

**Video Lottery Advisory Council**  
**Meeting Minutes**  
**October 30, 2014**

**Members present:** Bill Fasy - President - Delaware Park  
Patti Key – Chief Executive Officer - Harrington Raceway & Casino  
Vernon Kirk – Director - Delaware State Lottery  
Ed Sutor – President & CEO - Dover Downs Hotel & Casino  
Kathy Wayne – General Manager – Scientific Games

**Members absent:** Robert Neugebauer – DE Account Manager – GTECH  
Tim Shortall – Vice President U.S. Eastern Region – Sales - IGT

**Attendees:** Matthew Bittle – Delaware State News  
Jim Borden – WMS  
Peter Bradley – Dover Downs  
Mark Casto – Bally Technologies  
James Dawson – WDDE  
Sal DiMario – Delaware Standardbred Owners Association  
Bessie Gruwell – Delaware Thoroughbred Horsemen’s Association  
Steve Keener – Dover Downs  
Rebecca Kidner – Delaware Standardbred Owners Association  
Jim Logue – Delaware State Lottery  
Richard MacDonald – Delaware State Lottery  
Phil Maruncic – GTECH  
Jon Offredo – News Journal  
Elizabeth Olsen – Delaware Standardbred Owners Association  
Dominic Silla – Shuffle Master  
Anthony Sofran - IGT  
Len Tranchitella – Harrington Raceway  
Robert Willard – State of Delaware

**Opening of the Meeting**

- Ed Sutor
  - The date, time and location of today’s meeting were posted on the State’s public meeting section of their website. After the cancellation of the meeting scheduled for September 9<sup>th</sup> due to scheduling conflicts of the members, a brief meeting was held on October 8<sup>th</sup> after the meeting of the Lottery and Gaming Study Commission, as 4 of the 7 members were in attendance. Minutes were taken at that brief meeting, where it was discussed that the presentations the 3 casinos made before the Lottery and Gaming Study Commission be considered in preparation of the 2014 VLAC Report to the State. The minutes from that meeting and today’s meeting will be posted on the State’s public meeting website.
  - Today’s meeting is the final meeting for this year, as we discuss and vote on recommendations to be included in the 2014 VLAC Report to the State due to the Secretary of Finance by November 5<sup>th</sup>, 2014. The report will also be forwarded to each member of the Lottery and Gaming Study Commission as they are meeting to create their own report for the

Legislature and the Administration with recommendations of how to stabilize Delaware's casino industry in light of increased regional competition negatively compounded by revenue share model changes in recent years.

### **Review of Competitive Situation**

- Ed Sutor
  - Since the opening of Harrah's Chester in 2007, the Delaware casinos have experienced 31 consecutive quarters of declining year over year slot revenues. For the first nine months of 2014, Delaware slot revenues are down approximately 7% compared to the first nine months of 2013. Table game revenues for the first nine months are down approximately 15% compared to the same time in 2013.
  - Caesar's Horseshoe opened in Baltimore in August 2014, and is targeting the mid-level table game customer. The negative impact on Delaware's table game revenues is already being felt.
  - The MGM mega-casino resort is under construction in National Harbor, MD and is set to open in 2016. The presence of MGM will be a game changer for the mid-Atlantic region.
  
- Bill Fasy
  - Delaware Park is anticipating a negative impact in Poker revenue when Sugarhouse opens their poker room.
  - Competition between Philadelphia area casinos, Parx, Sugarhouse, and Harrah's, has increased and Delaware Park has been affected as our customers are also customers of those properties. Delaware casinos are not in a position to match the offers these competitors can make to our customers.

### **Review of Lottery Initiatives:**

- Vernon Kirk
  - Sports betting revenue is up over 20% compared to last year. Handle is averaging over \$2 million per week.
  - A federal judge in New Jersey stopped Sports Betting operations in that state. A formal hearing on the case will take place in one month.
  - The iGaming project to increase liquidity by partnering with Nevada is progressing. We have come to a regulatory structure agreement with Nevada and are almost ready to share those details. 888, our iGaming platform provider, is going forward with technological implementation required for this project. We will launch with WMS games, followed with the improvement to allow for mobile and tablet connectivity, and then will add an IGT library of games.
  
- Bill Fasy
  - To clarify is the increase in sports betting revenue attributed to additional retailers? Delaware Park's sports betting numbers are down 11% for September.
  
- Vernon Kirk

- Yes, it is.

### **Review of Video Lottery Agents Recent Activities**

- Bill Fasy – Delaware Park
  - Delaware Park revenue is down 9.7% for the 9 months ending September 30.
  - We are working on a project to replace parking lot and roadway lights with LED lights.
- Patti Key – Harrington Raceway
  - Harrington's results are similar to Delaware Park and Dover Downs. Gaming revenues are down.
  - We recently finished a F&B project related to our Bolos outlet.
  - Harrington will also be doing parking lot lighting repairs and maintenance.
- Ed Sutor – Dover Downs
  - Dover Downs is also doing a parking lot lighting project, replacing parking lot lights with LED's for energy efficiency and cost savings.
  - This morning was the Dover Downs Gaming and Entertainment, Inc earnings release call. For the 3<sup>rd</sup> quarter 2014, we are up \$600k, as the State's sharing of vendor costs took affect and helped 3<sup>rd</sup> quarter results. For the nine months ending September 30, 2014, net loss is approximately \$200k.

### **Review of Manufacturers New Products:**

- Tony Sofran – IGT:
  - We recently wrapped our annual G2E trip and will have our newest products in the casino in the next 6 months.
  - Two popular IGT themes we expect to bring to Delaware are Fishing Bob and Prowling Panther. Jeopardy and Brides Maids are two popular franchise games that we also want to bring to the slot floor in Delaware.
  - Our new cabinet product is the S3000 spinning reel cabinet.
- Mark Casto – Bally:
  - Bally was also at G2E and unveiled our new box, a 27" x 27" video product, which will replace the previous slant top box.
  - The Titanic game is Bally's newest product installed on the casino floor in Delaware, and is doing very well so far.
- Phil Maruncic – GTECH:
  - G2E's new signature product is the 3-D box with content included, including the popular Bejeweled theme.
  - Spielo's Join & Play technology will be available at all 3 Delaware casinos by December

- Dominic Silla – Shuffle Master:
  - Shuffle Master has a new Table Master Fusion product that will replace the Table Master Legacy product. It is currently in lab testing and will be configured specifically for Delaware to meet regulations.
  - Shuffle Master has 14 new games that will be available by January or February 2015.
  - Shuffle Master also has a multi-deck shuffler product available that operates under a “pay per shuffle” program.
  
- Jim Borden - WMS:
  - WMS’ newest Blade cabinet has been installed at all 3 Delaware casinos. We also installed 90 new Bluebird XD slant top units.
  - New themes Flintstone’s, Mad Men, and Elton John will be released early 2015.

**Recommendations for 2014 Report to the State**

- Ed Sutor
  - The recommendations included in the 2014 VLAC Report to the State will focus on improving the overall economic condition of Delaware’s gaming industry, to ultimately benefit all parties that function under the revenue share model. This group is grateful to the Administration and Legislature for the changes that have been implemented in the past via this report, and we hope to bring a long-term solution through the enacting of these recommendations.
  
  - **Recommendation #1: Modify the slot revenue share model – Reinstate the original tiered slot gaming tax structure established in 1994.**
    - When slot operations began in Delaware, this was the way the revenue share structure was set up. As revenues increased, the State’s share percentage increased; and conversely, if revenues decreased, the State’s share percentage would also decrease. The switch to a fixed rate of 43.5% (after 6 prior increases) at a time when the competitive environment in the region was gaining momentum has created an unsustainable revenue share model that leaves the casino operators unprofitable.
  
  - **Recommendation #2: Slot vendor fees, in their entirety, should be subtracted from slot revenues before being split among the parties in the slot revenue share model.**
    - Sharing of Sports Betting and iGaming fees comes “off the top” and is therefore shared in its entirety by the State, Horsemen, and Video Lottery Agents. Last year, it was recommended by the Lottery and Gaming Study Commission that 75% of the vendor fees be shared by the State, Horsemen, and Video Lottery Agents. We recommend increasing this to a full 100% of slot vendor fees being shared.

- Bill Fasy stated he cannot support the portion of the recommendation that affects the horsemen negatively, but he does support the rest of the recommendation.
- **Recommendation #3: Modify the table game revenue share model to be competitive with neighboring states – Adjust the table game revenue sharing rate to 15% and remove the license fee.**
  - Delaware has the highest table game tax rate in the country. Maryland’s rate is 20%, Pennsylvania’s rate is 14%, and New Jersey’s is 8%. With fees, Delaware’s effective revenue share rate on table games is almost 40%, and combined with the overhead required in terms of payroll costs makes table games operations unprofitable for the State’s 3 casinos. The Lottery and Gaming Study Commission, last year, included this recommendation in its report to the Administration, to go into effect as a “year 2” relief plan. When the bill was being voted on in the legislature, this recommendation was removed. (Sharing of 75% of vendor fees was the only thing that passed.)
- **Alternative to Recommendation #3: Table game operations are extremely labor intensive. Allow the labor costs of table game operations to be subtracted before table game revenues are shared among the parties within the table game revenue sharing model and remove the annual license fee.**
  - Slot machines are leased to the State by slot vendors who collect a lease fee. Table games are run by dealers who are employed by the casino at personnel costs upwards of 50% of table game revenues. It is recommended that, just as the State is sharing in slot machine vendor fees, the State allow the casinos to recover table game personnel costs prior to revenue sharing splits. The goal of implementing table game operations in Delaware was to increase gaming revenue and to create jobs. Table game operations, under this revenue share model, have consistently been unprofitable for the casinos since inception.
    - Bill Fasy stated he cannot support the portion of the recommendation that affects the horsemen negatively, but he does support the rest of the recommendation.
- **Recommendation #4: Implement a revenue share credit of 5% to the casinos to encourage capital expenditures and 5% to encourage marketing initiatives.**
  - This recommendation was also included in the preliminary Lottery and Gaming Study Commissions report to the Administration, but was removed from the final report prior to submission to the legislature. Many of the gaming states in this region offer similar incentives; West Virginia gives a capital expenditure incentive to its casinos and offers a subsidy for advertising, New Jersey

recently assisted Harrah's Atlantic City in their \$140 million convention center project. New York offers its casinos an advertising subsidy up to 8% of revenue. These types of incentives are used widely in the industry as a way for the state and the casinos to partner for the greater good of all parties.

### **Public Comment**

- Rebecca Kidner – Delaware Standardbred Owners Association
  - Speaking on behalf of the Delaware Standardbred Owners Association, we acknowledge that those of you who are a part of the Video Lottery Advisory Council are the experts on video lottery and gaming operations and that the Horsemen are here as guests to the meeting, not seated at the table. In reviewing the guidelines for the purpose of the VLAC, I'm not sure it is your role to make suggestions to the legislature that would ultimately hurt the Horsemen. I urge you not to vote on recommendations to change the revenue share model until you've had a chance to review the Equine Industry Study and fully understand how any change will affect the Horsemen and the 4,100 employees in this industry in Delaware. I'm not sure this Council was set up to make these types of recommendations and I caution you not to vote on including these in your report.
  
- Ed Sutor
  - The Video Lottery Advisory Council was created by legislation to serve in a planning and advisory capacity to the Secretary of Finance related to matters affecting the growth and competitiveness of video lottery operations in the State. The recommendations of the group have evolved over the years as the competitive landscape of gaming in this region has evolved. We are charged with submitting a report to the Secretary of Finance every year by November 5<sup>th</sup> with recommendations on how Delaware's gaming product can remain competitive. There is no particular agenda by this group as a whole, or any individual party of the group, to hurt the Horsemen. If the original tiered revenue share model is reinstated for slot revenue sharing, the Horsemen would benefit. These recommendations are not to be parceled out, but to be applied to all partners of the State's gaming revenue share model.
  - We have a quorum and will now vote on the recommendations discussed. As in the past, Vernon Kirk and Kathy Wayne are abstaining given the sensitivity of their position.
    - Recommendation #1 – Reinstatement of the original tiered slot revenue structure:
      - 2 abstentions ; 3 affirmative
    - Recommendation #2 – Increase shared slot vendor fee %
      - 3 abstentions; 2 affirmative

- Recommendation #3 – Modify table game revenue share model to a rate competitive with neighboring states and remove annual license fee:
    - 2 abstentions; 3 affirmative
  - Recommendation #3 Alternative – Modify table game revenue share model to allow deduction of high labor costs and remove license fee:
    - 3 abstentions; 2 affirmative
  - Recommendation #4 – Implement a revenue share credit of 5% for capital expenditures and 5% for marketing initiatives:
    - 2 abstentions; 3 affirmative
- Since a quorum was present and each recommendation was affirmed by a majority of the votes cast, all of the discussed recommendations will be included in the 2014 VLAC Report to the State. The report will be turned around quickly as it is due to the Secretary of Finance next Wednesday, November 5<sup>th</sup>.

**Close of meeting**

- Ed Sutor
  - Dates for the 2015 VLAC meeting will be distributed with the Report and posted to the State's public meeting site.
  - Meeting was adjourned.