008 handle total of \$819M was the sixth consecutive year of declining revenues and the lowest experienced since 1975.
- Proponents contend that the addition of slot machines would generate additional revenues for the horse racing industry. This would allow racetracks to offer larger purses, leading to increased interest (from horseman and fans), thereby leading to higher handle and attendance figures.
- Because Indiana's 2009 handle totals are not yet available, it is too early to tell if Indiana's introduction of slots at tracks in 2008 has improved its racing figures.

# In Summary...

- At this point, no change is needed to the Commission's video gaming estimate of \$288 M to \$534 M. However, if more local governments ban video gaming, this estimate may need to be revisited.
- The current struggles of the gaming industry make it a much less reliable source for revenues than it once was. Unless other surrounding states put into place an indoor smoking ban, a dramatic turn-around in Illinois gaming figures should not be expected.
- If the goal is to raise some capital revenues while at the same time helping the struggling horse racing industry, the proposal to add slots at tracks could be perceived as a viable option for generating additional gaming revenues for the State.