

Lottery Control Board
Regular Session Minutes
April 17, 2013
James R. Thompson Center
100 W Randolph St., Chicago, IL 60601
Willard Ice Building
101 West Jefferson St., Springfield, IL 62702

On Wednesday, April 17, 2013 at 10:30am, a regular meeting of the Lottery Control Board was held at the James R. Thompson Center, conference room #9-036, Chicago, IL 60601, and at the Willard Ice Building in Springfield, IL 62702. Video conferencing was available to join the meeting attendees.

The following board members were present in Chicago: Gary Fencik, Chairman, Robert Anthony Christian, Geoffrey A. Richards, and Sharon Thompson. Paul Schaefer attended in Springfield.

CALL TO ORDER

Chairman Fencik called the meeting to order with a quorum present at 10:45am. Additional attendees were: Lottery Staff (Chicago)- Michael Jones, *Superintendent*, Victor Golden, *Deputy Superintendent*, Sara Barnett, *Chief of Staff*, Shelly Banks, *Chief Internal Auditor*, Nora Iniguez, *Lottery Control Board Secretary*. Lottery Staff Springfield- Jim Scroggins, *Chief Financial Officer*, Harold Mays, *Chief Operation & Technology Officer*, Bret Finley, *Finance Manager*, Tiffany Blair, *Budget Manager*, Mike Lang, *Media & Player Relations*.

Other attendees: – Avis Lavelle, *VP Corporate Affairs/Northstar*, Victoria Ocholla, *Corporate Counsel/Northstar*, Kathy Gilroy, *IL Church Action on Alcohol Problems*.

APPROVAL OF MINUTES

Chairman Fencik moved the Board to approve the open session minutes of its regular meeting of January 23, 2013. Member Richards seconded the motion. The Board approved the motion unanimously by roll call vote.

OLD BUSINESS: No old business to report, Chairman Fencik moved meeting to the Superintendent's report.

NEW BUSINESS:

Superintendent's Report /Michael Jones: Superintendent Jones began his report by announcing a recent tracking study commissioned by Northstar showing an increase in players understanding what the Lottery is all about. The special instant games for *breast cancer*, *veterans*, *HIV/AIDS awareness*, and *multiple sclerosis* are brand leaders and attract players who are interested in doing something positive for causes they believe in, and who are interested in having their lottery play mean something. Lottery's new rebranding, advertising, and ticket design are contributing factors to the perception and awareness.

- **Marketing/Advertising:** Downtown Partners, The Lottery's advertising agency of record, created a new campaign featuring Andy Richter as the spokesperson for both Powerball and Mega Millions to announce high jackpots.



The reasoning behind this new trigger advertising can be traced back to March, 2012, when the Mega Millions jackpot reached \$656 million, and many adults did not know the record jackpot amount. The trigger advertising appears to be working. For example, a recent \$320 million dollar Powerball jackpot resulted in over \$400,000 in sales as opposed to the normal \$40,000, and 1000 new Internet registrants as opposed to the typical 100-150 registrants per week.

Board member Christian asked what the goal is for new Internet registrants.

Superintendent Jones responded that the goal is one million Internet registrants, and the new user-friendly interface and Andy Richter commercials are part of the plan to reach that goal.

- **New Instant Games:** The Lottery introduced a new series of games called *The Good Life*, which feature attractive ticket art and an enticing premise. This series replaced Cash For Life games, which were potentially misleading because they did not pay cash for life or by the week.



- **Specialty ticket: MS Project:** Commonground is the ad agency responsible for the general market campaign for each of the specialty games. Their latest ad campaign for the ticket benefiting MS research asks the question, “What am I?” and creatively responds to the question with symptoms and statistics about multiple sclerosis. People can win up to \$20,000 instantly and participate in the effort to find a cure for this disease.



Chairman Fencik asked how long the MS campaign will last and what the net to charity will be.

Superintendent Jones responded that the Lottery does one specialty game a quarter and hopes to sell out all 2 million tickets. Twenty five percent, or about a half a million dollars, goes to charity. From this ticket, the Lottery has contributed over \$4.7 million to MS research in the last few years.

Chief of Staff, Sara Barnett, added that the timing of specialty tickets changed strategically so that the HIV/AIDS ticket, *Spread The Word*, will launch in June which coincides with HIV testing month and the breast cancer ticket, *Ticket for the Cure*, will be in the market in October which is Breast Cancer Awareness month.

Sales/Victor Golden: Deputy Superintendent Golden distributed sales figures for Instant and Online games which were shown to the Board.

- Online sales, which are terminal sales of daily draw games, Mega Millions and Powerball, are down about 1.14% year-to-date; meanwhile, total sales are up five percent. The Lottery has various financial indicators: actual sales and profits; net profits according to the Private Management Agreement; and transfers to the Lottery’s beneficiaries.
- There has been a \$100 million total increase in sales versus the prior year, but Northstar is not on track to meet its goal of \$3.5 billion in sales.
- The total number of new retailers recruited in the current fiscal year is 857. The forecast according to Northstar was to increase the retailer count to 13,000 by the end of the next fiscal year. Retailers are a key aspect of Northstar’s plan to boost revenues. Deputy Superintendent Golden commented that the improvement in Lottery’s image will help to recruit new retailers.
- He also noted that Northstar is helping to ensure that retailers are giving good service to our players. Lottery is working with Northstar on providing concierge service to effective, high selling retailers.

Board member Richards requested that board members receive a report of projected and actual financials. He also requested to see an income statement to understand how profits are transferred monthly.

FY SALES COMPARISON

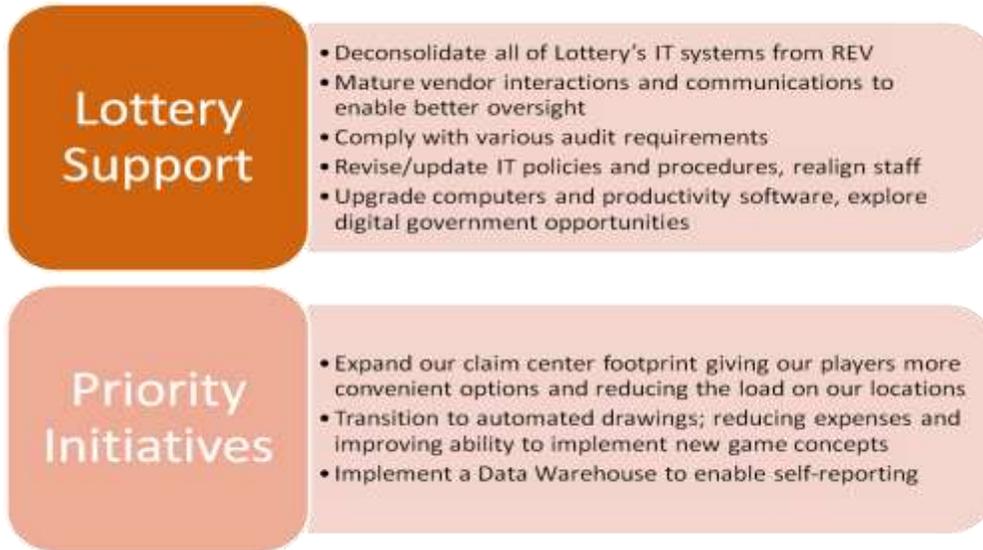
| Year | Instant Sales | Online Sales | Total Sales |
|------------|-----------------|---------------------|-----------------|
| 2012 | \$1,276,068,901 | \$844,797,385 | \$2,120,470,274 |
| 2013 | \$1,391,985,151 | \$834,759,606 | \$2,226,782,536 |
| Inc/Dec. | \$115,916,250 | -\$9,603,988 | \$106,312,263 |
| % Attained | 9.08% | -1.14% | 5.01% |

INTERNET SALES

| Games | Weekly Avg. | Total Sales |
|-----------|-------------|-------------|
| Lotto | \$49,115 | \$1,807,071 |
| M/M | \$36,377 | \$3,082,517 |
| Powerball | \$44,189 | \$1,452,540 |

| | | |
|-------|-----------|-------------|
| Total | \$129,681 | \$6,342,128 |
|-------|-----------|-------------|

Operations & Technology Update/Harold Mays: In the three months since Harold Mays joined the Illinois Lottery, he had as his primary goal to learn as much as he could about the business of the Lottery in Illinois. Below are the two primary areas of his focus for the remainder of 2013.



- Harold Mays reported that Northstar manages the Lottery's primary gaming system and maintains our financial data and retailer data. He reported that the Lottery wants to be in a position of self-reporting, with the ability to access, utilize and analyze the data without having to go through Northstar.

The Board asked what the plan is for coordinating data dumps from Northstar to make processing more efficient.

Harold Mays commented that right now there are approximately 150 various reports that the Lottery asks Northstar to produce, so identifying and prioritizing those reports will produce a better system.

Financial/Jim Scroggins:

- Chief Financial Officer Jim Scroggins discussed the Lottery's budget and some of the major expenses. He noted that the budget contains a requested increase from fiscal year 13 to fiscal year 14 of \$187.9 million, but explained that 98.5% of that is an increase in prize appropriation authority. He explained that if the Lottery achieves high sales levels with major jackpots, particularly for Powerball and Mega Millions, the Lottery needs to have funds appropriated to pay those prizes.
- Lottery requested twelve new lottery sales reps due to the fact that there are 184 retailers per serviceperson and this will bring the average down to about 140 retailers per serviceperson.
- The increase in retirement costs is related to changes in retirement benefits.
- The Lottery budgeted \$1.5 million for legal expenses primarily related to potential legal issues dealing with the Private Management Agreement. For fiscal year 13, Lottery used \$500,000 for legal services and had \$500,000 on reserve. In the House appropriation hearing it was noted that the total increase is about 18 percent.

Board member Christian asked how much additional revenue each new lottery sales representative would generate.

Deputy Superintendent, Victor Golden, responded that the Lottery expects each territory to average about \$45 million in total sales. CFO, Jim Scroggins, added that additional reps will be needed if big sellers are going to be visited several times a week as opposed to once a week.

Lottery Sales Representatives are State employees which Northstar manages. There is an Employee User Agreement between the Lottery permitting Northstar to manage these employees while the State is responsible for their evaluations, approving time off, and disciplining.

Legislative/Sara Barnett: Sara Barnett, Chief of Staff is giving the legislative report since the Lottery's legislative liaison, Jen Acker, was unavailable.

- Senate Bill 2197 is a clean-up bill sponsored by Senator Muñoz to change the Superintendent's title to Director.
- Other legislative changes in SB 2197 are related to Lottery's transition out of the Department of Revenue. It also clarifies the role of the Lottery Control Board in terms of reviewing advertising and marketing.
- The MS Society approached the Lottery about adding an amendment to SB 2197 to change the scope of how they issue grants from the MS ticket. It should pass out of committee today.
- Senate Bill 1955, sponsored by Senator Link, is the expansion of the Internet lottery test to include all draw based games. Language was kept vague so that it could include any new draw based game that could be created as well as raffles.
- Illinois Retail Merchants Association has added an amendment to SB1955, requiring the Internet Lottery Study Committee to publish its report prior to the addition of any new internet based products. Jen Acker is working today to get some House sponsors.
- House Bill 311 is a bill allowing the Lottery to hold raffles benefitting specialty cause funds. Unfortunately this bill is going to be held in the Rules committee and we will probably have to revisit the proposal during the veto session or next spring. We are tracking a third party initiative to create a new instant ticket that benefits local charities. It is a grant fund to be administered by the Attorney General's office.

Board member Sharon Thompson asked about opposition to HB 311.

Sara Barnett responded that some legislators perceived the bill as taking money out of the Capital Projects Fund.

Superintendent Jones went on to explain that it seemed illogical to only allow the special cause games to be supported by an instant game only. It requires a tremendous amount of expense up front and it requires months of planning because millions of instant tickets that must be ordered and distributed to 8200 retailers.

Discussion

Board member Richards asked about the report on the audit that was being conducted by KPMG for the Office of the Inspector General. Shelly Banks, Chief Internal Auditor, stated that they are still working on it and as of yet, there was not a date set on when final report would be out.

Lottery Board Chairman Fencik and Board member Richards requested that bylaws be developed to state the responsibilities of the Lottery Control Board. The Board stressed that they would like a general understanding of their advisory nature to ensure that they do all they can to support the Superintendent in his role and empower the Lottery staff.

Jim Scroggins suggested that the Lottery look at the bylaws from the Oklahoma lottery.

Superintendent Jones stated that he agrees and believes the board needs guidance and should be as active as they want to be. He stated that the Lottery wants to be communicative about what is happening in the industry and make sure the board receives sufficient information. The Illinois Lottery Control Board's role is also critical in terms of supporting the Superintendent in managing the private manager. The Superintendent acknowledged the board's great business backgrounds, and invited the members to assist in forming these bylaws.

OTHER BUSINESS

- Board Member Geoff Richards asked if it is possible to have Marco Tasso, Northstar's CEO, give a presentation on the new business plan with an opportunity for the board to ask questions and discuss. The other board members agreed to hold a special meeting with Marco Tasso.

ADJOURNMENT

Chairman Fencik recommended the motion to move to a closed session to discuss potential litigation with the Lottery's private manager on the current net income dispute. Board member Geoff Richards seconded the motion and the Chairman conducted a roll call. The board voted unanimously in favor and the open meeting adjourned at 12:15pm.

Respectfully submitted,

Lottery Control Board Secretary
Nora Iniguez