



Rhode Island General Assembly

Office of the House Minority Caucus

July 23, 2020

Mr. Marc Crisafulli
Twin River Worldwide Holdings
Mr. Jay Gendron
International Game Technology

Via Electronic Mail

Dear Mr. Crisafulli and Mr. Gendron,

Thank you for your most recent letter dated today, July 23, 2020. Since March, we have requested a public House Finance Committee hearing with Twin River Worldwide Holdings (TRWH), International Game Technology (IGT), and our General Assembly's independent gaming expert, Christiansen Capital Advisors (CCA). Our purpose has been, and remains, an open discussion about the significant State overpayments from the lease of Video Lottery Terminals (VLTs) and the Central Monitoring System (CMS) in the proposed twenty-year IGT/TRWH contract extension and legislation; H-7523/S-2337. House leadership has remarkably failed to schedule this essential hearing. Dueling letters appear to be the extent of meaningful dialogue our elected Representatives and Senators enjoy at this time.

At the outset, we must be mindful that the Raimondo Administration could immediately put these gaming services out to bid. The crux of the proposed legislation is to exempt this twenty-year technology contract from our public bidding laws.

We recall IGT's ultimatum last fall: that the mere act of putting these critical state contracts out to bid (a public bid you, Mr. Crisafulli, pleaded for at the time) would cause IGT to close shop and leave Rhode Island. We hope that an open and transparent debate (albeit by dueling letters) will not cause the same, as your companies are important corporate citizens.

Mr. Crisafulli, for months you were a most-convincing advocate against the prior iteration of the IGT proposal. It was a raw deal for taxpayers then, as it remains today. Your advocacy persuaded the General Assembly to retain CCA for an unbiased expert analysis of the IGT proposal, a move you vocally supported at that time. To the extent you now believe the CCA report is "outdated and inapplicable" due to TRWH's intervening partnership with IGT, **will you join us in petitioning House and Senate Leadership to have CCA update its report?**

Nonetheless, even a cursory review of CCA's report demonstrates that the new IGT/TRWH partnership does not alter CCA's guidance: 1) The State *will still* overpay by up to

\$520,000,000.00 to lease VLTs despite the IGT/TRWH partnership, and 2) the State *will still* overpay by up to \$156,000,000 for the CMS despite the IGT/TRWH partnership.

Moving on to your letter: We agree with you and CCA that casino revenues have fared well in a competitive environment. Rather, the issue raised by CCA is the massive and unnecessary State expenses that cost taxpayers hundreds of millions of dollars. The *expense side* is the issue.

A review of the 2019 VLT and Table Game allocation is relevant:

VTLs

State:	\$314,481,490 (60.8%)
Twin River:	\$145,495,587 (28.1%)
IGT:	*\$48,691,633 (9.4%)

Table Games

State:	\$25,446,923 (15.6%)
Twin River:	\$136,588,100 (83.6%)
IGT:	\$0 (0%)

The VLT lease and CMS overpayments at issue merely concern the annual VLT payments to IGT (*\$48,691,633 in 2019). TRWH's significant \$282,083,687.00 (2019) annual take from VLTs and Table Games is not directly implicated by our present concerns.

We assume you agree with our analysis that we will overpay IGT up to \$156,000,000.00 for the CMS, as you've made no attempt to counter these figures. We also note that you did not respond to CCA's admonition to not enter into a twenty-year technology contract. Likewise, our concerns about the diluted jobs requirement – where non-IGT employees count towards the 1100 jobs – and the anemic \$6,400 penalty for each job unfilled (that the state is paying \$30,000.00 per-job per-year for) were not sufficiently addressed by your letter.

On to our VLT leasing analysis: Your letter claims that our VLT purchase proposal “underestimates the total expenses by over \$200,000,000.” That you provide absolutely zero analysis to substantiate this figure is troubling, especially given our detailed proposal you seek to counter. Such significant numbers casually thrown around further demonstrates the need for continuing committee hearings.

Even assuming your figures are accurate – that our analysis underestimates expenses by \$200,000,000.00 – the State would still overpay IGT/TRWH by \$320,000,000.00 to lease VLTs! What's more, is that we can save these monies and also implement a 10% VLT replacement rate, which is far greater than the 6% VLT replacement rate in the proposed legislation See H-7523/S-2337, page 7, lines 17-18. As you know, CCA cites the industry standard that a 10% replacement rate is the bare minimum for a VLT leasing arrangement to begin to make sense. See CCA Report, page 30-31.

Your letter also posits that the People cannot trust their elected representatives to annually allocate sufficient monies for the purchase of new VLTs. Respectfully, gentlemen, we trust our public budget process more than your private boardrooms. The need for the People's

representatives to exercise more control over our critical VLT revenue source is made all the more apparent by the adamant opposition of both IGT and TRWH to an increase in the proposed 6% annual VLT replacement rate.

Thankfully, your concerns about state ownership can be addressed through a statutory restricted receipt account, which can be funded by a portion of the significant savings the State will realize by purchasing its own VLTs. The restricted receipt account will then fund the annual replacement of our VLTs. Simple fix.

Your letter also raises concerns about the initial capital outlay if the State were to purchase its own VLTs. First, the State would realize immense benefits if we obtain 5200 new, modern VLTs – freeing ourselves from the many antiquated VLTs currently on our casino floors (as testified by Mr. Crisafulli last Fall). Given the State’s significant buying power with 5200 VLTs, and the 3-year lead time before the existing IGT contract terminates, the State would be able to negotiate highly-competitive terms: we’d suggest 5-year payment terms at very low interest rates. Those annual purchase payments will be significantly less than the contemplated lease payments to the IGT/TRWH partnership.

Moreover, last year’s fleeting TRWH/Scientific Games/Intralot partnership demonstrates there are other world-class companies that want to enter the Rhode Island VLT market. The State must embrace this competition to benefit taxpayers – and not run from it under threat of corporate relocation.

Sincerely,

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

c.c. Members of the House of Representative of the State of Rhode Island
Members of the Senate of the State of Rhode Island