

MINUTES
IOWA LOTTERY BOARD
September 29, 2009

The Iowa Lottery Board convened at 10:35 a.m., Chairperson Junge presiding. Board members present at Lottery Headquarters: Elaine Baxter, Mary Junge, Thomas Rial, Michael Fitzgerald. Participating by telephone: Michael Klappholz. Absent: Brad Schroeder.

Lottery staff present: Terry Rich, CEO; Kenneth Brickman, Executive Vice President; Joe Diaz, Vice President for Security; Brenda Loy, Chief Financial Officer; Joe Hrdlicka, Vice President for Marketing; Larry Loss, Vice President for Sales; Mary Neubauer, Vice President for External Relations; Sally Robson, Advertising Manager; David Van Compernelle, Assistant Attorney General; Barbara DeHeck, secretary.

Chairperson Junge called the meeting to order and noted that a Board member was present 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 the Board member's personal scheduling conflict. The meeting originated from the Lottery central offices in Des Moines and public notice of the meeting had been 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. Baxter moved to conduct the meeting by electronic means, pursuant to Code section 21.8. The motion was seconded by Rial and carried unanimously.

Minutes

Rial moved to approve the minutes of the May 27, 2009 meeting. The motion was seconded by Klappholz and carried unanimously.

Monthly Reports

Security: Diaz noted that the agenda package contained security reports for the months of May through October. He also distributed an executive summary showing corrected totals for cases worked and closed. He reported that retailer compliance checks conducted in August, involving 217 stores in 82 towns, had shown 100% ticket compliance and 65% signature requirement compliance. He also indicated the new security database was operational and incorporated many new features, most significantly an enhanced, user-friendly search capability.

Financial: In addition to the May, June, and July financial reports included in the agenda package, Loy distributed the August financial report and a performance

measures report presenting a summary of sales, expenses, and proceeds. FY 09 ended with \$60,600,603 in proceeds; she noted that total transfers to the state were greater than the previous year's and basically equivalent to the budget projections.

Marketing/Sales: Hrdlicka reported that the "Big Beepin' Deal" and "Keep Your Ticket Handy" promotions had been very successful, not only in terms of lottery sales but also in promoting a number of businesses and attractions across the state. The Midwest Millions scratch ticket game continued to be popular, and the staff had begun working with Kansas Lottery on another joint venture to begin later in the year.

Included in the agenda package was a ranking of the 50 top-selling retailers for fiscal year 2009, the top 10 stores in each Lottery region, and the top 3 corporate accounts. Loss reviewed the information, noting that there were few changes in ranking from the previous year.

Rial moved to approve the monthly reports. The motion was seconded by Baxter and carried unanimously.

CEO Update

ILOT Priorities: Rich summarized Lottery management's chief priorities: (1) To exceed proceeds goals; rather than simply increasing sales, increase the funds provided to the state. (2) Maintain and improve the Lottery's image with players, retailers, and state government. He noted that terminals would soon feature a sound when a winning ticket was presented, which should enhance the Lottery's image by providing proof of value to both customers and retailers. (3) Achieve a best in class lottery operation by encouraging employee input and communicating with other lotteries to learn about trends and what has been successful for them. (4) Create a culture of fun energy, with the flexibility to change and take calculated risks, while ensuring that all employees understand the Lottery's finances and budget.

Federal Legislation: Rich reviewed proposed federal legislation relating to Internet gaming and its possible implications for the state. He said he would continue to keep the Board informed of any developments.

New Games: Rich said the staff continued to study possible options for new games, including a national game, and would continue to inform the Board of games being considered.

Request for Proposals: Rich reported that the on-line system RFP had been issued, and four companies had expressed an interest in bidding. The question and answer phase was currently underway, with actual bids to be submitted in January.

Bottom Lines Challenge: The Bottom-Line Challenge contest approved by the Board at its March 25 meeting had concluded, with 33 of the 41 District Sales Representatives exceeding their goals and earning credit toward Lottery apparel. The transfer goal for all other employees was not met and no credit was earned. Rich indicated the total cost for the contest was approximately \$1500.

Overview of Lottery Trends: Neubauer distributed a report on the Lottery's social media efforts. She said social media such as Facebook, YouTube and Twitter had come to be expected by the public and were essential to communicating with customers and connecting with the public, particularly the 21-30 age group which was traditionally difficult for the Lottery to reach. The Iowa Lottery was one of the first lotteries in the country to utilize social media, and had been contacted by many other lotteries for advice in beginning their own efforts.

Rich said a Rockefeller study just issued showed Iowa as the third highest ranked lottery in terms of growth in proceeds for 2009 compared to 2008. The casino industry had experienced a downward trend, and the gaming industry in general would be affected by the downturn in the economy. He said the Lottery staff would continue to study those and other trends and strive to budget accurately and in a socially acceptable manner.

Fiscal Policy Changes

Proposed changes to the Lottery's fiscal policies were included in the agenda package for Board approval. Loy noted that most of the changes were needed to comply with Executive Order 13, which required that actual receipts be submitted for meals and all other work-related expenses, effective July 1, 2009. Also included were several updates to claims processing procedures.

Baxter moved to approve the changes to the Iowa Lottery's fiscal policies, retroactive to July 1, 2009. The motion was seconded by Rial and carried unanimously.

2011 Budget

The proposed 2011 budget was presented for Board approval (Attachment A) Rich noted that the budget anticipated a one percent increase in net proceeds. Loy pointed out the costs for the retail lottery system were lower because of the extension of the on-line contract with Scientific Games. Operating expenses were also lower, primarily because the vending machines were now fully depreciated. Rich indicated additional funds were budgeted for transition to the new on-line system; also, prizes increased along with sales.

Rial moved to approve the budget for 2011. The motion was seconded by Klappholz and carried unanimously.

Contract Extensions

Instant Tickets: Hrdlicka reported that the Lottery's initial two-year contracts with Scientific Games International and Pollard Banknote Limited for instant ticket printing would expire on December 31. He said both vendors had performed capably, and the staff recommended exercising the first of three one-year extensions provided for in the original contracts.

Vending Machines Maintenance: Loss said the staff was very happy with services provided by American Games and recommended exercising the final renewal option, extending the contract through September 30, 2010.

Marketing Research. The final available one-year renewal option (calendar year 2010) for the contract with Johnson & Northcott, Inc., for marketing research projects was presented for Board approval. Hrdlicka said the staff continued to be very satisfied with the company's service and recommended renewal.

Rial moved to approve the four contract extensions: Instant ticket printing and related services with Scientific Games International and Pollard Banknote Limited; the vending machine maintenance program agreement with Pollard Games Inc., dba American Games, Inc.; and marketing research services with Crawford Johnson & Northcott, Inc. The motion was seconded by Baxter and carried unanimously.

Personnel

DeHeck announced that she would retire from the Lottery at the end of October. The Board praised her for her excellent work and years of service.

Litigation

Van Compernelle reported there had been no new developments related to pending litigation.

Election of Officers

The chair called for nominations for Board chairperson and vice chairperson. Rial nominated Klappholz as Board chair. The nomination was seconded by Baxter and carried. Baxter nominated Rial as vice chair. The nomination was seconded by Klappholz and carried.

There being no further business, the meeting adjourned at 12:20 p.m.

Capital Expenses

Category	Fiscal Year			
	2009	2010	2011	2012
Property Upkeep				
Tuck Point exterior 1/2 '09, 1/2 '10	\$ -	\$ 190,000		
Exterior Windows			\$ 165,000	
Vinyl wall coverings			\$ 4,000	
Security Camera	\$ 5,000			
Lighting upgrade			\$ 12,000	
Cafeteria lighting upgrade			\$ 5,500	
Halon fire suppression replacement			\$ 28,000	
Elevator control panel				\$ 85,000
Rest room upgrades				\$ 6,500
Carpeting				\$ 42,120
Repair roof	\$ 3,500			
Repair concrete and fix sidewalk heaed areas	\$ 12,900			
Hallway painting general M&R		\$ 5,000		
Outdoor upkeep/ repair	\$ 7,500	\$ 5,000	\$ 5,000	\$ 5,000
TOTAL	\$ 28,900	\$ 200,000	\$ 219,500	\$ 138,620
Outside Service & Repairs				
Maintenance Contract on Statement Printers			\$ 4,200	
Remodel of Test Area			\$ 6,500	
TOTAL	\$ -	\$ -	\$ 10,700	\$ -
Computer Hardware				
VM Ware. Server Replacement	\$ 55,526	\$ 20,000		
PC Replacement	\$ 20,374	\$ 3,626	\$ 24,000	\$ 24,000
Printer replacement		\$ 17,500	\$ 29,600	
TOTAL	\$ 75,900	\$ 41,126	\$ 53,600	\$ 24,000
Computer Software				
WLA Security/ ISO 27001 Services	\$ -	\$ 28,800	\$ 10,400	\$ 10,400
UTM Firewall Replacement	\$ 20,000	\$ 6,104		
Software upgrade- Chrystal '10; Office '11		\$ 10,000	\$ 49,700	
Software upgrade- Office/ Adobe	\$ 1,500			
Microsoft Maintenance- Cisco/Nortel/ Symantec, etc.		\$ 11,800		
Skype access	\$ 1,000			
TOTAL	\$ 22,500	\$ 56,704	\$ 60,100	\$ 10,400
Various				
Badge/ ID	\$ 4,000			
Sign at Storm Lake Office	\$ 5,031			
Photo printer replacements	\$ 5,000			
Security equipment			\$ 4,000	
TOTAL	\$ 14,031	\$ -	\$ 4,000	\$ -
GRAND TOTAL	\$ 141,331	\$ 297,830	\$ 347,900	\$ 173,020

Budget for Lottery Fund

	2009 ACTUAL	2010 BOARD APPROVED BUDGET	2011 PROPOSED BUDGET
Resources			
Lottery sales	243,337,101	245,430,000	250,100,000
Interest income	421,090	570,000	500,000
Application fees	3,680	5,000	5,000
Other	65,449	5,000	5,000
Total resources	243,827,320	246,010,000	250,610,000
Expenses			
Prizes	138,425,341	137,597,684	142,814,120
Retailer compensation	15,298,983	15,088,100	15,606,100
Advertising production and media purchases	6,995,166	9,817,200	10,004,000
Retailer Lottery system/Terminal communications	8,248,110	8,190,000	5,897,595
Instant/Pull-tab ticket expense & machine maintenance	3,194,530	3,022,000	3,235,412
Terminal equipment/Ticket dispensers	81,249	100,000	100,000
Interest expense (ITVM/PTVM/Building)	48,986	50,000	42,500
Lottery operating expense	12,235,787	12,459,423	11,927,095
Total Expenses	184,528,152	186,324,407	189,626,822
Net Income			
Prior to Net Asset Change	59,299,168	59,685,593	60,983,178
Less increase (decrease) in net assets	(1,254,138)	(645,807)	48,341
After Net Asset Change	60,553,306	60,331,400	60,934,837
Proceeds			
Proceeds Transfer to General Fund	56,550,792	57,320,090	58,234,837
Proceeds Transfer to Veterans Trust Fund	2,783,377	3,011,310	2,700,000
Proceeds Transfer to Gamblers Treatment Fund	1,219,137	-	-
Total Proceeds Transfers	60,553,306	60,331,400	60,934,837
Total Expenses and Proceeds	243,827,320	246,010,000	250,610,000

Increase (Decrease) In Net Assets

	2009 ACTUAL	2010 BOARD APPROVED BUDGET	2011 BOARD APPROVED BUDGET
Bonds payment	100,000	100,000	100,000
Depreciation Expense (ITVM/PTVM/BUILDING)	(1,216,296)	(745,807)	(51,659)
Other adjustments	(137,842)		
Total Change in Net Assets	<u>(1,254,138)</u>	<u>(645,807)</u>	<u>48,341</u>

Lottery Operations - Budget Detail

	2009 ACTUAL	2010 BOARD APPROVED BUDGET	2011 PROPOSED BUDGET	
Administrative payroll	8,759,206	9,334,541	9,426,178	(1)
Travel	404,876	430,000	430,000	
Supplies	110,739	105,000	105,000	
Printing	9,582	10,000	10,000	
Postage	4,718	5,000	5,000	
Communications	116,920	110,000	110,000	
Rentals	290,254	240,000	240,000	
Utilities	103,240	101,515	101,515	
Professional fees	121,965	136,190	136,190	
Advertising	12,451			
Outside services and repair	166,732	376,730	396,932	
Data processing	40,929	40,000	40,000	
Non-capitalized equipment	123,349	190,330	241,049	
Reimbursement to state agency	435,976	392,000	392,000	
Depreciation	1,403,051	855,817	160,931	
Other expenses	131,799	132,300	132,300	
Total operating expenses	\$ 12,235,787	\$ 12,459,423	\$ 11,927,095	
Depreciation Expense (ITVM/PTVM/Building)		745,807		
Lottery Operations shown on 2010 Budget		<u>11,713,616</u>		

- (1) The Administrative payroll 2011 proposed budget does not include salary and benefit cost increases. Consistent with prior years, salary and benefit cost increases will be requested as a budget amendment in June 2010. Additionally, the Administrative payroll 2011 proposed budget includes \$40,000 for system conversion costs