

February 20, 2002

## Amended Central System RFP Questions & Clarifications

1. The Lottery has established a bid price analysis process which appears to offer a decided advantage to a "higher bidding" vendor versus the low priced qualified bidder by including the 2% advertising rebate to the Lottery in the formula.

Section 5.6 of the RFP states in the last sentence: Under this formula, the lowest cost acceptable Proposal receives all sixty-six (66) available price points. A proposal twice as expensive as the lowest cost acceptable Proposal earns half as many, or thirty-three (33) price points". By including the 2% Advertising fee rebate in the formula, this is not the case.

The attached table is an analysis of the scenario provided to vendors with the latest version of the RFP, Section 4. The following is a discussion of the analysis.

Under scenario #1, from the Lottery provided formula with the new price point allocation the total points given to Bidder A, the low bidder, would be 66 points. Bidder B, who is also qualified, and whose price is "half" of Bidder A, yet Bidder B would receive 47.67 points, not "half" of the 66 points. This is definitely an advantage to being able to bid a higher price percentage and not lose points proportionately. It gets even worse when the differential is more. Under Scenario #2, Bidder B is "three times" the price of the low bidder (Bidder A) and yet receives 39.60 points, almost 17 points more than would be allocated by removing the 2% from the calculation formula. This unfair cost evaluation would even exist if Bidder A were to bid zero %, as noted in Scenario #3.

For purposes of price evaluation, would the Lottery please remove the 2% Advertising rebate from the cost analysis so that the evaluation cost is on a "fair and equitable basis for all bidders"?

The 2% would still be added during the final contract negotiation and award.

- A. As a clarification, Section 4.3 on page 44 of the Amended RFP provides an example of the price quotation. In that example, it is stated as an example that a 3.2500 percent would include 2% for video lottery advertising. Further, in the example, the vendor would receive 1.2500 percent. For evaluating price proposals, the Lottery is not including the 2% for advertising as this is a part of the overall net sales and not part of the vendor's cost. Using the example above, if a firm bid 1.2500 percent, and included as required the 2% for advertising, the evaluation would consider only the 1.2500 percent.
2. In your February 13, 2002 VLT Central System letter identifying substantive changes to the RFP, the lottery states: "... it is the intent of the New York Lottery to procure a Central System that is independent of and not an integral part of VLT manufacturers standard offering. Accordingly, the vendor would have a Central System contract and its subsidiaries will not be allowed to provide VLTs during the duration of the contract . . . .".

The purpose of this letter is to 1) inform the New York Lottery of license agreements this firm currently has for the use of game software and the purchase of VLT hardware for specified jurisdictions with a VLT manufacturer, a subsidiary of a gaming company and for the use of game software with a VLT manufacturer, and 2) inform the lottery that those license agreements in no way represent a strategic alliance with either company. This firm has no financially related partnership arrangements with these companies, nor with any other company that would supply VLT hardware to the New York Lottery.

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We respectfully request the New York Lottery acknowledge that these license agreements are not strategic alliances and will not disqualify this firm from consideration as the VLT Central System provider.

- A. Absent reviewing the licenses, the Lottery cannot acknowledge whether or not a firm would be disqualified. If the firm will provide the Lottery with a copy of the license(s) in question, we will review them and provide a determination. The sooner we receive them, the sooner the determination can be made.

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Total Revenue	\$2,308,990,000				
<b>Scenario #1</b>	<b>Pre-Advertising Price</b>	<b>Relative Points</b>	<b>Advertising Allocation</b>	<b>Total Price</b>	<b>Actual Points</b>
Bidder A	1.2500%	66.00	2%	3.2500%	66.00
Bidder B	2.5000%	33.00	2%	4.5000%	47.67
Difference	\$28,862,375	33.00		\$28,862,375	18.33
<b>Scenario #2</b>	<b>Pre-Advertising Price</b>	<b>Relative Points</b>	<b>Advertising Allocation</b>	<b>Total Price</b>	<b>Actual Points</b>
Bidder A	1.0000%	66.00	2%	3.0000%	66.00
Bidder B	3.0000%	22.00	2%	5.0000%	39.60
Difference	\$46,179,800	44.00		\$46,179,800	26.40
<b>Scenario #3</b>	<b>Pre-Advertising Price</b>	<b>Relative Points</b>	<b>Advertising Allocation</b>	<b>Total Price</b>	<b>Actual Points</b>
Bidder A	0.0000%	66.00	2%	2.0000%	66.00
Bidder B	2.0000%	0.00	2%	4.0000%	33.00
Difference	\$46,179,800	66.00		\$46,179,800	33.00