



Senate Finance Committee
2020-S-2337 Sub A

*Enabling Legislation for Lottery Contract with
IGT and Twin River*

7.14.20

Hearing Overview

- Presentation:
 - Review of legislative history- Today is 7th hearing
 - Overview of key changes to legislation
 - Legislation Review (Sub A)
- Testimony and Q&A with Department of Revenue
- Testimony and Q&A with IGT and Twin River

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Legislative History

Review of Legislative History

- September 19, 2019
 - Overview by the Senate staff and the Division of Purchases on state purchasing procedures. The Division of Lottery presented background on the state lottery system, and the Senate staff and members of the Administration reviewed the original authorizing legislation and Master Agreement
- October 1, 2019
 - Governor Raimondo offered comments. Members of the Administration presented on the key terms of the proposal and the negotiation process, as well as processes for ensuring compliance with and amending the existing contract.

Review of Legislative History

- October 22, 2019
 - Review of economic analyses conducted by Appleseed, Inc., Dr. Edi Tebaldi of Bryant University, and Dr. Paul Dion from the State's Office of Revenue Analysis. Testimony from IGT officials
- October 24, 2019
 - Overview of the 2019 audit of the Rhode Island Lottery by Auditor General Dennis Hoyle, and testimony from Twin River Management Group

Review of Legislative History

- October 29, 2019
 - Hearing dedicated to public testimony
- March 12, 2020
 - New bill introduced. Proposed joint-venture between IGT and TR
 - Presentations by Senate staff, and IGT/Twin River on the updated legislation. Public testimony

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Key Changes to Legislation

S-2337 Sub A: Key Changes

- Committee had identified several areas for potential amendment in the legislation
 - Codify key “Term-Sheet” criteria related to economic development and deal terms
 - Oversight- monitor compliance; provide transparency and accountability VLT distribution
- Most of these items are addressed in the revised legislation

S-2337 Sub A: Key Changes

“Term Sheet” Criteria

Term Sheet Items	Original Bill	S-2337 Sub A
Wage levels	<p>Discussion around \$100k avg. salary, but legislation guaranteed 150% min wage.</p> <p>Only recourse if violation of guarantee was to abandon contract, which is difficult and costly</p>	<p>Adds payroll guarantee of 250% min wage. Equivalent to about \$60k/year/job.</p> <p>Adds liquidated damages for both job minimum and payroll guarantee. Reserves right to abandon contract.</p> <p>TR Will add at least 30 “Senior Management” employees within 2 years. Adds LD if not met</p>

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“Term Sheet” Criteria

Term Sheet Items	Original Bill	S-2337 Sub A
Headquarters	2003 legislation required G-Tech headquarters. Bill does not require headquarters in the state, however term sheet requires it	Requires IGT to maintain their regional headquarters in RI
Up Front Payment/ Initial Investment	Unclear if \$25M up front “exclusivity” payment was part of \$100M investment guarantee	Clarifies the \$25M counts toward investment obligation. Investment obligation increased to \$150M Adds TR investment criteria

S-2337 Sub A: Key Changes

“Term Sheet” Criteria

Term Sheet Items	Original Bill	S-2337 Sub A
Employee Privatization	Required IGT to “assume responsibility for the lottery related activities performed by lottery sales representatives currently employed by the Division from the Division and in connection therewith offer employment to such lottery sales representatives”	Removes privatization requirement. State law outlines process for privatization of state employee functions (RIGL 42-148)
Employment Expansion	Allows Lottery to “make proposals to IGT” to locate additional employees in the State	Requires IGT to notify Lottery in advance of plans to relocate 30 or more FTE from one state to another. State has opportunity to propose relocation to RI

S-2337 Sub A: Key Changes

Oversight: Compliance, Transparency, and Accountability

Oversight Item	Original Bill	S-2337 Sub A
Contract Compliance	No public reporting requirement related to contract compliance	Lottery annual report on compliance <ul style="list-style-type: none">• Findings of non-compliance• Penalties and remedial actions• Report to Joint Committee, Speaker, President
Contract Amendments	No reporting requirements. Master contracts undergo numerous amendments over 20-year period. Impact analysis and public reporting should occur	Lottery must provide notice w/in 10 days of amendment <ul style="list-style-type: none">• Effective date• Summary explanation• Fiscal and economic impact• No amendment allowed to terms in authorizing legislation

S-2337 Sub A: Key Changes

Oversight: Compliance, Transparency, and Accountability

Oversight Item	Original Bill	S-2337 Sub A
Audits	Silent on audit requirements and reporting of audits	At least every 2 years, Commerce audit of employment compliance by IGT and TR. Public reporting Audits of lottery Technology Provider services public; except IT security, cyber and penetration audits provided in summary form

S-2337 Sub A: Key Changes

Oversight: Compliance, Transparency, and Accountability

Oversight Item	Original Bill	S-2337 Sub A
Efficiency Reporting	<p>No reporting requirements.</p> <p>Lottery did not publicly report results of efficiency studies as normal course of business</p>	<p>Efficiency reports provided to Joint Committee, Speaker, and President by May 15 annually</p> <ul style="list-style-type: none">• Includes rationale for any VLT reallocation• Impact assessments of reallocation• Rationale for any determination NOT to reallocate

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Legislation Review

S-2337 Sub A: Legislation Review

Page/Line	Description
1/1-8	Outlines purpose of legislation- to authorize Division of Lottery to agree to extension of partnership with IGT, including maintenance of regional headquarters in RI, and Twin River, including expansion of Lincoln gaming facility
1/9	Key definitions , including FTE, and joint venture <ul style="list-style-type: none">FTE definition mirrors definition in EDC/Commerce development agreement
2/27	Authorizes Lottery to amend and extend master lottery contracts , including:
3/3	<ul style="list-style-type: none">On-line Gaming Agreement
3/8	<ul style="list-style-type: none">Video Lottery Central Computer System
3/13	<ul style="list-style-type: none">Video Lottery Terminal Technology Provide License
3/18	<ul style="list-style-type: none">Instant Ticket Vending Machine Agreement
3/23	<ul style="list-style-type: none">Instant Ticket Agreement
3/27	<ul style="list-style-type: none">Website Services Agreement

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Page/Line	Description
3/31	“Second Intangible Asset Purchase Price”. \$25M exclusivity payment payable: <ul style="list-style-type: none">• \$12.5M on or before 6.30.2022• \$12.5M on or before 6.30.2023
4/2	Specifically omits the Online Sports Wagering portion of Sports Betting Agreement
4/18	“Exclusivity Payment” does not entitle IGT to be exclusive provider of games (Other than traditional online lottery and instant ticket lottery games) through internet or mobile apps
4/24-29	Defines tiered compensation for On-Line Lottery Agreement
4/30	Rates for VLTs, Instant tickets, and web services remain unchanged
5/3-16	IGT required to invest \$150M during contract period , including: <ul style="list-style-type: none">• Second Intangible Asset Purchase Price (\$25M)• VLTs purchased by IGT/Affiliates b/w 7.1.19 and 12.31.21• VLTs purchased by JV during new contract period• Goods acquired by IGT or Affiliate

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Page/Line	Description
5/17-25	Employment and Wage Guarantee: IGT and Affiliates required to employ 1,100 FTE at compensation of not less than 150% of minimum wage
5/26-33	Payroll Guarantee: IGT and Affiliate aggregate compensation not less than 250% minimum wage
5/34-6/4	Employment Certification: IGT shall self-certify annually by May 1 that it meets employment and payroll thresholds
6/5-9	Employee Location Obligation: Requires IGT to notify Lottery in advance of plans to relocate 30 or more FTE from one state to another. State has opportunity to propose relocation to RI
6/10-15	Termination Rights: Grants Lottery right to terminate contract for failure to meet: <ul style="list-style-type: none">• Second IGT Investment Obligation• Employment Obligation• Annual Compensation Obligation• Employee Location Obligation <p>These are in addition to termination rights in various other agreements</p>

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Page/Line	Description
6/18-23	Liquidated Damages- Employment Agreement: Lottery may assess liquidated damages against IGT if FTE are less than 1,100. Penalty of \$6,400/employee under threshold. Remedies in addition to termination rights
6/24-30	Liquidated Damages- Compensation Agreement: Lottery may assess liquidated damages against IGT if compensation is below 250% minimum wage threshold. Penalty of 20% of amount under threshold. Remedies in addition to termination rights
6/31-33	Terminates current efficiency process commencing on JV effective date
7/7-12	Joint Venture assumption of obligations subject to review and approval by Lottery. Authority retains full authority to regulate JV as Technology Provider

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Page/Line	Description
7/17-8/11	<p>VLT requirements: Requires IGT and/or JV to:</p> <ul style="list-style-type: none">• Regularly update or replace hardware and software• Annually replace 6% of VLTs• Replace minimum of 5% of VLTs with premium or royalty games. Premium or royalties performing at less than 150% of floor efficiency are replaced with new premium/royalty• Defines new efficiency formula:<ul style="list-style-type: none">• Same basic efficiency evaluation process• 5% of machines operating at less than 97% efficiency replaced annually• Performance measurement occurs based on machine manufacturer brand- not by supplier• Limits machines manufactured by IGT or affiliate to no more than 40% at each facility• Sets limits on new Consolidated Promotional Points Program

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Page/Line	Description
8/12-14	Requires updates and replacement of hardware and software for online lottery systems and central communications systems on schedules agreed to by Lottery and IGT in the Master Contract Amendment
8/15-	Updates various lottery and gaming definitions in the general laws
9/5-10	Consolidate Promotional Points Program: Allows VLT promotional points programs to be combined between the two TR facilities

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Page/Line	Description
21/27 22/2 22/4-6	Authorizes Lottery to amend/extend master contract with Twin River , including: <ul style="list-style-type: none">• Obligates TR to build 50,000 square foot expansion to Lincoln Gaming Facility• Obligates TR to lease 12,000+ square feet of commercial space in Providence through expiration date
22/7-10	Termination Rights: Grants Lottery the right to terminate the contract if TR: <ul style="list-style-type: none">• Fails to perform the TR Investment Obligation• Fails to perform the TR Providence Lease Obligation <p>These are in addition to termination rights in various other agreements</p>
22/11-22	Consolidate Promotional Points Program: Allows VLT promotional points programs to be combined between the two TR facilities

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Page/Line	Description
22/25-23/14	Authorizes extension of TR Tiverton Master Contract and duplicates Promotional Points language
23/15-29	Authorizes temporary technology provider agreement on or before 10.1.2020 through 12.31.2021 with Twin River or Affiliate. TR currently not a technology provider. They would be authorized to be on their own, and then when the JV becomes effective, that authorization rescinds.
23/30-24/7	Naming Rights Agreement: Allows, but does not require, the I-195 Redevelopment Commission to enter into a contract with TR for a naming rights agreement for \$100,000 annually for a park, or portion thereof, with the I-195 Redevelopment District
24/8	Authorizes Lottery and Department of Business Regulation to amend regulatory agreements:
24/16	<ul style="list-style-type: none"> Permit TR Affiliate to participate in Joint Venture
24/17-19	<ul style="list-style-type: none"> Permit TR to pay \$6.5M to IGT or to Lottery for Second Intangible Asset Purchase Price
24/20-27	<ul style="list-style-type: none"> Exclude sale-leaseback transactions from financial tests and require proceeds to be used to repay debt, unless otherwise approved by Lottery or DBR
24/28-25/9	<ul style="list-style-type: none"> Increase Maximum Leverage Ratio, subject to Lottery and DBR approvals

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Page/Line	Description
25/10	Authorizes TR to construct a 50,000 square foot expansion of the Lincoln Gaming Facility
25/13-33	Senior Management Employment: Requires TR to use “best efforts” to locate 30 additional Senior Management level employees in RI within 24 months of passage.
25/17-22	• Employees shall be paid not less than 250% minimum wage
25/25-30	• Lottery may assess liquidated damages equivalent to \$6,400/employee short of agreement
25/30-33	• TR shall annually certify that it meets employment obligations
25/34-26/19	Twin River Investment: Shall invest at least \$100M to: <ul style="list-style-type: none"> • Expand and improve Lincoln and/or Tiverton gaming facilities and properties • Perform its obligations under contracts and lease agreements
26/27-32	Credit for Acquisitions and Expenditures: No acquisitions or expenditures may be credited towards both IGT and TR. The Lottery shall determine credit allocation in the event of an allocation disagreement.

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Page/Line	Description
26/33-28/17	Reporting and Compliance Language
26/34-27/9	Amendment Reporting: Lottery must provide notice w/in 10 days of amendment <ul style="list-style-type: none">• Effective date• Summary explanation• Fiscal and economic impact• No amendment allowed to terms in authorizing legislation
27/10-28	Employment and Compensation: At least every 2 years, Commerce audit of employment compliance by IGT and TR. Public reporting
27/29-34	Audit Reporting: At least every 2 years, Commerce audit of employment compliance by IGT and TR. Public reporting Audits of lottery Technology Provider services public; except IT security, cyber and penetration audits provided in summary form

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Page/Line	Description
26/33-28/17	Reporting and Compliance Language (continued)
28/1-8	Efficiency Reporting: Efficiency reports provided to Joint Committee, Speaker, and President by May 15 annually <ul style="list-style-type: none">• Includes rationale for any VLT reallocation• Impact assessments of reallocation• Rationale for any determination NOT to reallocate
28/9-17	Contract Compliance: Lottery annual report on compliance <ul style="list-style-type: none">• Findings of non-compliance• Penalties and remedial actions• Report to Joint Committee, Speaker, President