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A Framework for Gaming in Illinois

- Preserve integrity and prevent corruption
- Provide a smaller and targeted expansion
- Guarantee fair revenue sharing

Preserve Integrity and Prevent Corruption

Illinois Gaming Board must have ultimate oversight authority over all casinos, including Chicago

Currently, the Illinois Gaming Board (Gaming Board or IGB) regulates all aspects of the operations occurring at Illinois casinos. It has done so for more than 20 years, using its expertise to maintain integrity and prevent corruption. Time has shown that the Gaming Board has proven to stop problems before they happen and to punish the wrongdoers when they do.

Under the proposed bill, the Gaming Board regulates only “gaming operations” and nothing else. Construction, waste management, IT, and other contracts that are susceptible to abuse, corruption, and the infiltration of criminal elements are left to be regulated by Chicago. There is an inherent conflict in having Chicago or anyone else serve as both the regulator (who wants to run a clean casino) and the owner (who wants to maximize profits).

Under any bill, the Gaming Board must have primary and ultimate oversight authority over all casinos, including Chicago’s. Likewise, as with any other casino, the Gaming Board must have the power to suspend Chicago’s license and operations, as the situation merits.

Stronger procurement rules and state law enforcement authority should apply to Chicago’s publicly-owned casino

The proposed bill provides procurement exemptions such that IT and professional services contracts do not have to be openly and competitively bid. Information technology is an enormous part of casino costs, from the gaming terminals (the “slots”) to the casino surveillance to the accounting and collection systems. Likewise, exempting professional services means that the designing and planning of the casino can be handpicked, without criteria and behind closed doors. Not requiring such enormous and important contracts to be openly and competitively bid is unacceptable.

Likewise, the proposed bill is unclear as to who will develop and construct the Chicago casino—the Chicago Casino Development Authority or the casino operator. Whoever is developing and constructing the casino, those contracts and subcontracts must be openly and competitively bid. That is not clear in the current bill.

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Finally, under the proposed bill, Chicago is forbidden from entering into a contract with the Illinois State Police, who are the security, background, and investigatory force for the Gaming Board. The Gaming Board should not only be the primary and ultimate oversight authority over all casinos, but as it has always been, the Board and the Illinois State Police must also be the primary and ultimate law enforcement authority for the casinos as well.

No automatic licenses – all video gaming applicants must be fully vetted

The proposed bill provides bars, restaurants with liquor licenses, truck stops, and VFW lodges with provisional licenses within 60 days of filing an application to have video gaming terminals, regardless of whether the Gaming Board has had the opportunity to review their application. Licenses can go out the door, regardless of whether the proprietor has a gambling or felony conviction.

There are currently 10,000 to 15,000 locations that could seek such licenses. The Gaming Board could not adequately vet even a portion of such locations within 60 days. Thus, the bill not only risks but actively promotes the issuance of applications to unqualified and un-reviewed locations. The 60 day deadline and the automatic issuance of provisional video gaming licenses must be eliminated.

Illinois Gaming Board must have enough time to do its job

The proposed bill sets artificial deadlines that wrongly prioritize expediency over integrity. The proposed bill requires the internal controls for all new casinos to be completed within 60 days after receipt by the Gaming Board. Internal controls for a single casino set out the detailed “rules of the road” for the facility and can run to over 1000 pages. Review is time intensive and involves a constant dialogue and exchange between the Gaming Board and the owner/operator. In the case of the 10th license for the Rivers Casino in Des Plaines, the internal controls took over six months to complete. Even under the Governor’s reduced expansion proposal, to require the internal controls for five new casinos (one of which, Chicago, is much larger and more complicated than any previous Illinois casino) to be done within 60 days is not only infeasible, but irresponsible. It is more important for the “rules of the road” to be right than rushed. Such an artificial deadline must be eliminated.

Likewise, the proposed bill requires all casino licenses to be issued within 12 months after the effective date of the bill. To competitively bid and adequately background check and vet a single license, much less five, is a time intensive process. To set a hard, artificial deadline is to risk mistakes, corruption, and criminal infiltration.

Like other states, Illinois should ban campaign contributions by gaming licensees and casino managers

More gaming requires more controls, including in the area of campaign contributions. Other states restrict or ban campaign contributions by gaming licensees and casino managers, including New Jersey, Pennsylvania, and Louisiana and Illinois’ bordering states like Iowa, Michigan, and Indiana. The Massachusetts legislature is working on a gaming bill that includes contributions bans as well. There is too much money and too much risk in the industry not to prohibit such contributions.



Smaller and Balanced Expansion

Cut proposed casino locations from 14 to 5:

**Chicago
Southern Cook County
Lake County
Rockford
Danville**

This reduces new facilities in the six county Chicagoland area from 9 to 3 and outside the Chicagoland area from 5 to 2

No gaming at O'Hare or Midway

Chicago is a world-class Illinois city to be compared to London, Toyko, and Paris. It should not be encouraging national and international air travelers to compare it to Las Vegas, Tahoe, and Reno.

No casino gambling at the Illinois State Fair

The State Fair is a family event intended, in part, to highlight and celebrate Illinois' agricultural community and accomplishments. Gaming detracts from its character and charge.

Video gaming only in communities that expressly approve it

Video gaming—in restaurants, bars, VFW halls, and other locations—should only come to communities that affirmatively want it. With other gaming expansion, video gaming should be only on an “opt-in” basis.

Casino location selection criteria:

- **Benefit areas that need jobs and economic development the most**

“Economic development” was part of the original intent of the Riverboat Gambling Act (changed to just the Gambling Act in the proposed bill). All of the casino locations have a demonstrated need for jobs and economic development. Danville, Rockford, and southern Cook County have been some of the hardest hit areas for job and business loss over the years. Chicago is facing a \$600 million budget deficit.

- **Capture gaming revenues currently going to bordering states**

Currently, many of the Illinois residents who gamble are spending their money in Illinois' neighboring states. Open an Illinois paper or look up at a billboard and you will see ads for these out-of-state casinos, asking for Illinois dollars. The casinos in the Governor's framework are strategically placed to reverse this trend. The Chicago and southern Cook County casinos are placed to corner the Chicago market and to keep Illinois money in Illinois that has been previously going to the current casinos in northeast Indiana.

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A Lake County casino brings back Illinois dollars that are currently being spent at Potawatomi Casino in Milwaukee. A Rockford casino stops Illinois dollars from going to Ho-Chunk Casino in Madison, Wisconsin or to any contemplated casino in Beloit, Wisconsin, right on the Illinois border. Finally, while east central Illinois is not currently losing gaming money to Indiana, a casino in Danville, right along the Indiana border, will bring Indiana residents and their dollars to Illinois.

- **Promote overall geographic balance**

Eastern Illinois, northern Illinois, and north Chicagoland currently have no gaming. The Governor's framework balances the locations of the new casinos with the existing geographic locations.

- **Prevent over-saturation of gaming in any part of the state**

Putting gaming facilities right next to each other does not maximize new gaming dollars. Rather, it means splitting up the already-spent and finite dollars in a geographic area. This does not make sense for the State, for the communities, or for the facilities. The proposed bill advocates putting new and old facilities right on top of each other: Quad City Downs next to Rock Island; Fairmount next to East St. Louis; Balmoral next to southern Cook County; Arlington and Maywood next to Des Plaines and Elgin; and Hawthorne next to Chicago. Likewise, the proposed bill adds 9 more gaming facilities to the Chicagoland area, which currently supports 5 casinos.

Any bill must be designed to tap, not saturate the market—the current proposed bill does not.

Fair Revenue Sharing

Provide more revenue for statewide education and infrastructure needs AND No excessive tax breaks for lucrative casinos

The proposed bill provides too many tax breaks and protections to the casino owners and not enough tax revenue for statewide education and infrastructure.

Under current Illinois law, the top tax rate applicable to all adjusted gross receipts at a casino over \$200 million is 50%. Under the proposed bill, the top tax rate is now 40% (with a 5% to 10% reduction in all graduated tax rates) and actually drops to 30% for adjusted gross receipts at a casino between \$300 million and \$350 million and all the way down to 20% for all adjusted gross receipts above \$350 million.

Put another way, assuming that a Chicago casino would have \$600 million in receipts, the State would receive over \$100 million less in tax revenue under the proposed bill versus today. Part of the legislative intent of the original Riverboat Gambling Act and one of the Governor's highest priorities of the Governor is to "increase the amount of revenue available to the State to assist and support education." As currently structure, the proposed bill does not do the job.



**Reduce delays in one-time revenue AND
Help pay state bills right now**

The proposed bill has the bulk of the one-time casino license payments being made a minimum of 4 years, but up to 9 years after a casino begins operating. That means for a casino that opens for business in 2013, the bulk of the license payments will be made between 2017 and 2022. Illinois and its bills cannot wait that long.

Any bill should be restructured for prospective casino owners to competitively bid for the license, in order to maximize bids and for the State to receive as much of the one-time casino license payments up front as possible. To protect the State against underbids, among other potential solutions, minimum bids and post-operation reconciliation payment based on actual receipts could be required.

Maintain appropriate support for horse racing and related businesses

Horse racing and breeding have long been a part of Illinois culture and contribute to Illinois agribusiness. But giving every racetrack a casino and exponentially expanding casino gambling in the State is not the right way to provide support to this industry.

In order to preserve the industry and to compete with other states, the Governor believes that horse racing should continue to receive financial support that can be tracked and more precisely measure for its necessity and effectiveness. The best way to do that is through a mechanism similar to the current system, *i.e.*, through subsidies in the form of diversions of a specific amount or portion of State gaming tax revenues or gaming revenues generated at some or all of the casinos.



Flaws in Senate Bill 744

Regulatory and Ethical Flaws in SB 744

1. **Fails to provide adequate regulatory oversight authority to the Illinois Gaming Board**

The proposed bill fails to give the Illinois Gaming Board the authority, power and sufficient time to properly police the gaming industry. It fails to provide the Illinois Gaming Board with the basic tools it needs to do its job - whether it is the ability to review and approve Chicago's casino's contracts or to suspend the Chicago casino's license and operations if there is misconduct – the bill is woefully deficient when it comes to oversight authority.

2. **Does not give the Gaming Board sufficient time to make licensing and regulatory decisions**

The proposed bill requires that all casino license applications be decided within one year of the bill becoming law, regardless of whether the applicant has been cooperative in submitting the required information and regardless of the nature of its corporate ownership structure. A hard deadline of a year may be insufficient time to fully vet a company applying for a license to run a casino.

Under SB 744, the Illinois Gaming Board must approve the 12 new gaming licensee's internal controls within 60 days. Given the nature and complexity of a casino's internal controls, such a short timeline for a review process is not feasible. Currently, such reviews typically take at least 6 months. For instance, the internal controls for the 10th license Des Plaines took approximately 7 months to complete.

4. **Does not give the Gaming Board authority to suspend operations at the Chicago casino in the event of wrongdoing**

SB 744 provides a permanent, irrevocable license to the Chicago casino and an indefinite license term to the Chicago casino operator. As currently written, this provision will make it impossible for the Illinois Gaming Board to suspend the license in the face of any potential violations by or deficiencies at the Chicago casino. In contrast, the Illinois Gaming Board has authority to revoke, suspend, or limit the terms of renewals of all other owners and licensees in the State.

5. **Key IT and professional services contracts would not be openly and competitively bid**

Section 1-115 of the proposed Chicago Casino Development Authority Act, entitled "Purchasing", lays out a 2-page process for all procurement by the Authority. It is based loosely on the Municipal Purchasing Act (65 ILCS 5/8-10). It establishes a competitive bidding process, but has two major loopholes. First, it exempts all professional service contracts. (1-115 (a)(2)). This is especially important because the Chicago casino is given the ability to contract "with other third parties in order to fulfill its purpose" (1-13) and also to hire a third party to develop a master plan for the "design, planning and development of a casino" 1-31 (12). These third parties could be guiding the entire casino development, yet could be hired with no competitive process whatsoever. Second, Section 1-115 also exempts all IT-related contracts from competitive bidding (1-115 (a)(4)). A very large portion of the spending on such projects today will be IT-related.



6. Gives the Chicago casino authority to approve vendor and construction contracts without Gaming Board Oversight

Currently, the Illinois Gaming Board regulates all aspects of the operations occurring at Illinois casinos. Under SB 744, the Illinois Gaming Board regulates only gaming at the Chicago casino and nothing else. The Chicago casino will have the power to enter into contracts to construct a casino or riverboat, manage the gaming properties, and carry out other activities related to casino construction and operation without any Illinois Gaming Board oversight. Currently, the Illinois Gaming Board monitors and regulates all contracts entered into by licensees and, when appropriate, the Illinois Gaming Board investigates potential criminal activity. Under SB 744, the Illinois Gaming Board will not have the authority to provide that kind of oversight over the Chicago casino.

As currently designed, the Chicago casino will also have an inherent conflict of interest between its function as regulator, seeking to ensure the integrity of gaming, and its function as owner, seeking to maximize City profits through its casino operator licensee.

6. Permits issuance of video gaming licenses without adequate time for background checks

Provisional licensure for video gaming terminals would directly impair the integrity of gaming in Illinois. The locations eligible for a provisional license include "licensed establishments" (restaurants and bars where liquor is poured and served), "licensed fraternal establishments" (fraternal organizations), "licensed veterans' establishments" (such as VFW lodges) and licensed truck stops. Approximately 10,000 to 15,000 locations fit into these categories. Under SB 744, the Illinois Gaming Board must grant a provisional license if it determines that the applicant meets a cursory set of requirements, including:

- Completion of application;
- No felony convictions or convictions under Article 28 (gambling article) of the Criminal Code of 1961;
- Valid liquor, charitable games, or lottery license; and
- Results of State and federal background check performed by the Illinois State Police.

If the Illinois Gaming Board does not act on a provisional license request within 60 days, regardless of whether Illinois Gaming Board has determined that the above criteria have been met, the Illinois Gaming Board must issue the license.

The Illinois Gaming Board staff could not evaluate many of these applications within such a short window of time, resulting in many unqualified and un-reviewed locations receiving provisional licenses. Even for those locations for which the Illinois Gaming Board is able to act within the 60-day deadline, the provisional license procedure is too cursory to allow satisfactory background investigations.



Revenue Flaws in SB 744

1. Delays payment of revenues to the state

The majority of the one-time payment by a casino to the State for the right to have a license will be paid at least 4 years and up to 9 years after the casino begins operating.

Each new licensee must pay a \$100,000 fee for initial license issuance and renewals. They must also pay either \$25,000 (if located in Cook County) or \$12,500 (if located outside Cook County) per position.

After that, each of the new owner licensees must also make a reconciliation payment four years after the date the licensee begins operating. The payments shall equal 75% of the adjusted gross receipts for the most lucrative 12-month period of operations, minus an amount equal to the total amount initially paid for its positions. If this calculation results in a negative amount, the licensee is not entitled to any reimbursement of previously paid fees. The reconciliation payment may be made in installments over a period of up to 5 years, subject to Board approval—or up to 9 years after a new casino opens.

2. Over-saturates casino gambling in the Chicago area and other parts of the state

SB 744's massive expansion of gaming could potentially result in 12,000 current casino positions increasing to 39,200. If you add video gaming positions under the current, "opt-out only" statute, the total positions could reach 90,000. Instead of focusing on generating new revenue, such uncontrolled expansion will largely result in spreading the same money across a much bigger casino sector.

There has been a dramatic decline in tax revenues from gaming during the past four years. In 2007, the State's share of gaming taxes totaled \$718.2 million, and the local government share totaled \$115.7 million. By calendar year 2010, the State's share of gaming taxes had fallen to \$383.4 million and the local government share to \$82.5 million. This represents a decline of 46.6% in State revenues from gaming, and a decline of 29.7% in local revenues. In other words, unless we are focused on recapturing Illinois gaming money that is currently being spent at casinos in our neighboring states, we have not seen an internal upswing in gaming—quite the contrary--that creates an expectation of more volume if we have a much larger casino sector.

3. Gives excessive tax breaks to wealthy casinos, shortchanging Illinois education and infrastructure

Under the current law, gaming is subject to a progressive State privilege tax, with all casino AGR over \$200 MM taxed at a 50% rate. Under SB 744, not only is the new top tax rate capped at a reduced 40% after July 2013, but that top tax rate only applies to AGR between \$200 MM and \$300 MM. AGR between \$300 MM and \$350 MM is taxed at a regressive 30% and all AGR over \$350 MM is taxed at a still lower 20%--a 30% difference from the current law.

Such dramatic tax breaks benefits casinos, not the State or the people of Illinois, and will allow casinos (particularly, Chicago's casino) to greatly profit from the gaming expansion.



4. Enacts tax cuts for every existing casinos before new casinos even exist

In the initial years before the new casinos become operational, the immediate tax breaks for the existing casinos—before the new casinos and their additional revenues would come on line—will result in less revenues going to the Education Assistance Fund. As a result, the Education Assistance Fund will actually *decline*, as compared to FY 2011, according to the General Assembly's Commission on Government Forecasting and Accountability, by an estimated (\$23.9 million) in FY 2012 and (\$7.7 million) in FY 2013. To the extent there are any tax breaks, they should not occur until the new casinos are open and additional revenues are coming in.

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