



## **Why is Pennsylvania exploring private management of the Lottery?**

Recognizing that Pennsylvania's senior population is growing, the Commonwealth is exploring options to secure and enhance future Lottery funding for programs that serve older adults. These programs include property tax and rent rebates; low-cost prescription drugs (PACE, PACENET and PACE-Plus Medicare); free transit and reduced-fare shared rides; long-term living services; and in-home health and wellness services as well as social, recreational and educational services provided by 52 area agencies on aging and hundreds of senior centers.

The recently released State Plan on Aging noted that through the Department of Aging and the aging services network, more than 930,000 older Pennsylvanians receive Lottery-funded and other services through Commonwealth-supported programs.

The Pennsylvania Lottery performs well, but its performance could be maximized through a Private Management Agreement (PMA). It would be structured to assure reliable and predictable future funding to support Lottery-funded senior programs.

## **What would private management of the Lottery mean for senior services?**

A Lottery PMA would protect and grow future funding for senior programs by maximizing a growing and more predictable stream of cash-flow.

Today, Pennsylvania is home to nearly 2.3 million people over the age of 60, more than 300,000 of whom are 85 or older. By 2030, nearly a quarter of the state's population will be over age 60, and the 85-plus population is expected to grow by 80,000 people. This means funding must be secure and grow to meet higher demand for services.

## **Does this mean the Commonwealth is selling the lottery?**

No. Federal law prohibits the sale of any Lottery, and the Commonwealth will maintain ownership of and control over all aspects of Lottery operations at all times. A private manager would be responsible for assisting with the day-to-day operations of the Lottery during the term of the PMA, but the Commonwealth will retain full rights to conduct, control, inspect and audit the Lottery.

The private manager would only be able to earn limited compensation.

## **How will the Commonwealth ensure that a Private Manager delivers what it promises?**

Under a PMA, a private manager would provide Annual Profit Commitments (APCs) to assure certain Lottery profit levels to the Commonwealth. If profit falls short of the APC assured by the private manager in any contract year, the Commonwealth will be able to draw a shortfall payment from the \$150 million cash collateral



provided by the private manager upon execution of the PMA. No such safety net exists today if the Lottery misses its budgeted profit number.

Additionally, the PMA provides for other financial securities and protections not available today to ensure and protect a reliable funding stream for senior programs.

### **For how long would a PMA last?**

The Commonwealth has determined through market feedback and evaluation of other similar transactions that a base term of 20 years will ensure optimal benefits to seniors. Through a PMA, bidders will assure profit levels for the next 20 years, thereby affording the Commonwealth stability and predictability in funding it does not have currently. Performance-based contract extensions may lengthen the contract term to 30 years if the private manager consistently exceeds its APCs.

Other jurisdictions have considered base terms ranging from 10 years (Illinois Lottery) to 65 years (Queensland, Australia Lottery). The most recently executed Lottery PMA in Indiana was for a term up to 25 years, including extensions.

### **What is the procurement process the Commonwealth is following in this effort?**

If a decision is made to engage a private manager for the Lottery, such services will be procured -- as all services are procured -- in accordance with the Commonwealth's Procurement Code and Handbook.

The procurement takes place in phases. The first phase was a Request for Qualifications (RFQ), which initially qualified potential bidders 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 multi-step 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.

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

At the conclusion of the process, the Commonwealth may award the contract to the qualified bidder that is 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.



## **Who decides whether to enter into a private management agreement, and who decides which vendor is awarded the contract?**

The Commonwealth has 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.

To assist the Commonwealth in this process and because the complexities of such a transaction necessitate it, the Commonwealth has hired an independent financial advisory firm, Greenhill & Co., LLC, and a law firm, DLA Piper, which have experience and expertise with regard to such transactions.

A decision whether to proceed with the transaction will be made by the Commonwealth team in consultation with its financial and legal advisors. Likewise, selection of the awardee will be made by the Commonwealth in consultation with its advisors.

## **How many companies are involved in the procurement process?**

Under this multi-phase, sealed bidding process, the number of RFQ responses received and identities of respondents will remain confidential until the procurement process is completed or abandoned, to preserve the integrity of the procurement and maximize competition among respondents.

At the conclusion of the procurement process, all information authorized to be provided for this procurement will be made available.

## **How do we know we're not paying a company a premium to do what the Lottery could do on its own?**

If priced bids are sought from bidders following evaluation of their business plans, the Commonwealth will take into consideration all costs of engaging a private manager – including incentive compensation, manager expenses and any operating expenses not currently incurred by the Pennsylvania Lottery – and compare those expenses against each bidder's annual profit commitments to ensure the incremental profit growth above what the Lottery could achieve on its own justifies and significantly exceeds the additional management costs.

The Lottery's recent tremendous success is welcome good news for programs benefiting older Pennsylvanians, and it set the bar even higher for potential bidders on a Lottery PMA.



**What baseline would priced bids be measured against – budget projections or something less conservative?**

In order to maximize competitive bids and value for the Commonwealth, we're not in a position to disclose the baseline against which bids will be measured at this point.

**How would a Lottery PMA affect the 230+ current employees of the Lottery, including the nearly 160 union employees?**

The Commonwealth sincerely appreciates the hard work and professionalism of the current Lottery employees, and through the due diligence process bidders repeatedly acknowledged the tremendous asset Lottery's employees are to its recent success. PMA terms include provisions that recognize the importance of protecting current employees' employment to the extent possible.

Under a PMA, the Lottery would expect to maintain a complement of about 70 employees to perform the Commonwealth-retained responsibilities. These employees will occupy a combination of management and union-covered positions. Which employees would be retained would be determined by applying provisions of the collective bargaining agreement (union-covered employees) and Civil Service rules (Civil Service-covered management employees).

Bidders have expressed interest in hiring current employees into private management operations, and current Lottery employees beyond the 70 retained by the Commonwealth would be invited to apply for job opportunities and interview with the private manager during an employment transition period that will be no less than 90 days and may take up to a year.

The Commonwealth would provide advance notice to and pursue alternate placement for any current Lottery employee not selected for employment by the private manager and not retained by the Commonwealth.

Bidders' business plans are expected to detail optimal staffing levels for each private manager and detail how each company would approach the employment transition. While it's premature to determine individual impact on Lottery employees, the Commonwealth is confident there would be real employment opportunities with a private manager for current Lottery employees.

There are also provisions of the union's collective bargaining agreement that establish a process for discussions between the Commonwealth and the union before a final decision on a PMA can be made. Essentially, the process requires the Commonwealth to demonstrate the tangible business advantages it will realize as a result of the PMA and afford the union an opportunity to offer an alternative that achieves the same or better outcome.



**How would the contracts of current Lottery vendors be affected? What about new contracts?**

A Lottery PMA would assign current Lottery contracts – including the Scientific Games contracts for gaming systems and instant games, extended to August 2017 and December 2018, respectively – to the private manager. Terms of current contracts would transfer to the private manager, and it would become the private manager’s responsibility to administer those contracts.

The private manager will be responsible for contracting vendors to support operation and growth of the Pennsylvania Lottery. It will not be required to follow Commonwealth procurement rules, but it will be held to competitive procurement standards and contracting best practices.

**Are the Commonwealth’s consultants and lawyers compensated if the transaction does not move forward?**

The Commonwealth has engaged financial and legal experts to work closely with the Commonwealth’s multi-agency team on this proposed transaction. The Commonwealth’s team of in-house attorneys is working closely with outside counsel to limit the legal costs associated with the proposed transaction. If the Commonwealth decides not to pursue the transaction, each advisor will be compensated pursuant to their contracts.