

ILLINOIS LOTTERY
AMENDED REQUEST FOR INFORMATION
October 7, 2015

The State of Illinois, acting through the Illinois Department of the Lottery (the “Lottery” or “State”), is publishing this Request for Information (“RFI”) as a first step in engaging a new private manager of the Lottery. This RFI seeks to initiate open and transparent dialogue with market participants interested in partnering with the Lottery as a potential private manager for lottery operations. It is not the Lottery’s intent to select a vendor or a partner to operate the Lottery through this RFI. Rather, the responses to this RFI will assist the Lottery in shaping its request for proposals (“RFP”) for a private partner that will serve as manager of lottery operations under the oversight of the State. This RFI will gather market information and industry perspective for the Lottery to consider in preparation for a formal RFP process.

Purpose of RFI

The State is seeking a private partner fundamentally focused on overall profitability for the State and that is prepared to maintain a fair balance between robust sales growth and reasonable expense management. This new public/private partnership will incorporate a compensation and incentive structure that aligns the goals of both parties. This RFI invites discussion about various types of compensation and incentive options consistent with this alignment. The State is not interested in specific compensation information with respect to your entity.

In addition, responses should offer innovative ways to increase and, more importantly, broaden playership with new games and new software platforms. The State believes this goal can be achieved through innovative marketing and technology and new modes of delivery. To this end, the State desires a partner that will work seamlessly with the Lottery, recognize the Lottery’s and the manager’s obligations under the Lottery Law (20 ILCS 1600 et. seq.) and cooperate with the Lottery to comply with those obligations. Any response to this RFI should acknowledge this important requirement. Responses from this RFI process will be used to craft an RFP that attracts participants that can show success in providing the innovation and agility of the private sector to increase profits, while remaining sensitive and responsive to public needs and concerns.

The Lottery intends to undertake fully transparent RFI and RFP processes pursuant to the Illinois Procurement Code (30 ILCS 500 et. seq.) and the Lottery Law. These processes will remain open to various structures and relationships among the Lottery, managers, operators and vendors, among others. All content of every RFI response will be considered.

Pursuant to the Illinois Procurement Code (30 ILCS 500/50-10.5 (e)) “No person or business shall bid or enter into a contract under this Code if the person or business assisted an employee of the State of Illinois, who, by nature of his or her duties, has the authority to

participate personally and substantially in the decision to award a State contract, by reviewing, drafting, directing, or preparing any invitation for bids, a request for proposal, or request for information or provided similar assistance except as part of a publicly issued opportunity to review drafts of all or part of these documents.”

Background

The potential for growth of Lottery profitability and revenue is significant. Illinois ranks fifth among the 50 states in both population and State GDP. The State has 12.9 million residents and a State GDP of more than \$680 billion. The State’s largest city, Chicago, ranks third in population in the United States, with a population of more than 9.7 million within its metropolitan area. Illinois ranks 18th among the 50 states in household income, with an average of more than \$54,916 per household. Despite these promising demographics, however, the Lottery’s per capita sales are below those of other similarly-situated states with public lotteries.

The Lottery generated almost \$3 billion in sales during the State fiscal year that ended June 30, 2015. For the first time in the history of the Illinois Lottery, revenue decreased in FY 14 and is still below FY 13 levels. From FY 2009-2015, the Lottery experienced the following revenue and net proceeds:

| Fiscal Year End | Revenue | Net Proceeds |
|-----------------|-----------------|---------------|
| 2009 | \$2,082,039,000 | \$638,373,000 |
| 2010 | \$2,196,315,000 | \$652,121,000 |
| 2011 | \$2,269,675,000 | \$668,288,000 |
| 2012 | \$2,682,374,000 | \$778,672,000 |
| 2013 | \$2,902,358,000 | \$795,399,000 |
| 2014 | \$2,842,507,000 | \$771,909,000 |
| 2015 | \$2,830,559,000 | \$690,342,000 |

The Illinois Lottery Law requires that Lottery transfer its profits to the State’s Common School Fund. The amount was established by the Lottery Law and increases each year by CPI. In FY 15, the amount was \$690,342,000. The Lottery’s contribution accounted for approximately 9% of the State’s annual contribution to the education fund in FY 14 and FY 15.

In addition to the Common School Fund, the Lottery benefits the Capital Projects Fund, which is designated for building roads, bike trails and other infrastructure. Lottery proceeds also support special causes such as breast cancer research, Veterans’ programs, HIV/AIDS awareness and research, multiple sclerosis research, and the Special Olympics. In addition to the social impact resulting from the Lottery’s promotional support of these special causes, the concomitant brand awareness accompanying its alliance with these popular and universal brands is significant. Although Illinois law currently requires a majority of the Lottery proceeds to go to the State’s Common School Fund, with limited proceeds going to other causes, the Lottery welcomes strategic dialogue regarding the best way to optimize its approach to specialty causes and games.

In 2009, the Illinois Legislature expressed its intent for the Lottery to improve its positioning through market responsiveness and innovation by passing legislation requiring the State to seek a private manager for the Lottery. Consequently, the Lottery engaged its first private manager pursuant to the process outlined in Section 9.1 of the Illinois Lottery Law (20 ILCS 1605/9.1). The winning bidder was Northstar Lottery Group, LLC (“Northstar”), a consortium comprising the Lottery’s then-current supply vendors, GTECH Corporation (“GTECH”) and Scientific Games International, Inc. (“Scientific Games”). GTECH and Scientific Games were suppliers of the State’s lottery terminals and instant tickets respectively. The Lottery entered into a private management agreement with Northstar on January 18, 2011 (the “PMA”) and Northstar entered into supply agreements with GTECH and Scientific Games (together, the “Current Supply Agreements”). As of the date of this RFI, Northstar, GTECH and Scientific Games are still providing lottery services to the State.

The Lottery has continued to consider and evaluate the structure of private management models in the industry, both within and outside of the United States. Consequently, the State has determined that it is necessary to re-conceptualize its public/private partnership model with respect to a lottery manager. It is the intent of the Lottery to aggressively accelerate its course forward by pursuing more robust profit margins, enabling the organization to better support its statutorily prescribed financial obligations to the State’s Common School Fund and other funds. This course necessitates a partnership more focused on a comprehensive approach to revenue growth and expense management. The Lottery’s new public/private partnership, then, will have as its fundamental expectation a management approach that is inclusive of all operational functions, not just a narrow focus on sales and vendor commission without regard for the Lottery’s profitability. In this model, the State will retain actual control and oversight over the Lottery as mandated by state and federal law, with input and assistance from its private partner.

The Lottery, Northstar, GTECH and Scientific Games have entered into a letter agreement of termination which settled the parties’ differences fairly and equitably (the “Letter Agreement”). The Lottery executed the Letter Agreement to remove any potential obstacles to the initiation of the RFP process or the engagement of a replacement manager. As part of the settlement, the parties have agreed to retain the Current Supply Agreements at discounted rates through June 30, 2017. The parties expect this extension of the Current Supply Agreements to provide sufficient time for the Lottery to oversee a thorough RFP process, to select a new private partner and to facilitate the operational transition to the replacement manager and, if necessary, replacement suppliers, in a way that will prevent service disruption for Lottery customers.

Lottery Opportunity

The Lottery believes the right private partner will be poised to take advantage of the many opportunities listed below:

- The Illinois Lottery has approximately 8,000 retailers, equally distributed by population – most are veteran retailers with loyal player bases and of every conceivable trade style.
- The Lottery has a massively underutilized iLottery capability selling bloc lotto games, lotto and subscriptions.
- The Lottery believes that the opportunity exists to attract a much broader lottery audience.

Transaction Goals

The new partner selected through the RFP process would enter into a private management agreement with the Lottery that addresses at a minimum, the following needs identified by the Lottery. In response to this RFI, please provide a brief overview of potential options, strategies, current market trends, and best practices related to the subjects/services listed below.

- Increased profitability;
- Ensuring the Lottery operates in an ethical and socially responsible manner, including addressing the State's concern with the effects of gambling on those who can least afford it;
- Broadened lottery player base through marketing and/or other initiatives to new, infrequent and lapsed players;
- Implementation of cutting-edge technology, including Internet gaming;
- Creation of new games with new platforms and methods of delivery;
- Compensation structure for the replacement manager that rewards increased lottery profits and diversification of lottery playership, demographically and geographically;
- Improved brand identity and image; and
- Improved supply chain.

RFI Process

Respondents to this RFI will be provided instructions concerning next steps, which may include:

- Meetings with Lottery representatives and its advisors;
- Opportunity for respondents to provide feedback concerning their views on how to best structure the private management transaction to maximize the value for the parties.

Respondents should respond generally to this RFI, but be prepared to discuss with the Lottery in a subsequent call or interview, the following:

- What barriers exist, in your view, to the Lottery achieving its transaction goals and what solutions would you recommend for alleviating those barriers?
- What possible opportunities exist for cost savings in the operation of the Lottery?

The Lottery reserves its right to amend or terminate this RFI process. In addition, the Lottery may postpone the date on which responses are to be submitted or take any other action that it deems to be in its best interest. The Lottery is not responsible for and will not pay for any costs associated with your submission.

RFI COMMUNICATION

This RFI is open to all interested parties. Interested parties that anticipate responding to this RFI should indicate their intention as soon as possible by providing the contact information for the respondent (the “Respondent Contact”) via email to the Lottery employee (“Lottery Contact”) listed below:

Amy De Weese
Chief Internal Auditor
Illinois Department of the Lottery
122 S. Michigan Ave., 19th Floor
Chicago, Illinois 60603
Telephone: (217) 524-5192
Amy.deweese@illinois.gov

All questions or requests for information regarding this RFI should be directed only to the Lottery Contact listed above. If any respondent communicates with or attempts to communicate with any Lottery personnel or advisor other than the Lottery Contact listed above regarding this RFI process, the RFP process or the management opportunity in general, such respondent may be disqualified from the RFI and RFP process.

RFI SUBMISSION INSTRUCTION AND NEXT STEPS

All information submitted in response to this RFI will be subject to public review. The total submission should not exceed 10 pages. Respondents may reply by providing (i) 3 hard copies and (ii) one electronic copy of the RFI submission to the Lottery Contact at the address above no later than 4:00 p.m. Central Standard Time, Wednesday, October 28, 2015.

Receipt of each submission will be acknowledged to the Respondent Contact by e-mail. Meetings with the representatives of the Lottery may be scheduled the week of Monday, November 2, 2015.