

WAGERING IN ILLINOIS

2011 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 2011 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 2011, the State's share of horse racing, lottery, and riverboat revenue reached \$1.021 billion, a 2.9% decline from FY 2010 levels. This is the lowest combined total for these revenue sources since FY 2001. The \$31 million falloff in overall gaming receipts was primarily due to a \$59 million decline in riverboat transfers to the Education Assistance Fund. This decline offset the \$28 million increase in lottery transfers. Horse racing revenues held flat in FY 2011.
- In FY 2011, lottery transfers comprised 65.6% of total gaming revenues, whereas riverboat transfers comprised 33.6%, and horse racing 0.7%. Just four years ago, riverboat transfers made up 52.1% of all gaming related revenues, which highlights the recent decline in riverboat figures over the past several years. Overall gaming per-capita spending declined 0.3% in FY 2011 to \$192. This was the fourth 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 2011 were down 3.8% from FY 2010 levels while admissions fell 7.1%. This is the fourth consecutive year of declines in total AGR. State revenues generated from riverboat gambling totaled \$376.4 million, which was a 5.5% decline from FY 2010 levels and was the lowest amount generated since FY 1999.
- Several factors have contributed to the dramatic slide in riverboat figures over the last four 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 30.7% from pre-smoking ban levels.
- From a regional standpoint, when comparing CY 2007 (pre-smoking ban) vs. CY 2010, AGR for the Chicago area riverboats in Illinois have dropped 35.5% since the indoor smoking ban began, while the receipts for Indiana's four closest riverboats in the Chicago increased slightly at 0.6%. Similarly, Illinois' AGR figures are down 33.8% for Illinois' two St. Louis area riverboats between CY

2007 and CY 2010, while the AGR of Missouri's St. Louis region riverboats are up 28.5% (although part of this increase is due to new riverboats in St. Louis).

- Using FY 2011 adjusted gross receipts as a guideline, Illinois made up 39.4% of total receipts in the Quad City region (compared to Iowa's 60.6%), 18.4% of total receipts in the St. Louis region (compared to Missouri's 81.6%), and 45.9% of total receipts in the Chicago region (compared to Indiana's 54.1%). Just three years ago in FY 2008, Illinois held the higher percentage in the Chicago region at 54.3% compared to Indiana's 45.7%.
- 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. All of these ideas are included in SB 0744, as amended by House Amendments 1-7. At the time of this report, this piece of legislation had passed both houses, but had yet to be signed by the Governor.
- Many estimate a significant amount of one-time revenues and recurring revenues would come from gaming expansion. However, factors such as a reduced tax rate and cannibalization will make it challenging for substantial amounts of new State revenues to be realized. Lowering the tax rates would likely increase the amount spent by gaming operators on the casino, which, history as shown, could lead to higher attendance and AGR levels. But large increases in overall adjusted gross receipts will be necessary to offset the loss of revenues from the lower tax rates and from the expected loss of revenues from existing gaming facilities that would be cannibalized by the new casinos.
- In July 2011, additional revenues finally began coming in from the 10th license with the opening of The River Casino in Des Plaines. The gaming industry will be anxious to see how this new riverboat preforms and the impact that this casino will have on the other four Illinois riverboats in the Chicago area, as well as the nearby casinos in Indiana.
- In FY 2011, lottery sales totaled approximately \$2.258 billion, a 3.0% increase from FY 2010 levels. FY 2011 was the fifth year in a row that sales topped \$2 billion. From this sum, 30.6% or \$690 million was transferred into other State funds [\$632 million went into the Common School Fund, which is slightly higher than the \$625 million that was transferred in FY 2010]; \$4.1 million went to special causes; and \$54.1 million was transferred to the Capital Projects Fund.
- The largest dollar increase came from the Instant games, which rose \$90.8 million or 7.7%. The multi-state lottery game called Powerball recorded \$97.4 million in its first full year of sales in Illinois. Mega Million sales were down significantly in FY 2011 (-23%), which indicates that some cannibalization of sales may have occurred due the coexistence of the Powerball game. Pick 4 and

the St. Patrick's raffle both remained flat. Pick 3 (-3.6%), Lotto (-5.1%), and Little Lotto (-0.9%) all experienced a drop in sales in FY 2011.

- Instant games continue to comprise the greatest percentage of total lottery sales with 56%. The Pick 3 game had the second highest percentage at 13%. Most of the remaining revenues come from Mega Millions (8%), the Pick 4 game (8%), Little Lotto (5%), Lotto (5%), and the new Powerball Game (4%).
- In FY 2010, 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 \$172 in FY 2010, which was a 0.6% increase over FY 2009 levels.
- As part of Public Act 096-0034, the Illinois lottery is to be operated with the assistance of a private manager, whose selection is to be based on a competitive request for qualifications process. On September 15, 2010, Northstar Lottery Group was selected to manage the Illinois lottery. Northstar fully took over management of the lottery on July 1, 2011.
- The Illinois Racing Board reported that 490 race programs were conducted during CY 2010. A total handle amount of \$726 million resulted, which was a decrease of 1.5% over the 2009 amount and the lowest handle amount in over 35 years. The thoroughbred total handle dropped 11%, while the standardbred total handle dropped 16%.
- Public Act 96-0762 allowed advance deposit wagering to be conducted throughout the State. It officially began in Illinois in October 2009. Nearly \$96 million in horse racing revenues were collected from advance deposit wagering (or approximately \$1.7 million in tax revenues) in FY 2011. However, some in the industry fear that advance deposit wagering may be having a cannibalization effect on other forms of horse wagering as on-track, inter-track, and off-track wagering all experienced double-digit losses in CY 2010.
- 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. But, the horse racing industry was unable to receive this revenue due to litigation in regards to the impact fees. However, in August 2011, the Illinois Supreme Court denied the latest request to hear the case for the final time. As a result, over \$140 million was released to the Illinois racing industry. This money was split between track operators and purse accounts, which the industry hopes will lead to a turnaround in horse racing attendance and revenue figures.
- While many in the horse racing industry see the money from the impact fees as a much welcomed "shot in the arm", these are one-time revenues and most agree that additional revenues will be needed to keep horse racing alive in Illinois.

This is why racing proponents have been lobbying for slot machines at racetracks. Although statistics from other states have shown that casinos at racetracks do not lead to an increase in its racing handle, it would provide a secondary source of revenue to help fund the horseracing industry.

- 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, this latest form of legalized gambling has yet to begin in Illinois. Because a communications operator has yet to be chosen and due to the time it takes to process the thousands of video gaming applicants, it appears that video gaming will not commence in Illinois until FY 2013 at the earliest.
- Since video gaming was legalized in Illinois, 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 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 (\$39.9 million and \$74.0 million).

INTRODUCTION

Fiscal Year 2011 could be labeled as the “fiscal year of uncertainty” for the Illinois gaming industry. All major areas of gaming in Illinois – riverboat gambling, the lottery, horse racing, and video gaming - appear to be in flux with questions running rapid regarding each area’s future. Pending proposals and expected changes could make the gaming landscape substantially different in the very near future.

No area may have more uncertainty than the riverboat/casino industry. As the report discusses in detail, riverboat revenues, in its current form, are on a staggering downward trend. The FY 2011 amount of \$324 million transferred to the Education Assistance Fund was the lowest amount transferred since FY 1999. The adjusted gross receipts (AGR) of Illinois riverboats fell a combined 3.8% in FY 2011 and marked the fourth consecutive fiscal year of decline. The AGR amount of \$1.351 billion in FY 2011 is 31% below the amount collected in FY 2007, just four years prior.

The dramatic fall off in riverboat figures 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 supporting this suggested factor are discussed later in the report. Also included are discussions on how competition from other states is affecting Illinois’ performance.

The struggles of casino revenues, combined with the desire to create more jobs, have led to a strong push for gaming expansion in Illinois. While similar proposals have failed to gain enough support for passage in the past, the latest proposal (SB 0744, as amended by House Amendments 1-7) passed both houses in the Spring of 2011. However, its future lies in the hands of the Governor. (At the time of this report, the Governor had not acted on the legislation and his intention was not known). Although this report does not offer an analysis entirely specific to this legislation, it does provide a detailed look at all of the major parts of gaming expansion that are proposed in this bill. These parts include adding additional positions, allowing slot machines at horse tracks, and adding additional casinos/riverboats across Illinois. Also discussed is the impact of a reduced tax structure and how cannibalization could affect the riverboat industry.

Regardless of whether the gaming expansion proposal is enacted, an increase in overall adjusted gross receipts in Illinois should come from the July 2011 opening of the Rivers Casino in Des Plaines. While the impact that this casino will have on other existing casinos and the amount of revenues that will be generated from this

new facility is uncertain, the new riverboat should bring new excitement to an industry that has been faltering as of late.

In terms of revenues generated, the State's lottery program has recently been the more reliable of the major gaming sources. Since FY 2000, State lottery transfers have increased 34.0%, including a 22.6% increase between FY 2003 and FY 2008. In the past, lottery transfers consisted primarily of amounts transferred into the Common School Fund. But, over the last couple of years, contributing to this total are revenues from "special causes" games as well as revenues transferred into the Capital Projects Fund. In FY 2011, lottery transfers increased by \$28 million, or 4.2%, which was primarily due to a \$21.9 million increase in transfers to the Capital Projects Fund. Transfers to the Common School Fund increased by \$6.9 million in FY 2011.

The lottery's uncertainty lies with its future. As part of the Capital Bill (Public Act 96-0034), the Illinois lottery, as a means of generating additional revenues, was legislated to be operated with the assistance of a private manager. The selection of a private management firm to run the lottery had been delayed until September 2010, instead of the original date of March 2010. In July 2011, the private manager finally took over operations of the Illinois lottery. Their initial projections indicated that they could grow the amount sent to the Capital Projects Fund to approximately \$150 million per year. It remains to be seen if revenues can reach these expectations.

The lottery section in this report 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 for a private management of the lottery.

Perhaps, no area of business is in more need of change than that of the horse racing industry. The amount wagered on Illinois horse racing (the handle) fell for the eighth consecutive month in CY 2010 and is at its lowest level in over 30 years. The recent development of advance deposit wagering has helped slow the decline (the handle was down only 1.5% in CY 2010, compared to declines of 10.0% and 11.7% the two years prior), but overall, Illinois' horse racing handle is down 34.2% over the last decade.

For the first time in several years, the horse racing industry received some positive news as the Illinois Supreme Court in August 2011 announced that they would allow revenues collected from impact fees (a 3% surcharge on the adjusted gross receipts of the four Chicago-area riverboats) to be released to the horse tracks. In total, the horse tracks will be allowed to use a combined \$141.8 million in revenues collected from two separate impact fees. These revenues will be used primarily for the purpose of increasing purses and making track improvements to revitalize their struggling industry. In addition, the opening of the Des Plaines Casino provides that 15% of its adjusted gross receipts shall also be sent to a horse racing fund. But so

far, this money has not been appropriated, which means legislative approval will be necessary for the horse tracks to access these revenues.

In case these new revenues to horse racing do not provide the funding necessary to turn things around, the horse industry continues to lobby for slot machines at their tracks. But, again, its future lies in the hands of the Governor and many anxiously await his decision on what, if any, forms of gaming expansion he will approve. Details regarding the impact of slot machines at other racetracks across the country, as well as additional information on other horse racing related statistics are provided in the Horse Racing section of the report.

Whether or not the proposed form of gaming expansion passes, a significant increase in gambling has already been approved by way of the Video Gaming Act. Although video gaming was approved in 2009, the State has yet to receive any revenues from video gaming machines. This is because the Gaming Board is still in the process of selecting a company to run a Central Communications System. In August 2010, one company was selected. 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 started over.

Once the Board finalizes a contract, the design and implementation of that system will take place, which reportedly would take four to six additional months. Also delaying the process are the thousands of video gaming applications that the Gaming Board has received, which require extensive background checks. Without a communications system yet approved, it now appears that revenues from video gaming may not begin until FY 2013 at the earliest. Details on the reason for these delays, an overview of the Video Gaming Act, as well as a discussion on the local governments that have banned video gaming and the impact that these ordinances could have on video gaming revenue estimates are included in the video gaming section of this report.

When combining all of the gambling-related sources of income in Illinois, gaming revenues fell 2.9% in FY 2011 to \$1.021 billion. This is the lowest combined total for these revenue sources since FY 2001 and marks the fifth consecutive fiscal year that overall gaming revenues have fallen. As Table 1 on the following page shows, revenue increases in Lottery transfers in FY 2011 were unable to offset the declines in riverboat transfers to the Common School Fund. Horse racing revenues remained virtually unchanged in FY 2011, at a mere \$7 million.

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	\$662	\$7	\$383	\$1,052	-1.4%
2011	\$690	\$7	\$324	\$1,021	-2.9%

(1) Figures represent all Lottery Transfers with the vast majority going into the Common School Fund. Also included are revenues from "special causes" games and revenues transferred into the Capital Projects Fund.

(2) Figures equal State revenue generated, not allocated.

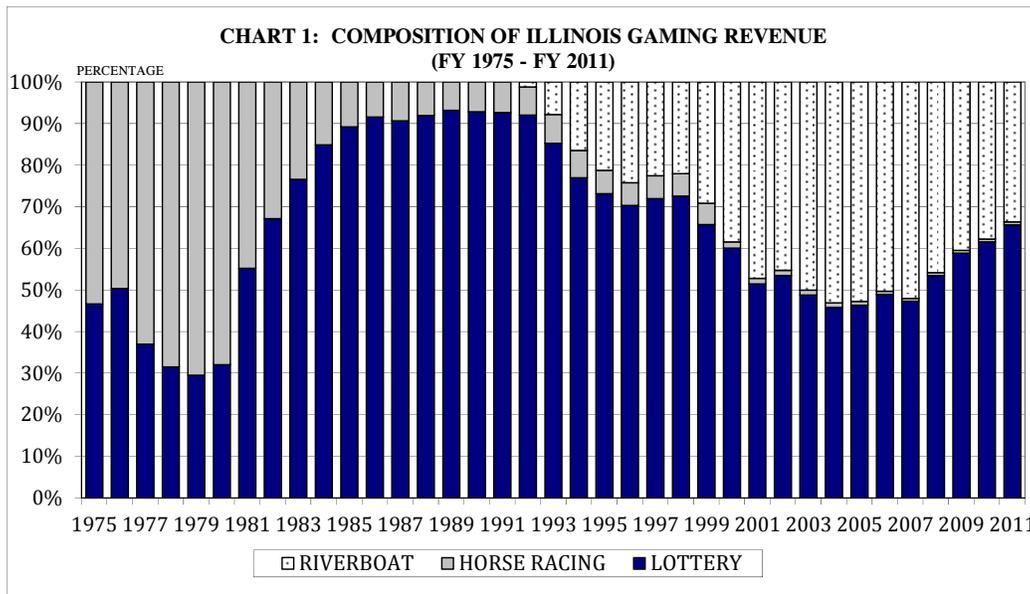
(3) Figures represent appropriations (FY 1992-FY 1995) and transfers (FY 1996-FY 2011) into the Education Assistance Fund and revenues deposited into the Common School Fund.

Sources: Comptroller's Office, Illinois Department of Revenue, Illinois Gaming Board, and Illinois Racing Board.

The riverboat State transfer amount of \$324 million in FY 2011 is 52.7% below the amount transferred to the Common School Fund in 2007. The dramatic falloff in these riverboat transfers has more than erased the 10% increase in lottery transfers over this same time period. State riverboat transfers in FY 2011 have now fallen below FY 2000 levels, when the graduated tax rate maxed out at 35% (compared to the 50% maximum rate under current law).

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 2011 again placed the lottery as the largest contributor of gaming revenues in Illinois.

In FY 2011, lottery transfers comprised 65.6% of total gaming revenues, whereas riverboat transfers comprised 33.6%, and horse racing comprised of 0.7%. This is in contrast to 2007 when lottery transfers amounted to 47.3%, riverboats 52.1%, and horse racing 0.7%. This is also 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 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 reveals below, FY 2011 State gaming revenues totaled approximately \$1.021 billion. The gaming industry's FY 2011 gaming hold total of \$2.471 billion declined 0.7% from FY 2010 levels. Per-capita spending declined 0.3% to approximately \$192 in FY 2011. This was the fourth 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 and the volatility of the gaming hold, per-capita spending becomes mostly dependent on the behavior of the riverboats. For example, the 0.3% decline in overall per-capita spending was due mostly because of the decline in the gaming hold (AGR) of the riverboats (-3.8%). This decline combined with the horse racing falloff of 1.4% offset the 4.6% increase in the lottery gaming hold in FY 2011.

TABLE 2: THE STATUS OF ILLINOIS GAMING BASED ON STATE REVENUE, GAMING HOLD, AND PER-CAPITA SPENDING							
	2005	2006	2007	2008	2009	2010	2011*
POPULATION (IN MILLIONS)	12.8	12.8	12.9	12.9	12.9	12.9	12.9
HORSE RACING (CY)							
STATE REVENUE (IN MILLIONS)	\$ 12	\$ 11	\$ 9	\$ 9	\$ 7	\$ 7	\$ 7
GAMING HOLD (IN MILLIONS)	\$ 225	\$ 215	\$ 209	\$ 184	\$ 166	\$ 163	\$ 161
% CHANGE IN GAMING HOLD	-5.3%	-4.4%	-3.0%	-11.8%	-9.7%	-1.9%	-1.4%
** PER-CAPITA SPENDING	\$ 17.6	\$ 16.8	\$ 16.2	\$ 14.3	\$ 12.9	\$ 12.6	\$ 12.5
% CHANGE IN PER-CAPITA SPENDING	-5.7%	-5.0%	-3.2%	-11.9%	-9.9%	-2.0%	-0.9%
LOTTERY (FY)							
LOTTERY TRANSFERS (IN MILLIONS)	\$ 614	\$ 674	\$ 627	\$ 662	\$ 630	\$ 662	\$ 690
GAMING HOLD (IN MILLIONS)	\$ 803	\$ 900	\$ 893	\$ 888	\$ 851	\$ 921	\$ 960
% CHANGE IN GAMING HOLD	9.2%	12.1%	-0.7%	-0.6%	-4.1%	8.2%	4.1%
** PER-CAPITA SPENDING	\$ 62.9	\$ 70.1	\$ 69.5	\$ 68.9	\$ 66.0	\$ 71.4	\$ 74.7
% CHANGE IN PER-CAPITA SPENDING	8.8%	11.5%	-0.9%	-0.8%	-4.3%	8.2%	4.6%
RIVERBOATS (FY)							
AMOUNT TO EAF & CSF (IN MILLIONS)	\$ 699	\$ 689	\$ 685	\$ 564	\$ 430	\$ 383	\$ 324
GAMING HOLD (IN MILLIONS)	\$ 1,752	\$ 1,870	\$ 1,958	\$ 1,810	\$ 1,479	\$ 1,405	\$ 1,351
% CHANGE IN GAMING HOLD	5.7%	6.8%	4.7%	-7.6%	-18.3%	-5.0%	-3.8%
** PER-CAPITA SPENDING	\$ 137.3	\$ 145.8	\$ 152.3	\$ 140.6	\$ 114.6	\$ 108.8	\$ 105.1
% CHANGE IN PER-CAPITA SPENDING	5.3%	6.2%	4.5%	-7.7%	-18.5%	-5.1%	-3.4%
ALL WAGERING							
TOTAL REVENUE (IN MILLIONS)	\$ 1,325	\$ 1,374	\$ 1,321	\$ 1,235	\$ 1,067	\$ 1,052	\$ 1,021
GAMING HOLD (IN MILLIONS)	\$ 2,780	\$ 2,985	\$ 3,060	\$ 2,882	\$ 2,497	\$ 2,489	\$ 2,471
% CHANGE IN GAMING HOLD	5.7%	7.4%	2.5%	-5.8%	-13.4%	-0.3%	-0.7%
** PER-CAPITA SPENDING	\$ 217.8	\$ 232.6	\$ 238.1	\$ 223.8	\$ 193.5	\$ 192.8	\$ 192.3
% CHANGE IN PER-CAPITA SPENDING	5.3%	6.8%	2.3%	-6.0%	-13.6%	-0.3%	-0.3%
*THE FY 2011 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 REVENUE, ILLINOIS GAMING BOARD, CENSUS.GOV.							

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 report concludes with a discussion on video gaming, followed by a brief look at miscellaneous gaming in Illinois including bingo, pull-tabs, and charitable games.

RIVERBOAT GAMBLING

RIVERBOAT GAMBLING

Illinois became the second state to legalize riverboat casinos in February 1990 with the passage of the Riverboat Gambling Act (Public Act 86-1029). The State receives revenue from licensed riverboat gambling through license fees, wagering taxes, and admission taxes. The wagering tax is based on the adjusted gross receipts (AGR) of a riverboat, while the admission tax is based on the number of patrons visiting the facility. Because of this tax structure, adjusted gross receipts and admissions figures are the principal components that determine the amount of revenue collected by the State each year. While the State receives the majority of the revenue from riverboat gaming, a portion of the wagering tax and the admissions tax is distributed to the county and municipality where a gambling boat docks.

The Riverboat Gambling Act set the original wagering tax at an amount equal to 20 percent of a licensee's annual adjusted gross receipts. At that time, it authorized ten riverboat casino licenses, and specified that each licensee may operate two riverboat casinos at a single-specified location. Since the State's first riverboat casino – the Alton Belle – was launched on September 11, 1991, Illinois has experienced several major changes in the riverboat industry. Past changes include: the closure of the Silver Eagle in 1997; the creation of the graduated tax structure in 1998; the approval of dockside gambling in 1999; multiple changes to the wagering and admission tax rate structure, and the hold harmless provision in FY 2006 and FY 2007.

Since many of these topics were covered in earlier Commission reports, this section of the report will focus on topics affecting FY 2012 and beyond. The section opens by providing a basic summary of Illinois' riverboat tax structure, as well as a synopsis of FY 2011 riverboat statistics and how these numbers compare to years past. It includes a discussion on factors that are currently impacting the riverboats (regional competition, the indoor smoking ban, the economy), and factors that will impact the industry in the future (the July 2011 opening of the 10th License in Des Plaines, video gaming, gaming expansion, etc.). It then looks at the components of SB 0744, as amended by House Amendments 1-7 (2011 gaming expansion legislation) and discusses the potential impact if each of these components were to become law.

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.

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).

Note: With the opening of the 10th riverboat license in Des Plaines in July 2011, under Illinois statute, 15% of the adjusted gross receipts of the new casino is to be paid into the Horse Racing Equity Fund (if appropriated). With this occurrence, the impact fee equal to 3% of adjusted gross receipts no longer takes place.

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 2006 thru 2011 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 2006 - FY 2011)						
(\$ in millions)						
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ELGIN	\$415.7	\$436.1	\$396.2	\$311.8	\$286.1	\$286.1
JOLIET HARRAH'S	\$332.9	\$364.6	\$349.2	\$292.1	\$253.9	\$236.3
AURORA	\$250.2	\$272.6	\$249.4	\$215.0	\$185.0	\$178.4
JOLIET HOLLYWOOD	\$256.8	\$252.6	\$210.8	\$127.9	\$156.8	\$147.7
EAST ST. LOUIS	\$172.2	\$172.1	\$185.2	\$154.4	\$139.7	\$127.9
METROPOLIS	\$152.2	\$166.7	\$151.9	\$123.0	\$113.1	\$100.1
EAST PEORIA	\$133.4	\$130.3	\$125.1	\$116.2	\$114.5	\$115.5
ALTON	\$117.6	\$125.4	\$109.0	\$86.9	\$80.1	\$75.7
ROCK ISLAND	\$39.4	\$37.6	\$33.4	\$52.3	\$75.7	\$83.1
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$1,870.4	\$1,958.1	\$1,810.4	\$1,479.5	\$1,404.9	\$1,350.8
% INCREASE	6.7%	4.7%	-7.5%	-18.3%	-5.0%	-3.8%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 4: ILLINOIS RIVERBOAT ADMISSIONS (FY 2006 - FY 2011)						
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ELGIN	2,677,440	2,531,559	2,375,400	2,117,970	2,112,964	2,051,999
JOLIET HARRAH'S	2,417,781	2,816,788	2,896,912	2,535,895	2,371,293	2,022,995
AURORA	2,082,147	1,860,184	1,745,324	1,609,036	1,520,101	1,485,692
JOLIET HOLLYWOOD	1,726,414	2,164,586	1,920,951	1,155,386	1,425,067	1,374,618
EAST ST. LOUIS	2,098,942	2,024,667	2,457,774	2,273,300	2,158,726	1,955,279
METROPOLIS	1,184,008	1,412,307	1,265,813	1,069,036	1,027,173	825,466
EAST PEORIA	1,432,655	1,342,423	1,370,631	1,345,020	1,326,910	1,253,969
ALTON	1,476,971	1,455,514	1,325,645	1,155,978	1,107,007	982,773
ROCK ISLAND	716,949	649,612	612,551	1,000,453	1,301,213	1,382,827
TENTH LICENSE	0	0	0	0	0	0
TOTAL	15,813,307	16,257,640	15,971,001	14,262,074	14,350,454	13,335,618
% INCREASE	3.9%	2.8%	-1.8%	-10.7%	0.6%	-7.1%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 5: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2006 - FY 2011)

(\$ in millions)

	FY 2006*	FY 2007*	FY 2008	FY 2009	FY 2010	FY 2011
ELGIN	\$204.2	\$203.1	\$149.8	\$111.5	\$99.4	\$98.6
JOLIET HARRAH'S	\$119.6	\$134.5	\$130.2	\$102.4	\$87.6	\$77.3
AURORA	\$90.5	\$91.2	\$84.3	\$66.2	\$54.4	\$50.3
JOLIET HOLLYWOOD	\$89.7	\$90.3	\$68.2	\$38.4	\$36.6	\$37.4
EAST ST. LOUIS	\$53.0	\$52.5	\$55.1	\$42.7	\$37.3	\$32.7
METROPOLIS	\$47.6	\$47.8	\$41.7	\$29.3	\$26.2	\$22.7
EAST PEORIA	\$46.1	\$45.7	\$31.1	\$27.4	\$26.8	\$26.9
ALTON	\$34.2	\$33.9	\$26.7	\$18.5	\$16.5	\$14.8
ROCK ISLAND	\$5.9	\$5.5	\$4.8	\$7.6	\$13.7	\$15.7
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$690.7	\$704.5	\$591.8	\$444.0	\$398.4	\$376.4
% INCREASE	-3.3%	2.0%	-16.0%	-25.0%	-10.3%	-5.5%

* Includes Hold-Harmless Revenues

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 6: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2006 - FY 2011)

(\$ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ELGIN	\$23.5	\$24.3	\$22.2	\$17.7	\$16.4	\$16.4
JOLIET HARRAH'S	\$19.1	\$21.0	\$20.4	\$17.1	\$15.1	\$13.8
AURORA	\$14.6	\$15.5	\$14.2	\$12.4	\$10.8	\$10.4
JOLIET HOLLYWOOD	\$14.6	\$14.8	\$12.5	\$7.5	\$9.3	\$8.8
EAST ST. LOUIS	\$10.7	\$10.6	\$11.7	\$10.0	\$9.1	\$8.4
METROPOLIS	\$8.8	\$9.7	\$8.9	\$7.2	\$6.7	\$5.8
EAST PEORIA	\$8.1	\$7.9	\$7.6	\$7.2	\$7.1	\$7.0
ALTON	\$7.4	\$7.7	\$6.8	\$5.5	\$5.1	\$4.8
ROCK ISLAND	\$2.7	\$2.5	\$2.3	\$3.6	\$5.1	\$5.5
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$109.3	\$114.2	\$106.5	\$88.2	\$84.6	\$80.9
% INCREASE	6.3%	4.4%	-6.7%	-17.1%	-4.1%	-4.4%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 7: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2006 - FY 2011)

(\$ in millions)

	FY 2006*	FY 2007*	FY 2008	FY 2009	FY 2010	FY 2011
ELGIN	\$227.7	\$227.4	\$171.9	\$129.2	\$115.8	\$115.0
JOLIET HARRAH'S	\$138.7	\$155.5	\$150.5	\$119.6	\$102.7	\$91.1
AURORA	\$105.1	\$106.7	\$98.5	\$78.6	\$65.2	\$60.7
JOLIET HOLLYWOOD	\$104.3	\$105.1	\$80.7	\$45.9	\$45.8	\$46.2
EAST ST. LOUIS	\$63.7	\$63.2	\$66.8	\$52.6	\$46.5	\$41.0
METROPOLIS	\$56.3	\$57.6	\$50.6	\$36.6	\$32.8	\$28.5
EAST PEORIA	\$54.2	\$53.5	\$38.7	\$34.6	\$33.9	\$33.9
ALTON	\$41.5	\$41.6	\$33.5	\$24.0	\$21.6	\$19.6
ROCK ISLAND	\$8.6	\$8.0	\$7.0	\$11.2	\$18.8	\$21.3
TENTH LICENSE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$800.1	\$818.6	\$698.2	\$532.2	\$483.0	\$457.3
% INCREASE	-2.1%	2.3%	-14.7%	-23.8%	-9.2%	-5.3%

* Includes Hold-Harmless Revenues

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

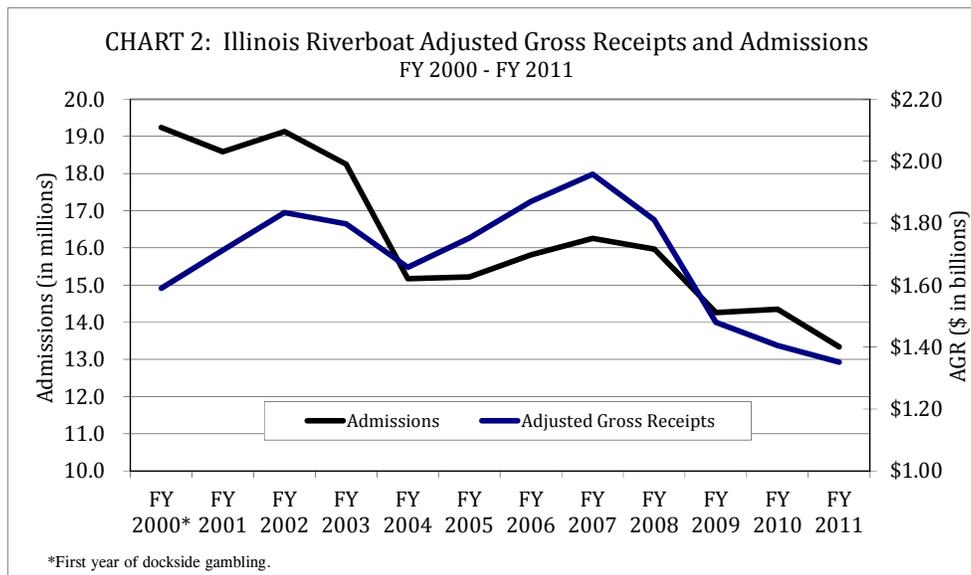
Statewide Perspective

Over the last decade, the environment for Illinois riverboats has been a tumultuous one. Many factors, including dockside gambling, tax increases and decreases, smoking bans, the economy, etc. has led to dramatic fluctuations in the performance of the State’s riverboats, specifically, in terms of adjusted gross receipts. Before these factors are discussed, the following pages provide comprehensive data on Illinois’ casinos over the past several years.

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%. The downward trend continued in FY 2011 with adjusted gross receipts falling 3.8% for the fiscal year and admissions falling 7.1%. A graph depicting these changes is shown below.



FY 2011 Boat-by-Boat Perspective

As stated previously, adjusted gross receipts (AGR), Statewide, fell 3.8% in FY 2011. As shown below, looking at the riverboats individually, only one riverboat, the Casino Rock Island, experienced a significant year-over-year gain in AGR in FY 2011. Rock Island, which opened a new facility in December 2008, has continued to see their numbers improve since its opening. Adjusted gross receipts increased 9.8% in FY 2011, which followed the 44.7% increase in AGR in FY 2010. While these gains are impressive, Rock Island's AGR total of \$83.1 million in FY 2011 still ranks them as the second lowest revenue-producing casino in the State.

Two Illinois casinos remained relatively unchanged in FY 2011. The casino in Elgin saw its AGR levels remain virtually unchanged, while East Peoria experienced a modest gain of 0.8%. All other casinos continued to see their AGR levels drop.

The largest decline in FY 2011 came from the Metropolis facility, falling 11.5%. However, much of this falloff was due to the Spring 2011 temporary closure of the facility due to floodwaters surrounding the casino. Other large declines came from East St. Louis (-8.4%) and Alton (-5.5%), which had to compete with a brand new Missouri casino in South St. Louis County. Rounding out the declines were Joliet Harrah's (-6.9%), Joliet Hollywood (-5.8%), and Aurora (-3.5%)

Attendance wise, the only increase came from Rock Island (+6.3%). The largest attendance declines came from Metropolis (-19.6%), Joliet Harrah's (-14.7%), Alton (-11.2%), and East St. Louis (-9.4%).

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	FY 2011
ELGIN	-9.1%	1.5%	4.9%	1.9%	4.9%	-9.1%	-21.3%	-8.2%	0.0%
JOLIET HARRAH'S	-4.1%	-18.3%	17.3%	13.9%	9.5%	-4.2%	-16.4%	-13.1%	-6.9%
AURORA	11.9%	-21.0%	4.7%	10.8%	6.2%	-8.5%	-13.8%	-14.0%	-3.5%
JOLIET HOLLYWOOD	-5.3%	-7.9%	6.2%	7.8%	0.9%	-16.5%	-39.4%	22.6%	-5.8%
EAST ST. LOUIS	1.3%	3.6%	1.1%	4.1%	0.0%	7.6%	-16.6%	-9.5%	-8.4%
METROPOLIS	1.2%	4.5%	0.1%	8.3%	9.5%	-8.9%	-19.1%	-8.0%	-11.5%
EAST PEORIA	-0.6%	-7.8%	-0.4%	0.9%	-2.3%	-4.0%	-7.1%	-1.5%	0.8%
ALTON	-4.4%	-10.8%	6.5%	6.6%	6.6%	-13.1%	-20.3%	-7.8%	-5.5%
ROCK ISLAND	4.3%	-1.4%	1.0%	0.1%	-4.4%	-11.2%	56.5%	44.7%	9.8%
TENTH LICENSE	N/A	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%	-3.8%
ADMISSIONS									
	Annual Percent Change								
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ELGIN	-16.5%	3.2%	-2.1%	-4.2%	-5.4%	-6.2%	-10.8%	-0.2%	-2.9%
JOLIET HARRAH'S	-3.7%	-39.1%	13.2%	16.6%	16.5%	2.8%	-12.5%	-6.5%	-14.7%
AURORA	-0.4%	-41.9%	-1.3%	20.9%	7.7%	-6.2%	-7.8%	-5.5%	-2.3%
JOLIET HOLLYWOOD	1.4%	-24.9%	9.7%	13.9%	4.0%	-11.3%	-39.9%	23.3%	-3.5%
EAST ST. LOUIS	0.5%	6.4%	-1.4%	-1.1%	-3.5%	21.4%	-7.5%	-5.0%	-9.4%
METROPOLIS	-5.0%	-3.9%	-12.9%	-2.5%	19.3%	-10.4%	-15.5%	-3.9%	-19.6%
EAST PEORIA	-3.1%	-10.9%	-5.8%	-9.6%	-6.3%	2.1%	-1.9%	-1.3%	-5.5%
ALTON	-5.4%	-13.7%	3.1%	3.7%	-1.5%	-8.9%	-12.8%	-4.2%	-11.2%
ROCK ISLAND	-2.9%	-5.5%	-2.2%	-3.9%	-9.4%	-5.7%	63.3%	30.1%	6.3%
TENTH LICENSE	N/A	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%	-7.1%

SOURCE: ILLINOIS GAMING BOARD

Revenue Analysis

Illinois' declining AGR and admission figures had a direct impact on State revenues. In FY 2011, State revenues from riverboat gaming fell a combined 5.5% in FY 2011. This follows the declines of 10.3% in FY 2010, 25.0% in FY 2009, and 16.0% in FY 2008. As a result, State revenues from riverboat gambling have fallen a startling 46.6% since FY 2007 and 47.3% from its highpoint of \$714.6 million in FY 2005. The FY 2011 amount was the lowest amount of State revenues collected since revenues totaled \$273 million in FY 1999. The table below shows the annual 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 2008 thru FY 2011								
\$ in millions								
	FY 2008	Annual	FY 2009	Annual	FY 2010	Annual	FY 2011	Annual
	STATE	% change	STATE	% change	STATE	% change	STATE	% change
	REVENUE		REVENUE		REVENUE		REVENUE	
ELGIN	\$149.8	-26.3%	\$111.5	-25.5%	\$99.4	-10.9%	\$98.6	-0.8%
JOLIET HARRAH'S	\$130.2	-3.2%	\$102.4	-21.3%	\$87.6	-14.5%	\$77.3	-11.8%
AURORA	\$68.2	-25.2%	\$66.2	-2.9%	\$36.6	-44.8%	\$37.4	2.3%
JOLIET HOLLYWOOD	\$84.3	-6.7%	\$38.4	-54.5%	\$54.4	41.8%	\$50.3	-7.5%
EAST ST. LOUIS	\$55.1	4.8%	\$42.7	-22.6%	\$37.3	-12.5%	\$32.7	-12.4%
METROPOLIS	\$41.7	-12.8%	\$29.3	-29.7%	\$26.2	-10.8%	\$22.7	-13.3%
EAST PEORIA	\$31.1	-32.0%	\$27.4	-11.8%	\$26.8	-2.2%	\$26.9	0.4%
ALTON	\$26.7	-21.2%	\$18.5	-30.9%	\$16.5	-10.5%	\$14.8	-10.3%
ROCK ISLAND	\$4.8	-13.0%	\$7.6	60.0%	\$13.7	79.8%	\$15.7	14.9%
TOTAL	\$591.8	-16.0%	\$444.0	-25.0%	\$398.4	-10.3%	\$376.4	-5.5%
\$ Change over Prior Year	-\$112.7		-\$147.8		-\$45.6		-\$22.0	

Source: Illinois Gaming Board Monthly Riverboat Casino Report

Difference between State Revenues and State Transfers

In FY 2011, there was a \$52 million difference between what was listed as "State Revenues" from the Gaming Board's Monthly Reports (as shown above) and what was reported by the Comptroller as the amount transferred from the State Gaming Fund into the Education Assistance Fund. Typically, the amount transferred to the Education Assistance Fund is less than the amounts reported by the Gaming Board as "State Revenues" because, statutorily, administrative expenses are to be removed from the State amount before these transfers are made. However, the \$52 million difference was much higher than previous years.

According to the Gaming Board, the main reason for this larger differential was because administrative expenses have increased significantly due to the new obligations set forth by the Video Gaming Act. Additional administrative expenses have come from the work necessary to facilitate the opening of the 10th license in Des Plaines. These additional expenses are expected to continue in future years.

It should be noted that in June 2011, the Auditor General found that the Gaming Board potentially underfunded the Education Assistance Fund by as much as \$9.3 million in FY 2010. The Board has since repaid this money and has agreed to put in place formal documented procedures regarding the calculation of the transfers and designate an independent person to review the transfer documentation.

Reasons for the Decline in Riverboat Revenues

The Economy

Several factors have contributed to the dramatic turnaround in riverboat figures over the last several fiscal years. The most widespread contributor is the economy. The American Gaming Association discusses this concern in their 2011 State of the States report:

The last three years have been challenging ones for the commercial casino industry, as consumer discretionary spending dropped amidst a national mood battered by high unemployment and low consumer confidence.

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. After this period of negative growth, figures have slowly improved (up 0.7% in CY 2009, up 3.1% for CY 2010, and up 4.8% for the 1st Quarter of 2011). While this upward trend is encouraging, the lack of disposable personal income over the previous years no doubt dampened the amount of available funds for gambling.

In addition, in June 2009, Illinois' unemployment rate (seasonally adjusted) surpassed the 10% mark for the first time since 1983. It remained above 10% for 15 consecutive months, reaching its high mark of 11.2% in January 2010. Once reaching this point, the unemployment rate improved for 15 consecutive months, reaching 8.7% in April 2011. The latest figure was at a rate of 9.5% in July 2011. While this figure is an improvement from the 11.2% high water mark, this unemployment rate level is still significantly higher than the rates seen just four years ago in the Spring of 2007 - below 5.0%. The higher the unemployment rate the fewer the number of people with 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. Data from the Bureau of Economic Analysis shows that personal saving as a percentage of disposable personal income was at an average rate of 1.97% between 2005 and 2007. In 2008, this figure rose to 4.1% and then to 5.9% in 2009 - the highest level since reaching 7.3% in 1992. In 2010, the savings rate remained stable at 5.7%. These figures would suggest that Americans have made a conscientious decision to save more of their money instead of spending it on areas such as gambling. This savings shift has no doubt contributed to the decline in riverboat figures.

The Indoor Smoking Ban

Because of the nation's financial condition, it is not surprising that an industry that relies on consumer spending would be, at best, 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 several years. Data suggests that one of the biggest factors contributing to the struggles of the Illinois casino industry 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%. In the third year, AGR levels fell another 3.8% for a three-year change of \$610 million or a decline of 30.7% from CY 2007 levels. The only riverboat with an increase was Rock Island, which benefited from a new, larger facility. The riverboat with the smallest decline over the three-year period was East Peoria at -13.2%. 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.

	CY 2007 AGR (No Ban)	CY 2008 AGR (1st Yr. of Ban)	CY 2008 vs CY 2007 % Change	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	CY 2010 AGR (3rd Yr. of Ban)	CY 2010 vs CY 2007 % Change	CY 2010 vs CY 2007 \$ Change
ALTON	\$125.7	\$90.7	-27.8%	-\$35.0	\$84.2	-33.0%	-\$41.5	\$77.4	-38.5%	-\$48.4
EAST PEORIA	\$132.8	\$116.8	-12.1%	-\$16.0	\$115.1	-13.4%	-\$17.7	\$115.3	-13.2%	-\$17.5
ROCK ISLAND	\$35.8	\$34.4	-3.9%	-\$1.4	\$70.5	97.0%	\$34.7	\$79.4	122.1%	\$43.7
JOLIET HOLLOWOOD	\$240.2	\$184.0	-23.4%	-\$56.3	\$120.0	-50.0%	-\$120.2	\$143.5	-40.3%	-\$96.7
METROPOLIS	\$170.0	\$126.6	-25.5%	-\$43.4	\$117.8	-30.7%	-\$52.2	\$113.0	-33.5%	-\$57.0
JOLIET HARRAH'S	\$381.1	\$297.8	-21.9%	-\$83.4	\$278.8	-26.8%	-\$102.3	\$246.5	-35.3%	-\$134.6
AURORA	\$272.7	\$220.1	-19.3%	-\$52.6	\$202.4	-25.8%	-\$70.3	\$181.2	-33.6%	-\$91.5
EAST ST. LOUIS	\$189.0	\$160.2	-15.2%	-\$28.8	\$147.6	-21.9%	-\$41.4	\$131.0	-30.7%	-\$58.0
ELGIN	\$436.8	\$338.9	-22.4%	-\$97.9	\$293.0	-32.9%	-\$143.8	\$287.1	-34.3%	-\$149.6
TOTAL	\$1,984.0	\$1,569.4	-20.9%	-\$414.7	\$1,429.3	-28.0%	-\$554.7	\$1,374.4	-30.7%	-\$609.6

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 following table, in the Chicago region, Illinois' four riverboat's AGR totals have fallen a combined \$472.5 million, or -35.5% when comparing CY 2010 levels with the pre-smoke-ban totals of CY 2007. However, Indiana's Chicago area riverboats have actually increased by \$6.6 million or 0.6% 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 2008 vs CY 2007 \$ Change	CY 2009 AGR (2nd Yr. of Ban)	CY 2009 vs CY 2007 % Change	CY 2009 vs CY 2007 \$ Change	CY 2010 AGR (3rd Yr. of Ban)	CY 2010 vs CY 2007 % Change	CY 2010 vs CY 2007 \$ Change
Chicago-Area (Illinois)	\$1,330.8	\$1,040.7	-21.8%	-\$290.1	\$894.2	-32.8%	-\$436.6	\$858.3	-35.5%	-\$472.5
Chicago-Area (Indiana)	\$1,014.2	\$1,029.0	1.5%	\$14.9	\$1,010.4	-0.4%	-\$3.8	\$1,020.8	0.6%	\$6.6
St. Louis-Area (Illinois)	\$314.7	\$250.9	-20.3%	-\$63.8	\$231.8	-26.3%	-\$82.9	\$208.4	-33.8%	-\$106.3
St. Louis-Area (Missouri)	\$685.0	\$779.9	13.8%	\$94.8	\$818.7	19.5%	\$133.7	\$880.3	28.5%	\$195.2

Also, as shown above, a similar argument can be made for the St. Louis region. Illinois' AGR figures are down \$106.3 million or -33.8% for Illinois' two St. Louis area riverboats between CY 2010 and CY 2007. However, the AGR of Missouri's St. Louis region riverboats are up \$195.2 million or 28.5%. To be fair, these statistics are a bit misleading because during this time period Missouri has added an additional casino to that region (adding two new casinos and closing one casino). But even before the newest casino was opened in March 2010, Missouri gaming revenues were improving while Illinois' area figures were declining. 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 many casino patrons desire to gamble and smoke at the same time. Because of this, the obvious reaction of smoking gamblers would be to look for a casino that allows them to smoke. 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 readily available. As a result, enforcing an indoor smoking ban at Illinois casinos appears to be enticing some smoking gamblers to go to other states to gamble, thereby hurting Illinois casinos while benefiting the State's out-of-state competitors.

Since the indoor smoking ban went into place, the impact on admissions has not been as severe as the impact on adjusted gross receipts. On a calendar year basis the year-over-year admission declines (Statewide) for calendar years 2008, 2009, and 2010 were -11.4%, -1.5%, and -4.1%, respectively, compared to adjusted gross receipts declines of -20.9%, -8.9%, and -3.8%. The three-year falloff in admissions was -16.3%, which is less a drop compared to the 30.7% falloff in adjusted gross receipts.

A possible explanation for why the drop in admissions is not as severe as adjusted gross receipts is that smokers who have continued to patronize Illinois casinos are gambling less often to take "smoke breaks", which lowers the amount of "table time" that a patron could be gambling, thus potentially lowering the amount that is ultimately gambled at the casino. Of course, these patrons could return to the table or slots after their smoke break, but once a "cooling off" period occurs, it is possible that many gamblers would decide to leave rather than to continue gambling. So, while not all smoking gamblers may have left Illinois riverboats, lower AGR figures indicates that the ban may be even impacting those who have chosen to stay.

A look at adjusted gross receipts per admission values shows a noticeable decline has occurred since the smoke ban began. In CY 2007, the AGR/Admission Statewide value was \$120. In CY 2010 this value had dropped to \$99, a decline of 17.3%. While it is difficult to determine how much of this falloff is due to the smoke ban and how much is due to the economy, there is no doubt that both are significant contributors to the recent downward trend.

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%), FY 2010 (-5.0%), and FY 2011 (-3.8%). As alarming as these declines are, State revenues were down even sharper (-25.0% in FY 2009, -10.3% in FY 2010, and -5.5% in FY 2011). 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, FY 2010, and FY 2011, 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 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 2011 (as been the case since FY 2006) 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.

TABLE 12: OPERATING TAX RATES FOR ILLINOIS RIVERBOATS (FY 2006 - FY 2011)						
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ELGIN	41.9%	42.1%	41.6%	39.4%	38.2%	38.0%
JOLIET HARRAH'S	39.5%	40.3%	40.6%	38.3%	37.6%	36.0%
AURORA	36.8%	37.1%	37.4%	34.3%	32.8%	31.5%
JOLIET HOLLYWOOD	35.0%	36.4%	35.5%	33.2%	26.5%	28.5%
EAST ST. LOUIS	30.8%	31.0%	32.1%	29.7%	28.6%	27.5%
EAST PEORIA	27.8%	27.5%	27.6%	26.3%	26.1%	26.1%
METROPOLIS	28.6%	29.9%	30.8%	27.1%	26.3%	26.0%
ROCK ISLAND	18.1%	17.8%	17.4%	17.7%	21.4%	22.3%
ALTON	26.1%	26.7%	27.1%	23.6%	22.9%	22.0%
Average Tax Rate	31.6%	32.1%	32.2%	29.9%	28.9%	28.7%

In FY 2011, the average operating tax rate for the nine Illinois riverboats was 28.7%. This value was 1.2 percentage points lower than FY 2009's operating tax rate and 3.5 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 2011 adjusted gross receipts down 3.8% from FY 2010 levels, but these receipts were taxed at a lower operating tax rate. This is a major reason why a 3.8% drop in adjusted gross receipts in FY 2011 resulted in a 5.5% 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 Hollywood (formerly Empress) casino. The fire at this casino 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 Hollywood (Empress') tax revenues were down 4.7% in FY 2010; even though their FY 2010 adjusted gross receipts were up 22.6%. Similarly, this is also why Joliet Hollywood experienced a 2.3% increase in State revenues in FY 2011, even though their AGR levels fell 5.8% in FY 2011.

Competition for the Midwest Gaming Dollar

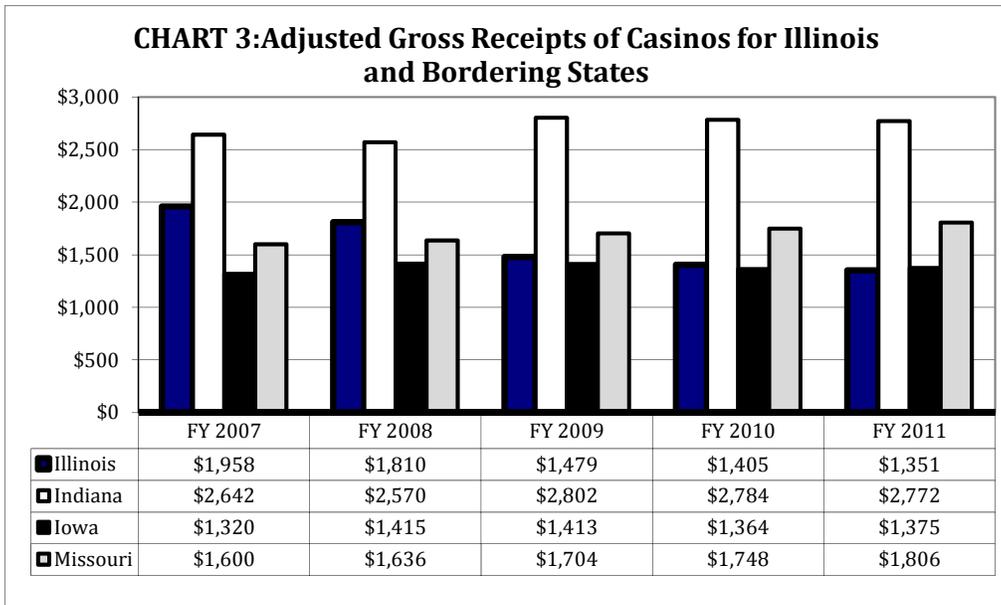
As previously discussed, Illinois is at a competitive disadvantage in the casino industry because the majority of Illinois' population is near the border of other gaming states. Because of this, political decisions made by State lawmakers can have pronounced effects on casinos on both sides of the border. A decision that negatively impacts an Illinois casino will likely mean a corresponding positive impact on the competing casino. The aforementioned data shows that the indoor smoking ban could be one example of this occurrence.

Another example occurred in FY 2004 when Illinois increased their graduated tax rates to as high as 70%. Shortly after these rates were increased, the State experienced a noticeable decline in adjusted gross receipts. As discussed in previous Wagering Reports, operators who also owned casinos outside of Illinois apparently chose to redirect their marketing, capital, and operating expenses away from Illinois to their riverboats in lower-taxed states to maximize profits. The surrounding states were the beneficiaries of Illinois' tax decision (in terms of growth in AGR). After the tax rates reverted back to previous levels, company money was apparently shifted back to Illinois casinos as Illinois quickly saw its numbers improve.

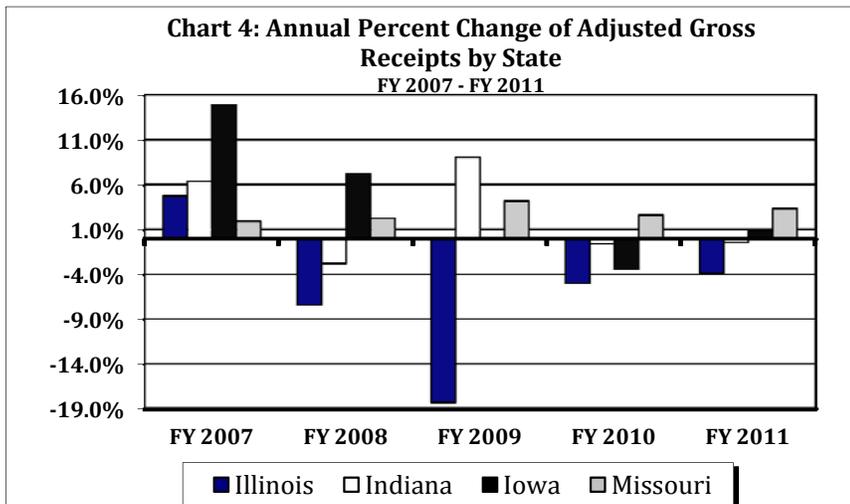
The competition for the gaming dollar in the Midwest continues to grow. The development of new casinos bordering Illinois are being developed or have already come to fruition in many locations. The latest casino to join the gambling competition is the River City Casino which opened in South St. Louis County in March 2010. This follows the Lumiere Casino which opened in St. Louis in December 2007. Both of these casinos are in direct competition with the East St. Louis and Alton riverboats, as well as two other Missouri's St. Louis area casinos.

While not in direct competition with Illinois, over the past several years, Indiana has continued to increase gaming revenues by adding a new casino in FY 2007 (French Lick), as well as two racinos in the Indianapolis area at the end of FY 2008. Iowa just opened a new casino near the South Dakota border in June 2011, bringing its casino/racino total to eighteen.

The continuing development of new casinos in surrounding states corresponding with the struggles of Illinois' riverboats has now made Illinois the lowest revenue producing State in the Midwest, in terms of adjusted gross receipts. As shown in the following chart, Illinois' FY 2011 AGR total of \$1.351 billion is now lower than Indiana (\$2.772 billion), Missouri (\$1.806 billion), and for the first time, Iowa (\$1.375 billion). Just four years ago in FY 2007, Illinois' adjusted gross receipts total was \$638 million higher than Iowa and \$358 million higher than Missouri. Now, in FY 2011, Illinois trails Iowa by \$24 million and Missouri by \$455 million. In this same time period, the gap between Illinois and Indiana in AGR has grown from \$684 million to \$1.421 billion. Indiana's AGR totals in FY 2011 more than doubled that of Illinois. All of these totals are despite the fact that Illinois has a decisive advantage over these states in population.



A chart indicating the annual percent changes of AGR of the Midwest region states over the last five fiscal years are shown below. While the AGR of all states have slowed over the last couple of years, no state has struggled as much as Illinois.



The table on the following page displays a summary of casino statistics for the Midwestern 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 13: Overview of Midwest Gambling States

	Illinois	Indiana	Iowa	Missouri
Current # of Operating Casinos	10 Riverboats (10th opened in July 2011)	13 (10 riverboats, 1 land-based, 2 racetrack casinos)	18 (7 riverboats, 8 land-based casinos, 3 racetrack casinos)	12 Riverboats (w/ one inactive)
State Population (Census Bureau 2010 estimate)	12.8 million	6.5 million	3.0 million	6.0 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 2011)	242 Table Games, 10,278 Slots	737 Table Games, 22,732 Slots	513 Table Games, 18,256 Slots	538 Table Games, 19,558 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	Riverboats: Graduated tax rate from 15% to 40% of gross gaming revenue, \$3 per patron admissions tax; Racinos: Graduated tax from 25% to 35% of gross gaming revenue.	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 2011) (Riverboats, land-based, and racetrack casinos)	13.3 million	25.7 million	21.5 million	26.5 million
Admissions % Change (FY 2010 to FY 2011)	-7.1%	-3.4%	-2.6%	-0.6%
Adjusted Gross Receipts (AGR) FY 2011	\$1.351 billion	\$2.772 billion	\$1.375 billion	\$1.806 billion
AGR % Change (FY 2010 to FY 2011)	-3.8%	-0.4%	0.8%	3.3%
AGR per Admission (FY 2011)	\$101.29	\$108.03	\$63.84	\$68.12
AGR/Table/Day (June 2011)	\$2,169	\$1,349	\$539	\$966
AGR/Slot/Day (June 2011)	\$311	\$281	\$182	\$220
FY 2011 Gaming Tax Revenue (State and Local Revenues)	\$457.3 million	\$864.4 million	\$309.6 million	\$487.9 million
Gaming Tax Revenue % Chg (FY 10 to FY 11)	-5.3%	-1.0%	-0.3%	6.8%
Casino Employees (2010)	6,892	14,144	8,915	11,071
Casino Employee Wages (includes benefits and tips)	\$295.25 million	\$494.75 million	\$328.29 million	\$342.0 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

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 2010 revenues, is shown below.

<i>Casino Market</i>	<i>2010 Annual Revenues</i>	<i>2010 Annual Change</i>
1 Las Vegas Strip	\$5.777 billion	4.1%
2 Atlantic City, N.J.	\$3.573 billion	-9.4%
3 Chicagoland, Ind./Ill.	\$2.057 billion	-1.7%
4 Connecticut	\$1.385 billion	-4.4%
5 Detroit	\$1.378 billion	2.9%
6 St. Louis, Mo./Ill.	\$1.086 billion	3.4%
7 Tunica/Lula, Miss.	\$926.9 million	-7.0%
8 Biloxi, Miss.	\$830.9 million	-0.3%
9 Philadelphia, PA.	\$816.3 million	28.6%
10 Shreveport, La	\$764.9 million	-1.9%

Source: The American Gaming Association

The American Gaming Association also reports that Illinois was the seventh highest commercial casino tax revenue producing state in the nation in CY 2010, down from its 2009 ranking of 5th and its 2007 ranking of 3rd. The state with the highest amount of commercial gaming tax revenue was Pennsylvania totaling \$1.328 billion. They enjoyed an 18.8% increase due the addition of three new casinos over the past couple of years. In second was Indiana with casino tax revenues totaling \$875 million in CY 2010. Nevada (\$835M), Louisiana (\$572M), and New York (\$504M) rounded out the top five.

	2009	2009 Ranking	2010	2010 Ranking	% Change
Pennsylvania	\$1,118.0	1	\$1,328.0	1	18.8%
Indiana	\$878.0	2	\$874.9	2	-0.4%
Nevada	\$831.8	3	\$835.4	3	0.4%
Louisiana	\$598.1	4	\$572.0	4	-4.4%
New York	\$455.5	7	\$503.5	5	10.5%
Missouri	\$469.1	6	\$486.1	6	3.6%
Illinois	\$495.6	5	\$466.1	7	-6.0%
West Virginia	\$408.4	8	\$378.5	8	-7.3%
Michigan	\$320.0	10	\$311.4	9	-2.7%
New Jersey	\$347.6	9	\$305.5	10	-12.1%
Iowa	\$306.2	11	\$305.4	11	-0.2%
Rhode Island	\$292.1	13	\$296.3	12	1.4%
Mississippi	\$296.3	12	\$285.5	13	-3.7%
Delaware	\$227.6	14	\$243.1	14	6.8%
Florida	\$108.4	15	\$140.8	15	30.0%

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 2011 State of the States Report.

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								
<i>(IOWA)</i>								
Riverboat	FY 08	% Change	FY 09	% Change	FY 10	% Change	FY 11	% Change
Rhythm City (Davenport)	\$56.7	-15.3%	\$58.2	2.7%	\$54.8	-5.9%	\$49.3	-9.9%
Isle of Capri (Bettendorf)	\$96.6	5.7%	\$89.0	-7.9%	\$78.3	-12.0%	\$78.5	0.2%
Quad City Area	\$153.2	-3.1%	\$147.2	-4.0%	\$133.1	-9.6%	\$127.8	-4.0%
AGR % of Quad City Area	82.1%		73.8%		63.7%		60.6%	
<i>(ILLINOIS)</i>								
Riverboat	FY 08	% Change	FY 09	% Change	FY 10	% Change	FY 11	% Change
Rock Island	\$33.4	-11.2%	\$52.3	56.5%	\$75.7	44.7%	\$83.1	9.8%
Quad City Area	\$33.4	-11.2%	\$52.3	56.5%	\$75.7	44.7%	\$83.1	9.8%
AGR % of Quad City Area	17.9%		26.2%		36.3%		39.4%	
TOTAL QUAD CITY AGR	\$186.7	-14.3%	\$199.5	52.6%	\$208.8	35.2%	\$210.9	5.8%

Observations

- Over the last several fiscal years, Iowa's two Quad City area riverboats have been on a downward trend. The combined AGR levels of these facilities declined 10.1% in FY 2007, 3.1% in FY 2008, 4.0% in FY 2009, 9.6% in FY 2010, and another 4.0% in FY 2011. In comparison, Illinois' Rock Island riverboat's AGR has seen much improvement since opening a new, larger facility in December 2008. Receipts grew 56.5% in FY 2009, 44.7% in FY 2010, and another 9.8% in FY 2011.
- Much of the decline experienced for Iowa's Quad City's riverboats is due to the competition from the new Rock Island Casino. However, also contributing to the falloff is the fact that these older casinos are also competing with a casino just south of Iowa City in Riverside, Iowa (opened in FY 2007) and an updated facility in Clinton, Iowa, which opened in July 2008. (Both facilities are within an hour's drive of the Quad City area).
- In FY 2011, Iowa's two area riverboats made up approximately 60.6% of the Quad City region's AGR, while Illinois' Rock Island riverboat made up 39.4% of the total. This is a significant change from the ratio in past years (The ratio in FY 2008 was: 82.1% in Iowa, 17.9% in Illinois). In perspective, in the Quad City area, Iowa (Scott County) makes up approximately 52.8% of the population, while Illinois (Rock Island County) makes up 47.1%. This would suggest that Illinois, despite the large increase over the past several years, is still losing casino patrons to Iowa.
- Not shown in the above table are three other Iowa casinos that are competing for the Illinois gambling dollar. These are: The Diamond Jo in Dubuque (FY 11 AGR of \$67M), Wild Rose in Clinton (\$40M), and Catfish Bend in Burlington (\$38M). A significant portion of this combined \$145 million likely came from Illinois residents.

ST. LOUIS AREA

TABLE 17: Adjusted Gross Receipts (AGR) in St. Louis Region								
\$ in millions								
<i>(MISSOURI)</i>								
Riverboat	FY 08	% Change	FY 09	% Change	FY 10	% Change	FY 11	% Change
Harrah's (Maryland Heights)	\$303.0	-6.8%	\$292.4	-3.5%	\$288.0	-1.5%	\$269.3	-6.5%
President (St. Louis)	\$45.0	-33.1%	\$23.3	-48.3%	\$19.2	-17.4%	\$0.0	-100.0%
Ameristar (St. Charles)	\$294.9	-1.8%	\$297.0	0.7%	\$288.8	-2.8%	\$278.3	-3.6%
Lumiere (St. Louis)	\$86.1	N/A	\$181.0	110.2%	\$195.1	7.8%	\$173.2	-11.2%
River City (S. St. Louis County)	\$0.0	N/A	\$0.0	N/A	\$57.5	N/A	\$180.9	214.6%
St. Louis Area	\$729.0	5.2%	\$793.6	8.9%	\$848.6	6.9%	\$901.7	6.3%
AGR % of St. Louis Area	71.3%		76.7%		79.4%		81.6%	
<i>(ILLINOIS)</i>								
Riverboat	FY 08	% Change	FY 09	% Change	FY 10	% Change	FY 11	% Change
E. St. Louis	\$185.2	7.6%	\$154.4	-16.6%	\$139.7	-9.5%	\$127.9	-8.4%
Alton	\$109.0	-13.1%	\$86.9	-20.3%	\$80.1	-7.8%	\$75.7	-5.5%
St. Louis Area	\$294.2	-1.1%	\$241.3	-18.0%	\$219.8	-8.9%	\$203.6	-7.4%
AGR % of St. Louis Area	28.7%		23.3%		20.6%		18.4%	
TOTAL ST. LOUIS AGR	\$1,023.2	3.3%	\$1,034.9	1.1%	\$1,068.4	3.2%	\$1,105.3	3.5%

Observations

- After moderate gains in FY 2006 and FY 2007, the St. Louis area riverboats in Missouri have combined to see their AGR levels grow 5.2% in FY 2008, 8.9% in FY 2009, 6.9% in FY 2010, and 6.3% in FY 2011. At the same time, Illinois' St. Louis area riverboats' AGR fell 1.1% in FY 2008, 18.0% in FY 2009, 8.9% in FY 2010, and another 7.4% in FY 2011.
- 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 President Casino in St. Louis. This casino saw its AGR levels fall from \$71.4 million in FY 2005 to only \$19.2 million in FY 2010 before closing in June 2010.
- The dormant 13th license was chosen in December 2010 to go to Cape Girardeau, Missouri, on the Illinois border near the southern tip of Illinois. One of the reasons Cape Girardeau was chosen over another St. Louis location was that a new casino here would have less of a cannibalization effect on other Missouri casinos and that Illinois would "bear a good share of the sales impact", according to an economic analysis done by the Missouri Gaming Commission. This new casino is scheduled to open in 2012.
- In FY 2011, Missouri's portion of total AGR in the St. Louis region was at 81.6%, while Illinois composed 18.4% 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								
<i>(INDIANA)</i>								
Riverboat	FY 08	% Change	FY 09	% Change	FY 10	% Change	FY 11	% Change
Ameristar (E Chicago)	\$319.6	-0.4%	\$289.5	-9.4%	\$253.6	-12.4%	\$248.1	-2.2%
Horseshoe (Hammond)	\$448.0	0.8%	\$527.2	17.7%	\$542.0	2.8%	\$538.1	-0.7%
Majestic Star (Gary)	\$130.0	-5.9%	\$120.0	-7.7%	\$110.3	-8.0%	\$113.4	2.8%
Majestic II (Gary)	\$115.6	0.0%	\$98.7	-14.6%	\$98.6	-0.1%	\$101.7	3.2%
Chicago Area	\$1,013.2	-0.6%	\$1,035.4	2.2%	\$1,004.6	-3.0%	\$1,001.4	-0.3%
AGR % of Chicago Area	45.7%		52.2%		53.3%		54.1%	
<i>(ILLINOIS)</i>								
Riverboat	FY 08	% Change	FY 09	% Change	FY 10	% Change	FY 11	% Change
Elgin	\$396.2	-9.1%	\$311.8	-21.3%	\$286.1	-8.2%	\$286.1	0.0%
Joliet Harrah's	\$349.2	-4.2%	\$292.1	-16.4%	\$253.9	-13.1%	\$236.3	-6.9%
Joliet Hollywood	\$210.8	-16.5%	\$127.9	-39.4%	\$156.8	22.6%	\$147.7	-5.8%
Aurora	\$249.4	-8.5%	\$215.0	-13.8%	\$185.0	-14.0%	\$178.4	-3.5%
Chicago Area	\$1,205.8	-9.1%	\$946.7	-21.5%	\$881.8	-6.9%	\$848.5	-3.8%
AGR % of Chicago Area	54.3%		47.8%		46.7%		45.9%	
TOTAL CHICAGO AREA AGR	\$2,219.0	-5.4%	\$1,982.1	-10.7%	\$1,886.3	-4.8%	\$1,849.9	-1.9%

Observations

- Over the past four fiscal years, adjusted gross receipts for the Illinois riverboats in the Chicago Area have fallen from a combined \$1.206 billion in FY 2008 to \$849 million in FY 2011, a decline of 29.6% over this time period. In contrast, Indiana's four casinos near Chicago have held steady, with an AGR of \$1.013 billion in FY 2008 compared to an AGR total of \$1.001 billion in FY 2011, a decline of only 1.2%.
- The economy has no doubt contributed to the stagnant gambling market in this region. However, the discrepancy between Illinois and Indiana figures would suggest that another factor must be contributing to Illinois' falloff. The timing of the declines would suggest that this factor is Illinois' indoor smoking ban.
- In FY 2006, using these eight casinos for the comparison, the majority of total adjusted gross receipts were in Illinois (55.8% vs. 44.2%). However, in FY 2011, Indiana now holds a decisive majority of adjusted gross receipts at 54.1% compared to Illinois portion of 45.9%.
- Not included in these statistics above is the Blue Chip Casino in Michigan City, Indiana which had an AGR total of \$175 million in FY 2011. (It was not included because it is approximately an hour's drive from Illinois). If this location was included, the AGR portion in this area would increase to 58.1% for Indiana. Illinois would then have \$328 million less in adjusted gross receipts than Indiana in this region. This is despite the fact that the vast majority of the population in the Chicago area is in Illinois.
- Also impacting the region is the Four Winds Casino in New Buffalo, Michigan, which is just 10 miles east of the Blue Chip Casino, and also only about an hour's drive from the Illinois border. This casino takes in roughly \$300 million per year and no doubt has a negative impact on the Illinois and Indiana locations.

How Can Revenues Improve?

Over the past several years, revenues from riverboat gambling have been on a downward trend. The desire for more funding has led to discussions on what changes could be made to Illinois' gaming industry to increase available resources. While many of the changes discussed are simple concepts, they are often found to be difficult to put into effect.

Fix the Economy

One change that would obviously help gaming revenues is to fix the economy. If unemployment figures and discretionary spending levels were to improve, more money would be available to spend on gambling in Illinois. But this is obviously not an easy fix and more than the gaming industry wishes that a quick answer to these financial problems could be found. The market so far has struggled to regain levels of the past and there is no immediate solution in site. Because of this, it appears that a rapid turnaround in gaming revenues due to a robust economy is not in the foreseeable future.

Remove the Smoking Ban at Casinos

This report has discussed how it appears that the indoor smoking ban has hurt gaming revenues. One solution, of course, would be to reverse the State ban, or at a minimum, create an exemption for riverboats. While this is a simple concept, passage of such an idea has thus far been proven difficult. Opponents have touted the health benefits of keeping the casinos smoke-free. They also point out that if a smoking exemption for casinos is allowed, then many other businesses which are known for smoking (i.e. bowling alleys, bars, etc.) will be asking for the same exemption – a path many lawmakers would rather avoid. While a smoking exemption provision remains an option, the idea has failed to garner enough legislative support for passage thus far.

Obtain Revenues from the Tenth License

As discussed previously, some states have been able to avoid the revenue declines like that of Illinois by continuing to improve their numbers by adding more gaming locations. Until this year, Illinois had not added a new riverboat license since Elgin's riverboat opened in 1994. This lack of expansion, along with a limit on the number of gaming positions allowed, has stymied the amount of revenue that could be generated in Illinois. But in July 2011, after years of turmoil and litigation, the dormant 10th license (originally located in Jo Davies County) finally opened in Des Plaines as The Rivers Casino.

On December 22, 2008, the Illinois Gaming Board announced that they awarded its 10th gambling license to Midwest Gaming LLC to open a casino in Des Plaines. The location in Des Plaines was chosen over two other finalist bidders in Rosemont and Waukegan. 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.

While the 10th license was awarded in December 2008, it has taken over two-and-a-half years before the first amount of casino revenues were 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, it has taken over a year for the new riverboat to be built and become operational.

The impact that the Des Plaines casino will have on revenues is promising, but complicated. If Des Plaines were to match the performance of other casinos in the Chicago area, the new casino could generate over \$250 million in adjusted gross receipts, which would eventually yield around \$100 million in annual tax revenues. However, due to statutory requirements of how the new casino revenues are to be distributed, the timing of when they are first received, and the expected cannibalization effect that the new casino will have on other casinos, the overall impact on tax revenues, especially for State tax revenues in FY 2012, will be minor. In fact, it is possible that the amount of State revenues transferred into the Education Assistance Fund will be less in FY 2012, even with the new casino, than it was in FY 2011. (A section detailing the revenue impact from the 10th License is discussed at the end of this section).

Expand Gambling Beyond the 10th License

The idea of adding more casinos in Illinois is often met with controversy as any change that would add additional gaming areas is perceived as an "expansion of gambling", a negative connotation to many. 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 has been a contentious debate for Illinois lawmakers.

For a number of years, the idea of expanding Illinois' gaming market has failed to reach enough support for passage in the form of legislation. But in the Spring of 2011, an expansive gambling package was finally passed by the State legislature in the form of SB 0744, as amended by House Amendments 1 thru 7. However, the proposal's future remains in limbo as the bill has yet to be signed by the Governor and is (at the time of this report) currently held by the Senate President.

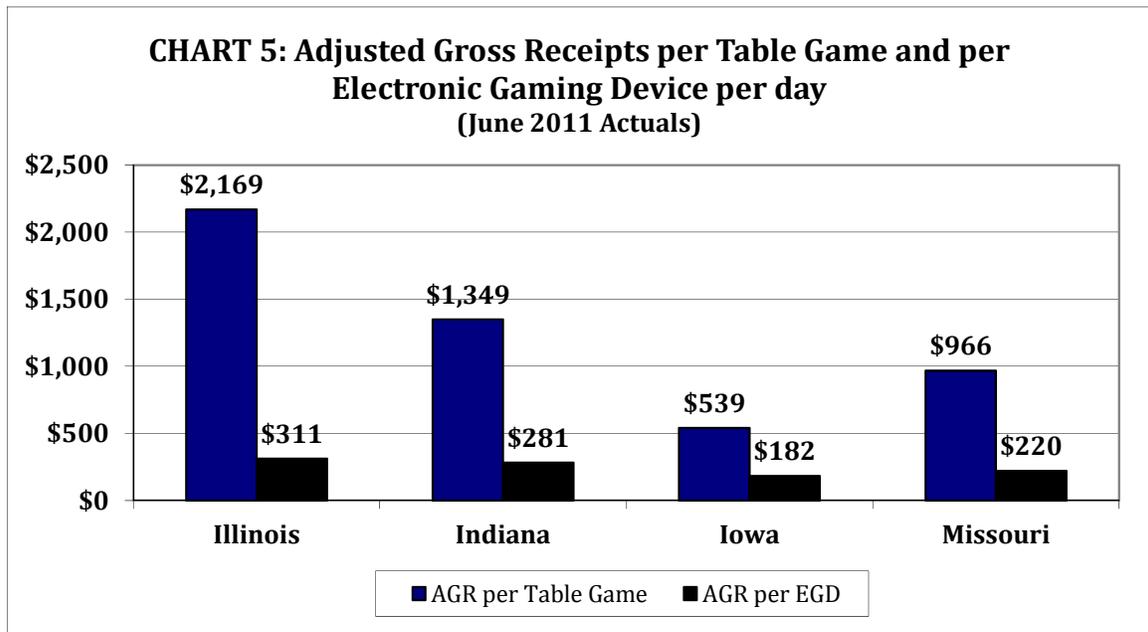
The Commission estimated that this legislation, as it was passed by both chambers, would generate over \$1.5 billion in one-time revenues and nearly \$500 million in recurring tax revenues for numerous State and local areas of government under full implementation. But since the fate of the gaming expansion bill and its final structure in lieu of potential amendatory vetoes is not known, providing a detailed analysis of the legislation in its current form may prove irrelevant, especially as it relates to specific revenue projections and its distribution.

While a detailed description of SB 0744 is not included in this report, the legislation contains most (if not all) of the major components of expansion that have been discussed over the past decade. The following section summarizes the most prominent ideas of how gaming revenues could increase, which 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. It must be stressed that the impact that each of these components would have on revenues ultimately depends on what other forms of gambling are included in the final product. With this in mind, a section on gaming cannibalization is included which discusses the impact that gaming expansion can have on other locations.

Add Additional Gaming Positions.

Many feel that Illinois riverboats continue to be at a competitive disadvantage with other states because Illinois only allows a maximum of 1,200 gaming positions per riverboat. The capping of the number of slots and table games that a riverboat may operate prevents riverboat from increasing certain games that are in demand. This often creates waiting times for the more popular games during the peak hours at many of the competitive locations and creates a disincentive for the riverboat patron, which some would argue causes them to go to locations with no position limit.

To illustrate this point, the following graph displays the AGR per Table Game (per day) and the AGR per EGD (per day) for each of the Midwestern riverboat states for June 2011. (EGD stands for electronic gaming device, i.e. slot machines). Highlights of the graph are pointed out below the graph.



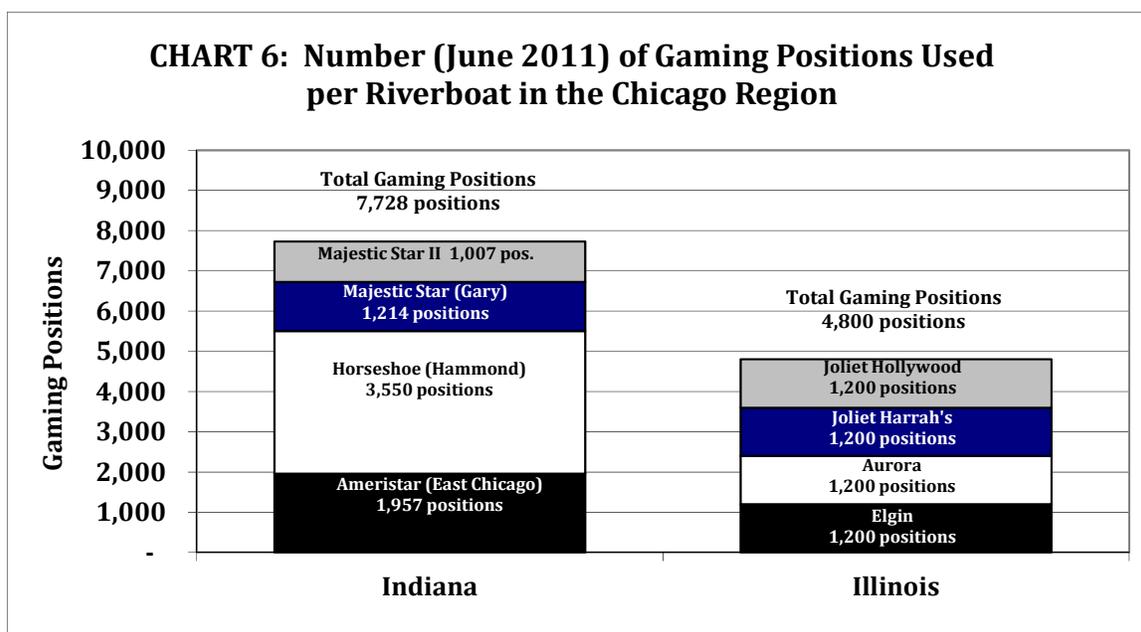
- Illinois’ AGR per Table Game and AGR per EGD are significantly higher than the other neighboring states.

- These figures suggest that Illinois gamblers spend more money on gambling than other states and/or that the gaming positions in Illinois are being utilized more frequently than other locations.
- These numbers also suggest that Illinois is not at 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 following graph displays the number of gaming positions available at the Chicago Area riverboats for Indiana and Illinois. (Gaming positions are calculated using the following formula: slot machines count as 0.9 positions, craps tables count as 10 positions, and other tables count as 5 positions).

As the graph illustrates, according to Indiana’s June 2011 monthly gaming report, the four Indiana riverboats closest to Chicago had 7,728 gaming positions. That is 2,928 more positions than the four Chicago area riverboats in Illinois. If the Michigan City’s Blue Chip Casino was included, which has an additional 2,039 positions, Indiana had nearly 5,000 more gaming positions than Illinois in the Lake Michigan area. (It should be noted that the opening of the Des Plaines Casino will shrink the difference, as the Rivers Casino will increase Illinois’ number in this area by 1,200 positions).



Based on these figures, the four Indiana riverboats closest to Chicago make up 61.7% of all gaming positions in that region. If the Michigan City location was included, Indiana would make up 67.0% of all gaming positions in the Lake Michigan area. Once Des Plaines positions are included, Indiana's portion of the Lake Michigan positions drops to 61.9%. But even with this new Illinois casino, the majority of the gaming positions are in Indiana 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 1,953 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 current 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. The Horseshoe in Hammond, which is closest to Chicago's metropolitan area and by far Indiana's highest revenue generator, has 3,550 positions (June 2011).

Add 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: 2011", thirteen states now have racetrack casinos. Five states (Delaware, Maryland, New York, Rhode Island and West Virginia) have racetrack casino facilities operated by the state lottery. For these casinos, the facilities have video lottery terminals and the lottery commission takes in all revenues before making distributions to stakeholders such as track owners, breeders, and others. The remaining eight states (Florida, Indiana, Iowa, Louisiana, Maine, New Mexico, Oklahoma, and Pennsylvania) operate and tax their gaming facilities more similar to traditional 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. These two racetracks combined for an AGR total of \$392 million in FY 2009 and \$429 million in FY 2010. In FY 2011, a total of \$457 million in adjusted gross receipts were collected – an annual increase of 6.5%. These locations are limited to a total 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 2011, Iowa had nearly 6.0 million visitors to their three locations in Council Bluffs, Altoona, and Dubuque, generating a combined \$439.2 million in adjusted gross receipts. Nearly \$102 million in State and local tax revenues and fees were collected from these receipts in FY 2011.

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. SB 0744 also proposed adding slots at the Illinois State Fairgrounds during horseracing events. 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 not struggled. As is discussed later in the report, Illinois' total handle amount of \$726 million in CY 2010 was down 1.5% over the 2009 amount and marked the eighth consecutive year of declining revenues. The 2010 handle amount was the lowest experienced in the last 30 years of Illinois racing. It is probably no 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.

The Commission is often asked how much revenue Illinois could realize by allowing slot machines at its racetracks. One way to get a feel for the revenue potential of a horse track casino is to look at revenue data from other states. Below are the latest racino figures from Iowa, Indiana, and Pennsylvania. The Pennsylvania market is included because of its metropolitan similarities to Illinois and because the American Gaming Association has ranked Pennsylvania as the top commercial casino tax revenue state in the nation. As shown, generally, the revenue amounts range between \$200 and \$300 per slot machine per day.

TABLE 19: FY 2011 Slot Machine AGR Statistics at Selected Racetrack Casinos				
Racino	Location	FY 2011 Slot AGR (in mil.)	Slot Machines	AGR/Slot/ Day
Prairie Meadows	Altoona, IA	\$173.3	1,927	\$246
Horseshoe Casino	Council Bluffs, IA	\$162.8	1,782	\$250
Mystique Casino	Dubuque, IA	\$55.8	976	\$157
Hoosier Park	Anderson, IN	\$216.9	2,000	\$297
Indiana Live	Shelbyville, IN	\$240.4	2,000	\$329
Harrah's Chester Casino	Chester, PA	\$225.6	2,959	\$209
Presque Isle Downs Casino	Erie, PA	\$169.8	2,066	\$225
The Meadows Racetrack & Casino	Washington, PA	\$250.5	3,308	\$207
Mohegan Sun at Pocono Downs	Wilkes-Barre, PA	\$225.6	2,332	\$265
Parx Casino	Bensalem, PA	\$380.1	3,407	\$306
Hollywood Casino at Penn National	Grantville, PA	\$249.1	2,463	\$277

Note: Pennsylvania and Iowa locations also have AGR from table games which are not included in the above table.

Estimating Illinois' racetrack casino revenue potential is difficult because it depends on the gaming environment at the time of its operation, the number of gaming positions it utilizes, its location, and how much other gambling competition exists in proximity to these racinos. Most expansion proposals include a casino in Chicago and other suburban casinos to go along with these racinos. As more competition exists, the less revenue that will be able to be generated from these locations.

As shown below, a racetrack in Arlington would only be 10 miles from the new Des Plaines Casino. A casino at Maywood Racetrack would only be 11 miles from Des Plaines and potentially only 15 miles from a new Chicago location. While new revenues would be generated by having these new racetrack casinos, there is little doubt that there would be a significant cannibalization effect on the other casinos throughout the Chicago area. (A section on cannibalization is on the following page).

TABLE 20: Distance in Miles to Current, Future, and Potential Gambling Locations

	<i>Curent Riverboat Locations</i>			<i>10th License Location</i>	<i>(Downtown)</i>	<i>Closest Indiana Riverboat</i>
	<i>Aurora</i>	<i>Elgin</i>	<i>Joliet</i>	<i>Des Plaines</i>	<i>Chicago</i>	<i>Hammond</i>
	Arlington Racetrack	41	21	45	10	28
Balmoral Racetrack	64	66	30	54	39	19
Hawthorne Racetrack	38	37	32	25	12	28
Maywood Racetrack	33	27	36	11	15	37
Des Plaines (10th License)	39	22	43	X	21	42
Chicago (Downtown)	43	44	42	21	X	26

Distances in driving miles according to maps.google.com

Add New Riverboats and Casinos

Under current law, Illinois has only ten licenses available for riverboat gambling operations. When the discussion of gaming expansion arises, inevitably these talks include increasing the number of gaming licenses to add possibly more casinos. Most gaming proposals have looked to put a 4,000 position land-based casino in the City of Chicago. Other locations that have been targeted for future homes to casinos include the North Suburbs, the South Suburbs, Rockford, and Danville.

New casinos, especially a land-based casino in Chicago, would generate millions of dollars to the State and local governments. But how much revenue could these new casinos generate? Most expect that a new casino 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 2011, but has had totals surpassing \$400 million just four short years ago.

As with the racinos, a casino’s performance would ultimately depend on what other gaming components are implemented at the time of a casino’s operation year. These components include the tax structure used, the number of gaming positions allowed per facility, the location of the new facility in accordance with population and to other competing casinos.

Aside from the recurring revenues, millions of dollars in one-time revenues could also be collected from the development of new casinos. These revenues would come from the bidding of new licenses, application fees, and from the purchasing of gaming positions. The latest gaming proposals have also included collecting one-time reconciliation payments, which are (as proposed) to be paid by the casino four years after operations begin. The amount of these payments would be based on casino revenue performance.

Cannibalization of Gaming Revenues

When choosing a new location for a casino and projecting its revenue, the concept of cannibalization is an important factor that must be considered. It seems to be human nature to like the latest, new thing – especially if it reduces the drive time. Because of this, a new casino generally has a negative impact on older facilities in that same area. While most agree that some form of cannibalization will take place when a new casino opens in an existing area of gaming, the difficulty comes in trying to predict the extent that existing casinos would be affected.

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 a 44.7% in FY 2010, and a 9.8% increase in FY 2011. This increase in AGR appears to have come at the expense of Iowa's two Quad-City casinos as their combined AGR declined around 7.3% in the first seven months (FY 2009 decline) followed by another 9.6% decline in FY 2010, and yet another 4.0% drop in FY 2011. 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 saw its AGR levels 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 President's license was removed and the casino was closed in June 2010.

Apparent cannibalization also occurred as a result of the recent opening of the River City Casino, which added an additional 2,000 slot machines and 50+ table games 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 in FY 2010 and additional \$181 million in FY 2011. However, the Missouri Gaming Commission figures show that Missouri gaming revenues are only up \$108 million from FY 2009 levels. 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. St. Louis' Lumiere Casino declined 11.2% in FY 2011 and Illinois' Alton and E. St. Louis's riverboats fell 5.5% and 8.4% in FY 2011, likely as a result of this new competition.

It is largely expected that the casino in Elgin, which lies only 22 miles from Des Plaines, will see significant declines in attendance and adjusted gross receipt as a result of the opening of The Rivers Casino. In fact, in the first two months of Des Plaines' operations, Elgin's AGR totals were 16% below levels from a year prior. Elgin's August AGR total of \$18.5 million was its lowest monthly total in nearly 16-years. Significant increases in adjusted gross receipts are anticipated from the Des Plaines casino in FY 2012, but AGR losses from the existing boats in the new casino's proximity will likely offset much of Des Plaines revenue gains. Industry insiders will be anxious to see what the extent of this offset will be in the months to come.

The Impact of Changing the Tax Structure

One factor that has a huge impact on the amount of tax revenues collected from casino gambling is the tax structure imposed on the casino. A changing of this tax structure can have both a positive and negative impact on revenue collections.

In an effort to generate higher revenues, in FY 2004, lawmakers increased the wagering tax on a casino to a maximum 70% tax rate and admission tax rates to as high as \$5 per patron. Shortly after this tax change it became apparent that the financial strategy of the riverboats changed under the higher tax rate. Following the rate change, Statewide AGR fell 7.8% and riverboat admissions fell 16.9%. The decline in riverboat figures was primarily due to the reaction of the riverboats, which chose to lower expenses in response to the high tax rates by reducing operating hours, charging admission, and by cutting payroll.

Industry experts surmised that riverboat operators who also owned casinos outside of Illinois chose to redirect their marketing, capital, and operating expenses to the casinos they owned in lower-taxed states, such as Indiana, in order to maximize profits. These decisions caused many Illinois gamblers to go elsewhere to gamble, which is why Illinois' attendance and AGR figures fell during the higher tax period.

When the wagering tax on Illinois riverboats was allowed to revert back to a maximum 50% tax rate from the 70% tax rate, Illinois' riverboat figures improved significantly. 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 business changes of the owners in response to the rollback of the wagering tax rates.

While admission and AGR figures did fall under the initial tax increase, the fact is, State revenues were 16.4% higher in FY 2004 under the higher rates than they were in FY 2003 under the lower rates. So should Illinois again increase tax rates to obtain higher tax revenues? Experts fear that 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 its tax rates again, operators who own licenses in other states would likely put more of their resources into out-of-state locations. This would likely result in lower AGR and admission figures than we have already. It is quite possible, that even with a higher tax rate, the resulting tax revenues would be similar, if not even lower, than it is under current law.

Perhaps with this in mind, instead of increasing tax rates, the latest gaming proposals, including SB 0744, contain language to lower the wagering tax structure. Not only would the wagering tax rates be lowered from a maximum rate of 50% to a maximum rate of 40%, but the proposal would also provide that the adjusted gross receipts of slot machine and table games shall be taxed separately, and that the "graduated" tax structure would also decline after reaching a certain point. While

these proposed tax breaks would be a welcomed change to casino operators who have experienced substantial falloffs in recent years, this tax structure, from a State revenue perspective, will make it very challenging for the State to experience any significant increases in revenue, despite the extent of the gaming package proposed.

To understand the revenue constraints that would be established by the proposed tax structure, look at the following examples. As shown below, assume a casino is able to collect \$300 million in adjusted gross receipts – a typical AGR amount under today’s conditions. Under the current tax structure, this would generate \$115.6 million in tax revenues. However, if this same amount of AGR was taxed under the proposed tax rate (that would become effective July 2013 under SB 0744), tax revenues would only total \$93.1 million – a decline of nearly 20%. In order for the State to “break even”, an additional \$87.5 million in AGR would have to be added to this casino’s total, which would require AGR growth of 29.2%.

TABLE 21: Example of Tax Revenue Impact from Lowering Tax Rates					
<i>EGD and Table Game AGR Taxed Together</i>					
AGR Levels	Current Law Tax Rate	Revenue Generated	AGR Levels	Proposed Tax Rate*	Revenue Generated
\$50	50.0%	\$25.0	\$50	40.0%	\$20.0
\$50	50.0%	\$25.0	\$50	40.0%	\$20.0
\$50	45.0%	\$22.5	\$50	35.0%	\$17.5
\$50	37.5%	\$18.8	\$50	32.5%	\$16.3
\$25	32.5%	\$8.1	\$25	27.5%	\$6.9
\$25	27.5%	\$6.9	\$25	22.5%	\$5.6
\$25	22.5%	\$5.6	\$25	17.5%	\$4.4
\$25	15.0%	\$3.8	\$25	10.0%	\$2.5
Total AGR Collected:		\$300.0	Total AGR Collected:		\$300.0
Tax Revenue under Current Tax Rate Structure:		\$115.6	Tax Revenue under Lower Tax Rate Structure:		\$93.1
Revenue Impact from Lowering Tax Rates on Casino with AGR of \$300M:					(\$22.5)
Additional AGR (in millions) Needed to "Break Even":					\$87.5
Growth in AGR needed to "Break Even":					29.2%

* Tax Rate Structure as proposed by SB 0744, as amended by House Amendments 1-7,

This example does not include the proposal to tax adjusted gross receipts from electronic gaming devices and table games separately. As the following table shows, taxing these receipts separate (assuming a split of \$250M AGR from EGDs and \$50M from table games) further lowers tax revenues by an additional \$13.1 million. This

decline is because receipts that would have been taxed under a 40.0% tax rate have now been shifted and taxed under an average tax rate of 13.8%. Taxing EGD and table game AGR separately would bring the total impact of modifying the wagering tax structure, compared to current law, to approximately \$35.6 million. This means that an additional \$103.2 million (an AGR growth of 34.4%) would have to be generated by this casino in this example just to break even.

TABLE 22: Revenue Impact of Taxing EGD's and Table Games Separately					
\$ in millions					
AGR Levels	Proposed Tax Rate*	Revenue Generated	AGR Levels	Proposed Tax Rate*	Revenue Generated
Electronic Gaming Devices (EGD)					
\$50	40.0%	\$20.0			
\$50	35.0%	\$17.5			
\$50	32.5%	\$16.3			
\$25	27.5%	\$6.9			
\$25	22.5%	\$5.6			
\$25	17.5%	\$4.4	\$25	17.5%	\$4.4
\$25	10.0%	\$2.5	\$25	10.0%	\$2.5
Table Games					
Total AGR Collected:		\$250.0	Total AGR Collected:		\$50.0
Tax Revenue under Lower Tax Rate Structure:		\$73.1	Tax Revenue under Lower Tax Rate Structure:		\$6.9
Combined AGR Collected:					\$300.0
Tax Revenue under Separated Lower Tax Rate Structure:					\$80.0
Revenue Impact from Lowering Tax Rates on Casino with AGR of \$300M:					(\$35.6)
Additional AGR (in millions) Needed to "Break Even":					\$103.2
Growth in AGR needed to "Break Even":					34.4%

As the previous examples show, it will take significant amounts of new revenues (AGR) to be collected by Illinois casinos in order for the State to realize any substantial tax revenue increases if the tax rate structure is to be lowered. Is this possible? As discussed earlier, lowering the tax rates should make the Illinois casino market a more desirable place for owners to invest gaming marketing dollars. With more money freed up from lower taxes, owners who own casinos in multiple states should be able to spend money on improving their casinos in Illinois and take advantage of the State's population base. This should lead to higher attendance and more gaming money at Illinois riverboats.

Realistically, though, while adjusted gross receipts should increase under lower taxes, it will be difficult to make up the losses in tax revenues due to the reduced rates. When the tax rates were lowered in 2005, AGR amounts improved overall by around 7%, but were as high as 33% in some locations. As the previous table indicates, it would take a 34.4% increase in AGR growth at the current casinos to just break even under the example provided. This would mean a momentous change in gaming behavior would have to take place for the tax change to generate new revenues from the existing casinos.

Assisting the potential momentum that would come from lower tax rates is the accompanying proposal that would increase gaming positions beyond 1,200 positions. But, as the debate over gaming expansion went along, the current riverboats claimed that they had no intention of buying additional positions in this current gaming environment. They felt that it probably would not be worth the investment since many of their machines are often sitting empty during this gaming downturn and since additional gaming competition could be on the way, not only from new casinos but also potentially from video gaming.

On the other hand, in the first several months after changes go in effect, there would be very little new competition, as it would take many months, if not years, before new competing casinos would come online. This time of limited competition may be too tempting for casino operators to pass up, especially at these lower tax rates. However, if the casinos do decide to pass on these additional positions and the AGR see only stagnant or even modest growth, it is likely that the State will see lower tax revenues coming from the existing casinos under a reduced tax structure.

Therefore, if any substantial increases in tax revenues were to occur, it would have to come from new casinos. Whether from a new land-based casino in Chicago, new riverboat casinos, or racetrack casinos, these facilities would be the driving force for any State revenue increases. The revenues from these facilities have to be solid enough to more than offset any losses that would come from the cannibalization of other nearby casinos. This may be difficult to do because of the lower tax rates.

To examine the impact of cannibalization combined with the lower tax rates even a little further, again using the example provided earlier, assume that a new horse track casino (racino) were to open near the existing casino that generates annual revenues of \$300 million. Also, assume the racino takes away \$50 million in revenues from the existing casino, bringing the existing casino's annual total down to \$250 million (which would equate to a decline of 16.7%). We will also say the racino, with that \$50 million from the other casino, generates a total of \$150 million. (While this amount may seem low, especially when Indiana casinos make nearly \$200 million, the proposed Illinois casinos would be limited to 1,200 positions. The Indiana casinos have as many as 2,000 gaming positions per racino).

The \$50 million loss in AGR would equate to a \$20 million decrease in tax revenues from the existing casino. The racino, though, would generate an additional \$35.6 million in tax revenues, bringing the combined total to \$95.6 million. This would

equate to a net increase of \$15.6 million, or a 19.5% increase in tax revenues when combining the two casinos under the proposed tax rates.

However, when the existing casino was under the current law tax rates, the casino generated \$115.6 million all by itself. This means that the two casinos under the lowered tax rates would actually bring in \$20.0 million less revenue than if there were only one existing casino under the current higher tax rates – a 17.3% falloff in tax revenues. This is despite the fact that adjusted gross receipts in this area would increase by \$100 million, or 33.3% with two casinos.

For there to be no difference in tax revenues between the two scenarios, this racino would need to generate at least \$206.3 million in AGR. Proponents contend this is possible because there remain large untapped areas of gamblers near the City of Chicago. Whether this is true or not will depend on whether the new casino can overcome the gloomy gaming conditions of today.

TABLE 23: Example of Revenue Impact from New Casino with 16.7% Cannibalization on Existing Casino								
\$ in millions								
AGR Levels	Proposed Tax Rate*	Revenue Generated	AGR Levels	Proposed Tax Rate*	Revenue Generated	AGR Levels	Proposed Tax Rate*	Revenue Generated
EXISTING CASINO						NEW AREA CASINO		
Electronic Gaming Devices (EGD)								
Cannibalized to New Casino	40.0%	\$0.0						
\$50	35.0%	\$17.5				\$50	32.5%	\$16.3
\$50	32.5%	\$16.3				\$25	27.5%	\$6.9
\$25	27.5%	\$6.9				\$25	22.5%	\$5.6
\$25	22.5%	\$5.6				\$25	17.5%	\$4.4
\$25	17.5%	\$4.4	\$25	17.5%	\$4.4	\$25	10.0%	\$2.5
\$25	10.0%	\$2.5	\$25	10.0%	\$2.5			
						Table Games		
* Tax Rate Structure as proposed by SB 0744, as amended by House Amendments 1-7,								
EGD AGR:		\$200.0	Table Game AGR :		\$50.0			
EGD Tax Revenue Collected:		\$53.1	Table Game Tax Revenue Collected:		\$6.9			
Casino's Combined AGR Collected:					\$250.0	Total AGR Collected:		\$150.0
Tax Revenue Collected:					\$60.0	Tax Revenue Collected:		\$35.6
Revenue Impact on Existing Casino: (\$20.0)								
Total Combined AGR Collected from Existing and New Casino: \$400.0								
New AGR Collected to Area: \$100.0								
% Growth of AGR in Area: 33.3%								
Total Combined Revenue Collected from Existing and New Casino: \$95.6								
New Tax Revenue from Area: \$15.6								
% Growth in Area Tax Revenue: 19.5%								
Revenue Collected from Existing Casino Under Current Law Tax Structure: \$115.6								
Impact of Adding a New Casino with Proposed Tax Change: (\$20.0)								
% Change in Area Tax Revenues Compared to Current Law Tax Structure with One Casino: -17.3%								
AGR Needed from New Casino to "Break Even": \$206.3								

What Will the Future Hold for Illinois Riverboats?

With overall adjusted gross receipts totaling over \$1.35 billion, at first glance, it would appear that gaming in Illinois is a thriving industry. But just four years ago, AGR approached nearly \$2.0 billion - a 31.0% falloff in revenues. The causes for this turn around are many, but it really can be boiled down to the fact that the nation's economy is constraining consumer spending and that Illinois is at a competitive disadvantage in comparison to the gaming environments of neighboring states.

If SB 0744 were to be signed into law, the gaming landscape in Illinois would dramatically change. But regardless of this bill's outcome, Illinois should see some improvement in its overall AGR and admission levels in the years to come due to the long-awaited July 2011 opening of the 10th riverboat license in Des Plaines. However, even though these figures should rise, an increase in State tax revenues from gambling should not be expected in FY 2012, despite the opening of the new casino. There are three primary reasons for this.

The first reason is that the new casino in Des Plaines is expected to have a cannibalization effect on other Illinois riverboats in that area. For example, the casino in Elgin only lies around 22 miles from the new casino. From a State revenue perspective, the hope is that this new casino will draw new gamers to Illinois riverboats (or reclaim gamblers away from Indiana) instead of hurting the Illinois riverboats that are already here. But the reality is people tend to like new things, and the Elgin casino as well as the three other area Illinois casinos will likely see their revenues fall as a result of this new casino, possibly by as much as 10% to 20%. The expected drop in AGR from the existing casinos will likely offset much of the growth in revenues from the new casino.

A second reason for the lack of growth in State revenues is due to how the new revenues from the Des Plaines casino are to be distributed. Under current law, the following provisions requiring distribution from the State Gaming Fund (SGF) have been set into place by the opening of the 10th riverboat license:

- 1) 15% of AGR of the new license into the Horse Racing Equity Fund.
- 2) 2% of AGR to Cook County for the purpose of enhancing the county's criminal justice system (subject to appropriation from the General Assembly).
- 3) 2% of AGR to Chicago State University.

These additional distributions mean that the State Gaming Fund (and its amounts transferred into the Education Assistance Fund) will receive proportionately less revenues from the Des Plaines Casino compared to the other locations.

A third reason for the potential lack of revenues in FY 2012 is due to the timing of the receipts as it relates to the graduated tax structure. Under current law, the graduated tax structure begins taxing revenues at a minimum rate of 15% and increases to higher tax rates as revenues accrue through December. In January, the rates reset. Because of the July 2011 opening, revenues from the Des Plaines Casino will have only six months to accumulate before resetting in January. In essence, the

new casino will have two six-month periods at the lower tax rates in FY 2012, thus avoiding the potential prolonged tax rate period of 50% that it would hit if its revenues accrued to over \$200 million. This impact would only be felt in FY 2012.

For FY 2012, the Commission estimates (perhaps conservatively) that adjusted gross receipts from the Des Plaines Casino could reach around \$250 million. But, due to the anticipated effect that this new casino will have on existing riverboats, the overall expected increase in State AGR is estimated to be approximately \$180 million. Still, this would mean a 13.5% improvement in State adjusted gross receipts – an increase that Illinois has not experienced in many years.

However, despite this anticipated 13.5% improvement in AGR, State revenues generated by Illinois riverboats are expected to actually decline by \$21 million in FY 2012, again due to the distribution changes impacting the Des Plaines casino, the lower tax revenues generated by the current riverboats, as well as the impact of the graduated tax structure. Overall tax revenues from the casinos would improve (including amounts sent to local governments), but an increase in State revenues should not be expected unless revenues from the Illinois casinos come in better than expected in FY 2012.

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, with or without a large expansion of gaming from SB 0744.

The bottom line from a revenue perspective is this: given the status quo, the casino industry will likely struggle to improve in the years ahead, especially at the older casinos. The Des Plaines casino should be a welcomed addition from an overall revenue standpoint, but the riverboats that are struggling will likely continue to do so until economic conditions improve and they can find ways to compete with the newer casinos surrounding them.

If new casinos are indeed allowed to come into existence in the State of Illinois, the overall outlook could dramatically change. However, for this latest gaming expansion proposal to be a tax revenue increase for the State, the casino industry must build up new gambling interest; be attractive to tourists that visit Illinois; and be able to coerce gamblers that have left to return to Illinois casinos. If dramatic increases in new gaming dollars do not come in as proponents project, the potential exists that, combined with lower tax rates, the State could have a large expansion of gambling, but yet have little to no new tax revenues to show for it, other than one-time up-front fees and reconciliation payments.

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, the Capital Projects Fund, or Special Cause Funds. Since its inception, lottery sales have totaled over \$47 billion. Table 24, on the following page, presents a brief history of the Illinois State Lottery highlighting sales by game, total sales, and the percentage change from the previous fiscal year.

Lottery Revenue Sources

The Illinois Lottery had sales of \$2.258 billion in FY 2011. This was an increase of 3.0%, or \$65.5 million from FY 2010 sales. Chart 7 demonstrates the composition of these sales. Over half of lottery sales came from Instant Games. Instant Game sales totaled \$1.265 billion. This was an increase of 7.7% or \$90.8 million and made up 56% of total sales. The second largest contributor to lottery sales was the Pick 3 game. Pick 3 accounted for 13% of sales at \$291 million. Pick 3 results were down -3.6% from FY 2010.

Pick 4 and Mega Millions each added approximately 8% of total sales. Pick 4 sales were flat at \$191 million, while Mega Millions was down -23.3% to \$171 million. This large decrease is likely due to the introduction of Powerball in February of 2010. Powerball and Mega Millions are multi-state games that appeal to the same lottery consumers. Powerball sales were \$97 million which was an increase of over 88%. Together the multi-state games were down \$6 million or -2.2%.

Little Lotto and Lotto both supplied over \$100 million. Little Lotto was down slightly (-0.9%) to just under \$119 million, while Lotto was down -5.1% to \$105 million. Each of these games made up 5% of total sales. The last game, St. Patrick's Raffle, had sales of \$20 million, which was the same as last fiscal year.

While lottery sales were up, this was almost entirely due to the increase in Instant Games sales. Instant games were up \$90 million, while the rest of the lottery's games were down except for Powerball which was up \$46 million. This increase was most likely due to a cannibalization of Mega Million sales as Mega Million sales were down a similar \$52 million.

This dependence on Instant Games for growth is not new. Since FY 2000, Instant Games have grown an average of 7.0% per year. In-state games (Pick 3, Pick 4, Lotto, and Little Lotto) have averaged yearly decreases of -0.6% per year. The multi-state games have grown an average of 5.3% per year though there is a high level of variance on an annual basis in multi-state game results.

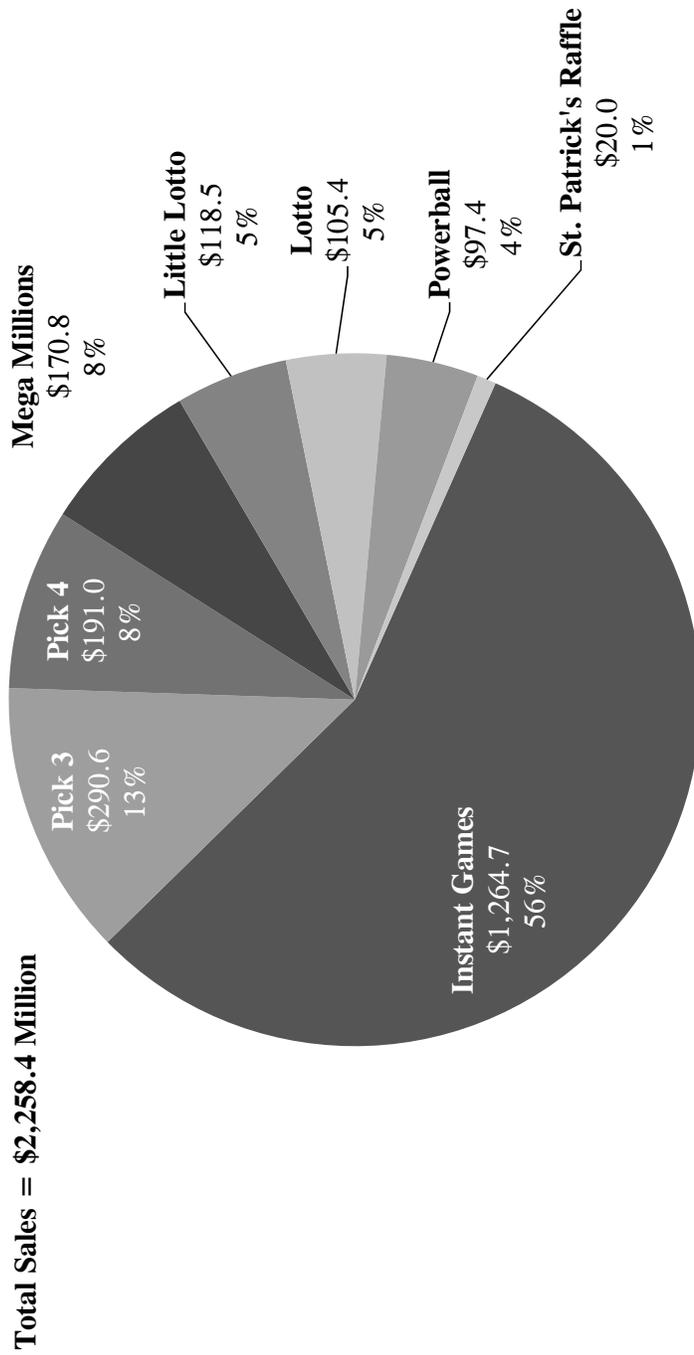
TABLE 24: LOTTERY SALES BY GAME
 FY 1975 - FY 2011*
 (\$ MILLION)

Fiscal Year	Instant Games	Pick 3	St. Patrick's Raffle	Pick 4	Lotto	Little Lotto	Mega Millions	Powerball	Other Games	Total Sales
	Sales	Sales	Sales	Sales	Sales	Sales	Sales	Sales	Sales	\$
	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Change
1975	\$ -	n/a	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 129.3	\$ 129.3
1976	\$ 56.6	n/a	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107.3	\$ 163.9
1977	\$ 62.9	11.1%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50.0	\$ 112.9
1978	\$ 57.5	-8.6%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31.6	\$ 89.1
1979	\$ 56.3	-2.1%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20.4	\$ 76.7
1980	\$ 41.4	-26.5%	\$ 42.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13.7	\$ 97.5
1981	\$ 43.0	3.9%	\$ 164.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7.5	\$ 214.7
1982	\$ 78.2	81.9%	\$ 248.2	\$ 17.7	\$ -	\$ -	\$ -	\$ -	\$ 0.0	\$ 344.1
1983	\$ 158.1	102.2%	\$ 283.8	\$ 46.0	\$ 26.9	\$ -	\$ -	\$ -	\$ -	\$ 514.8
1984	\$ 196.6	24.4%	\$ 367.4	\$ 49.4	\$ 298.8	\$ -	\$ -	\$ -	\$ -	\$ 912.2
1985	\$ 233.7	18.9%	\$ 356.2	\$ 75.5	\$ 567.4	\$ 2.8	\$ -	\$ -	\$ -	\$ 1,235.6
1986	\$ 237.6	1.7%	\$ 347.6	\$ 88.1	\$ 642.3	\$ -	\$ -	\$ -	\$ -	\$ 1,315.6
1987	\$ 227.3	-4.3%	\$ 335.1	\$ 93.0	\$ 678.5	\$ -	\$ -	\$ -	\$ -	\$ 1,333.9
1988	\$ 260.1	14.4%	\$ 352.6	\$ 105.9	\$ 600.6	\$ 16.3	\$ -	\$ -	\$ -	\$ 1,335.5
1989	\$ 321.9	23.8%	\$ 369.6	\$ 108.6	\$ 607.1	\$ 164.1	\$ -	\$ -	\$ -	\$ 1,571.3
1990	\$ 341.2	6.0%	\$ 382.5	\$ 114.1	\$ 588.7	\$ 143.7	\$ -	\$ -	\$ -	\$ 1,570.2
1991	\$ 364.6	6.9%	\$ 368.5	\$ 109.0	\$ 601.0	\$ 123.4	\$ -	\$ -	\$ -	\$ 1,566.5
1992	\$ 406.0	11.4%	\$ 362.0	\$ 112.3	\$ 633.5	\$ 123.1	\$ -	\$ -	\$ -	\$ 1,636.9
1993	\$ 493.2	21.5%	\$ 350.5	\$ 112.3	\$ 489.9	\$ 129.9	\$ -	\$ -	\$ 0.1	\$ 1,575.9
1994	\$ 548.7	11.3%	\$ 344.5	\$ 109.7	\$ 403.0	\$ 122.7	\$ -	\$ -	\$ -	\$ 1,528.6
1995	\$ 630.7	14.9%	\$ 358.4	\$ 123.7	\$ 386.6	\$ 130.1	\$ -	\$ -	\$ -	\$ 1,629.5
1996	\$ 646.7	2.5%	\$ 357.5	\$ 140.3	\$ 363.4	\$ 129.4	\$ -	\$ -	\$ -	\$ 1,637.3
1997	\$ 636.2	-1.6%	\$ 340.7	\$ 139.8	\$ 295.3	\$ 118.8	\$ -	\$ -	\$ 92.4	\$ 1,623.2
1998	\$ 618.3	-2.8%	\$ 344.7	\$ 145.3	\$ 263.0	\$ 111.8	\$ -	\$ -	\$ 93.8	\$ 1,576.9
1999	\$ 570.1	-7.8%	\$ 335.3	\$ 144.5	\$ 168.8	\$ 113.7	\$ -	\$ -	\$ 193.5	\$ 1,525.9
2000	\$ 541.5	-5.0%	\$ 341.4	\$ 154.4	\$ 146.3	\$ 101.0	\$ -	\$ -	\$ 219.3	\$ 1,503.9
2001	\$ 586.1	8.2%	\$ 326.6	\$ 151.3	\$ 143.5	\$ 88.3	\$ -	\$ -	\$ 153.9	\$ 1,449.8
2002	\$ 643.8	9.8%	\$ 327.9	\$ 158.0	\$ 134.9	\$ 81.7	\$ -	\$ -	\$ 243.8	\$ 1,590.0
2003	\$ 697.9	8.4%	\$ 314.1	\$ 161.9	\$ 121.2	\$ 78.0	\$ -	\$ -	\$ 12.9	\$ 1,585.8
2004	\$ 780.5	11.8%	\$ 308.9	\$ 167.2	\$ 117.4	\$ 99.7	\$ -	\$ -	\$ 9.0	\$ 1,709.2
2005	\$ 907.1	16.2%	\$ 307.4	\$ 168.4	\$ 131.6	\$ 131.8	\$ -	\$ -	\$ 4.0	\$ 1,842.9
2006	\$ 976.7	7.7%	\$ 309.2	\$ 170.1	\$ 125.3	\$ 126.2	\$ -	\$ -	\$ 13.4	\$ 1,964.7
2007	\$ 1,041.6	6.6%	\$ 308.7	\$ 170.2	\$ 112.1	\$ 127.9	\$ -	\$ -	\$ 30.8	\$ 2,001.3
2008	\$ 1,094.0	5.0%	\$ 299.0	\$ 167.8	\$ 112.9	\$ 128.4	\$ -	\$ -	\$ 18.4	\$ 2,057.5
2009	\$ 1,119.7	2.4%	\$ 297.7	\$ 176.9	\$ 122.7	\$ 129.0	\$ -	\$ -	\$ 7.7	\$ 2,077.2
2010	\$ 1,173.9	4.8%	\$ 301.4	\$ 191.0	\$ 111.1	\$ 119.6	\$ -	\$ -	\$ 1.5	\$ 2,192.9
2011	\$ 1,264.7	7.7%	\$ 290.6	\$ 191.0	\$ 105.4	\$ 118.5	\$ -	\$ -	\$ -	\$ 2,258.4
TOTALS	\$ 18,114.6		\$ 10,144.5	\$ 3,863.4	\$ 9,099.1	\$ 2,760.0	\$ 1,877.7	\$ 149.1	\$ 1,454.3	\$ 47,551.6

* Preliminary, unaudited data

SOURCE: ILLINOIS DEPARTMENT OF REVENUE

Chart 7: COMPOSITION OF LOTTERY SALES BY GAME
(FY 2011)



Source: Illinois Department of Revenue

As shown in Table 25, Instant Games continue to comprise the greatest percentage with 56.0% of lottery sales. This is an increase from 53.5% in FY 2010. The Pick 3 game had the second highest a percentage at 12.9%. Pick 3's importance to the Lottery has decreased considerably over the last decade. In FY 2000, Pick 3 accounted for over 22% of total sales. Pick 4 and Mega Millions each contributed 8% of sales, while no other game made up more than 5%.

**TABLE 25: COMPOSITION OF LOTTERY SALES BY GAME
FY 1975 - FY 2011***

(% of Total)										
Fiscal Year	Instant Games	Pick 3	St. Patrick's Raffle	Pick 4	Lotto	Little Lotto	Mega Millions	Powerball	Other Games	Total Sales (\$ Million)
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
2011	56.0%	12.9%	0.9%	8.5%	4.7%	5.2%	7.6%	4.3%	0.0%	\$ 2,258.4
TOTALS	38.1%	21.3%	0.2%	8.1%	19.1%	5.8%	3.9%	0.3%	3.1%	\$ 47,551.6

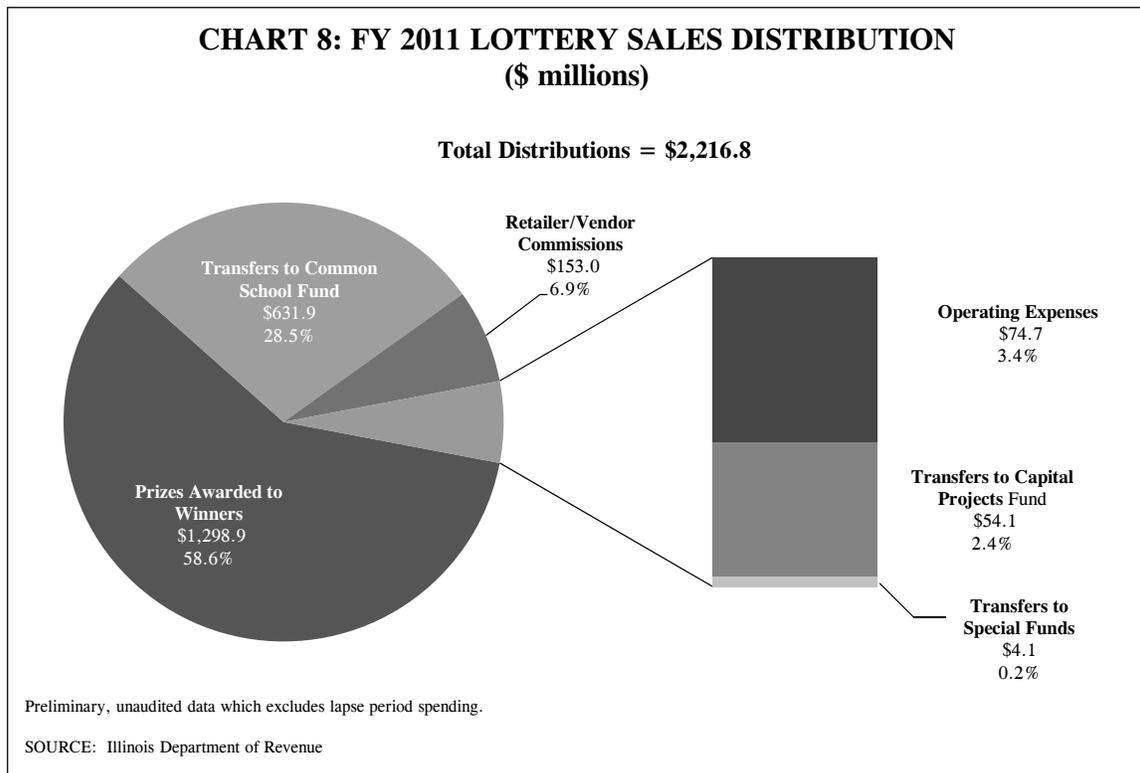
* Preliminary, unaudited data

SOURCE: ILLINOIS DEPARTMENT OF REVENUE

Lottery Revenue Distribution

The chart below shows how revenues from the lottery were distributed. In FY 2011, lottery winners received \$1.30 billion, the Common School Fund received \$632 million, retailers and vendors received \$153 million, \$54 million went to the Capital Projects Fund, \$4.1 million was sent to special cause funds, and the Lottery used the remaining \$75 million to cover its operating expenses. These results are through June of 2011 and do not include any lapse period spending. Please note that total sales and total distributions do not match due to lapse period spending and cash flow management.

Prizes awarded to winners increased by 2.2% while transfers to the Common School Fund increased by 1.1% as driven by the increase in the CPI. Retailer and vendor payments increased 2.5% or \$3.7 million. Operating expenses increased \$8.4 million or 12.6%, likely due to additional expenses related to the preparation for the takeover of operations by a private manager in July of 2011. Transfers to the Capital Projects Fund were up 65%, while transfers to special causes were essentially flat.



Lottery Transfers

As shown in Table 26 and briefly discussed in the last section, the Illinois Lottery transfers its proceeds or profits to three destinations. The first fund that receives lottery proceeds is the Common School Fund. The Common School Fund provides the majority of funding for elementary and secondary education including payment for General State Aid, contributions to Teacher's Retirement Systems, and salaries of regional superintendents and assistants. In FY 2011, \$631.9 million was transferred to the Common School Fund. This was an increase of 1.1% from FY 2010. Due to Public Act 96-0034, transfers to the Common School Fund from the lottery were capped at the rate of inflation as measured by the Consumer Price Index (CPI). FY 2012 transfers to the CSF will grow to \$645 million or an increase of 2.1%.

The second destination for Lottery profits are a set of four special cause funds. Special cause lottery sales raised \$4.1 million in FY 2011, a decrease of 2.4% or approximately \$0.1 million from FY 2010. 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 2011, \$0.9 million was transferred into this fund. This was a 6.1% improvement 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 over 7% from FY 2010. 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 \$0.9 million. This game's sales were reduced by over 14%. 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 \$1.3 million in FY 2011, which was up approximately 3%.

Public Act 96-0034 also created the Capital Projects Fund which is the last fund that lottery proceeds are deposited. Subject to appropriation, the Capital Projects Fund may be used only for capital projects and the payment of debt service on bonds issued for capital projects. After the Common School Fund transfer and the special cause transfers are completed, all remaining lottery proceeds go to the Capital Projects Fund. In FY 2010, \$32.9 million was transferred to this fund. This increased to \$54.1 million in FY 2011. This was an increase of \$21.2 million or 64%.

Transfers totaled \$690 million in FY 2011 which was the highest amount ever. The ratio of transfers to total sales of 30.6% is up from 30.2% in FY 2010. While slightly higher in FY 2011, this ratio has routinely dropped since the late 1980's. In FY 1987, this ratio was at 41.5%. This ratio has decreased by over 10% since then. 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.

**TABLE 26: LOTTERY TRANSFERS
FY 1975 - FY 2011***

(\$ MILLION)

Fiscal Year	Total Sales	Transfers to Common School Fund	Transfers to Capital Projects Fund	Transfers to Special Causes	Total Transfers	Transfers as a % of Total Sales
1975	\$ 129.3	\$ 55.2	\$ -	\$ -	\$ 55.2	42.7%
1976	\$ 163.9	\$ 75.9	\$ -	\$ -	\$ 75.9	46.3%
1977	\$ 112.9	\$ 43.6	\$ -	\$ -	\$ 43.6	38.6%
1978	\$ 89.1	\$ 33.5	\$ -	\$ -	\$ 33.5	37.6%
1979	\$ 76.7	\$ 32.6	\$ -	\$ -	\$ 32.6	42.5%
1980	\$ 97.5	\$ 33.1	\$ -	\$ -	\$ 33.1	33.9%
1981	\$ 214.7	\$ 90.4	\$ -	\$ -	\$ 90.4	42.1%
1982	\$ 344.1	\$ 138.6	\$ -	\$ -	\$ 138.6	40.3%
1983	\$ 514.8	\$ 216.3	\$ -	\$ -	\$ 216.3	42.0%
1984	\$ 912.2	\$ 365.4	\$ -	\$ -	\$ 365.4	40.1%
1985	\$ 1,235.6	\$ 502.8	\$ -	\$ -	\$ 502.8	40.7%
1986	\$ 1,315.6	\$ 551.8	\$ -	\$ -	\$ 551.8	41.9%
1987	\$ 1,333.9	\$ 553.1	\$ -	\$ -	\$ 553.1	41.5%
1988	\$ 1,335.5	\$ 524.4	\$ -	\$ -	\$ 524.4	39.3%
1989	\$ 1,571.3	\$ 586.1	\$ -	\$ -	\$ 586.1	37.3%
1990	\$ 1,570.2	\$ 594.0	\$ -	\$ -	\$ 594.0	37.8%
1991	\$ 1,566.5	\$ 580.0	\$ -	\$ -	\$ 580.0	37.0%
1992	\$ 1,636.9	\$ 610.5	\$ -	\$ -	\$ 610.5	37.3%
1993	\$ 1,575.9	\$ 587.6	\$ -	\$ -	\$ 587.6	37.3%
1994	\$ 1,528.6	\$ 552.1	\$ -	\$ -	\$ 552.1	36.1%
1995	\$ 1,629.5	\$ 588.3	\$ -	\$ -	\$ 588.3	36.1%
1996	\$ 1,637.3	\$ 594.1	\$ -	\$ -	\$ 594.1	36.3%
1997	\$ 1,623.2	\$ 590.2	\$ -	\$ -	\$ 590.2	36.4%
1998	\$ 1,576.9	\$ 560.0	\$ -	\$ -	\$ 560.0	35.5%
1999	\$ 1,525.9	\$ 540.0	\$ -	\$ -	\$ 540.0	35.4%
2000	\$ 1,503.9	\$ 515.3	\$ -	\$ -	\$ 515.3	34.3%
2001	\$ 1,449.8	\$ 501.0	\$ -	\$ -	\$ 501.0	34.6%
2002	\$ 1,590.0	\$ 555.1	\$ -	\$ -	\$ 555.1	34.9%
2003	\$ 1,585.8	\$ 540.3	\$ -	\$ -	\$ 540.3	34.1%
2004	\$ 1,709.2	\$ 570.1	\$ -	\$ -	\$ 570.1	33.4%
2005	\$ 1,842.9	\$ 614.0	\$ -	\$ -	\$ 614.0	33.3%
2006	\$ 1,964.7	\$ 670.5	\$ -	\$ 3.7	\$ 674.2	34.3%
2007	\$ 2,001.3	\$ 622.6	\$ -	\$ 4.1	\$ 626.7	31.3%
2008	\$ 2,057.5	\$ 657.0	\$ -	\$ 4.6	\$ 661.6	32.2%
2009	\$ 2,077.2	\$ 625.0	\$ -	\$ 5.2	\$ 630.2	30.3%
2010	\$ 2,192.9	\$ 625.0	\$ 32.9	\$ 4.2	\$ 662.1	30.2%
2011	\$ 2,258.4	\$ 631.9	\$ 54.1	\$ 4.1	\$ 690.1	30.6%
TOTALS	\$ 47,551.6	\$ 16,727.4	\$ 87.0	\$ 25.8	\$ 16,840.3	35.4%

* Preliminary, unaudited data

Current special cause game proceeds go to cancer research, veteran's related issues, multiple sclerosis research, and HIV prevention and education.

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 2011, forty states plus the District of Columbia and the U.S. Virgin Islands offer Mega Millions, while forty-two states plus the District of Columbia and the U.S. Virgin Islands sell Powerball tickets.

Table 27, on the following page, lists the States participating in each of the multi-state lotteries and the years they began offering each of the games.

TABLE 27: 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
U.S. VIRGIN ISLANDS	2010	2002
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

SOURCES: POWERBALL, MEGA MILLIONS

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. Unfortunately this did not occur in FY 2011, as jackpot averages were down for both multi-state games. Multi-state game results for FY 2011 also indicate that some cannibalization of sales may have occurred as Mega Million sales were down significantly, while Powerball results were up a similar amount.

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 the multi-state games have, 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 2010, the jackpot was over \$100 million during 30 drawings, while in FY 2011 the jackpot was over \$100 million in only 20 drawings. Mega Millions and Powerball results for the past 6 fiscal years can be found in Table 28.

TABLE 28: MULTI STATE GAME RESULTS							
(\$ Million)							
MEGA MILLIONS							
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Average Jackpot Drawing	\$52.1	\$80.1	\$55.9	\$68.1	\$57.7	\$73.5	\$64.8
Drawings over \$100 M	14	30	14	25	19	30	20
Drawings over \$200 M	2	9	3	5	3	6	6
Mega Millions Sales	\$192.6	\$243.8	\$195.9	\$221.1	\$204.6	\$222.6	\$172.0
POWERBALL							
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Average Jackpot Drawing	\$49.6	\$81.5	\$68.4	\$70.4	\$67.8	\$82.3	\$62.4
Drawings over \$100 M	14	30	25	25	23	32	17
Drawings over \$200 M	2	9	4	6	2	7	2
Powerball Sales	n/a	n/a	n/a	n/a	n/a	\$51.7*	\$97.4
* 5 months of sales							
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 \$172 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 45 lotteries.

Similarly, Illinois ranked 25th in the percentage of personal income that Illinoisans spent on lottery. Illinois residents spent 0.4% of their personal income on lottery which was far behind the leading state of West Virginia, which spent 2.25% on average. With \$2.2 billion in sales, Illinois had the 11th highest level of sales in the U.S. in FY 2010. The figures for FY 2010 are shown in Table 29 on the following page. FY 2011 per capita sales were approximately \$176, an increase of approximately 2.3%, though comparison data for other states is not yet available.

TABLE 29: PER-CAPITA SALES AS A PERCENTAGE OF PERSONAL INCOME (FY 2010)

STATE	POPULATION (MILLIONS)	PER-CAPITA PERSONAL INCOME	TOTAL LOTTERY SALES (MILLIONS)	PER-CAPITA SALES	PER-CAPITA SALES AS A % OF PER-CAPITA PERSONAL INCOME
ALABAMA	4.8	\$ 33,945	\$ 0.0	\$ 0	0.00%
ALASKA	0.7	\$ 44,174	\$ 0.0	\$ 0	0.00%
ARIZONA	6.4	\$ 34,999	\$ 551.5	\$ 86	0.25%
ARKANSAS (9/28/09-6/30/10)	2.9	\$ 33,150	\$ 338.7	\$ 116	0.35%
CALIFORNIA	37.3	\$ 43,104	\$ 3,086.2	\$ 83	0.19%
COLORADO	5.0	\$ 42,802	\$ 501.2	\$ 100	0.23%
CONNECTICUT	3.6	\$ 56,001	\$ 996.9	\$ 279	0.50%
DELAWARE (1)	0.9	\$ 39,962	\$ 684.5	\$ 762	1.91%
DISTRICT OF COLUMBIA(4)	0.6	\$ 71,044	\$ 232.0	\$ 386	0.54%
FLORIDA	18.8	\$ 39,272	\$ 3,900.5	\$ 207	0.53%
GEORGIA	9.7	\$ 35,490	\$ 3,645.0	\$ 376	1.06%
HAWAII	1.4	\$ 41,021	\$ 0.0	\$ 0	0.00%
IDAHO	1.6	\$ 32,257	\$ 147.0	\$ 94	0.29%
ILLINOIS	12.8	\$ 43,159	\$ 2,209.3	\$ 172	0.40%
INDIANA	6.5	\$ 34,943	\$ 739.1	\$ 114	0.33%
IOWA	3.0	\$ 38,281	\$ 256.3	\$ 84	0.22%
KANSAS	2.9	\$ 39,737	\$ 243.7	\$ 85	0.21%
KENTUCKY	4.3	\$ 33,348	\$ 772.5	\$ 178	0.53%
LOUISIANA	4.5	\$ 38,446	\$ 372.4	\$ 82	0.21%
MAINE	1.3	\$ 37,300	\$ 216.7	\$ 163	0.44%
MARYLAND	5.8	\$ 49,025	\$ 1,712.0	\$ 297	0.60%
MASSACHUSETTES	6.5	\$ 51,552	\$ 4,423.0	\$ 676	1.31%
MICHIGAN (4)	9.9	\$ 35,597	\$ 2,347.9	\$ 238	0.67%
MINNESOTA	5.3	\$ 42,843	\$ 499.0	\$ 94	0.22%
MISSISSIPPI	3.0	\$ 31,186	\$ 0.0	\$ 0	0.00%
MISSOURI	6.0	\$ 36,979	\$ 971.1	\$ 162	0.44%
MONTANA	1.0	\$ 35,317	\$ 47.0	\$ 48	0.13%
NEBRASKA	1.8	\$ 39,557	\$ 130.6	\$ 71	0.18%
NEVADA	2.7	\$ 36,997	\$ 0.0	\$ 0	0.00%
NEW HAMPSHIRE	1.3	\$ 44,084	\$ 233.9	\$ 178	0.40%
NEW JERSEY	8.8	\$ 50,781	\$ 2,605.2	\$ 296	0.58%
NEW MEXICO	2.1	\$ 33,837	\$ 143.6	\$ 70	0.21%
NEW YORK (1)	19.4	\$ 48,821	\$ 7,818.3	\$ 403	0.83%
NORTH CAROLINA	9.5	\$ 35,638	\$ 1,421.3	\$ 149	0.42%
NORTH DAKOTA (4)	0.7	\$ 40,596	\$ 24.4	\$ 36	0.09%
OHIO	11.5	\$ 36,395	\$ 2,486.0	\$ 215	0.59%
OKLAHOMA	3.8	\$ 36,421	\$ 199.9	\$ 53	0.15%
OREGON (1)	3.8	\$ 37,095	\$ 1,027.7	\$ 268	0.72%
PENNSYLVANIA	12.7	\$ 41,152	\$ 3,065.7	\$ 241	0.59%
RHODE ISLAND (2)	1.1	\$ 42,579	\$ 702.4	\$ 667	1.57%
SOUTH CAROLINA	4.6	\$ 33,163	\$ 1,007.2	\$ 218	0.66%
SOUTH DAKOTA (2)	0.8	\$ 38,865	\$ 261.0	\$ 321	0.82%
TENNESSEE	6.3	\$ 35,307	\$ 1,138.0	\$ 179	0.51%
TEXAS (4)	25.1	\$ 39,493	\$ 3,750.0	\$ 149	0.38%
UTAH	2.8	\$ 32,595	\$ 0.0	\$ 0	0.00%
VERMONT	0.6	\$ 40,283	\$ 97.5	\$ 156	0.39%
VIRGINIA	8.0	\$ 44,762	\$ 1,435.0	\$ 179	0.40%
WASHINGTON	6.7	\$ 43,564	\$ 491.0	\$ 73	0.17%
WEST VIRGINIA (1)	1.9	\$ 32,641	\$ 1,358.0	\$ 733	2.25%
WISCONSIN (3)(4)	5.7	\$ 38,432	\$ 481.6	\$ 85	0.22%
WYOMING	0.6	\$ 47,851	\$ 0.0	\$ 0	0.00%
TOTALS	308.7	\$ 40,584	\$ 58,771.6	\$ 190	0.47%

(1) Includes net video lottery terminal (VLT) sales (Cash in less cash out)

(2) Includes gross VLT sales (Cash in)

(3) Net Proceeds

(4) Estimated FY 2010 Sales and Profits

SOURCES: NORTH AMERICAN ASSOCIATION OF STATE AND PROVINCIAL LOTTERIES, BUREAU OF ECONOMIC ANALYSIS, 2010

Private Manager

On September 15, 2010, Governor Quinn selected the Northstar Lottery Group to manage the Illinois lottery. 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. The agreement allows for State oversight of the lottery through the creation of the Illinois Lottery Advisory Board that will evaluate the lottery's performance on such topics as employment opportunity, minority business opportunity planning, responsible gaming, consumer protection, charitable and philanthropic progress and overall performance review.

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 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. Both Intralot and Camelot filed formal protests with the Illinois Department of Revenue concerning the bidding process following the selection of the Northstar Group as the winner. These protests were denied in their entirety by the Department of Revenue. An additional review by the Illinois State courts can be requested. The management agreement was finalized in January of 2011. Northstar fully took over management of the lottery on July 1, 2011.

Northstar'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 bonuses or penalty payments could be warranted depending upon net income results. The table on the next page outlines net income target levels and the potential bonuses or penalties.

Northstar could earn up to 5% of net income in bonuses or penalties depending upon the lottery's performance. Illinois had net income of approximately \$690 million in FY 2010. Five percent of this amount would equal just under \$35 million. As part of the management agreement, Northstar will guarantee net income levels over the course of the agreement. If net income levels do not reach these levels, Northstar will be penalized. These penalties become less severe the closer net income is the target levels. It must also be noted that the \$15 million management

fee would be part of the lottery's operating expenses and not be based upon lottery performance.

The proposed management agreement allows for a process, for either the State or Northstar, to request a change in the net income target amounts. This request would be based on potential changes in the market place that could significantly change lottery performance. Some examples of these changes might include the allowance of keno games or major changes in other wagering related industries such as casinos, video poker, or horse racing that would have a substantial effect on the lottery.

TABLE 30: LOTTERY PRIVATE MANAGEMENT INCOME TARGETS				
(\$ MILLIONS)				
Fiscal Year	Base Level Income	Middle Level Income	Upper Level Income	Net Income Target
FY 2012	\$674	\$714	\$754	\$851
FY 2013	\$651	\$727	\$804	\$950
FY 2014	\$666	\$771	\$876	\$980
FY 2015	\$682	\$810	\$938	\$986
FY 2016	\$698	\$833	\$967	\$1,000
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

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

Any bonuses or penalties are capped at 5% of net income.

A payout example assuming \$700 million in net income in FY 2012 -
Northstar would:

- receive \$15 million as part of operating expenses,
- be owed \$2.6 million for net income being above base level income of \$674 million,
- and owe \$75.5 million for net income being below the net income target of \$851 million.

Note that net payable to the State would be \$35 million as incentives and penalties are capped at 5% of net income.

Source: Illinois Lottery

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 18 years.

In July of 2011, the Northstar Group took over management of the lottery. 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 what 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." One major part of Northstar Group's business plan is the increase of number of locations where lottery products can be purchased. They also plan to diversify the types of selling locations by penetrating under developed markets such as drugstores, dollar stores, and newsstands. Despite these major changes, the State will continue to conduct the lottery and maintain control over all significant business decisions.

HORSE RACING

HORSE RACING

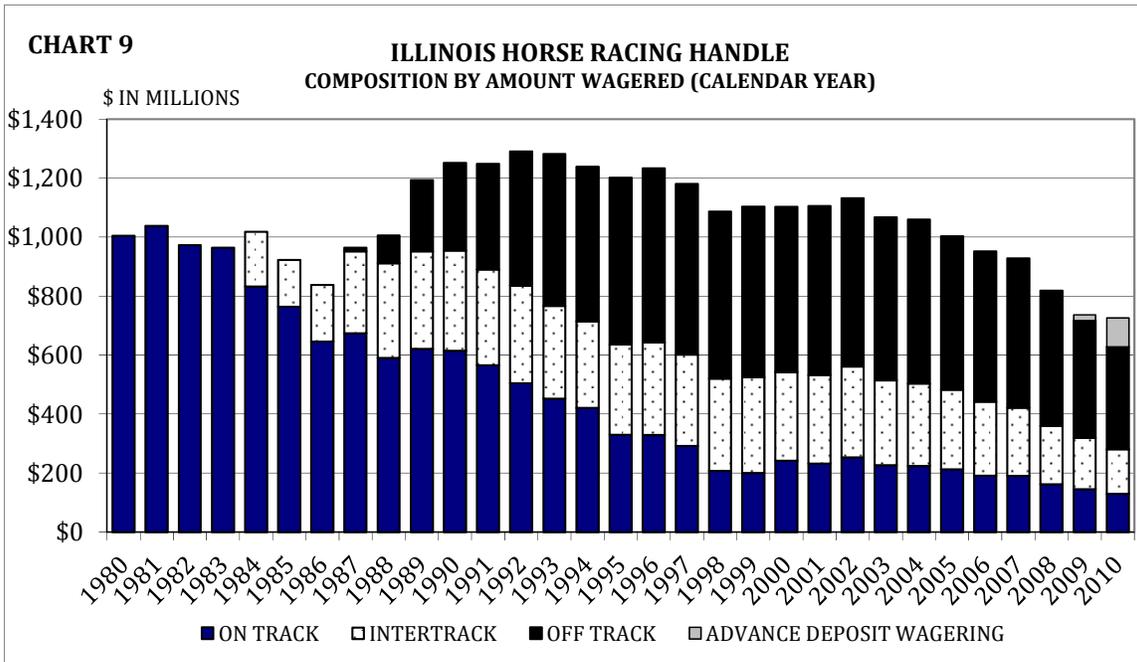
Horse racing is the oldest form of legalized gaming in Illinois. Each year, millions of dollars are wagered on horse racing at the State's numerous on-track and off-track wagering facilities. In calendar year 2010, Illinois horse racing wagering generated \$15.3 million in total revenues with the State receiving \$7.4 million and local governments receiving \$7.8 million. Table 31 examines the sources and allocation of CY 2010 horse racing revenues while Table 32 details State and local racing revenues over the past ten years.

TABLE 31: SOURCES AND ALLOCATION OF HORSE RACING REVENUE FOR CALENDAR YEAR 2010	
REVENUE SOURCE	
Application and License Fees of Racing Associations	\$99,370
Admission Taxes	\$84,979
Pari-mutuel Tax	\$8,824,974
Pari-mutuel Tax Credit	(\$3,632,270)
Advanced Deposit Wagering (ADW) Pari-Mutuel Tax (1.75%)	\$1,711,566
Licensing of Racing Personnel	\$178,870
Fingerprint Fees	\$59,265
Horsemen's Fines	\$112,300
Miscellaneous Sources	\$1,040
* TOTAL STATE REVENUES RECEIVED	\$7,440,095
2% of OTB Handle to City and County	\$6,935,231
OTB Admission Tax to City of Chicago	\$178,035
OTB Admission Tax to Cook County	\$331,568
On Track City Admission Tax	\$44,299
Intertrack Surcharge to County (20%)	\$347,267
* TOTAL LOCAL REVENUES RECEIVED	\$7,836,400
TOTAL REVENUES RECEIVED	\$15,276,495
ALLOCATION OF REVENUE	
Horse Racing Fund	\$6,645,020
General Revenue Fund	\$476,559
Quarterhorse Breeders' Fund	\$14,741
Quarterhorse Purse Fund (from ADW Tax)	\$244,509
Fingerprint License Fund	\$59,265
* TOTAL STATE REVENUES ALLOCATED	\$7,440,095
To Cities	\$3,689,949
To Counties	\$4,146,451
* TOTAL LOCAL	\$7,836,400
TOTAL REVENUES ALLOCATED	\$15,276,495
SOURCE: ILLINOIS RACING BOARD - 2010 ANNUAL REPORT	

TABLE 32: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
TOTAL STATE REVENUE	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9	\$8.0	\$7.1	\$7.4
TOTAL LOCAL REVENUE	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6	\$10.6	\$9.1	\$7.8
* TOTAL REVENUES RECEIVED	\$26.4	\$25.7	\$25.1	\$25.1	\$23.4	\$21.6	\$20.6	\$18.5	\$16.2	\$15.3
TOTAL STATE ALLOCATIONS	\$13.4	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9	\$8.0	\$7.1	\$7.4
TOTAL LOCAL ALLOCATIONS	\$12.9	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6	\$10.6	\$9.1	\$7.8
TO CITIES	\$6.5	\$6.4	\$6.2	\$6.2	\$5.7	\$5.6	\$5.5	\$4.9	\$4.3	\$3.7
TO COUNTIES	\$6.4	\$6.4	\$6.2	\$6.2	\$5.9	\$5.7	\$6.1	\$5.6	\$4.8	\$4.1
*TOTAL REVENUES ALLOCATED	\$26.4	\$25.7	\$25.1	\$25.1	\$23.4	\$21.6	\$20.6	\$18.5	\$16.2	\$15.3

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

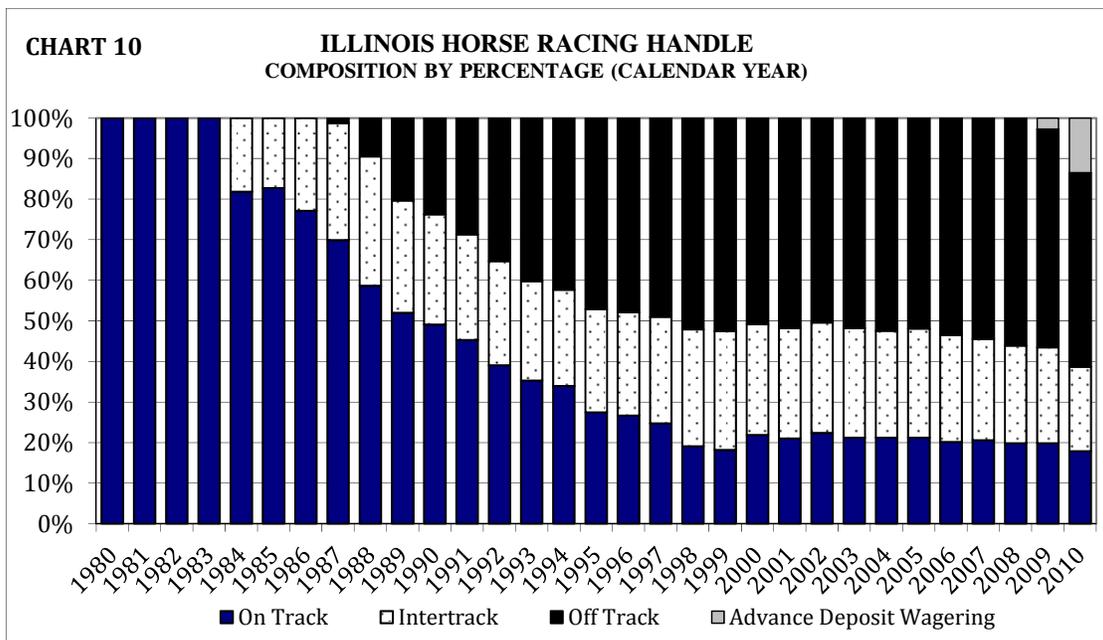
In its 2010 Annual Report, the Racing Board reported that 490 race programs were conducted during CY 2010 (down from 529 race programs in CY 2009, 583 in CY 2008, and 621 race programs in CY 2007). A total handle amount of \$726 million resulted, which was a decrease of 1.5% over the 2009 amount. As shown in Chart 9, this handle amount was the eighth consecutive year of declining revenues and the lowest experienced over the last 35 years. The thoroughbred total handle (\$453M) dropped 11%, while the standardbred total handle (\$175M) dropped 16%.



The Illinois Racing Board’s latest report states that \$149 million of the total handle in CY 2010 was wagered on Illinois races. An additional \$566 million was wagered on Illinois races broadcast to other states, which was a 23% decrease from CY 2009 levels.

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 2010, the percentage of the total handle generated from on-track wagering fell from 49% to 18%. 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 48%. Despite this shift, inter-track wagering remained stable and generally comprised between 21% and 30% of the total handle. The latest component of the handle comes from advance deposit wagering which made up 15% of the total in CY 2010. Chart 10 illustrates the historic shift in the composition of the racing handle.



What tracks did Illinois bettors wager on in 2010? The largest handle at Illinois tracks came from Arlington Racetrack with \$65.3 million, followed by Balmoral (\$32.0 million), Hawthorne (\$36.0 million), Maywood (\$19.1 million), Fairmount (\$8.3 million), and State/County fairs (\$0.7 million). The largest handles from out-of-state tracks came from Churchill (\$31.4 million), Belmont (\$28.7 million), Gulfstream (\$23.2 million), Woodbine (\$21.8 million), and Tampa Bay Downs (\$21.6 million).

Of all Illinois meets in 2010, thoroughbred races make up the largest percentage at 74.6% followed by harness races with 23.4% and quarterhorse races the remaining 2.0%.

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 2010, the Illinois Racing Board granted twenty-seven off-track licenses. The Racing Board's Annual Report states that two new OTBs opened in 2010 (Waukegan, Yorkville) and two closed (Peru, Chicago – LaSalle/Ohio St.). Although it is unlikely that all thirty-seven licenses would be granted in a single racing year, the potential exists for the future development of 10 additional OTB locations. A list of Illinois OTBs is shown in Table 33.

TABLE 33: ILLINOIS RACING TRACKS AND ASSOCIATED OTB'S		
TRACK	COUNTY	OTB LOCATIONS
ARLINGTON RACECOURSE	COOK	CHICAGO (Weed St.) WAUKEGAN (Green Bay Rd.) WAUKEGAN (Lakehurst Rd)** HODGKINS
BALMORAL PARK	WILL	NORMAL BUFFALO GROVE CHICAGO (Corliss) CHAMPAIGN
FAIRMOUNT PARK	MADISON	ALTON SAUGET SPRINGFIELD
HAWTHORNE RACE COURSE	COOK	OAKBROOK TERRACE CRESTWOOD JOLIET PERU* CHICAGO (LaSalle/Ohio St.)* ELK GROVE VILLAGE YORKVILLE**
MAYWOOD PARK	COOK	NILES MOKENA AURORA NORTH AURORA
QUAD CITY DOWNS	ROCK ISLAND	MCHENRY SOUTH BELOIT ROCKFORD SOUTH ELGIN LOCKPORT
* CLOSED IN 2010 **NEW IN 2010		

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 its passage, 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 (also at 3% of AGR) starting on December 15, 2008. This second fee was set to last three years or until the 10th license opened, whichever came first.

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.

However, in August 2011, U.S. Supreme Court Justice Elena Kagan denied the casino’s latest request to hear further arguments on the case. As a result, all impact revenues, which had been held in an escrow account and could not be used by the tracks, were released to the horse racing industry.

The amount of revenues generated from the fees is significant. For the first two years of fees, over \$76 million was collected. The second fee, which was imposed for the final time in July 2011 due to the opening of the Des Plaines Casino, generated an additional \$67.7 million. **This brings to the total amount of impact fees collected to approximately \$144 million.** However, the Racing Daily Form reports that only \$141.8 million would be immediately available because \$2.3 million would be held in an escrow account pending state court litigation regarding a dispute between Hawthorne and Arlington racetracks over a portion of the funds. The following table displays how the \$141.8 million was disbursed.

TABLE 34: Allocation of Proceeds from Impact Fees			
<i>\$ in millions</i>			
	Purse	Track	Total
Arlington	\$26.0	\$19.2	\$45.2
Hawthorne	\$17.1	\$12.7	\$29.8
Fairmount	\$5.4	\$6.2	\$11.7
Balmoral	\$22.3	\$11.7	\$34.0
Maywood	\$14.2	\$6.9	\$21.1
Total	\$85.1	\$56.7	\$141.8

Source: Illinois Racing Board

Statutory instructions on how the money would be spent under each of these categories are relatively vague and would be ultimately be up to each racetrack. However, because there will be several groups in the horse racing industry that will be asking for their “slice of the pie”, the Gaming Board has stated that they will be working alongside the tracks to assist in the decision making process of how these funds will be allocated.

The horse racing industry have long stated that receiving these funds would be a much-needed boost to an industry that overall has had a difficult time in generating revenues. Insiders have stated that these funds would help the Illinois horse racing become more competitive both regionally and nationally. Using the amounts allocated for purses will allow Illinois to be able compete on a more even playing field with other states. The hope is that this will lead to fuller fields, more racing days, bigger crowds, and larger handles.

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 from within Illinois must be placed through an Illinois Racing Board-approved advance deposit wagering licensee. 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 equates to an 8-month handle total of \$73.3 million. In FY 2011, advance deposit wagering taxes totaled \$1.7 million, which equates to an annual total handle of \$95.8 million.

Before advance deposit wagering became operational, the Illinois Racing Board had stated that insiders had estimated that as much as \$100 million could annually be collected from advance deposit wagering. The results have shown that the insiders estimates were right on track. However, the Racing Board also projected that there could be a cannibalization effect on other wagering methods due to a predicted popularity of advance deposit wagering. The concern was that if advance deposit wagering was preferred, this would lower revenue totals from other forms of wagering.

This cannibalization concern appears to be plausible, but may be helping more than it is hurting. While advance deposit wagering has added nearly \$100 million to the overall horse racing handle, all other categories of wagering (on-track, inter-track, off-track) experienced double-digit losses. On the other hand, the overall decline of 1.5% in the overall handle amount is an improvement over the average decline of 6.9% that has been experienced over the past five calendar years. So, in its first full-year of existence, it appears that while advance deposit wagering has not caused horse racing handle numbers to completely turn around, it has brought in enough interest to at least stabilize a market that had been falling quickly.

What Will the Future Hold for Illinois Horse Racing?

As the State's horse racing numbers indicate, the horse racing industry in Illinois continues to struggle. Illinois' racing handle is down nearly 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.

Illinois is not alone with these struggles. An August 2011 article from the *Thoroughbred Times* entitled, "Economic Study Forecasts More Declines Without Significant Changes" writes, "...as foal crops continue to decrease (nationwide), racetracks offer fewer live racing dates and reduced programs, handle and attendance are in decline, and the overall awareness of the game is in steep descent." The article goes on to lay out nine initiatives that a recent study suggested could help curtail the downward trajectory of the industry. These initiatives include: increased television coverage; a free-to-play website; fewer, better races and better scheduling to increase field size and showcase the best product; creation of a social game; innovative wagering platforms; track-integrated advance deposit wagering platform; racing integrity reforms; encouragement of ownership through greater transparency; and dissemination of best practices from tracks around the country.

All of the ideas presented hope to lead to ways to increase revenues, which are of dire need in Illinois' horse racing industry. Over the past several years, financial subsidies intended to help the industry was to come from the impact fee payments from the Illinois riverboats, but pending litigation did not allow this money to be released to the horse tracks. But the August 2011 release of the escrowed monies could be a huge boost in the arm to help stimulate the local horse racing community. It will be up to the tracks to use this money effectively.

Once these revenues are used up, new revenues could come from the new casino. State law provides that 15% of the adjusted gross receipts of the new Des Plaines casino are to go into the Horse Racing Equity Trust Fund. However, the State Racing Board states that this money has not been appropriated to the tracks in FY 2012. Therefore, without a supplemental appropriation bill, these revenues may not make it to the racing industry.

If these extra revenues are not enough to change things around for the horse racing industry in Illinois, some feel that the only remaining hope may be to allow slot machines at the horse tracks throughout Illinois. Again, at the time of this report, it is not known whether Governor Quinn will sign SB 0744 into law, which would allow (among other things) slot machines to be located at six tracks across Illinois and the Illinois State Fairgrounds.

If SB 0744, or some version of it, were to pass, Illinois would join Indiana, Iowa, and numerous other states that have allowed slot machines to be operated at their

facilities. The addition of slot machines has allowed Indiana and other states to increase their purses for their horse races. The promoted idea is this: higher purses lead to increased interest, not only from the horsemen, but also from the fans of horseracing. Therefore, many proponents have argued that having slots at tracks would not only increase slot machine revenues for the State, but it will also increase the amount of money wagered on horse racing. However, it should be pointed out that this has not been the case for states across the country.

For example, Pennsylvania, which was the top commercial casino tax revenue state in the nation in 2010 thanks to its seven racetrack casinos, has seen its total horse racing handle decrease from \$934 million in CY 2007 (first year of casinos) to a CY 2010 level of \$621 million. This is a decline of \$313 million or -33.5%. With that being said, Pennsylvania's five racetrack casinos had adjusted gross receipts totaling over \$1.7 billion in FY 2011. So while the introduction of slot machines at its horse tracks have not boosted its horse racing related wagering figures, revenues are still being generated through its casinos.

Similarly, Indiana's horse racing handle has decreased from near \$190 million in 2005 to \$139 million in 2010, despite the opening of two racetrack casinos in 2008. On the other hand, these two locations have generated over \$450 million in adjusted gross receipts in FY 2011. A portion of the tax revenues imposed on the AGR of these casinos is kept by the track, helping it to "survive".

In these cases, the revenue benefits have come from the casinos themselves and not from developing new interest by way of pari-mutuel handle increases. This is why Penn National Gaming Chairman Peter Carlino stated in a February 2011 *Thoroughbred Times* article entitled, "Track Owner Penn National Sees Little Pari-Mutuel Future", that "his company no longer will argue that adding slot machines at tracks is a way to improve pari-mutuel handle. He said that when the company lobbies for slots at tracks, it will move to new arguments – including the ability of racetrack slots to promote agri-business – because he believes increased purses do not improve the quality of racing or increase pari-mutuel handle."

The horse racing community appears to be convinced that allowing slot machines at their tracks would be a life saver to this industry. While this idea has failed to get the support needed for passage in the past, it is one step away from becoming a reality. Data suggests that betting on horse racing will not increase as a result of having slot machines at tracks. However, having this other source of revenue would give Illinois horse tracks a secondary source of income needed to offer competitive purses, which should help sustain horse racing in Illinois. Without this additional source of revenue, the horse racing industry will likely see its dramatic declines continue. And without the ability to compete with other states, many fear that the pressure on some Illinois horse tracks to close for good may become insurmountable.

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. The Video Gaming Act was legalized in July 2009. Although video gaming has yet to generate any revenues for the State of Illinois, it has already cost the State millions of dollars due to the increase in administration and enforcement costs necessary to implement this new gaming format. 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.

TABLE 35: 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 two years 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, legal issues and interruptions in the implementing of many of these sources have caused significant delays in receiving these capital-earmarked revenues.

One wrinkle in the collection of these new revenues came from a January 2011 Illinois Appellate Court ruling which determined that the language in P.A. 96-0034 violated the “Single Subject Rule” of the Illinois Constitution. This ruling created concern that the hundreds of capital projects lined up to start construction would be without funding. However, In July 2011, the Illinois Supreme Court reversed the appellate court ruling stating that “all of the provisions have a natural and logical connection to the single subject of capital projects.” The reversal of the ruling meant that the capital plan was able to go forward without further action from the lower courts.

While the capital projects bill was under litigation, the courts issued a “stay”, which meant that all tax revenues related to the legislation could continue be collected, but be kept in escrow accounts. Once the Supreme Court ruling was issued, the State was allowed to use these escrowed monies. The revenues that have been able to be collected have come from the expansion of the sales tax, the motor vehicle fee increase, and the liquor tax increase. The increased liquor tax had resulted in a number of lawsuits causing its revenues to be deposited into a protest fund. However, this money was released from the protest fund in July 2011.

Two of the other revenue sources have been slow to come to fruition. The selection of a private management firm to run the lottery had been delayed until September 2010, instead of the original date of March 2010. In FY 2010 and FY 2011, without the private management firm, the lottery contributed a combined total of \$87 million to the Capital Projects fund. In July 2011, the private manager finally took over operations of the Illinois lottery. Their initial projections indicated that they could grow the lottery amount sent to the Capital Projects Fund to approximately \$150 million per year. Time will tell as to whether their projections are accurate.

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 continued to delay the progress of starting this 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 started over. In July 2011, the State Journal Register reported that the Gaming Board “continues to review bidders to supply a statewide communications system” but “couldn’t predict when the bid would be awarded.

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. The Gaming Board has stated that 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 year ago, a spokesman for the Gaming Board projected that video gambling would finally go online the start of FY 2012 in July 2011. **Without a communications system yet approved, it now appears that revenues from video gaming may not begin until FY 2013 at the earliest.**

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
- 2) Distributor: \$10,000
- 3) Operator: \$5,000
- 4) Supplier: \$2,000
- 5) Technician: \$100
- 6) Establishments: \$100
- 7) Video Gaming Terminal: \$100
- 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 parent or subsidiary of any licensee licensed under the Illinois Horse Racing Act of 1975.

According to the Illinois Racing Board there are 27 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 32 locations opened the maximum 5 video gaming terminals allowed and each generated \$90 per day, approximately \$1.6 million would be collected under the 30% tax rate. Of this amount 1/6 or \$0.3 million would go to local governments, while the remaining 5/6 or \$1.3 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. The latest list from the Illinois Gaming Board shows that 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 represent approximately 13.9% 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 on its books 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 that the city 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, approximately 36.0% 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 (\$39.9 million and \$74.0 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 \$184.0 million to \$341.7 million.

Similarly, local video gaming projections would fall from \$57.5 million - \$106.8 million to \$36.8 million - \$68.3 million and overall video gaming projections would be lowered from \$344.9 million - \$640.6 million to \$220.8 million - \$410.1 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 36: 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	
	Low	High	Low	High	Low	High
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"**	(\$39.9)	(\$74.0)	(\$8.0)	(\$14.8)	(\$47.8)	(\$88.8)
CGFA Estimate with Impact of Banned Areas	\$184.0	\$341.7	\$36.8	\$68.3	\$220.8	\$410.1

* 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 1/31/11) make up approximately 13.9% 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.

It should also be stressed that the projections shown above are made without any additional expansion of gaming in Illinois. If SB 0744 (or some other version of gaming expansion) were to be signed into law, this could have a negative impact on these revenue projections as an increase in gaming facilities would likely reduce the amount of available spending at video gaming terminals. The question that many in the industry have is which form of gaming will have a greater cannibalization effect on the other: video gaming or the casino industry. The answer to this is difficult to predict until revenues from video gaming begin to be seen and without knowing what the final gaming expansion product (if any) is completed. Obviously, any impact that is felt will come from areas in close proximity to the new gaming facilities.

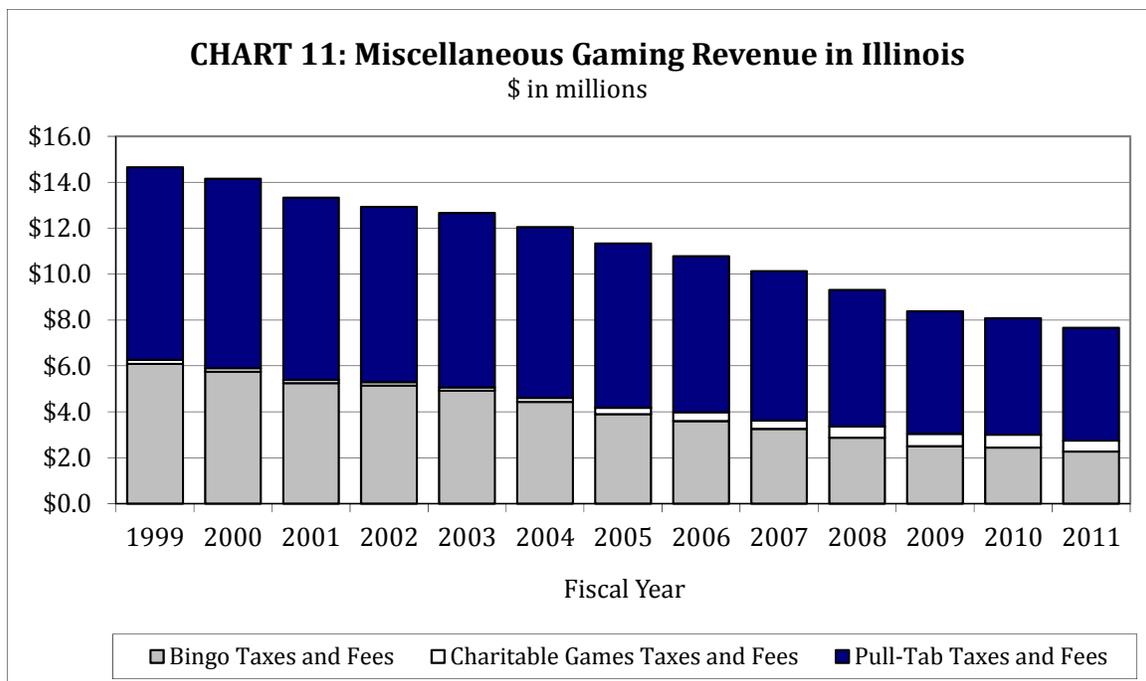
The Commission will continue to monitor the situation and will provide updates when necessary.

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 2011, the State generated \$0.1 million in bingo license fees and \$2.1 million in bingo taxes. Total bingo receipts were down 7.1% from FY 2010 levels.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2011, the State received \$68,750 in license fees and \$417,046 from the charitable games tax. Total charitable games receipts were down 13.4% from FY 2010 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 2011, the State received \$0.5 million in license fees and \$4.5 million from the pull tabs and jar games tax. Total pull-tabs and jar games receipts were down 3.4% from FY 2010 levels.

In total, these miscellaneous gaming revenue sources generated approximately \$7.7 million in FY 2011. This figure is 5.2% below the FY 2010 total of \$8.1 million. In fact, as shown below in Chart 9, total miscellaneous gaming revenue has been on a steady downward trend with FY 2011 figures now at the lowest level experienced over the last ten years.



CONCLUSION

In conclusion, FY 2011 was another disappointing year for gaming revenues in Illinois as the combined total of \$1.021 billion was down 2.9% from FY 2010 levels. This is the fifth consecutive year of declining receipts. While the combined totals in FY 2011 are still 4.8% higher than they were a decade ago, they are also 25.7% below the peak reached just five years ago in FY 2006. This is concerning because these gaming revenues are crucial in funding education through the transfers into the Common School Fund and the Education Assistance Fund.

The decline in gaming revenues in FY 2011 again came mostly from a drop in revenues from Illinois riverboats. Adjusted gross receipts from Illinois riverboats fell another 3.8% in FY 2011, which follows the declines of 7.5%, 18.3%, and 5.0% in FY 2008, FY 2009, and FY 2010, respectively. This has a subsequent impact on State revenues generated from Illinois riverboats as these receipts have declined a combined 36.4% over the last three 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 30.7%. 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 35.5% during this time period, Indiana riverboats in the Chicago area have increased 0.6%. This is 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.

There continues to be a lot of uncertainty regarding the future of riverboat/casino gambling in Illinois. The recent drops in revenues have led lawmakers to increase their push for gaming expansion. This led to the passage of SB 0744, as amended by House Amendment 1 thru 7, which would dramatically increase gambling in Illinois by allowing additional positions at all of the casinos, allowing a Chicago casino along with four additional riverboats, and would allow horse tracks to have slot machines at their facilities. However, its enactment remains unclear as at the time of this report, as the Governor had not indicated whether or not he would sign the legislation into law.

The amount of revenue that could be generated by gaming expansion could be significant, but the actual amount would be dependent on several factors. These factors include the tax rate imposed on the casino revenues, the number of gaming positions that each casino would utilize, and the location of the new casinos. The latter is especially of interest to the current riverboat casinos because new casinos could have a substantial cannibalization effect on their attendance and revenue

numbers. For this reason, if a large gaming expansion bill were to become law, it will be crucial from a State tax revenue perspective that these new casinos are successful in bringing new dollars to Illinois. If this does not happen, a reduced tax structure, combined with likely cannibalization of existing casinos could mean that the State would have a large amount of gaming expansion, with little new tax revenue to show for it.

Regardless of whether or not the gaming expansion bill was to become law, Illinois riverboats should see their total adjusted gross receipt levels improve due to the July 2011 opening of the 10th riverboat license in Des Plaines. But even with this new casino, its success in generating tax revenues to the State depends on if it attracts new casino patrons to its facility or if it cannibalizes the existing casinos in the Chicago area. The gaming industry will be anxiously watching numbers from the Chicago market in the fiscal year to come.

As for the Lottery, sales continue to perform well, increasing 3.0% in FY 2011 to \$2.258 billion, the highest lottery sales total realized since the inception of lottery in 1975. Lottery transfers increased to \$690 million and made up 30.6% of total lottery sales in FY 2011. Instant Games continue to make up the largest percentage of total sales at 56% and experienced the largest growth in sales (+\$90.8M). A major part of the new growth in FY 2011 came from the first-full year of Powerball, which totaled \$97.4 million. However, this new game may be having a cannibalization effect on the other multi-state game Mega Millions, which saw its sales decrease 23.3%. All other lottery games had stagnant or negative growth.

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 2010 handle amount of \$726 million was the lowest level in the last three decades. The 2010 decline of 1.5% was the eighth consecutive year of declining revenues. Although, advance deposit wagering in its first full year of existence added nearly \$100 million to the handle total, the other three components of horse-racing (off-track, inter-track, and on-track betting) all experienced double-digit declines in 2010.

The racetracks have been eagerly waiting for revenues from the 3% impact fee on riverboats to give a boost to this struggling industry. However, this fee had been in litigation since the fee was implemented in 2006 and again in 2008 as the casinos had challenged the constitutionality of this subsidy. But in August 2011, a judge with the Illinois Supreme Court denied the casino's latest request to hear further arguments on the case. As a result, all impact revenues, which had been held in an escrow account and could not be used by the tracks, were released to the horse

racing industry. A total of \$141.8 million was sent to the various Illinois tracks and cut between track operators and purse accounts.

Many in the horse racing industry believe this revenue will be a much welcomed “shot in the arm”. These revenues will allow the tracks to make needed improvement and increase purses, which they hope will lead to higher handle and revenue totals. However, others have stated that these one-time revenues will not be a “game changer” and that additional changes are needed. This change could come in the form of slot machines at racetracks. Although statistics from other states have shown that casinos at racetracks do not increase the racing handle, it would provide a secondary source of revenue to support the horseracing industry.

Perhaps the biggest unknown for the future of gaming in the State is the allowance of video gaming machines throughout Illinois. At this point, most believed that the 2009 Video Gaming Act would have generated revenues for the Capital Projects Fund by now. But problems associated with the selection of a central communications system along with the time needed to process thousands of video gaming applications has delayed the commencement of video gaming in Illinois. Without a communications system yet approved, it now appears that revenues from video gaming may not begin to surface until FY 2013 at the earliest.

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, with or without gaming expansion.

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 "Legislative Capital Plan Analysis" examines the State's capital appropriations plan and debt position. "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>