



Gerry Aubin

Director,
Rhode Island Lottery

A Diverse Set of Stakeholders Work Together to Produce Stability, Sustainability, and Growth

PGRI Introduction:

In November of 1973, a constitutional amendment was passed in Rhode Island to allow lotteries to be operated by the State. The Rhode Island Lottery was established by legislation passed in March of 1974 with the first lottery ticket sold in May of that same year. In an effort to offset the declining attendance at the State's two pari-mutuel facilities, one dog-racing track, and one jai alai fronton, legislation was passed in June of 1992 to allow VLTs to be installed to attract more players. In September of 1992, under the operational control of the Lottery, 1,292 VLTs were installed and thus were born the first "Racinos" in the U.S.

Gerry Aubin is the third Director to lead the Rhode Island Lottery, appointed to the position in May 1996. Prior to overseeing the State's Lottery, Gerry served 21 years as a police officer for the City of Providence, Rhode Island, retiring as Deputy Chief of Police, and then served as the Director of the Rhode Island Municipal Police Academy.

Under Gerry's leadership as the Rhode Island Lottery Director, revenues increased more than fivefold, growing from \$455 million to \$3.7 billion, and net transfers to the State's General Fund increased from \$90.4 million to \$362.7 million.

During Gerry's tenure as Director, the Rhode Island Lottery has progressed from offering five instant games a year to more than fifty. In addition to overseeing the increase in the number of monitor and on-line game offerings, Rhode Island's Video Lottery program has grown, with the number of VLTs increasing by more than 3,500 since he became Director. Upon becoming Director, Gerry developed a new model for the License Agreements with VLT Technology Providers, which has since been copied and implemented by many other States.

The sound practices employed by the Rhode Island Lottery earned consistent recognition by the Government Finance Officers Association of the United States and Canada for achieving the highest standards in government accounting and financial reporting. In doing so, the Rhode Island Lottery became the first State agency in Rhode Island to receive the Comprehensive Annual Financial Report (CAFR) Award and has been successful in receiving this award for twenty-one consecutive years.

Gerry has also served as Chair of PowerBall® Group, president of the Multi-State Lottery Association (MUSL), president of the National Association of State and Provincial Lotteries (NASPL), Chair of the Development Committee (MUSL) and currently serves as Chair of the Security Committee (NASPL).



Paul Jason:

Rhode Island implemented the first Racino model almost twenty-six years ago. Was it a disadvantage to be the first?

Gerry Aubin: Being the first meant that there were no existing operations or set of best-practices to model after. But in many ways, there is an advantage to being first-to-market. Think about all the moving parts involved in putting VLTs into gaming facilities like horse-racing, dog-racing, jai alai, etc. With no precedents to predetermine our course, we perhaps had more flexibility to clarify the objectives and the pathways to achieve them. The terms and conditions that we determined were most favorable to the State were basically accepted because there weren't competing models. The methods of implementation and operation were not subject to as much debate because there weren't other examples to represent alternatives. One result is that the percentage of revenues that we turned over to the State was higher than is typical today. And the Racino model was a life-saver for the State's dog racing and jai alai facilities so they were happy to accept whatever plans we thought worked best.

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The Lottery has always worked well with the Governor's Office and Legislature, with the common goal of maximizing revenue while maintaining the trust and best interest of the citizens of Rhode Island. We do that by adhering to the highest standards of security, integrity, responsible gaming, and other performance objectives.

The Lottery does not own and manage the physical facilities. Where do the Lottery's operational responsibilities begin and end?

G. Aubin: Private interests own and manage the facilities. They maintain the physical environment that allows the State Lottery to install and operate VLTs. The Rhode Island Lottery controls all aspects of the games themselves. The facilities ownership side of the business may undergo disruptions as investors buy and sell their way into and out of the business. But the lines of responsibility are so clearly drawn that there is never any confusion or dispute over who is responsible for what. The facility owner/managers provide the physical space and restaurants and overall consumer experience – basically everything except the games. It is clear what their obligations are, and it is always in the interests of the private partners to maintain and operate a well-run facility because the alternative to that is costly penalties which they want to avoid. By law, the Lottery has the ability to impose an administrative penalty of up to \$1,000 a day for any infraction. To date, we have not had to impose a fine, and I don't foresee that ever happening, because our partners are all very responsive. When there is an issue, they fix it immediately.

We work closely with our partners - the facility managers and the technology providers - in a highly collaborative way. I believe that the establishment of clear lines of responsibility and authority frees us up to work in a spirit of mutual respect and cooperation.

The Lottery has licensing agreements with technology companies to provide VLTs, other gaming equipment and communications infrastructure, and the central system provider. So, with the Lottery dealing directly with the VLT vendors and central system provider, there is no space between the Lottery and direct control over all aspects of the games. The Lottery decides what the payout percentages will be, the kinds of promotions to run, the kinds of CRM and player engagement tools to



Gerry Aubin

deploy, and everything that has to do with the games. We consider the recommendations of the technology providers on games to be deployed, but we decide. The facilities managers have no control over the games.

How do you determine which games to lease?

G. Aubin: We don't lease games from the Technology Providers. We have a License Agreement that allows the Providers to install their VLTs, and they receive a percentage of the Net Terminal Income. That percentage is set by Statute and is currently 7%. We provide a free market environment for the games to compete with each other. Revenues taken in by the game are used as the measure of player engagement and performance. During the first quarter of each calendar year, we conduct an evaluation of all games. The under-performing games are removed and replaced with either new games or more of the top-performing games. We may exercise discretion to keep an under-performing game if it is serving a strategic purpose, like meeting the needs of an under-served demographic which we are trying to attract. But otherwise, it is all by-the-numbers.

We, the Lottery, as the operator tasked with the responsibility for ensuring that the games offered at the facilities, as well as the traditional Lottery games in Rhode Island, meet the highest standards of performance based on a variety of metrics that include social responsibility as well as financial targets. But we also appreciate

that our partners are in the business to make a profit. Insofar as there are sensible actions that increase efficiencies, enhance the consumer experience and non-gaming revenues for the facility, enable our technology providers to reduce their costs, etc. ... as long as the expectations of the State of Rhode Island come first and are always met, we want to do what we can to help our partners succeed as well.

We also respect the fact that the process of needing approval from us can be a more cumbersome process than it is in the world of private casinos where proposals to innovate can be acted on quickly. We appreciate all the efforts of our partners and do our best to clear a path to innovate and modernize. Our partners and the Rhode Island Lottery all want to maximize profits for our respective stakeholders. Our goals are aligned in the sense that the way to maximize profits for each of us is to work together and operate efficiently, effectively, and deliver the best consumer experience possible. Key to achieving the Lottery's and the State's goals is for us to help our partners achieve their goals.

How much flexibility do you have to adjust for changing market-place dynamics and consumer tastes and preferences?

G. Aubin: Having full operational control of the gaming facilities, we establish our own rules and procedures to ensure that changes are in the best interests of all stakeholders. That being said, it is also in the best interest

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of society that we manage the business for long-term sustainable success. That means modernization to compete in a dynamic and competitive marketplace, innovation to meet the needs of the modern consumer, and to anticipate the tastes and preferences of the next generation of players.

We are currently in the process of planning the relocation of our gaming facility in Newport to a brand-new facility being built in Tiverton. This facility, with an anticipated September 1 opening, will have 30 table games and a 1,000 VLTs. This new casino could be described as a boutique facility compared to Twin River, which has 129 tables and 4,200 VLTs. As you know, the casino gaming market is dramatically different than it was back in 1992; and the competition will only be increasing in the coming years. We work closely with our partners to ensure that we deliver the very best experience to our players so they will be excited about returning to play at Rhode Island casinos. Our competitors in contiguous states are doing the same, which means the consumer benefits, as we all seek to raise the standards of performance.

Do the payout percentages in casinos in Connecticut and Massachusetts differ from those in Rhode Island casinos?

G. Aubin: We're all similarly competitive - we need to be in order to attract the players. Nobody has very low payout percentages, because if the player loses money in a short period of time, you end up with an unhappy player who doesn't come back. It is important to deliver value to the player. A payout percentage that enables the player to spend more time on the machine produces a much better player experience. And time-on-device is not just the source of value for the player, it also delivers profit for the facility, the Technology Providers, and the State. Long-term sustainability will be greatly enhanced if we do our best to deliver a positive player experience.

Keep in mind that it is very rare that all the VLTs are fully occupied. Even on busy weekend nights, there is almost always at least 10% or 15% of the VLTs that are unoccupied, so we can afford to let players enjoy the playing experience for as long as they want; and the higher payout/longer time-on-device model results in a satisfied and loyal customer.

The same logic actually applies to scratch tickets. Instead of offering just simple scratch-off to reveal numbers that win or

lose, it's important to include games with extended play that prolongs the playing experience.

Do you think that the consumer is migrating across different game categories more than they did 20 years ago?

G. Aubin: Yes, I believe that more people who play the traditional lottery products are now going to casinos and vice-versa. And we often cross promote to different player groups to encourage the consumer to try new games. One recent example of cross promotion would be our promotion marking the 25th anniversary of Powerball, which was designed to bring traditional lottery players into the casino. Players purchasing a Powerball ticket receive a voucher that can be entered into a second-chance drawing to win tickets to the Lottery's celebration event featuring John O'Hurley. Do you remember the guy who played Mr. Peterman on the show Seinfeld? That's John O'Hurley, and the Lottery is hosting a performance by him as well as a drawing for \$25,000. This event will take place at Twin River Casino. We have already had a tremendous number of entries on this drawing. Our facility partners are providing the space, the staging and sets, and everything we need to host the event. We provide the prizes as well as extensive promotional support with our website advertising and radio and TV spots. This is a current example of how we're cross promoting. We will likely be increasing this type of cross promotion as the players' response has been very positive. We want players to engage with us on as many different levels, and with as wide a variety of games, as they are willing. Clearly, leveraging Lottery to attract new consumer groups to casinos benefits our casino and technology partners as well as generate new revenues for the State's General Fund. I also believe it expands the market without cannibalizing the sales of traditional lottery products.

What's new and innovative in the casino gaming business?

G. Aubin: There is a new playing experience called "stadium gaming". Instead of a the traditional table game setup with a live dealer interacting with a handful of players - in stadium gaming, the player sits at an individual monitor, which displays a dealer and the game. The player's bet goes into a bill acceptor at the individual monitor. There are no chips to rake or cards to handle. One benefit of stadium play is that it enables the novice to play alone, without worrying about being observed

and judged by other players as could be the case with a traditional table game. So, it is a great way for new players to learn the games at their own pace. It is also fun for the experienced player, because stadium gaming offers a wider variety of betting options along with the feeling of playing in a game with lots of players with little to no interaction. It's great for the facilities because it is less costly, more secure, and easier to manage than traditional live table games; and it offers a fun new playstyle for consumers looking for something different. It is becoming very popular, especially with young adults. We expect to launch stadium gaming in October.

Are you able to launch sports-betting if the Supreme Court removes the federal prohibition?

G. Aubin: While that's a question for the lawyers, the Rhode Island Lottery is authorized to operate Class III Gaming which is the category of gaming that sports betting will be if it is allowed. The Twin River facility is renovating their building to accommodate stadium gaming, and will allow for the necessary room needed if sports-betting is allowed. We are also looking at "skill VLT games", which are in the early stages of development. As they gain market acceptance, and we understand best practices for this new product, we will certainly be looking into that as well.

Are there operational synergies between casino and traditional lottery?

G. Aubin: Only insofar as they are all games-of-chance and need to be managed properly to ensure they comply with the highest standards of security, integrity, and responsible gaming. Not so much from a marketing or operational POV. As described above with the Powerball promotion, we run some cross-promotions; but generally, the two sectors are managed by two separate groups in the organization, and there is limited overlap between the casino and traditional lottery management teams.

The Lottery allocates more of its human resources to the traditional lottery side of the business even though it doesn't generate as much revenue as the casinos. With a broad base of stakeholders that includes 1,200 retailers, along with a broad base of consumers who love to play the lottery, traditional lottery is a part of the fabric of society that continues to have great potential to grow and prosper. ■