



MARKET ANALYSIS/IMPACTS REPORT:

Projected Gross Gaming Revenue, Employment, and Macro Economic Impacts of Expanded Casino Gambling in Illinois

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Prepared for: Illinois Revenue and Jobs Alliance



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Executive Summary

The Illinois Revenue and Jobs Alliance engaged Spectrum Gaming Group to project the gross gaming revenue, employment impacts, and macro economic impacts of casino gambling in Illinois under two scenarios: the current casino structure, and if the State of Illinois were to permit casino expansion that included the following:

- The 10 existing riverboat casinos could add up to 400 gaming positions each (plus possible unclaimed positions);
- Six racetracks could offer slot machines (1,200 positions at Cook County locations, 900 at non-Cook locations, 350 at Quad City Downs);
- Four additional riverboats could operate 1,600 gaming positions each; and
- A downtown, land-based Chicago casino could operate 4,000 gaming positions.

Assuming no casino expansion, Spectrum concludes that the 10 existing riverboats could reasonably produce the following statewide outcomes in 2016:

- Gross gaming revenue (“GGR”) of \$1.87 billion.
- Total taxes on GGR and admission fees of \$688.7 million.

Spectrum’s analysis suggests that expanded casino gambling¹ as described above (11 new casino/racetrack slots locations, with most of the existing 10 expanding), a total of 21 casinos/racetrack slot locations in Illinois could reasonably produce the following statewide outcomes in 2016:

- Gross gaming revenue of \$3.28 billion.
- Total taxes on GGR and admission fees of \$809.2 million, which is \$195.3 million more than we project the State would receive in 2012 from casinos/racetrack slots.
 - Of the \$195.3 million in incremental tax revenue to the State, racetrack slots would provide \$92.6 million of that amount (with \$62.6 million going to Capital Projects Fund and \$30.1 million going to host communities and local entities from racetrack slots).
- Monies diverted to purses from slots at racetracks of \$79.6 million.

For the total five-year forecast period used throughout this report (2012-16), the casino expansion could generate the following outcomes:

- Initial license fees of \$377 million for the State of Illinois.

¹ We use the term “casino expansion” throughout as a collective term that includes expansion of existing riverboat casinos, new slots at racetracks, new riverboat casinos, and one new land-based casino in Chicago.

- A total of \$3.7 billion in license fees, GGR taxes and admission taxes.
- Applying reconciliation payment² methodology to applicable years within our modeling (through 2016) indicates the total of all potential reconciliation payments to be \$1.17 billion (however, this would not be payable until beyond 2016).

The following table summarizes our GGR, admissions tax and GGR tax projections from 2012-16 under the two scenarios:

Projected Illinois gaming revenue and taxes: no casino expansion vs. casino expansion

| <u>Illinois Casinos (\$ millions)</u> | <u>No Expansion</u> | <u>With Expansion</u> | <u>Variance - With vs. No Expansion</u> | |
|---------------------------------------|---------------------|-----------------------|---|--------|
| 2012 - GGR | \$1,716.8 | \$1,716.8 | \$0.0 | 0.0% |
| 2013 - GGR | \$1,737.6 | \$2,009.7 | \$272.1 | 15.7% |
| 2014 - GGR | \$1,778.2 | \$2,416.0 | \$637.7 | 35.9% |
| 2015 - GGR | \$1,822.6 | \$3,199.9 | \$1,377.2 | 75.6% |
| 2016 - GGR | \$1,872.0 | \$3,284.7 | \$1,412.8 | 75.5% |
| 2012 - Tax (GGR+Admission) | \$613.9 | \$613.9 | \$0.0 | 0.0% |
| 2013 - Tax (GGR+Admission) | \$625.2 | \$538.0 | (\$87.1) | -13.9% |
| 2014 - Tax (GGR+Admission) | \$644.3 | \$595.4 | (\$49.0) | -7.6% |
| 2015 - Tax (GGR+Admission) | \$665.3 | \$782.5 | \$117.1 | 17.6% |
| 2016 - Tax (GGR+Admission) | \$688.7 | \$809.2 | \$120.5 | 17.5% |
| 2012 - Effective Tax Rate (to GGR) | 35.8% | 35.8% | 0.0% | |
| 2013 - Effective Tax Rate (to GGR) | 36.0% | 26.8% | (9.2%) | |
| 2014 - Effective Tax Rate (to GGR) | 36.2% | 24.6% | (11.6%) | |
| 2015 - Effective Tax Rate (to GGR) | 36.5% | 24.5% | (12.1%) | |
| 2016 - Effective Tax Rate (to GGR) | 36.8% | 24.6% | (12.2%) | |

Source: Spectrum Gaming Group

The following table shows an itemization of the admission tax and GGR tax by year from 2012-16, along with new funding in the form license fees, as well as monies diverted to purses from slots at racetracks.

² A mechanism to collect reconciliation payments would be applicable under proposed legislation enabling casino expansion (i.e. there is no provision for reconciliation payments absent casino expansion). Reconciliation payments would be calculated four years after an existing casino expands (beyond 1,200 gaming positions) or four years after a new casino or racetrack slots location becomes operational. Reconciliation payments would be based on a variety of factors, primarily on new or incremental GGR generated and new gaming positions created via the proposed legislation. Each applicable casino licensee would be required to make reconciliation payments over a period of no more than two years and installments, while these payments would be designated for, and deposited into, the Gaming Facilities Fee Revenue Fund.

Illinois gaming taxes, fees and purse money: no casino expansion vs. casino expansion

| <u>Illinois Casinos (\$M)</u> | <u>No Expansion</u> | <u>With Expansion</u> | <u>Variance - With vs. No Expansion</u> | |
|--|---------------------|-----------------------|---|------------|
| 2012 - Tax (GGR) | \$563.0 | \$563.0 | \$0.0 | 0.0% |
| 2013 - Tax (GGR) | \$573.7 | \$478.4 | (\$95.3) | -16.6% |
| 2014 - Tax (GGR) | \$591.7 | \$521.8 | (\$69.9) | -11.8% |
| 2015 - Tax (GGR) | \$611.4 | \$686.8 | \$75.5 | 12.3% |
| 2016 - Tax (GGR) | \$633.2 | \$711.0 | \$77.7 | 12.3% |
| 2012 - Tax (Admission) | \$50.9 | \$50.9 | \$0.0 | 0.0% |
| 2013 - Tax (Admission) | \$51.5 | \$59.6 | \$8.2 | 15.8% |
| 2014 - Tax (Admission) | \$52.7 | \$73.6 | \$20.9 | 39.7% |
| 2015 - Tax (Admission) | \$54.0 | \$95.7 | \$41.7 | 77.2% |
| 2016 - Tax (Admission) | \$55.4 | \$98.2 | \$42.8 | 77.1% |
| 2012 - License Fees | \$0.0 | \$0.0 | \$0.0 | n/a |
| 2013 - License Fees | \$0.0 | \$59.0 | \$59.0 | n/a |
| 2014 - License Fees | \$0.0 | \$117.5 | \$117.5 | n/a |
| 2015 - License Fees | \$0.0 | \$200.5 | \$200.5 | n/a |
| 2016 - License Fees | \$0.0 | \$0.0 | \$0.0 | n/a |
| 2012 - Monies Diverted to Purses | \$0.0 | \$0.0 | \$0.0 | n/a |
| 2013 - Monies Diverted to Purses | \$0.0 | \$0.0 | \$0.0 | n/a |
| 2014 - Monies Diverted to Purses | \$0.0 | \$111.7 | \$111.7 | n/a |
| 2015 - Monies Diverted to Purses | \$0.0 | \$77.4 | \$77.4 | n/a |
| 2016 - Monies Diverted to Purses | \$0.0 | \$79.6 | \$79.6 | n/a |
| 2012 - Grand Total (above categories) | \$613.9 | \$613.9 | \$0.0 | n/a |
| 2013 - Grand Total (above categories) | \$625.2 | \$597.0 | (\$28.2) | n/a |
| 2014 - Grand Total (above categories) | \$644.3 | \$824.5 | \$180.2 | n/a |
| 2015 - Grand Total (above categories) | \$665.3 | \$1,060.3 | \$395.0 | n/a |
| 2016 - Grand Total (above categories) | \$688.7 | \$888.8 | \$200.1 | n/a |

Source: Spectrum Gaming Group

Of non-Illinois casinos within a reasonable two-hour drive from Illinois adults, our modeling indicates that in 2016 (absent Illinois casino expansion) these Illinois adults would be exporting \$1.475 billion in GGR to nearby out-of-state casinos. However, with Illinois casino expansion, this figure is reduced to \$831 million. Therefore, we project that Illinois casinos would recapture approximately \$644 million in GGR in 2016 via casino expansion occurring (vs. status quo).

Based on the Illinois Gaming Board's method of counting gaming positions, the following table illustrates the potential number of gaming positions in Illinois from 2012 through 2016 (with expansion) in our modeling.

Casino gaming positions by year, assuming expansion

| <u>Casino/Location (Existing or Potential)</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2016 vs. 2012</u> |
|--|---------------|---------------|---------------|---------------|---------------|----------------------|
| Existing Casinos | 11,729 | 15,756 | 15,756 | 15,756 | 15,756 | 4,027 |
| Racetrack Slots | 0 | 0 | 5,750 | 5,750 | 5,750 | 5,750 |
| Additional Casinos | 0 | 0 | 0 | 0 | 10,400 | 10,400 |
| Grand Total | 11,729 | 15,756 | 21,506 | 21,506 | 31,906 | 20,177 |

Source: Spectrum Gaming Group, Illinois Gaming Board

The casino expansion would have a considerable economic impact on Illinois. Following are our key findings:

- The expanded and new casinos/racetrack slots would create a minimum of \$1.2 billion in new construction expenditures (excluding soft costs), while employing a minimum of 4,583 construction workers earning a minimum of \$473.2 million in wages, benefits and employer taxes.
- The expanded and new casinos would create, at a minimum, an additional 9,751 direct full-time-equivalent jobs, with one-year wages of \$322.6 million. The actual number of people hired would be higher, as some positions would be part-time. The average annual weighted wage would be \$33,086 (all wage figures are exclusive of dealer tips). The racetrack slots would be responsible for 2,723 of the jobs and \$94.7 million of the wages, at an average annual wage of \$34,793.
- By 2016, Illinois would realize the following net economic and fiscal impacts with gaming expansion than without it, all other things being equal:
 - 20,451 more total private-sector jobs, including direct, indirect and induced (full- and part-time);
 - \$27.4 million more in total sales taxes for the State of Illinois;
 - \$2.16 billion more in gross state product (essentially, the net economic value to an economy);
 - \$1.51 billion more in personal income; and
 - \$3.49 billion more in output (output is the gross impact on the economy and is often thought of as total sales).

We developed our casino-expansion and new-casino sizing assumptions based on the gaming-market size, the competitive landscape, site visits and owner interviews, as well as on our experience in a variety of gaming markets. Our assumptions should be considered minimums and do not necessarily reflect what individual operators may be planning for their casino projects, at either existing or potential locations.

Our projections throughout this report do not factor in the impacts of retail video gaming terminals because the number of units and their potential locations are unknown at this time. Dependent on these factors, they do have the potential to reduce our projected casino/racetrack slots revenue.