

MINUTES
IOWA LOTTERY BOARD
September 30, 2008

The Iowa Lottery Board convened by teleconference at 1:07 p.m., Chairperson Junge presiding. Board members participating: Elaine Baxter, Mary Junge, Michael Klappholz, Brad Schroeder, Michael Fitzgerald. Absent: Tom Rial

Staff present at Lottery Headquarters: Kenneth Brickman, Acting CEO; Brenda Loy, Acting Chief Financial Officer; Joe Hrdlicka, Vice President for Marketing; Larry Loss, Vice President for Sales; Mary Neubauer, Vice President for External Affairs; John Ellison, Security Investigator; Therese Spaulding, Validations Manager; David Van Compernelle, Assistant Attorney General; Barbara DeHeck, secretary.

Others Present: Dave Berger (Scientific Games).

Junge called the meeting to order and noted that the Board members were participating by means of a conference call, with the provisions of Iowa Code section 21.8 governing the conduct of electronic meetings in effect. A meeting with all members in attendance in person was impractical due to Board members' personal scheduling conflicts. The meeting originated from the Lottery central offices in Des Moines and public notice of the meeting was given pursuant to Iowa Code section 21.4, with public access to the conversation of all participants provided by means of speakerphone for the benefit of all in attendance at the meeting site. Schroeder moved to conduct the meeting by electronic means, pursuant to Code section 21.8. The motion was seconded by Klappholz and carried unanimously.

Minutes

Klappholz moved to approve the minutes of the July 17 and August 4, 2008 meetings. The motion was seconded by Schroeder and carried unanimously.

Monthly Reports

Written reports were included in the agenda package. Staff members reviewed the information and responded to questions from Board members. In addition to the regular monthly reports, Loss presented comprehensive annual retailer sales figures by product for the top 50 stores, the top 10 stores in each region, and the top three corporate chains.

Baxter moved to accept the monthly reports. The motion was seconded by Schroeder and carried unanimously.

Budget

Spaulding presented the proposed 2010 budget (Attachment A) for Board approval. She noted that sales were expected to remain about the same, with losses resulting from the recent natural disasters being offset by upcoming changes to the Powerball game. Transfers to the state were anticipated to increase, since the Lottery would make its last \$2 million bond payment in 2009, and then would be paying \$100,000 annually for the next several years.

Schroeder moved to approve the proposed 2010 budget. The motion was seconded by Baxter and carried unanimously.

Pull-Tab Ticket Printing Contract

Hrdlicka noted that at its June 13 meeting the Board had awarded the bid for pull-tab ticket printing to American Games, Inc. and authorized the staff to negotiate a contract for the initial period of January 1, 2009 through December 31, 2010, with up to three one-year renewal options. The contract was included in the agenda package for the Board members' review.

Klappholz moved to approve the pull-tab ticket printing contract with American Games. The motion was seconded by Baxter and carried unanimously.

Contract Extensions

Marketing Research. Hrdlicka requested Board approval for the third one-year extension (through December 31, 2009) available under the Lottery's contract with Crawford, Johnson & Northcott for marketing research services. He reported that the firm's pricing was very competitive and its performance had been responsive and exemplary.

Schroeder moved to approve extension of the marketing research contract with Crawford, Johnson & Northcott. The motion was seconded by Klappholz and carried unanimously.

On-Line Products and Services. Brickman noted that the Board, at its July 17 meeting, had approved extension of the contract with Scientific Games International through July 2, 2011. The contract extension as negotiated and approved by legal counsel was included in the agenda package for Board review.

Baxter moved to approve the contact extension. The motion was seconded by Schroeder and carried unanimously.

Litigation Update

Junge announced that the office of the Attorney General was prepared to consult with the Board on the status of pending litigation and that the briefing should be conducted in closed session as provided in Iowa Code chapter 21.5(1)(c) which provided for closed session to discuss strategy with counsel in matters presently in litigation or where litigation was imminent where its disclosure would be likely to prejudice or disadvantage the position of the governmental body in that litigation.

Baxter moved to go into closed session pursuant to Iowa Code chapters 21.5(1)(c). The motion was seconded by Klappholz and carried by a unanimous roll-call vote.

The Board convened in closed session at 1:35 p.m. At 1:50 p.m. the Board returned to open session upon a motion by Schroeder, seconded by Klappholz, and carried by a unanimous roll-call vote. No action was taken in closed session.

Adjournment having been moved and carried, the meeting adjourned at 1:51 p.m.

Budget for Lottery Fund

	2008 PRELIMINARY ACTUAL	2009 BOARD APPROVED BUDGET	2010 PROPOSED BUDGET
Resources			
Lottery Sales	249,217,468	245,330,000	245,330,000
Interest	699,922	570,000	570,000
Application Fees	5,150	5,000	5,000
Other	47,962	5,000	5,000
Total Resources	249,970,502	245,910,000	245,910,000
Expenditures			
Prizes	144,669,575	136,539,184	137,539,184
Retailer Compensation	15,650,431	15,080,000	15,080,000
Marketing, Education and Information	7,283,980	9,813,200	9,813,200
Retailer Lottery System	7,823,721	7,762,000	7,762,000
Instant/PT Ticket Expense	2,444,025	2,496,000	2,496,000
Terminal Communications	447,676	425,000	425,000
Terminal equipment/Ticket dispensers	82,479	100,000	100,000
PTVM/ITVM Servicing	492,495	525,000	525,000
Interest Expense (ITVM/PTVM/BUILDING)	109,467	50,000	50,000
Depreciation Expense (ITVM/PTVM/BUILDING)	1,222,260	1,222,588	745,807 (1)
Refunds/Other	-	2,100	2,100
Lottery Operations	11,894,873	11,686,616	11,686,616
Total Expenditures	192,110,962	185,701,688	186,224,907
Net Income			
Prior to Net Asset Change	57,859,520	60,208,312	59,685,093
Less increase (decrease) in net assets	1,313,402	(1,122,588)	(645,807) (1)
After Net Asset Change	56,546,118	61,330,900	60,330,900
Transfers			
Proceeds Transfer	55,296,265	57,090,040	56,090,040
Veterans Transfer	-	3,011,310	3,011,310
Gamblers Treatment Transfer	1,249,853	1,229,550	1,229,550
Total Expenditures and Transfers	249,970,502	245,910,000	245,910,000

Attachment A

(1) - Decrease in Instant & Pulltab ticket vending machines depreciation. All machines will be fully depreciated by the end of FY 2010.

Lottery Operations - Budget Detail

	2008 PRELIMINARY ACTUAL	2009 BOARD APPROVED BUDGET	2010 PROPOSED BUDGET
Administrative Payroll	9,435,111	9,387,541	9,307,541
Personal Travel in State	97,781	110,000	110,000
State Vehicle Operation	322,068	355,000	355,000
Vehicle Depreciation	157,578	170,010	170,010
Personal Travel Out of State	23,596	40,000	40,000
Office Supplies	90,874	85,000	90,000
Facility Maintenance Supplies	14,721	15,000	15,000
Other Supplies	1,997	1,000	1,000
Printing and Binding	17,737	22,000	18,000
Postage	4,528	45,000	5,000
Communications	126,353	130,000	115,000
Rentals	277,173	280,000	280,000
Utilities	114,292	116,515	116,515
Prof & Scientific Services	144,953	90,000	96,190
Outside Services	154,164	74,060	118,060
Advertising	23,549	-	-
Outside Repairs	109,987	100,000	100,000
Attorney General	238,319	116,190	160,000
Auditor of State	61,165	80,000	80,000
Reimbursement to Other Agencies	200,751	202,000	202,000
ITS Reimbursement	37,998	40,000	40,000
Equipment	-	20,000	20,000
Equipment Non Inventory	13,604	25,000	25,000
IT Equipment (Inventory, non-inventory)	59,342	70,000	70,000
Other Expenses	155,061	110,000	150,000
Fees	2,171	2,300	2,300
Total Lottery Operations	11,884,873	11,686,616	11,686,616

Increase (Decrease) in Net Assets

	2008 PRELIMINARY ACTUAL	2009 BOARD APPROVED BUDGET	2010 BOARD APPROVED BUDGET
Bonds payment	2,000,000	100,000	100,000
Depreciation Expense (ITVM/PTVM/BUILDING)	(1,222,260)	(1,222,588)	(745,807)
Other adjustments*	535,662	-	-
Total Change in Net Assets	1,313,402	(1,122,588)	(645,807)

* - Increase in inventory due to change from shared risk purchasing method to cost per thousand method.