

State of Delaware

Video Lottery Advisory Council

November 5, 2009

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

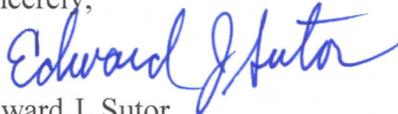
Dear Mr. Cook,

In accordance with Title 29, Chapter 29, Paragraph 4824 of the Delaware Code, attached is the 2009 Report of the Video Lottery Advisory Council (VLAC). This report includes legislative and administrative recommendations, which were approved by a majority of the VLAC.

In light of the current unfavorable economic climate and the intensely competitive gaming environment in this region, the VLAC believes that the recommendations included in the attached report are critical to the vitality of the State's gaming industry. Implementation of Lottery controlled table games at each of the State's existing video lottery agents' facilities will add additional revenue to the State, 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

State of Delaware

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**Video Lottery Advisory Council
2009 Report**

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What is the competitive outlook for the Delaware Video Lottery?

- 2 new Maryland slot facilities have been approved and scheduled to open in 2010:
 - *The State of Maryland recently approved two new slot facilities in nearby Worcester and Cecil counties. Currently, Delaware's VLT facilities receive upward of 40% of slot business from Maryland.*
- Additional Pennsylvania gaming facilities and legislation to add table game operations at PA casinos at a highly competitive tax rate:
 - *Construction has begun on a new casino on the Delaware River waterfront in Philadelphia (Sugarhouse). A second Philadelphia casino (Foxwoods) is licensed and seeking funding and location approvals. The state budget for Pennsylvania includes the implementation of table game operations. Table game tax rates are likely to be significantly lower than Delaware, giving Pennsylvania a competitive edge.*
- Additional table game operations in West Virginia:
 - *A significant competitor to Delaware (Charles Town, WV) is seeking approval of table game operations in a December 2009 county referendum.*
- The impact of the 3rd Circuit Court of Appeals' ruling on Delaware sports betting:
 - *The elimination of betting on sports other than professional football has dealt a crippling blow to the State's sports betting plans. In addition, the prohibition of single game bets has significantly reduced the attractiveness of professional sports betting.*

What are the 2009 recommendations of the VLAC?

Legislative Recommendations

- Pass legislation authorizing live table games with revised revenue sharing at the three existing video lottery facilities. **(Repeat recommendation)**
 - *Justification: Justification: Atlantic City has a mature table game market with an 8% tax rate. As such, the Atlantic City market attracts a significant percentage of out of state customers with higher gaming budgets. As noted in the Video Lottery Player Satisfaction Survey, out of state play for Delaware racino customers is highest in Atlantic City. The addition of table games at West Virginia casinos has proven to be a valuable asset to the state's budget, as well as a boost to video lottery revenues in the form of crossover play. Pennsylvania is close to approving table game legislation at a more competitive tax rate. The competitive advantage (including more available funds for promotions and marketing) Pennsylvania will have with a table game tax rate significantly lower than the rate currently negotiated for Delaware prompts the VLAC to recommend the proposed table game tax rate and license fee be*

reviewed again. The addition of table games at the existing video lottery agents' facilities will create hundreds of jobs for Delaware citizens.

- Provide a capital incentive program to each of the 3 existing video lottery agents for past, as well as future capital expenditures.
 - *Justification: Given the State's current negotiated table games tax rate is similar to 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.*
- Provide advertising subsidies to existing video lottery agents to promote video and sports lottery activities to out of state residents.
 - *Justification: Also similar to the West Virginia model, the VLAC recommends 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.
 - *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.*
- Allow casino operating hours on Christmas and Easter. **(Repeat recommendation)**
 - *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.*

Administrative Recommendations

- Provide copies to video lottery agents of all Lottery contracts with system providers and slot machine manufacturers.
 - *Justification: It is essential for budgetary planning and auditing purposes for video lottery agents to know the details of agreements between the Lottery office and vendors, since vendor fees are now being deducted entirely from video lottery agents' commissions.*

- Address the timeliness of the process in handling poor performing video lottery terminals (VLTs).
 - *Justification: The current process to remove an under-performing VLT from the casino floor is not efficient and causes the video lottery agents, as well as the State, to lose money due to the poor performance of unpopular VLTs. The quicker we can identify poor performing VLTs and replace them with high performing themes, the more revenue the casino can generate, therefore the more money the State will receive in revenue share.*

- 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 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 2009?

VLAC meetings during 2009 were as follows:

<u>Date</u>	<u>Time</u>	<u>Place</u>
February 10, 2009	1:00 p.m.	Dover Downs Hotel & Casino
April 14, 2009	1:00 p.m.	Dover Downs Hotel & Casino
July 14, 2009	1:00 p.m.	Dover Downs Hotel & Casino
October 13, 2009	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.