

July 20, 2020

Honorable Members of the Rhode Island House of Representatives

Honorable Members of the Rhode Island Senate

Delivered Via Email

Dear Colleagues,

We hope everyone is happy and healthy, and look forward to reconvening in August. We write to offer facts and data about the approximately \$660,000,000.00 in State overpayments, unreasonableness of a twenty-year agreement, and weak jobs requirement in the pending IGT/Twin River agreement and legislation: H-7523/S-2337. The proposed legislation would authorize the Executive Branch to bypass our public bidding laws and enter into the twenty-year agreement with IGT and Twin River.

A) The State Would Overpay IGT/Twin River Approximately \$660,000,000.00.

The attached a) spreadsheets and b) independent analysis by the House's expert gaming consultant, Christiansen Capital Advisors (CCA), establish State overpayments in two primary areas:

1) The State would overpay IGT/Twin River up to \$520,000,000.00 to lease Video Lottery Terminals (VLTs), compared to the State purchase of its own VLTs.

The State would pay IGT/Twin River 7% of net terminal income to lease 5200 VLTs, which amounts to approximately \$728,000,000.00 over the twenty-year agreement. As recommended by the CCA Report, and demonstrated in the attached spreadsheets, the State should instead purchase its own VLTs at a cost of only \$208,000,000 over twenty years – with the State replacing approximately 10% of its VLTs per year, which is *more aggressive* than the 6% replacement rate the proposed legislation imposes on IGT/Twin River. See H-7523/S-2337, page 7, lines 17-18.

According to the CCA Report:

"As described in this report, the vast majority of slot machines in North America are purchased, rather than leased at a percentage of gaming revenue. The math behind this is simple. . . it is easy to see why greater of 85% of owners (90% of casino owners) of gaming devices chose to buy rather than lease." CCA Report, page 63.

2) The State would overpay IGT approximately \$135,200,000.00 – \$156,000,000.00 for the Central Monitoring System.

The State would pay IGT 2.5% of net terminal income for the Central Monitoring System (the “brain” that interconnects all VLTs), which amounts to approximately \$260,000,000.00 over the twenty-year contract. See CCA Report, page 5. Meanwhile, Kansas pays IGT only 1.2% of net terminal income for the Central Monitoring System. See CCA Report, page 17.

Although CCA concludes the State does not require a Central Monitoring System for two casinos (CCA Report, page, 7), if the State were to merely pay the same rate as Kansas, the Central Monitoring System would cost only \$124,800,000 over twenty-years. CCA believes public bidding would get the rate down even further, to 1% of net terminal income, costing the state only \$104,000,000 over twenty-years.

According to the CCA Report:

"Based upon our analysis of comparable jurisdictions, Rhode Island is paying considerably more than its peers for a VLT Central Monitoring System only covering two facilities. We believe, based on our analysis of other CMS fees, that if that system were put out to bid Rhode Island could expect to pay about 1% of gross gaming revenues, a substantial reduction from the 2.5% contemplated in the contract extension. Based on FY2019 NTI of 522.7 million, that 1.5% is over \$7 million a year." CCA Report page 61-62

The advocates for this legislation and contract extension have represented for months that the State will suffer no payment premium. The CCA report and attached spreadsheets confirm this to be false.

B) A Twenty-Year Contract with IGT/Twin River Is Misguided in the Face of Rapidly-Changing Technology and the COVID-19 Pandemic.

According to the CCA Report, the proposed 20-year contract term is ill-advised:

"Finally, as also described in this report, CCA has never recommended to any of the lotteries we have served that a twenty-year contract is a good idea. A ten-year initial contract term, with optional extensions, has been a standard recommendation from CCA for the last 15 years. In 2020, however, we believe that this is even more urgent. The primary reasoning behind a ten-year term is to mitigate the impact of a lottery getting caught between technology changes. . . A ten-year term gives the lottery flexibility to survey the technology of the times and then determine whether a system upgrade is necessary." CCA Report p. 63.

The onset of the COVID-19 pandemic makes all the more compelling CCA's January, 2020 advice to not enter into a twenty-year contract that will lock-in gaming policy. Now is no time to execute a twenty-year deal that was negotiated and developed *before* COVID-19 radically altered our economy and way of life.

Thankfully, the current IGT contract does not expire for 3 more years. Prudence demands we wait until the post-COVID-19 economy comes into focus before consideration of a long-term commitment that will control the 3rd largest source of State revenue. Otherwise, the overpayments to IGT/Twin River may come at the cost of necessary government services.

C) The “1100 Jobs” Mandate is Weak.

The diluted jobs mandate is troubling. Non-IGT employees will count towards the 1100 required jobs, including independent contractors, employees of affiliates, and temp agency workers placed with affiliates. See H-7523/S-2337, page 5, lines 7-19.

Moreover, IGT will only be penalized \$6,400 per year for each unfilled job. See H-7523/S-2337, page 6, lines 18-23. This meek penalty is bewildering given that the State will pay IGT approximately \$30,000.00 per-job per-year (appx.

$\$660,000,000.00 \text{ in overpayments} / 20 \text{ years} / 1100 \text{ jobs} = \$30,000 \text{ per-job per-year}.$

We all deserve to know the facts before this critical legislation is considered. We hope this letter and attachments aid in your deliberations, and thank you for your service and fidelity to the People of Rhode Island.

Respectfully yours,

Rep. Blake A. Filippi
House Minority Leader

Rep. Michael W. Chippendale
House Minority Whip

Rep. Robert Quattrocchi
House Committee on Finance

Rep. Justin Price
House Committee on Finance