

**Illinois Gaming Machine
Operators Association**

**Economic Impact Study
Tax Increase Impact**

Final Report

May 2015



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Impact of a VGT Tax Increase

We analyzed the impact that an increase in the VGT tax on either the terminal operator or terminal operator and establishment would have on the VGT market, including the reduction in the number of VGT machines, establishments that are forced to close, the loss of jobs, the impact on state and local gaming tax revenue, and the impact on state sales tax. We a 5% tax increase for the state (from 30% of NTI to 35%) with a 2.5% reduction coming from both the terminal operator and establishment (both from 35% of NTI to 32.5%). We assumed that the tax increase goes to the state only and does not increase the municipality tax distribution. We note that an increase in the VGT tax would not affect all of the market participants in the same way. Therefore, we grouped the establishments into 4 categories based on WPU (WPU greater than \$100, WPU between \$80.00 and \$99.99, WPU between \$60.00 and \$79.99, and WPU less than \$60.00). At the end of 2014, there were 1,856 establishments (39.7% of total establishments) that had a WPU greater than \$100.00 and these 1,856 establishments operated 8,469 VGT machines (44.2% of total VGTs). There were 618 establishments (13.2% of total establishments) that had a WPU between \$80.00 and \$99.99 and these 618 establishments operated 2,607 VGT machines (13.6% of total VGTs). There were 688 establishments (14.7% of total establishments) that had a WPU between \$60.00 and \$79.99 and these 688 establishments operated 2,742 VGT machines (14.3% of total VGTs). There were 1,513 establishments (32.4% of total establishments) that had a WPU less than \$60.00 and these 1,513 establishments operated 5,366 VGT machines (28.0% of total VGTs) (Figure 1). We assumed that the increase in VGT tax was in place for all of 2014.

Figure 1: 2014 VGT Establishments by WPU

	Establishment Count	VGT Count	VGT Wagering Activity			VGT Income			VGT Tax Distribution		
			Amount Played	Amount Won	Net Wagering Activity	Funds In	Funds Out	NTI	NTI Tax Rate (30%)	State Share	Municipality Share
WPU Greater than \$100	1,856	8,469	\$5,223,128,452	\$4,809,164,918	\$413,963,534	\$1,518,790,568	\$1,104,818,310	\$413,972,258	\$124,192,485	\$103,493,763	\$20,698,722
WPU - \$80.00 - \$99.99	618	2,605	\$972,513,191	\$894,098,200	\$78,414,991	\$290,727,512	\$212,311,463	\$78,416,049	\$23,525,026	\$19,604,197	\$3,920,829
WPU - \$60.00 - \$79.99	688	2,742	\$967,037,108	\$888,819,514	\$78,217,593	\$290,858,844	\$212,639,593	\$78,219,251	\$23,465,987	\$19,555,000	\$3,910,988
WPU less than \$60.00	1,513	5,366	\$1,081,846,156	\$992,956,108	\$88,890,048	\$333,800,043	\$244,907,885	\$88,891,836	\$26,667,844	\$22,223,218	\$4,444,626
	4,675	19,182	\$8,244,524,906	\$7,585,038,740	\$659,486,166	\$2,434,176,967	\$1,774,677,251	\$659,499,394	\$197,851,342	\$164,876,178	\$32,975,164
WPU Greater than \$100	39.7%	44.2%	63.4%	63.4%	62.8%	62.4%	62.3%	62.8%	62.8%	62.8%	62.8%
WPU - \$80.00 - \$99.99	13.2%	13.6%	11.8%	11.8%	11.9%	11.9%	12.0%	11.9%	11.9%	11.9%	11.9%
WPU - \$60.00 - \$79.99	14.7%	14.3%	11.7%	11.7%	11.9%	11.9%	12.0%	11.9%	11.9%	11.9%	11.9%
WPU less than \$60.00	32.4%	28.0%	13.1%	13.1%	13.5%	13.7%	13.8%	13.5%	13.5%	13.5%	13.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Illinois Gaming Board, Union Gaming Analytics



5% Tax Increase for the State and 2.5% Reduction for the Terminal Operator and 2.5% Reduction for Establishment

VGTs, VGT Establishments & Gaming Taxes

Assuming a 5% tax increase for the state and a 2.5% reduction in tax coming from the establishment and a 2.5% reduction in tax coming from the terminal operator, we estimate that 347 VGT establishments will be forced to close, there will be a reduction of 5,971 VGT machines, and there will be a reduction of \$112.8 million in VGT NTI (Figure 2). We assumed a reduction in VGT establishments of 2.0% for the establishments with a WPU greater than \$100, 5.0% for the establishments with a WPU between \$80.00 and \$99.99, 7.5% for establishments with a WPU between \$60.00 and \$79.99, and 15% for establishments with a WPU less than \$60.00. This results in a reduction of 347 VGT establishments (7.4% of 2014 VGT establishments) as the VGT tax money was helping some of the establishments stay in business and it becomes challenging and costly for some of the terminal operators to service some of their establishments. We assumed a reduction in VGT per establishment ratio (compared to the VGT per establishment ratio at the end of 2014) of 5.0% for the establishments with a WPU greater than \$100, 20.0% for the establishments with a WPU between \$80.00 and \$99.99, 40.0% for establishments with a WPU between \$60.00 and \$79.99, and 60.0% for establishments with a WPU less than \$60.00. Using the pro forma VGT per establishment ratio and multiplying it by the pro forma number of VGT establishments, results in a reduction of 5,971 VGT machines (31.1% of 2014 VGT machines). We calculated the pro forma VGT NTI by taking the 2014 NTI per VGT machine and multiplying it by the pro forma number of VGT machines. This results in a pro forma VGT NTI of \$546.7 million, or a reduction of \$112.8 million (17.1% of 2014 NTI).

Figure 2: Reduction in VGT Establishments and VGT Machines due to a 2.5% Reduction in Tax for both the Establishment and Terminal Operator

	Establishment Count	Reduction in Establishment Count	Pro Forma Establishment Count	2014 VGT per Establishment	Reduction in VGT per Establishment	Pro Forma VGT per Establishment	Pro Forma VGT Count for Reduction in Establishment and VGT per Establishment	NTI 2014 NTI per VGT	Pro Forma VGT NTI
WPU Greater than \$100	1,856	2.0%	1,819	4.6	5.0%	4.3	7,885	\$55,941	\$441,072,328
WPU - \$80.00 - \$99.99	618	5.0%	587	4.2	20.0%	3.4	1,980	\$27,297	\$54,043,358
WPU - \$60.00 - \$79.99	688	7.5%	636	4.0	40.0%	2.4	1,522	\$21,348	\$32,487,074
WPU less than \$60.00	1,513	15.0%	1,286	3.5	60.0%	1.4	1,824	\$10,453	\$19,071,465
	4,675		4,328				13,211		\$546,674,226
Change - #			(347)				(5,971)		(\$112,825,168)
Change - %			-7.4%				-31.1%		-17.1%

Source: Illinois Gaming Board, Union Gaming Analytics

We used the pro forma VGT NTI calculated in Figure 2 and the new tax distribution structure (5% increase for the state and 2.5% reduction for both the establishment and terminal operator) to determine the pro forma VGT NTI for each market participant (establishment, terminal operator, state tax (state share and municipality share)). The VGT NTI tax distributed to the establishments would decline by \$53.2 million or 23.0%. The VGT NTI tax distributed to the terminal operator would decline by \$53.2 million or 23.0%. Even with an increase of 5% for the state tax, the VGT NTI tax distributed to the state would decline by \$6.5 million or 3.3% with the state share (state share would receive the entire



5% increase) declining by \$0.9 million or 0.5% and the municipality share declining by \$5.6 million or 17.1% (Figure 73).

Figure 3: Pro Forma VGT NTI Tax Distribution due to a 2.5% Reduction in Tax for both the Establishment and Terminal Operator

	VGT Tax Distribution					
	Pro Forma VGT NTI	Establishment Tax (32.5% Rate)	Terminal Operator Tax (32.5% Rate)	State NTI Tax (35.0% Rate)	State Share (30.0% Rate)	Municipality Share (5.0% Rate)
WPU Greater than \$100	\$441,072,328	\$143,348,507	\$143,348,507	\$154,375,315	\$132,321,699	\$22,053,616
WPU - \$80.00 - \$99.99	\$54,043,358	\$17,564,091	\$17,564,091	\$18,915,175	\$16,213,007	\$2,702,168
WPU - \$60.00 - \$79.99	\$32,487,074	\$10,558,299	\$10,558,299	\$11,370,476	\$9,746,122	\$1,624,354
WPU less than \$60.00	\$19,071,465	\$6,198,226	\$6,198,226	\$6,675,013	\$5,721,439	\$953,573
Total	\$546,674,226	\$177,669,123	\$177,669,123	\$191,335,979	\$164,002,268	\$27,333,711
Change in NTI - \$	(\$112,825,168)	(\$53,155,665)	(\$53,155,665)	(\$6,513,839)	(\$872,581)	(\$5,641,258)
Change in NTI - %	-17.1%	-23.0%	-23.0%	-3.3%	-0.5%	-17.1%

Source: Illinois Gaming Board, Union Gaming Analytics

Job Impact

Assuming a 5% tax increase for the state and a 2.5% reduction in tax coming from the establishment and a 2.5% reduction in tax coming from the terminal operator, we estimate that there would be a loss of 5,329 direct jobs (Figure 4). We analyzed each market participant (establishments, terminal operators, terminal handlers, distributors, manufacturers, and suppliers) and determined the number of jobs lost for each one.

For the 347 establishments that were forced to close, we calculated the average number of jobs per establishment at 7 and multiplied this times the number of establishments that were forced to close. This results in 2,426 jobs lost due to establishments closing.

For the 4,328 establishments that are still in operation, we determined the number of jobs lost for each one. We assumed that the number of jobs lost per VGT would be the same number of jobs created/retained at 0.39x jobs per VGT. Using the reduced number of VGTs calculated in Figure 2 of 5,971, results in 2,329 establishment jobs lost.

For the 73 terminal operators, we determined the number of jobs lost for each one. We assumed that the number of jobs lost per VGT would be the same number of jobs created/retained at 0.06x jobs per VGT. Using the reduced number of VGTs calculated in Figure 2 of 5,971, results in 341 terminal operator jobs lost.

For the terminal handlers, we determined the number of jobs lost for each one. We assumed that the number of jobs lost per VGT would be the same number of jobs created/retained at 0.02x jobs per VGT. Using the reduced number of VGTs calculated in Figure 2 of 5,971, results in 115 terminal handler jobs lost.



For the 14 distributors, we determined the number of jobs lost for each one. We assumed that the number of jobs lost per VGT would be the same number of jobs created/retained at 0.01x jobs per VGT. Using the reduced number of VGTs calculated in Figure 2 of 5,971, results in 65 distributor jobs lost.

For the 11 manufacturers, we determined the number of jobs lost for each one. We assumed that the number of jobs lost per VGT would be the same number of jobs created/retained as calculated at 0.002x jobs per VGT. Using the reduced number of VGTs calculated in Figure 2 of 5,971, results in 9 manufacturer jobs lost.

For the 10 suppliers, we determined the number of jobs lost for each one. We assumed that the number of jobs lost per VGT would be the same number of jobs created/retained as calculated at 0.01x jobs per VGT. Using the reduced number of VGTs calculated in Figure 2 of 5,971, results in 44 supplier jobs lost.

Figure 4: Loss of Jobs due to a 2.5% Reduction in Tax for both the Establishment and Terminal Operator

	<u>Jobs per Establishment</u>	<u>Reduction in Establishment Count</u>	<u>Loss of Jobs due to Establishments Closing</u>
Establishments forced to close	7	347	2,426

	<u># of Jobs Lost per VGT</u>	<u>Reduction in VGT Count</u>	<u>Loss of Job due to Reduction in VGT Count</u>
Establishments	0.39x	5,971	2,329
Terminal Operators	0.06x	5,971	341
Terminal Handler	0.02x	5,971	115
Distributor	0.01x	5,971	65
Manufacturer	0.002x	5,971	9
Supplier	0.01x	5,971	44
Total Loss of Jobs due to Reduction in VGT Count			2,903
Total Loss of Jobs due to Establishments Closing			2,426
Total Loss of Jobs			5,329

Source: Illinois Gaming Board, Union Gaming Analytics



Dollars Invested in VGT Gaming Equipment & Software

Assuming a 5% tax increase for the state and a 2.5% reduction in tax coming from the establishment and a 2.5% reduction in tax coming from the terminal operator, we estimate that there would be a reduction between \$84.8 million and \$98.9 million in investments in gaming equipment and software upgrades due to the reduction in VGT machines (Figure 5). We estimate that there would be a reduction of 5,971 VGT machines with an average price between \$13,000 and \$15,000. This results in a reduction in gaming equipment investment between \$77.6 million and \$89.6 million. As required by Video Gaming Act, each establishment must provide a separate machine for redemption and disbursement of funds. We estimate there would be a reduction of 347 VGT establishments and therefore 347 fewer redemption machines with an average price between \$12,000 and \$14,000. This results in a reduction of redemption machine investment between \$4.2 million and \$4.9 million. The software that is installed with the games often requires upgrades from the distributors and costs between \$1,000 and \$1,500 per VGT (The software upgrade costs have increased to between \$1,500 and \$2,500 per VGT in 2015 and this will lead to an even higher loss of investment dollars in the future). We assumed that 50% of the VGTs that would have been removed in 2014 would have been upgraded in 2014, resulting in 2,986 fewer software upgrades. This results in a reduction of VGT software upgrade investment between \$3.0 million and \$4.5 million. The reduction in investment in gaming equipment and software could potential lead to terminal operators extending their upgrade cycle for both the VGT machines and software. If the VGT equipment and software becomes stale, this may impact the VGT establishments' ability to offer a compelling gaming product to compete with other entertainment options and to recapture some of the gaming tax revenue that is leaving the state.

Figure 5: Reduction in Investments in VGT Gaming Equipment & Software due to a 2.5% Reduction in Tax for both the Establishment and Terminal Operator

	VGT Count	Cost per VGT		Investment in VGT Equipment	
		Low	High	Low	High
VGT Equipment	5,971	\$13,000	\$15,000	(\$77,627,043)	(\$89,569,665)
	Establishment Count	Cost per Redemption Machine		Investment in Redemption Machines	
		Low	High	Low	High
Redemption Machines	347	\$12,000	\$14,000	(\$4,158,840)	(\$4,851,980)
	VGT Count	Software Upgrade per VGT		Investment in VGT Software	
		Low	High	Low	High
VGT Software Upgrade ⁽¹⁾	2,986	\$1,000	\$1,500	(\$2,985,656)	(\$4,478,483)
Total Investment Lost in VGT Equipment & Software				(\$84,771,539)	(\$98,900,128)

(1) Assumes 50% of the VGTs installed in in 2014 are upgraded in 2014.

Source: Illinois Gaming Board, Union Gaming Analytics



VGT Sticker Tax Analysis

The state imposes an annual sticker tax of \$100 per VGT machine. It is important to note that 25% of the VGT sticker tax goes to the Illinois Department of Health to help fund programs associated with problem and responsible gambling. The remainder of the VGT sticker tax goes back to the state of Illinois to help fund the regulatory and administration costs associated with the Video Gaming industry.

Additionally, each municipality may impose an annual sticker tax upon each VGT machine. The sticker price varies by municipality and we assumed that the blended average of home rule and non-home rule sticker price was \$25 per VGT machine. While some municipalities are charging more than \$25 per VGT machine, we believe that \$25 per VGT machine is the maximum dollar amount that should be charged.

The combined sticker taxes results in a VGT sticker tax reduction of \$0.7 million for the 5,971 fewer VGT machines (Figure 6).

Figure 6: Reduction in VGT Sticker Tax Analysis due to a 2.5% Reduction in Tax for both the Establishment and Terminal Operator

Number of Incremental VGT Machines	13,598
Blended Average Sticker Price - State	\$100
Blended Average Sticker Price - Municipality	<u>\$25</u>
Total Blended Average Sticker Price	\$125
VGT Sticker Tax	<u>\$1,699,748</u>

Source: Illinois Gaming Board, Union Gaming Analytics



Dollars Reinvested / Invested in VGT Establishments

Assuming a 5% tax increase for the state and a 2.5% reduction in tax coming from the establishment and a 2.5% reduction in tax coming from the terminal operator, we estimate that there would be a reduction between \$35.7 million and \$107.0 million in dollars reinvested / invested in VGT establishments (Figure 7). We used the average reinvestment / investment per VGT machine calculated and multiplied it by the number of reduced VGT machines.

Figure 7: Reduction in Dollars Invested / Reinvested in VGT Establishments due to a 2.5% Reduction in Tax for both the Establishment and Terminal Operator

	VGT Count Reduction	Reinvested / Invested \$ per VGT		Loss in Reinvested / Invested \$	
		Low	High	Low	High
Total Loss in Reinvestment / Investment \$ in VGT Establishments	5,971	\$5,971	\$17,913	(\$35,655,251)	(\$106,965,754)

Source: Illinois Gaming Board, Union Gaming Analytics

For the 347 establishments that closed, we separated them into two categories: existing establishments and new establishments and determined the number of indirect jobs lost for each one. In conducting our in-market due diligence and the numerous follow-up conversations that we had, we determined that four (4) indirect jobs per existing establishment were created and therefore 1,178 indirect jobs would be lost. For the new establishments, we determined that ten (10) indirect jobs per new establishment were created and therefore 520 indirect jobs would be lost. In total, 1,698 indirect jobs would be lost as a result of the increase in tax for the state (Figure 8). It is important to note that these indirect jobs are sourced locally and benefit the municipalities and surrounding areas where the VGT establishments are located. The vast majority of these jobs are construction jobs that worked on the build-out of the existing or new VGT establishments, with other jobs associated with the procurement of goods, services, and supplies. These jobs are in addition to the jobs created by the 2009 Capital Bill, which is partially funded by tax revenue from Video Gaming.

Figure 8: Indirect Jobs Lost as a result of Fewer Dollars Invested / Reinvested in VGT Establishments as a result of a 2.5% Reduction in Tax for both the Establishment and Terminal Operator

	Establishment Count	# of Jobs Indirect Created per Location	Total # of Indirect Jobs Created
Existing Establishments	295	4	1,178
New Establishments	52	10	520
Total Establishments	347		1,698

Source: Illinois Gaming Board, Union Gaming Analytics



Sales Tax Analysis

Assuming a 5% tax increase for the state and a 2.5% reduction in tax coming from the establishment and a 2.5% reduction in tax coming from the terminal operator, we estimate that the loss in state sales taxed in 2014 would be between \$9.4 million and \$11.6 million. We analyzed the non-gaming taxes paid to the state as a result of the Video Gaming Act, specifically the increase in sales tax paid by drinking and eating places (as defined by the Illinois Department of Revenue) and the sales tax paid as a result of the VGT software upgrades. Although there are potentially more indirect taxes being paid to the state as a result of the Video Gaming Act, we identified and believe these two types of sales taxes make up the majority of the benefit to the state.

We analyzed 15 municipalities and calculated the increase in drinking and eating places sales tax from 2013 to Last Twelve Months ("LTM") Ended 9/30/14 (the most recent date that the sales tax data is available). We assumed that 60% of the increase in sales tax was related to the VGT machines (increased traffic, increase spending on food and beverage) and divided the increase by the number of VGT in the associated municipality to arrive at an increase in drinking and eating places sales tax per VGT. We then calculated the average of the increase in drinking and eating places sales tax per VGT for the LTM 9/30/14 period and multiplied the average by the reduced number of VGTs. For LTM 9/30/14, the average increase in drinking and eating places sales tax per VGT was \$361 and there were 5,971 fewer VGT machines which results in a loss in sales tax of \$2.2 million (Figure 9).

As calculated in Figure 5, we assumed the reduction in investment in VGT gaming equipment ranged between \$77.6 million and \$89.6 million and applying a 9.0% sales tax to this loss in investment dollars results in a loss between \$7.0 million and \$8.1 million of sales tax. We also assumed the reduction in investment in redemption machines ranged between \$4.2 million and \$4.9 million and applying a 9.0% sales tax to this loss in investment dollars results in a loss between \$0.4 million and \$0.4 million of sales tax. Finally, we assumed the reduction in investment in VGT software ranged between \$3.0 million and \$4.5 million and applying a 9.0% sales tax to this loss in investment dollars results in a loss between \$0.3 million and \$0.4 million of sales tax. The total reduction in sales tax dollars to the state as a result these decreases is a loss between \$7.6 million and \$8.9 million.

Assuming a range of 50.0% to 75.0% for the decrease in sales tax related to the VGT machines in conjunction with the additional loss of VGT equipment, redemption machines and VGT software upgrades, results in a total decrease in sales tax between \$9.4 million and \$11.6 million (Figure 10).



May 9, 2015

Figure 9: Reduction in Drinking & Eating Places Sales Tax per Reduced VGT Machine due to a 2.5% Reduction in Tax for both the Establishment and Terminal Operator

	Increase in Drinking & Eating Places Sales Tax	% of Increase due to VGT Establishments	Increase in Drinking & Eating Places Sales Tax due to VGTs	VGT Count	Increase in Drinking & Eating Places Sales Tax per VGT
Crestwood					
LTM 9/30/14	\$19,588	60.0%	\$11,753	71	\$166
Villa Park					
LTM 9/30/14	\$27,790	60.0%	\$16,674	65	\$257
Springfield					
LTM 9/30/14	\$1,212,328	60.0%	\$727,397	520	\$1,399
Effingham					
LTM 9/30/14	\$26,806	60.0%	\$16,084	121	\$133
Alton					
LTM 9/30/14	\$6,465	60.0%	\$3,879	122	\$32
Berwyn					
LTM 9/30/14	\$62,922	60.0%	\$37,753	181	\$209
Galesburg					
LTM 9/30/14	\$23,835	60.0%	\$14,301	107	\$134
Waukegan					
LTM 9/30/14	\$78,029	60.0%	\$46,817	168	\$279
Taylorville					
LTM 9/30/14	\$13,344	60.0%	\$8,006	97	\$83
Salem					
LTM 9/30/14	\$6,236	60.0%	\$3,742	68	\$55
Rockford					
LTM 9/30/14	\$87,424	60.0%	\$52,455	417	\$126
Quincy					
LTM 9/30/14	\$73,313	60.0%	\$43,988	96	\$458
Oak Lawn					
LTM 9/30/14	\$47,660	60.0%	\$28,596	151	\$189
Melrose Park					
LTM 9/30/14	\$195,260	60.0%	\$117,156	70	\$1,674
Marion					
LTM 9/30/14	\$24,603	60.0%	\$14,762	66	\$224
Average Increase in Drinking & Eating Places Sales Tax per VGT					\$361
2014 VGT Reduction					5,971
Loss of Drinking & Eating Places Sales Tax due to VGTs					(\$2,155,558)

Source: Illinois Department of Revenue, Illinois Gaming Board, Union Gaming Analytics



Figure 10: Reduction in Sales Tax Increase due to a 2.5% Reduction in Tax for both the Establishment and Terminal Operator

	Investment in VGT Equipment		VGT Equipment Sales Tax		
	Low	High	Low	High	
Loss of VGT Equipment Sales Tax @ 9.0%	(\$77,627,043)	(\$89,569,665)	(\$6,986,434)	(\$8,061,270)	
	Investment in Redemption Machines		Redemption Machine Sales Tax		
	Low	High	Low	High	
Loss of Redemption Machine Sales Tax @ 9.0%	(\$4,158,840)	(\$4,851,980)	(\$374,296)	(\$436,678)	
	Investment in VGT Software		VGT Software Sales Tax		
	Low	High	Low	High	
Loss of VGT Software Upgrade Sales Tax @ 9.0%	(\$2,985,656)	(\$4,478,483)	(\$268,709)	(\$403,063)	
	2014	VGT Software Sales Tax		Total Sales Tax Loss	
Total VGT Sales Tax Loss	Sales Tax	Low	High	Low	High
% Increase due to VGT Establishments	Loss				
50.0%	(\$1,796,298)	(\$7,629,438)	(\$8,901,012)	(\$9,425,737)	(\$10,697,310)
55.0%	(\$1,975,928)	(\$7,629,438)	(\$8,901,012)	(\$9,605,367)	(\$10,876,940)
60.0%	(\$2,155,558)	(\$7,629,438)	(\$8,901,012)	(\$9,784,997)	(\$11,056,570)
65.0%	(\$2,335,188)	(\$7,629,438)	(\$8,901,012)	(\$9,964,626)	(\$11,236,199)
70.0%	(\$2,514,818)	(\$7,629,438)	(\$8,901,012)	(\$10,144,256)	(\$11,415,829)
75.0%	(\$2,694,448)	(\$7,629,438)	(\$8,901,012)	(\$10,323,886)	(\$11,595,459)

Source: Illinois Department of Revenue, Illinois Gaming Board, Union Gaming Analytics



Alternatives to a Tax Increase

There are other methods that the state of Illinois can implement to increase the amount of gaming tax revenue generated from the VGT machines instead of increasing the tax rate that the state receives. The three alternatives that we analyzed were a higher max bet, higher jackpot or the addition of a wide area progressive jackpot.

Higher Max Bet

Currently, the max bet per wager is \$2 for the VGT machines. We assumed that an increase in the max bet to \$5 per wager would lead to an increase in coin-in ("amount played") of thirty-three (33%). We also assumed that the percentages for amount won, net wagering activity, funds in, funds out and NTI were the same for the pro forma 2014 numbers as the actual 2014 numbers. Finally, we assumed that the increase in max bet was in place for all of 2014. Using our assumptions, we forecast that NTI will grow from \$659.5 million to \$877.2 million (an increase of \$217.6 million), gaming taxes paid to the state will increase from \$197.9 million to \$263.1 million (an increase of \$65.3 million), state share will increase from \$164.9 million to \$219.3 million (an increase of \$54.4 million) and municipality share will increase from \$33.0 million to \$43.9 million (an increase of \$10.9 million) (Figure 11).

Figure 11: Impact of Increase in Max Bet

Month	VGT Count	VGT Wagering Activity			VGT Income			VGT Tax Distribution			WPU
		Amount Played	Amount Won	Net Wagering Activity	Funds In	Funds Out	NTI	NTI Tax Rate (30%)	State Share	Municipality Share	
2014	17,247	\$8,244,698,418	\$7,585,200,241	\$659,498,177	\$2,434,234,904	\$1,774,723,177	\$659,511,405	\$197,854,945	\$164,879,180	\$32,975,765	\$104.85
Pro Forma 2014 for Higher Max Bet	17,247	\$10,965,448,896	\$10,088,316,321	\$877,132,575	\$3,237,532,422	\$2,360,381,826	\$877,150,168	\$263,147,077	\$219,289,310	\$43,857,767	\$139.45
\$ Increase		\$2,720,750,478	\$2,503,116,080	\$217,634,398	\$803,297,518	\$585,658,648	\$217,638,764	\$65,292,132	\$54,410,130	\$10,882,002	\$34.60

Source: Illinois Gaming Board, Union Gaming Analytics



Higher Jackpot

Currently, the max jackpot per wager is \$500 for the VGT machines. We assumed that an increase in the max jackpot to \$1,000 would lead to an increase in coin-in (“amount played”) of twenty percent (20%). We also assumed that the percentages for amount won, net wagering activity, funds in, funds out and NTI were the same for the pro forma 2014 numbers as the actual 2014 numbers. Finally, we assumed that the increase in max jackpot was in place for all of 2014. Using our assumptions, we forecast that NTI will grow from \$659.5 million to \$791.4 million (an increase of \$131.9 million), gaming taxes paid to the state will increase from \$197.9 million to \$237.4 million (an increase of \$39.6 million), state share will increase from \$164.9 million to \$197.9 million (an increase of \$33.0 million) and municipality share will increase from \$33.0 million to \$39.6 million (an increase of \$6.6 million) (Figure 12).

Figure 12: Impact of Increase in Max Jackpot

Month	VGT Count	VGT Wagering Activity			VGT Income			VGT Tax Distribution			WPU
		Amount Played	Amount Won	Net Wagering Activity	Funds In	Funds Out	NTI	NTI Tax Rate (30%)	State Share	Municipality Share	
2014	17,247	\$8,244,698,418	\$7,585,200,241	\$659,498,177	\$2,434,234,904	\$1,774,723,177	\$659,511,405	\$197,854,945	\$164,879,180	\$32,975,765	\$104.85
Pro Forma 2014 for Higher Jackpot	17,247	\$9,893,638,102	\$9,102,240,290	\$791,397,812	\$2,921,081,885	\$2,129,667,813	\$791,413,686	\$237,425,934	\$197,855,017	\$39,570,918	\$125.82
\$ Increase		\$1,648,939,684	\$1,517,040,048	\$131,899,635	\$486,846,981	\$354,944,635	\$131,902,281	\$39,570,989	\$32,975,836	\$6,595,153	\$20.97

Source: Illinois Gaming Board, Union Gaming Analytics

Wide Area Progressive

Currently, the laws that govern the Illinois VGT machines do not allow for wide area progressive jackpots. Wide area progressive jackpots are jackpots that are usually linked between multiple locations but are not operated by a single establishment and tend to offer huge winnings. We assumed that the minimum wide area progressive jackpot would be \$10,000. We also assumed that the introduction of wide area progressive jackpots would lead to an increase in coin-in (“amount played”) of ten percent (10%). We also assumed that the percentages for amount won, net wagering activity, funds in, funds out and NTI were the same for the pro forma 2014 numbers as the actual 2014 numbers. Finally, we assumed that the introduction of a wide area progressive jackpot was in place for all of 2014. Using our assumptions, we forecast that NTI will grow from \$659.5 million to \$725.5 million (an increase of \$66.0 million), gaming taxes paid to the state will increase from \$197.9 million to \$217.6 million (an increase of \$19.8 million), state share will increase from \$164.9 million to \$181.4 million (an increase of \$16.5 million) and municipality share will increase from \$33.0 million to \$36.3 million (an increase of \$3.3 million) (Figure 13).

Figure 13: Impact of the Introduction of a Wide Area Progressive

Month	VGT Count	VGT Wagering Activity			VGT Income			VGT Tax Distribution			WPU
		Amount Played	Amount Won	Net Wagering Activity	Funds In	Funds Out	NTI	NTI Tax Rate (30%)	State Share	Municipality Share	
2014	17,247	\$8,244,698,418	\$7,585,200,241	\$659,498,177	\$2,434,234,904	\$1,774,723,177	\$659,511,405	\$197,854,945	\$164,879,180	\$32,975,765	\$104.85
Pro Forma 2014 for Wide Area Progressive	17,247	\$9,069,168,260	\$8,343,720,265	\$725,447,994	\$2,677,658,394	\$1,952,195,495	\$725,462,545	\$217,640,440	\$181,367,098	\$36,273,341	\$115.33
\$ Increase		\$824,469,842	\$758,520,024	\$65,949,818	\$243,423,490	\$177,472,318	\$65,951,140	\$19,785,495	\$16,487,918	\$3,297,576	\$10.48

Source: Illinois Gaming Board, Union Gaming Analytics