In 1994 the State of Delaware made a successful bet on legalized gambling. Legislation authorized three horse racing tracks (now racinos) to build casinos for slot machines, which the State designated as video lottery terminals due to constitutional restrictions. Operations began in 1995 and revenues from slots and numbers lotteries are now the state’s fourth largest source of revenue.

Gambling revenue to the state represents a voluntary payment of taxes. Unlike income and business taxes that entail significant penalties for non-payment, gambling and excise taxes are voluntary payments. No one is required to drink alcohol, smoke, drive or gamble. If a person chooses to enjoy any of these activities, the price paid includes a tax. Politicians love voluntary tax payments.

Delaware has enjoyed a steady revenue stream from its racinos, although much of this success is due to the fact that Delaware has experienced relatively little competition. The only other slots venues in the region in 1994 were in Atlantic City, New Jersey and Charles Town, West Virginia.

Of course, surrounding states saw that their residents were making significant contributions to Delaware’s total revenue. Pennsylvania now has nine casinos and racinos in operation, with additional sites pending. The first racino in Pennsylvania opened in 2006. Maryland has authorized five venues for slot machines, although only four have definite plans for opening at this time. A slots casino in Cecil County plans to open in October of 2010. Sites in Baltimore, Laurel and Ocean City, Maryland also pose competitive threats.

When Pennsylvania opened its casinos, Delaware experienced a 10% revenue decline, although the impact on Atlantic City revenue was much greater. Delaware officials have long known that many more of its gamblers come from the south and west, meaning that Maryland casinos pose a much greater threat to Delaware’s operations. Estimates of potential revenue loss run as high as 60%.

The Delaware Economic and Financial Advisory Council (DEFAC) estimates a decline of over $60 million in lottery revenue from fiscal 2010 to fiscal 2011. Not included in this estimate is an increase of $40 million in anticipated revenue from the introduction of table games. Pennsylvania is currently introducing table games in its casinos and racinos. Maryland’s current governor has expressed opposition to table games.

Delaware’s competitive advantage of being the sole regional provider of gaming activities is gone forever. The state is facing important strategic choices about the future of legalized gambling in Delaware.

The state has already responded to the increased competition in two ways. In the fall of 2009 the state reinstituted lottery betting on professional football, a form of gambling that was
tried but failed in 1976. The state had hoped to allow single game, as opposed to parlay, bets on a wide range of athletic events. However, the federal court ruled that the state was authorized to operate only a professional football lottery with no single game bets, a significant setback. The authorization of table games is the second response to increased regional competition.

When considering gambling’s future in Delaware it must be recognized that the state is not now nor will it be a gambling Mecca on the scale of Las Vegas or even Atlantic City to a lesser extent. What Delaware offers is convenience. But residents in the Baltimore-Washington metro area now have much more convenient alternatives. Why make the drive to Delaware when alternative exist in Baltimore, Laurel and Perryville? And these venues will be newer as well!

Also, it must be understood that there is no academic or experiential evidence to support the myth of “crossover” gambling. The concept of crossover gambling is the idea that people who play table games or bet on sports will spend significant amounts on slot machines as well. Substantial research and all experience have found no evidence of crossover betting. When Pennsylvania casinos opened with slots betting, New Jersey saw a 20% decline in slots revenue in the next year, but revenue from table games continued to increase. If crossover betting occurs, the loss of slots revenue would have reduced revenue from table games, but that did not happen.

At the end of the football season, Delaware racino operators realized that there was no crossover betting. If crossover betting occurred, the best strategy would be to allow all forms of gaming only at slots venues. But if there is no crossover betting, there is no reason to limit betting to the racinos.

Going forward, Delaware officials need to determine the most competitive configuration of gaming venues in Delaware. Revenue losses from competition from neighboring states will require spending cuts or tax increases; neither a popular option. So what configuration will best maintain Delaware’s competitive position within the region?

For sports betting the answer is simple. The original plan proposed allowing sports betting in a number of venues in addition to the racinos. Since crossover betting does not occur, increasing the number of sports betting venues makes the most sense. Canada has operated sports lotteries for many years. In Canada, a sports bet can be placed at any location that sells lottery tickets. While such an extensive expansion may not be feasible in Delaware at present, an increase in the number of sports betting venues makes sense.

For the racinos/casinos, the decision may be more difficult, but is certainly even more important. What configuration of venues provides Delaware with the strongest competitive position? Convenient location nearest population centers is essential. Amenities and ambiance are nice, but convenience is crucial.

A site in or near Wilmington with easy interstate access is a venue that will likely survive increased competition. Maryland legislators understood this when they required that the Perryville casino be located within two miles of an interstate interchange.

Slots generate more gaming revenue than all other types. Slots players are older on average. The growth of a retiree population in Sussex County makes this an ideal site for a casino, preferably conveniently located near Delaware’s beaches. Gaming in Atlantic City is markedly seasonal, with revenues spiking in the summer months. A Sussex County location convenient to the beaches should prove competitive with Ocean Downs in Maryland.

Of course, any new venues should be constructed without state support. If market participants believe new gaming sites are potentially profitable, there is no reason to risk taxpayer money. Just let the market work.
Delaware's three racinos have enjoyed years of profitability while generating significant revenue for the state. However, it must be recognized that increased competition casts doubt upon their future success, even viability.

The entry of new Delaware casinos into the increasingly crowded regional market threatens the viability of the existing racinos. However, new venues may prove to be more competitive with out-of-state competitors than the existing sites. While these are difficult decisions, elected officials’ first responsibility is to tax payers, not existing businesses. They must make the best choices for the future of Delaware, however adversely this affects the existing racinos. If state officials fail to respond strategically to increased regional gaming competition, the result will be reduced services or tax increases for Delaware residents or businesses, or both.

Dr. James L. Butkiewicz, Senior Fellow
Caesar Rodney Institute
Center for Economic Policy and Analysis

Dr. James L. Butkiewicz (Senior Research Fellow) – Ph.D. in economics (University of Virginia), and B.A. in economics (Wilkes College, Magna Cum Laude), is a professor in the department of economics at the University of Delaware. Since joining the University in 1974, Dr. Butkiewicz has served as chair of the department of economics, acting director of economic graduate programs, and has twice been associate dean of the College of Business and Economics. He has received the University’s Excellence in Teaching and Excellence in Graduate Teaching Awards, and a national award from the Joint Council on Economic Education. Dr. Bukiewicz’s research interests include the determinants of economic growth, monetary theory and macroeconomic theory and policy analysis. He is on the editorial board of the Eastern Economic Journal and has been acting editor and is currently associate editor. He is an active referee for two dozen journals. Dr. Butkiewicz has numerous publications in professional journals, including Economic Modeling, Journal of Policy Modeling, World Development, Quarterly Review of Economics and Finance, Public Choice, and the Journal of Monetary Economics. He has been active in Delaware for many years, having most recently served as a member of Governor Markell’s budget transition team.