Contract Extension with IGT
2020-H 7523 Substitute A

House Fiscal Staff Presentation to the House Finance Committee
July 14, 2020
Summary

- **2019-H 6266** proposed authority to extend current 20-yr Lottery contract w/IGT
  - Exclusive provider of lottery services
    - Excludes Sports Betting
  - Sets framework of terms
    - Upfront payment and minimum investments
    - Commission amounts
    - Jobs commitment

- **2020-H 7523** alters proposal – Sub A in RED
  - VLT arrangement to include Twin River
    - Related commitments and contract issues
Summary

- Background
  - Lottery
  - Original Contracts
  - Other Changes
- Scope of Services
- Other
Background

- Voters authorized lottery in 1973
- Lottery Commission established in 1974 as a 9-member entity governing lottery operations which were run by a director
  - 3 Senators & 3 Representatives (at least 1 each from minority party)
  - 3 public members appointed by Governor
- Video lottery (slot) machines authorized in 1992
Background

- 2003 General Assembly amended the statutes to allow the Lottery Commission to enter a multi-year “Master Contract” with GTECH
  - Build and maintain its global corporate headquarters in Providence
    - Expand in-state manufacturing operations
  - Maintain 1,000 jobs
  - Incorporated provisions of three existing contracts
2003 master contract incorporated provisions of three active contracts

- On-Line Lottery Agreement
  - RFP issued in 1996, GTECH only bidder
  - Effective 1997 – 2002
    - Amended 4 times through 2002

- Video Lottery Lottery Agreement
  - RFP issued in 2001, GTECH only bidder
  - 5 year term

- VLT Agreement
  - 38 month agreement to be a VLT provider
Background

- 2005 Assembly made major changes affecting the Lottery & its revenues
  - Lottery put under Executive Branch control
    - Legislation carrying out separation of powers
  - Long term contracts authorized for facility license holders at both Lincoln & Newport
    - Minimum capital investment requirements
    - Minimum job levels
    - Expansion of VLT machine count
    - Long term commitment on revenue splits
Background

Lottery Revenues FY 2000 – FY 2019

- Games incl Keno
- Table/Sports
- VLT
Lottery Revenues as % of General Revenues
FY 1990 – FY 2019

- Millions
- General Revenues
- Lottery %

FY 1990 - FY 2018

11.6%
Summary

- Background
- Scope of Services
  - Traditional Lottery
  - Casino Operations
  - Economic Development
  - Other
Scope: Traditional Lottery

- IGT responsible for technology and infrastructure, equipment and supplies used for sales and management of traditional lottery products
  - ~1,200 Retailers
  - Approx. $260 million in sales

<table>
<thead>
<tr>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instant (scratch) Tickets</td>
</tr>
<tr>
<td>Numbers Games/Multi-state Games</td>
</tr>
<tr>
<td>Monitor Games: Keno, Bingo</td>
</tr>
</tbody>
</table>
Scope: Traditional Lottery

- Vendor payments based on sales volume
  - Retailers receive 5% or 8% depending on game
  - IGT receives a percent based on total sales
    - Share reduced for sales over $275 million
      - Sales have never reached that point
    - FY 2019 value approximately $13 million
  - **Unchanged from 2019 proposal**

<table>
<thead>
<tr>
<th>Sales Volume</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $275M</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>$275-$400M</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Over $400M</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>
New proposal calls for IGT to take over current sales force
- 12 state employees- Estimated value $1.3 million
- **Unchanged from 2019 proposal**
- **Sub A excludes transfer**
Scope: Traditional Lottery

- Related Services – not in 2003 contract
  - iLottery
    - Full range of online lottery games offered within RI by October 1, 2021
    - Replacement by April 1, 2033
    - Limited offering assumed in FY 2020 budget
  - Instant ticket printing
    - Lock in pricing agreement reached in 2016
    - Add 36 new licensed instant ticket products over life of deal

- Unchanged from 2019 proposal
2003 maintenance/upgrade requirements delayed, modified, exchanged for other items

- First system replacement due Jan. 1, 2007

- Second replacement due Jan. 1, 2015
  - 2014 – delayed 4 years
  - 2017 – portion delayed up to one year and others delayed until no longer supported
  - 2018 – delayed obligation relieved with caveats
Maintenance requirements

- Proposed legislation: “regularly update hardware and software”

Agreement in Principle
- Full replacement of internal control system by 7/1/20
- Full replacement of system by July 2031
- More prescriptive provisions in agreement to ensure items kept up to date
- Options for future expansions

Unchanged from 2019 proposal
- Sub A has technical changes for clarity
Revenue earned through VLTs is split among many entities depending on their roles.

IGT has 2 roles related to VLTs.
## Scope: Casino Operations

### Two Distinct Roles

<table>
<thead>
<tr>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Communications System Provider</td>
</tr>
<tr>
<td>Technology (VLT machines) Provider</td>
</tr>
</tbody>
</table>

- IGT responsible for providing & maintaining a central communications system for VLTs
  - Transaction data for revenue splits and related needs
  - Servicing and maintaining all VLTs
- IGT also provides ~85% of all current VLTs
As central communications provider, IGT is paid a % of all net terminal income (NTI)
- IGT receives a percent based on total sales
  - Share reduced for NTI over $500 million
  - FY 2019 value $12.7 million
- No change from current law proposed

**Unchanged from 2019 proposal**

<table>
<thead>
<tr>
<th>NTI Volume</th>
<th>Current/Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $500M</td>
<td>2.5%</td>
</tr>
<tr>
<td>$500M-$1,000M</td>
<td>1%</td>
</tr>
<tr>
<td>Over $1,000M</td>
<td>2.5%</td>
</tr>
</tbody>
</table>
Scope: Casino Operations

- VLT Machine providers are paid a % of their net terminal income (NTI)
  - 7% when daily NTI per VLT is $325 or less
    - Share reduced to 1% for amounts over that
    - FY 2019 daily VLT per machine = $277
    - FY 2019 payouts = $36 million

- **Unchanged from 2019 proposal**

<table>
<thead>
<tr>
<th>Daily NTI per VLT</th>
<th>Current/Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $325</td>
<td>7%</td>
</tr>
<tr>
<td>$325 - $500</td>
<td>1%</td>
</tr>
<tr>
<td>Over $500</td>
<td>7%</td>
</tr>
</tbody>
</table>
Multiple vendors provide VLT machines for the two casinos
Subject to annual efficiency review which could redistribute shares based on performance
- 13-week measure of NTI % vs machine %
  - 50% of machines earning more than 50% of NTI is over 100% efficiency
Scope: Casino Operations

- Tool for the state to help maximize revenues and improve performance
  - Ratings below 97% mean a technology provider can lose machines up to 15%
  - Those over 100% can gain machines
  - Lottery has discretion
    - Removals without reassignment if space needed
    - Changes related to Tiverton opening
Prior years of VLTs by technology provider

- Total paid to all providers in FY 2019 = $36 million

<table>
<thead>
<tr>
<th>Provider</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scientific Games</td>
<td>50</td>
<td>100</td>
<td>632</td>
<td>632</td>
<td>618</td>
</tr>
<tr>
<td>WMS</td>
<td>532</td>
<td>532</td>
<td>Merged with Bally/SG</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GTECH/IGT</td>
<td>2,841</td>
<td>4,528</td>
<td>4,482</td>
<td>4,473</td>
<td>4,370</td>
</tr>
<tr>
<td>IGT</td>
<td>2,007</td>
<td></td>
<td>See GTECH/IGT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MM/Everi</td>
<td>205</td>
<td>205</td>
<td>205</td>
<td>205</td>
<td>195</td>
</tr>
<tr>
<td><strong>Total VLTs</strong></td>
<td><strong>5,635</strong></td>
<td><strong>5,365</strong></td>
<td><strong>5,319</strong></td>
<td><strong>5,310</strong></td>
<td><strong>5,183</strong></td>
</tr>
<tr>
<td><strong>GTECH/IGT</strong></td>
<td><strong>50.4%</strong></td>
<td><strong>84.3%</strong></td>
<td><strong>84.2%</strong></td>
<td><strong>84.2%</strong></td>
<td><strong>84.3%</strong></td>
</tr>
</tbody>
</table>
March 2019 efficiency review showed 93% efficiency of IGT machines
  - 84% of the machines but only 73% of the NTI
August 2019 Lottery announcement
  - IGT to lose 360 or 8% of its machines to other vendors
Revenues “lost” from underperforming machines unclear
  - Depends on assumptions about how other VLTs would perform & player preference
Scope: Casino Operations

- VLT performance addressed in proposal
  - 25% of current VLTs to be replaced in 2020
    - Minimum of 6% of all VLTs annually
    - Additional upgrades required on a minimum of 2% annually
  - Increased numbers of premium machines at no additional cost to facilities
  - Minimum standards for Lottery review of lowest performing machines
Current statute limiting the central system provider to 50% of VLTs set in 1992
- 2003 Act enabling master contract effectively removed the limit by reference for the term of current contract
- 2019-H 6266 changed the limit to 85%
  - IGT could not get more than 85% even with better performance
- Thus 50% limit applies if competitively bid
- Significant changes to 2019 VLT proposal
New legislation proposes that 100% of VLTs be controlled by a new Joint Venture between IGT & Twin River

- Effective January 1, 2022
  - TR would take over control of non-IGT machines until JV begins
    - July 1, 2020 – December 31, 2021
    - Sub A pushes this to October 1

- Includes new efficiency process
  - IGT machines would not be subject to efficiency removal provisions until 2025
    - Sub A spells out 40% max on IGT manufactured machines
## Scope: Economic Development

- Current contract and proposed extensions contain requirements for minimum employment and investments

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Current</th>
<th>Proposed</th>
<th>Revised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Investment</td>
<td>$100M</td>
<td>$150M</td>
<td>$150</td>
</tr>
<tr>
<td>Investment Timing</td>
<td>w/in 5 years</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Min. Jobs</td>
<td>1,000 FTE</td>
<td>1,100 FTE</td>
<td>1,100 FTE</td>
</tr>
<tr>
<td>Min. Pay</td>
<td>150% of minimum wage ($15.75/hr)</td>
<td>Same + total payroll =250% ($26.25)</td>
<td></td>
</tr>
</tbody>
</table>
Scope: Economic Development

- Minimum investments increased 50%
  - No requirement that it be reached w/in 5 years
  - Prior requirement included substantial, time sensitive capital project
- Current requirement is over life of contract
  - System replacement and enhanced machine replacement requirements likely to satisfy spending thresholds
- Revised plan expressly includes cash & any VLT’s bought by IGT between July 1, 2019 & December 31, 2021
Scope: Economic Development

- Job requirements not met several times
  - 2014 Taxation Audits
    - Confirms compliance for 2010 & 2011
    - Missed targets for 2012 & 2013 but GTECH disputed methodology, agrees to penalty
    - Methodology agreement for 2014 and after
  - 2016 Taxation Audits
    - 2014 and 2015 targets not met
  - 2016 Contract Amendment
    - 2014-2017 requirements waived in exchange for certain services and products
August report provided by IGT identified 1,007 jobs
- Position title list
- Salary averages by category
- Noted 20 vacancies pending

<table>
<thead>
<tr>
<th>Category</th>
<th>#</th>
<th>Avg. Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>104</td>
<td>$109,164</td>
</tr>
<tr>
<td>Finance &amp; Legal</td>
<td>167</td>
<td>$148,020</td>
</tr>
<tr>
<td>Technology</td>
<td>292</td>
<td>$120,166</td>
</tr>
<tr>
<td>North American Lottery Support</td>
<td>144</td>
<td>$128,612</td>
</tr>
<tr>
<td>File Service &amp; Call Center</td>
<td>300</td>
<td>$47,875</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,007</td>
<td><strong>$103,320</strong></td>
</tr>
</tbody>
</table>
Scope: Economic Development

- Deal includes only job count and minimum pay for every job
  - Current complement and pay scales not specifically provided for within agreement
  - Revised plan calls for total minimum payroll to be 250% of minimum wage
- New proposal also requires IGT to let RI compete for new jobs not in RI
  - When IGT is adding or moving 30+
  - Revised plan adds similar requirement for Twin River – SUB A has technical changes
Scope: Economic Development

- Sub A adds liquidated damages on jobs portion
  - Rolling 2 year average - $6,400 per missed FTE
  - 20% of value of any payroll base shortfall

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Current</th>
<th>Proposed</th>
<th>Revised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Investment</td>
<td>$100M</td>
<td>$150M</td>
<td>$150M</td>
</tr>
<tr>
<td>Investment Timing</td>
<td>w/in 5 years</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Min. Jobs</td>
<td>1,000 FTE</td>
<td>1,100 FTE</td>
<td>1,100 FTE</td>
</tr>
<tr>
<td>Min. Pay</td>
<td>150% of minimum wage ($15.75/hr)</td>
<td>Same + total payroll = 250% ($26.25)</td>
<td></td>
</tr>
</tbody>
</table>
Revised plan has similar investment requirements for Twin River

- Must invest $100 million
  - Includes expenses under expansion, current master contract, VLT agreement, naming rights and regulatory agreement
- 50k sq. ft. expansion to Twin River’s gaming, entertainment and hotel facility in Lincoln
- Sub A ensures same investments cannot be double-counted
Scope: Economic Development

- Sub A requires 30 new jobs from Twin River with same requirements and liquidated damage provision as IGT

- Annual compliance audit and reporting requirements
Current contract and proposed extensions include upfront payment for right to be exclusive provider of services

<table>
<thead>
<tr>
<th>Upfront Payment</th>
<th>Current</th>
<th>Proposed</th>
<th>Revised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$12.5M</td>
<td>$25M</td>
<td>$25M</td>
</tr>
<tr>
<td>Timing</td>
<td>Immediate</td>
<td>FY 2021/ FY 2022</td>
<td>FY 2022/ FY 2023</td>
</tr>
<tr>
<td>Refundable if terminated?</td>
<td>Prorated</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Qualifying Expense?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Scope: Other

- Other items not in original contract but in some cases added over time are addressed in new proposal
  - Long term agreement on enhanced web services/Website hosting
    - Item has been separately negotiated over time and used as tradeoff for other changes
  - Remote sports betting - exclusivity
    - 18 months after app launch Lottery may consider adding new providers if appropriate
Naming Rights
- Revised plan gives naming rights to Twin River for park in I-195 Redevelopment District
  - $100,000 annually from July 1, 2020 - June 2043
  - Sub A does not bind 195 District to the deal

Modified Credit Agreement
- Eliminates prohibition of sale-leaseback transactions - Sub A restricts use of proceeds
- Increases “maximum leverage ratio”
  - Allows Twin River to take on more debt
  - Sub A adds restrictions to calculation
Scope: Other

Effective Dates

- No agreements are effective until all agreements take effect
- Expiration of agreements all aligned to 2043
  - Twin River has separate master contract agreement
    - Initially passed in 2005 for 15 years
    - Extended in 2016 by adding 2 additional 5 year terms
- Sub A amends to exclude 195 naming rights & interim VLT agreement because of timing changes on takeover of other vendor machines
Scope: Other

- Sub A amends promo points language to allow for use of prior base year when determining allowable 20% in case of shut downs
  - Also aggregates across facilities

- Annual reporting requirements
  - Contract Amendments
  - Efficiency
Contract Extension with IGT 2020-H 7523 Substitute A

House Fiscal Staff Presentation to the House Finance Committee
July 14, 2020