

**State of Delaware**

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**Video Lottery Advisory Council**

January 20, 2009

The Honorable Gary Pfeiffer  
Secretary of Finance  
State of Delaware  
Carvel State Office Building  
820 N. French Street  
8<sup>th</sup> Floor  
Wilmington, DE 19801

Dear Mr. Pfeiffer,

In accordance with Title 29, Chapter 29, Paragraph 4824 of the Delaware Code, attached is the 2008 Report of the Video Lottery Advisory Council (VLAC). This report, which was approved by a majority of the VLAC, includes legislative and administrative recommendations.

In light of the current unfavorable economic climate and its negative impact on Delaware's revenue projections, the VLAC believes that the recommendations included in the attached report would be beneficial to the State. Implementation of Lottery controlled sports betting and table games will help to protect video lottery contributions to the General Fund, as well as provide hundreds of much needed jobs for Delaware citizens.

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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2008 Report

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2008 Report**

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### **What is the competitive outlook for the Delaware Video Lottery?**

- In November, 2008, the voters of Maryland approved a referendum to authorize 15,000 slot machines in that State. DEFAC has estimated a negative annual impact of \$140 million on the Delaware VLT industry (approximately \$70 million negative annual impact on the General Fund).
- In 2007, two of the four West Virginia Lottery operated VLT facilities initiated table game operations. In 2009, it is expected that the VLT facility located in Charlestown, WV (closest to Delaware) will apply for table game operations. The West Virginia Lottery's table game operations provided that State with a clear competitive advantage over Delaware.
- The ongoing expansion of slot machine operations in Pennsylvania continues to have a significant negative impact on Delaware VLT revenues. Pennsylvania casinos' use of unlimited free slot play has also severely impacted Delaware's competitive abilities. At least three more planned casinos in the Greater Philadelphia area will further the negative impact in the next few years. Recently, a Pennsylvania legislator has initiated a bill to authorize table game operations at the casinos located in this nearby State.
- Due to the intense mid-Atlantic gaming competition, Atlantic City casinos are flooding the market with rich promotional offers. The low gaming tax in New Jersey (8%) and the ability to offer unlimited amounts of free slot play gives the Atlantic City casinos a competitive advantage by allowing those casinos to offer more lucrative promotional offers to potential Delaware customers.

### **What are the 2008 recommendations of the VLAC?**

#### Legislative Recommendations

- Pass legislation to allow the resumption of sports betting limited to the three video lottery agent facilities. **(Repeat recommendation)**
  - *Justification: In the mid seventies, the Delaware Lottery offered a form of sports betting, and thus has been grandfathered from a 1992 federal law prohibiting sports betting. 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 state east of Montana would be able to offer legalized sports gaming, which would allow Delaware to have a considerable competitive advantage over nearby gaming states. \*NOTE: The VLAC strongly recommends that in light of the recent expansion of gaming in all nearby states, sports betting in Delaware should be immediately considered by the State.*
- Pass legislation authorizing live table games with revised revenue sharing at the three existing video lottery facilities. **(Repeat recommendation)**

- *Justification: Atlantic City has had table games for years and is able to attract more out-of-state patrons, a broader customer base, and players with higher gaming budgets as a result. In 2007, the nearby state of West Virginia authorized table game operations at several video lottery facilities, and, as noted above, Pennsylvania is considering table game operations. Table games will also create hundreds of jobs for Delaware citizens.*
- Allow casino operating hours on Christmas and Easter
  - *Justification: This recommendation is made due to customers who wish to visit Delaware video lottery agent facilities on those holidays.*
- Allow alcohol consumption to be offered at video lottery agent facilities during all operating hours. **(Repeat recommendation)**
  - *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). Currently Pennsylvania casinos are authorized to serve alcohol until 2:00 a.m., although in the past legislators have considered the issuance of a special liquor license for their casinos to mimic that of Atlantic City. Extended alcohol sales at video lottery facilities would be well received by gaming patrons who seek a total entertainment environment and would help alleviate the number of competitive pressures we are facing.*
- Allow Horse Racing Account Wagering
  - *Justification: The major racing jurisdictions surrounding Delaware all offer account wagering. This feature would be a convenience for our racing patrons and an added marketing tool for our pari-mutuel business.*

#### Administrative Recommendations

- 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.*

#### 2007 VLAC Accomplishments

The following legislative and administrative recommendations from the 2007 VLAC Report have been implemented in 2008.

- Legislative Recommendations
  - 4% CAP on promo credits was removed.
  - 5% CAP on franchise games was removed.
  - Sunday morning operating hours were expanded.
  - Sports betting planning was initiated.
- Administrative Recommendations
  - Modifications to surveillance staffing were made.
  - Reduction to storage requirements for expired VLT tickets was made.

**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 609-484-3401, 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 for 2008).

**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 2008?**

VLAC meetings during 2008 were as follows:

<u>Date</u>	<u>Time</u>	<u>Place</u>
February 12, 2008	1:30 p.m.	Dover Downs Hotel & Casino (Delaware Room)
October 07, 2008	1:00 p.m.	Dover Downs Hotel & Casino (Kent Room)
December 09, 2008	1:30 p.m.	Dover Downs Hotel & Casino (Delaware Room)

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.