



**STATE OF DELAWARE  
EXECUTIVE DEPARTMENT  
OFFICE OF MANAGEMENT AND BUDGET**

**MEMORANDUM**

**TO:** The Honorable Ruth Ann Minner  
Governor

Members of the 144<sup>th</sup> General Assembly

**FROM:** Jennifer W. Davis   
Director, Office of Management and Budget

Richard S. Cordrey   
Secretary, Department of Finance

Russell T. Larson   
Controller General

**DATE:** January 10, 2008

**SUBJECT:** Sports betting Report as per HJR 10 of the 144<sup>th</sup> General Assembly

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**EXECUTIVE SUMMARY**

House Joint Resolution 10, enacted on June 30, 2007 directed the Secretary of Finance, the Director of the Office of Management and Budget and the Controller General prepare a study regarding the reinstatement of sports betting in the State of Delaware.

In order to discharge their responsibility, the three agencies ("agencies") held discussions with professional odds makers, sports betting providers, sports betting computer software vendors and other sports betting venues. The following report will not contain recommendations as to whether sports betting should be reinstated in Delaware. It is the goal of this report to build upon previous efforts in this area in offering policymakers options for the implementation of sports betting.

The report briefly discusses the historical underpinnings of this issue in Delaware. The report further explores operations in other jurisdictions. Finally, the report further discusses potential options for operations in Delaware while noting potential revenue effects and issues with problem gambling.



The agencies charged with issuing this report conclude that while all the options for implementation of sports betting in the State of Delaware are “feasible”, the most “reasonable” option for phased-in legalization is a racino based operation. Further, the agencies forecast a first full year (Fiscal Year 2010) General Fund return of between \$22.5 million to \$30.6 million.

### **Methodology:**

The standard for evaluation HR 10 sets is that this report “...consider all reasonable aspects of the implementation of sports betting...”. The report issued by the committee as a result of HR 63 in 2003 was to study the “...feasibility of instituting sports gaming at existing gaming venues...”. The standard of “feasibility” is more easily applied. “Feasible”, as defined, requires a judgment as to what is capable of being accomplished or brought about (what is possible). “Reasonable” would seem to require a more subjective application as a standard in that it requires judgment in accordance with reason or sound thinking which is not excessive or extreme.

Taking the liberty of applying the feasibility standard, the conclusion of this report is that the implementation of sports betting is feasible in its many forms and structure as presented in the Options section of this report. This is so due to the willingness of vendors and racinos to indemnify the State against loss.

The “reasonable standard” will be interpreted in this report as to require an analysis of the relative possible outcomes (financial return to the State) that may result from sports betting at the racinos only versus the expansion to different forms and venues beyond the racinos. The conclusion from this report is that the return to the State from legalizing sports betting beyond the current racino venues is positive, yet marginal when compared to the racino only option. This conclusion results from the Revenue Estimate section of this report as well as discussions with the above referenced vendors and gaming experts. It is also supported by internal discussions among the agencies charged with producing this report.

The options available to the State chiefly involve a decision as to the type and number of venues through which a sports betting product/products should be marketed. Those options that extend the number of venues to retail sales through current or expanded licensing agents would require the creation of a distinctly new product and involve hundreds of outlets. As such, it is not possible to estimate the cost of implementation or the return to the State without further direction from policy makers.

The implementation of sports betting through retail outlets is the option that would most involve the State Lottery Office as it would be responsible for overseeing the distribution, odds making, agent training and security attendant to a new widely dispersed enterprise. The inability to specify structure or estimate return to the State from these models does not imply that they are not feasible. However, they do involve the most uncertainty when compared to a racino-only option. The agencies conclude that they are not as “reasonable” as non-retail options. This conclusion is supported by the comparison of the net sports betting win in the baseline estimates of the Revenue Estimates section of this report. Using a Statewide annual handle estimate of \$150 million, said analysis indicates a net win attributable to sports betting of \$6.5 million, using a much smaller operating expense estimate than would most likely be required. Assuming a 50/50 split with the

vendor employed for implementation, the State's General Fund return would shrink to \$3.2 million.

The Agencies conclude that these options warrant further study, particularly in light of the technology advances demonstrated by vendors during the agencies' interviews with gaming experts for this report.

The options involving non-racino sports betting in non-retail venues involves the licensing of sports betting parlors not associated with an established gaming venue (racino). Previous reports/studies have demonstrated that the crossover phenomenon (ISR) provides the largest return to the State. With non-racino models, this return source disappears. Further, licensing of non-racino sports betting would intuitively decrease racino based sports betting as a result of competition for what must be a limited market at some point. Addendum A addresses this concern and indicates that there is a high negative correlation between the number of sports books and the average handle per property. Given that the extant racinos will be licensed for sports betting, it follows that the expansion of sports books would dilute racino play, negatively affecting the net return to the State.

The agencies conclude that the most "reasonable" option for initial legalization of sports books is the racino-only model.

The estimated return to the General Fund of the State from implementation of the racino-only model for the first full year of operation (2010) ranges from \$22.5 million to \$30.6 million, largely dependant on the crossover effect to existing gambling offerings (slot machines).

### **History:**

The Professional and Amateur Sports Protection Act ("PASPA"), 28 U.S.C. §§ 3701 – 3704. was enacted in 1992 and prohibits any new form of sports betting by any state, governmental entity or other person. However, by virtue of operating a professional football betting game in the 1970's (Scorecard) Delaware was excluded from the provisions of PASPA and grandfathered under the previous statutes. By doing this, PASPA preserved sports betting opportunity for Delaware. (It is important to note that the interpretation of this statute is not within the scope of this report. It is assumed that implementation would withstand a legal challenge.)

The potential implementation of sports betting at Delaware's three existing racinos has been examined in two separate efforts. The first of these resulted in a report released in 2003 pursuant to HR 63 of the 141st General Assembly. This report examined potential revenue, operational considerations and briefly touched on potential problem gambling. The report concluded that sports betting would be feasible in the state of Delaware. In addition, the committee observed that the potential General Fund revenues from renewed sports betting (approx.\$4 Million) could be more than doubled by the additional Video Lottery volume attracted to the three facilities by the sports betting games (approx. \$9 Million).

A second study was released in March, 2007 by the Delaware Racino Industry. Morowitz Gaming Advisors LLC was retained by the racino group to prepare this study which focused primarily on potential revenue effects of the implementation of sports betting in Delaware. Among other items,

this study concluded that implementation of sports betting in Delaware would result in a total incremental increase to the State's general fund of approximately \$70 million. It should be noted that much of the revenue received would be in the form of "crossover" revenue, that is, revenue not directly received as sports betting revenue but in the form of additional video lottery revenue.

### **Other Jurisdictions:**

Other states were exempted from PASPA by virtue of operating sports betting operations as a state lottery prior to the enactment of the federal law. These jurisdictions include Oregon and Montana:

- Oregon administered a sports lottery called Sports Action that operated only during the professional football season. The game was similar to parlay cards. Bettors picked the outcome of 4 to 14 National Football League games, with the point spreads provided by the lottery. Bettors could also match three other statistics such as total interceptions or fumbles. Bettors must win all the games selected to receive a prize. A bet of \$1 to \$20 was required to be placed on any one selection of games and there was no limit to the number of entry forms that could be played. The game started in 1989 and shortly thereafter, NBA games were added (excluding games involving the Oregon-based Portland Trail Blazers); however wagering on basketball was discontinued in 1990. In 2005 legislation was enacted which ended football wagering at the conclusion of the 2006-2007 NFL season.

- Montana allows several types of sports gambling which include sports pools, Calcutta pools, fantasy sports leagues, and sports tab games. Calcutta pools are operated similarly to pari-mutuel wagering in that all money wagered on a sporting event is pooled together. Fantasy sports leagues are games in which the participants create fictitious teams assumed to be composed of actual professional athletes. A sports tab game is one in which players purchase a numbered tab (ticket) from a game card containing one hundred tabs with different number combinations. Bettors win money or prizes if their numbers match those associated with a sporting event. The maximum payout for any Montana pool is \$500.

Lottery based sports betting operations also exist within North America outside of the United States. In Canada, the Ontario Lottery and Gaming Commission (OLG) Ontario's casinos, slots, and a variety of lottery products on behalf of the Government of Ontario. All Ontario games are parlay games whereby players cannot bet on a single outcome or result of a sports contest. As part of their operations, OLG operates sports betting games through the lottery as well as sports betting venues at two casinos.

### **OLG Lottery:**

Ontario has operated several sports betting parlay games under the name "ProLine". These games can be played at an Ontario lottery retailer. To play ProLine, bettors place a bet on 3 to 6 outcomes from a weekly selection of events. Players may choose to wager from \$2 to \$100. Those sports that can be wagered include NHL hockey, football (US Pro, US College, CFL), baseball (team and individual player match-ups), US College Basketball, and Soccer. ProLine game options include Point Spread, and Pro Picks.

### *Point Spread*

To play Point Spread, you just pick teams to “cover” or “beat” the spread. Players can wager on 2 to 12 games. Players may choose to wager from \$2 to \$100.

### *Pro Picks*

Within Pro Picks are three different games: Picks; Props and Pools.

- For Picks, players wager on players or teams from a list of up to 16 to finish Top 1, Top 2 or Top 3. Players can wager from \$2 to \$100.
- For Props, players can wager on 3 - 6 propositions inside selected football games (e.g. # of passes, total # of sacks, rushing yards etc.). Players can wager from \$2 to \$100.
- For Pools, players wager on the winning team for each event on a card of up to 16. Players bet \$5 per selection

### OLG Casino Offerings:

OLG owns and maintains authority over four commercial casinos in Ontario - Casino Windsor, Casino Niagara, Casino Rama and Fallsview Casino Resort. The day-to-day operations of these casinos are contracted to the private sector. Of these facilities, Casino Niagara and Casino Windsor both operate sports gaming facilities. The dedicated sections of the casinos are full service facilities that include multiple wide screen televisions, a “ticker” for latest scores and odds as well as wagering machines to place wagers. Booths as well as theater type seating are available for patrons to view multiple events on the televisions. The sports betting operations in both casinos have higher wagering limits than the Pro Line wagers made at lottery retailers. Bettors must bet on a minimum of two games, with a minimum \$2 and maximum \$1,000 bet per product.

Casino gaming offerings are similar to the Pro Line products but have been purposely separated from the lottery offerings. Sports available for wagering include NFL Football, NHL Hockey, MLB Baseball, US college football and basketball. The casino games include:

#### *Casino Props*

Players predict the outcome of three to six props. Props are offered on both game and player totals. Examples of Props include passes completed, interceptions, and sacks.

#### *Casino Over Under*

Players select two to six outcomes on a single ticket, with the option of Over or Under the total score of the game. Odds are attached to each outcome.

#### *Casino Point Spread*

Players select two to six teams in a single wager to cover or beat the spread. Evidence suggests that this game is the preferred game played by bettors.

### *Casino Odds*

Select the outcomes of two to six events or predicting player statistics (Home or Visitor win or tie; goals or assists).

### **Options for Delaware Policymakers**

Regardless of the option chosen, there is consensus on a number of issues regarding the operation of a sports betting operation. These include the following:

- For legal reasons all sports betting wagering would have to be parlay bets whereby the bettor must bet on the outcome of a minimum of two separate events or outcomes.
- The responsibility for the underlying operation and regulation of sports betting lie with the Lottery Office of the Department of Finance. Lottery already successfully regulates video lottery games within Delaware's three racinos. Legal arguments allowing for the authorization of a sports betting operation hold that it must be run as a game of chance, similar to all other Lottery games, including video lottery.
- The regulatory rules for sports betting would be developed by the Lottery Office with assistance of the Attorney General's office and the Delaware State Police.
- All sports betting activities would be administered through central administrative computing facilities housed in the Lottery Office. Redundant servers and cold site backup would be required to ensure reliability of service.
- Investigation and enforcement of suspected fraud activities would be the responsibility of the Delaware State Police. Prosecution of suspected fraud activities would be the responsibility of the Delaware Attorney General.
- The establishment of wagering odds must be the exclusive responsibility of the Lottery Office. To establish these odds, odds making services through a well established professional odds maker must be retained by the Lottery Office. The discretion for the Lottery Office to alter these odds in any way must be carefully controlled.
- Only major professional sports and major college sports should be available for wagering. If wagering on college sports is established, no wagering on Delaware teams should be allowed.

It is apparent, though, in the preparation of this report that the sports betting industry and the technology that supports this industry have matured to the extent that, if enacted, the state could consider a number of models of implementation. This report examines multiple options for implementation and presents potential pros and cons of each option.

1. Number of venues – Those jurisdictions that operate lottery based sports betting conduct these games using distinctly different models of operation.

- Lottery ticket sales only – This model of operation consists solely of sports betting lottery tickets sold at existing lottery retailers. Delaware’s first attempt at sport betting was based on this model. In 1976 the state operated “Scorecard”, a parlay bet based game sold at lottery retailers. As previously noted, Oregon operated a lottery ticket based system which has been recently discontinued.

There are several options for employing this model. The tickets could either be available and shipped weekly from the Lottery Office to retailers. Otherwise, an online system could be employed whereby players would pencil in their selections based on odds displayed on television screens and the lottery agent would scan through a card reader. A third option currently under development would be to allow self service terminals at lottery retailers.

Pros:

- Wider geographical reach as existing lottery retailers could sell tickets.
- Existing lottery ticket infrastructure already in place.
- Potential to gain more retailers for other lottery games.

Cons:

- Greater potential for fraudulent activities.
  - Maintenance of equipment in decentralized operation.
  - Would not offer amenities that some players prefer.
- Racinos – HS1 for HB 190, if enacted would authorize the Lottery Director to establish sports lottery operations only at current video lottery facilities. Under this legislation, net proceeds of the sports betting game would be added to net proceeds of the video lottery in determining allocation of revenues. This model could be employed in combination with a retailer based ticket system as well.

Pros:

- Existing infrastructure of video lottery game.
- Would give Delaware racinos a competitive advantage not available for competition in Pennsylvania and New Jersey, as well as potentially Maryland.
- Existing facilities could be renovated to provide for separate sports betting “parlor”, similar to casinos in Las Vegas, Windsor and Niagara.

## Cons:

- Restricts sports betting to only three sites.
- Racinos plus limited other – Using the casino example of a sports betting “parlor”, a model can be considered that allows for sports betting at the three racinos plus a limited number of other facilities located statewide that would house dedicated venues for sports betting. This model is similar to Nevada that has a number of large casinos but also smaller parlor type facilities statewide. This model could be employed in combination with a retailer based ticket system as well.

## Pros:

- Would allow for a limited, but possibly statewide expansion of sports betting.
- Potential to strategically site additional venues in such areas as the beaches, Wilmington or other venues that offer complimentary attractions.
- General Assembly could still restrict the total number of sites and consider selling site licenses in the enabling legislation.
- Manageable security and maintenance issues.

## Cons:

- Positive effects could be diluted if too many sites were established.
- Racinos plus expanded other – Advances in technology in the industry would suggest that a significantly decentralized model of implementation could be considered. This model would take advantage of wireless and/or internet based technology. This model could be employed in combination with a retailer based ticket system as well.

## Pros:

- Potential for play at an almost limitless number of locations.

## Cons:

- Security.
- Potential for “over-reaching”.

2. Provision of services – Many small Las Vegas sports betting venues have turned over the establishment, maintenance and operation of their sports betting venues to private vendors. Leroy’s Sports Books, (a subsidiary of American Wagering) and Scientific Gaming (currently a partner with Lottery on video lottery operations) are examples of vendors that will tailor their

services to the specific requirements of their customers. These services run the gamut from distinct elements of the operation up to a complete turnkey contract and could include:

- Odds making services
- Parlay card printing
- Design, construction and maintenance of sports betting venues
- Operations of sports betting venues amenity services
- Marketing
- Wagering terminals
- Wagering event management

Delaware would need to select an appropriate model for operation.

3. Risk management – Delaware would need to select whether to hedge against potential adverse play through a risk management arrangement with a vendor. With the establishment of an additional lottery game comes the distinct though not likely possibility that Delaware could lose revenue from adverse play. One safeguard to this happening is the aforementioned requirement that sports betting games be established as parlay games which typically have a greater “hold” than non-parlay wagering. However, Delaware would have the opportunity to hedge against revenue loss by entering into a contractual arrangement with a vendor. In such an arrangement Delaware would be guaranteed a certain minimum win percentage. As all of the risk is borne by the vendor, the end result to Delaware could be less revenue; however there would be no chance of the state losing money.

4. Games to wager – An additional option that must be considered is the scope of sporting events and/or outcomes to be instituted within a sports betting program. A distinct problem with limiting the scope of sports being wagered is that no sport operates year round. For example, if only NFL football was selected for wagering, then wagering could only take place within the season which lasts from September – January (not counting pre-season). If too many sports are selected for wagering, the product becomes too dilute. Within the scope of sports betting Delaware should consider a number of sports that would ensure year-round wagering in an efficient manner.

Again, future developments may hold promise. Based on discussions with current vendors, it is noted that systems are in various stages of development that could provide wagering opportunities on instantaneous happenings such as the outcome of a football play, or the disposition of a pitch in baseball for example.

### **Problem Gambling**

During the course of the discussions in the preparation of this report, the issue of problem gambling specifically associated with sports betting operations was investigated. Indeed, much

evidence exists with regards to indicators and prevalence of gambling addiction. The demographic group that makes up the majority of sports betting players is young to middle aged males. Several individuals and groups have publicly expressed their concern that sports betting activities would not only increase the likelihood of gambling problems among adults but also adversely influence teenagers. Unfortunately, as noted in previous reports on this subject, concrete evidence as to the potential scope and depth to which problem gambling arises specifically from the institution of legalized sports betting is limited. It is the conclusion of the agencies, however, that a portion of any additional state revenues arising from the potential implementation of sports betting in Delaware should be dedicated by the General Assembly and Governor to the existing array of agencies in Delaware that currently provide services in this area. Consistent with the enabling statutes for video lottery, authorization for these additional resources should be established as part of any legislation authorizing sports betting operations in Delaware.

### **Revenue Estimates**

**Scope:** The following revenue analysis is restricted to the legalization/implementation of sports betting at the State's three racinos. As an addendum, there is an abbreviated analysis of the legalization of other than racino (non-retail) venues. Among the reasons for said restriction are:

1. The non-racino options are numerous and the specific mix of those outlined in the beginning of this report would have to be specified prior to any quantification attempt.
2. The complexity of retail based parley sales operated by the State Lottery including product mix, daily adjustments to point spreads, "shading" (standard practice in risk management), and the mechanism/system for product delivery require much more information and specification than is currently available.
3. Analysis of racino sports betting, regardless of the estimation source (HR 63, MGA, this report) shows that the win associated with sports betting is dwarfed by the associated Incremental Slot Revenue (ISR) and may be regarded as marginal. Therefore, it is not unreasonable to assume that sports betting venues that are not an "adjunct" to some other source of gambling, allowing crossover betting, would not be as productive as those that are.
4. Simply put, if this report followed the format of a fiscal note or fee impact statement, non-racino based sports betting legalization would be termed "indeterminable – assumed insignificant/negligible".
5. Non-racino sports betting and any other venue/medium scenario would be offering distinctly different products and therefore do not lend themselves to comparative analysis, as implied by HJR 10.

The following section attempts to quantify the revenue to the State and Delaware's three racinos (combined) from the first full year of legalized sports betting. Despite the general perception that the assumptions and variables, when translated into numbers, provide a clearer understanding of the fiscal impact resulting from sports book legalization, the specification and error risk involved in this translation is very high. Although legalization will result in increased revenue to the State and to the racinos, the actual return that may be experienced is unknown.

There are no comparable examples that might lend confidence to any quantification under the unique circumstances of Delaware. Although this may be said for any type of revenue estimation, the fact that there is no history or comparable experience makes the quantification forecast especially speculative. Typically, revenue estimation largely depends on past experience. In this case, there is none. A review of the specified variables and the proxy statistics used in the following estimates should be viewed with great caution by policy makers and the Delaware Economic and Financial Advisory Council (DEFAC) should sports betting be legalized in Delaware.

This report uses Fiscal Year 2010 video lottery revenue estimates from the December, 2007 (DEFAC) as the first full year of sports betting implementation baseline.

Given the myriad factors that intuitively contribute to the following estimates, the goal of simplicity in specification and estimation will largely determine the following methodology.

### **Estimate Variables**

Handle: The handle is the amount bet. The handle is a primary, yet difficult forecast. The 2003 committee report (hereafter referred to as the HR 63 report) based the estimate on the handle of a large Las Vegas casino based sports betting book, allocating the handle between the three Delaware Tracks proportionately to the percentage of the video lottery current split. The range of this distribution is \$75.9 million at Delaware Park to \$26 million at Harrington. State-wide the handle is estimated at \$150.0 million.

The Morowitz report (MGA) uses a survey of adult males yielding a state-wide handle estimate of \$346.3 million.

Due to the complexity of the survey method utilized in the MGA report and the inherent risk of survey bias and experimental design flaws, this report (HJR 10 report) will use the handle estimate incorporated in the HR 63 report as the baseline.

Hold: The hold is the percentage of the handle which is not returned to the bettors as winnings. Both the HR 63 and the MGA reports use an estimate of 7.5% based on the assumption that the Delaware hold would be 50% higher than the Las Vegas experience of approximately 5%. It should be noted that the MGA report uses a range of 7.5% to 15% due to the multiple betting requirement applicable to Delaware.

This assumption is arbitrary and actual experience will vary over time. It should be noted that the Ontario Lottery and Gaming Commission (OLG) estimates the hold from a Windsor Ontario Casino Niagara initiative of between 30% and 40%. Restated, OLG's forecast produces a net profit of an average 26% of gross sales. This report will use an average hold estimate of 7.5% as a baseline.

Win: The win is the product of the handle and the hold and constitutes the revenue available for distribution to the State and the tracks. This report assumes, as a baseline that no other entity (horsemen) shares in the sports betting win and the win is split 50/50 with the tracks.

**Incremental Slot Revenue (ISR):** ISR is an estimate of the increase in slot play resulting from the institution of a sports betting book as an **adjunct** to the racinos. The range of previous estimates (\$25.1 million in the HR 63 report versus \$169.3 million in the MGA report) is indicative of the speculative nature of the estimate.

Commonly termed “crossover”, the ISR assumes there is a direct percentage measurable causal link between a sports betting adjunct and currently offered slot machine play. This phenomenon is totally dependent on the assumption that either sports betters bring new slots players with them, or that sports betters themselves will play slot machines. It is also indeterminable. The only reliable way to quantify this phenomenon is to strip the sample Las Vegas casinos of their sports book operations and observe the subsequent decrease in casino game play. This is not possible. Further, when asked for an estimate of crossover, the Nevada Gaming Commission replied that said estimate would be impossible without a two-year audit of all locations using questionable methodology.

Gaming experts have observed that there is very little, if any crossover between sports betters and video lottery machines. However, as the MGA report contends, there may be time – lags between sports betting and outcome revelation that may prompt pure sports betters to wander into slots play. Gaming experts have also contended that sports betters are more likely to crossover to the off track betting offerings of the racinos, or pari-mutuel betting on the horse racing event itself. However, neither possibility benefits the state directly.

The HR 63 report uses a 5% increase in slots play while citing a 10% estimate as “conservative” from Las Vegas sports book experts. MGA, again using the survey method, uses an implicit 73.4% increase in slots play attributable to a sports betting book.

This report uses as a baseline the 10% estimate of increased slots play attributable to a sports betting adjunct relying on the “conservative” estimate provided by International Race and Sports, Inc. and Surfside Race Place. Because of the quantitative importance of this one assumption, addendum B to this report varies this estimate while holding other baseline estimates constant.

This report also assumes a distribution of ISR video lottery net win identical to that employed under current law.

### **Sensitivity of Net Revenue Estimates to Variable Estimates.**

The following sensitivity estimates are derived by holding all other variables constant at the baseline while changing the specified variable estimate by the given amounts.

**Handle:** A \$10 million increase in the handle assumption of \$150 million baseline produces an estimated \$.4 million increase in net General Fund revenue.

**Hold:** A 1.0% increase in the hold assumption of 7.5% (to 8.5%) baseline produces an estimated \$.4 million increase in net General Fund revenue.

**ISR:** A 1.0% increase in the ISR assumption of 10% (to 11%) baseline produces an estimated \$2.3 million increase in net General Fund revenue.

**Range calculation:** The range of additional net General Fund revenue will use all the above variances from the baseline estimate on both upper and lower bounds together with a split between the tracks and the State differing from the baseline estimate of 50/50.

### **Other Considerations**

1. The State's share of revenue from sports betting at the racinos could be increased by levying a license fee for the granting of what amounts to a regional monopoly.
2. Vendor's fees are negotiable to an unknown degree.
3. There are significant risks of over or under estimation and specification error inherent in virtually all assumptions used in this report. The most significant risk of underestimation is the use of Las Vegas/Nevada market data in an analysis of Delaware's implementation of sports betting. Often cited underestimation of the current video lottery revenue prior to implementation was largely a function of using data of the net win per lottery machine from Atlantic City's casinos. The assumption was that Delaware machines would produce 25% of the win per machine in Atlantic City. At that time, Atlantic City Casinos offered 33,000 machines in a concentrated area. Delaware legalization authorized a small fraction of that number spread between three racinos in three different counties. The "queuing-up" effect was ignored. This may well be the case with the most conservative estimates of this report given the concentration of sports betting books in Las Vegas. Addendum A addresses this concern. The risk of over-estimation largely depends on the speculative nature of the ISR estimates.
4. The split of sports betting win between the racinos and the State is negotiable and may be adjusted to the State's advantage. Justification for a larger State share may be that the purpose of sports betting book legislation is to enhance the State's video lottery competitive position relative to out of state competition. This also reflects the observation from Las Vegas casinos that sports betting book operations are an "adjunct" to the sponsoring casinos.
5. The specification and assignation of operating expenses between the racinos and the State are not adequately dealt with in either the HR 63 or MGA report. Presumably, the increased operating expense associated with three sports betting books is negligible on the State's end. Increased operating expenses associated with ISR revenue is most likely not proportional to the increased slots play associated with legalization of sports betting. Any estimate of operating expense should be viewed as inherently speculative.
6. Any dedication of revenue from sports betting to problem gambling programs or any increased costs of expanded State Police security costs associated with legalization of

sports betting books are not included in this report. The implicit assumption is that such costs will be borne by the State's share of both sports betting and ISR.

7. One-time revenue to the State in the form of tax revenue attributable to construction and other infrastructure are not included in this report. Further, the on-going tax revenue and secondary economic effects (multiplier effects) of sports betting legalization are not addressed, as they would not be for the purpose of fiscal note preparation. This is in keeping with the above mentioned goal of methodological simplicity. However, intuitively, depending on any form of sports betting legalization, these effects are positive and perhaps significant.

## ADDENDUM A

### Non-Racino Venue Option

Should sports betting legalization/implementation extend to non-racino venues (not including retail or current traditional lottery outlets), the following per property statistics from a ten year analysis of all sports books in Nevada may be telling.

<b>Year</b>	<b>Number of Properties</b>	<b>Average Handle</b>	<b>Average Win</b>
1993	94	\$20,150,500	\$685,117
1994	108	19,465,667	840,917
1995	109	20,644,514	819,587
1996	123	20,002,472	856,106
1997	136	18,157,022	450,294
1998	139	17,101,072	625,899
1999	145	15,874,738	682,614
2000	157	16,311,420	748,694
2001	156	13,503,712	722,449
2002	146	13,749,164	760,329

In the ten year period, the number of sports book properties increased by 55%, while the average handle decreased by 32%. Over the study period, the per property study yielded an 11% increase in average win per property.

The increase in average win is attributable to an increase in the hold. The average hold increased from 3.40% in 1993 to 5.53% in 2002.

It may be concluded that there is a high negative correlation between the number of sports books operating in Nevada and the average handle per property. This observation may indicate that market saturation may be experienced relatively quickly to the detriment of ISR to the State and the Tracks.

It follows that the assumed absence of crossover betting would largely and negatively effect State revenue per property.

# First Full Year State-wide Baseline estimate

## Calculation of "Win"

Handle Hold	\$150.0 million
	7.5%
Revenue	\$11.3

## Distribution of "Win"

Win	\$11.3
Less Operating Expense	\$4.8
Net Win	\$6.5
<b>50% Net to GF</b>	<b>\$3.2</b>
Gross to Tracks	\$3.2

## Incremental Slot Revenue

Projected FY 2010 Slot Revenue - Total	\$658.9	DEFAC GF est/ .35
Projected 2010 Slot Revenue - Net to GF	\$230.6	DEFAC 12/07
New Play associated w/sports betting.	10.0%	

**Incremental Slot Revenue**      **\$65.9**

## Distribution of Incremental Slot Revenue

<b>Net to GF</b>	<b>\$23.1</b>	<b>35%</b>
Horsemen's Share	\$7.2	11%
Vendors Share	\$3.3	5%
Gross to Tracks	<u>\$32.3</u>	<u>49%</u>
<b>Total Incremental Slot Revenue</b>	<b>\$65.9</b>	<b>100%</b>

## Consolidated Revenue Distribution

<b>Net to GF - Sports Betting</b>	<b>\$3.2</b>
<b>Incremental Slot Revenue to GF</b>	<b>\$23.1</b>
<b>Total To GF</b>	<b>\$26.3</b>

Horsemen's Share      \$7.2

**First Full Year  
State-wide Calculation of Estimate Range.**

**Calculation of "Win"**

	Baseline	Lower Bound	Upper Bound
Handle Hold	\$150.0 7.5%	\$140.0 6.5%	\$160.0 8.5%
Revenue	\$11.3	\$9.1	\$13.6

**Distribution of "Win"**

Gross Win	\$11.3	\$9.1	\$13.6
Less Operating Expense	\$4.8	\$4.8	\$4.8
Net Win	\$6.5	\$4.3	\$8.8
<b>Net to GF</b>	<b>\$32.0</b>	<b>\$17.0</b>	<b>\$53.0</b>
	50%	40%	60%
Gross to Tracks	\$3.2	\$2.6	\$3.5

**Incremental Slot Revenue**

Projected Total FY 2010 Slot Revenue	\$658.9	\$658.9
Projected 2010 GF Slot Revenue	\$230.6	\$230.6
New Play associated w/sports betting.	10.0%	9.0%
Incremental Slot Revenue	\$65.9	\$59.3

**Distribution of Incremental Slot Revenue**

Net to GF	35%	\$23.1	35%	\$20.8	35%	\$25.4
Horsemen's Share	11%	\$7.2	11%	\$6.5	11%	\$8.0
Vendors Share	5%	\$3.3	5%	\$3.0	5%	\$3.6
Gross to Tracks	49%	\$32.3	49%	\$29.1	49%	\$35.5
	100%	\$65.9	100%	\$59.3	100%	\$72.5

**Consolidated Revenue Distribution**

Net to GF - Sports Betting	\$3.2	\$1.7	\$5.3
Incremental Slot Revenue to GF	\$23.1	\$20.8	\$25.4
<b>Total To GF</b>	<b>\$26.3</b>	<b>\$22.5</b>	<b>\$30.6</b>

Horsemen's Share

\$7.2

\$6.5

\$8.0

**ADDENDUM B**

**First Full Year - Fiscal Year 2010**

**Variances Resulting from Changing ISR %**

	Baseline estimate 10.0%	5%	6%	7%	8%	9%	11%	12%	13%	14%	15%
50% Net to GF	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2
<b>Incremental Slot Revenue</b>											
Projected FY 2010 Slot Revenue - Total	\$658.9	\$658.9	\$658.9	\$658.9	\$658.9	\$658.9	\$658.9	\$658.9	\$658.9	\$658.9	\$658.9
Projected 2010 Slot Revenue - Net to GF	\$230.6	\$230.6	\$230.6	\$230.6	\$230.6	\$230.6	\$230.6	\$230.6	\$230.6	\$230.6	\$230.6
New Play associated w/sports betting.	10.0%	5.0%	6.0%	7.0%	8.0%	9.0%	11.0%	12.0%	13.0%	14.0%	15.0%
<b>Incremental Slot Revenue</b>	\$65.9	\$32.9	\$39.5	\$46.1	\$52.7	\$59.3	\$72.5	\$79.1	\$85.7	\$92.2	\$98.8
<b>Distribution of Incremental Slot Revenue</b>											
Net to GF	\$23.1	\$11.5	\$13.8	\$16.1	\$18.4	\$20.8	\$25.4	\$27.7	\$30.0	\$32.3	\$34.6
Horsemen's Share	\$7.2	\$3.6	\$4.3	\$5.1	\$5.8	\$6.5	\$8.0	\$8.7	\$9.4	\$10.1	\$10.9
Vendors Share	\$3.3	\$1.6	\$2.0	\$2.3	\$2.6	\$3.0	\$3.6	\$4.0	\$4.3	\$4.6	\$4.9
Gross to Tracks	\$32.3	\$16.1	\$19.4	\$22.6	\$25.8	\$29.1	\$35.5	\$38.7	\$42.0	\$45.2	\$48.4
<b>Total Incremental Slot Revenue</b>	\$65.9	\$32.9	\$39.5	\$46.1	\$52.7	\$59.3	\$72.5	\$79.1	\$85.7	\$92.2	\$98.8

**Consolidated Revenue Distribution**

Net to GF - Sports Betting	\$3.2
Incremental Slot Revenue to GF	\$23.1
<b>Total To GF</b>	<b>\$26.3</b>

\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2	\$3.2
\$11.5	\$13.8	\$16.1	\$18.4	\$20.8	\$25.4	\$27.7	\$30.0	\$32.3	\$34.6	\$37.8	\$40.1
\$14.8	\$17.1	\$19.4	\$21.7	\$24.0	\$28.6	\$30.9	\$33.2	\$35.5	\$37.8	\$40.1	\$42.4