

THE IGT NO-BID DEAL IS STILL A BAD DEAL FOR RHODE ISLAND

Since the General Assembly hearings in 2019 on the no-bid twenty-year billion-dollar contract extension for IGT, there have been two major developments: (1) IGT and Twin River have become business partners, and (2) the issuance of a report by Christiansen Capital Advisors, LLC (CCA), which demonstrated some of the fundamental flaws in the IGT no-bid deal. The fact that IGT and Twin River are now business partners does not automatically make this deal a good one for taxpayers. CCA's report helps show why this no-bid deal is not in the best interest of Rhode Island taxpayers.

First, CCA determined that under this no-bid deal Rhode Island taxpayers are paying \$9.6 million more to IGT to manage the traditional lottery and the central computer system.¹ According to IGT and the Appleseed study, IGT's jobs directly produce only about \$8.14 million in state tax revenues.² Therefore, Rhode Island taxpayers are paying more to IGT to run the lottery and central computer system than the amount of annual direct tax revenues IGT's jobs give to Rhode Island. Also, CCA even questioned the need for Rhode Island to have a central management system provider for video-slot machines and indicated that it "would seem prudent to explore whether all the services" currently provided by IGT "are truly necessary in 2020, and worth the expense to Rhode Island taxpayers."³ In fiscal year 2019, Rhode Island paid IGT \$13.1 million to be the central computer system provider. Simply, Rhode Island taxpayers are paying more money to IGT than it is getting for IGT's 1,000 jobs.

Second, CCA explained that "more suppliers" of video-slot machines will result in a "larger library of available products, which will maximize gaming revenue."⁴ CCA emphasized that: "it is a well-established maxim among slot mangers that variety matters."⁵ This legislation gives IGT the right to control 100 percent of the video-slot machines at Rhode Island casinos. Previously, Twin River explained that the "biggest threat to the State is the 85% control of the casino floor by one vendor" and that the "efficiency process is broken and does not protect the State when one company controls more than 50% of the machines."⁶ There is nothing in the legislation that limits IGT's slot machines to only 50 percent of all slot machines at Rhode Island casinos. It should be noted that IGT has a controlling 60 percent interest in its new joint venture with Twin River. Furthermore, CCA pointed out that while Rhode Island leases its video-slot machines, "the vast majority of slot machines in North America," 85 to 90 percent, "are purchased, rather than leased at a percentage of gaming revenue" because it is more profitable to purchase slot machines rather

¹ CCA, Evaluation of a Proposed Contract Extension with Rhode Island's Current Exclusive Lottery Vendor (CCA Report), at 6-7, 61-62 (1/15/20). The amount of \$9.7 million is between the \$7.9 million that the Office of Revenue Analysis calculated was the cost to Rhode Island for IGT providing these two services and the \$14 million cost I calculated using the Delaware Lottery as a comparison. See R.I. Office of Revenue Analysis, "Economic Impact Analysis of a 'Competitive Bid' Scenario for the IGT Lottery Contract, at 22, 24 (10/22/19); Frias Senate Testimony (10/29/19).

² "R.I. lawmakers face warring numbers over Lottery deal" (ProJo 8/3/2019); "Report list consequences of IGT pulling out of R.I." ProJo (7/25/19).

³ CCA Report, at 62-63.

⁴ *Id.*, at 27.

⁵ *Id.*, at 34.

⁶ Twin River Presentation to Senate Finance Committee, at 4 (10/24/2019).

than lease them.⁷ Giving IGT control of Rhode Island's slot machines as well as leasing slot machines from them does not maximize Rhode Island's third largest revenue source for taxpayers.

Third, CCA showed that "by only providing instant tickets from one supplier, Rhode Island is not only leaving potential instant sales on the table, that spending is being exported to Massachusetts."⁸ CCA did not quantify the amount of tax revenues from instant tickets sales Rhode Island is losing because of its arrangement with IGT, but it is further evidence that this no-bid deal is not maximizing revenues for Rhode Island taxpayers.

Lastly, CCA made it clear that it "never recommended" to a lottery that "a twenty-year contract is a good idea."⁹ CCA indicated that a "ten-year initial contract term, with optional extensions, has been the standard recommendation from CCA." CCA asserted that in 2020 it is "even more urgent" not to enter into a contract that is longer than ten years so as to give "the lottery flexibility" to address "technology changes."¹⁰ Based on this expert advice alone, by approving this legislation, the General Assembly would be engaging in fiscal malpractice by locking Rhode Island into a no-bid contract affecting our third largest source of revenue for the next twenty years.

This no-bid deal may be good for both IGT and its new business partner Twin River, but it is not a good one for Rhode Island taxpayers. The General Assembly should heed the advice of CCA and reject this legislation. This no-bid contract provides a subsidy to IGT that exceeds the amount of tax revenues it directly generates to Rhode Island. It will undermine the ability of the State of Rhode Island to maximize its lottery and gambling revenues for the next two decades. To get the best deal for taxpayers, Rhode Island should go out to competitive bid. If the General Assembly insists on supporting this no-bid deal, then at minimum IGT's contract should not be longer than ten years.

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⁷ CCA Report, at 7, 30, 62.

⁸ *Id.*, at 6, 62.

⁹ *Id.*, at 63.

¹⁰ *Id.*