

# The Civic Federation

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## Civic Federation Supports Governor's Veto of Gaming Expansion in Illinois

*Federation Calls Gaming Bill a Major Distraction from Pension Reform*

November 27, 2012

### **The Civic Federation supports Governor Pat Quinn's veto of Senate Bill 1849, which would authorize casino gambling in Chicago and significantly expand gambling in other parts of Illinois.**

Governor Quinn's veto of Senate Bill 1849 awaits action by the Illinois General Assembly. In his veto message, the Governor emphasized deficiencies in the proposed gambling expansion's regulatory oversight and ethical requirements.

The Civic Federation supports Governor Quinn's veto and strongly agrees that the Illinois General Assembly should put aside gaming expansion until after the passage of comprehensive pension reform. Faced with an unfunded pension liability of \$97 billion and total pension payments that are expected to consume 22% of State-source general operating revenues in FY2013, the General Assembly should no longer be distracted by the issue of gaming expansion.

### **Rationale for the Governor's Veto**

The Civic Federation supports the Governor's reasons for vetoing SB1849, which include the following:

- The bill does not provide the Illinois Gaming Board with clear regulatory authority over the Chicago casino, in line with its oversight of other Illinois casinos. The Gaming Board, which already has substantial resources and expertise in regulating gambling, should be the sole regulatory authority;
- The bill does not prohibit campaign contributions from gaming licensees and casino operators. Such a ban is needed to help prevent political corruption and protect the public interest; and
- The State's most pressing financial problem is its severely underfunded retirement systems. The General Assembly should focus on finding a solution to the pension crisis.

### **Additional Concerns of the Civic Federation**

In addition to supporting the Governor's reasons for vetoing SB1849, the Civic Federation has the following objections and recommendations relating to the proposed gambling expansion:

- **Allocation of new casino licenses:** The Civic Federation opposes the determination of new casino locations by the General Assembly. The interests of State taxpayers are best served by permitting new casino licenses to be allocated through a competitive bidding process overseen by the Illinois Gaming Board. The General Assembly should not choose the locations of new casinos on political grounds.
- **Approval of electronic gaming licenses for racetracks:** The Civic Federation opposes the provision of SB1849 that appears to require the Gaming Board to award electronic gaming licenses to racetrack owners. The General Assembly should not mandate which applicants receive gaming licenses. This determination should be left to the Gaming Board.

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- **City Ownership of Chicago Casino:** The Civic Federation opposes government ownership of a casino or any other enterprise for which there is a viable private alternative.
  - The primary purpose of government is to protect the public interest and promote improved quality of life for all citizens through law enforcement and reasonable regulation of business activities. The ownership goal for a business enterprise is to maximize profits for its shareholders. These two goals are in direct conflict for a government-owned casino.
  - We oppose using public funds to promote and market a government-owned activity that competes with already existing, privately-owned business activities. Although it may appear that the success of a City-owned casino is assured, there are substantial risks and Chicago taxpayers should not be asked to guarantee the success of such a venture.
  - If Chicago municipal government desires to have casino gambling it should participate in an open bidding process with all other parts of the State. The City should also publicly disclose where and under what circumstances such establishments would be authorized and what taxes would be applied.
  
- **Modest Fiscal Impact:** The Civic Federation is concerned that the bill is projected to generate only modest increases in recurring State general operating revenues due to reduced tax rates and diversion of revenues to special-purpose funds. Tax rate reductions and diversions from general operating revenues reduce economic and fiscal benefits of gaming expansion for the State of Illinois.
  
- **Evaluation of costs and benefits:** The Civic Federation urges that an independent cost-benefit analysis of any new casino be conducted each year during the term of the initial license.
  - The evaluations should be modeled on those produced for the Indiana Gaming Commission and provide information on total costs, including social costs such as crime, bankruptcy and mental health problems, compared with total benefits, including jobs created and wages generated.
  - After the initial renewal period, the Federation recommends that independent cost-benefit analyses be done for each casino—both new and existing—prior to each license renewal.

### **Summary of SB1849**

- Authorizes five new casinos: four in the cities of Chicago, Rockford, Danville and Park City (near Waukegan) and the fifth in one of six townships in south suburban Cook County;
- Authorizes land-based casino operations upon approval by the Illinois Gaming Board;
- Establishes the Chicago Casino Development Authority with dual status as a local unit of government and a casino licensee regulated by the Gaming Board. The Authority is governed by a five-member board appointed by the Mayor;
- Grants the Authority the power to issue long-term bonds to fund casino development backed by casino property, revenues and other payments;
- Grants the Authority a permanent gaming license. Other owners' licenses may be revoked, suspended or have their renewal terms of up to four years limited by the Gaming Board;
- Grants the Authority an initial total of 4,000 gaming positions. Each of the other four new, non-government owned casinos is granted an initial total of 1,600 gaming positions;

- Expands total gaming positions to 1,600 from 1,200 at the ten existing riverboats with any unclaimed positions being available to other locations;
- Authorizes electronic gaming at the State's six racetracks, allowing 1,200 positions at Cook County tracks (Arlington, Hawthorne and Maywood), 900 at Balmoral and Fairmount and 350 initial positions at Quad City Downs, increasing to 900 by 2015;
- Creates a new wagering tax structure that 1) Establishes separate tax rate structures for table games and electronic gaming; 2) Reduces the highest tax rate applied to Adjusted Gross Receipts (AGR, or gross receipts minus winnings paid to gamblers) from 50% across the board to 22.5% for table games and 40% for electronic gaming devices; 3) Includes lower tax rates for the highest AGR levels (16% for AGR of \$70 million and up for table games and 20% for AGR of \$350 million and up for electronic gaming devices); 4) Includes a tax reduction of up to 5% if a casino receives less after-tax AGR than in calendar year 2012; and
- Mandates revenue diversions to provide funding for a variety of special purposes, including agricultural programs, State and county fairs, the Cook County Forest Preserve District, natural resource conservation and economic development of depressed communities.
- **Results in an estimated \$41 million decline in total recurring gaming revenues in the first year of expansion (according to the Commission on Government Forecasting and Accountability) due to lower tax rates. Total incremental revenues in FY2016 are projected at \$334.7 million:**
  - Local government revenues of \$114.2 million;
  - State capital revenues of \$20.1 million;
  - State education revenues of \$163.1 million; and
  - Other revenues to various State funds of \$37.3 million.
- Results in estimated one-time revenues, excluding amounts bid for licenses, of \$1.5 billion:
  - License fees for new gaming facilities of \$1.1 million;
  - Position fees for new gaming facilities of \$316.9 million;
  - Position fees for expansion at existing facilities of \$50.0 million;
  - Reconciliation payments (collected 4 years after new operations begin) of \$1.093 billion;
  - These one-time revenues would be used to pay Gaming Board expenses and to pay down outstanding State bills; and
  - The projected \$1.5 billion does not include other one-time revenues from bidding on licenses for the four new casinos outside of Chicago or the split of any management contract bid amounts from the operator of the Chicago location.
- Results in estimated AGR at the Chicago casino of \$662 million upon full operation after three or four years:
  - Of this amount, approximately \$184 million is paid in tax revenues, including \$39 million that would be returned to the City of Chicago as the local government distribution;
  - The remaining \$478 million includes the amount that Chicago would pay to the casino operator. This amount is unknown but would presumably be negotiated with the operator; and
  - City revenues from the casino would be used for infrastructure and capital-related expenditures.