

2020 S 2337 Legislation Overview

*Presentation to
the R.I. Senate Committee on Finance
March 12, 2020*

Significant terms

- “Second Intangible Asset Purchase Price” = \$25M purchase price for exclusivity
- “Second Investment Obligation” = \$150M investment by IGT and affiliates
- “JV Effective Date” = January 1, 2022
- “Extended Expiration Date” = June 30, 2043

SECTION 1: purpose

To authorize the State Lottery Division to:

1. to extend partnership/contract w/ IGT, including “continuance of a significant presence in the State”
2. to extend partnership/contract with Twin River, including expansion of the facility in Lincoln

Page 1, lines 1-8

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SECTION 2: Definitions

- Changes to definitions in RIGL §42-61.2-1 (Video Lottery Games)
- Addition of “Joint Venture” = a Delaware LLC owned by IGT/affiliates and TRWH/affiliates; controlled by IGT/affiliates

Page 2, lines 2-4

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SECTION 3: Division's authorization and empowerment w/ respect to IGT

- Extend master contract 20 yrs to June 30, 2043
- Extend multiple individual contracts to June 2043
- Provide for purchase price of \$25M, exclusive provider rights. *"Second Intangible Asset Purchase Price"*

Page 2, line 10 – page 3, line 13

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\$25M Purchase Price

- \$12.5M in 2022
- \$12.5M in 2023
- \$25M is included in \$150M *Second Investment Obligation by IGT*
- TR will pay \$6.5M toward that \$25M

Page 3, lines 8-13

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IGT's Exclusive Provider Rights

- A. Online lottery systems and terminals
- B. Central communication systems (dropped definition from §42-61.2-1, which included the 50% limit.) (Page 3, line 15)
- C. VLT's between January 1, 2022 (JV date) and June 30, 2043. (Page 3, lines 16-20)
- D-F. Instant ticket vending machines, instant tickets, online processing of instant tickets and video lottery transactions

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IGT's Exclusive Provider Rights as to VLT's

- NEW to 2020 legislation
- Second exclusive license along with traditional lottery exclusive license for \$25M
- Right would be exercised by the JV (which is controlled by IGT)
- Right would commence on JV effective date (January 1, 2022)

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Compensation rates

- Rates are same as 2019 legislation.
- 2020 legislation now silent as to who receives compensation: IGT, JV, or TR ?

Page 3, lines 25 and 31

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IGT OBLIGATIONS

- \$150 M “Second Investment Obligation”
- Jobs

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\$150M

“Second Investment Obligation”

(Invest or cause to be invested by affiliate or 3rd party)

- Acquired interests in real property (Page 4, line 3)
- Leasehold improvements (relates to current HQ which is leased) (Page 4, lines 3-4)
- Assets acquired in performance of contract (Page 4, lines 4-6)
- \$25 M (Page 4, lines 6-7)
- VLTs purchased by IGT/affiliates July 1, 2019 - December 31, 2021 (Page 4, lines 7-8)
- VLTs purchased by JV January 1, 2022 - June 30, 2043 (Page 4, lines 8-11)

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\$150M “Second Investment Obligation” (cont’d)

“Investment Obligation Assets” = “goods acquired in connection with the business operations of IGT or any affiliate in the state interests in real property, improving real property and performing its obligations under including... provisions of goods in connection with the business operations of IGT or any affiliate in the state...”

(Page 4, lines 11-15)

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“Jobs”

1. “Employment Obligation” = quality of jobs
(Page 4, lines 16-20)
2. “Taxable Compensation Obligation” = total payroll (Page 4, lines 21-26)
3. Relocation of lottery employees (Page 4, lines 27-29)
4. “Employee Location Obligation” (Page 4, lines 30-31)

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“Employment Obligation”

- Quality of Jobs
- Beginning in 2020, 1100 full-time equivalent employees
- Compensation rate not less than 150% of minimum wage in effect pursuant to §28-12-3
- \$11.50 effective October 1, 2020
- $\$11.50 \times 150\% \times 2080 = \$35,880$

(Page 4, lines 16-20)

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“Employment Obligation” (cont’d)

- Employ, cause to be employed by an affiliate, or cause to be self-employed in the state
- Definition of “affiliate” = “ A person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with a person.
- Definition of “control” = “ The possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise”

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“Taxable Compensation Obligation”

- Total Payroll
- Beginning 2020, IGT will expend product of 1100 (# of jobs), 2080 (# of hours for FTE), and 250% of minimum wage pursuant to §28-12-3 on taxable compensation.
- 250% of \$11.50 (eff. Oct. 1, 2020) = \$28.75
1100 x 2080 x \$28.75 = \$65,780,000 payroll

(Page 4, lines 21-26)

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Termination Provisions as to IGT

Right to Terminate if IGT fails to perform:

- A. Second Investment Obligation \$150M (no timeframe other than June 30, 2043);
- B-D. Employment Obligation; Taxable Compensation Obligation; Employee Location Obligation.
 - Includes rights to terminate pursuant to rights in Video Lottery Agreement, VLT Agreement, Instant Ticket Vending Machine Agreement, Instant Ticket Agreement, and Website Services Agreement.
 - Does not reference the ability to terminate the Online Gaming Agreement.

(Page 4, line 32- page 5, line 3)

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Termination Provisions as to IGT

- No remedial measures short of termination
- Division and DBR's Regulatory Agreement with Twin River has alternative measures for non-compliance:
 - Withholding Net Terminal Income otherwise payable
 - Monetary penalties for violations

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VLT Efficiency Process

- SECTION 3 (1)(xi) – “Provisions regarding the [VLT] efficiency process would be of no further force and effect” between JV date (January 1, 2022) and June 30, 2043.
- Subject only to Section 4 of the Act.

(Page 5, lines 4-6)

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SECTION 3 (1)(xii)

- Catchall - Provide for additional terms and conditions that the Division and IGT agree.

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SECTION 3 (1)(xii) (cont'd)

Directs the Division to consent to:

1. the irrevocable assignment by IGT to JV of:
 - a. the right to be exclusive technology provider beginning on JV date
 - b. the VLT agreement, and
2. to the assumption by JV of IGT's obligations under VLT agreement by an agreement between IGT and JV

(Page 5, lines 7-14)

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SECTION 3 (1)(xii) (cont'd)

- * No reference to a separate and distinct regulatory contract between the JV and the State.
- * The State has not seen the Assignment and Assumption Agreement and will not be a party to it.

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Section 4. Additional Provisions Related to IGT

IGT must:

- Regularly update or replace hardware and software. (Timetable is not set forth in legislation.)
- Annually replace minimum of 6% VLTs

Section also sets forth:

- Number and performance of premium games
- Consequences of underperforming VLTs...removal of 5% if manufacturer's machines not at 97% efficiency beginning Jan 1, 2022. (IGT has 3 yr grace period in 2022, 2023, 2024.)
- IGT to waive claims against the division arising out of promotional points program

(Page 5, line 15 - page 6, line 2)

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VLT Efficiency Process

- Referenced earlier in legislation as replacing current efficiency process.
- Sets forth timing of when efficiency calculated.
- Sets forth how efficiency calculated re: 97%.
- Sets forth removal of 5% if manufacturer's machines not at 97% efficiency beginning.
- Silent as to what oversight State would have.

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Section 5: Definitions from §42-61.2-1

- Relate to Video Lottery Games
- Some additions but only significant change is in subsection (2).

(2) “Central communication system” ...removes language limiting maximum number of VLTs that CCS licensee may have to 50%.

(Page, 6, lines 14-20)

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SECTION 6: Division’s authorization and empowerment w/ respect to TR

- Extend term of UTGR Master Contract through June 30, 2043
- Additional amendments:
 1. Obligate Twin River to expand Lincoln facility by 50,000 sq ft (gaming, entertainment, hotel).

(Page 18, lines 18-21)

2. Obligate TR (or affiliate) to lease 12,000 sq ft commercial space in Providence through June 30, 2043.

(Page 18, lines 22-24)

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Termination Provisions as to TR

Division has right to terminate UTGR Master Contract if TRWH fails to perform:

- Twin River Investment Obligation (section 11)
- Twin River Providence Lease Obligation

May also terminate under any terms provided for in the UTGR Master Contract.

(Page 18, lines 29)

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SECTION 7: Division's Authorization and Empowerment (Tiverton)

- Extends term of contract to June 30, 2043
- Additional catchall provision

(Page 18, line 32 – page 19, line 7)

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SECTION 8: Authorization and Empowerment as to TRWH affiliates

- Directs the Division to enter into contract permitting TRWH or affiliate to be Technology Provider July 1, 2020 - December 31, 2021 and provide all VLTs except those IGT entitled to provide on July 1, 2020 pursuant to existing contract and efficiency formula.
- Catchall - any other terms/conditions to which Division and TRWH/affiliate agree.

(Page 19, lines 8-19)

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SECTION 9: Naming Rights Agreement

- Authorizes I-195 Redevelopment Commission to enter into contract w TRWH/affiliate \$100,000/yr from July 1, 2020 – June 30, 2043 in exchange for right to name a park within I-195 Development District.
- Naming rights controlled by I-195 Commission
- Catchall... any other terms/conditions to which Commission and TRWH/affiliate agree.

(Page, lines 20-28)

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SECTION 10: Amendments to Regulatory Agreement w/ TRWH

- Authorizes and directs Division and DBR to enter into amendment of Regulatory Agreement (as amended in November 2019) among Division, DBR, TRWH, TR Management Group, UTGR, and TR Tiverton.

(Pg. 19, Ln 29 – Pg. 20, Ln 30)

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Amendments to TRWH Regulatory Agreement

- Authorize TRWH to invest in JV
- Authorize TRWH to pay \$6.5 M to IGT or Division in connection with Second Intangible Asset Purchase Price (\$25M)
- Eliminate prohibition of sale-leaseback transactions relating to RI assets and permitting such transactions subject to review and approval of Division and DBR

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Amendments to TRWH Regulatory Agreement (Cont'd)

- Increase Maximum Leverage Ratio to lesser of 5.5:1 or ratio set forth in TRWH's then-current senior credit agreement.
- * Ratios are different and are based on differing interests of the state versus the lender.
- * Maximum leverage ratio in the regulatory agreement was negotiated in Nov 2019.

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Amendments to TRWH Regulatory Agreement (Cont'd)

- Authorize TRWH to make capital expenditures to construct 50,000 sq ft expansion to Twin River facility in Lincoln
- Grant Division option to make proposals to TRWH to locate out-of-state employees within the state.

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Amendments to TRWH Regulatory Agreement (Cont'd)

- Authorize TRWH to invest \$100 million in connection with:
 - Expanding and improving Lincoln facility
 - Performing under UTGR Master Contract and Amendment
 - Performing under TR-Tiverton Master Contract and Amendment
 - Performing under Technology Provider License Agreement (through Dec. 31, 2021)
 - Performing under Naming Rights Agreement
 - Performing under the Amended Regulatory Agreement

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Amendments to TRWH Regulatory Agreement (Cont'd)

- Catch all provision authorizing TRWH/affiliates “to take such other actions as are necessary to fulfill the purpose and intention of this act.”
- Legislation silent as to Division and DBR approval

(Pg. 20, Ln. 28-30)

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SECTION 11: Effective dates

All agreements contemplated by the act will become effective simultaneously.

(Page 20, line 31 – page 21, line 7)

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