



Minutes of the Lottery and Gaming Study Commission

Legislative Hall – 10/07/13

Attendance:

Member	Present
T. Cook, Chair	Yes
A. Levin	Yes
B. Hall-Long	Yes
B. Bushweller	Yes
B. Pettyjohn	Yes
V. Longhurst	Yes
C. Potter	Yes
T. Dukes	Yes
G. Forbes	Yes

Others Present: D. McGlynn, T. Horne, C. Lockhart, P. Bradley, E. Sutor, P. Key, R. Bargood, H. Rosenberg, A. Deer, J. Boese, L. Tranchitella, J. Lewis, B. Byrd, K. Gomes, B. Cook, B. Gruwell, C. Kinder, W. Rickman, B. Fasy, B. Sanders, B. Slaney, D. Gregor, J. Spiegelman, E. Jaques, J. Viola, D. Baker

1. Call to Order

Mr. Cook called the meeting to order.

2. Introduction of New Member

Mr. Cook stated that Mr. Struthers stepped down from the committee. The Delaware Chamber of Commerce has appointed George Forbes as their designee.

3. Approval of Minutes

The minutes from the previous meeting of the Commission on 7/23/13 were approved.

4. Review of Items Requested From Last Meeting

David Gregor presented information requested at July meeting on behalf of the Department of Finance.

Mr. Gregor presented a timeline of the history of legislation affecting gaming in Delaware. In 1994, video lottery was authorized at Delaware Park, Dover Downs, and Harrington Raceway. The number of video lottery terminals was subsequently expanded. In 2003, the smoking ban had a negative effect on net proceeds. Also in 2003, legislation expanded the number of machines and operating hours in response

to increasing competition. In 2009, sports lottery was approved and the state's share of net proceeds was increased in response to the Great Recession. In 2010, table games were authorized. In 2013, charitable organizations were authorized provide video lottery terminals.

Mr. Gregor presented an analysis of the percent of decreased proceeds attributable to regional competition versus the percent of decreased proceeds attributable to economic conditions. While personal income has rebounded nationally since the start of the recession, consumers are spending less on gaming as a portion of their disposable income. The Department of Finance found that roughly 3/4 of the decrease is due to competition, while 1/4 is due to changes in national consumer behavior.

Mr. Gregor presented the Department of Finance's original estimates of the effect of regional competition on gaming revenue. The original analysis in 2003 used player address data from W2g's with gaming income. It assumed that individuals will choose to gamble at their closest facility. It found that half to two thirds of play in Delaware came from citizens of other states. Based on these findings, the Department concluded that about 50% of play was at risk. The analysis was updated in 2008 prior to openings in Maryland considering experiences from Pennsylvania facilities opening. The updated analysis predicted a 25% reduction in play from competition in Maryland and a 35% reduction in play overall. The actual overall reduction has been roughly 36%. However, regional competition is not fully realized; there are additional facilities in Pennsylvania and Maryland expected to open.

Mr. Cook requested current DEFAC estimates of lottery proceeds. Mr. Gregor stated that lottery estimates were reduced during the previous DEFAC meeting.

Mr. Gregor presented fiscal year data requested at the July Commission meeting. This included the amount played, amount won, net proceeds, track share, horsemen's share, vendor fees, and state share for video lottery, sports lottery, and table games.

Mr. Levin requested that data for video lottery, sports lottery, and table games be reported as a total. Mr. Gregor stated that reporting products separately was intended to provide an apples-to-apples comparison over time. The Department of Finance will provide a sum of all products as well.

Mr. Cook stated that in FY 13 the state expanded sports lottery to 31 retailers, such as restaurants and gas stations. In FY 14 there are over 70. This expanded the base. Because of this, sports lottery data will not solely reflect the performance of the three casinos.

5. Track Presentations

Mr. Cook stated the Commission has asked each of the three tracks to present on their revenues, number of employees, total revenue state county and cities receive, number of money spent on expansions, write offs, and breakage. Other requested information (business plans, detailed income statements, response to competition, executive salary and bonuses, advertising expenses, competitive

issues, and new project projections) are considered proprietary but may be covered in an executive session.

Dover Downs

Denis McGlynn presented on behalf of Dover Downs. Mr. McGlynn stated that Dover Downs has been in operation since 1969. Dover Downs is a publicly traded company. They employ 1,790 total employees and pay \$52.1 million in payroll and benefits, including subcontractors. They have made \$285 million in capital investments during the period from 1996 to the present and they have contributed \$1.1 billion to the state general fund during the period from 1997 to August 2013. In 2012, Dover Downs paid \$3.5 million in city taxes, \$1.0 million in county taxes, and \$90.1 million in state taxes.

Mr. McGlynn also stated that Dover Downs supports the Delaware community through the support of charitable organizations. Dover Downs made \$2.9 million in community contributions within Delaware during the period from 1997-2013. From 2007-2013, their employees made an additional \$144,561 in contributions. Dover Downs also brings major entertainers to Delaware each year and has been awarded for its green initiative.

Mr. McGlynn stated that Dover Downs competed with 14 Mid-Atlantic casinos in 1996. In 2013, they are competing with 24 casinos, and they will compete with 26 casinos by 2016. In response to increased competition, Dover Downs has made capital investments in its facilities. This included \$153 million during the period from 1996 to 2005. Dover Downs expanded its hotel, added video lottery terminals, and added amenities such as a spa, restaurants, and specialty retail. Dover Downs took on debt to finance these capital investments; at the end of 2008, they had \$108.3 million in outstanding debt.

Mr. McGlynn stated that there were several gaming tax and fee increases during the period of Dover Downs expansion. Dover Downs did not anticipate the size of the 2008-09 gaming tax increases. As a result of increased gaming taxes and increased competition, Dover Downs' net earnings decreased. Dover Downs responded by reducing staff and restructuring its debt. Over the ninth month period from the final quarter of 2012 through the second quarter of 2013, Dover Downs had a net operating loss of \$320,000.

Mr. Cook asked if there any expansion plans that were discontinued because of adverse economic conditions or increased competition. Mr. McGlynn stated that there were plans to build an elevated parking deck at Dover Downs; the plans were eventually cancelled.

Mr. Levin asked if Dover Downs would have changed any of their capital investments in hindsight. Mr. McGlynn stated that he wouldn't have changed anything. Dover Downs' expansion was based on customer input.

Mr. Levin asked about the performance of new amenities at the casino. Mr. McGlynn stated that the retail is proved by a third party, who is struggling. The restaurants and the hotel, however, are doing well. Mr. McGlynn stated that the retail establishment is a small portion of Dover Downs' facilities.

Mr. Forbes asked if Dover Downs had not anticipated the increased state share of gaming revenue, and if this had necessitated Dover Downs debt restructuring. Mr. McGlynn stated that Dover Downs did not fully anticipate the increase in 2008, creating a bad situation with already issued debt.

Mr. Potter asked if Dover Downs' reported losses were due in part to depreciation. Mr. McGlynn stated that depreciation was included in their reported figures. He stated that Dover Downs does not have a sufficient cash flow to meet their bank note. Mr. Potter asked if the refinancing fees Dover Downs incurred were average. Mr. McGlynn stated that he was unaware if they were average; he stated that they were "major six figures." He stated that their interest rates had a similar impact.

Delaware Park

Bill Fasy presented on behalf of Delaware Park. Mr. Fasy presented gross and net revenues for 2012 (audited), 2013 year to date, 2013 (forecast), and 2014 (forecast). In 2012, Delaware Park had \$240.2 million in net revenue. Mr. Fasy forecasted \$199.4 million in net revenue in 2013 and \$195.2 million in net revenue in 2014.

Mr. Fasy presented Delaware taxes, vendor fees, and purses paid by Delaware Park. During a period from 1995 to 2013, these totaled \$2.2 billion. He also provided employee withholding paid to the state of Delaware (\$22.0 million from 1995 to 2013), real estate taxes paid to New Castle County (\$7.7 million from 1995 to 2013), and withholding paid to the city of Wilmington (\$708.3 thousand from 1995 to 2013).

Mr. Fasy presented Delaware Park's capital improvement expenditures. In 2013, these expenditures totaled \$2.9 million. In 2012, they totaled \$1.8 million. During the period from 1994-2012, they totaled \$201.0 million. During the period of 2005-2007 prior to the gaming tax increase, Delaware Park spent an average of \$20.5 million on capital improvements annually. Delaware Park had produced a master plan for improvements which included a 1,000 room hotel, an outlet mall, and additional entertainment facilities.

Mr. Fasy stated that Delaware Park currently employs 1,337 individuals. In 2012, they had a mutuel breakage loss of \$33.7 thousand dollars. In 2013 year to date, they have mutuel breakage revenue of \$17.7 thousand. In 2012, Delaware Park had \$121.5 thousand in bad debt write-offs.

Mr. Cook asked if there any expansion plans that were discontinued because of adverse economic conditions or increased competition. Mr. Fasy stated that there was a master plan with a "total resort" focus which would have involved a mixed use development and development of the Churchmans Crossing train station.

Mr. Cook asked if the master plan was considered around 2007. Mr. Fasy stated that it was considered in 2008.

Mr. Levin asked if Delaware Park is profitable. Mr. Fasy confirmed that they are. Mr. Fasy stated that he would share further information during an executive session. Mr. Levin asked if the number of employees at DP has increased or decreased. Mr. Fasy said they have decreased.

Mr. Cook clarified that, while Dover Downs is a publicly traded company, Delaware Park and Harrington Raceway are private.

Harrington Raceway and Casino

Patti Key presented on behalf of Harrington Raceway and Casino. Ms. Key stated that 76% of Harrington Raceway stock is owned by the Delaware State Fair. The Raceway has been in business for 67 years. Ms. Key stated that the well-being of the fair is dependent on Harrington Raceway.

Ms. Key stated that Harrington Raceway's net proceeds were \$115.9 million in 2011 and \$105.2 million in 2012; they are forecasted to be \$98.8 million in 2013. Total gross revenues were \$66.0 million in 2011 and \$60.8 million in 2012; they are forecasted to be \$59.0 million in 2013. Harrington Raceway provides promotional allowances of complimentary food and beverages; the casino does not have a hotel.

Ms. Key stated that Harrington Raceway started a \$55 million dollar expansion in 2007 in anticipation of competition from Maryland. The expansion was completed in September of 2008. In 2009, Harrington Raceway had record level play, peaking in March. Afterwards, Parx Casino opened in Philadelphia and Hollywood Casino Perryville opened in Maryland. Mr. Key stated that this had some effect on play at Harrington Raceway, but not as significantly as the opening of Maryland Live in June 2012. Ms. Key stated that table game revenue peaked in 2011 and has declined during the following years.

Ms. Key stated that Harrington Raceway employs 856 individuals. In 2013 year to date, Harrington Raceway had mutuel breakage revenues of \$26 thousand. In 2012 and 2011, they had mutuel breakage revenues of \$36 thousand each year. Harrington Raceway had no bad-debt write offs in 2013 or 2012. In 2011, they had bad-debt write offs of \$4,724.

Ms. Key stated that Harrington Raceway paid \$71.9 million in taxes and assessments in 2011. In 2012, they paid \$63.7 million. In 2013, Ms. Key forecast that they will pay \$58.4 million. During the period from 1996-2010, Harrington Raceway made \$102.0 million in capital investments. This included a major expansion of their facilities in anticipation of the opening of Maryland Live. Additional items in Harrington Raceway's strategic plan, including a concert venue and a small hotel, were halted following state tax increases in September of 2008. Currently, Harrington Raceway has about \$25 million in debt.

Mr. Cook asked if increased competition in Maryland and Pennsylvania has increased competition among three Delaware casinos. Ms. Key stated that this is the case. Mr. Fasy stated that Delaware Park doesn't compete with Harrington Raceway as much as it does with Dover Downs.

Mr. Levin asked if Harrington Raceway is a profitable venture at this time. Ms. Key indicated that it is not.

Mr. Cook asked if there would be any objection to a future meeting that would allow the three racinos to come in for an executive session and present proprietary information requested by the commission.

Mr. Pettyjohn stated that he would support an executive session meeting.

Mr. Bushweller stated that he had no objection to the executive session. He expressed concern that some questions could potentially jeopardize the tracks' competitive position with gaming facilities in surrounding states.

Ms. Hall-Long asked if there would be a public session before or after the executive session at the next meeting. She also requested a definition of "proprietary information." She requested that an attorney help determine what "proprietary" means.

Mr. Cook stated that at the next meeting, the meeting should be called to order, and then the commission should enter into executive session. The tracks could let the commission know what information they believe is proprietary during the executive session. Any information that they do not deem proprietary should be made available to the public. A public session should follow the executive session.

6. Other Business

Mr. Cook stated that he had requested a report in 2012 from the state's accounting firm, KPMG, regarding the gaming industry in Delaware. KPMG has stated that they could update the report for the commission in the next 30 days or so. Mr. Cook asked if the commission thought this would be useful.

Hearing no objections, Mr. Cook will contact KPMG and request that they update their report.

Mr. Cook asked if there were any members of the public who wished to address the council.

Darrell Baker, representing State Line Casino, spoke. He asked the commission to ask the casinos where the money went. He stated that the money received by the casinos went to dividends, bonuses, and salaries. Mr. Baker also stated that if any of the three casinos fail, the licenses will be taken over by the bondholder. He asked the commission to investigate how many part-time workers at the casinos may be on Medicaid because they don't have benefits. He stated that increased competition from additional facilities would benefit the state. He stated that the commission should look into adding depreciation back into budgetary figures presented by the casinos.

7. Next meeting date

The next meeting was scheduled for Tuesday, November 5th at 10:00am.