



News for Immediate Release

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Governor Corbett Determines Lottery Private Management Agreement is in Seniors' Best Interest

Contract offers \$3-\$4.5 Billion of New Funding for Senior Programs over 20 Years

Harrisburg – Governor Tom Corbett today announced that contracting private management of the Pennsylvania Lottery with Camelot Global Services PA LLC is clearly in the best interest of Pennsylvania's seniors.

This partnership will maximize Lottery profit to ensure secure, predictable funding for programs benefitting a dramatically growing senior population.

The decision came following nine months of due diligence and deliberative evaluation to ensure maximum growth while protecting the integrity of the lottery fund.

"Our state's fast-growing population of seniors demands that we act now to ensure the continued strength and viability of programs supporting older Pennsylvanians," Corbett said. "This is about providing for and protecting seniors, and nothing else. Today in Pennsylvania there are nearly 2.7 million individuals age 60 and older, and that number will grow to 3.6 million by 2030. We have the fourth largest population of older adults in the country, and with that comes significant and costly obligations."

"This partnership will allow us to add an additional \$50 million in the upcoming budget to preserve and improve the system for seniors," Corbett said. "We will use this new money to address the need and demand for our programs, specifically, I propose to use it for home and community-based services so that older adults may continue to live in their homes."

The additional \$50 million in the upcoming budget proposal will include:

- **\$21 million for the Aging Waiver:** The Aging Waiver Program provides in-homes service to 28,000 seniors over age 60 who are clinically and financially vulnerable.
- **\$20 million for the OPTIONS Program:** OPTIONS provides care management, home-delivered meals, protective services and in-home services for individuals age 60 and older. Additional increases in revenue would help decrease the waiting list of 5,400 older adults who are waiting for home support and personal care services to keep them in their homes.

- **\$5 million for Increased Investment in Area Agencies on Aging (AAAs):** Pennsylvania's 52 AAAs cover all 67 counties and serve as the front door for the Department of Aging services at the local level. The AAAs serve 600,000 people.
- **\$2 million for Senior Center Modernization:** This investment will help senior centers prepare for the changing demographics and make them attractive to a younger, aging population.

Combining Forces for Record Profits

Under the contract, Camelot's annual profit commitments will provide 9.5 percent compounded annual growth over the first five years of the contract and 6.1 percent compounded annual growth over the first 10 years of the contract. Comparative fiscal analysis against projected Lottery performance shows incremental profit growth of at least \$460 million over the first five years of the contract and at least \$1.3 billion over the first 10 years of the contract.

Camelot is obligated to provide a minimum of \$34.6 billion in profit over 20 years, which is at least \$3 to \$4.5 billion more than Lottery's sales projections and its historic performance suggest it could generate over the same time period and under the same conditions as set forth in the PMA.

Since the contract can be renegotiated at year 10 to ensure maximum responsible Lottery growth, these impressive incremental gains may likely be significantly higher over the 20- to 30-year contract term.

"An apples to apples comparison, taking into account Lottery's own projections for Keno and Internet products, clearly demonstrates that private industry investment and expertise will grow Lottery profits to support a growing senior population," Corbett said.

Camelot plans to achieve the higher profit levels by expanding the player base in Pennsylvania through marketing changes, retail expansion, enhancement of the retail experience and exploration of a rebalanced Lottery game product portfolio.

"The Pennsylvania Lottery is one of the best Lotteries in the country, without a doubt," Corbett said. "We've come up with a win-win scenario where we combine one of the nation's best lotteries with one of the best private-sector lottery industry experts in the world to grow and protect Lottery profits for decades to come."

While the commonwealth plans to retain about 70 employees under the PMA, Camelot intends to retain and hire under its management all current employees who are committed to working toward increased sales and profits. Throughout the PMA process Camelot has acknowledged the tremendous asset the Lottery workforce is to its success, and the private manager intends to expand Lottery employment in Pennsylvania over time.

Additionally, the commonwealth has committed to identifying opportunities for employees who do not transition to Camelot to remain state employees, so that not a single employee is left without a job.

Camelot's Experience

Camelot has managed the United Kingdom National Lottery for the past 18 years, succeeding in attracting more than 50 percent of U.K. adults to play the National Lottery on a weekly basis, compared to 29 percent of Pennsylvanians who currently play the Pennsylvania Lottery on a weekly basis. That 50 percent demonstrates a greater reach than any other fast-moving consumer goods brand in the U.K.

Beyond the U.K., Camelot was a founding shareholder of the South African National Lottery and has advised the Interprovincial Lottery Corp of Canada, the California Lottery, and the Massachusetts Lottery in North America.

In California, Camelot provided consulting services to help it to increase sales and returns to the state education system. Camelot reviewed the lottery's retailer and sales support services, as well as consulted on advertising, promotions and corporate social responsibility. Camelot's expertise on business planning, as well as sales and marketing support, helped put the California Lottery in a position where per capita sales have increased by over 40 percent and it now expects to generate an additional \$2.25 billion in incremental sales, and \$780 million more in profit over the next two years.

What Does Not Change Under the PMA

"While this is an exciting time of change that will reap tremendous rewards for seniors in the immediate and long-term future, it's also worth noting what will not change as a result of this private management agreement," Corbett said.

"The Pennsylvania Lottery will remain the Pennsylvania Lottery – an institution of tremendous integrity and character – and its important mission to fund vital services for older Pennsylvanians will not change.

"Pennsylvania Lottery players will eventually see new games and other exciting changes to the Lottery product line, but the games they know and love will continue to be available to them for the immediate future.

"The Pennsylvania Lottery's more than 9,100 retailers will continue to receive unparalleled support as our valued business partners and key contributors to the Lottery's continued success.

"And finally, the commonwealth will continue to own and control all aspects of the Lottery, ensuring social responsibility, quality and integrity of games and the public's absolute trust in Lottery's business practices."

The Process

The notice of contract award was issued Friday to Camelot, completing a procurement process that began last April, allowing the Corbett administration the opportunity to disclose contractual and procurement details of the PMA at the Senate Finance Committee Hearing on Jan. 14.

Last spring, the commonwealth assembled a team comprised of individuals from various agencies including the departments of Aging, Revenue and General Services, the Pennsylvania Lottery, the Governor's Budget Office, the Governor's Policy Office and the Governor's Office of General Counsel, to explore the feasibility of a Lottery PMA.

The procurement was conducted in phases. The first phase was a Request for Qualifications (RFQ), which initially qualified Camelot, GTECH Corporation and Tatts Group Limited to participate in the process based on financial capability, social responsibility and technical capability and suitability.

Once a pool of qualified bidders was established, the Commonwealth began a multistep sealed bidding process, also known as an Invitation for Bid (IFB). The first step of the IFB was a due diligence process with the qualified bidders, in which the Commonwealth explored the various ways to maximize revenue; conducted initial probity investigations into each bidder's character, fitness and suitability for such a transaction; and developed a private management agreement that preserves and sustains the established integrity, value, and tremendous success of the Lottery while maximizing revenues for the benefit of senior programs.

Tatts withdrew from the procurement in August 2012 to pursue other U.S. PMA opportunities it believed to be more commercially attractive.

In the second step of the IFB process, bidders were invited to submit priced bids in the form of binding APCs for the initial 20-year term of the PMA.

GTECH withdrew from the procurement in November 2012, just before final business plans were due, citing a one-sided PMA in the commonwealth's favor as its top reason for not submitting a priced bid.

Camelot's priced bid was received on Nov. 16, 2012. Multiple bid extensions were negotiated to accommodate completion of a probity investigation into Camelot's integrity and allow additional time for receipt and review of a counterproposal from the union representing Lottery employees.

Risk mitigation firm Kroll Advisory Solutions conducted onsite investigations in all jurisdictions in which Camelot has operated and where individuals proposed to influence Pennsylvania operations have lived and worked. Kroll's investigation encompassed work in Canada, South Africa, the U.K. and the U.S. Kroll interviewed more than four dozen individuals, including current and former government officials, U.S. and international regulators, former colleagues and business partners,

as well as other individuals with knowledge of Camelot and the individuals. Kroll did not identify any material misstatements or omissions, criminal litigation or other issues that reflect negatively on Camelot's or the individuals' backgrounds or business practices.

After careful review and consideration of the union counterproposal, the commonwealth determined the alternative plan to be lacking in a number of key areas, most notably: a lack of new money as security comparable to the \$200 million in security provided for in the PMA; a lack of industry experience in building and balancing a product portfolio to maximize profit, rather than maximize profit margin; and lack of detail regarding plans for expanding the player base, growing the retail network and increasing demand for terminal-based games.

At the conclusion of the nine-month meticulous and judicious process, the commonwealth determined Camelot's bid was responsive, conforms in all material respects to the requirements of the IFB and proposes the highest responsible commitments for maximizing revenues to support senior programs.

Corbett thanked Rep. Tim Hennessey, Chester County; Rep. Seth Grove, York County; Sen. Bob Mensch, Montgomery County; Sen. Mike Brubaker, Lancaster County; Sen. Pat Browne, Lehigh County; Rep. Stephen Bloom, Cumberland County; Rep. Mauree Gingrich, Lebanon County; and Rep. Kerry Benninghoff, Centre County; along with all the Republican leaders who support additional funding for senior citizens.

The Pennsylvania Lottery was created in 1971 to generate funds for programs benefitting older adults. Since 1972, when its first game went on sale, the Pennsylvania Lottery has contributed nearly \$22.6 billion to programs that include property tax and rent rebates; free transit and reduced-fare shared rides; the low-cost prescription drug programs PACE and PACENET; long-term living services; and the 52 Area Agencies on Aging, including hundreds of full- and part-time senior centers throughout the state. The Pennsylvania Lottery remains the only U.S. Lottery that exclusively designates all proceeds to programs benefitting older residents. Learn more at www.palottery.com.

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