The casino that supposedly was going to help fill Chicago's yawning budget gap now appears to be dead on arrival. Why? Because apparently no one involved in writing the underlying legislation did the basic math ahead of time, when it could have spelled the difference between a winning hand and what Chicago is holding now.

How much revenue would a casino within Chicago city limits generate? How much would a gaming company need to finance its construction and operation? And how much competition can the market bear? Those are the types of questions casino operators and financiers would inevitably ask before doing what gambling companies hate to do: risking their money.

Instead, it appears Illinois lawmakers decided what the tax receipts from a Chicago casino ought to look like in their own minds, and then reverse-engineered the tax framework from there. They'd likely say that characterization is unfair, but it's difficult to draw any other conclusion based on what we learned from a gaming industry consultant whose report, released Aug. 13
, declared the Chicago casino as currently proposed to be all but impossible to finance.

The consultant concluded that the total tax rate for the Chicago casino operator would amount to about 72 percent of the casino's gross. That's right: 72 percent. With a casino operator expected to make an upfront payment to the state above and beyond regular taxes, even a modest 1 or 2 percent operating margin likely would be wiped out "for many years, if not decades," the report found. And, under those terms, no casino operator or investor would touch the Chicago project with a 10-foot craps stick.

As Crain's reported Aug. 15 , that 72 percent effective tax rate is far beyond what casinos in other locations typically pay.

Illinois' graduated tax rate on gambling venues already reaches 50 percent. That's not as high as Maryland's 61 percent or Pennsylvania's 54 percent, but close. And those states, unlike Illinois, tax table game revenue at much lower rates, as little as 16 percent. New York, in contrast, taxes up to 45 percent of machine revenue but only 10 percent of table game revenue, according to the American Gaming Association. Rates in states neighboring Illinois with licensed gambling range from Missouri's 21 percent and Iowa's maximum 22 percent to Indiana's maximum 44 percent.

The 50-page Chicago casino report by consultant Union Gaming estimated state taxes and licensing fees, plus a 33.3 percent "privilege" tax imposed by Chicago, would total about 72 percent—before a "reconciliation fee" due in three years equal to three-fourths of the casino's highest 12-month revenue period. Taxes are imposed on "adjusted gross receipts," or revenue after winnings have been paid out.

Tax rates aside, the law has also chilled casino operators by tripling the number of authorized gambling positions in the state, threatening diminishing returns.

None of these conclusions were unknowable when lawmakers began crafting the gambling bill in Springfield that was signed into law in June. And now, unless some constituency agrees to settle for less than what the law figured on—and only if a newly crafted deal could pass Springfield again—the Chicago casino project is likely dead . Meanwhile, the budget hole it was meant to help fill only grows wider.

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