

State of Delaware

Video Lottery Advisory Council

November 5, 2010

Mr. Tom Cook
Secretary of Finance
State of Delaware
Carvel State Office Building
820 N. French Street
8th Floor
Wilmington, DE 19801

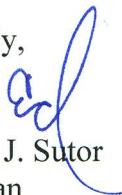
Dear Mr. Cook,



In accordance with Title 29, Chapter 29, Paragraph 4824 of the Delaware Code, attached is the 2010 Report of the Video Lottery Advisory Council (VLAC). This report includes administrative recommendations which were approved by the VLAC. In addition, this report includes legislative recommendations made solely by the three video lottery agents.

I, and any other member of the board, would be happy to discuss the items in the attached report.

Sincerely,



Edward J. Sutor
Chairman
Attachment

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2010 Report**

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What is the competitive outlook for Delaware Gaming?

- Additional Pennsylvania gaming facilities and table game operations at PA casinos at a highly competitive tax rate:
 - *All ten operating casinos in Pennsylvania now offer table game operations that have blunted the expected table game volume in Delaware. The Pennsylvania casinos also have a clear competitive advantage by having a very low comparative table game tax rate of 16%.*
- New Maryland casinos:
 - *In September 2010, the Penn National Hollywood Casino in Perryville, MD opened and it had an immediate negative impact on Delaware slot revenues. In December of 2010, the Ocean Downs casino in Ocean City, MD is expected to open and once again take a bite out of Delaware slot business.*
- Additional table game operations in West Virginia:
 - *In July 2010, Penn National's Charles Town Casino in West Virginia began table game operations and immediately became the WV state leader in table game revenue production. Charles Town is the closest WV casino to Delaware, and actively competes for customers in Delaware's market.*
- Atlantic City:
 - *Atlantic City continues on a downward revenue spiral and continues to heavily promote. Once again, a very low gaming tax rate allows AC casinos to offer marketing packages to casino patrons that cannot be matched by Delaware casinos.*

What are the 2010 recommendations of the VLAC?

Legislative Recommendations

- Eliminate or reduce the annual table game license fee. **(Recommended by the Video Lottery Agents only)**
 - *Justification: At the current level of table game volume, the combined effective table game tax and license fee rate is nearly 50%. Combined with the industry paying in excess of 40% payroll and benefit costs for over 1,000 newly hired table game employees, all three Delaware video lottery agents are currently losing money on the table game operations. As indicated in the Table Game Committee minutes of the meeting on July 27, 2009, the State would "consider reviewing" the table game tax rate and annual license fee should Pennsylvania institute table game operations. The video lottery agents strongly recommend that now is the time to review and eliminate or reduce the annual table game license fee.*

- Provide a capital incentive program to each of the 3 existing video lottery agents for capital expenditures. **(Recommended by the Video Lottery Agents only)**
 - *Justification: In July 2009, the Delaware Table Game Committee came together to negotiate a table game tax rate against a tight deadline, the committee decided to follow the West Virginia model and adopted a 34% tax rate. However, the State failed to adopt the major casino incentives that factor into West Virginia's table game tax rate, including an incentive for casinos' qualified capital expenditures. In the West Virginia model, a portion of the casino's capital expenditures are refunded to facilitate the partnership between the state and casino, recognizing the fact that capital improvements draw customers and increase revenues, ultimately benefiting the state. Given the State's current negotiated table games tax rate is modeled after West Virginia, it is recommended the State also consider following West Virginia's incentive program, which allows reimbursement to the video lottery agents for capital expenditures, in place of the penalty fee imposed if the video lottery agents do not do enough qualified capital expenditures or meet table game revenue goals.*

- Provide advertising subsidies to existing video lottery agents to promote video lottery, table games and sports lottery activities to out of state residents. **(Recommended by the Video Lottery Agents only)**
 - *Justification: Another carryover from the West Virginia model, which is factored into their table game tax rate, is the partnership between the State and casinos in regards to out of state marketing. The state of West Virginia gives \$1 million back to their casinos annually for out of state marketing, recognizing the benefit to other aspects of the state's tour and travel industry, as well as generating casino revenue from out of state visitors. The video lottery agents recommend the State consider matching money spent on out of state marketing.*

- Allocate a portion of the Lottery annual budget for promoting video and sports lottery activities. **(Recommended by the Video Lottery Agents only)**
 - *Justification: The vast majority of the State's Lottery office revenues come from video lottery operations, yet no part of the Lottery's budget is spent to assist the video lottery agents' with advertising efforts. The three video lottery agents recommend the State appropriate and allocate a portion of the Lottery's budget for joint advertising.*

- Allow casino operating hours on Christmas and Easter. **(Recommended by the Video Lottery Agents only)**
 - *Justification: With the recent addition of table game operations at Delaware casinos, this request has become even more significant. By not allowing casino operations to occur on these 2 days of the year, the State excludes a core demographic of table game customers and misses out on additional revenue for the industry and the State.*

- Allow alcohol consumption to be offered at video lottery agent facilities during all operating hours. **(Recommended by the Video Lottery Agents only)**
 - *Justification: The Delaware video lottery facilities currently operate gaming for 24 hours a day, but are required to stop the sale of alcohol at 1:00 a.m. Nearby gaming states allow for these sales to take place for extended hours (e.g. 24 hours a day in Atlantic City). Extended alcohol sales at Delaware video lottery facilities would be well received by gaming patrons who seek a total entertainment environment and who are used to receiving this benefit from our regional competitors.*

Administrative Recommendations

- Constitute a Gaming Regulation Review Committee comprised of representatives of the Delaware gaming industry and Delaware gaming regulators.
 - *Justification: The VLAC recommends that this newly formed committee meet at least semi-annually for the purpose of reviewing gaming regulations for effectiveness and cost efficiency.*
- Institute a separate category for poker VLTs for the purpose of calculating vendor fees. **(Repeat recommendation)**
 - *Justification: As a result of the way vendors are paid, the Delaware gaming market is considerably lacking in its offerings of the very popular poker product compared to Atlantic City and Pennsylvania. Currently in Delaware, vendors are paid fees based upon how their VLTs perform in relation to similar reel or video VLTs. Vendors are reluctant to place popular poker VLTs at agent's facilities due to the poker VLTs traditional lower performance compared to regular VLTs, and therefore, the lower payments the vendors receive. Instituting a new category for all poker VLTs would allow for the placement of more popular poker VLTs without economic penalty to poker machine vendors.*

What is the VLAC?

The Video Lottery Advisory Council (VLAC) (aka the Advisory Council on Video Lottery Planning) was formed under House Bill #269 on June 19, 2003 to serve in a planning and advisory capacity to the Secretary of Finance.

What is the purpose of the VLAC?

Per Title 29, Chapter 48 of the Delaware Code:

The purpose of the VLAC is to consider matters relating to the growth and competitive vitality of the video lottery industry in the State, including but not limited to the following:

- (1) The status of video lottery game development issues in the State;
- (2) The status of known game problem resolution;
- (3) Personnel issues and concerns affecting the industry;

- (4) The effectiveness of current operational procedures and recommendations for new operational procedures or regulations;
- (5) The competitive vitality of the video lottery industry in the state, and recommendations for marketing and technological improvements;
- (6) Issues and concerns relating to the repair and maintenance of video lottery machines and related equipment, including preventive maintenance programs;
- (7) Video lottery agent or manufacturer specific projects that will impact the operation of the video lottery; and
- (8) Issues and concerns of the State Lottery Office relating to the video lottery operations and the status of internal control approvals.

The VLAC shall submit a report on its activities to the Secretary of Finance by November 5 of each year, together with recommendations for legislative and/or administrative changes it deems desirable. (Emphasis added.)

What is the Mission Statement of the VLAC?

To provide a forum for video lottery officials, agents, and vendors to routinely address and resolve issues related to maintaining and improving the utmost in program integrity and operational efficiency. The VLAC shall render an annual report to the State on the results of its efforts and include recommendations to improve the program's viability and to maximize the program's growth in an increasingly competitive regional market.

Who serves on the VLAC?

Per Title 29, Chapter 48 of the Delaware Code:

Membership on the VLAC shall include:

- (1) The Director of the State Lottery Office. (Wayne Lemons 302-744-1600)
- (2) One member from each licensed video lottery agent, to be designated by the respective agent. (Edward J. Sutor – Dover Downs Hotel & Casino 302-857-3206, Patti Key – Harrington Raceway 302-398-5913, Andrew Gentile – Delaware Park 302-994-2521 ext. 7206)
- (3) Two members representing all of the licensed manufacturers of the video lottery machines to be designated by the Director of the State Lottery Office, and/or the licensed manufacturer of the central computer systems to be designated by the Director of the State Lottery Office. (Brennen Lawrence – Scientific Games 770-664-3827, Tim Shortall – IGT 609-484-6301, Robert Neugebauer – Spielo 302-376-1100)

The Governor shall designate one member to serve as Chairperson of the Council, who shall serve in that capacity for two years and shall be eligible for reappointment. (Edward J. Sutor – President & CEO for Dover Downs Hotel & Casino – Term 2006 - 2007, reappointed 2008 - 2009).

How often does the VLAC meet?

Per Title 29, Chapter 48 of the Delaware Code:

The VLAC usually meets quarterly, and a meeting can be called by the Director, the Chairperson, or a majority of the members.

When & where did the VLAC meet in 2010?

VLAC meetings during 2010 were as follows:

<u>Date</u>	<u>Time</u>	<u>Place</u>
March 2, 2010	1:00 p.m.	Dover Downs Hotel & Casino
July 27, 2010	1:00 p.m.	Dover Downs Hotel & Casino
September 14, 2010	1:00 p.m.	Dover Downs Hotel & Casino
October 12, 2010	1:00 p.m.	Dover Downs Hotel & Casino

All of the VLAC meetings were open public meetings and advanced public notice of each meeting was provided. Minutes of the VLAC meetings are available on the State of Delaware website.