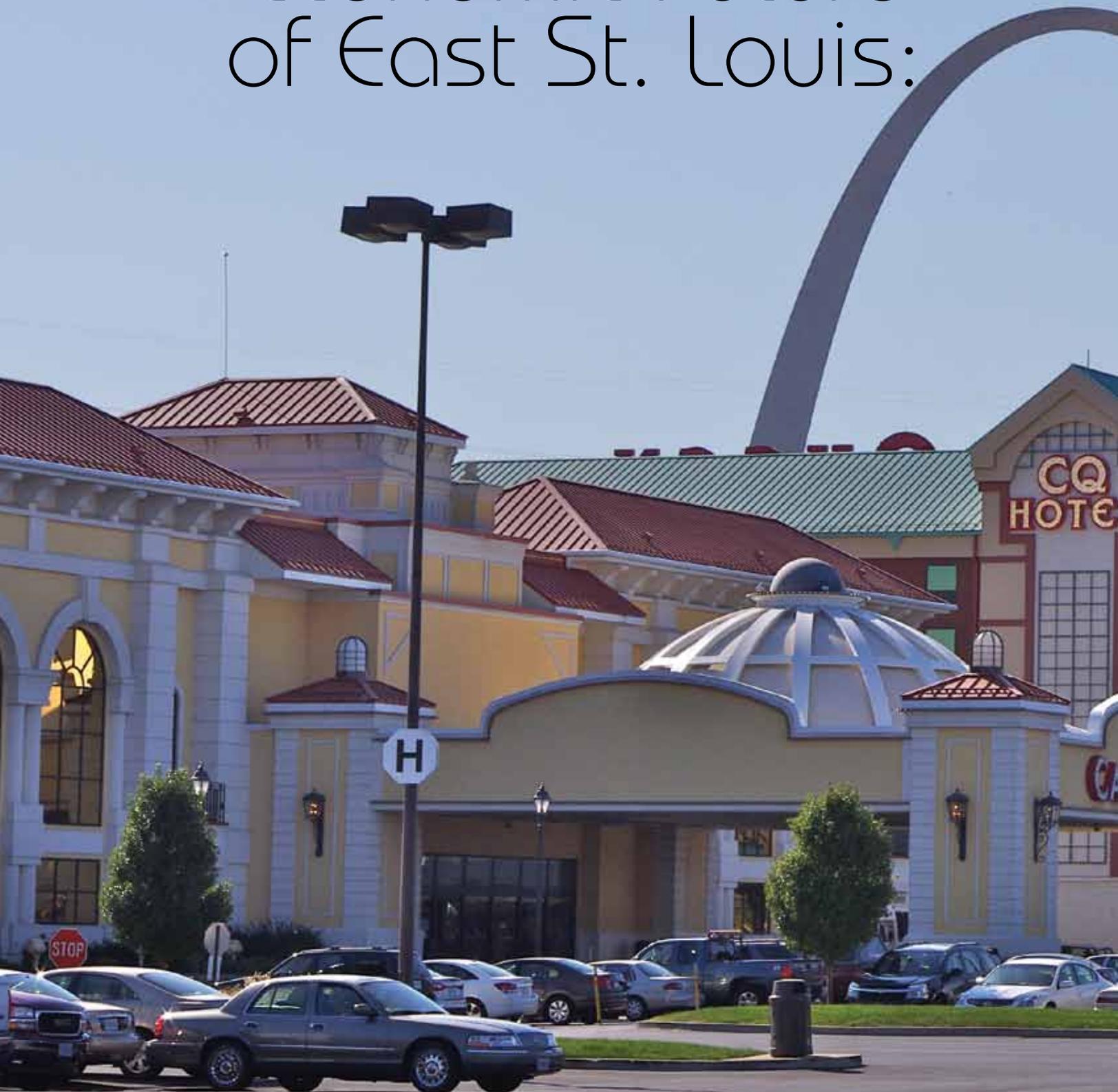


# Gambling on the Economic Future of East St. Louis:





The Casino Queen has been a significant source of financial support for the city of East St. Louis since its introduction in 1993. The Casino Queen has generated more than \$160 million in tax revenue for East St. Louis between 1993 and 2009. In addition to these direct funds, Casino Queen, Inc. has also contributed money, support, and services to the city, nonprofit organizations, and residents as part of its ongoing commitment to the social and economic development and future of East St. Louis. An issue that the city needs to address in the future is the large proportion of its operating budget that comes from taxes generated by the Casino Queen. Casino revenues—and the resulting taxes—have been reduced in East St. Louis and across the country in the wake of the economic downturn that began in 2007. This has meant challenges for many urban and state governments, including East St. Louis and the State of Illinois, that anticipate and rely on gaming-related funds to provide basic services to citizens.

## State Oversight and Gaming in Illinois

The city of East St. Louis faced a deep economic crisis during the 1970s and 1980s. The loss of industrial and manufacturing businesses, employment for residents, and mismanagement in city government nearly resulted in bankruptcy. The loss of businesses meant that the City of East St. Louis was left without a steady source of tax revenue or even sources of employment. The city resorted to levying extremely high property taxes for the same residents who were now increasingly unable to meet those burdens. The late 1980s and early 1990s were a low point for the government of East St. Louis, which faced a budget crisis so severe that it was essentially unable to function. The city could not provide basic services such as garbage collecting for residents, supplying police and fire equipment, or meeting payroll for employees.<sup>1</sup> With the city in precipitous economic decline, the state government intervened in 1990 with the Illinois Financially Distressed Cities Act (IFDCA). The IFDCA prevented the city from declaring bankruptcy and authorized a state loan to pay off the city's debts of nearly \$75 million. The IFDCA also appointed a state panel named the East St. Louis Financial Advisory Authority (ESLFAA) to oversee the finances of the city until it could produce and implement balanced budgets for a ten-year period.<sup>2</sup>

At nearly the same time that the State of Illinois was dealing with the decline of East St. Louis and other urban industrial governments, the state was also facing its own serious economic problems. Many government entities (from local to national) faced economic challenges during the 1980s and sought alternate means of generating income. In this environment, states began to explore the option of gambling and the accompanying taxes to generate additional revenue.<sup>3</sup> New Hampshire had been the first state to reintroduce the lottery in 1963, the first time since the 1800s that lotteries were considered legal, and many other states followed suit. As a form of entertainment tax, lotteries were considered more politically palatable than income taxes or other compulsory tax increase for all citizens. Illinois adopted a statewide lottery in 1973, earmarking the funds generated for education in 1985.<sup>4</sup>

Riverboat gaming and casinos were also considered by lawmakers across the country in the late 1980s as a means of aiding both state and urban communities falling into economic trouble.<sup>5</sup> Nationally, plans for casinos were supported by politicians as a means of generating much-needed tax revenue for both local and state governments. Iowa allowed casino development in 1989, prompting



Illinois lawmakers to act as the residents of Illinois (and their money) left the state to gamble at the new facilities in neighboring Iowa. In February 1990, the Illinois Riverboat Gambling Act (IRGA) was signed into law. Ten casino licenses were allowed, and gambling had to be conducted on riverboat facilities. Specific tax schedules were laid out (and later modified) defining the percentage of revenue to be collected as taxes by the

state and by local communities. The first riverboat casino operation in Illinois opened in Alton, about thirty miles north of East St. Louis, in 1991.<sup>6</sup> The plans for a casino operation in East St. Louis were not far behind.

## The Development of the Casino Queen

After the passage of the Illinois gaming law, the idea of a casino was floated as a potential solution to some of the economic problems of East St. Louis. Private investors applied to the state for a gaming license at the same time they entered into discussions with government and property owners in East St. Louis. The original home of the Casino Queen was a four-story riverboat made to resemble the riverboats of the nineteenth century. The boat could carry as many as 1,800 passengers and 200 crew members.<sup>7</sup> The development was supported by the ESLFAA as well as local investors with the hopes of encouraging broader economic development and growth in East St. Louis. Investors and the city of East St. Louis were reported by *Bond Buyer* magazine to have put in \$43 million to help develop the gambling boat and the administrative complex.<sup>8</sup>

The Casino Queen began operations in East St. Louis in 1993. It was the biggest new employer to enter the city for decades, and many East St. Louisans sought one of the 900 jobs available when it opened.<sup>9</sup> The casino remains a significant source of jobs in the city, second only to the city school district in terms of number of employees. At the time of the casino's opening, the proportion of employees who would have to be residents of the city was a matter of contention. While the owners initially promised thirty percent of the jobs to local East St. Louisans, they were under pressure from city officials to bring the number to fifty percent. The Aldermanic Council made a statement that locals should get eighty percent of the jobs.<sup>10</sup> A report from early 1993 shows that about 350 of 1,100 jobs were held by East St. Louis residents, meeting the thirty percent threshold but falling far short of the fifty percent or eighty percent goals.<sup>11</sup> Given the lack of employment opportunities in East St. Louis at the time, this was a significant number in terms of employment.

For employees, a job with the Casino Queen meant not only direct employment and income, but also benefits for themselves and their families, patronage for local doctors and the hospital, and additional money redistributed into the local economy.

The Casino Queen proved its viability as a source of direct revenue for the city almost immediately. Only open for a portion of the year, casino taxes brought nearly \$4 million into the city in 1993. This allowed the city to reduce its property taxes for businesses and residents, which had been among the highest in the state. The city was able to put together a budget (in itself a political feat in the early 1990s) that added firefighters and policemen, paid bills, restored basic services, and began to pay off state loans.<sup>12</sup> The first full year of operations in 1994 pumped over \$10 million into East St. Louis. This more than doubled the city's general fund from \$9 million to \$19 million.<sup>13</sup> The tax revenue generated for the city has hovered between \$9 and \$11 million every year since then (with the exception of 2007), and has continued to make up a huge proportion of the city's income. A *St. Louis Post-Dispatch* article in 1994 titled "Seeds of Hope" reflected on the positive changes in the city: "The Casino Queen, the largest new employer in decades, swept into town, bringing jobs and millions of dollars for the city's treasury. The raft load of money from 'The Queen' has resulted in new fire trucks, more police and firefighters and a lower property tax rate..."<sup>14</sup>

There is a flip side to this success: the health of the city's

budget is now closely tied to the health of the casino's revenue and the accompanying taxes. The tax revenue from the casino has consistently been a major source of income for the city, in some years constituting as much as fifty percent of the general fund, so when the casino suffers there is little buffer for the city's often precarious finances.<sup>15</sup> This has come into play during the economic recession that began in 2007, and was cited as a major concern about the city in the 2005 report of the ESLFAA, a scathing document that offers a dismal view of the city's economic future. The authors warn in the report that without additional development, attentive management, and long-term planning, East St. Louis stands in grave danger of backsliding into another period of economic turmoil.<sup>16</sup>

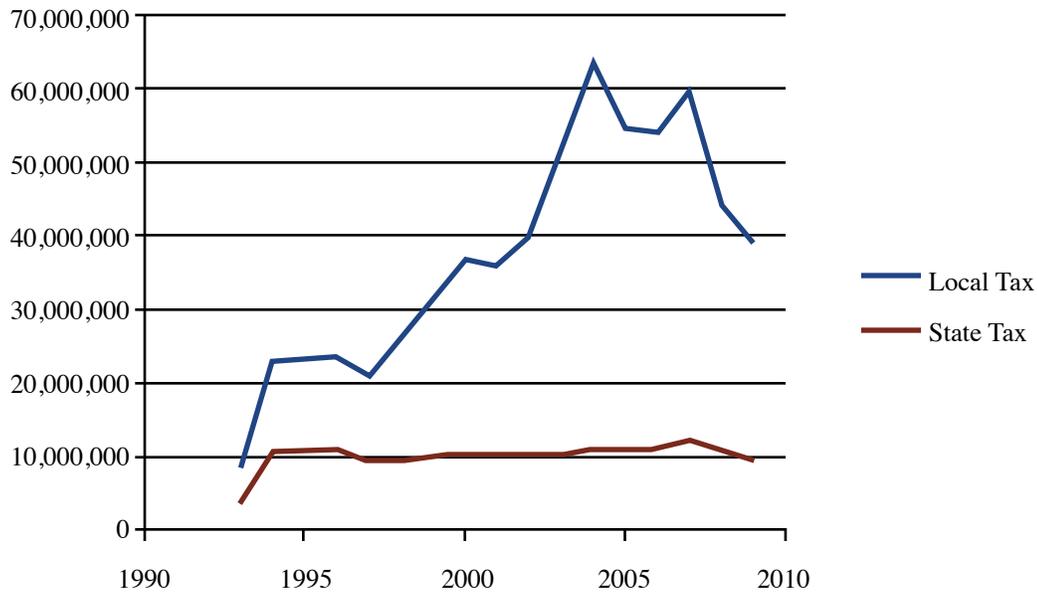
The State of Illinois has also relied on gaming as a source of revenue. After the initial law, the state raised taxes on gaming operations multiple times. In 1998, the State of Illinois passed a gaming law that increased state tax rates and included a "boat in a moat" provision that allowed gambling facilities to move off rivers into land-based moats. The Riverboat Gambling Act was amended in 1999 to allow riverboat gaming operations to remain permanently moored at dock sites without conducting cruises. This meant that patrons could board at any time and stay as long as they wished, rather than having to hold to set cruising times. The change increased overall gambling revenue (people gambled and spent more in the casino) and sent far more money to the state, but actually

#### Casino Queen Receipts and Distributions to the State of Illinois and the City of East St. Louis

Year	Adjusted Gross Receipts	Local Tax	State Tax
1993	51,541,276	3,793,015	8,947,142
1994	129,785,446	10,161,155	23,139,700
1995	128,197,800	10,293,069	23,112,849
1996	128,987,975	10,555,319	23,454,116
1997	116,590,371	9,437,080	21,096,117
1998	116,486,988	9,254,006	25,895,369
1999	138,202,218	9,719,782	31,762,447
2000	156,880,385	9,954,810	36,681,103
2001	155,082,587	9,780,703	36,063,984
2002	156,943,162	9,895,991	40,184,130
2003	158,033,927	9,926,617	52,995,840
2004	166,262,134	10,483,185	63,224,264
2005	168,724,765	10,545,446	54,343,093
2006	174,279,291	10,820,363	53,995,657
2007	188,624,732	11,738,204	59,547,076
2008	160,194,391	10,292,397	44,166,962
2009	147,539,524	9,623,667	39,343,475

(Data from the Illinois Gaming Board Annual Report, 2009)

## State and Local Tax Dollars Paid by the Casino Queen



decreased head tax amounts going to East St. Louis. The reason for this is that the head tax was now only being paid once. Previously, a head tax was paid for every gambler each time a two-hour cruise began. So, while the change brought immediate payoffs for the state, it also resulted in a loss of revenue and resulting layoffs for East St. Louis.<sup>17</sup>

Illinois raised taxes for gaming facilities again in 2002, lifting the top tax rate from 35 percent to fifty percent. Then in 2003, the legislature approved another hike and raised the top tax rate to a staggering seventy percent for those in the highest category for income. For those facilities in the lower revenue ranges, taxes were raised as much as 7.5 percent. Along with the five percent guaranteed to East St. Louis, therefore, the Casino Queen now pays a state tax rate of around 45 percent based on its revenues. The state's willingness to increase gaming taxes has been a major challenge for all casino operations in the state, which have struggled to keep profits high enough to make ongoing business worthwhile.<sup>18</sup> Increases in state taxes have cost the Alton Belle and Casino Queen millions of dollars, decreased profit margins, and made it harder to compete against competitors on the Missouri side of the Mississippi River, which have lower tax rates and operate under different state regulatory requirements.<sup>19</sup>

The Casino Queen was developed as an enterprise that would offer economic benefits for the City of East St. Louis as well as the State of Illinois. As discussed above, the needs of the state budget have meant several increases in tax for casinos. In 2010, the most recent for which data

exists, the nine gaming operators in Illinois expected to contribute over \$500 million to the state's General Fund, which is used for purposes such as education, human services, healthcare, and family services. This made up about 3.5 percent of the total general fund budget, or three percent of all appropriated funds for the state.<sup>20</sup> Just as there are concerns about the reliance of the city on gaming funds, the state has increasingly relied on and taxed casinos in an attempt to balance budgets. While the demands of the state have increased, there have been no increases for the city's benefit. At some point, there is the danger that the State of Illinois (which again faced a massive deficit and budget crisis in 2010) may increase taxes again and lean too heavily on gaming for revenue. This may put operators out of business, harm the state, and devastate cities such as East St. Louis or nearby Alton, which have come to count on casino taxes for funding day-to-day operations.

The Casino Queen has continued to pursue new avenues for development in order to increase revenues in the face of city, state, and market changes. A related area of success—both for the gaming facility and for the city in general—has been the addition of services for tourism, such as an RV park and the Casino Queen hotel. The RV park, opened in 1998, was immediately popular and saw more than 12,000 visitors in 1999, its first full year. While many of the RV park visitors gamble, others come primarily to take advantage of the park and its services as a stand-alone destination.<sup>21</sup> In January of 2000, the Casino

Queen also opened a 157-room hotel as part of a larger plan for development.<sup>22</sup>

After the state law was changed to allow gaming to leave rivers, the owners of the Casino Queen began to develop ambitious plans for a new land-based casino and entertainment complex.<sup>23</sup> The new, modern facility was expected to generate increased business. The plan for a \$150 million project on eighty acres was the largest development project in the city for fifty years, proposing a park, lookout, and other outdoor facilities.<sup>24</sup> The plans were put on hold when Illinois raised taxes for gaming operations in 2002 and 2003, but ultimately the project continued. Another hindrance in the development of the new facility was local politics, which again caused a delay. After the initial deal was made with the city government—which had promised \$11 million in support—Mayor Carl Officer said the agreement was not finally approved and could be changed. His attempt to renegotiate the terms was met by disagreement within the city government itself, and ultimately the original agreement prevailed.<sup>25</sup> The actual cost of the final Casino Queen development project was around \$92 million.

The new Casino Queen was seen as a way to compete in a market that was expanding rapidly, with several new facilities having opened on the Missouri side of the river in the 2000s. The new land-based facility expanded the Casino Queen’s casino floor from 27,000 square feet to 38,000 and floated in a ten-foot-deep moat. Importantly for the city, the anticipated increase in business meant that tax revenues were expected to bring in an additional \$1 million to \$1.5 million per year.<sup>26</sup> After about one year of construction the 207,500-square-foot facility opened on schedule in August 2007.<sup>27</sup> There was a push to open the new facility before the opening of the new Lumière casino on the St. Louis side of the river in the fall of 2007. The timing of the new Casino Queen reopening and its appeal gave it a market edge and a banner year. The casino brought in more business than ever before and generated more money than ever before, over \$11.7 million in taxes for the City of East St. Louis.

Since 2007, however, the Casino Queen (along with the other gaming facilities across the country) has seen a downturn. In 2008, the Casino Queen distributions to the City of East St. Louis declined twelve percent, from \$11,738,204 in 2007 to 10,292,397 in 2008. They continued to decline in 2009, with a decrease of 6.5 percent to \$9,663,627 in taxes distributed to the city. For 2008 and 2009, however, the local revenues for the Casino Queen did decline less than the state average of almost twenty percent in 2008 and 7.75 percent in 2009. In 2007, all casinos in the state sent \$115,727,277 in taxes to local governments; in 2008, taxes to local governments came out at \$93,095,279, and in 2009, it was down to \$85,885,708. This dramatic decline has meant challenges for both casino operators and local governments in dealing with the inhospitable economic climate, a trend that continued into 2010. The state has also been hit hard, with the total state tax payments from casinos going from \$718,157,094 in 2007 to \$473,648,638 in 2008 (a drop of

more than 34 percent) and \$409,510,245 in 2009, a further decline of 13.5 percent.<sup>28</sup>

The downturn in gaming revenues across Illinois has been attributed to the overall decline in the national and state economies beginning in 2007, as well as the passage of the Smoke Free Illinois Act in 2008, banning smoking from casino floors.<sup>29</sup> The Casino Queen, as part of the metropolitan St. Louis region, has also faced stiff competition from other area casinos. The Argosy Alton and Casino Queen both operate in Illinois, while the Missouri side of the river is home to the Ameristar, Harrah’s President (which closed in 2010), and the two most recent casinos, the Lumière (which opened in 2007) and the newest facility, the River City Casino, which opened in March 2010. Another hit for Illinois operators has been the repeal of the loss limits in Missouri, which had previously steered those who wished to gamble with larger amounts of money into Illinois.

The decline of tax flow from the Casino Queen to the City of East St. Louis has combined with the loss of other tax revenues to create pressing economic problems for the city. In the beginning of 2009, the city was forced to eliminate six unfilled police positions and struggled to continue to provide fire services as the operating budget failed to meet expectations.<sup>30</sup> In June 2010, members of the city government proposed the reduction of the police force by laying off 27 of the 62 officers because of declines in business, property, and gaming taxes. The proposal was initially rejected and met with a public outcry.<sup>31</sup> In July, the plan was revisited and on August 1, 2010, the city eliminated jobs for “37 employees, including 19 of its 62 police officers, 11 firefighters, four public works employees, and three administrators.” The layoffs were a response to a massive budget shortfall, due in part to tax revenues from the Casino Queen that were nearly \$900,000 below expected levels in 2009.<sup>32</sup> The situation



clearly points to the city's need for diversification of income and better long-term economic planning.

### Community Involvement

The commitment and contributions of the Casino Queen to East St. Louis have gone beyond taxes. The corporation has also remained invested and involved in various projects to benefit the city, nonprofit organizations that serve the city, and its residents. The Casino Queen

Foundation became active in 1994 to support the surrounding community, citizens, and businesses through investment and support.<sup>33</sup>

From its inception, the Casino Queen Foundation began a program for distributing low-interest small business loans for East St. Louisans, setting the minimum five-year total investment at \$2.5 million. A major problem in East St. Louis had been the lack of available capital; new businesses or programs struggled to get off the ground and were unable to secure loans. The Casino Queen



Foundation's small loan program was designed to offer loans between about \$10,000 and \$15,000 at low interest to help encourage business development, particularly in needed business areas such as family restaurants or a farmers' market.<sup>34</sup> The Foundation also contributed to the early development of the East St. Louis Small Business Development Center, designed to provide training, services, and counseling for small business start-ups.<sup>35</sup>

The Casino Queen Foundation has also remained committed to its pledge to continue to bring money and

support to the broader East St. Louis community, donating to groups such as Big Brothers Big Sisters, scholarship foundations, musical and dance troupes, and other community groups.<sup>36</sup> The Foundation has offered a great deal of support to and through the school system, such as a \$25,000 donation to the Lion's Club for vision screening through local School District 189.<sup>37</sup> Other involvement within the East St. Louis School District includes a range of educational and training programs that promote leadership, community involvement, and good citizenship



among students.<sup>38</sup> Contributions have also been made to surrounding communities, such as a \$1,000 grant to a Catholic school in nearby Belleville, Illinois, to help provide computers for families that could not afford them on their own.<sup>39</sup> The Foundation has also regularly sponsored a Holiday Toyland program, distributing toys and gifts to up to 3,000 children in East St. Louis each Christmas season.<sup>40</sup>

In addition, the management and owners of the Casino Queen have partnered in programs that work more directly with the city. In 2007, the Casino Queen joined Mayor Alvin Parks and representatives from the city and School District 189 in order to work on the physical clean-up of the city. This was seen as both a short-term goal and part of encouraging community service and volunteerism over the long term. The Casino Queen has offered physical support for the partnership, providing supplies such as lawnmowers and trash bags.<sup>41</sup>

## Ongoing Issues

Wherever there are gaming establishments, regardless of the good that they bring to the surrounding community and economy, there are often concerns about the negative repercussions. In East St. Louis, faced with so many challenges before the casino was introduced, it may be harder to attribute problems directly to the casino. Still there are ongoing concerns and challenges that face the Casino Queen and its relationship with the city and residents.

Political conflict and change have been a recurring concern for all businesses in East St. Louis. One specific example, mentioned above, was the disagreement with Mayor Officer during the development of plans to build a new facility. Political disagreements and transitions have been an issue for East St. Louis over an extended period of time and have at times been a hindrance to bringing in other business development or addressing the challenges that the city faces. Political changes and economic demands from the state have also hindered the growth and development of the Casino Queen as it has been forced to contribute more and more to state taxes.<sup>42</sup>

As has been discussed, even with the support of the Casino Queen's tax revenue, the City of East St. Louis has continued to face economic struggles. The city government went into a crisis in 2002 in response to a massive budget shortfall in 2001. This was the first time, since the Casino Queen opened in 1993, that the city had faced a shutdown; revenues dipped in 2001 and did not meet expectations, which had been optimistically factored into an increased budget.<sup>43</sup> The severe cuts to the city's workforce in August 2010 show all too starkly that the tenuous economic situation of the city had not improved. The heavy reliance on the tax revenues from the Casino



Queen makes the city extremely vulnerable to any economic downturn.

There has continued to be a lack of additional economic development in East St. Louis. Certainly, some new businesses have opened since 1993, but nothing on the large scale that was envisioned or hoped for at the time.<sup>44</sup> While the Casino Queen's investment in the city government and involvement in the community have had major effects on the self-sufficiency of the city, the Casino Queen itself remains a main source of income for the city with few other current alternatives for major economic support. This is not necessarily an unusual situation for urban-

based casinos. As they tend to draw gamblers from the local area, urban casinos do not often prompt the same level of economic development that destination-style casinos (such as those in Las Vegas) may spur.<sup>45</sup>

In East St. Louis, further economic development has also been hindered by business concerns about the political and economic security of an investment in the area. Among earlier failed attempts to spur development was a 1985 plan that would have included \$500 million for barge traffic and a recycling plant; instead it resulted in lawsuits and criminal indictments.<sup>46</sup> The combination of city political turmoil, problems with perceptions of crime and insecurity, and the lack of a strong supportive infrastructure have limited interest or investments in large-scale development in East St. Louis for many years.

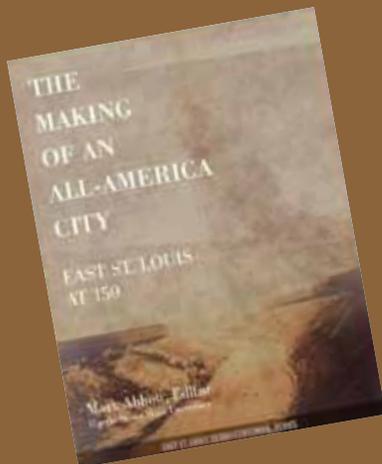
Casinos are often linked by opponents to crime and the introduction of moral concerns.<sup>47</sup> East St. Louis faced problems with high crime rates long before the arrival of the casino. Because of this, the facility has given ongoing attention to the security of its patrons. While there have been isolated incidents of theft, age violations, and a handful of violent incidents related to Casino Queen patrons, crime in East St. Louis generally has not been adversely affected by the introduction of gambling into the community.<sup>48</sup> In fact, given the influence of the tax revenue from the casino in allowing the city to support the police force, fire department, and basic infrastructure, the Casino Queen's presence has likely made the city a safer place. As with any gaming enterprise, there may be concerns about the role of the casino in questions of morality, social issues such as gambling or alcohol addictions, or family issues, but these are difficult to track. In the case of the Casino Queen, however, the positive effects of gaming on government funding, employment, and support or community businesses and development far outweigh any concerns in terms of its detriments to East St. Louis and the city's residents.



## Conclusion

The Casino Queen and East St. Louis continue to face uncertainty in the still-shaky economy. The economic viability of the Casino Queen is important not only as a business, but to the success of the City of East St. Louis. The revenue from the Casino Queen is an integral part of the operating budget of the city and has proven

fundamental to its economic success. This means that as the business of the casino prospers or suffers, the city and its residents do as well. Since 1993, the casino has been and will continue to be an important element in the economic development and success of the city. For true stability, however, the City of East St. Louis needs a greater range of economic development and sources of revenue.



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