

**State of Delaware**

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**Video Lottery Advisory Council**

November 2, 2007

The Honorable Richard Cordrey  
Secretary of Finance  
State of Delaware  
Carvel State Office Building  
Wilmington, DE 19801

Dear Mr. Cordrey,

In accordance with Title 29, Chapter 29, Paragraph 4824 of the Delaware Code, attached is the 2007 Report of the Video Lottery Advisory Council (VLAC). This report, which was approved by a majority of the VLAC, includes legislative and administrative recommendations.

Once again, the VLAC has made the reinstatement of sports betting its highest priority recommendation. We understand that your department as well as several other State departments are required to render a report to the governor by December 21, 2007 on the impact of sports betting. Please consider the high priority of the VLAC's recommendation in your December 21, 2007 report.

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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Video Lottery Advisory Council

2007 Report

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**Index**

	<u>Page Reference</u>
• What is the competitive outlook for the Delaware Video Lottery?	1
• What are the 2007 legislative and administrative recommendations of the VLAC?	1 - 4
• What is the VLAC?	4
• What is the purpose of the VLAC?	4
• What is the Mission Statement of the VLAC?	4
• Who serves on the VLAC?	5
• How often does the VLAC meet?	5
• When & where does the VLAC meet?	5

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

- *The competitive environment in the Mid-Atlantic region continues to intensify as various states seek to gain a competitive advantage through legislation.*
  - *Pennsylvania gaming facilities now number six with several others under construction. These Pennsylvania gaming operations have dealt a substantial negative blow to Atlantic City and the Delaware video lottery market. Through the nine months ending September 30, 2007, the Delaware industry is down nearly \$9 million from the same period in the prior year.*
  - *Atlantic City has been issuing unprecedented amounts of promotional dollars to stem their losses, which also impacted Delaware gaming facilities. Three recently proposed new casinos are expected to spend approximately \$9 billion in the next few years, and bring noteworthy additional capacity to the market.*
  - *West Virginia has authorized table game operations at 3 of their 4 gaming facilities, which are due for start up in December 2007. Faced with table games in Atlantic City and West Virginia, Pennsylvania legislators have suggested that Pennsylvania should enact similar legislation.*
  - *Maryland continues its push for gaming legislation and has scheduled a special session of their legislature to consider, among several of the governor's proposals, adding 15,000 slot machines.*

### What are the 2007 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 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 considerable competitive advantage over nearby gaming states. In March 2007, an independent gaming consultant rendered a report titled "Revenue and Economic Impacts of Proposed Sports Betting Legislation in Delaware." This report concluded that the positive economic benefits from the resumption of sports betting would be significant. \*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.*

- Remove the 4% CAP associated with the issuance of promo credits (although still requiring prior State approval of video lottery agent's proposed promo credit marketing programs).
  - *Justification: The State of Pennsylvania has allowed its gaming operators to issue promotional credits without a CAP. Several Pennsylvania gaming operators have used this as a competitive advantage to nearby Delaware operations. This recommendation if approved would "level the playing field" with Pennsylvania operators with respect to promotional credits.*
  
- Eliminate Sunday morning closings (**Repeat recommendation**)
  - *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.*
  
- 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 issuance of 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.*
  
- Eliminate 5% CAP on franchise games.
  - *Justification: Currently there is a legislative imposed 5% CAP on the number of franchise VLTs that a video lottery agent may have at their facility. Some of the video lottery agents are at or near this 5% CAP, and thus are precluded from placing more of these popular VLTs at their facilities. It is recommended that this 5% CAP be eliminated thus allowing more popular franchise VLTs to be placed in operation.*
  
- 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.) (**Repeat recommendation**)
  - *Justification: Atlantic City has had table games for years and is able to attract more out-of-state patrons and more high rollers as a result. In*

2007, the nearby state of West Virginia authorized table game operations at the video lottery agent's facilities. To date, 3 of the 4 facilities are set to start table game operations by December 2007. Table game operations will substantially increase the attractiveness of West Virginia lottery facilities and thus are expected to have a negative impact on Delaware's market share of regional VLT business. It is therefore recommended that the lengthy process of authorizing table games begin.

#### Administrative Recommendations

- Reduce the number of required surveillance department employees. (**Repeat recommendation**)
  - *Justification: 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).*
- Lessen storage requirements of expired VLT tickets.
  - *Justification: Currently, video lottery agents are required to store expired VLT tickets for 3 months. These expired VLT tickets do not identify the player or the VLT and thus have no value for documentation purposes. With literally hundreds of thousands of expired VLT tickets to store, storage spaces are being squeezed. It is recommended that expired VLT tickets be shredded within one week of expiration.*
- Eliminate the requirement to physically collect and count all of the VLT storage boxes on the entire video lottery facility at the end of each month.
  - *Justification: Currently, the video lottery agents are required to physically collect and count the content of all of the VLT storage boxes at the end of each month (normally the agents only count a portion of the VLTs on a rotating basis during each work week). Counting the entire facility in one shift is very laborious with very little or no purpose. The Lottery collects all of net proceeds from VLTs based upon their central system's meter readings. Therefore, the physical counting at month end serves no purpose. It is recommended that this month-end counting requirement be eliminated.*
- Institute a separate category for poker VLTs for the purpose of calculating vendor fees.
  - *Justification: The Delaware gaming market is considerably lacking in its offerings of the very popular poker product compared 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. Poker VLTs typically have a lower hold percentage than regular VLTs and therefore generate lower net proceeds. 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)**
- (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, Robert Neugebauer - Spielo)**

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).**

**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 2007?**

VLAC meetings during 2007 were as follows:

<u>Date</u>	<u>Time</u>	<u>Place</u>
February 13, 2007	1:30 p.m.	Dover Downs Hotel & Casino (Michele's)
April 10, 2007	1:30 p.m.	Dover Downs Hotel & Casino (Sussex Meeting Room)
July 10, 2007	1:30 p.m.	Dover Downs Hotel & Casino (Ballroom A)
October 2, 2007	1:30 p.m.	Dover Downs Hotel & Casino (Sussex Meeting 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.