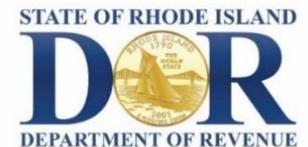


# SENATE COMMITTEE ON FINANCE HEARING

Senate Bill 1031  
October 1, 2019



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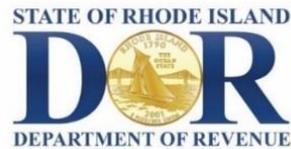
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2019 Proposed Legislation and Negotiation Process

Slides 26-39

2003 Master Contract Compliance and Amendment Process

## Section 1: 2019 Proposed Legislation and Negotiation Process

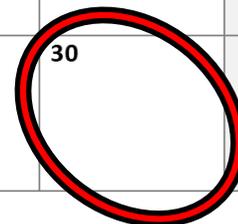


# Why Now?

IGT's contract with the State expires June 30<sup>th</sup>, 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 30<sup>th</sup>, 2020 – **9 months from now.**

### June 2020

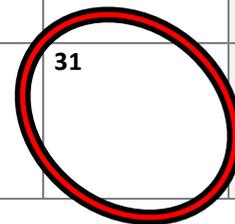
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
31	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	1	2	3	4

## 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.

## 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"> <li>• IGT earns 7% commission on daily net income of each IGT terminal.</li> <li>• IGT earn 2.5% commission on the VLT central system</li> <li>• GTECH will produce 50% of VLTs, while IGT produced 35%</li> <li>• VLT efficiency window of 97% with annual testing, “may” be replaced</li> </ul>	<p>Same rates, plus:</p> <ul style="list-style-type: none"> <li>• 25% of the VLTs at Lincoln will be replaced by 12/31/20</li> <li>• 6% of VLTs replaced annually starting in 2021</li> <li>• 5% of a vendor’s VLTs must be premium or royalty games</li> <li>• All new VLTs at Lincoln and Tiverton will have bonusing</li> <li>• All payments to IGT will be net of 20% promotion points</li> <li>• IGT’s VLT share will still be subject to efficiency testing, with “may” changed to “shall”</li> <li>• Low-performing VLTs (earning less than 150% of floor average) subject to review and replacement by Lottery</li> </ul>

**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

Not in 2003 master contract

## Proposed Extension

- 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.

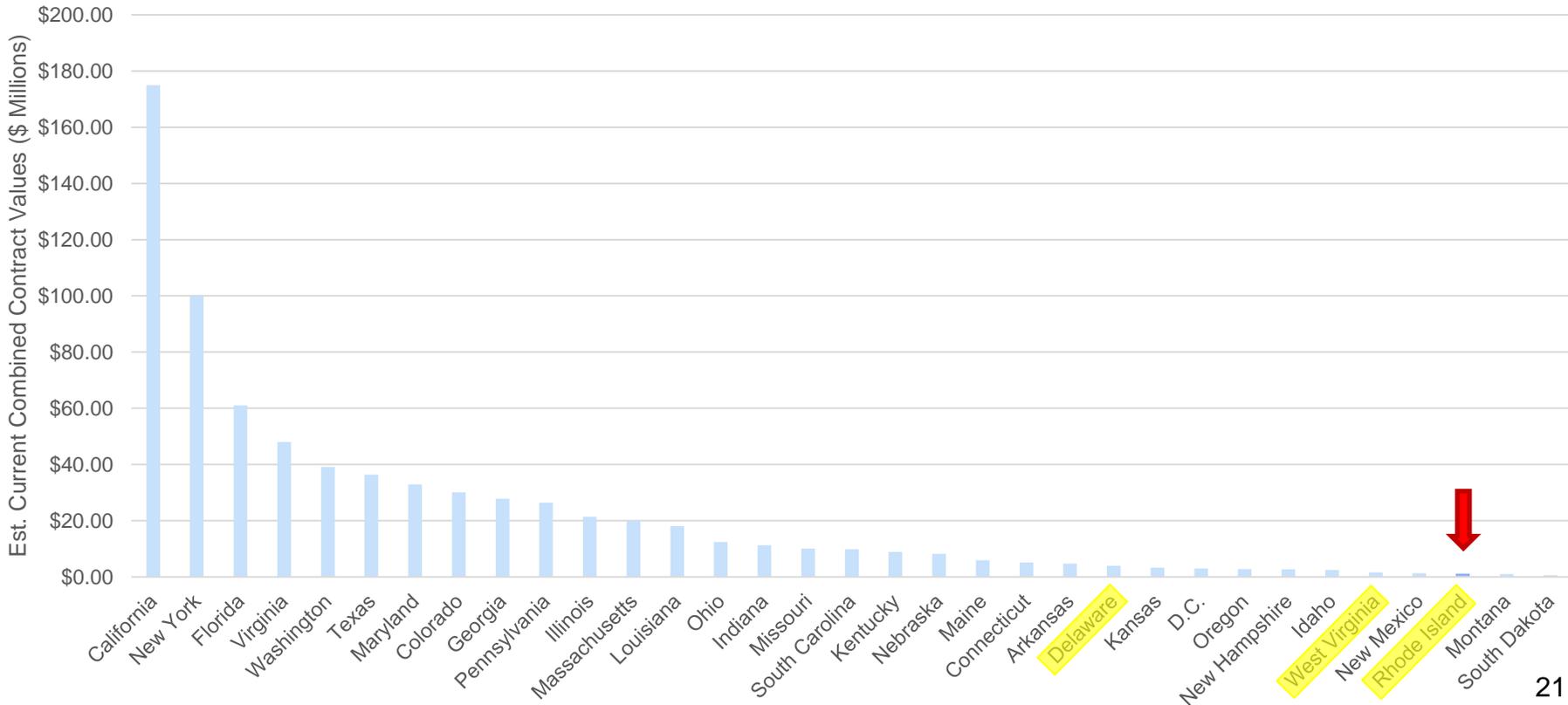
**Total Value:  
\$541.44m**

# 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.

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

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.

# 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.

## Section 2: 2003 Master Contract Compliance and Amendment Process



# Accountability Measures

## Software Compliance

- The Lottery develops all software requirements for the IGT Gaming Systems.
- The Lottery requires a third party to test all new/modified software.
- Lottery requires any proposed functionality change to be documented and submitted to Lottery IT for approval in order to ensure the functionality meets both industry standard best practice and the Lottery's IT Security Policies and Procedures.

The Lottery develops all software requirements and requires all modifications to be submitted to the Lottery for testing.

## Accountability Measures (Continued)

### Gaming System Compliance

- Lottery requires IGT to document and submit requests to the Lottery for approval for any performed system changes, including hardware, software, configuration, system patches, and/or access to system
- Lottery IT manages all IGT system access privileges and user accounts that access the Traditional, Video, and Sports Betting systems and completes monthly and quarterly reviews.
- Lottery continuously monitors IGT system reporting and performance to ensure compliance with Lottery IT Security Policies and Procedures.
- Lottery IT performs regular internal audits on the IGT systems to ensure compliance with the Lottery IT Security Policies and Procedures.
- The Lottery requires all system-related incidents to be immediately reported on a 24/7 basis to Lottery IT, followed by a written incident report being submitted to Lottery Management and Lottery IT detailing the issue, cause, and resolution.
- All IGT system projects require Lottery IT oversight to make certain projects are coordinated with appropriate Lottery staff to ensure Lottery requirements are incorporated. For example, sports betting implementation.

The Lottery monitors all reporting, system changes, and system performance to ensure compliance with Lottery policies and procedures.

## Accountability Measures (Continued)

### Reporting Requirement Compliance

- The Lottery requires numerous electronic daily report files from IGT.
  - Lottery IT processes these reports using Lottery software tools and puts the reports into a form on the Lottery network where they can be accessed by Lottery staff.
- Lottery IT coordinates and approves any requests for changes to reports and ensures IGT's compliance to those requests.

The Lottery requires and monitors IGT for compliance with numerous reporting standards.

## Accountability Measures (Continued)

RI Lot Finance gets a daily total of 125 reports on traditional lottery products from IGT, which allow the Lottery to calculate/produce the following **traditional lottery product** reports:

- Sales by individual Retailer
- Information on all Traditional Lottery Products
- Validations
- Retailer account adjustments
- Reconciliation for Retailer sweep to enable weekly sweep of amounts due to Lottery
- Monitoring adjustment of all Instant Ticket activity, including, end of games, credits, adjustments, transitions through the inventory cycle from warehouse to Retailer, to activation
- Partial Instant Ticket book returns
- Lost or stolen Instant Tickets
- Instant Ticket tracking by route
- Claim and terminal history research
- Monitoring of Retailer insufficient funds and collections
- Sales including validation history, settlements
- Weekly net amounts due to the Lottery by Retailer
- Terminal inquiry information
- Instant Ticket Vending Machine data
- Payout reports for all line items
- Unpaid prize obligations for all line items
- Expired prize obligations for all line items
- Daily tax liability reports and annual Form W2-G IRS reporting
- Annual Form 1099 IRS reporting data for individual and partnership Retailers
- Monthly invoice for Traditional Lottery services by IGT
- Instant Ticket printing invoices and license fees
- Reporting for each Instant Ticket game including number of tickets sold, game start date, cumulative sales, percent sold, total printed
- Weekly report of sales by individual game
- Prize payout offsets, for delinquent Child Support,
- overpayment of Unemployment Benefits, overdue State Taxes
- Reporting of all prize validations processed at the Lottery by prize check number
- System-generated check copies for upload into Bank of America Cash Pro system authorizing the bank to cash the prize check
- Daily ICS reports for monitoring and reconciliation.

## Accountability Measures (Continued)

RI Lot Finance gets a daily total of 70 reports on casino gaming from IGT, which allow the Lottery to produce/monitor the following **casino gaming** reports:

- Monitoring the Video Lottery Terminal (VLT) meters, scanning for corruptions, payouts, winning threshold, VLT meter exception reports
- All aspects of the daily drop and cash outs
- Sweep meter reconciliations
- Cash-in reconciliations
- Cash-out reconciliations
- Account balancing
- Ticket-in/Ticket-out (TITO) in reconciliation
- Daily wire requirements for the Facilities
- Sweep meter cycle monitoring and update
- Monthly meter to host adjustments
- Sweep meter adjustments
- Cash In adjustments
- Weekly reporting for all VLT commission calculations
- Maximum usage data by Facility and floor
- Cash played and cash won data monitoring
- Promotional points download by Vendor by day
- Cash count exception reporting
- Estimated Net Terminal Income (NTI)
- Allocation of NTI to each recipient
- Outstanding redeemables
- Expired cash outs
- Validations by validator and Vendor
- Validation authorizations
- Monthly adjustments and monthly closing
- Facility pay analysis
- Vendor VLT Efficiency analysis
- Facility NTI reporting
- Active VLT counts
- Weekly financial update of sales information for prior week ended
- Record book revenue for commission payments and weekly reporting by community
- Record cash take less payouts, for a net wire transfer
- Daily reporting of book revenue by community
- Daily reporting for commission calculation
- Daily reporting for deferred revenue
- Daily reporting for unpaid prizes
- Daily reporting of expired prizes
- Daily reporting for reconciliations
- Reporting for reconciliation between IGT Command and bank account information
- Data warehouse for test sampling of odds and events results

The Lottery complies with industry best standards.

## Accountability Measures (Continued)

### Compliance Audits

Lottery IT Department conducts monthly, quarterly, biannual and annual security audits of all IGT Gaming Systems – Traditional, Video, and Sports Betting.

The Lottery secures the services of an independent, third-party company to perform an annual audit of the IGT systems. The audit specs include, but are not limited to:

- System network configurations review
- Physical access to secure areas of the building
- IGT IT Security Policies and Procedures review
- Vulnerability assessments on central systems, network devices, and system components
- Change management policies and controls
- System user access privilege reviews
- System patching policies and procedures
- Disaster recovery/incident response policy

The Lottery conducts regular audits of IGT systems.

# 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

<b>State Payment FY19</b>	\$57m	\$289m
<b>State Payments Last 10 Years</b>	\$475m	\$2.07b

# Managing VLT Efficiency

## VLT Efficiency Monitoring

- Video Lottery Terminal efficiency is determined based on a formula.
  - For example, if a technology provider supplies 25% of VLTs they should produce 25% of NTI.
- 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.

# Managing VLT Efficiency

## 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
<b>Bally</b>	133.7%	126.9%	98.1%	118.3%	147.8%
<b>GTECH</b>	105.3%*	*	*	*	*
<b>IGT</b>	89.8%	100.8%	99.8%	97.3%	92.8%
<b>MultiMedia</b>	101.9%	88.5%	111.4%	101.8%	111.1%
<b>WMS</b>	106.2%	93.0%**	**	**	**

\*GTECH acquired IGT in 2015

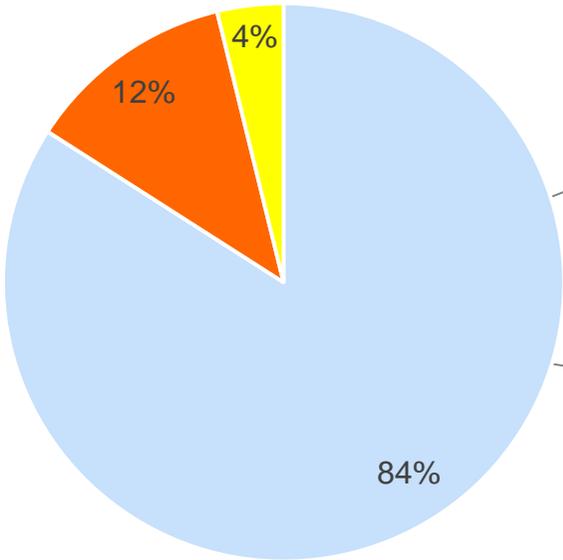
\*\*Bally (SciGames) acquired WMS Gaming in 2016

# Managing VLT Efficiency

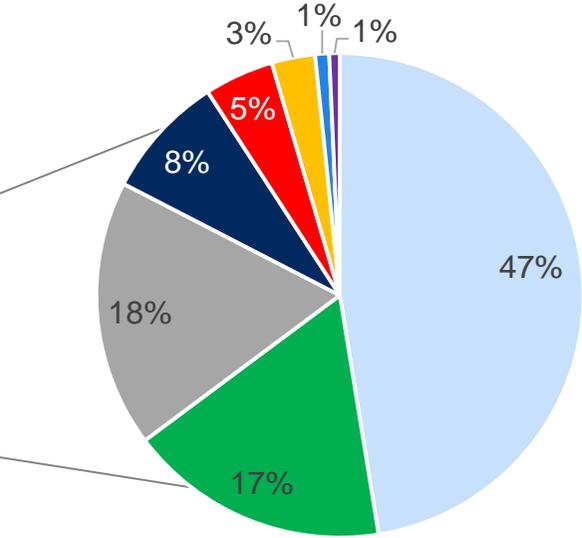
## Casino VLTs by Machine Manufacturer

Please note this information is as of September 27, 2019, and does not reflect planned/ongoing reallocation of VLTs.

Casino VLTs by Technology Provider



IGT VLTs by Manufacturer



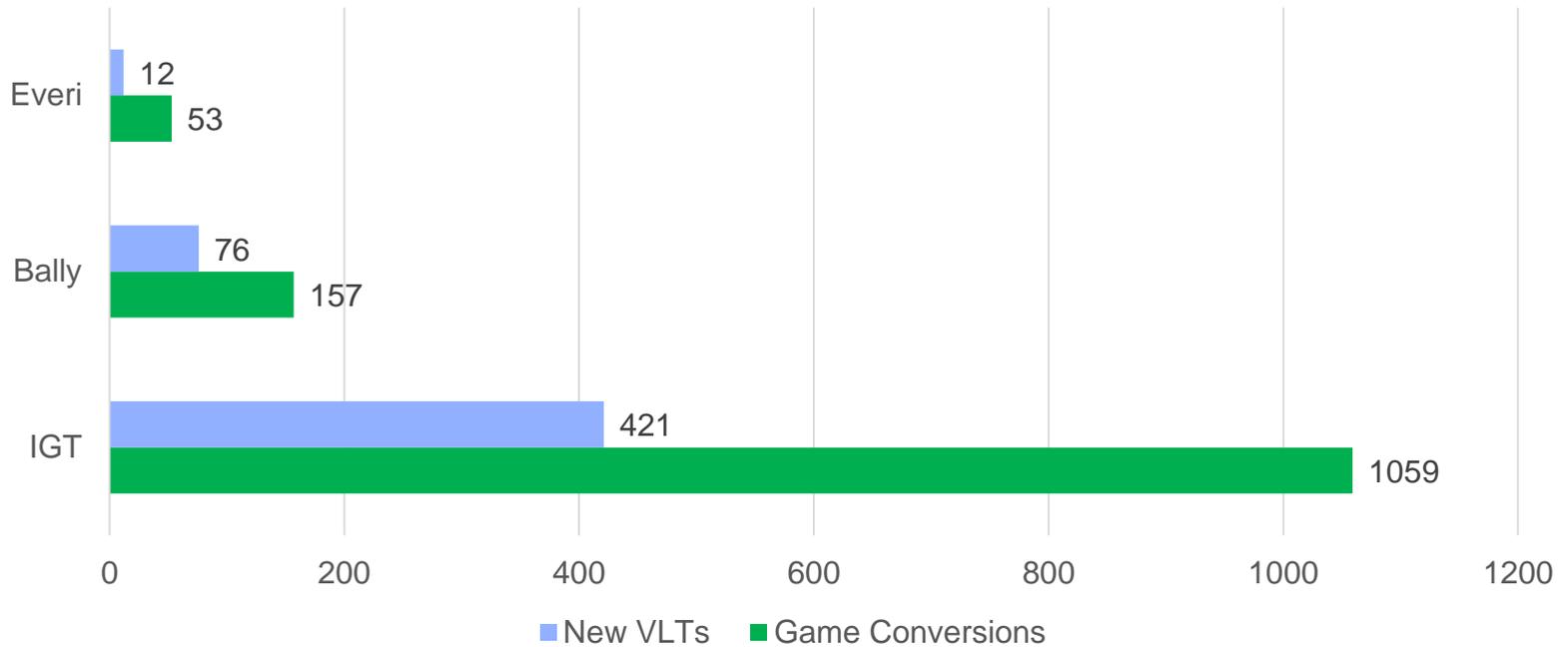
IGT Machines    Bally Machines    Everi Machines

IGT    Konami    Aristocrat  
 Bally    Spielo    Ainsworth  
 ShuffleMaster    Atronic

# Managing VLT Efficiency

## VLT/Game Conversions

New VLTs/Game Conversions  
September 2018 - Present



IGT has converted 34% of their machines during the past year.

# IGT Master Contract

## Summary of 2003 IGT (Formerly GTECH) Master Contract Amendments

Amendment	Lottery Requested Term and Value*
1st Amendment – July 2006	Equipment/Product Substitution - <b>\$2,129,000</b>
2nd Amendment – July 2008	Equipment/Product Substitution - <b>\$1,163,100</b>
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 - <b>\$1,650,500</b>
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 <b>\$82,560</b>
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 <b>\$11,562,000</b>
Letter Agreement – May 2017	Equipment/Services Substitution - <b>\$1,386,750</b>
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% <b>\$33,000,000</b> First Term/ <b>\$113,000,000</b> Full Term
<b>Total Value to Lottery:</b>	<b>\$130,973,910</b>

# Legislative Considerations

## Learnings and Future Safe Guards

- The Lottery is a business and competes for customers. In 2003, the foresight of the General Assembly in the enabling language allowed the Lottery to make amendments to better serve its customers and generate more revenue. This flexibility is essential given the nature of the Lottery's business.
- To get the best deal for the State, the General Assembly should provide a sufficient span of time between the point when legislation is enacted with parameters for contract terms and the implementation date of services. The Lottery needs time for a robust and non-truncated negotiation of all other contract terms and conditions.
- Suggestions:
  - Having legislated penalties for the late delivery of services might provide a level of comfort not present in past contracts. For example, "unless requested by the Lottery, any late delivery of services will result in a daily penalty of . . . ."
  - Include wording that enables the Lottery to trade goods and services as market changes/conditions dictate. (Caveat: should avoid naming specific items to be traded, which would limit the Lottery's choices/ability to trade and substitute based on its competitive business needs)