

# **The Estimated Future Economic and Fiscal Impacts of Del Pointe on Delaware**

**REVISED**

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## Executive Summary

- I. *The proposed racetrack at Del Pointe would not be financially feasible in the absence of complementary gaming opportunities.*
- II. *By virtue of its geography, slots machines at Del Pointe will disproportionately capture market share that would otherwise be served in Maryland. Correspondingly, Del Pointe represents a net win for the State of Delaware.*

### Background

Sage Policy Group, Inc., a nonpartisan consulting firm headquartered in Baltimore, MD, analyzed two separate research questions: 1) Is the proposed racetrack at Del Pointe feasible in the absence of complementary gaming opportunities such as video lottery terminals (VLTs); and 2) if Del Pointe moves forward with VLTs, what are the likely net economic and fiscal impacts that would be generated by the build-out of the racetrack and ensuing development. The analysis has been conducted in the context of the State of Maryland's impending slots program, which at some point will offer additional competition to Delaware's existing slots venues.

### Analytical Findings

1. Under the most favorable conditions, net income from racetrack operations in isolation covers a maximum of just 34 percent of associated facility debt service by the fourth year of operations. This is not adequate to justify the investment. In other words, the proposed racetrack does not begin to approach feasibility without complementary gaming opportunities;

Were the proposed Del Pointe development to move forward with VLTs, a 1-mile standardbred racetrack, and other key elements:

2. The project would support more than 6,000 Delaware jobs (annual job equivalents) during its construction phase;
3. The project would produce approximately \$76 million in *annual* State of Delaware fiscal impacts through VLTs, table games, and sports betting and taxes generated by the development's other components;

4. The project would recapture VLT revenue that would otherwise be lost to the impending VLT facility in Worcester County, MD;
5. The project would support 5,919 permanent/additional jobs in Delaware associated with \$209 million in annual income;
6. The project would enhance Sussex County’s leisure and hospitality appeal by providing added tourist amenities;
7. The project would supply a one-mile standardbred racetrack that will significantly improve Delaware’s horseracing offerings and further augment the state’s already expanding horse farming/breeding industry;
8. The project would generate relatively little net impact on existing Delaware VLT facilities, including Harrington, which stands to lose marketshare with our without Del Pointe due to the presence of VLTs at Ocean Downs; and
9. The project would prevent the emergence of a situation in which the majority of gaming interests of the 3 million seasonal visitors to Sussex County would be met by the eventual gaming facility at Ocean Downs.

Exhibit E1. Summary of State of Delaware Annual Fiscal Impacts Attributable to Del Pointe, FY2013

State of Delaware revenues from VLTs at Del Pointe – midpoint (General Fund)	\$66.0 million
State of Delaware tax revenues from expanded horseracing	\$0.6 million
State of Delaware personal income/payroll taxes	\$6.0 million
State of Delaware hotel tax	\$2.9 million
<i>Total</i>	<i>\$75.5 million</i>

#### Conclusion/Policy Implications

Delaware faces growing competition from Maryland and Pennsylvania. In the absence of Del Pointe, Delaware faces declining VLT revenues and declining patronage from other states. With Del Pointe, the State of Delaware is able to better attract out-of-state visitors while preventing a growing share of Delaware residents from spending their entertainment dollars elsewhere. Moreover, by supporting Delaware’s expanding horse farming industry, the State is able to advance additional employment and open space preservation.

Del Pointe is able to achieve the positive effects listed above without attracting considerable amounts of business away from existing First State venues. The proposed development at Del Pointe is too distant from existing venues in Wilmington and Dover to have much impact. With respect to Harrington, there is an overlapping market, but Harrington is more closely aligned with visitors to its west, including from Maryland's Upper Eastern Shore. By contrast, Del Pointe's out-of-state market will largely be focused upon Maryland's Lower Eastern Shore.

## Research Question I. Is the Del Pointe Racetrack Feasible without VLTs?

### Racetrack Revenues versus Costs

A fundamental issue concerning the development of a standardbred racetrack and casino at Del Pointe is the viability of the racetrack without the support of the revenue generated by VLTs. Because the finances of the prospective operation at Del Pointe can be disaggregated among the major components of the project, it is possible to look at racetrack operations in isolation.

Exhibit F1 provides statistical detail regarding racetrack, grandstand and paddock development costs. Construction and related costs included in Exhibit F1 total \$35 million.

Exhibit F1. 2009 development budget for racetrack, grandstand and paddock

	<i>(\$ in millions)</i>
Land Acquisition	\$6.4
Infrastructure and Utilities	\$15.3
Construction Costs	\$9.7
Professional Costs	\$3.8
<i>Total</i>	<i>\$35.1</i>
Numbers may not add due to rounding	
Source: Aegis Development	

Exhibit F2 summarizes expected operational performance at the racetrack during its first four years in operation. From 2010 through 2013, average daily attendance for live racing and simulcast events remains steady as the handle per capita grows for both live and simulcast racing. Over that same period, total revenue from racing grows 57 percent from \$5.3 million to \$8.4 million. Direct costs, including personnel costs, grow 64 percent from \$4.4 million to \$7.3 million. Thus, net operating income to Del Pointe from live racing and simulcast grows steadily from roughly \$900,000 to \$1.1 million over the first four years of operation.

In addition, special events are estimated to generate a net income of up to \$245,000 by 2013. This amount, coupled with net income from racing, generates an overall increase in net income growth from approximately \$1 million in the first year of operations to nearly \$1.4 million by 2013.

Exhibit F2. Projected statements of racetrack operations at Del Pointe

	2010*	2011	2012	2013
<i>Live Racing and Simulcast</i>				
Average daily attendance (live racing)	2,000	2,100	2,200	2,300
No. of live racing days	30	30	30	30
Average daily attendance (simulcast)	225	225	225	225
No. of simulcast days	363	363	363	363
Handle per capita (live racing)	77	80	82	85
Handle per capita (simulcast)	210	215	220	225
Total revenue (live racing & simulcast)	\$5,335,261	\$7,925,583	\$8,154,351	\$8,389,981
Total direct costs (live racing & simulcast)	\$4,424,496	\$6,866,410	\$7,063,582	\$7,266,669
<i>Net operating income</i>	<i>\$910,765</i>	<i>\$1,059,173</i>	<i>\$1,090,769</i>	<i>\$1,123,312</i>
<i>Special Events</i>				
Admissions (less cost)	\$28,000	\$98,958	\$101,926	\$104,984
Parking	\$13,340	\$47,136	\$48,550	\$50,007
Concessions (less cost)	\$24,000	\$84,820	\$87,366	\$89,986
<i>Net operating income</i>	<i>\$65,340</i>	<i>\$230,914</i>	<i>\$237,841</i>	<i>\$244,976</i>
<b>Total Net Operating Income</b>	<b>\$976,105</b>	<b>\$1,290,087</b>	<b>\$1,328,610</b>	<b>\$1,368,288</b>
Source: Gil Short and Associates				
* Sets minimum purse for 30-day meet at \$2 million from July 1 <sup>st</sup> to Dec 31 <sup>st</sup> 2010.				

The issue of racetrack feasibility in isolation can be assessed by comparing net income generated by racetrack operations to the capital costs (\$35.1 million) associated with this element of the overall project. This \$35.1 million capital cost can either be considered an investment by the developer in the project or a cost that would be financed by some kind of debt obligation. If the cost is considered an investment, then net income can be considered the return on this investment. If this cost were financed, then the net income generated from racing and other track-related activities would represent the source of funds available to cover the debt obligation.

To estimate the conditions that might apply to a debt obligation used to finance this capital cost, current financing of similar facilities was reviewed. In a recent filing with the U.S. Securities and Exchange Commission, Magna Entertainment Corp., which operates horse racing facilities in California, Florida, Maryland, Texas, Oklahoma, Ohio, Oregon and Austria, described a series of loans used to finance racing and casino facilities in 2006 and 2007. These loans had terms of either five years or 10 years, but all loans had an interest rate of 10.5 percent. Among the terms of these loans, Magna was required to provide payments equivalent to a self-amortizing 25-year mortgage. Other fees and payments were required; however, the basic terms of the loan were an interest rate of 10.5 percent over periods of either five or 10 years with the requirement to make payments of principal and interest that would amortize the loan over a 25-

year period. These conditions are assumed to be representative of the options available to Del Pointe for financing capital costs associated with racing and other track-related activities.

Exhibit F3 examines the racetrack’s net income over the first four years of operations from two perspectives. The first is its ability to support debt payments. The second is its viability from the perspective of the adequacy of return on investment. As shown in the exhibit, annual debt payments for \$35.1 million range from \$4.0 million for a term of 25 years to \$9.4 million for a term of five years. Under the most favorable conditions (i.e. a term of 25 years), net income from racetrack operations covers a maximum of 34 percent of the annual debt payment. Given that the repayment terms of the loans provided to Magna Entertainment were for five years and 10 years, the debt would not be retired under these most favorable conditions. Under the most favorable conditions that would actually retire the debt within the term of the loan (i.e., a self-amortizing loan with a 25-year term), an annual payment of just over \$4 million is required. If the \$35.1 million capital cost of the racetrack and grandstand were considered an investment, then net income would provide only a maximum of 3.9 percent return on investment in the first four years of operations. To place this in context, it is currently possible to get a 3.85 percent return on a five-year certificate of deposit assuming a minimum deposit of \$100,000.

Exhibit F3. Net income versus capital cost

<i>Financial factor</i>	<i>Value</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Capital cost of facility	\$35,106,395				
Annual debt payment @ 10.5%, 25 years *	\$4,016,469				
Annual debt payment @ 10.5%, 10 years *	\$5,835,632				
Annual debt payment @ 10.5%, 5 years *	\$9,377,860				
Coverage of debt payment by net income @ 10.5%, 25 years		22.7%	32.1%	33.1%	34.1%
Coverage of debt payment by net income @ 10.5%, 10 years		15.6%	22.1%	22.8%	23.4%
Coverage of debt payment by net income @ 10.5%, 5 years		9.7%	13.8%	14.2%	14.6%
Net income as return on capital cost of facility		2.6%	3.7%	3.8%	3.9%
Note. * Annual payment value is the equivalent of a self-amortizing loan payment for the stated period at 10.5 percent interest.					
Sources: Gil Short and Associates, Sage					

The inevitable conclusion of this assessment is that the racetrack at Del Pointe as a stand-alone entity is not feasible. Net income from racing and other track-related activities could not sufficiently pay the debt service for the required facilities under even the most favorable

conditions that are likely to apply to financing of racetracks and similar facilities. If the developer were interested in generating a return on investment, jumbo certificates of deposits would not only generate similar income in the first four years of operation of racetrack operations, but would do so at essentially zero risk.

## **Research Question II. What are the Likely Economic and Fiscal Impacts of the Proposed Del Pointe Development with VLTs?**

### **Literature, Subject & Historical Review**

#### **The Economic and Fiscal Impacts of Racinos and other Forms of Gaming**

##### Objective

This literature review is intended to provide broader historic and academic context for all of the major issues the study team considered in determining the economic and fiscal impacts of the proposed Del Pointe development on the State of Delaware. Additional discussion regarding these issues is also presented alongside the study team's analytical findings.

Key issues under consideration include the nation's historical experience with gaming and racinos, Delaware's idiosyncratic experiences, the determinants of gaming-related state revenue collections, evidence of socioeconomic impacts and the likely viability of racetracks lacking on-site video lottery terminal amenities. Rather than treat this as a purely academic exercise, the study team has endeavored to relate available literature to policymaking decisions regarding the proposed Del Pointe development. An extensive bibliography follows this discussion.

##### A History of Gaming Expansion in the U.S. and Growing Economic/Fiscal Impact

The nation's experience with gaming is long-lived. For instance, the American colonies, even prior to becoming a confederation of states, relied on games of chance to support government (Blevins & Jensen 1998). The Continental Army also used lotteries, although historical sources indicate that they were mismanaged and not nearly as lucrative as the games of chance that helped to support the early founding and operations of Harvard, Dartmouth and Princeton universities (Findlay 1986).

The modern history of legalized gambling in the U.S. can be traced back to 1931 when the State of Nevada, finding itself in the midst of the Great Depression and with its minerals-based economy in economic ruin, authorized virtually all forms of gaming (except lotteries) as a replacement for its exhausted mines (Christiansen 1998). In 1963, New Hampshire authorized the nation's first state lottery, a trend that swept the nation over the ensuing four decades and which gathered momentum as the 20<sup>th</sup> century came to a close (Hemphill 2003).

For more than four decades, Nevada remained the nation's only state authorizing casinos, a monopoly that was ended in 1977 by New Jersey citizens, who voted to authorize the establishment of casinos in Atlantic City. Between 1986 and 1996, the number of states authorizing casinos rose from two to ten, while the number of actual casinos operating outside of Nevada and New Jersey increased by over 300 (Hemphill 2003). Some of this proliferation was traceable to the passage of the Indian Gaming Regulatory Act by Congress in 1988. As a consequence of the Act, gaming was authorized on Native American lands in 31 states. The central U.S. also opened up to legalized gambling around that time. In 1989 Iowa authorized riverboat gambling with Illinois following their lead in 1990.

In 2001, 434 commercial casinos (as opposed to racinos) operated in 11 states – Colorado, Illinois, Indiana, Iowa, Louisiana, Michigan, Mississippi, Nevada, New Jersey, and South Dakota. Approximately 365,000 people were directly employed by the commercial casino industry with wages totaling \$11.5 billion. When Native American and racetrack casino employment are included, the 2001 jobs total rises to 577,000 directly employed nationwide, more when one considers multiplier effects (American Gaming Association).

Various studies have found that expanded gaming is correspondingly associated with lower unemployment. Ortiz and Corcoran (2004) found in their examination of a panel of California counties between 1990 and 2000 that counties with a greater casino presence were associated with a “somewhat lower unemployment rate” than counties with a lesser casino presence (holding constant for various county demographic factors). The authors used counts of gaming tables as their measure of casino presence and find that a one standard deviation increase in gaming tables is associated with an approximately 1/3 percentage point lower annual average unemployment rate across counties.

Similarly, an impact analysis conducted by the National Opinion Research Center at the University of Chicago and reviewed by the U.S. General Accounting Office (GAO 2000) found that communities within a 50-mile radius from a casino site experienced a 1 percentage point decrease in their unemployment rate and a 17 percent decrease in per capital unemployment insurance payments. A Federal Reserve Bank of St. Louis study (Garrett 2003) focusing upon communities within its jurisdiction found that counties with casinos experienced greater declines in unemployment than the prevailing state average. Furthermore, household employment

increased between the pre- and post-casino period by a greater degree than the population, resulting in rising employment to population ratios (Garrett 2003).

Because various forms of gaming have generally been illegal throughout U.S. history, its legalization often taps into strong latent demand among certain segments of the population who demonstrate a willingness to spend considerable time and money on the activity (Eadington, 1999). Not surprisingly, expansion in gross gambling revenue (GGR) has been rapid in recent years. According to the American Gaming Association, GGR, which represents the amount wagered minus the winnings returned to players, increased from roughly \$50 billion in 1997 to nearly \$94 billion by 2007, an increase of 84 percent. GGR is the figure utilized to determine what a casino, racetrack, lottery or other gaming operation earns before taxes, salaries and other expenses are paid. Correspondingly, GGR represents the economic equivalent of sales as opposed to profit. The exhibit below provides relevant statistical detail.

Exhibit L1. Gross Gambling Revenue in Recent Years

Year	Total Commercial Casino (billions)	Total Gaming (billions)
1997	\$18.2	\$50.9
1998	\$19.7	\$54.9
1999	\$22.2	\$58.2
2000	\$24.3	\$61.4
2001	\$25.7	\$63.3
2002	\$26.5	\$68.6
2003	\$27.0	\$72.9
2004	\$28.9	\$78.8
2005	\$30.3	\$84.4
2006	\$32.4	\$90.9
2007	\$34.1	\$93.8
Sources: American Gaming Association, Christiansen Capital Advisors, LLC		

The expansion of gaming has occurred for a number of reasons, but one of the most important factors is the growing desire among state governments to raise revenues without raising taxes. States can do this in a number of ways, including by increasing tolls and licensing fees (e.g., driver’s licenses). States can also stretch budgets by reducing Medicaid eligibility, devoting fewer resources to the environment, and supplying fewer grants to local public universities, which often results in rising tuitions.

However, each of these mechanisms results in either diminished service to taxpayers or increasing costs of accessing services. By contrast, gaming, including lotteries and other state-

sanctioned forms of gambling, increase a given state’s revenue position without reducing the level of public services or increasing the cost of those services. Of course, gaming can and presumably does create substitution effects by altering previously-established expenditure patterns. Countervailing these substitution effects are two considerations. First, racinos and other gaming venues generate economic opportunities that at least partially offset these substitution effects. Second, to the extent that net substitution effects prevail, a considerable share of these effects would impact the retail trade sector. Because Delaware lacks a retail sales tax, the impact of these substitution effects is unlikely to offset State gaming revenue gains to any appreciable degree. The prospect for substitution effects is discussed in further detail below.

According to data from various state gaming regulatory agencies, in the 12 states with commercial casinos in operation in 2007, casinos contributed approximately \$5.8 billion in aggregate tax revenue to state and local governments. This represented an 11.3 percent increase over 2006. The exhibit below provides relevant data detail.

Exhibit L2. Commercial Casino Tax Revenue, 2007

State	Tax Revenues (millions)
Nevada	\$1,034
Indiana	\$842
Illinois	\$834
Louisiana	\$559
New Jersey	\$475
Pennsylvania	\$473
Missouri	\$417
Michigan	\$366
Mississippi	\$350
Iowa	\$315
Colorado	\$115
South Dakota	\$15
<i>Total</i>	<i>\$5,795</i>
Source: State Gaming Regulatory Agencies, American Gaming Association (4/08); total may not add up due to rounding; does not include racinos	

More important for present purposes are the revenues that states have collected through the operation of racinos. Importantly, Delaware has become a national leader along this dimension despite its relatively small population. To a significant degree, this is due to the capacity of Delaware gaming venues to attract out-of-state patrons.

In the 11 states with racetrack casinos in operation in 2007, racinos contributed \$2.22 billion in the aggregate. Statistical detail is provided in the exhibit below.

Exhibit L3. Racino-Generated Tax Revenue, 2007

State	Tax Revenues (millions)
Pennsylvania	\$461
New York	\$450
West Virginia	\$440
Rhode Island	\$284
Delaware	\$217
Iowa	\$110
Florida	\$101
Louisiana	\$68
New Mexico	\$64
Maine	\$21
Oklahoma	\$10
<i>Total</i>	<i>\$2,225</i>
Source: State Gaming Regulatory Agencies, American Gaming Association (4/08); total may not add up due to rounding	

As further evidence of Delaware’s leading position within the nation’s racino industry, the First State boasts two of the top racetrack markets in the nation according to the 2008 American Gaming Association Survey of Casino Entertainment. This exhibit below provides a list of the top 10 US racetrack casino markets as of 2007.

Exhibit L4. Top 10 U.S. Racetrack Casino (Racino) Markets, 2007

Location	Revenue (millions)
1. Charles Town, W. Va.	\$463.37
2. Yonkers, N.Y.	\$394.33
3. Providence, R.I.	\$375.38
4. <i>Dover/Harrington, De.</i>	<i>\$339.79</i>
5. <i>Delaware Park/Wilmington, De.</i>	<i>\$272.62</i>
6. Chester, Pa.	\$272.48
7. Bensalem, Pa.	\$262.80
8. Chester, W. Va.	\$228.21
9. Broward County, Fl.	\$202.52
10. Wheeling, W. Va.	\$200.98
Source: American Gaming Association	

The same report indicates that racinos support nearly 3,000 jobs directly in Delaware. The next exhibit provides a summary for racino activity and other aspects of this form of gaming in Delaware.

Some have argued that though gaming venues undoubtedly create jobs, the quality of these jobs is not particularly good on average. Grinois (1995) and others have characterized jobs at casinos and other gaming establishments as low-skill, low-paying service opportunities. WEFA (1997) found that only 12 percent of the jobs at Foxwoods were executive/managerial and that the remainder was in the service worker category. Hill (1994), which focused on Mississippi, found a 71 percent service worker proportion, well above the then-existing national average and an average hourly wage of \$7.40 (well below the national average).

However, Blois et al. (1995) found above average wages in the Foxwood case. Moreover, there is evidence that higher than average pay is available for certain occupational groups. Independent researchers, casino operators, and unions are among those that have supplied more positive information regarding the quality of gaming-related employment. Walker (1998) notes strong wage growth among casino workers. Moreover, 83 percent of the Hotel Employees and Restaurant Employees International Union had their health coverage paid in full (10 times the national average) and enjoyed pensions that exceeded the national average. Coopers & Lybrand (1994) discerned a 63 percent level of healthcare coverage among casino workers nationally, with 43 percent having access to daycare.

Exhibit L5. Summary of Key Delaware Racino Facts, 2007

Current Number of Operating Racinos	3
Public/Private Arrangement	Publicly run video lottery terminals with distributions to operations
Racino Employees	2,891
Gross Racino Gaming Revenue	\$612.41 million
Distributions to Government	\$216.63 million
Revenue Retained by Operator	48%
How Taxes are Spent	General fund
Legalization Date	1994
First Racino Opening Date	1995
Method of Legalization	Legislative action
Source: Delaware Lottery, American Gaming Association	

### Methodological Approaches to Accurately Measuring the Economic Impacts of Gaming

Economists have developed several methodologies for conducting impact analyses on a wide variety of economic activities, including gaming. Economists are also able to estimate key

component relations (e.g., substitution effects) and for testing key hypotheses such as the causal connection between gaming and economic growth (Rose 1998).

The most widely utilized mechanism for regional economic impact analysis in the U.S. is input-output (I-O) economics, which is what the Sage study team utilized to estimate the future economic and fiscal impacts of Del Pointe on Delaware's economy. In its most fundamental form, I-O represents a static linear model of all purchases and sales between the component sectors of an economy. Advances in I-O models have made it possible for this form of analysis to be dynamic and non-linear, which allows economists to generate even more precise assessments.

Unless controlled for, I-O models tend to have an upside bias because they do not necessarily factor in any spending substitution effect. Economists can explicitly incorporate likely substitution effects into these models, however. These models also provide an unlimited supply response to any demand increase under the theory that shortages of any desirable product/service that can generate business profits rarely persist into the long-term. To the extent that the responsiveness of supply is constrained into the long-term, I-O models will tend to overstate the economic impact of a given activity.

Another major approach is the gravity model, which can be utilized to determine potential markets for gambling and is capable of yielding insights into issues of possible saturation. Gravity models measure the potential of a given attraction in terms of mass (i.e., the size and offerings of a given attraction) and distance measures (see e.g., Hoover & Giarratani, 1984). In modeling the likely economic impacts of the proposed Del Pointe development, the study team utilized gravity model principles in determining the primary market territory from which the development will draw and the number of patrons it will attract, including to its slot machines.

Rose (1998) poses a series of questions regarding the impact of gaming and answers them by surveying then available literature. The first pertains to whether a gaming venue is more like a factory or a restaurant. A factory tends to bring income into the community by allowing the community to serve external demand. Restaurants, by contrast, typically redistribute income within a given community. As Leven and Phares (1998) indicate, the key issue for present purposes is whether a gaming venue serves an external market or whether the venue largely serves local population. The larger the size of the external market, the greater is the impact on

the community since local spending substitution effects are smaller and net income gains to the community through additional employment opportunities are larger.

Research indicates that various gaming venues differ markedly with respect to their ability to draw patrons from outside the host community's boundaries. For instance, Gazel et al. (1997) found that 83 percent of Illinois riverboat patrons were local residents. Similarly, the Minnesota Gaming Commission (1993) found that 80 percent of the patrons of that state's Native American casinos were residents. Leven and Phares (1998) estimate a 75 percent substitution rate among Missouri casinos.

At the other end of the spectrum are examples such as a KPMG (1995) study, which indicated that nearly 80 percent of the patrons of Windsor Casinos were tourists. Thompson et al. (1995) found just a 30 percent substitution rate with respect to small local areas for Wisconsin's Indian gambling halls. Moreover, Gazel et al. (1997) found that fewer than 15 percent of the patrons of Atlantic City and Las Vegas casinos were residents (see Rose 1998 for a fuller discussion). Studies by Blois et al. (1995) and others have pointed out that casinos often undercut certain local hospitality operations by subsidizing restaurants, bars and lodging onsite. However, this subsidization results in an increase in real disposable income, which should, all things being equal, benefit various elements of the local economy.

There has been a considerable volume of research regarding whether or not gaming helps or hurts local retail sales (and thus retail sales tax collection, though this is obviously not a major consideration in Delaware). Not surprisingly, Garrett (2003) concludes that a gaming venue's impact on local retail sales is determined by the consumption preferences of local citizens and the degree to which a venue can attract visitors from beyond the local area. Under Garrett's formulation, there are three possibilities. First, gaming can serve as part of a broader tourism industry. Under this scenario, gaming venues attract non-local players who inject fresh money into the local economy through the venue and other entertainment activities. A second possibility is that gambling can serve as an import substitution activity that serves largely local customers who, without the gaming venue, would have spent their income beyond the local area's boundaries (please see discussion regarding recapture effects below). A third possibility is that a casino functions as a local service only and simply redistributes income within the community. Note that this third possibility applies to many businesses opening in a given area

(e.g., Wal-Mart, Home Depot). Local retailers often oppose the opening of large-scale retailers in particular on this basis.

With respect to the proposed Del Pointe development, demographics coupled with the offerings of the venue (mass of the attraction) indicate that a disproportionate share of visitors will not be Sussex County, DE residents. Many patrons will be attracted to Del Pointe while on holiday in Delaware, with many of these patrons having primary residences beyond county and state boundaries. The appeal of the proposed development's other offerings, including a 1-mile standardbred racetrack, hotels, waterpark and upscale restaurants will also render this regionally appealing, including to Marylanders coming from that state's Lower Eastern Shore. The implication of this is that negative substitution effects are likely to be relatively small while positive employment and income impacts are likely to be substantial.

Recapture effects are a related issue. The ability of a new gaming venue to retain customers in its market rather than have those customers venture to out-of-community venues depends upon a variety of factors, including most importantly venue characteristics and location (Rose 1998). The issue of recapture effects is of elevated relevance given the impending formation of slots venues in Maryland. Without an increase in options, Delaware stands to lose market share because a proportion of Delaware residents will choose to patronize newer and more proximate Maryland venues.

The experience of other states is that providing venues to local residents can generate important recapture effects. For instance, research indicates that small- to medium-sized Missouri casinos are often extremely effective in keeping that state's residents from driving to Iowa, though this is less true when Iowa locations are more proximate to an individual customer (Rose 1997). Leven and Phares (1998) found a 53 percent recapture rate for Missouri. However, researchers have found that Missouri casinos are relatively ineffective in terms of keeping residents from traveling to Las Vegas. The key is that the experience of Missouri casinos is fundamentally different from the Las Vegas experience, with Las Vegas not only offering larger venues but also entertainment options that complement available gaming opportunities. By contrast, Missouri facilities represent a close substitute for Iowa-based gaming opportunities.

As another prominent example, Atlantic City's market reach has been eroded substantially by the presence of Foxwoods in Connecticut and even by more remote casinos in Minnesota (Rose

1998). Minnesota Planning (1992) reports that airline trips from the Twin Cities to Atlantic City declined from 7,675 in 1989 to 0 in 1991 after the advent of Indian reservation gaming in Minnesota.

This issue of recapture is important in considering Del Pointe's impact. To put this into context, from a Maryland perspective, the development of Del Pointe has the potential to substantially limit patronage at Ocean Downs in Worcester County by Delaware residents. In maximizing state revenues, one of Maryland's goals is to attract players from other states, but Del Pointe limits Ocean Downs' geographic appeal. Moreover, Del Pointe is being positioned to offer substantially more amenities and complementary attractions than the proposed facility at Ocean Downs, which suggests even larger recapture effects than would otherwise be the case.

### Multiplier Effects

Economists can and have generated reasonable ranges of economic multiplier effects. Once adjustments have been made to subtract substitution effects, add recapture effects and consider other factors, there is little if anything that would limit an individual economist's ability to accurately gauge the economic impact of expanded gaming in a particularly geographic area. According to Rose (1998), small cities or groups of rural counties are unlikely to sustain multipliers exceeding 1.5 (the multiplier represents the ratio of indirect/induced effects to direct effects – in other words, a multiplier of 1.5 implies that for each dollar of direct economic activity generated, an individual venue will generate another 1.5 dollars in secondary economic impacts). Medium-sized to large cities are associated with multipliers approaching 2.0, while very large cities or state multipliers would typically not exceed 2.5. Of course, these multipliers are also a function of the particular venue in question, with the multiplier rising with the proportion of patrons coming from beyond a given geographic area's boundaries.

In order to model the economic impacts of Del Pointe on Delaware's economy, the study team utilized IMPLAN modeling software, which embodies Delaware- and Sussex County-specific multipliers. The study team accounted for many of the factors discussed above, including the particular characteristics of the proposed Del Pointe development and the demographics of its market/service area.

## Evidence of Competition between Various Forms of Gaming

Because of significant expansions in gaming across much of the United States, a growing body of research has become focused upon the extent to which U.S. gambling industries cannibalize one another's business. Walker and Jackson (2008) focused precisely on that question; one that has become ever more important as state governments across the nation find themselves increasingly facing prospects of diminished state budgets and increasing tax rates in an economic environment already characterized by profound weakness and a general lack of spending power. According to Walker and Jackson, as of early 2008, at least twenty-two states have recently been considering introducing or expanding gaming operations as a way to supplement state coffers, including ten states that had casino-specific initiatives on ballots in 2004 (Anderson 2005).

As a specific example that may highlight policymaking patterns in the future, politicians in Georgia considered converting a Ford plant slated to close in 2006 into a casino. One suspects that developers will be increasingly marketing these types of opportunities to cash-strapped states, which makes the issue of competition between gaming venues all the more important. This issue is certainly present with respect to the proposed development of Del Pointe, which would be introduced into an environment already populated with similarly structured gaming venues.

A principal determinant of the effectiveness of legalized gambling as a fiscal policy instrument is the relationship between gaming industries. As an example, if lotteries and casinos are complementary, then a lottery state stands to benefit disproportionately from the introduction of casinos (Walker & Jackson 2008). If, by contrast, racinos and commercial casinos are substitutes for one another, a state like Delaware that is already home to racinos may not want to introduce commercial casinos offering table games.

To explore these issues, Walker and Jackson utilize seemingly unrelated regression (SUR) estimation to determine if and how various U.S. gaming industries impact one another. Specifically, the authors analyzed four industries using data from 1985 to 2000: casinos, greyhound racing, horse racing and lotteries. The model utilized industry volume as the dependent variable, with volume from the other industries, volume from adjacent state industries and a variety of demographic characteristics as explanatory variables (Walker and Jackson, 2008 309).

Importantly, the authors consider the impact of adjacent-state purchases of gambling services. For present purposes, this is important since one of the factors that will shape the performance of gaming in Delaware going forward is the ongoing expansion of gaming activities in Pennsylvania and the impending introduction of video lottery terminals in Maryland. According to Tom Cook, Delaware deputy secretary of finance, “We anticipate that Maryland slots will be up and running in the spring of 2010, so they will impact the State of Delaware in the last quarter of that fiscal year by \$10 million. When slots have been operating a full year in 2011, the anticipated impact is \$70 million.” (quoted from Carol Kinsley 2009).

Walker and Jackson’s results indicate that horse and dog racing are predictably substitutes for one another. The authors conclude that this is true given the similarities of the activity and the similarities of associated venues (Walker & Jackson 2008, 326). However, lotteries do not appear to cannibalize racing industries, and the authors conclude that lotteries come at the expense of spending on *nongambling* goods and services.

The authors also concluded that the availability of a type of gambling in adjacent states would harm that industry in the state in question. Of course, a specific state or industry may behave differently than the aggregate industries studied by the authors. Moreover, from a policy perspective, the fact that these authors did not identify a clear and consistent cannibalization effect among different gaming industries indicates that while policymakers should be careful to introduce or expand gaming in their state, there is little to suggest the automatic presence of significant or systematic cannibalization impacts.

### Complementarities between Horse Racing and other Forms of Gaming

The developers of Del Pointe propose to introduce two forms of gaming in one venue. From an economic/fiscal perspective, this raises at least two questions. First, what are the likely synergies between these two forms of gaming (horse racing and slots)? Second, given the broader experience of horse racing tracks in the United States, is the proposed race track at Del Pointe likely to be viable without the support of video lottery terminals?

Importantly, the synergies between horse racing and video lottery terminals are likely to be even stronger in Delaware than they are nationally. The original legislation that ushered slots into Delaware was called the Horse Racing Redevelopment Act. Over the past decade, slots have financed racing improvements at Delaware Park in Wilmington, including a newly

resurfaced turf oval, a large infield video monitor, rehabilitation of the clubhouse, new grandstand seating, etc. The state fairgrounds at Harrington have also been a beneficiary with new show barns and exhibit halls (Kinsley 2009). According to John Mooney, executive director of horse racing for Delaware, slots “have been the savior of racing in the state of Delaware.” (Kinsley 2009) This apparent connection between slots and the re-emergence of the horse racing industry is due in large measure to the dedication of a proportion of revenues produced by slots to the horse racing industry, which in turn allows the industry to supply the marketplace with higher quality venues and racing.

This is confirmed by Sal DiMario, Executive Director of the Delaware Standardbred Owners Association, Inc., who stated in 2007 that, “The engine that drives the horse racing industry is the purses. If the purse money is diminished, investment into horse racing is diminished proportionately.” Mr. DiMario added that increased purse money would have a “ripple effect” throughout the \$280 million standardbred industry, including upon horsemen, farmers and trainers.

Similarly, Marylanders anticipate significant synergies between horse racing and the introduction of slots machines. According to Maryland’s Department of Labor, Licensing and Regulation (DLLR; 2007), a decade ago Maryland led its neighbors in horse racing handles and purses, which respectively represent the amount bet on races and the prize money awarded to winners. Not coincidentally, Maryland was also a leader in terms of the number of horses being bred.

With the introduction of slots machines in Delaware and West Virginia, the lifeblood of Maryland’s racing industry was steadily drained away. Delaware’s racetrack slots venues (Delaware Park, Harrington Raceway and Dover Downs) generated gross revenues of more than \$650 million in 2006 and Marylanders accounted for roughly 30 percent of these total revenues. Correspondingly, average daily purses for harness races at Delaware’s Dover Downs rose from 55<sup>th</sup> in the nation in 1996 to 8<sup>th</sup> by 2005. During that same period, Maryland’s Ocean Downs fell eight spots from 57<sup>th</sup> to 65<sup>th</sup>. Moreover, both West Virginia and Delaware have expanded bonus programs to encourage horse owners to breed in those states and move their horses to those states for a period of time to become eligible for additional purse money (Maryland DLLR, 2007). Data indicate that both West Virginia and Delaware have experienced sharp increases in

breeding that is largely attributable to slots. For instance, West Virginia produced 192 foals in 1995. By 2005, that number had increased 212 percent to 599 (Maryland DLLR, 2007).

As further evidence of the synergies between horse racing and slots, the number of racing days in Maryland has declined from 306 days roughly 15 years ago to 185 days in 2007. This number fell again in 2008. By contrast, at Charles Town in West Virginia, the number of racing days now stands at more than 200 days per year and the number of racing days is rising.

*Baltimore Sun* columnist Michael Olesker noted the decline in action at Maryland tracks in a January 5<sup>th</sup>, 2003 column:

“You walk into Pimlico [home of the Preakness race in Baltimore] on a normal day and a few thousand hardcore folks are there, many huddled in the shadows on little beach chairs, staring numbly at television simulcasts, oblivious to all around them, while outdoors there’s a sea of about 14,000 empty seats.” (as quoted in Hemphill, 2003).

In that same Olesker column, it is noted that:

“In Delaware, and more recently in West Virginia, slot machines have rejuvenated the racing business and poured millions into civic projects . . . Tens of millions in slot money have been funneled into the state’s racing industry, and more into refurbished schools and expanded police efforts. Every day, they thank heaven for all those cars filling their racetrack parking lots – uncountable numbers of them with Maryland license plates,” as quoted by Hemphill (2003).

In response to approval by referendum of slots machines in Maryland in 2008, the State of Maryland is presently crafting its response to years of fiscal and economic loss to Delaware and West Virginia. In December 2008, Maryland’s Department of Legislative Services published an *Update of the Legislators’ Guide to Video Lottery Terminal Gambling*. The exhibit below provides key assumptions regarding the future size and scope of Maryland’s video lottery terminal program. From a Delaware perspective, important considerations include the fact that

up to 15,000 VLTs could be situated in Maryland by August 2012, including in Cecil and Worcester counties.

Exhibit L6. Maryland Video Lottery Terminal Facility Locations, Timing of Operations and win-per-day.

Potential Location	VLTs	WPD	Begin Operations	Full Capacity
Anne Arundel	4,750	\$315	February 2011	February 2012
Baltimore City	3,750	\$315	August 2011	August 2012
Cecil	2,500	\$210	August 2011	August 2012
Worcester	2,500	\$150	February 2011	February 2012
Allegany (Rocky Gap)	1,500	\$115	August 2011	August 2012

Source: Department of Legislative Services, Office of Policy Analysis, Annapolis, MD, December 2008; WPD = win per-day

The positive economic relationship between horse racing and slots is certainly broader than just the experience of West Virginia, Delaware and Maryland. Anecdotes abound. As an example, several years ago, Yonkers raceway in New York was losing an estimated \$5 million a year. Before slots were installed, the raceway had shut down. Since slots were introduced, racing purses have been expanding, the quality of racing has increased and Yonkers is contributing to the local economy again (Pesca 2008). Slots and racing have become so intertwined that some racetrack observers believe it has become a self-perpetuating trend. According to Michael Pollack, publisher of the *Gaming Industry Observer*, “as more racetracks become racinos, it puts pressure on the remaining racetracks to get gambling to support their purses, so it feeds on itself.” (Pesca 2008).

In another noteworthy example, Prairie Meadows Racetrack in Altoona, Iowa was bankrupt and its doors also closed prior to the approval of slots machines in 1994 (North Dakota Legislative Council, 2006). Between 1995 and 1997, Iowa emerged as the nation’s fastest-growing thoroughbred breeding state, climbing from 28<sup>th</sup> to 12<sup>th</sup> nationally in total foals bred. In 2002, Polk County, Iowa residents voted to approve the racino for another eight years.

## Gaming and Social Impacts

The social impacts or costs of gaming have conventionally been viewed through the categories of personal bankruptcy, crime and pathological gambling. Social scientists continue to examine these issues and analytical findings remain mixed.

The relationship between gaming and crime remain unclear. For instance, the presence of legalized gaming has been alleged to increase crime rates in the communities in which casinos operate (Hemphill, 2003). However, several studies have called that view into question.

As an example, in a comprehensive review of available information on gaming and crime, former Illinois Inspector General and director of the Illinois State Police Jeremy Margolis found little documentation of a causal relationship between the two (Margolis et al. 1997). According to Margolis et al. (1997), research indicates that when the increased population resulting from a casino's population is properly accounted for, the pre- and post-casino data indicate that communities with casinos are just as safe as communities that do not have casinos.

Margolis et al. (1997) utilize the Uniform Crime Reporting (UCR) program to collect data. The UCR involves more than 16,000 local/county and state law enforcement agencies. The primary purpose of these data is to supply reliable statistics for law enforcement administration, operation and management. In other words, these data need to be accurate. Margolis' review of the data indicates that:

- Las Vegas, Nevada has a lower crime rate and is safer than virtually every other major American tourist venue;
- Atlantic City, New Jersey's crime had been declining from 1991 through the date of the article's publication;
- At the time of the article's publication, Joliet Illinois enjoyed its lowest level of crime in fifteen years; and
- Crime rates in Baton Rouge, Louisiana had decreased every year since casino gaming was introduced.

Closer to home, in a study commissioned by the Greater Baltimore Committee, researcher Peter Reuter analyzed available crime data on the experiences of approximately 20 communities that had established casinos since the mid-1980s. Reuter found no evidence that casinos had a major impact on the crime rates of towns or metropolitan areas in which they are situated (Reuter 1997).

According to the National Opinion Research Center (NORC) at the University of Chicago, after compiling and examining data regarding 100 randomly selected communities as well as 10 communities within 50 miles of a casino, researchers found that casino proximity is not statistically significant for any crime outcome measures (University of Chicago 1999 as described by Hemphill, 2003). Similarly, in a report issued by the Public Sector Gaming Commission, commission members who had reviewed data collected in studies undertaken over the previous decade found no link between casino-style gambling and crime (National Council of Legislators 2000).

That said, there are studies that do show such a link, including a study conducted at the University of Illinois that analyzes U.S. county level data and claims to find approximately 8-10% of crime in counties with casinos were linked to the casino (Grinois et al. 1999). Other studies that find a link between expanded gaming and crime include Hakim and Buck (1989), Ryan (1990), Thompson (1996). Criticism of these studies has focused upon the lack of control for pre-gambling and post-gambling populations. Once population is controlled for, much of the perceived increase in crime is explained away (Margolis 1997).

#### Nonlottery Gaming Does Not Appear to Increase Income Inequality

Other literature has focused upon the impact of gaming upon income inequality, with the theory being that lower income individuals disproportionately engage in certain gambling activities, thereby reducing their availability of disposable income. Freund and Morris (2006) conclude that nonlottery gambling (e.g., slots) has little impact on state-level inequality. By contrast, lotteries clearly foster income inequality (Freund & Morris 2006).

#### Relationship between Gaming and Personal Bankruptcy is Weak

Barron, Staten and Wilshusen (2000) investigated the relationship between gaming and personal bankruptcy. This article was authored at a time of soaring personal bankruptcies. Nearly 1.4 million U.S. households filed for bankruptcy protection in 1998, about a half million more than in 1995. Perhaps even more striking is the fact that between 1992 and 1998, one out of every 20 U.S. households filed for bankruptcy. This occurred against the backdrop of arguably the most favorable economic conditions in a half-century.

The traditional explanation for personal bankruptcies has been the occurrence of insolvency events (e.g., layoffs, failure of a small business, divorce, extended illness, uninsured medical expenses) that create a financial crisis for which bankruptcy becomes the borrower's only perceived or best solution (Barron, et al. 2000). Debtor surveys consistently find that the majority of bankruptcies is triggered by insolvency events. That said, the rise in insolvency events during the mid-1990s seemed inconsistent with the sharp improvement in the economic climate at that time.

Naturally, one of the theories to emerge was that some of this bankruptcy was due to the rapid increase in casino and other forms of gambling. After all, consumer spending on all forms of commercial gambling in the U.S. attained a record \$54.3 billion in 1998, up from less than \$40 billion in 1994.

To identify the impact of casino gambling on bankruptcy filing rates while controlling for other variables, Barron et al. employed a multivariate estimation procedure based on annual observations for over three thousand U.S. counties from 1993 through 1998 (18,313 observations in all). The model was structured to account for two salient characteristics of personal bankruptcy filings during the period: 1) a wide variance in bankruptcy filing rates across counties in any given year and 2) a substantial increase in annual filings beginning in 1995.

States with licensed (non-Indian) casino gambling were identified through an authoritative industry publication, *International Gaming & Wagering Business*. Importantly, the authors did not analyze the impact of racinos and their gambling database included facilities in 59 counties located in 11 states (Colorado, Connecticut, Illinois, Indiana, Iowa, Louisiana, Mississippi, Missouri, Nevada, New Jersey, and South Dakota).

The authors concluded that the volume of casino gambling is directly and positively related to the bankruptcy filing rate in areas that have casinos nearby. Significantly, the upward influence on bankruptcy filing rates associated with proximity to casinos declines with distance. Bankruptcies in "collar" counties were less responsive to adjusted gambling revenues than were bankruptcies in casino counties themselves.

The magnitude of the author's calculated effect can be summarized as follows. Suppose there had been no expansion in casino gambling activity during the years in which bankruptcy filings escalated (i.e., hold casino revenues constant at 1994 levels). The model indicates that

bankruptcy filing rates in 1998 would have been 3.9 percent lower in counties that hosted or were adjacent to casinos and 0.7 percent lower nationwide.

These findings can be placed into broader context. The authors also find that the type of facility in which gambling takes place determines its repercussions on a community. Facilities that are able to invite relatively more of their patrons from outside their jurisdiction generate fewer adverse effects and attract relatively greater marginal local economic benefits (Barron et al. 2000).

This is particularly relevant with respect to Del Pointe, which is being developed to attract tourists to Southern Delaware's already tourism-intense beach towns. The literature suggests that this type of venue generates less local bankruptcy and greater economic impact and support for incomes for local households. This type of facility also produces significant and positive recapture effects.

## Economic and Fiscal Impact Analysis

### Measuring Economic and Fiscal Impacts

The activity created by Del Pointe generates an economic effect that extends throughout the economy of Sussex County and the State of Delaware and expands the benefits created directly by the development. The totality of these economic effects is sometimes called the multiplier effect (please see literature review above for additional theoretical detail).

In the language of economics, these economic activities are termed the direct, indirect, and induced effects of the jobs, income, and sales generated by Del Pointe. The design and construction jobs as well as the racetrack, casino, hotel, and restaurant jobs created by the development are considered direct effects. Indirect effects occur when the contractors building the project purchase goods and services from other firms in Sussex County or Delaware. These businesses purchase everything from nails to advertising services from local firms. In turn, these suppliers will purchase office supplies and electric power among many other items and services supplied by other local firms. In its totality, this succession of purchases by suppliers and suppliers of suppliers creates the indirect effect. A similar set of indirect effects occurs once Del Pointe is operational as the restaurant, for example, buys foodstuffs from local wholesalers or accounting services from local CPA firms or as the racetrack provides opportunities for local concessionaires.

The wages and income received by the employees, contractors, and owners of the project and of the succession of suppliers that is linked to the development create additional effects. These wages are spent in varying degrees in Sussex County and Delaware for a very broad range of consumer purchases from housing and groceries to entertainment and Christmas gifts. The economic activity associated with these purchases is the induced effect. IMPLAN modeling software provided the study team with Sussex County- and Delaware-specific parameters that characterize the propensity of the typical consumer to purchase a wide variety of goods locally.

These direct, indirect, and induced effects can be measured along three dimensions: employment (measured in full-time and part-time jobs), income (measured in dollars), and output

or sales of goods and services (business sales; measured in dollars). These effects are estimated using proprietary software and a computer model created for this analysis.<sup>1</sup>

This analysis looks at prospective Del Pointe impacts in two political jurisdictions: Sussex County and the State of Delaware. Because the development occurs in Sussex County and most directly impact the southern portion of the state, the economic and fiscal impacts on the county are examined first. While the economic and fiscal contributions of the project are most immediately connected with firms and people in Sussex County, the effects of this large proposed project will extend well beyond the county and also provide additional benefits to businesses and residents in other portions of Delaware.

Impacts associated with two broad phases of the development are assessed. The construction of Del Pointe creates a series of one-time effects. Once Del Pointe is operational, a second set of ongoing impacts occurs. These impacts are measured in terms of ongoing, annual effects and can essentially be considered permanent because they are presumed to last into economic perpetuity.

Finally, in addition to economic impacts, the development and operation of Del Pointe will create fiscal impacts, defined as new streams of tax revenue and public benefit for Sussex County and Delaware. This analysis includes estimates of property tax and income tax. Property tax is collected by Sussex County as well as municipalities. Because many functions of local government in Delaware are the responsibility of municipalities, property taxes for municipalities can be significant, while county property taxes are relatively modest. Because the specific municipal location of Del Pointe is uncertain, this analysis only generates an estimate of future property taxes that will be generated for the benefit of Sussex County. At this time the developer of the proposed project is seeking annexation into Millsboro. While no decision has been reached on this annexation proposal, this analysis estimates municipal property taxes that would apply should that application be approved. Income tax in Delaware is collected only by state government.

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<sup>1</sup> The analysis is based on software and data created by the Minnesota IMPLAN Group, Inc. IMPLAN has become the industry standard for the kind of input-output analysis conducted for this project. Using IMPLAN data, a custom economic and fiscal impact model specific to this analysis was created.

## From Limited Competition to Localized Markets

The three racetrack/casinos in Delaware have enjoyed a privileged position in their respective marketplaces since they were opened in the mid-1990s. This privileged position began to change two years ago with the opening of a few slots venues in southeastern Pennsylvania. In the next several years the number of competing locations that offer slots or slots and horse racing will increase substantially as more Pennsylvania facilities open and new competition emerges in Maryland.

In 1978, the old Chalfonte-Haddon Hall Hotel in Atlantic City, New Jersey was converted into the Resorts International. When Resorts International opened its doors on May 26, 1978, legal casino gambling was introduced to the East Coast in an effort to revive the fortunes of Atlantic City, which had long since fallen on hard times.

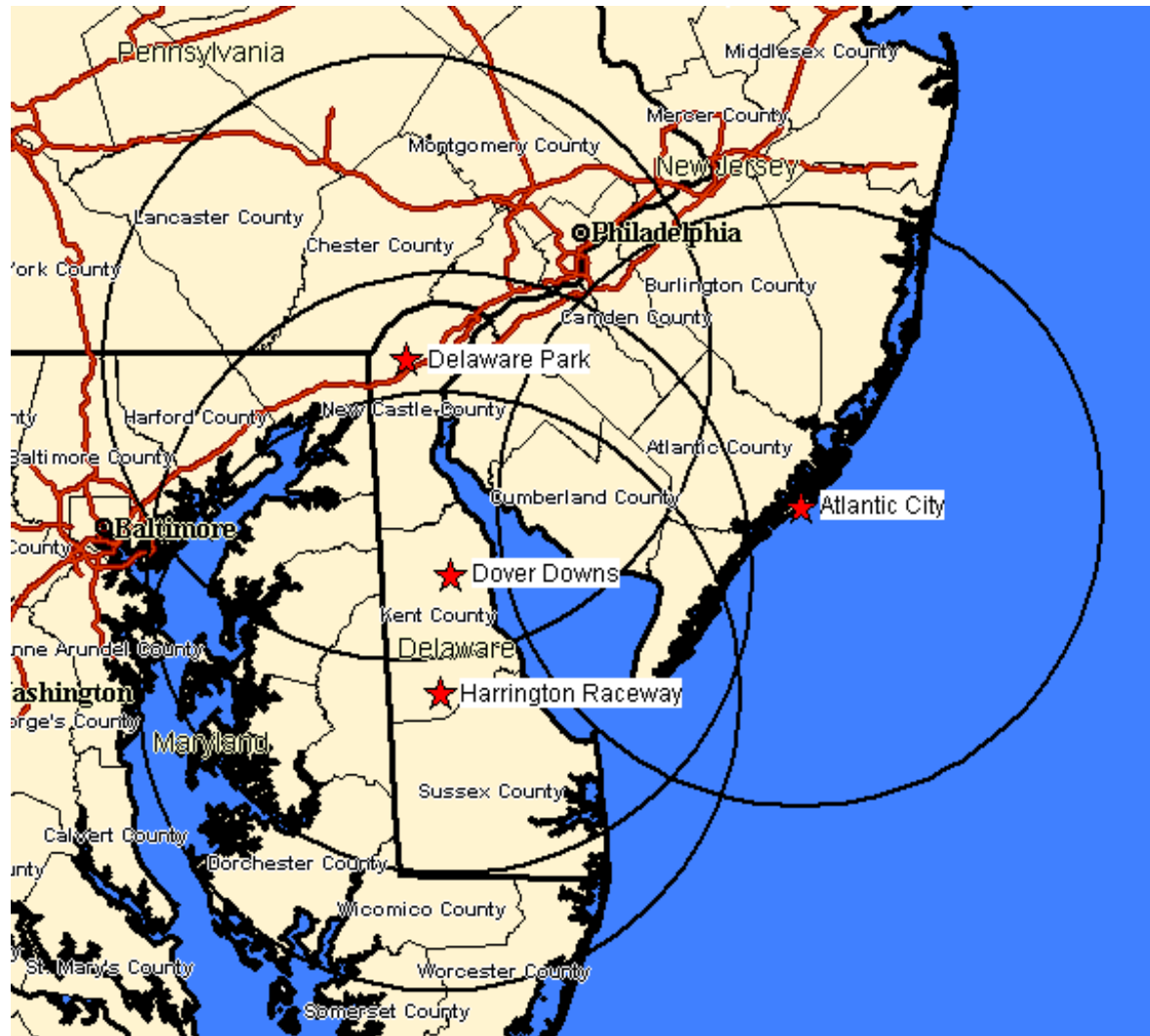
For the better part of two decades Atlantic City was the sole eastern location for casinos. Then in the mid-1990s Delaware and West Virginia authorized casinos and video lottery terminals. By 1996, legal gambling was established in Delaware at three horse racetracks and in several locations in West Virginia, notably Charles Town, in the northeast corner of the state near the borders of Maryland and Virginia.

While Charles Town and Atlantic City represent competition for Delaware's venues, they are relatively distant. Charles Town is almost 150 miles west of Wilmington while Atlantic City is almost 90 miles east of Wilmington. Moreover, the Delaware venues combined horse racing and casinos, a combination that has proven complementary and so successful that a new word "racino" was coined. Slots and horse racing have proven to be mutually supportive and therefore tend to generate higher revenues than would be possible for either individually. This combination was not then and is not now available in Atlantic City, but is available at the more distant Charles Town site.

Given the relative lack of gaming supply in the region through the mid-1990s, when Delaware first entered the gaming industry, it was in a favored position relative to potential competition. Exhibit 1 depicts the locations of the initial competition for Delaware racinos. The circles around these sites represent a 50-mile radius (roughly a one-hour drive) that constitutes the principal market area for these venues. While Atlantic City with its concentration of casinos and hotels represents an overnight travel destination for many (although not all) of its casino patrons, the Delaware racinos and Charles Town casino are typically visited by daytrippers who

will return home after their gaming time. The 50-mile radius constitutes a reasonable demarcation of the market area for most daytrip visitors to these sites. For the Delaware venues, the daytrip market area incorporates a substantial share of the metropolitan areas of Philadelphia, Baltimore, and Washington, DC—a clear competitive advantage over both Atlantic City and Charles Town.

Exhibit 1a. Initial competition for Delaware racinos: Atlantic City



Source: Decision Data

Exhibit 1b. Initial competition for Delaware racinos: Atlantic City and Charles Town



Source: Decision Data

Facing limited competition, the results for Delaware racinos were predictably spectacular. After 1997, the first full year of operation, net revenue from VLTs grew at double-digit rates for 5 years. Even with the occasional slow growth year, the average annual increase in VLT net revenue exceeded 8 percent from 1997 through 2008. VLT net revenue (also known as the “win”) is the revenue generated by these machines after all monies won by players (known as payout) are paid. Payouts range from 87 percent to 95 percent in Delaware. From a total of \$77 million in 1996, when VLTs operated for less than a full year, total VLT net revenue reached \$636 million in 2007, a more than eight-fold increase in total revenue, before retreating to \$612 million in 2008. Exhibit 2 provides total VLT net revenue for each year from 1996 through 2008 and the percentage increase on a year-to-year basis.

Exhibit 2. VLT net revenue for Delaware, 1996-2007

<i>Fiscal Year</i>	<i>VLT net revenue (millions)</i>	<i>Increase from prior year</i>
1996	\$77	
1997	\$256	232%
1998	\$327	28%
1999	\$378	16%
2000	\$454	20%
2001	\$504	11%
2002	\$557	10%
2003	\$526	-6%
2004	\$532	1%
2005	\$575	8%
2006	\$604	5%
2007	\$636	5%
2008	\$612	-4%
Total/CAGR (1)	\$6,036	8.2%

Notes. CAGR is the compound annual growth rate for the period 1997-2007. Excluded from this calculation is the increase from 1996 to 1997 because revenue in 1996 was generated for only part of the year, thus resulting in an unusually large year-to-year increase from 1996 to 1997.  
Sources. Delaware Lottery annual reports, Sage

In the past few years, the competitive outlook has changed considerably. For instance, Pennsylvania legislation authorizing the installation of 61,000 VLTs passed in 2004. Facilities were operating by 2006. By late-2008, seven facilities with almost 17,000 VLTs were in place. These facilities are concentrated in eastern Pennsylvania near population concentrations in Philadelphia, New Jersey, and New York. Of particular significance to Delaware are two Philadelphia area locations—Chester Downs located south of Philadelphia International Airport, about 20 miles north of Wilmington, and Philadelphia Park, about 50 miles north of Wilmington in Bensalem, Pennsylvania. Other VLT venues are reportedly under construction in Pennsylvania, including several in the Philadelphia area.

Because of the presence of these newly-formed alternatives, Dover Downs estimated that revenue from Pennsylvania patrons decreased from 5 percent of total annual revenue in 2006 to 4 percent of total annual revenue in 2007. While this represents a 20 percent decline in business from Pennsylvania, it is unclear whether this is a permanent change or a more temporary phenomenon. In its most recent report to the U.S. Securities and Exchange Commission, Dover Downs indicated that for 2008 revenue from Pennsylvania patrons had returned to 5 percent of total revenue and was unchanged from the prior year.

With the approval of 15,000 slot machines by Marylanders during the November 2008 election, gaming prospects in Delaware were again altered. While complete details have yet to

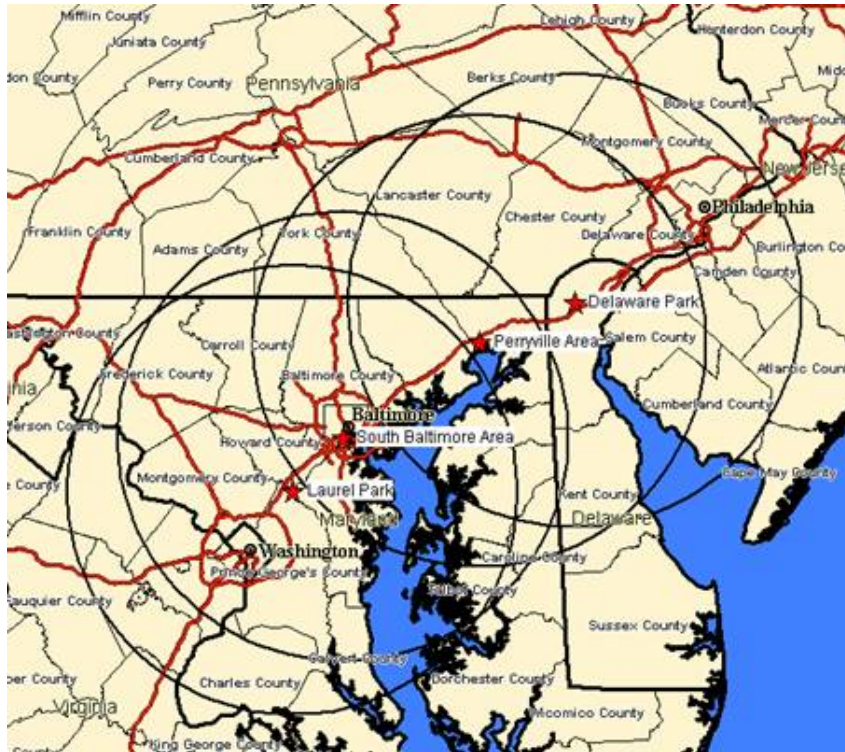
emerge, it is clear that Maryland will be taking direct aim at the racetracks and casinos that have drawn hundreds of millions of Maryland dollars to Delaware over the past decade-plus. Of the five presumed locations for slots in Maryland, two—Cecil County and Worcester County—will clearly be sited to capture Maryland traffic presently headed to Delaware. A series of maps of likely competition for existing Delaware racinos in the relatively near future, as presented in Exhibit 3, is strikingly different from the competitive landscape of only a few years ago (i.e. the map in Exhibit 1).

Exhibit 3a. Future competition for Delaware: Perryville, Cecil County and Ocean Downs



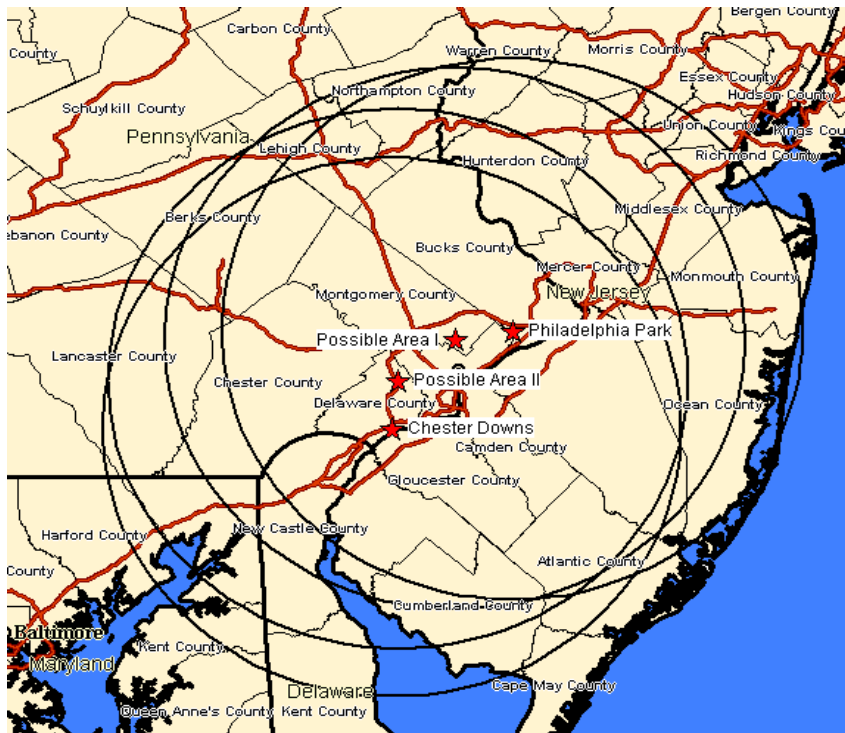
Source: Decision Data

Exhibit 3b. Future competition for Delaware: Baltimore, Laurel Park and Perryville, Cecil County



Source: Decision Data

Exhibit 3c. Future competition for Delaware: Pennsylvania Locations



Source: Decision Data

In this changing competitive landscape, certain characteristics of the marketplace are likely to become centrally important. The most significant of these is an increasingly localized market for most venues. For slots players, the presumed behavioral preference is convenience. Indeed, one “rule of thumb” is that aggregate gaming venue demand drops to 30 percent to 35 percent of its previous tally every time the distance a player must travel doubles. In other words, proximity is highly correlated with higher gaming revenues.

Another likely emerging characteristic of the marketplace will be the premium placed on travel destinations. While the typical patron of Delaware’s racinos and other venues in the overall regional market is a daytripper rather than an overnight visitor, there are clear examples of the significance of travel destinations and gaming. The most obvious example is Las Vegas, which has successfully transformed itself into a family and business destination in recent years. Less obvious, perhaps, is the potential for gaming facilities to serve nearby travel destinations. A feasibility study of a proposed Canadian casino, for example, estimated the propensity for area visitors to patronize a casino at 10 percent. That is, one in 10 visitors to an area with at least one casino were projected to visit a casino in that area.

Sussex is already a significant travel destination and visitors to the area constitute an important market for Del Pointe. In 2007, an estimated 3.2 million visitors came to Sussex County, about 6 percent more visitors than the prior year and approximately 40 percent of all visitors to Delaware. Almost half of these visitors come during the months of July, August, and September. Moreover, among those coming from out of state, almost half come from Maryland (24 percent) and Pennsylvania (20 percent). Three out of four visitors are leisure travelers as opposed to business travelers. Most visitors (60 percent) stayed overnight and stayed an average of 1.7 nights per trip although one in six stayed four or more nights. Furthermore, Sussex County is a noted location for second homes and one in five visitors stayed in their own second homes. The focus of these visitors was typically the beach and water-related activities. Visitors in 2007 were relatively affluent with 62 percent having household income of at least \$75,000 while the average visitor had a household income over \$78,000, compared to the roughly \$62,000 average household income for all Sussex County residents.

Given these trends and conditions, the future competitive marketplace for Delaware’s racinos is likely to be characterized by a more concentrated focus on local markets and competitive advantages to those venues that can capitalize on their status as full-fledged travel destinations.

In the latter case, the venue itself may be the travel destination or the venue may be more generally associated with an important travel destination. This association is primarily defined by convenient access.

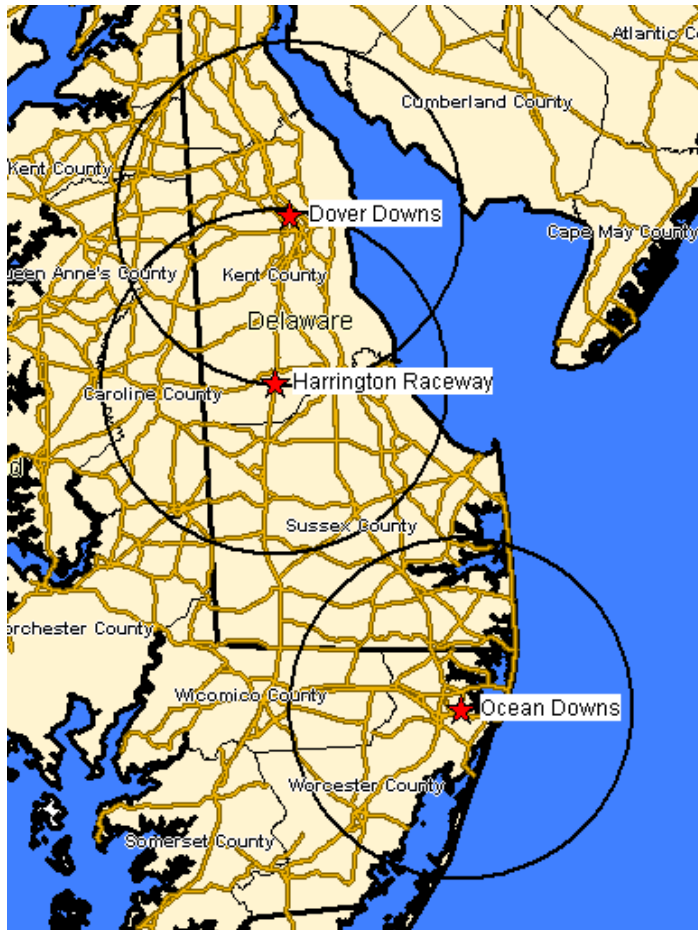
What will be less available in the future is Delaware's ability to provide racinos or slots venues to daytrip customers on Maryland's western shore and in the greater Philadelphia/southern New Jersey market areas. For these more distant patrons, the convenience of newly opened or opening venues will often, though not always, trump the appeal of Delaware's racinos for the typical daytrip patron.

#### Impacts of an Ocean Downs Racino on Delaware

New gaming venues in Pennsylvania and Maryland will compete with all three Delaware existing locations. Relative to Delaware's standardbred tracks/racinos, the obvious competition will be Ocean Downs outside Ocean City, just a few miles south of the Delaware line.

According to recent analyses of the introduction of slots into Maryland, there are likely to be 2,500 VLTs at Ocean Downs in Worcester County in the long-run. These gaming machines would complement the existing standardbred racetrack at Ocean Downs, creating a racino not unlike the existing racinos at Harrington and Dover, Delaware. In terms of gaming and standardbred racing in central and southern Delaware, the introduction of a casino at Ocean Downs would substantially alter the local marketplace. The change in the marketplace can be seen by comparing areas representing on an approximately 30-minute drive around the existing Delaware standardbred venues and Ocean Downs, as presented in Exhibit 4.

Exhibit 4. Local market areas for Dover Downs, Harrington Raceway and Ocean Downs



Source: Decision Data

What is immediately clear is the intrusion of Ocean Downs into southern Delaware. While a new casino at Ocean Downs would have little appeal to local patrons of Dover Downs, a new competitor in Maryland would have direct effect on Harrington. Given the importance of convenience to slot players, it is highly likely that Ocean Downs would draw many local customers from Sussex County who presently are served by Harrington.

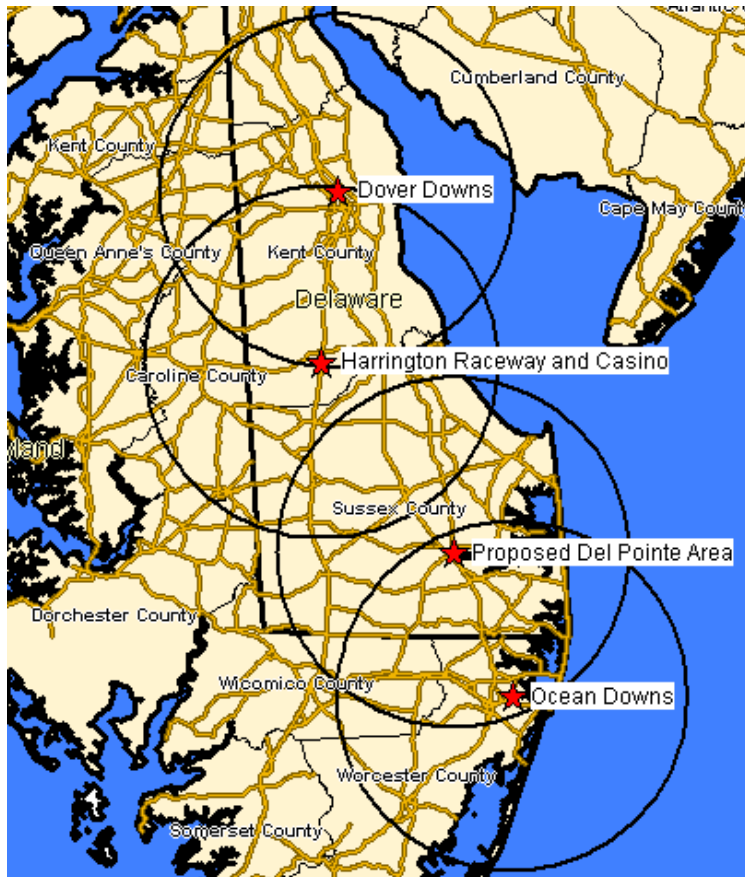
On a purely geographic basis, a line equidistant from Ocean Downs and Harrington Raceway extends roughly from Lewes to the southwest corner of Delaware. Those living above this line would be closer to Harrington Raceway, while those below would be closer to Ocean Downs. For those living below this line or vacationers staying in Rehoboth Beach or any location south of Rehoboth Beach, the choice of a slots venue would tend to be Ocean Downs. This would reverse the well-established pattern of Marylanders coming to Delaware to play slots. Indeed, a new slots venue at Ocean Downs, in the absence of any new slots venue in southern Delaware,

would create the novel issue of retaining some Delaware slots players who would be traveling to Maryland. These Delaware slots players would be drawn not only from the roughly 80,000 Delaware residents who would live closer to Ocean Downs than to Harrington, but also from the 3 million visitors who come to Sussex County to take advantage of the community’s beaches and other recreational charms.

Del Pointe as a Strategic Element of Delaware’s Standardbred Racinos

With the likely impacts of the Ocean Downs racino on Harrington, the development of Del Pointe in Millsboro, Delaware would strategically change the local markets for slots in southern Delaware and Maryland’s Eastern Shore. These changes can be visualized by examining local markets for standardbred racinos in Delaware and Maryland assuming the creation of Del Pointe. Exhibit 5 depicts the 30-minute-drive times surrounding these four venues.

Exhibit 5. Local market areas for Dover Downs, Harrington Raceway, Del Pointe and Ocean Downs



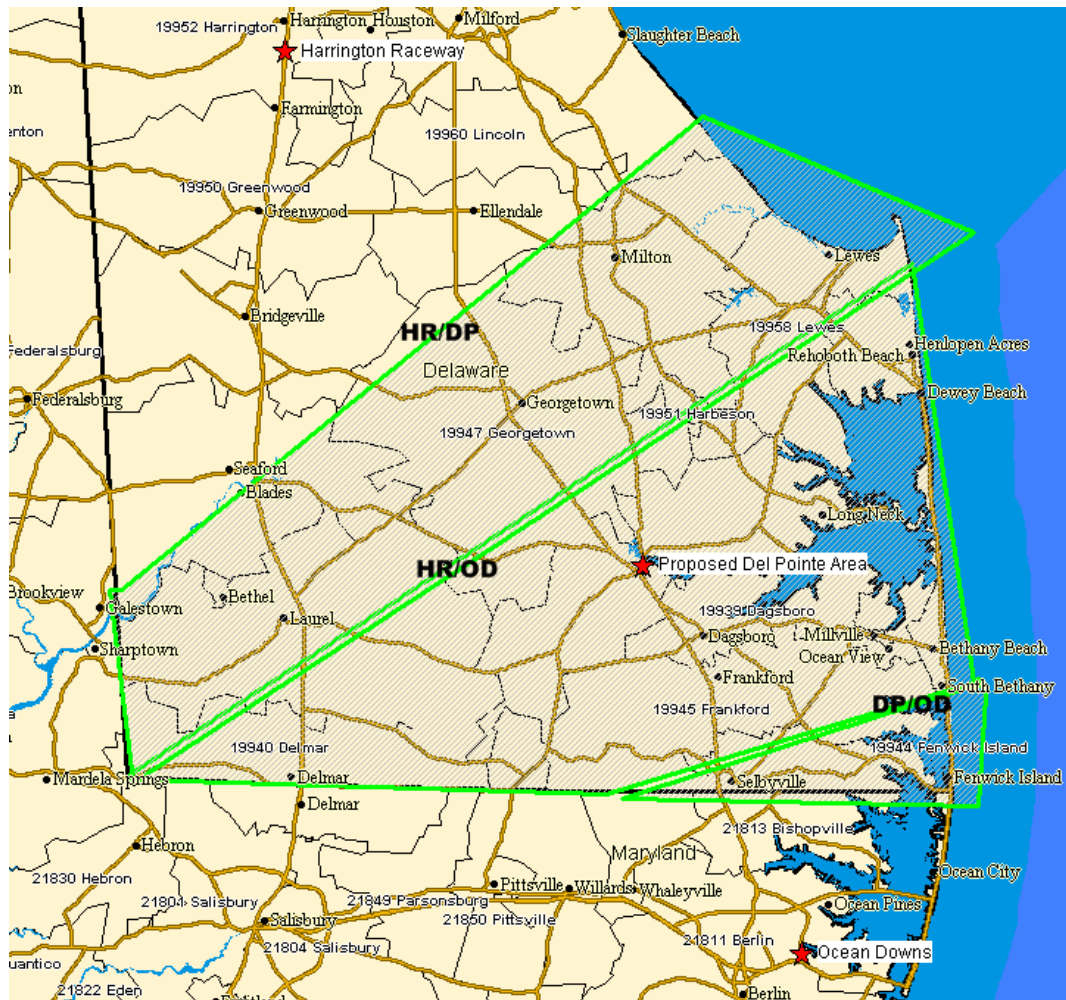
Source: Decision Data

The creation of Del Pointe would serve as a strategic counterpoint to a new racino at Ocean Downs. For those players concerned with convenience, Del Pointe is the venue of choice for almost all the residents of Sussex County that would go otherwise to Ocean Downs. Similarly visitors to Sussex County, especially the majority of vacationers along the Atlantic coast, would find Del Pointe the closest gaming location. Moreover, some residents of the lower Maryland Eastern Shore, particularly those in Salisbury, would also find Del Pointe closer than Ocean Downs. For those traveling from or through Salisbury, travel time to Del Pointe might also be considerably shorter in the summer when Route 50 can be particularly congested.

As Exhibit 5 also shows there would be overlap between the local markets for Del Pointe and Harrington. This overlap must be considered in the context of a new racino at Ocean Downs. While Del Pointe and Harrington would compete for players located between them, Harrington would be facing similar competition from Ocean Downs if Del Pointe were not developed.

Exhibit 6 outlines three areas of southern Delaware that are overlapping market areas for Harrington Raceway, Del Pointe, and Ocean Downs. These market areas are defined by lines marking the geographic midpoints between Harrington Raceway and Del Pointe, Harrington Raceway and Ocean Downs, and Del Pointe and Ocean Downs, defined on the map as the lines marked HR/DP, HR/OD, and DP/OD, respectively.

Exhibit 6. Local market overlaps for Harrington Raceway, Del Pointe and Ocean Downs



Sources: Decision Data, Sage

The area in Delaware that lies between the lines HR/DP and HR/OD represents the area of the state that would tend to gravitate to Del Pointe as opposed to Harrington assuming both Del Pointe and Ocean Downs were in operation. That is, in the future, people living in this area might substitute Del Pointe for Harrington when they were playing slots.

The demographic characteristics of these overlapping market areas are summarized in Exhibit 7. In the area defined by the lines HR/DP and HR /OD, there are relatively fewer households compared to the other overlapping market areas in southern Delaware. The area also has the lowest population density, albeit by a narrow margin. By a considerable margin the population in this area is younger than in other overlapping market areas. This final point is likely to be significant because of the propensity for slots players to be older. Of the three

overlapping market areas in southern Delaware the overlap area between Harrington and Del Pointe, then, is relatively a lightly populated area comprising a relatively young population. If Harrington were to lose business to Del Pointe, the loss would likely be concentrated in this geographic area, though given the light density of this area and its younger population, losses at Harrington would be proportionately small, particularly when one presumes the future presence of a slots facility in Ocean City, MD.

Exhibit 7. Demographics of overlapping local market areas

<i>Overlap area</i>	<i>Population</i>	<i>Population density</i>	<i>Households</i>	<i>HH Average Income</i>	<i>Population median age</i>
HR/DP HR /OD	61,881	189.2	24,081	\$62,735	38.1
HR /OD DP/OD	71,312	189.5	31,596	\$67,082	46.8
DP/OD State boundary	9,672	241.6	4,499	\$60,899	49.7
Sources: Decision Data, Sage					

The more important issue from a State of Delaware perspective is Del Pointe’s ability to retain Delaware patrons who otherwise would play slots at Ocean Downs (please see discussion in literature review above regarding recapture effects). Even in the absence of Del Pointe, Harrington would lose most of the business generated by the over 80,000 people who live below the midpoint line between Harrington and Ocean Downs. This area is not only more populous than the overlapping area between Harrington and Del Pointe, but is also more affluent and older. The latter two characteristics are significant as both affluence and age are correlates of gaming expenditures.

In addition to the residential population that would be lost to Ocean Downs if Del Pointe were not developed, there is also the substantial, 3 million-plus visitor population that is drawn to Sussex County. While detailed data on the location of these visitors are not available, it is reasonable to assume that the great majority stays along and near the Atlantic coast south of Lewes. Thus, these visitors would find Ocean Downs more convenient than Harrington. If as estimated in the cited report on casino feasibility in New Brunswick, one in 10 of these visitors would include gaming in their activities, then most of the 300,000 visits generated by tourists would be lost to Ocean Downs. Alternatively, virtually all these visitors would find Del Pointe the most convenient location relative to lodging along the coast. Without Del Pointe, the study

team believes that the majority of gaming interests of the 3 million seasonal visitors to Sussex County would be met by the eventual gaming facility at Ocean Downs. Importantly, Del Pointe would also have the ability to deflect Delaware visitor traffic that may otherwise spend a day or longer in Atlantic City, N.J., though the level of substitution away from Del Pointe is not easy to calculate.

Even were Del Pointe not in operation, Harrington's loss would be Ocean Downs' gain. This would also be Delaware's loss and Maryland's gain. This loss would be compounded by Ocean Downs' ability to capture most of the gaming business generated by visitors to Delaware's Atlantic Coast. Those living and vacationing in Maryland's lower Eastern Shore and the Virginia counties of Accomack and Northampton would also find Ocean Downs more convenient than Harrington.

From a statewide perspective Del Pointe represents a strategic answer to what will almost certainly be emerging and expanding competition from Ocean Downs. Without Del Pointe, this competition will not only support the Maryland legislature's desire to recapture Maryland dollars being spent at Delaware's racinos, but will also divert Delaware dollars from Delaware racinos to Ocean Downs.

### Growth in Demand for Gaming and VLTs

Although changes in the marketplace strongly indicate growing competition facing Delaware's racinos and the current economic downturn has clearly dampened current enthusiasm for gaming, population growth in local markets and long-term growth in income suggest strong growing demand for gaming. This underlying demand for gaming should support the industry in Delaware for the foreseeable future.

As noted above, Delaware's racinos are likely to be increasingly focused on more local markets. For the southernmost venues—Harrington and Del Pointe—these local markets are largely defined by the State of Delaware and Maryland's Eastern Shore. According to the U.S. Census, the population of Delaware and Maryland's Eastern Shore will grow significantly between now and the year 2020. In Delaware, population is expected to grow a total of almost 13 percent in the years between 2007 and 2015. From 2015 and 2020 state population is supposed to grow an additional 5.5 percent, reaching almost 1 million by the year 2020. Of Delaware's three counties, Sussex County is expected to register the most rapid population

growth. Between 2007 and 2015 the county's population is projected to increase by 23 percent and almost 9 percent in the next five years beyond those.

Population growth on Maryland's Eastern Shore is expected to follow similar trends. Between 2007 and 2015, the population of the Upper Eastern Shore is expected to grow by 16.5 percent while during the same period the Lower Eastern Shore is expected to gain almost 12 percent in population. From 2015 to 2020, the Upper and Lower Eastern Shore are expected to record population increases of approximately 8 percent and 5 percent, respectively. Projected population growth rates on the Eastern Shore as a whole are consistently greater than statewide population growth rates in Maryland. Detailed information on these projected population increases is presented in Exhibit 8.

Exhibit 8. Population projections for Delaware and Maryland's Eastern Shore

<i>State/County</i>	<i>2000</i>	<i>2007</i>	<i>2010</i>	<i>2015</i>	<i>2020</i>	<i>2007-2015</i>	<i>2015-2020</i>
Delaware	786,431	827,788	896,880	934,924	986,296	12.9%	5.5%
Kent	127,108	144,160	159,980	169,356	177,817	17.5%	5.0%
New Castle	501,860	506,504	539,987	556,766	571,201	9.9%	2.6%
Sussex	157,463	177,124	197,313	217,802	237,278	23.0%	8.9%
Upper E. Shore, MD	209,295	229,413	243,850	267,350	288,550	16.5%	7.9%
Caroline	29,772	31,646	34,100	37,250	40,300	17.7%	8.2%
Cecil	85,951	97,573	103,850	117,800	130,350	20.7%	10.7%
Kent	19,197	19,307	20,300	21,300	22,200	10.3%	4.2%
Queen Anne's	40,563	45,416	48,650	52,450	55,650	15.5%	6.1%
Talbot	33,812	35,471	36,950	38,550	40,050	8.7%	3.9%
Lower E. Shore	186,608	194,676	205,550	217,650	228,300	11.8%	4.9%
Dorchester	30,674	31,026	32,350	34,650	36,300	11.7%	4.8%
Somerset	24,747	25,798	26,550	27,500	28,300	6.6%	2.9%
Wicomico	84,644	89,056	96,100	101,850	107,450	14.4%	5.5%
Worcester	46,543	48,796	50,550	53,650	56,250	9.9%	4.8%
Maryland	5,296,486	5,456,383	5,779,400	6,086,850	6,339,300	11.6%	4.1%

Sources: U.S. Census, Sage

The other major component in the predicted growth in demand for gaming and VLTs is future income. National wage growth rates are projected by the Social Security Administration. Growth in income is, at a minimum, expected to correlate to growth in demand for gaming and other entertainment. Generally, growth in income is assumed to result in an equivalent increase in growth in gaming expenditures by individuals. There is, however, data to support a projection of growth in gaming expenditures that exceeds growth in overall income. The high-end of these estimates indicates that for every 1 percent increase in total income, there is a 2 percent increase

in expenditures on gaming. This suggests that growth in income in the market area for Delaware's racinos may result in a range of growth in gaming spending by individuals. For this analysis, this range will include a low estimate based on 1:1 ratio of growth in gaming expenditures to growth in income; the high-end is set at a ratio of 1.5:1. For example, the high-end estimate would generate an estimated increase of 6 percent in gaming expenditures if there were a 4 percent increase in income. In this example the low-end estimate would indicate a 4 percent increase in gaming expenditures associated with a 4 percent increase in income.

It is important to note that this is fully consistent with the realities of the marketplace today. The study team is fully aware of the fact that income growth presently remains muted by the worst economic conditions to prevail in America and globally in decades. However, it is expected that the VLTs will be in place well after the worst of this economic downturn. By mid-2010, the U.S. and Delaware economies should be in recovery as monetary and fiscal policy takes hold and as the consumer begins to release pent-up demand.

Exhibit 9 presents projections for increases in per capita gaming expenditures based on national wage growth rates. By setting gaming expenditures for 2007 to a value of 1.00, an index can be established that tracks the growth in gaming expenditures on a year by year basis through the year 2015. For example, wages are expected to grow 4.6 percent in 2008, the lower bound of the index for gaming expenditures for 2008 would then be 1.046 with the upper bound being 1.069. As shown in the exhibit, these projections of wage growth suggest that gaming expenditures by 2010 will grow between almost 14 percent to over 20 percent from levels experienced in 2007. By the year 2015, gaming expenditures are projected to grow from 38 percent to 57 percent relative to spending in 2007.

Exhibit 9. Projected increases in per capita gaming expenditures

<i>Year</i>	<i>US wage growth</i>	<i>Index for gaming expenditures—low</i>	<i>Index for gaming expenditures--high</i>
2007	4.6%	1.00	1.000
2008	4.6%	1.046	1.069
2009	4.3%	1.091	1.136
2010	4.2%	1.137	1.205
2011	4.1%	1.183	1.275
2012	4.2%	1.233	1.350
2013	4.0%	1.282	1.424
2014	3.8%	1.331	1.497
2015	3.8%	1.382	1.573

Sources: Social Security Administration, Sage

By combining projected increases in wage growth and gaming expenditures with projected increases in population, an estimate of total growth in gaming expenditures can be generated. Exhibit 10 shows the results of these calculations for the period from 2007 to 2010 as well as the changes from 2007 to 2015. Between 2007 and 2010, total gaming expenditures are projected to increase from 22 percent to almost 30 percent. This represents an annual increase of 6.9 percent to 9 percent. Over a longer period from 2007 to 2015 the increase in gaming expenditures from 2007 levels is expected to total from 57 percent to 78 percent. Over this longer eight-year period, the average annual increase is expected to range from roughly 6 percent to 7 percent, reflecting projections for slower population growth rates as well as smaller annual increases in wage growth as projected by the Social Security Administration in the years following 2010. These estimated increases in total gaming expenditures are for the State of Delaware and Maryland's Eastern Shore, the principal market area for Delaware's standardbred racinos.

Exhibit 10. Projected increases in total gaming expenditures

<i>Type of change</i>	<i>Change from 2007-2010</i>	<i>Change from 2007-2015</i>
Increase in population	7.5%	13.4%
Increase in gaming expenditures--low	22.3%	56.7%
Increase in gaming expenditures--high	29.6%	78.4%
CAGR—low *	6.9%	5.8%
CAGR—high *	9.0%	7.5%
Note. * CAGR is compound annual growth rate		
Sources: US Census, Social Security Administration, Sage		

These projected increases in total gaming expenditures can be used to estimate future gaming revenues in Delaware. Exhibit 11 projects net revenue for all Delaware VLTs in the absence of any new competition from Maryland. The actual net VLT revenue (i.e. revenue after all payouts to patrons) for Delaware racinos in 2007 was \$636 million and dropped to \$612 million in 2008 according to the Delaware Lottery 2007 Annual Report. This figure is projected to increase at the low and high annual rates for increases in total gaming expenditures listed in Exhibit 10 with one exception. Because of the current economic recession and the likelihood it may last longer than expected, rates of increase for 2009 are assumed to be half of those projected in Exhibit 10. As shown, in the absence of competition from Maryland, total net revenue for VLTs in Delaware would grow to \$790 million in the low case assumptions and \$850 million in the high case assumptions.

Exhibit 11. Projected VLT revenue for Delaware racinos without Maryland competition

Year	Source of revenue value	Annual increase in net VLT revenue		Total net VLT revenue for DE (millions)	
		Low	High	Low	High
2007	Actual	N.A.	N.A.	\$636	\$636
2008	Actual	N.A.	N.A.	\$612	\$664
2009	Projected	3.45%	4.50%	\$633	\$639
2010	Projected	6.90%	9.00%	\$676	\$697
2011	Projected	3.15%	4.07%	\$698	\$725
2012	Projected	3.15%	4.07%	\$720	\$754
2013	Projected	3.15%	4.07%	\$742	\$785
2014	Projected	3.15%	4.07%	\$766	\$817
2015	Projected	3.15%	4.07%	\$790	\$850

Sources: Delaware Lottery annual reports, Sage

Maryland, however, is expected to create five venues with as many as 15,000 VLTs. This competition is likely to recapture a majority of the Maryland dollars now being spent at Delaware racinos. The estimates of the number of dollars Marylanders spend at Delaware venues vary. The estimate of \$230 million spent by Marylanders at Delaware racinos in 2007 reported in the University of Maryland Baltimore County study is representative and is the value used in this analysis. Assuming the dollars spent by Marylanders would grow (or shrink in the case of 2008) at the same rate as all other dollars spent at Delaware racinos, the contribution that Marylanders would make to Delaware VLT revenues can be projected over time. Exhibit 12 summarizes this contribution of Marylanders and estimates the value of future Delaware VLT revenue less all revenue attributable to Marylanders.

Exhibit 12. Comparison of Delaware and Maryland contributions to VLT revenue (millions)

Year	Total net VLT revenue for DE racinos		All MD net revenue		DE net revenue less all MD net revenue	
	Low	High	Low	High	Low	High
2007	\$636	\$636	\$230	\$230	\$406	\$406
2008	\$612	\$612	\$221	\$221	\$390	\$390
2009	\$633	\$639	\$229	\$231	\$404	\$408
2010	\$676	\$697	\$245	\$252	\$432	\$445
2011	\$698	\$725	\$252	\$262	\$445	\$463
2012	\$720	\$754	\$260	\$273	\$459	\$481
2013	\$742	\$785	\$269	\$284	\$474	\$501
2014	\$766	\$817	\$277	\$296	\$489	\$522
2015	\$790	\$850	\$286	\$308	\$504	\$543

Sources: Delaware Lottery annual reports, Sage

Estimates of how much of the spending by Marylanders at Delaware racinos would be recaptured by Maryland slots venues vary from a low of 50 percent to an upper bound of 100 percent. This analysis assumes that Maryland would recapture between 60 percent and 75 percent of the dollars now spent by Marylanders in Delaware. In other words Delaware racinos would retain at least 25 percent and at most 40 percent of the revenues attributable to Marylanders. The future ability of Delaware to retain the business created by Marylanders will depend on various factors including the appeal of venues in Delaware versus those in Maryland and the convenience and accessibility of these venues to slots players in both states. In this competition, the strategic location of Del Pointe in southern Delaware relates directly to the issues of convenience and accessibility.

Exhibit 13 presents the low and high cases for future Delaware VLT revenue assuming a minimum of 25 percent of Marylanders' spending and a maximum of 40 percent of Marylanders' spending is retained by Delaware venues. These projections assume that half of the 15,000 Maryland slot machines are in place by 2011 and that all 15,000 machines are in place in 2012. The effects of Maryland competition are significant as revenue at Delaware racinos drops by more than \$100 million from 2010 to 2011, the first year that Maryland is assumed to have a substantial number of VLTs. Revenue drops again in 2012 as the remaining 7,500 Maryland machines come online. Thereafter, final revenue for Delaware racinos begins to grow again as population and income gains are reflected in increased gaming spending.

Exhibit 13. Projected Delaware VLT revenue including retained revenue spent by Marylanders (millions)

Year	DE net revenue less all MD net revenue		Retained net MD revenue		Final net revenue for DE racinos	
	Low	High	Low	High	Low	High
2007	\$406	\$406	\$230	\$230	\$636	\$636
2008	\$390	\$390	\$221	\$221	\$612	\$612
2009	\$404	\$408	\$229	\$231	\$633	\$639
2010	\$432	\$445	\$245	\$252	\$676	\$697
2011	\$445	\$463	\$126	\$210	\$571	\$672
2012	\$459	\$481	\$65	\$109	\$524	\$591
2013	\$474	\$501	\$67	\$114	\$541	\$615
2014	\$489	\$522	\$69	\$118	\$558	\$640
2015	\$504	\$543	\$71	\$123	\$576	\$666

Sources: Delaware Lottery annual reports, Sage

Since VLTs were first introduced in Delaware in 1996, the total number of machines has increased steadily, although at varying rates over the years. In 2007, a total of 7,326 machines were in place, while a year later the total number of machines had grown to 8,366. This analysis assumes that Del Pointe is able to install 1,000 VLTs in mid-2010 (FY2011), another 1,000 in 2011 (FY2012), and 500 more for a total of 2,500 machines in 2012 (FY2013). In all other years, the number of machines statewide is assumed to increase at a rate of 3 percent. Using the projections for final net revenue for Delaware racinos shown in the prior exhibit, the net revenue per VLT can be calculated as shown in Exhibit 14. Per machine revenue tends to decrease over the next several years as gaming expenditures grow at a slower rate than the growth in the number of VLTs. The introduction of a significant number of VLTs at Del Pointe coincident with the introduction of machines at Ocean Downs and other venues in Maryland results in a more significant decrease in per machine revenue in 2011 and 2012. After 2012 revenues per machine begin to grow again as gaming expenditures increase and the market has adjusted to increased availability of VLTs in Maryland and the shift of a significant number of dollars from Delaware venues to Maryland venues. Exhibit 14 summarizes the projected increase in the number of VLTs and the low and high cases and midpoint of net revenue per VLT per year.

Exhibit 14. Projected total Delaware VLT revenue and revenue per VLT per year

Year	Final net revenue for DE racinos (millions)		No. of VLTs	Net revenue per VLT per year		
	Low	High		Low	High	Midpoint
2007	\$636	\$636	7,326	\$86,770	\$86,770	\$86,770
2008	\$612	\$612	8,366	\$73,098	\$73,098	\$73,098
2009	\$633	\$639	8,617	\$73,417	\$74,163	\$73,790
2010	\$676	\$697	9,617	\$70,322	\$72,432	\$71,377
2011	\$571	\$672	10,617	\$53,820	\$63,340	\$58,580
2012	\$524	\$591	11,117	\$47,166	\$53,133	\$50,149
2013	\$541	\$615	11,117	\$48,653	\$55,297	\$51,975
2014	\$558	\$640	11,450	\$48,726	\$55,873	\$52,299
2015	\$576	\$666	11,794	\$48,798	\$56,455	\$52,627

Sources: Delaware Lottery Annual Reports, Sage

VLT revenue is sometimes reported on a per machine per day basis. The annual revenue per VLT values shown in the previous exhibit are converted to daily rates in Exhibit 15. The analysis assumes machines operate 363 days a year, with Delaware venues being closed on Christmas and Easter. From the estimated \$201 per day value in 2008 (a sharp drop from the

\$239 per day value for 2007), the daily net revenue per VLT drops to its lowest level in 2012, when daily revenue is estimated to range from \$130 to \$146. Thereafter, daily revenue figures steadily increase from a minimum of \$134 to a maximum of \$156.

Exhibit 15. Projected total Delaware VLT revenue and revenue per VLT per day

Fiscal Year	Net revenue per VLT per year			Net revenue per VLT per day		
	Low	High	Midpoint	Low	High	Midpoint
2007	\$86,770	\$86,770	\$86,770	\$239	\$239	\$239
2008	\$73,098	\$73,098	\$73,098	\$201	\$201	\$201
2009	\$73,417	\$74,163	\$73,790	\$202	\$204	\$203
2010	\$70,322	\$72,432	\$71,377	\$194	\$200	\$197
2011	\$53,820	\$63,340	\$58,580	\$148	\$174	\$161
2012	\$47,166	\$53,133	\$50,149	\$130	\$146	\$138
2013	\$48,653	\$55,297	\$51,975	\$134	\$152	\$143
2014	\$48,726	\$55,873	\$52,299	\$134	\$154	\$144
2015	\$48,798	\$56,455	\$52,627	\$134	\$156	\$145

Source: Delaware Lottery Annual Reports, Sage

Although these projections show a significant decrease in net revenue per machine per day, the projections are in line with other estimates. For example, the Maryland Department of Legislative Services in its reports to the Maryland Legislature has estimated that the Ocean Downs venue would generate net revenue per VLT per day of \$150. Although most other Maryland venues are projected to have higher revenue per VLT, the venues with higher revenues are in more densely populated and generally more affluent areas than Ocean Downs. An analysis by Innovation Group, specifically for the Del Pointe venue, estimated win per day per VLT at \$162 for 2011, then declining to \$130 in 2012 when the number of VLTs increases to 2,000, before beginning a steady increase in 2013 to \$136 and more modest increases thereafter.<sup>2</sup>

This analysis estimates that VLTs at Del Pointe (based on its idiosyncratic demographics) would achieve net revenue per day ranging from \$160 to \$165 when they are initially installed in FY2011 – FY2012. When the second thousand VLTs are installed, it is assumed that net revenue per VLT would drop sharply before increasing at rates consistent with those shown in Exhibit 15. By FY2013, per machine revenue at Del Pointe would average approximately \$150, including the impacts of sports betting as discussed below. This is attributable to a number of factors, including expanded awareness of Del Pointe as a destination by 2013, greater presence

<sup>2</sup> Innovation Group, Inc., “Table game estimate,” undated.

of complementary amenities by that time, expected improvement in the general economic environment, and the impacts of recent state legislation.

### Impacts of New Gaming Alternatives

An important driver of VLT revenue for Del Pointe and other racinos in Delaware is the prospect of new gaming options. Recent legislation has opened up the options of table games and sports betting, each of which are likely to be part of the Del Pointe mix of operations. Each will contribute to overall gaming revenue.<sup>3</sup>

An analysis of table games indicates that if combined with the proposed number of VLTs at Del Pointe, they would generate income equal to about 15 percent to 16 percent of total gaming revenues as a supplement to VLT revenue. This is a mid-range figure for venues that are not destinations like Las Vegas and Atlantic City.<sup>4</sup>

Sports betting *per se* is projected to be a modest source of revenue for gaming establishments. There is, however, some evidence that sports betting if conducted near VLTs can increase the revenues generated by these slots machines. Because there is little experience by which to judge this tendency for sports betting to increase VLT revenue, there is a tendency to make conservative estimates of this effect. Overall an assessment prepared for the Delaware government indicated that sports betting might involve wagers totaling \$150 million annually of which 7.5 percent would be gross revenue for racinos in the state. In addition, the presence of sports betting was estimated to increase VLT revenue by 10 percent.<sup>5</sup>

The potential effects on Del Pointe gaming revenue are summarized in Exhibit 16. The exhibit shows revenue for 2013 when the full complement of VLTs is in place and the full effects of table games and sports betting are assumed to be evident. Basic VLT revenue is considered that revenue that would be generated in the absence of sports betting and is estimated at \$136 per VLT per day. With 2,500 and 363 operating days annually, this basic VLT revenue totals over \$123 million per year. Sports betting is estimated to generate another \$12 million from these machines so that \$136 million is the total win from VLTs in 2013. In addition, 30

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<sup>3</sup> Delaware House of Representatives, "House substitute no. 1 for House Bill no. 100," April 6, 2009 and "House amendment no. 10 to House substitute no. 1 for House Bill no. 100," May 8, 2009 authorize table games and sports betting in Delaware.

<sup>4</sup> *Op. cit.*, Innovation Group.

<sup>5</sup> Delaware Office of Management and Budget, "Sport betting report as per HJR 10 of the 144<sup>th</sup> General Assembly," January 10, 2008.

tables games machines are estimated to generate \$18 million. Based on Del Pointe’s estimated share of all Delaware VLTs in 2013, sports betting will generate another \$2.5 of gross revenue, about 22 percent of the state total sports betting revenue. Altogether gaming activities at Del Pointe will generate an estimated \$156 million in revenue in 2013.

Exhibit 16. Estimated gaming revenues, Del Pointe, 2013

<i>Source of revenue</i>	<i>VLTs/units</i>	<i>Win/day/VLT or unit</i>	<i>Gross revenue (millions)</i>
Basic VLT revenue	2500	\$136	\$123.4
Spillover from sports betting	N.A.	N.A.	\$12.3
Total VLT revenue			\$135.8
Table games	30	\$1,629	\$17.7
Sports betting	N.A.	N.A.	\$2.5
Total gaming revenue			\$156.0

Sources: Innovation Group, Delaware Office of Management and Budget, Sage

#### Estimating Economic and Fiscal Impacts: Methods

In addition to the fiscal impacts of the video lottery terminals to be situated at Del Pointe, the development will generate additional economic impacts during its construction phase and through the day-to-day operations of the various components of the development, including the one-mile racetrack, a hotel, the proposed restaurants, commercial shopping, movie theater, office space, a paintball facility, residential condominiums, an indoor sports arena, and higher education buildings. For this analysis, the estimation of economic impacts begins with an understanding of the ways in which the project will create or respond to new demands for goods and services in the local economy. These new demands create a whole series of related demands for goods and services in the local economy, which in total are considered the economic impact of the project.

#### *Construction phase impacts, methodological considerations*

For the construction phase, which is expected to begin in 2009, these new demands are defined by the costs of developing the project. These costs can include design and architectural services, site preparation, installation of utilities, building construction, the purchase of furniture, fixtures, and equipment, among other goods and services. The analysis is based upon primary

data regarding planned construction activities. The estimated costs of total project construction are listed in Exhibit 17.

Exhibit 17. Estimated project construction costs, 2009 and beyond

<i>Project element</i>	<i>Value (millions)</i>	<i>Year initiated</i>
Racetrack, grandstand, and paddock	\$35.1	2009
Casino (3 restaurants)	\$48.1	2009
Great Wolf Lodge hotel (300-suites and meeting space)	\$81.1	2010
Commercial Shopping - Phases I and II (2 restaurants)	\$65.1	2010, 2012 (respectively)
Racino Hotel	\$46.1	2011
Movie Theater	\$22.8	2012
Residential Condominiums	\$121.4	2012
Indoor Sports Arena	\$5.0	2012
Paintball Facility	\$0.4	2013
Office Complex	\$9.6	2013
Higher Education Buildings	\$77.6	TBD
Construction total	\$512.3	
Sources: Aegis Development, Sage		

These construction values are converted into economic impacts using data and software provided by IMPLAN. These data and software provide models of state and county economies based on the econometric relationships between as many as over 500 different sectors of these economies. For Delaware which has a relatively small economy compared to some larger states, IMPLAN models 440 distinct economic sectors. For each of these sectors, IMPLAN provides a number of economic variables including multipliers for income, output (i.e. sales of goods and services by businesses and other organizations), and employment. These multipliers indicate, for example, the share of final demand that creates new wages and income. Other multipliers estimate the number of full-time and part-time jobs that are created by new final demand.

For example, given the basic information on the proposed Great Wolf Lodge hotel, Sage generated an estimate of construction costs from its own database of costs for similar projects. A highly unusual feature of the proposed hotel is an indoor water park. For Great Wolf Lodge, the proposed hotel operator, these water parks have typically occupied 41,000 to 110,000 square feet of space in their existing facilities; 57,000 square feet being the average for the newer existing Great Wolf Lodge with approximately 300 family suites (the proposed number of suites for the Del Pointe location). Hotel development is complicated and typically involves substantial costs

for outfitting built space (i.e. for furniture, fixtures, and equipment) and costs for opening the hotel.

Exhibit 18 provides further examples of the multipliers for one of the Delaware sectors. In this instance, these multipliers estimate that, for every \$1 million of new final demand for nonresidential, nonmanufacturing commercial construction, just over eight direct jobs would be created. These jobs would generate direct labor income of \$402,100. In addition suppliers to those directly involved in construction and the entire supply chain would create 1.4 jobs with income of about \$83,000. The total value of output or sales by these suppliers would be worth almost \$225,000. Finally consumer spending by the workers who are directly or indirectly employed because of the \$1 million of new nonresidential, nonmanufacturing commercial construction would support roughly 2.2 jobs with income of \$87,000 and would generate \$264,000 of sales in the consumer economy. This final set of impacts would all be considered induced effects. In total, the \$1 million of construction would support almost 12 jobs with income of \$572,000 associated with business sales of not quite \$1.5 million.

Exhibit 18. Multipliers for new nonresidential, nonmanufacturing commercial construction in Delaware, for each \$1 million of commercial construction

Type of impact	Direct effect	Indirect effect	Induced effect	Total effect
Labor income	0.4021	0.0828	0.0873	0.5722
Output	1.0000	0.2249	0.2640	1.4889
Employment	8.1070	1.4004	2.2267	11.7341
Source: IMPLAN				

In the case of estimating construction impacts for the project, each project element is aligned with the appropriate economic sector available in IMPLAN. Exhibit 19 lists a sample of these sectors, which include construction sectors as well as wholesalers for furniture, fixtures, and equipment and architectural and engineering services required for the development of the hotel and hotel operations for the opening costs of the hotel. The appropriate multipliers are then applied to the value of new final demand for each project element.

Exhibit 19. Selected IMPLAN sectors for the construction phase

<i>Project element</i>	<i>IMPLAN sector</i>	<i>Sector description</i>
Racetrack and grandstand/casino	36	Construct other new nonresidential structures
Great Wolf Lodge hotel		
Basic construction	34	Construct new nonresidential commercial
Furniture, fixtures, equipment	319	Wholesale trade businesses
Site work	36	Construct other new nonresidential structures
Architecture and engineering	369	Architectural engineering and related
Opening costs	411	Hotels and motels including casino hotels
Indoor amusement park	36	Construct other new nonresidential structures
Restaurant	34	Construct new nonresidential commercial
Sources: IMPLAN, Sage		

*Operational phase impacts, methodological considerations*

Revenue estimates for the hotel, concerts, and restaurants are based on various secondary sources. Revenue generated by Great Wolf Lodge is reported to the Security and Exchange Commission (SEC) and are available online. In its most recent quarterly report to the SEC, the company reported results from 11 facilities operating in nine states and Ontario. Revenue from all sources including rooms, food and beverage, and meeting facilities for the first nine months of 2008 was \$262.30 per available room per day. This revenue is used to estimate revenue generated by a 300-room hotel at Del Pointe, operating 365 days per year.

The Del Pointe racing facility will be positioned to accommodate a series of other events. These events will be oriented toward entertaining large audiences. Revenues from these other events are expected to approach \$800,000 by 2013. A revenue breakdown is presented in Exhibit 20.

Exhibit 20. Revenues generated by other events, 2013

<i>Type of spending</i>	<i>Revenue</i>
Admissions	\$599,908
Parking	\$50,007
Concessions	\$149,977
Total	\$799,892
Source: Aegis Development, Sage	

Restaurant spending is based on sales per square foot of space, the most common measure of retail revenue. Ruby Tuesday is cited by the developer as a likely candidate for one of the restaurants. This chain reports per square foot sales of \$410 for 2007 according to several sources including wikinvest ([www.wikinvest.com](http://www.wikinvest.com)). The other restaurant is envisioned as

somewhat more upscale (e.g., Big Fish Grill). According to The HdL Companies, family dining (e.g., Applebees, Red Robin, Chilis) and dinner house (e.g., Outback, P.F. Changs, Black Angus) restaurants have annual revenue that ranges in sales per square foot from \$325 to \$800. The estimate of \$450 is at the lower end of this range and may well be conservative, but this presumption accords well with the study team’s preference to generate conservative estimates.

These operational revenues are then matched to the most relevant IMPLAN sectors to estimate economic impacts. Exhibit 21 lists those sectors.

Exhibit 21. IMPLAN sectors for the operational phase

<i>Project element</i>	<i>IMPLAN sector</i>	<i>Sector description</i>
Racetrack, simulcast, casino/VLTs	409	Amusement parks, arcades, and gambling
Great Wolf Lodge hotel	411	Hotels and motels- including casino hotels
Tickets to concerts and events	404	Promoters of performing arts and sports
Parking	422	Other personal services
Stadium concessions	413	Food services and drinking places
Other event spending	Custom sector	Mixed retail
Restaurants	413	Food services and drinking places
Sources: IMPLAN, Sage		

Given the large share of net VLT revenue that is returned as support for state government and the Delaware Lottery agency, the model also estimates the impacts of these revenues. IMPLAN has a sector devoted to local and state government that is used for these calculations.

Fiscal impacts are estimated after economic impacts are known. In Delaware the most relevant fiscal impacts are the State income tax and Sussex County property tax. Delaware has no sales taxes, which is often an important source of state and/or local government revenue. State income tax estimates are based on the effective tax rate of 2.88 percent as reported by the state. Sussex County property taxes are based on the 1974 replacement value of properties as determined by county government appraisers. The assessed value is then set at 50 percent of that replacement value. The Sussex County real property tax is \$0.3983 of \$100 of assessed value.<sup>6</sup> To estimate the 1974 replacement value of the value of properties developed at Del Pointe, the \$92 million value was adjusted from 2009 dollars to 1974 dollars using the implicit price deflators for gross domestic product, specifically the deflator for nonresidential structures, published by the Bureau

<sup>6</sup> Communications from Sussex County Assessment Department to Sage. January 8, 2009.

of Economic Analysis. As noted in the main text, municipalities also levy property taxes to pay for essential services. Given the possibility that the project will become part of Millsboro (the study team does not presume this, but recognizes this as a potential scenario), taxes for that municipality are also estimated. Property taxes in Millsboro are based on 100 percent of the 1992 assessment of value. The combined rate for the schools, city, library, and vo-tech for Millsboro for 2008-2009 is \$3.2797 per \$100 of assessed value.<sup>7</sup>

### Construction Impacts, Analytical Findings

The development and construction of the project is expected to have a substantial economic and fiscal impact on Sussex County and Delaware. Exhibit 22 summarizes these impacts. In Sussex County construction activities are expected to support 6,248 jobs with associated income of \$306 million. County businesses are estimated to garner \$719 million worth of sales of goods and services during the construction phase. The \$306 million of income would generate an estimated \$8.8 million of personal income taxes for the State of Delaware. Statewide impacts are somewhat larger. These impacts, which include the Sussex County impacts, are 6,343 jobs with \$311 million of associated income and sales of goods and services worth \$730 million for Delaware businesses. The \$311 million worth of income supported statewide will result in personal income taxes collected by the State worth over \$8.9 million. These impacts relate to all Del Pointe construction activities, including both phases.

Exhibit 22. Construction-related impacts, 2009 through 2013 (one-time impacts)

<i>Type of impact</i>	<i>Sussex County</i>	<i>Delaware</i>
Total employment (full-time and part-time annualized jobs)	6,248	6,343
Total personal income (millions)	\$306.3	\$310.7
Total business sales (millions)	\$719.4	\$729.5
Total personal income taxes * (thousands)	\$8,815	\$8,943
Note. * Based on statewide average effective personal income tax rate of 2.88 percent.		
Source: Sage		

### Operational Impacts, Analytical Findings

Once fully operational, Del Pointe will create economic and fiscal impacts as a result of an interrelated set of activities. By far the most important of these is the operation of a projected 2,500 VLTs as well as the table games and sports betting activities. Other components of the

<sup>7</sup> Ibid.

overall development, however, will be significant generators of impacts and account for roughly two-thirds of the total impacts.

In total, the various aspects of the Del Pointe project are expected to generate annual revenue in the range of \$550 million once the project is fully developed. Roughly 30 percent of this total revenue would be generated by gaming activities once all of the expected 2,500 VLTs are in place with another 20 percent derived from commercial shopping activities. Other activities and facilities generating \$20 million or more in annual revenue or income include the hotels, residents of the condominium units, the higher education facility, and office development. Exhibit 23 summarizes total annual revenue and income for these various aspects of Del Pointe and provides the input factors used to calculate total annual revenue/income. Annual revenue figures in the following tables reflect conditions that will be present when all project elements are fully developed (roughly by FY2013). Please note, annual revenue figures in the following tables are shown for the fiscal year 2013 (i.e. July 1, 2012 through June 30, 2013).

Exhibit 23. Major sources of operations revenue for Del Pointe, FY2013

<i>Project element</i>	<i>No. of VLTs/ hotel rooms/SF/ screens/condos/ enrolled students</i>	<i>Revenue/income/ hotel room/SF/ screens/condos/ enrolled students</i>	<i>Total annual revenue (millions)</i>
All gaming revenue (1)	2,500 VLTs, 30 table games	N.A.	\$156.0
Racetrack (2)	N.A.	N.A.	\$8.4
Other events (3)	N.A.	N.A.	\$0.8
Great Wolf Lodge hotel (4)	300	\$262	\$28.7
Restaurant #1 (5)	5,000	\$410	\$2.1
Restaurant #2 (6)	6,500	\$450	\$2.9
Casino restaurants (7)	15,000	\$410	\$6.2
Commercial Shopping (Phases I and II) (8)	350,000	\$334	\$116.8
Racino Hotel (9)	250	\$210	\$19.1
Office Complex (10)	50,000	\$400	\$20.0
Movie Theater (10)	12	\$302,190	\$3.6
Paintball Facility (11)	N.A.	N.A.	\$0.9
Residential Condominiums (12)	750	\$51,331	\$38.5
Indoor Sports Arena (11)	N.A.	N.A.	\$1.1
Higher Education Buildings (13)	1,500	\$17,669	\$26.5
Total			\$548.2

Notes. 1. Net revenue after payout to players and after all 2,500 VLTs are in place.  
 2. Racetrack revenue estimated by Gil Short and Associates.  
 3. Events revenue based on mix of events.  
 4. Revenue per hotel room is total daily revenue per available room from lodging and all other hotel services.  
 5. Revenue is annual sales per square foot, based on Ruby Tuesday sales data.  
 6. Revenue is annual sales per square foot, based on sales data for national family dining chains.  
 7. Three casino restaurants' operations based on restaurant #1 operations.  
 8. See Appendix for details.  
 9. Racino hotel assumes more limited services and amenities than Great Wolf Lodge.  
 10. Office and movie operations based on comparable facilities in Sage database of retail and business economics.  
 11. Paintball and sports arena operations and finances from Ocean Atlantic.  
 12. Residential condominium income is average household income of residents based on typical ratios of housing value to income.  
 13. Higher education revenue is based on average private college tuition at Maryland institutions other than Johns Hopkins University.  
 Sources: Innovation Group, Delaware Office of Management and Budget, Aegis Development, Great Wolf Resorts, Inc., HDL, Ocean Atlantic, Sage.

Given the unusual and particular ways that VLT and other gaming revenue supports the casino operator, Delaware state government, and horse racing, the fiscal impacts of these revenues are discussed first. Exhibit 24 summarizes estimated gross revenue received by Del Pointe in FY2013 and the anticipated allocation of that gross revenue to the state general fund and other entities as determined by the Delaware General Assembly. The estimated allocation is

for revenues generated in FY2013. VLT revenue is subject to new legislation that has increased the share of gross revenue that is allocated to the state general fund. In the past that share was 37 percent and has been increased to 43.5 percent.<sup>8</sup> VLT revenue also benefits Delaware’s horse racing industry; an estimated 11 percent of net revenue supports this purpose. An additional 7 percent of gaming revenue goes to the VLT provider (i.e. Scientific Games) and support the overall administration and regulation of the gaming industry in Delaware. The allocation of revenue from table games is more straightforward with 35 percent going to the state’s general fund. The allocation of net revenue from sports betting is split evenly between the state general fund and the racino operator. Because an estimated 43 percent of sports betting gross revenue is required for operator expenses, the state general fund and racino operator each receive about 28 percent of gross sports betting revenue. Of the total \$156 million in gaming revenue estimated for FY 2013 after all player payouts have been deducted, over half (\$83.5 million) would be allocated to the state general fund, purses for the state’s horse racing industry, or to VLT vendors.

Exhibit 24. Legislated allocation of Del Pointe gaming revenue, 2013

Source of revenue	Gross revenue (millions)	State general fund		Purses		Vendor fees		Total distribution	
		Share	Dollars	Share	Dollars	Share	Dollars	Share	Dollars
Basic VLT revenue	\$123.4	43.5%	\$53.7	11.0%	\$13.6	7.0%	\$8.6	61.5%	\$75.9
Spillover from sports betting	\$12.3	43.5%	\$5.4	11.0%	\$1.4	7.0%	\$0.9	61.5%	\$7.6
Total VLT revenue	\$135.8		\$59.1		\$14.9		\$9.5		\$83.5
Table games	\$17.7	35.0%	\$6.2					35.0%	\$6.2
Sports betting	\$2.5	28.4%	\$0.7					28.4%	\$0.7
Total gaming revenue	\$156.0		\$66.0		\$14.9		\$9.5	53.5%	\$83.5

Sources: Innovation Group, Delaware Code, Sage.

As noted, the operations of Del Pointe will directly support a substantial workforce. Through its purchases of goods and services in Sussex County and elsewhere in the state, Del Pointe will support additional jobs in its supply chain. By their spending in the consumer economy, the workers of Del Pointe and workers that Del Pointe supports at its suppliers will support another set of jobs, both in the county and statewide. In addition, the gross profits generated by Del

<sup>8</sup> Delaware Code, Chapter 48. Lotteries, Subchapter 1, State Lottery, Section 4815, State Lottery Fund.

Pointe’s gaming operations will support jobs in the state government. In total, Del Pointe’s operations upon anticipated full build-out in 2013, will support an estimated 5,770 jobs in Sussex County with associated income of \$203 million and will support sales of goods and services by county business worth an estimated \$585 million. Impacts in Delaware as a whole, which include the impacts in Sussex County, are slightly larger. The statewide income supported by Del Pointe will generate \$6 million in annual State personal income tax revenue. The increased value of the property developed by Del Pointe will provide Sussex County with roughly \$200,000 in real property taxes and will generate an estimated \$7.4 million annually in tax revenue for Millsboro.

In addition to income and property taxes, the State of Delaware imposes a hotel tax of 8 percent. These funds benefit several agencies, specifically, 5 percent goes to the State General Fund, 1 percent to the Beach Preservation Program of the Department of Natural Resources and Environmental Control of the State, 1 percent (prorated) to the convention and visitors bureau in each county and 1 percent to the Delaware Tourism Office. The hotel room revenue subject to taxes will generate an estimated \$2.9 million in annual hotel tax revenue. Details on these annual, ongoing impacts are provided in Exhibit 25 (please see appendix for additional detail).

Exhibit 25. Operations-related impacts (ongoing, annual impacts) by 2013 (full build-out)

<i>Type of impact</i>	<i>Sussex County and Millsboro</i>	<i>Delaware</i>
Total employment (full-time and part-time annualized jobs)	5,770	5,919
Total personal income (millions)	\$203	\$209
Total business sales (millions)	\$585	\$597
Total State of Delaware personal income taxes * (millions)	\$5.8	\$6.0
Total State of Delaware hotel taxes** (millions)	N.A.	\$2.9
Total Sussex County property tax (millions)	\$0.2	N.A.
Total Millsboro municipal property tax (millions)	\$7.4	N.A.
* Based on statewide average effective personal income tax rate of 2.88 percent. Income tax does not include monies that the State of Delaware would receive from players winning more than \$10,000 on a single occasion. State of Delaware hotel tax rate is 8 percent.		
** Delaware Code. Title 30, State taxes, Public accommodation taxes. Chapter 61. Lodging tax.		
Source: Sage		

As summarized in Exhibit 26, the considerable revenue that VLTs and other gaming activities generate for state government is most, but not all of the state’s fiscal benefit from Del Pointe. Once fully operational the total annual benefit to the State of Delaware created by Del Pointe includes an estimated \$66 million that goes to the State’s general fund, as well as the \$6

million in state personal income taxes and \$2.9 million in hotel taxes. Total benefits to State government will be approximately \$76 million annually.

In addition, as noted in Exhibit 24, Del Pointe will generate almost \$15 million for the state’s horse industry. By FY2013, Del Pointe’s positive economic impacts on the state’s horse racing industry will generate an additional \$561,000 per annum in State of Delaware tax revenues.

Exhibit 26. Summary of State of Delaware annual fiscal impacts attributable to Del Pointe, FY2013

State of Delaware revenues from VLTs at Del Pointe – midpoint (General Fund)	\$66.0 million
State of Delaware tax revenues from expanded horseracing <sup>9</sup>	\$0.6 million
State of Delaware personal income/payroll taxes	\$6.0 million
State of Delaware hotel tax	\$2.9 million
<i>Total</i>	<i>\$75.5 million</i>

<sup>9</sup> Please see Appendix for additional detail regarding Del Pointe’s full impact of the state’s horseracing/breeding industry

## Analytical Findings & Policy Implications

### Analytical Findings

1. Under the most favorable conditions, net income from racetrack operations in isolation covers a maximum of just 34 percent of associated facility debt service by the fourth year of operations. This is not adequate to justify the investment. In other words, the proposed racetrack does not begin to approach feasibility without complementary gaming opportunities;

Were the proposed Del Pointe development to move forward with VLTs, a 1-mile standardbred racetrack, and other key elements:

2. The project would support more than 6,000 Delaware jobs (annual job equivalents) during its construction phase;
3. The project would produce approximately \$76 million in *annual* State of Delaware fiscal impacts through VLTs, table games, and sports betting and taxes generated by the development's other components;
4. The project would recapture VLT revenue that would otherwise be lost to the impending VLT facility in Worcester County, MD;
5. The project would support 5,919 permanent/additional jobs in Delaware associated with \$209 million in annual income;
6. The project would enhance Sussex County's leisure and hospitality appeal by providing added tourist amenities;
7. The project would supply a one-mile standardbred racetrack that will significantly improve Delaware's horseracing offerings and further augment the state's already expanding horse farming/breeding industry;
8. The project would generate relatively little net impact on existing Delaware VLT facilities, including Harrington, which stands to lose marketshare with or without Del Pointe due to the presence of VLTs at Ocean Downs; and
9. The project would prevent the emergence of a situation in which the majority of gaming interests of the 3 million seasonal visitors to Sussex County would be met by the eventual gaming facility at Ocean Downs.

### Conclusion/Policy Implications

Delaware faces growing competition from Maryland and Pennsylvania. In the absence of Del Pointe, Delaware faces declining VLT revenues and declining patronage from other states. With Del Pointe, the State of Delaware is able to better attract out-of-state visitors while prevent a growing share of Delaware residents from spending their entertainment dollars elsewhere. Moreover, by supporting Delaware's expanding horse farming industry, the State is able to support additional employment and open space preservation. The study team has concluded that the proposed 1-mile standardbred Del Pointe racetrack would not be financial viable in the absence of a complementary form of gaming.

Moreover, Del Pointe is able to achieve these items without attracting considerable amounts of business away from existing First State venues. The proposed development at Del Pointe is too distant from existing venues in Wilmington and Dover to have much impact. With respect to Harrington, there is an overlapping market, but Harrington is more closely aligned with visitors from its west, including from Maryland's Upper Eastern Shore. By contrast, Del Pointe's out-of-state market will largely focus upon Maryland's Lower Eastern Shore. Moreover, to the extent that Del Pointe's market would overlap with Harrington's, the population in between is characterized as sparse and young. In other words, not many slots players emerge from this geographic area.

## Appendix A: Detailed Analysis of Del Pointe’s Prospective Impact on Horse Industry

To analyze the impact of the proposed racetrack at Del Pointe, Sage used some basic assumptions. Live horseracing is assumed to take 30 days each year with average daily attendance of 2,000 to 2,300 (2010 through 2013 respectively). There will be 363 simulcast days with daily attendance of 225. Substitution effects with other racetracks are muted by the fact that races cannot occur on multiple tracks on the same day. Exhibit A1 summarizes analytical findings. Total taxes paid to Delaware during the first full year of horse racing would reach almost \$311,000 and expand thereafter.

Exhibit A1: Total Impacts from Horseracing

	2010	2011	2012	2013
Horse Industry Commissions (on bets placed)*	\$1,318,888	\$2,193,603	\$2,259,411	\$2,327,194
<i>Taxes Paid to DE</i>	<i>\$310,665</i>	<i>\$528,028</i>	<i>\$543,868</i>	<i>\$560,814</i>
Net Income to Del Pointe	\$910,765	\$1,059,173	\$1,090,769	\$1,123,312
*Horse industry commissions are calculated by taking total racetrack commission and subtracting appropriate Delaware taxes. Post-tax revenues are divided between Del Pointe and the horse racing industry equally.				

### A Final Impact to Consider: Creating Critical Mass for Delaware’s Standardbred Industry

Del Pointe will provide not only a third venue for harness racing in Delaware, but also a venue that expands the appeal of the state to the standardbred industry. A one-mile track provides opportunities for younger horses that are not available at the shorter, tighter tracks at Dover, Harrington, and Ocean Downs. More racing dates in Delaware will also create additional opportunities for the industry.

In turn this will support the already growing standardbred industry in Delaware. Largely because purses have grown in Delaware and stagnated in Maryland, the industry has expanded in Delaware and declined in Maryland. One indicator of these trends is the number of standardbred stallions registered in Delaware and Maryland over the past two decades. Relevant statistical detail is presented in Exhibit A2. The ongoing increase in

breeding capacity in Delaware is unmistakable. Del Pointe is positioned to be a crucial support and enhancement of this already expanding state industry.

Exhibit A2. Standardbred breeding stallions in Delaware and Maryland

<i>Year</i>	<i>Stallions in Delaware</i>	<i>Stallions in Maryland</i>
1990	0	~75
1995	0	~40
2000	~22	~30
2005	~25	~25

Source: Thomas Perez, Slot Machines and the Racing Industry: A Review of Existing Data in Maryland and Neighboring States, August 2007.

## Appendix B: Commercial Development at Del Pointe

Part of the overall Del Pointe project will be substantial retail development undertaken in two phases. As proposed, this development will comprise 350,000 square feet of space with tenants including a national discounter (e.g., Wal Mart), a grocery store, junior anchors, and local retail. Exhibit B1 summarizes the individual elements of the commercial shopping development and sales data for each.

Exhibit B1: Commercial Shopping (Phases I and II)

<i>Retail element</i>	<i>Square feet</i>	<i>Sales per SF</i>	<i>Annual sales</i>
National discounter	150,000	\$375	\$56,250,000
Local retail	30,000	\$250	\$7,500,000
Anchor grocer	50,000	\$600	\$30,000,000
Junior anchors	100,000	\$180	\$18,000,000
Local retail	20,000	\$250	\$5,000,000
Total	350,000	\$334	\$116,750,000
Sources. HDL, Ocean Atlantic, Sage			

## Appendix C: Del Pointe Employment Methodology – A Deeper Dive

The methodology used to estimate employment associated with Del Pointe is driven by the estimated revenues for elements of the project. As noted in Exhibit 23 of the report, by FY2013, these revenues are projected to exceed \$500 million annually (total impacts; Del Pointe direct revenues are projected to approach \$250 million at full build-out). To put this total revenue figure into context, this level of estimated revenue is slightly greater than the level of resources required to support 5,000 workers each earning \$100,000 per year!

The implication is that the key to proper employment estimation is to project revenues accurately. Sage has accomplished this by using standard assumptions regarding business revenues from the VLTs and other Del Pointe elements, including the one-mile racetrack, lodging and restaurants.

With one exception, these revenue numbers are coupled with standard IMPLAN multipliers for the relevant economic sectors of Sussex County and Delaware, which estimate total employment, income, and business sales impacts related to the direct, indirect, and induced effects of these revenues (i.e. spending in the Delaware economy). The exception is VLT net revenue, which is subdivided into revenue available to the casino operator (i.e., Del Pointe) and revenue returned to the State's general fund. Casino employment supported by this VLT revenue is based on the experience of other racinos in Delaware. The revenue returned to the State general fund is used to estimate State employment supported by Del Pointe operations using standard IMPLAN multipliers for the Delaware state government sector.

Employment impacts are expressed in terms of full-time and part-time jobs. The nature of most of the industries supported by Del Pointe operations—retail, hospitality and leisure, higher education, for example—are characterized by a high proportion of part-time and seasonal workers. According to the Bureau of Labor Statistics (BLS), on average a retail worker is employed 22 to 30 hours each week while food and drinking establishment employees work 22 to 24 hours per week. Entertainment workers average

26 hours of work weekly.<sup>10</sup> These are national figures and may overestimate the average annual work week for an operation like Del Pointe by not properly accounting for seasonal employment, which is expected to be elevated given the nature of economic activity in Sussex County.

Using BLS estimates of average weekly hours for the jobs supported by Del Pointe allows for an estimation of full-time equivalent employment. For Delaware, the estimated 5,919 full-time and part-time jobs as noted in Exhibit 25 represent the equivalent of approximately 4,000 full-time jobs.

Exhibits C1, C2, and C3 provide detailed disaggregations regarding estimated employment, income and business sale impacts of Del Pointe on Delaware's economy. Sage estimates that roughly 2,700 jobs (full-time and part-time jobs) will be on-site on average. This number will fluctuate over the course of the year, however, with more jobs on-site during the summer months and fewer during the balance of the year. Remaining jobs will be within State government due to additional tax revenues and off-site among other Delaware businesses/entities. It should be noted that income is largely a reflection of wages and salaries, but also includes income to business owners (often referred to as proprietor's income).

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<sup>10</sup> U.S. Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics survey (National)

Exhibit C1. Employment impacts, Delaware (full-time and part-time jobs)

Project Element	Direct Effects	Indirect Effects	Induced Effects	Total
VLTs, net revenue	330	219	176	725
Racetrack	71	20	16	108
Concerts and other events	15	4	3	22
Great Wolf Lodge hotel	336	88	89	513
Restaurant #1	34	6	6	46
Restaurant #2	49	8	9	66
Casino restaurants (3 restaurants)	103	18	19	139
Commercial Shopping	929	289	432	1,650
Racino Hotel	224	58	60	342
Office Complex	172	67	93	331
Movie Theater	63	9	14	86
Paintball Facility	29	3	4	36
Residential Condominiums	-	-	465	465
Indoor Sports Arena	36	4	5	44
Higher Education Buildings	333	82	115	530
Sub-total	2,723	875	1,507	5,105
State government	329	294	192	814
Total	3,052	1,168	1,698	5,919

Exhibit C2. Income impacts, Delaware (millions)

<i>Project Element</i>	<i>Direct Effects</i>	<i>Indirect Effects</i>	<i>Induced Effects</i>	<i>Total</i>
VLTs, net revenue	\$7.7	\$10.7	\$6.2	\$24.6
Racetrack	\$1.7	\$1.0	\$0.6	\$3.2
Concerts and other events	\$0.3	\$0.1	\$0.1	\$0.5
Great Wolf Lodge hotel	\$10.0	\$3.8	\$3.1	\$16.8
Restaurant #1	\$0.7	\$0.3	\$0.2	\$1.2
Restaurant #2	\$1.0	\$0.4	\$0.3	\$1.7
Casino restaurants (3 restaurants)	\$2.2	\$0.8	\$0.7	\$3.6
Commercial Shopping	\$23.7	\$13.2	\$14.6	\$51.5
Racino Hotel	\$6.6	\$2.5	\$2.0	\$11.2
Office Complex	\$11.2	\$2.5	\$3.3	\$17.0
Movie Theater	\$1.7	\$0.4	\$0.5	\$2.6
Paintball Facility	\$0.4	\$0.1	\$0.1	\$0.7
Residential Condominiums	\$0.0	\$0.0	\$15.5	\$15.5
Indoor Sports Arena	\$0.6	\$0.1	\$0.2	\$0.9
Higher Education Buildings	\$14.0	\$3.1	\$3.9	\$21.0
Sub-total	\$81.8	\$38.9	\$51.3	\$171.9
State government	\$17.9	\$12.6	\$7.1	\$37.6
Total	\$99.6	\$51.5	\$58.4	\$209.4

Exhibit C3. Output/business sales impacts, Delaware (millions)

<i>Project Element</i>	<i>Direct Effects</i>	<i>Indirect Effects</i>	<i>Induced Effects</i>	<i>Total</i>
VLTs, net revenue	\$90.0	\$21.3	\$15.4	\$126.7
Racetrack	\$8.4	\$2.0	\$1.4	\$11.8
Concerts and other events	\$0.8	\$0.3	\$0.2	\$1.3
Great Wolf Lodge hotel	\$28.7	\$8.4	\$7.8	\$45.0
Restaurant #1	\$2.1	\$0.7	\$0.6	\$3.3
Restaurant #2	\$2.9	\$1.0	\$0.8	\$4.7
Casino restaurants (3 restaurants)	\$6.2	\$2.1	\$1.7	\$9.9
Commercial Shopping	\$52.2	\$29.6	\$37.8	\$119.6
Racino Hotel	\$19.1	\$5.6	\$5.2	\$30.0
Office Complex	\$20.0	\$5.6	\$8.1	\$33.7
Movie Theater	\$3.6	\$1.0	\$1.2	\$5.8
Paintball Facility	\$0.9	\$0.3	\$0.3	\$1.5
Residential Condominiums	\$0.0	\$0.0	\$41.2	\$41.2
Indoor Sports Arena	\$1.1	\$0.4	\$0.4	\$1.9
Higher Education Buildings	\$26.5	\$11.2	\$11.4	\$49.1
Sub-total	\$262.5	\$89.6	\$133.6	\$485.6
State government	\$66.0	\$28.9	\$16.7	\$111.6
Total	\$328.5	\$118.5	\$150.3	\$597.2

Exhibit C4 shows employment impacts measured in terms of FTEs or full-time equivalents. Measured in this way, Del Pointe will be home to roughly 1,900 jobs. Total job impact is roughly 4,000 jobs, with the bulk of these jobs located at other Delaware business establishments.

Exhibit C4. Employment impacts, Delaware (FTE jobs)

Project Element	Direct Effects	Indirect Effects	Induced Effects	Total
VLTs, net revenue	214	142	114	471
Racetrack	46	13	11	70
Concerts and other events	10	2	2	14
Great Wolf Lodge hotel	260	68	69	398
Restaurant #1	21	4	4	28
Restaurant #2	29	5	5	40
Casino restaurants (3 restaurants)	62	11	11	84
Commercial Shopping	624	193	290	1,107
Racino Hotel	174	45	46	265
Office Complex	146	57	79	282
Movie Theater	38	6	8	52
Paintball Facility	17	2	2	21
Residential Condominiums	-	-	291	291
Indoor Sports Arena	22	2	3	27
Higher Education Buildings	208	51	72	331
Sub-total	1,870	601	1,008	3,480
State government	214	191	125	529
Total	2,084	792	1,132	4,009

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