



Minutes of the Lottery and Gaming Study Commission

Legislative Hall — 7/23/13

Attendance:

Member	Present
T. Cook, Chair	Yes
A. Levin	Yes
B. Hall-Long	No
B. Bushweller	Yes
B. Pettyjohn	Yes
V. Longhurst	Yes
C. Potter	Yes
T. Dukes	Yes
R. Struthers	Yes

Others Present: A. Aka, N. Dibuo, B. Fasy, D. Gregor, M. Pellowski, C. Stewart, E. Sutor

1. Introductions/Purpose of the Commission

Mr. Cook called the meeting to order.

Mr. Cook read the Lottery and Gaming Study Commission mission mandated in Senate Bill 145.

Mr. Potter asked whether the tracks could be required to disclose executive salaries and bonuses. Mr. Cook responded that it did not appear there were limitations on such requests.

2. Recent Financial Results for the State, Tracks, and Horsemen

Mr. Cook presented the revenue history of lottery and gaming in the state. As competition has increased in surrounding states, net proceeds from gaming have decreased. He stated that fiscal year 2013 figures will be available at the next Commission meeting.

Ms. Longhurst requested that a column summing the state share, track share, and horsemen share of net proceeds be added to the revenue history.

3. Current Financial Arrangements of Revenue Sources

Mr. Cook presented the history of the share of net proceeds between tracks, horsemen, state, and vendors from 2008 to the present. The state share of net proceeds was increased in 2009 as part of an effort to mitigate an \$800 million budget deficit.

Mr. Bushweller requested a complete history of the share of net proceeds from the introduction of video lottery in the state.

Ms. Longhurst asked how often the vendor contract is renewed. Mr. Cook stated the current contract was for five years with five one-year extensions. The current contract will expire in August.

Mr. Cook presented the history of franchise fees. In June of 2012, franchise fees for video lottery agents were eliminated and franchise fees for table gaming were reduced, an annual reduction of \$7.75 million.

Mr. Potter asked if reductions in franchise fees were offset by revenues from new gaming. Mr. Cook stated that keno and sports lottery produce about \$2 million annually. New products such as I-gaming will produce additional revenue.

4. Competitive Pressures

Mr. Cook discussed the financial arrangements between casinos and surrounding states: Maryland, Pennsylvania, New Jersey, and Western Virginia. Each state has a different formula for distributing net proceeds.

Mr. Bushweller asked why casino operators in Maryland receive a variable share of net proceeds above a 33% baseline. Mr. Sutor stated that existing Maryland casinos receive an increased share of proceeds as new casinos open in order to compensate for increased competition. The increased shares are legislated. Mr. Fasy stated that there is an approval process for the Maryland casinos to get an increased share of net proceeds.

Mr. Struthers requested that a table be created to facilitate a side-by-side comparison of state formulas for sharing net proceeds. He also requested information regarding whether vendor costs come off the top in all states.

Mr. Cook presented a timeline of casino openings in the Mid-Atlantic States. Mr. Cook noted that as legislation passed and casinos opened in New York and Pennsylvania, competition for patrons increased. The Department of Finance did a study in 2003 that analyzed the effect of proposed Pennsylvania and Maryland casinos on the existing Delaware casinos revenue. Mr. Cook stated that increases in competition are not complete. There are additional planned casinos in Maryland and Pennsylvania.

There was a discussion concerning the correct opening date of Mohegan Sun at Pocono Downs and Harrington Casino. Mr. Fasy stated that Mohegan Sun at Pocono Downs opened in 1996 and Harrington Casino opened in August of 1996. Chair Cook stated that the Department of Finance will correct these errors.

Mr. Potter requested a copy of the Department of Finance study from 2003. Mr. Cook stated that the study will be included in the materials packet for the next meeting.

Mr. Gregor stated that the study was prepared for DEFAC. The study used W2 information from casino patrons and their zip codes and compared that information to the location of proposed casinos in

Mr. Bushweller expressed a concern for the public's confusion over terms used in the debate over casinos. For example, the state's share of lottery is not exhaustive of the taxes levied on the casinos by the state.

Ms. Longhurst stated that it would be helpful to include a legislative history of the development of casinos in Delaware.

Topics for Future Meetings

Chair Cook stated that an August meeting will be difficult, but that the commission should convene again in September this will give the Department of Finance a sufficient amount of time to collect data requested at this meeting.

Chair Cook stated that a future meeting should focus on horse racing. The original intent of casino games in Delaware was to support the horse tracks.

Chair Cook stated that igaming and sports lottery should be discussed at a meeting in October or November.

Chair Cook stated that a future meeting should focus on the expertise of professionals working in the field. This could include representatives of each of the three tracks discussing their business plans, as Mr. Levin requested earlier. Chair Cook stressed that it is important that the state, the casinos, and the horsemen work together to ensure that the casinos remain a viable revenue source.

Mr. Potter asked whether the commission should focus on entrepreneurs interested in opening additional casinos in the state. Mr. Bushweller noted that the Commission is limited by its mission statement to investing existing lottery agents.

Mr. Struthers stated that it is important to emphasize the partnership between the casinos and the state.

Mr. Pettyjohn noted that the commission should consider revenues generated by the casinos on top of the state share of net proceeds, such as personal income taxes and revenue gained by multiplier effects.

Mr. Dukes requested information regarding the number of employees at each of the three facilities and the total income, including all taxes, the state receives from the casinos. Mr. Cook stated that confidentiality provisions prevent the Department of Finance from disclosing tax information regarding specific tax payers. Mr. Gregor stated that even aggregate data regarding tax collections from the three casinos would require releases from the three casinos.

Mr. Cook stated that the Commission should invite the casinos to give a presentation during a September meeting. The Department of Finance will also assemble a summary of Mr. Levin's request for the commission's approval. Once members have approved the questions, the request will be sent to each of the three casinos so that they may prepare for the September meeting.

surrounding states. The study assumed that patrons will attend the closest casino. The study found that there would be a 35% decrease in receipts. Mr. Gregor stated that Department of Finance will provide a summary of the analysis for the next Commission meeting.

Mr. Cook stated that patrons may be willing to travel farther to attend Delaware casinos if they are enticed by additional services. In the 2000s, the Department of Lottery hired an outside contractor to survey Delaware casino patrons to determine what services they are interested in.

Mr. Dukes asked what the rationale was for raising rates in 2010 when the Department of Finance had published a study in 2003 showing that casino revenue would decrease. Mr. Cook stated that the rates were raised as part of a broader package to close an \$800 million budget shortfall.

Mr. Bushweller stated that the commission should look at what other measures the state took in order to close the budget shortfall. Most of these measures were mitigated in subsequent years.

Mr. Dukes stated that the commission should look at separating the impact of competition and the impact of decreased disposable income due to the recession. Mr. Gregor stated that he is not aware of any current studies that do so. It would be difficult to find an area where there competition hasn't increased to use as a control group. Las Vegas may serve as one, but it is also characteristically different from Delaware casinos.

Mr. Levin requested the business plans of each of the three casinos, revenue data specific to each of the three tracks, an income statement from each of the facilities, and information on how each casino has responded to anticipated market changes from increased competition. He stated that there may be key differences in the business climate affecting the three facilities, and the commission should consider the unique circumstances of each facility.

Ms. Longhurst concurred with Mr. Levin, stating that it would be useful to have each of the three casinos come in to address the commission.

Mr. Cook stated that the Commission will detail Mr. Levin's request, verify that commission members agree with it, and pass it on to the tracks.

Mr. Cook presented an explanation of the \$8 million state aid to the casinos that has been in the press recently. Because the state's and the horsemen's share of net proceeds are fixed by law and a new vendor contract which will increase the vendor's share, the casino's share is set to decrease. The casinos will bear the full brunt of the increase in vendor fees. The \$8 million in state aid is intended to offset this increase in burden on the casinos.

Mr. Potter requested an explanation of the difference between gross earnings and net proceeds. Mr. Cook explained that gross proceeds are the amount wagered by customers. Net proceeds are the amount wagered less the amount won by the customers. Mr. Potter requested a report showing gross proceeds in addition to net proceeds.

Public Comment

Mr. Fasy stated that it was important to note the history of cooperation between state and casino staff to maintain and expand casino services. He also noted that issues are handled by the tracks in a professional and guest oriented fashion.

Mr. Dibuo requested a copy of the 2003 study conducted by the Department of Finance. Mr. Gregor stated that the 2003 study was not a formal report. It was an analysis and presentation conducted for DEFAC.

Other Business

No other business.

Adjournment

Mr. Cook adjourned the meeting.