



## **Video Lottery Terminals (VLTs)**

A summary of VLT startup if implemented in the state of New Hampshire.

November 3, 2009

On August 7, 2000 the members of the New Hampshire Commission on Education Funding received a document from their consultant Ronald Mendoza regarding revenue projections from Video Lottery Terminals (VLTs) in New Hampshire. This study provided a comprehensive analysis of revenue projections from VLTs and how the revenue could be impacted by other outside factors.

The document concluded that net VLT revenue estimates could approach \$138 million annually based on 5,000 VLTs in 6 proposed sites in New Hampshire. The report also provided other revenue estimates based on differing factors that could impact VLT revenue projections.

The lotteries of Delaware, Rhode Island and West Virginia operate the VLT gaming systems in their states. Many of the previous “racino” bills introduced in New Hampshire have used the Delaware Lottery as a model for operations. Delaware reports that the central gaming system controls all of the state’s 7,291 VLTs. The system is leased from and operated by their lottery vendor. All VLTs are leased from the manufacturers by the lottery and placed at the tracks. The machine manufacturers are required to maintain their machines and they receive a percentage of net machine proceeds for this service. The VLT gaming system operation is very similar to traditional lottery operations.

In FY 2008 the three lotteries that manage VLTs returned the following net revenues (rounded):

1. Delaware (population 900,000) \$316 million from 7,291 machines.
2. Rhode Island (population 1.1 million) \$296 million from 6,200 machines.
3. West Virginia (population 1.8 million) \$617 million from 11,977 machines.

**Timeline:**

If New Hampshire were to introduce VLTs and if the Lottery were to manage the gaming system, approve and test system software and game software, and account for all VLT machines (the same operations as are now managed by the Lottery for traditional lottery products and systems), the following start up items should be considered. A very aggressive timeline could take nine months from the date the lottery starts to develop an RFP to the date of first sales. Ideally the timeline could take twelve months or more. All estimated timelines are based on best estimates and assume no delays.

1. A Request for Proposal (RFP), proposal evaluation, vendor selection and contract award will be necessary to obtain a VLT gaming system. This process will take a minimum of five months including:
  - a. 2 weeks to develop and issue an RFP based on another state’s model;
  - b. 8 weeks to review vendor pre-bidder presentations, respond to vendor questions, and receive vendor proposals;
  - c. 4 weeks to review vendor proposals and select a preferred vendor; and
  - d. 6 weeks to agree to contract terms, complete a final contract and receive Governor and Council approval.
2. It is assumed that the Office of Information Technology (OIT) and Administrative Services will provide technical and administrative support to

the lottery to develop the RFP and assist with the review and analysis of vendor proposals within an aggressive timeline.

3. An aggressive 4 month hardware/software implementation from date of contract approval through first date of sales. This very aggressive schedule assumes that the vendor will be able to build out a computer site, obtain all required hardware, establish a secured and reliable telecommunications network between all VLTs and the central gaming system, develop complete software that will fully account for all VLT transactions and moneys due the state of New Hampshire, and that the New Hampshire VLT gaming sites will be licensed and ready for operations in that same period of time.
  - a. It is assumed that the licensed VLT gaming facilities will be authorized to directly purchase/lease VLTs rather than the state.
  - b. It is further assumed that the VLT facilities and the manufacturers will have sufficient time within the three months to select, manufacture and install the required VLTs.
4. The aggressive 4 month implementation schedule also assumes that a third party vendor will be contracted and have sufficient time to test each VLT game's master chip.
5. The aggressive 4 month implementation schedule also assumes that the lottery or an independent contractor will complete its testing of gaming management software.
6. The aggressive 4 month implementation also assumes that the lottery will obtain "emergency" approval of rules rather than the normal 6 months or more that are normally required.
7. Some additional time and resources would be needed for additional RFPs, their evaluations, and rules if the lottery were to purchase or lease the VLTs. It is believed that a more efficient use of time and revenues would be achieved if the gaming sites contract directly with vendors for the selection of games and purchase of machines desired for each location. The lottery would pre-approve all games and machines and associated master chips.
8. Assuming VLTs would be limited to established licensed racing facilities, the lottery will need a minimum of 3 new lottery employee positions to work solely on VLT system issues and oversight. Some additional staff may be needed if additional facilities are licensed. The new positions could include:
  - a. VLT manager (estimated annual salary/benefits of \$87,000)
  - b. VLT operations supervisor (estimated annual salary/benefits \$80,000)
  - c. Accountant (estimated annual salary/benefits \$77,000)
9. It is assumed that all VLT gaming enforcement and investigations will be conducted by the Department of Safety.

**State Expenses to launch VLT operations:**

1. As mentioned above, as few as three new lottery employees are needed to manage VLT operations.
2. Existing state personnel (lottery, OIT, Administrative Services, DOJ) will devote considerable time to work through the five month RFP process.

3. Significant lottery support staff time will be needed to support the estimated four month VLT implementation project.
4. The existing lottery office has sufficient space for the new VLT staff.
5. Vendor costs for a central computer system paid by the state for the VLT management system will likely be a percent of gross sales and could be paid directly from net VLT revenues. No separate budget request would be needed.

**State Revenues from VLT operations:**

1. The following Fiscal Note was provided by the Lottery on LSR 09-0860.6 introduced during the 2009 legislative session. The Lottery used the August 2000 Mendoza report on VLT gaming as a basis for its calculations. The fiscal note included a cost to the state of leasing VLTs. As noted earlier in this report, the Lottery's preferred method is to allow the gaming facilities to directly lease/purchase the VLTs thereby reducing the time to launch VLT operations and reduce the state's cost.

Date Sent to Agency: 1/15/09 LSR #: 09-0860.6  
 Agency: Lottery Bill #: \_\_\_\_\_  
 Due to LBAO: asap Amendment #(s): \_\_\_\_\_  
 Correction to prior response? (Y/N): Y

State Fund(s) Affected:

General: X Federal: \_\_\_\_\_ Other: \_\_\_\_\_

	FIRST BIENNIUM			SECOND BIENNIUM	
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
State Revenue		130,900,000	713,064,000	→	→
State Expenditure			72,930,000		
Net State Impact		130,900,000	640,134,000	→	→

County Revenue			16,206,000		
County Expenditure					

Net County Impact			16,206,000		
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Local Revenue			48,618,000	→	→
Local Expenditure					
Net Local Impact			48,618,000	→	→

- NOTE: (1) List only the amount of change in the appropriate column.  
(2) Place all negative numbers in parenthesis.  
(3) You may replicate this worksheet.  
(4) Refer to Guidelines for Fiscal Note Worksheets for further information.

(A) **ASSUMPTIONS:** Explain how estimate was derived. Describe costs that can be absorbed without additional funding. If no estimate can be prepared, **explain why in detail**. If no fiscal impact, **explain why in detail**.

1. Assumptions is that there would be at 3 dog tracks, 1 horse track and 2 licenses in the north country.
2. Number of machines at each location as follows:  
2000 each at dog track or 6000  
5000 at the one horse track in 5000  
2000 at each of the locations or 4000 in rthe north country  
Total machines 15000
3. The net machine income per machine/per day is \$296.\*
4. Video gaming machines leasing cost of \$4,862\*\* per machine per year. This would include the maintenance and software upgrades.
5. Effective upon passage, the first full year of operation would be FY 2011 (July 1, 2010-June 30, 2011)
6. License fees would be collected in FY 2010.
7. A fee of \$100,000 each application, 6 licenses at a total of \$600,000.
8. An initial license fee at the one horse track, \$50,000,000.  
An initial licensee fee at the 3 dog tracks \$20,000,000 each or \$60,000,000.  
An initial license fee at the 2 other locations of \$10,000,000 at \$20,000,000.
9. The license for the racetracks, license other locations and technology provider are good for 5 years.
10. The 3 technology providers would be charged \$100,000 for application fee of \$300,000.
11. Distribution of income:
  - a. 40% to the general fund.
  - b. 3% to the municipalities
  - c. 1% to the racing and charitable gaming commission.
  - d. 1% to the Department of Resources and Economic Development for promoting tourism.
  - e. 1% to the Police Standards and Training council
  - f. 2% to the Dept. of Health & Human Services and 1% to the county
  - g. the balance of 51% to the operator licensee
12. Assumption 365 days operation, 18 hours per day.
13. There would be additional costs for this program, such as the central computer system, but at this time we are not able to estimate total costs, except for the leasing of the video lottery machines.

\* Data is from the New Hampshire Commission on Education Funding Report dated August 4, 2000. Net machine income is calculated using the gross revenue less winnings paid out to the patrons.

\*\* Estimated data is from information provided by the state lotteries.

(B) **METHOD:** Show calculations used to determine fiscal impact. **Calculations must agree with and explain totals on first page.**

1. net machine income 15000 video lottery machines at \$296 each per day or \$1,620,600,000 for FY 2011.
2. leasing cost for 15000 video lottery machines at \$4,862 each per machine per year or \$72,930,000 FY 2011
3. For FY 2010
  - a. application fees of \$100,000 each, 6 license locations or \$600,000
  - b. three technology provider application fees of \$100,000 or \$300,000
  - c. Initial license fees:
    1. one horse track, \$50,000,000
    2. Three dog tracks, \$20,000,000 each or \$60,000,000
    3. Two license other locations in the north country, \$10,000,000 or \$20,000,000

(C) **ESTIMATED FISCAL IMPACT (from A and B):** **Estimated Fiscal Impact must agree with the totals on first page.**

FY 2010

Application fees:

6 license locations or \$100,000 each or	\$ 600,000
3 technology provider license at \$100,000 each or	\$ 300,000
1 horse track operating license of	\$ 50,000,000
3 dog tracks operating license of \$20,000,000 each is	\$ 60,000,000
2 license other locations at \$10,000,000 each or	<u>\$ 20,000,000</u>
TOTAL	<u>\$130,900,000</u>

FY 2011

Net machine income, \$296 x 365 x 15000 machines or \$1,620,600,000

44%\* to the General Fund \$1,620,600,000 x 44% = \$713,064,000

3 % to the municipalities \$1,620,600,000 X 3%= \$48,618,000

1% to the counties \$1,620,600,000 X 1% =\$16,206,000

Expenses:

Leasing cost for the video lottery machines

15000 x \$4,862 or \$72,930,000

\* 44% to the General Fund

1% to the Racing and Charitable Commission

1% to the Department of Resources

1% to the Police Standards and Training Council

3% to the municipalities

2% to the Department of Health & Human Services

1% to the counties

**(D) ADDITIONAL COUNTY, LOCAL OR LONG-RANGE EFFECTS:**

N/A

**(E) TECHNICAL OR MECHANICAL DEFECTS:** Note any conflicts with existing law. Do not comment on the merits of the legislation.

N/A

**(F) OTHER COMMENTS:** Include tax variables, federal mandates, etc.

[Art] 6-b of the Constitution. [Use of Lottery Revenues Restricted to Educational Purposes] All moneys received from a state-run lottery and all the interest received on such moneys shall, after deducting the necessary costs of administration, be appropriated and used exclusively for the school districts of the state. Such moneys shall be used exclusively for the purpose of state aid to education and shall not be transferred or diverted to any other purpose.

**AGENCY REPRESENTATIVE PREPARING WORKSHEET:**

Rick Wisler/  
Name/Signature

Executive Director, NH Lottery, 271-3391  
Title, Agency and Phone Number

January 22, 2009  
Date