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Commission on Government Forecasting & Accountability

2012 Update

WAGERING IN ILLINOIS



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EXECUTIVE SUMMARY

The following document is the Commission's 2012 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 2012, the State's share of horse racing, lottery, and riverboat revenue reached \$1.056 billion, a 3.4% increase from FY 2011 levels. This is the first combined increase for these revenue sources since FY 2006. This increase consisted of a \$16 million increase in riverboat transfers to the Education Assistance Fund and an \$18 million increase in lottery transfers. Horse racing related State revenues grew less than \$1 million in FY 2012.
- In FY 2012, lottery transfers comprised 64.5% of total gaming revenues, whereas riverboat transfers comprised 34.7%, and horse racing 0.8%. Just five years ago, riverboat transfers made up 52.1% of all gaming related revenues, which highlights the recent decline in riverboat figures. Overall gaming per-capita spending increased in FY 2012 to \$216, an increase of 12.9% over the previous year. This was the first increase in overall per-capita spending after four consecutive years of declines.
- Statewide adjusted gross receipts (AGR) for Illinois riverboats in FY 2012 were up 21.5% from FY 2011 levels while admissions rose 22.7%. The opening of the 10th riverboat license in Des Plaines in July 2011 was the primary reason for this large increase.
- State revenues generated from riverboat gambling totaled \$449.9 million in FY 2012, which was a 19.5% increase over FY 2011 levels. However, the amount that was transferred from the State Gaming Fund to the Education Assistance Fund only grew 4.9% in FY 2012.
- Reasons why riverboat tax revenues and transfers have not experienced the same rates of growth as adjusted gross receipts include: statutory distribution changes that were triggered into effect by the opening of the new riverboat, the timing of how revenues from the new casino are calculated under the graduated tax structure, and the cannibalization effect that the Des Plaines Casino has had on other existing casinos and its corresponding impact on State revenues under the graduated tax structure.

- As expected, Des Plaines' success has been at the expense of many of the other riverboats in the Chicago metropolitan area. When looking at the four pre-existing casinos in the Chicago area, their combined adjusted gross receipts were down \$111 million or -13.1% in FY 2012 compared to FY 2011. While Des Plaines generated \$394 million in adjusted gross receipts in FY 2012, when accounting for the \$111 million loss from the other four casinos, adjusted gross receipts were only up a net \$283 million. Still, even with these losses, adjusted gross receipts in this area were up 33.3% compared to FY 2011.
- Before the addition of Des Plaines, in FY 2011, Illinois had the lowest amount of gaming revenue (in terms of adjusted gross receipts) of the casino-operating states in the Midwest. The addition of the casino in Des Plaines has allowed Illinois (\$1.641 billion) to surpass Iowa (\$1.409 billion) in FY 2012. But Illinois continues to trail Indiana (\$2.676 billion) and Missouri (\$1.796 billion). While the gap between Illinois and Indiana has shrunk, Indiana still had AGR levels over \$1 billion more than Illinois in FY 2012, despite Illinois' much higher population levels.
- Using FY 2012 adjusted gross receipts as a guideline, Illinois' casinos made up 40.9% of total receipts in the Quad City region (compared to Iowa's 59.1%), 18.1% of total receipts in the St. Louis region (compared to Missouri's 81.9%), and 50.4% of total receipts in the Chicago region (compared to Indiana's 49.6%). The Chicago region's FY 2012 percentage in Illinois is a significant improvement over FY 2011 (41.9%), but is still below their level in FY 2008 (54.3%).
- There continues to be numerous discussions on changes that could be made to Illinois' gaming industry to increase revenues for the State. These include adding additional gaming positions at the current riverboat facilities, allowing slot machines at Illinois horse tracks, and adding new riverboats/casinos. In May 2012, a bill encompassing these changes (SB 1849, as amended by House Amendments 2 and 3) passed both Houses. However, this piece of legislation was vetoed by the Governor in August 2012.
- Many estimate a significant amount of one-time revenues and recurring revenues could come from gaming expansion. However, factors such as a reduced tax rate and cannibalization would 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 would 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.
- FY 2012 was a busy year for the Illinois lottery. A private manager took over operations, new games (MLB Instant games and EZ Match) were introduced, the

cost of Powerball grew to \$2, Illinois became the first state to offer the lottery on the internet, and Little Lotto was rebranded as Lucky Day Lotto.

- Illinois had its largest lottery sales ever in its first year under private management. Illinois had lottery sales of \$2.676 billion in FY 2012. This was an increase of 18.3%, or \$413 million, over FY 2011.
- The majority of the increase in lottery sales can be attributed to the \$358 million increase in instant ticket sales which makes up 61% of total sales. The multi-state games also increased an additional \$68 million. The rest of the lottery's games were basically flat.
- Even though the lottery had its largest sales ever, the Northstar Lottery Group did not meet its Net Income Target of \$851 million. Northstar has requested a reduction in FY 2012's Net Income Target. The State has challenged this request and the two groups have gone to arbitration to resolve this issue.
- The lottery had total transfers of \$708 million. Of this amount, \$640 million went to the Common School Fund, \$65 million was transferred to the Capitol Projects Fund, and \$3.2 million was sent to special causes.
- Illinois had the 13th largest lottery in the U.S. in FY 2011, in terms of total sales. The per-capita average of lottery sales in Illinois was \$177 which was 20th out of the 45 lotteries in the U.S., including the District of Columbia and the U.S. Virgin Islands. Per-capita sales increased 17.5% in FY 2012 to \$208.
- The Illinois Racing Board reported that 524 race programs were conducted during CY 2011. A total handle amount of \$688 million resulted, which was a decrease of 5.2% over the 2010 amount and the lowest handle amount in over 35 years. The thoroughbred total handle dropped 7%, while the standardbred total handle dropped 8%.
- Public Act 96-0762 allowed advance deposit wagering to be conducted throughout the State. It officially began in Illinois in October 2009. In CY 2011, approximately \$110 million in horse racing revenues were collected from advance deposit wagering. While this form of wagering has been successful in generating significant revenues, 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 figures have declined since advance deposit wagering's inception.
- 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 from two impact fees. Litigation prevented the industry from receiving these revenues at first, but in August 2011, over

\$140 million was released to the Illinois racing industry and split between track operators and purse accounts. While these revenues were touted as a way to turn around horse racing's attendance and revenue figures, overall improvement in racing-related numbers have yet to be seen.

- 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 did not begin until August/September 2012 (on a limited basis). It will likely take many more months, if not year(s), before video gaming will be under full implementation in Illinois.
- Since video gaming was legalized in Illinois, a number of local governments have voted to ban video gaming in their areas. In addition, numerous other municipalities, including 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. As of August 2012, the Commission estimates that the percentage of Illinois' population that has banned video gaming in their municipalities/counties is 63.3%. The Commission estimates the State impact (revenues to the Capital Project Fund) of Chicago not "opting-in" to video gaming to be approximately \$60.4 million to \$112.1 million. The impact of all other communities currently banning video gambling is projected to be between \$121.4 million and \$225.5 million.

INTRODUCTION

Fiscal Year 2012 could be labeled as the “fiscal year of transition” for the Illinois gaming industry. All major areas of gaming in Illinois – riverboat gambling, the lottery, horse racing, and video gaming – began or experienced notable changes to their programs. Some of the impacts of these changes, as it relates to gaming related revenues in Illinois, were near expectations, some could probably be termed as disappointing, while the impact of others will be determined in the years to come.

Perhaps the most prominent change in the gaming industry was the opening of the 10th riverboat in Des Plaines. This long awaited new casino opened in July 2012 and reported nearly 3.9 million visitors in FY 2012. These patrons generated \$393.5 million in adjusted gross receipts (AGR) and, as expected, made it the highest revenue-generating riverboat casino in Illinois. The addition of this new casino allowed adjusted gross receipts in Illinois to increase 21.5% in FY 2012, which was the first overall increase in AGR in five years.

While most would label the Des Plaines riverboat’s first year as a success, part of this success came at the expense of other competing casinos in the area. For example, the four Illinois casinos near Des Plaines saw their AGR levels fall a combined 13.1% in FY 2012. However, the impacts were also felt in Indiana as the five nearby Indiana casinos saw their AGR levels fall a combined 5.2% during this first year. So, while Illinois’ new casino has undoubtedly hurt existing casinos in the State, it appears that it may be gaining or getting back casino patrons from Indiana as well.

The struggles of the State in terms of revenues, combined with the desire to create more jobs, have led to another 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 1849, as amended by House Amendments 2 and 3) passed both houses in the Spring of 2012. However, in August 2012, Governor Quinn decided to veto the legislation. But even with this recent veto, most feel that gaming expansion is far from dead and is getting closer and closer to becoming a reality. In response, this report provides a detailed analysis of all of the major parts of gaming expansion that are proposed in this bill. They 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 and its revenues.

For the State’s lottery program, FY 2012 was a year full of transitions. During the fiscal year, new games were introduced or rebranded, the cost of Powerball grew to \$2, and Illinois became the first state to offer the lottery on the internet. The biggest change came in July 2011 when Northstar took over operations as a private manager. Under this new management, Illinois had record lottery sales of \$2.676 billion, an increase of 18.3% over FY 2011. Although these were record sales, the totals were considered disappointing by many as Northstar failed to meet its agreed upon “net income target” in State revenues. As a result, penalties are set to take

effect due to these low revenue totals. Northstar has requested a change in the net income target amounts to avoid these penalties. This matter is currently in arbitration as the State is challenging this request.

Transition in the lottery program will continue into FY 2013. Recent legislation has been signed into law which will allow for the sales of Powerball tickets online in addition to Lotto and Mega Millions. The hope is that these online sales will grow in FY 2013 as the results for the first few months of operation were well below expectations. Marketing in the lottery program is also expected to be enhanced in the coming year, along with the introduction of new games, to generate new excitement in the Illinois lottery. Details of these issues are discussed in the Lottery section of the report.

Perhaps no area of business is in more need of change than that of the horse racing industry. But despite the release of nearly \$142 million in August 2011 in proceeds from the impact fee on riverboat casinos to the horse racing industry, the amount wagered on Illinois horse racing (the handle) fell for the ninth consecutive year in CY 2011 and is at its lowest level in over 30 years. The proceeds, in which \$85 million went to increase purse amounts and \$57 million went towards “track improvements” at the five Illinois horse tracks, has so far failed to turn around the industry. The handle amount in 2011 was at \$688 million, which is nearly 38% below levels seen just a decade ago.

Additional revenues for horse racing are statutorily set to come from the new Des Plaines casino. 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 racing industry continues to lobby for slot machines at their tracks. But, again, its future lies in the hands of lawmakers and many anxiously await decisions on what, if any, forms of gaming expansion will be approved. 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 a gaming expansion bill passes, a significant change in gambling is set to occur by way of the Video Gaming Act. Although video gaming was approved in 2009, the State thru FY 2012 had yet to receive any revenues from video gaming machines. This is because the Gaming Board had to complete the process of selecting a company to run a Central Communications System, which they finally did in December 2011. Once this company was selected, the process of designing and implementing the Central Communications System took place. On July 19, 2012, the Gaming Board announced that the Central Communications System was deemed functional. With the Central Communications System now in place, the Illinois Gaming Board stated video gaming will finally begin operations in Illinois in late August or early September 2012. However, initially, this will be on a limited basis as the Board wants to make sure test sites across the State are working properly before opening up video gaming for everyone.

The amount of revenue that will be generated through video gaming in Illinois remains uncertain. Preliminary estimates calculated shortly after the Act's passage predicted between \$287 million and \$534 million could be paid into the Capital Project Fund through video gaming proceeds. However, due to the number of municipalities that have banned video gaming or had pre-existing bans that have not been overturned (such as the City of Chicago), the amount of expected revenues from video gaming has dropped significantly. The Commission now estimates that roughly 63% of the State's population lives in areas that currently have a ban on video gaming in their communities. Applying this percentage to the initial estimate, the Commission has reduced the expected amount of revenues to the Capital Project Fund to between \$106 million and \$196 million (under full implementation).

When combining all of the gambling-related sources of income in Illinois, gaming revenues rose 3.4% in FY 2012 to \$1.056 billion. This was the first increase in the combined total for these revenue sources since FY 2006. Table 1 displays a history of these gaming-related revenues since FY 1975.

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%
2012	\$708	\$8	\$340	\$1,056	3.4%

(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.

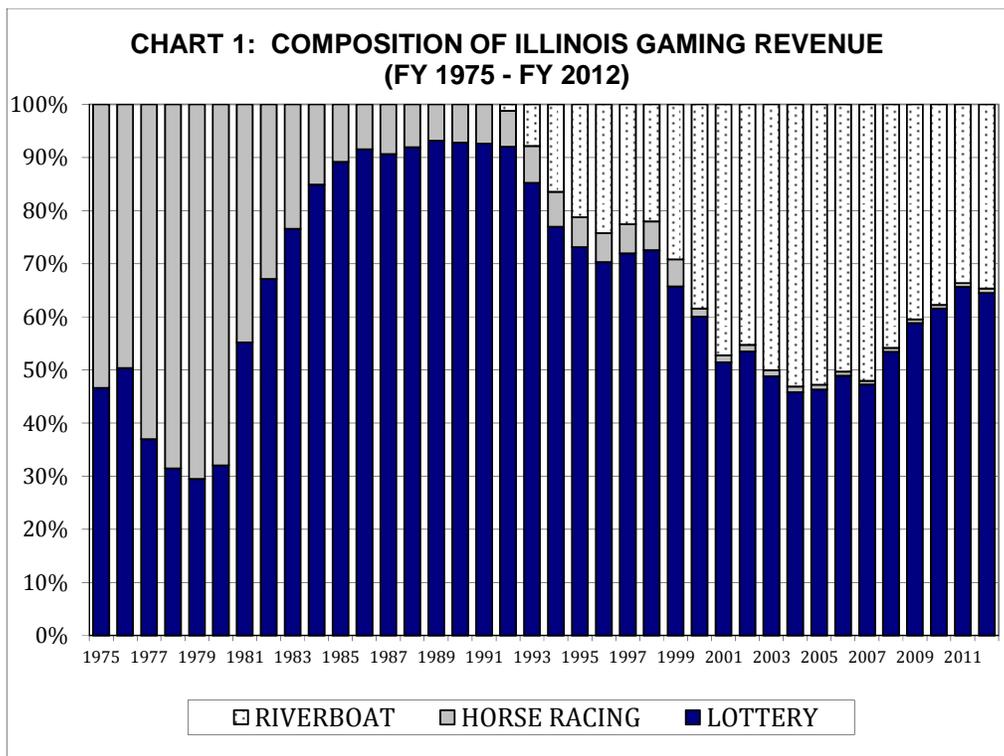
(3) Figures represent appropriations (FY 1992-FY 1995) and transfers (FY 1996-FY 2012) into the Education Assistance Fund and revenues deposited into the Common School Fund.

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

The riverboat State transfer amount of \$340 million in FY 2012 is a slight improvement over FY 2011, but is still 50.4% below the amount transferred to the Common School Fund in 2007. Lottery transfers have steadily increased over the last four years, but they have been unable to offset the dramatic falloff in riverboat transfers in recent years. State revenues from horse racing over the past several years have remained relatively unchanged and relatively insignificant compared to the larger gaming sources of revenue.

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 2012, lottery transfers comprised 64.5% of total gaming revenues, whereas riverboat transfers comprised 34.7%, and horse racing comprised of 0.8%. 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%.



The table below displays the differences between horse racing, the lottery, and riverboat gambling in terms of State revenue, gaming hold, and per-capita spending. 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. (Note: the 2012 amounts are estimates for Lottery and horse racing).

As Table 2 reveals below, FY 2012 State gaming revenues totaled approximately \$1.056 billion. The gaming industry's FY 2012 gaming hold total of \$2.784 billion increased 13% from FY 2011 levels. This was primarily due to the opening of the Des Plaines casino. Per-capita spending increased 12.9% to approximately \$216 in FY 2012, again likely due to the excitement from the new casino. The per-capita spending level, however, remains below levels of spending experienced in the late 2000s, likely depicting the impact of the economy on gaming-related spending.

TABLE 2: THE STATUS OF ILLINOIS GAMING BASED ON STATE REVENUE, GAMING HOLD, AND PER-CAPITA SPENDING								
	2005	2006	2007	2008	2009	2010	2011	2012*
POPULATION (IN MILLIONS)	12.8	12.8	12.9	12.9	12.9	12.8	12.9	12.9
HORSE RACING (CY)								
STATE REVENUE (IN MILLIONS)	\$ 12	\$ 11	\$ 9	\$ 9	\$ 7	\$ 7	\$ 7	\$ 8
GAMING HOLD (IN MILLIONS)	\$ 225	\$ 215	\$ 209	\$ 184	\$ 166	\$ 163	\$ 154	\$ 146
% CHANGE IN GAMING HOLD	-5.3%	-4.4%	-3.0%	-11.8%	-9.7%	-1.9%	-5.4%	-5.4%
** PER-CAPITA SPENDING	\$ 17.6	\$ 16.8	\$ 16.2	\$ 14.3	\$ 12.9	\$ 12.7	\$ 12.0	\$ 11.3
% CHANGE IN PER-CAPITA SPENDING	-5.7%	-5.0%	-3.2%	-12.1%	-9.7%	-1.4%	-5.7%	-5.5%
LOTTERY (FY)								
LOTTERY TRANSFERS (IN MILLIONS)	\$ 614	\$ 674	\$ 627	\$ 662	\$ 630	\$ 662	\$ 690	\$ 708
GAMING HOLD (IN MILLIONS)	\$ 803	\$ 900	\$ 893	\$ 888	\$ 851	\$ 921	\$ 960	\$ 998
% CHANGE IN GAMING HOLD	9.2%	12.1%	-0.7%	-0.6%	-4.1%	8.2%	4.1%	4.0%
** PER-CAPITA SPENDING	\$ 62.9	\$ 70.1	\$ 69.5	\$ 68.8	\$ 66.0	\$ 71.8	\$ 74.6	\$ 77.5
% CHANGE IN PER-CAPITA SPENDING	8.8%	11.5%	-0.9%	-1.0%	-4.1%	8.8%	3.8%	3.9%
RIVERBOATS (FY)								
AMOUNT TO EAF & CSF (IN MILLIONS)	\$ 699	\$ 689	\$ 685	\$ 564	\$ 430	\$ 383	\$ 324	\$ 340
GAMING HOLD (IN MILLIONS)	\$ 1,752	\$ 1,870	\$ 1,958	\$ 1,810	\$ 1,479	\$ 1,405	\$ 1,351	\$ 1,641
% CHANGE IN GAMING HOLD	5.7%	6.8%	4.7%	-7.6%	-18.3%	-5.0%	-3.8%	21.5%
** PER-CAPITA SPENDING	\$ 137.3	\$ 145.8	\$ 152.3	\$ 140.3	\$ 114.6	\$ 109.5	\$ 105.0	\$ 127.5
% CHANGE IN PER-CAPITA SPENDING	5.3%	6.2%	4.5%	-7.9%	-18.3%	-4.5%	-4.1%	21.4%
ALL WAGERING								
TOTAL REVENUE (IN MILLIONS)	\$ 1,325	\$ 1,374	\$ 1,321	\$ 1,235	\$ 1,067	\$ 1,052	\$ 1,021	\$ 1,056
GAMING HOLD (IN MILLIONS)	\$ 2,780	\$ 2,985	\$ 3,060	\$ 2,882	\$ 2,497	\$ 2,489	\$ 2,465	\$ 2,784
% CHANGE IN GAMING HOLD	5.7%	7.4%	2.5%	-5.8%	-13.4%	-0.3%	-1.0%	13.0%
** PER-CAPITA SPENDING	\$ 217.8	\$ 232.6	\$ 238.1	\$ 223.4	\$ 193.5	\$ 194.0	\$ 191.5	\$ 216.3
% CHANGE IN PER-CAPITA SPENDING	5.3%	6.8%	2.3%	-6.2%	-13.4%	0.3%	-1.3%	12.9%
*THE FY 2012 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, the hold harmless provision in FY 2006 and FY 2007, and impact fees paid to the horse racing industry.

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 2012 riverboat statistics and how these numbers compare to years past. It includes a discussion on factors that are currently impacting Illinois riverboats (regional competition, the economy, etc.), and factors that will impact the industry in the future (video gaming, gaming expansion, etc.). This includes a detailed look at the new Des Plaines Casino and how it performed in its first year of operation.

During the Spring Legislative Session, the Illinois State Legislature again passed an extensive gaming expansion bill, this time in the form of SB 1849, as amended by House Amendments 2 & 3. The riverboat section concludes by analyzing this proposal and discusses factors that could affect how much revenue could be generated at these proposed new Illinois facilities.

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 another casino began operations in Illinois. Therefore, once the Des Plaines Casino opened in July 2011, this impact fee was no longer collected.

Des Plaines Casino Revenue Distribution: 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, 2% is to be paid into the Cook County Criminal Justice System, and 2% is to go to Chicago State University. However, due to how the statutory language is worded, the Comptroller has ruled that there is not a vehicle to properly transfer revenues from the State Gaming Fund to the Horse Racing Equity Fund and to Chicago State University without appropriation. (The transfer to the Cook County Criminal Justice System has been allowed to take place). **Therefore, without legislative changes to alter this language, revenues intended for the House Racing Equity Fund and Chicago State University will remain in the State Gaming Fund.**

Data Analysis

The tables below and on the following page provide a summary of the performance of each of the State's ten active riverboat licenses during fiscal years 2008 thru 2012 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 2008 - FY 2012)					
(\$ in millions)					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Des Plaines	\$0.0	\$0.0	\$0.0	\$0.0	\$393.5
Elgin	\$396.2	\$311.8	\$286.1	\$286.1	\$226.7
Joliet Harrah's	\$349.2	\$292.1	\$253.9	\$236.3	\$215.3
Aurora	\$249.4	\$215.0	\$185.0	\$178.4	\$159.9
Joliet Hollywood	\$210.8	\$127.9	\$156.8	\$147.7	\$135.7
East St. Louis	\$185.2	\$154.4	\$139.7	\$127.9	\$132.1
East Peoria	\$125.1	\$116.2	\$114.5	\$115.5	\$116.2
Metropolis	\$151.9	\$123.0	\$113.1	\$100.1	\$102.7
Rock Island	\$33.4	\$52.3	\$75.7	\$83.1	\$87.5
Alton	\$109.0	\$86.9	\$80.1	\$75.7	\$70.9
TOTAL	\$1,810.4	\$1,479.5	\$1,404.9	\$1,350.8	\$1,640.6
% INCREASE	-7.5%	-18.3%	-5.0%	-3.8%	21.5%
SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT					

TABLE 4: ILLINOIS RIVERBOAT ADMISSIONS (FY 2008 - FY 2012)					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Des Plaines	0	0	0	0	3,894,173
Elgin	2,375,400	2,117,970	2,112,964	2,051,999	1,719,111
Joliet Harrah's	2,896,912	2,535,895	2,371,293	2,022,995	1,828,825
Aurora	1,745,324	1,609,036	1,520,101	1,485,692	1,438,442
Joliet Hollywood	1,920,951	1,155,386	1,425,067	1,374,618	1,306,020
East St. Louis	2,457,774	2,273,300	2,158,726	1,955,279	1,940,539
East Peoria	1,370,631	1,345,020	1,326,910	1,253,969	1,204,672
Metropolis	1,265,813	1,069,036	1,027,173	825,466	825,745
Rock Island	612,551	1,000,453	1,301,213	1,382,827	1,309,522
Alton	1,325,645	1,155,978	1,107,007	982,773	900,658
TOTAL	15,971,001	14,262,074	14,350,454	13,335,618	16,367,707
% INCREASE	-1.8%	-10.7%	0.6%	-7.1%	22.7%
SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT					

TABLE 5: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2008 - FY 2012)

(\$ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Des Plaines*	\$0.0	\$0.0	\$0.0	\$0.0	\$117.3
Elgin	\$149.8	\$111.5	\$99.4	\$98.6	\$74.8
Joliet Harrah's	\$130.2	\$102.4	\$87.6	\$77.3	\$67.2
Aurora	\$84.3	\$66.2	\$54.4	\$50.3	\$44.1
Joliet Hollywood	\$68.2	\$38.4	\$36.6	\$37.4	\$34.4
East St. Louis	\$55.1	\$42.7	\$37.3	\$32.7	\$33.5
East Peoria	\$31.1	\$27.4	\$26.8	\$26.9	\$27.0
Metropolis	\$41.7	\$29.3	\$26.2	\$22.7	\$21.1
Rock Island	\$4.8	\$7.6	\$13.7	\$15.7	\$17.1
Alton	\$26.7	\$18.5	\$16.5	\$14.8	\$13.5
TOTAL	\$591.8	\$444.0	\$398.4	\$376.4	\$449.9
% INCREASE	-16.0%	-25.0%	-10.3%	-5.5%	19.5%
Des Plaines Distributions*	\$0.0	\$0.0	\$0.0	\$0.0	(\$74.8)
Total after Distributions	\$591.8	\$444.0	\$398.4	\$376.4	\$375.1
% INCREASE	-16.0%	-25.0%	-10.3%	-5.5%	-0.4%

* Of the \$117.3 million in State revenues generated by Des Plaines, in FY 2012, approximately \$59.0 million was statutorily set aside for the Horse Racing Equity Fund, \$7.9 million to the Cook County Criminal Justice System, and \$7.9 million to Chicago State University.

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 6: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2008 - FY 2012)

(\$ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Des Plaines	\$0.0	\$0.0	\$0.0	\$0.0	\$23.6
Elgin	\$22.2	\$17.7	\$16.4	\$16.4	\$13.1
Joliet Harrah's	\$20.4	\$17.1	\$15.1	\$13.8	\$12.6
Aurora	\$14.2	\$12.4	\$10.8	\$10.4	\$9.4
Joliet Hollywood	\$12.5	\$7.5	\$9.3	\$8.8	\$8.1
East St. Louis	\$11.7	\$10.0	\$9.1	\$8.4	\$8.5
East Peoria	\$7.6	\$7.2	\$7.1	\$7.0	\$7.0
Metropolis	\$8.9	\$7.2	\$6.7	\$5.8	\$6.0
Rock Island	\$2.3	\$3.6	\$5.1	\$5.5	\$5.7
Alton	\$6.8	\$5.5	\$5.1	\$4.8	\$4.4
TOTAL	\$106.5	\$88.2	\$84.6	\$80.9	\$98.4
% INCREASE	-6.7%	-17.1%	-4.1%	-4.4%	21.7%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 7: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2008 - FY 2012)

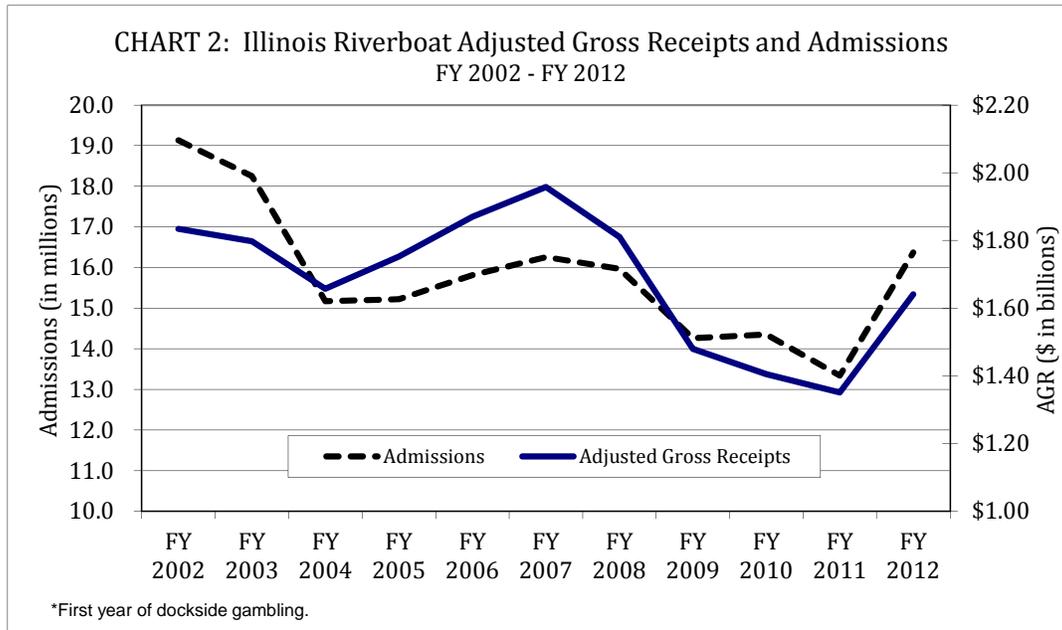
(\$ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Des Plaines	\$0.0	\$0.0	\$0.0	\$0.0	\$140.8
Elgin	\$171.9	\$129.2	\$115.8	\$115.0	\$87.9
Joliet Harrah's	\$150.5	\$119.6	\$102.7	\$91.1	\$79.8
Aurora	\$98.5	\$78.6	\$65.2	\$60.7	\$53.5
Joliet Hollywood	\$80.7	\$45.9	\$45.8	\$46.2	\$42.5
East St. Louis	\$66.8	\$52.6	\$46.5	\$41.0	\$42.0
East Peoria	\$38.7	\$34.6	\$33.9	\$33.9	\$34.0
Metropolis	\$50.6	\$36.6	\$32.8	\$28.5	\$27.0
Rock Island	\$7.0	\$11.2	\$18.8	\$21.3	\$22.8
Alton	\$33.5	\$24.0	\$21.6	\$19.6	\$17.9
TOTAL	\$698.2	\$532.2	\$483.0	\$457.3	\$548.3
% INCREASE	-14.7%	-23.8%	-9.2%	-5.3%	19.9%

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, the indoor smoking ban, the economy, etc. have led to dramatic fluctuations in the performance of the State's riverboats, specifically, in terms of adjusted gross receipts. These fluctuations can be seen in the below graph.



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.

The improvement in gambling revenues changed in FY 2008 as adjusted gross receipts fell 7.5% and admissions fell 1.8%. The indoor smoking ban and the struggling economy likely were the primary reasons for this turnaround. These factors, now fully embedded into the gaming environment, caused riverboat figures to fall even sharper in FY 2009 as adjusted gross receipts fell 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 trend continued in FY 2011 with adjusted gross receipts falling 3.8% for the fiscal year and admissions falling 7.1%.

In FY 2012, riverboat figures finally improved, as adjusted gross receipts and admissions increased 21.5% and 22.7%, respectively. The opening of the Des Plaines casino is the primary reason for this dramatic improvement. Details of this improvement are discussed later in the report.

FY 2012 Boat-by-Boat Perspective

As stated previously, Statewide adjusted gross receipts (AGR) grew 21.5% in FY 2012. Again, most of this overall increase was due to the July 2011 opening of the 10th riverboat license in Des Plaines. However, the success of the new casino came at a cost as the four existing casinos in that area saw significant declines in FY 2012. The largest AGR decline came from Elgin, falling 20.8%. Not surprisingly, Elgin is the casino closest to the Des Plaines casino. While not as sharp, the remaining suburban casinos also experienced significant declines: Aurora (-10.4%), Joliet Harrah's (-8.9%), and Joliet Hollywood (-8.1%). These year-over-year changes percentage changes can be seen in the below table.

TABLE 8: ILLINOIS RIVERBOATS BY ADJUSTED GROSS RECEIPTS AND ADMISSIONS: PERCENTAGE CHANGE COMPARISON						
ADJUSTED GROSS RECEIPTS						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Des Plaines	N/A	N/A	N/A	N/A	N/A	N/A
Elgin	4.9%	-9.1%	-21.3%	-8.2%	0.0%	-20.8%
Joliet Harrah's	9.5%	-4.2%	-16.4%	-13.1%	-6.9%	-8.9%
Aurora	6.2%	-8.5%	-13.8%	-14.0%	-3.5%	-10.4%
Joliet Hollywood	0.9%	-16.5%	-39.4%	22.6%	-5.8%	-8.1%
East St. Louis	0.0%	7.6%	-16.6%	-9.5%	-8.4%	3.2%
East Peoria	-2.3%	-4.0%	-7.1%	-1.5%	0.8%	0.6%
Metropolis	9.5%	-8.9%	-19.1%	-8.0%	-11.5%	2.7%
Rock Island	-4.4%	-11.2%	56.5%	44.7%	9.8%	5.3%
Alton	6.6%	-13.1%	-20.3%	-7.8%	-5.5%	-6.2%
TOTAL	4.7%	-7.5%	-18.3%	-5.0%	-3.8%	21.5%
ADMISSIONS						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Des Plaines	N/A	N/A	N/A	N/A	N/A	N/A
Elgin	-5.4%	-6.2%	-10.8%	-0.2%	-2.9%	-16.2%
Joliet Harrah's	16.5%	2.8%	-12.5%	-6.5%	-14.7%	-9.6%
Aurora	7.7%	-6.2%	-7.8%	-5.5%	-2.3%	-3.2%
Joliet Hollywood	4.0%	-11.3%	-39.9%	23.3%	-3.5%	-5.0%
East St. Louis	-3.5%	21.4%	-7.5%	-5.0%	-9.4%	-0.8%
East Peoria	-6.3%	2.1%	-1.9%	-1.3%	-5.5%	-3.9%
Metropolis	19.3%	-10.4%	-15.5%	-3.9%	-19.6%	0.0%
Rock Island	-9.4%	-5.7%	63.3%	30.1%	6.3%	-5.3%
Alton	-1.5%	-8.9%	-12.8%	-4.2%	-11.2%	-8.4%
TOTAL	2.8%	-1.8%	-10.7%	0.6%	-7.1%	22.7%
SOURCE: ILLINOIS GAMING BOARD						

As for the downstate locations, their performance was mixed. Rock Island continues to show solid growth ever since it opened a new, larger facility in 2008 with more table games and slot machines. Rock Island's AGR total increased 5.3% in FY 2012 and is up 162% since FY 2008 (from \$33.4M to \$87.5M). East Peoria and Metropolis saw modest gains in FY 2012 increasing 0.6% and 2.7%, respectively.

East St. Louis' casino posted a respectable 3.2% increase in FY 2012. But this increase comes after three consecutive years of declines as the casino has had to compete against the opening of two new casinos across the border in Missouri. Despite its latest increase, East St. Louis is still 28.7% below its FY 2008 total. Alton, which has also had to deal with this out of state competition from Missouri and from the East St. Louis riverboat, continued its recent struggles, falling another 6.2% in FY 2012. Alton is now 34.9% below its levels of FY 2008.

Attendance wise, the overall increase of 22.7% was almost entirely due to Des Plaines, as every other riverboat casino in Illinois was flat or experienced declines. Again, the largest declines mainly came from the casinos closest to the Des Plaines casino, as Elgin fell 16.2%, Joliet Harrah's declined 9.6%, Joliet Hollywood dropped 5.0%, and Aurora lost 3.2% of its attendance compared to the previous year.

Revenue Analysis

The amount of tax revenues collected from Illinois casinos is directly related to each riverboat's adjusted gross receipts and admissions. Riverboats that saw increases/decreases in these figures saw similar increases/decreases in the amount of State revenues collected. For example, again due to the competing Des Plaines Casino, nearby casinos saw the largest declines in State revenues because of their AGR and admission declines in FY 2012 (see table below). It should be noted that the rate of decline in State revenues will often be more extensive than the loss in AGR because lower AGR totals lead to a lower tax rate under the graduated tax structure. This was the case for Elgin, which had a 20.8% decline in AGR in FY 2012, but had a 24.1% decline in State revenues. This occurrence is discussed further in the next section.

TABLE 9: ANNUAL PERCENT CHANGE OF RIVERBOAT STATE REVENUES								
Comparison of FY 2009 thru FY 2012								
\$ in millions								
	FY 2009 STATE REVENUE	Annual % change	FY 2010 STATE REVENUE	Annual % change	FY 2011 STATE REVENUE	Annual % change	FY 2012 STATE REVENUE*	Annual % change
Des Plaines*	\$0.0	N/A	\$0.0	N/A	\$0.0	N/A	\$117.3	N/A
Elgin	\$111.5	-25.5%	\$99.4	-10.9%	\$98.6	-0.8%	\$74.8	-24.1%
Joliet Harrah's	\$102.4	-21.3%	\$87.6	-14.5%	\$77.3	-11.8%	\$67.2	-13.1%
Aurora	\$66.2	-21.4%	\$54.4	-17.8%	\$50.3	-7.5%	\$44.1	-12.3%
Joliet Hollywood	\$38.4	-43.8%	\$36.6	-4.7%	\$37.4	2.3%	\$34.4	-8.2%
East St. Louis	\$42.7	-22.6%	\$37.3	-12.5%	\$32.7	-12.4%	\$33.5	2.4%
East Peoria	\$27.4	-11.8%	\$26.8	-2.2%	\$26.9	0.4%	\$27.0	0.3%
Metropolis	\$29.3	-29.7%	\$26.2	-10.8%	\$22.7	-13.3%	\$21.1	-7.0%
Rock Island	\$7.6	60.0%	\$13.7	79.8%	\$15.7	14.9%	\$17.1	8.5%
Alton	\$18.5	-30.9%	\$16.5	-10.5%	\$14.8	-10.3%	\$13.5	-9.0%
TOTAL	\$444.0	-25.0%	\$398.4	-10.3%	\$376.4	-5.5%	\$449.9	19.5%
Des Plaines Distributions*:	<u>\$0.0</u>		<u>\$0.0</u>		<u>\$0.0</u>		<u>-\$74.8</u>	
Total after Distrubtions:	\$444.0	-25.0%	\$398.4	-10.3%	\$376.4	-5.5%	\$375.1	-0.4%

* Of the \$117.3 million in State revenues generated by Des Plaines, in FY 2012, approximately \$59.0 million was statutorily set aside for the Horse Racing Equity Fund, \$7.9 million to the Cook County Criminal Justice System, and \$7.9 million to Chicago State University.

Source: Illinois Gaming Board Monthly Riverboat Casino Report

Impact of the Des Plaines Casino on Revenues

In FY 2012, the ten Illinois casinos combined to generate \$1.640 billion in adjusted gross receipts, a 21.5% increase. Similarly, admissions grew 22.7% overall. Of the \$1.640 billion collected, \$393.5 million, or 24.0% came from the Des Plaines Casino. This new casino also brought in 23.8% of the combined 16.3 million people that patronized Illinois casinos in FY 2012.

The Des Plaines casino has been widely viewed as a much needed boost to an industry that has struggled over the past several years. Between FY 2008 and FY 2011, adjusted gross receipts at the nine Illinois operating casinos fell a staggering 31%. It is expected that this long awaited casino will help Illinois' riverboat numbers approach and eventually surpass the levels experienced in the past.

But, as expected, Des Plaines' success has been at the expense of other riverboats in Illinois, especially those near the new casino in the Chicago metropolitan area. When looking at the four pre-existing casinos in the Chicago area, their combined adjusted gross receipts were down \$111 million or 13.1% in FY 2012 compared to FY 2011. So while Des Plaines generated \$394 million in adjusted gross receipts in FY 2012, when accounting for the \$111 million loss from the other four casinos, adjusted gross receipts were only up a net \$283 million. Still, even with these losses, adjusted gross receipts in this area were up 33.3% compared to FY 2011.

One point that Illinois officials are quick to point out is that not only does the new Des Plaines casino impact Illinois existing riverboats, but it also has an impact on several of the area casinos in Indiana as well. Many argue that this new casino is likely bringing back patrons and casino revenues that Illinois had been losing to Indiana. Indiana riverboat statistics seem to support this claim.

In FY 2012, the AGR of the five Indiana casinos near the Chicago metropolitan area fell a combined 5.2% since the opening of the Des Plaines casino. This includes a 7.3% decline at the Horseshoe Casino in Hammond, which is arguably the biggest competitor to Illinois casinos. The Indiana casinos' AGR in this area were down \$52.4 million in FY 2012 compared to FY 2011.

It is likely that a significant portion of this \$52.4 million or 5.2% has found its way into Illinois. But even accounting for the losses in both Illinois and Indiana at existing casinos, the combined AGR levels for the Chicago Metropolitan Area were up \$221.7 million or 10.9% in FY 2012 compared to FY 2011. These statistics can be seen in the table on the following table.

TABLE 10: Impact of New Des Plaines Casino on Area AGR (FY 2012: July 2011 thru June 2012)			
	<u>AGR</u>	<u>FYTD % Ch.</u>	<u>FYTD \$ Ch.</u>
Des Plaines	\$393.5	N/A	\$393.5
<i>Illinois Chicago Area Casinos</i>			
Joliet Hollywood	\$135.7	-8.1%	(\$12.0)
Joliet Harrah's	\$215.3	-8.9%	(\$21.0)
Aurora	\$159.9	-10.4%	(\$18.6)
Elgin	\$226.7	-20.8%	(\$59.4)
"Older" Casino Change in AGR:		-13.1%	(\$111.0)
Net Illinois Chicago Area Change:		33.3%	\$282.6
<i>Indiana Chicago Area Casinos</i>			
Ameristar - E. Chicago	\$239.6	-3.4%	(\$8.5)
Horseshoe - Hammond	\$499.0	-7.3%	(\$39.2)
Majestic Star 1 - Gary	\$111.0	-2.1%	(\$2.4)
Majestic Star 2 - Gary	\$90.7	-10.9%	(\$11.1)
Blue Chip - Michigan City	\$175.1	0.1%	\$0.2
Net Indiana Chicago Area Change:		-5.2%	(\$52.4)
Combined Existing Casino Area Change:		-8.5%	(\$171.9)
Net Overall Chicago Area Change:		10.9%	\$221.7

TABLE 11: Impact of Des Plaines Casino on State Revenues (FY 2012: July 2011 thru June 2012)			
	<u>State Revenues</u>	<u>FYTD % Ch.</u>	<u>FYTD \$ Ch.</u>
Des Plaines	\$117.3	N/A	\$117.3
<i>Illinois Chicago Area Casinos</i>			
Joliet Hollywood	\$34.4	-8.2%	(\$3.1)
Joliet Harrah's	\$67.2	-13.1%	(\$10.1)
Aurora	\$44.1	-12.3%	(\$6.2)
Elgin	\$74.8	-24.1%	(\$23.8)
"Older" Casino Change in State Revenue:		-16.4%	(\$43.1)
Net Illinois Chicago Area Change:		28.1%	\$74.2

It would seem that a 21.5% increase in overall adjusted gross receipts should equate to a substantial increase in State revenues, especially to the primary recipient of riverboat tax revenues – the Education Assistance Fund. However, the amount that was transferred from the State Gaming Fund to the Education Assistance Fund only grew 4.9% in FY 2012. There are several reasons why riverboat tax revenues have not experienced the same rates of growth as adjusted gross receipts.

The first reason is due to the cannibalization effect that the Des Plaines Casino has had on other casinos and its corresponding impact on State revenues under the graduated tax structure. In a graduated tax structure, the more revenues that a riverboat accrues, the higher the tax they pay. Because many casinos, especially near the Des Plaines casino, had lower AGR levels in FY 2012 compared to FY 2011, they were slower to reach higher tax brackets. Because of this, their corresponding operating tax rates were lower (see table below). This is why many pre-existing casinos have lower State revenue rates of return than AGR rates of return in FY 2012.

The timing of how the graduated tax structure is calculated has also limited revenues, specifically as it pertains to the Des Plaines Casino. 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 had only six months to accumulate before resetting in January.

In essence, the new casino had 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 have hit if its revenues accrued to over \$200 million. As a result, the operating tax rate for Des Plaines in FY 2012 was only 32.8%, which was actually lower than Elgin and Joliet Harrah's (see table below). **This timing phenomenon will only be felt in FY 2012, as FY 2013 will benefit from a full calendar year of accumulated receipts, and thus higher tax rates.**

TABLE 12: OPERATING TAX RATES FOR ILLINOIS RIVERBOATS (FY 2008 - FY 2012)					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Des Plaines	N/A	N/A	N/A	N/A	32.8%
Elgin	41.6%	39.4%	38.2%	38.0%	36.5%
Joliet Harrah's	40.6%	38.3%	37.6%	36.0%	34.5%
Aurora	37.4%	34.3%	32.8%	31.5%	30.8%
Joliet Hollywood	35.5%	33.2%	26.5%	28.5%	28.4%
East St. Louis	32.1%	29.7%	28.6%	27.5%	27.4%
East Peoria	27.6%	26.3%	26.1%	26.1%	26.2%
Metropolis	30.8%	27.1%	26.3%	26.0%	23.9%
Rock Island	17.4%	17.7%	21.4%	22.3%	23.0%
Alton	27.1%	23.6%	22.9%	22.0%	21.5%
Average Tax Rate	32.2%	29.9%	28.9%	28.7%	28.5%

The final reason State riverboat transfers to the Education Assistance Fund saw relatively stagnant growth is due to how revenues from the Des Plaines Casino are distributed under current law. Under Illinois Statute, the following provisions requiring distribution changes from the State Gaming Fund have been triggered by the opening of the 10th riverboat license:

1) 15% of AGR of the new license are to go into the Horse Racing Equity Fund (estimated to be \$59.0 million in FY 2012).

2) 2% of AGR of the new license are to go to Cook County for the purpose of enhancing the county's criminal justice system (estimated to be \$7.9 million in FY 2012).

3) 2% of AGR of the new license are to go to Chicago State University (estimated to be \$7.9 million in FY 2012).

These additional distributions, which totaled approximately \$74.8 million in FY 2012, meant that the State Gaming Fund and its amounts transferred into the Education Assistance Fund received proportionately less revenues from the Des Plaines Casino compared to the other locations. While there remain questions on when/if these funds will actually be appropriated to their statutorily set destination, the fact is, the Education Assistance Fund will not be receiving these revenues. This is, therefore, why there has only been modest growth in State riverboat transfers (4.9%) despite the 21.5% increase in adjusted gross receipts.

Difference between State Revenues from Riverboats and State Transfers

As shown in Table 9, after accounting for the statutory distribution of revenues from the Des Plaines Casino, there was \$375.1 million in "State Revenues" generated by Illinois riverboats. However, the amount reported by the Comptroller as the amount transferred from the State Gaming Fund into the Education Assistance Fund was \$340.0 million. 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. This difference of approximately \$35 million is what the Gaming Board set aside in FY 2012 for their administrative expenses. It should be noted that these expenses are used not only for riverboat related business, but also for the administration of the Video Gaming Act. As video gaming in Illinois ramps up, it is likely that the amount held back for administrative expenses will increase in future fiscal years.

Competition for the Midwest Gaming Dollar

There are a multitude of reasons for the falloff in riverboat casino revenues over the last several years, which include the struggling economy and the indoor smoking ban. Riverboat data for the month that the smoking ban went into effect (January 2008) shows an immediate falloff in revenues across the State (-17.5%). However, economists have placed the start of the “Great Recession” in December 2007, which means these two factors were occurring simultaneously.

Because of the sharpness of the falloff in adjusted gross receipts and because other states did not have the extent of the drop that Illinois did, the numbers appear to suggest that the indoor smoking ban was a leading factor for the State’s significant declines. Although, it should be noted that others have suggested that the Smoke-Free Illinois Act did not have a detectable effect on Illinois casino admissions (<http://www.smokefreeillinois.org/pdfs/ExemptingCasinosstudy.pdf>). While it is difficult to quantitatively assign a precise value to each of these factors, undoubtedly each has contributed in some way to the recent gaming dollar losses. (*For more detail on these factors, please see previous Wagering Reports*).

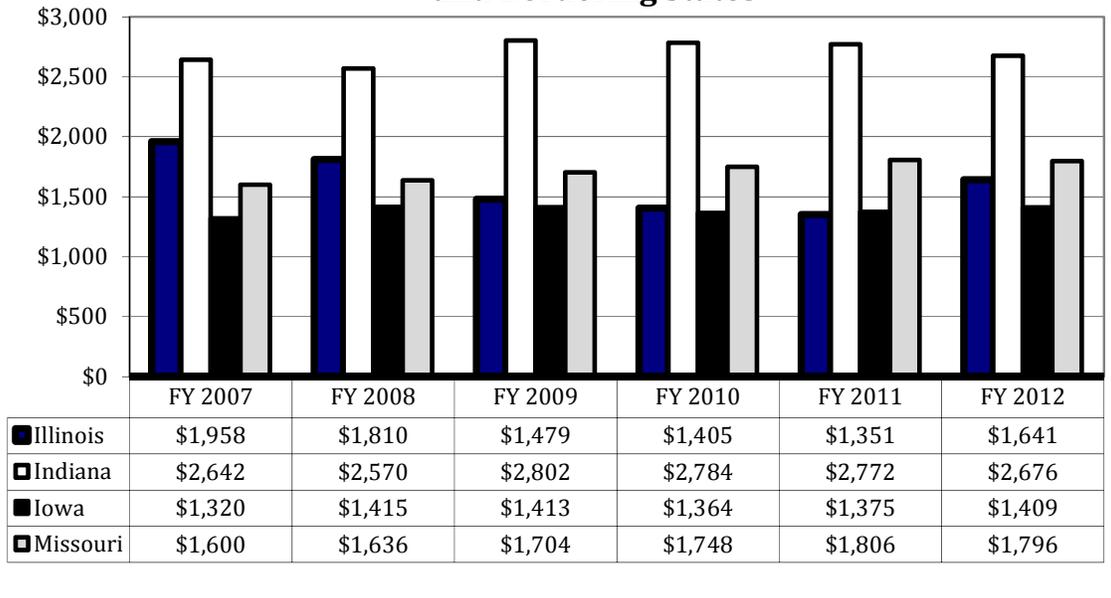
No matter the reason for the recent falloffs in gaming revenues, a major contributing factor for these declines is the fact that out-of-state competition for the gaming dollar continues to grow. For example, Missouri opened new casinos in the St. Louis area in December 2007 and in March 2010. Both of these casinos are in direct competition with the East St. Louis and Alton riverboats, as well as two other St. Louis area casinos in Missouri. In November 2012, Missouri will open another casino in Cape Girardeau, again, bordering Illinois in the southern region of the State. Undoubtedly, this will have an impact on gaming revenues at Illinois’ Metropolis riverboat.

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.

Before the addition of Des Plaines, in FY 2011, Illinois had the lowest amount of gaming revenue (in terms of adjusted gross receipts) of the casino-operating states in the Midwest. As shown in the following chart, Illinois’ FY 2011 AGR total of \$1.351 billion was 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’ AGR total was \$638 million higher than Iowa and \$358 million higher than Missouri.

The addition of the casino in Des Plaines has allowed Illinois to surpass Iowa (\$1.409 billion) in FY 2012. But Illinois continues to trail Indiana (\$2.676 billion) and Missouri (\$1.796 billion). While the gap between Illinois and Indiana has shrunk, Indiana still had AGR levels over \$1 billion more than Illinois in FY 2012. These totals are despite the fact that Illinois has a decisive advantage over Indiana and the other Midwest states in population.

CHART 3: Adjusted Gross Receipts of Casinos for Illinois and Bordering States



A chart indicating the annual percent changes of AGR of the Midwest region states over the last six fiscal years are shown below. The addition of the Des Plaines casino has allowed Illinois to claim the state with the biggest improvement in AGR over the last year. It also may indicate the new casino's impact on Indiana as Indiana's AGR levels dropped 3.5% in FY 2012. This marked only the second year that Indiana had declining revenues since FY 2000 (Compared to Illinois which has had four consecutive years of declining revenues prior to this year).

CHART 4: Annual Percent Change of Adjusted Gross Receipts by State FY 2007 - FY 2012

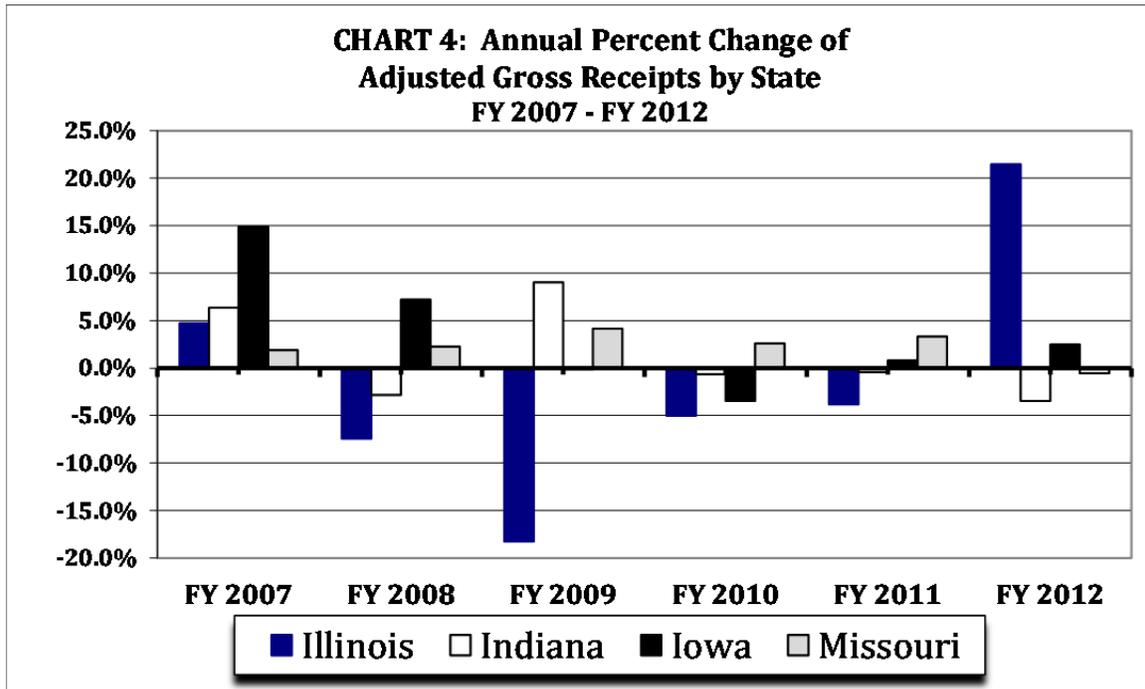


Table 13 below displays a summary of casino statistics for the Midwestern States: Illinois, Indiana, Iowa, and Missouri. The overview shows tax rates, gaming positions allowed, how revenues are spent, as well as other pertinent information.

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 (13th to open in Nov. 2012 in Cape Girardeau)
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 2012)	242 Table Games, 10,278 Slots	696 Table Games, 22,421 Slots	474 Table Games, 18,051 Slots	524 Table Games, 18,563 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 2012) (Riverboats, land-based, and racetrack casinos)	16.4 million	25.0 million	21.4 million	25.4 million
Admissions % Change (FY 2011 to FY 2012)	22.7%	-2.7%	-0.7%	-4.3%
Adjusted Gross Receipts (AGR) FY 2012	\$1.641 billion	\$2.676 billion	\$1.409 billion	\$1.796 billion
AGR % Change (FY 2011 to FY 2012)	21.5%	-3.4%	2.5%	-0.6%
AGR per Admission (FY 2012)	\$100.23	\$107.17	\$65.84	\$70.79
AGR/Table/Day (June 2012)	\$2,393	\$1,320	\$629	\$1,127
AGR/Slot/Day (June 2012)	\$334	\$286	\$191	\$237
FY 2012 Gaming Tax Revenue (State and Local Revenues)	\$548.3 million	\$829.1 million	\$331.4 million	\$487.9 million
Gaming Tax Revenue % Chg (FY 11 to FY 12)	19.9%	-4.1%	7.0%	-1.5%
Casino Employees (2011)	7,911	14,079	9,384	10,435
Casino Employee Wages (includes benefits and tips)	\$313.4 million	\$459.3 million	\$337.66 million	\$343.5 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 2011 revenues, is shown below.

Table 14: Top 10 U.S. Casino Markets by Annual Revenue		
<i>Casino Market</i>	<i>2011 Annual Revenues</i>	<i>2011 Annual Change</i>
1 Las Vegas Strip	\$6.069 billion	5.1%
2 Atlantic City, N.J.	\$3.318 billion	-7.1%
3 Chicagoland, Ind./Ill.	\$1.934 billion	-6.0%
4 Detroit	\$1.424 billion	3.3%
5 Connecticut	\$1.346 billion	-2.8%
6 St. Louis, Mo./Ill.	\$1.114 billion	2.6%
7 Philadelphia, PA.	\$1.090 million	33.5%
8 Biloxi, Miss.	\$824.8 million	-0.7%
9 Tunica/Lula, Miss.	\$817.0 million	-11.8%
10 Boulder Strip, Nev.	\$778.9 million	2.9%

Source: The American Gaming Association

The American Gaming Association also reports that Illinois was the sixth highest commercial casino tax revenue producing state in the nation in CY 2011, up from its 2010 ranking of 7th, but still below its 2007 ranking of 3rd. The state with the highest amount of commercial gaming tax revenue was Pennsylvania totaling \$1.456 billion. Pennsylvania enjoyed a 9.6% increase due the addition of several new casinos over the past couple of years. In second was Nevada with casino tax revenues totaling \$865 million in CY 2011. Indiana (\$846M), New York (\$593M), and Louisiana (\$573M) rounded out the top five.

TABLE 15: Top 15 Commercial Casino Tax Revenue States								
	2009	2009 Ranking	2010	2010 Ranking	% Change	2011	2011 Ranking	% Change
Pennsylvania	\$1,118.0	1	\$1,328.0	1	18.8%	\$1,456.0	1	9.6%
Nevada	\$831.8	3	\$835.4	3	0.4%	\$865.3	2	3.6%
Indiana	\$878.0	2	\$874.9	2	-0.4%	\$846.4	3	-3.3%
New York	\$455.5	7	\$503.5	5	10.5%	\$593.4	4	17.9%
Louisiana	\$598.1	4	\$572.0	4	-4.4%	\$573.2	5	0.2%
Illinois	\$495.6	5	\$466.1	7	-6.0%	\$489.4	6	5.0%
Missouri	\$469.1	6	\$486.1	6	3.6%	\$484.8	7	-0.3%
West Virginia	\$408.4	8	\$378.5	8	-7.3%	\$406.5	8	7.4%
Iowa	\$306.2	11	\$305.4	11	-0.2%	\$321.5	9	5.3%
Michigan	\$320.0	10	\$311.4	9	-2.7%	\$320.7	10	3.0%
Rhode Island	\$292.1	13	\$296.3	12	1.4%	\$308.7	11	4.2%
New Jersey	\$347.6	9	\$305.5	10	-12.1%	\$277.6	12	-9.1%
Mississippi	\$296.3	12	\$285.5	13	-3.7%	\$274.4	13	-3.9%
Delaware	\$227.6	14	\$243.1	14	6.8%	\$230.2	14	-5.3%
Florida	\$108.4	15	\$153.3	15	41.5%	\$143.6	15	-6.3%

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 2012 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 09	% Change	FY 10	% Change	FY 11	% Change	FY 12	% Change
Rhythm City (Davenport)	\$58.2	2.7%	\$54.8	-5.9%	\$49.3	-9.9%	\$50.5	2.4%
Isle of Capri (Bettendorf)	\$89.0	-7.9%	\$78.3	-12.0%	\$78.5	0.2%	\$75.7	-3.5%
Quad City Area	\$147.2	-4.0%	\$133.1	-9.6%	\$127.8	-4.0%	\$126.3	-1.2%
AGR % of Quad City Area	73.8%		63.7%		60.6%		59.1%	
<i>(ILLINOIS)</i>								
Riverboat	FY 09	% Change	FY 10	% Change	FY 11	% Change	FY 12	% Change
Rock Island	\$52.3	56.5%	\$75.7	44.7%	\$83.1	9.8%	\$87.5	5.3%
Quad City Area	\$52.3	56.5%	\$75.7	44.7%	\$83.1	9.8%	\$87.5	5.3%
AGR % of Quad City Area	26.2%		36.3%		39.4%		40.9%	
TOTAL QUAD CITY AGR	\$199.5	52.6%	\$208.8	35.2%	\$210.9	5.8%	\$213.8	4.1%

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, 4.0% in FY 2011, and another 1.2% in FY 2012. In comparison, Illinois' Rock Island's AGR has seen much improvement since opening a new, larger facility in 2008. Receipts grew 56.5% in FY 2009, 44.7% in FY 2010, 9.8% in FY 2011, and another 5.3% in FY 2012.
- Much of the decline experienced for Iowa's Quad City's riverboats is due to the competition from the newer Rock Island Casino. However, also contributing to the falloff is the fact that these older casinos are also competing with nearby newer casinos in Riverside, Iowa and in Clinton, Iowa.
- In FY 2012, Iowa's two area riverboats made up approximately 59.1% of the Quad City region's AGR, while Illinois' Rock Island riverboat made up 40.9% 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 53.1% of the population, while Illinois (Rock Island County) makes up 46.9%. This would suggest that Illinois, despite the large increase over the past several years, may still be 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 12 AGR of \$70M), Wild Rose in Clinton (\$39M), and Catfish Bend in Burlington (\$39M). A significant portion of this combined \$148 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 09	% Change	FY 10	% Change	FY 11	% Change	FY 12	% Change
Harrah's (Maryland Heights)	\$292.4	-3.5%	\$288.0	-1.5%	\$269.3	-6.5%	\$272.3	1.1%
President (St. Louis)	\$23.3	-48.3%	\$19.2	-17.4%	\$0.0	-100.0%	\$0.0	N/A
Ameristar (St. Charles)	\$297.0	0.7%	\$288.8	-2.8%	\$278.3	-3.6%	\$274.5	-1.4%
Lumiere (St. Louis)	\$181.0	110.2%	\$195.1	7.8%	\$173.1	-11.3%	\$169.2	-2.3%
River City (S. St. Louis County)	\$0.0	N/A	\$57.5	N/A	\$180.8	214.5%	\$203.7	12.6%
St. Louis Area	\$793.6	8.9%	\$848.6	6.9%	\$901.5	6.2%	\$919.7	2.0%
AGR % of St. Louis Area	76.7%		79.4%		81.6%		81.9%	
<i>(ILLINOIS)</i>								
Riverboat	FY 09	% Change	FY 10	% Change	FY 11	% Change	FY 11	% Change
E. St. Louis	\$154.4	-16.6%	\$139.7	-9.5%	\$127.9	-8.4%	\$132.1	3.2%
Alton	\$86.9	-20.3%	\$80.1	-7.8%	\$75.7	-5.5%	\$70.9	-6.2%
St. Louis Area	\$241.3	-18.0%	\$219.8	-8.9%	\$203.6	-7.4%	\$203.0	-0.3%
AGR % of St. Louis Area	23.3%		20.6%		18.4%		18.1%	
TOTAL ST. LOUIS AGR	\$1,034.9	1.1%	\$1,068.4	3.2%	\$1,105.1	3.4%	\$1,122.7	1.6%

Observations

- Over the past several years, 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, 6.3% in FY 2011, and another 2.0% in FY 2012. 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, 7.4% in FY 2011, and another 0.3% in FY 2012.
- Missouri has benefited from two new casinos: Lumiere, which opened in December 2007, 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.
- A 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 November 2012.
- In FY 2012, Missouri's portion of total AGR in the St. Louis region was at 81.9%, while Illinois composed 18.1% 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 09	% Change	FY 10	% Change	FY 11	% Change	FY 12	% Change
Ameristar (E Chicago)	\$289.5	-9.4%	\$253.6	-12.4%	\$248.1	-2.2%	\$239.6	-3.4%
Horseshoe (Hammond)	\$527.2	17.7%	\$542.0	2.8%	\$538.1	-0.7%	\$499.0	-7.3%
Blue Chip (Michigan City)	\$186.2	-10.8%	\$177.1	-4.9%	\$174.9	-1.3%	\$175.1	0.1%
Majestic Star (Gary)	\$120.0	-7.7%	\$110.3	-8.0%	\$113.4	2.8%	\$111.0	-2.1%
Majestic II (Gary)	\$98.7	-14.6%	\$98.6	-0.1%	\$101.7	3.2%	\$90.7	-10.9%
Chicago Area	\$1,221.6	0.0%	\$1,181.7	-3.3%	\$1,176.2	-0.5%	\$1,115.3	-5.2%
AGR % of Chicago Area	56.3%		57.3%		58.1%		49.6%	
<i>(ILLINOIS)</i>								
Riverboat	FY 09	% Change	FY 10	% Change	FY 11	% Change	FY 12	% Change
Elgin	\$311.8	-21.3%	\$286.1	-8.2%	\$286.1	0.0%	\$226.7	-20.8%
Joliet Harrah's	\$292.1	-16.4%	\$253.9	-13.1%	\$236.3	-6.9%	\$215.3	-8.9%
Joliet Hollywood	\$127.9	-39.4%	\$156.8	22.6%	\$147.7	-5.8%	\$135.7	-8.1%
Aurora	\$215.0	-13.8%	\$185.0	-14.0%	\$178.4	-3.5%	\$159.9	-10.4%
Des Plaines	\$0.0		\$0.0		\$0.0		\$393.5	
Chicago Area	\$946.7	-21.5%	\$881.8	-6.9%	\$848.5	-3.8%	\$1,131.1	33.3%
AGR % of Chicago Area	43.7%		42.7%		41.9%		50.4%	
TOTAL CHICAGO AREA AGR	\$2,168.3	-10.7%	\$2,063.5	-4.8%	\$2,024.8	-1.9%	\$2,246.4	10.9%

Observations

- Between FY 2008 and FY 2011, adjusted gross receipts for the Illinois riverboats in the Chicago Area fell from a combined \$1.206 billion to \$849 million in FY 2011, a decline of 29.6% over this time period. In contrast, Indiana's five casinos near Chicago have remained steady, with an AGR of \$1.222 billion in FY 2008 compared to an AGR total of \$1.176 billion in FY 2011, a decline of only 3.7%.
- In FY 2012, with the addition of the Des Plaines casino, Illinois experienced a 33.3% increase in AGR in this region. This is despite decreasing revenues at the other four Illinois casinos. It appears that the Des Plaines casino also negatively impacted Indiana casinos as their combined AGR fell 5.2% in FY 2012.
- In FY 2007, using data from all of the casinos in the Chicago area, the majority of total adjusted gross receipts were in Illinois (50.4% vs. 49.6%). However, in FY 2011, Indiana held a decisive majority of adjusted gross receipts at 58.1% compared to Illinois portion of 41.9%.
- Again, with the addition of the Des Plaines casino, Illinois regained the majority of AGR in this region with 50.4% of adjusted gross receipts compared to Indiana's composition of 49.6%. From an Illinois perspective, while regaining the majority is promising, the fact remains that the vast majority of the population in the Chicago area is in Illinois which means it is likely that Illinois is still losing significant gaming revenues to Indiana casinos.
- Also impacting the region is the Four Winds Casino in New Buffalo, Michigan, which is 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.

An Analysis of Expanding Gambling in Illinois

As the economy sputters along, the desire for new revenue sources continues to grow. One idea that is repeatedly discussed as a possibility of obtaining these revenues is expanding gambling in Illinois. 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 annually been a contentious policy 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 SB 0744, as amended by House Amendments 1 thru 7. However, its future became dim as Governor Quinn stated that he would not sign the legislation.

Despite the Governor's opposition to SB 0744, gaming proponents offered up new legislation in the form of SB 1849, as amended by House Amendments 2 and 3. In the view of the bill's proponents, this new legislation addressed many of the concerns that the Governor had with SB 0744, while keeping the principal components of a gambling expansion bill: adding five new casinos (including a casino in the City of Chicago), allow the position limit to increase, modify the tax structure on casinos, and allowing slot machines at racetracks. This bill passed both Houses in May 2012. However, in August 2012, Governor Quinn decided to veto the legislation stating, "While Senate Bill SB 1849 addresses some of the shortcomings of Senate Bill 744, such as a reduction in the number of gaming locations, it continues to fall well short of the standards of the people of Illinois."

At the time of this report, it is unclear whether proponents will have the votes to override this veto. Even if this version of gambling expansion is unable to proceed, undoubtedly, numerous other versions will soon follow. As a method of analyzing gaming expansion in Illinois and the potential revenue that could be generated, the following paragraphs offer a brief analysis of the principal components of expansion with the latest legislative version (SB 1849) as a basis to this discussion.

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 more casinos. SB 1849, like many gaming bills before it, would place a 4,000 position land-based casino in the City of Chicago. Other locations that have been targeted for future homes to 1,200 to 1,600 position casinos include Park City (near Waukegan), the South Suburbs, Rockford, and Danville.

New casinos, especially a land-based casino in Chicago, could 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 easily exceed Illinois' highest revenue

generating casino, which was Des Plaines in FY 2012 (\$394 M), especially because this new casino would be allowed 4,000 gaming positions, compared to only 1,200 positions at the other casinos in Illinois. An area casino similar to this size is Hammond, Indiana’s 3,500-position casino, which generated nearly \$500 million in FY 2012. The amount of revenue generated from the other locations would likely be very similar to the other 1,200-position casinos across the State.

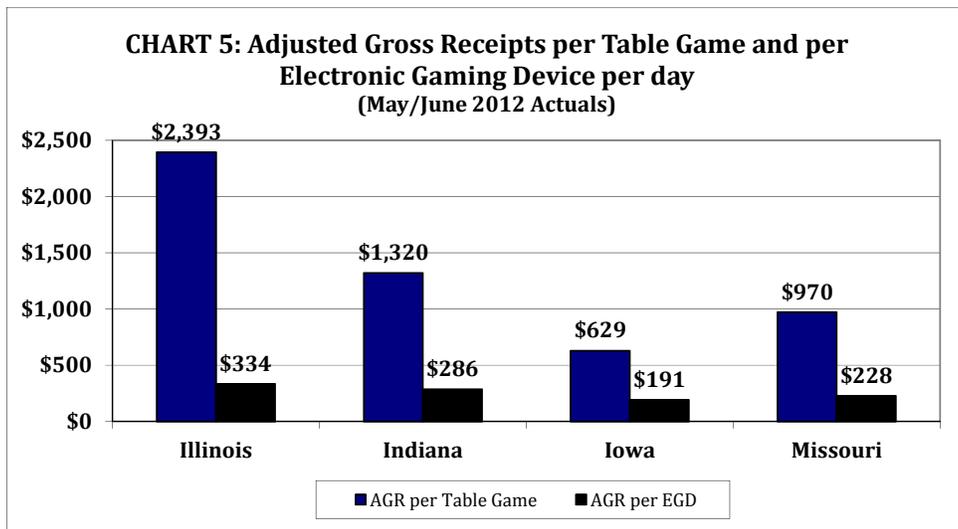
Ultimately, a casino’s performance would depend on what other gaming components are implemented at the time of a casino’s operation year. These components include the tax structure used, the number of gaming positions allowed per facility, the location of the new facility in accordance with population 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 to be paid by the casino after operations begin. The precise amount would be based on casino revenue performance.

Add Additional Gaming Positions.

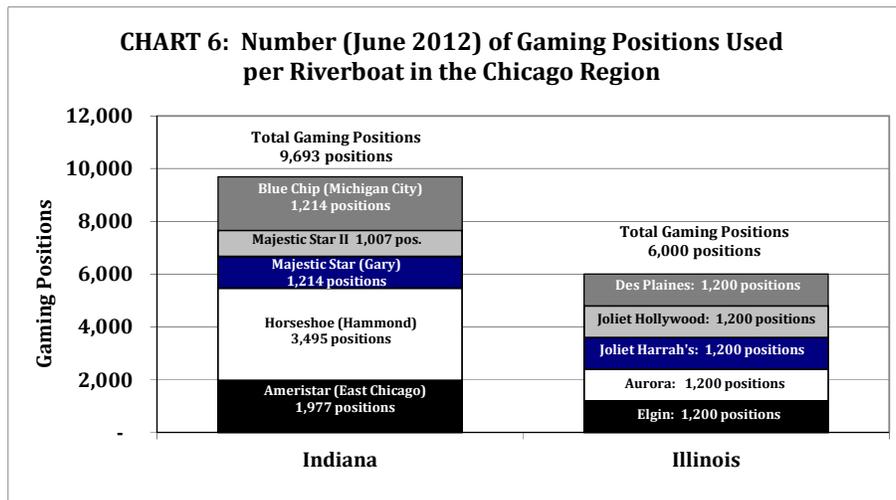
Many feel that Illinois riverboats continue to be at a competitive disadvantage with other states because Illinois only allows a maximum of 1,200 gaming positions per riverboat. The capping of the number of slots and table games that a riverboat may operate prevents riverboats from increasing certain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

To illustrate this point, the following graph displays the AGR per Table Game (per day) and the AGR per EGD (per day) for each of the Midwestern riverboat states for May/June 2012. (EGD stands for electronic gaming device, i.e. slot machines).



As the previous chart displays, Illinois' AGR per Table Game and AGR per EGD are significantly higher than the other neighboring states. This suggests that Illinois has still not reached its saturation point under today's current gaming conditions.

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 2012 monthly gaming report, the five Indiana riverboats closest to Chicago had 9,693 gaming positions. That is 3,693 more positions than the 6,000 gaming positions at the five Chicago area riverboats in Illinois. Based on these figures, the five Indiana riverboats in the Chicago area made up 61.8% of all gaming positions in that region. Again, this is despite the fact that the majority of the population is in Illinois.

The average number of positions for the five Indiana riverboats in this region is 1,939 positions. Therefore, if Illinois decided to increase the maximum number of positions, these numbers would suggest approximately 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 even 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 3,495 positions (June 2012). It should be noted that SB 1849 would limit the gaming positions at the casinos to 1,600 (except for Chicago which would be allowed 4,000 gaming positions).

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: 2012", thirteen states 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 \$457 million in FY 2011 and \$423 million in FY 2012. 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 2012, Iowa had 6.1 million visitors to their three locations in Council Bluffs, Altoona, and Dubuque, generating a combined \$458 million in adjusted gross receipts.

Many in Illinois' horseracing industry are hoping that Illinois follows suit and allows casinos at its horse tracks. (SB 0744 proposed adding slots at the Illinois State Fairgrounds during horseracing events, but SB 1849 removed the fairgrounds from its language). 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.

Illinois' horse racing industry is on a notable downward trend. As is discussed later in the report, Illinois' total handle amount of \$688 million in CY 2011 was down 5.2% over the 2010 amount and marked the ninth consecutive year of declining revenues. The 2011 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 participants 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. The following table displays 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, the revenue amounts

range between \$153 and \$342 per slot machine per day, with the average of those shown at \$258 per day.

TABLE 19: FY 2012 Slot Machine AGR Statistics at Selected Racetrack Casinos				
Racino	Location	FY 2012		
		Slot AGR (in mil.)	Slot Machines	AGR/Slot/ Day
Prairie Meadows	Altoona, IA	\$178.3	1,935	\$252
Horseshoe Casino	Council Bluffs, IA	\$174.7	1,766	\$271
Mystique Casino	Dubuque, IA	\$54.6	975	\$153
Hoosier Park	Anderson, IN	\$201.0	1,710	\$322
Indiana Live	Shelbyville, IN	\$222.0	1,780	\$342
Harrah's Chester Casino	Chester, PA	\$225.6	2,959	\$209
Presque Isle Downs Casino	Erie, PA	\$164.9	2,066	\$219
The Meadows Racetrack & Casino	Washington, PA	\$251.4	3,316	\$208
Mohegan Sun at Pocono Downs	Wilkes-Barre, PA	\$238.7	2,332	\$280
Parx Casino	Bensalem, PA	\$388.0	3,540	\$300
Hollywood Casino at Penn National	Grantville, PA	\$250.5	2,483	\$276

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

Because the latest proposals limit the number of gaming positions to 1,200 positions at Cook County racetracks, Illinois' AGR/Slot/Day would probably be at the high end of values seen in other states – likely near \$300 per slot machine per day for those racinos in the Chicago area and likely less for the downstate locations.

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.

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>
	Aurora	Elgin	Joliet	Des Plaines	Chicago	Hammond
	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

Estimating the Potential Revenue Impact of SB 1849, as amended by House Amendments 2 & 3

Based on updated estimates, using actuals thru June 2012, the Commission estimates that approximately \$3.7 billion in adjusted gross receipts could be generated under full implementation thru the gaming expansion of SB 1849, as amended by House Amendments 2 and 3. This would be an AGR increase of \$1.9 billion over the current law estimate of \$1.8 billion (FY 2017 estimate).

The estimated \$1.9 billion increase in AGR would increase tax revenues by approximately \$200 million to \$300 million per year (compared to current law with expansion under full implementation) using the tax structure of the proposed legislation. The growth in tax revenues may be surprisingly small to some considering that AGR levels would essentially double under this gaming expansion proposal. The lack of new revenues under this proposal is mainly due to two factors that were considered when creating the estimate: the expected cannibalization effect on other locations and the impact of imposing lower tax rates.

The Impact of Cannibalization

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% increase in FY 2010, a 9.8% increase in FY 2011, and a 5.3% increase in FY 2012. 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, a 4.0% drop in FY 2011, and another 1.2% decline in FY 2012. This would indicate that some cannibalization likely took place for these Iowa locations.

Another recent example of cannibalization occurred as a result of the March 2010 opening of the River City Casino in Missouri's South St. Louis County. Since the casino opened, the River City Casino has generated nearly \$57.5 million in adjusted gross receipts in FY 2010, \$181 million in FY 2011, and an additional \$204 million in FY 2012. However, despite these strong revenue totals, as shown earlier in Table 17 of the report, total St. Louis AGR (including Illinois' two area locations) only grew 3.2% in FY 2011 and 1.6% in FY 2012. This means that all of the other casinos in this area have fallen a combined 9.1% over the last two fiscal years.

And as has been mentioned throughout this section, as expected, the new Des Plaines casino has had a significant negative impact on the other area casinos. Despite nearly \$400 million in new adjusted gross receipts from the Des Plaines casino, adjusted gross receipts only grew a combined 10.9% in the Chicago metropolitan area (including Indiana casinos). Its closest competitor in Elgin fell 20.8% in FY 2012 likely as a result of this new competition.

With these examples in mind, when estimating the amount of revenues that could be generated by new Illinois casinos/racinos, the impact that these new facilities would have on other casinos must be taken into consideration. There is only so much gaming revenue available before an area becomes saturated. From a revenue perspective, gaming proponents will have to hope that enough untapped revenue can be generated to offset the loss of revenues from the impacted gaming facilities. The problem, though, becomes even more a challenge when these new revenues also have to offset the loss of revenues as a result of lower tax rates. This factor is discussed below.

Impact of Lower Tax Rates

When Illinois increased the wagering tax on casinos to a maximum 70% tax rate in FY 2004, Statewide AGR fell 7.8% and admissions fell 16.9%. It is believed that the decline in riverboat figures was because 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. Once the rates were lowered to a maximum rate of 50%, AGR and admission levels noticeably improved. However, even after the rates were lowered to today's current rates, Illinois still has one of the highest riverboat taxing structures in the nation with its graduated tax structure ranging from 15% to 50%.

Perhaps with this in mind, the latest gaming proposals, including SB 1849, as amended by House Amendments 2 and 3, 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 latest 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.

The idea is that lowering the tax rates would 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 challenging to make up the losses in tax revenues due to the reduced rates. The Commission estimates that the value of these proposed tax breaks to be

a loss of approximately \$400 million (using the tax rates proposed by SB 1849 with its proposed expansion), with the provision to tax slots and table games separately making up nearly \$100 million of this total.

To counterbalance these potential losses, proponents hope that current casinos would increase their gaming positions beyond 1,200 positions to generate additional gaming dollars. But, many of the current riverboats claim that they have no intention of buying additional positions in this current gaming environment. They state that it would not be worth the investment since many of their machines are often sitting empty during this gaming downturn. The June 2012 Monthly Report from the Gaming Board showed that several of the riverboats used less than their allotted 1,200 positions, and this is before competition is intensified from new casinos and potentially from video gaming.

Therefore, if any substantial increases in tax revenues were to occur, it would likely 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 substantial 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. Again, this will be a challenge because of the lower tax rates.

From a tax revenue perspective, the problem with large amounts of gaming expansion in a graduated tax structure is that the more gaming facilities there are - the more the gaming dollars are spread out. When these dollars are spread out, it takes longer for each casino's revenues to accumulate to the higher tax rates under the graduated tax structure.

For example, let's say a new racino were to open in the Chicago area and generates an AGR total of \$150 million per year with 1,200 positions. (Indiana racinos currently generate approximately \$200 million per year with near 2,000 positions). Let's also say that \$50 million of the \$150 million generated was "cannibalized" revenues from a nearby casino that generates annual revenues of \$300 million. This would equate to a decline of 16.7%, a very possible decline considering Elgin's recent drop of 20.8% following the Des Plaines opening.

Under current law, a casino with an AGR of \$300 million generates \$115.6 million per year in privilege tax revenues. Using our scenario from above and using the reduced AGR amount of \$250 million, its tax revenues would fall to \$90.6 million. Taking it a step further, using the reduced tax rates proposed under SB 1849, the tax revenues would fall to \$60 million per year.

The new racino, on the other hand, with its AGR of \$150 million would generate approximately \$35.6 million under the proposed tax rates. Combining these tax revenues with the nearby casino and a combined \$95.6 million would be generated. The problem is that the casino by itself, without expansion, generated \$115.6 million. **Therefore, even with an additional \$100 million in new AGR for these**

casinos, when adjusting for the cannibalization and the reduced tax rates, tax revenues would actually decline \$20 million. Under this scenario, the State would actually generate more revenue by doing nothing than by expanding (See Table 21 below).

In this example, expansion only becomes beneficial from a tax revenue perspective if AGR levels at the new racino were to pass the \$388 million mark. Again, this would seem difficult since Indiana’s racinos only generated around \$200 million in AGR while allotted 2,000 positions. Coincidentally, Pennsylvania’s best revenue-producing racino generated \$388 million in AGR. But this facility had 3,540 gaming positions. Under the latest proposal, Illinois’ racinos would be limited to 1,200 positions, which would make reaching these revenue heights very challenging.

As stated at the beginning of this section, the Commission estimates that the latest gaming proposal would generate between \$200 million and \$300 million in additional recurring revenues. The vast majority of this increase would come from the proposed 4,000 position Chicago casino and “stand-alone” casinos like Rockford, Waukegan, and Danville - which would have limited cannibalization effects on the other casinos. This means that only a relatively small portion of the “new” tax revenue would be generated from all other areas of gaming expansion, when considering cannibalization and the lower proposed tax rates.

However, what cannot be dismissed is the fact that these other new facilities, while likely being offset by revenue decreases from other competing casinos, would be providing significant amount of one-time revenues (from fees and reconciliation payments), creating new jobs, and potentially regaining/gaining gaming dollars from out-of-state gamers. The question is whether these factors are worth the limited amount of recurring revenues that would likely be generated. That will be for lawmakers to decide.

TABLE 21: Example of Revenue Impact from New Casino with Reduced Tax Rates and 16.7% Cannibalization on Existing Casino
\$ in millions

AGR Levels	Current Tax Rate	Revenue Generated	AGR Levels	Proposed Tax Rate*	Revenue Generated	AGR Levels	Proposed Tax Rate*	Revenue Generated	AGR Levels	Proposed Tax Rate*	Revenue Generated	
EXISTING CASINO UNDER CURRENT LAW			EXISTING CASINO UNDER PROPOSED TAX RATES (Reduced Rates & Taxing EGDs and Table Games Separately)						NEW AREA CASINO			
\$50	50.0%	\$25.0	Electronic Gaming Devices (EGD)									
\$50	50.0%	\$25.0	Cannibalized to New Casino	40.0%	\$0.0							
\$50	45.0%	\$22.5	\$50	35.0%	\$17.5				\$50	32.5%	\$16.3	
\$50	37.5%	\$18.8	\$50	32.5%	\$16.3				\$25	27.5%	\$6.9	
\$25	32.5%	\$8.1	\$25	27.5%	\$6.9				\$25	22.5%	\$5.6	
\$25	27.5%	\$6.9	\$25	22.5%	\$5.6				\$25	17.5%	\$4.4	
\$25	22.5%	\$5.6	\$25	17.5%	\$4.4	\$25	17.5%	\$4.4	\$25	17.5%	\$4.4	
\$25	15.0%	\$3.8	\$25	10.0%	\$2.5	\$25	10.0%	\$2.5	\$25	10.0%	\$2.5	
\$300		\$115.6	\$200		\$53.1	\$50		\$6.9	\$150		\$35.6	
* Tax Rate Structure as proposed by SB 1849, as amended by House Amendments 2 & 3												
Current Law AGR:		\$300.0	Proposal AGR (Current Casino and New Casino):				\$400.0		Difference in AGR:		\$100.0	
Current Law Tax Revenues:		\$115.6	Proposal Tax Revenue (Current Casino and New Casino):				\$95.6		Difference in Tax Revenue:		(\$20.0)	

What Will the Future Hold for Illinois Riverboats?

Riding the success of the new Des Plaines casino, Illinois saw total adjusted gross receipts increase for the first time since FY 2007. The new casino's AGR of nearly \$400 million in FY 2012 helped the State's total rise to \$1.640 billion - the highest point since FY 2008.

Despite the increase in adjusted gross receipts, State revenues generated from Illinois casinos actually dropped 0.4% in FY 2012. This was due to Des Plaines cannibalization effect on other Illinois riverboats in that area, how the new revenues from the Des Plaines casino are distributed, and the timing of the receipts as it relates to the graduated tax structure. In FY 2013, the graduated tax structure's timing impact will no longer be an issue, but the cannibalization and distribution factors will remain. While revenues should see noticeable improvement compared to recent fiscal year totals, even with the new facility, it could be several years before Illinois casinos reach their revenue totals of the past.

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 has been 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 gaming expansion were to take place and if dramatic increases in new gaming dollars do not come in as proponents project, the potential exists that, combined with lower tax rates and the cannibalization that will likely take place, 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. FY 2012 was the first year under which a private manager, the Northstar Lottery Group, was in managerial control of the lottery. 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 \$50 billion. Table 22 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 \$2.676 billion in FY 2012. This was an increase of 18.3%, or \$413.4 million from FY 2011's sales. Most of this improvement was due to a significant gain in Instant Games. Instant ticket sales jumped an impressive 28.3%, or almost \$358 million, in FY 2012. Over 60% of total lottery sales came from Instant Games. Instant Game sales totaled just over \$1.6 billion.

The rest of the sales increase was largely due to the multi-state games, Powerball and Mega Millions. Powerball increased almost \$50 million from last year, while Mega Millions was up \$17.6 million. Powerball sales totaled \$146.3 million which was an increase of over 50%. Powerball sales have shown strong growth in their first two years of sales in Illinois though these growth rates are expected to moderate as the game becomes more established in the market place. Revenue from the Mega Millions game was just under \$190 million. This was an increase of over 10% from FY 2011. Mega Millions sales were helped by increased excitement in the lead up to a record jackpot of \$640 million that was held in March of 2012.

The Lucky Day Lottery (formerly Little Lotto) was the only other game to show any meaningful growth. Lucky Day Lotto grew 5.4% to \$131.2 million. This was an increase of over \$11 million from the previous year. Lucky Day Lotto sales were aided by the introduction of the EZ Match game which was an add-on game that allows players to win up to \$500 instantly for an extra dollar. EZ Match game sales began in May of 2012 and had total sales of \$5.2 million in FY 2012. EZ Match sales are included within the Lucky Day Lotto sales totals in this analysis as the EZ Match game can only be played with the purchase of a Lucky Day Lotto ticket. This is similar to the Mega Millions Megaplier sales being included in the Mega Millions totals.

The Pick 3 game was the second largest contributor to lottery sales at \$278 million. The Pick 3 game was the largest decliner with a fall in revenue of almost \$13 million compared to FY 2011. This equates to annual growth of -4.4%. The other big decliner was the St. Patrick's Day raffle. The lottery only sold \$10 million in raffle tickets compared to the \$20 million sold last year.

Pick 4 and Lotto sales were basically flat. Pick 4 sales were \$194 million which was an increase of \$2.6 million, while Lotto totals were down a similar 2.3 million to \$105 million. These results equaled growth rates of 1.4% and -2.1%. A breakdown of lottery sales by game can be found in Chart 7.

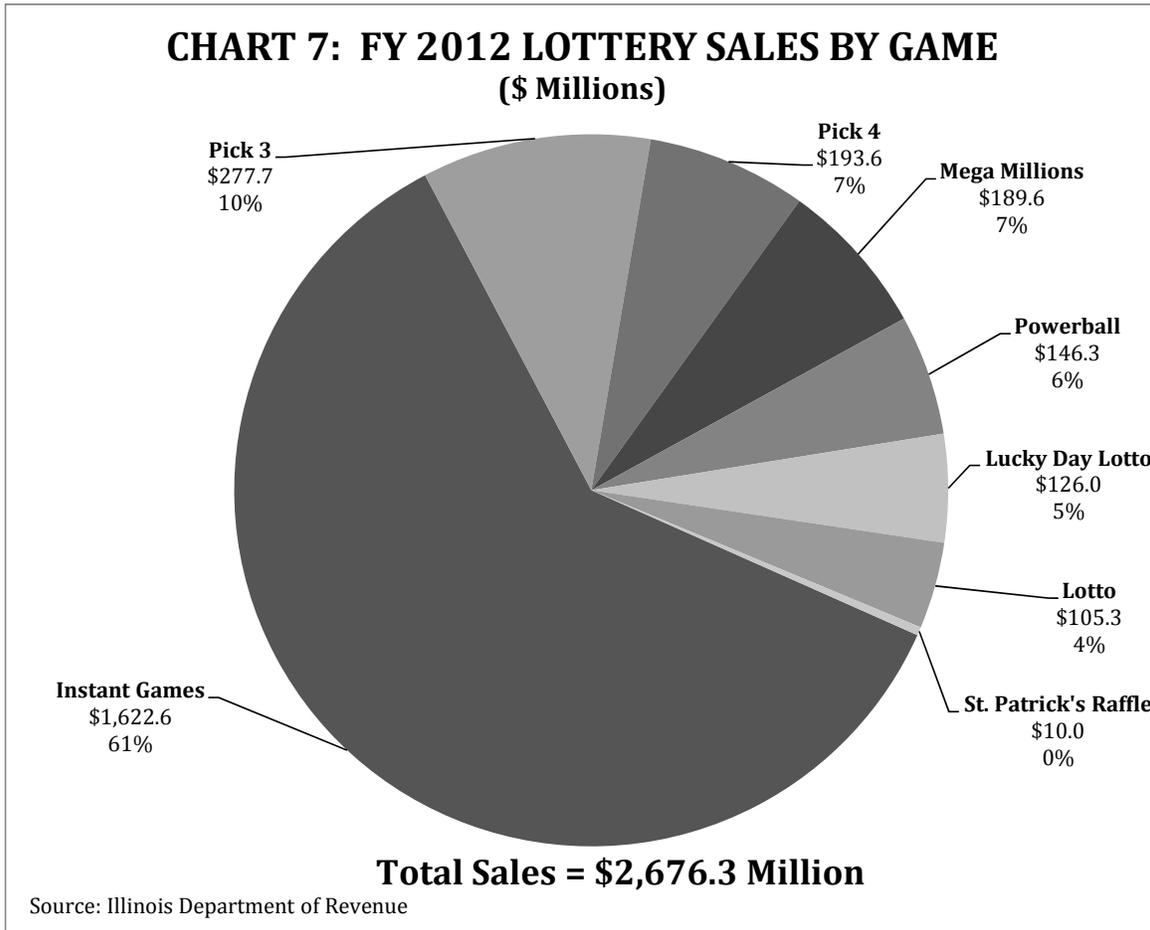


TABLE 22: LOTTERY SALES BY GAME
FY 1975 - FY 2012*

(\$ Millions)

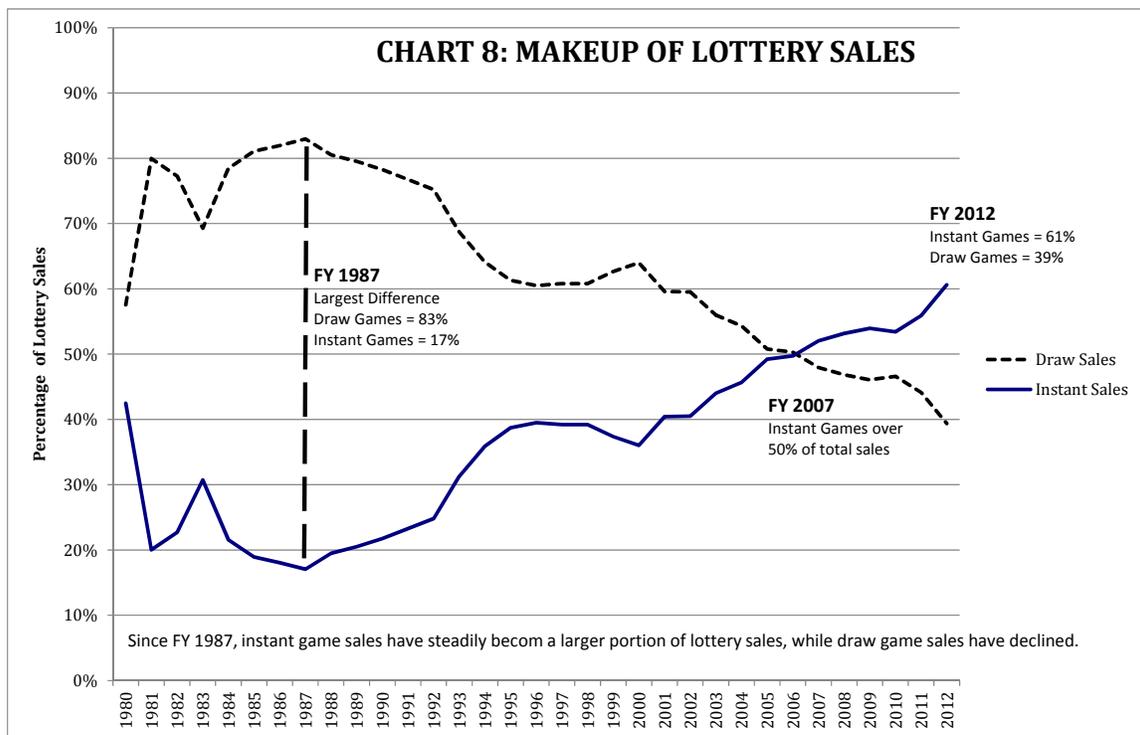
Fiscal Year	Instant Games		Pick 3		St. Patrick's Raffle		Pick 4		Lotto		Lucky Day Lotto (Formerly Little Lotto)**		Mega Millions		Powerball		Other Games		Total Sales	
	Sales	% Change	Sales	% Change	Sales	% Change	Sales	% Change	Sales	% Change	Sales	% Change	Sales	% Change	Sales	% Change	Sales	% Change	Sales	% Change
1975	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 129.3	n/a	\$ 129.3	n/a
1976	\$ 56.6	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 107.3	-17.0%	\$ 163.9	26.8%
1977	\$ 62.9	11.1%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 50.0	-53.4%	\$ 112.9	-31.1%
1978	\$ 57.5	-8.6%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 31.6	-36.8%	\$ 89.1	-21.1%
1979	\$ 56.3	-2.1%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 20.4	-35.4%	\$ 76.7	-13.9%
1980	\$ 41.4	-26.5%	\$ 42.4	2.4%	\$ 164.2	287.3%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 7.5	-45.3%	\$ 214.7	120.2%
1981	\$ 43.0	3.9%	\$ 164.2	287.3%	\$ 248.2	51.2%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 0.0	-99.5%	\$ 344.1	60.3%
1982	\$ 78.2	81.9%	\$ 248.2	51.2%	\$ 283.8	14.3%	\$ -	n/a	\$ 26.9	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	-100.0%	\$ 514.8	49.6%
1983	\$ 158.1	102.2%	\$ 283.8	14.3%	\$ 367.4	29.5%	\$ -	n/a	\$ 49.4	7.4%	\$ 298.8	1010.8%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 912.2	77.2%
1984	\$ 196.6	24.4%	\$ 367.4	29.5%	\$ 356.2	-3.0%	\$ -	n/a	\$ 75.5	52.8%	\$ 567.4	89.9%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,235.6	35.5%
1985	\$ 233.7	18.9%	\$ 356.2	-3.0%	\$ 347.6	-2.4%	\$ -	n/a	\$ 88.1	16.7%	\$ 642.3	13.2%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,315.6	6.5%
1986	\$ 237.6	1.7%	\$ 347.6	-2.4%	\$ 335.1	-3.6%	\$ -	n/a	\$ 93.0	5.6%	\$ 678.5	5.6%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,333.9	1.4%
1987	\$ 227.3	-4.3%	\$ 335.1	-3.6%	\$ 352.6	5.2%	\$ -	n/a	\$ 105.9	13.9%	\$ 600.6	-11.5%	\$ 16.3	n/a	\$ -	n/a	\$ -	n/a	\$ 1,335.5	0.1%
1988	\$ 260.1	14.4%	\$ 352.6	5.2%	\$ 369.6	4.8%	\$ -	n/a	\$ 108.6	2.5%	\$ 607.1	1.1%	\$ 164.1	906.7%	\$ -	n/a	\$ -	n/a	\$ 1,571.3	17.7%
1989	\$ 321.9	23.8%	\$ 369.6	4.8%	\$ 382.5	3.5%	\$ -	n/a	\$ 114.1	5.1%	\$ 588.7	-3.0%	\$ 143.7	-12.4%	\$ -	n/a	\$ -	n/a	\$ 1,570.2	-0.1%
1990	\$ 341.2	6.0%	\$ 382.5	3.5%	\$ 368.5	-3.7%	\$ -	n/a	\$ 109.0	-4.5%	\$ 601.0	2.1%	\$ 123.4	-14.1%	\$ -	n/a	\$ -	n/a	\$ 1,566.5	-0.2%
1991	\$ 364.6	6.9%	\$ 368.5	-3.7%	\$ 362.0	-1.8%	\$ -	n/a	\$ 112.3	3.0%	\$ 633.5	5.4%	\$ 123.1	-0.2%	\$ -	n/a	\$ -	n/a	\$ 1,636.9	4.5%
1992	\$ 406.0	11.4%	\$ 362.0	-1.8%	\$ 350.5	-3.2%	\$ -	n/a	\$ 112.3	0.0%	\$ 489.9	-22.7%	\$ 129.9	5.5%	\$ -	n/a	\$ 0.1	n/a	\$ 1,575.9	-3.7%
1993	\$ 493.2	21.5%	\$ 350.5	-3.2%	\$ 344.5	-1.7%	\$ -	n/a	\$ 109.7	-2.3%	\$ 403.0	-17.7%	\$ 122.7	-5.5%	\$ -	n/a	\$ -	n/a	\$ 1,528.6	-3.0%
1994	\$ 548.7	11.3%	\$ 344.5	-1.7%	\$ 358.4	4.0%	\$ -	n/a	\$ 123.7	12.8%	\$ 386.6	-4.1%	\$ 130.1	6.0%	\$ -	n/a	\$ -	n/a	\$ 1,629.5	6.6%
1995	\$ 630.7	14.9%	\$ 358.4	4.0%	\$ 357.5	-0.3%	\$ -	n/a	\$ 140.3	13.4%	\$ 363.4	-6.0%	\$ 129.4	-0.5%	\$ -	n/a	\$ -	n/a	\$ 1,637.3	0.5%
1996	\$ 646.7	2.5%	\$ 357.5	-0.3%	\$ 340.7	-4.7%	\$ -	n/a	\$ 139.8	-0.4%	\$ 295.3	-18.7%	\$ 118.8	-8.2%	\$ -	n/a	\$ 92.4	n/a	\$ 1,623.2	-0.9%
1997	\$ 636.2	-1.6%	\$ 340.7	-4.7%	\$ 344.7	1.2%	\$ -	n/a	\$ 145.3	3.9%	\$ 263.0	-10.9%	\$ 111.8	-5.9%	\$ -	n/a	\$ 93.8	1.5%	\$ 1,576.9	-2.9%
1998	\$ 618.3	-2.8%	\$ 344.7	1.2%	\$ 335.3	-2.7%	\$ -	n/a	\$ 144.5	-0.6%	\$ 168.8	-35.8%	\$ 113.7	1.7%	\$ -	n/a	\$ 193.5	106.3%	\$ 1,525.9	-3.2%
1999	\$ 570.1	-7.8%	\$ 335.3	-2.7%	\$ 341.4	1.8%	\$ -	n/a	\$ 154.4	6.9%	\$ 146.3	-13.4%	\$ 101.0	-11.2%	\$ -	n/a	\$ 219.3	13.3%	\$ 1,503.9	-1.4%
2000	\$ 541.5	-5.0%	\$ 341.4	1.8%	\$ 326.6	-4.3%	\$ -	n/a	\$ 151.3	-2.0%	\$ 143.5	-1.9%	\$ 88.3	-12.5%	\$ -	n/a	\$ 153.9	-29.8%	\$ 1,449.8	-3.6%
2001	\$ 586.1	8.2%	\$ 326.6	-4.3%	\$ 327.9	0.4%	\$ -	n/a	\$ 158.0	4.4%	\$ 134.9	-6.0%	\$ 81.7	-7.5%	\$ -	n/a	\$ 243.8	58.4%	\$ 1,590.0	9.7%
2002	\$ 643.8	9.8%	\$ 327.9	0.4%	\$ 314.1	-4.2%	\$ -	n/a	\$ 161.9	2.5%	\$ 121.2	-10.2%	\$ 78.0	-4.5%	\$ 199.7	n/a	\$ 12.9	-94.7%	\$ 1,585.8	-0.3%
2003	\$ 697.9	8.4%	\$ 314.1	-4.2%	\$ 308.9	-1.7%	\$ -	n/a	\$ 167.2	3.2%	\$ 117.4	-3.1%	\$ 99.7	27.8%	\$ 226.5	13.4%	\$ 9.0	-30.2%	\$ 1,709.2	7.8%
2004	\$ 780.5	11.8%	\$ 308.9	-1.7%	\$ 307.4	-0.5%	\$ -	n/a	\$ 168.4	0.7%	\$ 131.6	12.1%	\$ 131.8	32.2%	\$ 192.6	-15.0%	\$ 4.0	-55.5%	\$ 1,842.9	7.8%
2005	\$ 907.1	16.2%	\$ 307.4	-0.5%	\$ 309.2	0.6%	\$ -	n/a	\$ 170.1	1.0%	\$ 125.3	-4.8%	\$ 126.2	-4.2%	\$ 243.8	26.6%	\$ 13.4	234.7%	\$ 1,964.8	6.6%
2006	\$ 976.7	7.7%	\$ 309.2	0.6%	\$ 308.7	-0.2%	\$ 14.1	n/a	\$ 170.2	0.1%	\$ 112.1	-10.6%	\$ 127.9	1.3%	\$ 195.9	-19.6%	\$ 30.8	129.5%	\$ 2,001.3	1.9%
2007	\$ 1,041.6	6.6%	\$ 308.7	-0.2%	\$ 299.0	-3.1%	\$ 15.9	12.8%	\$ 167.8	-1.4%	\$ 112.9	0.7%	\$ 128.4	0.4%	\$ 221.1	12.9%	\$ 18.4	-40.3%	\$ 2,057.5	2.8%
2008	\$ 1,094.0	5.0%	\$ 299.0	-3.1%	\$ 297.7	-0.4%	\$ 18.9	18.9%	\$ 176.9	5.4%	\$ 122.7	8.7%	\$ 129.0	0.4%	\$ 204.6	-7.5%	\$ 7.7	-58.2%	\$ 2,078.6	1.0%
2009	\$ 1,121.1	2.5%	\$ 297.7	-0.4%	\$ 301.4	1.3%	\$ 20.0	5.8%	\$ 191.0	0.0%	\$ 113.5	-7.5%	\$ 120.7	-6.5%	\$ 223.8	9.4%	\$ 1.5	-79.9%	\$ 2,197.5	5.7%
2010	\$ 1,173.9	4.7%	\$ 301.4	1.3%	\$ 290.6	-3.6%	\$ 20.0	0.0%	\$ 191.0	0.0%	\$ 107.6	-5.1%	\$ 119.5	-0.9%	\$ 172.0	-23.1%	\$ 97.4	88.3%	\$ 2,262.9	3.0%
2011	\$ 1,264.7	7.7%	\$ 290.6	-3.6%	\$ 277.7	-4.4%	\$ 10.0	-50.0%	\$ 193.6	1.4%	\$ 105.3	-2.1%	\$ 131.2	9.8%	\$ 189.6	10.2%	\$ -	-100.0%	\$ 2,626.9	30.0%
2012	\$ 1,622.6	28.3%	\$ 277.7	-4.4%	\$ 10,422.3	\$ 98.9	\$ 4,057.0	\$ 9,209.1	\$ 2,893.3	\$ 2,069.7	\$ 295.4	\$ 1,454.3	\$ 50,238.5	\$ 2,676.3	\$ 183.3%					
TOTALS	\$ 19,738.5		\$ 10,422.3		\$ 98.9		\$ 4,057.0		\$ 9,209.1		\$ 2,893.3		\$ 2,069.7		\$ 295.4		\$ 1,454.3		\$ 50,238.5	

* Preliminary, unaudited data
** Includes EZ Match revenue

SOURCE: ILLINOIS DEPARTMENT OF REVENUE

As seen in Chart 8, Instant game sales have steadily become a larger part of total lottery sales since the late 1980's. In FY 1987, instant game sales only made up 17% of all Illinois lottery sales compared to draw games which made up the remaining 83%. The proportion of instant games sales gradually rose to approximately 40% of sales by FY 1995 and stayed around that level through FY 2002. In the years that followed, Instant Games' portion of total sales began to become larger again. In FY 2007, Instant Game revenue topped 50% for the first time since FY 1979. The ratio has grown to 61% instant game sales to 39% draw games in FY 2012, which was up from 56% to 44% in FY 2011.

Of the 39% of total sales that is made up by draw games, the largest portion comes from Pick 3 sales which make up just over 10% of all sales. Pick 3 is followed by Pick 4 and Mega Millions which each make up just over 7% of sales. Powerball and Lucky Day Lotto provide around 5% of total sales, while the Lotto adds just under 4%. The St. Patrick's Day raffle rounds out the sales with only 0.4% of the total. Table 23, on the next page, shows the contributions of each game through the lottery's history.



**TABLE 23: COMPOSITION OF LOTTERY SALES BY GAME
FY 1975 - FY 2012***

(% of Total)

Fiscal Year	Instant Games	St. Patrick's			Lucky Day		Mega		Other Games	Total Sales (\$ Million)
		Pick 3	Raffle	Pick 4	Lotto	Lotto**	Millions	Powerball		
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%	\$ 1,964.8
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%	\$ 2,078.6
2010	53.4%	13.7%	0.9%	8.7%	5.2%	5.5%	10.2%	2.4%	0.1%	\$ 2,197.5
2011	55.9%	12.8%	0.9%	8.4%	4.8%	5.3%	7.6%	4.3%	0.0%	\$ 2,262.9
2012	60.6%	10.4%	0.4%	7.2%	3.9%	4.9%	7.1%	5.5%	0.0%	\$ 2,676.3
TOTALS	39.3%	20.7%	0.2%	8.1%	18.3%	5.8%	4.1%	0.6%	2.9%	\$ 50,238.5

* Preliminary, unaudited data

** Lucky Day Lotto includes EZ Match revenue

SOURCE: ILLINOIS DEPARTMENT OF REVENUE

Lottery Revenue Distribution

This section normally discusses the operational aspects of the lottery and analyzes changes in operational expenses and transfers from the lottery. Unfortunately, the financial data related to these aspects of the lottery are currently unavailable at the time of the writing of this report. Due to this missing data, the Commission is unable to analyze the operational aspects of the lottery.

The financial data is not available due to extra time being needed to develop a new reporting method from the Lottery under a private manager and questions needing resolved related to final payments. The management agreement allows for a process, for either the State or the private manager, Northstar Lottery Group, 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. Northstar has requested a change in the FY 2012 net income target of \$851 million. This request has been reported in newspapers as based on "missed deadlines, delays in implementing online sales and a lack of advertising money." The State does not agree with these claims and the two groups have entered arbitration to resolve the matter. Final payments to the State or Northstar for FY 2012 cannot be made until this matter is resolved, which is expected to occur sometime in the fall of 2012.

Lottery Transfers

As shown in Table 24, 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. (Although, the salaries of regional superintendents are being paid with funds from the Personal Property Replacement Tax Fund for FY 2012 and FY 2013). In FY 2012, \$639.9 million was transferred to the Common School Fund, which was an increase of 1.3% from FY 2011. 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). Inflation is expected to grow around 1% to 2% per year in coming years. This transfer is expected to total approximately \$655 million in FY 2013.

The second destination for Lottery profits are a set of four special cause funds. Special cause lottery sales generated \$3.2 million in FY 2012, a decrease of 22% or approximately \$0.9 million from FY 2011. Special cause sales are down over 38% since FY 2009 when special cause total sales peaked at \$5.2 million. As part of PA 94-0120, the Ticket For The Cure special instant scratch-off game was created. The proceeds from this game are sent to the Ticket for the Cure Fund which is for cancer research grants. In FY 2012, \$0.7 million was transferred into this fund. This was a 15.3% decline from the previous year. Another special instant scratch-off was created by PA 94-0585 to fund grants for veterans' related issues. The Veteran's

Cash game had revenues of \$0.9 million. This was a decrease of over 17% from FY 2011. Another special game that was 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 \$0.8 million. This game's sales were reduced by approximately 14%. The Quality of Life instant game was reintroduced as Red Ribbon Cash in August of 2012. 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 \$0.8 million in FY 2012, which was down over 34%.

Public Act 96-0034 also created the Capital Projects Fund which is the last fund that lottery proceeds are sent. 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 the Capital Projects Fund. This increased to \$54.1 million in FY 2011. FY 2012 saw over \$65 million sent to the Capitol Projects which was an increase of over 20%. Though this was a large increase, it was far below the \$132 million that the Capitol Plan was based on in FY 2012. The amount transferred to the Capital Projects Fund may increase with the completion of the arbitration process between the State and Northstar.

Transfers totaled \$708 million in FY 2012 which was the highest amount ever. The ratio of transfers to total sales of 26.5% is down from 30.5% 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 15% since then. This would indicate that the Lottery's profit margin has continually declined. This drop in profit margin was very evident this fiscal year, as this was the biggest change in profit margin since the early 1980's. This most likely was done intentionally as increased expenses related to increased prize payouts associated with instant game sales, lead to higher overall sales that can lead to higher total profits, though at lower profit margin.

**TABLE 24: LOTTERY TRANSFERS
FY 1975 - FY 2012***

(\$ Millions)

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	\$ 1,964.8	\$ 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	\$ 2,078.6	\$ 625.0	\$ -	\$ 5.2	\$ 630.2	30.3%
2010	\$ 2,197.5	\$ 625.0	\$ 32.9	\$ 4.2	\$ 662.1	30.1%
2011	\$ 2,262.9	\$ 631.9	\$ 54.1	\$ 4.1	\$ 690.1	30.5%
2012	\$ 2,676.3	\$ 639.9	\$ 65.2	\$ 3.2	\$ 708.3	26.5%
TOTALS	\$ 50,238.5	\$ 17,367.3	\$ 152.2	\$ 29.0	\$ 17,548.6	34.9%

* 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), California (June 2005), and Louisiana (November 2011) 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 2012, forty-two 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 25 lists the States participating in each of the multi-state lotteries and the years they began offering each of the games. The only states to offer only one of the multi-state games are California for Mega Millions and Florida for Powerball

Mega Millions has drawings on Tuesdays and Fridays. Powerball conducts their drawings on Wednesdays and Saturdays. The hope was, 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. FY 2011's results were somewhat disappointing but FY 2012 was a better year for the multi-state games. Mega-Millions revenue was up over 10%, while Powerball jumped over 50%. The significant jumps were likely a combination of a large number of roll-overs and the introduction of the \$2 Powerball ticket in January of 2012.

As indicated in previous reports, results have shown that the multi-state games 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. The Commission looks at the number of drawings over \$100 million and \$200 million in a year to compare results to previous years. While Mega-Millions had very similar results when looking at \$100 million and \$200 million drawings when compared to FY 2011, the largest jackpot was significantly higher in FY 2012. The largest Mega Millions jackpot in FY 2011 was \$380 million; Illinois had sales of approximately \$11 million for this drawing. In FY 2012, the biggest Mega Millions jackpot ever, \$640 million, was held on March 30, 2012. Illinois brought in over \$30 million on this drawing alone.

Powerball, on the other hand, had significantly better results when looking at jackpots though this is likely primarily due to the increase to \$2 for a ticket. Powerball had 33 drawings over \$100 million and 8 drawings over \$200 million in FY 2012 compared to 17 and 2 in FY 2011. The increase in Powerball ticket cost started in January of 2012. Assuming a one to one ratio of sales to jackpot results, one could compare the FY 2011 jackpots to the FY 2012 results by reducing the jackpots in the second half of FY 2012 (after the price increase) by 50%. Looking at the results based on this assumption, there would have been 19 drawings over \$100 million and 3 drawings over \$200 million. This is basically the same as FY 2011; therefore, one can conclude that a large portion of the increase in Powerball sales is from the increase in ticket price, though other factors such as improved marketing of the game that leads to a larger player pool could also explain some of the increase in total sales.

Mega Millions and Powerball results for the past 7 fiscal years can be found in Table 26.

TABLE 25: MULTI-STATE LOTTERY PARTICIPANTS

State	MEGA MILLIONS	POWERBALL
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
LOUISIANA	2011	1995
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

SOURCES: POWERBALL, MEGA MILLIONS

TABLE 26: MULTI STATE GAME RESULTS

(\$ Million)

MEGA MILLIONS

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Average Jackpot Drawing	\$80.1	\$55.9	\$68.1	\$57.7	\$73.5	\$64.8	\$80.2
Drawings over \$100 M	30	14	25	19	30	20	19
Drawings over \$200 M	9	3	5	3	6	6	6
Mega Millions Sales	\$243.8	\$195.9	\$221.1	\$204.6	\$222.6	\$172.0	\$189.6

POWERBALL

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Average Jackpot Drawing	\$81.5	\$68.4	\$70.4	\$67.8	\$82.3	\$62.4	\$85.2
Drawings over \$100 M	30	25	25	23	32	17	33
Drawings over \$200 M	9	4	6	2	7	2	8
Powerball Sales	n/a	n/a	n/a	n/a	\$51.7*	\$97.4	\$145.9**

* 5 months of sales

** Powerball price increases from \$1 to \$2 per ticket in January of 2012

SOURCE: www.lottoreport.com

Illinois Compared to Other State Lotteries

Looking at data from FY 2011, the latest year available, New York had the largest lottery with sales of almost \$7.8 billion. New York was followed by Massachusetts (\$4.4 billion) and Florida (\$4.0 billion). With \$2.3 billion in sales, Illinois had the 13th highest level of sales in the U.S. This was a drop in ranking from 11th in FY 2010. The figures for all the states for FY 2011 are shown in Table 27 on the following page.

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 decade, this figure has rebounded, largely due to the increase in instant games sales. In FY 2011, Illinois' per-capita spending totaled \$177 per capita, this was 2.9% higher than in 2010. Although per-capita spending has increased, Illinois still ranked 20th out of the 45 lotteries. Looking at FY 2012 sales, sales per capita grew 17.5% to \$208. While this is a significant jump, it still would have only been the 18th highest in FY 2011. Chart 9 shows the growth of lottery sales per capita in Illinois over the last decade.

Similarly, Illinois ranked 24th 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.

TABLE 27: PER-CAPITA SALES AS A PERCENTAGE OF PERSONAL INCOME (FY 2011)

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	\$ 34,650	\$ 0.0	\$ 0	0.00%
ALASKA	0.7	\$ 45,529	\$ 0.0	\$ 0	0.00%
ARIZONA	6.5	\$ 35,875	\$ 583.5	\$ 90	0.25%
ARKANSAS	2.9	\$ 34,014	\$ 464.0	\$ 158	0.46%
CALIFORNIA	37.7	\$ 44,481	\$ 3,438.6	\$ 91	0.21%
COLORADO	5.1	\$ 44,088	\$ 518.9	\$ 101	0.23%
CONNECTICUT	3.6	\$ 56,889	\$ 1,016.6	\$ 284	0.50%
DELAWARE (1)	0.9	\$ 41,635	\$ 710.6	\$ 783	1.88%
DISTRICT OF COLUMBIA	0.6	\$ 73,105	\$ 245.0	\$ 396	0.54%
FLORIDA	19.1	\$ 39,563	\$ 4,008.7	\$ 210	0.53%
GEORGIA	9.8	\$ 36,104	\$ 3,597.9	\$ 367	1.02%
HAWAII	1.4	\$ 43,053	\$ 0.0	\$ 0	0.00%
IDAHO	1.6	\$ 33,326	\$ 147.2	\$ 93	0.28%
ILLINOIS	12.9	\$ 44,140	\$ 2,278.7	\$ 177	0.40%
INDIANA	6.5	\$ 35,550	\$ 791.4	\$ 121	0.34%
IOWA	3.1	\$ 40,470	\$ 271.4	\$ 89	0.22%
KANSAS	2.9	\$ 40,481	\$ 232.4	\$ 81	0.20%
KENTUCKY	4.4	\$ 33,667	\$ 772.3	\$ 177	0.53%
LOUISIANA	4.6	\$ 38,578	\$ 383.6	\$ 84	0.22%
MAINE	1.3	\$ 37,973	\$ 216.4	\$ 163	0.43%
MARYLAND	5.8	\$ 51,038	\$ 1,817.4	\$ 312	0.61%
MASSACHUSETTS	6.6	\$ 53,621	\$ 4,416.3	\$ 670	1.25%
MICHIGAN	9.9	\$ 36,533	\$ 2,346.1	\$ 238	0.65%
MINNESOTA	5.3	\$ 44,672	\$ 504.4	\$ 94	0.21%
MISSISSIPPI	3.0	\$ 32,176	\$ 0.0	\$ 0	0.00%
MISSOURI	6.0	\$ 38,248	\$ 1,000.7	\$ 166	0.44%
MONTANA	1.0	\$ 36,573	\$ 46.0	\$ 46	0.13%
NEBRASKA	1.8	\$ 41,584	\$ 131.9	\$ 72	0.17%
NEVADA	2.7	\$ 38,173	\$ 0.0	\$ 0	0.00%
NEW HAMPSHIRE	1.3	\$ 45,787	\$ 228.4	\$ 173	0.38%
NEW JERSEY	8.8	\$ 53,181	\$ 2,636.5	\$ 299	0.56%
NEW MEXICO	2.1	\$ 34,575	\$ 135.5	\$ 65	0.19%
NEW YORK (1)	19.5	\$ 50,545	\$ 7,868.2	\$ 404	0.80%
NORTH CAROLINA	9.7	\$ 36,164	\$ 1,416.1	\$ 147	0.41%
NORTH DAKOTA (4)	0.7	\$ 45,747	\$ 23.0	\$ 34	0.07%
OHIO	11.5	\$ 37,791	\$ 2,601.0	\$ 225	0.60%
OKLAHOMA	3.8	\$ 37,277	\$ 198.2	\$ 52	0.14%
OREGON (1)	3.9	\$ 37,909	\$ 2,764.0	\$ 714	1.88%
PENNSYLVANIA	12.7	\$ 42,478	\$ 3,207.9	\$ 252	0.59%
RHODE ISLAND (2)	1.1	\$ 43,992	\$ 3,125.6	\$ 2,973	6.76%
SOUTH CAROLINA	4.7	\$ 33,673	\$ 1,047.1	\$ 224	0.66%
SOUTH DAKOTA (2)	0.8	\$ 41,590	\$ 630.5	\$ 765	1.84%
TENNESSEE	6.4	\$ 36,533	\$ 1,186.6	\$ 185	0.51%
TEXAS (4)	25.7	\$ 39,593	\$ 3,811.3	\$ 148	0.37%
UTAH	2.8	\$ 33,790	\$ 0.0	\$ 0	0.00%
VERMONT	0.6	\$ 41,832	\$ 95.5	\$ 152	0.36%
VIRGINIA	8.1	\$ 45,920	\$ 1,482.7	\$ 183	0.40%
WASHINGTON	6.8	\$ 44,294	\$ 510.5	\$ 75	0.17%
WEST VIRGINIA (1)	1.9	\$ 33,513	\$ 1,392.4	\$ 750	2.24%
WISCONSIN (3)	5.7	\$ 40,073	\$ 502.7	\$ 88	0.22%
WYOMING	0.6	\$ 47,301	\$ 0.0	\$ 0	0.00%
TOTALS	308.7	\$ 40,584	\$ 64,803.7	\$ 210	0.52%

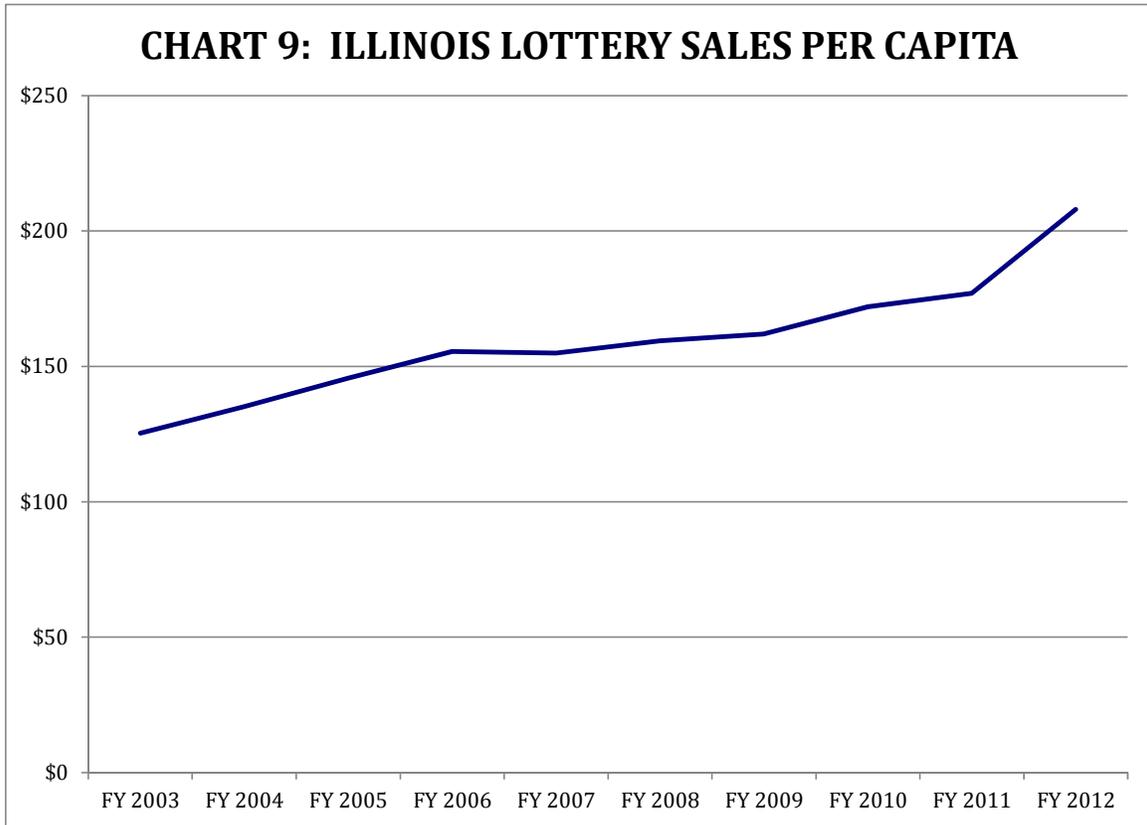
All figures should be considered preliminary and unaudited

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

(2) Includes gross VLT sales (Cash in)

(3) Net Proceeds

SOURCES: NORTH AMERICAN ASSOCIATION OF STATE AND PROVINCIAL LOTTERIES,
BUREAU OF ECONOMIC ANALYSIS, 2011



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. 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 to 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.

As mentioned earlier, the 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. Northstar has requested a change in the FY 2012 net income target of \$851 million. This request has been reported in newspapers as based on "missed deadlines, delays in implementing online sales and a lack of advertising money." The State does not agree with these claims and the two groups entered into arbitration to resolve the matter. Final payments to the State or Northstar for FY 2012 cannot be made until this matter is resolved.

An initial finding by an independent mediator in September of 2012 indicated that Northstar should not have to pay roughly \$25 million in penalties for not reaching the net income target in FY 2012 according to media reports. The reports indicated that the net income target should be lowered by \$55.6 million for FY 2012 and should be lowered by \$20.2 million for FY 2013. The State has indicated that it will appeal this ruling. The Commission tried to obtain the actual decision from the lottery but was denied access due to the decision containing confidential material.

TABLE 28: 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	**

*The State and Northstar are currently in arbitration over the Net Income Target for FY 2012

** To be set by management pursuant to the Annual Business Plan process described in Article 5.3.3 of the management agreement

Private manager bonuses:

- 10% of any net income greater than base level but less than middle level
- 20% of any net income greater than middle level but less than upper level
- 30% of any net income greater than the upper level

Private manager penalties:

- If net income is above the net income target
 - None
- If net income is above the base level but below the net income target
 - 50% of the difference between net income target and net income
- If net income is below the base level
 - 100% of the difference between net income and base level and 50% of the difference between net income target and base level

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

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

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?

FY 2012 was a busy year for the Illinois Lottery. In July of 2011, the Northstar Group took over management of the lottery. New games were introduced including Major League Baseball team branded instant games and the EZ Match game. Powerball tickets were moved to a higher pricing point, \$2 per ticket, in January of 2012. Illinois became the first state to offer lottery ticket sales over the internet in

March by offering Lotto and Mega Millions tickets. The Little Lotto was rebranded as the Lucky Day Lotto in April.

Changes will likely continue in FY 2013. One potential change is the increase in the number of games for sale on the internet. The General Assembly passed and the Governor signed Public Act 097-1121 that would allow for the sales of Powerball tickets online in addition to Lotto and Mega Millions. The lottery hopes to significantly grow online sales in FY 2013 as the results for the first few months of operation were considerably below expectations.

Another change is the direction of marketing of the lottery. In October of 2011, the lottery decided to seek a new advertising agency to replace Energy BBDO, which was originally part of the Northstar consortium. In January of 2012, Critical Mass and Downtown Partners were selected as the Illinois Lotteries new advertising agencies. The first major advertising campaign from these groups to revamp the Lottery's image and boost sales was the "Anything's possible" campaign which ran during the spring and summer of 2012.

New games will also be introduced in the coming year. On September 9, the lottery will launch the My3 game. The My3 game will be an entirely new draw game, completely different from Pick 3. The game will have two drawings a day at 10:30 A.M. and 6:30 P.M. Draw results will appear in store on advertising display screens. This game is designed as a fresh, contemporary, simple game that is perfect for new players.

Another new game will be an add-on game for Lotto. This game will be called Lotto Extra Shot. For an extra \$1 for a 2-game lotto set, player gets a computer-generated Extra Shot number for each game, drawn separately from the Lotto numbers. Playing Extra Shot dramatically improves overall odds of winning a cash prize from 1:32 to 1:9. This game is scheduled to begin on October 28.

The lottery will continue to try and increase the number of retailers that sell lottery products. As of August 2012, the Illinois lottery had 8,113 retailers. This is growth of approximately 1,100 retailers in the last year. The lottery was able to sign up a significant amount of new retailers in the beginning of FY 2012 but has slowed to approximately 25 new retailers per month recently. This is somewhat disconcerting as one of the key aspects of Northstar's business plan to improve the lottery was a retailer expansion to approximately 13,000 retailers by FY 2013, which may be seen as ambitious. The business plan included a ramp up period in FY 2011 that was delayed due to issues with the transfer of management from the state. If this pace of 25 new retailers a month were to continue, the lottery would only have approximately 8,700 by the end of FY 2014. This pace could be improved significantly if major retailers with hundreds of locations within the state were added. The lottery is currently selling lottery tickets at select test locations of one such retailer.

HORSE RACING

HORSE RACING

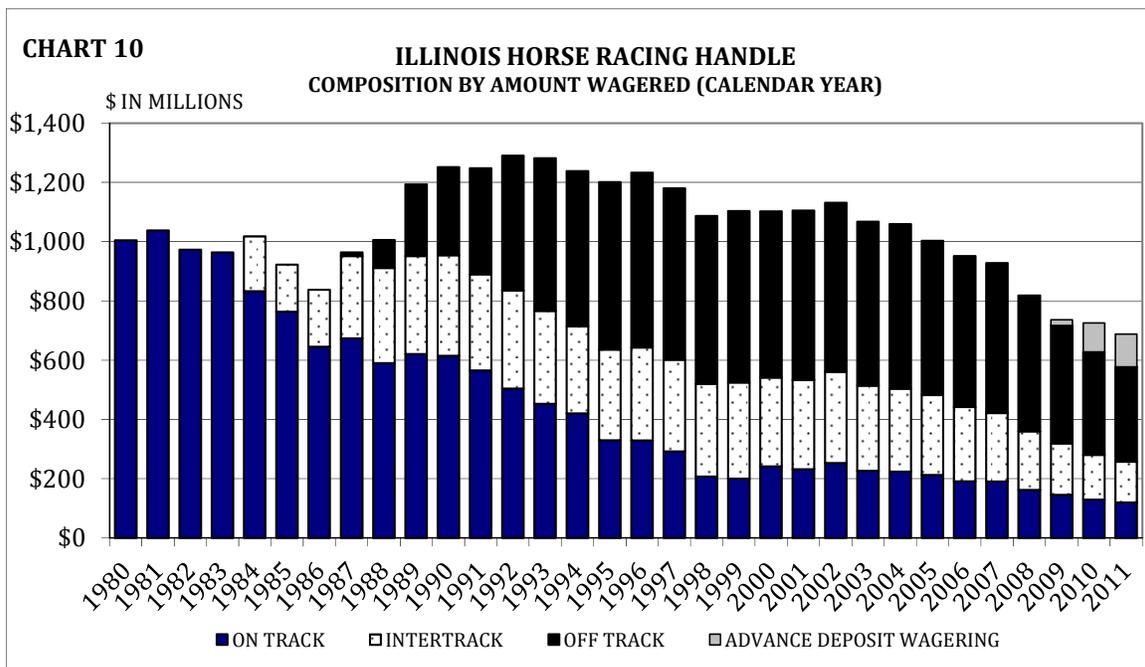
Horse racing is the oldest form of legalized gaming in Illinois. Each year, millions of dollars are wagered on horse racing at the State's numerous on-track and off-track wagering facilities. In calendar year 2011, Illinois horse racing wagering generated nearly \$15.0 million in total revenues with the State receiving \$7.8 million and local governments receiving \$7.2 million. Table 29 examines the sources and allocation of CY 2011 horse racing revenues while Table 30 details State and local racing revenues over the past ten years.

TABLE 29: SOURCES AND ALLOCATION OF HORSE RACING REVENUE FOR CALENDAR YEAR 2011	
REVENUE SOURCE	
Application and License Fees of Racing Associations	\$102,070
Admission Taxes	\$78,188
Pari-mutuel Tax	\$8,256,544
Pari-mutuel Tax Credit	(\$2,881,336)
Advanced Deposit Wagering (ADW) Pari-Mutuel Tax (1.75%)	\$1,891,990
Licensing of Racing Personnel	\$195,800
Fingerprint Fees	\$60,240
Horsemen's Fines	\$115,200
Miscellaneous Sources	\$825
* TOTAL STATE REVENUES RECEIVED	\$7,819,520
2% of OTB Handle to City and County	\$6,406,741
OTB Admission Tax to City of Chicago	\$132,368
OTB Admission Tax to Cook County	\$252,661
On Track City Admission Tax	\$42,039
Intertrack Surcharge to County (20%)	\$317,720
* TOTAL LOCAL REVENUES RECEIVED	\$7,151,529
TOTAL REVENUES RECEIVED	\$14,971,049
ALLOCATION OF REVENUE	
Horse Racing Fund	\$7,017,366
General Revenue Fund	\$481,988
Quarterhorse Breeders' Fund	\$13,332
Quarterhorse Purse Fund (from ADW Tax)	\$250,000
Fingerprint License Fund	\$56,835
* TOTAL STATE REVENUES ALLOCATED	\$7,819,520
To Cities	\$3,377,777
To Counties	\$3,773,752
* TOTAL LOCAL	\$7,151,529
TOTAL REVENUES ALLOCATED	\$14,971,049
SOURCE: ILLINOIS RACING BOARD - 2011 ANNUAL REPORT	

TABLE 30: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
TOTAL STATE REVENUE	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9	\$8.0	\$7.1	\$7.4	\$7.8
TOTAL LOCAL REVENUE	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6	\$10.6	\$9.1	\$7.8	\$7.2
* TOTAL REVENUES RECEIVED	\$25.7	\$25.1	\$25.1	\$23.4	\$21.6	\$20.6	\$18.5	\$16.2	\$15.3	\$15.0
TOTAL STATE ALLOCATIONS	\$12.8	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9	\$8.0	\$7.1	\$7.4	\$7.8
TOTAL LOCAL ALLOCATIONS	\$12.8	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6	\$10.6	\$9.1	\$7.8	\$7.2
TO CITIES	\$6.4	\$6.2	\$6.2	\$5.7	\$5.6	\$5.5	\$4.9	\$4.3	\$3.7	\$3.4
TO COUNTIES	\$6.4	\$6.2	\$6.2	\$5.9	\$5.7	\$6.1	\$5.6	\$4.8	\$4.1	\$3.8
*TOTAL REVENUES ALLOCATED	\$25.7	\$25.1	\$25.1	\$23.4	\$21.6	\$20.6	\$18.5	\$16.2	\$15.3	\$15.0

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

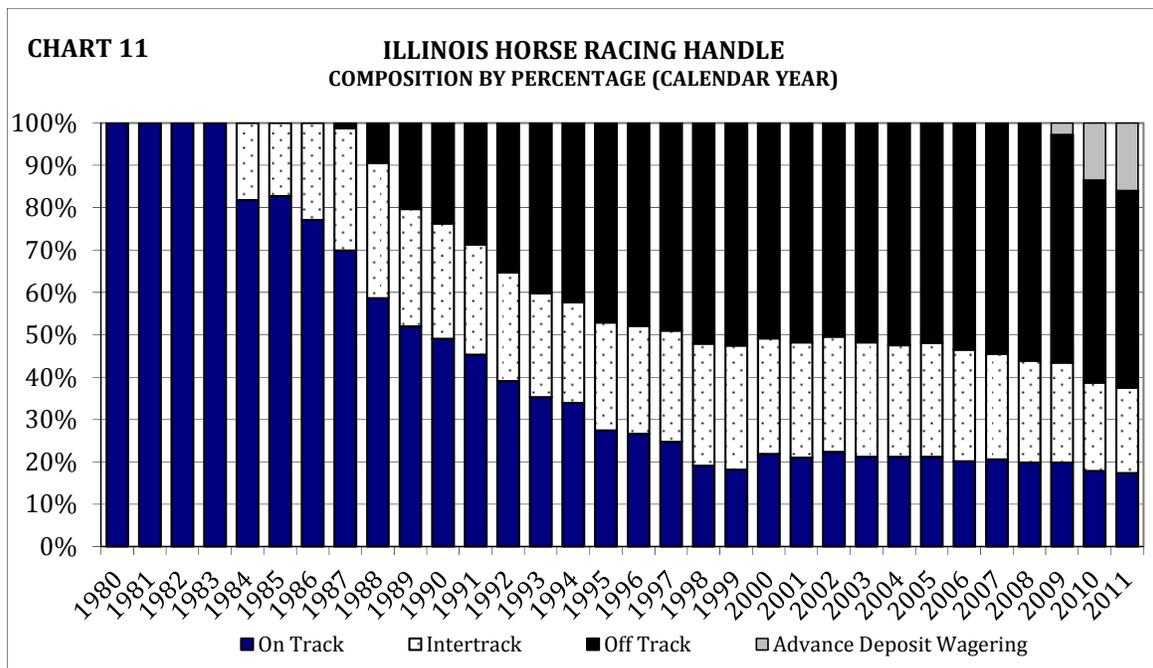
In its 2011 Annual Report, the Racing Board reported that 524 race programs were conducted during CY 2011 (up from 490 race programs in CY 2010). A total handle amount of \$688 million resulted, which was a decrease of 5.2% over the 2010 amount. As shown in Chart 10, this handle amount was the ninth consecutive year of declining revenues and the lowest experienced over the last 35 years. The thoroughbred total handle (\$428M) dropped 7%, while the standardbred total handle (\$165M) dropped 8%. The remaining \$95 million came from advance deposit wagering on out of state races.



The Illinois Racing Board's latest report states that \$142 million of the total handle in CY 2011 was wagered on Illinois races. An additional \$559 million was wagered on Illinois races broadcast to other states, which was a 1.5% decrease from CY 2010 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 2011, the percentage of the total handle generated from on-track wagering fell from 49% to 17%. 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 47%. Despite this shift, inter-track wagering remained stable and generally comprised between 20% and 30% of the total handle. The latest component of the handle comes from advance deposit wagering which made up 16% of the total in CY 2017. Chart 11 illustrates the historic shift in the composition of the racing handle.



What tracks did Illinois bettors wager on in 2011? The largest handle at Illinois tracks came from Arlington with \$60.9 million, followed by Hawthorne (\$33.8M), Balmoral (\$31.9M), Maywood (\$18.9M), Fairmount (\$10.6M), and State/County fairs (\$0.7M). The largest handles from out-of-state tracks came from Churchill (\$30.2M), Gulfstream (\$30.0M), Belmont (\$25.3M), Woodbine (\$25.2M), and Tampa Bay Downs (\$21.3M).

Of all Illinois meets in 2011, thoroughbred races make up the largest percentage at 67.2% with harness races making up the remaining 32.8%.

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 2011, the Illinois Racing Board granted twenty-six off-track licenses. The Racing Board's Annual Report states that one new OTB opened in 2011 (Villa Park) and one closed (Waukegan, Lakehurst Road). An additional OTB has since closed in 2012 in Yorkville. 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 11 additional OTB locations. A list of Illinois OTBs is shown in Table 31.

TABLE 31: 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 VILLA PARK**
BALMORAL PARK	WILL	NORMAL BUFFALO GROVE CHICAGO (Corliss) CHAMPAIGN
FAIRMOUNT PARK	MADISON	ALTON SAUGET SPRINGFIELD
HAWTHORNE RACE COURSE	COOK	OAKBROOK TERRACE CRESTWOOD JOLIET 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 2011 **NEW IN 2011 ***CLOSED IN 2012		

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.

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.

Since advance deposit wagering became operational in 2009, a total handle of nearly \$1.3 million in advance deposit wagering taxes were collected in FY 2010 (from 8 months of operational receipts). This equated to an 8-month handle total of \$73.3 million. In FY 2011, advance deposit wagering taxes totaled \$1.7 million, which equated to an annual total handle of \$95.8 million. In FY 2012, these taxes totaled nearly \$2.0 million, which equates to a total handle amount of \$113.6 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. While advance deposit wagering is now adding over \$100 million to the overall horse racing handle and increased 12.2% in CY 2011, all other categories of wagering (on-track, inter-track, off-track) experienced losses of at least 7.7%. On the other hand, the overall decline of 5.2% in the overall handle amount is a slight improvement over the average decline of 6.9% that had been experienced over the previous five calendar years before advance deposit wagering was introduced. So, in its first couple years of existence, it appears that while advance deposit wagering has not caused horse racing handle numbers to turn around, it has brought in enough interest to at least slow the declines of an industry that had been falling at a more drastic pace.

What Will the Future Hold for Illinois Horse Racing?

As the State's numbers indicate, the horse racing industry in Illinois continues to struggle. Illinois' racing handle is down nearly 38% over the last 10 years and is at its lowest levels in over 30 years. Many of the racetracks have made or are considering 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. As mentioned in last year's Wagering Report, 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, lawmakers had created financial subsidies to help the industry by way of an impact fee on Illinois riverboats. However, due to litigation delays, several years of accumulated funds were not released to the horse tracks until August 2011. The table below shows how this \$141.8 million in impact fees was distributed.

TABLE 32: 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

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 generating

revenues. The hope was that the use of this money would lead to fuller fields, more racing days, bigger crowds, and larger handles.

But now, one year after receiving this money, improvement in the form of handle and revenues has yet to materialize. While insiders have stated that the proceeds have allowed Illinois tracks to offer purses that are on a more even playing field with other states, it so far appears that this has only temporarily stabilized the industry as an improvement in horse racing handle has yet to occur.

In regard to the proceeds intended for the tracks, statutory instructions on how the money was to be spent were very vague and were ultimately up to each racetrack. The expectation was that these revenues would be used to make track improvements that would eventually lead to better facilities and that these improved facilities that would bring in more horsemen and higher attendance. However, the Racing Board states that little in the form of horsetrack improvements have been made so far. It remains unclear on how and/or if these track proceeds will help turn around this struggling industry.

Once these revenues are used up, new subsidies could come from the new casino in Des Plaines. 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 was not appropriated to the tracks in FY 2012. The Commission estimates that approximately \$59 million has been statutorily set aside for this Fund in FY 2012 and roughly \$65 million could be collected in FY 2013. But, without a supplemental appropriation bill to alter the original language, the Comptroller's Office has stated that these revenues will not be released to the horse racing industry.

If these subsidies 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. Although, this occurrence remains in doubt as Governor Quinn recently vetoed SB 1849, which would have allowed (among other things) slot machines to be located at six horse tracks across Illinois.

If SB 1849, or some version of it, were to eventually be signed into law, 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 would 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 2011 thanks to its seven racetrack casino licenses, has seen its total

horse racing handle decrease from \$976 million in CY 2006 (first year of racinos) to a CY 2011 level of \$562 million. This is a decline of \$414 million or -42.4%. With that being said, Pennsylvania's racetrack casinos had adjusted gross receipts totaling \$1.784 billion in FY 2012. So while the introduction of slot machines at its horse tracks have not boosted its horse racing related wagering figures (and in fact may be hurting its racing revenues due to its competing form of gambling), significant revenues are still being generated through its casinos at its horse tracks, which in turn, are helping to support Pennsylvania's horse racing industry.

Similarly, Indiana's horse racing handle has decreased 34.2% from near \$190 million in 2005 to \$125 million in 2011, despite the opening of two racetrack casinos in 2008. On the other hand, these two locations have generated around \$400 million in adjusted gross receipts in each of the last four fiscal years. 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 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 legislation containing this proposal has been able to pass both Houses in the past (SB 0744 and SB 1849), it has yet to meet the Governor's approval for enactment. 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, but in the first three years since video gaming was legalized in Illinois, the State had not received any revenues from this gaming format. The following section provides an overview of the legislation legalizing video gaming in Illinois, reasons for why implementation has been slow to occur, a summary of what video gaming will look like in Illinois, and an updated video gaming projection in lieu of the number of communities that have laws banning 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 33: 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 three 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. However, only \$65 million sent to the Capitol Projects in FY 2012. Though this was a 20% increase over FY 2011, it was far below the \$132 million that the Capitol Plan was based on in FY 2012. As stated in the Lottery Section, it should be noted that the amount transferred to the Capital Projects Fund may increase with the completion of the arbitration process between the State and Northstar.

The largest portion of anticipated revenues from the new capital plan has been touted 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 had 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. Finally, in December 2011, the Gaming Board announced that Scientific Games, after completing the competitive selection process, was awarded a six-year contract.

After the contract was finalized, the process of designing and implementing the Central Communications System took place. On July 19, 2012, the Gaming Board announced that the Central Communications System was deemed functional. This system was created to provide real-time communication and control between every licensed video gaming terminal in Illinois and the Gaming Board.

With the Central Communications System now in place, the Illinois Gaming Board stated video gaming will finally begin operations in Illinois in late August or early September 2012. However, initially, this will be on a limited basis as the Board wants to make sure initial test sites across the State are working properly before opening up video gaming for everyone. While the number of businesses that will participate in video gaming in the future is not known, at the end of July 2012, the Gaming Board reported that they had issued video gaming licenses to 15 distributors, 11 manufacturers, 7 suppliers, 67 terminal operators, 19 technicians, 85 handlers and 94 locations.

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 (which is late August 2012). 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.

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.

Over the past three years, the number of municipalities/counties that have laws that currently ban video gaming has grown. Some have recently made the decision to ban video gaming in their communities, while some have discovered that a ban on gambling in their jurisdiction was already “on the books”. In these cases, local governments would have to vote to “opt in” to allow video gambling, which can often be a political challenge.

A major concern for those hoping to receive generous revenues from video gaming in Illinois is the fact that the City of Chicago is one of those communities that 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 21.0% of the State’s population, this would have a huge impact on potential video gaming revenues.

In recent months, the Illinois Gaming Board has established a page on their website which identifies the municipalities across Illinois and their status of whether they allow video gaming in their area. While the status of many of the municipalities remain unknown, the Commission, using population figures from the 2010 census, estimates that an additional 42.3% of the State’s population (not including Chicago) belong to municipalities that ban video gaming. This percentage is significantly higher than what was known a year ago. Therefore, based on population, when including the City of Chicago, approximately 63.3% 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 eventually change their minds and allow video gaming in the future. As the struggling economy continues, local governments are lacking revenues. Those communities that offer video gaming are set to receive 1/6 of total tax 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.

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 (shown on the following page).

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.

Impact of Communities Opting Out of Video Gaming

As it currently stands, establishments in the City of Chicago and another 42.2% of the State's population (as of August 2012) will not be allowed to have video gaming in their locations due to the local gambling laws. If these laws are allowed to continue as is, this would impact the amount of revenue expected from video gaming in Illinois. The following table estimates the revenue impact of these communities banning video gaming (based on the population of those communities).

As shown in the following table, the Commission estimates the State impact (revenues to the Capital Project Fund) of Chicago not "opting-in" to video gaming to be approximately \$60.4 million to \$112.1 million. The impact of all other communities currently banning video gambling is projected to be between \$121.4 million and \$225.5 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 between \$287.4 million and \$533.8 million to an estimate of between \$105.6 million and \$196.2 million.

Similarly, local video gaming projections would fall from between \$57.5 million and \$106.8 million to between \$21.1 million and \$39.2 million and overall video gaming projections would be lowered from between \$344.9 million and \$640.6 million to between \$126.8 million and \$235.4 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 34: 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 Govts (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" **	(\$60.4)	(\$112.1)	(\$12.1)	(\$22.4)	(\$72.5)	(\$134.6)
Impact of Communities "Opting Out" ***	(\$121.4)	(\$225.5)	(\$24.3)	(\$45.1)	(\$145.7)	(\$270.6)
CGFA Estimate with Impact of Banned Areas*	\$105.6	\$196.2	\$21.1	\$39.2	\$126.8	\$235.4

* Using the Gaming Board's list of communities banning video gaming (as of 8/3/12 found at <http://www.igb.illinois.gov/VideoGaming/prohibit.aspx>), the Commission estimates that the percentage of Illinois' population that has banned video gaming in their municipalities/counties is 63.3% based on their population according to the 2010 census. Of course, this figure is likely to change as a number of communities may alter their laws. Approximately 6% of the population has yet to inform the Gaming Board of their banning status, and is assumed to allow video gaming in their areas until it is reported otherwise. As the overall percentage of those banning video gaming goes up, the amount of potential revenue from video gaming would fall.

** The Commission uses the City of Chicago's portion of the State's population (approximately 21.0%) to estimate the impact of Chicago not "opting in" to video gaming.

*** The communities/counties banning video gaming (as of 8/3/12) make up the remaining 42.3% of the State's population that has banned video gaming.

It should also be stressed that the projections shown above are made without any additional expansion of gaming in Illinois. If gaming expansion legislation were to ever 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.

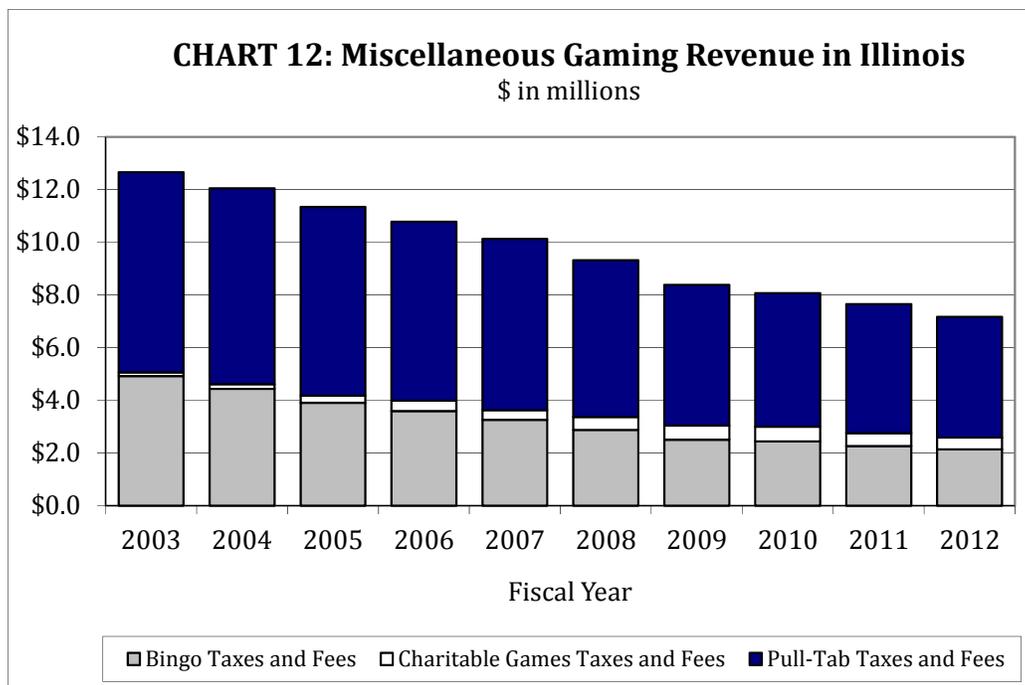
The Commission will continue to monitor the situation and will provide updates when necessary.

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 2012, the State generated \$0.1 million in bingo license fees and \$2.0 million in bingo taxes. Total bingo receipts were down 5.7% from FY 2011 levels.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2012, the State received \$62,850 in license fees and \$386,889 from the charitable games tax. Total charitable games receipts were down 7.4% from FY 2011 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 2012, the State received \$0.4 million in license fees and \$4.1 million from the pull tabs and jar games tax. Total pull-tabs and jar games receipts were down 6.5% from FY 2011 levels.

In total, these miscellaneous gaming revenue sources generated approximately \$7.2 million in FY 2012. This figure is 6.3% below the FY 2011 total of \$7.7 million. In fact, as shown below in Chart 12, total miscellaneous gaming revenue has been on a steady downward trend with FY 2012 figures now at the lowest level experienced over the last ten years.



CONCLUSION

For the first time in six years, State revenues from gaming-related sources experienced an overall increase in FY 2012, rising 3.4%. The increase in overall gaming revenues is primarily due to the numerous changes that have begun to take shape during the past year. While the modest gains are welcomed, the combined totals in FY 2012 are still 23.1% below the peak reached in FY 2006. From a financial standpoint, an increase in these sources is important because these gaming revenues are crucial in funding education through the transfers into the Common School Fund and the Education Assistance Fund, as well as various other funds.

A large part of the overall increase in gaming revenues came from the opening of the new casino in Des Plaines. The nearly \$400 million in adjusted gross receipts that this new riverboat added to State totals helped overall AGR levels to increase 21.5% in FY 2012. As the popularity of this new casino continues, even more revenues are expected to be generated in the years to come.

While overall casino AGR totals increased 21.5%, the amount of revenues marked as State revenues from Illinois casinos actually fell 0.4% in FY 2012. This was due to several reasons. First, as expected, the Des Plaines casino has had a detrimental impact on existing riverboats near the new casino. Adjusted gross receipts from the four Illinois casinos in the Chicago metropolitan area fell 13.1% in the first year of the new casino, with the largest decline coming from Elgin at -20.8%. These declines led to lower tax revenues from these existing locations, which offset a portion of the new revenues from the Des Plaines casino. In addition, because the casinos are under a graduated tax structure, lower AGR figures led to lower effective tax rates, and therefore, lower revenues. Finally, statutory distributions took effect with the opening of the new casino which effectively lowered the State revenue portion by approximately \$75 million.

But even when accounting for the cannibalization impact that the Des Plaines casino has had on the other Illinois casinos, adjusted gross receipts in the Chicago Metropolitan area still increased 33.3% in FY 2012. In addition, the five Indiana casinos in that area experienced declines following the opening of the Des Plaines casino, falling a combined 5.2%. This suggests that many gamblers may be leaving Indiana casinos and spending their gambling dollars in Illinois. But even with this occurrence, Illinois (at \$1.6 billion in FY 2012) remains well behind Indiana (\$2.7 billion in FY 2012) in terms of the amount of adjusted gross receipts generated from casinos. This is despite Illinois' significantly higher population totals.

There continues to be uncertainty regarding the future of riverboat/casino gambling in Illinois. The desire for new revenues has led lawmakers to increase their push for gaming expansion. This led to the passage of SB 1849, as amended by House Amendment 2 and 3, 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 hit a major stumbling block in August 2012 when Governor Quinn decided to veto the legislation.

The amount of revenue that could be generated by gaming expansion could be significant, but the actual amount would be dependent on several factors including 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, as the Des Plaines casino proved, new casinos could have a substantial cannibalization effect on their attendance and revenue numbers. For this reason, it will be crucial from a State tax revenue perspective that these new casinos bring in fresh gaming dollars to Illinois. If this does not occur, a reduced tax structure combined with the likely cannibalization of existing casinos could mean that the State would have a large amount of gaming expansion, with little new tax revenues to show for it.

FY 2012 was a year of transition for the Illinois Lottery with numerous changes affecting lottery revenues. The changes included the introduction of new games, the rebranding of old ones, and an increase in the price of Powerball tickets to \$2 per ticket. However, perhaps the biggest changes came in July 2011 when Northstar Group took over management of the lottery and in March 2012 when Illinois became the first state to offer lottery ticket sales over the internet.

Lottery sales in FY 2012 performed very well, increasing 18.3% to \$2.676 billion, the highest lottery sales total realized since the inception of lottery in 1975. Lottery transfers increased to \$708 million and made up 26.5% of total lottery sales in FY 2012. Instant Games continue to make up the largest percentage of total sales at 61% and experienced the largest growth in sales (+\$358 M). The rest of the sales increase was largely due to the multi-state games, as Powerball increased almost \$50 million from last year, while Mega Millions was up \$17.6 million.

The recent changes in the Illinois Lottery are expected to continue to have a positive impact on lottery sales in FY 2013 and in fiscal years to come. More new games are expected to be introduced and the lottery hopes to significantly grow online sales as the results for the first few months of operation were considerably below expectations. Northstar also plans to ramp up the number of retailers that sell lottery products. While the recent lottery sales increases have been impressive, the numbers so far have fallen well short of Northstar's initial projections. The hope is that more retailers will allow Northstar to reach goals they set under the original agreement with the State. If they fail to meet these goals, the new management company may be required to pay performance penalties unless arbitrators allow net income targets to be restructured.

Horse racing in Illinois continues to struggle. The CY 2011 handle amount of \$688 million was the lowest level in the last three decades. The 2011 decline of -5.2% was the ninth consecutive year of declining revenues. Although, advance deposit wagering in its second full year of existence added \$110 million to the handle total,

the other three components of horse-racing (off-track, inter-track, and on-track betting) all experienced declines again in 2011.

For several years, the racetracks were forced to wait for the arrival of revenues from the 3% impact fee on riverboats, as these proceeds were mired in litigation. 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, \$141.8 million in 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. These revenues were touted by some as a mechanism for tracks to make needed improvement and increase purses, which would lead to higher handle and revenue totals. However, so far little if any improvement in handle amounts has yet to occur as a result of these additional funds.

There continues to be pressure from the horse tracks on lawmakers to provide additional funding for their industry. An additional revenue stream of roughly \$60 million per year was supposed to come from the Des Plaines Casino, as 15% of the AGR of the new casino is statutorily set to go to the Horse Racing Equity Fund. But new legislation is needed to provide a proper appropriation vehicle for this transfer to take place, which, at the time of this report, has yet to be acted upon. But the horse tracks have focused their sights on an even bigger revenue source 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. However, the Gaming Board recently announced that the first video gaming machines under this Act will commence by September 2012, albeit on a limited basis.

The amount of revenue that will be generated through video gaming in Illinois remains uncertain. Preliminary estimates shortly after the Act's passage predicted between \$287 million and \$534 million could be paid into the Capital Project Fund through video gaming proceeds. However, due to the number of municipalities that have banned video gaming or had pre-existing bans that have not been overturned (such as the City of Chicago), the amount of expected revenues from video gaming for this fund is now projected to be between \$106 million and \$196 million. Time will tell if these estimates are accurate.

While a number of changes have occurred in the past year, a number of significant uncertainties remain. What is the final ultimate outcome of SB 1849, which has been passed by the general assembly but vetoed by the Governor? What will the

decision of the current arbitration between the private management of the Lottery and the State render? Will a legislative solution to the distribution of the monies to the horse racing industry be found? After multiple years of delays, what is the first year performance of video gaming? All of these questions, and likely others, will set the framework for gaming in the years to come. 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:

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(217) 782-5320
(217) 782-3513 (FAX)

<http://www.ilga.gov/commission/cgfa2006/home.aspx>