



REPORT ON THE PRIVATE MANAGER AGREEMENT

May 31, 2018 (20 ILCS 1605/9.1)

Respectfully submitted to:

Illinois Governor Bruce Rauner

Senate President John J. Cullerton

Senate Republican Leader William E. Brady

House Speaker Michael J. Madigan

House Republican Leader Jim Durkin

The Illinois Lottery -- Private Management Background and Current Status

In 2009, the Illinois Legislature passed legislation requiring the State to seek a private manager for the Lottery. Consequently, the Lottery engaged its first private manager pursuant to the process outlined in Section 9.1 of the Illinois Lottery Law. The winning bidder was Northstar Lottery Group, LLC ("Northstar"), a consortium comprising the Lottery's then-current supply vendors, GTECH Corporation and Scientific Games International, Inc. The Lottery entered into a private management agreement with Northstar on January 18, 2011, and Northstar entered into supply agreements with GTECH and Scientific Games.

On September 18, 2015, the Lottery, Northstar, IGT, and Scientific Games entered into a Letter Agreement of Termination.

In compliance with the Illinois Lottery Law, Governor Bruce Rauner and the Illinois Lottery on July 28, 2016, announced the release of a Request for Proposal ("RFP") for a new private management partner. The Lottery received one RFP response from Camelot Illinois.

The Illinois Lottery and Camelot Illinois entered into a new 10-year private management agreement on Oct. 13, 2017. The agreement delivers key drivers of responsible growth and aligns the manager's financial interests to the state's, addressing key contractual weaknesses encountered in the Lottery's prior private management arrangement.

The new private management agreement with Camelot is structured to accomplish the Lottery's five key goals, which included responsible growth of the Lottery's player base, aligned financial incentives, elimination of conflicts of interest, the introduction of new technology and innovation, and greater responsiveness to public needs and concerns.

In January 2018, Camelot replaced Northstar as private manager. The Lottery and Camelot are actively working to improve sales and products while engaged in a complete technology transition (full replacement of the gaming system, retailer terminals, vending machines, and iLottery website) that is anticipated to be completed in December 2018.

Overall Sales and Transfers to Good Causes

Below are the FY11 – FY18 sales and transfers to good causes:

Fiscal Year	Private Mgr. Lottery Year	Sales	Transfers to the State
2011	Prior to Northstar	\$2.264 billion	\$689.967 million
2012	Northstar Year 1	\$2.677 billion	\$708.427 million
2013	Northstar Year 2	\$2.832 billion	\$793.206 million
2014	Northstar Year 3	\$2.802 billion	\$815.408 million
2015	Northstar Year 4	\$2.837 billion	\$690.342 million
2016	Northstar Year 5	\$2.856 billion	\$694.948 million
2017	Northstar Year 6	\$2.844 billion	\$723.241 million
2018	Split year*	\$2.429 billion**	\$579.445 million**

*-Northstar was the Lottery's private manager through Jan. 1, 2018; Camelot took over on Jan. 2, 2018

**--Through April 30, 2018

Fiscal Year	Common School Fund	Capital Projects	Special Causes
2011	\$631.875 million	\$54.125 million	\$3.967 million
2012	\$639.875 million	\$65.2 million	\$3.352 million
2013	\$655.624 million	\$135.0 million*	\$2.582 million
2014	\$668.100 million	\$145.0 million*	\$2.308 million
2015	\$678.550 million	\$8.0 million	\$3.792 million
2016	\$691.550 million	\$0	\$3.398 million
2017	\$705.625 million	\$15 million	\$2.616 million
2018	\$576.380 million**	TBD	\$3.065 million**

*-Net income shortfall compensation received from Northstar

**--Through April 30, 2018

Specialty Ticket Name	FY18 Transfers To Date
Veterans Cash	\$1,022,042
Ticket for the Cure	\$548,829
The MS Project	\$306,695
Red Ribbon Cash	\$379,252
Special Olympics	\$808,212

*-Through April 30, 2018

iLottery and Subscriptions

PA 98-499 authorized the Lottery to sell Lotto, Mega Millions, and Powerball tickets on the internet, through a 48-month pilot program that began in January 2014. In June 2016, the Illinois Legislature removed the “pilot” designation from the iLottery program, and has extended the program in one-year increments. PA 100-0023 extended the program to July 1, 2018. Legislation was proposed this spring to extend the program by 10 years and to expand the Lottery’s internet offerings. SB 3528 extends the program by eight years - through 2026 - and allows the Lottery to offer Lotto, Lucky Day Lotto, Mega Millions, Powerball, Pick 3, and Pick 4 through the internet program. SB 3528 passed the Senate on April 26, 2018. As of this report date, SB3528 is assigned to the Revenue & Finance Committee in the House.

The Lottery has the authority to sell subscriptions to its draw game portfolio via the internet and mobile app.

Fiscal Year	Internet Sales	Subscription Sales	Retailer Sales	Totals
2012	\$2,234,602	\$4,474,717	\$2,670,287,160	\$2,676,996,479
2013	\$6,542,673	\$7,129,064	\$2,818,903,809	\$2,832,575,546
2014	\$15,854,585	\$9,098,240	\$2,777,356,848	\$2,802,309,673
2015	\$17,337,748	\$12,754,294	\$2,807,713,123	\$2,837,805,165
2016	\$12,301,887	\$13,525,173	\$2,829,707,812	\$2,855,534,872
2017	\$19,740,489	\$14,311,561	\$2,809,904,362	\$2,843,956,412
2018	\$23,712,759*	\$12,950,985*	\$2,391,853,941*	\$2,428,517,685*

*-Through April 30, 2018

Marketing and Advertising

The marketing and advertising activities of the Lottery, which is a service and responsibility of the private manager, are designed to develop and support both the specific campaigns built around games throughout the year, as well as to build and grow the brand. In FY18, the Lottery used television, radio, print, digital, and out-of-home advertising to ensure maximum reach among potential new players. Dedicated Lottery sales staff collaborated with retail partners to arrange best placement and effective display of promotional materials.

In addition to its “Luck is Everywhere” brand campaign and general product advertising, the Lottery launched campaigns to promote a St. Patrick’s Day raffle; draw-game promotions for Pick 3, Pick 4, and Lucky Day Lotto; a “Frenzy” family of instant tickets; and The Willy Wonka Golden Ticket, an instant ticket that, for the first time ever, offers Illinois Lottery players the chance to win up to \$1 billion in a second-chance prize promotion.

Specialty Tickets

The Illinois Lottery has maintained its portfolio of specialty tickets, where 100 percent of the profits are transferred, via other State agencies, to veterans’ causes, Special Olympics programs, as well as breast cancer, multiple sclerosis, and HIV/AIDS research and treatment.

In FY18, the Lottery launched a pilot program that used a traditional instant ticket instead of a cause-branded specialty ticket. The tickets that were part of the pilot program included those that support veterans and Special Olympics. Both groups were interested in trying a new approach. Traditional-looking instant tickets sell at a far greater pace than specialty-branded tickets and offer the cause a greater return. The results of the pilot program will be evaluated to determine whether it met goals and expectations.

Responsible Gaming

The Illinois Lottery engages in a responsible gaming program to ensure revenues are raised in a socially responsible manner. The Illinois Lottery has been designated a World Lottery Association (WLA) Level 3 Certified Organization for a second time, meeting all requirements for Level 3 accreditation, including: gambling research, employee training, retailer training, game design, purchase limits on internet play, responsible advertising, player education, and treatment referral.

The Lottery's commitment to responsible gaming includes providing funding for the Gambling Hotline (1-800-GAMBLER) and promoting quarterly player education messages that rotate among excessive play prevention, responsible pool play, signing winning tickets, and responsible gifting.