

WAGERING IN ILLINOIS

2010 UPDATE

A Report from the Commission on Government Forecasting and Accountability



Illinois Lottery

Video Gaming

Horse Racing

Riverboat Gaming

*Commission on Government Forecasting
and Accountability*

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EXECUTIVE SUMMARY

The following document is the Commission's 2010 edition of Wagering in Illinois. In accordance with Senate Resolution 875 (87th General Assembly), the Commission released its first report in 1992. That report examined the legally-sanctioned forms of wagering as a means of determining their economic impact as well as the potential for further expansion of the gaming industry. This report updates previous releases and provides further analysis of State gaming with the focus on riverboat gambling, lottery, and horse racing. Also included is a description of Illinois' newest form of legalized gambling - video gaming - and its anticipated impact on State revenues. The highlights of these topics are shown below.

- In FY 2010, the State's share of horse racing, lottery, and riverboat revenue reached \$1.019 billion, a 4.5% decline from FY 2009 levels. This is the lowest combined total for these revenue sources since FY 2001. The \$48 million falloff in overall gaming receipts was almost entirely due to a decline in riverboat transfers to the Education Assistance Fund as lottery transfers and horse racing revenues held flat in FY 2010.
- In FY 2010, lottery transfers comprised 61.7% of total gaming revenues, whereas riverboat transfers comprised 37.6%, and horse racing comprised of 0.7%. Overall gaming per-capita spending declined 3.0% in FY 2010 to \$188. This was the third 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 2010 were down 5.0% from FY 2009 levels while admissions were up slightly at 0.6%. This is the third consecutive year of declines in total AGR. State revenues from riverboat gambling totaled \$398.4 million, which was a 10.3% decline from FY 2009 levels and was the lowest amount generated since FY 2000.
- Several factors have contributed to the dramatic turnaround in riverboat figures over the last three fiscal years. These factors include the struggling economy, increased competition from other states, and the effects of the graduated tax structure. However, the numbers continue to 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 28.0% from pre-smoking ban levels.
- From a regional standpoint, when comparing CY 2007 (pre-smoking ban) vs. CY 2009, AGR for the Chicago area riverboats have dropped 32.8% since the indoor smoking ban began, while the receipts for Indiana's four closest riverboats in the Chicago area have only fallen 0.4%. Similarly, Illinois' AGR figures are down 26.3% for Illinois' two St. Louis area riverboats between CY 2007 and CY 2009,

while the AGR of Missouri's St. Louis region riverboats are up 19.5% (although part of this increase is due to a new riverboat in St. Louis).

- Using FY 2010 adjusted gross receipts as a guideline, Illinois made up 36.3% of total receipts in the Quad City region (compared to Iowa's 63.7%), 20.6% of total receipts in the St. Louis region (compared to Missouri's 79.4%), and 46.7% of total receipts in the Chicago region (compared to Indiana's 53.3%).
- 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 so far failed to gather enough support for passage.
- Additional revenues should soon come from the 10th license. Now that suitability approval from the Illinois Gaming Board has been granted, construction has begun on a new riverboat 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, which means the casino would likely open sometime in FY 2012.
- In FY 2010, lottery sales totaled approximately \$2.193 billion, a 5.6% increase from the FY 2009 total of \$2.077 billion. FY 2010 was the fourth year in a row that sales topped \$2 billion. From this sum, 30.8% or \$662 million was transferred into other State funds [\$625 million went into the Common School Fund, the same amount that was transferred in FY 2009; \$4.2 million went to special causes; and \$32.9 million was transferred to the newly created Capital Projects Fund, though this transfer actually occurred in early FY 2011].
- The largest dollar increase came from the Instant games, which rose \$52.7 million or 4.7%. The largest percentage growth came from Mega Millions which grew almost 9% but this equated to an increase of only \$18 million. The multi-state lottery game called Powerball was introduced and recorded \$51.7 million in sales through five months. Pick 4 and the St. Patrick's raffle both showed solid growth as they increased by 8.9% and 5.8%, respectively. The biggest decrease in terms of dollar amount was the Lotto which decreased by just under \$12 million, while Little Lotto fell by approximately \$9 million.
- Instant games continue to comprise the greatest percentage of total lottery sales with 53.5%. The Pick 3 game had the second highest percentage at 13.7%. Most of the remaining revenues come from Mega Millions (10.2%), the Pick 4 game (8.7%), Little Lotto (5.5%) and Lotto (5.1%).
- In FY 2009, Illinois had the 11TH highest amount of lottery sales in the U.S. but ranked 22nd when sales per capita were calculated. Sales per capita were \$162 in FY 2009. This amount grew 4.9% in FY 2010 to \$170.

- As part of Public Act 096-0034, the Illinois lottery was to be operated with the assistance of a private manager, whose selection is to be based on a competitive request for qualifications process. On September 15, 2010, Northstar Lottery Group was selected to manage the Illinois lottery.
- The Illinois Racing Board reported that 529 race programs were conducted during CY 2009. A total handle amount of \$717 million resulted, which was a decrease of 12.5% over the 2008 amount and the lowest handle amount in over 35 years. The thoroughbred total handle (\$508M) dropped 10%, while the standardbred total handle (\$208M) dropped 17%.
- In 2006, Illinois lawmakers made a concerted effort to revitalize the struggling horse racing industry in Illinois by allowing racetracks 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. Approximately \$76 million from the first fee and an estimated \$41 million from the second fee (thru FY 2010) have yet to be released.
- Public Act 96-0762 allowed advance deposit wagering to be conducted throughout the State. It officially began in Illinois in October 2009. The Racing Board estimates that when fully implemented, approximately \$100 million in horse racing revenues could be collected from advance deposit wagering (or approximately \$1.75 million in tax revenues). It is unclear at this point, however, if advance deposit wagering will have a cannibalization effect on other forms of horse wagering.
- In July 2009, Governor Quinn signed into law Public Act 96-0034, which legalized video gaming in Illinois. The majority of the revenues from video gaming are earmarked for the Capital Projects Fund to pay for capital projects across Illinois. Due to complications in selecting a company to develop a communications system for video gaming, the Gaming Board in September 2010 projected that the earliest that video gaming would be up and running in Illinois would be July 2011 (FY 2012).
- Over the past year, a number of local governments have voted to ban video gaming in their areas. In addition, the City of Chicago, due to a pre-existing law, must “opt-in” in order to offer video gaming, which they have yet to do. The impact of these banned communities on video gaming revenues to the Capital Project Fund is estimated to be approximately \$102.3 million to \$190.1 million.

INTRODUCTION

Fiscal Year 2010 was another tumultuous period for our country. The continuing struggles of the economy due to the “great recession” have impacted nearly every business sector in one way or another. Personal income and spending levels have faltered and unemployment rates have risen to levels not seen in years. As a consequence, governmental bodies across the nation are scrambling to balance their budgets in lieu of declining revenues. The State of Illinois is no different as it saw its base revenues fall 7.0% in FY 2010. Contributing to this falloff was the State’s gaming industry. Tax revenues from riverboats, lottery, and horse racing, fell 4.5% in FY 2010 from a combined \$1.067 billion in FY 2009 to \$1.019 billion in FY 2010. This is the lowest combined total for these revenue sources since FY 2001.

The \$48 million decline in overall gaming receipts was almost entirely due to the \$47 million falloff in riverboat transfers to the Education Assistance Fund (to \$383 million). Lottery transfers (\$629 million), and State horse racing revenues (\$7 million) remained virtually unchanged in FY 2010. The combined decline of 4.5% over FY 2009 levels marked the fourth consecutive year of decreases in combined gaming revenues after eight consecutive years of positive growth. Table 1, on the following page, provides a history of State gaming revenues since 1975.

While FY 2010 gaming receipts are still 18.8% higher than FY 2000 levels, the \$1.019 billion mark is 25.8% lower than its FY 2006 high-mark of \$1.374 billion. As Table 1 indicates, horse racing revenues have steadily declined 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 changes in revenues come from the larger lottery and riverboat revenue sources.

In terms of revenues generated, the State’s lottery program has lately been the more reliable of the two major gaming sources. Since FY 2000, State lottery transfers have increased 22.1%, including a 22.6% 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 slightly in FY 2010, total lottery sales did increase 5.5% over this time period. This apparent discrepancy in the figures is because the transfer ratio to the Common School Fund fell to 28.7% in FY 2010, 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 2010 transfer total was slightly down, it was still the fourth highest fiscal year total on record for lottery transfers. The vast majority of all lottery transfers (\$625M out of \$629M in FY 2010) are sent to the Common School Fund.

The stability of the lottery program in FY 2010 shows that the primary reason for this year’s overall revenue falloff came from Illinois riverboats. While State riverboat transfers in FY 2010 still remain 16.1% higher than FY 2000 levels, the \$47 million drop in transfers in FY 2010 places this revenue source at its lowest level since FY 2000. The recent falloff follows the \$134 million and \$121 million declines in transfers in FY 2009 and FY 2008. The FY 2010 transfer amount of \$383 million is below the FY 2001 and

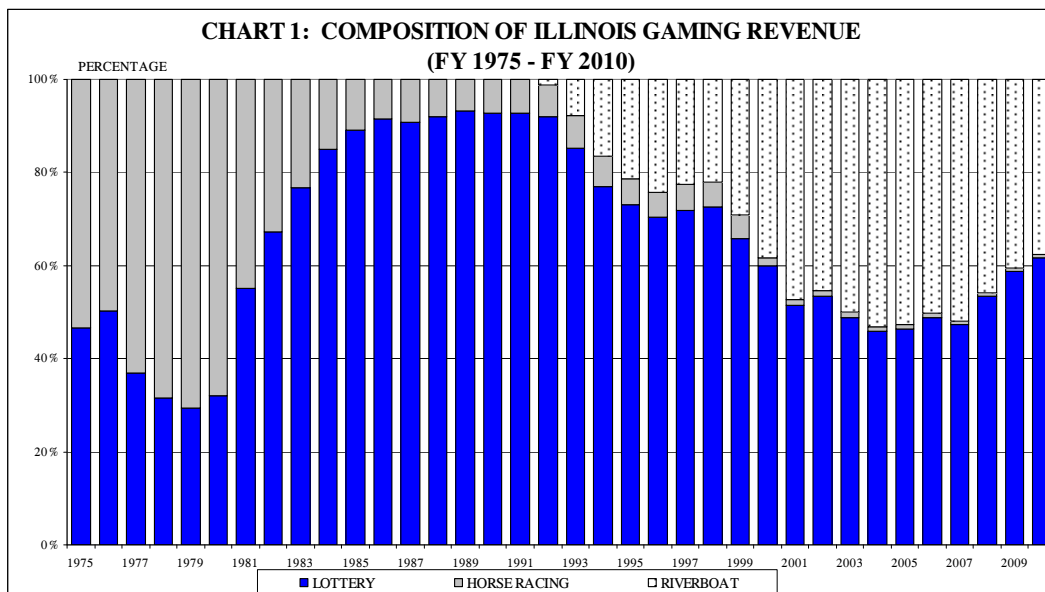
FY 2002 totals in which the graduated tax rate maxed out at 35% (compared to the 50% maximum rate under current law).

TABLE 1: STATE GAMING REVENUE (\$ in Millions)					
FISCAL YEAR	LOTTERY ⁽¹⁾	HORSE RACING ⁽²⁾	RIVERBOAT ⁽³⁾	TOTAL	PRIOR YEAR % CHANGE
1975	\$55	\$63	\$0	\$118	N/A
1976	\$76	\$75	\$0	\$151	28.0%
1977	\$44	\$75	\$0	\$119	-21.2%
1978	\$34	\$74	\$0	\$108	-9.2%
1979	\$33	\$79	\$0	\$112	3.7%
1980	\$33	\$70	\$0	\$103	-8.0%
1981	\$90	\$73	\$0	\$163	58.3%
1982	\$139	\$68	\$0	\$207	27.0%
1983	\$216	\$66	\$0	\$282	36.2%
1984	\$365	\$65	\$0	\$430	52.5%
1985	\$503	\$61	\$0	\$564	31.2%
1986	\$552	\$51	\$0	\$603	6.9%
1987	\$553	\$57	\$0	\$610	1.2%
1988	\$524	\$46	\$0	\$570	-6.6%
1989	\$586	\$43	\$0	\$629	10.4%
1990	\$594	\$46	\$0	\$640	1.7%
1991	\$580	\$46	\$0	\$626	-2.2%
1992	\$611	\$45	\$8	\$664	6.1%
1993	\$588	\$48	\$54	\$690	3.9%
1994	\$552	\$47	\$118	\$717	3.9%
1995	\$588	\$45	\$171	\$804	12.1%
1996	\$594	\$46	\$205	\$845	5.1%
1997	\$590	\$45	\$185	\$820	-3.0%
1998	\$560	\$42	\$170	\$772	-5.9%
1999	\$540	\$42	\$240	\$822	6.5%
2000	\$515	\$13	\$330	\$858	4.4%
2001	\$501	\$13	\$460	\$974	13.5%
2002	\$555	\$13	\$470	\$1,038	6.6%
2003	\$540	\$13	\$554	\$1,107	6.6%
2004	\$570	\$13	\$661	\$1,244	12.4%
2005	\$614	\$12	\$699	\$1,325	6.5%
2006	\$674	\$11	\$689	\$1,374	3.7%
2007	\$627	\$9	\$685	\$1,321	-3.9%
2008	\$662	\$9	\$564	\$1,235	-6.5%
2009	\$630	\$7	\$430	\$1,067	-13.6%
2010	\$629	\$7	\$383	\$1,019	-4.5%
(1) Figures represent all Lottery Transfers with the vast majority going 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 2010) into the Education Assistance Fund and revenues deposited into the Common School Fund.					
Sources: Comptroller's Office, Illinois Department of Revenue, Illinois Gaming Board, and Illinois Racing Board.					

The dramatic declines in riverboat transfers over the last several years are due to a combination of factors. First of all, few would argue that the recent economic conditions have 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 previous gaming reports, it appears that the indoor smoking ban has continued to have a major negative impact on the

riverboat industry. Statistics again supporting this suggested factor are discussed later in the report.

Chart 1 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 thru FY 2010 again placed the lottery as the largest contributor of gaming revenues in Illinois. In FY 2010, lottery transfers comprised 61.7% of total gaming revenues, whereas riverboat transfers comprised 37.6%, and horse racing comprised of 0.7%. This is in contrast to 1993 when lottery transfers amounted to 85.2%, riverboats 7.8%, and horse racing 7.0%. 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 at the end of this section reveals, FY 2010 State gaming revenues totaled \$1.019 billion. The gaming industry's FY 2010 gaming hold total of \$2.427 billion declined approximately 3.0% from FY 2009 levels. Per-capita spending declined 3.0% to approximately \$188 in FY 2010. This was the third 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 3.0% decline in overall per-capita spending was due mostly because of the large decline in the gaming hold (adjusted gross receipts) of the riverboats (-5.0%). This decline combined with the horse racing falloff of 11.5% offset the 2.1% increase in the lottery gaming hold in FY 2010.

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 2010 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 an update on the progress 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 2009 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 introduction of advance deposit wagering in Illinois is also included.

As with last year's report, a section on Illinois' newest form of gambling, video gaming, is included. It discusses the current progress of the development of video gaming in Illinois and provides reasons for why the gaming format has yet to become operational. A summary of the Video Gaming Act is provided including recent legislative changes from the Spring 2010 session affecting video gaming revenues. Also included is a discussion on

the local governments that have banned video gaming and the impact that these ordinances could have on video gaming revenue estimates.

Finally, the report concludes with a brief look at miscellaneous gaming in Illinois including bingo, pull-tabs, and charitable games.

TABLE 2: THE STATUS OF ILLINOIS GAMING, BASED ON STATE REVENUE, GAMING HOLD, AND PER-CAPITA SPENDING												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*	
POPULATION (IN MILLIONS)	12.44	12.52	12.60	12.65	12.71	12.76	12.83	12.85	12.87	12.90	12.90	
HORSE RACING (CY)												
STATE REVENUE (IN MILLIONS)	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 12	\$ 11	\$ 9	\$ 9	\$ 7	\$ 7	
GAMING HOLD (IN MILLIONS)	\$ 247	\$ 248	\$ 252	\$ 240	\$ 238	\$ 225	\$ 215	\$ 209	\$ 184	\$ 166	\$ 147	
% CHANGE IN GAMING HOLD	-0.2%	0.3%	1.8%	-4.9%	-0.8%	-5.3%	-4.4%	-3.0%	-11.8%	-9.7%	-11.6%	
** PER-CAPITA SPENDING	\$ 19.8	\$ 19.8	\$ 20.0	\$ 18.9	\$ 18.7	\$ 17.6	\$ 16.8	\$ 16.2	\$ 14.3	\$ 12.9	\$ 11.4	
% CHANGE IN PER-CAPITA SPENDING	-2.7%	-0.4%	1.1%	-5.2%	-1.3%	-5.7%	-5.0%	-3.2%	-11.9%	-9.9%	-11.5%	
LOTTERY (FY)												
LOTTERY TRANSFERS (IN MILLIONS)	\$ 515	\$ 501	\$ 555	\$ 540	\$ 570	\$ 614	\$ 674	\$ 627	\$ 662	\$ 630	\$ 629	
GAMING HOLD (IN MILLIONS)	\$ 674	\$ 658	\$ 722	\$ 705	\$ 735	\$ 803	\$ 900	\$ 893	\$ 888	\$ 857	\$ 875	
% CHANGE IN GAMING HOLD	-4.2%	-2.4%	9.8%	-2.4%	4.3%	9.2%	12.1%	-0.7%	-0.6%	-3.4%	2.1%	
** PER-CAPITA SPENDING	\$ 54.2	\$ 52.5	\$ 57.3	\$ 55.7	\$ 57.8	\$ 62.9	\$ 70.1	\$ 69.5	\$ 68.9	\$ 66.5	\$ 67.8	
% CHANGE IN PER-CAPITA SPENDING	-6.6%	-3.0%	9.1%	-2.7%	3.8%	8.8%	11.5%	-0.9%	-0.8%	-3.6%	2.1%	
RIVERBOATS (FY)												
AMOUNT TO EAF & CSF (IN MILLIONS)	\$ 330	\$ 460	\$ 470	\$ 554	\$ 661	\$ 699	\$ 689	\$ 685	\$ 564	\$ 430	\$ 383	
GAMING HOLD (IN MILLIONS)	\$ 1,589	\$ 1,713	\$ 1,834	\$ 1,798	\$ 1,657	\$ 1,752	\$ 1,870	\$ 1,958	\$ 1,810	\$ 1,479	\$ 1,405	
% CHANGE IN GAMING HOLD	35.6%	7.8%	7.1%	-2.0%	-7.8%	5.7%	6.8%	4.7%	-7.6%	-18.3%	-5.0%	
** PER-CAPITA SPENDING	\$ 127.8	\$ 136.8	\$ 145.5	\$ 142.1	\$ 130.3	\$ 137.3	\$ 145.8	\$ 152.3	\$ 140.6	\$ 114.6	\$ 108.9	
% CHANGE IN PER-CAPITA SPENDING	32.3%	7.1%	6.4%	-2.3%	-8.3%	5.3%	6.2%	4.5%	-7.7%	-18.5%	-5.0%	
ALL WAGERING												
TOTAL REVENUE (IN MILLIONS)	\$ 858	\$ 974	\$ 1,038	\$ 1,107	\$ 1,244	\$ 1,325	\$ 1,374	\$ 1,321	\$ 1,235	\$ 1,067	\$ 1,019	
GAMING HOLD (IN MILLIONS)	\$ 2,510	\$ 2,618	\$ 2,808	\$ 2,742	\$ 2,630	\$ 2,780	\$ 2,985	\$ 3,060	\$ 2,882	\$ 2,503	\$ 2,427	
% CHANGE IN GAMING HOLD	18.2%	4.3%	7.2%	-2.3%	-4.1%	5.7%	7.4%	2.5%	-5.8%	-13.2%	-3.0%	
** PER-CAPITA SPENDING	\$ 201.8	\$ 209.1	\$ 222.8	\$ 216.8	\$ 206.9	\$ 217.8	\$ 232.6	\$ 238.1	\$ 223.8	\$ 194.0	\$ 188.1	
% CHANGE IN PER-CAPITA SPENDING	15.3%	3.6%	6.5%	-2.7%	-4.6%	5.3%	6.8%	2.3%	-6.0%	-13.3%	-3.0%	
*THE FY 2010 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.												

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 topics affecting FY 2010 and beyond. The section opens by providing a basic summary of Illinois' riverboat tax structure, as well as a synopsis of FY 2010 riverboat statistics and how these numbers compare to years past. It includes a discussion on factors that are currently negatively impacting the riverboats (regional competition, the indoor smoking ban, the economy), and factors that will impact the industry in the future (the opening of the 10th License in Des Plaines, video gaming, etc.). It then identifies the various ideas for gaming expansion and the factors that are considered in choosing certain areas of expansion.

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 2005 - FY 2010)						
(\$ in millions)						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
ELGIN	\$408.1	\$415.7	\$436.1	\$396.2	\$311.8	\$286.1
JOLIET HARRAH'S	\$292.3	\$332.9	\$364.6	\$349.2	\$292.1	\$253.9
AURORA	\$231.8	\$250.2	\$272.6	\$249.4	\$215.0	\$185.0
JOLIET EMPRESS	\$232.1	\$256.8	\$252.6	\$210.8	\$127.9	\$156.8
EAST ST. LOUIS	\$165.4	\$172.2	\$172.1	\$185.2	\$154.4	\$139.7
METROPOLIS	\$140.5	\$152.2	\$166.7	\$151.9	\$123.0	\$113.1
EAST PEORIA	\$132.3	\$133.4	\$130.3	\$125.1	\$116.2	\$114.5
ALTON	\$110.4	\$117.6	\$125.4	\$109.0	\$86.9	\$80.1
ROCK ISLAND	\$39.3	\$39.4	\$37.6	\$33.4	\$52.3	\$75.7
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$1,752.2	\$1,870.4	\$1,958.1	\$1,810.4	\$1,479.5	\$1,404.9
% INCREASE	5.7%	6.7%	4.7%	-7.5%	-18.3%	-5.0%
SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT						

TABLE 4: ILLINOIS RIVERBOAT ADMISSIONS (FY 2005 - FY 2010)						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
ELGIN	2,795,134	2,677,440	2,531,559	2,375,400	2,117,970	2,112,964
JOLIET HARRAH'S	2,073,659	2,417,781	2,816,788	2,896,912	2,535,895	2,371,293
AURORA	1,428,536	2,082,147	1,860,184	1,745,324	1,609,036	1,520,101
JOLIET EMPRESS	1,828,809	1,726,414	2,164,586	1,920,951	1,155,386	1,425,067
EAST ST. LOUIS	2,122,913	2,098,942	2,024,667	2,457,774	2,273,300	2,158,726
METROPOLIS	1,214,268	1,184,008	1,412,307	1,265,813	1,069,036	1,027,173
EAST PEORIA	1,584,379	1,432,655	1,342,423	1,370,631	1,345,020	1,326,910
ALTON	1,424,604	1,476,971	1,455,514	1,325,645	1,155,978	1,107,007
ROCK ISLAND	746,355	716,949	649,612	612,551	1,000,453	1,301,213
TENTH LICENSE	0	0	0	0	0	0
TOTAL	15,218,657	15,813,307	16,257,640	15,971,001	14,262,074	14,350,454
% INCREASE	0.3%	3.9%	2.8%	-1.8%	-10.7%	0.6%
SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT						

TABLE 5: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2005 - FY 2010)						
(\$ in millions)						
	FY 2005	FY 2006*	FY 2007*	FY 2008	FY 2009	FY 2010
ELGIN	\$206.8	\$204.2	\$203.1	\$149.8	\$111.5	\$99.4
JOLIET HARRAH'S	\$125.0	\$119.6	\$134.5	\$130.2	\$102.4	\$87.6
AURORA	\$90.5	\$90.5	\$91.2	\$84.3	\$66.2	\$54.4
JOLIET EMPRESS	\$91.8	\$89.7	\$90.3	\$68.2	\$38.4	\$36.6
EAST ST. LOUIS	\$62.7	\$53.0	\$52.5	\$55.1	\$42.7	\$37.3
METROPOLIS	\$49.0	\$47.6	\$47.8	\$41.7	\$29.3	\$26.2
EAST PEORIA	\$46.2	\$46.1	\$45.7	\$31.1	\$27.4	\$26.8
ALTON	\$35.4	\$34.2	\$33.9	\$26.7	\$18.5	\$16.5
ROCK ISLAND	\$7.1	\$5.9	\$5.5	\$4.8	\$7.6	\$13.7
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$714.6	\$690.7	\$704.5	\$591.8	\$444.0	\$398.4
% INCREASE	6.7%	-3.3%	2.0%	-16.0%	-25.0%	-10.3%
* Includes Hold-Harmless Revenues						
SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT						

TABLE 6: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2005 - FY 2010)						
(\$ in millions)						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
ELGIN	\$23.2	\$23.5	\$24.3	\$22.2	\$17.7	\$16.4
JOLIET HARRAH'S	\$16.7	\$19.1	\$21.0	\$20.4	\$17.1	\$15.1
AURORA	\$13.0	\$14.6	\$15.5	\$14.2	\$12.4	\$10.8
JOLIET EMPRESS	\$13.4	\$14.6	\$14.8	\$12.5	\$7.5	\$9.3
EAST ST. LOUIS	\$10.4	\$10.7	\$10.6	\$11.7	\$10.0	\$9.1
METROPOLIS	\$8.2	\$8.8	\$9.7	\$8.9	\$7.2	\$6.7
EAST PEORIA	\$8.2	\$8.1	\$7.9	\$7.6	\$7.2	\$7.1
ALTON	\$6.9	\$7.4	\$7.7	\$6.8	\$5.5	\$5.1
ROCK ISLAND	\$2.7	\$2.7	\$2.5	\$2.3	\$3.6	\$5.1
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$102.8	\$109.3	\$114.2	\$106.5	\$88.2	\$84.6
% INCREASE	4.9%	6.3%	4.4%	-6.7%	-17.1%	-4.1%
SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT						

TABLE 7: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2005 - FY 2010)						
(\$ in millions)						
	FY 2005	FY 2006*	FY 2007*	FY 2008	FY 2009	FY 2010
ELGIN	\$230.0	\$227.7	\$227.4	\$171.9	\$129.2	\$115.8
JOLIET HARRAH'S	\$141.7	\$138.7	\$155.5	\$150.5	\$119.6	\$102.7
AURORA	\$103.5	\$105.1	\$106.7	\$98.5	\$78.6	\$65.2
JOLIET EMPRESS	\$105.3	\$104.3	\$105.1	\$80.7	\$45.9	\$45.8
EAST ST. LOUIS	\$73.1	\$63.7	\$63.2	\$66.8	\$52.6	\$46.5
METROPOLIS	\$57.2	\$56.3	\$57.6	\$50.6	\$36.6	\$32.8
EAST PEORIA	\$54.4	\$54.2	\$53.5	\$38.7	\$34.6	\$33.9
ALTON	\$42.4	\$41.5	\$41.6	\$33.5	\$24.0	\$21.6
ROCK ISLAND	\$9.8	\$8.6	\$8.0	\$7.0	\$11.2	\$18.8
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$817.4	\$800.1	\$818.6	\$698.2	\$532.2	\$483.0
% INCREASE	6.5%	-2.1%	2.3%	-14.7%	-23.8%	-9.2%
* Includes Hold-Harmless Revenues						
SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT						

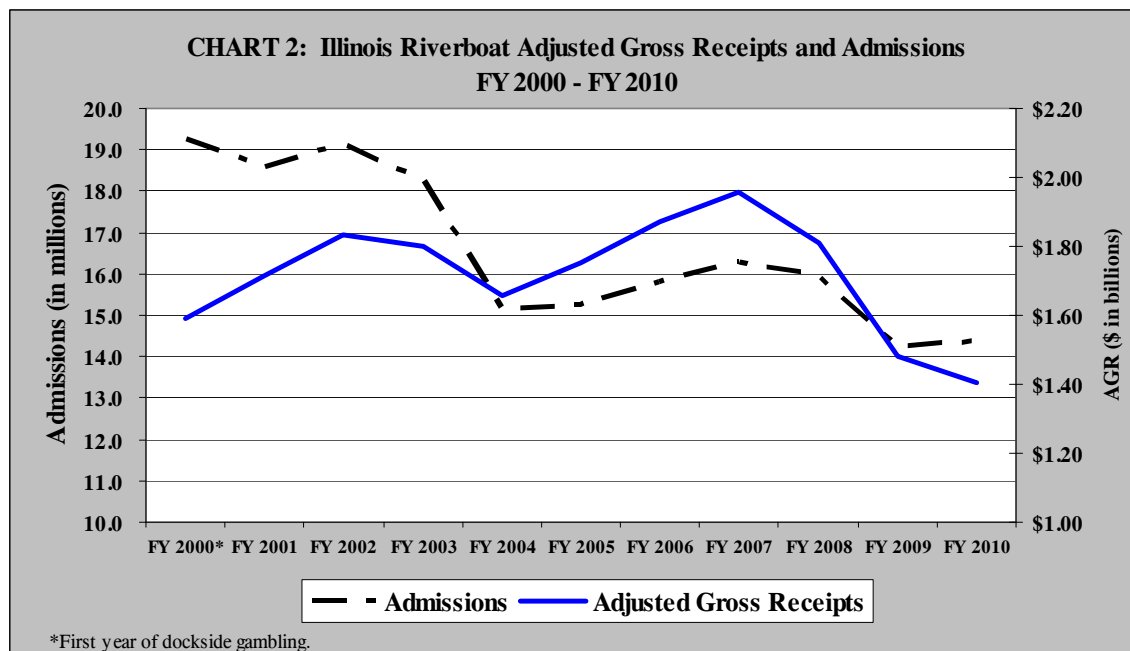
Statewide Perspective

Over the last decade, 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%. In FY 2010, the falloff continued, as adjusted gross receipts dropped another 5.0%. Admissions held flat in FY 2010, increasing a minuscule 0.6%. A graph depicting how AGR and admission figures have changed over the last decade is shown below.



Boat-by-Boat Perspective

As stated previously, adjusted gross receipts (AGR), Statewide, fell 5.0% in FY 2010. As shown below, looking at the riverboats individually, all but two riverboats experienced a year-over-year loss in AGR in FY 2010. The largest increase came from the casino in Rock Island, whose new riverboat helped spur a 44.7% increase in AGR in FY 2010. (It should be noted, however, that even with this large increase, Rock Island still had the lowest AGR amount in the State in FY 2010 at \$75.7 million).

The other increase in AGR came from Joliet Empress, which rose 22.6%. However this increase is a bit misleading. In March 2009, the Empress experienced a fire at the facility which closed gaming operations until mid June 2009. As a result, the riverboat saw its AGR fall 39.4% in FY 2009. Because of this, the FY 2010 figures are comparing a full year of gaming in FY 2010 to an abbreviated year of gaming in FY 2009. If the Empress figures and its 22.6% increase are excluded, gaming receipts for the other eight operating boats were down a combined 7.7% in FY 2010.

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	FY 2010
ELGIN	-9.1%	1.5%	4.9%	1.9%	4.9%	-9.1%	-21.3%	-8.2%
JOLIET HARRAH'S	-4.1%	-18.3%	17.3%	13.9%	9.5%	-4.2%	-16.4%	-13.1%
AURORA	11.9%	-21.0%	4.7%	10.8%	6.2%	-8.5%	-13.8%	-14.0%
JOLIET EMPRESS	-5.3%	-7.9%	6.2%	7.8%	0.9%	-16.5%	-39.4%	22.6%
EAST ST. LOUIS	1.3%	3.6%	1.1%	4.1%	0.0%	7.6%	-16.6%	-9.5%
METROPOLIS	1.2%	4.5%	0.1%	8.3%	9.5%	-8.9%	-19.1%	-8.0%
EAST PEORIA	-0.6%	-7.8%	-0.4%	0.9%	-2.3%	-4.0%	-7.1%	-1.5%
ALTON	-4.4%	-10.8%	6.5%	6.6%	6.6%	-13.1%	-20.3%	-7.8%
ROCK ISLAND	4.3%	-1.4%	1.0%	0.1%	-4.4%	-11.2%	56.5%	44.7%
TENTH LICENSE	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL	-2.0%	-7.8%	5.7%	6.7%	4.7%	-7.5%	-18.3%	-5.0%
ADMISSIONS								
	Annual Percent Change							
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
ELGIN	-16.5%	3.2%	-2.1%	-4.2%	-5.4%	-6.2%	-10.8%	-0.2%
JOLIET HARRAH'S	-3.7%	-39.1%	13.2%	16.6%	16.5%	2.8%	-12.5%	-6.5%
AURORA	-0.4%	-41.9%	-1.3%	20.9%	7.7%	-6.2%	-7.8%	-5.5%
JOLIET EMPRESS	1.4%	-24.9%	9.7%	13.9%	4.0%	-11.3%	-39.9%	23.3%
EAST ST. LOUIS	0.5%	6.4%	-1.4%	-1.1%	-3.5%	21.4%	-7.5%	-5.0%
METROPOLIS	-5.0%	-3.9%	-12.9%	-2.5%	19.3%	-10.4%	-15.5%	-3.9%
EAST PEORIA	-3.1%	-10.9%	-5.8%	-9.6%	-6.3%	2.1%	-1.9%	-1.3%
ALTON	-5.4%	-13.7%	3.1%	3.7%	-1.5%	-8.9%	-12.8%	-4.2%
ROCK ISLAND	-2.9%	-5.5%	-2.2%	-3.9%	-9.4%	-5.7%	63.3%	30.1%
TENTH LICENSE	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL	-4.6%	-16.9%	0.3%	3.9%	2.8%	-1.8%	-10.7%	0.6%
SOURCE: ILLINOIS GAMING BOARD								

The largest FY 2010 declines in AGR came from Aurora (-14.0%), Joliet Harrah's (-13.1%), East St. Louis (-9.5%), Elgin (-8.2%), Metropolis (-8.0%), and Alton (-7.8%). East Peoria's riverboat fell a relatively minor 1.5%. It should be noted that part of the reason for the FY 2010 declines at the Chicago-area boats was because these casinos benefited from the temporary closing of the Joliet Empress in FY 2009. In FY 2010, with the Empress back in operation, these riverboats lost the bump in

revenues that they received in the prior year. Part of the reason for the significant falloff at the East St. Louis and Alton riverboats in FY 2010 was likely due to the opening of another competing casino in Missouri located in south St. Louis County.

Attendance wise, again the only increases came from Rock Island (+30.1%) and Joliet Empress (23.3%) for the reasons mentioned previously. The largest attendance declines came from Joliet Harrah's (-6.5%), Aurora (-5.5%), East St. Louis (-5.0%), and Alton (-4.2%). The fact that attendance declines are not as steep as adjusted gross receipt declines suggest that less money is being gambled. This is perhaps due to less disposable income due to the economy or that casino patrons are spending less time at the casinos due to the indoor smoking ban. (More on these arguments later in the report).

Revenue Analysis

Illinois' declining adjusted gross receipt figures had a direct impact on State revenues. In FY 2010, State revenues from riverboat gaming fell a combined 10.3% or \$45.6 million to \$398.4 million. This follows the declines of 25.0% in FY 2009 and 16.0% in FY 2008. As a result, State revenues from riverboat gambling has fallen a startling 43.4% since FY 2007 and 44.2% from its highpoint of \$714.6 million in FY 2005. The FY 2010 amount was the lowest amount of State revenues collected since revenues totaled \$383.5 million in 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.

TABLE 9: ANNUAL PERCENT CHANGE OF RIVERBOAT STATE REVENUES								
Comparison of FY 2007 thru FY 2010								
\$ in millions								
	FY 2007 STATE REVENUE*	Annual % change	FY 2008 STATE REVENUE	Annual % change	FY 2009 STATE REVENUE	Annual % change	FY 2010 STATE REVENUE	Annual % change
ELGIN	\$203.1	-0.6%	\$149.8	-26.3%	\$111.5	-25.5%	\$99.4	-10.9%
JOLIET HARRAH'S	\$134.5	12.4%	\$130.2	-3.2%	\$102.4	-21.3%	\$87.6	-14.5%
AURORA	\$91.2	0.8%	\$68.2	-25.2%	\$66.2	-2.9%	\$36.6	-44.8%
JOLIET EMPRESS	\$90.3	0.7%	\$84.3	-6.7%	\$38.4	-54.5%	\$54.4	41.8%
EAST ST. LOUIS	\$52.5	-0.9%	\$55.1	4.8%	\$42.7	-22.6%	\$37.3	-12.5%
METROPOLIS	\$47.8	0.6%	\$41.7	-12.8%	\$29.3	-29.7%	\$26.2	-10.8%
EAST PEORIA	\$45.7	-0.9%	\$31.1	-32.0%	\$27.4	-11.8%	\$26.8	-2.2%
ALTON	\$33.9	-0.8%	\$26.7	-21.2%	\$18.5	-30.9%	\$16.5	-10.5%
ROCK ISLAND	\$5.5	-6.8%	\$4.8	-13.0%	\$7.6	60.0%	\$13.7	79.8%
TOTAL	\$704.5	2.0%	\$591.8	-16.0%	\$444.0	-25.0%	\$398.4	-10.3%
\$ Change over Prior Year	\$13.8		-\$112.7		-\$147.8		-\$45.6	
* 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 2010 activity may be receipted and transferred into the State Gaming Fund in July FY 2011. 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 three fiscal years. The most obvious contributor is the economy. The stock market is still well below its pre-recession heights of 2007. The falloff in the stock market has made its mark on nearly every sector of the economy, including the gaming industry. The American Gaming Association discusses this concern in their 2010 State of the States report:

As the United States grappled with the worst recession...consumers cut back on their discretionary spending, and those shrinking travel and leisure budgets led to a decline in gross gaming revenues for the second consecutive year.

According to the Bureau of Economic Analysis, disposable personal income (current dollars) declined 4.2% in the 3rd Quarter of 2008, another 1.8% in the 4th Quarter, and yet another 1.2% in the 1st Quarter of 2009. While figures improved by the end of 2009, disposable income (defined as personal income less personal current taxes) was still only up 1.0% for all of CY 2009. In addition, in May 2009, Illinois' unemployment rate (seasonally adjusted) surpassed the 10% mark for the first time since 1983. It has remained above 10% ever since, reaching its high mark of 11.5% in March 2010. 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 Bureau of Economic Analysis provides evidence of this claim showing that personal saving as a percentage of disposable personal income rose from 1.7% in 2007 to 2.7% in 2008. In 2009, this percentage increased to 4.2% - the highest level since reaching 5.3% in 1998. The conscientious decision of Americans to save more of their money instead of spending it on areas such as 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' change in adjusted gross receipts with those from surrounding states, it is apparent that some other factor must be contributing to the State's significant declines in adjusted gross receipts over the past couple of years. 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, in the first year of the ban, adjusted gross receipts for Illinois riverboats were down a combined 20.9%. In the second year, receipts fell another 8.9% for a two-year change of \$555 million from CY 2007 levels, or -28.0%. The only riverboat with an increase was Rock Island, which benefited from a new, larger facility. The riverboat with the smallest decline over the two-year period was East Peoria at -13.4%. This is not surprising considering that this riverboat is farthest from a competitive border where an indoor smoking ban does not exist. Therefore, East Peoria's falloff is likely more economically driven than the other casinos in Illinois.

Table 10: Performance of Illinois Riverboats Since Smoking Ban Began (Adjusted Gross Receipts by Calendar Year, \$ in millions)						
	CY 2007 AGR (No Ban)	CY 2008 AGR (1st Yr. of Ban)	CY 2008 vs CY 2007 % Change	CY 2009 AGR (2nd Yr. of Ban)	CY 2009 vs CY 2007 % Change	CY 2009 vs CY 2007 \$ Change
ALTON	\$125.7	\$90.7	-27.8%	\$84.2	-33.0%	-\$41.5
EAST PEORIA	\$132.8	\$116.8	-12.1%	\$115.1	-13.4%	-\$17.7
ROCK ISLAND	\$35.8	\$34.4	-3.9%	\$70.5	97.0%	\$34.7
JOLIET EMPRESS	\$240.2	\$184.0	-23.4%	\$120.0	-50.0%	-\$120.2
METROPOLIS	\$170.0	\$126.6	-25.5%	\$117.8	-30.7%	-\$52.2
JOLIET HARRAH'S	\$381.1	\$297.8	-21.9%	\$278.8	-26.8%	-\$102.3
AURORA	\$272.7	\$220.1	-19.3%	\$202.4	-25.8%	-\$70.3
EAST ST. LOUIS	\$189.0	\$160.2	-15.2%	\$147.6	-21.9%	-\$41.4
ELGIN	\$436.8	\$338.9	-22.4%	\$293.0	-32.9%	-\$143.8
TOTAL	\$1,984.0	\$1,569.4	-20.9%	\$1,429.3	-28.0%	-\$554.7

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 \$436.6 million, or -32.8% when comparing CY 2009 levels with the pre-smoke-ban totals of CY 2007. However, Indiana's Chicago area riverboats only fell \$3.8 million or -0.4% during this same timeframe. 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 (Adjusted Gross Receipts by Calendar Year, \$ in millions)						
	CY 2007 AGR (No Ban)	CY 2008 AGR (1st Yr. of Ban)	CY 2008 vs CY 2007 % Change	CY 2009 AGR (2nd Yr. of Ban)	CY 2009 vs CY 2007 % Change	CY 2009 vs CY 2007 \$ Change
Chicago-Area (Illinois)	\$1,330.8	\$1,040.7	-21.8%	\$894.2	-32.8%	-\$436.6
Chicago-Area (Indiana)	\$1,014.2	\$1,029.0	1.5%	\$1,010.4	-0.4%	-\$3.8
St. Louis-Area (Illinois)	\$314.7	\$250.9	-20.3%	\$231.8	-26.3%	-\$82.9
St. Louis-Area (Missouri)	\$685.0	\$779.9	13.8%	\$818.7	19.5%	\$133.7

Also, as shown above, a similar argument can be made for the St. Louis region. Illinois' AGR figures are down \$82.9 million or -26.3% for Illinois' two St. Louis area riverboats between CY 2009 and CY 2007. However, the AGR of Missouri's St. Louis region riverboats are up \$133.7 million or 19.5% (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 large declines in adjusted gross receipts in FY 2009 (-18.3%) and FY 2010 (-5.0%). As alarming as this declines are, State revenues were down even sharper (-25.0% in FY 2009 and -10.3% in FY 2010). 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 and FY 2010, 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 following table 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 2010 (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 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 2005 - FY 2010)						
(\$ in millions)						
	FY 2005*	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
ELGIN	54.3%	41.9%	42.1%	41.6%	39.4%	38.2%
JOLIET HARRAH'S	46.3%	39.5%	40.3%	40.6%	38.3%	37.6%
AURORA	42.8%	36.8%	37.1%	37.4%	34.3%	32.8%
JOLIET EMPRESS	43.0%	35.0%	36.4%	35.5%	33.2%	26.5%
EAST ST. LOUIS	40.4%	30.8%	31.0%	32.1%	29.7%	28.6%
METROPOLIS	38.1%	28.6%	29.9%	30.8%	27.1%	26.3%
EAST PEORIA	37.5%	27.8%	27.5%	27.6%	26.3%	26.1%
ALTON	34.5%	26.1%	26.7%	27.1%	23.6%	22.9%
ROCK ISLAND	21.2%	18.1%	17.8%	17.4%	17.7%	21.4%
Average Tax Rate	39.8%	31.6%	32.1%	32.2%	29.9%	28.9%
* Maximum tax rate at 70%, instead of current maximum of 50%.						

In FY 2010, the average operating tax rate for the nine Illinois riverboats was 28.9%. This value was 1.0 percentage points lower than FY 2009's operating tax rate and 3.3 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 2010 adjusted gross receipts down 5.0% from FY 2009 levels, but these receipts were taxed at a lower operating tax rate. This is a major reason why a 5.0% drop in adjusted gross receipts in FY 2010 resulted in a 10.3% 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 a calendar year not only hurt tax payments at the end of a fiscal year, but will also hurt subsequent fiscal year tax collections because the base upon which the graduated tax rates are calculated will be slower to reach higher tax rates.

This was especially the case for the tax receipts for the Joliet Empress casino. The fire at Joliet Empress in March 2009 halted revenue collections near the end of FY 2009 for over three months. Because FY 2010 tax rates for the months of July through December were based on CY 2009's accumulated adjusted gross receipt totals, the lack of revenues at the beginning of CY 2009 thereby caused the tax rates in FY 2010 to be effectively lower. Consequently Joliet Empress' tax revenues were down 4.7% in FY 2010; even though their FY 2010 adjusted gross receipts were up 22.6%.

More on Competition from Other States

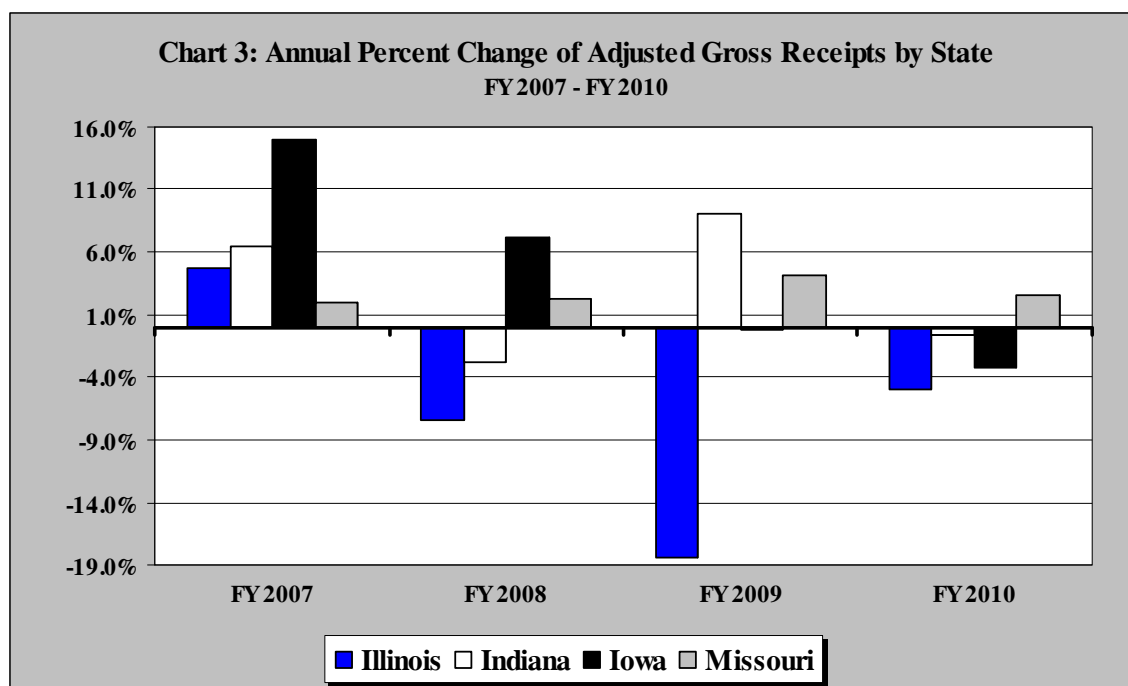
As previously discussed, Illinois is at a competitive disadvantage in the casino industry because the majority of Illinois' population is near the border of other gaming states. The competition for the gaming dollar of Illinois residents continues to grow. The development of new casinos bordering Illinois 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 had 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 data suggest that many Illinois patrons crossed the border into Indiana or other states to gamble. In this year, Illinois' AGR dropped 7.8% in FY 2004, while the surrounding states all saw their AGR levels improve (all up over 7.0%).

Illinois' decline during the 70% maximum tax phase was likely because operators who also owned casinos outside of Illinois chose to redirect their marketing, capital, and operating expenses away from Illinois 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, Illinois saw some of this gambling money return to Illinois as Illinois' AGR increased 6.7% in FY 2006, noticeably higher than the surrounding states for that year.

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 (14.9%). The main reason for the significant growth in these states was the development of new gaming facilities. In FY 2007, Indiana added a new casino in French Lick. Iowa opened new casinos in Emmetsburg, Waterloo, Worth, and one south of Iowa City over the last several years.

Illinois' AGR declined 7.5% in FY 2008, 18.3% in FY 2009, and 5.0% in FY 2010, 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. A chart indicating the annual percent changes of AGR of the Midwest region states are shown on the following page.



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 now the 6th largest market. A list of the top ten markets, as based on 2009 revenues, is shown below.

Table 13: Top 10 U.S. Casino Markets by Annual Revenue		
<i>Casino Market</i>	<i>2009 Annual Revenues</i>	<i>2009 Annual Change</i>
1 Las Vegas Strip	\$5.550 billion	-9.3%
2 Atlantic City, N.J.	\$3.943 billion	-13.2%
3 Chicagoland, Ind./Ill.	\$2.092 billion	-7.1%
4 Connecticut	\$1.448 billion	-7.8%
5 Detroit	\$1.339 billion	-1.5%
6 St. Louis, Mo./Ill.	\$1.050 billion	1.8%
7 Tunica/Lula, Miss.	\$997.0 million	-9.8%
8 Biloxi, Miss.	\$833.5 million	-12.4%
9 Shreveport, La	\$779.7 million	-8.0%
10 Boulder Strip, Nev.	\$774.3 million	-7.4%
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 2009, down from its 2007 ranking of 3rd. The state with the highest amount of commercial gaming tax revenue was Pennsylvania totaling \$929 million. In second was Indiana with casino tax revenues totaling \$878 million in CY 2009. Nevada was 3rd with tax revenues in 2009 at \$832 million. Louisiana (\$598 million) rounded out the top five.

TABLE 14: Commercial Casino Tax Revenue by State								
	2007		2008			2009		
	2007	Ranking	2008	Ranking	% Change	2009	Ranking	% Change
Pennsylvania	\$472.8	6	\$766.6	3	62.1%	\$929.0	1	21.2%
Indiana	\$842.0	2	\$838.2	2	-0.5%	\$878.0	2	4.7%
Nevada	\$1,033.9	1	\$924.5	1	-10.6%	\$831.8	3	-10.0%
Louisiana	\$607.2	4	\$626.3	4	3.1%	\$598.1	4	-4.5%
Illinois	\$833.9	3	\$566.8	5	-32.0%	\$495.6	5	-12.6%
Missouri	\$417.3	7	\$442.8	6	6.1%	\$469.1	6	5.9%
New Jersey	\$474.7	5	\$426.8	7	-10.1%	\$347.6	7	-18.6%
Michigan	\$365.6	8	\$321.6	10	-12.0%	\$320.0	8	-0.5%
Iowa	\$314.8	10	\$324.0	9	2.9%	\$306.2	9	-5.5%
Mississippi	\$350.4	9	\$326.9	8	-6.7%	\$296.3	10	-9.4%
Colorado	\$115.4	11	\$88.4	11	-23.4%	\$101.5	11	14.8%
South Dakota	\$14.9	12	\$15.4	12	3.4%	\$16.0	12	3.9%

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 2010 State of the States Report.

Nevada's ranking of 3rd in 2009 is noteworthy because this is the first time in many years that it has lost its place at the top of the rankings. The popular gambling state has saw its commercial casino tax revenue fall 10.6% in CY 2008 and another 10.0% in CY 2009 for a two-year falloff of 19.5%. As bad as this falloff is, however, it dwarfs in comparison to Illinois' 40.6% two-year decline over this same time period. The data used in this analysis is shown above.

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.

TABLE 15: Overview of Midwest Gambling States				
	Illinois	Indiana	Iowa	Missouri
Current # of Operating Casinos	9 Riverboats (1 Dormant)	13 (10 riverboats, 1 land-based, 2 racetrack casinos)	17 (7 riverboats, 7 land-based casinos, 3 racetrack casinos)	12 Riverboats (w/ one inactive)
State Population (Census Bureau 2009 estimate)	12.9 million	6.4 million	3.0 million	6.1 million
Gaming Format	Riverboat/Dockside	Riverboat, racetrack casinos	Riverboat, land-based, racetrack casinos	Riverboat
Legalization Date	February 1990	November 1993	July 1989	August 1993
First Casino Operating Date	September 1991	December 1995	April 1991	May 1994
Mode of Legalization	Legislative action	Legislative action, local option vote	Legislative action, local option vote	Legislative action, statewide vote, local option vote
Maximum Number of Gaming Positions	1,200 per riverboat	No Limit	No Limit	No Limit
Number of Gaming Positions (June 2010)	230 Table Games, 10,320 Slots	752 Table Games, 23,111 Slots	483 Table Games, 17,491 Slots	539 Table Games, 20,955 Slots
State Gaming Tax Rate	Greater of graduated tax rate from 15% to 50% of gross gaming revenue or statutory base amount, \$2 - \$3 per patron admissions tax	Graduated tax rate from 15% to 40% 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
How Taxes Spent	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
Admissions (FY 2010) (Riverboats, land-based, and racetrack casinos)	14.4 million	26.6 million	22.1 million	26.7 million
Admissions % Change (FY 2009 to FY 2010)	0.6%	2.5%	-3.2%	6.5%
Adjusted Gross Receipts (AGR) FY 2010	\$1.405 billion	\$2.784 billion	\$1.367 billion	\$1.748 billion
AGR % Change (FY 2009 to FY 2010)	-5.0%	-0.6%	-3.2%	2.6%
AGR per Admission (FY 2010)	\$97.90	\$104.85	\$61.84	\$65.53
AGR/Table/Day (June 2010)	\$1,902	\$1,329	\$664	\$911
AGR/Slot/Day (June 2010)	\$310	\$277	\$182	\$205
FY 2010 Gaming Tax Revenue (State and Local Revenues)	\$483.0 million	\$872.7 million	\$310.6 million	\$456.7 million
Gaming Tax Revenue % Chg (FY 09 to FY 10)	-9.2%	-0.3%	-3.5%	3.9%
Casino Employees (2009)	7,083	15,857	9,241	10,961
Casino Employee Wages (includes benefits and tips)	\$326.9 million	\$60.17 million	\$344.7 million	\$347.0 million
Sources	American Gaming Association, Illinois Casino Gaming Association, Illinois Gaming Board	American Gaming Association, Indiana Gaming Commission, Casino Association of Indiana	American Gaming Association, Iowa Racing and Gaming Commission, Iowa Gaming Association	American Gaming Association, Missouri Gaming Commission, Missouri Riverboat Gaming Association

REGION-BY-REGION ANALYSIS

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

QUAD CITY AREA

TABLE 16: Adjusted Gross Receipts (AGR) in the Quad City Region								
\$ in millions								
(IOWA)								
Riverboat	FY 07	% Change	FY 08	% Change	FY 09	% Change	FY 10	% Change
Rhythm City (Davenport)	\$66.9	-13.5%	\$56.7	-15.3%	\$58.2	2.7%	\$54.8	-5.9%
Isle of Capri (Bettendorf)	\$91.3	-7.5%	\$96.6	5.7%	\$89.0	-7.9%	\$78.3	-12.0%
Quad City Area	\$158.2	-10.1%	\$153.2	-3.1%	\$147.2	-4.0%	\$133.1	-9.6%
AGR % of Quad City Area	80.8%		82.1%		73.8%		63.7%	
(ILLINOIS)								
Riverboat	FY 07	% Change	FY 08	% Change	FY 09	% Change	FY 10	% Change
Rock Island	\$37.6	-4.4%	\$33.4	-11.2%	\$52.3	56.5%	\$75.7	44.7%
Quad City Area	\$37.6	-4.4%	\$33.4	-11.2%	\$52.3	56.5%	\$75.7	44.7%
AGR % of Quad City Area	19.2%		17.9%		26.2%		36.3%	
TOTAL QUAD CITY AGR	\$195.8	-14.5%	\$186.7	-14.3%	\$199.5	52.6%	\$208.8	35.2%

Observations

- Over the last several fiscal years, Iowa's two Quad City area riverboats have been on a downward trend. The combined AGR levels declined 10.1% in FY 2007, 3.1% in FY 2008, 4.0% in FY 2009, and another 9.6% in FY 2010. In comparison, Illinois' Rock Island riverboat's AGR dropped in FY 2007 (-4.4%) and FY 2008 (-11.2%), but rebounded sharply in FY 2009 (+56.5%) and FY 2010 (44.7%) 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 and FY 2010.
- In FY 2010, Iowa's riverboats made up approximately 63.7% of the Quad City region's AGR, while Illinois' riverboat made up 36.3% 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 2010, is still losing casino patrons to Iowa.

ST. LOUIS AREA

TABLE 17: Adjusted Gross Receipts (AGR) in St. Louis Region								
\$ in millions								
<i>(MISSOURI)</i>								
Riverboat	FY 07	% Change	FY 08	% Change	FY 09	% Change	FY 10	% Change
Harrah's (Maryland Heights)	\$325.2	4.7%	\$303.0	-6.8%	\$292.4	-3.5%	\$288.0	-1.5%
President (St. Louis)	\$67.3	-6.3%	\$45.0	-33.1%	\$23.3	-48.3%	\$19.2	-17.4%
Ameristar (St. Charles)	\$300.2	-3.0%	\$294.9	-1.8%	\$297.0	0.7%	\$288.8	-2.8%
Lumiere (St. Louis)	\$0.0	N/A	\$86.1	N/A	\$181.0	110.2%	\$195.1	7.8%
River City (S. St. Louis County)	\$0.0	N/A	\$0.0	N/A	\$0.0	N/A	\$57.5	N/A
St. Louis Area	\$692.8	0.1%	\$729.0	5.2%	\$793.6	8.9%	\$848.6	6.9%
AGR % of St. Louis Area	70.0%		71.3%		76.7%		79.4%	
<i>(ILLINOIS)</i>								
Riverboat	FY 07	% Change	FY 08	% Change	FY 09	% Change	FY 10	% Change
E. St. Louis	\$172.1	0.0%	\$185.2	7.6%	\$154.4	-16.6%	\$139.7	-9.5%
Alton	\$125.4	6.6%	\$109.0	-13.1%	\$86.9	-20.3%	\$80.1	-7.8%
St. Louis Area	\$297.5	2.7%	\$294.2	-1.1%	\$241.3	-18.0%	\$219.8	-8.9%
AGR % of St. Louis Area	30.0%		28.7%		23.3%		20.6%	
TOTAL ST. LOUIS AGR	\$990.3	0.9%	\$1,023.2	3.3%	\$1,034.9	1.1%	\$1,068.4	3.2%

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, 8.9% in FY 2009, and 6.9% in FY 2010. At the same time, Illinois' St. Louis area riverboats fell 1.1% in FY 2008, 18.0% in FY 2009, and 8.9% in FY 2010.
- Missouri has benefited from two new casinos: Lumiere, which opened in FY 2008, and the River City Casino, which opened in March 2010. The proximity of these riverboats with the fact that they have no indoor smoking ban are likely contributing 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 \$19.2 million in FY 2010. After not meeting the Missouri Gaming Commission's expectations, the President Casino was forced to close its doors for good in June 2010. In July 2010, the bidding process for the dormant license began, which could eventually lead to another casino in the St. Louis market in the future.
- In FY 2010, Missouri's portion of total AGR was at 79.4%, while Illinois composed 20.6% of the total. In comparison, in FY 2007, Missouri's composition in the region was 70.0%, while Illinois's two locations made up the remaining 30.0%. This again shows how competition from bordering states has hurt Illinois' revenue totals from gaming.

CHICAGO AREA

TABLE 18: Adjusted Gross Receipts (AGR) in Chicago Region								
\$ in millions								
(INDIANA)								
Riverboat	FY 07	% Change	FY 08	% Change	FY 09	% Change	FY 10	% Change
Ameristar (E Chicago)	\$321.0	6.3%	\$319.6	-0.4%	\$289.5	-9.4%	\$253.6	-12.4%
Horseshoe (Hammond)	\$444.6	5.9%	\$448.0	0.8%	\$527.2	17.7%	\$542.0	2.8%
Majestic Star (Gary)	\$138.1	-3.7%	\$130.0	-5.9%	\$120.0	-7.7%	\$110.3	-8.0%
Trump/Majestic II (Gary)	\$115.6	-11.7%	\$115.6	0.0%	\$98.7	-14.6%	\$98.6	-0.1%
Chicago Area	\$1,019.3	2.4%	\$1,013.2	-0.6%	\$1,035.4	2.2%	\$1,004.6	-3.0%
AGR % of Chicago Area	43.5%		45.7%		52.2%		53.3%	
(ILLINOIS)								
Riverboat	FY 07	% Change	FY 08	% Change	FY 09	% Change	FY 10	% Change
Elgin	\$436.1	4.9%	\$396.2	-9.1%	\$311.8	-21.3%	\$286.1	-8.2%
Joliet Harrah's	\$364.6	9.5%	\$349.2	-4.2%	\$292.1	-16.4%	\$253.9	-13.1%
Joliet Empress	\$252.6	0.9%	\$210.8	-16.5%	\$127.9	-39.4%	\$156.8	22.6%
Aurora	\$272.6	6.2%	\$249.4	-8.5%	\$215.0	-13.8%	\$185.0	-14.0%
Chicago Area	\$1,325.8	5.6%	\$1,205.8	-9.1%	\$946.7	-21.5%	\$881.8	-6.9%
AGR % of Chicago Area	56.5%		54.3%		47.8%		46.7%	
TOTAL CHICAGO AREA AGR	\$2,345.2	4.2%	\$2,219.0	-5.4%	\$1,982.1	-10.7%	\$1,886.3	-4.8%

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 2010, while Indiana's riverboats AGR faltered (-3.0%), it still performed better than the Illinois riverboats (-6.9%). These numbers include Empress' post-fire AGR improvement (+22.6%). If the Empress figures are excluded, the remaining three riverboats saw their AGR level fall a combined 11.5% in FY 2010.
- In FY 2006, the majority of total adjusted gross receipts were in Illinois (55.8% vs. 44.2%). However, in FY 2010, Indiana now holds the majority of adjusted gross receipts at 53.3% compared to Illinois portion of 46.7%. This is despite the fact that the vast majority of the population in the Chicago area is in Illinois.

How Can Revenues Improve?

During the Spring 2010 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 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?

During the 96th General Assembly, there were two pieces of legislation dealing with gaming expansion that have generated the most attention. 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 would create four new casinos (Chicago, Rockford, Park City near Waukegan, and Danville), allow slot machines at racetracks, and increase 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.

The second prominent gaming bill was SB 3146, as amended by House Amendments 2 & 3, which was presented during the Spring 2010 Session. This legislation would allow slot machines at six Illinois racetracks. The bill was touted as a way to pay for potential shortfalls in the Capital Projects Fund due to the possible lack of video gaming revenues caused by local municipalities banning video gaming in their areas. While this legislation also generated a lot of attention, it too has failed to gather enough support for passage.

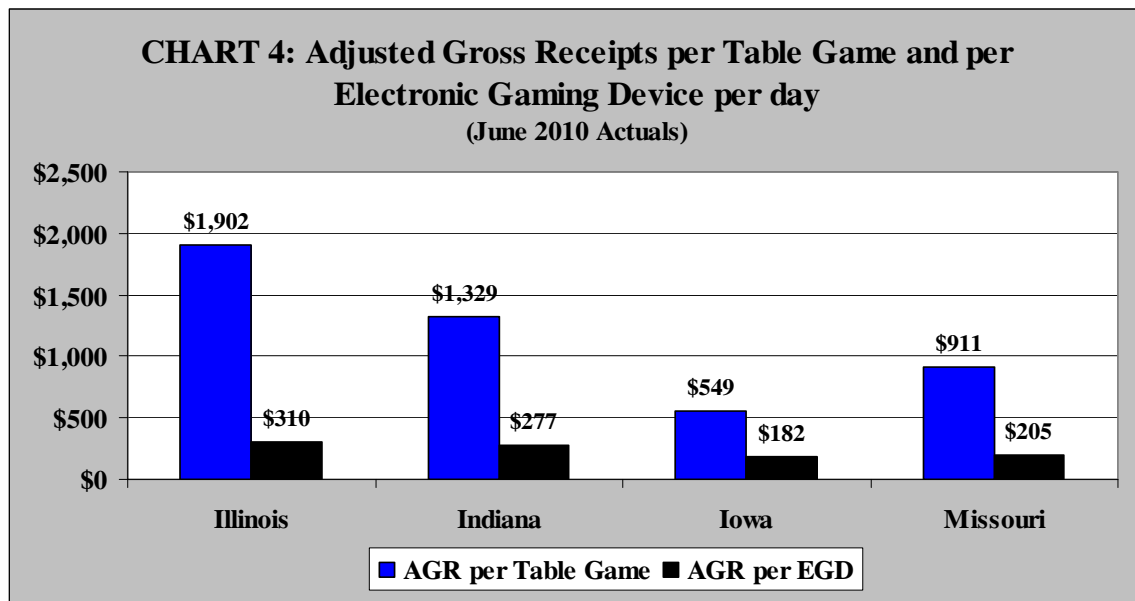
As the desire for new revenues continues to grow in Illinois, undoubtedly, gaming revenues will be looked upon again in the future as a targeted revenue source. To assist in evaluating the different areas of gaming expansion, the following section summarizes several ideas of how gaming revenues could 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 riverboats from increasing certain games that are in demand. This

often creates waiting times for the more popular games during the peak hours at many of the competitive locations and creates a disincentive for the riverboat patron, which some would argue causes them to go to locations with no position limit.

To illustrate this point, the following graph displays the AGR per Table Game (per day) and the AGR per EGD (per day) for each of the Midwestern riverboat states for May/June 2010. (EGD stands for electronic gaming device, i.e. slot machines). Highlights of the graph are pointed out on the following page.

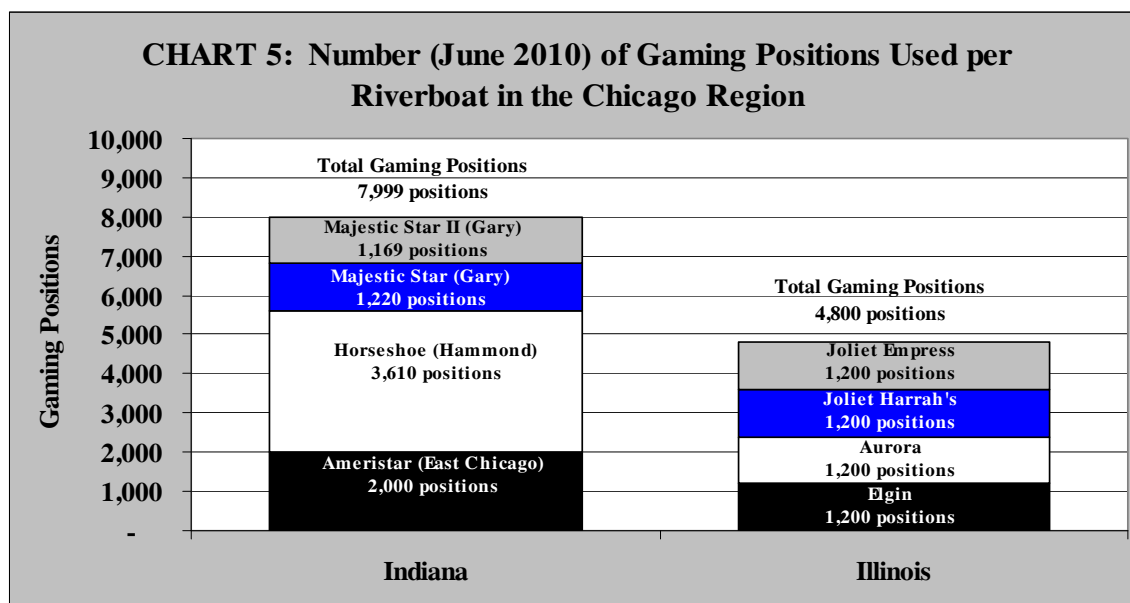


- Illinois' AGR per Table Game and AGR per EGD are significantly higher than the other neighboring states.
- These figures suggest that Illinois gamblers spend more money on gambling than other states and that the gaming positions in Illinois are being utilized more frequently than other locations.
- These numbers also suggest that Illinois has not yet reached its saturation point.
- Due to limited positions, 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 2010 monthly gaming report, the four Indiana riverboats closest to Chicago had 7,999 gaming positions. That is 3,199 more positions than the four Chicago area riverboats in Illinois. These figures do not include Indiana's Michigan City location, which has an additional 2,039 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 5,200 more gaming positions than Illinois in the Lake Michigan area.



Based on these figures, the four Indiana riverboats closest to Chicago make up 62.5% of all gaming positions in that region. If the Michigan City location was included, Indiana would make up 67.6% 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 2,007 positions. Therefore, if Illinois decided to increase the maximum number of positions, these numbers would suggest that at least 2,000 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: 2010", "Despite the economic recession that led to a decline in commercial casino revenues in 2009, consumer spending on racetrack casinos increased to \$6.40 billion, a 5.0 percent jump over 2008 figures." The report states that half of the 12 racetrack casino states saw increased gaming revenue for 2009. The largest increase came from neighboring Indiana (+105.1%) because 2009 was the first full year of operation for its two racetrack casinos.

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. In FY 2010, the two racetracks generated \$429.3 million – an increase of 9.5%. This resulted in nearly \$108 million in FY 2009 and \$120 million in FY 2010 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 2010, Iowa had 6.3 million visitors to their three locations in Council Bluffs, Altoona, and Dubuque, generating a combined \$434.7 million in adjusted gross receipts. Nearly \$101 million in State and local tax revenues and fees were collected from these receipts in FY 2010.

Many in Illinois' horseracing industry are hoping that Illinois follows suit and allows casinos at its five major horse tracks. Track insiders also indicate that the currently dormant Quad City Downs track would also re-open to welcome video gaming terminals at their track. Proponents contend that not only would video gaming terminals at the horse tracks 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 is discussed later in the report, Illinois' total handle amount of \$716.6 million in 2009 was down 12.4% over the 2008 amount and marked the seventh consecutive year of declining revenues. The 2009 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 10th license is presently

dormant, but hopes to open soon in Des Plaines. 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 Illinois' highest revenue generating casino (Elgin). Again, Elgin brought in \$286 million in adjusted gross receipts in FY 2010, which equated to \$116 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 was that Davenport and Bettendorf's AGR totals for FY 2007 were down 13.5% and 7.5% respectively.

Similarly, when Rock Island opened up its new casino, the Illinois riverboat's AGR grew an average of 112% after the first seven months of its opening (in FY 2009) followed by an additional 44.7% in FY 2010. This increase in AGR appears to have come at the expense of Iowa's casinos as Davenport and Bettendorf's combined AGR declined around 7.3% in the first seven months (FY 2009 decline) followed by another 9.6% decline in FY 2010. This would indicate that some cannibalization did take place for these Iowa locations.

Another example of cannibalization occurred in the St. Louis region. 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, 8.9% in FY 2009, and another 6.9% in FY 2010, 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, 48.3% in FY 2009, and another 17.4% in FY 2010. In fact, because the President Casino performed so poorly, the Missouri Gaming Commission, decided to take away the President's license and the casino was closed in June 2010. It should be noted that Lumiere and the President Casino are owned by the same company, Pinnacle Entertainment of Las Vegas.

Adding to the downfall of the President Casino was the recent opening of the River City Casino in South St. Louis County. This casino added another 2,100 slot machines and an additional 55 table games (May 2010 data) to the St. Louis region. Since the casino opened in March 2010, the River City Casino has generated nearly \$57.5 million in adjusted gross receipts. However, the Missouri Gaming Commission figures show that Missouri gaming revenues in the St. Louis region are up only \$31.5 million compared to the previous year. This is because River City Casino's revenues were offset by declines at the other St. Louis area riverboats since the new casino's opening (Harrah's in Maryland Heights: -6.9%; Lumiere: -13.4%; President: -41.0%; Ameristar St. Charles: -7.2%).

The River City Casino's opening also appears to have impacted Illinois' two St. Louis area riverboats as well. Before the River City Casino's opening, Alton's riverboat averaged a monthly year-over-year decline of 6.4% in FY 2010. Since the opening, the decline has increased to an average of 10.5%. Similarly, for East St. Louis, the FY 2010 average decline before the opening was 7.6%. Since the opening, the decline has increased to an average falloff of 13.3% compared to previous year's AGR total.

Another example of cannibalization likely occurred in Michigan City, Indiana. In FY 2008, the Blue Chip Casino in Michigan City saw their AGR fall 27.1%. 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. However, the casino has still struggled, falling 10.8% in FY 2009 and additional 4.9% in FY 2010.

Sometimes a form of cannibalization can come from pre-existing casinos when they open refurbished 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%, followed by an increase of 2.8% in FY 2010. Consequently, the three Indiana casinos closest to the Horseshoe saw their AGR levels fall a combined 11.3% in FY 2009 and another 6.9% in FY 2010. This new facility also likely contributed to the falloff in Illinois levels as well.

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. While this may be true, others contend that until Indiana bans smoking inside their casinos, Illinois will be at a competitive disadvantage and that adding 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 10th 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. 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. So far, \$50 million of the \$125 million bid has already been paid. The remaining \$75 million would be paid when the new casino is opened, which is anticipated sometime in FY 2012.

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 10th license was awarded in December 2008, it could possibly take over three years before the first month of casino revenues are collected. This is because Gaming Board investigators first had to conduct a detailed review of the winning bid to make sure all Midwest Gaming's investors and key employees met State regulation guidelines. This was completed in late FY 2010. Even after final approval was granted, projections are that it will take approximately 15 months for the new riverboat to be built and become operational.

Once the Des Plaines casino is opened, it is uncertain what kind of impact this riverboat will have on State revenues. If Des Plaines were to match the performance of other casinos in the Chicago area, under the current tax structure, State revenues could grow by another \$100 million. But what is unclear is what kind of impact Des Plaines will have on existing riverboat's revenues, especially Elgin, which only lies around 30 miles from the new casino. From a State revenue perspective, the hope is that this new casino will draw new gamers to Illinois riverboats (away from Indiana) instead of hurting the Illinois riverboats that are already here.

What Will the Future Hold for Illinois Riverboats?

With overall adjusted gross receipts totaling over \$1.4 billion, at first glance, it would appear that gaming in Illinois is a thriving industry. But just three short years ago, revenues approached nearly \$2.0 billion - a 28.3% falloff in revenues. Riverboat gambling in Illinois has taken an abrupt downward turn. The causes for this falloff are many, but it really can be boiled 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 effect 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 2011. 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 2011 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 10th riverboat license hopes to bring in new revenues in the near future. But it will likely be 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 \$45 billion. Table 19 presents a brief history of the Illinois State Lottery highlighting sales by game, total sales, transfers to the Common School Fund (CSF) and special causes funds, and the amount transferred as a percentage of total sales.

Lottery Revenue Sources

Table 19 reveals that lottery sales totaled \$2.193 billion in FY 2010. This figure represents a \$114.3 million increase (5.5% annual growth) from the FY 2009 amount of \$2.077 billion. From this sum, 28.5% or \$625 million was transferred into the Common School Fund. This was the same amount that was transferred in FY 2009 due to new legislation that capped FY 2010 transfers to the CSF to the same amount as FY 2009. Going forward, transfers to the CSF will grow at the rate of inflation as measured by the Consumer Price Index (CPI).

Lottery proceeds are now also being transferred to the newly created Capital Projects Fund. At the beginning of FY 2011, \$32.9 million was transferred to the Capital Projects Fund. Transfers to special cause funds equaled \$4.2 million which was approximately \$0.9 million less (-17.8%) than FY 2009. The transfer ratio of 28.7% is an all-time low but does not include the \$32.9 million that went to the CPF. If this amount was included in the FY 2010 transfer totals, it would equate to a ratio of 30.2% which is just below the FY 2009 rate. 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 \$52.7 million, or 4.7%, to \$1.174 billion. Some of this increase was due to the introduction of Illinois' first \$30 instant game, "\$3,000,000 Cash Spectacular". On January 31, 2010, Illinois began offering Powerball tickets. Powerball is a multi-state lottery game similar to Mega Millions that can be played twice a week on Wednesdays and Saturdays. Powerball sales totaled \$51.7 million over the first five months of play.

Mega Millions had the largest percentage growth in FY 2010, growing 8.8% from 204.6 million to \$222.6 million. Pick 4 grew to \$191 million which was the second highest growth rate at 8.0%. The St. Patrick's Raffle increased 5.8% to \$20 million, while the Pick 3 game was basically flat at \$301 million.

Similar to last fiscal year, the Pick N Play game had disappointing results. Pick N Play sales totaled only \$1.5 million through the first six months of the fiscal year and it was discontinued in January of 2010. This game had sales of over \$30 million only three fiscal years ago. The biggest decrease in terms of dollar amount and percentage change was the Lotto. Lotto was down \$11.6 million to \$111.1 million, which was 9.5% less than in FY 2009. Little Lotto also saw a decrease of 7.3% to just over \$119 million.

Special cause lottery sales raised \$4.2 million in FY 2010, a decrease of 17.8% or approximately \$0.9 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 for cancer research grants. In FY 2010, \$0.8 million was transferred into this fund. This was a 30% decline from the previous year. 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 \$1.1 million. This was a decrease of almost 12% from FY 2009. Another special game that is sold in Illinois is the Quality of Life Ticket. 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 \$1.0 million. This equaled growth of over 80% compared to the previous year. A 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 \$1.2 million in FY 2010, which was down over 40%.

As shown in Table 20, instant games continue to comprise the greatest percentage with 53.5% of lottery sales, though this is down 0.5%. The Pick 3 game had the second highest a percentage at 13.7 %, which was a decreased of 0.6%. Mega Millions increased from 9.8% to 10.2%. Most of the remaining revenues come from the Pick 4 game (8.7%), Little Lotto (5.5%) and Lotto (5.1%). Newly added Powerball contributed 2.4% which will grow significantly in FY 2011 as the game will be

**TABLE 19: LOTTERY SALES BY GAME, TOTAL SALES, TRANSFERS, & PERCENTAGE
TRANSFERRED: FY 1975 - FY 2010***

FISCAL YEAR	(\$ MILLION)											TRANSFERS
	INSTANT	PICK 3	PICK 4	LOTTO	LITTLE LOTTO	MEGA MILLIONS	POWER- BALL	OTHER GAMES	TOTAL SALES	TRANSFERS CSF	TRANSFERS SP. CAUSES	AS A % OF TOTAL SALES
1975	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 129.3	\$ 129.3	\$ 55.2	\$ -	42.7%
1976	\$ 56.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107.3	\$ 163.9	\$ 75.9	\$ -	46.3%
1977	\$ 62.9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50.0	\$ 112.9	\$ 43.6	\$ -	38.6%
1978	\$ 57.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31.6	\$ 89.1	\$ 33.5	\$ -	37.6%
1979	\$ 56.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20.4	\$ 76.7	\$ 32.6	\$ -	42.5%
1980	\$ 41.4	\$ 42.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13.7	\$ 97.5	\$ 33.1	\$ -	33.9%
1981	\$ 43.0	\$ 164.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7.5	\$ 214.7	\$ 90.4	\$ -	42.1%
1982	\$ 78.2	\$ 248.2	\$ 17.7	\$ -	\$ -	\$ -	\$ -	\$ 0.0	\$ 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	\$ 493.2	\$ 350.5	\$ 112.3	\$ 489.9	\$ 129.9	\$ -	\$ -	\$ 0.1	\$ 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	\$ 158.0	\$ 134.9	\$ 81.7	\$ -	\$ -	\$ 243.8	\$ 1,590.0	\$ 555.1	\$ -	34.9%
2003	\$ 697.9	\$ 314.1	\$ 161.9	\$ 121.2	\$ 78.0	\$ 199.7	\$ -	\$ 12.9	\$ 1,585.8	\$ 540.3	\$ -	34.1%
2004	\$ 780.5	\$ 308.9	\$ 167.2	\$ 117.4	\$ 99.7	\$ 226.5	\$ -	\$ 9.0	\$ 1,709.2	\$ 570.1	\$ -	33.4%
2005	\$ 907.1	\$ 307.4	\$ 168.4	\$ 131.6	\$ 131.8	\$ 192.6	\$ -	\$ 4.0	\$ 1,842.9	\$ 614.0	\$ -	33.3%
2006	\$ 976.7	\$ 309.2	\$ 170.1	\$ 125.3	\$ 126.2	\$ 243.8	\$ -	\$ 13.4	\$ 1,964.7	\$ 670.5	\$ 3.7	34.3%
2007	\$ 1,041.6	\$ 308.7	\$ 170.2	\$ 112.1	\$ 127.9	\$ 195.9	\$ -	\$ 44.9	\$ 2,001.3	\$ 622.6	\$ 4.1	31.3%
2008	\$ 1,094.0	\$ 299.0	\$ 167.8	\$ 112.9	\$ 128.4	\$ 221.1	\$ -	\$ 34.3	\$ 2,057.5	\$ 657.0	\$ 4.6	32.2%
2009	\$ 1,119.7	\$ 297.7	\$ 176.9	\$ 122.7	\$ 129.0	\$ 204.6	\$ -	\$ 26.6	\$ 2,077.2	\$ 625.0	\$ 5.2	30.3%
2010**	\$ 1,173.9	\$ 301.4	\$ 191.0	\$ 111.1	\$ 119.6	\$ 222.6	\$ 51.7	\$ 21.5	\$ 2,192.9	\$ 625.0	\$ 4.2	28.7%
TOTALS	\$16,849.8	\$9,853.9	\$3,672.4	\$8,993.7	\$2,641.5	\$ 1,706.9	\$ 51.7	\$1,523.2	\$45,293.2	\$ 16,095.6	\$ 21.7	35.5%

* Preliminary, unaudited data

** If the \$32.9 million that was transferred into the Capital Projects Fund at the beginning of FY 2011 was included in the FY 2010 transfer totals, the transfer percentage would have been at 30.2% in FY 2010.

SOURCE: ILLINOIS DEPARTMENT OF REVENUE

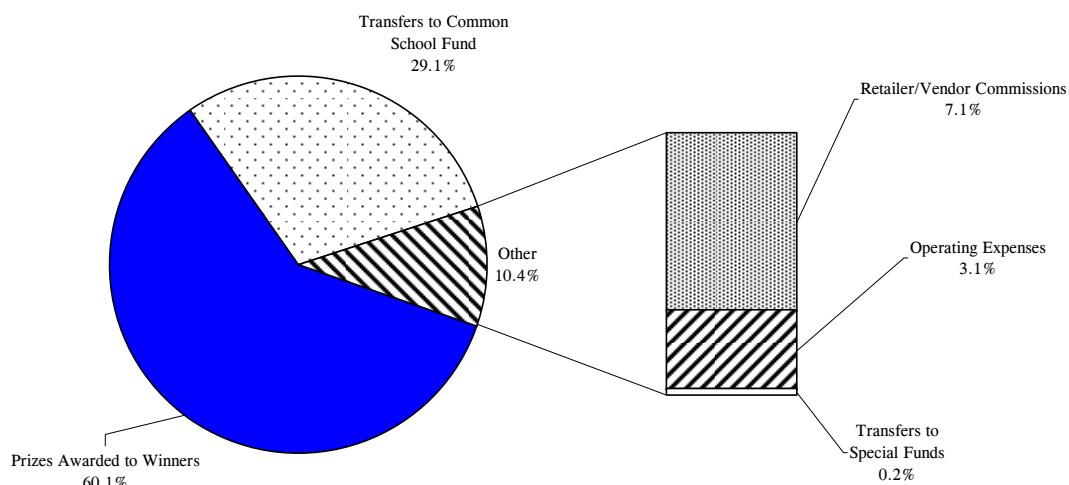
TABLE 20: COMPOSITION OF LOTTERY SALES BY GAME										
FISCAL YEAR	INSTANT	PICK 3	ST. PAT'S RAFFLE	PICK 4	LOTTO	LITTLE LOTTO	MEGA MILLIONS	POWERBALL	OTHER	TOTAL SALES
1975	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	\$129.3
1976	34.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	65.5%	\$163.9
1977	55.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	44.3%	\$112.9
1978	64.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	35.5%	\$89.1
1979	73.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	26.6%	\$76.7
1980	42.5%	43.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	14.1%	\$97.5
1981	20.0%	76.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.5%	\$214.7
1982	22.7%	72.1%	0.0%	5.1%	0.0%	0.0%	0.0%	0.0%	0.0%	\$344.1
1983	30.7%	55.1%	0.0%	8.9%	5.2%	0.0%	0.0%	0.0%	0.0%	\$514.8
1984	21.6%	40.3%	0.0%	5.4%	32.8%	0.0%	0.0%	0.0%	0.0%	\$912.2
1985	18.9%	28.8%	0.0%	6.1%	45.9%	0.2%	0.0%	0.0%	0.0%	\$1,235.6
1986	18.1%	26.4%	0.0%	6.7%	48.8%	0.0%	0.0%	0.0%	0.0%	\$1,315.6
1987	17.0%	25.1%	0.0%	7.0%	50.9%	0.0%	0.0%	0.0%	0.0%	\$1,333.9
1988	19.5%	26.4%	0.0%	7.9%	45.0%	1.2%	0.0%	0.0%	0.0%	\$1,335.5
1989	20.5%	23.5%	0.0%	6.9%	38.6%	10.4%	0.0%	0.0%	0.0%	\$1,571.3
1990	21.7%	24.4%	0.0%	7.3%	37.5%	9.2%	0.0%	0.0%	0.0%	\$1,570.2
1991	23.3%	23.5%	0.0%	7.0%	38.4%	7.9%	0.0%	0.0%	0.0%	\$1,566.5
1992	24.8%	22.1%	0.0%	6.9%	38.7%	7.5%	0.0%	0.0%	0.0%	\$1,636.9
1993	31.3%	22.2%	0.0%	7.1%	31.1%	8.2%	0.0%	0.0%	0.0%	\$1,575.9
1994	35.9%	22.5%	0.0%	7.2%	26.4%	8.0%	0.0%	0.0%	0.0%	\$1,528.6
1995	38.7%	22.0%	0.0%	7.6%	23.7%	8.0%	0.0%	0.0%	0.0%	\$1,629.5
1996	39.5%	21.8%	0.0%	8.6%	22.2%	7.9%	0.0%	0.0%	0.0%	\$1,637.3
1997	39.2%	21.0%	0.0%	8.6%	18.2%	7.3%	0.0%	0.0%	5.7%	\$1,623.2
1998	39.2%	21.9%	0.0%	9.2%	16.7%	7.1%	0.0%	0.0%	5.9%	\$1,576.9
1999	37.4%	22.0%	0.0%	9.5%	11.1%	7.5%	0.0%	0.0%	12.7%	\$1,525.9
2000	36.0%	22.7%	0.0%	10.3%	9.7%	6.7%	0.0%	0.0%	14.6%	\$1,503.9
2001	40.4%	22.5%	0.0%	10.4%	9.9%	6.1%	0.0%	0.0%	10.6%	\$1,449.8
2002	40.5%	20.6%	0.0%	9.9%	8.5%	5.1%	0.0%	0.0%	15.3%	\$1,590.0
2003	44.0%	19.8%	0.0%	10.2%	7.6%	4.9%	12.6%	0.0%	0.8%	\$1,585.8
2004	45.7%	18.1%	0.0%	9.8%	6.9%	5.8%	13.3%	0.0%	0.5%	\$1,709.2
2005	49.2%	16.7%	0.0%	9.1%	7.1%	7.2%	10.5%	0.0%	0.2%	\$1,842.9
2006	49.7%	15.7%	0.0%	8.7%	6.4%	6.4%	12.4%	0.0%	0.7%	\$1,964.7
2007	52.0%	15.4%	0.7%	8.5%	5.6%	6.4%	9.8%	0.0%	1.5%	\$2,001.3
2008	53.2%	14.5%	0.8%	8.2%	5.5%	6.2%	10.7%	0.0%	0.9%	\$2,057.5
2009	53.9%	14.3%	0.9%	8.5%	5.9%	6.2%	9.8%	0.0%	0.4%	\$2,077.2
2010	53.5%	13.7%	0.9%	8.7%	5.1%	5.5%	10.2%	2.4%	0.1%	\$2,192.9
SOURCE: ILLINOIS DEPARTMENT OF REVENUE										

Lottery Revenue Distribution

Chart 6 shows how revenues from the lottery were distributed. In FY 2010, lottery winners received \$1.27 billion, the Common School Fund received \$625 million, retailers and vendors received \$149 million, \$4.2 million was sent to special cause funds, and the Lottery used the remaining \$66 million to cover its operating expenses. Chart 6 illustrates the FY 2010 lottery sales distribution by percentage. These results are through June of 2010 and do not include any lapse period spending. These results also do not include the transfer into the Capital Projects Fund which occurred early in FY 2011.

CHART 6: FY 2010 LOTTERY SALES DISTRIBUTION

(excludes lapse period spending)



SOURCE: Illinois Department of Revenue

Multi-State Games

While most of the games issued by the lottery are just for players purchasing a ticket in Illinois, the Mega Millions and Powerball games are multi-state games that offer jackpots starting at \$12 million and \$20 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. Washington (September 2002), Texas (December 2003), and California (June 2005) joined Mega Millions in the following years.

In October of 2009, an agreement was reached between States offering Mega Millions and States offering Powerball (the other major multi-state lottery) to allow for sales of both games within a state. Illinois began offering Powerball on January 31, 2010. As of August 2010, forty states plus the District of Columbia offer Mega Millions, while forty-two states plus the District of Columbia and the U.S. Virgin Islands sell Powerball tickets. Mega Millions has drawings on Tuesdays and Fridays. Powerball conducts their drawings on Wednesdays and Saturdays. 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. Table 21 lists the States participating in each of the multi-state lotteries and the years they began offering each of the games.

TABLE 21: MULTI-STATE LOTTERY PARTICIPANTS

<u>MEGA MILLIONS AND POWERBALL</u>	<u>MEGA MILLIONS</u>	<u>POWERBALL</u>
ARIZONA	2010	1994
ARKANSAS	2010	2009
COLORADO	2010	2001
CONNECTICUT	2010	1995
DELAWARE	2010	1991
DISTRICT OF COLUMBIA	2010	1988
GEORGIA	1996	2010
IDAHO	2010	1990
ILLINOIS	1996	2010
INDIANA	2010	1990
IOWA	2010	1988
KANSAS	2010	1988
KENTUCKY	2010	1991
MAINE	2010	2004
MARYLAND	1996	2010
MASSACHUSETTES	1996	2010
MICHIGAN	1996	2010
MINNESOTA	2010	1990
MISSOURI	2010	1988
MONTANA	2010	1989
NEBRASKA	2010	1994
NEW HAMPSHIRE	2010	1995
NEW JERSEY	1999	2010
NEW MEXICO	2010	1996
NEW YORK	2002	2010
NORTH CAROLINA	2010	2006
NORTH DAKOTA	2010	2004
OHIO	2002	2010
OKLAHOMA	2010	2006
OREGON	2010	1988
PENNSYLVANIA	2010	2002
RHODE ISLAND	2010	1988
SOUTH CAROLINA	2010	2002
SOUTH DAKOTA	2010	1990
TENNESSEE	2010	2004
TEXAS	2003	2010
VERMONT	2010	2003
VIRGINIA	1996	2010
WASHINGTON	2002	2010
WEST VIRGINIA	2010	1988
WISCONSIN	2010	1989
<u>MEGA MILLIONS ONLY</u>		
CALIFORNIA	2005	n/a
<u>POWERBALL ONLY</u>		
FLORIDA	n/a	2009
LOUISIANA	n/a	1995
U.S. VIRGIN ISLANDS	n/a	2002
SOURCES: MULTI-STATE LOTTERY ASSOCIATION, MEGA MILLIONS		

Mega Millions sales increased partly due to a higher amount of large jackpots in FY 2010. As indicated in previous reports, trends have shown that Mega Millions' percentage of total sales is dependent on the number of rollovers during a year. The more rollovers Mega Millions has, the more sales realized, thus a higher percentage of total lottery sales. This increase in rollovers can be seen in the number of drawings that the Mega Millions jackpot was over \$100 million. In FY 2009, the jackpot was over \$100 million during 19 drawings, while in FY 2010 the jackpot was over \$100 million in 30 drawings. Mega Millions results for the past 6 fiscal years can be found in Table 22.

TABLE 22: MEGA MILLIONS RESULTS						
(\$ Million)						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Average Jackpot Drawing	\$52.1	\$80.1	\$55.9	\$68.1	\$57.7	\$73.5
Drawings over \$100 M	14	30	14	25	19	30
Drawings over \$200 M	2	9	3	5	3	6
Mega Millions Sales	\$192.6	\$243.8	\$195.9	\$221.1	\$204.6	\$222.6
SOURCE: www.lottoreport.com						

Illinois Compared to Other State Lotteries

In 1992, Lafleur's Lottery World ranked Illinois 9th in the nation in terms of per-capita lottery sales as a percentage of personal income. At that time, per-capita spending on lottery tickets amounted to \$143. By 1995, Illinois ranked 19th with per-capita spending of \$134. In 2001, Illinois dropped to 22nd, with per-capita spending of \$116. Given these statistics, it appeared that Illinois' per-capita spending was on a downward trend. However, in the last couple of years, this figure has rebounded. In FY 2010, Illinois's per-capita spending totaled \$162 per capita, which was 0.6% higher than in 2009. 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 22nd out of the 44 lotteries.

Similarly, Illinois ranked 27th in the percentage of personal income that Illinoisans spent on lottery. Illinois residents spent 0.39% of their personal income on lottery which was far behind the leading state of West Virginia, which spent 2.6% on average. With \$2.1 billion in sales, Illinois had the 11th highest level of sales in the U.S. in FY 2009. The figures for FY 2009 are shown in Table 23. FY 2010 per capita sales were approximately \$170, an increase of approximately 4.9%, though comparison data for other states is not yet available.

TABLE 23: PER-CAPITA SALES AS A PERCENTAGE OF PERSONAL INCOME (FY 2009)						
STATE	POPULATION (MILLIONS)	PER-CAPITA PERSONAL INCOME	TOTAL LOTTERY SALES (MILLIONS)	PER-CAPITA SALES	PER-CAPITA SALES AS A % OF PER-CAPITA PERSONAL INCOME	
ARKANSAS	2.9	\$ 31,946	\$ *	\$ *	*	
NEW YORK (1)	19.5	\$ 46,957	\$ 7,660.2	\$ 392	0.83%	
MASSACHUSETTES	6.6	\$ 49,875	\$ 4,442.0	\$ 674	1.35%	
FLORIDA	18.5	\$ 37,780	\$ 3,936.8	\$ 212	0.56%	
TEXAS	24.8	\$ 36,484	\$ 3,720.1	\$ 150	0.41%	
GEORGIA	9.8	\$ 33,786	\$ 3,663.0	\$ 373	1.10%	
PENNSYLVANIA	12.6	\$ 39,578	\$ 3,088.0	\$ 245	0.62%	
CALIFORNIA	37.0	\$ 42,325	\$ 2,971.0	\$ 80	0.19%	
NEW JERSEY	8.7	\$ 50,313	\$ 2,503.3	\$ 287	0.57%	
OHIO	11.5	\$ 35,381	\$ 2,417.0	\$ 209	0.59%	
MICHIGAN	10.0	\$ 34,025	\$ 2,377.4	\$ 238	0.70%	
ILLINOIS	12.9	\$ 41,411	\$ 2,095.5	\$ 162	0.39%	
MARYLAND	5.7	\$ 48,285	\$ 1,707.0	\$ 300	0.62%	
WEST VIRGINIA (1)	1.8	\$ 32,219	\$ 1,493.0	\$ 820	2.55%	
VIRGINIA	7.9	\$ 43,874	\$ 1,365.0	\$ 173	0.39%	
NORTH CAROLINA	9.4	\$ 34,453	\$ 1,293.1	\$ 138	0.40%	
OREGON (1)	3.8	\$ 35,667	\$ 1,100.5	\$ 288	0.81%	
TENNESSEE	6.3	\$ 34,089	\$ 1,087.0	\$ 173	0.51%	
SOUTH CAROLINA	4.6	\$ 31,799	\$ 1,005.1	\$ 220	0.69%	
CONNECTICUT	3.5	\$ 54,397	\$ 991.3	\$ 282	0.52%	
MISSOURI	6.0	\$ 35,676	\$ 968.5	\$ 162	0.45%	
KENTUCKY	4.3	\$ 31,883	\$ 810.5	\$ 188	0.59%	
INDIANA	6.4	\$ 33,725	\$ 732.7	\$ 114	0.34%	
DELAWARE (1)	0.9	\$ 39,817	\$ 702.2	\$ 793	1.99%	
RHODE ISLAND (1)	1.1	\$ 41,003	\$ 699.4	\$ 664	1.62%	
COLORADO	5.0	\$ 41,344	\$ 493.4	\$ 98	0.24%	
WASHINGTON	6.7	\$ 41,751	\$ 487.7	\$ 73	0.18%	
ARIZONA	6.6	\$ 32,935	\$ 484.5	\$ 73	0.22%	
MINNESOTA	5.3	\$ 41,552	\$ 481.3	\$ 91	0.22%	
WISCONSIN (2)	5.7	\$ 36,822	\$ 473.4	\$ 84	0.23%	
LOUISIANA	4.5	\$ 35,507	\$ 378.5	\$ 84	0.24%	
SOUTH DAKOTA (1)	0.8	\$ 36,935	\$ 261.2	\$ 322	0.87%	
DISTRICT OF COLUMBIA	0.6	\$ 66,000	\$ 245.0	\$ 408	0.62%	
IOWA	3.0	\$ 36,751	\$ 243.3	\$ 81	0.22%	
KANSAS	2.8	\$ 37,916	\$ 241.8	\$ 86	0.23%	
NEW HAMPSHIRE	1.3	\$ 42,831	\$ 239.9	\$ 181	0.42%	
MAINE	1.3	\$ 36,745	\$ 210.4	\$ 160	0.43%	
OKLAHOMA	3.7	\$ 35,268	\$ 193.3	\$ 52	0.15%	
NEW MEXICO	2.0	\$ 32,992	\$ 142.6	\$ 71	0.22%	
IDAHO	1.5	\$ 31,632	\$ 140.0	\$ 91	0.29%	
NEBRASKA	1.8	\$ 38,081	\$ 123.3	\$ 69	0.18%	
VERMONT	0.6	\$ 38,503	\$ 96.0	\$ 154	0.40%	
MONTANA	1.0	\$ 34,004	\$ 43.9	\$ 45	0.13%	
NORTH DAKOTA	0.6	\$ 39,530	\$ 21.7	\$ 34	0.08%	
ALABAMA	4.7	\$ 33,096	\$ 0.0	\$ 0	0.00%	
ALASKA	0.7	\$ 42,603	\$ 0.0	\$ 0	0.00%	
HAWAII	1.3	\$ 42,009	\$ 0.0	\$ 0	0.00%	
MISSISSIPPI	3.0	\$ 30,103	\$ 0.0	\$ 0	0.00%	
NEVADA	2.6	\$ 38,578	\$ 0.0	\$ 0	0.00%	
UTAH	2.8	\$ 30,875	\$ 0.0	\$ 0	0.00%	
WYOMING	0.5	\$ 45,705	\$ 0.0	\$ 0	0.00%	
TOTALS	307.0	\$ 39,138	\$ 57,830.6	\$ 188	0.48%	
* Arkansas began selling lottery tickets on 9/28/09, no data available						
(1) Includes net video lottery terminal (VLT) sales (Cash in less cash out)						
(2) Includes gross VLT sales (Cash in)						
SOURCES: NORTH AMERICAN ASSOCIATION OF STATE AND PROVINCIAL LOTTERIES, Bureau of Economic Analysis						

Legislation Affecting FY 2011 & Beyond

As part of Public Act 096-0034, the Illinois lottery was to be operated with the assistance of a private manager. The private management agreement was to be entered into by March 1, 2010. Due to delays, this date was pushed back to September 15, 2010 by Public Act 096-0840. Responses to the Lottery's request for proposal related to the private management agreement were due on July 30, 2010.

Three groups submitted formal bids for the private management contract. Those bidders included Intralot, Camelot Group, and Northstar Lottery Group. Intralot is a lottery vendor and operator most well known for running the Greek lottery. The Camelot Group is the operator of the UK National Lottery. The Northstar Lottery Group is a consortium made up of numerous current Illinois lottery vendors including Gtech, Scientific Games, and Energy BBDO. On August 30, 2010, the Illinois Lottery announced that the Camelot Group and the Northstar Lottery Group were the finalists for the management contract. Final binding offers were due on August 30, 2010 with meetings with Finalist's management teams to follow. A public hearing was held on September 8, 2010 to allow for the finalists to present their proposals and allow the public to comment on the proposals. The Governor selected the Northstar Lottery Group to manage the lottery on September 15, 2010.

The Northstar Lottery Group's business plan anticipates annual growth of 10.6% over the first five years. The group will receive an annual \$15 million management fee over the course of the 10-year contract. Additional revenue or penalties could be achieved depending upon net income results. Table 24 outlines net income target levels and the potential bonuses or penalties the Northstar Lottery Group could earn. The table contains two Net Income Target columns; one net income target with lottery sales from the internet included and one without. This was done as the legality of internet sales of the lottery remains in doubt.

Public Act 096-0034 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 offer a voluntary self-exclusion program for Internet lottery sales. Initial discussions with the Department of Justice have occurred but no timeframe has been offered as to when an actual opinion would be given.

TABLE 24: LOTTERY PRIVATE MANAGEMENT INCOME TARGETS (\$ MILLIONS)					
Fiscal Year	Base Level Income	Middle Level Income	Upper Level Income	Net Income Target (with Internet)	Net Income Target (without Internet)
FY 2012	\$674	\$714	\$754	\$851	\$825
FY 2013	\$651	\$727	\$804	\$950	\$916
FY 2014	\$666	\$771	\$876	\$980	\$941
FY 2015	\$682	\$810	\$938	\$986	\$923
FY 2016	\$698	\$833	\$967	\$1,000	\$927
FY 2017	\$712	\$854	\$995	*	*
FY 2018	\$727	\$871	\$1,016	*	*
FY 2019	\$742	\$889	\$1,037	*	*
FY 2020	\$757	\$908	\$1,058	*	*
FY 2021	\$773	\$926	\$1,080	*	*
* To be set by management pursuant to the Annual Business Plan process described in Article 5.3.3 of the management agreement					
Private manager bonuses:					
• 10% of any net income greater than base level but less than middle level • 20% of any net income greater than middle level but less than upper level • 30% of any net income greater than the upper level					
Private manager penalties:					
• If net income is above the net income target - None • If net income is above the base level but below the net income target - 50% of the difference between net income target and net income • If net income is below the base level - 100% of the difference between net income and base level and 50% of the difference between net income target and base level					
Any bonuses or penalties are capped at 5% of net income.					
A payout example assuming \$700 million in net income in FY 2012 and no internet sales -					
Northstar would:					
• receive \$15 million as part of operating expenses, • receive \$2.6 million for net income being above base level income of \$674 million, • and owe \$35 million for net income being below the net income target of \$825 million.					
Note that Northstar would only owe \$35 million as penalties are capped at 5% of net income.					
Source: Illinois Lottery					

Lottery Growth

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 2009, these states lotteries averaged per capita lottery sales of \$231 compared to Illinois' lottery which averaged \$162 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 \$3.127 billion compared to the FY 2010 results of \$2.193 billion. This would

be an increase of \$944 million which is an increase of 42.6% over FY 2010. Assuming a profit margin of 30.2%, which is what the profit margin was in FY 2010 and is similar to the other states, lottery profits would rise to approximately \$944 million. This would be an increase of approximately **\$280 million** over the FY 2010 profit of \$662 million.

The current capital plan assumes an increase of approximately \$150 million for this portion of the bill. This would be below the \$280 million in potential improvement that would be achieved if Illinois' per-capita spending were to increase to levels of the aforementioned states. 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 \$30 instant game, has allowed the instant games to remain the most popular lottery format in the State, in terms of sales, for the last 17 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, Mega Millions, and Pick 4 in FY 2010 was somewhat offset by low or negative growth rates in other games. Instant games are expected to continue to rise, while a full year of Powerball will continue to increase total sales. 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 was relatively stagnant leading into FY 2010 but showed strong growth this year. It remains to be seen if this growth will continue. Lotto sales have been decreasing over the last 16 years and are expected to continue to lose revenue to other games. Little Lotto has been in the \$120 million to \$130 million range pretty steadily over the last 15 years and it is expected to remain there.

In September 2010, a private manager was selected to run the State Lottery. Operations under the new arrangement are scheduled to commence in July 2011. Changes are sure to come to the Lottery with the use of a private management firm and the potential offering of online lottery sales. It is unknown what exactly all these changes will be but the State hopes to achieve higher lottery proceeds, while "protecting the State's interests and the reputation of its lottery asset." The State will continue to conduct the lottery and maintain control over all significant business decisions.

HORSE RACING

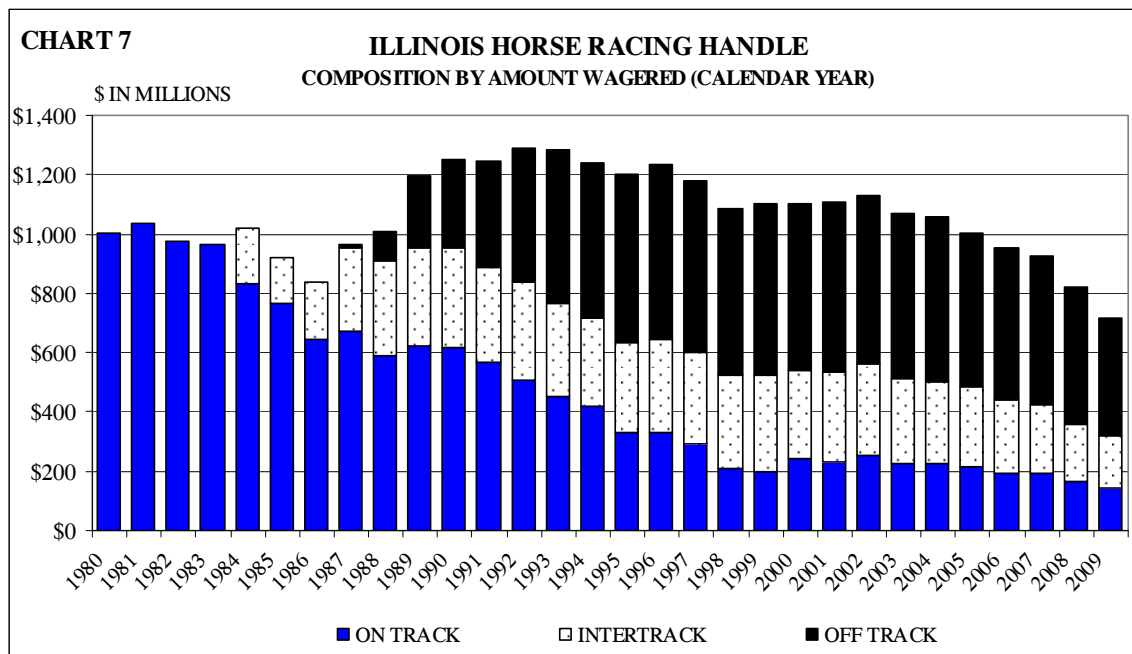
HORSE RACING

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 2009, Illinois horse racing wagering generated \$16.2 million in total revenues with the State receiving \$7.1 million and local governments receiving \$9.1 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 2009 horse racing revenues while Table 24 details State and local racing revenues over the past ten years.

TABLE 25: SOURCES AND ALLOCATION OF HORSE RACING REVENUE FOR CALENDAR YEAR 2009	
REVENUE SOURCE	
Application and License Fees of Racing Associations	\$101,880
Admission Taxes	\$85,290
Pari-mutuel Tax	\$9,904,081
Pari-mutuel Tax Credit	(\$3,725,425)
Advanced Deposit Wagering (ADW) Pari-Mutuel Tax (1.75%)	\$351,953
Licensing of Racing Personnel	\$229,690
Fingerprint Fees	\$86,552
Horsemen's Fines	\$104,175
Miscellaneous Sources	\$329
* TOTAL STATE REVENUES RECEIVED	\$7,138,525
2% of OTB Handle to City and County	\$7,929,093
OTB Admission Tax to City of Chicago	\$247,097
OTB Admission Tax to Cook County	\$454,809
On Track City Admission Tax	\$43,305
Intertrack Surcharge to County (20%)	\$401,108
* TOTAL LOCAL REVENUES RECEIVED	\$9,075,412
TOTAL REVENUES RECEIVED	\$16,213,938
ALLOCATION OF REVENUE	
Horse Racing Fund	\$6,454,520
General Revenue Fund	\$521,364
Quarterhorse Breeders' Fund	\$25,810
Quarterhorse Purse Fund (from ADW Tax)	\$50,279
Fingerprint License Fund	\$86,552
* TOTAL STATE REVENUES ALLOCATED	\$7,138,525
To Cities	\$4,254,948
To Counties	\$4,820,464
* TOTAL LOCAL	\$9,075,412
TOTAL REVENUES ALLOCATED	\$16,213,937
SOURCE: ILLINOIS RACING BOARD - 2009 ANNUAL REPORT	

TABLE 26: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
TOTAL STATE REVENUE	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9	\$8.0	\$7.1
TOTAL LOCAL REVENUE	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6	\$10.6	\$9.1
* TOTAL REVENUES RECEIVED	\$26.1	\$26.4	\$25.7	\$25.1	\$25.1	\$23.4	\$21.6	\$20.6	\$18.5	\$16.2
TOTAL STATE ALLOCATIONS	\$13.3	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9	\$8.0	\$7.1
TOTAL LOCAL ALLOCATIONS	\$12.8	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6	\$10.6	\$9.1
TO CITIES	\$6.4	\$6.5	\$6.4	\$6.2	\$6.2	\$5.7	\$5.6	\$5.5	\$4.9	\$4.3
TO COUNTIES	\$6.3	\$6.4	\$6.4	\$6.2	\$6.2	\$5.9	\$5.7	\$6.1	\$5.6	\$4.8
*TOTAL REVENUES ALLOCATED	\$26.1	\$26.4	\$25.7	\$25.1	\$25.1	\$23.4	\$21.6	\$20.6	\$18.5	\$16.2
* TOTALS MAY NOT EQUAL DUE TO ROUNDING										
SOURCE: ILLINOIS RACING BOARD ANNUAL REPORTS										

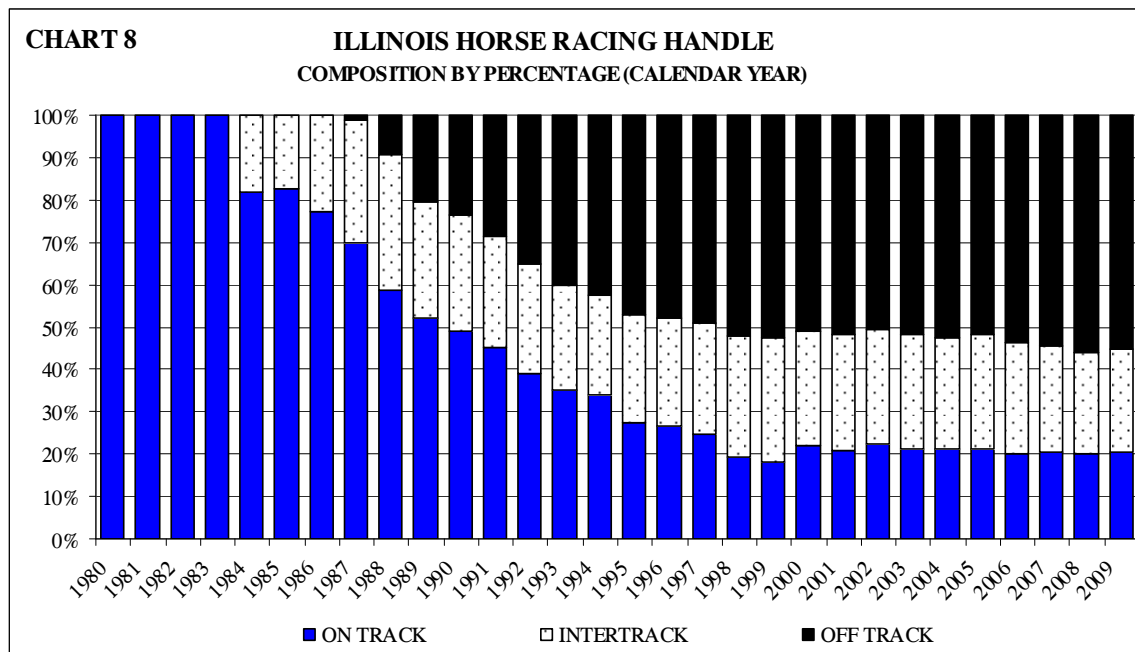
In its 2009 Annual Report, the Illinois Racing Board reported that 529 race programs were conducted during CY 2009 (down from 583 race programs in CY 2008 and 621 race programs in CY 2007). A total handle amount of \$717 million resulted, which was a decrease of 12.5% over the 2008 amount. As shown in Chart 7, this handle amount was the seventh consecutive year of declining revenues and the lowest experienced over the last 35 years. The thoroughbred total handle (\$508M) dropped 10%, while the standardbred total handle (\$208M) dropped 17%.



The Illinois Racing Board's latest report states that \$186 million of the total handle in CY 2009 was wagered on Illinois races. An additional \$739 million was wagered on Illinois races broadcast to other states, which was a 13% decrease from CY 2008 levels. The Board notes that 2009 was the ninth 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 1990 and 2009, the percentage of the total handle generated from on-track wagering fell from 49% 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 24% to 55%. 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 2009, the Illinois Racing Board granted thirty off-track licenses. The Racing Board's Annual Report states that one new OTB opened in 2009 (Buffalo Grove) and three closed (Peoria, Chicago/Jackson St., and Carbondale). In 2010, the OTB in Peru also has closed. Although it is highly unlikely that all thirty-seven licenses would be granted in a single racing year, the potential exists for the future development of 13 additional OTB locations (accounting for the latest closures). A list of Illinois OTBs is shown in Table 25.

TABLE 27: ILLINOIS RACING TRACKS AND ASSOCIATED OTB'S		
TRACK	COUNTY	OTB LOCATIONS
ARLINGTON RACECOURSE	COOK	CHICAGO (WEED STREET) WAUKEGAN HODGKINS
BALMORAL PARK	WILL	NORMAL BUFFALO GROVE** 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
QUAD CITY DOWNS	ROCK ISLAND	MCHENRY SOUTH BELOIT ROCKFORD SOUTH ELGIN LOCKPORT
* CLOSED IN 2009 ***CLOSED IN 2010 ** NEW IN 2009		

What tracks did Illinois bettors wager on in 2009? The largest handle at Illinois tracks came from Arlington Racetrack with \$75.9 million, followed by Balmoral (\$39.6 million), Hawthorne (\$37.8 million), Maywood (\$21.5 million), Fairmount (\$10.2 million), and State/County fairs (\$1.0 million). The largest handles from out-of-state tracks came from Santa Anita (\$26.0 million), Belmont (\$25.1 million), Meadowlands (\$22.0 million), Churchill (\$21.7 million), and Gulfstream (\$19.8 million).

Of all Illinois meets in 2009, thoroughbred races make up the largest percentage at 73.2% followed by harness races with 24.0% and quarterhorse races the remaining 2.8%.

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. But shortly after, 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. However, 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 impacted 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 is 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.” In June 2009, the U.S. Supreme Court decided, without comment, to let the State Supreme Court ruling stand.

Despite the legal questions regarding the initial impact fee, lawmakers established a second fee (lasting three years) starting on December 15, 2008.

Soon after the U.S. Supreme Court 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).

As of August 2010, the courts have yet to hear the latest lawsuit; thus, the litigation in regards to the impact fees continues. Even if this specific piece of litigation is heard by the courts, history has shown that it would not be surprising if additional lawsuits are formulated. **Until all litigation regarding the impact fee is complete, revenues generated from the fee cannot be used by the horse racing industry.**

The amount of revenues generated from the fees so far is significant. For the first two years of fees, over \$76 million was collected and deposited into a protest fund. In November 2010, this money was allowed to be transferred from the protest fund to the Horse Racing Equity Trust Fund and distributed to each respective horse track. However, the tracks must put this money into an escrow account and cannot use the revenues until all litigation surrounding the impact fee have been completed.

Similarly, in FY 2009, approximately \$14.5 million was collected from the second impact fee that began in December 2008, followed by another \$21.1 million in FY 2010. In April 2010, this cumulated amount of \$35.6 million was allowed to be

transferred from the protest fund to the Horse Racing Equity Trust Fund. In the months that followed, an additional \$5.4 million was deposited directly into the Horse Racing Equity Trust Fund, bringing the total amount collected in FY 2010 to \$26.6 million. Again, while the tracks have this money into their designated fund, these revenues must remain in an escrow account until all litigation has been completed. This latest fee will be collected until December 15, 2011, unless certain statutory changes to the horse racing industry occur.

Because this money has been escrowed, the horse tracks have not been able to take advantage of the earmarked revenues. The horse racing industry is quick to point out that receiving these funds would be a much-needed boost to an industry that overall has had a difficult time in generating revenues. A spokesman from the Illinois Racing Board stated that these 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 will attract fuller fields, bigger crowds and larger handles. It has been reported in many media outlets that roughly between 30,000 to 40,000 jobs in Illinois are directly or indirectly attributed to horse racing.

Advance Deposit Wagering

During the Spring 2009 legislative session, Public Act 96-0762 (SB 1298) was signed into law which allows advance deposit wagering in Illinois. Advance Deposit Wagering officially began in Illinois in October 2009. Under P.A. 96-0762, an individual is 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. By the end of 2009, four companies were licensed to conduct advance deposit wagering in Illinois. Advance deposit wagering licensees are not 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 receives 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% is imposed on advance deposit wagering, the amount of which cannot exceed \$250,000 in each calendar year. The additional tax is deposited into the Quarter Horse Purse Fund.

In the three months in CY 2009 that advance deposit wagering was operational, a total handle of \$20.1 million was accrued. This resulted in over \$351,953 in tax revenue. In FY 2010, a total of nearly \$1.3 million in advance deposit wagering taxes were

collected (from 8 months of operational receipts). This would equate to an 8-month handle total of \$73.3 million. The Illinois Racing Board had stated that insiders estimate that as much as \$100 million could be collected from advance deposit wagering once the program is fully implemented. These preliminary FY 2010 figures suggest that the insiders estimates may be right on track.

The Racing Board also points out, however, that it is unclear if there will be a cannibalization effect on other wagering methods due to a predicted popularity of advance deposit wagering. It is feared that if advance deposit wagering is preferred, this may lower revenue totals from other forms of wagering. Another year of horse racing receipts may help to better answer this question in the future.

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' racing handle is down over 35% over the last 10 years and is at its lowest levels in over 30 years. Many of the racetracks are continuing to make drastic cuts to their budget to stay in business. The main reason for the struggles is because Illinois is having a greater difficulty competing for the horse racing dollar.

Indiana's decision to join other states across the country to add slot machines to their horse tracks has only intensified Illinois' problems. The addition of slot machines has allowed Indiana 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. 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.

An August 6, 2010 article from stltoday.com reported the executive director of the Illinois Horsemen's Benevolent and Protective Association as estimating his association had about 1,500 members a decade ago but only about 400 this year. The director was quoted as saying "Those tracks in Iowa and Indiana were far worse off than we are and weeks or months from locking the doors forever...Now, those tracks, where a good horseman wouldn't go in a million years, are taking our business away."

Financial help was intended to come from the impact fee payments from the Illinois riverboats, but again, this money has yet to be released to the horse tracks. While the release of the subsidy to the horse racing industry 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 (if they receive them) will be enough to revitalize this struggling industry for years to come. Current law provides that 15% of the AGR from the 10th 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, in its initial months of activity, appears to be off to a promising start, generating an estimated handle of \$73.3 million in its first eight months of operation. 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 the neighboring states of Indiana and Iowa have recently done.

While implementing slot machines at Illinois racetracks is discussed year after year, it continues to fail to get the support needed for passage. However, insiders insist that momentum is gaining, which could lead to legislative action in the future. 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

One of the most highly anticipated sources of new revenues in Illinois will come from the legalization of video gaming machines. Although legalized in July 2009, this new gaming format has yet to generate any revenues. The following section provides an overview of the legislation legalizing video gaming in Illinois, reasons for why implementation has yet to occur, a summary of what video gaming will look like in Illinois, legislation over the past year impacting video gaming, and an updated video gaming projection in lieu of the number of communities that have voted to ban video gaming.

Public Act 96-0034 – The Capital Bill

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. As shown below, at the time of the bill's signing, it was estimated that this public act would eventually generate roughly \$1 billion per year in new State revenues that would be used to pay for a variety of capital projects across Illinois. These new revenues are set to come from a variety of sources: expansion of the Sales and Use Tax; privatization of the lottery/online lottery program; increasing the liquor tax; increasing motor vehicle fees; and the legalization of video gaming machines in Illinois.

ORIGINAL PROJECTIONS (JULY 2009) OF REVENUES FUNDING THE NEW CAPITAL PLAN (P.A. 96-0034)	
REVENUE SOURCE	REVENUE PER YEAR (Million)
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
TOTAL	\$943 to \$1,189

However, now a year since Public Act 96-0034 went into effect, only a small portion of these anticipated annual revenues from the capital bill have been generated. While an annualized amount of \$1 billion could still eventually occur, delays in the process of implementing many of these sources have, at least for the time being, delayed these

capital-earmarked revenues. The expansion of the sales tax and motor vehicle fee increase has occurred as expected, but three of the other revenue sources have yet to come to fruition.

The increased liquor tax has resulted in a number of lawsuits causing its revenues to be deposited into a protest fund until all litigation has been completed. The selection of a private management firm to run the lottery has been delayed until September 2010, instead of the original date of March 2010. It remains unclear how long after that new efficiency measures will be implemented and when new revenues from the lottery transaction will be realized for the State.

The largest portion of anticipated revenues from the new capital plan is expected to come from the legalization of video gaming. However, various factors, including limited staffing available to oversee the new program, as well as extensive time-consuming background checks on operation applicants, have delayed the progress of the new gaming format.

In August 2010, one major portion of the development of video gaming was thought to be completed as the Gaming Board entered into a contract with Scientific Games to run the Central Communications System. However, in September 2010, the Gaming Board announced that they have retracted that contract due to “miscalculations” in evaluating the price portion of the proposals for the contract. Because of this, the bidding process will start over. Once the Board finalizes a contract, the design and implementation of that system would take place, which reportedly would take four to six additional months.

According to the Gaming Board, the actual date that video gaming in Illinois will become operational will depend on the progress of finalizing a contract and implementing the new communications system as well as the ability of the Gaming Board to process the thousands of video gaming applications it is expected to receive. A September 14, 2010 Daily Herald report quoted a spokesman for the Gaming Board as projecting that video gambling will finally go online in July 2011 (which would be near the beginning of FY 2012).

Overview of Illinois’ Video Gaming Arrangement

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”. P.A. 96-0034 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 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. Revenues, after payouts, are to be taxed at a flat 30% tax rate with 5/6 of the revenues going to the Capital Project Fund and the remaining 1/6 to be distributed to all participating local governments.

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).*

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 the Act.

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.

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.

2010 Legislation Impacting the Video Gaming Act

There were two significant pieces of legislation that changed language to the original Video Gaming Act and could impact revenues. These are P.A. 96-1410 (HB 4927) and P.A. 96-1479 (SB 0744). A summary of these bills are shown below.

P.A. 96-1410 (HB 4927)

P.A. 96-1410 (HB 4927) amends the Video Gaming Act to modify the definition of licensed truck stop establishment as a facility that meets the following qualifications: i) is at least a 3-acre facility with a convenience store, ii) it has separate diesel islands for fueling commercial motor vehicles, iii) sells at retail more than 10,000 gallons of diesel or biodiesel fuel per month (new requirement), and (iv) it has parking spaces for commercial motor vehicles. It also provides that an eligible licensed truck stop may operate video gaming terminals on a continuous basis.

The legislation also allows one-cent terminals, adds references to limited liability companies, makes changes regarding location restrictions, and makes other changes. P.A. 96-1410 (HB 4927) was signed into law and became effective on July 30, 2010.

According to the Mid-West Truckers Association, it is unknown how many truck stops in Illinois will decide to operate video gaming terminals due to the changes under P.A. 96-1410 (HB 4927). The Association estimates that there are roughly 100 truck stops

in Illinois that would qualify to have video gaming terminals under the eligibility requirements of the Video Gaming Act and this legislation.

Fiscal Impact: If all of these locations opened the maximum 5 video gaming terminals allowed and each generated \$90 per day, approximately \$5.0 million would be collected under the 30% tax rate. Of this amount 1/6 or \$0.8 million would go to local governments, while the remaining 5/6 or \$4.2 million would go to the Capital Projects Fund.

P.A. 96-1479 (SB 0744)

P.A. 96-1479 (SB 0744) amends the Video Gaming Act to change the definition of “licensed establishment” in terms of which locations are allowed to operate video gaming machines.

Under previous law, “licensed establishment” meant any licensed retail establishment where alcoholic liquor is drawn, poured, mixed, or otherwise served for consumption on the premises.

Under SB P.A. 96-1479 (SB 0744), the definition is changed to include any such establishment that has a contractual relationship with an inter-track wagering location licensee licensed under the Illinois Horse Racing Act of 1975, provided any contractual relationship shall not include any transfer or offer of revenue from the operation of video gaming under this Act to any licensee licensed under the Illinois Horse Racing Act of 1975. Provided, however, that the licensed establishment that has such a contractual relationship with an inter-track wagering location licensee may not, itself, be (i) an inter-track wagering location licensee, (ii) the corporate parent or subsidiary of any licensee licensed under the Illinois Horse Racing Act of 1975, or (iii) the corporate subsidiary of a corporation that is also the corporate subsidiary of a corporation that is also the corporate parent or subsidiary of any licensee licensed under the Illinois Horse Racing Act of 1975.

According to the Illinois Racing Board there are 25 off-track betting parlors in Illinois. There are also an additional five inter-track facilities at the five horse tracks throughout Illinois. However, the number of inter-track wagering facilities that have liquor-pouring establishments that would be eligible and would participate in offering video gambling is not precisely known.

Fiscal Impact: If each of these 30 locations opened the maximum 5 video gaming terminals allowed and each generated \$90 per day, approximately \$1.5 million would be collected under the 30% tax rate. Of this amount 1/6 or \$0.25 million would go to local governments, while the remaining 5/6 or \$1.25 million would go to the Capital Projects Fund.

Local Governments Banning Video Gaming

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 2010, over 70 communities throughout Illinois, as well as four counties (unincorporated portions) have voted to ban video gambling machines in their jurisdictions. The largest of these communities include Naperville, Evanston, Arlington Heights, Orland Park, and Wheaton. Based on population, the communities banning video gaming (as of August 2010) represent approximately 13.5% of the state's population.

One overlooked aspect of offering video gaming in Illinois when the law was passed was the fact that the City of Chicago already had in its laws a provision that outlaws video gaming in its city. Because of this, the City of Chicago must "opt-in" to allow video gaming in their area. At the present time, there has been no public indication from the Mayor of Chicago that he plans on changing the law to allow Chicago establishments the opportunity to offer video gaming in their locations. Since Chicago makes up approximately 22.1% of the State's population, this would have a huge impact on potential video gaming revenues. Therefore, based on population, without Chicago eligible to participate, over 35.6% of the State's liquor pouring establishments would not be eligible to offer video gaming terminals in their businesses.

It should be noted that some insiders believe that some of these areas that have banned video gambling may change their minds. As the struggling economy continues, local governments are lacking revenues. Those communities that offer video gaming are set to receive 1/6 of total revenues collected. As the need for additional local revenues elevates so will be the pressure to overturn the ban and offer these gaming terminals as a way of adding another revenue stream to a jurisdiction's budget and potentially helping many struggling local businesses. This has already been the case for Kane County which first banned video gambling in December 2009, but voted to overturn the ban in May 2010.

Video Gaming Estimate Methodology

In estimating the potential revenue stream from video gaming in Illinois, there are certain figures that are necessary for a valid estimate. The tax revenue that would be generated from these machines would depend on the operating tax rate (which is established in the public act to be at a flat rate of 30%), the average revenue per machine per day, and the number of video gaming terminals in operation.

Because video gaming has never been legalized in Illinois, projecting the revenue-per-machine-per-day values that Illinois could receive from these machines is challenging. To estimate Illinois' potential value the Commission looked at several video gaming

states across the country and saw that 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. 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.

With all of these figures in mind and in lieu of the existing competition that would exist from the already established riverboats and State lottery, the Commission estimated at the time of passage that Illinois video gaming machines could generate an average daily net revenue amount between \$70 and \$90 per day per machine. While admittedly conservative, the Commission still remains comfortable using this revenue-per-day range.

The final important piece of an estimate is projecting the number of operating video gaming terminals anticipated. Originally, the Illinois Coin Machine Operators (and validated by the Illinois Liquor Commission) estimated that there were 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, the number of local governments that have passed ordinances banning video gaming terminals in their jurisdiction, especially if Chicago is included, has significantly reduced this maximum establishment figure. This has forced the Commission to revisit its original projection.

In its original estimate, the Commission projected that with an estimated 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 are to be deposited into the Capital Projects Fund and one-sixth into the Local Government Video Gaming Distributive Fund. Therefore, under the original projection, 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.

Effect of Communities Opting Out of Video Gaming

As it currently stands, establishments in the City of Chicago will not be allowed to have video gaming in their locations due to the City’s pre-existing gambling laws. If this law is allowed to continue as is, this would impact the amount of revenue expected from video gaming in Illinois. While the impact of individual communities outside of Chicago banning video gaming is relatively inconsequential, their impact together could have an impact as well on overall revenues. The table below estimates the revenue

impact of these communities banning video gaming (based on the population of those communities).

As shown below, the Commission estimates the State impact (revenues to the Capital Project Fund) of Chicago not “opting-in” to video gaming to be approximately \$63.6 million to \$118.0 million. The impact of all other communities currently banning video gambling is projected to be between (\$38.8 million and \$72.0 million). Therefore, accounting for the impact of these banned communities, the video gaming revenue projection range of amounts to the Capital Project Fund would go from \$287.4 million - \$533.8 million to an estimate of \$185.1 million to \$343.8 million.

Similarly, local video gaming projections would fall from \$57.5 million - \$106.8 million to \$37.0 million - \$68.8 million and overall video gaming projections would be lowered from \$344.9 million - \$640.6 million to \$222.1 million - \$412.5 million. Of course, any additional communities joining this list or any reversal of any community already on the list would cause these impacts to be revisited.

Table 28: CGFA Video Gaming Estimates						
Accounting for the Impact of Communities Banning Video Gaming						
(millions)						
Original estimate based on 45,000 to 65,000 video gaming machines generating approximately \$70 to \$90 per day and taxed at 30%.	Amount to Capital Project Fund (5/6 of Total)		Amount to Participating Local Governments (1/6 of Total)		Total Tax Revenue Amount from Video Gaming	
	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
Original CGFA Estimate	\$287.4	\$533.8	\$57.5	\$106.8	\$344.9	\$640.6
Impact of City of Chicago not "Opting In"*	(\$63.6)	(\$118.0)	(\$12.7)	(\$23.6)	(\$76.3)	(\$141.7)
Impact of Communities "Opting Out"***	(\$38.8)	(\$72.0)	(\$7.8)	(\$14.4)	(\$46.5)	(\$86.4)
CGFA Estimate with Impact of Banned Areas	\$185.1	\$343.8	\$37.0	\$68.8	\$222.1	\$412.5
* The Commission uses the City of Chicago's portion of the State's population (approximately 22.1%) to estimate the impact of Chicago not "opting in" to video gaming. ** The communities banning video gaming (as of 8/13/10) make up approximately 13.5% of the State's population. As the number of communities opting out of video gaming continues to grow, so will their impact on video gaming revenues.						

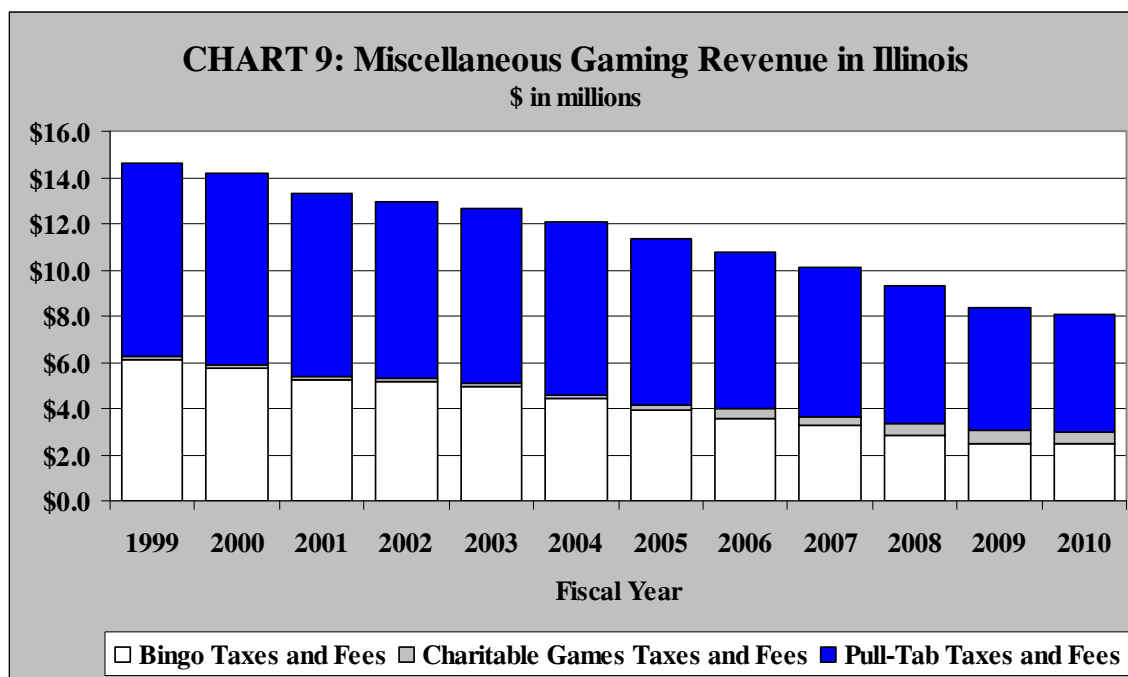
The Commission will continue to monitor the situation and will provide updates when necessary.

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 2010, the State generated \$0.2 million in bingo license fees and \$2.3 million in bingo taxes. Total bingo receipts were down 2.5% from FY 2009 levels.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2010, the State received \$78,000 in license fees and \$483,026 from the charitable games tax. Total charitable games receipts were up 4.9% from FY 2009 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 2010, the State received \$0.5 million in license fees and \$4.6 million from the pull tabs and jar games tax. Total pull-tabs and jar games receipts were down 5.0% from FY 2009 levels.

In total, these miscellaneous gaming revenue sources generated approximately \$8.1 million in FY 2010. This figure is 3.6% below the FY 2009 total of \$8.4 million. In fact, as shown below in Chart 9, total miscellaneous gaming revenue has been on a steady downward trend with FY 2010 figures now at the lowest level experienced over the last ten years.



CONCLUSION

In conclusion, FY 2010 was another disappointing year for gaming revenues in Illinois as the combined total of \$1.019 billion was down 4.5% from FY 2009 levels. This is the fourth consecutive year of declining receipts. While the combined totals in FY 2010 are still 18.8% higher than they were just a decade ago, they are also 25.8% below the peak reached just four years ago. This is concerning because the combined \$1.019 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 2010 again came mostly from a drop in revenues from Illinois riverboats. Adjusted gross receipts from Illinois riverboats fell another 5.0% in FY 2010, which follows the declines of 7.5% and 18.3% in FY 2008 and FY 2009, respectively. This has a resultant impact on State revenues generated from Illinois riverboats as these receipts have declined a combined 32.7% over the last two years. Illinois' decline in adjusted gross receipts is especially alarming, considering that gambling states surrounding Illinois continue to perform significantly better than Illinois.

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 28.0%. Every Illinois riverboat, besides the recently updated Casino Rock Island, has experienced double-digit losses in adjusted gross receipts since the ban went into effect. While Illinois riverboats in the Chicago area have seen their adjusted gross receipts fall 32.8% during this time period, Indiana riverboats in the Chicago area have only experienced a 0.4% loss, despite the poor economic conditions of today. 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 2011 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 overall lottery transfers, total lottery sales actually rose 5.5% in FY 2010 to \$2.193 billion. This was the highest lottery sales

total realized since the inception of lottery in 1975. The largest dollar increase came from the Instant games, which rose 4.7%. A portion of this increase was due to a new \$30 instant game and the introduction of Powerball tickets. Also assisting in the overall increase was solid years from Mega Millions (+8.8%) and the Pick 4 game (+8.0%). These increases offset disappointing sales from Pick N Play, Lotto, and Little Lotto.

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 and Powerball. However, 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 2009 handle amount of \$716.6 million was the lowest level in the last three decades. The 2009 decline of 12.5% 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 2009. 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 \$120 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 introduction 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 10th license and video gaming, should help overall gaming receipts improve in the future. The 10th license, once it passes through the long process of suitability and construction, should generate new revenues in the Des Plaines area likely beginning 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 the State is the allowance of video gaming machines throughout Illinois. While the first operations of legalized video gaming terminals may still be several months away, this new legalized form of gaming will undoubtedly bring new gaming revenues to the State. However, the original revenue expectations from video gaming have been somewhat dampened because numerous communities and counties have chosen to ban or had pre-existing

laws (City of Chicago) banning video gaming in its areas. It is estimated these banned areas could lower potential gaming revenues to the Capital Project Fund by as much as \$102.3 million to \$190.1 million.

The impact that video gaming will have 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>