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Could sluggish Illinois lottery aim higher?

Private firm falling short in sales; poorer neighborhoods bring in most revenue

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In a game dominated by numbers, some of the Illinois Lottery's most important digits include 60619, 60608 and 60651.

Those ZIP codes — which encompass some of Chicago's most economically depressed neighborhoods — were among the highest sales-producing areas for the lottery last year.

Now, amid sluggish sales and concerns that lower-income residents buy most tickets, a state board appointed to oversee the lottery is questioning whether the private company hired to operate the games of chance is doing enough to promote them among the more affluent.

"Has there been an effort ... to try to increase lottery activity in affluent neighborhoods and to reach those people who may have greater disposable income to participate in the lottery?" asked Lottery Control Board member Geoffrey Richards.

So far, Illinois Lottery officials say Northstar Lottery Group has not offered a satisfactory answer to that question despite falling more than \$210 million short of what it promised to raise for the state since it took over in July 2011.

The lottery would like to know whether sales of particular games that target higher-income markets have matched expectations and attracted the customers Northstar intended, lottery superintendent Michael Jones said. It should be simple, he said, for the company to conduct surveys shortly after a game is introduced to determine whether it is attracting new customers.

"It has been very difficult to get that kind of analysis" from them, he said. "There's very little the lottery can do other than ask."

The stalemate underscores what critics say is a flawed agreement that gave Northstar a contract to operate the lottery — an arrangement that has drawn increasing fire as revenue has fallen short of targets while some of the state's poorest residents continue to be the games' biggest supporters.

"I think the facts are that when Northstar came in, they made some promises and they may have over promised," said state Rep. Fred Crespo, D-Streamwood, who chairs the House Appropriations-General Services Committee that funds the lottery. "My concern is that a lot of

that money (from the lottery) goes to education. My understanding is that this year they're going to fall short again. The biggest problem is this private management agreement."

Lottery officials recently reported that if sales remain constant for the rest of the fiscal year, which ends in June, they are on track to reach an estimated \$2.8 billion, about the same as the previous year.

The figure is far short of the \$3.5 billion in sales Northstar Lottery Group hoped to hit in order to meet the ever-increasing revenue goals it promised as part of its successful bid to become the nation's first private manager of a state lottery in 2011.

That makes it all the more important to know whether the firm's games and marketing strategies are taking hold in more affluent areas, said [investment banker](#) and former Chicago Bear Gary Fencik, who serves as board chairman.

"If you're trying to expand the use of the lottery, where are you fishing?" he asked.

Jones said Northstar sent his office some survey information last month. Despite an increase in the number of games since January 2013 — including "Hit or Miss" and "Fireball" — the data did not offer any analysis of who is playing the new games and how much they spend, he said.

Northstar, which has raised record revenues for the state since taking over, has failed each year to meet the revenue targets outlined in its contract. The shortfalls have cost the company millions in penalties, though its [parent](#) companies — GTECH and Scientific Games — together have been paid about \$85 million in each of the past two years through contracts with Northstar to provide the games and maintain the terminals.

Northstar spokeswoman Avis LaVelle said the company has had some success with new games, which she said are designed to attract more affluent customers.

"I think there is plenty to substantiate that, and I think the kinds of games that are being played in those (more affluent) areas indicate a shift toward the types of players we're trying to attract," she said.

She did not name specific communities.

LaVelle said the "The Good Life" series of scratch-off instant games, which are priced from \$1 to \$30, have grown in popularity. The series offers payouts of \$1,000 to \$30,000 a week for the next 20 to 30 years.

But LaVelle could not provide any data showing which games have begun to capture more players with higher levels of disposable income.

A broader market survey conducted last year by Northstar found that a much higher percentage of whites said they play the lottery than blacks or Hispanics. It also found that those with annual incomes of \$25,000 to \$49,999 were most likely to play, according to one page of the survey

LaVelle emailed to the Tribune. The information was broken down by age, gender, race and income level.

But LaVelle said the company doesn't use those demographic categories when analyzing survey answers about spending habits and how often people play.

"We segment our general player base ... according to a different set of parameters (and) then, through further exploration, assess their patterns of play," LaVelle said.

LaVelle declined to reveal how Northstar evaluates its customers or to supply the Tribune with a copy of the complete survey, saying it was proprietary information.

Lottery officials also denied the newspaper's request for the survey under the Illinois Freedom of Information Act, citing an exception for confidential or proprietary information — an exception Northstar could waive under the act.

Lottery financial records show the survey, which cost \$49,800, was paid for by the state agency, not Northstar.

"We would have released it," said Jones, the lottery superintendent. "(Northstar) refused to waive the confidentiality clause."

Historically, lower-income areas have provided the bulk of revenues for lotteries around the country. Over the past two decades, numerous studies by academic institutions and the gambling industry have found that people who play the lottery most frequently have lower levels of education and lower income. The poor also spend a greater percentage of their total income on lottery tickets than those with greater financial means.

Lower-income areas continue to provide the bulk of sales for the lottery, according to sales data obtained by the Tribune.

In the lottery's 2013 fiscal year that ended in June, 12 of the top 20 sales-producing ZIP codes included Chicago neighborhoods where U.S. Census data showed the average median household income was nearly \$11,000 lower than the median income for the entire city.

As a group, these dozen areas accounted for almost 10 percent of the \$2.8 billion in sales for that year, and lottery data showed that over the past three years, sales in those areas have increased by an average of 11 percent.

While some have seen slight decreases, other areas have seen sales jump sharply, including 60608.

That ZIP code — which incorporates parts of the Pilsen, Bridgeport and McKinley Park neighborhoods on the city's South Side — saw sales revenues increase more than 21 percent

between the 2011 and 2013 fiscal years. This despite census data that shows the median household income is nearly \$12,000 lower than the Chicago average.

The highest performing ZIP code was 60619, which includes portions of the Chatham and Grand Crossing communities on the South Side. Last year, buyers purchased nearly \$30 million in lottery games in that area, where the median income is \$10,694 lower than that of Chicago as a whole.

In 60651, which incorporates the West Side community of Humboldt Park and portions of Austin, a slight decrease in sales was recorded over the past three years, but it still ranked as the 10th highest in lottery sales at almost \$21 million. Census data showed the median income for that area is more than \$15,500 lower than that of Chicago.

Richards said his question about what Northstar is doing to expand sales in more affluent communities was prompted by a Sept. 29 report in the Tribune detailing how a convicted felon used grants from Chicago to open a liquor store in the Austin neighborhood, one of the city's most impoverished areas. The store also sells lottery tickets, and photographs accompanying the report showed signs for the lottery displayed in the store's windows.

"I saw the sign for the lottery in the photo, and I thought there might be better places where the lottery could be establishing a presence: in areas where people had disposable income available for a discretionary purchase like a lottery ticket," Richards said.

Khurram Shiraz, the manager of a BP gas station in Deerfield, said most of his customers are wealthy and that he has seen an increase in sales of games that target that demographic. Among the lottery's current offerings, "The Good Life" is a top seller, along with several other \$20 tickets, he said.

Despite the popularity of the more expensive games, overall sales at his store have remained steady at \$4,000 to \$5,000 a week since Northstar took control, Shiraz said.

"Lately, they have introduced a lot of newer games, but the payouts are less," he said. "A few customers have noticed, and they are not buying as much as they used to."

Oak Brook resident Alex Petska, 72, said he spends about \$40 a day — usually for \$20 scratch-off tickets — and said he has won \$33,000 so far this year. But Petska was skeptical that marketing changes or new games would bring in more affluent customers.

"People with less money are probably more tempted to play because they need the cash," Petska said as he picked up his lottery tickets one day last month at a Shell station on Ogden Avenue in Hinsdale. "But I believe that people either like to gamble or don't like to gamble. I don't think doing anything differently will encourage more (well-to-do) people to play."

Both the lottery and Northstar say the key to improved sales is not to get core customers to play more, but entice many new customers to play a little.

The state, Richards said, is depending on the company to provide the revenues it promised.

"I'd like nothing more than to be able to see them perform in the manner projected, because that means there's more revenue available for the beneficiaries of the lottery," he said.

Freelance writer Joe Ruzich contributed.

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