

ILLINOIS LOTTERY CONTROL BOARD

Regular Session Minutes

October 10, 2012

James R. Thompson Center

100 W. Randolph, Chicago, IL 60601

On Wednesday, October 10, 2012 at 10:30am, the Lottery Control Board meeting was held at the James R. Thompson center in room #7-216, Chicago, IL 60601. This was the first meeting since Michael Jones became Superintendent with a new panel of board members. Board members were appointed on 08/31/2012 by Governor Pat Quinn.

Lottery Control Board Members: Robert Anthony Christian, John Gary Fencik, Geoffrey A. Richards, Paul D. Schaefer, and Sharon U. Thompson.

Lottery staff in attendance: Victor Golden, *Deputy Superintendent*, Sara Barnett, *Chief of Staff*, Daymon Ruttenberg, *General Counsel*, Tracy Jacobson, *Deputy General Counsel*, Shelly Banks, *Chief Internal Auditor*, Nora Iniguez, Lottery Control Board Secretary

Other attendees: Marco Tasso, *CEO/Northstar Lottery group*, Brenda Donahue, *Downtown Partners*, Chris Templeton, *Critical Mass*, and Sherman Wright, *CEO/ Commonground*

CALL TO ORDER:

Michael Jones, *Lottery Superintendent*, called the meeting to order with a quorum present at 10:40am. Lottery Superintendent Jones welcomed board members and expressed the importance of having a Lottery Control Board with a group of professionals with varying business experiences and different points of view that will be a great resource to the Superintendent, the Lottery, and the state. Having the experience of running the Illinois Lottery from 1981 to 1985, the Superintendent faces a new challenge of working alongside a private manager, Northstar Lottery Group.

The Superintendent went on to explain that Northstar Lottery Group is a consortium of long-time Lottery industry vendors: GTECH and Scientific Games. The management company handles most day-to-day Lottery operations, with the exception of Lottery drawings and prize payments, which remain Lottery-only functions. The Lottery also provides guidance and suggestions on everything from ticket design to advertising.

Despite the Lottery's very good showing in FY 2012 (which was a very good year for lotteries across the board), Northstar fell short of the net-income it promised to raise in FY12: Either \$851million, assuming a full year of internet sales; or \$825 million assuming no internet sales.

Lottery Superintendent Jones requested that the board members introduce themselves as well as the Lottery's senior staff that was present. He then proceeded to review a power point presentation covering the following topics:

- Change in management, agencies, and philosophy with new marketing and advertising strategies.

- New technology where we are introducing the usage of mobile device, new user interface & addition of Powerball sales coming in November
- 41 cents of every dollar went to CSF back in 80's, now only 28cents
- Review of creative campaigns including:
 - Anything's Possible(new brand), research conducted by Chris Templeton, Critical Mass showcasing American's optimism on what they think about their lives. When they play lottery, it's not that they think they can beat odds; it's about how they think they can win for \$1.
 - New My 3 game- began in September with two daily drawings: 10:30am & 6:30p.m., select three numbers and can win three different ways, exact order, any order or match two of three in exact position. Overall odds: 1 in 30. Prizes range from \$4 to \$200.
 - Halloween raffle-500,000 raffle tickets available at \$20 each. Four \$1million prizes, five \$100,000 prizes, five hundred \$1000 prizes.
 - New instant game Birthday Surprise(Win \$150,000 immediately and \$150,000 on your birthday for 20 years), new design, advertising agency versus printing company designing instant tickets, specialty tickets and other instants are now being designed this way.
 - Specialty cause tickets(Ticket For the Cure, Vet's Cash, MS &Red Ribbon Cash(HIV/AIDS), mandated by legislature, absolute key in making people know what Lottery is all about, when played there is a direct benefit.

Member Gary Fencik asked following questions: 1.) Is education the primary beneficiary from the Lottery? 2.) Regarding the specialty tickets like the veterans ticket, where 100% profits goes to other Illinois programs that help veterans, is lottery worried that although trying to expand player base are we worried about cannibalizing the main purpose?

Superintendent Jones commented: 1.) We also fund the roads and bridges and the capital projects fund.2.) No, because we have a small group of people playing lottery now, and with our Specialty tickets, we can attract players that really don't play except when jackpot is high. When you ask people on the street, everyone has a story as to being personally, or knows someone affected by one of the above causes.

Member Gary Fencik asked the question: Of all states that run a lottery, who has the largest percentage of users?

Superintendent Jones commented: It is all the same, universal at 69%.

Member Gary Fencik asked the question: From a governance standpoint, where does Northstar make decisions versus where the lottery makes decisions?

Superintendent Jones commented: On all strategies, decisions on games, advertising & media, we make those decisions jointly with Northstar, but ultimately, we have the authority.

Election of chairman

Member Geoffrey Richards recommends that Board Member Gary Fencik be elected as the Lottery Control Board Chairman. He has the background of serving on the Lottery Control Board before in the early eighties Robert Christian: I second this theory.

Superintendent Jones asks the question: Is this unanimous?

All members proceed to vote by a show of hands with four in favor and one abstaining. Superintendent Jones turns the agenda over to the chair.

Chairman Gary Fencik continues meeting by discussing following:

- **New Business/Policy Motions**

- **Designate Hearing Officer:**

Daymon Ruttenberg explains the administrative hearing procedures presently conducted by the Lottery in conjunction with the Administrative Law Judges of the IL Department of Revenue. Hearings involve retailers who have appealed a case when their license is suspended or revoked due to fraud, delinquent in property taxes, income taxes or not paying money they owe from sales of tickets. Other hearings come from individuals claiming their lottery ticket is a winner when it has been determined that it is not. After recommendation is made by the ALJ and reviewed, it is either affirmed or rejected by the Lottery Superintendent. Daymon Ruttenberg, Lottery General Counsel asks the board members to rule to continue to use the ALJ's contracted by IL Department of Revenue.

Chairman Gary Fencik makes motion to continue with this process. All are in favor; vote is unanimous.

- **Other New Business:**

Lottery Superintendent discussed that Powerball will now be added to the product mix of internet sales with a new and improved interface that should kickoff in November as well application capability for both mobile phones and iPads.

Chairman Gary Fencik asks if Marco Tasso, CEO of Northstar, can give a brief introduction. Mr. Tasso discussed his background and success at Lottomatica, the parent company in Italy that owns GTECH.

Chairman asks the Superintendent if he could further explain the arbitration issue between Northstar and the IL Lottery since question will be asked.

The Superintendent discussed:

Under provisions of the Private Management Agreement, both the Lottery and the private manager can seek to have annual net income levels adjusted (either up or down) due to a variety of factors that might occur during the year. Northstar issued a series of letters (eight in total) seeking a reduction of well over \$100 million for the FY12 net-income level. These downward adjustment requests from the private manager are being challenged by the Lottery. A third party professional initially determined that more than half of the downward adjustments sought by the private manager are unwarranted, and is currently considering further arguments from the Lottery to eliminate other reductions sought by the private manager. Ultimately, the private manager may find itself liable for financial penalties for not making its net income goal—but a final determination is probably many months away.

Member Paul Schaefer asks the question: Will this liability continue until resolved?

Superintendent Jones commented: If Northstar prevails, they are asking for five more years.

Member Paul Schaefer asks the question: How long is the agreement between Northstar and Lottery?

Superintendent Jones commented: Ten years.

Member Geoff Richards asks question: Is it appropriate for the board to receive copies of the pleadings that have been filed to help educate them on what the issues are and what is the best way to answer questions regarding Lottery in general or the relationship between Northstar and Lottery?

Daymon Ruttenberg commented: This would not be a problem and that he would have to look over the confidentiality agreement in regards to what they can or cannot share.

Member Robert Christian suggested that all inquiries should be submitted in writing and for board members to contact the lottery staff with any questions and discuss with other board members.

Chairman Gary Fencik suggested that if media has questions they should contact lottery directly.

Member Sharon Thompson asked: Why did percentage of money that goes to school go from 41% to 28?

Superintendent Jones answered: Decision of the Lottery to increase their prize percentage payout.

Member Sharon Thompson asked: What are various agencies and their percentages that we help?

Since 1974, the Lottery has raised over \$17.5 billion for the Common School Fund, \$155 million for the Capital Projects Fund (roads and bridges) and nearly \$30 million for specialty instant-game causes (IL veterans, fight against breast cancer, MS research, assist people living with HIV/AIDS). Lottery proceeds initially went to the General Revenue Fund until 1985, when they started going to the CSF.

The Lottery finished Fiscal Year 2012 with record sales (\$2.67 billion) and record transfers to good causes (\$708 million). \$708 in transfers includes: \$639.8 million to Commons School Fund, \$65.2 million to Capital Projects Fund, and \$3.5 million to specialty-cause instant games (Veterans Cash, Ticket for the Cure, Red Ribbon Cash & MS)

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Gary Fencik requests for future dates to set up next meeting. Daymon Ruttenberg states that we can have meeting going on in two places at same time via video Chicago/Springfield as long as it is listed in agenda. The next Lottery Control Board meeting is still to be determined.

ADJOURNMENT

Lottery Control Board Members presented motion to adjourn at 12:05pm.

Respectfully submitted,

Nora Iniguez
Lottery Control Board Secretary