



QUARTERLY REPORT ON THE PRIVATE MANAGEMENT AGREEMENT

Quarter 4 (April 1, 2020 – June 30, 2020)

Submitted September 22, 2020

(20 ILCS 1605/9.1)

Respectfully submitted to:

Illinois Governor JB Pritzker
Senate President Don Harmon
Senate Republican Leader William E. Brady
House Speaker Michael J. Madigan
House Republican Leader Jim Durkin

The Illinois Lottery – Private Management Current Status

Quarter 4 began immediately following the shelter-in-place order issued by the Governor due to the COVID-19 pandemic to close quarter 3. Camelot revised and resubmitted the modified FY20 Business Plan (“Plan”) the Department requested in quarter 2 that was pending approval in quarter 3. The revised Plan attempted to address the performance issues experienced through the first three quarters of the year as well as the uncertainty caused by the COVID-19 pandemic. The uncertainty was reflected in new targets for operating revenue and income in the Plan being conservatively set at \$2.610 billion and \$618 million respectively. These new targets were less than Camelot’s original FY20 business plan by 20.8% for revenue and 22.3% for operating income.

During the first 6 weeks of the stay at home order, the Department saw depressed sales due to the COVID-19 pandemic. Average weekly sales were approximately \$6 million less than the first 37 weeks of the year. However, average weekly sales for the last 9 weeks of the fiscal year outperformed the first 37 weeks by approximately \$9 million. This late year performance all but negated the initial depressed sales that were experienced during the first 6 weeks of the shelter-in-place order. The performance enabled the Department to end FY20 with an estimated operating revenue of \$2.848 billion and an estimated operating income of \$696 million, which is 9.1% and 12.6% above Camelot’s FY20 Modified Plan targets. Although Camelot achieved their FY20 Modified Plan targets for operating revenue and operating income, the minimum net income target (operating income) of \$744 million per the private management agreement was not met.

The Department estimates that it will transfer a total of \$689 million to the Common School Fund, which is approximately \$57 million less (~7.6%) than the FY20 Common School Fund obligation. At this time, the Department is currently closing out FY20 and final numbers for operating revenue and operating income may differ from what is stated here.

The Department expects the uncertainty brought on by the pandemic to have a financial and operational impact on the Department for some time. The Department and Camelot will continue to monitor the situation and make the appropriate adjustments to sustain and grow the business. Camelot’s final Updated Annual FY21 Business Plan was submitted to the Department on Sept 3rd, which is currently under review.

Overall Sales and Transfers to Good Causes

Below are the FY20 Q4 sales and transfers to good causes:

| FY20 | Operating Revenue | Transfers to Common School Fund | Transfers to Capital Projects Fund | Transfers to Special Causes |
|--------------|--------------------------|--|---|------------------------------------|
| Q1 | \$672.9 million | \$159.4 million | \$18.5 million* | \$0.63 million |
| Q2 | \$686.8 million | \$156.3 million | - | \$2.25 million |
| Q3 | \$692.7 million | \$144.6 million | - | \$2.47 million |
| Q4 | \$796.1 million | \$229.2 million | - | \$1.32 million |
| Total | \$2,847.5 billion | \$689.5 million** | \$18.5 million | \$6.67 million |

*-Transfer made in FY20 Q1 after true-up of FY19

**-Transfers to the Common School Fund (CSF) are made based upon net income available to transfer. The Department has yet to finalize FY20

Specialty Cause Detail

| Specialty Ticket Cause | FY20 Transfers thru Q4 |
|-------------------------------|-------------------------------|
| Veterans | \$1,413,339 |
| Ticket for the Cure | \$413,351 |
| The MS Project | \$357,104 |
| Red Ribbon Cash | \$526,979 |
| Special Olympics | \$1,520,707 |
| Police Memorials | \$1,256,247 |
| Homelessness Prevention | \$1,183,684 |

iLottery Program

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 included a sunset of July 1, 2017. That sunset date was extended to July 1, 2018. The sunset date was again extended by a year – to July 1, 2019 – under PA 100-0587. HB 3661 passed the Legislature in Spring 2019 and was signed by Gov. JB Pritzker on June 28, 2019. The bill extends the iLottery program by three years - through 2022 - and allows the Lottery to offer Lucky Day Lotto, Pick 3, and Pick 4 through the internet program without a subscription.

| FY20 | Internet Sales | Subscription Sales | Total iLottery Sales |
|-------------|-----------------------|---------------------------|-----------------------------|
| Q1 | \$8,526,940 | \$4,129,433 | \$12,656,373 |
| Q2 | \$14,246,420 | \$3,092,374 | \$17,338,794 |
| Q3 | \$17,851,203 | \$3,120,842 | \$20,972,045 |
| Q4 | \$31,611,834 | \$3,645,372 | \$35,257,207 |
| Total | \$72,236,397 | \$13,988,021 | \$86,224,419 |

Responsible Gaming

In Q4, the Illinois Lottery focused its efforts on reviewing policies and procedures to support its responsible gaming program. The Marketing Code of Conduct was clarified to ensure that the Lottery was able to use relevant and appropriate imagery when communicating the impact of lottery funding on educational and good causes. Additionally, two policies and procedures were modified to more formally document responsible gaming expectations and to outline how all instant and draw based games will be rated prior to release to the consumer. The newly created policies are:

Responsible Gaming Policy: The purpose of this policy is to highlight both the obligations and commitments of the Lottery to conduct its business in a socially responsible manner by promoting a healthy approach to gambling by players and, when required, supporting those who may experience difficulties with their gambling. The policy has four main objectives:

- Protecting vulnerable groups, including minors under the age of 18 and individuals that demonstrate problem gambling behaviors;
- Promoting responsible gambling and positive play by educating players about gambling and how to manage risks;
- Supporting players who seek information and assistance by limiting their gambling activities; and

- Protecting player safety, which is at the core of the design, development and distribution of lottery products.

Gamgard Evaluation Process: The purpose of this policy is to outline the process for evaluating how risky a proposed game is likely to be for a vulnerable player. The Illinois Lottery utilizes an external game evaluation tool called Gamgard to identify and address any risky elements of a game prior to its launch. The policy articulates the Lottery's commitment to delivering games in a responsible way, by rating all games with the Gamgard tool and addressing games that have an elevated risk, prior to being launched.

The Illinois Lottery is proud of its responsible gaming program and is committed to reviewing and updating its policies on an annual basis.

BEP Spending

The Private Management Agreement encourages Camelot Illinois to maintain a goal that at least 20 percent of the spend in marketing, advertising, and shipping/freight be awarded businesses that are minority owned businesses.

For FY20, the total budgeted spend by Camelot in these areas is \$45,200,000, resulting in a BEP goal of \$9,040,000 for FY20. Camelot's BEP spend in Q4 was \$2,732,506. The total for FY20 is \$16,091,338 or 178% of the FY20 goal.