

## Illinois Is Putting Lottery on Block For Quick Payoff

By CHARLES DUHIGG  
and JENNY ANDERSON

The state of Illinois yesterday took the first steps in selling its state lottery system, hoping to attract as much as \$10 billion from investors who, in return, would own a monopoly that could turn out to be the biggest jackpot yet.

The sale, which may occur as early as the spring, would not be the first privatization of a state's property — both Chicago and Indiana have recently earned billions of dollars by signing long-term leases with private companies to run toll roads. But the proposed lottery sale is almost certain to be one of the largest privatizations of a state-run program, and it raises concerns that states, some of them critically short of cash, are selling valuable assets that could otherwise provide consistent streams of revenue.

Under the proposed sale, Illinois would receive a multibillion-dollar one-time payment, and the lottery's new owners would receive all revenue and profit for 75 years.

Indiana is also considering selling its lottery, and bids are due later this month. That sale is expected to raise more than \$1 billion upfront and annual payments of \$200 million. Mid-

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way Airport in Chicago, toll roads in Pennsylvania and the New Jersey Turnpike are all potentially on the block.

Illinois officials say selling the lottery, which collected revenue of about \$2 billion and profits around \$630 million last year, will give the business marketing and technological heft that the government cannot now provide.

"This is fundamentally a retail business, and governments are not equipped to manage retail businesses," said John Filan, the chief operating officer of the state of Illinois. "Gaming is getting so competitive around the world that we're worried our revenues could go down unless there is retail expertise."

Opponents of lottery privatization disagree. They argue that many states, including California, New York and Florida, have hired companies like GTECH, of Providence, R.I., to run their lotteries, gaining private-industry expertise without selling a valuable asset. Despite its public ownership, Illinois increased its lottery's revenue by more than 15 percent from 2003 to 2005, according to the North American Association of State and Provincial Lotteries.

"These are very healthy business-

es," said Melissa Kearney, an assistant professor of economics at the University of Maryland. "It's unclear exactly what is gained by selling a lottery, except for a huge pot of money that legislators can start spending right away."

Other critics say there is also a risk of selling the lottery for too little. "If it turns out this thing is worth more than \$10 billion, then they've denied future citizens hundreds of millions of dollars in tax revenues just so they can temporarily plug a hole in the dike," said Dave Schulz, director of the Infrastructure Technology Institute at Northwestern University, and Chicago's budget director in the mid-1980s.

But lotteries' declining profitability could make a high price tag more attractive.

"Lotteries used to be highly profitable," said Michael Jones, who ran the Illinois lottery from 1981 to 1985 and is now the director of Independent Lottery Research in Chicago. "Nowadays, that profitability as a percentage of sales has declined dramatically."

Taking lotteries out of state hands, however, could raise tricky policy issues as private operators strive for maximum revenue.

"As a government agency, lotteries are bound by the duty of care that a government has to its citizens,"

said Rachel Volberg, director of Gemini Research, based in Northampton, Mass. "A private operator is not bound by any duty of care." Private lottery operators could be more likely to advertise aggressively, Ms. Volberg said, particularly among people susceptible to gambling ad-

*State officials say the new owners will have the business expertise to market the lottery.*

diction and those who can ill afford to spend money on lottery tickets.

Gov. Rod R. Blagojevich of Illinois, a Democrat, first floated the idea of privatizing the state's lottery while seeking re-election last May. At the time, Mr. Blagojevich estimated that the sale's proceeds would finance a four-year building and education plan for schools. Under the proposal, \$6 billion would be set aside to provide the schools with \$650 million a year for the next 18 years, slightly more than what they received last year in lottery income.

At the time he made the proposal,

Illinois Republicans charged that his real motivation was to keep State Senator James Meeks, an independent from Chicago, from entering the gubernatorial race. Mr. Meeks, an influential black leader, had threatened a challenge if education financing was not increased.

Selling the Illinois lottery would require approval from the state Legislature, which, in turn would determine how the proceeds are spent.

Many states banned privately operated lotteries after a series of political scandals in the 1800s. Starting in the 1960s, public lotteries began to reappear. In 2005, state lotteries took in more than \$52 billion, according to the North American Association of State and Provincial Lotteries.

State governments still typically avoid some marketing tactics that they consider politically objectionable. Massachusetts, for instance, banned almost all lottery advertising in the late 1990s, after voters and politicians complained that the tactics victimized poorer residents.

But that may change if lotteries are privately owned.

"Right now, states don't sell lottery tickets in adult book stores, or next door to welfare offices, because lottery directors know that they can be fired by politicians," said I. Nelson Rose, a professor at Whittier Law School in Costa Mesa, Calif., who

studies gambling, and has advised the Illinois Gaming Board on other matters. "You'll won't see such hesitation among private companies. Those are great places to sell."

Illinois officials say that even after the lottery is sold, the new owners would be required to comply with state regulations regarding advertising and sales.

But Mr. Rose pointed out that once private owners controlled the state lottery, they would have an incentive to lobby legislators to loosen the rules.

"Illinois has riverboat casinos and horse racing, and they've becoming major political powers," he said. "The lottery's new owners won't be any different."

Other recent municipal privatization projects in Indianapolis, New Orleans, Atlanta and elsewhere have struggled with charges of corruption and with customer complaints.

In Atlanta, residents began complaining about brown brackish water after a French company, Suez, was hired to run the city's water system in 1999. Another French company, Veolia, was hired to run public waterworks in New Orleans, but has been accused of illegally discharging sewage into the Mississippi River on dozens of occasions. In Indianapolis, officials had to cancel school sessions and ask citizens to boil their

drinking water in 2005 after a failure at a privately run water-treatment plant.

Two weeks ago, Independent Lottery Research conducted a national poll about public views on privatization. Of the 450 people surveyed, more than half said they thought that privatization was a bad idea and almost half thought that privatizing would mean less money for the state, according to Margaret Mueller, director of Independent Lottery Research.

Goldman Sachs and UBS are advising the state of Illinois. Mark Florian, a managing director in the Goldman Sachs Municipal Finance and Infrastructure Group, said that demand would come from bidders already in the industry as well as funds that invest in public projects and in private equity funds flush with cash. Another alternative on the table would be an initial public offering.

Goldman Sachs, which has a \$6.5 billion infrastructure fund, will not bid, Mr. Filan said.

And Mr. Jones of Independent Lottery Research added, "It's about time that lottery performance, lottery potential and where lottery funds go become something that the people who play the lottery debate and ask questions about, whether it's in a privatization scenario or in reaction to a privatization scenario."