

Third Try at Leasing Lottery

Blagojevich administration says latest plan is the best

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Sunday, May 04, 2008 - After two failed attempts to privatize the Illinois Lottery, Gov. Rod Blagojevich is taking another stab at it with a revamped plan aimed at pumping billions of dollars into construction projects. Over the past three weeks, administration officials have outlined the proposal to about three dozen lawmakers, explaining why the latest plan is better than earlier versions. A key provision of the new version is that public schools would continue to get \$600 million a year because of the way the plan is constructed. "It does make it more palatable," said Sen. Christine Radogno, R-Lemont, one of the lawmakers briefed on the plan. "That is a big concern of many members."

Radogno, a chief budget negotiator for Senate Republicans, said the presentation was "very light on detail," but also is not ruling out the plan.

"From my point of view, I don't think we should take anything off of the table," she said.

"I believe it is (better than previous versions)," said Rep. Mark Beaubien, R-Barrington Hills, Radogno's counterpart with House Republicans. "It's not been overruled. We're just not saying 'no.'" Those sentiments were echoed by several rank-and-file lawmakers - we're willing to listen, but we need a lot more details. That view isn't universal, though.

"It's a bad idea. If you have a bunch of assets, you usually don't sell the ones making money," said Rep. Raymond Poe, R-Springfield. "I've never been for it," said Rep. Dale Risinger, R-Peoria. "Most people I talk to back home are saying it's not a good idea. You are getting rid of an asset. That may be good for a short-term fix, but in the long term that's not a good idea."

Under the administration's plan, 80 percent of the lottery would be leased to a private concern for 50 years. That's different from two previous proposals that called for 100 percent of the lottery to be privatized. By leasing only 80 percent, the state will continue to collect 20 percent of gross profits that are estimated this year, after expenses, to be worth about \$200 million.

The administration believes it can get at least \$10 billion for the lottery lease, based on numbers provided by three consultants hired by the state to advise on a lottery lease. The companies are working on contingency and won't get paid unless a lottery deal is struck. If a deal is made, the companies get a percentage of the deal. The General Assembly's Commission on Government Forecasting and Accountability said a \$10 billion lease would result in a \$20 million payment to the companies.

But there are skeptics of the administration's figures that a lottery lease can generate at least \$10 billion.

"One of the things I find funny about this is the idea of selling it last year was supposed to bring in \$10 billion," said Rep. Barbara Flynn Currie, D-Chicago. "Now they want to only lease 80 percent and it's going to bring in \$12 billion to \$14 billion. I think something might be wrong with those numbers."

COGFA said a \$10 billion take is possible, maybe. "We think it's reasonable to conclude that you might be able to get \$10 billion," said Executive Director Dan Long. "That is the top figure. It would depend on when you (lease) and what the credit markets are like."

Bob Greenlee, a Blagojevich deputy chief of staff overseeing the lottery project, said the administration is willing to set a bid floor of \$10 billion for the lottery, written into a bill authorizing the lottery lease.

Whatever the sale price, about \$3 billion would be put into a restricted fund set aside for education. Over the next 25 years, the fund would be tapped to give money to education. How much depends on how much the state gets from keeping its 20 percent share of the lottery. The first year, for example, the state estimates \$200 million would come from its share of lottery profits and \$400 million would come from the special fund.

To work, though, the administration's plan assumes that lottery profits will grow by 6 percent a year. COGFA said that's possible based on lottery ticket sales in other states similar in size to Illinois.

But COGFA also noted that lottery profits have only grown an average of .5 percent a year since 1990, although from year to year the numbers can fluctuate wildly.

The administration believes that better management and marketing by a private operator will increase lottery sales and profits.

"We are not a governing agency devoted to selling lottery tickets," Greenlee said.

"We haven't had growth. We try, but we don't see it." That was echoed by Michael Jones, who ran the Illinois Lottery from 1981 to 1985. He's now involved in lottery and marketing research. "The Illinois Lottery is tremendously under performing," Jones said. "It could be doing much better with its current games it marketed to a broader group of players."

COGFA also noted that the plan assumes that school funding from the lottery will stay at \$600 million a year. This budget year, schools are expected to get \$675 million and next year \$685 million. By 2032, that would grow to \$768 million.

Whether a deal can be struck also depends on how many restrictions lawmakers put into a lease deal. They want control over the types of games a private operator offers and

assurances that poorer communities aren't targeted for lottery sales. What restrictions are included or excluded can dramatically affect the value of the deal, COGFA said.

Although many lawmakers said they are willing to keep an open mind about a lottery lease, they also want more details and to see a bill that they will be asked to vote on.

No legislation has been introduced yet, but Greenlee said it will be by the end of the month. Lawmakers are scheduled to adjourn May 29. One significant hurdle still looms large - House Speaker Michael Madigan, D-Chicago. Madigan spokesman Steve Brown said the speaker is more interested in the idea of hiring a professional company to run the lottery while the state keeps ownership. Under the deal, a company would get a percentage of the proceeds. Jones discussed the idea with Madigan last year.

"There's a much better return you can get with professional management," Brown said. "It's not a good idea to sell assets. It seems like there isn't much momentum behind that idea. We don't have any interest in it."

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