

Illinois Lottery Control Board
Open Meeting Minutes
February 06, 2019
122 S. Michigan Ave., 19th Floor, Chicago, IL 60603

On Wednesday, February 6, 2019, a regular meeting of the Lottery Control Board was held in Chicago at 122 S. Michigan Ave., 19th Floor. The following people attended:

Board Members:

- Elba Aranda-Suh
- Nimish Jani
- Lori Yokoyama

Illinois Lottery Staff:

- Harold Mays, Acting Director
- Cornell Wilson III, General Counsel
- Jessica White, Deputy General Counsel
- Carol Radwine, Chief Financial Officer (via video conference)
- Amber Chappell, Finance Manager (via video conference)
- Scott Gillard, Chief of Staff
- Jason Schaumburg, Communications Director
- Joe Weiss, Sales Manager
- Guadalupe Marin, Director's Assistant
- Nora Iniguez, Lottery Control Board Secretary

Camelot Staff:

- Colin Hadden, General Manager
- Keith Horton, General Counsel
- Kelsey Young, Director of Business Planning
- Tim Culhane, VP of Finance
- Gareth Moore, VP of Marketing

Other Attendees:

- Kathy Gilroy, member of the public
- Paul Haberstad, member of the public

CALL TO ORDER/ROLL CALL

Since the Lottery Control Board presently does not have a Chairman, the Lottery Director has asked the General Counsel to conduct the meeting. General Counsel, Cornell Wilson called the meeting to order at 1:35 p.m. and conducted a roll call. A quorum was present. Lottery and Camelot staff and guests stated their names and titles for the record.

Public Comment

None

OLD BUSINESS

- *Approval of Minutes*
Cornell Wilson asked for motion to approve meeting minutes from last meeting. Board member Nimish Jani moved the motion to approve the meeting minutes from December 5, 2018, and board member Yokoyama seconded the motion. All were in favor, and minutes were approved.

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Open Meeting Minutes
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NEW BUSINESS

- *Elect New Lottery Control Board Chairman*

Cornell Wilson stated that board member James Floyd was not present, and that election of chairman can be postponed. Board member Aranda-Suh moved to postpone election and board member Jani seconded the motion. All were in favor to postpone election of Board Chairman.

- *Schedule Quarterly Meetings for Calendar Year 2019*

Cornell Wilson asked for motion to approve remainder of meeting dates:

May 8, 2019, August 21, 2019, and November 6, 2019 all at 1:30 p.m.

Board member Jani moved to approve motion, and board member Yokoyama seconded. All were in favor, and the dates were approved.

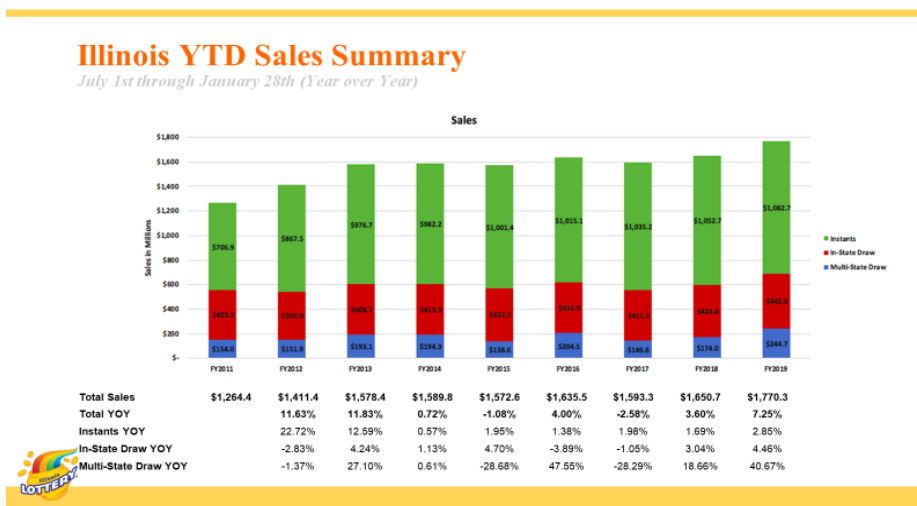
- *Legal Update*

1. The Auditor General issued an audit finding for Lottery regarding cash transfers to the Common School Fund for the fiscal year ending June 30, 2018. Lottery is working with the governor's office and inquiring to ask for support of its interpretation of its statutes and rules. Lottery will keep board members posted.
2. The Dept. of Justice gave an opinion on its interpretation of the Wire Act. This threatens iLottery and all online gaming activities, which may affect the Gaming and Racing Boards. Lottery is closely monitoring this with Camelot and the other states involved, making sure all parties involved are notified. Lottery is taking appropriate action to make sure we are in compliance with all the laws.
3. Administrative hearing regarding a placement of a lottery machine was held and is being continued. Another hearing was held and settled.

DIRECTOR'S REPORT

- *Sales Performance*

Tim Culhane referenced the graphs below on a year-to-date summary of sales. Year-to date is at \$1.77B, up \$119.6M over prior year and has grown 7.25 percent year over year.

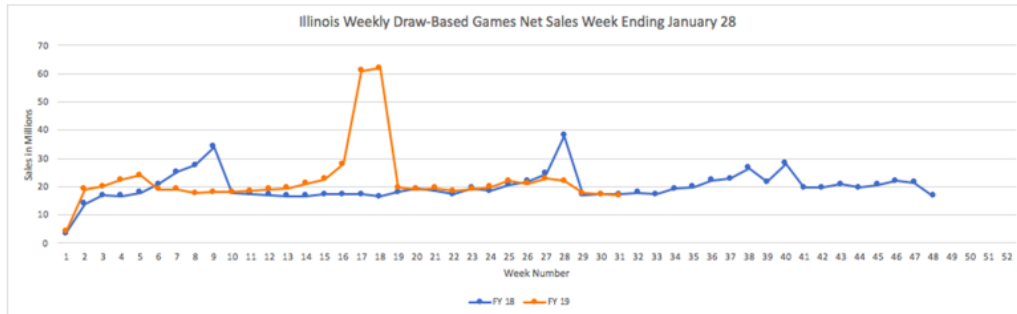


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Weeks 8, 9 and 10 in blue last year had large PB roll, which was excess of \$750M
Weeks 15-19 in orange this year had large roll in MM.
Weeks 27-28 of last year we had roll in PB and MM. Overall, draw-based games were up \$89.6M over year.

Illinois YTD Sales Summary | Draw-Based Games

July 1 through January 28

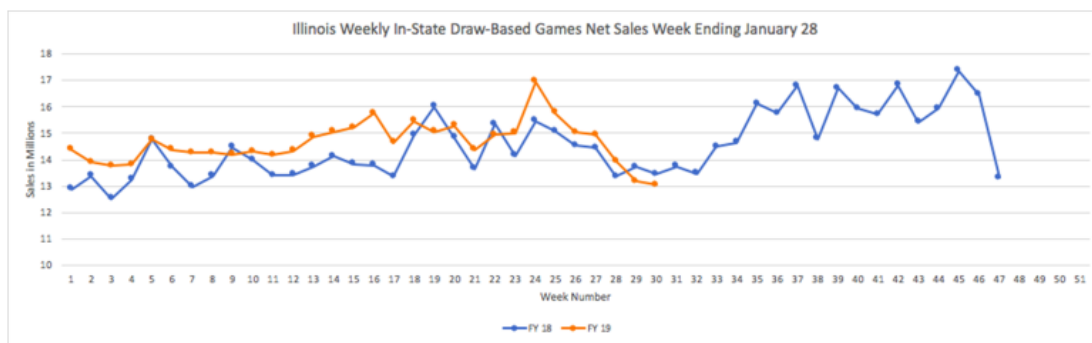


*Includes all draw-based games: Powerball, Mega Millions, Lucky Day Lotto, Lotto, Pick 3 and Pick 4

This chart excludes MM and PB games which are multi-state games. Sales are consistently higher year over year. Nice performance over all portfolio of games.

Illinois YTD Sales Summary | In-State Draw-Based Games

July 1 through January 28



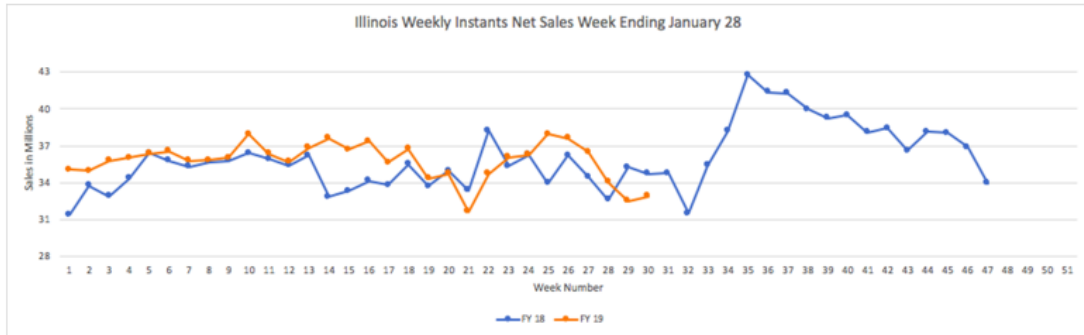
*Excludes Powerball and Mega Millions

Illinois Lottery Control Board
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February 06, 2019
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Instant sales are up \$30M year over year.

Illinois YTD Sales Summary | Instant Games

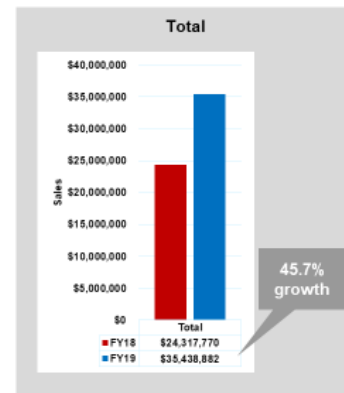
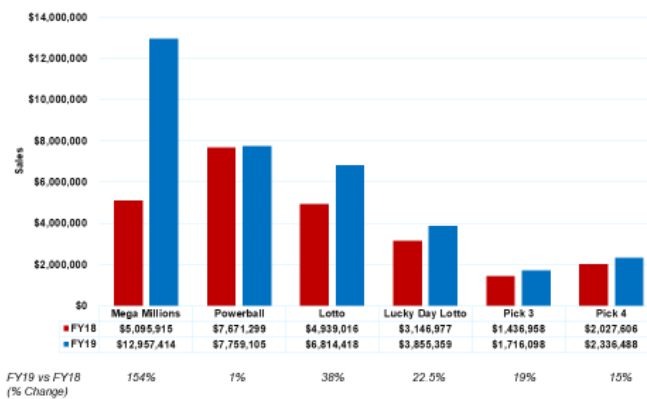
July 1 through January 28



iLottery sales have had 45.7 growth (\$11.1M) year over year. MM big driver this year with large rollover in October.

iLottery YTD Sales Summary

July 1 through January 31 (Year over Year)

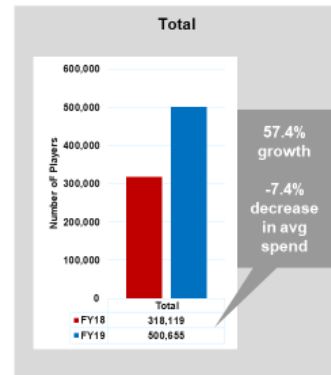
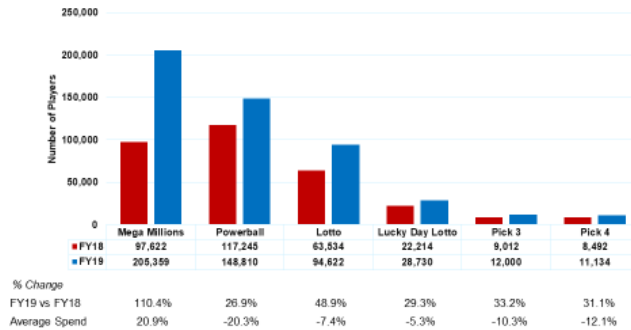


Illinois Lottery Control Board
Open Meeting Minutes
February 06, 2019
122 S. Michigan Ave., 19th Floor, Chicago, IL 60603

57.4 % growth in players year to date. Slight decrease in average spend since people only signed up to play when jackpot was high and didn't play again.

iLottery Number of Players

July 1 through January 31 (Year over Year)



- Advertising and Marketing-** Gareth Moore presented the charts below to board members.
 - Instant-**focus on gifting, which drew sales up in this month.
 - Draw-**focus on jackpot amount, making easier to read, new tag of “how would you spend all that time instead of spending “all that money.”
 - Experiential-**series of concerts, won by draw entry, increase community activation

December 2018:

INSTANT	DRAW	EXPERIENTIAL / OTHER
- Holiday campaign was in market for all of December - TV (GM and HM), Cinema, OLV, Digital, POS and OOH  	- Batch 2 Jackpot “Time” creative in market - Majority of media weight will be Jackpot focused until March - Instant go live  	- Aragon Ballroom Concert Series (11/29 - 12/9) - Impressions: 22,500 - Engagements: 4,500 #InstantJoy sweepstakes - Impressions: 948,808 - Engagements: 42,128 - Entries: 306  



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Instant-launch of new \$1 & \$2 tickets with goal of trying to drive performance. Cold weather in January affected sales.

Draw-positive results in brand and purchase impact.

Experiential-none.

January 2019:

INSTANT	DRAW	EXPERIENTIAL
10 Years of Cash (\$1 and \$2 annuity instant tickets) - Support includes: - POS - TV and radio integrations - Terrestrial radio, streaming audio - OOH (CTA, Trivision, Circle K) - Mobile targeting (Waze) - Speedway audio	- Batch 2 Jackpot "Time" creative in market - Majority of media weight will be Jackpot focused until March Instant's go live 	No experiential events were held in January

Two new tickets launching on February 7th. Anticipating strong performance on \$10 ticket.

Coming Soon: February Instant Tickets



- Responsible Gaming**

Keith Horton states that there is a new player education campaign to increase gambling literacy. Gamres research showed that there is room for improvement in this area. Five different concepts are in the works but have not been finalized. Campaign will include new website content and paid advertising.

Illinois Lottery Control Board
Open Meeting Minutes
February 06, 2019
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Corporate Social Responsibility | Player Education

- New player education campaign aims to increase gambling literacy
- Prompted by Gamres research conducted last summer
- Campaign includes new website content and paid advertising and will also leverage internal assets like social media, web promotion and retail messages
- "Be Smart, Play Smart" tagline will replace "Play Responsibly"
- Gamres research will be conducted again to determine potential impact of campaign



- **Finance**

Carol Radwine, Lottery CFO, presented charts with details on Common School Fund transfers, Special Causes and Retailer Sweeps/State Lottery Fund.

Finance | Common School Fund Transfers

- Per statute, the Illinois Lottery must transfer revenues into the Common School Fund (CSF) at a specified rate, pegged to inflation.

Common School Fund Transfers	
FY 2014	\$ 668,100,000
FY 2015	\$ 678,550,000
FY 2016	\$ 691,550,000
FY 2017	\$ 705,625,000
FY 2018	\$ 718,750,000
FY 2019 Planned	\$ 731,250,000
Total Transfers – All Fiscal Years To Date (01/31/19)	\$ 20,797,946,265



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Open Meeting Minutes
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There was a Veterans ticket launch in 2nd quarter of this fiscal year, which increased Veterans cash and all the causes have increased amounts from last report.

Finance | Special Causes

- The IL Legislature has mandated the Lottery produce and sell tickets for special causes. For each ticket below, 100% of profits are transferred to agencies to distribute. At 11/30/2018, the Lottery has transferred \$49.2 Million for these causes.

Ticket/Cause	Lifetime Amount Transferred
Veterans Cash (veterans causes)	\$ 15,263,331
Ticket for the Cure (breast cancer research and treatment)	\$ 12,751,337
MS Project (multiple sclerosis research and treatment)	\$ 9,584,827
Red Ribbon Cash (HIV/AIDS research and treatment)	\$ 8,155,038
Special Olympics (state and Chicago organizations)	\$ 3,475,877



Receipts into the fund during the quarter were \$75M more than first quarter of the year due to large MM and PB rollovers in October.

Finance | For the Quarter Ended December 31, 2018

- The weekly sweeps of Lottery retailers netted \$386,049,794.44 in revenues to the State Lottery Fund during the 2nd quarter of FY2019.

For the Quarter Ended December 31, 2018	
Cash Balance carried forward from last quarter	\$ 98.4 M
Receipts into the fund this quarter	\$ 385.9 M
Expenditures from the fund this quarter	\$ (\$345.6 M)
Cash Balance at the end of the quarter	\$ 138.7 M
Expenditures/Transfers made this quarter	\$ 345.6 M
Vouchers paid this quarter	\$ 45.1 M
Prizes paid this quarter	\$ 112.8 M
Transfers made this quarter	\$ 187.7 M



- Operations & Private Management**

Staff Update:

Acting Director Harold Mays states that there have been no separations since the last meeting. Cornell Wilson III is our new General Counsel, replacing Jessica White, who served briefly in an

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interim role. Cornell came from the governor's office and stated that he is glad to be here with a great staff and enjoys working with Camelot.

Acting Director gave an overview of our progress with our technological transition which includes:

- Very comprehensive update of all our external equipment and internal systems that support lottery, which include CGS, ICS, Instant Ticket Management System, iLottery platform, website, and mobile app.
- Full retail refresh with new sales terminals, vending machines and point of sale equipment.
- Transition completion targeted for February to allow for additional testing and successful transition. The director emphasized on how important this transition is affecting Lottery, our retailers, and our players. Update will be given on how transition went on next date.
- Camelot, the Lottery, and our vendor partners have done stellar job and the director would like to recognize their efforts.

Legislative-Preparing agenda for spring session which includes authority to expand sale of all our games on the internet along with ability to introduce new games

- Extend current iLottery language for our DBG to 2028.
- Request to continue appropriation to allow us to pay players if there was ever a budget impasse again.
- Clean up language in the Lottery Law that needs to be updated and clarified.

Audit - Two material findings on our FY18 financial compliance report:

- CSF overpayment due to timing year end true up of operating expenses and net income calculation. Needs legislative action to correct.
- Repeat finding regarding capital project 2009 deficit which cannot be resolved with legislative action.

Specialty Tickets:

- The Lottery has seven specialty tickets in our portfolio MS, HIV, Breast Cancer, Veterans, Special Olympics, Police Memorial, and Homeless Prevention (in early development) which is almost 15 % of our portfolio.
- Special Olympics ticket will be introduced in April and new Police Memorial ticket in May
- We continue to receive several new requests each year
- Veterans and Breast Cancer oldest and highest total revenue.

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DOJ Opinion Reversal in context:

In 2011, Illinois sought and received an opinion from the Dept of Justice on the Wire Act and whether it was applicable to in state online selling of Lottery. The opinion issued affirmed that the Wire Act only restricted interstate sports betting online. In December 2018 , the DOJ reversed that opinion and expanded the restriction to all forms of interstate betting online, including Lottery.

Questions and comments by Board Members:

- Board member Lori Yokoyama asked the acting director if there is a discussion amongst state lotteries getting together and possibly filing a lawsuit regarding the DOJ opinion reversal. The acting director stated the we deal with two organizations, 1). NASPL-North American Association of State & Provincial Lotteries and 2). MUSL-Multi State Lottery Association, which are being very proactive in working with the states. We have numerous communications from them on defining a specific industry position to start to build a defense against the opinion. They have taken steps to work with each state and give them all the information that is available.
- Board member Yokoyama asked if this recent decision is retroactive since most states in the last 7-8 years have invested quite a bit of money to get online. Cornell Wilson said Deputy Attorney General Rod Rosenstein has issued a 90-day stay for any potential enforcement and that any state should not rely on the old opinion letter going forward. Attorney Generals for New Jersey and Pennsylvania issued a joint letter to DOJ to withdraw the opinion.

ADJOURNMENT

Cornell Wilson gave the motion to adjourn meeting with business concluded. Board member Jani seconded the motion and it was unanimously approved. Meeting was adjourned at 2:15pm.

Respectfully submitted,

Nora Iniguez
Lottery Control Board Secretary