



QUARTERLY REPORT ON THE PRIVATE MANAGEMENT AGREEMENT

*Fiscal Year 2023 Quarter 1 (July 1, 2022 – September 30, 2022)
(20 ILCS 1605/9.1)*

Respectfully submitted to:

**Illinois Governor JB Pritzker
Senate President Don Harmon
Senate Republican Leader Dan McConchie
House Speaker Emanuel "Chris" Welch
House Republican Leader Tony McCombie**

The Illinois Lottery – Private Management Current Status

In FY23, Camelot Illinois' ("Camelot") approved annual business plan ("Plan") projected an Operating Revenue of \$3.507 billion and an Operating Income of \$822 million. The FY23 Plan Operating Revenue is a 3.2% increase from the \$3.399 billion generated in FY22. The Operating Income projection is a 1.4% decrease from the \$833.6 million earned in FY22 and is reflective of an anticipated softening of lower prize payout games in FY23.

Q1 FY23 Operating Revenue was \$873.6 million, which was 1.5% higher than the Q1 FY22 Operating Revenue of \$861.1 million and 2.9% higher than the Q1 FY23 Plan target of \$849.4 million. Q1 FY23 Operating Income was \$214.7 million, which was 1.3% higher than the Q1 FY22 Operating Income of \$212.0 million and 8.1% higher than the Plan target of \$198.6 million. Operating Revenue and Operating Income are up from Q1 FY22 and Q1 FY23 Plan in part due to the sales generated by the Mega Millions \$1.337 billion dollar jackpot that was won in Illinois on July 29th. The multi-state games are the biggest contributors, as a percentage of sales, to the bottom line.

Q1 FY23 Instant sales lagged both Q1 FY22 and Q1 FY23 Plan. In October, Holiday instant tickets will be launched and are expected to perform well. The Department and Camelot are continuing to monitor and analyze instant ticket sales closely. It should be noted that lotteries across the country are also seeing a softening in their instant ticket sales.

Q1 FY23 iLottery sales were almost \$104 million, which is a 117% increase over Q1 FY22 sales and 10% over Q1 FY23 Plan. Fast Play Online's inaugural launch came after Q1 FY22 which accounts for the huge delta between Q1 FY22 and Q1 FY23 iLottery sales.

Contributions to the Common School Fund in Q1 FY23 were \$150 million, down 9.1% from Q1 FY22 contributions of \$165.0 million. As a result of a finding in the Department's FY21 Financial Audit, performed by the Office of the Auditor General, the Department is responsible for reconciling historical excess proceed transfers between the Common School Fund, State Lottery Fund and Capital Projects Fund for periods prior to 2010 and again in 2018. Common School Fund transfers are down from the same period in FY22 because of this reconciliation in accordance with 20 ILCS 1605/9.2.

The Department is currently working with the Camelot to improve the retail estate and the support the Lottery provides to retailers. The Department launched a new route management system called GEM Intelligence in Q1 FY23 which will allow sales staff to better service our retailers. GEM also provides additional reporting capabilities for inventory and sales performance that can be utilized during sales' visits and retail inquiries.

In July 2022, a new creative agency for the Illinois Lottery, Dentsu Creative, was chosen through a bid process. OKRP, the current creative agency, has begun transitioning off of Lottery work. The H1 FY23 (Q1 and Q2) paid media plan shows robust support of Instants and Fast Play in retail with POS. The Price is Right ticket launched on August 2nd. iLottery gained marketing investment

this quarter utilizing Fast Play online to drive registrations and increased play among current iLottery players. The Illinois Lottery hosted in person booths/events at both the Taste of Chicago in July and the Illinois State Fair in August.

In Q1 FY23 the lottery completed a matched market test to determine the effectiveness of Point-of-Sale (POS) advertising in Lottery retailers. The test focused on where and how POS shows up in stores rather than solely its effectiveness. The lottery is continuing its partnerships with the Chicago Sky and Chicago White Sox during their seasons with both digital and in-stadium/arena assets. The Lottery is participating in Powerball’s First Millionaire of the Year sweepstakes once again. The sweepstakes ran throughout the month of July and participation has tripled from the previous year.

The three FY23 core objectives of the business plan are:

1. Fast Play growth through engaging content and experiences.
2. Excellence in execution across brand and marketing, Instants development, and retail and iLottery optimization.
3. Laying the foundations for future growth with investment in technology, including a Remote Gaming Server, engaging game content, and new products.

In delivering these objectives, Camelot hopes to maximize net income for the Common School Fund and good causes. The Department and Camelot utilize the business plan’s core objectives to guide decision making throughout the year.

Total Sales and Transfers to Good Causes

FY23	Sales Revenue	Transfers to Common School Fund¹	Transfers to Capital Projects Fund	Transfers to Special Causes
Q1	\$872.4 M	\$150.0 M	-	\$2.4 M
Q2	-	-	-	-
Q3	-	-	-	-
Q4	-	-	-	-
Total	\$872.4 M	\$150.0 M	-	\$2.4 M

¹ Transfers to the Common School Fund (CSF) are made based upon net income available to transfer. Exclusive to FY23, the Office of the Auditor General (OAG) Fiscal Year 2021 Financial Audit found that the Department made cash transfers to the CSF in excess of the actual net proceeds generated in years prior to 2010 and again in 2018 that totaled \$133.968 million. The deficit was reconciled during Fiscal Year 2023 in accordance with 20 ILCS 1605/9.2. The reconciliation consisted of monthly cash offsets of CSF cash transfers during July 2022 thru March 2023. The CSF estimated net proceed transfers made in Q1 totaled \$195.0 million, which were offset by \$45.0 million of the \$133.968 million transferred in excess resulting in an actual CSF cash transfer of \$150.0 million.

Specialty Cause Detail

Specialty Ticket Cause	FY23 Transfers thru Q1
Veterans	\$-
Ticket for the Cure	\$-
Red Ribbon Cash	\$677,717
The MS Project	\$38,675
Special Olympics	\$415
Police Memorials	\$559,130
Homelessness Prevention	\$823,542
Alzheimer's Awareness	\$262,004
Total	\$2,361,483

iLottery Program

HB 4700 passed the Legislature in spring 2022 and was signed by Gov. JB Pritzker on April 19, 2022. The bill extends the iLottery program to July 1, 2025. The Department and Camelot believe that iLottery channel is important to grow a modern and sustainable lottery and continue to focus on growth in this area.

iLottery sales in Q1 FY23 were almost \$104 million, which is a 117% increase over Q1 FY22 sales and 10% over Q1 FY23 Plan.

FY23	Internet Sales	Subscription Sales	Total iLottery Sales
Q1	\$99.2 M	\$4.4 M	\$103.6 M
Q2	-	-	-
Q3	-	-	-
Q4	-	-	-
Total	\$99.2 M	\$4.4 M	\$103.6 M

Responsible Gaming

During the first quarter of fiscal year 2023, Illinois Lottery's responsible gaming efforts were focused on supporting and advancing the responsible gaming program consistent with best practices recommended by the World Lottery Association and the National Council on Problem Gambling.

Responsible Gaming Verification Certification Achieved

The Illinois Lottery's Responsible Gaming Program has received Sustaining Level Responsible Gaming Verification recognition from the North American Association of State and Provincial Lotteries (NASPL) and the National Council on Problem Gambling (NCPG). Sustaining Level is the highest level achievable in the verification program. Lotteries who achieve Sustaining Level recognition have demonstrated strong leadership in implementing effective responsible gaming practices in all aspects of their operations. The Illinois Lottery is one of only ten U.S. lotteries who have received Sustaining Level recognition.

The Responsible Gaming Verification Certification is valid until July 2025.

International Recognition of Illinois Lottery's Responsible Gaming Webpages

The Illinois Lottery's responsible gaming web pages were recognized in a peer-reviewed article published in the International Gambling Studies journal. The article summarized research conducted by Rutgers University on the promotion of responsible gaming strategies by lottery providers. Researchers reviewed the responsible gaming information publicly available on 46 U.S. lottery websites and concluded that information was limited in most cases with "several notable and informative exceptions." The Illinois Lottery was among only two lotteries identified as providing easily accessible information in all core responsible gaming categories.

Research

Research on the Lottery's holiday Gift Responsibly campaign messaging was initiated to test how well players understand and remember the campaign message promoted in years past (i.e. Lottery Tickets Aren't Child's Play), and whether a different responsible gifting slogan better conveys that lottery tickets are not appropriate gifts for children. Over 500 adults in Illinois were surveyed and findings indicated:

- The campaign slogan promoted by the National Council on Problem Gambling (Lottery tickets aren't child's play. Gift Responsibly.) was well understood and memorable.
- "'Tis the season to gift responsibly: Lottery Games Aren't For Kids." was considered even better at communicating the campaign's goals and was rated the best slogan overall.
- The slogan: "'Tis the season to gift responsibly: Lottery Games Aren't For Kids" will anchor the Illinois Lottery's 2022 Gift Responsibly campaign, which will launch in November and run through the end of December.

Stakeholder Engagement

The Illinois Lottery was a Gold Sponsor at the Way Back Inn's annual Rebuilders Dinner. The dinner helps raise money for programs that support individuals recovering from drug, alcohol, and gambling use disorders in Illinois.

Business Enterprise Program (BEP) Spending

The Private Management Agreement encourages Camelot Illinois to maintain a goal that awards at least 20% of the company's spend in marketing, advertising, and shipping/freight to State of Illinois BEP-certified minority owned businesses.

For FY23, the total budgeted spend by Camelot in these areas is anticipated to be \$31,709,244 resulting in a BEP spending goal of \$6,341,848.80. Camelot's BEP spend in FY23 Q1 was \$2,106,243. Camelot has currently achieved approximately 33% of their spending goal for FY23.

FY23	BEP Spend
Q1	\$2,106,243
Q2	-
Q3	-
Q4	-
Total	\$2,106,243²

² This is the amount that has presently been confirmed by subcontractors recorded by the Business Enterprise Program's BEP Compliance Module as of 1-3-2022