Illinois Statewide Gaming Market Assessment and Gaming Tax Analysis: Alternative Scenarios

Prepared for:
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INTRODUCTION

The Innovation Group was retained by the Office of Governor Quinn and the State of Illinois' Department of Commerce and Economic Opportunity to assess the gaming and tax revenue potential for Illinois in a variety of alternative development and tax structure assumptions. The report describes these alternative scenarios, which are based on Senate Bill 744 and assumed modifications thereof, and the methodology of assessing the gaming revenue potential in each. Finally, the report shows the gaming revenue and State tax revenues that would result from each development and tax structure scenario.

Description of Scenarios

Senate Bill 744 calls for a major expansion of casino gaming in Illinois along with a revised fee and tax structure. The following is a description of the major provisions in SB 744:

Riverboat Casinos:

- Four new riverboats would be permitted: Rockford, Danville, South Suburban Cook County, and Park City.
- All riverboat casinos (existing and new) would be permitted to install up to 2,000 positions (up from 1,200).

Racinos:

- Seven slots-only racinos, with 1,200 positions allowed at the three tracks in Cook County and 900 positions elsewhere.

A landbased casino in Chicago with a minimum of 4,000 positions allowed.

SB 744 also contains a new tax and fee structure. Separate graduated tax rates would be applied for slot machine and table game revenues. Slot machine tax rates in the top tiers would be lower than the current rate structure, and table game taxes would be even lower. The existing casinos would also have a "hold-harmless" tax rebate up to a maximum 5% of Adjusted Gross Receipts (AGR), and the City of Des Plaines would be granted $4 million of the State's share of tax revenues instead of the $10 million annually it is committed to paying the State, leading to a net loss of $14 million in State tax revenues.

For new positions, Cook County casinos would pay $25,000 per position; casinos elsewhere would pay $12,500. Additionally, there is a reconciliation payment after year four of operation equal to 75% of AGR for the most lucrative 12-month period of operations minus the initial license fee. The reconciliation payments may be financed over a period of 5 years, *i.e.* in years 5 through 9 of operation. The Des Plaines casino would pay the reconciliation payment and license fee on all positions in place of its original $125 million license agreement and the $10 million per year for 30 years originally owed by the City of Des Plaines.

In addition to the terms in SB 744, alternative development and tax structure options are assessed. The following scenarios are assessed in this analysis:

- 1: SB 744 as is, with all riverboat casinos going to 2,000 positions and Chicago at 4,000 positions.
- 2: Similar development as scenario 1 but with no racinos and a modified tax structure. All riverboat casinos going to 2,000 positions and Chicago at 4,000 positions,
- 3: Similar to 2 but with riverboats staying at 1,200 positions.

In the modified tax scenarios (2 and 3), the hold-harmless provision and the $4 million payment to the City of Des Plaines are eliminated, the Rivers Casino in Des Plaines makes license fees and reconciliation payments only on new positions, and the City of Des Plaines continues to make its annual $10 million payment to the State.

Development Alternatives

The following table shows the development assumptions for these three expansion scenarios compared to the status quo:

Alternative Expansion Assumptions: Number of Illinois-Defined Gaming Positions

	Status Quo	Scenario 1: SB 744 Maximum Expansion	Scenario 2: No tracks, riverboats @ 2,000, modified tax	Scenario 3: No tracks, riverboats @ 1,200, modified tax
Existing Illinois Riverboats				
Alton	1,200	2,000	2,000	1,200
Aurora	1,200	2,000	2,000	1,200
Des Plaines	1,200	2,000	2,000	1,200
East St. Louis	1,200	2,000	2,000	1,200
Elgin	1,200	2,000	2,000	1,200
Joliet Hollywood	1,200	2,000	2,000	1,200
Joliet Harrah's	1,200	2,000	2,000	1,200
Metropolis	1,200	2,000	2,000	1,200
Peoria	1,200	2,000	2,000	1,200
Rock Island	1,200	2,000	2,000	1,200
Total Existing	***12,000***	***20,000***	***20,000***	***12,000***
Proposed Facilities				
Riverboats/Casino				
Chicago		4,000	4,000	4,000
Danville		2,000	2,000	1,200
Southland		2,000	2,000	1,200
Park City		2,000	2,000	1,200
Rockford		2,000	2,000	1,200
Racetracks				
Arlington		1,200		
Balmoral		900		
Fairmont Park		900		
Hawthorne		1,200		
Maywood		1,200		
Quad City Downs		900		
Springfield		900		
Total Proposed		***19,200***	***12,000***	***8,800***
Total Illinois	**12,000**	**39,200**	**32,000**	**20,800**
% Change over Status Quo		227%	167%	73%

Annual Taxes and Payments

Privilege Taxes

The following table shows the privilege (or wagering) tax rates in SB 744, which has different rate structures for slot machines and table games:

SB 744 Privilege Tax Rates

Scenario 1--Slot Revs		Scenario 1--Table Revs	
$0-$25M	10.0%	$0-$25M	10.0%
>$25M-$50M	17.5%	>$25M-$50M	17.5%
>$50M-$75M	22.5%	>$50M-$70M	22.5%
>$75M-$100M	27.5%	>$70M	16.0%
>$100M-$150M	32.5%		
>$150M-$200M	35.0%		
>$200M-$300M	40.0%		
>$300M-$350M	30.0%		
>$350M	20.0%		

Scenarios 2 and 3 have a modified bifurcated tax rate, as shown in the following table.

Modified Tax Rates for Scenarios 2 and 3

Slot Revs			Table Revs
$0-$25M	10.0%	$0-$25M	10%
>$25M-$50M	17.5%	>$25M-$50M	17.5%
>$50M-$75M	22.5%	>$50M	22.5%
>$75M-$100M	27.5%		
>$100M-$150M	32.5%		
>$150M-$200M	35.0%		
>$200M	40.0%		

Hold-Harmless Adjustment for Existing Casinos

In SB 744 existing casinos are effectively granted a tax rebate up to a maximum of 5% of AGR. The purpose of this hold-harmless adjustment is to keep Net AGR (after privilege taxes) stable with status quo levels (defined as 2012 in SB 744). In determining Net AGR for the expansion scenarios, there is a sub-provision that gives an effective credit for expanding in recognition of the capital costs the existing casinos would incur by increasing the number of gaming positions. This sub-provision would effectively lower Net AGR by up to 60% (that is, 1,200 divided by 2,000). The Hold-Harmless adjustment was applied in scenario 1.

City of Des Plaines Provision

As noted, in SB 744 the City of Des Plaines would be granted $4 million of the State's share of tax revenues instead of the $10 million annually it is committed to paying the State, leading to a net loss of $14 million in State tax revenues. This $4 million provision was applied in scenario 1.

State of Illinois' Current Purse/Racing Industry Subsidy

The State currently provides a subsidy to the racing industry equivalent to 15% of the 10^{th} license's (Des Plaines' Rivers Casino) AGR. This subsidy comes out of the State's share of gaming tax revenues. This subsidy was deducted from State revenues in the Status Quo scenario, but it would be replaced in the expansion scenarios.

Racino Purse/Racetrack Industry Subsidy

In scenario 1, racing industry subsidies are derived from gaming revenue at the seven proposed racetrack facilities. SB 744 contains a mutually exclusive contradiction as to when the subsidy is applied, *i.e.*, before or after gaming privilege taxes are applied:

Section 13 of the Illinois Gambling Act says:

> For the imposition of the privilege tax in this subsection (a-5), amounts paid pursuant to subsection (b-1) of Section 56 of the Illinois Horse Racing Act of 1975 shall not be included in the determination of adjusted gross receipts.

But subsection (b-1) of Section 56 (purse tax) applies to revenues after the privilege (wagering) tax:

> The adjusted gross receipts by an electronic gaming licensee from electronic gaming remaining after (emphasis added) the payment of taxes under Section 13 of the Illinois Gambling Act...

For the default analysis, the results are shown assuming that the privilege tax is applied *before* the racing subsidy. The subsidy rate structure is as follows:

Racing Purse Account Subsidy Schedule

$0-$75M	12.75%
>$75M-$100M	20.00%
>$100M-$125M	26.50%
>$125M	20.50%

Alternate Racing Industry Subsidy

For scenarios 2 and 3, an alternative subsidy of $60 million is utilized. This $60 million is to come effectively out of the casinos' share of revenues. It is a $4 million surcharge from all existing and new casinos. The $4 million is not to be deducted from AGR for the purposes of tax calculation. In other words, a casino with $100 million in gaming revenue pays taxes on $100 million.

Therefore, this subsidy does not show up in any of the tables in this report since it is effectively a direct payment from the casinos to the horse racing industry.

One-Time Payments

License Fees

The following table shows the license fees to be paid under the different expansion scenarios. Of existing casinos, only Des Plaines would pay the license fee on all positions in the SB 744 scenario. The other existing casinos would only pay a fee for the additional 800 positions in scenario 1. In the modified tax scenarios, Des Plaines and existing casinos would pay the fee only on the additional 800 positions in 2.

License Fees ($ Mms)	Scenario 1: SB 744 Maximum Expansion	Scenario 2: Mod. tax @ 2,000	Scenario 3: Mod. tax @ 1,200
Existing Illinois Riverboats			
Alton	10	10	
Aurora	10	10	
Des Plaines	50	20	
East St. Louis	10	10	
Elgin	10	10	
Joliet Hollywood	10	10	
Joliet Harrah's	10	10	
Metropolis	10	10	
Peoria	10	10	
Rock Island	10	10	
Total Existing	140	110	0
Proposed Facilities			
Riverboats/Casino			
Chicago	100	100	100
Danville	25	25	15
Southland	50	50	30
Park City	25	25	15
Rockford	25	25	15
Racetracks			
Arlington	30		
Balmoral	11.25		
Fairmont Park	11.25		
Hawthorne	30		
Maywood	30		
Quad City Downs	11.25		
Springfield	11.25		
Total Proposed	360	225	175
Total Illinois	500	335	175

In the Status Quo and modified tax scenarios, Des Plaines pays a $125 million license fee as per its original agreement with the State and the City of Des Plaines pays the State $10 million per year for 30 years.

Reconciliation Payments

In relation to the license fees shown above, under SB 744, casinos would make a reconciliation payment equal to 75% of AGR minus the initial license fee. This payment is to be made after four years of operation. AGR is to be defined as the highest generating 12-month period within the four years. Under SB 744, the reconciliation payments may be financed over a period of 5 years, *i.e.* in years 5 through 9 of operation. This payment is applied only to those scenarios/facilities showing a license fee in the previous table.

Under SB 744, AGR for the purpose of calculating reconciliation payments is unadjusted for the Des Plaines casino and all new casinos. AGR for riverboats operating as of January 1, 2011 (i.e., all existing casinos except Des Plaines) would be defined for calculating the payment as follows:

1. Maximum 12-month AGR within the four-year period of expansion minus AGR from 2011.
2. The result of this subtraction is multiplied by 75%, which is further multiplied by the percentage of new positions divided by total positions.
3. The initial license fee is then subtracted by the final result of number 2. There is no rebate for a negative result.

As an example, Casino A has revenues of $200 million in 2011 and $220 million after expanding from 1,200 to 2,000 positions. It would not owe a reconciliation payment because the result of step 2 is less than the $10 million license fee:

- $220 - $200 = $20 x 75% = $15 x (800/2,000) = $6

In all modified tax scenarios, Des Plaines is treated like the other existing riverboats.

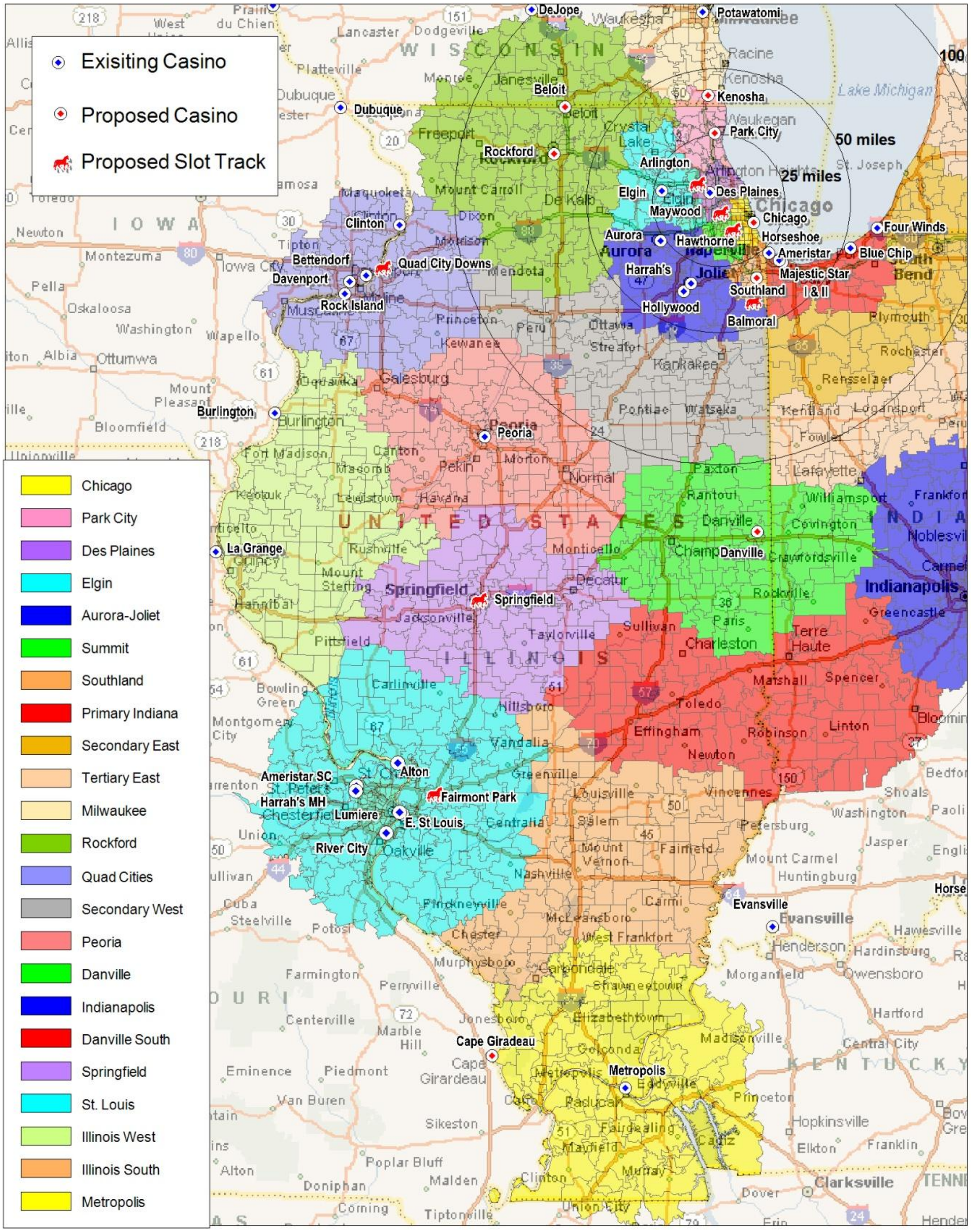
METHODOLOGY

A gravity model was employed to assess the gaming revenue potential for the alternative development scenarios in this analysis. Gravity models are commonly used in location studies for commercial developments, public facilities and residential developments. First formulated in 1929 and later refined in the 1940s, the gravity model is an analytical tool that defines the behavior of a population based on travel distance and the availability of goods or services at various locations. The general form of the equation is that attraction is directly related to a measure of availability such as square feet and inversely related to the square of the travel distance. Thus the gravity model quantifies the effect of distance on the behavior of a potential patron, and considers the impact of competing venues.

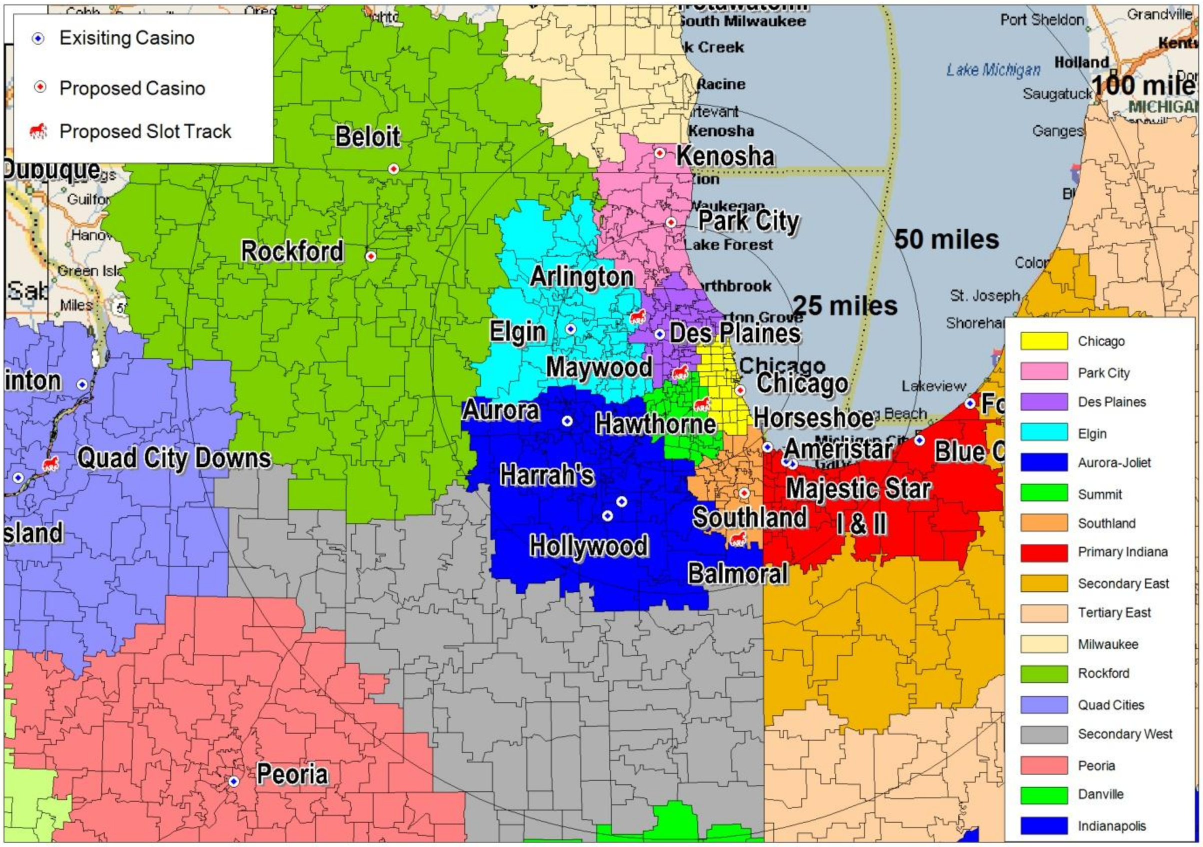
The Illinois market has been carved into 25 distinct market areas, from which it could be expected that different participation rates may be expected depending on the level and location of competition that is present in the market currently and in the future. The following maps and table show the market areas and their respective adult population (21 and over) and average household income.

A map showing the entire state market is followed by a close-up of the Chicago-area market.

Illinois Market Areas and Competitive Sites



Chicago Market Areas and Competitive Sites



Market Area Demographics

	Adult Pop 2010	Adult Pop 2015	AAG 2010-15	Average HHI 2010	Average HHI 2015	AAG 2010-15
Chicago	1,688,259	1,683,448	-0.06%	$64,164	$69,103	1.49%
Park City	510,454	537,564	1.04%	$101,207	$107,918	1.29%
Des Plaines	814,238	812,780	-0.04%	$92,207	$97,247	1.07%
Elgin	982,238	1,030,391	0.96%	$96,003	$101,753	1.17%
Aurora/Joliet	1,026,898	1,139,985	2.11%	$91,936	$98,404	1.37%
Summit	566,351	558,551	-0.28%	$81,051	$86,103	1.22%
Southland	515,328	510,728	-0.18%	$64,347	$68,186	1.17%
Primary Indiana	523,371	534,742	0.43%	$64,201	$68,197	1.21%
Secondary East	526,106	528,680	0.10%	$59,300	$62,449	1.04%
Tertiary East	677,089	685,711	0.25%	$58,203	$61,078	0.97%
Milwaukee	905,697	913,657	0.18%	$65,908	$70,259	1.29%
Rockford	753,906	788,829	0.91%	$64,699	$68,719	1.21%
Quad Cities, IL	205,060	202,849	-0.22%	$58,644	$62,853	1.40%
Secondary West	228,292	231,465	0.28%	$59,594	$64,114	1.47%
Peoria	462,183	467,302	0.22%	$65,606	$71,037	1.60%
Danville	324,256	329,194	0.30%	$57,422	$61,507	1.38%
Indianapolis	1,268,368	1,330,108	0.96%	$71,217	$76,434	1.42%
Danville South	419,972	424,602	0.22%	$52,976	$56,691	1.37%
Springfield	333,855	332,078	-0.11%	$61,020	$65,376	1.39%
St. Louis, IL	534,284	544,132	0.37%	$62,814	$68,427	1.73%
Illinois West	142,122	139,631	-0.35%	$52,433	$56,910	1.65%
Illinois South	233,049	229,803	-0.28%	$48,826	$52,632	1.51%
Metropolis	344,200	345,039	0.05%	$50,365	$54,509	1.59%
St. Louis, MO	1,487,586	1,528,580	0.55%	$73,078	$78,454	1.43%
Quad Cities, IA	178,655	181,314	0.30%	$62,499	$67,298	1.49%
Total	**13,266,205**	**16,011,163**	**3.83%**			
National	*220,820,181*	*231,083,594*	*0.9%*	*$71,071*	*$77,465*	*1.7%*

Source: iXPRESS, Nielsen Claritas, Inc.; MapInfo: The Innovation Group; AAG=Average Annual Growth

Model Calibration and Status Quo Scenario

The gravity model was calibrated for 2011 using operating data from respective state gaming commissions and gaming control boards. This calibration served as the Status Quo scenario. The following table shows the rates for propensity, frequency, and win per visit (WPV) by market area that were used to re-create the actual conditions in the Status Quo model. Win has been varied based on differences between market areas in average household income and travel time. Not reflected in the following table are adjustments to average WPV for individual facilities to reflect such differences in WPV resulting at slot-only casinos, which tend to have lower-than-average WPV and destination resorts which tend to have higher WPV. In addition, there is high variability in the Chicagoland market, with Illinois casinos generally having much higher WPV than Indiana casinos; this is believed to result from the size restriction and capacity constraints in

Illinois, which tends to be dominated by higher-value gamers. As more facilities and gaming positions are added to the market in the expansion scenarios, it would be expected that WPV in Chicagoland would decline as more casual gamers enter the market.

Participation Rates Status Quo

	Propensity	Frequency	Win per Visit
Chicago	30.0%	6.8	$86.50
Park City	30.0%	7.0	$146.00
Des Plaines	32.5%	9.0	$130.00
Elgin	32.0%	8.0	$143.00
Aurora/Joliet	33.5%	9.0	$96.00
Summit	33.0%	8.5	$96.50
Southland	37.0%	9.5	$86.00
Primary Indiana	42.0%	12.5	$76.50
Secondary East	32.0%	8.0	$86.50
Tertiary East	28.0%	6.5	$91.00
Milwaukee	34.2%	9.9	$86.50
Rockford	20.0%	6.5	$91.00
Quad Cities, IL	44.0%	14.0	$65.00
Secondary West	30.0%	7.0	$91.00
Peoria	34.0%	10.0	$91.00
Danville	14.0%	5.0	$91.00
Indianapolis	35.0%	11.0	$93.00
Danville South	14.0%	5.0	$91.00
Springfield	14.0%	5.0	$91.00
St. Louis, IL	42.0%	13.0	$70.00
Illinois West	26.0%	8.0	$70.00
Illinois South	24.0%	7.0	$95.00
Metropolis	38.0%	10.0	$116.00
St. Louis, MO	44.0%	15.0	$70.00
Quad Cities, IA	44.0%	14.0	$65.00

The following table shows the revenue forecast for Illinois casinos in the Status Quo scenario. It should be noted that the gravity model was not calculated to 100% of revenues, since a portion of casino revenues typically comes from outside of the residential market area from such sources as traffic intercept, tourism, and visiting friends and family. These out-of-market revenues can account for as much as 10% of gaming revenues, depending on site access and traffic and tourism volume as well as the capacity constraints related to population density and level of gaming supply. The facilities in Aurora, Des Plaines, Elgin, and Joliet are closer to the population core of Chicago and receive a high level of visitation from local gamers; thus they are estimated to receive a high percentage of gaming visits from the defined market.

Status Quo Admissions and Revenue Forecast

	Physical Gaming Seats*	Gravity Model Admissions	Gravity Model Revenues	Out-of-Area Admissions	Out-of-Area Revenues	Total Admissions	Total Revenues
Alton	1,206	972,333	$69,198,165	106,957	$7,611,798	1,079,290	$76,809,963
Aurora	1,334	1,497,925	$163,900,134	74,896	$8,195,007	1,572,822	$172,095,141
Des Plaines	1,325	3,055,683	$379,775,189	106,949	$13,292,132	3,162,632	$393,067,320
East St. Louis	1,324	1,628,781	$115,271,849	179,166	$12,679,903	1,807,946	$127,951,753
Elgin	1,331	1,600,760	$218,039,119	80,038	$10,901,956	1,680,798	$228,941,075
Joliet Hollywood	1,284	1,220,760	$127,738,324	51,272	$5,365,010	1,272,032	$133,103,334
Joliet Harrah's	1,327	1,888,439	$195,668,094	75,538	$7,826,724	1,963,976	$203,494,818
Metropolis	1,303	792,697	$91,167,381	87,197	$10,028,412	879,894	$101,195,792
Peoria	1,322	1,238,146	$111,993,769	43,335	$3,919,782	1,281,481	$115,913,551
Rock Island	1,310	1,036,023	$76,231,274	103,602	$7,623,127	1,139,625	$83,854,401
Total Existing	**13,066**	**14,931,547**	**$1,548,983,298**	**908,949**	**$87,443,850**	**15,840,496**	**$1,636,427,148**

*Note: Illinois has a non-standard method of counting gaming positions, whereby each slot machine counts as 0.9 positions and table games other than craps are counted as 5 positions. Craps counts as 10 positions. Illinois Gaming Board Regulations Title 86 Section 3000.606. Illinois licensees are restricted to 1,200 positions as calculated under Section 3000.606; however, compared to the counting method other jurisdictions employ the effective limit is approximately 1,325.

These revenue projections are based on the last 12 months of operating data (through August 2011) as reported by the Illinois Gaming Board. In the case of the Chicago-area casino, a further adjustment was necessary to annualize the impact of Des Plaines, which opened in mid-July 2011.

Gaming Participation Rates for Expanded Scenarios

Propensities and frequencies would be expected to increase in markets hosting new or expanded casinos as gaming becomes more available to the resident population. On the other hand, increases in propensity and frequency also would tend to lower WPV as more casual gamers enter the market and gaming budgets get stretched over more frequent gamer visits. For the purposes of comparison, WPV has been retained in 2011 dollars. In all scenarios, it is assumed that all developments are fully built out and operations stabilized.

Scenario 1: Maximum Expansion SB 744

In scenario 1 it is assumed that all riverboat casinos would expand to 2,000 Illinois-defined positions, the Chicago landbased casinos would have 4,000 positions, and the racinos would install the maximum allowed number of positions. In this scenario, propensities and frequencies would be highest of all the scenarios.

Participation Rates Scenario 1

	Propensity	Frequency	Win per Visit
Chicago	35.0%	9.80	$71.77
Park City	39.0%	11.50	$104.55
Des Plaines	40.0%	12.00	$109.17
Elgin	39.0%	11.50	$116.12
Aurora/Joliet	38.0%	11.00	$86.73
Summit	38.0%	12.00	$81.41
Southland	39.0%	11.50	$80.07
Primary Indiana	42.0%	12.50	$76.50
Secondary East	32.0%	8.00	$86.50
Tertiary East	28.0%	6.50	$91.00
Milwaukee	35.0%	10.20	$85.32
Rockford	34.0%	9.80	$83.89
Quad Cities, IL	44.2%	14.10	$64.81
Secondary West	33.0%	9.00	$81.58
Peoria	34.5%	10.20	$90.20
Danville	32.0%	9.50	$75.79
Indianapolis	35.0%	11.00	$93.00
Danville South	16.0%	5.50	$85.15
Springfield	30.0%	9.00	$78.00
St. Louis, IL	42.2%	13.20	$69.65
Illinois West	26.0%	8.00	$70.00
Illinois South	24.0%	7.00	$95.00
Metropolis	38.0%	10.00	$116.00
St. Louis, MO	44.0%	15.00	$70.00
Quad Cities, IA	44.0%	14.00	$65.00

Scenario 2: Riverboats at 2,000 positions, Chicago 4,000

For scenario 2, it is assumed that there would be no racetrack casinos, that all riverboat casinos—including the four new riverboat casinos—would expand to 2,000 Illinois-defined positions, and that the Chicago landbased casino would install 4,000 positions.

Participation Rates Scenario 2

	Propensity	Frequency	Win per Visit
Chicago	33.9%	9.18	$75.56
Park City	38.0%	10.50	$114.46
Des Plaines	36.4%	10.20	$121.64
Elgin	38.0%	10.30	$124.85
Aurora/Joliet	34.2%	9.70	$93.69
Summit	36.0%	10.50	$88.45
Southland	38.5%	11.20	$81.32
Primary Indiana	42.0%	12.50	$76.50
Secondary East	32.0%	8.00	$86.50
Tertiary East	28.0%	6.50	$91.00
Milwaukee	34.5%	10.00	$86.11
Rockford	34.0%	9.80	$83.89
Quad Cities, IL	44.0%	14.00	$65.00
Secondary West	33.0%	8.50	$83.67
Peoria	34.0%	10.00	$91.00
Danville	31.8%	9.40	$76.12
Indianapolis	35.0%	11.00	$93.00
Danville South	16.0%	5.50	$85.38
Springfield	14.0%	5.00	$91.00
St. Louis, IL	42.0%	13.00	$70.00
Illinois West	26.0%	8.00	$70.00
Illinois South	24.0%	7.00	$95.00
Metropolis	38.0%	10.00	$116.00
St. Louis, MO	44.0%	15.00	$70.00
Quad Cities, IA	44.0%	14.00	$65.00

Scenario 3: Riverboats at 1,200 positions, Chicago at 4,000

For this scenario, it is assumed that all riverboat casinos—including the four new riverboat casinos—would remain at 1,200 Illinois-defined positions and the Chicago landbased casino would install 4,000 positions.

Participation Rates Scenario 3

	Propensity	Frequency	Win per Visit
Chicago	33.6%	9.00	$77.74
Park City	36.0%	10.00	$124.10
Des Plaines	36.0%	10.00	$123.70
Elgin	33.5%	9.80	$134.52
Aurora/Joliet	34.2%	9.70	$93.98
Summit	36.0%	10.50	$89.46
Southland	38.5%	11.20	$81.91
Primary Indiana	42.0%	12.50	$76.50
Secondary East	32.0%	8.00	$86.50
Tertiary East	28.0%	6.50	$91.00
Milwaukee	34.5%	10.00	$86.16
Rockford	33.5%	9.60	$84.29
Quad Cities, IL	44.0%	14.00	$65.00
Secondary West	33.0%	8.50	$84.58
Peoria	34.0%	10.00	$91.00
Danville	31.0%	9.30	$76.81
Indianapolis	35.0%	11.00	$93.00
Danville South	16.0%	5.50	$86.09
Springfield	14.0%	5.00	$91.00
St. Louis, IL	42.0%	13.00	$70.00
Illinois West	26.0%	8.00	$70.00
Illinois South	24.0%	7.00	$95.00
Metropolis	38.0%	10.00	$116.00
St. Louis, MO	44.0%	15.00	$70.00
Quad Cities, IA	44.0%	14.00	$65.00

Gaming Demand Results for Expanded Scenarios

The following tables summarize admissions (or gaming visits) and gaming revenues for each scenario.

Admissions Summary by Scenario

	Status Quo	Scenario 1	Scenario 2	Scenario 3
Existing Illinois Riverboats	15,840,496	15,614,877	16,609,976	14,351,340
Proposed Facilities				
Racetracks	0	7,582,862	0	0
Riverboats	0	8,661,548	8,717,168	7,215,364
Chicago	0	5,664,196	6,120,981	6,364,316
Total Proposed	0	21,908,605	14,838,149	13,579,680
Total Illinois	**15,840,496**	**37,523,482**	**31,448,126**	**27,931,020**
% Change over Status Quo		*137%*	*99%*	*76%*

Revenue Summary by Scenario

	Status Quo	Scenario 1	Scenario 2	Scenario 3
Existing Illinois Riverboats	$1,636,427,148	$1,554,434,171	$1,627,605,339	$1,427,442,855
Proposed Facilities				
Racetracks	$0	$606,368,531	$0	$0
Riverboats	$0	$809,194,975	$847,511,760	$717,090,421
Chicago	$0	$462,717,251	$530,167,207	$573,334,853
Total Proposed	$0	$1,878,280,757	$1,377,678,967	$1,290,425,275
Total Illinois	**$1,636,427,148**	**$3,432,714,927**	**$3,005,284,305**	**$2,717,868,130**
% Change over Status Quo		*110%*	*84%*	*66%*

SOURCE OF NEW REVENUES

The increases in gaming revenues over the Status Quo scenario are attributable to three sources:

- Growth in gaming participation by Illinois residents. For example, adding a casino in Danville would lead to a substantial increase in gaming participation since currently Danville residents have to travel approximately two hours to visit a casino.
- Repatriation of spending by Illinois residents who would otherwise visit casinos in other states. For example, for residents of Danville, the racetrack casinos near Indianapolis are currently the most convenient gaming option, and therefore a casino in Danville would keep those gaming visits within Illinois.
- Increased capture of gaming visits and spending from outside Illinois. Sticking with the Danville example, a casino there would draw visitation from across the border in Indiana.

The following table shows the derivation of the incremental gaming revenues in the expansion scenarios:

Sources of New Revenues (mils) Statewide

	1	2	3
Illinois resident spending:			
Growth	*$942.3*	*$631.2*	*$539.85*
Repatriation	*$568.9*	*$478.8*	*$357.23*
Out-of-state residents	$285.1	$258.9	$184.35
Total New Revenues	$1,796.3	$1,368.9	$1,081.4
Percentage Breakdown:			
Growth	52.5%	46.1%	49.9%
Repatriation	31.7%	35.0%	33.0%
Out-of-state residents	15.9%	18.9%	17.0%
Total New Revenues	100.0%	100.0%	100.0%

Sources of New Revenues (mils) Chicagoland Market

	1	2	3
Illinois resident spending:			
Growth	*$769.5*	*$516.0*	*$433.18*
Repatriation	*$441.1*	*$397.5*	*$308.14*
Out-of-state residents	$126.6	$108.2	$79.01
Total New Revenues	$1,337.2	$1,021.7	$820.3
Percentage Breakdown:			
Growth	57.5%	50.5%	52.8%
Repatriation	33.0%	38.9%	37.6%
Out-of-state residents	9.5%	10.6%	9.6%
Total New Revenues	100.0%	100.0%	100.0%

TAX ANALYSIS

Gaming revenue taxes are derived from the privilege tax and the $3 admissions tax. [1] Local host communities get the first portion of the privilege tax equal to 5% of the facility's AGR and $1 of the admissions tax; the State of Illinois receives the remainder of both taxes.[2]

The following tables show the annual tax revenues and one-time payments that would accrue to the State in each scenario, as based on the parameters previously discussed.

A few notes of clarification and discussion:

- As noted previously, reconciliation payments would be made after four years of operation. In the SB 744 scenario, existing casinos (except Des Plaines) would be subject to the payment on only the 800 new positions on top of the original 1,200. However, with the impact of new casinos, no existing casino of the nine would earn a large enough increase in revenues over the status quo scenario to have to pay any reconciliation.

- License fees and reconciliation payments in scenario 1 should not be interpreted as a market-based projection but rather as the uppermost limit license fees and reconciliation payments under SB 744. Existing casinos would have the option of staying at 1,200 positions, and in that case would not pay a license fee or reconciliation payment.

- Table-slot revenue splits at existing casinos were based on current splits adjusted for the impact of lower table tax rates, and in scenario 1 for the impact of racino development. For proposed casinos, table-slot revenue splits were based on actual performance at comparable casinos in comparable markets. Table revenue percentages can be variable based on management decisions, but in general tables command a higher proportion of revenues at casinos in densely populated areas. For example, at Horseshoe Hammond, table revenues account for 23%-24% of total revenues, compared to 11%-14% at the more rural Indiana riverboats or the statewide average of 16%-17%.

[1] $2 at Casino Rock Island.
[2] Minus 15% of Des Plaines' AGR which goes to the racing industry in the status quo scenario.

State Share of Gaming Revenue Taxes: Summary by Scenario

	Status Quo	1	2	3
Unadjusted				
Privilege (before Hold Harmless)	*$443,650,642*	*$591,767,481*	*$570,631,698*	*$494,627,786*
Hold Harmless Rebate		*-$77,721,709*		
Privilege Tax to State	$443,650,642	$514,045,772	$570,631,698	*$494,627,786*
Admissions	$30,541,367	$73,923,420	$61,683,933	$54,785,667
Total Tax to State	**$474,192,009**	**$587,969,193**	**$632,315,631**	**$549,413,453**
Adjustments				
City of Des Plaines Provision	$10,000,000	-$4,000,000	$10,000,000	$10,000,000
Purse Subsidy (15% of DP AGR)	-$58,960,098			
Adjusted State Annual Tax Revs	$425,231,911	$583,969,193	$642,315,631	$559,413,453
Net Change		***$158,737,282***	***$217,083,720***	***$134,181,543***

One-time Payments: Summary by Scenario

	Status Quo	1	2	3
License Fees		$500,000,000	$335,000,000	$175,000,000
Reconciliation*		$1,242,528,082	$808,259,225	$792,818,956
DP License	$125,000,000		$125,000,000	$125,000,000
Total	**$125,000,000**	**$1,742,528,082**	**$1,268,259,225**	**$1,092,818,956**
Net Change		*$1,617,528,082*	*$1,143,259,225*	*$967,818,956*

* Reconciliation payments are calculated and paid 4 years after new casinos or additional gaming positions at existing casinos begin operating and may be financed over a 5 year period (i.e. over years 5 through 9 of operation) thereafter.

CHICAGO CASINO OPERATING MARGIN

Estimates for operating margins at the Chicago casino are provided below. Departmental expenses and promotional allowances are based on actual ratios at casinos in Illinois and other comparable markets. They are believed to be cautious estimates, and operators may be able to achieve better results. Management fees are calculated as a percentage (4%) of net revenues to encourage business volume along with a percentage (5%) of EBITDAM (earnings before interest, taxes, depreciation, amortization and management fee) to encourage operating efficiency. The "Tax Plus EBITDA" estimates do not include any debt service amounts that would need to be paid to finance the construction of a Chicago casino facility or any reconciliation payments.

Chicago Casino Operating Margin Estimate:

	1	2	3
GROSS REVENUES	$462,717,251	$530,167,207	$573,334,853
Less Promotional Allowances	*($32,390,208)*	*($36,051,370)*	*($40,133,440)*
@ % of GROSS	*7.0%*	*6.8%*	*7.0%*
NET REVENUES	$430,327,043	$494,115,837	$533,201,414
DEPARTMENTAL EXPENSES	($154,917,735)	($172,940,543)	($186,620,495)
% of NET	*36.0%*	*35.0%*	*35.0%*
STATE GAMING TAX	($140,969,246)	($176,912,803)	($193,096,827)
EBITDAM	$134,440,061	$144,262,491	$153,484,092
EBITDAM %	29.1%	27.2%	26.8%
MANAGEMENT FEE	$23,935,085	$26,977,758	$29,002,261
EBITDA	$110,504,976	$117,284,733	$124,481,831
EBITDA %	23.9%	22.1%	21.7%
City Privilege Tax	$23,135,863	$26,508,360	$28,666,743
City Admissions Tax	$5,664,196	$6,120,981	$6,364,316
Total City Tax Revenues	$28,800,058	$32,629,341	$35,031,059
Racing Purse Subsidy		($4,000,000)	($4,000,000)
Tax Plus EBITDA minus $4m racing subsidy	$139,305,035	$145,914,074	$155,512,890

SUBSTITUTION ASSESSMENT

This section provides a qualitative assessment of the impacts of increased casino spending by Illinois residents upon other economic activity in the state. The question to be addressed is, how will the $540 million to $942 million in new in-state spending (as shown in the table below) affect spending in other areas, including the lottery, video gaming, and other leisure sectors?

Sources of New Revenues (mils) Statewide

	1	2	3
Illinois resident spending:			
Growth	*$942.3*	*$631.2*	*$539.85*
Repatriation	*$568.9*	*$478.8*	*$357.23*
Out-of-state residents	$285.1	$258.9	$185.35
Total New Revenues	$1,796.3	$1,368.9	$1,081.4

It should be noted at the outset that this discussion does not address the offsetting benefits that would accrue to Illinois from the repatriation of gaming expenditures by in-state residents or the increased capture of gaming revenues from out-of-state residents. Combined, these two sources represent approximately half of the new revenues statewide, meaning half of the job creation and economic impact of expansion would be a clear net gain to the state without any substitution effect.

Diffuse Substitution Impacts

Impacts on the Illinois Lottery are provided below in a separate discussion. The remaining substitution effect can be grouped into four major categories:

- Savings
- Recreation
- Entertainment
- Miscellaneous, including such items as general merchandise and deferred automobile maintenance

Savings can account for 30%-40% of new casino revenues, depending upon background savings rates in local communities.

Diversion of spending on recreation activities such as travel can account for 20%-25%. Some of this diverted spending represents money that would otherwise be spent in other states, for example, one less weekend spent in the Wisconsin Dells.

An additional 20%-25% comes from other entertainment options, such as dining out, movies, and sports events. Most of this diversion would be in-state.

Finally, spending is diverted from a variety of sources including retail purchases and automobile repairs.

The Impact of Casino Gaming on Lottery Performance

The impact on lottery sales growth rates can vary widely depending on external and extenuating circumstances. However, there does appear to be a slight impact on lottery growth rates, with growth rates dropping by between 2.5 and 10 percentage points. It should be noted that lottery sales in five casino states continued to grow in all but one; however, the rate of growth slowed compared to previous trends.

One significant finding is that the decline in lottery growth rates is typically confined to counties and municipalities hosting casinos, with other counties largely unaffected. In New York, for example, lottery sales in areas surrounding new racinos grew by 1.7% in 2005 (the first full year of racino development) compared to 5.7% statewide and 7% in non-host communities.

In the case of the Illinois expansion scenarios, this would suggest that lottery growth rates in counties that would be new to hosting casinos could be expected to experience a drop in growth rates by between 4 to 6 percentage points. We would expect only the host counties for Rockford, Danville and Springfield would be affected to that degree. In the other markets, the impacts would likely be felt only at the municipal level since there are already high levels of casino development in the Chicago area, St. Louis, and the Quad Cities. For example, sales within Des Plaines might be affected by an increase to 2,000 positions but the impact on Cook County as a whole from such an expansion would likely be marginal.

Moreover, our research indicates that where lotteries are negatively affected by the introduction of casinos and racinos into a market, the duration of such effects is limited—seldom extending beyond two years—and can be minimized with effective marketing, the introductions of new games, and expanding retail outlets. Given the recent privatization of the Illinois Lottery with a goal of improving sales, it may be difficult to isolate an impact of new casino development.

DISCLAIMER

Certain information included in this report contains forward-looking estimates, projections and/or statements. The Innovation Group has based these projections, estimates and/or statements on our current expectations about future events. These forward-looking items include statements that reflect our existing beliefs and knowledge regarding the operating environment, existing trends, existing plans, objectives, goals, expectations, anticipations, results of operations, future performance and business plans.

Further, statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," “project,” or other words or expressions of similar meaning have been utilized. These statements reflect our judgment on the date they are made and we undertake no duty to update such statements in the future.

Although we believe that the expectations in these reports are reasonable, any or all of the estimates or projections in this report may prove to be incorrect. To the extent possible, we have attempted to verify and confirm estimates and assumptions used in this analysis. However, some assumptions inevitably will not materialize as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties and unanticipated events and circumstances, which may occur. Consequently, actual results achieved during the period covered by our analysis will vary from our estimates and the variations may be material. As such, The Innovation Group accepts no liability in relation to the estimates provided herein.