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Have Video Gaming Revenues led to an Increase in Municipal Services in Illinois?

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Chris Dudzinski

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Abstract

In 2009, the Illinois General Assembly passed the Video Gaming Act, the largest gambling expansion in the state's history. That expansion allowed locations within Illinois to have five Video Gaming Terminals (VGT) within their business, similar to the slot machines previously only seen at state casinos. These terminals arrived under much scrutiny, as scholars and citizens alike were concerned with the social negatives attached to gambling facilities. Previous research points out many of the societal connotations that comes along with Video Gaming such as negative externalities associated with bankruptcy and addiction, but has yet to analyze the impact on the municipalities that receive 5% of the losses wagered on each terminal. This writing shows that video gaming has not led to an increase in municipal services through an expansion in capital projects, services provided, special events, and increased village staff based on interviews with municipal finance staff. Earmarks for addiction services programs and an increased police presence in areas with a high density of video gaming establishments are suggested as an alternative to the current municipal revenue allocation.

Introduction

Have Video Gaming Revenues led to an Increase in Municipal Services in Illinois?

Gambling as a whole has a long history in the state of Illinois. From the introduction of the state lottery in 1974 gambling has expanded to daily drawings, instant win games, and then the Riverboat Gambling Act in 1990. Starting in 1989, legislation was passed to expand casino gambling in the United States. Casinos were made legal outside of just Atlantic City, New Jersey and Las Vegas, Nevada. Walker (2009) finds that most states push for casinos to simply increase tax revenues. They want to keep their gamblers spending their dollars in state, rather than see them seek out of state alternatives. States are more likely to welcome casinos if neighboring states already have casinos. The Riverboat Gambling Act made Illinois the fifth state in the union to, “legalize casino gambling of any sort” (Warnick, 2011). The passage of the Riverboat Gambling Act has led to tax revenues of just over \$488 million in Illinois in 2015. Legalized gambling is booming in both Illinois and across the country. Currently 46 states have some form of legalized gambling, with 24 states containing at least one commercial casino and 28 states with at least one tribal casino. This wide spread gambling mania has trickled down to municipalities in Illinois with the Video Gaming Act of 2009.

Legalized gambling has risen under much scrutiny. In 1996, congress created the National Gambling Impact and Policy Commission, “to assess gambling’s relationship to crime and pathological and problem gambling; impact on individuals, families, businesses, social institutions, and the economy; and effectiveness as a revenue stream for state and local governments” (Warnick, 2011). The findings of the commission were that not enough data exist to fully analyze the impact of legalized gambling. This caught the eye of former Illinois Governor Rod Blagojevich who promised while campaigning that legalized gambling would not

expand in Illinois. Blagojevich and would soon seek to expand gambling in Illinois as did his predecessor Pat Quinn, who eventually signed the Video Gaming Act in 2009.

The Video Gaming Act of 2009, “was passed as a means of funding a \$31 billion capital projects bill; the Act legalizes and establishes a tax on the proceeds of up to five video gambling machines in any establishment licensed to pour alcohol, qualifying truck stops, and qualifying fraternal and veterans organizations”(Warnick, 2011). According to the Illinois Gaming Board, 1000 municipalities have passed these video gaming regulations, with 182 municipalities not passing or passing the regulations on a limited basis (Illinois Gaming Board, 2017). This writing analyzes the possible financial gains seen at the municipal level due to these revenue streams.

Municipalities are responsible for providing services to its residents. While the amount of services provided varies by municipality, each one still must provide a certain level of service that its residents require to survive on a day to day basis. These services and programs require immense amounts of funding that are not always covered by property taxes. Difficult and changing financial times lead to difficult decisions being made. Elected officials and public administrators are aiming to find creative and innovative revenue sources. Revenue diversification is extremely important in keeping municipalities afloat. Successful revenue diversification in municipalities requires two things, “First, there should be a variety of sources from which a government generates revenue. Second, there should be a balance among these sources in terms of the proportion of revenue derived from each” (Carrol, 2010). Municipalities need to use all their available resources to keep providing their residents with quality services and programs.

The purpose of this research project is to determine whether the Video Gaming revenue streams have expanded or increased municipal services. The Video Gaming Act of 2009 arrived under much scrutiny. This research aims to see if the often criticized dollars are helping local municipalities. Municipal Finance Directors will be requested to participate in interviews based on their expertise about the importance of Video Gaming revenues within their village.

Problem Statement

The Video Gaming Act in 2009 passed with much controversy. Amongst other things, this act allowed businesses with a liquor license to have up to five video gaming terminals on their premises. This topic needs further researching because the act was passed so recently that there is very little literature on the topic. All current literature focuses on the negative connotations that come with any gambling facilities such as addiction and crime, but have yet to analyze the fiscal impact on the municipalities that receive five percent of the losses wagered on each terminal. What municipalities are doing with the revenues from video gaming machines is the problem at hand.

Purpose of the Study

The purpose of this study is to first find out what municipalities are doing with revenues generated from the passing of the Video Gaming Act in 2009. This research shows themes and trends with how video gaming revenues are being used to show whether or not the revenues are being used appropriately or making any sort of fiscal impact.

Research Questions

The research contributes to the understanding of the importance of Video Gaming revenues. This study addressed the following questions:

Central Question

Have Video Gaming Revenues led to an Increase in Municipal Services in Illinois?

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Have Video Gaming Revenues led to an increase in municipal services in Illinois?

Sub-questions

1. What projects are villages completing due to the increased revenues from video gaming?
2. What services are being expanded due to video gaming revenues?
3. How have staffing levels changed due to video gaming revenues?
4. What special events have been created due to video gaming revenues?
5. Has the budget increased due to video gaming?
6. Has there been any opposition from residents due to the adoption of video gaming ordinances?
7. Has there been any opposition from village staff due to the adoption of video gaming ordinances?

Definitions

Commercial Casino- A private gambling facility that hosts activities such as slot machines, keno, card games, craps, bingo or other games of chance (Dadayan, 2016).

Capital Project- A new construction, expansion, renovation, or replacement project for an existing facility or facilities. The project must have a total cost of at least \$10,000 over the life of the project. Project costs can include the cost of land, engineering, architectural planning, and contract services needed to complete the project. It may also be a purchase of major equipment (assets) costing \$50,000 or more with a useful life of at least 10 years. It can also be a major maintenance or rehabilitation project for existing facilities with a cost of \$10,000 or more and an economic life of at least 10 years (City Budget Office, 2017).

Native American/Indian Casino- Private gambling facilities run by Native American tribes that operate on reservations (Dadayan, 2016).

Pari-Mutuel Wagering- Gambling on sports events such as dog and horse races that result in a ranked order of finish (Dadayan, 2016).

Video Gaming Terminal- Special Gaming machines programmed to carry a variety of games such as video poker (Dadayan, 2016).

Revenue Diversification- A jurisdiction is said to have a diversified revenue structure if it relies on a variety of revenues. Meaningful diversification requires avoidance of imbalanced use of any one revenue source at the expense of other revenue sources (Snyderhoud, 1994, p.169).

Sin Tax- An excise tax on alcohol, tobacco, gambling and other goods or activities intended to raise revenue or modify taxpayer behavior. A growing number of items and activities are being added to this list (Perkins, 2014).

Theoretical Framework

The theory used in this research is the theory of Pigovian taxes, named after and developed by Arthur Pigou. This theory was used to study sin taxes which have greatly expanded in use over the past ten years. The theory holds that Pigovian taxes help curb social harms, such as gambling, while raising much needed revenues. Sin taxes, such as gambling taxes, are designed to reduce specific behaviors that are thought to be harmful to society (Williams & Christ, 2009). Taxes on tobacco products, alcoholic beverages, guns and even sugary beverages are a few of the sin based commodities that are taxed. Medical marijuana taxes are growing in popularity and are joining the sin tax commodity list. Mill (2003) feels that it is difficult to place a fair tax on a product or action that harms not only the person that does the action, but also negatively affects other citizens. This could be stated for taxes on alcohol, cigarettes, and also gambling. As applied to this study, the theory holds that the dependent variable of municipal services and programs should be expanded when the independent variable Pigovian taxes are

used in a municipality. As the amount of revenues generated by Pigovian taxes goes up, the amount of municipal services and program should as well.

Literature Review

Gambling and Sin Taxes in Illinois

States expand and legalize gambling most often because of desperate fiscal times according to Dadayan (2016). In addition to desperation, states analyze their fiscal conditions, economic development streams, and the political environment at the time to see if expanding gaming laws is even possible. After a fiscal crisis, voters and politicians are desperate to raise revenues, leading to drastic measures being taken.

The rapid expansion of gambling throughout the states has led to increased competition for gambling dollars. The Riverboat Gambling Act made Illinois the fifth state in the union to, “legalize casino gambling of any sort” (Warnick, 2011). The passage of the Riverboat Gambling Act has led to tax revenues of just over \$488 million in Illinois in 2015. Legalized gambling is booming in both Illinois and across the country. Currently 46 states have some form of legalized gambling, with 24 states containing at least one commercial casino and 28 states with at least one tribal casino. This wide spread gambling mania has trickled down to municipalities in Illinois with the Video Gaming Act of 2009.

All the legalized gambling has not come without concern. In 1996, congress created the National Gambling Impact and Policy Commission, “to assess gambling’s relationship to crime and pathological and problem gambling; impact on individuals, families, businesses, social institutions, and the economy; and effectiveness as a revenue stream for state and local governments” (Warnick, 2011). The findings of the commission were that not enough data exist to fully analyze the impact of legalized gambling. This caught the eye of former Illinois

Governor Rod Blagojevich who promised while campaigning that legalized gambling would not expand in Illinois. Blagojevich and would soon seek to expand gambling in Illinois as did his predecessor Pat Quinn, who eventually signed the Video Gaming Act in 2009.

Researchers are recognizing that sin taxes are becoming a trendy revenue source throughout all levels of government. Sin taxes on alcohol and cigarettes have been long been a part of the tax system, but legislators of all levels of government are now rapidly expanding the use and scope of sin taxes (Perkins, 2014). Perkins (2014) finds that sin taxes, when correctly used, are efficient ways of both raising revenues and modifying consumer behaviors. For example, instead of a government simply stating that a new tax on soda will be used to fill a deficit, a government should claim to be interested in fighting obesity or diabetes. This political spin will both earn lawmakers points with the public and health groups and help raise revenues. Carruthers (2016) feels that this political spin is basically legalized money laundering. Governments are ear-marking money made from frowned upon activities and then flowing it to a clean and morally accepted program, such as education. For example, Alabama earmarked, “40 percent of the revenues generated by beer sales for public schools and higher education” (Carruthers, 2016). It is easier to tolerate sinful activities when their revenues can be used for good. According to Hoffer (2013), sin taxes may not always be used for good, or what they were intended for. Hoffer finds that revenues from sin taxes are often treated as ordinary revenue and combined with general tax revenue, contrary to what these taxes were originally designed to do.

The Pros and Cons of the Gambling Revenue Stream

Warnick released a 2011 writing strongly opposing video gaming in Illinois. This release, found in the Illinois Law Review, called for a repeal of the Video Gaming Act, and asked for further research on both public opinion and the social and long term costs of expanded gambling

in the State of Illinois. The federal government's commission on gaming found in 1999 that there was not enough research about gambling and that the potential costs greatly outweighed the positives of the new revenue stream. This commission suggested that all expansions on gambling be frozen until further research could be completed. Warnick further insists that whenever government passes legislation that has potential to harm its citizens, public opinion must be sought. Furthermore, the expansion of video gaming lacks economic justification and may fail a cost-benefit analysis when all social costs are examined. Gilroy agrees with Warnick's writing, stating that, with Illinois video gaming in its infancy, communities do not know the full effects (The Regional News, 2013). Problem drinkers are much more likely to have a gambling problem than those without drinking problems, so putting gambling devices in drinking establishments may just be throwing fuel on an addiction fire that is already lit. Safety concerns are also an issue. Video gambling in local establishments doesn't come with the same security measures that are at a casino. There are less stringent identification processes and less security around to make sure that only people legally of age to gamble are wagering at the machines. According to Gilroy, sometimes the only thing separating slots from the rest of the premises in many gambling locations is simply a line on the floor (The Regional News, 2013). The Illinois Gaming Board has created a self-exclusion list that will have casino security make sure you do not enter a casino, and if you do punishes you by law. Warnick (2011) points out that this does not apply to video gaming at local establishments, and feels that this raises concerns about one of the only state provided self-help avenues.

Basham takes the opposite view from Warnick. Basham points out that consumers are the best judges of their own welfare and that people who gamble do so willing and rationally. The small amount of people who cannot control their gambling does not mean that the government

should outlaw it throughout the state. In 2013, 10,179 people were on the self-exclude list in Illinois (Casino Guide, 2013). Illinois has approximately 8.6 million people over the age of 21, meaning only one-one-thousandth of the population will be affected by the self-exclude list not applying to local video gambling terminals (Illinois Demographic Information, 2015). Basham (2002) feels that problem and pathological gamblers will seek gambling opportunities to gamble even if it is difficult to do so, so banning gambling throughout the state is not the answer.

While Basham and Warnick approach gambling at opposite ends of the spectrum, Hemphill takes a more mid-range approach. There is not a direct cause and effect relationship between suicides and gambling, but there appears to be a strong relationship between the two. While Warnick warns of the various social costs associated with gambling, personal bankruptcy and casino gambling seem to be unrelated. Hemphill (2003) finds that of the 24 counties in the nation with the highest bankruptcy filing rates, none have a casino. Furthermore, the states with the top ten bankruptcy filing rates also do not have casino gaming. Dadayan (2016) points out more mixed reviews between the relationship of bankruptcy and gambling, stating that the existence of a casino in a county substantially increases the bankruptcy rate in the first year of operation, and gradually decreases after. Hemphill's review of Maryland points out that because of Maryland's close proximity to states with video gaming, Maryland residents are spending their money elsewhere and that Maryland is losing out directly on those revenues. The same applies to Illinois as there are casinos and gambling opportunities in nearby Indiana, Michigan, Wisconsin, and Missouri. While there may be some social costs to video gaming, the costs are modest when there are nearby alternatives already in existence.

Economically, casino gambling has a positive effect in the short-term, but the effect dies out over the long haul according to Walker (2009). This is explained by competition for the

gambling dollar with other legal gambling industries within the state itself or through direct competition with gambling opportunities both online and in neighboring states. Cities like Rockford, Illinois have seen the economic increase four years in a row and state that they would have to make some serious reductions if the revenues were to decline (Vela, 2016).

Revenue Diversification

Revenue diversification within municipalities is best defined by Snyderhoud (1994) as a jurisdiction that relies on a variety of revenues. Diversification only becomes meaningful when revenue is drawn from multiple sources in a balanced manner. This balance is desirable as it, “makes for good tax policy and it reduces the chances of fiscal crises” (Snyderhoud, 1994). Balanced and diverse revenue sources are less prone to large and catastrophic problems that may be caused by issues with political actions or potential legal challenges. Diverse revenue structures allow for municipalities to adapt to emergency situations, changes in public taste, and other unusual or sudden demands. Carroll built upon the Snyderhoud (2010) literature by creating a formula to better measure diversification for towns. This formula found that town government structures tend to have less revenue diversification than states and municipalities. Town governments have fewer opportunities to rely on sales tax compared to other states and municipalities. Town governments tend to rely heavily on property taxation, the oldest form of taxation for governments in the United States. Shifts in revenue structures have occurred within the last 40 years. Property tax revolts were initiated in the United States by Proposition 13 in California and Massachusetts’ Proposition 2 ½ in 1980. With these and many other tax limitations growing in the United States, local governments have been forced to find new and diverse revenue streams. Mikesell (2007) feels that sales revenue can be extremely enticing for governments. By acting like a private company in a sense, governments can raise revenues

without facing the public backlash that comes with raising taxes. While the amounts from user charges and sales may be small in the full scheme of public finance, the revenues can still be a positive contribution. Gambling revenues also play a small, but politically important role in most states. According to Dadayan (2016), “gambling revenue represents between 2% and 2.5% of state own-source general revenues”.

Not all municipalities can afford revenue diversification. Political realities may limit how diverse a jurisdiction may be. As of December 31, 2016, 968 municipalities in Illinois enacted video gaming, compared to 1,497 who have limited or no video gaming at all. Some of these jurisdictions felt that politically they could not support video gaming and that the revenue diversification was not worth the “trouble” that comes with gambling expansion. Some villages, like Bloomington, Illinois asked their residents in formal surveys, “Are you in favor of the City Council approving Video Gaming in the City of Bloomington” (City of Bloomington, 2013). The results of the survey showed that people were in favor of video gaming, and the city collected over \$730,000 from video gaming terminals in 2016 (Illinois Gaming Board, 2016). Some municipalities are taking a wait and see approach. Palatine, Illinois had 61% of voters say no to video gaming in a 2015 vote (Graham, 2016). Forest Park had similar result with 67% of voters saying no to video gaming in 2013, but recently passed an ordinance to allow video gaming in 2016 (Lotus, 2016). The vote in Palatine was nonbinding and the city council could still enact video gaming should it so choose, but doing so would go directly against what local voters want, making it very risky politically, even though it would add to revenue diversification and total revenues in general. Fiscal stress could lead to political views changing. According to Gorina (2016), a large portion of fiscal stress in a municipality is budgetary solvency, mainly the ration of totally revenues to total expenditures. As a municipality’s budget solvency goes down and

higher revenues are needed, municipalities will take more extreme methods to fill the gaps. The importance of focusing on local fiscal policy that focuses on building and using fiscal reserves to weather fiscal shocks is more important than ever. While some municipalities have had votes and surveys to determine what the local villagers want, some municipalities did not have a choice in choosing this new revenue stream. Municipalities that have outlawed the sale of alcohol, like the Village of Herrick, Illinois cannot opt into the video gaming program. The video gaming laws require video gaming terminals to only be placed in locations with liquor licenses, which do not exist in those cities.

At the state level, revenues from gambling have provided stability to states for years. Humphreys has found that gambling revenues for states is an attractive option for multiple reasons. First, gambling revenues are an implicit tax, meaning gambling is a voluntary activity and only those who choose to participate are taxed (Humphreys, 2010). Secondly, they find that while gaming revenues are small compared to other revenue sources like property or sales tax, the gambling revenues have less variation. While other revenues may raise or fall during different economic times, the revenues associated with gambling tend to have little change. This is supported by the American Gaming Association that found in Illinois, consumers spent \$2.23 billion in private casinos in 2014 compared to \$2.21 billion in 2015 (Freeman, 2016). Across the entire United States that number went from \$37.7 billion in 2014 to 38.5 billion in 2015, an overall increase of only 2.25%. While casino gaming saw a small decrease in Illinois between 2014 and 2015 people are still gambling the same amounts. The decrease in casino gaming has led to an increase in video gaming throughout local locations in Illinois. Video Gaming in Illinois started at \$8.2 million wagered in 2014, climbed to \$11.3 million in 2015, and sparked all the way to \$14.0 million in 2016 (Illinois Gaming Board, 2016).

Revenue diversification will allow local governments to have to make less tough decisions. Bifulco (2012) found at the state level that Illinois had budget deficits every year from 2002 to 2010. The state has carried deficits into future years and has begun utilizing long-term debt to shift the burden of current tax problems to future taxpayers. Illinois did not have a major capital program from 2000 to 2009 and pushed the costs of capital maintenance and replacement to future years. Illinois, like other states, undertook extensive future commitments in order to cover operating deficits. Kaldani (2016) further points out the mishaps of the fiscal situation of the State of Illinois, ranking Illinois last in asset flexibility amongst all 50 states. The State of Illinois, Cook County, and Chicago Illinois all scored in the bottom percentile when analyzed by Kaldani (2016), who stated that a fiscally sustainable government would have generally balanced budget, a high net asset ratio, and a low per capita unfunded liability associated with public employee's pension. While this writing will cover the impact of video gaming money on local municipalities, it is important to consider the state wide impact that the revenue stream may have. Banovetz feels that city councils and village boards have demonstrated impressive responsibility in the use of local taxing powers. Different cities in Illinois have faced different budget issues similar to the state, but have done a positive job in limiting the abuse of their taxation powers. An expansion in revenue streams will further their ability to tax at an even lower rate. Wood furthers the findings of Banovetz (2010) by finding that municipalities with over 25,000 in population levy less property tax per capita. Illinois municipalities do not take advantage of their power by imposing unwanted and unneeded property taxes. Public administrators understand that property taxes are considered the least fair tax.

An expanded tax base is growing increasingly important, according to Kiewiet (2014), as we are reaching a fiscal ice age. With a large portion of the population aging into retirement,

more of local budgets will be spent on retirement and pension benefits, forcing municipalities to have to do even more with less (Kieweit, 2014). Municipal bankruptcies are becoming an unappetizing yet purposeful choice for some cities both in Illinois and across the United States. Declaring bankruptcy is such a bad political hit for local public administrators that instead a course of service cuts and tax increases are being applied. Schools may be closed, roads may go unpaved and fees may be increased instead of a city taking the plunge into bankruptcy. The solution, according to Kieweit (2014), is to do more with less and seek out any and all potential revenue sources, including the increase of sin taxes. Performance management and forecasting the future will become even more prominent with revenues needing to be more efficient than ever. Kloot finds that there are extreme pressures on local governments to forecast for the future so that they are prepared to handle situations like those described by Kieweit. Kloot (2000) feels that a focus on the long-term is absolutely necessary but that budget constraints, cost reduction strategies, and a focus on immediate financial performance may prevent a longtime strategic overview from occurring. Clarity in financial performance is vital during a time when extreme value is needed for services.

Whether or not revenue diversification is even attainable is a question studied by Hendrick. Hendrick (2002) finds that revenue diversification is an important trend in revenue structures in local Illinois municipalities, but that it is usually only found in smaller, newer, and growing municipalities that rely on enterprise charges and other taxes. The total tax effort is more strategic and balanced in suburban, small municipalities when compared to the larger and more central cities. Carroll adds that too much revenue diversification may actually lead to more revenue volatility. Revenues may become too complex when both tax and nontax diversification occurs, causing the opposite effect that revenue diversification aims to accomplish in the first

place (Carroll, 2009). Visible and easy to understand tax sources are needed for diversification in revenues to be successful.

The importance of revenue diversification is less important in home rule communities which have more flexible discretion over taxation. Scharff feels that municipal taxation should be even more flexible and expansion than it currently is. Cities are hampered by limits on certain revenues, stifling revenue innovation (Scharff, 2016). Municipalities need revenue innovation because new streams of income are needed and these new streams maybe spur ideas at the state level as well. Policy experimentation and then reform is the only way to know if new ideas can work. More and innovative revenue options for cities would lower the temptation for cities to borrow in order to balance a budget (Scharff, 2016). While innovative local leaders and willing politicians may still be needed for this to occur, without expanded powers for the municipalities this innovation has no chance to occur. This innovation could lead to what Hendrick (2006) calls “slack resources”, or a pool of resources in excess of the minimum necessary. This would create an ideal situation of a buffer against detrimental shocks to an organization that might otherwise shut down or be extremely limited in the event of a financial catastrophe. With slack resources, local managers can improve performance levels and increase services. Whether or not local managers are doing this with the newfound slack resources that come from video gaming, is at the center of this writing.

Methodology

The qualitative methodology is being used for this study in order to concentrate on the program of video gaming revenues in Illinois municipalities. The topic can yield complex results and many details are needed in order to make meaningful conclusions. Video gaming revenues are a very new topic in Illinois that not much research has yet been done on. This study used a

phenomenological strategy of inquiry within the study in order to analyze a group of villages that all share the same program that consists of collecting video gaming revenues. The study has shown themes and patterns with the data. The responses explain what each village is doing with their video gaming revenues, from the expansion of services to the creation of new special events.

Research Design

The first set of data needed is the amount of revenue coming into each municipality, the number of video gaming terminals in each municipality, and the basic demographic information on each municipality in the study. This data is found through the Illinois Gaming Board and specific village's websites. The second set of data is budgetary information also found on each municipality's website. The final piece of data will be what each municipality is doing with their video gaming money, which will be obtained through interviews with each village's finance director. The interviews were conducted at the Village of Carpentersville village hall, listed below.

- Village of Carpentersville Village Hall
 - 1200 L.W. Besinger Drive, Carpentersville, Illinois 60110

Sampling

The target sample population consists of suburban villages in Illinois that allow video gaming devices within their village limits. These participants have been chosen randomly. Not all finance directors are easily available for interviewing, so the study will use subjects who are willing to be interviewed. Data was collected through on-site interviews. A series of predetermined questions was asked of the participants who are the finance directors for the given

municipalities. The interview process took approximately fifteen to twenty minutes per interview with six different finance directors at the Carpentersville village hall location.

Interview Questions

1. Has there been an increase in capital projects due to revenue from video gaming?
 - a. If yes, what projects?
2. Has there been an increase or expansion in municipal services due to video gaming revenues?
 - a. If yes, what services?
3. Has there been an increase in municipal staffing due to video gaming revenues?
 - a. If yes, what positions?
4. Have any special events been created or kept alive due to video gaming revenues?
 - a. If yes, what events?
5. At what rate has the total budget increased due to video gaming?
6. Has there been any opposition from residents due to the adoption of video gaming ordinances?
 - a. If so, what are their complaints?

Data Collection

The data was analyzed on several levels. The study looked at both what villages are doing with a new sin tax revenue stream as well as any opposition the new stream may have created. The research looked to uncover both problems the revenue stream created as well as budgetary solutions it has helped solve. Overall, the study determined whether or not the new revenue

stream has made an impact on a given village and if themes throughout the villages can be found.

No pilot study occurred for this study.

Finance Staff Participants

Village/City Finance Directors	4
Village/City Assistant Finance Directors	2
Village/City Accounting Supervisors	0
Village/City Accountants	0

Of the six participating municipalities there were four Village/City Finance Directors, which agreed to participate in this study. There were two Assistant Finance Directors, zero Accounting Supervisors and zero Accountants. These participants represent the following municipalities: Carpentersville, DeKalb, Hoffman Estates, Huntley, Streamwood, and Wheeling.

Sample Demographic Information

MUNICIPALITY	POPULATION	MEDIAN HOUSEHOLD INCOME	PERSONS IN POVERTY
Carpentersville	38,512	\$58,008.00	16.7%
DeKalb	43,862	\$37,719.00	32.3%
Hoffman Estates	52,138	\$84,583.00	5.2%
Huntley	26,005	\$71,394.00	2.3%
Streamwood	40,554	\$74,854.00	4.8%
Wheeling	38,079	\$56,110.00	13.7%

This chart demonstrates the participating municipalities’ population, median household income, and percent of persons in poverty to form a baseline of comparison.

Video Gaming Revenue by Year

Municipality	2013	2014	2015	2016	% Increase 2013-2016
Carpentersville	\$23,050.82	\$69,495.01	\$110,656.96	\$136,639.77	493%
DeKalb	\$31,792.80	\$75,279.56	\$111,954.12	\$170,764.74	437%
Hoffman Estates	\$55,962.02	\$164,459.07	\$272,950.44	\$314,505.40	462%
Huntley	\$21,280.38	\$50,015.78	\$63,990.81	\$97,096.91	356%
Streamwood	\$474.85	\$23,187.21	\$88,548.62	\$151,537.33	31813%
Wheeling	\$34,508.08	\$106,960.01	\$178,437.40	\$221,190.61	541%

This chart shows the revenue taken in by each municipality within the study from video gaming dollars since 2013. The revenue is growing at an alarming rate for each of the municipalities.

Number of Video Gaming Terminals by Year

Municipality	2013	2014	2015	2016	% Increase 2013-2016
Carpentersville	32	53	59	58	81%
DeKalb	27	44	64	76	181%
Hoffman Estates	29	84	98	98	238%
Huntley	14	36	47	50	257%
Streamwood	5	20	35	48	860%
Wheeling	18	42	48	52	189%

This chart shows the number of video gaming terminals in each municipality within the study since 2013. The amount of terminals in each village has increased drastically since 2013, but has started to plateau between 2015 and 2016.

Table 1

Has there been an increase in capital projects due to revenue from video gaming?

Municipality	Response
Carpentersville	No, but some of the proceeds help current plans.
DeKalb	No, but some of the proceeds help current plans.
Hoffman Estates	No, but some of the proceeds help current plans.
Huntley	No
Streamwood	No
Wheeling	No

The informational responses within Table 1 are the responses the researcher received from the respective finance department employee relating to the increase in capital projects when asking the question, “Has there been an increase in capital projects due to revenue from video gaming?”

Table 2

Has there been an increase or expansion in municipal services due to video gaming revenues?

Municipality	Response
Carpentersville	No, no new services have been added.
DeKalb	No, no new services have been added.
Hoffman Estates	No, no new services have been added.
Huntley	No, no new services have been added.
Streamwood	No, no new services have been added.
Wheeling	No, no new services have been added.

The informational responses within Table 2 are the responses the researcher received from the respective finance department employee relating to the increase in municipal services when asking the question, “Has there been an increase or expansion in municipal services due to video gaming revenues?”

Table 3

Has there been an increase in municipal staffing due to video gaming revenues?

Municipality	Response
Carpentersville	No, no new municipal staff have been hired.
DeKalb	No, no new municipal staff have been hired.
Hoffman Estates	No, no new municipal staff have been hired.
Huntley	No, no new municipal staff have been hired.
Streamwood	No, no new municipal staff have been hired.
Wheeling	No, no new municipal staff have been hired.

The responses within Table 3 are the responses the researcher received from the respective finance department employee relating to the increase in municipal staffing levels

when asking the question, “Has there been an increase in municipal staffing due to video gaming revenues?”

Table 4

Have any special events been created or kept alive due to video gaming revenues?

Municipality	Response
Carpentersville	Yes, 2-3 Special Events are funded.
DeKalb	No, no special events have been funded.
Hoffman Estates	No, no special events have been funded.
Huntley	No, no special events have been funded.
Streamwood	No, no special events have been funded.
Wheeling	No, no special events have been funded.

The informational responses within Table 4 are the responses the researcher received from the respective finance department employee relating to the increase in special events when asking the question, “Have any special events been created or kept alive due to video gaming revenues?”

Table 5

What percentage of the general fund revenues are made up of video gaming revenues?

Municipality	2016 VG Revenue	2016 General Fund Revenues	% Of General Fund Balance
Carpentersville	\$136,640	\$29,033,174	0.47%
DeKalb	\$170,765	\$34,918,680	0.49%
Hoffman Estates	\$314,505	\$55,259,750	0.57%
Huntley	\$97,097	\$10,445,393	0.93%
Streamwood	\$151,537	\$28,798,747	0.53%
Wheeling	\$221,191	\$38,836,297	0.57%

The responses within Table 5 are the responses the researcher received from the respective finance department employee relating to the increase in total budget when asking the question, “What percentage of the general fund revenues are made up of video gaming revenues?”

Table 6

Has there been any opposition from residents due to the adoption of video gaming ordinances?

Municipality	Response
Carpentersville	No, there has been no resident opposition.
DeKalb	No, there has been no resident opposition.
Hoffman Estates	No, there has been no resident opposition.
Huntley	No, there has been no resident opposition.
Streamwood	No, there has been no resident opposition.
Wheeling	No, there has been no resident opposition.

The responses within Table 6 are the responses the researcher received from the respective finance department employee when asking the question, “Has there been any opposition from residents due to the adoption of Video Gaming ordinances?”

Table 7

Has there been any opposition from employees due to the adoption of video gaming ordinances?

Municipality	Response
Carpentersville	No, there has been no employee opposition.
DeKalb	No, there has been no employee opposition.
Hoffman Estates	No, there has been no employee opposition.
Huntley	No, there has been no employee opposition.
Streamwood	No, there has been no employee opposition.
Wheeling	No, there has been no employee opposition.

Protection of Human Rights

Volunteers’ identity and their participating villages’ identity are kept confidential to the extent provided by the law. Any information collected as a result of this study will be used with study codes on written notes of interviews instead of recording identifying information.

Participants’ information will be assigned a code number. The list of assign codes connecting the names of participants will be kept in a locked file cabinet in researcher’s chair, Dr. Ermasova’s office at Governors State University, room number C3340, 1 University Parkway, University

Park, Illinois 60443. Participants' names shall not be used in any reports. No personal information will be shared. The consent forms will be kept in a locked cabinet in Dr. Ermasova office C3340 at GSU. After three years consent forms and data will be shredded and destroyed. All data will be reported in the aggregate. The names will not be used in any report. Compensation will not be offered to participants and participation is voluntary. There are minimal risks in participating in this study. Participants who volunteer to participate in the study shall do so at their own expense. The participants can withdraw at any time and can receive a copy of the study upon completion by request.

Data Analysis

Has there been an increase in capital projects due to revenue from video gaming?

The first interview question revealed that the amount of capital projects has not been affected by video gaming revenues. Capital projects have not increased from the revenues due to the fact that the revenues aren't high enough. Capital projects are done in phases and depending on the scope of the project can cost in the millions of dollars. The revenues generated from video gaming are not large enough in the municipalities analyzed to cause an uptick in the amount of projects.

Has there been an increase in municipal services due to the revenue from video gaming?

The second interview question revealed that there has not been an increase in municipal services due to revenues from video gaming. The most common municipal services are the provision of water, sewer and road services. The municipalities were unable to expand these services or any other due to the increase in revenues. A future increase in revenues could lead to expanded road repair, plow services, or road clean up. Additional services could also expand to expanded parks and recreational programs and services,

Has there been an increase in municipal staffing due to revenue from video gaming?

The third interview question indicated that no staffing expansions occurred due to revenues generated from video gaming revenues. While the yearly amounts generated within each municipality could support at least one additional staff member, the revenues were not directly used to expand any municipal staff. The opposite was found in some municipalities, as staffing levels generally went down during this time frame. Finance staffs studied were continuously asked to do more with less.

Have any special events been created or saved due to revenue from video gaming?

The fourth interview question revealed that some municipalities showed an increase in special events after receiving increased funding from video gaming revenues. This makes sense when taking a deeper look at video gaming revenues as a whole. Revenues from sin taxes are often used in ways the public views as positive. The most recent “Soda-Tax” in Cook County was sold on commercials and others ads as a way to reduce obesity and fund hospitals, schools, and other programs to help the public. Special events also enrich the public and bring on civic pride within a community. It is therefore no surprise that municipalities use revenues from video gaming to fund special events.

What percentage of the general fund revenues do video gaming revenues represent?

The fifth interview question indicated that revenues generated from video gaming only accounted for less than one percent of municipal revenues. This small amount has not had much of an effect on activity within each municipality. The revenue streams are growing, but at this point only seem as general fund “padding” rather than a dependable stream that can support serious municipal actions or projects.

Has there been any opposition from residents due to the adoption of video gaming ordinances?

The sixth interview question found that residents within a given municipality did not have opposition to video gaming ordinances. These municipalities, however, indicated that they did not explicitly ask their residents their feelings on the matter. Each municipality had open board sessions when discussing and passing video gaming ordinances, but no survey or questionnaires were dispensed on the matter. It is hypothesized that if this had been done, as it has been within different municipalities, villagers would have had some opposition to the ordinances. It is recommended that municipalities are as transparent as possible with its villagers and other stakeholders. It would behoove the municipalities to include villagers on decisions like these going forward.

Has there been any opposition from employees due to the adoption of video gaming ordinances?

The seventh interview question revealed that no employees opposed enacted video gaming ordinances. This could be for multiple reasons. First, it is generally uncommon for municipal employees to speak out on enacted ordinances. Many times village employees are not required to reside within the village they work for, so the particular laws and ordinances are of little consequence to the employees. Secondly, it is generally against human nature to speak out against your workplace. Employees would rather stay employed than get in a battle over an ordinance that does not directly affect them.

Discussion

The data collected has furthered the research on sin taxes, municipal taxes, and government accountability. The information gathered shows that municipalities are using the revenues generated for a buffer in their general fund, rather than for specific projects and purposes. It is suggested that municipalities use earmarks to ensure that sin tax revenues gathered from video gaming activity are used in a way to better the community. Programs should foremost

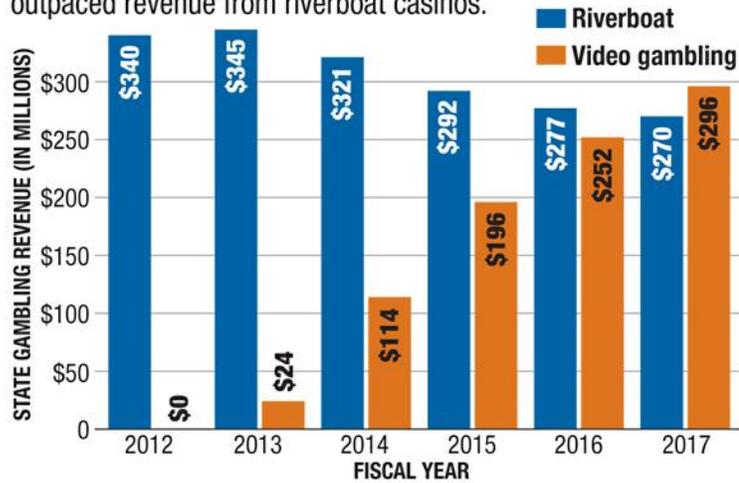
include help with addiction services. Additionally, creating an expanded police presence in the areas which have a high concentration of video gaming would help alleviate the crime levels that are growing around these facilities. The Video Gaming Act of 2009 is only eight years old and therefore has not had much written on it. This writing has filled a gap needed in the literature. Writings on sin taxes are also becoming extremely popular. Municipalities and states alike are expanding the use of sin taxes as a revenue generator, making this writing especially important. This writing is important because it has shown the need for revenue analysis at the state level, rather than at the local municipal level in addition to an extended look into the negative externalities that come with local gambling facilities.

Future Research

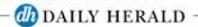
The video gaming industry in Illinois is growing exponentially. The state of Illinois began collecting video gaming revenues in 2012 and 2017 marked the first time that video gambling revenues out earned casinos in Illinois. According to Griffin (2017), the state of Illinois made \$296 million from video gaming terminals during their 2017 fiscal year while the ten casinos in Illinois generated \$270 million. This number was a \$7 million drop from the 2016 fiscal year. The decline in casino revenue clearly came at the state's benefit, as video gaming revenue rose by \$44 million, a 17.5 percent increase over the previous fiscal year. These figures should lead to more future research into video gaming revenues.

Racing ahead

For the first time, state revenue from video gambling has outpaced revenue from riverboat casinos.



Source: Commission on Government Forecasting and Accountability report "Wagering in Illinois"



While at the local level this study has shown that the revenues from video gaming are somewhat inconsequential, the revenues generated for local business owners, terminal owners, and the state should be further researched. The shift of gambling dollars from casino to local video gaming terminals should only continue. Of the ten Illinois casinos, only two made more money in fiscal year 2017 than fiscal year 2016. Additionally, admissions to Illinois casinos were down 6 percent in 2017 (Griffin, 2017). Video gaming terminals have simply made gambling opportunities easy in Illinois. According to Griffin (2017), "People who might have only gambled when they went to Las Vegas, all they have to do now is walk down the street".

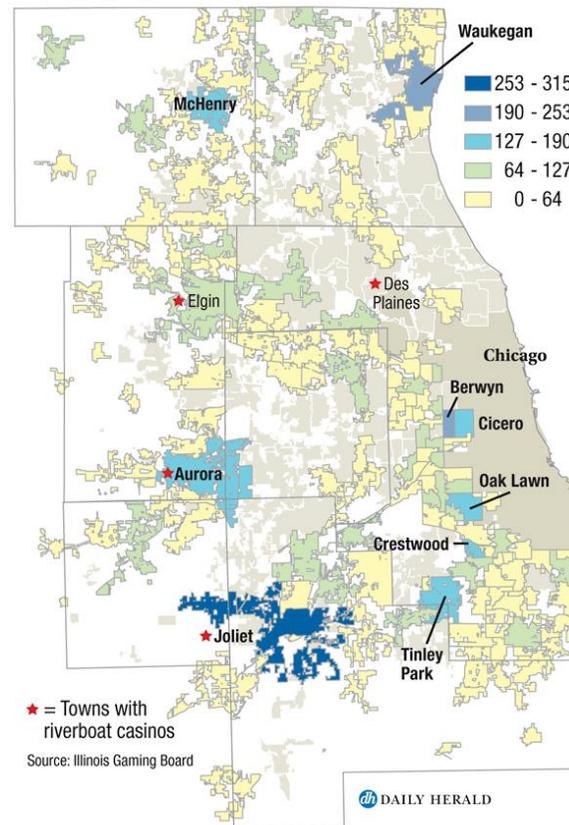
The models in which gambling is executed in the state should be further examined as well. Original casino legislation in 1990 authorized ten casino licenses worth \$5 billion, but each were sold off to political insiders for only \$25,000 per license (Ciciora, 2016). Some experts think that the future of gambling in Illinois could follow the Canadian model, "which the government keeps virtually all of the income and only pays management fees to the casino

companies” (Ciciora, 2016). The state takeover of the casinos would prevent billions of dollars going to private casino companies and allow closer regulation of the facilities.

Limitations in this study included the small number of municipalities chosen to examine. Future studies should expand to cover additional municipalities throughout the state. The use of video gaming terminals continues to expand across the state to municipalities of all different sizes.

Number of video gambling machines

Per municipality, as of September, 2017



While the state of Illinois has seen success with a large increase in revenues, future research should also include a look into the downsides of video gambling, mainly the perceived increase in addiction and crime that occur near gambling establishments (Daily Herald Editorial Board, 2017). There are still proponents of video gaming terminals in communities and they

point out that, “Estimates suggest that in the years since video gambling was legalized in Illinois, the increase in crime cost Chicago residents approximately \$55.5 million, which is orders of magnitude larger than the estimated transfers of state gambling tax revenue to the city”(Daily Herald Editorial Board, 2017). One recent study by Bottan (2017) has taken a deep look into the effects of access to gambling on crime and has found that access to gambling increases property and violent crimes, increases newer crimes rather than displaced incidents, and that the effects are persistent over time.

Whatever an individual’s views on gambling may be, one thing is for sure; it has become a huge revenue at the state level. The increase has been seen less at the local level, as municipalities showed in this study that the revenues from state regulated video terminals has had only a small impact on their budget and that virtually no services of any kind have expanded due to these revenues. Future studies will most certainly focus on the growing revenue on one side of the gambling coin and increased crime on the other. Whatever the viewpoint may be, video gaming revenues are here to stay.

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