

HOUSE COMMITTEE ON FINANCE HEARING

House Bill 6266

September 24, 2019

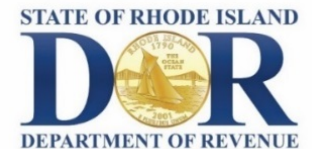
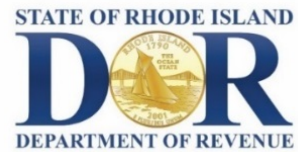


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Section 1: Why Now?



Why Now?

IGT's contract with the state expires June 30th, 2023 – **less than 4 years from now.**

June 2023

| Sunday | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday |
|--------|--------|---------|-----------|----------|--------|----------|
| 28 | 29 | 30 | 31 | 1 | 2 | 3 |
| 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| 25 | 26 | 27 | 28 | 29 | 30 | 1 |

Why Now? (Continued)

However, the transition to a new technology provider would take 3 years. That means we need a contract in place by June 30th, 2020 – **9 months from now.**

June 2020

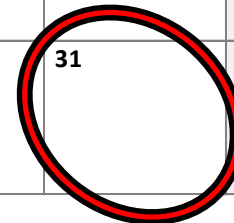
| Sunday | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday |
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| 31 | 1 | 2 | 3 | 4 | 5 | 6 |
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| 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| 28 | 29 | 30 | 1 | 2 | 3 | 4 |

Why Now? (Continued)

And if this contract goes out to bid, Lottery will need to commence writing an RFP by the end of January 2020.

January 2020

| Sunday | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday |
|--------|--------|---------|-----------|----------|--------|----------|
| 29 | 30 | 31 | 1 | 2 | 3 | 4 |
| 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| 26 | 27 | 28 | 29 | 30 | 31 | 1 |



Why Now? (Continued)

IGT is going through a global consolidation.

Like in 2003, it has the option to leave Rhode Island.

Depending on our actions, that consolidation will either move jobs into Rhode Island, or out of Rhode Island.

Not only that, but GTECH also was thinking about relocating to Massachusetts.

McMahon was skeptical.

"Even though my instinct was [that it] was a bluff, you can't treat a bluff as a bluff if you're not prepared to lose," he said.

McMahon knew what was at stake.

-Providence Journal, 6/29/03

Why Now? (Continued)

Summary

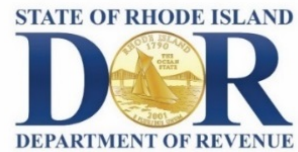
This is a turning point for Rhode Island. Our third largest revenue source and one of our most successful homegrown businesses are in the balance. This proposal includes:

- Protecting 1,000 Rhode Island jobs and creating more
- Ensuring a capital investment of \$150 million in Rhode Island
- An upfront payment to the State of \$25 million
- A guarantee that IGT's North American Lottery headquarters remain in Providence for the next 20 years
- The ability to compete for any new jobs that IGT creates or transfers
- Technology enhancements that strengthen Lottery operations and create the potential for increased revenue
- Secures for another two decades our successful partnership with IGT, which helps generate more than \$400 million per year in important revenue for the state

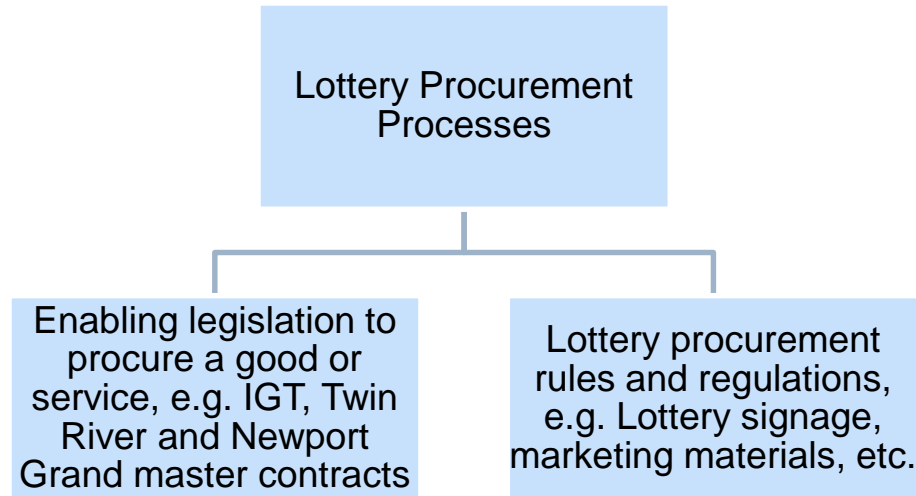
Throughout this presentation, we will explain why and how we obtained those important concessions, and why an RFP process would not create the same benefits.

There is no other process by which we could create a better deal for the state of Rhode Island and its citizens.

Section 2: Lottery Purchasing Processes



Lottery Procurement Processes



- The General Assembly enacts procurement laws for goods and services by state agencies.
- The laws depend on the nature of the goods and services and the length of the contract.
- By and large, the general purchasing laws focus on shorter term procurements.

The General Assembly enacts procurement rules for goods and services by state agencies.

Lottery Procurement Processes (Continued)

No Underlying Enabling Legislation

- In accordance with R.I. GEN. LAWS § 37-2-12 (“Centralization of procurement authority”) – the Lottery adheres to “the general principles, policies and practices of the state purchasing act.”
- R.I. GEN. LAWS § 42-61-4 (“Powers and duties of director”) – Subsection (6) gives the Lottery Director the power and duty to enter into contracts for the operations and promotion of the Lottery.
- The Auditor General annually conducts an audit at the Lottery, which includes a review of the Lottery’s purchasing activities, and has never raised a single issue with Lottery’s purchasing operations.

Lottery Procurement Processes (Continued)

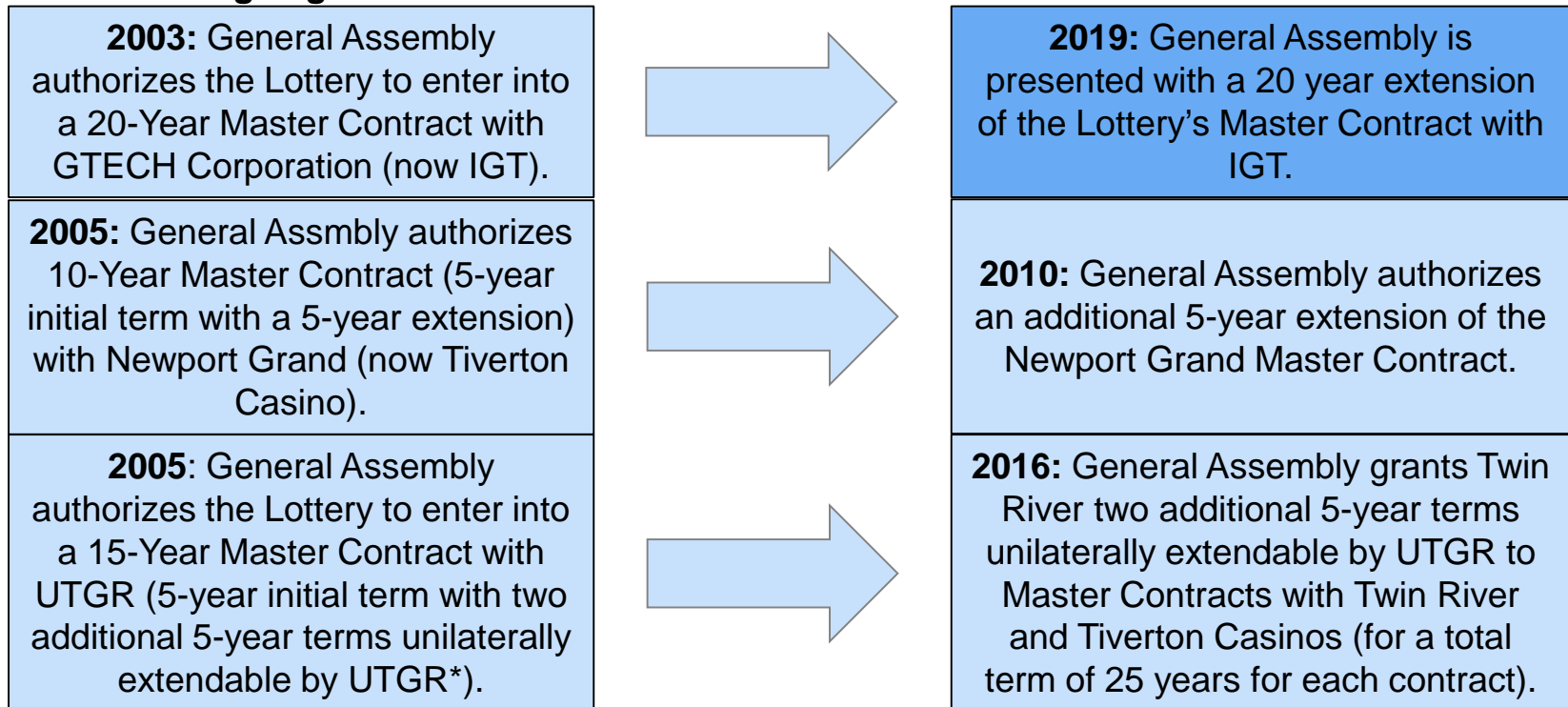
Existing Underlying Enabling Legislation

- As an alternative to the procurement process just discussed, the General Assembly has the prerogative to pass legislation that authorizes state agencies to enter into long-term contracts:
 - Where there are a unique or complex combination of goods and services being procured.
 - Where there are business relationships that require stability and/or longer-term commitments that require the construction of buildings or infrastructure.
 - Any reasons that the General Assembly deem to be in the public's best interests.
- The General Assembly has exercised this prerogative on a number of occasions and enacted enabling legislation that allowed for long-term leases, the development of the Providence Place Mall, I-195 Relocation, etc. Such enabling legislation is simply another procurement method that the General Assembly established.

Contracts - Enabling Legislation

Since 2003, the General Assembly has authorized Lottery to enter into three master contract agreements. The General Assembly has subsequently extended two of those agreements. Today we are asking you to extend the third.

Past Enabling Legislation



**UTGR may also be referred to as "Twin River" in this presentation.*

Lottery Procurement Processes

Enabling Legislation vs. Bid Process

- No new contract with IGT has been prepared or signed.
- What you have before you is proposed legislation for consideration by the General Assembly, similar to legislation passed for the GTECH Contract (2003), the Twin River Contract (2005) and the Newport Grand Contract (2005).
- It is the Legislature's prerogative to enact enabling legislation to permit this procurement or not.
- It would have been improper to proceed with this procurement without enabling legislation given that the General Assembly has consistently exercised its prerogative with respect to master contracts related to gaming since 2003.
- With a traditional bid process, RFPs are prepared by agencies and there are no hearings or public input.
- Alternatively, contracts entered into as a result of enabling legislation only occur after legislation is introduced, hearings and testimony before both the Senate and the House committees are held, and the legislation is debated and passed - providing a transparent process.
- If the General Assembly decides not to enact enabling legislation for this procurement, then the Lottery will follow the other procurement processes that were discussed.

Lottery Procurement Processes (Continued)

Considerations: Procurement by Enabling Legislation vs. Bid

- The Lottery would go out to bid for this procurement if the proposed enabling legislation is not enacted. However, that process would be expensive and time-consuming.
- Given the scope and complexity of this procurement, the bid process would need to commence in January 2020, so that the State could maximize the possibility that performance under the new contract would commence by July 1, 2023. That would mean that the Lottery would start incurring expenses for the bid process in January 2020.
- Enabling legislation has the benefit of being able to specify economic development terms to be included in a contract, such as a specified number of jobs and that the vendor's headquarters be located in Rhode Island.
- In general, such economic development terms have not been included in a bid process. There is no guarantee that responses to an RFP will satisfy these requirements and it is difficult to weigh their value against other bid responses.
- A bid process could result in:
 - Less favorable contract terms to the State than are in the pending enabling legislation.
 - IGT moving its North American headquarters outside of Rhode Island.
 - Loss of 1,000 FTE's IGT is currently required to provide.

Lottery Procurement Processes (Continued)

Considerations: Procurement by Enabling Legislation vs. Bid (Continued)

- The Lottery believes there are only three (3) major companies that are capable of providing the central system services specified in the legislation.
 - One of those is headquartered in Greece.
 - Another company has its headquarters in Las Vegas, Nevada.
 - It is unlikely that either of those companies would relocate to Rhode Island and contract to maintain 1,000 FTEs in Rhode Island.
- As you will see from the Lottery's presentation, the services currently being provided are extremely complex and heavily reliant on technology; any change to a different vendor would involve a difficult, complex transition/conversion of various computer systems.
 - The possibility of transition/implementation difficulties is high and the risk of revenue loss to the State cannot be discounted.
 - Such difficulties and risk were recently experienced by the State of Illinois as it attempted to implement a new central system, including glitches that led to overpayment on winning tickets.

RFP Limitations

There is no way to guarantee both the jobs/economic development commitments **and** the favorable pricing, products, and services through an RFP.

Best case, you would get one or the other. And why take the risk, when we already have in front of us a proposal that does both?

| Economic Development | Lottery Operations |
|---|--|
| <ul style="list-style-type: none"> • 1,100 jobs • \$150 million in investments • \$25 million upfront payments • Future expansions • North American Lottery headquarters | <ul style="list-style-type: none"> • Price lock on instant ticket printing • 25% refresh of VLT floor • Frequent technology upgrades • Annual cybersecurity testing • iLottery products • Etc. |

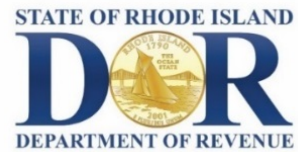
This is the problem with using an RFP – you don't need to give the best possible offer to win one, you only need to be slightly better than the others.

RFP Limitations

Other states that used an RFP process do not get what we're getting:

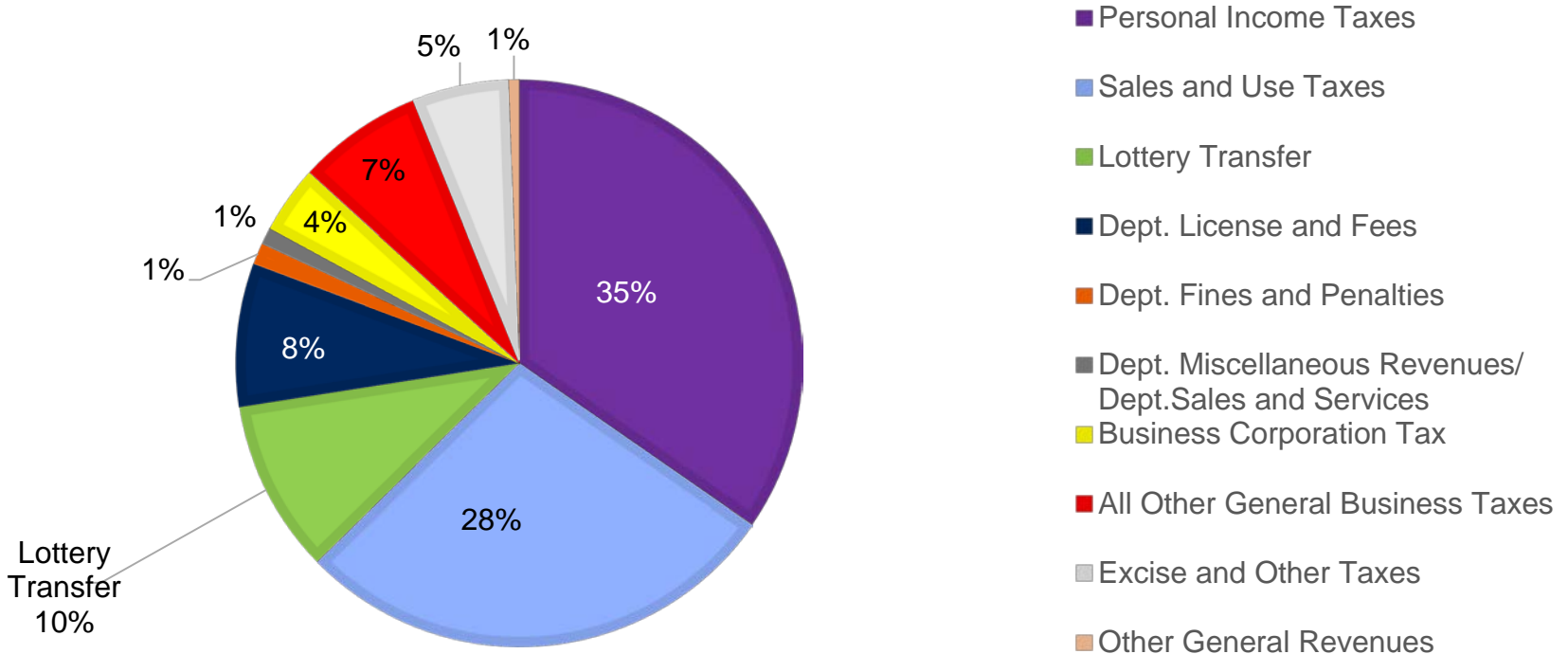
| | IGT in Rhode Island | IGT in Other States |
|------------------------------------|---|--|
| Jobs Guarantee | 1,100 jobs guaranteed | No jobs guaranteed beyond state lottery operations |
| Upfront Payment | IGT pays the state \$25m upfront. | No other state is paid by a vendor for traditional lottery services. |
| Investment Obligation | IGT agrees to invest \$150m in Rhode Island. | IGT has no investment obligations in other states. |
| Future Economic Development | RI has right of first refusal on any future expansion by IGT. | IGT can locate new business anywhere. |
| System Maintenance | IGT installs a new system now, a second new system in ten years, and four modules. | Florida, a more profitable lottery for IGT than RI, gets only one new system and one new module in the same amount of time. |

Section 3: Lottery Overview



Lottery Overview

GENERAL FUND REVENUE SOURCES FY2019 PRELIMINARY



The Lottery is the 3rd single largest source of general revenue in the State, following after personal income tax revenue and sales and use tax revenue. The Lottery provides more revenue to the State than all companies pay in business corporate taxes combined.

Lottery Overview (Continued)

The Lottery - Background

- Located at 1425 Pontiac Avenue in Cranston, Rhode Island, the Lottery employs 105 people to oversee all aspects of Lottery operations and gaming in the State.
- The Lottery offers a diverse portfolio of quality products that generate revenue to benefit all.
- The Lottery is the largest voluntary source of income for the State, benefiting all who live, work and visit the Ocean State.
- The Lottery generates 10% of all general fund revenue, making it the 3rd single largest source of general revenue in the state.
- Based on FY 2019 preliminary results, the Lottery transferred approximately \$397.3 million to the general fund - more than the license and fee revenue collected by all other state agencies combined.

The Lottery is one of the largest sources of general revenue in the State.

Lottery Overview (Continued)

Where the Money Goes – All Lottery Revenue (Instant Tickets, VLT, Tables, Keno...)

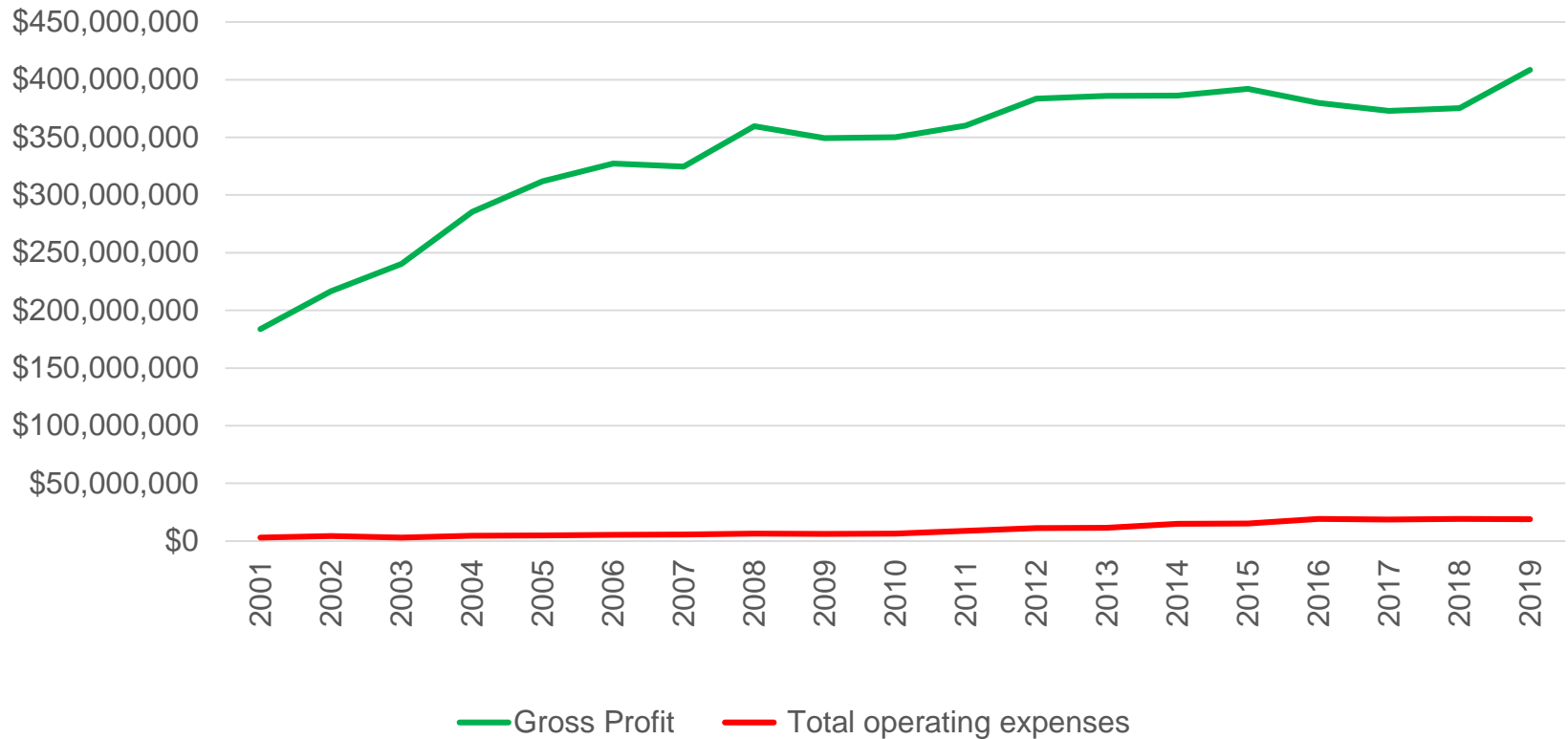
Lottery Percentage Breakdown FY 2019



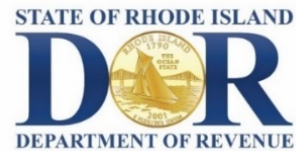
The Lottery's operating costs absorb less than 0.5% of its revenue, with the majority of revenues flowing back to the customer in the form of prizes.

Lottery Overview (Continued)

Lottery - Gross Profit and Operating Expenses over Time



Section 4: Revenue Sources – Traditional Products



Lottery History

History of the Lottery

Constitutional Amendment passes to create the Lottery (1973)

Statute establishes nine-member Lottery Commission (1974)

Lottery's first game "The Lot" sells for 50¢ - weekly draws (1974)

Daily Numbers Game and first Instant Ticket "Play Ball" launch (1976)

Sales through retail terminals begin (1978)

Legislation authorizing the Lottery to install VLTs at facilities passes (1992)

Legislation authorizes Lottery to enter 20-year Master Contract with GTECH (2003)

1973

1973

1977

1981

1985

1989

1993

1997

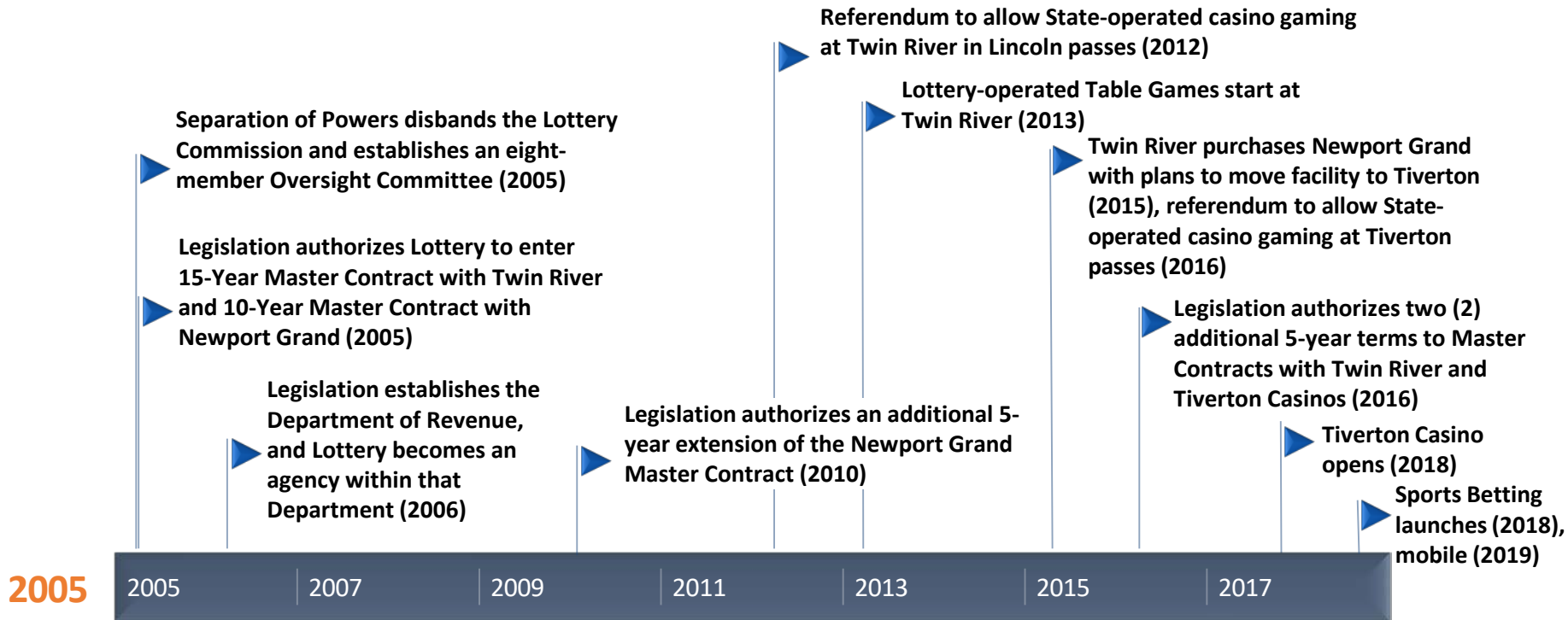
2001

2004

Since 1974, the Lottery has launched close to 1,000 different Instant Ticket Games and developed and launched more than 43 Jackpot and/or Monitor Games (1974-2019).

Lottery History (Continued)

History of the Lottery



Since 2003, the General Assembly has authorized Lottery to enter into several master contract agreements pertaining to local casino gaming and traditional game operations.

Lottery Revenue Sources

Revenue Sources at the Lottery

The Lottery offers a variety of products and services to the Rhode Island general public that span two broad categories of offerings:

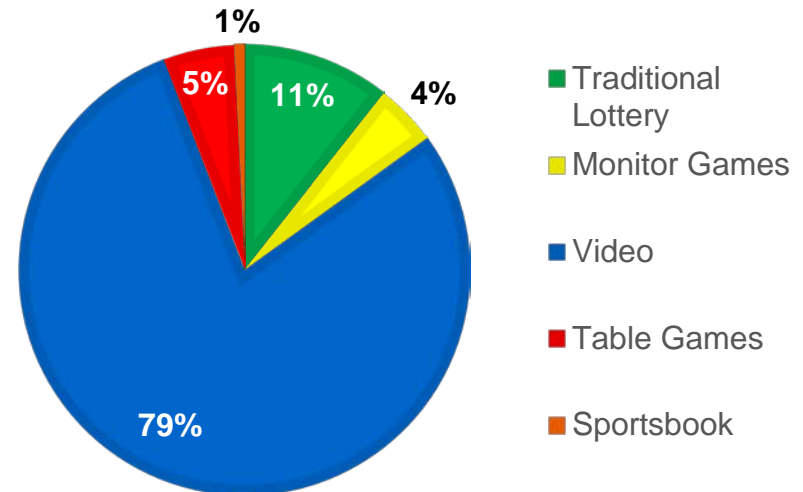
(1) Traditional Lottery Products

- Instant Tickets
- Jackpot and Monitor Games (i.e. Keno, Bingo)

(2) Casino Gaming

- Table Games
- Video Lottery Terminals (VLTs)
- Sports Betting

LOTTERY GENERAL FUND TRANSFER (FY 2019)



Lottery revenue sources are classified into two broad categories of services: traditional lottery products and casino gaming.

Lottery Revenue Sources: Traditional Products

Traditional Lottery Products

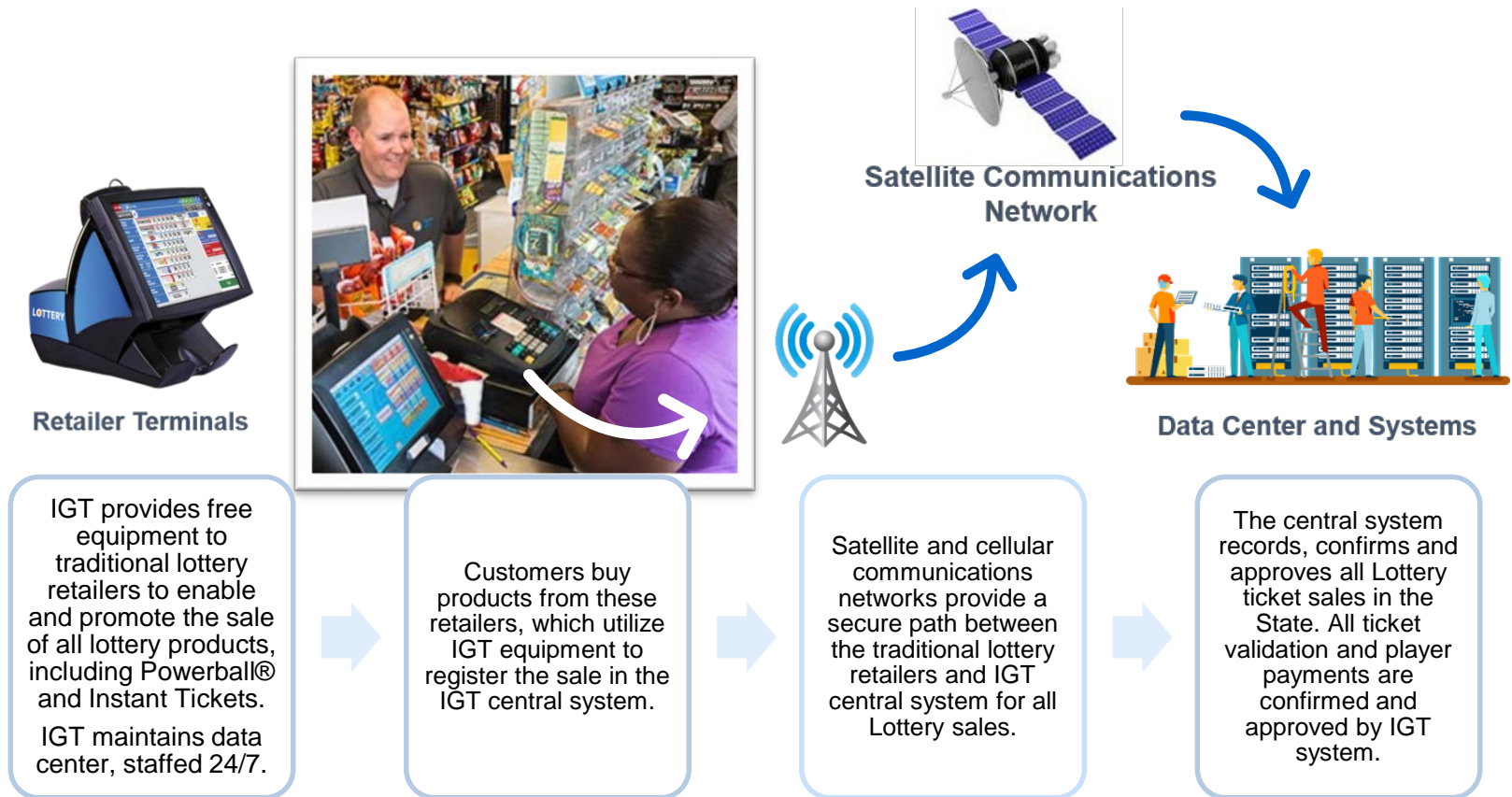
- The Lottery is the only state agency that sells a product to generate maximum revenue for the State, while maintaining the trust and interest of Rhode Island citizens.
- There are 50 Lottery employees responsible for the development, management, and administration of all traditional lottery products.
- Sales of traditional Lottery products in FY 2019 were \$263.3 million with \$59.8 million being turned over to the State General Fund, after the payment of prizes and commissions.
- Current traditional games include:



The Lottery operates the sale of traditional lottery products.

Lottery Revenue Sources: Traditional Products (Continued)

Traditional Lottery Central System



Lottery Revenue Sources: Traditional Products (Continued)

IGT's Traditional Product Responsibilities

- IGT is the central system provider responsible for capturing and reporting all sales transactions for traditional lottery games including PowerBall®, Mega Millions®, Lucky for Life®, Numbers, Wild Money, Keno and Bingo.
- IGT captures and reports all transactions for prizes paid and provides reports on all retailer activity including sales, prize payments, and net amounts due to the Lottery weekly, which are then electronically swept from retailers' bank accounts.
- IGT maintains an inventory control system and provides reporting for instant tickets activity from warehouse to retailer to validation of winning tickets. IGT also tracks tickets through games' end.
- IGT is responsible for all related computer equipment and satellite equipment for transmissions on traditional lottery sold through retailer outlets.

IGT captures and reports transactions for prizes paid and provides reports on retailer activity, reports on sales transactions for traditional lottery games, maintains the traditional game inventory control system and reports, and is responsible for related equipment for data transmissions.

Lottery Revenue Sources: Traditional Products (Continued)



Retailer Terminals



Ticket Checkers



28 Bin Instant Ticket Vending Machines



20 Bin Instant Ticket Vending Machines



Keno Monitors

- IGT provides multiple products to Lottery retailers to enable and promote the sale of all Lottery products.
- These products include Lottery terminals, instant ticket vending machines, Keno monitors, and ticket checkers.
- IGT also provides retailers with ticket paper and play slips.

Lottery Revenue Sources: Traditional Products (Continued)

Traditional Lottery Commissions

Revenue from traditional lottery product sales is distributed across both partner vendors in the form of commissions, as well as back to customers in the form of payouts (winnings).

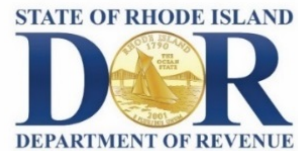
Instant Ticket Commissions

- 5% to retailer
- 5% to IGT

Jackpot and Monitor Game Commissions

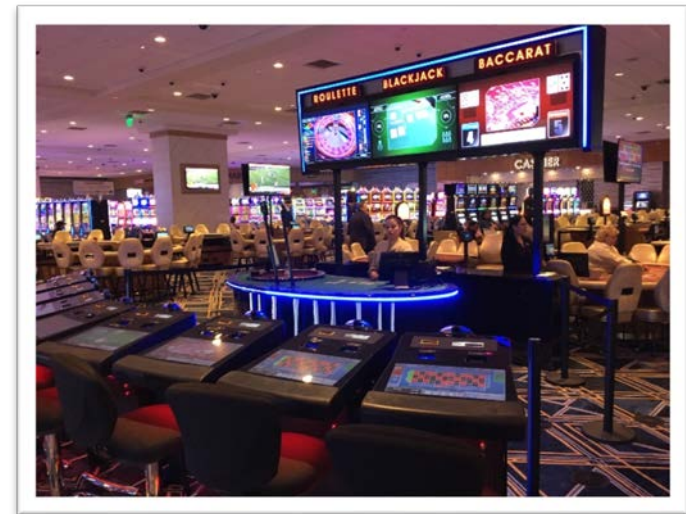
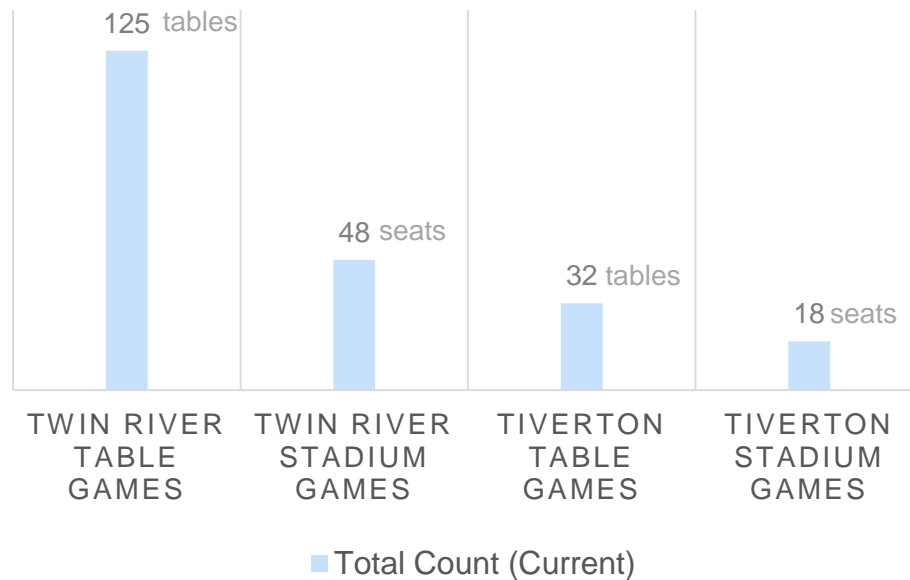
- 8% to retailer
- 5% to IGT

Section 5: Lottery Revenue Sources – Casino Gaming



Lottery Revenue Sources: Casino Gaming

COUNT OF TABLE GAMES (CURRENT)

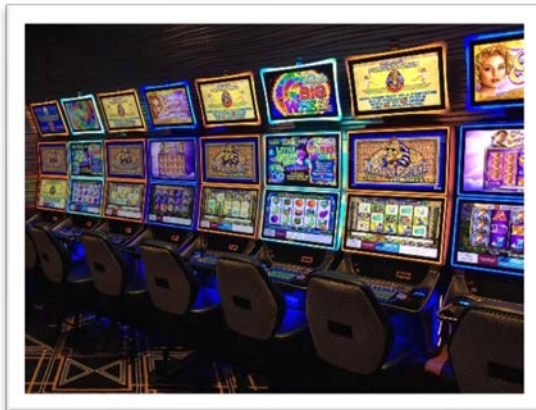


The Lottery is responsible for operating all aspects of casino gaming, including over 157 table games (including poker) and 66 stadium games seats at the Twin River and Tiverton Casinos.

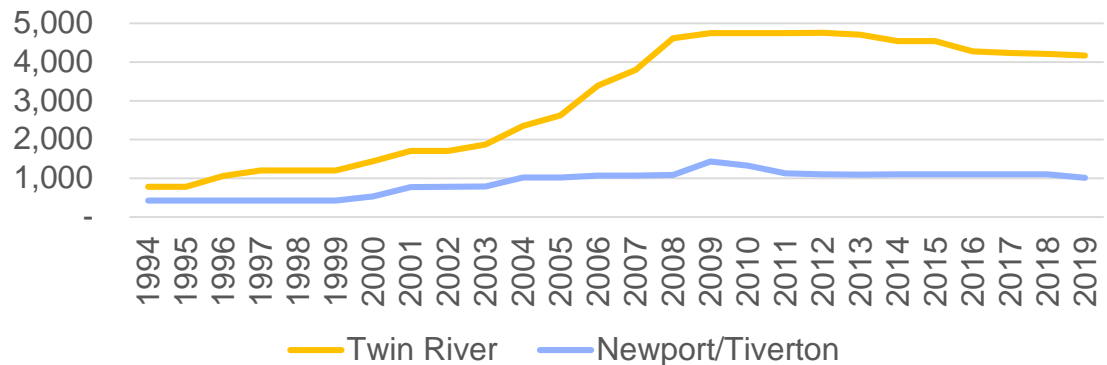
Lottery Revenue Sources: Casino Gaming (Continued)

Video Lottery Terminals (VLTs)

- In 1992, legislation passed authorizing the Lottery to install and operate 1,292 Video Lottery Terminals (VLTs) at the State's two pari-mutuel facilities – 856 at Lincoln Park (now Twin River) and 436 at Newport Jai Alai (now Tiverton).

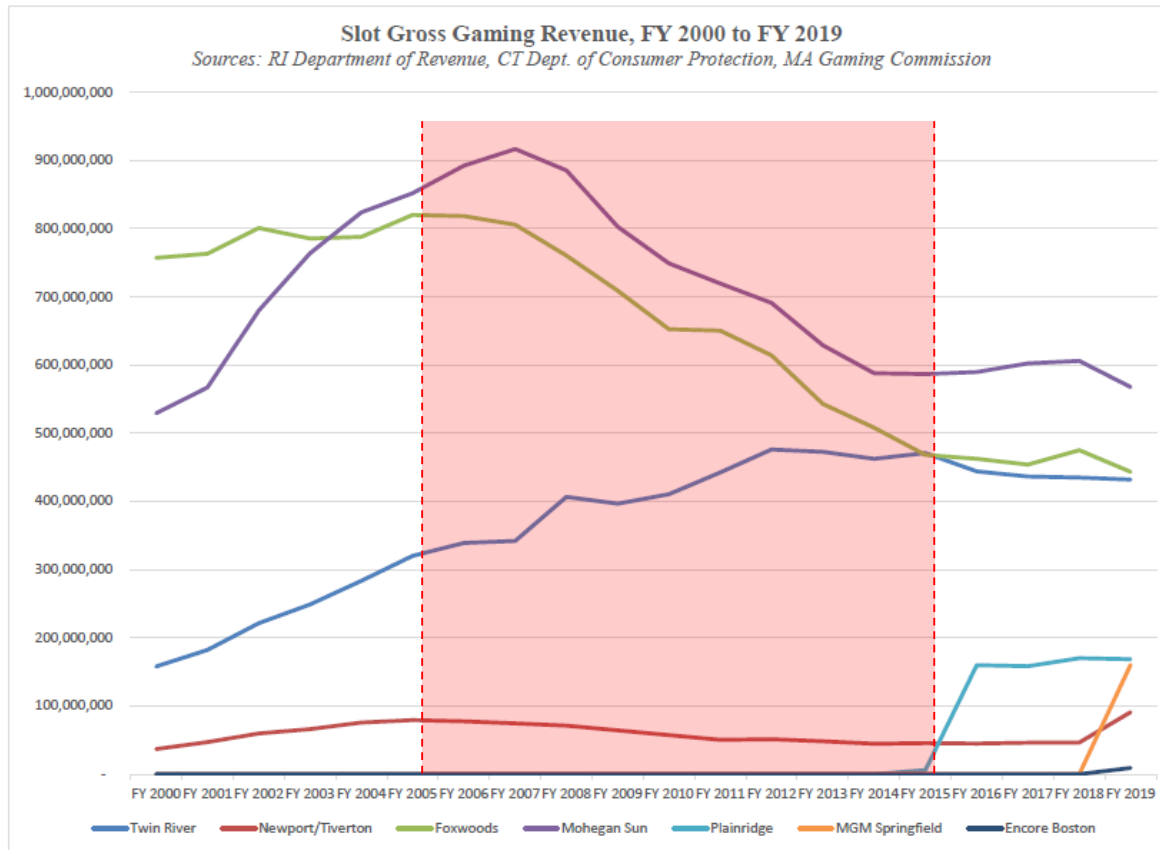


COUNT OF VLT MACHINES OVER TIME



Today the Lottery operates 5,108 VLTs: 4,108 at Twin River and 1,000 at Tiverton.

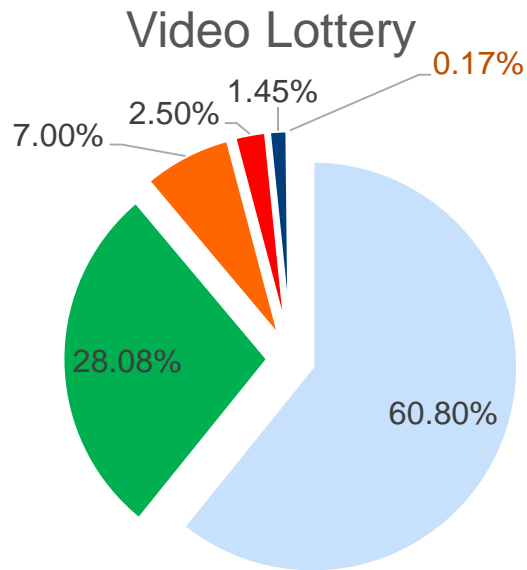
Lottery Revenue Sources: Casino Gaming (Continued)



Under the current master contract with IGT, the Lottery has driven steady growth in slot gaming revenue during periods of decline in neighboring state facilities.

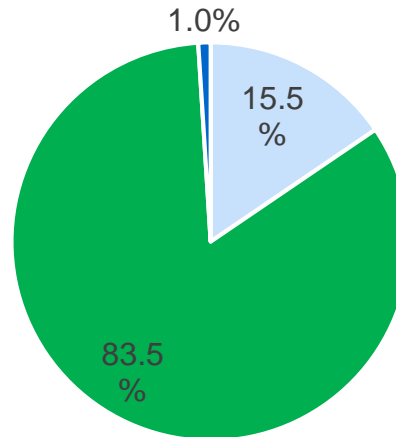
Lottery Revenue Sources: Casino Gaming (Continued)

Casino Gaming Commissions



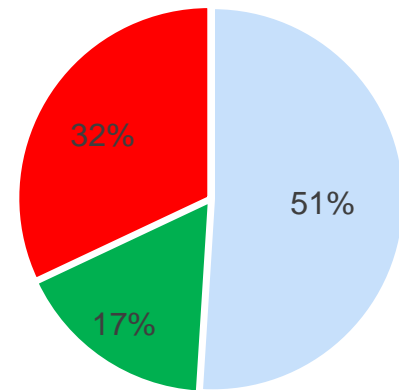
- State Share
- Twin River/Tiverton
- Technology Providers
- IGT VLT Central System
- Towns of Lincoln/Tiverton*
- Narragansett Tribe**

Table Games



- State Share
- Twin River/Tiverton
- Towns of Lincoln/Tiverton*

Sports Betting



- State Share
 - Twin River/Tiverton
 - IGT
- +\$100,000 flat fee to Towns of Lincoln/Tiverton*

*Minimum commission \$3 million guaranteed each town from Video Lottery and Table Game operations combined.

**Twin River facility only

Lottery Revenue Sources: Casino Gaming (Continued)

VLT Efficiency Monitoring

- Video Lottery Terminal efficiency is determined based on a formula.
- Efficiency is calculated for each technology provider (Scientific Games, IGT, Everi) during the first 13 weeks of the calendar year, but efficiency is monitored throughout the year.
- The efficiency factor allows the Lottery to analyze the percentage of NTI from a vendor to the percentage of VLTs the vendor has in the facilities.
- Video Lottery Terminals may be reallocated based on efficiency ratings and other considerations at the Lottery Director's discretion.

The Lottery regularly monitors the efficiency of the video lottery technology providers based on contractual requirements and may reallocate terminals based on efficiency ratings.

Lottery Revenue Sources: Casino Gaming (Continued)

Top 25 Highest Producing VLTs

| Game | Age |
|--|-----|
| IG00001 TD Diamond 3R20L 3.0 3-20-200 88.95 | 5 |
| BA00001 5 Treasures 5-243-880 90.67 | 4 |
| IG00001 Bombay 5-99-2000 92.53 | 6 |
| GT00100 American Original 5-5-25 94.00 | 5 |
| GT00001 Ocean Magic 5-50-500 88.12 | 3 |
| GT00001 Wonder4 5-400-1600 88.01 | 6 |
| GT00100 Alpha Roulette 0-0-100 94.41 | 11 |
| IG00100 Pink Diamond Free Games 3-25-125 94.98 | 7 |
| BA00001 88 Fortunes 5-243-880 90.49 | 4 |
| IG00001 Stinkin Rich 5-99-1000 92.53 | 21 |
| IG00002 Stinkin Rich 5-99-1000 92.53 | 21 |
| GT00001 CHS Boosted Win V3B XTR-170 5-30-225 88.07 | 6 |
| GT00002 American Original 5-25-250 88.00 | 5 |
| GT00025 American Original 5-9-45 92.02 | 5 |
| IG00001 White Orchid 5-80-800 90.00 | 8 |
| BA00001 UFL-Olvera Street 5-50-500 88.28 | 1 |
| IG00010 Cleopatra 5-20-100 92.47 | 8 |
| GT00001 Wicked Winnings II PP 5-50-250 87.85 | 11 |
| BA00001 UFL - China Street 5-50-500 88.27 | 1 |
| GT00001 Buffalo XRP 5-40-200 87.75 | 9 |
| IG00005 Cleopatra 5-20-100 90.01 | 8 |
| GT00001 American Original 5-25-250 88.00 | 5 |
| IG00001 TD Diamonds 3-20-200 87.89 | 5 |
| IG00001 Lucky Larrys Lobstermania 2 5-40-300 88.90 | 7 |
| IG00001 TPL RH7s FG 3-25-250 88.49 | 4 |

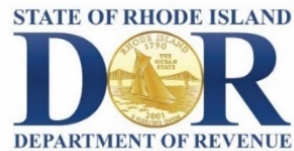
Efficiency Evaluation Results 2015-2019

| | 2015 | 2016* | 2017** | 2018 | 2019 |
|-------------------|---------|---------|--------|--------|--------|
| Bally | 133.7% | 126.9% | 98.1% | 118.3% | 147.8% |
| GTECH | 105.3%* | * | * | * | * |
| IGT | 89.8% | 100.8% | 99.8% | 97.3% | 92.8% |
| MultiMedia | 101.9% | 88.5% | 111.4% | 101.8% | 111.1% |
| WMS | 106.2% | 93.0%** | ** | ** | ** |

*GTECH acquired IGT in 2015

**Bally (SciGames) acquired WMS Gaming in 2016

Section 6: Casino Gaming Responsibilities



Casino Gaming Responsibilities

Casino Gaming

Lottery

- Operator/Regulator
- Compliance
- Product mix

IGT

- VLT central system technology
- Technology provider
- Maintenance/ servicing of all VLTs

Twin River

- Customer service
- Facilities management
- Marketing

| | | |
|-------------------------------------|--------|---------|
| State Payment FY19 | \$57m | \$289m |
| State Payments Last 10 Years | \$475m | \$2.07b |

Casino Gaming Responsibilities (Continued)

The Lottery's Casino Gaming Responsibilities

The Lottery has a staff of 55 employees assigned to the Casinos 24/7. These include:

- **Operations and Compliance** – Responsible for acting as the liaison to casino staff, ensuring all aspects of casino gaming are conducted by casino personnel in accordance with Lottery and Department of Business Regulations (DBR) requirements.
- **Finance Staff** - Oversight of all financial aspects of the VLTs and casino games ensuring casino's reporting accuracy, compliance with the Lottery's internal controls and procedures, and audits of gaming operations.
- **IT and Surveillance** - Responsible for integrity of systems, surveillance of casino activities on the gaming floor, money room cash counts, etc.
- **Compliance Representatives** – Present on gaming floor 24/7 observing all game play activities and conduct of dealers and patrons.
- **Security Inspectors/Investigators** – Ensuring security and integrity of gaming activities, investigate any issues related to gaming activities, and making referrals of criminal activity to the GEU within state police, as appropriate.

The Lottery is responsible for operating and regulating all aspects of casino gaming in accordance with state law and Lottery/DBR requirements, as well as investigating any issues, monitoring the gaming floors, and overseeing all accounting and financial controls.

Casino Gaming Responsibilities (Continued)

Twin River's Casino Gaming Responsibilities

Casino management and staff responsibilities include:

- **General** – Dealers, cashier activities, food and beverage services, customer service representatives, valet, and facility improvements/maintenance.
- **Management** – Hosting of Lottery-operated casino gaming.
- **Finance Staff** – Ensuring compliance with Lottery requirements for financial reporting and cash controls.
- **IT, Surveillance, and Security** – System maintenance, surveillance of all areas of casinos, and safety of patrons.
- **Marketing** – Promotion of facilities to ensure maximum revenue generation.
- **Capital Investment** – Facility improvements.

Twin River is responsible for general customer service and related operations at the casinos and hotels.

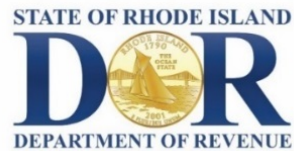
Casino Gaming Responsibilities (Continued)

IGT's Casino Gaming Responsibilities

- IGT is the central system provider for video lottery and is responsible for capturing transactions on all VLTs.
- IGT is also responsible for capturing required information and generating all related reports for: (a) financial recording and reporting purposes, (b) calculation of commissions to the facilities, technology providers, the Towns, and the Narragansett Indian Tribe, and (c) other accounting information to meet Lottery requirements.
- IGT is responsible for maintenance and servicing of all VLTs, i.e. to be sure they remain functional.

IGT is responsible for providing the central system which is responsible for capturing all VLT data related to financial reporting and terminal inputs/outputs, as well as maintaining and servicing all VLT machines on the casino floors.

Section 7: 2003 Enabling Legislation/ IGT Master Contract



IGT Master Contract

2003 Enabling Legislation / Current Contract

- In 2003, the Legislature passed enabling legislation authorizing and empowering the Lottery to enter into a 20-year Master Contract with GTECH (now IGT).
- The legislation:
 - Exempted the procurement of that master contract from the provisions of state purchasing laws (R.I. Gen. Laws § 37-1-1 *et seq.*).
 - Authorized the Lottery to enter into an agreement with GTECH addressing the video lottery central computer system, traditional lottery gaming system, information technology software, and related services.
 - Set revenue sharing.
 - Required FTE count obligations, headquarter relocation and maintenance, as well as economic investment in the state.

In 2003, the Legislature passed enabling legislation which authorized and empowered the Lottery to enter into a 20-year Master Contract with GTECH (now IGT).

IGT Master Contract (Continued)

Summary of 2003 IGT (Formerly GTECH) Master Contract Terms

- Master Contract has a contract term of 2003 to 2023 (a 20 year contract term).
- Required a \$12.5M upfront payment from GTECH to the state.
- Required a \$100M investment obligation of GTECH and 1,000 full time active employees.
- Required GTECH to construct, locate and maintain its headquarters in Providence.
- Authorized the three (3) existing contracts (traditional lottery sales, video lottery terminals and video central system provider) and made the following allocations:
 - As the traditional lottery sales provider – 5% of those sales
 - As the VLT technology provider – 7% of net terminal income from IGT machines
 - As the video central system provider – 2.5% of annual total VLT net terminal income

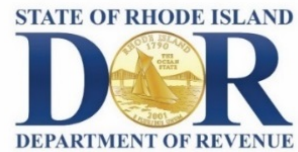
The current IGT Master Contract requires IGT to maintain 1,000 full time active employees in the State and defines what share of revenue IGT will receive in exchange for goods and services offered.

IGT Master Contract (Continued)

Summary of 2003 IGT (Formerly GTECH) Master Contract Amendments

| Amendment | Lottery Requested Term and Value* |
|---|---|
| 1st Amendment – July 2006 | Equipment/Product Substitution - \$2,129,000 |
| 2nd Amendment – July 2008 | Equipment/Product Substitution - \$1,163,100 |
| Third Amendment – April 2009 | Pilot Program to Test Market Second Chance Drawings |
| Letter Agreement – May 2010 | Extend Website Services |
| Fourth Amendment – April 2011 | Equipment/Product Substitution - \$1,650,500 |
| Letter Agreement – November 2012 | Modify Video System Install Date to March 31, 2013 |
| Letter Agreement – March 2013 | Video System Install January 2013/Extends MTSC Replacements to August 31, 2013 |
| Fifth Amendment – July 2014 | GTECH Extraordinary Marketing Expenses Expenditure Commitment |
| Employment Obligation Agreement – July 2014 | Resolves FTE Shortfall Issue \$82,560 |
| Letter Agreement – March 2015 | GTECH Agrees to Waive its Rights Under Section 5/Fifth Amendment |
| Sixth Amendment – June 2016 | Resolve FTE Shortfall With Additional Products/Services \$11,562,000 |
| Letter Agreement – May 2017 | Equipment/Services Substitution - \$1,386,750 |
| Seventh Amendment – July 2017 | Agreement to Increase Cap on Promo Points |
| Letter Agreement – August 2018 | Guarantee Replacement of Current System Should Performance/Functionality Decline Agreement to Reduce IGT's Sports Betting Revenue Share From 50% to 32% \$33,000,000 First Term/ \$113,000,000 Full Term |
| Total Value to Lottery: | \$130,973,910 |






Section 8: 2019 Proposed Legislation and Comparison



Proposed Extension

This proposal is a great deal for Rhode Island.

We have over a dozen terms that expand upon the original contract:

- Higher upfront payments 
- Higher investment obligations 
- More jobs 
- More services 
- More frequent system updates 

Proposed Extension (Continued)

Given the strong concession we got from IGT around jobs, investments obligations, system upgrades, pricing, and more, a longer contract is more beneficial to the State.

Term

Current Contract

2003 to 2023
 – 20 years.

Proposed Extension

2023 to 2043
 – 20 years,

Proposed Extension

Unlike other states, which pay large upfront sums or guaranteed fixed fees to their vendors, Rhode Island will be paid by IGT for the right to partner for the next twenty years.

Upfront Payment

Current Contract

\$12.5 million with refund provisions

Proposed Extension

\$25 million in two payments with no refund provisions

Total Value:
\$25m

Proposed Extension

This \$150 million dollar investment in capital and real estate will be spent in Rhode Island, generating economic momentum as well as sales taxes for the State.

Investment Obligation

Current Contract

\$100 million

Proposed Extension

\$150 million

Total Value:
\$175m

Proposed Extension

Appleseed estimates that each additional 30 employees brought to Rhode Island will generate \$233,000 in taxes. Even if this clause is only triggered once, the net benefit over the 20 year extension will be \$4.66 million in tax revenue.

Economic Development

Current Contract

Proposed Extension

Not in master contract

RI has right of first proposal
on all transfers and
expansions of 30 or more
employees

Total Value:
\$179.66m

Proposed Extension

Appleseed estimates that the additional 100 employees will generate \$776,000 in tax revenue. Over the life of the 20 year extension, that will be \$15.52 million in tax revenue.

Full-Time Employees

Current Contract

Proposed Extension

1,000

1,100

- Increases hourly requirement from 30 to 40 per week
- Maintains same minimum wage standard (at least 150% of minimum wage)
- Defines FTE using standard Commerce definition

**Total Value:
\$195.18m**

Proposed Extension

Professor Tebaldi's analysis of IGT's value indicates that the company generates \$6.8 million in commercial, industrial, and residential property tax in Rhode Island. Over 20 years, even if they do not buy any further real estate, that will total \$136 million.

Facility Obligations

Current Contract

IGT to have a headquarters in Providence.

Proposed Extension

IGT to maintain 10 Memorial Boulevard location as North American Lottery headquarters.

**Total Value:
\$331.18m**

Proposed Extension

Managing Lottery sales costs the state \$1.2 million per year, or \$24 million over the 20 year period. For IGT to make up that cost through their increased ticket sales, the company would need to increase their sales by \$25 million annually. This in turn generates \$5.5 million in additional lottery revenue for the state each year, or \$110 million over the 20 year extension.

Traditional Lottery Products

Current Contract

| Total Lottery Sales | Percent |
|---------------------|---------|
| \$0-\$275M | 5% |
| \$275M-\$400M | 1% |
| Over \$400M | 5% |

- State is responsible for Lottery sales

Proposed Extension

| Total Lottery Sales | Percent |
|---------------------|---------|
| \$0-\$275M | 5% |
| \$275M-\$400M | 4% |
| Over \$400M | 5% |

- IGT assumes responsibility for Lottery sales

Comparison Point: Delaware pays 5.37% commission on online games, 5.6% on instant tickets, and 9.95% on Keno. West Virginia pays 4.28% plus a fixed payment of \$2.9 million annually, for an effective rate of 5.77%

**Total Value:
\$465.18m**

Proposed Extension

These technology upgrades will ensure that the Lottery has the best technology available and has the rights to future products created by IGT that have not yet been developed.

Lottery Central System

Current Contract

- New system at the outset of the contract and a new one halfway through the term.
- Basic maintenance to address system failures

Proposed Extension

- Annual reviews of product roadmap with Lottery, with Lottery allowed to select 4 system modules to add
- Annual cybersecurity testing
- IGT will install a new system in the year after the extension is approved and a second new system halfway through the extension.
- IGT provides 40 new services

Total Value:
\$465.18m

Proposed Extension

The contract extension would include all of the following new features for traditional lottery products:

- | | | | |
|---|--|---|---|
| 1. 200 new Instant Ticket Vending Machines | 14. Aurora (or equivalent) Performance Intel and Navigator | 23. Gift Subscriptions (ability to provide gifts to players for them to purchase subscriptions) | Engagement |
| 2. 100 Keno Kiosks | 15. Aurora (or equivalent) IPS – Inventory Control | 24. Ability to Redeem Coupons via Barcode | 35. Sell/Sign/Win Retailer Promotions |
| 3. Keno Plus Promotion – ability to change multiplier | 16. Aurora (or equivalent) Performance Intel | 25. Automatic Credit for Coupon Redemption | 36. Reporting Data Warehouse |
| 4. Ability to redistribute partial books of instant tickets | 17. Self-Service Terminal Reports | 26. System-Generated Coupons | 37. Player Hotline Services – VIP Club Assistance |
| 5. Scanning instants | 18. Account Adjustments and Notifications to Retailers | 27. Retailer Incentive Programs / Performance-Rewards | 38. Research and Strategic Development Services, like a Bi-Annual Portfolio Review – game performance analysis, an Annual Detailed Study of RI market, and research support from IGT Insights 360 Group |
| 6. Mobile App – cashless | 19. Pick and Pack Services with Real Time Reporting | 28. Registration Codes on Tickets | 39. FutureGame: IGT's Game Innovation Process |
| 7. No character limit – online ticket for messages | 20. Field Marketing and Sales Reports | 29. Flexible Second Chance Solutions | 40. Ad Hoc Game and Promotion Analysis |
| 8. Predictive Ordering | 21. IGT's Zone Impact Plan (ZIP) for Sales Increases | 30. Mobile Promotions | 41. Hybrid/Fast Play Games |
| 9. Auto-Activation | 22. Subscription Wagers – Automatic Payments and Renewal Notices | 31. Mobile Ticket Self-Checking | |
| 10. Inventory Management | | 32. Digital Playslips | |
| 11. Flexibility in the Creation of Reports and Interfaces | | 33. Player Tracking | |
| 12. Terminal Ordering Capability | | 34. Virtual Player Card – Player | |
| 13. Ability to Change Status of Recovered Stolen/Lost Tickets | | | |

**Total Value:
\$465.18m**

Proposed Extension

If the state were to purchase an iLottery solution from an outside vendor, the Department of Revenue estimates that it would cost at least \$3 million per year. In this contract, Rhode Island gets iLottery as part of its traditional lottery products, saving \$60 million.

iLottery Solutions

Current Contract

Not in master contract

Proposed Extension

- Full range of game types
- Age, identity, and location verification
- iLottery to be installed within two years of agreement, with a full replacement after ten years

Comparison Point: Georgia pays between \$5 million and \$6 million annually for its iLottery.

Total Value:
 \$525.18m

Proposed Extension

Added at the request of General Assembly leaders, these increased VLT efficiency measures and floor refresh will help to ensure that Twin River is able to remain competitive with nearby casinos.

Video Lottery Terminals (VLTs)

| Current Contract | Proposed Extension |
|--|---|
| <ul style="list-style-type: none"> IGT earns 7% commission on daily net income of each IGT terminal. GTECH will produce 50% of VLTs, while IGT produced 35% VLT efficiency window of 97% with annual testing, “may” be replaced | <p>Same rates, plus:</p> <ul style="list-style-type: none"> 25% of the VLTs at Lincoln will be replaced by 12/31/20 6% of VLTs replaced annually starting in 2021 5% of a vendor’s VLTs must be premium or royalty games All new VLTs at Lincoln and Tiverton will have bonusing All payments to IGT will be net of 20% promotion points IGT’s VLT share will still be subject to efficiency testing, with “may” changed to “shall” Low-performing VLTs (earning less than 150% of floor average) subject to review and replacement by Lottery |

Comparison Point: New York State, the largest lottery operation in America, pays 6.98% commission on net terminal income. Delaware, a state much closer to Rhode Island, also pays 7%.

Total Value:
\$525.18m

Proposed Extension

The Department of Revenue estimates that, due to inflation, locking instant ticket printing pricing at 2013 prices will save \$1.94 million over 20 years. Additionally, the total value of the licensed tickets is approximately \$1.8 million. Finally, the Lottery will save \$626,000 on shipping tickets each year, so free tickets will save \$12.52 million, for a total of \$16.62m

Instant Ticket Printing

Current Contract

Proposed Extension

Not in 2003 master contract

- Price-locked for 20 years
- IGT pays for 36 new licensed tickets through 2043
- IGT covers delivery costs

Comparison Point: Rhode Island's prices will be locked in at about \$1m per year. Delaware and West Virginia, states with similarly sized lotteries, pay \$3.9m and \$1.5m per year respectively.

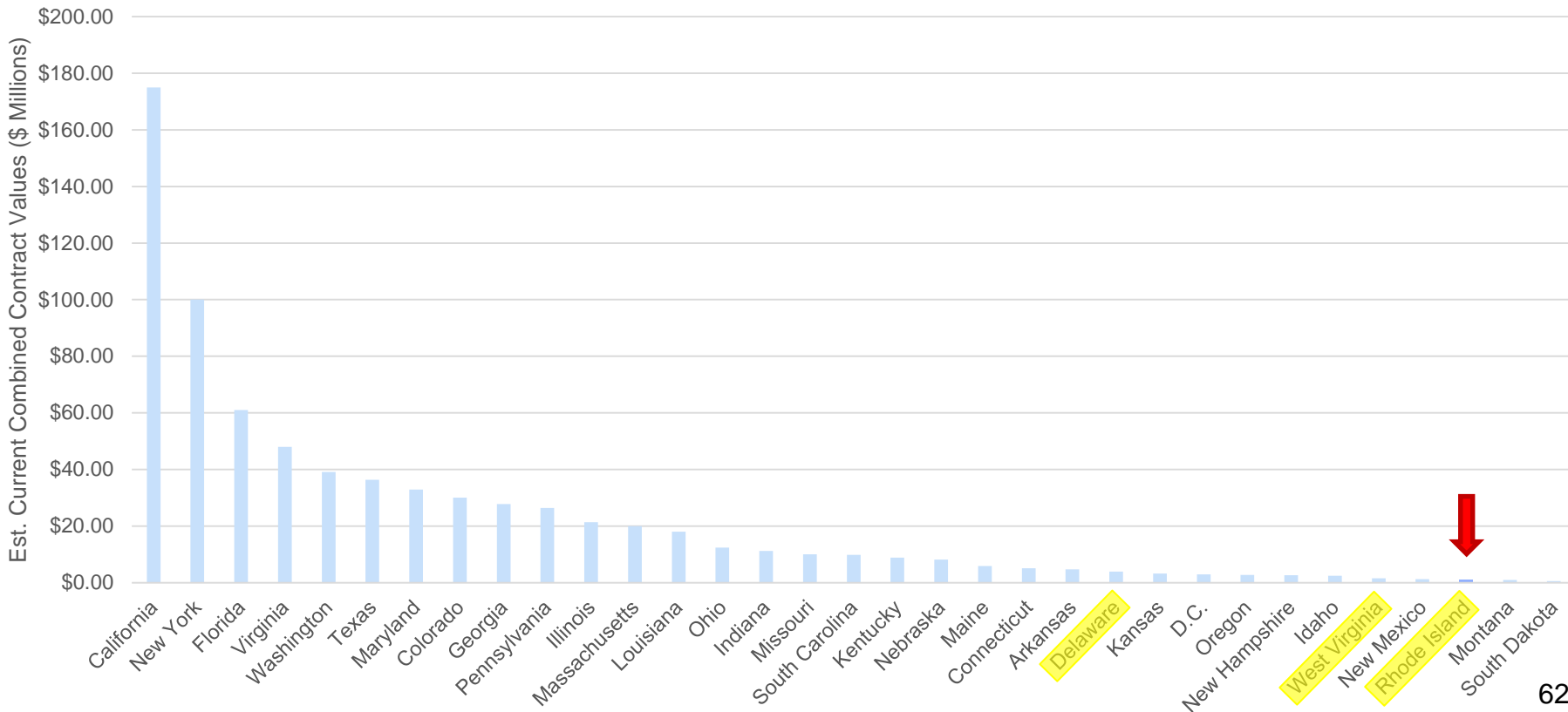
**Total Value:
\$541.44m**

Proposed Extension

By locking in instant ticket printing prices, the state can ensure that it continues to pay one of the lowest costs in the nation.

U.S. Lotteries' Instant Ticket Contracts - Estimated Current Combined Contract Values

Source: La Fleur's Magazine, March/April 2019



Proposed Extension

The Department of Revenue estimates that the value of web service and maintenance is \$600,000 per year, saving the state \$12m over the life of the contract.

Web Services

Current Contract

Not in 2003 master contract

Proposed Extension

IGT to provide regular product upgrades include new features, functionalities, and user interface

In addition to the \$400 million per year in Lottery revenue that the State receives as a result of our partnership with IGT, we estimate **\$553.44 million** in additional value based on the terms of the proposed extension.

Proposed Extension

Conclusion

In 2003, Rhode Island's General Assembly - some of whom are still serving today - made the wise decision to put their faith in GTECH to run our Lottery operations. This State signed a contract that helped build a homegrown business into an international industry leader and helped grow Lottery revenues to the third largest source of revenue in the State.

We have the opportunity to ensure that not only will IGT remain a major employer in Rhode Island but also to secure more than a thousand of jobs for our citizens, millions of dollars in economic development, and lasting improvements to our Lottery operations.

Stewardship of our state's Lottery is not just a business – it's a duty. There is no doubt that Rhode Island relies on a strong Lottery operation to fund our state, and that IGT has excelled in that role.

We ask that you once again entrust this duty to our friends and neighbors who make up IGT and approve the proposal before you today.