

State of Delaware

Video Lottery Advisory Council

November 3, 2006

The Honorable Richard Cordrey
Secretary of Finance
State of Delaware
Carvel State Office Building
Wilmington, DE 19901

Dear Mr. Cordrey,

In accordance with Title 29, Chapter 29, Paragraph 4824 of the Delaware Code, attached is the 2006 Report of the Video Lottery Advisory Council (VLAC). This report, which was approved by a majority of the VLAC, includes legislative and administrative recommendations.

The VLAC would like to express its gratitude to the Administration and Legislature for passing the Video Lottery Competitiveness Act of 2006 earlier this year. This Act was passed promptly in the early days of the 2006 legislative season, and underscores the partnership the industry shares with the State of Delaware and the horsemen. The Act was an important first step in ensuring the Delaware Video Lottery could continue to compete effectively with neighboring jurisdictions in the coming years.

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

Sincerely,

Edward J. Sutor
Chairman

Attachment

State of Delaware

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2006 Report

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What is the competitive outlook for the Delaware Video Lottery?

- On September 27, 2006, the Gaming Control Board for the State of Pennsylvania authorized slot gaming category 1 licenses to 5 operating racetracks located in that State.
- Three of the Pennsylvania racetracks' (Chester, Philadelphia Park, and Penn National near Harrisburg) slot operations are expected to have an adverse impact on the Delaware Video Lottery market. Philadelphia Park and Chester are expected to open their slot operations in December 2006 and January 2007, respectively.
- In December 2006, the Gaming Control Board of Pennsylvania is expected to issue 5 category 2 licenses for stand alone facilities, several of which will be in the Philadelphia area (although these facilities are expected to take over a year or more to begin slot operations).
- Based upon the expected negative impact of the competing Pennsylvania slot operations, the Delaware Economic and Financial Advisory Council (DEFAC) has recently reduced the projected revenues to the State of Delaware in Fiscal 2007 by \$10 million, and in Fiscal 2008 by \$35 million.
- The State of Maryland has considered slot machine enabling legislation in each of the past four years. Many believe that passage of approved slot facilities is inevitable.
- Last year, the State of West Virginia, a significant Delaware competitor for the Baltimore, Washington D.C., and northern Virginia markets, considered table games enabling legislation. This table game initiative is expected to be considered again as the negative impact of Pennsylvania slots is felt on West Virginia slot operations.
- Faced with the prospects of competition from Pennsylvania and possibly Maryland, Atlantic City, the largest Delaware competitor, continues to attract multi-billion dollar capital projects supporting its ever-expanding gaming and entertainment product.

What are the 2006 recommendations of the VLAC?

Legislative Recommendations

- Pass legislation to allow sports betting limited to the three video lottery agent facilities.
 - *Justification: In the mid seventies, the Delaware Lottery offered a form of sports betting, and thus has been grandfathered from a 1992 federal sports betting prohibition law. In May 2003 a committee created by the Delaware legislature rendered the "Report of the Committee to Study the Feasibility of Instituting Sports Gaming Activities at Existing Gaming Venues in Delaware". This Report concluded that sports gaming is feasible and should be considered for implementation by the State. No other state east of Montana would be able to offer legalized sports gaming, which would allow Delaware to have a significant competitive advantage over nearby gaming states. *NOTE: The VLAC strongly recommends that in light of the recent escalation of various gaming initiatives in nearby states, sports betting in Delaware should be elevated to an urgent status of consideration by the State. Once approved by the State, it will take some of the video lottery agents approximately 18*

months to construct the sports betting facilities, develop internal controls, and hire and train personnel.

- Make the use of promo credits permanent (i.e. remove the May 2007 sunset) and remove the 4% monthly CAP (although still requiring prior State approval of video lottery agent's proposed promo credit marketing programs).
 - *Justification: In January 2005, the State of Delaware authorized the limited use of promo credits as a marketing initiative with a monthly CAP of 4% of video lottery agent commissions generated in the same month of the prior year. The promo credit programs at the three video lottery facilities have been very well received by slot patrons, have generated significant incremental slot revenues, have attracted new slot patrons and have generated more frequent trips from existing slot patrons. The enabling promo credit law is scheduled to sunset in May 2007, unless it is extended. Other nearby gaming states currently offer, or plan to offer, promo credit programs.*

- Eliminate Sunday morning closings
 - *Justification: Currently the Delaware video lottery facilities are closed from 6 a.m. to noon on Sunday mornings, whereas nearby competitor states allow gaming at these times. Despite public notice of operating hours, many patrons to Delaware video lottery facilities arrive from out of state on Sunday mornings only to be disappointed that the gaming facilities are closed.*

- Begin the process of authorizing table games at the three existing video lottery facilities. (Note: Requires a constitutional amendment including 75% approval of 2 successive legislatures.)
 - *Justification: Delaware's most potent competitor, Atlantic City, offers table games and thus has a competitive advantage over nearby states with slot machines only. As previously noted, the state of West Virginia is contemplating table games as a measure to offset competition from Pennsylvania gaming. Pennsylvania is already discussing the possibility of table games, which if enacted will further erode the Delaware market. Table game operations in Delaware, at a competitive gaming tax rate, would provide a major boost to state revenues as well as provide for the creation of jobs and for significant capital improvements.*

- Allow alcohol consumption to be offered at video lottery agent facilities during all operating hours.

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), and Pennsylvania is considering a special liquor license for their casinos to mimic that of Atlantic City. In order to compete on a level playing field, extended alcohol sales at video

lottery facilities would be well received by gaming patrons who seek a total entertainment environment.

Administrative Recommendations

- Issue temporary licenses to gaming new hires to help facilitate the employment process.
 - *Recent backlogs of employee background checks have caused unusually long delays in the State's approval of new employee licenses. This delay keeps employees off payrolls for weeks and hinders the gaming facilities from filling staff shortages. A temporary gaming license after a quick criminal background check would enable employees to start work sooner and prevent video lottery agents from losing quality applicants. (Note: The Video Lottery Enforcement Unit (VLEU) is currently working to resolve this issue)*

- Allow ATMs on casino floor (lift 25' restriction)
 - *Patrons often complain having to leave the gaming area to obtain cash at an ATM is inconvenient. Atlantic City, West Virginia, and Rhode Island gaming patrons have access to their bank funds at ATM's located near the cages of the casino floor.*

- Reduce the number of required surveillance department employees.
 - *The current Delaware surveillance department staffing guidelines require similar, if not greater, number of surveillance employees than Atlantic City casinos, even though Delaware does not currently have table games. (Note: Table game operations require much more surveillance due to the number of personnel handling gaming chips and cash.) With the installation of ticket-in ticket-out (TITO) machines, the number of cash transactions on the casino floor in Delaware has been greatly reduced, thereby making larger staffs of surveillance employees unnecessary. The VLAC recommends reducing the number of surveillance operators to a ratio of 1 operator for every 1000 video lottery terminals (VLTs). (Note: The VLEU is expected to review surveillance staffing requirements in the near future.)*

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)**
- (2) One member from each licensed video lottery agent, to be designated by the respective agent. **(Edward J. Sutor – Dover Downs Hotel & Casino, Patti Key – Harrington Raceway, Andrew Gentile – Delaware Park)**

- (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, Tim Shortall – IGT)**

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 – Executive Vice President & Chief Operating Officer for Dover Downs Hotel & Casino – Term 2006 & 2007).**

How often does the VLAC meet?

Per Title 29, Chapter 48 of the Delaware Code:

The VLAC shall meet at least 4 times each calendar year, at the call of the Director, the Chairperson, or a majority of the members.

When & where did the VLAC meet in 2006?

VLAC meetings during 2006 were as follows:

<u>Date</u>	<u>Time</u>	<u>Place</u>
February 14, 2006	1:30 p.m.	Dover Downs Hotel & Casino (New Castle Boardroom)
April 11, 2006	1:30 p.m.	Dover Downs Hotel & Casino (New Castle Boardroom)
July 11, 2006	1:30 p.m.	Dover Downs Hotel & Casino (Sussex Meeting Room)
October 3, 2006	1:30 p.m.	Dover Downs Hotel & Casino (Festival Buffet – A)

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.