

#### 99TH GENERAL ASSEMBLY

## State of Illinois

## 2015 and 2016

#### HB5562

by Rep. Thaddeus Jones

### SYNOPSIS AS INTRODUCED:

20	ILCS	1605/2	from	Ch.	120,	par.	1152
20	ILCS	1605/9.1					
20	ILCS	1605/20	from	Ch.	120,	par.	1170
20	ILCS	1605/21.10 new					
30	ILCS	105/5.875 new					

Amends the Illinois Lottery Law. Requires the Department of the Lottery to offer a special instant scratch-off game to benefit homeless shelters. Requires the net revenue from that game to be deposited into the Homeless Shelter Revenue Fund. Provides that moneys deposited into the Homeless Shelter Revenue Fund shall be used by the Department of Human Services to fund grants to homeless shelters. Authorizes the Department to adopt rules necessary to implement and administer the game. Defines "net revenue". Amends the State Finance Act to create the Homeless Shelter Revenue Fund as a special fund in the State treasury. Effective immediately.

LRB099 19601 AMC 43996 b

FISCAL NOTE ACT MAY APPLY

A BILL FOR

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AN ACT concerning State government.

# 2 Be it enacted by the People of the State of Illinois, 3 represented in the General Assembly:

Section 5. The Illinois Lottery Law is amended by changing
Sections 2, 9.1, and 20 and by adding Section 21.10 as follows:

6 (20 ILCS 1605/2) (from Ch. 120, par. 1152)

7 Sec. 2. This Act is enacted to implement and establish 8 within the State a lottery to be conducted by the State through 9 the Department. The entire net proceeds of the Lottery are to be used for the support of the State's Common School Fund, 10 except as provided in subsection (o) of Section 9.1 and 11 12 Sections 21.2, 21.5, 21.6, 21.7, 21.8, and 21.9, and 21.10. The General Assembly finds that it is in the public interest for 13 14 the Department to conduct the functions of the Lottery with the assistance of a private manager under a management agreement 15 16 overseen by the Department. The Department shall be accountable to the General Assembly and the people of the State through a 17 comprehensive system of regulation, audits, reports, and 18 19 enduring operational oversight. The Department's ongoing 20 conduct of the Lottery through a management agreement with a 21 private manager shall act to promote and ensure the integrity, 22 security, honesty, and fairness of the Lottery's operation and administration. It is the intent of the General Assembly that 23

HB5562 - 2 - LRB099 19601 AMC 43996 b the Department shall conduct the Lottery with the assistance of 1 2 a private manager under a management agreement at all times in a manner consistent with 18 U.S.C. 1307(a)(1), 1307(b)(1), 3 1953(b)(4). 4 (Source: P.A. 98-649, eff. 6-16-14.) 5 6 (20 ILCS 1605/9.1) 7 Sec. 9.1. Private manager and management agreement. 8 (a) As used in this Section: 9 "Offeror" means a person or group of persons that responds 10 to a request for qualifications under this Section. 11 "Request for qualifications" means all materials and 12 documents prepared by the Department to solicit the following from offerors: 13 14 (1) Statements of qualifications. 15 (2) Proposals to enter into a management agreement, 16 including the identity of any prospective vendor or vendors that the offeror intends to initially engage to assist the 17 offeror in performing its obligations under the management 18 19 agreement. 20 "Final offer" means the last proposal submitted by an 21 offeror in response to the request for qualifications, 22 including the identity of any prospective vendor or vendors that the offeror intends to initially engage to assist the 23 24 offeror in performing its obligations under the management 25 agreement.

"Final offeror" means the offeror ultimately selected by
 the Governor to be the private manager for the Lottery under
 subsection (h) of this Section.

4 (b) By September 15, 2010, the Governor shall select a 5 private manager for the total management of the Lottery with 6 integrated functions, such as lottery game design, supply of 7 goods and services, and advertising and as specified in this 8 Section.

9 Pursuant to the terms of this subsection, (C) the 10 Department shall endeavor to expeditiously terminate the 11 existing contracts in support of the Lottery in effect on the 12 effective date of this amendatory Act of the 96th General Assembly in connection with the selection of the private 13 14 manager. As part of its obligation to terminate these contracts 15 and select the private manager, the Department shall establish 16 a mutually agreeable timetable to transfer the functions of 17 existing contractors to the private manager so that existing Lottery operations are not materially diminished or impaired 18 19 during the transition. To that end, the Department shall do the 20 following:

(1) where such contracts contain a provision authorizing termination upon notice, the Department shall provide notice of termination to occur upon the mutually agreed timetable for transfer of functions;

(2) upon the expiration of any initial term or renewal
 term of the current Lottery contracts, the Department shall

1 2 not renew such contract for a term extending beyond the mutually agreed timetable for transfer of functions; or

3 (3) in the event any current contract provides for 4 termination of that contract upon the implementation of a 5 contract with the private manager, the Department shall 6 perform all necessary actions to terminate the contract on 7 the date that coincides with the mutually agreed timetable 8 for transfer of functions.

9 If the contracts to support the current operation of the 10 Lottery in effect on the effective date of this amendatory Act 11 of the 96th General Assembly are not subject to termination as 12 provided for in this subsection (c), then the Department may 13 include a provision in the contract with the private manager 14 specifying a mutually agreeable methodology for incorporation.

15 (c-5) The Department shall include provisions in the 16 management agreement whereby the private manager shall, for a 17 fee, and pursuant to a contract negotiated with the Department (the "Employee Use Contract"), utilize the services of current 18 19 Department employees to assist in the administration and 20 operation of the Lottery. The Department shall be the employer of all such bargaining unit employees assigned to perform such 21 22 work for the private manager, and such employees shall be State 23 employees, as defined by the Personnel Code. Department 24 employees shall operate under the same employment policies, 25 rules, regulations, and procedures, as other employees of the Department. In addition, neither historical representation 26

- 5 - LRB099 19601 AMC 43996 b HB5562 rights under the Illinois Public Labor Relations Act, nor 1 2 existing collective bargaining agreements, shall be disturbed 3 by the management agreement with the private manager for the management of the Lottery. 4 5 (d) The management agreement with the private manager shall 6 include all of the following: 7 (1) A term not to exceed 10 years, including any 8 renewals. 9 (2) A provision specifying that the Department: 10 (A) shall exercise actual control over all 11 significant business decisions; 12 (A-5) has the authority to direct or countermand 13 operating decisions by the private manager at any time; 14 (B) has ready access at any time to information 15 regarding Lottery operations; 16 (C) has the right to demand and receive information 17 from the private manager concerning any aspect of the Lottery operations at any time; and 18 19 (D) retains ownership of all trade names, 20 trademarks, and intellectual property associated with 21 the Lottery. 22 (3) A provision imposing an affirmative duty on the 23 private manager to provide the Department with material information and with any information the private manager 24 25 reasonably believes the Department would want to know to 26 enable the Department to conduct the Lottery.

(4) A provision requiring the private manager to 1 provide the Department with advance notice of any operating 2 3 decision that bears significantly on the public interest, including, but not limited to, decisions on the kinds of 4 5 games to be offered to the public and decisions affecting the relative risk and reward of the games being offered, so 6 7 the Department has a reasonable opportunity to evaluate and 8 countermand that decision.

9 (5) A provision providing for compensation of the 10 private manager that may consist of, among other things, a 11 fee for services and a performance based bonus as 12 consideration for managing the Lottery, including terms 13 that may provide the private manager with an increase in 14 compensation if Lottery revenues grow by a specified 15 percentage in a given year.

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(6) (Blank).

17 (7) A provision requiring the deposit of all Lottery
18 proceeds to be deposited into the State Lottery Fund except
19 as otherwise provided in Section 20 of this Act.

20 (8) A provision requiring the private manager to locate
21 its principal office within the State.

(8-5) A provision encouraging that at least 20% of the cost of contracts entered into for goods and services by the private manager in connection with its management of the Lottery, other than contracts with sales agents or technical advisors, be awarded to businesses that are a

1 minority owned business, a female owned business, or a
2 business owned by a person with disability, as those terms
3 are defined in the Business Enterprise for Minorities,
4 Females, and Persons with Disabilities Act.

5 (9) A requirement that so long as the private manager 6 complies with all the conditions of the agreement under the 7 oversight of the Department, the private manager shall have 8 the following duties and obligations with respect to the 9 management of the Lottery:

10 (A) The right to use equipment and other assets11 used in the operation of the Lottery.

12 (B) The rights and obligations under contracts13 with retailers and vendors.

14 (C) The implementation of a comprehensive security15 program by the private manager.

16 (D) The implementation of a comprehensive system17 of internal audits.

(E) The implementation of a program by the private
manager to curb compulsive gambling by persons playing
the Lottery.

(F) A system for determining (i) the type of Lottery games, (ii) the method of selecting winning tickets, (iii) the manner of payment of prizes to holders of winning tickets, (iv) the frequency of drawings of winning tickets, (v) the method to be used in selling tickets, (vi) a system for verifying the

validity of tickets claimed to be winning tickets,
 (vii) the basis upon which retailer commissions are
 established by the manager, and (viii) minimum
 payouts.

5 (10) A requirement that advertising and promotion must 6 be consistent with Section 7.8a of this Act.

7 (11) A requirement that the private manager market the
8 Lottery to those residents who are new, infrequent, or
9 lapsed players of the Lottery, especially those who are
10 most likely to make regular purchases on the Internet as
11 permitted by law.

12 (12) A code of ethics for the private manager's13 officers and employees.

14 (13) A requirement that the Department monitor and 15 oversee the private manager's practices and take action 16 that the Department considers appropriate to ensure that 17 the private manager is in compliance with the terms of the management agreement, while allowing the manager, unless 18 19 specifically prohibited by law or the management 20 agreement, to negotiate and sign its own contracts with vendors. 21

(14) A provision requiring the private manager to
 periodically file, at least on an annual basis, appropriate
 financial statements in a form and manner acceptable to the
 Department.

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(15) Cash reserves requirements.

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(16) Procedural requirements for obtaining the prior approval of the Department when a management agreement or an interest in a management agreement is sold, assigned, transferred, or pledged as collateral to secure financing.

5 (17) Grounds for the termination of the management 6 agreement by the Department or the private manager.

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(18) Procedures for amendment of the agreement.

8 (19) A provision requiring the private manager to 9 engage in an open and competitive bidding process for any 10 procurement having a cost in excess of \$50,000 that is not 11 a part of the private manager's final offer. The process 12 shall favor the selection of a vendor deemed to have 13 submitted a proposal that provides the Lottery with the 14 best overall value. The process shall not be subject to the 15 provisions of the Illinois Procurement Code, unless 16 specifically required by the management agreement.

17 The transition of rights and obligations, (20) including any associated equipment or other assets used in 18 19 the operation of the Lottery, from the manager to any 20 successor manager of the lottery, including the 21 Department, following the termination of or foreclosure 22 upon the management agreement.

(21) Right of use of copyrights, trademarks, and
service marks held by the Department in the name of the
State. The agreement must provide that any use of them by
the manager shall only be for the purpose of fulfilling its

obligations under the management agreement during the term
 of the agreement.

3 (22) The disclosure of any information requested by the 4 Department to enable it to comply with the reporting 5 requirements and information requests provided for under 6 subsection (p) of this Section.

7 (e) Notwithstanding any other law to the contrary, the 8 Department shall select a private manager through a competitive 9 request for qualifications process consistent with Section 10 20-35 of the Illinois Procurement Code, which shall take into 11 account:

(1) the offeror's ability to market the Lottery to those residents who are new, infrequent, or lapsed players of the Lottery, especially those who are most likely to make regular purchases on the Internet;

16 (2) the offeror's ability to address the State's 17 concern with the social effects of gambling on those who 18 can least afford to do so;

19 (3) the offeror's ability to provide the most 20 successful management of the Lottery for the benefit of the 21 people of the State based on current and past business 22 practices or plans of the offeror; and

(4) the offeror's poor or inadequate past performance
 in servicing, equipping, operating or managing a lottery on
 behalf of Illinois, another State or foreign government and
 attracting persons who are not currently regular players of

1 a lottery.

2 (f) The Department may retain the services of an advisor or 3 advisors with significant experience in financial services or the management, operation, and procurement of goods, services, 4 5 and equipment for a government-run lottery to assist in the preparation of the terms of the request for qualifications and 6 selection of the private manager. Any prospective advisor 7 seeking to provide services under this subsection (f) shall 8 9 disclose any material business or financial relationship 10 during the past 3 years with any potential offeror, or with a 11 contractor or subcontractor presently providing qoods, 12 services, or equipment to the Department to support the 13 Lottery. The Department shall evaluate the material business or 14 financial relationship of each prospective advisor. The 15 Department shall not select any prospective advisor with a 16 substantial business or financial relationship that the 17 Department deems to impair the objectivity of the services to be provided by the prospective advisor. During the course of 18 19 the advisor's engagement by the Department, and for a period of 20 one year thereafter, the advisor shall not enter into any business or financial relationship with any offeror or any 21 22 vendor identified to assist an offeror in performing its 23 obligations under the management agreement. Any advisor 24 retained by the Department shall be disqualified from being an 25 offeror. The Department shall not include terms in the request 26 for qualifications that provide a material advantage whether

directly or indirectly to any potential offeror, or 1 anv 2 subcontractor presently providing goods, contractor or 3 services, or equipment to the Department to support the Lottery, including terms contained in previous responses to 4 5 requests for proposals or qualifications submitted to 6 Illinois, another State or foreign government when those terms 7 are uniquely associated with a particular potential offeror, 8 contractor, or subcontractor. The request for proposals on 9 offered by the Department December 22, 2008 as "LOT08GAMESYS" and reference number "22016176" is declared 10 11 void.

(g) The Department shall select at least 2 offerors as finalists to potentially serve as the private manager no later than August 9, 2010. Upon making preliminary selections, the Department shall schedule a public hearing on the finalists' proposals and provide public notice of the hearing at least 7 calendar days before the hearing. The notice must include all of the following:

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(1) The date, time, and place of the hearing.

(2) The subject matter of the hearing.

21 (3) A brief description of the management agreement to22 be awarded.

23 (4) The identity of the offerors that have been
24 selected as finalists to serve as the private manager.

(5) The address and telephone number of the Department.(h) At the public hearing, the Department shall (i) provide

sufficient time for each finalist to present and explain its 1 2 proposal to the Department and the Governor or the Governor's 3 designee, including an opportunity to respond to questions posed by the Department, Governor, or designee and (ii) allow 4 5 the public and non-selected offerors to comment on the presentations. The Governor or a designee shall attend the 6 7 public hearing. After the public hearing, the Department shall 8 have 14 calendar days to recommend to the Governor whether a 9 management agreement should be entered into with a particular 10 finalist. After reviewing the Department's recommendation, the 11 Governor may accept or reject the Department's recommendation, 12 and shall select a final offeror as the private manager by 13 publication of a notice in the Illinois Procurement Bulletin on 14 or before September 15, 2010. The Governor shall include in the 15 notice a detailed explanation and the reasons why the final 16 offeror is superior to other offerors and will provide 17 management services in a manner that best achieves the objectives of this Section. The Governor shall also sign the 18 19 management agreement with the private manager.

(i) Any action to contest the private manager selected by
the Governor under this Section must be brought within 7
calendar days after the publication of the notice of the
designation of the private manager as provided in subsection
(h) of this Section.

(j) The Lottery shall remain, for so long as a private manager manages the Lottery in accordance with provisions of

1 this Act, a Lottery conducted by the State, and the State shall 2 not be authorized to sell or transfer the Lottery to a third 3 party.

4 (k) Any tangible personal property used exclusively in 5 connection with the lottery that is owned by the Department and 6 leased to the private manager shall be owned by the Department 7 in the name of the State and shall be considered to be public 8 property devoted to an essential public and governmental 9 function.

10 (1) The Department may exercise any of its powers under 11 this Section or any other law as necessary or desirable for the 12 execution of the Department's powers under this Section.

(m) Neither this Section nor any management agreement entered into under this Section prohibits the General Assembly from authorizing forms of gambling that are not in direct competition with the Lottery.

17 (n) The private manager shall be subject to a complete investigation in the third, seventh, and tenth years of the 18 19 agreement (if the agreement is for a 10-year term) by the 20 Department in cooperation with the Auditor General to determine 21 whether the private manager has complied with this Section and 22 the management agreement. The private manager shall bear the 23 cost of an investigation or reinvestigation of the private manager under this subsection. 24

(o) The powers conferred by this Section are in additionand supplemental to the powers conferred by any other law. If

any other law or rule is inconsistent with this Section, 1 2 including, but not limited to, provisions of the Illinois Procurement Code, then this Section controls as 3 to anv management agreement entered into under this Section. This 4 5 Section and any rules adopted under this Section contain full and complete authority for a management agreement between the 6 7 and a private manager. No law, Department procedure, 8 proceeding, publication, notice, consent, approval, order, or 9 act by the Department or any other officer, Department, agency, 10 or instrumentality of the State or any political subdivision is 11 required for the Department to enter into a management 12 agreement under this Section. This Section contains full and 13 complete authority for the Department to approve any contracts 14 entered into by a private manager with a vendor providing 15 goods, services, or both goods and services to the private 16 manager under the terms of the management agreement, including 17 subcontractors of such vendors.

Upon receipt of a written request from the 18 Chief 19 Procurement Officer, the Department shall provide to the Chief Procurement Officer a complete and un-redacted copy of the 20 management agreement or any contract that is subject to the 21 22 Department's approval authority under this subsection (o). The 23 Department shall provide a copy of the agreement or contract to the Chief Procurement Officer in the time specified by the 24 25 Chief Procurement Officer in his or her written request, but no 26 later than 5 business days after the request is received by the

Department. The Chief Procurement Officer must retain any 1 2 portions of the management agreement or of any contract 3 designated by the Department as confidential, proprietary, or trade secret information in complete confidence pursuant to 4 5 subsection (q) of Section 7 of the Freedom of Information Act. The Department shall also provide the Chief Procurement Officer 6 7 with reasonable advance written notice of any contract that is 8 pending Department approval.

9 Notwithstanding any other provision of this Section to the 10 contrary, the Chief Procurement Officer shall adopt 11 administrative rules, including emergency rules, to establish 12 a procurement process to select a successor private manager if 13 a private management agreement has been terminated. The 14 selection process shall at a minimum take into account the 15 criteria set forth in items (1) through (4) of subsection (e) 16 of this Section and may include provisions consistent with 17 subsections (f), (g), (h), and (i) of this Section. The Chief Procurement Officer shall also implement and administer the 18 19 adopted selection process upon the termination of a private 20 management agreement. The Department, after the Chief 21 Procurement Officer certifies that the procurement process has 22 been followed in accordance with the rules adopted under this 23 subsection (o), shall select a final offeror as the private 24 manager and sign the management agreement with the private 25 manager.

Except as provided in Sections 21.2, 21.5, 21.6, 21.7,

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1 21.8, and 21.9, and 21.10, the Department shall distribute all 2 proceeds of lottery tickets and shares sold in the following 3 priority and manner:

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(1) The payment of prizes and retailer bonuses.

5 (2) The payment of costs incurred in the operation and 6 administration of the Lottery, including the payment of 7 sums due to the private manager under the management 8 agreement with the Department.

9 (3) On the last day of each month or as soon thereafter 10 as possible, the State Comptroller shall direct and the 11 State Treasurer shall transfer from the State Lottery Fund 12 to the Common School Fund an amount that is equal to the 13 proceeds transferred in the corresponding month of fiscal 14 year 2009, as adjusted for inflation, to the Common School 15 Fund.

16 (4) On or before the last day of each fiscal year, 17 deposit any remaining proceeds, subject to payments under 18 items (1), (2), and (3) into the Capital Projects Fund each 19 fiscal year.

20 (p) The Department shall be subject to the following 21 reporting and information request requirements:

(1) the Department shall submit written quarterly
reports to the Governor and the General Assembly on the
activities and actions of the private manager selected
under this Section;

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(2) upon request of the Chief Procurement Officer, the

1 Department shall promptly produce information related to the procurement activities of the Department and the 2 3 manager requested by the Chief Procurement private Officer; the Chief Procurement Officer must 4 retain 5 confidential, proprietary, or trade secret information designated by the Department in complete confidence 6 7 pursuant to subsection (g) of Section 7 of the Freedom of 8 Information Act; and

9 (3) at least 30 days prior to the beginning of the 10 Department's fiscal year, the Department shall prepare an 11 annual written report on the activities of the private 12 manager selected under this Section and deliver that report 13 to the Governor and General Assembly.

14 (Source: P.A. 97-464, eff. 8-19-11; 98-463, eff. 8-16-13; 15 98-649, eff. 6-16-14.)

- 16 (20 ILCS 1605/20) (from Ch. 120, par. 1170)
- 17 Sec. 20. State Lottery Fund.

18 (a) There is created in the State Treasury a special fund to be known as the "State Lottery Fund". Such fund shall 19 consist of all revenues received from (1) the sale of lottery 20 21 tickets or shares, (net of commissions, fees representing those 22 expenses that are directly proportionate to the sale of tickets or shares at the agent location, and prizes of less than \$600 23 24 which have been validly paid at the agent level), (2) 25 application fees, and (3) all other sources including moneys

credited or transferred thereto from any other fund or source
 pursuant to law. Interest earnings of the State Lottery Fund
 shall be credited to the Common School Fund.

4 (b) The receipt and distribution of moneys under Section
5 21.5 of this Act shall be in accordance with Section 21.5.

6 (c) The receipt and distribution of moneys under Section 7 21.6 of this Act shall be in accordance with Section 21.6.

8 (d) The receipt and distribution of moneys under Section 9 21.7 of this Act shall be in accordance with Section 21.7.

10 (e) The receipt and distribution of moneys under Section11 21.8 of this Act shall be in accordance with Section 21.8.

12 (f) The receipt and distribution of moneys under Section13 21.9 of this Act shall be in accordance with Section 21.9.

14 (g) The receipt and distribution of moneys under Section 15 21.10 of this Act shall be in accordance with Section 21.10. 16 (Source: P.A. 98-649, eff. 6-16-14.)

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(20 ILCS 1605/21.10 new)

18 Sec. 21.10. Scratch-off for homeless shelters.

19 <u>(a) The Department shall offer a special instant</u> 20 <u>scratch-off game to benefit homeless shelters. The game shall</u> 21 <u>commence on July 1, 2017 or as soon thereafter, at the</u> 22 <u>discretion of the Director, as is reasonably practical. The</u> 23 <u>operation of the game shall be governed by this Act and any</u> 24 <u>rules adopted by the Department. If any provision of this</u> 25 <u>Section is inconsistent with any other provision of this Act,</u>

#### 1 <u>then this Section governs.</u>

2	(b) The Homeless Shelter Revenue Fund is created as a
3	special fund in the State treasury. The net revenue from the
4	scratch-off game to benefit homeless shelters shall be
5	deposited into the Homeless Shelter Revenue Fund. Moneys
6	deposited into the Homeless Shelter Revenue Fund under this
7	Section shall be used, subject to appropriation, by the
8	Department of Human Services to fund grants to homeless
9	shelters. Grants awarded under this Section shall be awarded to
10	a homeless shelter based upon the revenue generated from the
11	scratch-off game to benefit homeless shelters in the
12	municipality in which the homeless shelter is located, except
13	that:
14	(1) revenue generated in municipalities in which there
15	are no homeless shelters shall be awarded to homeless
16	shelters in that county;
17	(2) revenue generated in unincorporated areas of a
18	county in which there are homeless shelters only in
19	municipalities shall be awarded to homeless shelters in
20	those municipalities; and
21	(3) revenue generated in a county in which there are no
22	homeless shelters shall be awarded to homeless shelters in
23	adjoining counties.
24	For purposes of this subsection, "net revenue" means the
25	total amount for which tickets have been sold less the sum of
26	the amount paid out in the prizes and the actual administrative

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1 <u>expenses of the Department solely related to the scratch-off</u>
2 game under this Section.

3 (c) During the time that tickets are sold for the 4 scratch-off game to benefit homeless shelters, the Department 5 shall not unreasonably diminish the efforts devoted to 6 marketing any other instant scratch-off lottery game.

7 <u>(d) The Department may adopt any rules necessary to</u> 8 implement and administer the provisions of this Section.

9 Section 10. The State Finance Act is amended by adding
10 Section 5.875 as follows:

11 (30 ILCS 105/5.875 new)

#### 12 Sec. 5.875. The Homeless Shelter Revenue Fund.

Section 99. Effective date. This Act takes effect upon becoming law.