

102nd General Assembly
Response to Senate Resolution 303
in regards to
Internet Gaming in Illinois



July 2021

*Commission on Government
Forecasting and Accountability*

COMMISSION CO-CHAIRS

Senator David Koehler
Representative C.D. Davidsmeyer

SENATE

Omar Aquino
Darren Bailey
Donald DeWitte
Elgie Sims
Dave Syverson

HOUSE

Amy Elik
Amy Grant
Sonya Harper
Elizabeth Hernandez
Anna Moeller

EXECUTIVE DIRECTOR
Clayton Klenke

DEPUTY DIRECTOR
Laurie Eby

REVENUE MANAGER
Jim Muschinske

AUTHOR OF REPORT
Eric Noggle

EXECUTIVE SECRETARY
Briana Stafford

TABLE OF CONTENTS

102nd General Assembly

Response to Senate Resolution 303 in regards to Internet Gaming in Illinois

July 2021

	<u>PAGE</u>
I. Introduction	1
II. Overview of Other States with Internet Gaming	
• Delaware	4
• New Jersey	5
• Pennsylvania	6
• West Virginia	7
• Michigan	8
III. Estimate Methodology	9
IV. Revenue Estimates	16
V. Copy of Senate Resolution 303	19

INTRODUCTION

Pursuant to Senate Resolution 303, as adopted by the Senate of the 102nd General Assembly, the Commission on Government Forecasting and Accountability has been directed to deliver a report that...

...includes, at a minimum, detailed estimates of the revenue that could have been generated through a privilege tax if Illinois had implemented internet gaming beginning February 28, 2020.

{The entire language of Senate Resolution 303 is included at the end of this report.}

In response, the Commission submits the following report which provides the Commission's findings on the revenue potential of internet gaming in Illinois. While revenue projections *outside* of this pandemic-specific time frame are discussed in the report, as specified by this resolution, this projection is focused on the question of what would have been generated in Illinois had internet gaming been available on February 28, 2020.

The specific timeframe of the request is an important distinction to make because the amount collected from a fully-implemented online platform during a pandemic (with a lessened competitive market under an assumed fully-implemented status) could be vastly different than amounts generated during a "normal" year (with competition from other accessible gaming options not impacted by the pandemic) and/or if online gaming was yet to be fully established in Illinois. The importance of understanding the methodology and variables used in the Commission's projections is addressed later in the report.

Before providing any revenue estimates, the Commission believes it is necessary to begin with an overview of the current status of internet gaming in the United States.

Background

There are only a handful of states that currently allow online casinos in the United States: Delaware; New Jersey; Pennsylvania; West Virginia, and Michigan. Nevada does not allow online casinos, but does allow online poker. A number of other states, including Illinois, allow online sports betting but do not currently allow online casinos/poker.

Delaware and New Jersey were the first states to operate online casinos, which they did in November 2013. Pennsylvania launched its internet gaming several years later in July 2019. West Virginia joined the online casino market a year later in July 2020. Most recently, the State of Michigan began generating revenues from online gaming in January 2021.

To date, the amount of revenue generated from Internet gaming in these states has varied considerably. One of the requirements for states conducting this type of gaming platform is that wagering must be done within the borders of that particular state. A gambler is not necessarily required to be a resident of that state to participate in online gaming, but the gambler must be within that state's borders when the gambling is occurring. Therefore, the more populous the state, the higher the revenue potential of the gaming revenue stream.

It is for this reason that the revenue amounts generated from the two most-established online casino states – Delaware and New Jersey, have been so different. Delaware, with an estimated 2020 population of approximately one million people generated \$2.1 million in gross revenues (taxable base) from internet gaming in its first full calendar year of operations (2014). By 2019, this figure had grown to \$3.6 million. In the pandemic-driven year of 2020, this annual total ballooned to \$8.4 million (more on this sharp increase later in the report).

New Jersey had very similar receipt patterns but on a much larger scale. With a 2020 population of approximately 9.3 million, New Jersey generated nearly \$148 million in its first full year of operations. Since that time, New Jersey’s annual totals incrementally increased to \$483 million by 2019, and then skyrocketed to \$970 million during the pandemic year of 2020. New Jersey also benefited from having seven different casinos that were licensed to operate online gaming platforms (compared to only three in Delaware).

The State of Pennsylvania currently has 10 casinos operating online gaming and a relatively large population base of 13.0 million (similar to Illinois). In its first full calendar year of operations, Pennsylvania generated nearly \$566 million in gross revenues from Internet gaming in 2020. The challenging aspect of analyzing Pennsylvania’s first year of revenues is that these revenues came in the midst of the pandemic. The timing of having this type of accessible gaming available amidst the shutdowns of other competing gaming formats has no doubt proved advantageous for online gaming in Pennsylvania. It remains to be seen, however, how these gaming figures will perform once more gaming and spending opportunities become available in a post-pandemic period.

Since opening in July 2020, the State of West Virginia has generated \$29.1 million from its three online gaming platforms in its first eleven months of operations. West Virginia is still in the implementation phase as one of the three casinos just began generating online gaming revenues in April 2021. Revenues have continued to grow each month since inception. Similar to Pennsylvania, it is unclear how high these revenues will grow before moderating, especially once the pandemic wanes and other public gaming/spending opportunities become available.

While Pennsylvania and West Virginia’s timing of implementing its online casinos during the pandemic was fortunate, the State of Michigan may have just missed the peak of the pandemic by launching online gaming in late January of 2021. Still, Michigan has been able to generate nearly \$370 million in 4.5 months of revenues so far in 2021. The majority of these revenues have come from its three commercial casinos. However, nearly 40% of the revenues so far have come from ten tribal casino licenses. Michigan also benefits from a relatively large population base of nearly 10.1 million people.

The revenue figures mentioned above pertain to each State’s version of “adjusted gross receipts”. This is often defined as the whole gaming gross receipts less winnings paid to wagers. This value is often the taxable base to which a state’s gaming tax is applied. Some states modify this amount by subtracting items such as the dollar amount of non-cashable vouchers, coupons, or promotions redeemed by participants on an Internet gaming platform.

There is a significant amount of variance between the tax rates applied to online gaming revenues by the five states currently operating Internet gaming. These rates range from flat taxes of 15% and 17.5% on all online revenues in West Virginia and New Jersey, respectively, to Pennsylvania’s multiple gaming taxes of 54% on interactive slots and 16% on interactive table games. In Delaware, online gaming is taxed at

100% until it reaches a threshold of \$3.75 million (which it has only done once so far), before declining to 57% on electronic gaming device revenues and 20% on gross table game revenues. Michigan's tax structure lies in the middle, with rates of 20% to 28%, depending on a casino's total online revenue.

These tax rates are important to note as they ultimately decide how much tax revenue a state collects from its online gaming. For example, in 2020, New Jersey's gross revenues from online gaming totaled \$970.7 million. Its 15% tax rate resulted in tax revenues of approximately \$145 million. Pennsylvania's gross revenue totals in 2020 were significantly lower than New Jersey at \$566 million. However, Pennsylvania generated \$155 million, approximately \$10 million more than New Jersey, because of its higher 2020 effective tax rate of 27.3%.

The following pages provide synopses of each of the five states offering online gaming. This includes the dates that each state enacted and opened online gaming, tables summarizing the calendar year totals of each of its licensed casinos, graphs displaying the monthly performance of these revenues, as well as a summary of its tax structure and revenue performance thus far.

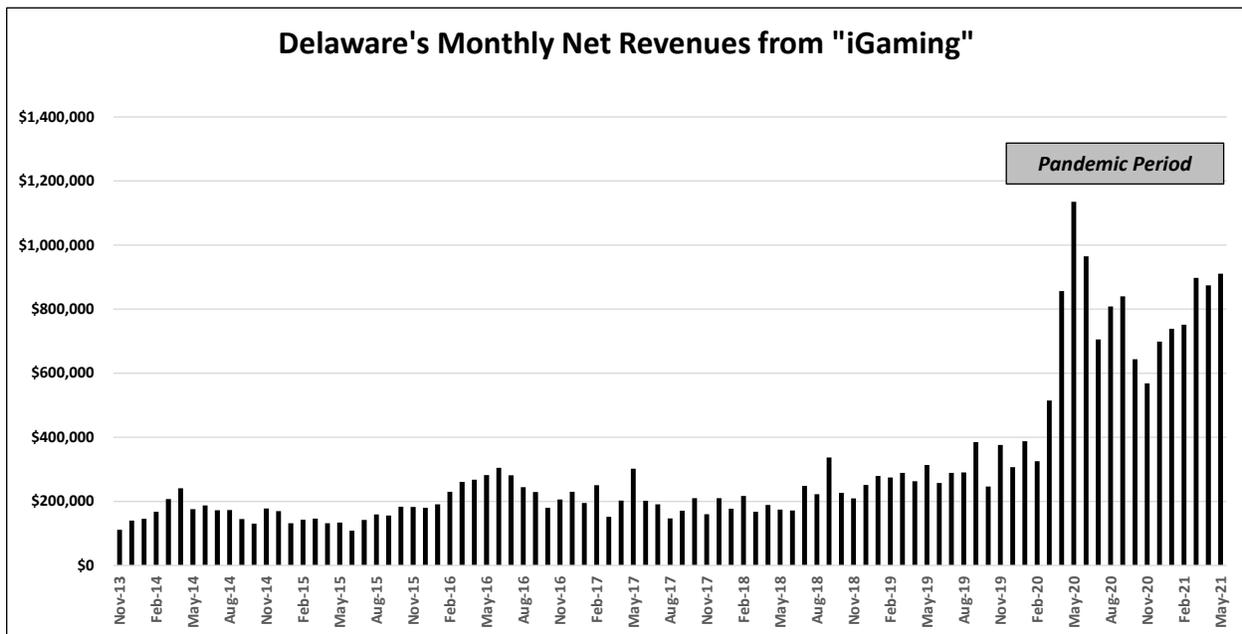
Delaware

Date Online Gaming Became Law: June 2012

Date of Online Casinos Launch: November 2013

Revenue History:

Internet Gaming Gross Revenue								
Calendar Year - \$ in millions								
Casino	2013	2014	2015	2016	2017	2018	2019	2020
Delaware Park	\$0.2	\$1.4	\$1.0	\$1.4	\$1.2	\$1.2	\$1.4	\$3.2
Dover Downs	\$0.1	\$0.5	\$0.5	\$1.0	\$0.7	\$0.9	\$1.4	\$3.2
Harrington	\$0.0	\$0.2	\$0.3	\$0.5	\$0.5	\$0.5	\$0.8	\$2.1
TOTAL	\$0.3	\$2.1	\$1.8	\$2.9	\$2.4	\$2.6	\$3.6	\$8.4
Annual % Change:		731.9%	-14.0%	61.6%	-17.7%	8.3%	37.8%	136.7%



Tax Structure: The effective taxation structure applied to Delaware’s internet gaming offerings is roughly the same as the structure applied to the equivalent games at its racetrack casinos (an effective tax rate of approximately 57% on their gross revenue from electronic gaming devices and a 20% tax on their gross table game revenue). However, Delaware’s casinos are entitled to a share of internet gaming revenue only after the total amount generated in any fiscal year surpasses \$3.75 million. Prior to 2020, the casino revenues failed to reach this threshold and, thus, the State of Delaware kept all of the revenues generated from online gaming. The increases in gaming revenues in 2020 and into 2021 will allow the casinos to retain a portion of the revenues generated from online gaming.

Sources: <https://www.americangaming.org/resources/state-of-the-states-2021/>

<https://www.delottery.com/More/iGaming/Monthly-Net-Proceeds>

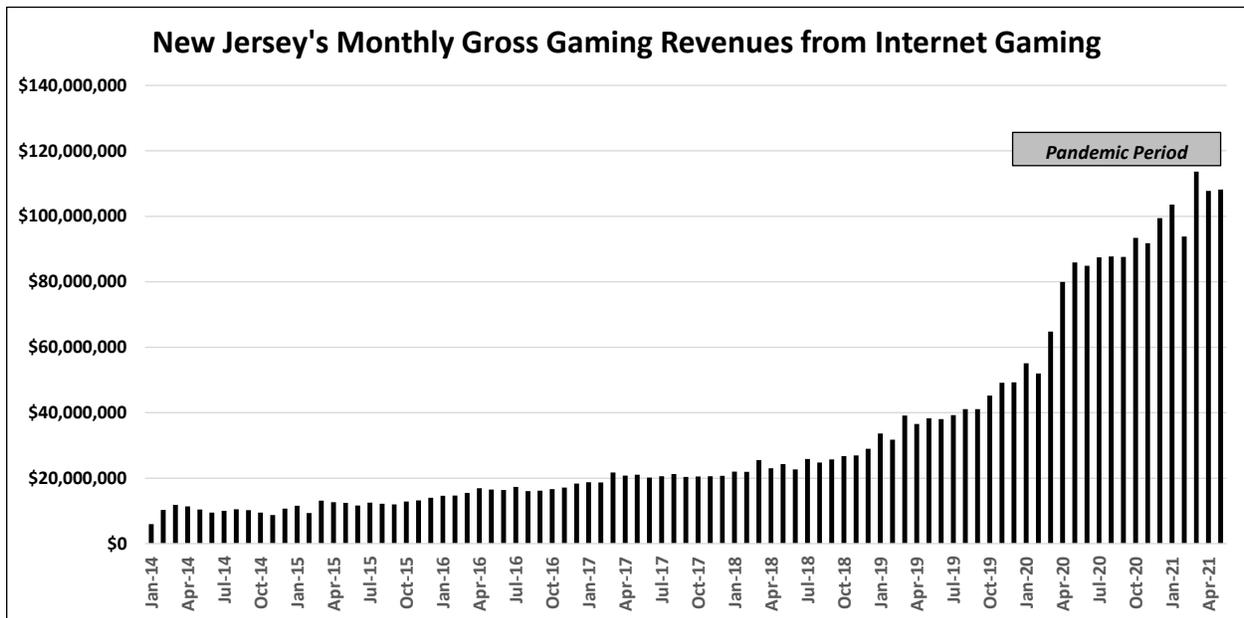
New Jersey

Date Online Gaming Became Law: February, 2013

Date of Online Casinos Launch: November, 2013

Revenue History:

Internet Gaming Gross Revenue							
Calendar Year - \$ in millions							
Casino	2014	2015	2016	2017	2018	2019	2020
Borgata	\$40.8	\$44.7	\$47.0	\$48.5	\$54.1	\$77.8	\$208.2
Caesars	\$32.8	\$32.6	\$38.7	\$43.0	\$45.6	\$55.4	\$94.8
Golden Nugget	\$10.8	\$31.0	\$42.2	\$68.6	\$104.8	\$177.0	\$318.9
Hard Rock	\$0.0	\$0.0	\$0.0	\$0.0	\$5.1	\$22.5	\$59.6
Ocean	\$0.0	\$0.0	\$0.0	\$0.0	\$2.8	\$5.1	\$10.3
Resorts	\$0.0	\$6.8	\$31.8	\$42.9	\$45.3	\$100.1	\$208.4
Tropicana	\$22.6	\$32.8	\$37.0	\$42.6	\$41.1	\$44.8	\$70.1
Trump Palace	\$7.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Trump Taj Majal	\$5.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL	\$119.4	\$147.9	\$196.7	\$245.6	\$298.7	\$482.7	\$970.4
Annual % Change:		23.9%	33.0%	24.8%	21.6%	61.6%	101.0%



Tax Structure: Internet casino gaming revenue is taxed at an effective rate of 17.5%. It is comprised of a 15% state gaming tax and a 2.5% community investment obligation. The tax revenues collected from the state gaming tax has steadily increased from \$17.9 million in CY 2014 to \$72.5 million in CY 2019. In CY 2020, tax revenues more than doubled to \$145.7 million, benefitting from the convenience of online betting during the pandemic.

Source: <https://www.njoag.gov/about/divisions-and-offices/division-of-gaming-enforcement-home/financial-and-statistical-information/monthly-internet-gross-revenue-reports/>

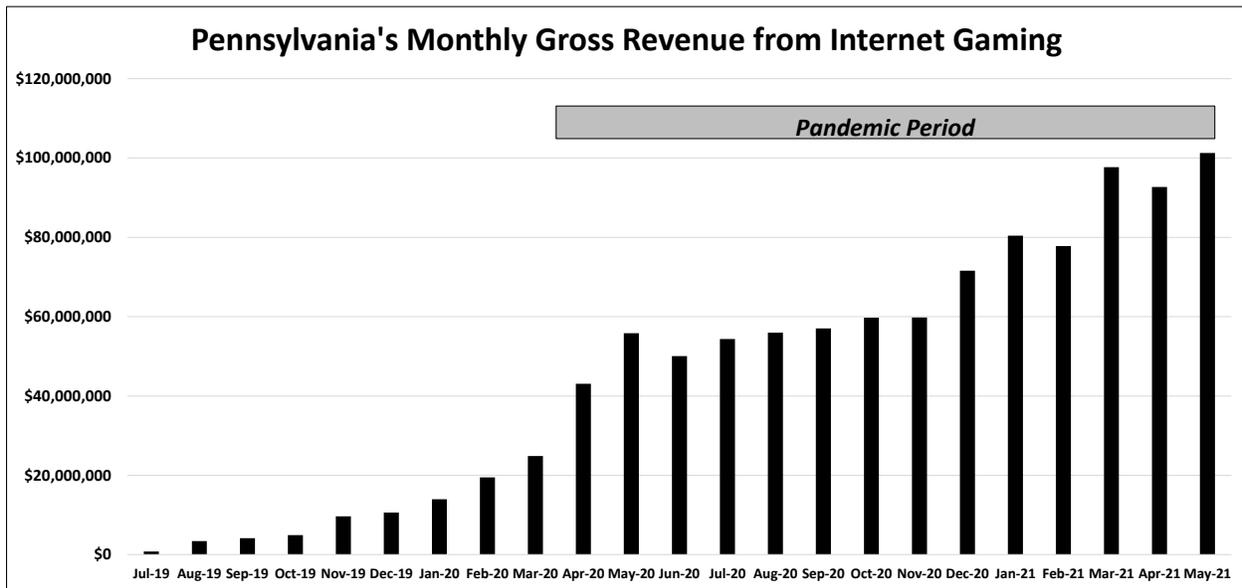
Pennsylvania

Date Online Gaming Became Law: October 2017

Date of Online Casinos Launch: July 2019

Revenue History:

Pennsylvania's Internet Gaming Gross Revenue		
Calendar Year - \$ in millions		
Casino	2019	2020
Penn National	\$8.0	\$122.5
Parx	\$6.3	\$61.9
The Rivers	\$11.8	\$162.6
Mount Airy	\$7.0	\$83.7
Mohegan	\$0.5	\$25.4
Presque Isle	\$0.0	\$3.0
Valley Forge	\$0.0	\$95.3
Caesars	\$0.0	\$7.9
Wind Creek	\$0.0	\$2.4
Live! Philadelphia	\$0.0	\$1.1
TOTAL	\$33.6	\$565.8



Tax Structure: The combined tax on gross revenue from interactive slots is 54%, which includes a 34% state tax; a 13% county grant tax; and a 5% and 2% local share assessment tax. The combined tax on gross revenue from interactive tables is 16%, which includes a 14% state tax; and a 2% local share assessment tax. The “state tax” collected a total of \$154.7 million in CY 2020 from the \$565.8 million in gross receipts.

Sources: <https://www.americangaming.org/resources/state-of-the-states-2021/>

<https://gamingcontrolboard.pa.gov/?p=317>

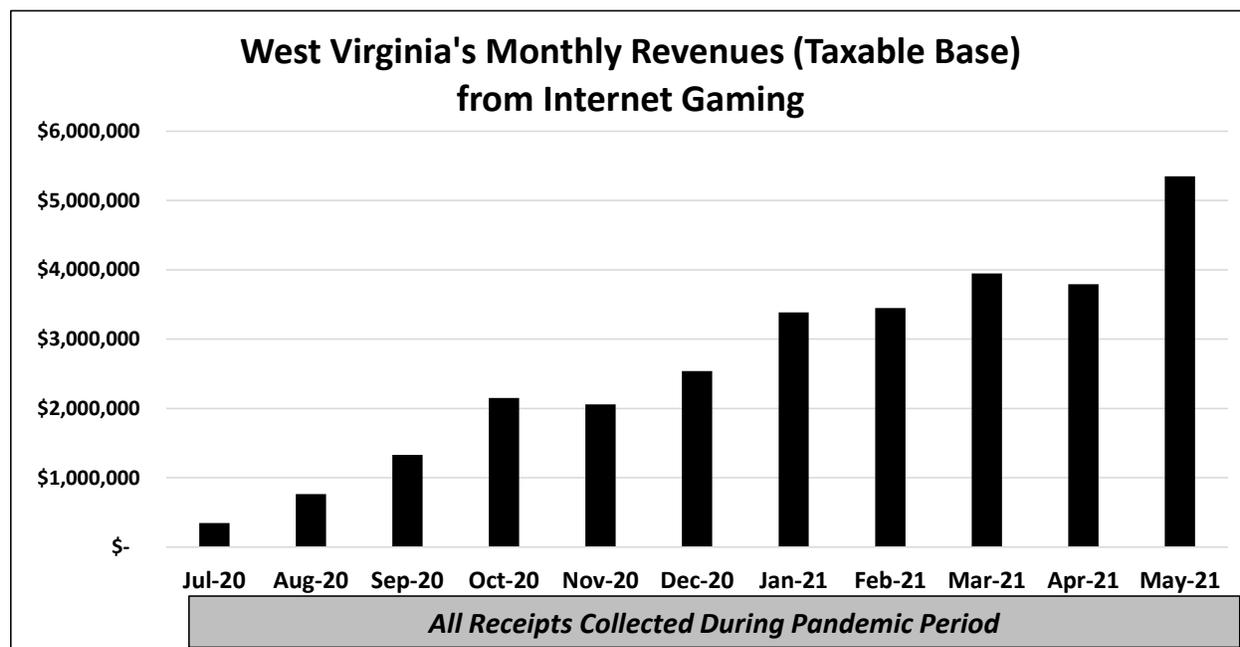
West Virginia

Date Online Gaming Became Law: March 2019

Date of Online Casinos Launch: July 2020

Revenue History:

West Virginia's Internet Gaming Revenues (Taxable Base) History				
<i>\$ in millions</i>				
	Greenbrier	Hollywood	Mountaineer	Total
Jul-20	\$0.3	\$0.0	\$0.0	\$0.3
Aug-20	\$0.8	\$0.1	\$0.0	\$0.8
Sep-20	\$1.3	\$0.4	\$0.0	\$1.8
Oct-20	\$2.1	\$0.8	\$0.0	\$3.0
Nov-20	\$2.1	\$0.9	\$0.0	\$3.0
Dec-20	\$2.5	\$1.1	\$0.0	\$3.7
Jan-21	\$3.4	\$1.6	\$0.0	\$5.0
Feb-21	\$3.4	\$1.8	\$0.0	\$5.3
Mar-21	\$3.9	\$2.2	\$0.0	\$6.2
Apr-21	\$3.8	\$1.9	\$0.1	\$5.9
May-21	\$5.3	\$2.7	\$0.4	\$8.4
Historical Total (July '20 - May '21)	\$29.1	\$13.6	\$0.5	\$43.2



Tax Structure: West Virginia’s online gambling revenue is taxed at a rate of 15%. Since “iGaming” began in July 2020, over \$43 million in revenues have been generated from West Virginia’s three casinos thru May 2021. The monthly totals have continued to grow since its inception as the industry gains traction throughout the State. So far, \$4.4 million in tax revenues have been collected from its 15% tax.

Source: <https://wvlottery.com>

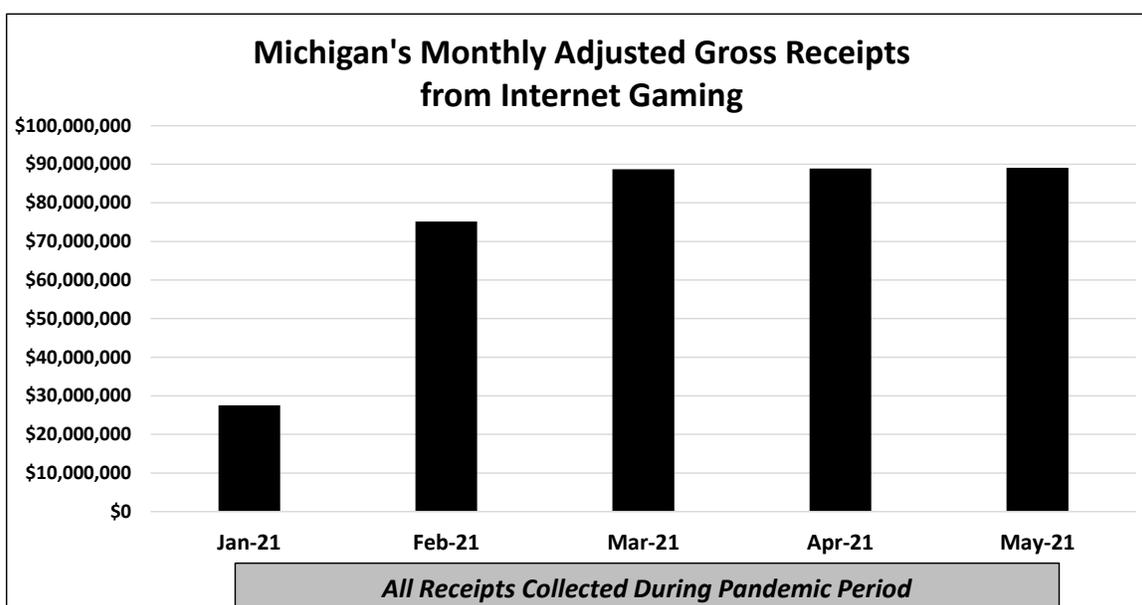
Michigan

Date Online Gaming Became Law: December 2019

Date of Online Casinos Launch: January 2021

Revenue History:

Michigan's Internet Gaming Adjusted Gross Revenues		
\$ in millions		
Casino	Launch Date	2021 AGR (YTD thru May)
MGM Grand Detroit	1/22/2021	\$141.7
MotorCity Casino	1/22/2021	\$66.7
Greektown Casino	2/1/2021	\$14.3
Bay Mills Indian Community	1/22/2021	\$62.9
Grand Traverse Band of Ottawa and Chippewa Indians	1/22/2021	\$1.7
Gun Lake Band of Pottawatomi Indians	4/23/2021	\$0.6
Hannahville Indiana Community	1/22/2021	\$6.0
Keweenaw Bay Indian Community	1/22/2021	\$12.4
Lac Vieux Desert Bank of Lake Superior Chippewa Indian	4/4/2021	\$0.6
Little River Band of Ottawa Indians	1/22/2021	\$23.2
Little Traverse Bands of Odawa Indians	1/29/2021	\$19.9
Pokagon Band of Potawatomi Indians	2/15/2021	\$5.0
Sault Ste. Marie Tribe of Chippewa Indians	1/22/2021	\$14.3
TOTAL		\$369.4



Tax Structure: The tax rate on online gaming in Michigan ranges from 20% to 28% based upon a casino's total online revenue. During the first five months of operation (thru May), the effective tax rate of the "state" payment from Internet Gaming was 19.4%, generating \$71.5 million.

Sources: https://www.michigan.gov/mgcb/0,4620,7-351-79127_82898-244408--,00.html

ESTIMATE METHODOLOGY

Again, the stated objective of Senate Resolution 303 is to answer the question of what would have been generated in Illinois had internet gaming been available on February 28, 2020. This type of “retrospective” projection requires certain assumptions to be established so the context of the estimate is clear. Some of these assumptions are directed in the Resolution, but others must be established and clarified in this report before any revenue projections can be offered. These assumptions are discussed below.

Time Period of Projections

Senate Resolution 303 directs the Commission to estimate the amount of privilege tax generated if Illinois had implemented internet gaming beginning February 28, 2020. However, the resolution does not provide an end date. For the purpose of this task, the Commission will establish an end date of June 30, 2021, the last day of Fiscal Year 2021. Therefore, this projection will include 16 months of revenue projections, including all of FY 2021.

The Implementation Level of Internet Operations

A significant assumption that must be established is the implementation level of those operating Internet gaming. It is assumed that the intent of the Resolution, for estimation purposes, is that the process of enacting and implementing internet gaming in Illinois would have been fully established at the requested calculation date. Therefore, the revenue estimate will not include the typical slow progression of the implementation process that would have occurred if online gaming were to have commenced in Illinois on February 28, 2020.

While a “full implementation” assumption will be used in this hypothetical calculation, it must be noted that the implementation process often takes a number of months or even years for it to be considered “fully implemented”. Whether it is due to litigation, staffing shortages with the Gaming Board, or legislative delays, history has shown that Illinois has been slow to implement new gaming formats. For example, video gaming was legalized in 2009, but the first revenues from video gaming was not realized until 2012.

The slow progression in implementing new gambling is especially likely in today’s current environment. Illinois is already in the midst of numerous other gaming changes which have yet to be realized, including the awarding and development of several new casinos throughout the state (including the large Chicago Casino). The Gaming Board also continues to be part of the approval process for adding new video gaming terminals across Illinois. So while the time it would take for online casinos to become operational in Illinois is unknown, if recent history is any indication, a conservative time table should be taken when projecting the availability of revenues from internet gaming if it were to be approved in Illinois.

Enhanced Revenue Performance of Online Gaming during the Pandemic

As noted earlier, for the states with established online gaming, there was a sizeable increase in the amount of revenues generated from online gaming during the months impacted by the pandemic. These revenue increases are clearly seen in the graphs of the states on the previous pages.

The reasons for these increases are not surprising. As the threat of COVID-19 grew, decisions were made to temporarily suspend operations at many businesses, including brick and mortar casinos and video gaming parlors. This meant that those wishing to gamble had only one option – to gamble online. This no doubt greatly contributed to New Jersey’s 101% increase in gross revenues between 2019 and 2020 and Delaware’s 136.7% increase during this same time frame.

Also, the limited options for entertainment during the pandemic likely increased the number of “new” gamblers participating in the gambling experience. In addition, the amount wagered may have risen because of increases in discretionary spending as a result of the lack of spending in other areas and/or due to the federal stimulus checks. No matter the reason, the numbers show that online gaming has thrived during the pandemic for the states that have it.

Since the Resolution specifically asks to estimate the amount of revenues on February 28, 2020, which is considered the time that the pandemic began in earnest, these higher-than-normal figures must be assumed in the Commission’s hypothetical projections for Illinois as well.

It is believed that internet gaming revenues will begin to decline from recent levels in the months ahead as the pandemic fades. This assumes that as virus concerns wane, gamblers will return to “normal” and again explore other public gaming options. There is no doubt that there will be a number of gamblers that have enjoyed the convenience of online gaming and will no longer gamble at public casinos. Still, there will be many others that will be anxious to return to the exciting atmosphere of a crowd-filled casino. The extent to which gambling patterns “normalize” to pre-pandemic levels remains to be seen and will be tracked by the Commission in the months ahead.

From a projection standpoint, the revenue estimates provided for Illinois in response to this Resolution will assume the higher-than-normal figures because of the pandemic time frame directed in the request. However, it should be stressed that a revenue projection during a pandemic would likely be higher than if projected during a “normal” non-pandemic year. For this reason, the projected amounts in response to Senate Resolution 303 should not be construed as the estimate for Illinois’ internet gaming in the future. This point will be made again in the revenue portion of this report.

Taxable Base Calculation

Before any adjustments for items such as promotional credits and competition factors can be applied, a “starting point” base estimate must be established. For the purpose of providing an internet gaming revenue estimate for Illinois, it seems reasonable for the Commission to base its numbers on the revenues generated from states already offering internet gambling. The caveat in doing this is because there are population discrepancies between Illinois and the other states offering online gaming. To address this, the Commission will utilize the data from these online gaming states and apply Illinois’ population proportions to their revenue totals to extrapolate an approximate value for Illinois.

- **Population Proportional Estimation Methodology**

According to the Census Bureau's recent 2020 Census figures, Illinois' population of 12.8 million people is 1.4 times the size of the online gaming established state of New Jersey (9.3 million). Taking New Jersey's last 16 months of gross gaming revenues (the timeframe used for the Resolution's estimate), a total of \$1.442 billion was collected. Applying Illinois' proportional rate factor of 1.4 would extrapolate to a figure of nearly \$2.0 billion in gross revenues in Illinois over this 16-month period. This figure would equate to an annualized 12-month figure of around \$1.5 billion. [Again, it should be noted that a much lower annualized figure of \$1.1 billion would have been calculated if Illinois' figures would have been based on New Jersey's pre-pandemic 2019 total of \$483 million].

Using the same methodology for Pennsylvania, and the fact that the latest population projections place Illinois as 0.985 times the size of Pennsylvania (13.0 million people), Pennsylvania's last 16 months of gross revenues totaled just over \$1.0 billion. This figure would extrapolate to around \$987 million in Illinois for this 16-month period or to around \$740 million over an annualized 12-month period. However, because Pennsylvania was still amidst the implementation process during this time period, its revenue totals are notably lower than if online gaming was fully implemented at the beginning of the pandemic. With that being said, Pennsylvania's data does provide a good example of the time it takes for casinos to reach full implementation, even during the midst of a pandemic.

While the population proportion estimation method is useful in most cases to predict Illinois' revenue potential, sometimes the differences in states are too great for this method to be useful. Delaware is a fine example of this. Delaware's 2020 Census population is just under one million people, which means Illinois has a population of 12.9 times that of Delaware. Its small population size supports only three land-based casinos. This means that it has very few casinos to serve as hosts for these internet gaming platforms. The result is very low online gaming revenue totals as compared to the other states. Delaware's last 16-months of data totaled \$12.8 million in gross gaming revenues, which would extrapolate to only \$154 million in Illinois. Since New Jersey collected nearly that amount in just one month, Delaware's data has little value for this exercise. Still, the relative growth in its revenue figures once the pandemic hit is valuable information that emphasizes the impact that the pandemic had on generating online revenues.

Similarly, West Virginia's population of 1.8 million with only three casinos hosting online gaming has generated relatively small amounts of gaming revenues so far. It is still in the implementation phase as one of its three casinos began online operations in April 2021. As a result, West Virginia's data only extrapolates to around \$309 million in Illinois. While the phase-in aspect of the state's figures has value, its revenue totals will not be used for Illinois' revenue projection.

The State of Michigan's data provides a different type of challenge. Michigan's launch date for internet gaming was January 22, 2021. Therefore, at the time of this report, only 4.5 months of revenues have been collected from online gaming so far. Because Michigan launched in the middle of the pandemic, it is difficult to determine if its figures are still in the middle of the typical phase-in period experienced by other states, or if the monthly figures of around \$18 million per month is a good indication of what Michigan should expect on a monthly basis. It remains to be seen if these figures will fall once the pandemic fades and gamblers feel more comfortable to explore other gaming options. If the Commission simply annualizes the last four months of data, a 12-month total of around 1.0 billion would result.

Applying the Illinois - Michigan population ratio of 1.3, Illinois would have an annualized total of around \$1.3 billion or approximately \$1.7 billion on a 16-month basis.

- **Illinois' "Starting Point" Gross Revenue Estimate**

With the data from the online gaming states as a guide, the Commission can project a "starting point" for Illinois' internet gaming gross revenue projection. From this value, other adjustment factors can be applied (as is discussed in the forthcoming sections). Because of the numerous assumptions needed for the projection and because of the wide variance in the amount of revenues collected from other states, it seems appropriate to provide a range of projections for Illinois' estimates rather than attempting a finite value.

Using the data from the well-established state of New Jersey, the Commission will project an upper range starting point gross gaming figure of \$2.0 billion (16-month estimate). This upper range figure assumes the hypothetical situation that Illinois' internet gaming laws were enacted and put into motion well before the beginning of the pandemic. It also assumes full participation of all operating casinos and their gaming platforms.

For the lower range, the Commission will project a value of \$1.0 billion, resembling the revenue results of the State of Pennsylvania. This figure also assumes that online gaming was previously enacted and up and running at the time of the pandemic. However, it reflects a slower change over to online gaming that an under-established state would experience.

Using this \$1.0 billion to \$2.0 billion range as a starting point, the projection is then modified to account for the following mitigating factors.

- **Illinois' Video Gaming Factor**

As discussed above, Illinois' projection starting point is based on the performance of other states that have implemented internet gaming. The ability to examine the actual amounts generated from these states no doubt helps put a perspective on Illinois internet gaming potential. However, using these other states as a guide demands context in how each state's gaming environment compares to Illinois. Specifically, one important factor that must be considered is the amount of competition that exists for the gaming dollar in these other states as compared to Illinois.

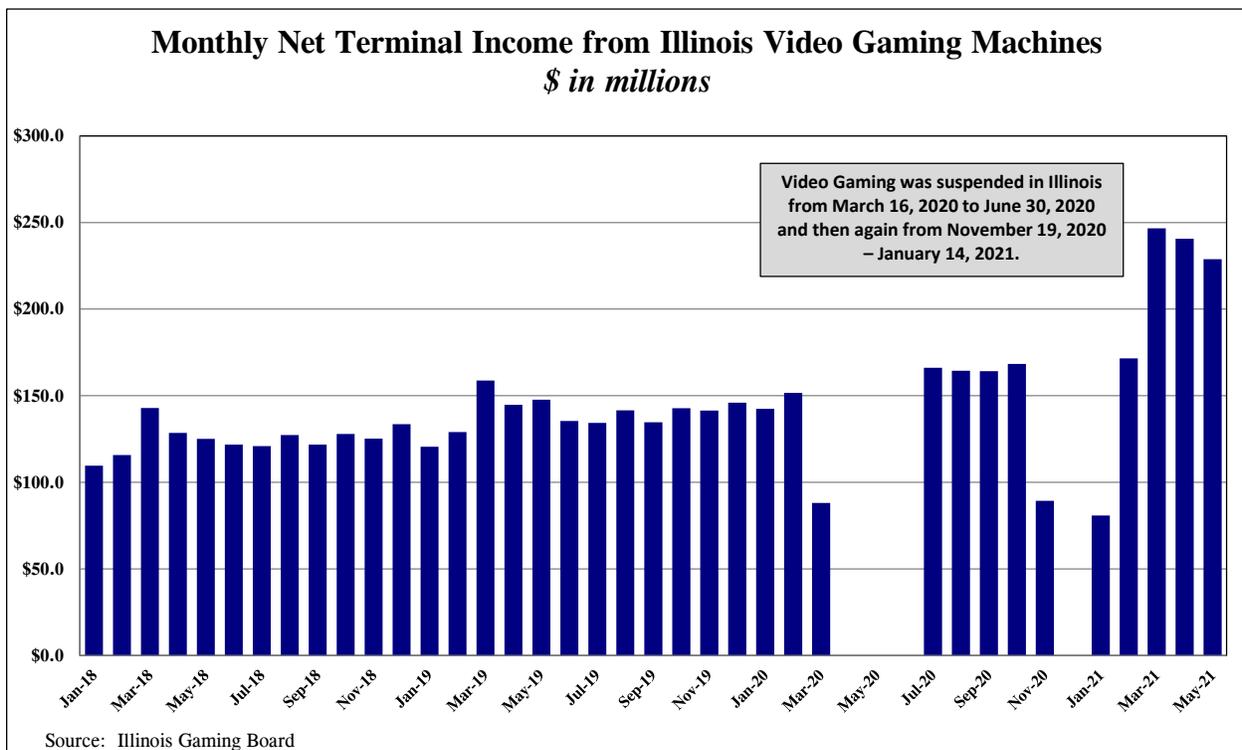
Illinois already has a plethora of gaming options that other states do not have. For example, Illinois is one of only eight states that offers non-casino locations with legally authorized electronic gaming devices (video gaming terminals). According to page 19 of the 2021 edition of the American Gaming Association's *State of the States* report, Illinois has by far the most of these video gaming terminal locations in the nation, and that number continues to grow.

Source: https://www.americangaming.org/wp-content/uploads/2021/05/AGA-2021-State-of-the-States_FINALweb-150ppi.pdf

By having 40,000 video gaming terminals scattered throughout the state, Illinois has an abundance of gaming opportunities within minutes of every Illinois home. This level of gaming options is not replicated

in the other states offering online gaming (except for West Virginia, which has approximately 7,500 terminals). For example, while New Jersey has a number of casinos in and around its border, there are currently no video gaming parlors in local establishments throughout the state like that of Illinois. Pennsylvania does allow video gaming at its truck stops, but there were only 40 locations with these terminals according to recent reports.

Illinois, on the other hand currently has over 7,500 locations offering the ability to wager on nearly 40,000 video gaming terminals across the state. If the numbers continue as expected, these locations will have generated over \$1.0 billion in net terminal income in 2021 in just 5.5 months since the suspensions were lifted in mid-January. In fact, as shown below, the Gaming Board’s data shows that Illinois’ net terminal income totals have hit record highs in recent months, generating over \$200 million per month over the last three months of available data [March – May]. These figures show that this industry has flourished since these locations have been allowed to reopen, despite the continuation of the pandemic.



To be clear, there is no doubt that the pandemic hurt Illinois’ video gaming industry. Like other entities, Illinois’ gaming operations were suspended from March 16, 2020 to June 30, 2020 and then again from November 19, 2020 to January 14, 2021 due to COVID-19 concerns, representing 164 of the 487 days (34%) of the 16-month period discussed in this report. Those wishing to gamble in Illinois, even at the local video gaming parlor, did not have that option. Online gaming would have provided gaming revenues for the State that Illinois’ casinos and video gaming machines could not offer.

However, once the suspensions were lifted, gamblers in Illinois would have been able to still wager at video gaming terminals – an option that gamblers in other states did not have. Undoubtedly, many gamblers would have chosen the much safer online gaming option and the ability to avoid the COVID-19 concerns that persist at public video gaming facilities. For this reason, a significant amount of revenues from online gaming would have been generated in Illinois regardless of the video gaming availability. Still,

many others would have taken advantage of “getting out of the house” to gamble at the local establishment. This is supported by the fact that over \$1.7 billion in net terminal income has been collected from video gaming machines in Illinois since the pandemic began despite the precautions encouraged in response to the virus.

The bottom line is even though internet gaming provides a more convenient way to gamble on the convenience spectrum (with the use of a phone or home computer), the competition that the video gaming locations bring cannot be dismissed. Of course, the suspension of video gaming terminal play in Illinois during periods of the pandemic would eliminate this competitive factor for the months affected. However, for the months that the suspensions were lifted, the additional competition that these terminals would have provided would likely prevent Illinois from proportionately equaling the revenue totals of New Jersey and Pennsylvania. Thus, for these periods, the Commission is applying a reduction factor to the “starting point” estimates to account for the available competition provided by Illinois’ video gaming machines.

While the impact of this factor is difficult to quantify, for this retrospective projection, the Commission assumes a reduction factor of 50% to the extrapolated estimates in the months not impacted by a suspension of gaming operations. In other words, Illinois’ availability of video gaming will reduce its online gaming potential by 50% in months not impacted by the temporary shutdowns. In months where gaming was suspended, no reduction factor is applied. Months with partial suspensions are prorated depending on when the suspension began/ended. These calculations are applied and shown in the tables in the “Revenue Estimates” section of the report.

- **Non-Taxable Items Factor**

As discussed earlier, the calculation of the taxable base begins with whole gaming gross receipts less winnings paid to wagers. Senate Resolution 303 specifies that

...the definition of adjusted gross revenue used in this report should include the total of all sums actually received by an Internet gaming licensee from Internet gaming operations excluding free play and any promotional credits, less the total of all sums actually paid out as winnings to patrons, which includes the cash equivalent of any merchandise or thing of value awarded as a prize”.

The resolution adds that the Commission’s report should...

...provide additional revenue estimates where the definition of adjusted gross revenue excludes the dollar amount of non-cashable vouchers, coupons, or promotions redeemed by participants on an Internet gaming platform;

The subtraction of non-cashable vouchers, coupons, and promotions would reduce the taxable base to which the tax rate would be applied and therefore can lower tax revenue amounts. The amounts that are allowed to be deducted can be limited. For example, when Illinois passed its large gaming package in 2019 (P.A. 101-0031), it provided that Illinois casinos could begin to subtract these elements from its adjusted gross receipts. However, the law stipulated that the subtraction could not exceed 20% of a casino’s AGR.

In eight months of operations in 2020, the Gaming Board reports that nearly \$55 million was subtracted from Illinois casino's taxable base due to this provision. This amount is roughly 9% of the \$618 million reported to be collected in this year. In the first five months of 2021, nearly \$30 million has been subtracted, which represents roughly 7% of the adjusted gross receipts collected so far.

The amounts subtracted from the online gaming totals of other states have varied (some allow it, some do not). According to New Jersey's monthly reports, the amount of promotions applied as a percentage of gross revenue monthly totals ranged between 4% and 8% in recent months.

For the purpose of the projections of this report, it will be assumed that approximately 8% of the gross receipts calculated will be subtracted in Illinois due to this removal of non-cashable vouchers, coupons, and promotions. This factor is also shown in the tables in the "Revenue Estimates" section of the report.

Tax Rate Applied

Once the taxable base of online gaming revenues is calculated, the question of how much tax revenue would have been collected from internet gaming platforms in Illinois ultimately depends on the tax rate that is applied to these revenues. As discussed earlier, the tax rates applied to online gaming in other states varies considerably and can be as high as 57%. However, Senate Resolution 303 provides that the tax revenue potential should be calculated based on the following rate scenarios:

- a) 12%
- b) 15%
- c) 16%; and
- d) 15% of the adjusted gross revenue up to and including \$25 million and 20% of the adjusted gross revenue in excess of \$25 million.

Under these stated guidelines, the tables shown in the following "Revenue Estimates" section reflect these tax rate structures.

REVENUE ESTIMATES

Accounting for the assumption and factors mentioned in the “Estimate Methodology” portion of the report, the Commission projects that the taxable base for the amount of revenues generated from online gaming in Illinois during the 16-month period of the pandemic would have ranged between **\$622 million and \$1.248 billion**. The calculations for these values are shown in the table on the following page.

While this may be considered a wide range, this variance seems necessary considering the number of assumptions used for the estimate, the differences seen in revenues generated by other states, and the uncertainty of how online gaming would perform considering the multitude of gaming options that already exist in Illinois.

The range discussed above is considered the taxable base projection to which a tax structure would be applied. The Resolution asks the Commission to apply five different taxing scenarios to the gross revenue projections. These calculations are summarized below and shown in the table on the following page.

Based on an adjusted gross revenue range of \$622.4 million to \$1.249 billion...

- **A flat rate of 12% would have generated tax revenues of between \$75 million and \$150 million.**
- **A flat rate of 15% would have generated tax revenues of between \$93 million and \$187 million.**
- **A flat rate of 16% would have generated tax revenues of between \$100 million and \$200 million.**
- **A tax rate of 15% on the first \$25 million in a month and 20% on the remainder would have generated tax revenues of between \$105 million and \$230 million.**

The above values are the amounts that Illinois could have generated in tax revenue from internet gaming over a 16-month period of the pandemic under full implementation. The Commission reiterates that this is not to be considered an estimate of how much tax revenue could be generated going forward as the numbers generated by other states during the pandemic have shown to be higher than what had been collected before the COVID-19 outbreak. It is assumed that online gaming revenues will fall somewhat once COVID-19 concerns wane and other gaming/spending options emerge.

Also, it should be stressed that the implementation process of online gaming takes time before significant amounts of revenue are generated. The above estimates assume that the online gaming structure would have been enacted and fully-implemented at the time of this pandemic-related projection period. The reality, however, is that the revenue projections shown above would not have occurred unless internet gaming legislation was enacted many months, if not years, before the pandemic set in.

**"Lower Range" Tax Revenue Estimate of Online Gaming in Illinois during Pandemic
(Using Pennsylvania's Gross Gaming Receipts - \$ in millions)**

	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21 (est)	16-month Total
Pennsylvania Monthly Gross Gaming Receipts:	\$24.9	\$43.1	\$55.8	\$50.1	\$54.4	\$55.9	\$57.0	\$59.8	\$59.8	\$71.6	\$80.4	\$77.8	\$97.7	\$92.7	\$101.3	\$97.2	\$1,079.4
Population Proportion Adjustment (PA to IL):	0.985	0.985	0.985	0.985	0.985	0.985	0.985	0.985	0.985	0.985	0.985	0.985	0.985	0.985	0.985	0.985	
Illinois' "Starting Point" Adjusted Estimate:	\$24.5	\$42.4	\$55.0	\$49.3	\$53.6	\$55.1	\$56.2	\$58.9	\$58.9	\$70.6	\$79.2	\$76.7	\$96.3	\$91.3	\$99.8	\$95.8	\$1,063.7
Video Gaming Monthly Reduction Factor*:	24.2%	0.0%	0.0%	0.0%	50.0%	50.0%	50.0%	50.0%	30.0%	0.0%	27.4%	50.0%	50.0%	50.0%	50.0%	50.0%	
Illinois' Adjusted Monthly Estimate:	\$18.6	\$42.4	\$55.0	\$49.3	\$26.8	\$27.6	\$28.1	\$29.4	\$41.2	\$70.6	\$57.5	\$38.3	\$48.1	\$45.7	\$49.9	\$47.9	\$676.5
Non-Taxable Item Factor**:	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	
Illinois' Taxable Base Estimate:	\$17.1	\$39.0	\$50.6	\$45.4	\$24.6	\$25.4	\$25.9	\$27.1	\$37.9	\$64.9	\$52.9	\$35.3	\$44.3	\$42.0	\$45.9	\$44.1	\$622.4
If Taxed at Flat Rate of 12%:	\$2.1	\$4.7	\$6.1	\$5.4	\$3.0	\$3.0	\$3.1	\$3.3	\$4.6	\$7.8	\$6.3	\$4.2	\$5.3	\$5.0	\$5.5	\$5.3	\$74.7
If Taxed at Flat Rate of 15%:	\$2.6	\$5.9	\$7.6	\$6.8	\$3.7	\$3.8	\$3.9	\$4.1	\$5.7	\$9.7	\$7.9	\$5.3	\$6.6	\$6.3	\$6.9	\$6.6	\$93.4
If Taxed at Flat Rate of 16%:	\$2.7	\$6.2	\$8.1	\$7.3	\$3.9	\$4.1	\$4.1	\$4.3	\$6.1	\$10.4	\$8.5	\$5.6	\$7.1	\$6.7	\$7.3	\$7.1	\$99.6
If Taxed at 15% on \$25M and then 20%:	\$2.6	\$6.6	\$8.9	\$7.8	\$3.7	\$3.8	\$3.9	\$4.2	\$6.3	\$11.7	\$9.3	\$5.8	\$7.6	\$7.2	\$7.9	\$7.6	\$104.9

**"Upper Range" Tax Revenue Estimate of Online Gaming in Illinois during Pandemic
(Using New Jersey's Gross Gaming Receipts - \$ in millions)**

	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21 (est)	16-month Total
New Jersey Monthly Gross Gaming Receipts:	\$64.8	\$80.0	\$85.9	\$84.9	\$87.5	\$87.8	\$87.6	\$93.5	\$91.8	\$99.5	\$103.6	\$93.8	\$113.7	\$107.7	\$108.2	\$109.9	\$1,500.1
Population Proportion Adjustment (NJ to IL):	1.380	1.380	1.380	1.380	1.380	1.380	1.380	1.380	1.380	1.380	1.380	1.380	1.380	1.380	1.380	1.380	
Illinois' "Starting Point" Adjusted Estimate:	\$89.4	\$110.3	\$118.6	\$117.1	\$120.7	\$121.1	\$120.9	\$128.9	\$126.7	\$137.2	\$142.9	\$129.4	\$156.8	\$148.7	\$149.2	\$151.6	\$2,069.5
Video Gaming Monthly Reduction Factor*:	24.2%	0.0%	0.0%	0.0%	50.0%	50.0%	50.0%	50.0%	30.0%	0.0%	27.4%	50.0%	50.0%	50.0%	50.0%	50.0%	
Illinois' Adjusted Monthly Estimate:	\$67.8	\$110.3	\$118.6	\$117.1	\$60.4	\$60.5	\$60.4	\$64.5	\$88.7	\$137.2	\$103.7	\$64.7	\$78.4	\$74.3	\$74.6	\$75.8	\$1,357.1
Non-Taxable Item Factor**:	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	
Illinois' Taxable Base Estimate:	\$62.4	\$101.5	\$109.1	\$107.8	\$55.5	\$55.7	\$55.6	\$59.3	\$81.6	\$126.2	\$95.4	\$59.5	\$72.1	\$68.4	\$68.6	\$69.7	\$1,248.5
If Taxed at Flat Rate of 12%:	\$7.5	\$12.2	\$13.1	\$12.9	\$6.7	\$6.7	\$6.7	\$7.1	\$9.8	\$15.1	\$11.5	\$7.1	\$8.7	\$8.2	\$8.2	\$8.4	\$149.8
If Taxed at Flat Rate of 15%:	\$9.4	\$15.2	\$16.4	\$16.2	\$8.3	\$8.4	\$8.3	\$8.9	\$12.2	\$18.9	\$14.3	\$8.9	\$10.8	\$10.3	\$10.3	\$10.5	\$187.3
If Taxed at Flat Rate of 16%:	\$10.0	\$16.2	\$17.5	\$17.2	\$8.9	\$8.9	\$8.9	\$9.5	\$13.1	\$20.2	\$15.3	\$9.5	\$11.5	\$10.9	\$11.0	\$11.2	\$199.8
If Taxed at 15% on \$25M and then 20%:	\$11.2	\$19.0	\$20.6	\$20.3	\$9.9	\$9.9	\$9.9	\$10.6	\$15.1	\$24.0	\$17.8	\$10.7	\$13.2	\$12.4	\$12.5	\$12.7	\$229.7

* It is assumed that Illinois' numerous video gaming options lowers the tax revenue potential of online gaming in this state. While the impact of this factor is not easily quantifiable, in this retrospective projection, the Commission assumes a reduction factor of as much as 50% in the months that were not impacted by a suspension of gaming operations. In months where a suspension took place, no reduction factor is applied. The applied factor for months with partial suspensions was prorated depending on when the suspension began/ended. During the pandemic, gaming operations were suspended from March 16, 2020 to June 30, 2020 and then again from November 19, 2020 to January 14, 2021.

** As directed by Senate Resolution 303, the non-taxable item factor pertains to the subtraction of certain items from the taxable base, including the dollar amount of non-cashable vouchers, coupons, or promotions redeemed. The reduction rate of 8% is the approximate value of these items that have been subtracted from Illinois casinos in recent months.

Cannibalization and Tax Revenue Consequences

A final factor that cannot be ignored if online gambling were to be implemented in Illinois is the impact that this new gaming format would have had on other types of gambling. As history has shown, the creation of new gambling, whether it be in the form of a new casino or the implementation of video gaming terminals throughout the state, will likely cause a decline in revenues at existing gaming locations. While online gaming may bring in some new gamblers and dollars to the State, it is likely that a significant portion of these internet gaming revenues would come from existing gaming areas.

For example, since video gaming's inception, the ten casinos in the Chicago Metropolitan Area (including those in Indiana), saw their revenues fall 16.4% between FY 2012 and FY 2019, in large part because of this new competition. Similar occurrences of cannibalization, some with even greater degrees of falloffs, have occurred throughout the country after new competition opened nearby. As has been mentioned by the Commission in various past reports, the expansion of gambling opportunities may be better viewed as a "reshuffling of the deck chairs" rather than the creation of new gaming revenues.

The focus of this Resolution is directed at the revenues that could have been generated from online gaming and are the values discussed on the previous pages. However, it should be stressed that any revenues received from a successful online casino market in Illinois would mean a reduction in the amounts generated from the casinos and video gaming terminals during the pandemic period in question. The extent that an offset in revenues would have occurred is not known, but could have been significant.

Any change in where the gaming dollar is spent would affect those funding areas currently benefitting from the taxes collected. Furthermore, if the tax rate imposed on online casinos was significantly lower than the rates currently imposed on video gaming revenues, it is possible that the overall net value of total taxes collected could be surprisingly low, despite the increase in overall gaming dollars.

For example, if adjusted gross revenues from online gaming totaled \$1.0 billion and was taxed at 12%, tax revenues would total \$120 million. Now, let's say 25% of the revenues generated, or \$250 million was not "new" revenue, but rather money shifted away from video gaming establishments. This \$250 million would, therefore, be taxed at the 12% online gaming tax rate rather than the 34% tax imposed on video gaming's net terminal income. So, instead of generating \$85 million under the video gaming tax (\$250M x 34%), this portion of gambling revenues would have only generated \$30 million (\$250M x 12%) under the online gaming tax – a difference of \$55 million. In other words, under this scenario, online gaming would have generated tax revenues of \$120 million, but video gaming would have seen its tax revenue totals reduced by \$85 million resulting in a combined tax revenue net increase of only \$35 million.

This example emphasizes that the differences in the tax rate structures must be considered when analyzing the impact of offering internet gaming in Illinois. Otherwise, it is entirely possible that Illinois could provide another layer of gaming expansion in the State, but yet have only modest levels of additional tax revenues to show for it.



SR0303

LRB102 18487 MST 26640 r

1 SENATE RESOLUTION

2 WHEREAS, COVID-19 created unprecedented circumstances that
3 changed the lives of all Illinoisans; and

4 WHEREAS, Changes in consumer behavior are likely to
5 continue after the virus has run its course; and

6 WHEREAS, The COVID-19 pandemic made many Illinoisans wary
7 of leaving their homes for nonessential activities and forced
8 many casinos to close their doors for the safety of their
9 patrons and employees; and

10 WHEREAS, Internet gaming is partially immune to pandemics
11 due to the remote nature of this type of gaming; and

12 WHEREAS, States with legal and available internet gaming,
13 such as New Jersey, Pennsylvania, and Delaware, were able to
14 generate revenue during the COVID-19 pandemic; and

15 WHEREAS, Nationwide, in the few states that offer it,
16 internet gaming earned approximately \$402.7 million in gross
17 gaming revenue during the second quarter of 2020, a more
18 productive quarter than national sports betting operations
19 have had to date, according to the American Gaming
20 Association; and

1 WHEREAS, An internet gaming law in Illinois that permits
2 online table games, slots, and poker with consumer safeguards,
3 a privilege tax on the adjusted gross gaming revenue wagered
4 on internet gaming platforms, and licensing fees has the
5 potential to increase revenue to the State during the COVID-19
6 pandemic; therefore, be it

7 RESOLVED, BY THE SENATE OF THE ONE HUNDRED SECOND GENERAL
8 ASSEMBLY OF THE STATE OF ILLINOIS, that on or before October 1,
9 2021 the Commission on Government Forecasting and
10 Accountability is urged to deliver a report to the Illinois
11 Senate that includes, at a minimum, detailed estimates of the
12 revenue that could have been generated through a privilege tax
13 if Illinois had implemented internet gaming beginning February
14 28, 2020; and be it further

15 RESOLVED, The report should include, at a minimum,
16 estimates of revenue that could be generated with a privilege
17 tax imposed on the adjusted gross gaming revenue wagered on
18 internet gaming platforms at the following rates:

19 (a) 12%;

20 (b) 15%;

21 (c) 16%; and

22 (d) 15% of the adjusted gross revenue up to and
23 including \$25 million and 20% of the adjusted gross

1 revenue in excess of \$25 million; and be it further

2 RESOLVED, That the definition of adjusted gross revenue
3 used in the report should include the total of all sums
4 actually received by an Internet gaming licensee from Internet
5 gaming operations excluding free play and any promotional
6 credits, less the total of all sums actually paid out as
7 winnings to patrons, which includes the cash equivalent of any
8 merchandise or thing of value awarded as a prize; and be it
9 further

10 RESOLVED, That the report should provide additional
11 revenue estimates where the definition of adjusted gross
12 revenue excludes the dollar amount of non-cashable vouchers,
13 coupons, or promotions redeemed by participants on an Internet
14 gaming platform; and be it further

15 RESOLVED, That a suitable copy of this resolution be
16 delivered to the Commission on Government Forecasting and
17 Accountability.

COMMISSION OVERVIEW

The Commission on Government Forecasting & Accountability is a bipartisan legislative support service agency responsible for advising the Illinois General Assembly on economic and fiscal policy issues and for providing objective policy research for legislators and legislative staff. The Commission's board is comprised of twelve legislators—split evenly between the House and Senate and between Democrats and Republicans. Effective December 10, 2018, pursuant to P.A. 100-1148 the former Legislative Research Unit was merged into the Commission.

The Commission has three internal units—Revenue, Pensions, and Research, each of which has a staff of analysts and researchers who analyze policy proposals, legislation, state revenues & expenditures, and benefit programs, and who provide research services to members and staff of the General Assembly. The Commission's staff fulfills the statutory obligations set forth in the Commission on Government Forecasting and Accountability Act (25 ILCS 155/), the State Debt Impact Note Act (25 ILCS 65/), the Illinois Pension Code (40 ILCS 5/), the Pension Impact Note Act (25 ILCS 55/), the State Facilities Closure Act (30 ILCS 608/), the State Employees Group Insurance Act of 1971 (5 ILCS 375/), the Public Safety Employee Benefits Act (820 ILCS 320/), the Legislative Commission Reorganization Act of 1984 (25 ILCS 130/), and the Reports to the Commission on Government Forecasting and Accountability Act (25 ILCS 110/).

- The **Revenue Unit** issues an annual revenue estimate, reports monthly on the state's financial and economic condition, and prepares bill analyses and debt impact notes on proposed legislation having a financial impact on the State. The Unit publishes a number of statutorily mandated reports, as well as on-demand reports, including the Monthly Briefing newsletter and annually, the Budget Summary, Capital Plan Analysis, Illinois Economic Forecast Report, Wagering in Illinois Update, and Liabilities of the State Employees' Group Insurance Program, among others. The Unit's staff also fulfills the agency's obligations set forth in the State Facilities Closure Act.
- The **Pension Unit** prepares pension impact notes on proposed pension legislation and publishes several statutorily mandated reports including the Financial Condition of the Illinois State Retirement Systems, the Financial Condition of Illinois Public Pension Systems and the Fiscal Analysis of the Downstate Police & Fire Pension Funds in Illinois. The Unit's staff also fulfills the statutory responsibilities set forth in the Public Safety Employee Benefits Act.
- The **Research Unit** primarily performs research and provides information as may be requested by members of the General Assembly or legislative staffs. Additionally, the Unit maintains a research library and, per statute, collects information concerning state government and the general welfare of the state, examines the effects of constitutional provisions and previously enacted statutes, and considers public policy issues and questions of state-wide interest. Additionally, the Unit publishes First Reading, a quarterly newsletter which includes abstracts of annual reports or special studies from other state agencies, the Illinois Tax Handbook for Legislators, Federal Funds to State Agencies, various reports detailing appointments to State Boards and Commissions, the 1970 Illinois Constitution Annotated for Legislators, the Roster of Illinois Legislators, and numerous special topic publications.

**Commission on Government
Forecasting & Accountability**
802 Stratton Office Building
Springfield, Illinois 62706
Phone: 217.782.5320
Fax: 217.782.3513
<http://cgfa.ilga.gov>