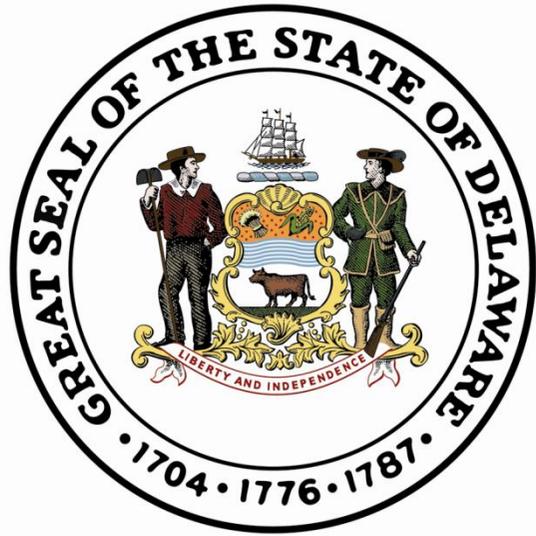


Lottery & Gaming Study Commission

**State of Delaware
October 8, 2013**



Legislative History

Lottery Legislation 1994-2001: Expansion



7/16/94

- **Authorized the video lottery at three venues: Delaware Park, Dover Downs, Harrington Raceway.**

3/26/98

- Re-authorized the video lottery.
- Raised the limit on the number of video lottery machines from 1,000 to 2,000 per licensed agent.
- Provides the State with 100% of the savings resulting from the renegotiated or new vendor contracts.

7/9/01

- Permitted Lottery Director to procure video lottery machines under the procedures used for professional services contracts.

Lottery Legislation

2003-2006: Preparing for competition



6/19/03

- Revised the video lottery distribution formula to increase the State's share of video lottery proceeds.
- Extended operating hours for video lottery agents.
- Permitted the Lottery Director to authorize an additional 500 machines at each racetrack (maximum of 1500 per track).
- Allowed video lottery agents to use video lottery machines for promotional tournaments.
- Required video lottery agents to pay 50% of costs associated with machines with license and proprietary fees.
- Created an Advisory Council on Lottery Planning.

1/1/04

- Increased the State's contribution to the Standardbred Breeders' Fund from \$1.0 million to \$1.5 million and increased the contribution to the Standardbred Breeders' Fund from video lottery revenues already dedicated for harness racing purses.

2/1/06

- **Enacted Video Lottery Competitiveness Act of 2006 which included: 24 hour video lottery operations;** Exclusion of free promotional play from net proceeds through May 31, 2007; Guaranteed minimum annual payment of \$1,000,000 to the treatment and prevention of problem gambling; and Increased the maximum number of video lottery machines at each racetrack from 2,500 to 4,000 and implements annual fees for additional machines.

Lottery Legislation

2007-2009: Responding to the Great Recession



5/10/07

- Eliminated the sunset on the video lottery agent promotional credit program; Created a FY 2008 performance benchmark for video lottery agents.

7/1/08

- Reduced the state's annual contribution to the Delaware Standard bred Breeder's Fund and Delaware Certified Thoroughbred Program by \$750,000 and \$250,000 respectively.
- Increased the surcharge imposed upon each video lottery agent's commission to 3.25% (effective 7/1/08) and 5.25% (effective 7/1/09).
- Stipulated that each respective video lottery agent shall pay all equipment costs consisting of video lottery machine license or proprietary fees.
- Established that the amount of free promotional play offered by the video lottery agents and the hours of operation on Sundays shall be determined by the recommendation of the Lottery Director with the approval of the Secretary of Finance.

5/28/09

- **Ordered the State Lottery Director to commence a sports lottery as soon as practicable.**
- **Increased the State's share of video lottery net proceeds to 43.5%.**
- Instituted a \$4 million aggregate annual video lottery agent license fee with each agent paying a prorated share. Reduced the amount of video lottery net proceeds directed to supplement the purses offered at Delaware harness and thoroughbred tracks. Directed various State officials and a representative of the racing industry to submit a proposal and any legislation deemed necessary for the operation of table games.

Lottery Legislation

2010-2013: Responding to competition



1/28/10

- **Authorized the introduction and operation of table games by the Delaware Lottery at licensed video lottery agents.**

- Imposed a license fee structure that rewards video lottery agents for making capital investments by allowing them to reduce the annual license fee by up to 50% to account for the cost of capital projects, and that reduces the total license fee further if the video lottery agents are able to achieve certain table gaming revenue annual targets.

1/28/10 (Cont.)

- Authorized the creation of a Lottery Commission, which would be responsible for conducting hearings on disputed licensing and exclusion matters.
- Authorized the Division of Gaming Enforcement (DGE), which would be responsible for investigating table gaming crimes. The DGE would also be responsible for conducting the employee and vendor background checks currently being conducted by the Video Lottery Enforcement Unit of the State Police.

5/1/13

- **Called for the charitable gaming organizations to receive 60% of proceeds after players are paid and 40% to go to the state to cover expenses of which 1% of the state's proceeds shall be set aside to fund programs for the treatment, education and assistance of compulsive gamblers and their families.**

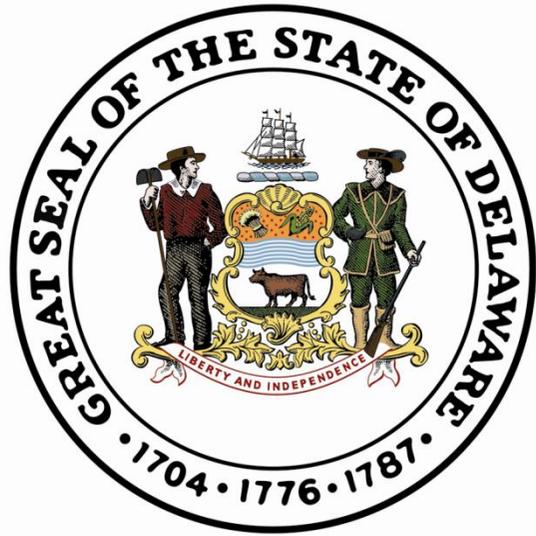
Required these organizations to donate at least 40% of their proceeds from charitable video lottery machine gaming annually to a charitable purpose, effective January 1, 2014. Set a deadline of July 1, 2014, for charitable gaming organizations to be connected to the state's central system for reporting and auditing purposes.

Lottery Legislation 2013: Taking Stock



7/1/2013

- **Lottery & Gaming Study Commission**



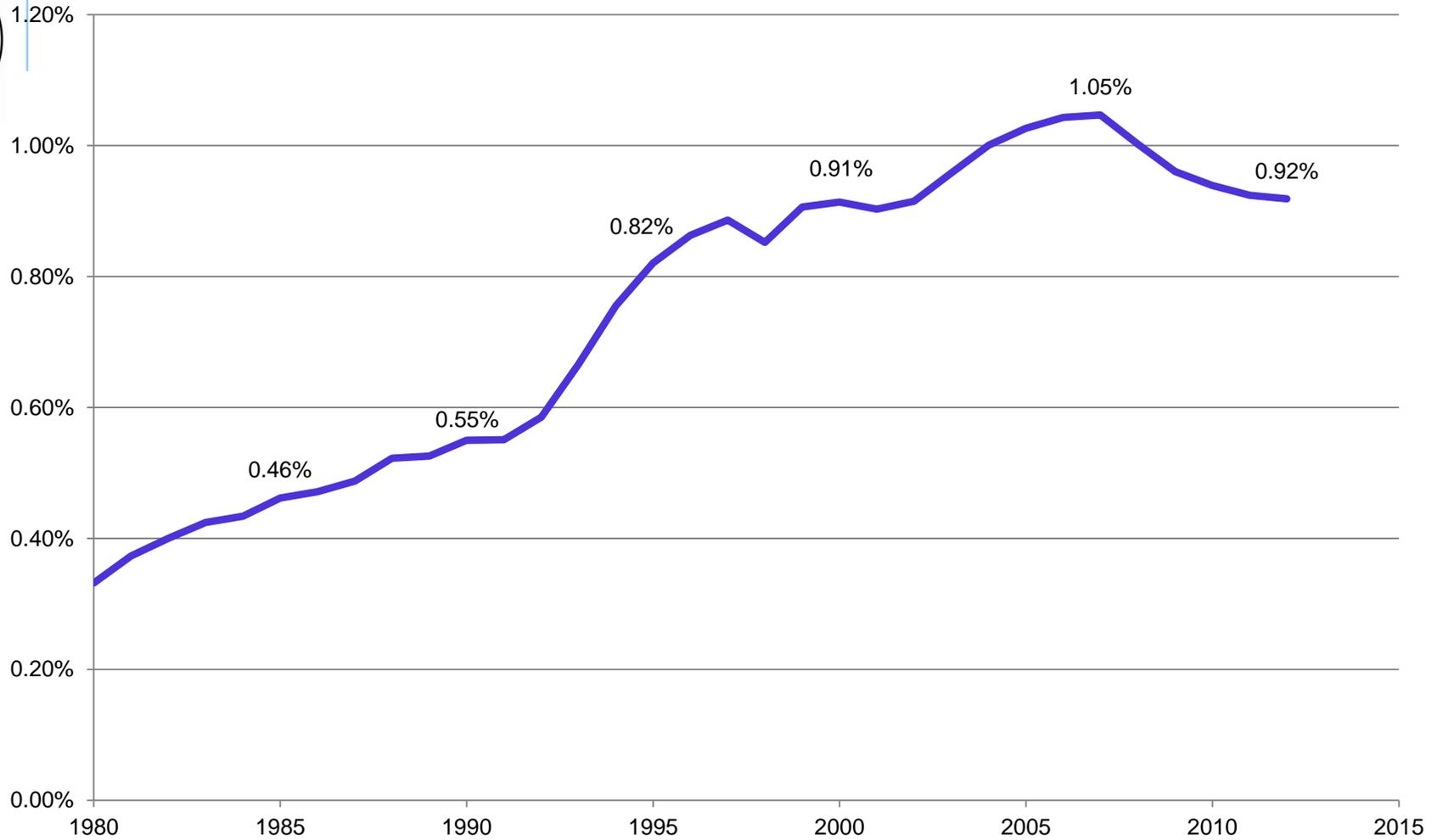
Competitive Environment

Causes of decline in Delaware's gaming industry



- General economic conditions vs. heightened regional competition?
- The Commission requested information regarding the effect of disposable income on gaming expenditures;
- Nationally, disposable income has recovered since the beginning of the recession; however,
- Consumers are spending less on gambling as a percentage of disposable income since the beginning of the recession.

Gambling as a Percentage of Disposable Income, Nationally





Income Elasticity of Gambling

- Responsiveness of gaming levels to changing economic conditions
- Studies¹ have found that gambling or lottery are generally inelastic (<1.0); however,
- These studies relied on data prior to the most recent recession.
- Consumers may have reacted more to changes in income during this period than they have historically.
- Data from the BEA provides evidence that this is the case.

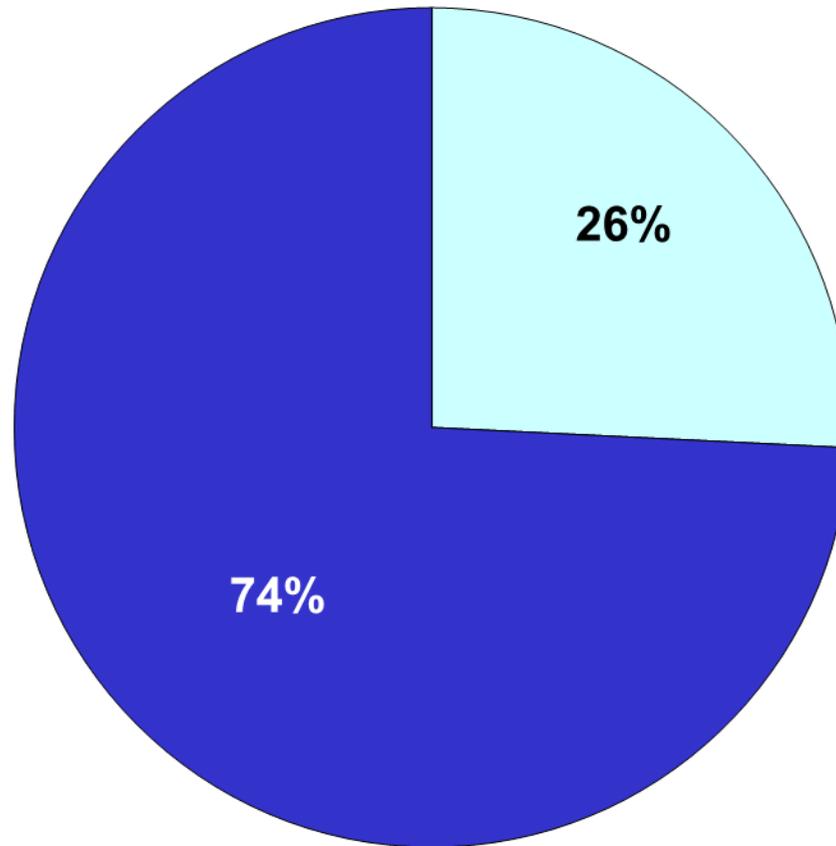
¹Articles published by the National Tax Journal and the St. Louis Federal Reserve.

Decline in Video Lottery Net Proceeds



	Peak in FY 07	\$632m
A	Actual FY 13 net proceeds	\$403m
B	No additional competition / just follow national trend	\$668m
C	NO increased competition / NO national changes in consumer behavior (same as 2007)	\$760m
D	Decrease in net proceeds due to changes in consumer behavior (C-B)/(C-A)	26%
E	Decrease in net proceeds due to increased competition (1-D)	74%

Decline in video lottery play since 2007



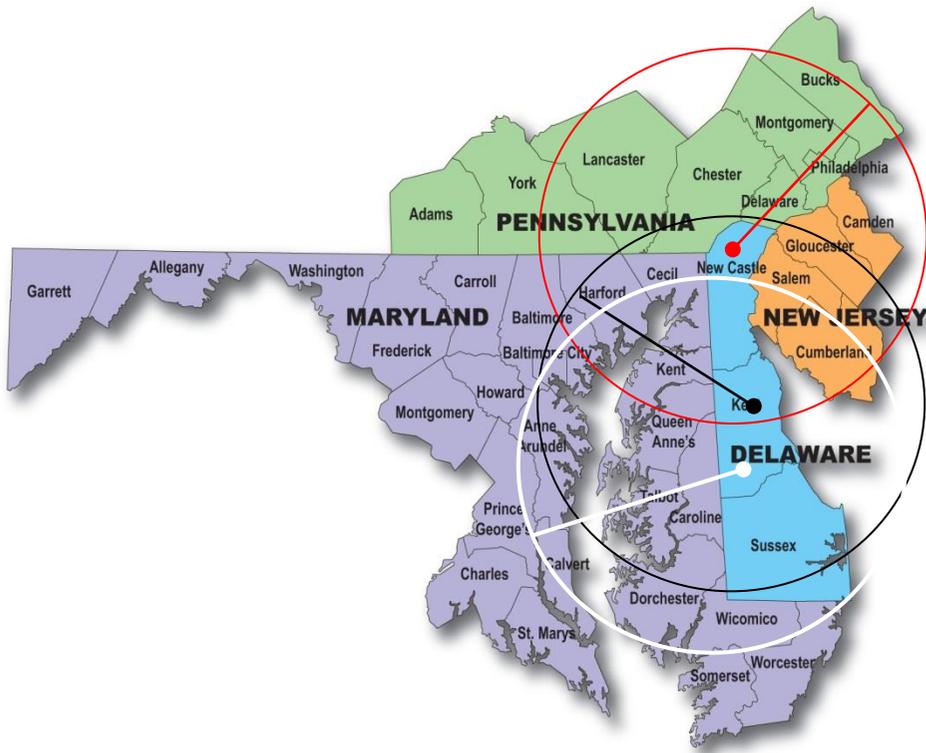
□ National Economy / Consumer Preferences

■ Regional Competition



Review of Original Estimates

Modeled based on player proximity to facilities



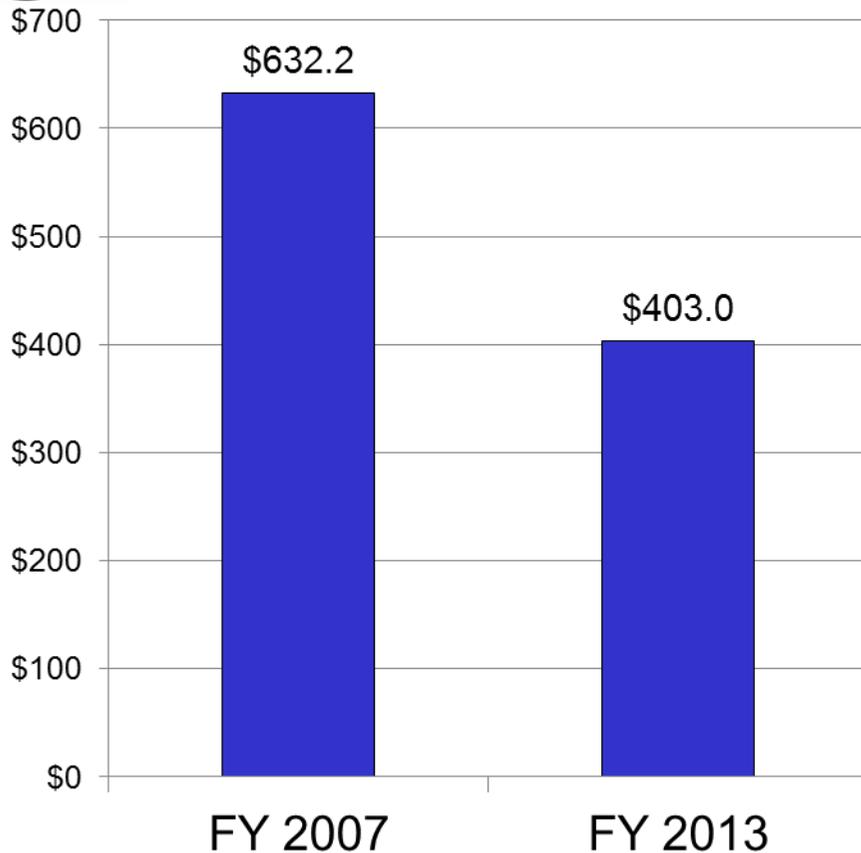
Process

- Player address data (W2g)
- Sept. 2003 Analysis:
 - Assumed geographic distance is only determinant
 - More than half of revenue at risk
- Sept 2008 Analysis
 - MD focus, 25% reduction statewide.
 - Overall, roughly 35% reduction in DE play.

Experience thus far



Net Proceeds (millions)



Recent History

- Peaked in 2007 at \$632 mm
- \$403 mm in 2013
 - **Down 36%**
- Caveats
 - Big changes in regional gaming market between 2007 and 2013
 - Competition still intensifying
- Competition
 - Biggest impact already recognized
 - But full impact not realized



Data Request

Data – Video Lottery



Video Lottery (millions)

Year	Amt Played	Amt Won	Net Proceeds	Track Share	Horsemen Vendor Fees*	State Share
FY1996	\$ 895.4	\$ 818.7	\$ 76.7	\$ 39.5	\$ 8.5	\$ 9.5
FY1997	\$ 3,041.8	\$ 2,788.0	\$ 253.8	\$ 128.2	\$ 28.6	\$ 31.9
FY1998	\$ 3,916.7	\$ 3,591.0	\$ 325.7	\$ 161.9	\$ 36.6	\$ 37.8
FY1999	\$ 4,476.4	\$ 4,099.8	\$ 376.6	\$ 185.6	\$ 42.1	\$ 28.7
FY2000	\$ 5,535.9	\$ 5,085.9	\$ 450.0	\$ 219.9	\$ 49.9	\$ 25.3
FY2001	\$ 6,226.5	\$ 5,725.5	\$ 501.0	\$ 243.7	\$ 55.4	\$ 25.6
FY2002	\$ 6,941.9	\$ 6,376.4	\$ 565.5	\$ 273.9	\$ 62.5	\$ 28.9
FY2003	\$ 6,475.4	\$ 5,950.9	\$ 524.5	\$ 254.4	\$ 58.2	\$ 27.7
FY2004	\$ 6,524.0	\$ 5,994.0	\$ 530.0	\$ 253.8	\$ 58.8	\$ 29.9
FY2005	\$ 7,009.9	\$ 6,436.2	\$ 573.7	\$ 273.9	\$ 63.5	\$ 32.2
FY2006	\$ 7,315.3	\$ 6,713.6	\$ 601.7	\$ 286.7	\$ 66.6	\$ 33.9
FY2007	\$ 8,034.1	\$ 7,401.9	\$ 632.2	\$ 300.6	\$ 69.8	\$ 37.3
FY2008	\$ 8,149.1	\$ 7,528.4	\$ 620.7	\$ 295.4	\$ 68.9	\$ 36.9
FY2009	\$ 7,476.8	\$ 6,900.1	\$ 576.7	\$ 266.1	\$ 63.7	\$ 34.5
FY2010	\$ 7,165.7	\$ 6,619.3	\$ 546.4	\$ 221.0	\$ 54.8	\$ 32.9
FY2011	\$ 6,380.3	\$ 5,881.0	\$ 499.3	\$ 202.4	\$ 50.2	\$ 29.5
FY2012	\$ 5,977.3	\$ 5,504.9	\$ 472.4	\$ 190.6	\$ 47.6	\$ 28.7
FY2013	\$ 5,123.3	\$ 4,720.3	\$ 403.0	\$ 163.5	\$ 40.5	\$ 24.6
Total	\$ 106,665.8	\$ 98,135.9	\$ 8,529.9	\$ 3,961.1	\$ 926.2	\$ 535.8

*Central computer system and vlt leases

Data – Sports Lottery



Sports Lottery

(millions)

Year	Handle	Cashed	Vendor Fees*	Net Proceeds	Tracks	Retailers	Horsemen	State Share
FY1996								
FY1997								
FY1998								
FY1999								
FY2000								
FY2001								
FY2002								
FY2003								
FY2004								
FY2005								
FY2006								
FY2007								
FY2008								
FY2009								
FY2010	\$ 10.8	\$ 7.0	\$ 0.6	\$ 3.2	\$ 1.3		\$ 0.3	\$ 1.6
FY2011	\$ 12.9	\$ 7.4	\$ 0.9	\$ 4.6	\$ 1.9		\$ 0.4	\$ 2.3
FY2012	\$ 17.8	\$ 12.6	\$ 0.8	\$ 4.4	\$ 1.8		\$ 0.4	\$ 2.2
FY2013	\$ 25.4	\$ 20.1	\$ 0.9	\$ 4.4	\$ 1.4	\$ 0.3	\$ 0.4	\$ 2.3
Total	\$ 66.9	\$ 47.1	\$ 3.2	\$ 16.6	\$ 6.4	\$ 0.3	\$ 1.5	\$ 8.4

* Central computer system and risk management

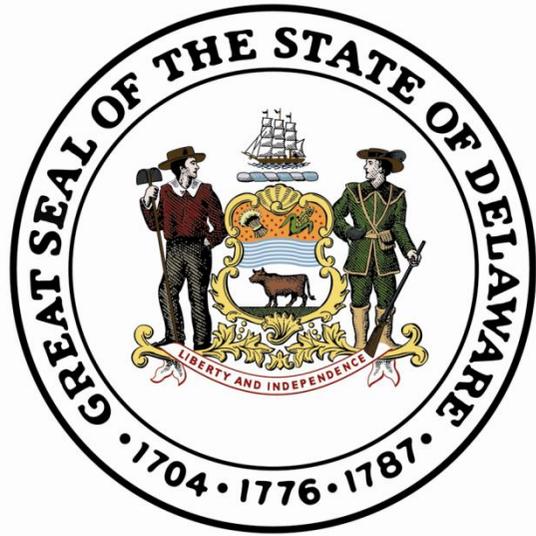
Data – Table Games



Table Games

(millions)

Year	Drop	Win	Net Proceeds	Tracks	Horsemen	State Share
FY1996						
FY1997						
FY1998						
FY1999						
FY2000						
FY2001						
FY2002						
FY2003						
FY2004						
FY2005						
FY2006						
FY2007						
FY2008						
FY2009						
FY2010	\$ 20.1	\$ 17.1	\$ 3.0	\$ 2.0	\$ 0.1	\$ 0.9
FY2011	\$ 388.3	\$ 314.1	\$ 74.2	\$ 49.0	\$ 3.4	\$ 21.8
FY2012	\$ 385.4	\$ 310.4	\$ 75.0	\$ 49.6	\$ 3.4	\$ 22.0
FY2013	\$ 340.7	\$ 275.1	\$ 65.6	\$ 43.4	\$ 2.9	\$ 19.3
Total	\$ 1,134.5	\$ 916.7	\$ 217.8	\$ 144.0	\$ 9.8	\$ 64.0



End of Presentation