

# WAGERING IN ILLINOIS 2013 UPDATE



COMMISSION ON GOVERNMENT  
FORECASTING & ACCOUNTABILITY

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***Commission on Government Forecasting  
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## EXECUTIVE SUMMARY

The following document is the Commission's 2013 edition of Wagering in Illinois. In accordance with Senate Resolution 875 (87<sup>th</sup> General Assembly), the Commission released its first report in 1992. That report examined the legally-sanctioned forms of wagering as a means of determining their economic impact as well as the potential for further expansion of the gaming industry. This report updates previous releases and provides further analysis of State gaming with the focus on riverboat gambling, lottery, and horse racing. Also included is a description of Illinois' newest form of legalized gambling - video gaming. The highlights of these topics are shown below.

- In FY 2013, the State's share of tax revenues from wagering in Illinois reached \$1.176 billion, an 11.3% increase from FY 2012 levels. This growth consisted of a \$5 million increase in riverboat transfers to the Education Assistance Fund, an \$86 million increase in lottery transfers, and \$30 million in video gaming revenues paid into the Capital Projects Fund. Horse racing related State revenues fell approximately \$1 million in FY 2013.
- In FY 2013, lottery transfers (and other State-related lottery revenues) comprised 67.5% of total gaming revenues, whereas riverboat transfers comprised 29.3%, and horse racing comprised of 0.6%. Video gaming, in its opening months of existence, comprised the remaining 2.6%. Video gaming's composition percentage is expected to increase dramatically over the next few years as the new gaming format approaches full-implementation.
- Statewide adjusted gross receipts (AGR) for Illinois riverboats in FY 2013 were down 2.8% from FY 2012 levels, while admissions declined 4.6%. Increases in AGR at the new Des Plaines casino were offset by AGR declines at eight of the nine other Illinois casinos. State revenues generated from riverboat gambling totaled \$462.6 million in FY 2013, which was a 2.8% increase over FY 2012 levels. The amount that was transferred from the State Gaming Fund to the Education Assistance Fund grew 1.5% in FY 2013.
- With the help of the July 2011 opening of the Des Plaines casino, AGR levels, Statewide, grew 18.1% between FY 2011 and FY 2013. However, riverboat transfers to the Education Assistance Fund only grew 6.5% over this same time period. Reasons for this discrepancy include: statutory distribution changes that were triggered by the opening of the new riverboat 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 \$150 million or -17.7% in FY 2013 compared to FY 2011. While Des Plaines generated \$410 million in adjusted gross receipts in FY 2013, when accounting for the \$150 million loss from the other four casinos, adjusted gross receipts were only up a net \$260 million over this two-year period. Still, even with these losses, combined adjusted gross receipts in this area were up 30.6% 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 (\$1.595 billion) to surpass Iowa (\$1.447 billion) in FY 2013. But Illinois continues to trail Indiana (\$2.496 billion) and Missouri (\$1.745 billion). While the gap between Illinois and Indiana has shrunk, Indiana still had AGR levels over \$900 million more than Illinois in FY 2013, despite Illinois' much higher population levels.
- Using FY 2013 adjusted gross receipts as a guideline, Illinois' casinos made up 18.3% of total receipts in the St. Louis region (compared to Missouri's 81.7%), and 50.8% of total receipts in the Chicago region (compared to Indiana's 49.2%). The Chicago region's FY 2013 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) passed both Houses. However, this piece of legislation was vetoed by the Governor in August 2012. Another attempt was made in the Spring 2013 Session (SB 1739), but failed to get enough support for passage.
- 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.

- The Illinois lottery continues to see record sales levels. For the 13th consecutive year, Illinois lottery sales grew. In FY 2013, lottery sales totaled \$2.84 billion which was an increase of 6.2%, or \$165 million, over FY 2012. The majority of the increase in lottery sales can be attributed to the \$146 million increase in instant ticket sales which makes up 62% of total sales. The multi-state games and raffles accounted for most of the remaining \$20 million in growth.
- The lottery had total transfers of \$794 million. Of this amount, \$656 million went to the Common School Fund, \$135 million was transferred to the Capital Projects Fund, and \$3 million was sent to special causes.
- Illinois had the 11th largest lottery in the U.S. in FY 2012. The per capita average of lottery sales in Illinois was \$208 which was 18th out of the 45 lotteries in the U.S. including the District of Columbia and the U.S. Virgin Islands. Per capita sales increased to \$220 in FY 2013.
- The relationship between the State and the private management group, Northstar, has been a contentious one over the past fiscal year. The two have gone to arbitration over numerous items. In November 2012, Northstar was given reductions of \$28.4 million and \$2.9 million in the net income targets for FY 2012 and FY 2013. Even with the net income target reduction, Northstar was penalized \$21.8 million for its FY 2012 results though Northstar is contesting this penalty. Northstar is expected to owe approximately \$40 million based on FY 2013's results.
- The future of the lottery is expected to continue to be rocky as Northstar has asked for net income target reductions of \$556 million in future years related to the State denying them the opportunity to introduce a Keno-style game.
- The Racing Board reported that 519 race programs were conducted during CY 2012. A total handle amount of \$673 million resulted, which was a decrease of 2.2% over the 2011 amount and the lowest handle amount in over 35 years. The thoroughbred total handle dropped 7.2%, while the standardbred total handle dropped 7.3%. Advance deposit wagering, however increased 10.5%.

- Public Act 96-0762 allowed advance deposit wagering (ADW) to be conducted throughout the State. In FY 2012, a handle amount of approximately \$113.6 million was collected from advance deposit wagering. In FY 2013, ADW was stopped for a time because legislation action was needed to extend the sunset date (originally set as January 2013). On July 7, 2013, P.A. 98-0018 was signed into law extending the sunset date to January 31, 2014. Because of this inactivity, a handle amount of only \$73.2 million was collected in FY 2013.
- Public Act 98-0018 made a change to the way revenues from the Des Plaines Casino are to be distributed. Under the original distribution language, 15% of the Des Plaines Casino AGR (valued at a total of approximately \$120 million over two-years) was to be transferred into the Horse Racing Equity Trust Fund. However, these monies were not appropriated, and remained in the State Gaming Fund. The new law provides that the Horse Racing Equity Fund will receive only \$23 million of the \$120 million combined total that they were expecting to receive and will receive no additional transfers from this revenue source in the future. The School Infrastructure Fund is now the primary beneficiary of these funds.
- Aside from these Des Plaines-related revenues, 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 not been seen, despite this significant influx of revenues.
- 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 necessarily 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. After years of delays this latest form of legalized gambling finally began on a limited basis in September 2012. By the end of FY 2013, 7,921 video gaming terminals were put into operation across Illinois, generating \$121 million in net terminal income. At the 30% tax rate, this



resulted in \$30 million for the Capital Projects Fund and \$6 million for local governments. This figure is expected to rise significantly in future fiscal years as more and more terminals are put into operation.

- Due to the time it takes to process applications, perform background checks, and install the video gaming terminals, it will likely take many more months, (likely FY 2015 or FY 2016) before video gaming will be considered running under full implementation in Illinois. Ultimately, the amount of revenue potentially generated from video gaming will depend on the number of local governments that will continue to ban video gaming in their areas.
- In August 2012, the Commission estimated that approximately 63.3% of the State's population lived in a municipality/unincorporated area that had banned video gaming. However, in August 2013, updated data shows that this figure had fallen to 48.1% of the population. This drop is likely due to the number of local governments overturning their video gaming bans as a result of seeing the revenue benefits experienced in other communities across the State from video gaming.
- While the percentage banning video gaming has dropped, the City of Chicago continues to ban video gaming in its city. 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.



## INTRODUCTION

For the past several decades, tax revenues from wagering in Illinois came from three primary sources – riverboat gambling, the lottery, and horse racing. But in FY 2013, a new form of wagering finally came to fruition as the first legalized video gaming machines were put into operation in September 2012. The success of video gaming in Illinois, as it relates to tax revenues, remains unclear. However, it is expected that this new gaming source – combined with the other forms of gambling - will cause tax revenues from wagering in Illinois to be higher than they have ever been before.

In terms of overall State revenue from gaming taxes, the recent changes in the gaming industry resulted in an 11.3% increase in revenues in FY 2013 compared to a year ago. And these nearly \$1.2 billion in tax revenues in FY 2013 are up over 15% compared to FY 2011. These increases are in part due to the \$30 million in new revenues from video gaming, but much of these increases are due to other changes impacting the gaming industry in Illinois, especially in the areas of riverboat gambling and the lottery. A table displaying a history of State-related revenues from the gaming industry is shown on the following page.

One of the biggest changes in the gaming industry over the last couple of years was the opening of the 10<sup>th</sup> riverboat in Des Plaines in July 2012. This long awaited new casino averaged nearly four million admissions per year in its first two years of existence. These patrons to the new casino generated \$410.1 million in adjusted gross receipts (AGR) in FY 2013 and, as expected, made it the highest revenue-generating riverboat casino in Illinois. While overall AGR totals (Statewide) were down 2.8% from FY 2012 totals, FY 2013 totals are up 18.1% compared to just two years ago.

While most would label the Des Plaines riverboat's first two years as a success, it has come at the expense of other competing casinos in the area. For example, the four Illinois casinos near Des Plaines have seen their AGR levels fall a combined 17.7% since the new casino's opening, including a 5.3% decline over the last year. However, the impacts were also felt in Indiana as the five nearby Indiana casinos have seen their AGR levels fall a combined 8.7% over the last two fiscal years. 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.

Despite the increase in adjusted gross receipts over the past two fiscal years, State revenues from riverboat gaming in Illinois have been relatively stagnant. As shown in the table on the following page, riverboat transfers into the Common School Fund were only up \$5 million in FY 2013 from a year ago, and are up only \$21 million from FY 2011 levels. This relatively small growth is due to lower tax rates imposed on the other casinos as a result of the cannibalization impact that has occurred on the nearby casinos, as well as statutory transfers of revenues from the 10<sup>th</sup> license that were redirected to other non-State funds.

**TABLE 1: STATE GAMING REVENUE (\$ in Millions)**

FISCAL YEAR	HORSE			VIDEO	TOTAL	PRIOR YEAR % CHANGE
	LOTTERY <sup>(1)</sup>	RACING <sup>(2)</sup>	RIVERBOAT <sup>(3)</sup>	GAMING <sup>(4)</sup>		
1975	\$55	\$63	\$0	\$0	\$118	N/A
1976	\$76	\$75	\$0	\$0	\$151	28.0%
1977	\$44	\$75	\$0	\$0	\$119	-21.2%
1978	\$34	\$74	\$0	\$0	\$108	-9.2%
1979	\$33	\$79	\$0	\$0	\$112	3.7%
1980	\$33	\$70	\$0	\$0	\$103	-8.0%
1981	\$90	\$73	\$0	\$0	\$163	58.3%
1982	\$139	\$68	\$0	\$0	\$207	27.0%
1983	\$216	\$66	\$0	\$0	\$282	36.2%
1984	\$365	\$65	\$0	\$0	\$430	52.5%
1985	\$503	\$61	\$0	\$0	\$564	31.2%
1986	\$552	\$51	\$0	\$0	\$603	6.9%
1987	\$553	\$57	\$0	\$0	\$610	1.2%
1988	\$524	\$46	\$0	\$0	\$570	-6.6%
1989	\$586	\$43	\$0	\$0	\$629	10.4%
1990	\$594	\$46	\$0	\$0	\$640	1.7%
1991	\$580	\$46	\$0	\$0	\$626	-2.2%
1992	\$611	\$45	\$8	\$0	\$664	6.1%
1993	\$588	\$48	\$54	\$0	\$690	3.9%
1994	\$552	\$47	\$118	\$0	\$717	3.9%
1995	\$588	\$45	\$171	\$0	\$804	12.1%
1996	\$594	\$46	\$205	\$0	\$845	5.1%
1997	\$590	\$45	\$185	\$0	\$820	-3.0%
1998	\$560	\$42	\$170	\$0	\$772	-5.9%
1999	\$540	\$42	\$240	\$0	\$822	6.5%
2000	\$515	\$13	\$330	\$0	\$858	4.4%
2001	\$501	\$13	\$460	\$0	\$974	13.5%
2002	\$555	\$13	\$470	\$0	\$1,038	6.6%
2003	\$540	\$13	\$554	\$0	\$1,107	6.6%
2004	\$570	\$13	\$661	\$0	\$1,244	12.4%
2005	\$614	\$12	\$699	\$0	\$1,325	6.5%
2006	\$674	\$11	\$689	\$0	\$1,374	3.7%
2007	\$627	\$9	\$685	\$0	\$1,321	-3.9%
2008	\$662	\$9	\$564	\$0	\$1,235	-6.5%
2009	\$630	\$7	\$430	\$0	\$1,067	-13.6%
2010	\$662	\$7	\$383	\$0	\$1,052	-1.4%
2011	\$690	\$7	\$324	\$0	\$1,021	-2.9%
2012	\$708	\$8	\$340	\$0	\$1,056	3.4%
2013	\$794	\$7	\$345	\$30	\$1,176	11.3%

(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 2013) into the Education Assistance Fund and revenues deposited into the Common School Fund. It does not include revenues distributed to local governments or statutory distributions of revenues from the Des Plaines Casino.

(4) Figures include revenues paid into the Capital Projects Fund (5/6 of the 30% tax). It does not include the portion paid to local governments (1/6 of the 30% tax).

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

The continued struggles of the State budget, combined with the desire to create more jobs, have led to yet another strong push for gaming expansion in Illinois (SB 1739). However, despite the advancement of a large gaming expansion bill from the Senate to the House, lawmakers failed to pass legislation in the Spring 2013 Legislative Session that would have resulted in five new casinos and potentially six racetrack casinos across Illinois. This failed attempt follows Governor Quinn's August 2012 veto of a similar bill in the 97<sup>th</sup> General Assembly (SB 1849, as enrolled).

But even with these recent struggles to pass gaming expansion legislation, 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 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 2013 was another record breaking year as lottery transfers totaled \$793.8 million – an \$85.5 million increase over FY 2012. This was the third straight year that the Lottery set a new record for transfers. Of this amount, \$656 million went to the Common School Fund, \$135 million was transferred to the Capital Projects Fund, and \$3 million went to special causes.

The Illinois Lottery had sales of \$2.841 billion in FY 2013, which was an increase of 6.2% over FY 2012 levels. The majority of this increase was due to a \$146 million jump in Instant game sales. Multi-state games and raffles accounted for most of the remaining \$20 million in growth.

While transfers and sales have been at all-time highs in recent years, the relationship between the State and the new private manager, Northstar, has been contentious. The lottery has seen significant growth under private management but this growth has been far less than predicted in the original business proposal. The two parties have gone to arbitration over numerous items and the State assessed the private manager a \$20 million penalty for its FY 2012 results. Future lottery results will likely depend on how the on-going arbitration process is resolved. See the lottery section of this report for further details.

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 tenth consecutive year in CY 2012 and is again 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 apparently failed to turn around the industry. The handle amount in 2012 was at \$673 million, which is 40.5% below levels seen just a decade ago.

Additional revenues for horse racing were statutorily set to come from the new Des Plaines casino, but, this money was never appropriated. In order to access this revenue, legislative changes to the statutory language had to be made, which came via P.A. 98-0018. However, the new law provided that the Horse Racing Equity Fund will receive only \$23 million of the \$120.5 million combined total that they were expecting to receive from the Des Plaines casino in FY 2012 and FY 2013 and will receive no additional transfers from this revenue source in the future. The School Infrastructure Fund is now the primary beneficiary of these funds.

Because these new revenues to horse racing will likely 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 elected officials 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.

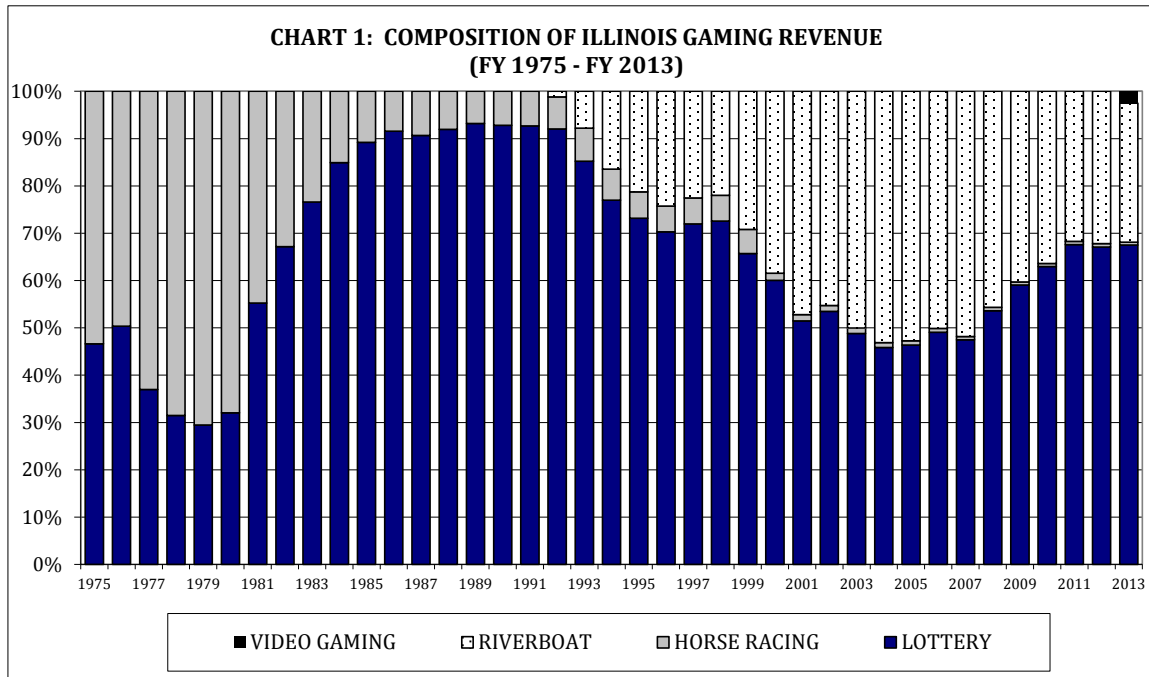
Whether or not a gaming expansion bill passes in Illinois, a significant change in gambling occurred in FY 2013 as a result of the Video Gaming Act. Although video gaming was approved in 2009, the State thru FY 2012 did not receive any revenues from video gaming machines. This is because the Gaming Board 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. In July 2012, the Gaming Board announced that the Central Communications System was deemed functional and in September 2012 the first video gaming machines in Illinois began operations.

Although video gambling is now in operation across the State, it will take many months before “full-implementation” will take place. When video gaming began in September 2012, it was on a limited basis as the Gaming Board wanted to make sure test sites across the State were working properly before opening up video gaming for everyone. Since then, an average of 902 video gaming terminals per month had been added to the Statewide total. Extensive background checks, staffing shortages, and the time it takes to implement the new machines are part of the reasons for the elongated time it takes to reach full-implementation.

By the end of FY 2013, nearly 8,000 video gaming machines were in operation, generating \$121 million in net terminal income for the fiscal year. At the 30% tax rate, this resulted in \$30.3 million to be transferred to the Capital Projects Fund. The amount of revenue that will be generated through video gaming in Illinois for future years remains uncertain. While the leveling off point of video gaming remains unknown, at its current pace, it is expected that the amount of revenues to the Capital Project Fund will range between \$100 million to \$200 million over the next couple of fiscal years.

Revenue projections would be higher if it were not for 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 Commission estimates that roughly 48% of the State’s population lives in areas that currently have a ban on video gaming in their communities. While this figure is significant, it is down from the estimated 63% of the population that banned video gaming just a year ago. This recent decline is likely due to the number of areas that have overturned their ban once seeing the revenue benefits that other areas have enjoyed since video gaming came into fruition.

Chart 1, below, displays the composition of gaming revenue in Illinois since 1975. As shown, in the early years of wagering, horse racing was the primary source of gambling in Illinois. But in the 1980s, the lottery took over as the top revenues producer of wagering revenues. 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, recent declines in riverboat transfers, coupled with modest lottery growth, again placed lottery as the largest contributor of gaming revenues in Illinois.



In FY 2013, lottery transfers (and other State-related lottery revenues) comprised 67.5% of total gaming revenues, whereas riverboat transfers comprised 29.3%, and horse racing comprised of 0.6%. Video gaming, in its opening months of existence, comprised of the remaining 2.6%. Video gaming’s composition percentage is expected to increase dramatically over the next few years as the new gaming format approaches full-implementation. This will cause the composition percentage in the other areas of wagering to fall in future years.



Table 2, below, displays the differences between horse racing, the lottery, riverboat gambling, and video gaming 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. For video gaming, gaming hold is equal to net terminal income. (Note: the 2013 amounts are estimates for Lottery and horse racing).

As Table 2 reveals, FY 2013 State gaming revenues totaled approximately \$1.176 billion. The gaming industry's FY 2013 estimated gaming hold total of \$3.045 billion increased 4.8% from FY 2012 levels. Per-capita spending increased at a similar growth rate to approximately \$237 in FY 2013. These increases are mainly due the growth in the Lottery and the addition of video gaming's net terminal income into the gaming totals. The overall per-capita spending level, while improved, remains below levels of spending experienced in the late 2000s - likely depicting the impact of the economy on gaming-related spending over the past several years.

<b>TABLE 2: THE STATUS OF ILLINOIS GAMING BASED ON STATE REVENUE, GAMING HOLD, AND PER-CAPITA SPENDING</b>								
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013*</b>
<b>POPULATION (IN MILLIONS)</b>	12.8	12.9	12.9	12.9	12.8	12.9	12.9	12.9
<b>HORSE RACING (CY)</b>								
STATE REVENUE (IN MILLIONS)	\$ 11	\$ 9	\$ 9	\$ 7	\$ 7	\$ 7	\$ 8	\$ 7
GAMING HOLD (IN MILLIONS)	\$ 215	\$ 209	\$ 184	\$ 166	\$ 163	\$ 154	\$ 150	\$ 146
% CHANGE IN GAMING HOLD	-4.4%	-3.0%	-11.8%	-9.7%	-1.9%	-5.4%	-2.8%	-2.8%
** PER-CAPITA SPENDING	\$ 16.8	\$ 16.2	\$ 14.3	\$ 12.9	\$ 12.7	\$ 12.0	\$ 11.6	\$ 11.3
% CHANGE IN PER-CAPITA SPENDING	-5.0%	-3.2%	-12.1%	-9.7%	-1.4%	-5.7%	-2.8%	-2.8%
<b>LOTTERY (FY)</b>								
LOTTERY TRANSFERS (IN MILLIONS)	\$ 674	\$ 627	\$ 662	\$ 630	\$ 662	\$ 690	\$ 708	\$ 794
GAMING HOLD (IN MILLIONS)	\$ 900	\$ 893	\$ 888	\$ 853	\$ 926	\$ 964	\$ 1,115	\$ 1,184
% CHANGE IN GAMING HOLD	12.1%	-0.7%	-0.6%	-3.9%	8.6%	4.1%	15.7%	6.2%
** PER-CAPITA SPENDING	\$ 70.1	\$ 69.5	\$ 68.8	\$ 66.1	\$ 72.2	\$ 74.9	\$ 86.6	\$ 91.9
% CHANGE IN PER-CAPITA SPENDING	11.5%	-0.9%	-1.0%	-3.9%	9.2%	3.8%	15.6%	6.2%
<b>RIVERBOATS (FY)</b>								
AMOUNT TO EAF & CSF (IN MILLIONS)	\$ 689	\$ 685	\$ 564	\$ 430	\$ 383	\$ 324	\$ 340	\$ 345
GAMING HOLD (IN MILLIONS)	\$ 1,870	\$ 1,958	\$ 1,810	\$ 1,479	\$ 1,405	\$ 1,351	\$ 1,641	\$ 1,595
% CHANGE IN GAMING HOLD	6.8%	4.7%	-7.6%	-18.3%	-5.0%	-3.8%	21.5%	-2.8%
** PER-CAPITA SPENDING	\$ 145.8	\$ 152.3	\$ 140.3	\$ 114.6	\$ 109.5	\$ 105.0	\$ 127.5	\$ 123.9
% CHANGE IN PER-CAPITA SPENDING	6.2%	4.5%	-7.9%	-18.3%	-4.5%	-4.1%	21.4%	-2.8%
<b>VIDEO GAMING (FY)</b>								
AMOUNT TO CAPITAL PROJECTS FUND	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30
GAMING HOLD (IN MILLIONS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121
% CHANGE IN GAMING HOLD								
** PER-CAPITA SPENDING	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9.4
% CHANGE IN PER-CAPITA SPENDING								
<b>ALL WAGERING</b>								
TOTAL REVENUE (IN MILLIONS)	\$ 1,374	\$ 1,321	\$ 1,235	\$ 1,067	\$ 1,052	\$ 1,021	\$ 1,056	\$ 1,176
GAMING HOLD (IN MILLIONS)	\$ 2,985	\$ 3,060	\$ 2,882	\$ 2,498	\$ 2,494	\$ 2,469	\$ 2,906	\$ 3,045
% CHANGE IN GAMING HOLD	7.4%	2.5%	-5.8%	-13.3%	-0.2%	-1.0%	17.7%	4.8%
** PER-CAPITA SPENDING	\$ 232.6	\$ 238.1	\$ 223.4	\$ 193.6	\$ 194.4	\$ 191.9	\$ 225.7	\$ 236.5
% CHANGE IN PER-CAPITA SPENDING	6.8%	2.3%	-6.2%	-13.3%	0.4%	-1.3%	17.6%	4.8%
*THE FY 2013 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 will focus on topics affecting FY 2013 and beyond. The section opens by providing a basic summary of Illinois' riverboat tax structure, as well as a synopsis of FY 2013 riverboat statistics and how these numbers compare to years past. It includes a discussion on factors that are currently impacting Illinois riverboats 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 second year of operation.

During the Spring Legislative Session, the Illinois State Legislature again discussed an extensive gaming expansion bill, this time in the form of SB 1739. While this bill failed to receive support for enactment in the Spring, the riverboat section analyzes this proposal and discusses factors that could affect how much revenue could be generated if this legislation, or similar legislation, were to be put into law. The section concludes by discussing gaming-related legislation that was signed into law [P.A. 98-0018 (SB 1884)] and the impact that this public act will have on the distribution of gaming revenues.

**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 10<sup>th</sup> riverboat license in Des Plaines in July 2011, under Illinois statute, 15% of the adjusted gross receipts of the new casino was to be paid into the Horse Racing Equity Fund, 2% was to be paid into the Cook County Criminal Justice System, and 2% was to go to Chicago State University. However, due to how the statutory language was worded, the Comptroller ruled that there was 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). In response, recently enacted P.A. 98-0018 modified the distribution of these Des Plaines revenues. These changes are discussed later in this section.



### **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 2009 thru 2013 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 2009 - FY 2013)					
(\$ in millions)					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Des Plaines	\$0.0	\$0.0	\$0.0	\$393.5	\$410.1
Joliet Harrah's	\$292.1	\$253.9	\$236.3	\$215.3	\$206.5
Elgin	\$311.8	\$286.1	\$286.1	\$226.7	\$201.4
Aurora	\$215.0	\$185.0	\$178.4	\$159.9	\$149.2
Joliet Hollywood	\$127.9	\$156.8	\$147.7	\$135.7	\$141.0
East St. Louis	\$154.4	\$139.7	\$127.9	\$132.1	\$128.7
East Peoria	\$116.2	\$114.5	\$115.5	\$116.2	\$112.0
Metropolis	\$123.0	\$113.1	\$100.1	\$102.7	\$91.8
Rock Island	\$52.3	\$75.7	\$83.1	\$87.5	\$85.5
Alton	\$86.9	\$80.1	\$75.7	\$70.9	\$68.5
<b>TOTAL</b>	<b>\$1,479.5</b>	<b>\$1,404.9</b>	<b>\$1,350.8</b>	<b>\$1,640.6</b>	<b>\$1,594.8</b>
<b>% INCREASE</b>	<b>-18.3%</b>	<b>-5.0%</b>	<b>-3.8%</b>	<b>21.5%</b>	<b>-2.8%</b>
SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT					

TABLE 4: ILLINOIS RIVERBOAT ADMISSIONS (FY 2009 - FY 2013)					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Des Plaines	0	0	0	3,894,173	3,846,084
Joliet Harrah's	2,535,895	2,371,293	2,022,995	1,828,825	1,721,408
Elgin	2,117,970	2,112,964	2,051,999	1,719,111	1,634,974
Aurora	1,609,036	1,520,101	1,485,692	1,438,442	1,338,499
Joliet Hollywood	1,155,386	1,425,067	1,374,618	1,306,020	1,326,579
East St. Louis	2,273,300	2,158,726	1,955,279	1,940,539	1,791,770
East Peoria	1,345,020	1,326,910	1,253,969	1,204,672	1,154,330
Metropolis	1,069,036	1,027,173	825,466	825,745	718,985
Rock Island	1,000,453	1,301,213	1,382,827	1,309,522	1,260,803
Alton	1,155,978	1,107,007	982,773	900,658	818,856
<b>TOTAL</b>	<b>14,262,074</b>	<b>14,350,454</b>	<b>13,335,618</b>	<b>16,367,707</b>	<b>15,612,288</b>
<b>% INCREASE</b>	<b>-10.7%</b>	<b>0.6%</b>	<b>-7.1%</b>	<b>22.7%</b>	<b>-4.6%</b>
SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT					

TABLE 5: STATE REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2009 - FY 2013)

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Des Plaines*	\$0.0	\$0.0	\$0.0	\$117.3	\$157.9
Joliet Harrah's	\$102.4	\$87.6	\$77.3	\$67.2	\$62.7
Elgin	\$111.5	\$99.4	\$98.6	\$74.8	\$60.9
Aurora	\$66.2	\$54.4	\$50.3	\$44.1	\$38.4
Joliet Hollywood	\$38.4	\$36.6	\$37.4	\$34.4	\$35.4
East St. Louis	\$42.7	\$37.3	\$32.7	\$33.5	\$32.5
East Peoria	\$27.4	\$26.8	\$26.9	\$27.0	\$26.0
Metropolis	\$29.3	\$26.2	\$22.7	\$21.1	\$19.1
Rock Island	\$7.6	\$13.7	\$15.7	\$17.1	\$16.9
Alton	\$18.5	\$16.5	\$14.8	\$13.5	\$12.8
<b>TOTAL</b>	<b>\$444.0</b>	<b>\$398.4</b>	<b>\$376.4</b>	<b>\$449.9</b>	<b>\$462.6</b>
% INCREASE	-25.0%	-10.3%	-5.5%	19.5%	2.8%
Des Plaines Distributions*:	\$0.0	\$0.0	\$0.0	(\$74.8)	(\$77.9)
<b>Total after Distributions:</b>	<b>\$444.0</b>	<b>\$398.4</b>	<b>\$376.4</b>	<b>\$375.1</b>	<b>\$384.7</b>
% INCREASE	-25.0%	-10.3%	-5.5%	-0.4%	2.6%

\* Of the State revenues generated by Des Plaines in FY 2012 and FY 2013, a portion (\$75 million in FY 2012 and \$78 million in FY 2013) was statutorily set aside to be paid into other funds, including the Horse Racing Equity Fund, the Cook County Criminal Justice System, and Chicago State University. Recently enacted P.A. 98-0018 altered the distribution language to provide that \$92 million of this money shall go into the School Infrastructure Fund.

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 6: LOCAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2009 - FY 2013)

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Des Plaines	\$0.0	\$0.0	\$0.0	\$23.6	\$24.4
Joliet Harrah's	\$17.1	\$15.1	\$13.8	\$12.6	\$12.0
Elgin	\$17.7	\$16.4	\$16.4	\$13.1	\$11.7
Aurora	\$12.4	\$10.8	\$10.4	\$9.4	\$8.8
Joliet Hollywood	\$7.5	\$9.3	\$8.8	\$8.1	\$8.4
East St. Louis	\$10.0	\$9.1	\$8.4	\$8.5	\$8.2
East Peoria	\$7.2	\$7.1	\$7.0	\$7.0	\$6.8
Metropolis	\$7.2	\$6.7	\$5.8	\$6.0	\$5.3
Rock Island	\$3.6	\$5.1	\$5.5	\$5.7	\$5.5
Alton	\$5.5	\$5.1	\$4.8	\$4.4	\$4.2
<b>TOTAL</b>	<b>\$88.2</b>	<b>\$84.6</b>	<b>\$80.9</b>	<b>\$98.4</b>	<b>\$95.4</b>
% INCREASE	-17.1%	-4.1%	-4.4%	21.7%	-3.1%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

TABLE 7: TOTAL REVENUE GENERATED FROM ILLINOIS RIVERBOATS (FY 2009 - FY 2013)

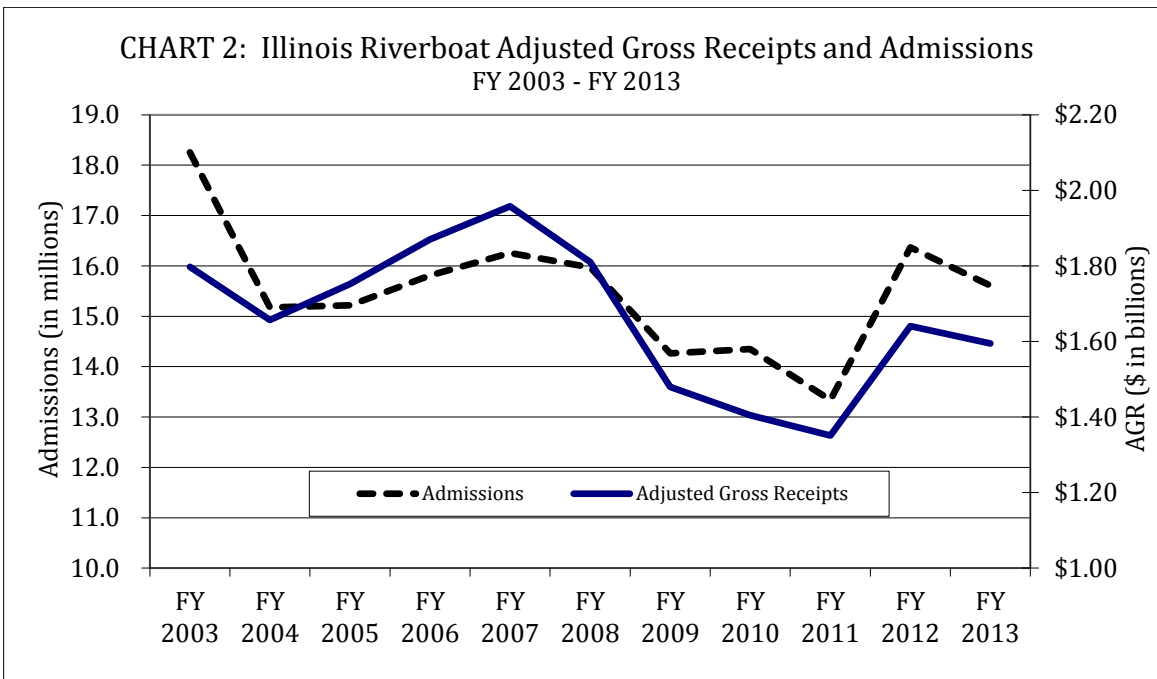
(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Des Plaines	\$0.0	\$0.0	\$0.0	\$140.8	\$182.2
Joliet Harrah's	\$119.6	\$102.7	\$91.1	\$79.8	\$74.7
Elgin	\$129.2	\$115.8	\$115.0	\$87.9	\$72.6
Aurora	\$78.6	\$65.2	\$60.7	\$53.5	\$47.2
Joliet Hollywood	\$45.9	\$45.8	\$46.2	\$42.5	\$43.8
East St. Louis	\$52.6	\$46.5	\$41.0	\$42.0	\$40.8
East Peoria	\$34.6	\$33.9	\$33.9	\$34.0	\$32.8
Metropolis	\$36.6	\$32.8	\$28.5	\$27.0	\$24.4
Rock Island	\$11.2	\$18.8	\$21.3	\$22.8	\$22.4
Alton	\$24.0	\$21.6	\$19.6	\$17.9	\$17.1
<b>TOTAL</b>	<b>\$532.2</b>	<b>\$483.0</b>	<b>\$457.3</b>	<b>\$548.3</b>	<b>\$557.9</b>
% INCREASE	-23.8%	-9.2%	-5.3%	19.9%	1.8%

SOURCE: ILLINOIS GAMING BOARD, MONTHLY RIVERBOAT CASINO REPORT

## Statewide Perspective

A decade full of “ups and downs” in gaming-related revenues continued in FY 2013. Over the past several years, numerous factors have influenced the performance of Illinois riverboats, including tax increases and decreases, the indoor smoking ban, the tumultuous economy, and the opening of the new casino in Des Plaines. These factors have created dramatic fluctuations in the performance of the State’s riverboats, specifically, in terms of adjusted gross receipts and admissions. 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. In FY 2013, with revenues from the casino in Des Plaines now in the base, adjusted gross receipts and admissions had a relatively stable year, falling 2.8% and 4.6%, respectively. Details of the casino in Des Plaines' influence on gaming-related figures are discussed later in the report.

**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 10<sup>th</sup> 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 percentage changes can be seen in the below table.

<b>TABLE 8: ILLINOIS RIVERBOATS BY ADJUSTED GROSS RECEIPTS AND ADMISSIONS: PERCENTAGE CHANGE COMPARISON</b>							
<b>ADJUSTED GROSS RECEIPTS</b>							
	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
<b>Des Plaines</b>	N/A	N/A	N/A	N/A	N/A	N/A	4.2%
<b>Joliet Harrah's</b>	9.5%	-4.2%	-16.4%	-13.1%	-6.9%	-8.9%	-4.1%
<b>Elgin</b>	4.9%	-9.1%	-21.3%	-8.2%	0.0%	-20.8%	-11.1%
<b>Aurora</b>	6.2%	-8.5%	-13.8%	-14.0%	-3.5%	-10.4%	-6.6%
<b>Joliet Hollywood</b>	0.9%	-16.5%	-39.4%	22.6%	-5.8%	-8.1%	3.9%
<b>East St. Louis</b>	0.0%	7.6%	-16.6%	-9.5%	-8.4%	3.2%	-2.6%
<b>East Peoria</b>	-2.3%	-4.0%	-7.1%	-1.5%	0.8%	0.6%	-3.6%
<b>Metropolis</b>	9.5%	-8.9%	-19.1%	-8.0%	-11.5%	2.7%	-10.7%
<b>Rock Island</b>	-4.4%	-11.2%	56.5%	44.7%	9.8%	5.3%	-2.3%
<b>Alton</b>	6.6%	-13.1%	-20.3%	-7.8%	-5.5%	-6.2%	-3.4%
<b>TOTAL</b>	4.7%	-7.5%	-18.3%	-5.0%	-3.8%	21.5%	-2.8%
<b>ADMISSIONS</b>							
	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
<b>Des Plaines</b>	N/A	N/A	N/A	N/A	N/A	N/A	-1.2%
<b>Joliet Harrah's</b>	16.5%	2.8%	-12.5%	-6.5%	-14.7%	-9.6%	-5.9%
<b>Elgin</b>	-5.4%	-6.2%	-10.8%	-0.2%	-2.9%	-16.2%	-4.9%
<b>Aurora</b>	7.7%	-6.2%	-7.8%	-5.5%	-2.3%	-3.2%	-6.9%
<b>Joliet Hollywood</b>	4.0%	-11.3%	-39.9%	23.3%	-3.5%	-5.0%	1.6%
<b>East St. Louis</b>	-3.5%	21.4%	-7.5%	-5.0%	-9.4%	-0.8%	-7.7%
<b>East Peoria</b>	-6.3%	2.1%	-1.9%	-1.3%	-5.5%	-3.9%	-4.2%
<b>Metropolis</b>	19.3%	-10.4%	-15.5%	-3.9%	-19.6%	0.0%	-12.9%
<b>Rock Island</b>	-9.4%	-5.7%	63.3%	30.1%	6.3%	-5.3%	-3.7%
<b>Alton</b>	-1.5%	-8.9%	-12.8%	-4.2%	-11.2%	-8.4%	-9.1%
<b>TOTAL</b>	2.8%	-1.8%	-10.7%	0.6%	-7.1%	22.7%	-4.6%
<b>SOURCE: ILLINOIS GAMING BOARD</b>							

As the previous table shows, it appears that the success of the Des Plaines casino (up 4.2% in FY 2013) has continued to negatively impact the performance of the nearby casinos in FY 2013. Elgin fell an additional 11.1% in this fiscal year and is down 29.6% over the past two fiscal years. Joliet Harrah and Aurora fell another 4.1% and 6.6%, respectively in FY 2013. It should be noted, however, that Joliet Hollywood did see improvement in its AGR figures during FY 2013, increasing 3.9%.

As for the downstate locations, their performance was disappointing. Rock Island experienced its first decline in AGR since it opened a new, larger facility in 2008, falling 2.3% in FY 2013. Other downstate casinos had similar declines: East Peoria: -3.6%; East St. Louis: -2.6%; and Alton: -3.4%. The largest downstate decline came from the Metropolis casino which fell 10.7% in FY 2013. Its double-digit decline is likely connected to the October 2012 opening of a new casino in nearby Cape Girardeau, Missouri.

### **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. The rate of change in State revenues will often be more pronounced than the change 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 an 11.1% decline in AGR in FY 2013, but had an 18.6% decline in State revenues. Des Plaines' State revenues grew 34.6% in FY 2013 compared to an AGR growth rate of 4.2%. The reason for this wide discrepancy is discussed in the next section.

<b>TABLE 9: ANNUAL PERCENT CHANGE OF RIVERBOAT STATE REVENUES</b>								
<b>Comparison of FY 2010 thru FY 2013</b>								
<b>\$ in millions</b>								
	<b>FY 2010</b>		<b>FY 2011</b>		<b>FY 2012</b>		<b>FY 2013</b>	
	<b>STATE</b>	<b>Annual</b>	<b>STATE</b>	<b>Annual</b>	<b>STATE</b>	<b>Annual</b>	<b>STATE</b>	<b>Annual</b>
	<b>REVENUE</b>	<b>% change</b>	<b>REVENUE</b>	<b>% change</b>	<b>REVENUE*</b>	<b>% change</b>	<b>REVENUE*</b>	<b>% change</b>
Des Plaines*	\$0.0	N/A	\$0.0	N/A	\$117.3	N/A	\$157.9	34.6%
Joliet Harrah's	\$87.6	-14.5%	\$77.3	-11.8%	\$67.2	-13.1%	\$62.7	-6.7%
Elgin	\$99.4	-10.9%	\$98.6	-0.8%	\$74.8	-24.1%	\$60.9	-18.6%
Aurora	\$54.4	-17.8%	\$50.3	-7.5%	\$44.1	-12.3%	\$38.4	-13.1%
Joliet Hollywood	\$36.6	-4.7%	\$37.4	2.3%	\$34.4	-8.2%	\$35.4	3.1%
East St. Louis	\$37.3	-12.5%	\$32.7	-12.4%	\$33.5	2.4%	\$32.5	-2.8%
East Peoria	\$26.8	-2.2%	\$26.9	0.4%	\$27.0	0.3%	\$26.0	-3.6%
Metropolis	\$26.2	-10.8%	\$22.7	-13.3%	\$21.1	-7.0%	\$19.1	-9.3%
Rock Island	\$13.7	79.8%	\$15.7	14.9%	\$17.1	8.5%	\$16.9	-1.2%
Alton	\$16.5	-10.5%	\$14.8	-10.3%	\$13.5	-9.0%	\$12.8	-5.1%
<b>TOTAL</b>	<b>\$310.8</b>	<b>-9.0%</b>	<b>\$299.1</b>	<b>-3.8%</b>	<b>\$449.9</b>	<b>50.4%</b>	<b>\$462.6</b>	<b>2.8%</b>
Des Plaines Distributions*:	<b>\$0.0</b>		<b>\$0.0</b>		<b>-\$74.8</b>		<b>-\$77.9</b>	
<b>Total after Distributions:</b>	<b>\$310.8</b>	<b>-9.0%</b>	<b>\$299.1</b>	<b>-3.8%</b>	<b>\$375.1</b>	<b>25.4%</b>	<b>\$384.7</b>	<b>2.6%</b>

\* Of the State revenues generated by Des Plaines in FY 2012 and FY 2013, a portion (\$75 million in FY 2012 and \$78 million in FY 2013) was statutorily set aside to be paid into other funds, including the Horse Racing Equity Fund, the Cook County Criminal Justice System, and Chicago State University. Recently enacted P.A. 98-0018 altered the distribution language to provide that \$92 million of this money shall go into the School Infrastructure Fund.

Source: Illinois Gaming Board Monthly Riverboat Casino Report

## **Impact of the Des Plaines Casino on Revenues**

In FY 2013, the ten Illinois casinos combined to generate \$1.595 billion in adjusted gross receipts, an 18.1% increase from FY 2011 levels (without the 10<sup>th</sup> license). Of the \$1.595 billion collected, \$410.1 million, or 25.7% came from the Des Plaines Casino. This new casino also brought in 24.6% of the combined 15.6 million people that patronized Illinois casinos in FY 2013.

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%. From a revenue perspective, the State has been hopeful 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 "older" casinos in the Chicago area since Des Plaines' July 2011 opening, their combined adjusted gross receipts have fallen \$150 million, or -17.7% (comparing FY 2011 totals to FY 2013). So while Des Plaines generated \$410 million in adjusted gross receipts in FY 2013 - when accounting for the \$150 million loss from the other four casinos - adjusted gross receipts were only up a net \$260 million, compared to FY 2011. Still, even with these losses, adjusted gross receipts have grown 30.6% over these past two fiscal years in the Chicago metro area.

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 appear to support this claim.

In FY 2013, the AGR of the five Indiana casinos near the Chicago metropolitan area totaled \$1.073 billion, which is \$102.8 million or 8.7% below their FY 2011 levels. This includes a two-year 9.1% decline at the Horseshoe Casino in Hammond, which is arguably the biggest competitor to Illinois casinos.

It is likely that a significant portion of this \$102.8 million has found its way into Illinois. But even accounting for the losses in both Illinois and Indiana at the "older" casinos, the combined AGR levels for the Chicago Metropolitan Area were up \$157 million or 7.8% in FY 2013 compared to FY 2011. These statistics can be seen in the table on the following page.

**TABLE 10: Impact of New Des Plaines Casino on Area AGR  
(Two-Year Change: FY 2013 vs FY 2011)**

\$ in millions

	<i><u>FY 2013 AGR</u></i>	<i><u>%Ch. from FY11</u></i>	<i><u>\$Ch. from FY11</u></i>
<b>Des Plaines</b>	<b>\$410.1</b>	<b>N/A</b>	<b>\$410.1</b>
<i>Illinois Chicago Area Casinos</i>			
Joliet Hollywood	\$141.0	-4.5%	(\$6.7)
Joliet Harrah's	\$206.5	-12.6%	(\$29.8)
Aurora	\$149.2	-16.4%	(\$29.2)
Elgin	\$201.4	-29.6%	(\$84.6)
"Older" Casino Change in AGR:		<b>-17.7%</b>	<b>(\$150.3)</b>
<b>Net Illinois Chicago Area Change:</b>		<b>30.6%</b>	<b>\$259.8</b>
<i>Indiana Chicago Area Casinos</i>			
Ameristar - E. Chicago	\$231.5	-6.7%	(\$16.6)
Horseshoe - Hammond	\$489.0	-9.1%	(\$49.1)
Majestic Star 1 - Gary	\$102.8	-9.3%	(\$10.6)
Majestic Star 2 - Gary	\$83.6	-17.8%	(\$18.2)
Blue Chip - Michigan City	\$166.4	-4.8%	(\$8.4)
<b>Net Indiana Chicago Area Change:</b>		<b>-8.7%</b>	<b>(\$102.8)</b>
<b>Combined "Older" Casino Area Change:</b>		<b>-12.5%</b>	<b>(\$253.2)</b>
<b>Net Overall Chicago Area Change:</b>		<b>7.8%</b>	<b>\$157.0</b>

**TABLE 11: Impact of Des Plaines Casino on State Revenues  
(Two-Year Change: FY 2013 vs FY 2011)**

\$ in millions

	<i><u>FY13 State Rev.</u></i>	<i><u>%Ch. from FY11</u></i>	<i><u>\$Ch. from FY11</u></i>
<b>Des Plaines</b>	<b>\$157.9</b>	<b>N/A</b>	<b>\$157.9</b>
<i>Illinois Chicago Area Casinos</i>			
Joliet Hollywood	\$35.4	-5.4%	(\$2.0)
Joliet Harrah's	\$62.7	-18.9%	(\$14.6)
Aurora	\$38.4	-23.8%	(\$12.0)
Elgin	\$60.9	-38.2%	(\$37.7)
"Older" Casino Change in State Revenue:		<b>-25.1%</b>	<b>(\$66.2)</b>
<b>Net Illinois Chicago Area Change:</b>		<b>34.8%</b>	<b>\$91.6</b>



In its first two years of existence, the Des Plaines Casino has generated over \$323 million in new tax revenues. This includes nearly \$47.8 million in tax dollars to local governments (\$23.6 million in FY 2012 and \$24.4 million in FY 2013) and over \$275 million in State revenues (\$117.3 million in FY 2012 and \$157.9 million in FY 2013).

It would seem that this substantial increase in State revenues would have led to a significant increase in the amount transferred from the State Gaming Fund to the Education Assistance Fund - the primary recipient of riverboat tax revenues. However, the amount that was transferred from the State Gaming Fund to the Education Assistance Fund only grew 4.9% in FY 2012 and 1.4% in FY 2013. There are several reasons for this apparent discrepancy.

***Cannibalization and the Graduated Tax Structure.*** The first reason is due to the cannibalization effect that the Des Plaines Casino has had on other casinos. As stated in the previous paragraphs, the “older” casinos have seen their AGR levels decline 17.7% over the past two years. This has led to a \$66 million, or 25.1% drop in the amount of State revenue generated from these preexisting facilities. These declines have offset a portion of the new revenues generated by the Des Plaines Casino.

The reason State revenues have had a sharper decline than AGR levels is due to the corresponding impact that occurs under the graduated tax structure. In a graduated tax structure, the more revenues that a riverboat accrues, the higher the tax they pay. But, it also means that the fewer revenues a riverboat accrues, the lower the tax they pay. For example, Elgin had an operating tax rate of 38% in FY 2011 before Des Plaines began operations. Their operating tax rate in FY 2013 was down to 33.6% as a result of the lower AGR levels. These lower operating tax rates have, therefore, led to lower tax revenues from these declining riverboats.

TABLE 12: OPERATING TAX RATES FOR ILLINOIS RIVERBOATS (FY 2009 - FY 2013)					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Des Plaines	N/A	N/A	N/A	32.8%	41.6%
Joliet Harrah's	38.3%	37.6%	36.0%	34.5%	33.7%
Elgin	39.4%	38.2%	38.0%	36.5%	33.6%
Aurora	34.3%	32.8%	31.5%	30.8%	28.9%
Joliet Hollywood	33.2%	26.5%	28.5%	28.4%	28.2%
East St. Louis	29.7%	28.6%	27.5%	27.4%	27.5%
East Peoria	26.3%	26.1%	26.1%	26.2%	26.2%
Metropolis	27.1%	26.3%	26.0%	23.9%	24.3%
Rock Island	17.7%	21.4%	22.3%	23.0%	23.3%
Alton	23.6%	22.9%	22.0%	21.5%	21.3%
<b>Average Tax Rate</b>	<b>28.9%</b>	<b>27.8%</b>	<b>27.7%</b>	<b>28.5%</b>	<b>28.9%</b>

**Administration Expenses.** Before revenues are transferred from the State Gaming Fund to the Education Assistance Fund, State law provides that certain administrative expenses are to be paid out of the State Gaming Fund before these transfers are made. This includes amounts for administering and enforcing the Riverboat Gambling Act as well as the Video Gambling Act, among other items. As video gaming in Illinois has ramped up over the past couple of years, so has the amount held back for administrative expenses. In FY 2012, this amount was valued at \$35 million. In FY 2013, this amount grew to \$40 million. The higher this number becomes, the lower the amount of revenue available to be transferred to the Education Assistance Fund.

**Distribution of Des Plaines Revenues.** Perhaps the most pertinent reason State riverboat transfers to the Education Assistance Fund saw relatively stagnant growth, despite the large amounts of new revenues from the Des Plaines Casino, is due to how revenues from the Des Plaines Casino are distributed. Under Illinois Statute, the following distribution changes from the State Gaming Fund were 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 and \$61.5 million in FY 2013).

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 and \$8.2 million in FY 2013).

3) 2% of AGR of the new license are to go to Chicago State University (estimated to be \$7.9 million in FY 2012 and \$8.2 million in FY 2013).

The Des Plaines distributions totaled approximately \$74.8 million in FY 2012 and \$77.9 million in FY 2013. The amount transferred to the Education Assistance Fund is the amount remaining after these statutory distributions (and amounts set aside for administration expenses) take place. This is a major reason why, despite the significant amounts of revenue generated from the Des Plaines Casino, that transfers to the Education Assistance Fund has experienced only small gains over the past couple of years.

**P.A. 98-0018 (SB 1884) and the Distribution of Des Plaines Casino Revenues**

As shown in the previous paragraphs, portions of the Des Plaines' casino revenues were set aside, as required by statute, for the Horse Racing Equity Fund, the Cook County criminal justice system, and to Chicago State University. However, over these last two fiscal years, the Comptroller's Office has not allowed the transfers to the Horse Racing Equity Fund and to Chicago State University due to the lack of valid "vehicle" language to properly transfer monies to these funds (The transfer to Cook County criminal justice system has been allowed to occur). Instead these revenues have remained in the State Gaming Fund - unable to be used.

In response, P.A. 98-0018 (SB 1884) was enacted to provide language to allow these casino revenues to be distributed. The Public Act provides the distribution of gaming revenues deposited into the State Gaming Fund:

**\$1.6 million** per year shall be transferred to the **Chicago State University Education Improvement Fund**, subject to appropriation (instead of 2% of Des Plaines' AGR or approximately \$8M to \$9M to Chicago State University).

**\$66.4 million** per year shall be transferred to the **School Infrastructure Fund** (instead of a similar amount to the Horse Racing Equity Fund).

**\$92 million** on July 1, 2013 (one-time) shall be transferred to the **School Infrastructure Fund**.

**\$23 million** on July 1, 2013 (one-time) shall be transferred to the **Horse Racing Equity Fund**.

The bottom line is that it appears that revenues once set for the Horse Racing Equity Fund and Chicago State University will effectively instead be transferred into the School Infrastructure Fund.

The new law provides that the Horse Racing Equity Fund will receive only \$23 million of the \$120.5 million combined total that they were expecting to receive from the Des Plaines casino in FY 2012 and FY 2013 and will receive no additional transfers from this revenue source in the future.

Chicago State University will receive \$0 of the estimated \$16 million statutorily set aside from their school during FY 2012 and FY 2013 and will receive only \$1.6 million per year of the estimated \$8 million to \$9 million per year amounts that they were originally expected to receive.

The School Infrastructure Fund, on the other hand, received \$92 million of the revenues originally set aside for these two funds and will annually receive \$66.4 million.

**TABLE 13: Statistical Summary of the Midwestern Gaming States**

<b>ILLINOIS CASINOS</b>												
\$ IN MILLIONS	Casino Type	Region	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	1-Yr.	2-Yr.	5-Yr.	June 2013	2013 AGR/
			AGR	AGR	AGR	AGR	AGR	Change	Change	Change	Positions	Pos/Day
ALTON ARGOSY - Alton	Casino	St. Louis	\$86.9	\$80.1	\$75.7	\$70.9	\$68.5	-3.4%	-9.4%	-37.1%	993	\$189
PAR-A-DICE - E. Peoria	Casino	Central IL	\$116.2	\$114.5	\$115.5	\$116.2	\$112.0	-3.6%	-3.0%	-10.5%	1,193	\$257
JUMER'S - Rock Island	Casino	Quad City	\$52.3	\$75.7	\$83.1	\$87.5	\$85.5	-2.3%	2.9%	155.7%	1,145	\$205
HOLLYWOOD CASINO - Joliet	Casino	Chicago	\$127.9	\$156.8	\$147.7	\$135.7	\$141.0	3.9%	-4.5%	-33.1%	1,169	\$330
HARRAH'S - Metropolis	Casino	S. Illinois	\$123.0	\$113.1	\$100.1	\$102.7	\$91.8	-10.7%	-8.3%	-39.6%	1,125	\$223
HARRAH'S - Joliet	Casino	Chicago	\$292.1	\$253.9	\$236.3	\$215.3	\$206.5	-4.1%	-12.6%	-40.9%	1,200	\$472
HOLLYWOOD CASINO - Aurora	Casino	Chicago	\$215.0	\$185.0	\$178.4	\$159.9	\$149.2	-6.6%	-16.4%	-40.2%	1,196	\$342
CASINO QUEEN - E. St. Louis	Casino	St. Louis	\$154.4	\$139.7	\$127.9	\$132.1	\$128.7	-2.6%	0.6%	-30.5%	1,200	\$294
GRAND VICTORIA - Elgin	Casino	Chicago	\$311.8	\$286.1	\$286.1	\$226.7	\$201.4	-11.1%	-29.6%	-49.2%	1,200	\$460
RIVERS CASINO - Des Plaines	Casino	Chicago	\$0.0	\$0.0	\$0.0	\$393.5	\$410.1	4.2%	N/A	N/A	1,200	\$937
<b>TOTALS</b>			<b>\$1,479.5</b>	<b>\$1,404.9</b>	<b>\$1,350.8</b>	<b>\$1,640.6</b>	<b>\$1,594.8</b>	<b>-2.8%</b>	<b>18.1%</b>	<b>-11.9%</b>	<b>11,620</b>	<b>\$376</b>
CHICAGO REGION TOTALS			\$946.7	\$881.8	\$848.5	\$1,131.1	\$1,108.3	-2.0%	30.6%	-8.1%	5,965	\$509
CHICAGO REGION W/O DES PLAINES			\$946.7	\$881.8	\$848.5	\$737.6	\$698.2	-5.3%	-17.7%	-42.1%	4,765	\$401
ST. LOUIS REGION TOTALS			\$241.3	\$219.8	\$203.6	\$203.0	\$197.2	-2.9%	-3.1%	-33.0%	2,193	\$246

<b>INDIANA CASINOS</b>												
\$ IN MILLIONS	Casino Type	Region	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	1-Yr.	2-Yr.	5-Yr.	June 2013	2012 AGR/
			AGR	AGR	AGR	AGR	AGR	Change	Change	Change	Positions	Pos/Day
AMERISTAR - East Chicago	Casino	Chicago	\$289.5	\$253.6	\$248.1	\$239.6	\$231.5	-3.4%	-6.7%	-27.6%	1,999	\$317
HOLLYWOOD - Lawrenceburg	Casino	Other	\$405.0	\$449.2	\$434.9	\$429.1	\$339.0	-21.0%	-22.0%	-27.1%	2,756	\$337
BELTERRA - Switzerland County	Casino	Other	\$157.2	\$145.6	\$141.9	\$149.8	\$140.4	-6.2%	-1.1%	-16.4%	1,529	\$252
BLUE CHIP - Michigan City	Casino	Chicago	\$186.2	\$177.1	\$174.9	\$175.1	\$166.4	-5.0%	-4.8%	-20.2%	2,008	\$227
TROPICANA - Evansville	Casino	S. Illinois	\$115.3	\$114.0	\$117.1	\$119.7	\$114.8	-4.1%	-2.0%	4.2%	1,033	\$305
FRENCH LICK - French Lick	Casino	Other	\$89.6	\$81.3	\$83.1	\$86.5	\$82.6	-4.6%	-0.6%	-22.0%	1,196	\$189
RISING STAR - Rising Sun	Casino	Other	\$118.0	\$100.6	\$96.0	\$92.3	\$78.0	-15.5%	-18.8%	-47.0%	1,299	\$164
HOOSIER PARK - Anderson	Racino	Other	\$202.3	\$201.2	\$216.9	\$201.0	\$188.9	-6.0%	-12.9%	N/A	1,720	\$301
HORSESHOE - Hammond	Casino	Chicago	\$527.2	\$542.0	\$538.1	\$499.0	\$489.0	-2.0%	-9.1%	9.2%	3,534	\$379
HORSESHOE - Harrison County	Casino	Other	\$303.5	\$282.5	\$265.3	\$260.5	\$269.9	3.6%	1.7%	-17.1%	2,131	\$347
INDIANA GRAND - Shelbyville	Racino	Other	\$189.7	\$228.1	\$240.4	\$222.0	\$208.8	-5.9%	-13.1%	N/A	1,738	\$329
MAJESTIC STAR - Gary	Casino	Chicago	\$120.0	\$110.3	\$113.4	\$111.0	\$102.8	-7.3%	-9.3%	-20.9%	1,076	\$262
MAJESTIC STAR II - Gary	Casino	Chicago	\$98.7	\$98.6	\$101.7	\$90.7	\$83.6	-7.8%	-17.8%	-27.7%	990	\$231
<b>TOTALS</b>			<b>\$2,802.2</b>	<b>\$2,784.2</b>	<b>\$2,771.7</b>	<b>\$2,676.1</b>	<b>\$2,495.8</b>	<b>-6.7%</b>	<b>-10.0%</b>	<b>-2.9%</b>	<b>23,008</b>	<b>\$297</b>
CHICAGO REGION AREA TOTALS			\$1,221.6	\$1,181.7	\$1,176.2	\$1,115.3	\$1,073.4	-3.8%	-8.7%	-12.2%	9,607	\$306
Composition of Chicago Region:			56.3%	57.3%	58.1%	49.6%	49.2%					
TOTAL CASINOS			\$2,410.2	\$2,354.9	\$2,314.5	\$2,253.2	\$2,098.1	-6.9%	-9.4%	-17.5%	19,551	\$294
TOTAL RACINOS			\$392.0	\$429.3	\$457.2	\$422.9	\$397.7	-6.0%	-13.0%	N/A	3,458	\$315

<b>MISSOURI CASINOS</b>												
\$ IN MILLIONS	Casino Type	Region	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	1-Yr.	2-Yr.	5-Yr.	June 2013	2012 AGR/
			AGR	AGR	AGR	AGR	AGR	Change	Change	Change	Positions	Pos/Day
ARGOSY - Riverside	Casino	Other	\$198.2	\$194.0	\$193.1	\$178.8	\$152.8	-14.5%	-20.9%	-18.9%	1,533	\$273
ISLE OF CAPRI - Boonville	Casino	Other	\$81.3	\$80.7	\$82.0	\$84.2	\$82.1	-2.4%	0.2%	-0.2%	955	\$236
LADY LUCK - Caruthersville	Casino	Other	\$33.1	\$33.2	\$33.3	\$35.4	\$33.2	-6.3%	-0.1%	4.3%	594	\$153
HOLLYWOOD - Maryland Hts	Casino	St. Louis	\$292.4	\$288.0	\$269.3	\$272.3	\$243.0	-10.8%	-9.8%	-19.8%	2,435	\$273
HARRAH'S - North Kansas City	Casino	Other	\$197.8	\$195.8	\$193.3	\$190.0	\$179.9	-5.3%	-7.0%	-11.2%	1,689	\$292
ISLE OF CAPRI - Kansas City	Casino	Other	\$81.5	\$81.6	\$83.6	\$86.0	\$79.9	-7.2%	-4.5%	-1.4%	1,046	\$209
LUMIERE PLACE - St. Louis	Casino	St. Louis	\$181.0	\$195.1	\$173.1	\$169.2	\$160.3	-5.2%	-7.4%	N/A	2,167	\$203
AMERISTAR - Kansas City	Casino	Other	\$243.7	\$239.0	\$241.1	\$231.2	\$213.2	-7.8%	-11.6%	-15.4%	2,700	\$216
RIVER CITY - St. Louis	Casino	St. Louis	\$0.0	\$57.5	\$180.8	\$203.7	\$205.8	1.0%	13.8%	N/A	2,147	\$263
PRESIDENT - St. Louis	Casino	St. Louis	\$23.3	\$19.2	\$0.0	\$0.0	\$0.0	N/A	N/A	N/A	-	\$0
MARK TWAIN - LaGrange	Casino	Other	\$36.4	\$37.0	\$38.1	\$39.1	\$38.4	-1.6%	0.8%	19.9%	656	\$160
AMERISTAR - St. Charles	Casino	St. Louis	\$297.0	\$288.8	\$278.3	\$274.5	\$270.0	-1.6%	-3.0%	-8.4%	2,715	\$272
FRONTIER - St. Joseph	Casino	Other	\$37.7	\$38.4	\$40.2	\$31.7	\$40.4	27.2%	0.4%	9.1%	574	\$192
ISLE OF CAPRI - Cape Girardeau	Casino	S. Illinois	\$0.0	\$0.0	\$0.0	\$0.0	\$45.7	N/A	N/A	N/A	1,005	\$125
<b>TOTALS</b>			<b>\$1,703.5</b>	<b>\$1,748.3</b>	<b>\$1,806.3</b>	<b>\$1,796.1</b>	<b>\$1,744.8</b>	<b>-2.9%</b>	<b>-3.4%</b>	<b>6.6%</b>	<b>20,218</b>	<b>\$236</b>
ST LOUIS REGION TOTALS			\$793.6	\$848.6	\$901.5	\$919.7	\$879.1	-4.4%	-2.5%	20.6%	9,464	\$254
Composition of St. Louis Region:			76.7%	79.4%	81.6%	81.9%	81.7%					

<b>IOWA CASINOS</b>												
\$ IN MILLIONS	Casino Type	Region	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	1-Yr.	2-Yr.	5-Yr.	June 2013	2012 AGR/
			AGR	AGR	AGR	AGR	AGR	Change	Change	Change	Positions	Pos/Day
LADY LUCK - Marquette	Casino	Other	\$31.5	\$29.2	\$30.0	\$29.9	\$29.8	-0.2%	-0.7%	-13.2%	560	\$146
DIAMOND JO - Dubuque	Casino	NW Illinois	\$59.2	\$68.4	\$67.2	\$70.1	\$66.5	-5.0%	-1.1%	64.8%	999	\$183
WILD ROSE - Clinton	Casino	NW Illinois	\$41.9	\$39.2	\$40.2	\$39.2	\$37.6	-4.1%	-6.6%	35.2%	575	\$179
CATFISH BEND - Burlington	Casino	W. Illinois	\$38.9	\$38.7	\$38.5	\$39.4	\$38.8	-1.5%	0.7%	-1.4%	705	\$151
ARGOSY - Sioux City	Casino	Other	\$56.7	\$57.8	\$59.8	\$61.0	\$56.1	-8.1%	-6.3%	-2.6%	745	\$206
LAKESIDE - Osceola	Casino	Other	\$51.2	\$48.6	\$50.0	\$50.1	\$53.5	6.8%	7.0%	-3.6%	1,008	\$145
WILD ROSE - Emmetsburg	Casino	Other	\$27.7	\$28.7	\$30.8	\$31.9	\$32.2	0.9%	4.7%	17.2%	548	\$161
ISLE CASINO - Waterloo	Casino	Other	\$79.8	\$80.3	\$80.7	\$83.6	\$86.0	3.0%	6.6%	12.4%	996	\$237
RHYTHM CITY - Davenport	Casino	Quad City	\$58.2	\$54.8	\$49.3	\$50.5	\$48.3	-4.4%	-2.1%	-14.8%	881	\$150
ISLE OF CAPRI - Bettendorf	Casino	Quad City	\$89.0	\$78.3	\$78.5	\$75.7	\$74.5	-1.6%	-5.1%	-22.8%	990	\$206
AMERISTAR - Council Bluffs	Casino	Other	\$167.0	\$156.1	\$164.9	\$170.3	\$167.8	-1.5%	1.7%	-6.2%	1,560	\$295
HARRAH'S - Council Bluffs	Casino	Other	\$93.8	\$84.1	\$74.4	\$68.2	\$67.4	-1.2%	-9.5%	-30.5%	641	\$288
DIAMOND JO - Northwood	Casino	Other	\$78.9	\$80.3	\$83.7	\$90.6	\$88.6	-2.2%	5.8%	13.1%	1,052	\$231
RIVERSIDE CASINO - Riverside	Casino	Other	\$86.5	\$85.2	\$87.3	\$90.3	\$88.7	-1.9%	1.5%	2.9%	1,275	\$191
GRAND FALLS - Larchwood	Casino	Other	\$0.0	\$0.0	\$4.4	\$57.4	\$58.2	1.4%	N/A	N/A	993	\$160
PRAIRIE MEADOWS - Altoona	Racino	Other	\$193.1	\$186.6	\$189.9	\$194.7	\$195.0	0.1%	2.7%	1.1%	2,076	\$257
BLUFFS RUN - Council Bluffs	Racino	Other	\$191.1	\$186.0	\$189.2	\$204.2	\$200.3	-1.9%	5.9%	1.0%	1,859	\$295
MYSTIQUE - Dubuque	Racino	NW Illinois	\$68.5	\$62.1	\$60.2	\$58.9	\$57.6	-2.2%	-4.2%	-19.6%	1,003	\$157
<b>TOTALS</b>			<b>\$1,412.8</b>	<b>\$1,364.2</b>	<b>\$1,379.2</b>	<b>\$1,466.0</b>	<b>\$1,446.8</b>	<b>-1.3%</b>	<b>4.9%</b>	<b>2.2%</b>	<b>18,467</b>	<b>\$215</b>
QUAD CITY REGION TOTALS			\$147.2	\$133.1	\$127.8	\$126.3	\$122.8	-2.7%	-3.9%	-19.9%	1,872	\$180
OTHER CASINOS BORDERING ILLINOIS			\$208.4	\$208.4	\$206.1	\$207.5	\$200.5	-3.4%	-2.7%	12.0%	3,283	\$167
Composition of Illinois Bording Casinos:			79.9%	73.3%	71.3%	70.3%	70.1%					
TOTAL CASINOS			\$960.2	\$929.5	\$939.9	\$1,008.1	\$993.9	-1.4%	5.7%	4.4%	13,529	\$201
TOTAL RACINOS			\$452.6	\$434.7	\$439.2	\$457.9	\$452.9	-1.1%	3.1%	-2.2%	4,939	\$251

### **Competition for the Midwest Gaming Dollar**

In order to better understand Illinois' gaming landscape and the competition that exists with other states, Table 13, on the previous page, provides a statistical summary of the Midwest gaming states. The tables include a listing of the gaming facilities in that state, the casino type (casino or "racino"), the region where the casino is located (as it relates to Illinois), the AGR of each of the casinos over the past five years, growth rates, number of positions, and the amount of AGR-per-position-per-day that each casino generates.

The competition for the gaming dollar continues to grow, especially in and around Illinois' borders. The following section offers a brief synopsis of the competition that exists between Illinois and other states in the Midwestern Region.

#### **Indiana**

- Indiana, although it has not opened a new casino since May 2008, has continued to dominate the Midwest region in the casino gaming market. Its \$2.5 billion in AGR in FY 2013 remains well ahead of Illinois' total of \$1.6 billion. Over 43% of these Indiana revenues came from Indiana's five Chicago metropolitan area casinos. And, undoubtedly, a large portion of these dollars came from Illinois residents.
- 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. The indoor smoking ban - coupled with the struggling economy - are thought to be the reasons for this significant downturn. In contrast, Indiana's five casinos near Chicago (with no indoor smoking ban) 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%.
- However, 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 in this area. It appears that the Des Plaines casino also negatively impacted competing Indiana casinos as well as their combined AGR fell 5.2% in FY 2012 and another 2.0% in FY 2013.
- 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. In FY 2013, Illinois held 50.8% of adjusted gross receipts compared to Indiana's composition of 49.2%. From an Illinois perspective, while regaining the majority in this area 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 Chicago metropolitan 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. Other competition comes from the Potawatomi Casino in nearby Milwaukee, Wisconsin. There have been discussions over the last several years about another tribal-ran casino in Kenosha, Wisconsin, which would be in close proximity to the northern suburbs, but so far this proposal has failed to garner enough support for approval.
- Indiana also must compete with new casinos in Ohio. Over the last couple of years, new casinos have opened up in Cleveland, Toledo, Columbus, and most recently Cincinnati. This new casino, which lies near Indiana's southeastern border with Ohio, has had a direct impact on Indiana's three Cincinnati area casinos, as their AGR levels fell a combined 16.9% in FY 2013.

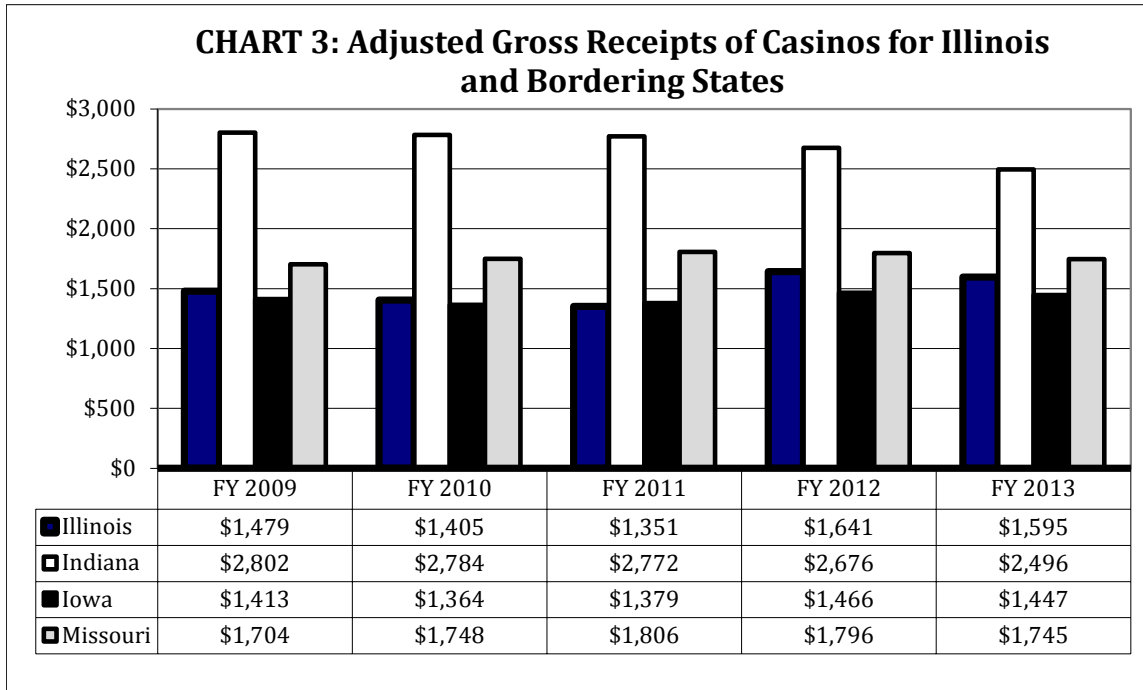
### Missouri

- Although Missouri's Statewide AGR levels have fallen 3.4% over the last two years, they are up 6.6% over the last five years. A major reason for this is Missouri's recent expansion of the industry. For example, Missouri opened new casinos in the St. Louis area in December 2007 and in March 2010. In November 2012, Missouri opened another casino in Cape Girardeau, again, bordering Illinois in the southern region of the State.
- All of the recent casino openings in Missouri are in direct competition with Illinois' riverboats. This is a major reason why, over the last five years, Alton's AGR has fallen 37.1% and Illinois' casino in East St. Louis casino has fallen 30.5%. The new Missouri casino in Cape Girardeau appears to be impacting Illinois' Metropolis casino as well as the AGR levels of Metropolis have fallen 12.3% (Nov '12 – Jun '13) since the new casino's grand opening.
- 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.
- In FY 2013, Missouri's portion of total AGR in the St. Louis region was at 81.7%, while Illinois composed 18.3% 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.

## Iowa

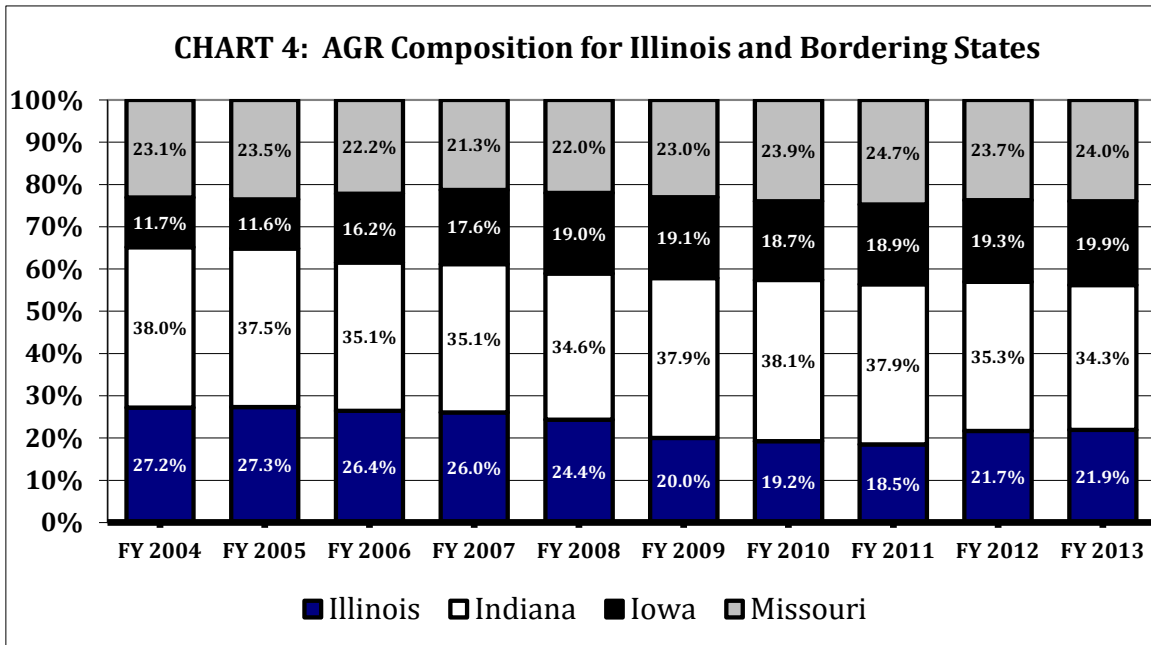
- Iowa in FY 2013 operated 18 gaming facilities, which consisted of fifteen casinos and three racinos. Overall, Iowa's AGR fell 1.3% in FY 2013, but is up 2.2% over the last five years. Its AGR total of \$1.447 billion is just below Illinois' AGR total of \$1.595 billion.
- Six of Iowa's 18 gaming facilities lie near Illinois' borders. These locations (Dubuque "Diamond Jo": \$67M; Clinton: \$38M; Burlington: \$39M; Dubuque "Mystique": \$58M; Davenport: \$48M; and Bettendorf: \$75M) generated approximately \$323 million in FY 2013. Again, it is likely that a significant portion of these dollars came from the pockets of Illinois residents as Illinois has only one casino ("Jumer's" in Rock Island) on the Iowa border.
- Over the last several fiscal years, Iowa's two Quad City area riverboats in Davenport and Bettendorf have been on a downward trend. The combined AGR levels of these facilities have declined 19.9% over the past five years. In comparison, Illinois' Rock Island's AGR has seen much improvement, growing 155.7% since opening a new, larger facility in 2008.
- 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 to the west in Riverside, Iowa and in Clinton, Iowa.
- In FY 2013, Iowa's two area riverboats made up approximately 59.0% of the Quad City region's AGR, while Illinois' Rock Island riverboat made up 41.0% 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.

The addition of Des Plaines to Illinois' gaming market helped to, at least temporarily, stop Illinois' downward trend in the Midwest region. 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.

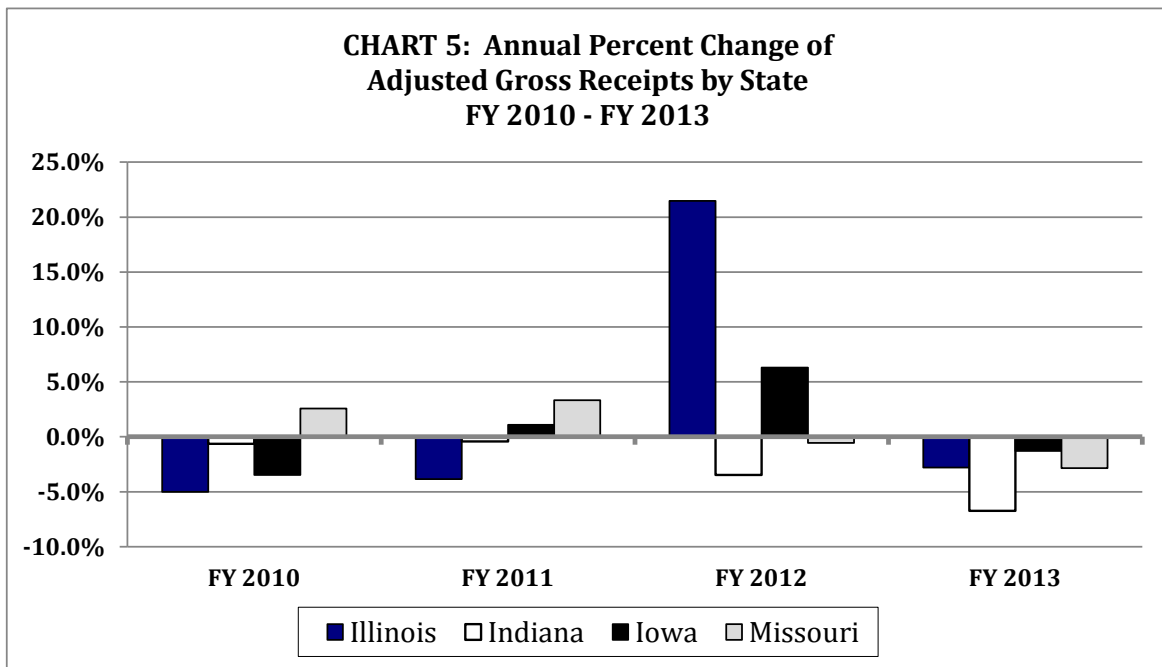


On the following page is a chart displaying the composition percentages of states in the Midwest in relation to each state's AGR totals. Illinois hit its ten-year high in FY 2005 with 27.3% of the Midwest casino AGR market. It fell to 18.5% in FY 2011, but has bounced back to 21.9% in FY 2013, thanks to the addition of the casino in Des Plaines. The new casino has allowed Illinois (\$1.6 billion in AGR) to surpass Iowa (\$1.4 billion) in FY 2013. But, again, Illinois continues to trail Indiana (\$2.5 billion) and Missouri (\$1.7 billion). While the gap between Illinois and Indiana has shrunk, Indiana still had AGR levels nearly \$900 million above Illinois in FY 2013.





A chart indicating the annual percent changes of AGR of the Midwest region states over the last four fiscal years is shown below. The addition of the Des Plaines casino allowed Illinois to claim the state with the biggest improvement in AGR in FY 2012. This new competition is likely the biggest reason that Indiana's AGR has had the largest falloff of any of the Midwestern states over the past two fiscal years. As shown, all of the Midwestern states experienced declines in their AGR in FY 2013, suggesting a downward trend in casino gambling as a whole.



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 7th largest market. A list of the top ten markets, as based on 2012 revenues, is shown below.

<b>Table 14: Top 10 U.S. Casino Markets by Annual Revenue</b>		
<i>Casino Market</i>	<i>2012 Annual Revenues</i>	<i>2012 Annual Change</i>
1 Las Vegas Strip	\$6.207 billion	2.3%
2 Atlantic City, N.J.	\$3.052 billion	-8.0%
3 Chicagoland, Ind./Ill.	\$2.243 billion	16.0%
4 Detroit	\$1.417 billion	-0.5%
5 Connecticut	\$1.230 billion	-8.6%
6 Philadelphia, PA.	\$1.167 billion	7.1%
7 St. Louis, Mo./Ill.	\$1.108 billion	-0.5%
8 Gulf Coast, Miss.	\$1.095 billion	32.8%
9 The Poconos, PA.	\$0.902 billion	N/A
10 Tunica/Lula, Miss.	\$0.822 billion	0.6%

Source: The American Gaming Association

The American Gaming Association reports that Illinois was the sixth highest commercial casino tax revenue producing state in the nation in CY 2012, up from its 2010 ranking of 7<sup>th</sup>, but still below its 2007 ranking of 3<sup>rd</sup>. The state with the highest amount of commercial gaming tax revenue was Pennsylvania totaling \$1.5 billion. Nevada was 2nd with casino revenues totaling \$869 million in 2012. New York (\$822M), Indiana (\$807M), and Louisiana (\$580M) rounded out the top five.

<b>TABLE 15: Top 10 Commercial Casino Tax Revenue States</b>									
	2010			2011			2012		
	2010	Ranking	% Change	2011	Ranking	% Change	2012	Ranking	% Change
Pennsylvania	\$1,328.0	1	18.8%	\$1,456.0	1	9.6%	\$1,487.0	1	2.1%
Nevada	\$835.4	3	0.4%	\$865.3	2	3.6%	\$868.6	2	0.4%
New York	\$503.5	5	10.5%	\$593.4	4	17.9%	\$822.7	3	38.6%
Indiana	\$874.9	2	-0.4%	\$846.4	3	-3.3%	\$806.6	4	-4.7%
Louisiana	\$572.0	4	-4.4%	\$573.2	5	0.2%	\$579.5	5	1.1%
Illinois	\$466.1	7	-6.0%	\$489.4	6	5.0%	\$574.3	6	17.4%
Missouri	\$486.1	6	3.6%	\$484.8	7	-0.3%	\$471.4	7	-2.8%
West Virginia	\$378.5	8	-7.3%	\$406.5	8	7.4%	\$402.5	8	-1.0%
Iowa	\$305.4	11	-0.2%	\$321.5	9	5.3%	\$334.4	9	4.0%
Rhode Island	\$296.3	12	1.4%	\$308.7	11	4.2%	\$329.0	10	6.6%

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.

## **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 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. 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 and eventually vetoed the legislation, as a matter of procedure, in March 2013.

Despite the Governor's opposition to SB 0744, in 2012 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." The legislature failed to find the votes to override this veto and the bill was officially dead in November 2012.

In the Spring of 2013, another attempt at gaming expansion came by way of SB 1739. This version, which contained most of the principal components of the previous gaming expansion bills, passed the Senate in May 2013. However, the legislation failed to garner enough support for passage in the House during the Spring session, despite several amendments introduced to "improve" the bill. The bill's fate entering into the 2013 Veto Session and the 2014 Spring Session remains unknown.

The Commission is often asked about how much revenue could be generated if a gaming expansion bill were to be signed into law. This is a difficult question to answer because there are numerous variables that would affect the amount of revenue collected. This includes the location of the new casinos; the existing gaming competition that exists in each of these areas; the taxing structure imposed on the casinos; the cannibalization that would occur that would negatively impact the existing facilities; and, the economic conditions impacting the spending habits of the would-be gamblers. With these factors in mind, the following paragraphs offer a brief analysis of the principal components of expansion and the potential revenue

that could be generated with the latest legislative versions of gaming expansion 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. The latest gaming expansion bills 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 2013 (\$410 M), especially because this new casino would be allowed 4,000 gaming positions (under most proposals), 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 2013. The amount of revenue generated from the other locations would likely be very similar to the other 1,200-position casinos across the State.

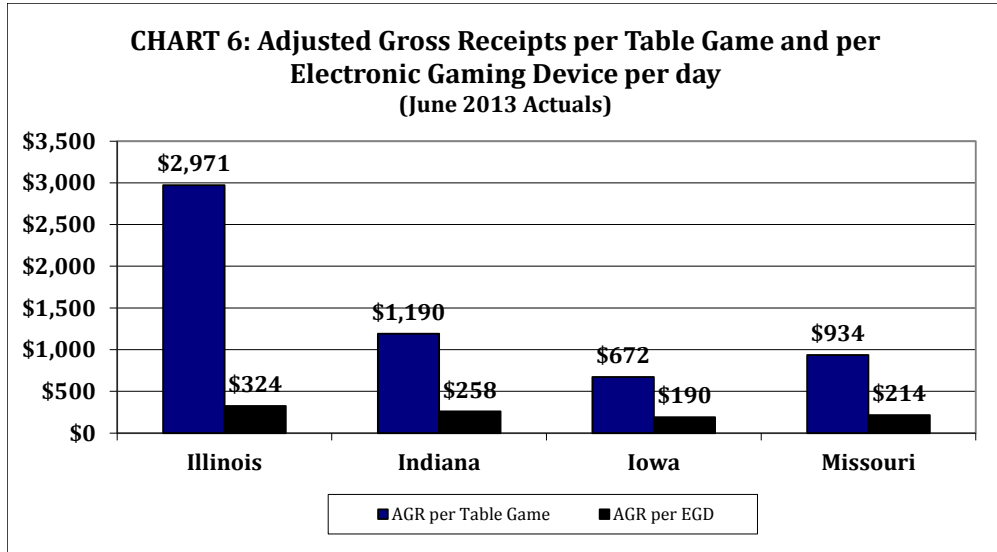
Again, a casino's performance would depend on what other gaming components are implemented at the time of a casino's operation year. These components include the tax structure used, the number of gaming positions allowed per facility, the location of the new facility in accordance with population, and how close the casino is 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.

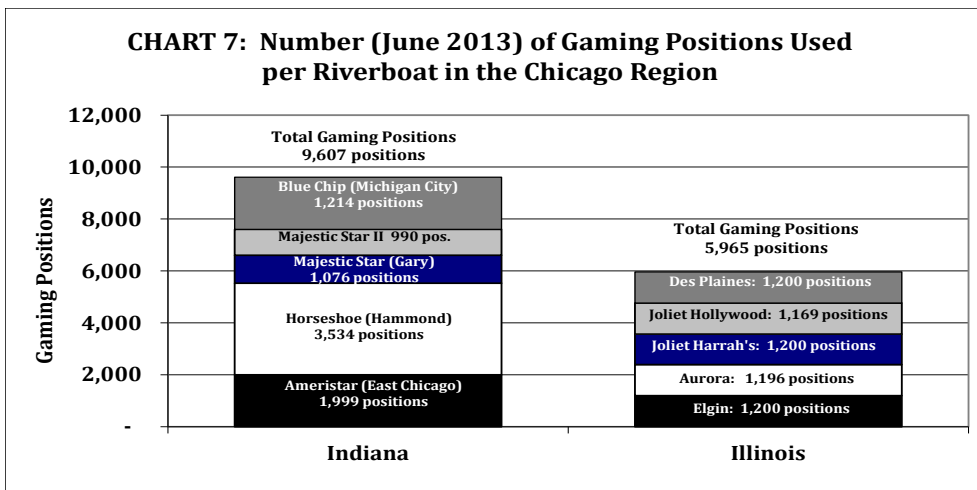
### **Add Additional Gaming Positions.**

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 June 2013. (EGD stands for electronic gaming device, i.e. slot machines). 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 2013 monthly gaming report, the five Indiana riverboats closest to Chicago had 9,607 gaming positions. That is 3,642 more positions than the 5,965 gaming positions at the five Chicago area riverboats in Illinois. Based on these figures, the five Indiana riverboats in the Chicago area made up 61.7% 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 1,921 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 3,534 positions (June 2013).

### **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: 2013", fourteen states have racetrack casinos. Six states (Delaware, Maryland, New York, Ohio, 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 nine 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, \$423 million in FY 2012, and \$398 million in FY 2013. 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 2013, Iowa generated a combined \$453 million in adjusted gross receipts from their three locations in Council Bluffs, Altoona, and Dubuque.

Many in Illinois' horseracing industry are hoping that Illinois follows suit and allows casinos at its horse tracks. 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 \$673 million in CY 2013 was down 2.2% over the 2011 amount and marked the tenth consecutive year of declining revenues. The 2012 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 \$149 and \$328 per slot machine per day, with the average of those shown at \$259 per day.

<b>TABLE 16: FY 2013 Slot Machine AGR Statistics at Selected Racetrack Casinos</b>				
<b>Racino</b>	<b>Location</b>	<b>FY 2013 Slot AGR (in mil.)</b>	<b>Slot Machines (June '13)</b>	<b>AGR/Slot/ Day</b>
Prairie Meadows	Altoona, IA	\$177.3	2,012	\$241
Horseshoe Casino	Council Bluffs, IA	\$168.9	1,627	\$284
Mystique Casino	Dubuque, IA	\$53.0	976	\$149
Hoosier Park	Anderson, IN	\$188.9	1,911	\$271
Indiana Grand	Shelbyville, IN	\$208.8	1,931	\$296
Harrah's Chester Casino	Chester, PA	\$249.6	2,803	\$244
Presque Isle Downs Casino	Erie, PA	\$138.5	1,705	\$222
The Meadows Racetrack & Casino	Washington, PA	\$240.8	3,317	\$199
Mohegan Sun at Pocono Downs	Wilkes-Barre, PA	\$224.3	1,874	\$328
Parx Casino	Bensalem, PA	\$376.4	3,361	\$307
Hollywood Casino at Penn National	Grantville, PA	\$238.2	2,456	\$266

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

Because the latest proposals have limited 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 17: Distance in Miles to Current, Future, and Potential Gambling Locations**

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

Distances in driving miles according to maps.google.com

**Estimating the Potential Tax Revenue Impact of Gaming Expansion**

The last gaming expansion bill to pass out of both chambers was SB 1849, as enrolled, of the 97<sup>th</sup> General Assembly. At the time, the Commission estimated that adjusted gross receipts from Illinois casinos would increase nearly \$2.0 billion, or 116%, if this bill were to become law (under full implementation compared to current law). However, this legislation would have only increased overall tax revenues by an estimated \$330 million, or 55.5%. Similarly, the Commission estimated that SB 1739, as engrossed (98<sup>th</sup> G.A.), would have increased AGR by 110%, but would have only increased tax revenues by 43.4%.

The primary reason for this growth-rate discrepancy is because these latest proposals reduced the tax structure, taxed table games and slot machines separately, and would have likely cannibalized existing casinos. These factors would have prevented the gaming revenues to accumulate to the point that they would be taxed at the higher rates under the graduated tax structure. These factors are discussed in further detail on the following page.



## ***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 appear to indicate that some cannibalization took place for these Iowa locations.

Another recent example of cannibalization is occurring as a result of the November 2012 opening of a casino in Cape Girardeau, Missouri. As mentioned earlier in the report, the new casino appears to be impacting Illinois' Metropolis casino, as Metropolis' AGR levels have fallen 12.3% in the first eight months since the new casino's grand opening. Cannibalization was also a likely contributing factor to why Alton and East St. Louis' casinos saw their AGR levels fall 37.1% and 30.5%, respectively, over the past five years as new Missouri casinos were opened in the St. Louis area in December 2007 and March 2010.

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 \$410 million in new adjusted gross receipts from the Des Plaines casino in FY 2013, adjusted gross receipts have only grown a combined 7.8% in the Chicago metropolitan area (including Indiana casinos) since the casino's July 2011 opening. This is because the nine other casinos in this region have declined a combined 12.5% over this two year period with the nearby Elgin casino experiencing the largest two-year decline at -29.6%.

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 on the following page.

### ***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 have contained language to lower the wagering tax structure. Not only would the wagering tax rates be lowered, but most of the recent proposals have also provided 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 even more gaming money at Illinois riverboats.

Realistically, though, while adjusted gross receipts should increase under lower tax rates, it becomes challenging to make up the losses in tax revenues that result from reduced tax rates. In its review of SB 1849, the Commission estimated that the value of these proposed tax breaks to be a loss of approximately \$400 million, with the provision to tax slots and table games separately making up nearly \$100 million of this total.

To counterbalance these potential losses, proponents have argued that current casinos would be allowed to increase their gaming positions beyond 1,200 positions to generate additional gaming dollars. But, many of the current riverboats have claimed 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 recent gaming downturn. The June 2013 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 potentially intensified from new casinos.

Adding to this argument is the recent expansion of video gaming throughout the State. This additional competition for the gaming dollar may also be a factor that would prevent casinos from purchasing new positions. Recent gaming expansion legislation has placed the cost of purchasing new positions between \$17,500 and

\$30,000 per position. The more competition that exists, the harder it would be for casinos to recoup their investment.

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 if the tax rates were also lowered.

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 the four Illinois casinos near Des Plaines have declined a combined 17.7% over the past two years.

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, as enrolled, 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, 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 (under SB 1849, as enrolled), 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 18 on the following page).

TABLE 18: 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	<u>Electronic Gaming Devices (EGD)</u>										
\$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	10.0%	\$2.5		
\$25	15.0%	\$3.8	\$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 enrolled, 97th GA.													
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)

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. Pennsylvania’s best revenue-producing racino generated \$487 million in AGR in FY 2013. But this facility had 3,925 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 has estimated that the latest gaming proposals would have generated between approximately \$250 million and \$350 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.

It should be noted that SB 1739, as amended by House Amendment 2, made changes to the engrossed bill that would have offered higher tax rates (compared to the engrossed bill) and would not have had a separate tax for table games and slot machines (thus allowing revenues to accrue to reach the higher tax rates at a faster pace). The Commission estimated that these amendatory changes would have increased revenues, compared to the engrossed bill, by nearly \$200 million. However, this amendment was never taken up for a vote by the General Assembly during the Spring 2013 Session.

Regardless of the amount of recurring revenues that would be generated by a gaming expansion proposal, what cannot be dismissed is the fact that these 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.

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

Riding the success of the new Des Plaines casino, Illinois' total adjusted gross receipts have increased 18.1% over the last two fiscal years. However, even with the additional casino, the State's AGR totals in FY 2013 are still down 11.9% over the last five years.

Despite the recent increase in adjusted gross receipts, State revenues generated from Illinois casinos are still well below levels from the past. This is mainly due to Des Plaines cannibalization effect on other Illinois riverboats in that area and how the new revenues from the Des Plaines casino are distributed. So, while the new casino has stabilized the casino industry in Illinois, a downward trend in overall revenues – in both Illinois and the Midwest – appears to be developing. All four of the casino states in the Midwest saw declines in FY 2013, which articulates this recent change in consumer spending on this form of gambling.

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.

It is still unknown what kind of impact the rapid growth of video gaming will have on the riverboat industry. Many felt that since “for amusement only” video gaming machines were already prevalent throughout the State before the Video Gaming Act became law, the addition of “legalized” video gaming machines would have little impact on Illinois' casinos. However, as more and more machines are put into operation, especially in locations near the existing casinos, it is possible that this new alternative form of gaming could curtail casino revenues even further.

As has been mentioned in previous Wagering Reports, if new casinos are indeed allowed to come into existence in the State of Illinois, the overall outlook could dramatically change. However, for gaming expansion 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 contend, 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 2013 was the second 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 \$53 billion. Table 19 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 \$2.841 billion in FY 2013. This was an increase of 6.2%, or \$165.0 million, compared to FY 2012's sales. The majority of this increase can be attributed to an almost \$146 million increase in Instant game sales. Instant tickets accounted for over 62% of total lottery sales at \$1.768 billion. Instant games grew 9.0% in FY 2013 and are the third straight year of strong growth. In FY 2011, instant game sales grew 7.7% and increased another 28.3% in FY 2012.

As seen in Chart 8, Instant game sales have steadily become a larger part of total lottery sales since the late 1980s. 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 FY 2007, Instant Game revenue topped 50% for the first time since FY 1979. The ratio has grown to 62% instant game sales to 38% draw games in FY 2013, which was up from 56% to 44% in FY 2011.

Of the 38% of total sales that is made up by draw games, the largest portion comes from the Pick 3 game which accounts for \$261.5 million, or 9% of total sales. Pick 3 was closely followed by Powerball at \$237.8 million. Pick 4 (\$198.7), Lucky Day Lotto (\$134.7), and Mega Millions (\$109.1) all had sales of over \$100 million.

As previously noted, most of the \$165 million increase was due to an increase in Instant game sales. Though the rest of the lotteries games netted an increase of only \$20 million, there were some significant changes in game performance. Powerball sales increased by over \$90 million, or over 62%, compared to FY 2012 but this was largely offset by an \$80 million decrease in Mega Million sales. One bright spot was the 165% increase in Raffle sales with the introduction of the 4<sup>th</sup> of July raffle in addition to the St. Patrick's raffle. Unfortunately this only gained the Lottery an additional \$16 million in sales which was once again offset by a decrease in similar size by Pick 3.

Table 19, on the next page, shows the contributions of each game through the lottery's history, while Chart 9 illustrates the results for FY 2013.

**TABLE 19: LOTTERY SALES BY GAME**  
**FY 1975 - FY 2013\***

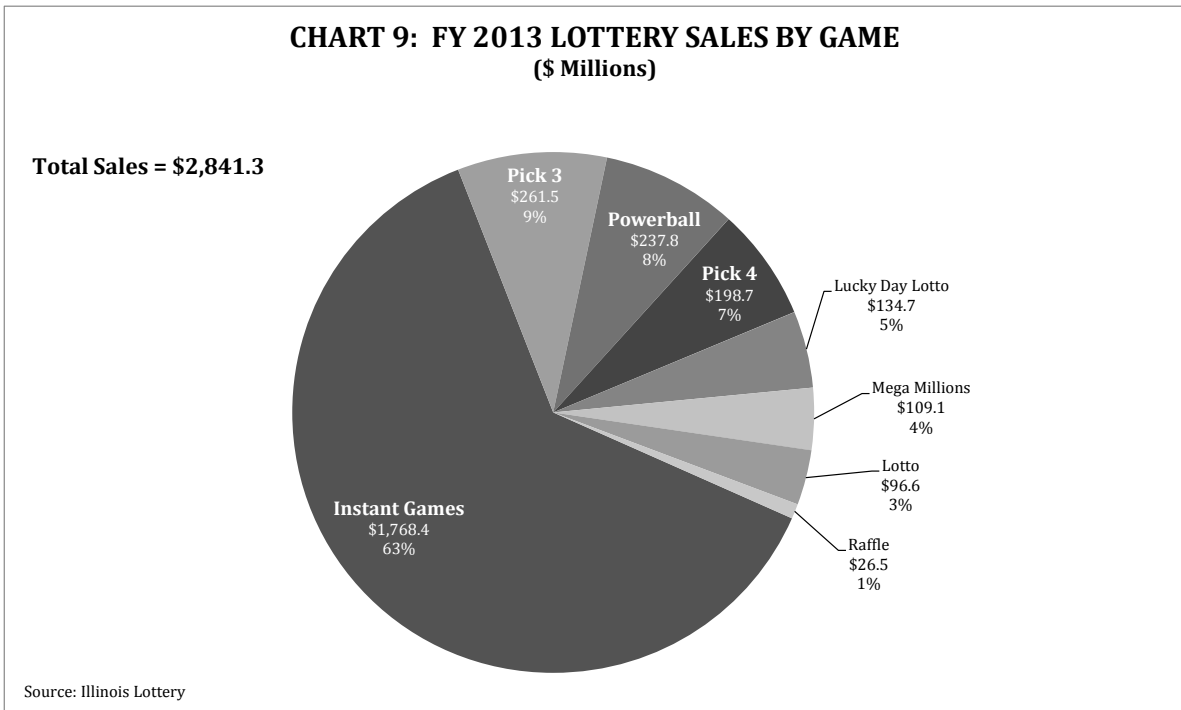
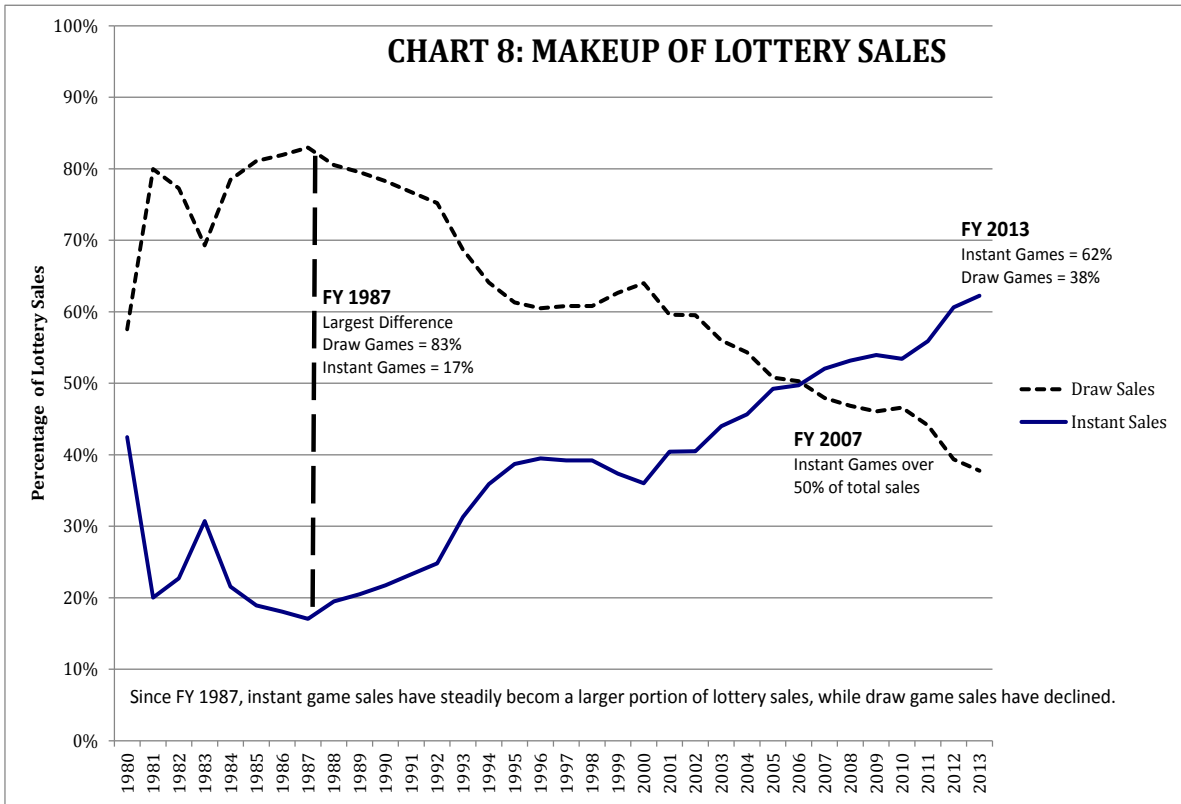
(\$ Millions)

Fiscal Year	Instant Games		Pick 3		Raffles		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	\$	% 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	\$ 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	n/a	\$ 163.9	-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	n/a	\$ 112.9	-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	n/a	\$ 89.1	-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	n/a	\$ 76.7	-35.4%	\$ 76.7	-13.9%
1980	\$ 41.4	-26.5%	\$ 42.4	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 13.7	n/a	\$ 97.5	-32.8%	\$ 97.5	27.1%
1981	\$ 43.0	3.9%	\$ 164.2	287.3%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 7.5	n/a	\$ 214.7	-45.3%	\$ 214.7	120.2%
1982	\$ 78.2	81.9%	\$ 248.2	51.2%	\$ -	n/a	\$ 17.7	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 0.0	n/a	\$ 344.1	-99.5%	\$ 344.1	60.3%
1983	\$ 158.1	102.2%	\$ 283.8	14.3%	\$ -	n/a	\$ 46.0	n/a	\$ 26.9	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 514.8	-100.0%	\$ 514.8	49.6%
1984	\$ 196.6	24.4%	\$ 367.4	29.5%	\$ -	n/a	\$ 49.4	n/a	\$ 298.8	1010.8%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 912.2	n/a	\$ 912.2	77.2%
1985	\$ 233.7	18.9%	\$ 356.2	-3.0%	\$ -	n/a	\$ 75.5	52.8%	\$ 567.4	89.9%	\$ 2.8	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,235.6	n/a	\$ 1,235.6	35.5%
1986	\$ 237.6	1.7%	\$ 347.6	-2.4%	\$ -	n/a	\$ 88.1	16.7%	\$ 642.3	13.2%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,315.6	-100.0%	\$ 1,315.6	6.5%
1987	\$ 227.3	-4.3%	\$ 335.1	-3.6%	\$ -	n/a	\$ 93.0	5.6%	\$ 678.5	5.6%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,333.9	n/a	\$ 1,333.9	1.4%
1988	\$ 260.1	14.4%	\$ 352.6	5.2%	\$ -	n/a	\$ 105.9	13.9%	\$ 600.6	-11.5%	\$ 16.3	n/a	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,335.5	n/a	\$ 1,335.5	0.1%
1989	\$ 321.9	23.8%	\$ 369.6	4.8%	\$ -	n/a	\$ 108.6	2.5%	\$ 607.1	1.1%	\$ 164.1	906.7%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,571.3	906.7%	\$ 1,571.3	17.7%
1990	\$ 341.2	6.0%	\$ 382.5	3.5%	\$ -	n/a	\$ 114.1	5.1%	\$ 588.7	-3.0%	\$ 143.7	-12.4%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,570.2	-14.4%	\$ 1,570.2	-0.1%
1991	\$ 364.6	6.9%	\$ 368.5	-3.7%	\$ -	n/a	\$ 109.0	-4.5%	\$ 601.0	2.1%	\$ 123.4	-14.1%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,566.5	-14.1%	\$ 1,566.5	-0.2%
1992	\$ 406.0	11.4%	\$ 362.0	-1.8%	\$ -	n/a	\$ 112.3	3.0%	\$ 633.5	5.4%	\$ 123.1	-0.2%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,636.9	-0.2%	\$ 1,636.9	4.5%
1993	\$ 493.2	21.5%	\$ 350.5	-3.2%	\$ -	n/a	\$ 112.3	0.0%	\$ 489.9	-22.7%	\$ 129.9	5.5%	\$ -	n/a	\$ -	n/a	\$ 0.1	n/a	\$ 1,575.9	5.5%	\$ 1,575.9	-3.7%
1994	\$ 548.7	11.3%	\$ 344.5	-1.7%	\$ -	n/a	\$ 109.7	-2.3%	\$ 403.0	-17.7%	\$ 122.7	-5.5%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,528.6	-100.0%	\$ 1,528.6	-3.0%
1995	\$ 630.7	14.9%	\$ 358.4	4.0%	\$ -	n/a	\$ 123.7	12.8%	\$ 386.6	-4.1%	\$ 130.1	6.0%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,629.5	6.0%	\$ 1,629.5	6.6%
1996	\$ 646.7	2.5%	\$ 357.5	-0.3%	\$ -	n/a	\$ 140.3	13.4%	\$ 363.4	-6.0%	\$ 129.4	-0.5%	\$ -	n/a	\$ -	n/a	\$ -	n/a	\$ 1,637.3	-0.5%	\$ 1,637.3	0.5%
1997	\$ 636.2	-1.6%	\$ 340.7	-4.7%	\$ -	n/a	\$ 139.8	-0.4%	\$ 295.3	-18.7%	\$ 118.8	-8.2%	\$ -	n/a	\$ -	n/a	\$ 92.4	n/a	\$ 1,623.2	-8.2%	\$ 1,623.2	-0.9%
1998	\$ 618.3	-2.8%	\$ 344.7	1.2%	\$ -	n/a	\$ 145.3	3.9%	\$ 263.0	-10.9%	\$ 111.8	-5.9%	\$ -	n/a	\$ -	n/a	\$ 93.8	n/a	\$ 1,576.9	1.5%	\$ 1,576.9	-2.9%
1999	\$ 570.1	-7.8%	\$ 335.3	-2.7%	\$ -	n/a	\$ 144.5	-0.6%	\$ 168.8	-35.8%	\$ 113.7	1.7%	\$ -	n/a	\$ -	n/a	\$ 193.5	n/a	\$ 1,525.9	106.3%	\$ 1,525.9	-3.2%
2000	\$ 541.5	-5.0%	\$ 341.4	1.8%	\$ -	n/a	\$ 154.4	6.9%	\$ 146.3	-13.4%	\$ 101.0	-11.2%	\$ -	n/a	\$ -	n/a	\$ 219.3	n/a	\$ 1,503.9	13.3%	\$ 1,503.9	-1.4%
2001	\$ 586.1	8.2%	\$ 326.6	-4.3%	\$ -	n/a	\$ 151.3	-2.0%	\$ 143.5	-1.9%	\$ 88.3	-12.5%	\$ -	n/a	\$ -	n/a	\$ 153.9	n/a	\$ 1,449.8	-29.8%	\$ 1,449.8	-3.6%
2002	\$ 643.8	9.8%	\$ 327.9	0.4%	\$ -	n/a	\$ 158.0	4.4%	\$ 134.9	-6.0%	\$ 81.7	-7.5%	\$ -	n/a	\$ -	n/a	\$ 243.8	n/a	\$ 1,590.0	58.4%	\$ 1,590.0	9.7%
2003	\$ 697.9	8.4%	\$ 314.1	-4.2%	\$ -	n/a	\$ 161.9	2.5%	\$ 121.2	-10.2%	\$ 78.0	-4.5%	\$ 199.7	n/a	\$ -	n/a	\$ 12.9	n/a	\$ 1,585.8	-94.7%	\$ 1,585.8	-0.3%
2004	\$ 780.5	11.8%	\$ 308.9	-1.7%	\$ -	n/a	\$ 167.2	3.2%	\$ 117.4	-3.1%	\$ 99.7	27.8%	\$ 226.5	n/a	\$ -	n/a	\$ 9.0	n/a	\$ 1,709.2	-30.2%	\$ 1,709.2	7.8%
2005	\$ 907.1	16.2%	\$ 307.4	-0.5%	\$ -	n/a	\$ 168.4	0.7%	\$ 131.6	12.1%	\$ 131.8	32.2%	\$ 192.6	n/a	\$ -	n/a	\$ 4.0	n/a	\$ 1,842.9	-15.0%	\$ 1,842.9	7.8%
2006	\$ 976.7	7.7%	\$ 309.2	0.6%	\$ -	n/a	\$ 170.1	1.0%	\$ 125.3	-4.8%	\$ 126.2	-4.2%	\$ 243.8	n/a	\$ -	n/a	\$ 13.4	n/a	\$ 1,964.8	26.6%	\$ 1,964.8	6.6%
2007	\$ 1,041.6	6.6%	\$ 308.7	-0.2%	\$ 14.1	n/a	\$ 170.2	0.1%	\$ 112.1	-10.6%	\$ 127.9	1.3%	\$ 195.9	n/a	\$ -	n/a	\$ 30.8	n/a	\$ 2,001.3	-19.6%	\$ 2,001.3	1.9%
2008	\$ 1,094.0	5.0%	\$ 299.0	-3.1%	\$ 15.9	n/a	\$ 167.8	-1.4%	\$ 112.9	0.7%	\$ 128.4	0.4%	\$ 221.1	n/a	\$ -	n/a	\$ 18.4	n/a	\$ 2,057.5	12.9%	\$ 2,057.5	2.8%
2009	\$ 1,121.1	2.5%	\$ 297.7	-0.4%	\$ 18.9	n/a	\$ 176.9	5.4%	\$ 122.7	8.7%	\$ 129.0	0.4%	\$ 204.6	n/a	\$ -	n/a	\$ 7.7	n/a	\$ 2,078.6	-7.5%	\$ 2,078.6	1.0%
2010	\$ 1,173.9	4.7%	\$ 301.4	1.3%	\$ 20.0	n/a	\$ 191.0	8.0%	\$ 113.5	-7.5%	\$ 120.7	-6.5%	\$ 223.8	n/a	\$ -	n/a	\$ 1.5	n/a	\$ 2,197.5	9.4%	\$ 2,197.5	5.7%
2011	\$ 1,264.7	7.7%	\$ 290.6	-3.6%	\$ 20.0	n/a	\$ 191.0	0.0%	\$ 107.6	-5.1%	\$ 119.5	-0.9%	\$ 172.0	n/a	\$ -	n/a	\$ -	n/a	\$ 2,262.9	-23.1%	\$ 2,262.9	3.0%
2012	\$ 1,622.6	28.3%	\$ 277.7	-4.4%	\$ 10.0	n/a	\$ 193.6	1.4%	\$ 105.3	-2.1%	\$ 131.2	9.8%	\$ 189.6	n/a	\$ -	n/a	\$ -	n/a	\$ 2,676.3	10.2%	\$ 2,676.3	18.3%
2013	\$ 1,768.4	9.0%	\$ 261.5	-5.9%	\$ 26.5	n/a	\$ 198.7	2.6%	\$ 96.6	-8.3%	\$ 134.7	2.6%	\$ 109.1	n/a	\$ -	n/a	\$ 8.2	n/a	\$ 2,841.3	-42.5%	\$ 2,841.3	6.2%
<b>TOTALS</b>	<b>\$ 21,506.9</b>		<b>\$ 10,683.7</b>		<b>\$ 125.4</b>		<b>\$ 4,255.7</b>		<b>\$ 9,305.6</b>		<b>\$ 3,028.0</b>		<b>\$ 2,178.7</b>		<b>\$ 533.2</b>		<b>\$ 1,462.5</b>		<b>\$ 53,079.8</b>		<b>\$ 53,079.8</b>	

\* Preliminary, unaudited data

\*\* Includes EZ Match revenue

SOURCE: ILLINOIS DEPARTMENT OF REVENUE



**TABLE 20: COMPOSITION OF LOTTERY SALES BY GAME  
FY 1975 - FY 2013\***

(% of Total)

Fiscal Year	Instant Games	Pick 3	Raffles	Pick 4	Lotto	Lucky Day Lotto**	Mega Millions	Powerball	Other Games	Total Sales (\$ Million)
1975	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	\$ 129.3
1976	34.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	65.5%	\$ 163.9
1977	55.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	44.3%	\$ 112.9
1978	64.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	35.5%	\$ 89.1
1979	73.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	26.6%	\$ 76.7
1980	42.5%	43.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	14.1%	\$ 97.5
1981	20.0%	76.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.5%	\$ 214.7
1982	22.7%	72.1%	0.0%	5.1%	0.0%	0.0%	0.0%	0.0%	0.0%	\$ 344.1
1983	30.7%	55.1%	0.0%	8.9%	5.2%	0.0%	0.0%	0.0%	0.0%	\$ 514.8
1984	21.6%	40.3%	0.0%	5.4%	32.8%	0.0%	0.0%	0.0%	0.0%	\$ 912.2
1985	18.9%	28.8%	0.0%	6.1%	45.9%	0.2%	0.0%	0.0%	0.0%	\$ 1,235.6
1986	18.1%	26.4%	0.0%	6.7%	48.8%	0.0%	0.0%	0.0%	0.0%	\$ 1,315.6
1987	17.0%	25.1%	0.0%	7.0%	50.9%	0.0%	0.0%	0.0%	0.0%	\$ 1,333.9
1988	19.5%	26.4%	0.0%	7.9%	45.0%	1.2%	0.0%	0.0%	0.0%	\$ 1,335.5
1989	20.5%	23.5%	0.0%	6.9%	38.6%	10.4%	0.0%	0.0%	0.0%	\$ 1,571.3
1990	21.7%	24.4%	0.0%	7.3%	37.5%	9.2%	0.0%	0.0%	0.0%	\$ 1,570.2
1991	23.3%	23.5%	0.0%	7.0%	38.4%	7.9%	0.0%	0.0%	0.0%	\$ 1,566.5
1992	24.8%	22.1%	0.0%	6.9%	38.7%	7.5%	0.0%	0.0%	0.0%	\$ 1,636.9
1993	31.3%	22.2%	0.0%	7.1%	31.1%	8.2%	0.0%	0.0%	0.0%	\$ 1,575.9
1994	35.9%	22.5%	0.0%	7.2%	26.4%	8.0%	0.0%	0.0%	0.0%	\$ 1,528.6
1995	38.7%	22.0%	0.0%	7.6%	23.7%	8.0%	0.0%	0.0%	0.0%	\$ 1,629.5
1996	39.5%	21.8%	0.0%	8.6%	22.2%	7.9%	0.0%	0.0%	0.0%	\$ 1,637.3
1997	39.2%	21.0%	0.0%	8.6%	18.2%	7.3%	0.0%	0.0%	5.7%	\$ 1,623.2
1998	39.2%	21.9%	0.0%	9.2%	16.7%	7.1%	0.0%	0.0%	5.9%	\$ 1,576.9
1999	37.4%	22.0%	0.0%	9.5%	11.1%	7.5%	0.0%	0.0%	12.7%	\$ 1,525.9
2000	36.0%	22.7%	0.0%	10.3%	9.7%	6.7%	0.0%	0.0%	14.6%	\$ 1,503.9
2001	40.4%	22.5%	0.0%	10.4%	9.9%	6.1%	0.0%	0.0%	10.6%	\$ 1,449.8
2002	40.5%	20.6%	0.0%	9.9%	8.5%	5.1%	0.0%	0.0%	15.3%	\$ 1,590.0
2003	44.0%	19.8%	0.0%	10.2%	7.6%	4.9%	12.6%	0.0%	0.8%	\$ 1,585.8
2004	45.7%	18.1%	0.0%	9.8%	6.9%	5.8%	13.3%	0.0%	0.5%	\$ 1,709.2
2005	49.2%	16.7%	0.0%	9.1%	7.1%	7.2%	10.5%	0.0%	0.2%	\$ 1,842.9
2006	49.7%	15.7%	0.0%	8.7%	6.4%	6.4%	12.4%	0.0%	0.7%	\$ 1,964.8
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
2013	62.2%	9.2%	0.9%	7.0%	3.4%	4.7%	3.8%	8.4%	0.3%	\$ 2,841.3
<b>TOTALS</b>	<b>40.5%</b>	<b>20.1%</b>	<b>0.2%</b>	<b>8.0%</b>	<b>17.5%</b>	<b>5.7%</b>	<b>4.1%</b>	<b>1.0%</b>	<b>2.8%</b>	<b>\$ 53,079.8</b>

\* Preliminary, unaudited data

\*\* Lucky Day Lotto includes EZ Match revenue

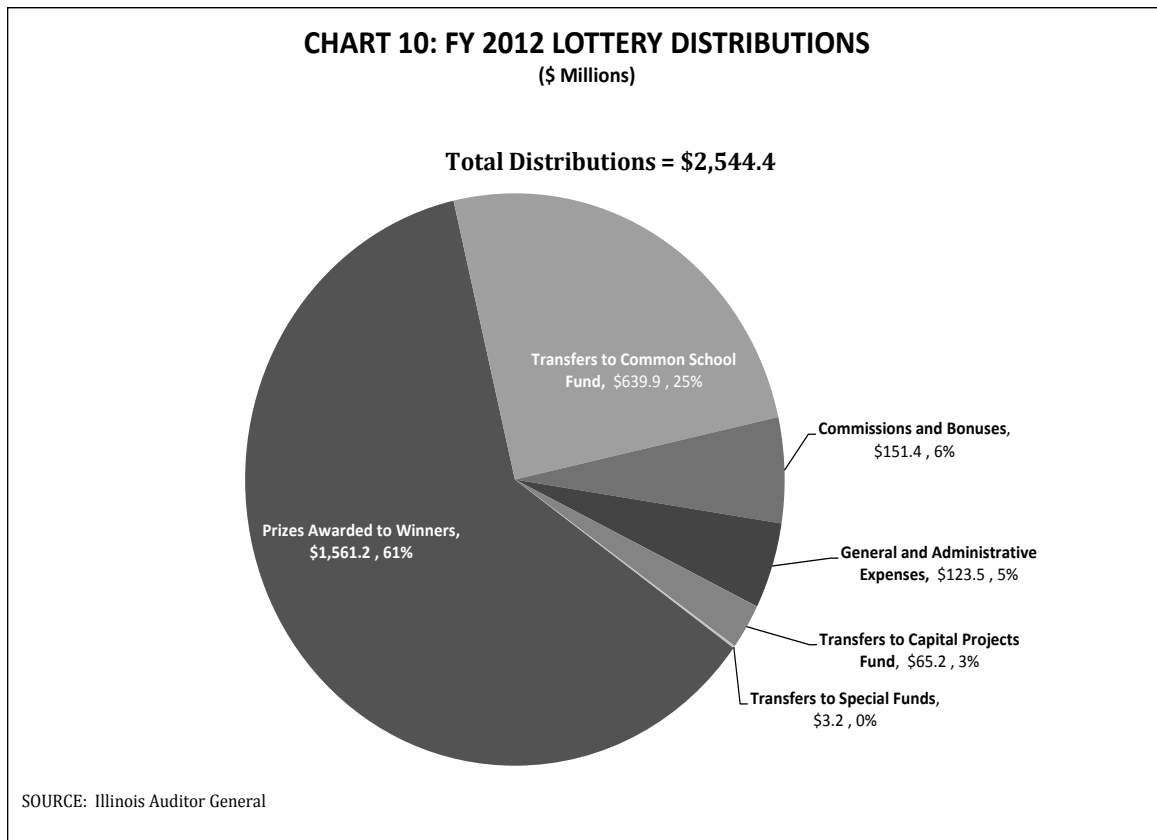
SOURCE: ILLINOIS DEPARTMENT OF REVENUE

## Lottery Revenue Distribution

Due to the time necessary to prepare financial statements, analyzing how the lottery distributes the cash flow from its operating activities must be done on the previous year's financial statements. In FY 2012, the lottery received over \$2.67 billion in cash from sales and services. A total of \$2.544 billion of this amount was distributed back out.

Cash payments for lottery operation expenses account for \$1.836 billion of the \$2.544 billion in distributions. Cash transfers out to other funds explain the remaining \$708 million. Prizes awarded to winners at \$1.561 billion made up the largest portion of the cash payments for lottery operations. Commissions and bonuses (\$151.4 million) and General and Administrative Expenses (\$123.5 million) make up the rest of the cash payments.

The traditional lottery transfer to the Common School Fund was \$639.9 million in FY 2012. The recently enacted transfer to the Capital Projects Fund added an additional \$65.2 million. Special cause funds received \$3.2 million. Chart 10 illustrates the cash distributions for FY 2012.



## Lottery Transfers

As shown in Table 21, the Illinois Lottery transfers its proceeds or profits to three destinations. The first fund that receives lottery proceeds is the Common School Fund. The Common School Fund provides the majority of funding for elementary and secondary education including payment for General State Aid, contributions to Teacher's Retirement Systems, and salaries of regional superintendents and assistants. In FY 2013, \$655.9 million was transferred to the Common School Fund. This was an increase of 2.5% from FY 2012. 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). This transfer is expected to total approximately \$669 million in FY 2014 as inflation is expected to grow around 2% per year in coming years.

The second destination for Lottery profits are a set of four special cause funds. Special cause lottery sales raised \$2.9 million in FY 2012, a decrease of 9.1% or approximately \$0.3 million from FY 2012. Special cause sales are down over 43% 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 2013, \$0.7 million was transferred into this fund. This was a 2.0% decline from the previous year.

A 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 \$0.7 million. This was the second year in a row that this game saw a decrease of over 17%.

Another special game that was to be 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 \$0.6 million. This game's sales were reduced by approximately 21% in FY 2013 and have fallen significantly for three consecutive years. The Quality of Life instant game was reintroduced as Red Ribbon Cash in August of 2012 and changed again to the "Spread the Word" game in June of 2013.

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 the "MS Project" game equaled \$0.9 million in FY 2013, which was an increase of 3.9%. The MS Project was the only special cause game that saw an increase this fiscal year.

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 Capital Projects which was an increase of over 20%. Though this was a large increase, it was far below the \$132 million that the Capital Plan was based on in FY 2012.

FY 2013 saw another jump in transfers to the Capital Projects Fund but once again it was far less than what was planned for. In FY 2013, the Lottery transferred \$135 million to the Capital Projects Fund. In the FY 2013 Budget Book, the expectation was to have \$219 million transferred. A portion of the \$135 million (approximately \$15-\$20 million) was due from previous year's transfers that were underpaid. The Illinois Lottery Law states that, on or before the last day of each fiscal year, the lottery must deposit any remaining proceeds into the Capital Projects Fund. Due to lapse period spending and the time needed to compile financial statements, the lottery must make an estimate of what this amount should be. Additional money was transferred in FY 2013 because past estimates were found to be too low once final financial statements were available.

Transfers totaled \$793.8 million in FY 2013 which was the third straight year that the Lottery set a new record for transfers. The ratio of transfers to total sales increased to 27.9% which was higher than the 26.5% in FY 2012. 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 21, on the next page, shows the history of lottery transfers.



**TABLE 21: LOTTERY TRANSFERS  
FY 1975 - FY 2013\***

(\$ 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%
2013	\$ 2,841.3	\$ 655.9	\$ 135.0	\$ 2.9	\$ 793.8	27.9%
<b>TOTALS</b>	<b>\$ 50,238.5</b>	<b>\$ 18,023.3</b>	<b>\$ 287.2</b>	<b>\$ 32.0</b>	<b>\$ 17,548.6</b>	<b>34.9%</b>

\* 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 LOTTERY

## 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 \$40 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 2013, forty-three states plus the District of Columbia and the U.S. Virgin Islands offer Mega Millions and Powerball tickets. Prior to 2013, California only offered Mega Millions and Florida only sold Powerball but both states started selling the other game this year, making it so that both games are offered in all the same areas. Table 25 lists the States participating in each of the multi-state lotteries and the years they began offering each of the games. 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.

The multi-state games had a very good year in FY 2012. 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. Total revenue from the multi-state games continued to grow in FY 2013 but was more subdued than in FY 2012. Revenue from the Mega Millions game was down \$80 million but Powerball sales were up over \$90 million. Net revenue from the multi-state games grew just over \$11 million, or 3.3%, in FY 2013.

**TABLE 22: MULTI-STATE LOTTERY PARTICIPANTS**

<b>State</b>	<b><u>MEGA MILLIONS</u></b>	<b><u>POWERBALL</u></b>
ARIZONA	2010	1994
ARKANSAS	2010	2009
CALIFORNIA	2005	2013
COLORADO	2010	2001
CONNECTICUT	2010	1995
DELAWARE	2010	1991
DISTRICT OF COLUMBIA	2010	1988
FLORIDA	2013	2009
GEORGIA	1996	2010
IDAHO	2010	1990
<b>ILLINOIS</b>	<b>1996</b>	<b>2010</b>
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

SOURCES: POWERBALL, MEGA MILLIONS

As indicated in previous reports, results have shown that the multi-state games percentage of total lottery 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. Mega Millions fell by \$80 million in FY 2013 and looking at the amount of high value drawings indicates why. In FY 2012 Mega Millions had 19 drawings of over \$100 million and 6 drawings with jackpot of over \$200 million. In FY 2013, there were only 9 drawings with jackpots of over \$100 million and zero drawings with a value of over \$200 million. The highest Mega Millions jackpot in FY 2013 was \$191 million compared to \$640 million in FY 2012.

Powerball, on the other hand, had significantly better results when looking at jackpots though some of this is due to the increase to \$2 for a ticket and starting new jackpots at \$40 million instead of \$20 million which began in January of 2012. The Powerball game had 48 drawings over \$100 million and 16 drawings with jackpots over \$200 million. Powerball had a large amount of roll overs twice during the year leading to maximum jackpots of \$587 and \$591 million. Due to the large amount of roll-overs, sales from Powerball grew \$90 million in FY 2013.

Looking at both games combined, the results were very similar to FY 2012. There were 57 drawings worth over \$100 million and 16 drawings of over \$200 million in FY 2013. This compares to 52 and 14 in FY 2012. Mega Millions and Powerball results for the past 8 fiscal years can be found in Table 23.

<b>TABLE 23: MULTI STATE GAME RESULTS</b>								
(\$ Million)								
<b>MEGA MILLIONS</b>								
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Average Jackpot Drawing	\$80.1	\$55.9	\$68.1	\$57.7	\$73.5	\$64.8	\$80.2	\$51.3
Drawings over \$100 M	30	14	25	19	30	20	19	9
Drawings over \$200 M	9	3	5	3	6	6	6	0
Mega Millions Sales	\$243.8	\$195.9	\$221.1	\$204.6	\$222.6	\$172.0	\$189.6	\$109.1
<b>POWERBALL</b>								
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Average Jackpot Drawing	\$81.5	\$68.4	\$70.4	\$67.8	\$82.3	\$62.4	\$85.2	\$120.0
Drawings over \$100 M	30	25	25	23	32	17	33	48
Drawings over \$200 M	9	4	6	2	7	2	8	16
Powerball Sales	n/a	n/a	n/a	n/a	\$51.7*	\$97.4	\$145.9**	\$237.8
<b>MEGA MILLIONS AND POWERBALL</b>								
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Average Jackpot Drawing	\$80.8	\$62.2	\$69.3	\$62.8	\$77.9	\$63.6	\$82.7	\$85.6
Drawings over \$100 M	60	39	50	42	62	37	52	57
Drawings over \$200 M	18	7	11	5	13	8	14	16
<b>Total Multi State Game Sales</b>	<b>\$243.8</b>	<b>\$195.9</b>	<b>\$221.1</b>	<b>\$204.6</b>	<b>\$274.3</b>	<b>\$269.4</b>	<b>\$335.5</b>	<b>\$346.8</b>

\* 5 months of sales  
 \*\* Powerball price increases from \$1 to \$2 per ticket in January of 2012  
 SOURCE: www.lottoreport.com

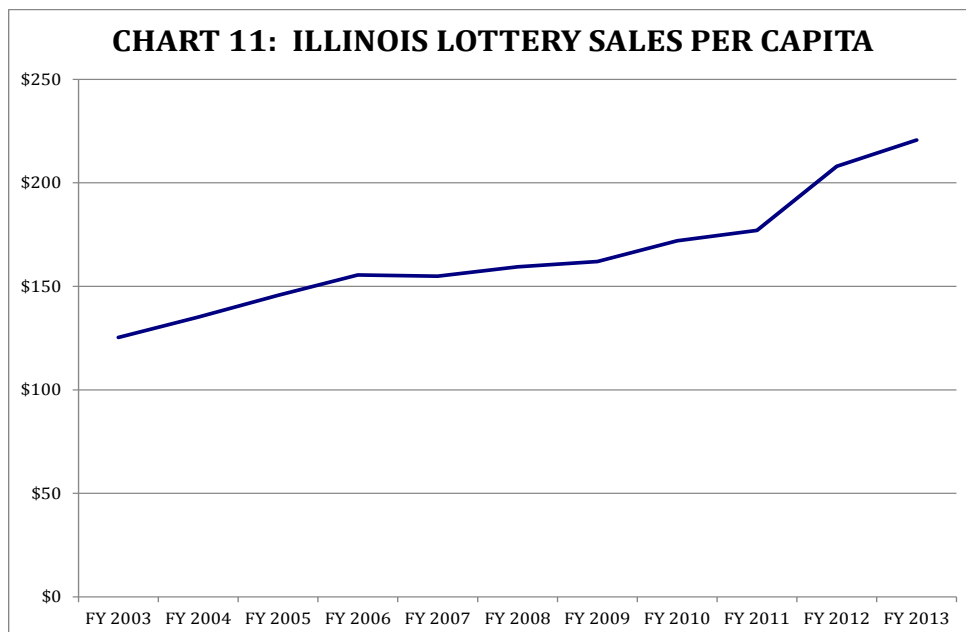
## U.S. Lottery Results

Looking at data from FY 2012, the latest year available, the same three states had the largest sales as in FY 2011. New York had the largest lottery with sales of over \$8.4 billion. New York was followed by Massachusetts (\$4.7 billion) and Florida (\$4.4 billion). With \$2.7 billion in sales, Illinois had the 11<sup>th</sup> highest level of sales in the U.S. This was a slight rise in the ranking from 13<sup>th</sup> in FY 2011. The figures for all the states for FY 2012 are shown in Table 24 on the following page. Please note that some data in Table 24 includes video gaming revenue in their totals which skews their results higher than states which did not include this kind of revenue in their results.

In 1992, Lafleur's Lottery World ranked Illinois 9<sup>th</sup> in the nation in terms of per-capita lottery sales as a percentage of personal income. At that time, per-capita spending on lottery tickets amounted to \$143. By 1995, Illinois ranked 19<sup>th</sup> with per-capita spending of \$134. In 2001, Illinois dropped to 22<sup>nd</sup>, with per-capita spending of \$116. Given these statistics, it appeared that Illinois' per-capita spending was on a downward trend. However, in the last decade, this figure has rebounded, largely due to the increase in instant games sales. In FY 2012 Illinois averaged \$208 in lottery sales per capita. Illinois ranked 18<sup>th</sup> out of the 45 lotteries which is four spots higher than in FY 2010.

Looking at FY 2013 sales, sales per capita grew 6.2% to \$221 per capita. While this is good growth, it would not have changed its ranking when compared to FY 2012. Chart 11 shows the growth of lottery sales per capita in Illinois over the last decade.

Illinois ranked 22<sup>nd</sup> in the percentage of personal income that Illinoisans spent on lottery. Illinois residents spent 0.48% of their personal income on lottery which was about the average in the U.S.



**TABLE 24: PER-CAPITA SALES AS A PERCENTAGE OF PERSONAL INCOME (FY 2012)**

STATE	POPULATION (MILLIONS)	PER-CAPITA		TOTAL		PER-CAPITA		PER-CAPITA SALES AS	
		PERSONAL INCOME	LOTTERY SALES (\$ MILLIONS)	Rank	SALES	Rank	A % OF PER-CAPITA PERSONAL INCOME	Rank	
ALABAMA	4.8	\$ 34,880	\$ 0.0	45	\$ 0	45	0.00%	45	
ALASKA	0.7	\$ 45,665	\$ 0.0	45	\$ 0	45	0.00%	45	
ARIZONA	6.6	\$ 35,062	\$ 646.7	25	\$ 99	34	0.28%	31	
ARKANSAS	2.9	\$ 33,740	\$ 473.1	31	\$ 160	28	0.48%	21	
CALIFORNIA	38.0	\$ 43,647	\$ 4,371.5	4	\$ 115	30	0.26%	32	
COLORADO	5.2	\$ 44,053	\$ 545.3	28	\$ 105	32	0.24%	36	
CONNECTICUT	3.6	\$ 57,902	\$ 1,081.7	20	\$ 301	11	0.52%	19	
DELAWARE (1)	0.9	\$ 41,449	\$ 686.8	24	\$ 749	3	1.81%	3	
DISTRICT OF COLUMBIA	0.6	\$ 73,783	\$ 252.2	35	\$ 399	7	0.54%	18	
FLORIDA	19.3	\$ 39,636	\$ 4,449.9	3	\$ 230	17	0.58%	15	
GEORGIA	9.9	\$ 35,979	\$ 3,834.7	6	\$ 387	8	1.07%	6	
HAWAII	1.4	\$ 42,925	\$ 0.0	45	\$ 0	45	0.00%	45	
IDAHO	1.6	\$ 32,881	\$ 175.8	39	\$ 110	31	0.34%	30	
<b>ILLINOIS</b>	<b>12.9</b>	<b>\$ 43,721</b>	<b>\$ 2,676.3</b>	<b>11</b>	<b>\$ 208</b>	<b>18</b>	<b>0.48%</b>	<b>22</b>	
INDIANA	6.5	\$ 35,689	\$ 855.6	22	\$ 131	29	0.37%	29	
IOWA	3.1	\$ 41,156	\$ 310.9	33	\$ 101	33	0.25%	33	
KANSAS	2.9	\$ 40,883	\$ 246.1	36	\$ 85	38	0.21%	38	
KENTUCKY	4.4	\$ 33,989	\$ 823.6	23	\$ 188	22	0.55%	17	
LOUISIANA	4.6	\$ 38,549	\$ 429.6	32	\$ 93	37	0.24%	34	
MAINE	1.3	\$ 38,299	\$ 228.3	37	\$ 172	24	0.45%	24	
MARYLAND	5.9	\$ 50,656	\$ 1,989.9	13	\$ 338	9	0.67%	11	
MASSACHUSETTS	6.6	\$ 53,471	\$ 4,741.4	2	\$ 713	5	1.33%	5	
MICHIGAN	9.9	\$ 36,264	\$ 2,413.5	12	\$ 244	14	0.67%	10	
MINNESOTA	5.4	\$ 44,560	\$ 520.0	30	\$ 97	35	0.22%	37	
MISSISSIPPI	3.0	\$ 32,000	\$ 0.0	45	\$ 0	45	0.00%	45	
MISSOURI	6.0	\$ 37,969	\$ 1,097.4	19	\$ 182	23	0.48%	20	
MONTANA	1.0	\$ 36,016	\$ 52.6	43	\$ 52	43	0.15%	42	
NEBRASKA	1.9	\$ 42,450	\$ 150.6	40	\$ 81	39	0.19%	39	
NEVADA	2.8	\$ 36,964	\$ 0.0	45	\$ 0	45	0.00%	45	
NEW HAMPSHIRE	1.3	\$ 45,881	\$ 254.9	34	\$ 193	21	0.42%	26	
NEW JERSEY	8.9	\$ 52,430	\$ 2,758.8	9	\$ 311	10	0.59%	14	
NEW MEXICO	2.1	\$ 34,133	\$ 133.8	41	\$ 64	41	0.19%	40	
NEW YORK (1)	19.6	\$ 51,126	\$ 8,439.5	1	\$ 431	6	0.84%	7	
NORTH CAROLINA	9.8	\$ 36,028	\$ 1,596.7	15	\$ 164	25	0.45%	23	
NORTH DAKOTA	0.7	\$ 47,236	\$ 26.0	44	\$ 37	44	0.08%	44	
OHIO	11.5	\$ 37,836	\$ 2,750.0	10	\$ 238	16	0.63%	13	
OKLAHOMA	3.8	\$ 37,679	\$ 200.0	38	\$ 52	42	0.14%	43	
OREGON (1)	3.9	\$ 37,527	\$ 1,051.5	21	\$ 270	13	0.72%	9	
PENNSYLVANIA	12.8	\$ 42,291	\$ 3,480.9	8	\$ 273	12	0.64%	12	
RHODE ISLAND (2)	1.1	\$ 43,875	\$ 3,532.2	7	\$ 3,363	1	7.67%	1	
SOUTH CAROLINA	4.7	\$ 33,388	\$ 1,135.7	18	\$ 240	15	0.72%	8	
SOUTH DAKOTA (2)	0.8	\$ 44,217	\$ 603.2	26	\$ 724	4	1.64%	4	
TENNESSEE	6.5	\$ 36,567	\$ 1,311.0	17	\$ 203	19	0.56%	16	
TEXAS	26.1	\$ 40,147	\$ 4,190.8	5	\$ 161	27	0.40%	27	
UTAH	2.9	\$ 33,509	\$ 0.0	45	\$ 0	45	0.00%	45	
VERMONT	0.6	\$ 41,572	\$ 100.9	42	\$ 161	26	0.39%	28	
VIRGINIA	8.2	\$ 46,107	\$ 1,616.0	14	\$ 197	20	0.43%	25	
WASHINGTON	6.9	\$ 43,878	\$ 535.2	29	\$ 78	40	0.18%	41	
WEST VIRGINIA (1)	1.9	\$ 33,403	\$ 1,457.5	16	\$ 786	2	2.35%	2	
WISCONSIN (3)	5.7	\$ 39,575	\$ 547.0	27	\$ 96	36	0.24%	35	
WYOMING	0.6	\$ 47,898	\$ 0.0	45	\$ 0	45	0.00%	45	
TOTALS	313.9	\$ 41,560	\$ 68,774.9		\$ 219		0.53%		

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, 2012

## 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 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. Northstar fully took over management of the lottery on July 1, 2011.

Northstar's business plan anticipated 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. Table 25 summarizes the net income target levels and the potential bonuses or penalties as outlined in the initial private manager agreement.

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

**TABLE 25: 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	\$822.8*
FY 2013	\$651	\$727	\$804	\$947.1*
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 Net Income Targets for FY 2012 and FY 2013 were lowered through the arbitration process

\*\* 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



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 requested a change in the FY 2012 net income target of \$851 million. This request was based on “missed deadlines, delays in implementing online sales and a lack of advertising money.” The State did not agree with these claims and the two groups entered arbitrations to resolve the matter. In November 2012, an arbitrator reduced the FY 2012 net income target \$28.4 million to \$822.8 million and the FY 2013 figure to \$947.1 million which was a reduction of \$2.9 million.

As seen in Table 26, a net income of approximately \$755 million was calculated for FY 2012. This level of net income led to a \$21.8 million penalty against the Northstar Group. On August 1, 2013, the State offset the \$21.8 million against G-Tech and Scientific Games supplier agreement invoices. The Northstar Group is currently challenging the net income calculation methodology.

<b>TABLE 26: FY 2012 NET INCOME CALCULATION</b>	
<b>Sales</b>	
Draw Based Game Sales	\$1,053,436,055
Instant Game Sales	\$1,622,562,237
Other Income	\$4,973,566
<b>Total Revenues</b>	<b>\$2,680,971,858</b>
<b>Prizes</b>	
Instant Net Prizes	\$1,134,669,813
Draw Based Net Prizes	\$504,861,297
<b>Total Net Prizes</b>	<b>\$1,639,531,110</b>
<b>Retail Agents Remuneration</b>	<b>\$151,054,178</b>
<b>Northstar Payments</b>	
<b>Northstar Management Fee</b>	<b>\$15,171,000</b>
<b>Lottery Expenses</b>	
Gaming System Operations & Communications	\$48,798,000
Instant Tickets	\$21,336,000
Advertising and Promotions	\$40,130,000
Adjustment in lottery expenses due to lower sales	-\$2,845,080
Additional rebranding fees paid to Northstar	\$3,275,000
Total Lottery Expenses	\$110,693,920
<b>Total Northstar Payments</b>	<b>\$125,864,920</b>
Provision for Bad and Doubtful Debts	\$2,077,263
End Use Agreement (State Employees managed by Northstar)	\$7,664,000
<b>Net Income*</b>	<b>\$754,780,387</b>
* The net income total of \$755 million is being challenged by the Northstar Group through the arbitration process.	
Source: Illinois Lottery	

In July of 2013, Northstar requested a reduction of over \$556 million in net income target levels during fiscal years 2014 – 2018. This request was based on the denial of a change in the Lucky Day Lotto game format. As part of the FY 2014 updated Annual Business Plan, Northstar group proposed to change the Lucky Day Lotto to a Keno style game in which drawings would occur every “four or five minutes” according to Illinois Lottery Superintendent Michael Jones. The State asserts that this type of game would be an illegal “policy” game based on a January 2006 opinion by Attorney General Lisa Madigan. The 2006 Attorney General opinion can be found at: <http://www.illinoisattorneygeneral.gov/opinions/2006/06-001.pdf>. The State is challenging this request and the two parties will go to arbitration again.

The relationship between the State and Northstar has been contentious as seen through the numerous times the two parties have gone to arbitration in the two years since the private management agreement process has been started. Part of this is likely due to Northstar not reaching its predicted net income target levels. The State calculated a \$21 million penalty for FY 2012 and, though a calculation is not currently available for FY 2013, it is expected to be around \$40 million. In the November 2013 decision by the third party arbitrator, it was noted that:

**“The State appears to believe that Northstar, discovering that it could not meet the Net Income Target, has attempted to “make it up” by seeking an adjustment in the Target.”**

One aspect of Northstar’s management that can be analyzed is the growth of lottery retailers. In its original business plan, Northstar hoped to grow the number of lottery retailers in the State from approximately 7,300 to 13,000 by FY 2013. This strategy was based on the introduction of lottery sales to large chain stores. As can be seen in Table 27, this strategy does not appear to be bearing fruit. In July of 2013, the lottery was sold in approximately 8,300 locations in Illinois, which was almost 5,000 short of the expected 13,000. Some of this short-fall may be attributed to a 20-day moratorium on recruiting new retailers in the spring of 2011 which led to a portion of the reduced net income target in FY 2012, though an extra 20 days of recruitment would not likely make up the difference in results to expectations.

<b>TABLE 27. LOTTERY RETAILERS</b>					
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Lottery Retailers</b>	7,084	7,346	8,104	8,303	n/a
<b>Projected # of Retailers Per original PMA Business Plan</b>	n/a	n/a	11,356	13,000	13,000

Source: Office of the Governor, Illinois Lottery

## FY 2013 AND BEYOND

The lottery saw some changes in FY 2013 but not as much as in FY 2012. As part of Public Act 097-1121, the lottery was allowed to begin offering Powerball tickets in addition to Lotto and Mega Million tickets through the internet. So far, internet sales have been slow. A new raffle game with a 4<sup>th</sup> of July theme was introduced which led to improved raffle game results. Red Ribbon Cash and Veteran's Cash games were introduced as new versions of the special cause games.

Looking to the future, the State and Northstar will likely continue to disagree over management practices and financial results. Depending upon the results of the Keno-related arbitration, the lottery could see major changes in the future. There could be significant downward revisions to the management agreement or a major strategy in Northstar's current business plan would not be available to them to achieve the current net income targets.

The net income targets going forward will also be a point of contention. In the FY 2014 Annual Business Plan, Northstar proposed net income targets of \$1.02 billion for FY 2017 and \$1.041 billion for FY 2018. The State is disputing these net income target levels. This issue will likely go to arbitration similar to the other issues previously discussed.

# 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 2012, Illinois horse racing wagering generated \$14.2 million in total revenues with the State receiving \$7.459 million and local governments receiving \$6.752 million. Table 28 examines the sources and allocation of CY 2012 horse racing revenues while Table 29 details State and local racing revenues over the past ten years.

**TABLE 28: SOURCES AND ALLOCATION OF HORSE RACING  
REVENUE FOR CALENDAR YEAR 2012**

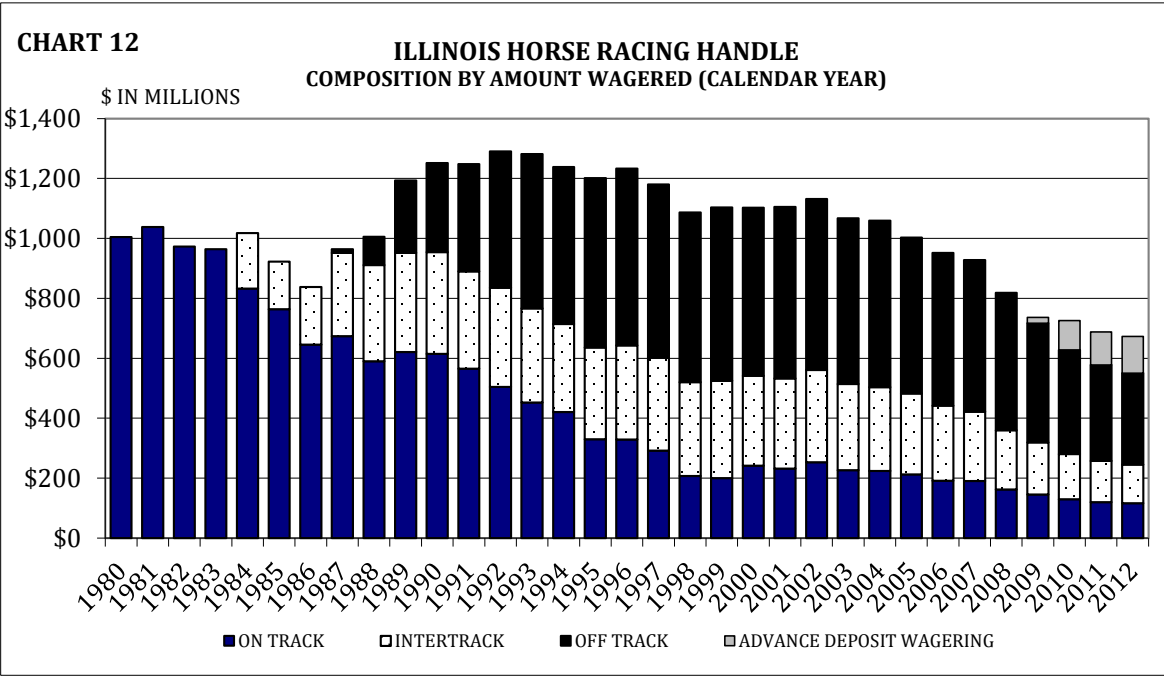
<b>REVENUE SOURCE</b>	
Application and License Fees of Racing Associations	\$91,250
Admission Taxes	\$81,079
Pari-mutuel Tax	\$7,862,508
Pari-mutuel Tax Credit	(\$3,063,701)
Advanced Deposit Wagering (ADW) Pari-Mutuel Tax (1.75%)	\$2,137,906
Licensing of Racing Personnel	\$176,860
Fingerprint Fees	\$73,002
Photo Fees	\$3,824
Horsemen's Fines	\$94,745
Miscellaneous Sources	\$1,840
<b>* TOTAL STATE REVENUES RECEIVED</b>	<b>\$7,459,313</b>
2% of OTB Handle to City and County	\$6,097,079
OTB Admission Tax to City of Chicago	\$105,451
OTB Admission Tax to Cook County	\$214,909
On Track City Admission Tax	\$43,085
Intertrack Surcharge to County (20%)	\$292,453
<b>* TOTAL LOCAL REVENUES RECEIVED</b>	<b>\$6,752,977</b>
<b>TOTAL REVENUES RECEIVED</b>	<b>\$14,212,290</b>
<b>ALLOCATION OF REVENUE</b>	
Horse Racing Fund	\$6,821,116
General Revenue Fund	\$256,934
Quarterhorse Breeders' Fund	\$16,518
Quarterhorse Purse Fund (from ADW Tax)	\$207,895
Standardbred Purse Fund (from ADW Tax)	\$97,494
Fingerprint License Fund	\$59,355
<b>* TOTAL STATE REVENUES ALLOCATED</b>	<b>\$7,459,312</b>
To Cities	\$3,197,076
To Counties	\$3,555,902
<b>* TOTAL LOCAL</b>	<b>\$6,752,978</b>
<b>TOTAL REVENUES ALLOCATED</b>	<b>\$14,212,290</b>

**SOURCE: ILLINOIS RACING BOARD - 2012 ANNUAL REPORT**

TABLE 29: HORSE RACING REVENUES AND ASSOCIATED ALLOCATIONS BY CALENDAR YEAR (IN MILLIONS)										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
TOTAL STATE REVENUE	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9	\$8.0	\$7.1	\$7.4	\$7.8	\$7.5
TOTAL LOCAL REVENUE	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6	\$10.6	\$9.1	\$7.8	\$7.2	\$6.8
<b>*TOTAL REVENUES RECEIVED</b>	<b>\$25.1</b>	<b>\$25.1</b>	<b>\$23.4</b>	<b>\$21.6</b>	<b>\$20.6</b>	<b>\$18.5</b>	<b>\$16.2</b>	<b>\$15.3</b>	<b>\$15.0</b>	<b>\$14.2</b>
TOTAL STATE ALLOCATIONS	\$12.8	\$12.8	\$11.8	\$10.3	\$8.9	\$8.0	\$7.1	\$7.4	\$7.8	\$7.5
TOTAL LOCAL ALLOCATIONS	\$12.4	\$12.4	\$11.6	\$11.3	\$11.6	\$10.6	\$9.1	\$7.8	\$7.2	\$6.8
TO CITIES	\$6.2	\$6.2	\$5.7	\$5.6	\$5.5	\$4.9	\$4.3	\$3.7	\$3.4	\$3.2
TO COUNTIES	\$6.2	\$6.2	\$5.9	\$5.7	\$6.1	\$5.6	\$4.8	\$4.1	\$3.8	\$3.6
<b>*TOTAL REVENUES ALLOCATED</b>	<b>\$25.1</b>	<b>\$25.1</b>	<b>\$23.4</b>	<b>\$21.6</b>	<b>\$20.6</b>	<b>\$18.5</b>	<b>\$16.2</b>	<b>\$15.3</b>	<b>\$15.0</b>	<b>\$14.2</b>

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

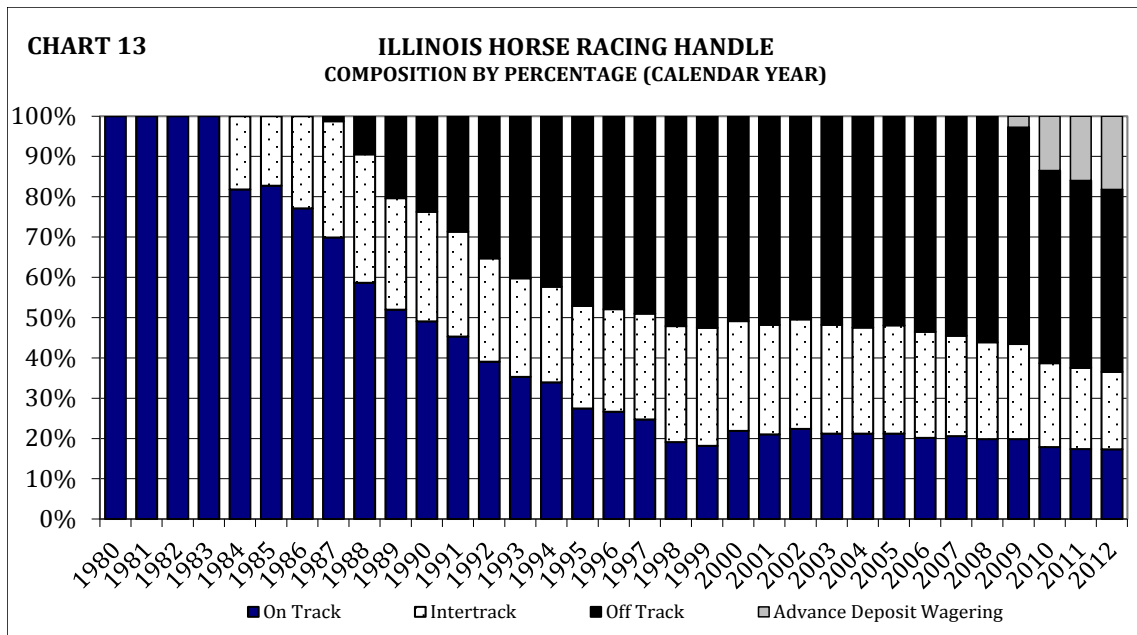
In its 2012 Annual Report, the Racing Board reported that 519 race programs were conducted during CY 2012 (down from 524 race programs in CY 2011). A total handle amount of \$673 million resulted, which was a decrease of 2.2% over the 2011 amount. As shown in Chart 12, this handle amount was the tenth consecutive year of declining revenues and the lowest experienced over the last 35 years. The thoroughbred total handle (\$397M) dropped 7.2%, while the standardbred total handle (\$165M) dropped 7.3%. The remaining \$105 million (10.5% increase) came from advance deposit wagering on out of state races.



The Illinois Racing Board’s latest report states that \$161 million of the total handle in CY 2012 was wagered on Illinois races. An additional \$559 million was wagered on Illinois races broadcast to other states, which was an 8.4% decrease from CY 2011 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 2012 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 45%. Despite this shift, inter-track wagering remained stable and generally comprised between 19% and 30% of the total handle. The latest component of the handle comes from advance deposit wagering which made up 18% of the total in CY 2012. Chart 13 illustrates the historic shift in the composition of the racing handle.



What tracks did Illinois bettors wager on in 2012? The largest handle at Illinois tracks came from Arlington with \$64.1 million, followed by Balmoral, (\$35.5M), Hawthorne (\$31.3M), Maywood (\$18.4M), Fairmount (\$10.9M), and State/County fairs (\$0.6M). The largest handles from out-of-state tracks came from Gulfstream (\$29.3M), Belmont (\$27.8M), Woodbine (\$27.8M), Santa Anita (\$23.8M), and Churchill (\$23.5M).

Of all Illinois meets in 2012, thoroughbred races make up the largest percentage at 75.2%, followed by harness races at 22.9%. Quarterhorse races make up the remaining 1.9%.



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. Currently (August 2013), the Illinois Racing Board reports that there are twenty-seven off-track betting parlors in operation at the end of the year. In 2012, new OTBs were opened in Orland Hills, Glendale Heights, Prospect Heights, and Hoffman Estates. In 2013 (thru August), new locations have opened in Bolingbrook and Aurora. In 2012, OTBs were closed in Buffalo Grove, Yorkville, and South Beloit. So far in 2013, one OTB has been closed in Aurora. Although it is unlikely that all thirty-seven licenses would be granted in a single racing year, the potential exists for the future development of 10 additional OTB locations. A list of Illinois OTBs is shown in Table 30.

<b>TABLE 30: ILLINOIS RACING TRACKS AND ASSOCIATED OTB'S</b>		
<b>TRACK</b>	<b>COUNTY</b>	<b>OTB LOCATIONS</b>
ARLINGTON RACECOURSE	COOK	CHICAGO (Weed St.) HODGKINS ORLAND HILLS* VILLA PARK WAUKEGAN (Green Bay Rd.)
BALMORAL PARK	WILL	CRESTWOOD CHAMPAIGN NORMAL
FAIRMOUNT PARK	MADISON	ALTON SAUGET SPRINGFIELD
HAWTHORNE RACE COURSE	COOK	AURORA**** BOLINGBROOK*** BUFFALO GROVE** CHICAGO (Corliss) GLENDALE HEIGHTS* JOLIET MOKENA PROSPECT HEIGHTS* YORKVILLE**
MAYWOOD PARK	COOK	ELK GROVE VILLAGE HOFFMAN ESTATES* LOCKPORT* NILES NORTH AURORA OAKBROOK TERRACE
QUAD CITY DOWNS	ROCK ISLAND	AURORA*** LOCKPORT** MCHENRY ROCKFORD SOUTH BELOIT** SOUTH ELGIN
* NEW IN 2012    **CLOSED IN 2012    *** NEW IN 2013    ****CLOSED IN 2013		
Source: Illinois Racing Board		

### **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 equated to a total handle amount of \$113.6 million.

In FY 2013, the future of advance deposit wagering was in flux. Under the original language, advance deposit wagering was established in statute to expire on January 1, 2013. Once this day hit, ADW in Illinois was supposed to cease. However, data shows that some companies continued to collect from advance deposit wagering for a time after this date of expiration.

On July 7, 2013, P.A. 98-0018 was signed into law, which, among other items, allowed advance deposit wagering to continue until January 31, 2014. The public act also provides that any licensee who conducted advance deposit wagering after January 1, 2013 and prior to the effective date of this Act (July 7, 2013) are "hereby validated, provided payment of all applicable pari-mutuel taxes are paid to the Board". Because of this brief period of inactivity, only \$1.3 million in advance deposit wagering taxes were collected in FY 2013, which equated to a total handle amount of \$73.2 million.

P.A. 98-0018 also provided that the additional tax of 0.25% on advance deposit wagering shall be deposited into the Standard Purse Fund for grants to the standardbred organization licensees for payment of purses for standardbred horse races conducted by the organization licensee. Under previous law the additional tax was deposited equally into the standardbred purse accounts of organization licensees conducting standardbred racing.

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 added over \$122 million to the overall horse racing handle and increased 11.6% in CY 2012, all other categories of wagering (on-track, inter-track, off-track) experienced losses of 4.8%. On the other hand, the overall decline of 2.1% 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 opening 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 over 40% 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 previous Wagering Reports, 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 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 have 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.

<b>TABLE 31: Allocation of Proceeds from Impact Fees</b>			
<i>\$ in millions</i>			
	Purse	Track	Total
Arlington	\$26.0	\$19.2	<b>\$45.2</b>
Hawthorne	\$17.1	\$12.7	<b>\$29.8</b>
Fairmount	\$5.4	\$6.2	<b>\$11.7</b>
Balmoral	\$22.3	\$11.7	<b>\$34.0</b>
Maywood	\$14.2	\$6.9	<b>\$21.1</b>
<b>Total</b>	<b>\$85.1</b>	<b>\$56.7</b>	<b>\$141.8</b>

Source: Illinois Racing Board

The horse racing industry has 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, two years after receiving this money, improvement in the form of handle and revenues has yet to materialize. While insiders have stated that the proceeds would allow 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 would bring in more horsemen and higher attendance. However, the Racing Board states that little to no changes (above what is typically spent) were made in the form of horsetrack improvements from these additional dollars. The Board believes that most of these revenues have now been exhausted.

Additional subsidies were set to come from the new casino in Des Plaines. State law provided that 15% of the adjusted gross receipts of the new Des Plaines casino were to be transferred into the Horse Racing Equity Trust Fund. However, as was laid out in the Riverboat section of this report, the Comptroller's Office did not allow this transfer to take place due to the lack of valid "vehicle" language to properly transfer the monies from the State Gaming Fund to the Horse Racing Equity Trust Fund. As a result, these revenues, valued at approximately \$120 million (two-year total), remained in the State Gaming Fund – unable to be used.

In response, language was created in P.A. 98-0018 (SB 1884) to allow these dormant casino revenues to be distributed. However, the amount that was originally intended for the horse racing industry was dramatically reduced. The new law provides that the Horse Racing Equity Fund will receive only \$23 million of the \$120.5 million combined total that they were expecting to receive from the Des Plaines casino in FY 2012 and FY 2013 and will receive no additional transfers from this revenue source in the future. The School Infrastructure Fund is now the primary beneficiary of these funds.

While the \$23 million sent to the horse racing industry is a welcomed source of new revenues, it is only a temporary shot in the arm. Half of these revenues are to go towards higher purses, but these additional purse dollars will disappear quickly. 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 gaming expansion legislation containing this provision has yet to receive the Governor's signature of approval.

If a gaming expansion bill with the addition of slot machines at Illinois racetracks 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, Indiana has seen its 'in-state' handle decrease 44.2% - from near \$190 million in 2005 to \$106 million in 2012 - 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 five 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 cases like this, the revenue benefits from having "racinos" 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."

Even if pari-mutuel handles are not necessarily increasing in other states like Indiana, their ability to offer higher purses with the help of another revenue source (slots at tracks) is having a direct detrimental impact on Illinois. A representative from the Illinois Department of Agriculture was quoted in a June 2013 article in the *State Journal Register* that Illinois cannot keep up with other states and added that purses in Indiana are significantly higher than that of Illinois. With higher prize values in other states, more and more in the horse racing industry are leaving Illinois for "greener pastures".

The horse racing community continues to argue that allowing slot machines at their tracks would be a life saver to this industry. Although, data suggests that the amount of betting on horse racing will not necessarily increase as a result of having slot machines at tracks, 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 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 the State finally came to fruition in September 2012 when the first video gaming machines went online in locations throughout Illinois. By the end of FY 2013 (June 2013), 7,920 video gaming terminals became operational across the State, generating \$121 million in net terminal income. This equated to \$6 million in tax revenues to local governments and over \$30 million to the Capital Projects Fund in FY 2013. These amounts will grow significantly in subsequent fiscal years as more of these machines are established across the State.

The Video Gaming Act was first legalized in July 2009, but in the first three years since legalization took place, 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 had been slow to occur, a synopsis of recent legislation impacting the video gaming market, a summary of FY 2013 video gaming statistics, and a discussion on the future of video gaming in Illinois.

### 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. 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 were established 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.

However, now four years since Public Act 96-0034 went into effect, the collection of these new revenues has been slow to materialize. While the originally projected annualized amount of \$1 billion could still eventually occur, legal issues and interruptions in the implementation 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 Capital Projects in FY 2012. This amount grew to \$135 million in FY 2013, but this amount, as discussed in the Lottery Section of the report, was much less than what was anticipated in the Governor’s 2013 Budget Book.

The largest portion of anticipated revenues from the new capital plan was 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, delayed 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, video gaming finally began operations in Illinois in September 2012. Initially, this was on a limited basis as the Board wanted to make sure initial test sites across the State were working properly before opening up video gaming for everyone. In that opening month, 61 terminals were in operation.

Since the initial month, an average of 902 new terminals per month has been activated across Illinois. Due to the time necessary to administer background checks and install the new machines properly, it will likely take many more months before the number of video gaming terminals in operation in the State levels off. It will be at this point that the State will know that full implementation has taken place, which will help answer the question on how much revenue could potentially be generated from video gaming in Illinois on an annual basis.

### Overview of Illinois' Video Gaming Arrangement

While video poker machines had previously been prevalent in establishments across Illinois, these machines were for “entertainment purposes only”. Because of this, the State had never benefited from the collection of taxes from these machines, even if these machines had been “paying out”. P.A. 96-0034 allowed 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 allows 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 is allowed to operate up to 5 video gaming terminals on its premises at any time. Revenues, after payouts, are taxed at a flat 30% tax rate with 5/6 of the revenues going to the Capital Project Fund and the remaining 1/6 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 are only 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, had to be removed from operation no later than 30 days after the Gaming Board established that the central communications system was functional (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 | 5) Technician: \$100            |
| 2) Distributor: \$10,000  | 6) Establishments: \$100        |
| 3) Operator: \$5,000      | 7) Video Gaming Terminal: \$100 |
| 4) Supplier: \$2,000      | 8) Terminal Handler: \$50       |

The exact amount of the new revenues from these fees would, therefore, depend upon the number of licensed technicians, suppliers, distributors, manufacturers, establishments, and terminals.

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

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

## New Legislation Impacting Video Gaming

There were several pieces of legislation from the Spring 2013 Session impacting video gaming that were signed into law. These changes are summarized below:

**P.A. 98-0112 (HB 1570):** This public act, which was signed into law on July 26, 2013, removed language regarding the restriction of having video gaming machines located near a licensed establishment, licensed truck stop establishment, licensed fraternal establishment, or licensed veterans establishment near an inter-track wagering location licensee (off-track betting parlors) licensed under the Illinois Horse Racing Act of 1975.

**Fiscal Impact:** The Board's understanding is that the intention of the legislation is to allow off-track betting parlors the ability to have video gaming at their facilities. Currently, there are 27 off-track betting parlors currently in operation. If each of these facilities were able to offer video gaming, assuming the maximum 5 machines with net terminal income (NTI) of \$100 per day (according to the Gaming Board's July 2013 Video Gaming Report, the average NTI was \$93/day), each facility would generate approximately \$54,750 per year in video gaming tax revenues (under the 30% tax rate). Therefore, combined they could generate roughly \$1.5 million over the course of a year.

In addition to these establishments, other liquor pouring establishments that are currently banned from video gaming because of their close proximity to the OTBs would be able to apply for a video gaming license. It is not known how much additional video gaming revenues could be generated by also allowing these establishments to participate in video gaming in Illinois, as the number of locations that this would pertain to is not known.

**P.A. 98-0112 (HB 1570):** This public act, which was signed into law on August 28 2013, changes the definition of "licensed establishment" to specify that this includes any licensed retail establishment where alcoholic liquor is drawn, poured, mixed, or otherwise served for consumption on the premises, whether the establishment operates on a nonprofit or for-profit basis.

**Fiscal Impact:** Under previous law, video gaming establishments could be operated at liquor pouring establishments, but some organizations, such as golf clubs, yacht clubs, the Knights of Columbus, etc., were reportedly denied a video gaming license because the Gaming Board ruled that they did not fit under the Video Gaming Act's statutory requirements. This legislation is intended to modify the definition of "licensed establishments" so that these previously mentioned groups can qualify.

This change will increase the potential number of locations that could offer video gaming. While this will likely increase the amount of revenues generated from video gaming, the extent to which this will occur is not known. This amount will depend on the number of these establishments that will apply for a video gaming license, which is not known.

## 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.

During the four years before video gaming came to fruition, the number of municipalities/counties that had laws banning video gaming grew. Some made the decision to ban video gaming in their communities following the enactment of video gaming, while some 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 has a huge impact on potential video gaming revenues.

On its website, the Illinois Gaming Board has established a page which identifies the municipalities across Illinois and their status of whether or not they allow video gaming in their area. Using population figures from the 2010 census, the Commission estimated last year (August 2012) that an additional 42.3% of the State’s population (not including Chicago) belonged to municipalities that ban video gaming. When including the City of Chicago, approximately 63.3% of the State’s population was not eligible to offer video gaming terminals in their businesses due to these local laws.

Many insiders believed, however, that some of these areas that banned video gambling would change their minds and allow video gaming once operations began. As the economy trickles along, local governments are seeking new 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 is 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.

Updated information from the Gaming Board’s website has shown this to be true as numerous local governments have overturned their ban on video gaming in their areas over the past year. The Commission now calculates that the percentage of the State that lives in an area banning video gaming has declined from 63.3% to 48.1%.

The City of Chicago and its 21.0% of the population still bans video gaming, but non-Chicago areas banning this form of gambling has been reduced from 42.3% of the population to 27.1%. This percentage will likely continue to fall as local governments see the revenue benefits that can result from offering video gaming.

Video Gaming Actuals and Estimates

In the table below is a summary of the amount of revenue generated from video gambling in FY 2013. In its first ten months of operations, \$121 million in net terminal income was generated in the fiscal year, resulting in \$36 million in tax revenues. Five-sixths of this revenue, or \$30 million, was distributed to the Capital Projects Fund. Local governments received the remaining one-sixth, or \$6 million.

As shown, the amount of terminals offering video gambling grew exponentially throughout FY 2013. In September 2012, only 61 terminals were in operation. But by June 2013, the number of terminals grew to 7,920 terminals. The number of terminals grew by an average of 902 machines per month. By the end of the fiscal year, the average terminal generated nearly \$100 per day.

<b>Table 32: FY 2013 Illinois Video Gaming Statistics</b>						
<b>\$ in millions</b>						
	<b>Terminals</b>	<b>Net Terminal Income (NTI)</b>	<b>NTI / Terminal / Day</b>	<b>Tax Revenue (30%)</b>	<b>State Share (25%)</b>	<b>Municipality Share (5%)</b>
<b>July</b>	-					
<b>August</b>	-					
<b>September</b>	61	\$0.090	\$49.22	\$0.027	\$0.023	\$0.005
<b>October</b>	714	\$1.388	\$62.71	\$0.416	\$0.347	\$0.069
<b>November</b>	1,439	\$3.829	\$88.70	\$1.149	\$0.957	\$0.191
<b>December</b>	2,293	\$6.994	\$98.40	\$2.098	\$1.749	\$0.350
<b>January</b>	3,394	\$9.781	\$92.96	\$2.934	\$2.445	\$0.489
<b>February</b>	4,353	\$13.578	\$111.40	\$4.074	\$3.395	\$0.679
<b>March</b>	5,092	\$18.791	\$119.04	\$5.637	\$4.698	\$0.940
<b>April</b>	6,219	\$20.295	\$108.78	\$6.088	\$5.074	\$1.015
<b>May</b>	6,956	\$23.077	\$107.02	\$6.923	\$5.769	\$1.154
<b>June</b>	7,920	\$23.248	\$97.84	\$6.974	\$5.812	\$1.162
<b>FY 2013 Totals:</b>		<b>\$121.072</b>		<b>\$36.321</b>	<b>\$30.268</b>	<b>\$6.054</b>

So, how much revenue will be generated from video gaming in the future? At this point, this is a difficult question to answer due to several factors. First, the number of establishments that will ultimately seek to operate video gaming machines in the future is unknown. A lot of this depends on the success of the current establishments and the number of other businesses that will want to invest their time and energy into starting video gaming at their own locations.

Secondly, as discussed earlier, it will depend on how many communities currently banning video gaming decide to overturn this ban. If this occurs, especially in the City of Chicago, the number of businesses seeking video gaming machines would increase dramatically.



Finally, the amount of revenue generated in a fiscal year, specifically for FY 2014, will depend on the ability/speed of the Illinois Gaming Board to approve new locations. As mentioned previously, the process of approving an establishment for video gaming (background checks, installation, etc.) has resulted in the installation of an average of 902 new terminals being installed every month. Obviously, if this figure were to increase, the amount of revenue generated in a month would also increase.

Eventually the video gaming market in Illinois will get to the point where “full-implementation” has taken place and monthly revenues will level off. At this point, however, it is too early to know for sure when and where that point will be. Say, for example, that FY 2014 continues to grow by approximately 900 terminals every month and generates around \$90 per terminal per day. Net terminal income would total approximately \$452 million by the end of FY 2014, which would result in \$135 million in overall tax revenues.

Then, let’s say that revenues began to level off in FY 2015 at nearly 20,000 terminals across Illinois. At around \$90 per machine per day, this would result in approximately \$645 million in net terminal income, resulting in approximately \$194 million in overall tax revenues. This would mean \$161 million to the Capital Projects Fund and approximately \$32 million to local governments in FY 2015.

If this were to be the case, these numbers would fall within the Commission’s 2012 estimate of the amount of revenue that could potentially be generated from video gaming. In August 2012, the Commission estimated that, under full implementation, approximately \$105.6 million to \$196.2 million could be generated for the Capital Project Fund and between \$21.1 million and \$39.2 million could be generated for local governments. Under current conditions, these estimates still appear valid.

However, it must be noted that the State impact (revenues to the Capital Project Fund) of Chicago not “opting-in” to video gaming is approximately \$60.4 million to \$112.1 million. Therefore, if the City of Chicago were to ever “opt in”, the Commission’s projections for the amount of revenue generated from video gaming would be noticeably higher.

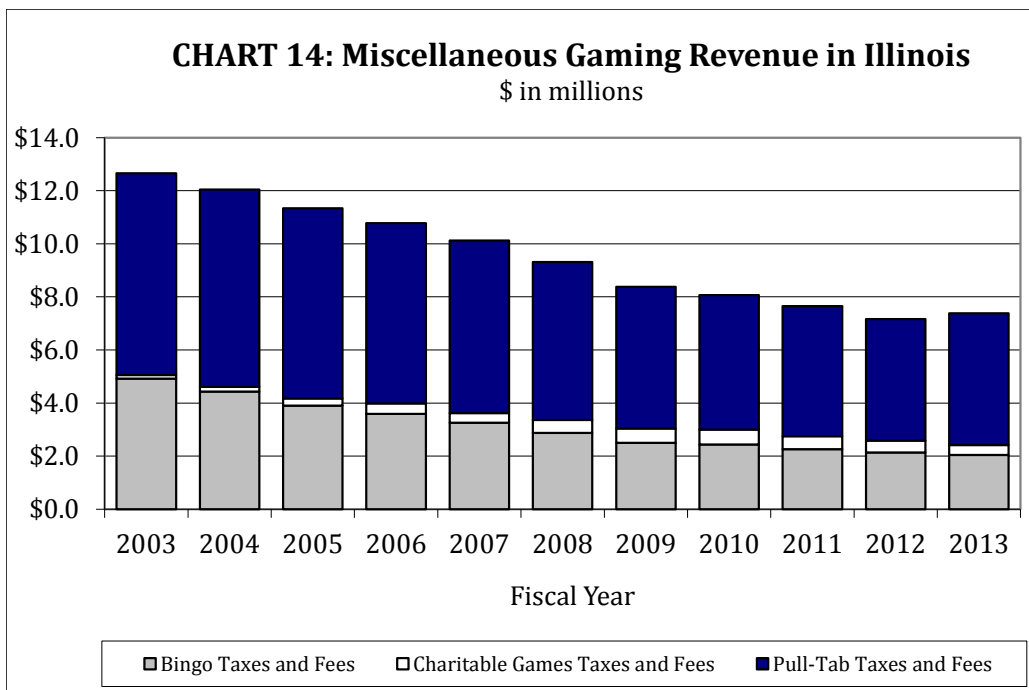
**It should also be stressed that the projections shown above are made without any additional expansion of gaming in Illinois.** If gaming expansion legislation were to ever be signed into law, this could have a negative impact on these revenue projections as an increase in gaming facilities would likely 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 2013, the State generated \$144,226 in bingo license fees and \$1.9 million in bingo taxes. Total bingo receipts were down 4.5% from FY 2012 levels.
- Illinois receives two forms of revenue from charitable games: license fees and the charitable games receipts tax. In FY 2013, the State received \$58,450 in license fees and \$317,182 from the charitable games tax. Total charitable games receipts were down 16.5% from FY 2012 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 2013, the State received \$446,100 in license fees and \$4.5 million from the pull tabs and jar games tax. Total pull-tabs and jar games receipts were up 8.4% from FY 2012 levels.

In total, these miscellaneous gaming revenue sources generated approximately \$7.4 million in FY 2013. This figure is 3.0% above the FY 2012 total of \$7.2 million. This increase, albeit slight, was the first increase in these combined miscellaneous revenues since FY 1998. Chart 14 illustrates a history of miscellaneous gaming revenue over the past ten years.



## CONCLUSION

For the first time since 2004, State revenues from gaming-related sources experienced a double-digit increase in FY 2013, rising 11.3%. The increase in overall gaming revenues is primarily due to the numerous changes that have taken place over the past several years. The factors that have influenced revenues the most include the new riverboat in Des Plaines, gaming changes in the Illinois Lottery, and the commencement of video gaming in Illinois. While the recent gains are welcomed, the combined totals in FY 2013 are still 14.4% 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, such as the Capital Projects Fund.

From a riverboat casino perspective, the primary cause for the increase in gaming revenues over the last couple of years comes from the July 2011 opening of the new casino in Des Plaines. The \$410 million in adjusted gross receipts that this new riverboat added to State totals in FY 2013 is the major reason why overall AGR levels are up 18.1% since FY 2011. As the popularity of this new casino continues, even more revenues are expected to be generated in the years to come.

But even though overall casino AGR totals have increased 18.1% since FY 2011, the amount of revenues marked as State revenues from Illinois casinos have only grown 2.2% during this time period. This is 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 pre-existing Illinois casinos in the Chicago metropolitan area fell a combined 17.7% in the first two years of the new casino, with the largest decline coming from Elgin at -29.6%. 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 potential State revenue portion by approximately \$75 million in FY 2012 and \$78 million in FY 2013.

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 have increased 30.6% since FY 2011. In addition, the five Indiana casinos in that area have fallen a combined 8.7% since the Des Plaines casino's opening. 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 2013) remains well behind Indiana (\$2.5 billion in FY 2013) 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 enrolled, during the 97<sup>th</sup> General Assembly, which would have dramatically increased gambling in Illinois by allowing additional positions at all of the casinos, allowing a Chicago casino along with four additional riverboats, and allowing 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. This veto was not overturned. Another gaming expansion bill arose in the Spring 2013 session (SB 1739), but this too has, so far, failed to garner enough support for passage.

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 2013 was a strong year for the Illinois Lottery as sales grew \$165 million or 6.2% in FY 2013 and Lottery transfers grew \$85.5 million or 12.1%. Instant Games continue to make up the largest percentage of total sales at 62% and experienced the largest growth in sales (+\$146 M). The multi-state games and raffles accounted for most of the remaining growth.

Changes in the Illinois Lottery over the past several years have led to the recent boost in lottery sales and revenues. Some of the changes include the introduction of new instant games, the rebranding of old ones, an increase in the price of Powerball tickets to \$2 per ticket, and the March 2012 allowance of lottery ticket sales over the internet.

These recent changes in the Lottery program are expected to continue to have a positive impact on lottery sales in FY 2014 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 fiscal year of operation were considerably below expectations. It is expected that Northstar will continue to look to ramp up the number of retailers that sell lottery products.

The lottery will likely continue to grow but not at the high rates seen in recent years. Future lottery results will also likely be dependent upon the outcomes of on-going arbitration between Northstar and the State. Northstar has recently requested a downward reduction of \$556 million in net income targets that could significantly affect future lottery transfers.

Horse racing in Illinois continues to struggle. The CY 2012 handle amount of \$673 million was the lowest level in the last three decades. The 2012 decline of -2.2% was the tenth consecutive year of declining revenues. Although, advance deposit wagering in its third full year of existence added \$122 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 2012.

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, now two years after the release of this funding, there is little to no evidence that these revenues were successful in turning this struggling industry around.

There continues to be pressure from the horse tracks on lawmakers to provide further funding for their industry. Additional revenues for horse racing were statutorily set to come from the new Des Plaines casino, but, this money was never appropriated. In order to access this revenue, legislative changes to the statutory language had to be made. This was recently done by P.A. 98-0018, however, the new law provides that the Horse Racing Equity Fund will receive only \$23 million of the \$120.5 million combined total that they were expecting to receive from the Des Plaines casino in FY 2012 and FY 2013 and will receive no additional transfers from this revenue source in the future. The School Infrastructure Fund is now the primary beneficiary of these funds.

It appears that 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 necessarily increase the racing handle, it would provide a secondary source of revenue to support the horseracing industry.

Perhaps the biggest change that will impact the future of gaming in the State is the allowance of video gaming machines throughout Illinois. After years of delays, video gaming finally became operational in Illinois in September 2012. By the end of FY 2013, nearly 8,000 video gaming machines were in operation, generating \$121 million in net terminal income for the fiscal year. At the 30% tax rate, this resulted in \$30.3 million to be transferred to the Capital Projects Fund (5/6), with the remainder paid to local governments (1/6) across Illinois.

The amount of revenue that will be generated through video gaming in Illinois for future years 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 currently estimates that roughly 48% of the State's population lives in areas that currently have a ban on video gaming in their communities. While this figure is significant, it is down from the estimated 63% of the population that banned video gaming just a year ago. This suggests that many municipalities have reevaluated their decision to ban video gaming and have chosen to overturn this ban to reap the financial benefits that many other municipalities across the State have enjoyed since video gaming came into fruition.

Although, several areas have overturned their ban on video gaming in the past year, the City of Chicago continues to have laws against this form of gambling in their city. As it stands now, current trends indicate that the total amount of revenues to the Capital Projects Fund from video gaming will range between \$100 million to \$200 million over the next couple of fiscal years as it builds toward full implementation. If the City of Chicago were to ever "opt-in", the annual total to the Capital Projects Fund could increase by as much as \$60 million to \$112 million per year (under full-implementation). But from the City's perspective, the question is whether the desire for the additional local revenues that would be come from video gaming become too tempting to pass up?

While a number of changes have occurred in the past year, a number of significant uncertainties remain. Will the Governor and the State Legislature be able to come to a compromise regarding gaming expansion in Illinois? What will the decision of the current arbitration between the private management of the Lottery and the State render? Will the monies distributed to the horse racing industry from riverboat revenues make a difference? How will video gaming perform in its second year of existence? 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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