

State of Delaware

Video Lottery Advisory Council

November 2, 2022

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

Dear Secretary Geisenberger,

In accordance with Title 29, Chapter 29, Paragraph 4824 of the Delaware Code, attached is the 2022 Report of the Video Lottery Advisory Council (VLAC). The recommendations in this report were voted on and approved of by a majority of members of the VLAC at our October 28, 2022 meeting.

Members of the VLAC are appreciative of the action that has been taken in the past as a result of the recommendations made in the annual Report. We look forward to discussing the recommendations in the near future.

Sincerely,



Patricia B. Key
Chairman
Attachment

State of Delaware

Video Lottery Advisory Council

2022 Report

November 2, 2022

State of Delaware

**Video Lottery Advisory Council
2022 Report**

Index

	<u>Page Reference</u>
• What is the competitive outlook for Delaware gaming?	1
• What are the 2022 legislative recommendations and administrative recommendations of the VLAC?	1 – 3
• What is the VLAC?	3
• What is the purpose of the VLAC?	3
• What is the Mission Statement of the VLAC?	3
• Who serves on the VLAC?	4
• How often does the VLAC meet?	4
• When & where did the VLAC meet in 2022?	4

What is the competitive outlook for Delaware gaming?

The Mid-Atlantic continues to be hyper competitive and increasingly saturated. During 2022, Hard Rock in Bristol, Virginia opened a temporary casino with 870 slots and 21 table games and construction continues for a full scale casino with a projected opening date of summer 2024. In January 2023, Rivers Casino in Portsmouth, Virginia is opening with over 2000 slots and 75 tables. Headwaters Casino in Norfolk, Virginia is planning to open a temporary casino in late 2023. Additionally, there are now six properties in Virginia offering horseracing slot machines. Virginia is currently operating both retail and mobile sports betting throughout the state. Maryland currently has retail sport betting and planning to have mobile sports betting by the end of 2022.

The 2022 legislative and administrative recommendations:

Legislative Recommendations

Recommendation #1: Grant waiver of the license fee requirement for the fiscal year 2023. For fiscal years 2024 forward, change the 12 month period ended from December 31, 2017 to December 31, 2021 and have the ability to add excess qualified capital expenditures to the calculation of qualified investments in marketing and wages and benefits.

Justification: As a result of COVID-19, the gaming industry has had to adapt business models to reflect account the changes in the post pandemic economy. Despite extensive recruitment and retention efforts, labor projections indicate Licensees will not be returning to pre-pandemic staffing levels. Subsequently, operations have been modified or discontinued due to staffing shortages.

Recommendation #2: Improve Delaware's online presence by contracting with an online provider that offers a single platform for iGaming and sports wagering. Adding mobile sports to the online platform will allow for a greater variety of wagering options, most importantly the ability to place live, in-game (live) wagers. Offer increased wagering options at casino locations (i.e. expanded prop bets on Monday/Thursday night games and the Pro Football Championship). A combined platform should encourage cross-over play between, poker, casino and sports players.

Justification: Although iGaming revenues have been growing significantly since the COVID pandemic in 2020, Delaware sports wagering is down 37% through September 2022, as compared to the same time period last year, due to Maryland launching retail sports betting. The State faces even greater losses when Maryland offers mobile sports betting. Prior to Maryland implementing sports wagering at its brick and mortar locations, sports betting revenues were already down 25% when PA (May 2019) and NJ (August 2019) commenced mobile wagering on sports. Neighboring states not only offer mobile sports wagering, but also a larger variety of wagering options which has greatly eroded revenues.

A single on-line "shared" offering would allow for the recapture of lost revenue to neighboring states and provide a multi-channel experience for the guests. Additionally, the costs for a combined platform should be less than contracting with two different vendors to provide iGaming and Sports on separate platforms.

Recommendation #3: The industry believes that the law mandating that the State retains the initial \$3.75 million in net iGaming revenues before any revenues are shared with the gaming operators should be removed.

Justification: The casinos incur payroll and other costs related to the accounting and operations of iGaming. The implementation of a combined platform inclusive of online sports betting would be mutually beneficial by growing revenues for the State and operators.

Recommendation #4: Increase the Incentive Credit Cap to 35% of video lottery net proceeds generated during FY 2010.

Justification: Neighboring states have a higher cap in which their licensees use for incentive to drive trips and gain incremental lift. An increase in the cap will help to continue to compete with neighboring jurisdictions and bring in customers from states where all three licensees draw from, specifically, Maryland, Virginia, Pennsylvania, and New Jersey. Additionally, some jurisdictions offer a marketing credit to use in a similar fashion, however we believe that that takes away from the State's share. The industry requests supplements customers to increase trips and incremental play generating more revenue to licensee and state.

Recommendation #5: Eliminate the requirement for Employees to obtain Service License.

Justification: Currently, the license is for a five year period with a renewal for 6 years. This service license is required for positions that may have access to the casino floor/operations (bartenders, beverage server, casino housekeeping, etc.). Elimination of this requirement will help expedite the process to get qualified employees for these front line positions.

Recommendation #6: The Gaming Employee license (for dealers, slot attendants, cashiers, etc.) should be a one-time license with no renewal requirement. Consideration should be given to reverting back to the prior (pre table games) Lottery/VLEU license application and process. The application cost should reflect the simplified application form.

Justification: Gaming Employee Licenses initial term is currently three (3) years with renewals for a term of (4) years. The simplified process and costs will help attract prospective employees. Each casino has difficulty in attracting qualified candidates for the various licensed positions. The initial cost of \$265 (\$200 application fee plus \$65 finger printing fee) is a financial burden many applicants with other viable job options do not want to undertake.

- **Recommendation #7: The Key Employee License initial term should be for (5) five years with a renewal term of (5) five years. The renewal should consist of updating the key employee's picture, criminal background check and submittal of current tax returns.**

Justification: Key Employee Licenses initial term is (2) two years with a (3) three year renewal period. Key Employee Licenses in nearby states (e.g., New Jersey) have the longer renewal requirements.

Administrative Recommendation

- **Recommendation #1: Allow licensee to pay for new or improved national and state highway green and white lettered signage specifically on major routes, just before specific exits to licensee's casino (i.e. 195 for Delaware Park).**

Justification: Surrounding states allow such signage and makes those locations more competitive.

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 consists of:

Lloyd Boulter	Scientific Games	302-678-7733
Mark Casto	Light & Wonder	702-532-6789
Ron Baumann	Delaware Park	302-994-2521 ext. 7001
Patricia Key	Harrington Raceway & Casino	302-398-5913
Helene Keeley	Director of the State Lottery Office	302-744-1605
Michelle Lewis	Aristocrat Technologies	609-553-5799
Nick Polcino	Dover Downs Hotel & Casino	302-857-3219

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.

(Patricia Key — CEO for Harrington Raceway, Inc. — Term 2023-2024).

How often does the VLAC meet?

Per Title 29, Chapter 48 of the Delaware Code:

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

When & where did the VLAC meet in 2022?

VLAC meetings during 2022 were as follows:

<u>Date</u>	<u>Time</u>	<u>Place</u>
October 28, 2022	2:00 p.m.	Bally's Dover 1131 N. DuPont Hwy Dover, DE 19901

All of the VLAC meetings are open public meetings. Minutes of the VLAC meetings are available on the State of Delaware website.