

Lottery Control Board
Regular Session Minutes
August 07, 2013
122 South Michigan, 19th floor, Chicago, IL 60603
130 W. Mason St., #104, Springfield, IL 62702

On Wednesday August 07, 2013, at 10:30am, a regular meeting of the Lottery Control Board was held at 122 South Michigan, 19th Floor, Chicago, Il 60603, and at the Training Room in Springfield, Il 62702. Video and teleconferencing were available to join the meeting attendees.

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

CALL TO ORDER

Chairman Fencik called the meeting to order with a quorum present at 10:30 am. Additional attendees were: Lottery Staff (Chicago)- Michael Jones, *Superintendent*, Victor Golden, *Deputy Superintendent*, Sara Barnett, *Chief of Staff*, Daymon Rutenberg, *General Counsel*, Jen Acker, *Deputy Chief of Staff*, Nora Iniguez, *Lottery Control Board Secretary*. Lottery Staff (Springfield)- Harold Mays, *Chief Operation & Technology Officer*, Melinda Westwater, *Chief Internal Auditor*, Brett Finley, *Finance Manager*, Tiffany Blair, *Budget Manager*, Mike Lang, *Media & Player Relations*.

Other attendees: (Chicago)J. Liebman and E. Macey, *Novack & Macey, LLP*, Kathy Gilroy, *public citizen*, (teleconference)Matt Wallberg, *Chicago Tribune*, Paul Marion, *Crain's Chicago Business*, (Springfield)Anita Bedell, *IL Church Action on Alcohol & Addiction Problems*.

APPROVAL OF MINUTES

Chairman Fencik moved for the Board to approve the open session minutes of its regular meeting on 04/17/2013. Sharon Thompson seconded the motion and the Board approved the motion unanimously by roll call vote.

OLD BUSINESS

- Superintendent Jones recaps FY13 by saying it was a good year. The Lottery had record sales and profits, transferring \$793.5 million dollars to schools, roads and bridges, and other important causes. Our brand transformation has done very well and, according to the tracking study, we are becoming visible and relevant.
- The private manager, Northstar Lottery Group, did not reach its sales goal, but Lottery is working diligently with Marco Tasso and Francesco Parola and their respective teams to reach their intended sales goals.
- The FY12 net income calculation has been finalized; however, the private manager disputes the figure. The Lottery will capture \$21.7 million dollars based on the private manager's net income shortfall in FY12.
- Lottery will capture the net income shortfall payment from the management fees paid to private manager (which consists of Scientific Games and GTECH). The Lottery will

insist on full payments to Northstar subcontractors, advertising agencies, and media outlets.

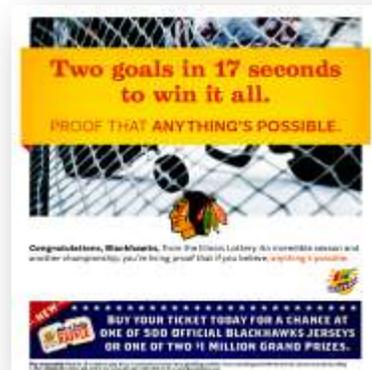
Chairman Fencik asked how long the legal process will take in terms of resolving the net income dispute. General Counsel, Daymon Rutenberg, responded that it is a three step process which includes mediation, and the Lottery, the private manager, and outside counsel are in the process of selecting a mediator. The last step would be court of claims.

NEW BUSINESS

Superintendent's Report/Michael Jones:

- **4th of July Millionaire Raffle** –The cost was lowered from \$20 to \$10 and there were 4 weekly drawings for half a million dollars with a final grand prize of \$1 million.
- Since the raffle coincided with the exciting Blackhawks championship series, Marco Tasso, CEO of Northstar, decided to include some Chicago Blackhawks official game jerseys as part of the incentive to purchase a ticket.

Although the raffle did not sell out, it was a well-executed first time attempt of doing something different from our previous Halloween and St. Patrick's Day raffles where the \$20 wager can be a barrier to play. **Board member R. Christian** congratulated Lottery on job well done with this raffle.



- **Lucky Day Lotto** went from being drawn once perday in the evening to twice per day, with the addition of a midday draw. Draw times are at 12:40pm & 9:22pm. Cost remains at \$1.
- **Lotto** changed significantly, moving the drawing from Wednesday to Thursday, making draw days on Monday, Thursday, and Saturday. It also added a new “match two” prize paying \$1 and changed the “match three” prize payout to \$5 from \$3. One game now costs \$1 for one play as opposed to \$1 for two plays.

- **Pick 3 and Pick 4 plus Fireball-** adding Fireball to your Pick 3 or Pick 4 purchase gives you a chance to get an extra number drawn and improve your chances to match a winning combination and turn your ticket into a winner. Cost is equivalent to the player's original base wager. This is an enhancement of our popular online games that account for approximately 48 percent of our online sales.

EXAMPLE: you choose a \$.50 base wager, and select a straight play style

WITHOUT FIREBALL:	WITH FIREBALL:
player numbers (2) (5) (3)	player numbers (2) (5) (3)
winning combination drawn is (1) (5) (3)	winning combination drawn is (1) (5) (3)
RESULT: this is not a winning combination, please play again.	RESULT: you win \$250 if you can make one of the possible winning combinations!

- **Spread The Word**, our specialty game benefiting HIV/AIDS, has 2.3 million tickets in market---with 473,000 sold. It launched on 06/04/2013, and has generated a total contribution of \$4,812,810 to HIV/AIDS causes since the game began.

- **Ticket For The Cure**, our specialty game benefiting breast cancer awareness, education and research will launch on 09/03/2013. The total contribution to breast cancer causes since the initial launch of the ticket has been \$9,856,065.



Board members, Fencik and Christian asked about last year’s sales and if Lottery would be participating with the Susan G. Komen walk/run. Deputy Superintendent, Victor Golden responded that total sales for the four specialty tickets have been over \$32 million. Superintendent Jones commented that we are trying to get the groups that benefit from these games to help promote the game with their own members and supporters. Northstar and its advertising agency were urged to reach out to third parties to co-promote. Last fall some major consumer goods companies like Dick’s Sporting Goods did creative, within business promotions for breast cancer and veterans causes. This is something the Lottery has urged Northstar to become involved in.

Sales/Victor Golden: **Fencik** and Superintendent Jones questioned how we performed compared to other state lotteries. The following graphs depict sales comparisons from FY13 versus FY12. The sales figures are actual; the charts do not depict the private manager’s sales goals.

FY13 vs. FY12

Year	Instant Sales	Online Sales	Total Sales
2013	\$1,768,382,182	\$1,072,960,351	\$2,841,342,533
2012	\$1,624,593,276	\$1,055,808,264	\$2,680,401,540
Inc/Dec.	\$143,788,906	\$17,152,087	\$160,940,993
Increase Over prior year	8.85%	1.62%	6.00%

FY14 July vs. FY13 July

July	Instant Sales	Online Sales	Total Sales
2014	\$139,602,092	\$80,625,562	\$220,227,654
2013	\$134,276,428	\$78,447,419	\$212,723,847
Inc/Dec.	\$5,325,664	\$2,178,143	\$7,503,807
Increase Over prior year	3.97%	2.78%	3.53%

These sales figures are from the first month of the 2014 fiscal year versus the first month of last fiscal year. At this early point, and based on last year's profits at this time, the private manager is missing its projections by 26.7 percent.

- Private Manager's FY14 Business Plan:
 - One of the game enhancements in Northstar's new business plan, which is an extension to Lucky Day Lotto, is a Keno style game to be sold in bars and taverns. According to the Quinn administration it is not legal and not good public policy, so the Lottery denied the game extension, resulting in another downward adjustment situation between the private manager and Lottery.
 - Keno is a game mostly played in casinos and consists of frequent drawings, high odds, and a low cost to play.

- Northstar Lottery Group has asked for a downward adjustment of \$556 million, promised to the state over five fiscal years--FY14 to FY18. There is no background as to how they came up with that specified dollar amount.

Chairman Fencik asked if the private manager responded to the request from the Board members to have someone from Northstar Lottery Group present its business plan. General Counsel Daymon Ruttenberg stated that the request had been made, and would be made again, but that the private manager has marked its business plan as confidential and the only way they could present it during an open meeting would be to waive the confidentiality. The private manager determines what is confidential, thereby limiting what Lottery can be present to the Board today. **Board member Richards** stated that an invitation is appropriate and necessary since Northstar is the architect of this business plan and would allow the Board Members to further understand both the plan and the requested downward adjustment of more than half a billion dollars.

Operations & Technology Update/Harold Mays: Below are areas of concentration from Lottery's operations and technology.

Operations and Technology 2013 Focus Area Updates

Lottery Support and Priority Initiatives

- Deconsolidation from REV (IT Systems, Office Moves, Processes/Procedures)
- Supported the rollout of 3 significant game enhancements, Lucky Day Lotto, Lotto and P3/P4
- Successfully negotiated a new drawing broadcast contract with WGN
- Initiated first phase of the transition to automated drawings, improving our ability to implement new game concepts
- Upgraded computers and productivity software

Audit & Finance/Melinda Westwater: Melinda Westwater was formerly the CFO of the A&R Shared Services Center---a division within the Department of Revenue that handles the accounting and reporting activities for seven state agencies, including the Department of Lottery. As such, Melinda oversaw the Lottery's FY12 audit as it pertained to items that Shared Services helped account for. She has an MBA and CPA and has previously worked as the Director of Finance in both governmental and manufacturing sectors.

- Finalization of FY12 audit was a very lengthy and difficult process due to staffing turnovers and vacancies both at Shared Services and Lottery, as well as the new PMA with Northstar Lottery Group, which brought new computer systems with reports and data presented in different ways that had to be reviewed, identified, adjusted and reconciled.
- FY13 will have a financial and compliance audit by the OAG. Compliance audits are only done every two years while financial audits are done annually.
- Superintendent Jones commented that the methodology for calculating net income has been established which, along with Lottery's experience from this fiscal year, will facilitate Lottery in creating financial reports in a timely fashion going forward. He also noted that Lottery is now more familiar with and thus better equipped to get data reports from the new Northstar system.
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Legislative/Jen Acker:

- Clean-Up Bill that makes several technical changes, a) changing Michael Jones' title from Superintendent to Director, b) change evidentiary burden to help in the administrative hearings, c) change to the advertising policy to guide Board members in reviewing advertising according to what law states, d) allowing MS Society to make grants for prevention research. This passed both houses unanimously and should be signed by the Governor by August 18, 2013.
- 2nd initiative to add more draw games to our Internet Pilot Program passed the Senate but met with some concern in the House and did not get voted on.
- 3rd initiative concerns our specialty funds and finding other ways to support these causes besides having a scratch off ticket. This did not get voted on in either house.
- Other specialty tickets were proposed by various legislators but none passed. Looking ahead for next session consists of outreach planning, meeting and relationship building with legislators, presence at state fairs, and meeting with legislators to explain why Lottery's initiatives are important for Lottery business.

Board member Sharon Thompson asked if it is possible for the Board to have a presence in Springfield and possibly meet with legislators there. This would also allow the Board to meet Springfield Lottery staff. Superintendent Jones and Chief of Staff Barnett both agreed that it would be a great idea and will take into consideration.

Legal/Jen Acker for Tracy Jacobson: Jen Acker gave a brief description of a case on appeal in which the Board must make a recommendation to agree with the administrative law judge or find for the claimant about a debt owed by a lottery retailer. The Board decided to follow up with Deputy General Counsel, Tracy Jacobson, for additional information on some unresolved questions. The Board unanimously voted to wait until next meeting to take a vote.

Legal/Daymon Ruttenberg: The downward adjustment letter that Northstar submitted last month, that related to Lucky Day Lotto, is one of five adjustment letters pending. Lottery is in the process of hiring a new third party professional to adjudicate adjustments both up and down. There are two in both FY12 and FY13. Both sides are interested in moving forward and resolving this quickly. There is no estimate that can be given on the time frame.

Chairman Fencik asked the Board members if they want more detailed information on the disputes with the private manager, which would require going into a closed session or if they should wait for the next meeting, at which point we will know more. The **board voted unanimously** to wait until next meeting.

OTHER BUSINESS

Illinois Lottery BYLAWS/Board Member Geoff Richards: Board member Richards thanks the Lottery administration for allowing him to assist in creating bylaws. He indicated that the bylaws were created by looking at what other states and other jurisdictions have done. He told members that these bylaws give clear directions on how current and subsequent board members are to fulfill their duties and obligations to the Lottery director and to the Lottery itself. The bylaws help Board members know what their roles are and enable good governance. Bylaws are distributed to the Board members for review and to vote on next session.

Chairman Fencik thanks the Lottery for the creation of these bylaws.

A draft of the IL Lottery advertising policy is distributed for the board to review and vote on in the next meeting. It outlines the standards by which the Lottery and its private manager shall conduct advertising.

Board member Richards suggests verbiage change on “content and tone” section of policy.

Public Comments:

- Kathy Gilroy, public citizen, addresses the Board on some items she believes have violated the Lottery Law: 1.) She states that there has not been quarterly presentations of advertising campaigns for the last two years; 2.) The rescheduled meeting date and time of this Board meeting was not listed on the website in a timely manner; 3.) Certain Point of Sale items did not include a statement in print regarding assistance with gambling problems. She points out that there are new online gambling sites, such as Gamehouse Casino Plus and hooterspokeronline.com that are operating online in Illinois. Ms. Gilroy would like to see a report on the number of people who have signed up for the Lottery’s self-exclusion program and would like recordings of the Lottery Control Board meetings to be available on the website.
- Eric Macey, Novack & Macey, are outside counsel for Northstar Lottery Group. They stated that they will relay to Northstar the request for Northstar to address the Board and will try to get answers to any questions. In regards to the advertising policy, Northstar received it yesterday and was not asked to make comments on it, but would like to provide comment. Mr. Macey discussed the definition of Keno from an IL Attorney General opinion on the legality of Keno under the IL Lottery Law, which distinguished lottery games and policy games. Policy game: like Keno, all players and the house take a risk of loss. Lottery game: the house never takes risk that it will lose. In Keno, the state would become a participant in the process and could possibly lose money as it guarantees payout. In conclusion, he does not believe that the Lucky Day Lotto extension is a form of keno as defined by the Attorney General’s office because there is no risk to the state.

Board member Thompson suggests an amendment to the agenda to allow public comments at the early part of meeting to provide the Board the opportunity to take into consideration what the public says before the Board votes on something. She would also like to move meetings an hour earlier, from 10:30am to 9:30am. Board members approve to move the following meeting to 9:30am.

Board member Richards asked if Ms. Gilroy's comments will be addressed at the beginning of the next meeting and Superintendent Jones states that they will. A copy of Ms. Gilroy's statement will be emailed to the board members for review.

Chairman Fencik moves to adjourn meeting, board member Sharon Thompson seconded the motion. Meeting adjourned at 12:05pm.

Respectfully submitted,
Lottery Control Board Secretary
Nora Iniguez