



13001 University Avenue
Clive · Iowa 50325-8225
515-725-7900
www.ialottery.com

Terry E. Branstad · Governor
Kim Reynolds · Lt. Governor
Terry Rich · Chief Executive Officer

AGENDA

IOWA LOTTERY BOARD

June 28, 2016
10:30 am

Cedar Rapids CSD - Educational Leadership & Support Center
Metro Room/B103
2500 Edgewood Rd NW
Cedar Rapids, IA

Dial In: 866-685-1580
Code: 000 999 0332

- I. Call to Order
 - a. Approval of Agenda
 - b. Approval of Minutes – March 24, 2016
- II. Retailer Recognition – HyVee, Wilson Ave, Cedar Rapids
- III. Quarterly Reports
 - a. Financial
 - b. Marketing
 - c. Security
 - d. External Relations
 - e. Legal
- IV. FY17 Key Employee Pay Plan/Compensation
- V. New Lottery Look and Branding Statement
- VI. Pull Tab Vending Machine RFP/Contract
- VII. FY17 Budget
- VIII. Instaplay Overview/Administrative Rule
- IX. CEO Report
 - a. 2017 Goals
- X. Election of Officers
- XI. Adjournment

If you require the assistance of auxiliary aids or services to participate in or attend the meeting because of a disability, please call our ADA coordinator at 515-725-7864, or if you are hearing impaired, call Relay TTY at 1-800-735-2942.

MINUTES

IOWA LOTTERY BOARD

March 24, 2016

10:00 a.m.

The Iowa Lottery Board convened at 10:00 a.m.; Board Chairperson Matt McDermott presiding.

Board Members Present:

Matt McDermott, chair; Mike Klappholz; Ying Sa; Mary Rathje (via teleconference); Hon. Michael Fitzgerald

Board Members Absent:

Connor Flynn

Lottery Staff Participating:

Terry Rich, CEO; Larry Loss, EVP; Teri Wood, VP, Marketing; Brenda Nye, VP, Finance; Cam Coppess, VP, Security; Hale Strasser, VP, Systems Operations; Rob Porter, VP, Legal Counsel; Doug Orr, Dir of Retail Sales; Mary Neubauer, VP, External Relations (via teleconference); David VanCompernelle, Assistant AG; Deb Bassett, Board Secretary

Others Present:

Hunter Bellon, Department of Public Safety; Andrew Ternes, Department of Public Safety

CALL TO ORDER

Chairperson McDermott called the meeting to order at 10:00 a.m. and roll was taken. There was a quorum. Chairperson McDermott announced the meeting would be held via teleconference in accordance with Iowa Code section 21.8.

Klappholz moved to conduct the meeting via teleconference. Sa seconded. Motion carried unanimously.

APPROVAL OF AGENDA

Klappholz moved to approve the agenda for the meeting. Rathje seconded. Motion carried unanimously.

APPROVAL OF MINUTES

Klappholz moved to approve the December 21, 2015 board meeting minutes. Rathje seconded. Motion carried unanimously.

QUARTERLY REPORTS

Financial:

Nye presented November – January financials. Nye noted that January set many records, including the highest monthly sales total in the history of the Iowa Lottery - \$54 million. This was a result of the record \$1.5 Billion Powerball jackpot combined with record sales of instant-scratch tickets. The records sales produced record proceeds of \$17 million.

There was discussion on how January's record setting Powerball jackpot compared to the previous record jackpot and how much of the state's budget is comprised of gambling revenue.

Marketing:

Wood reported on the success of the Holiday Hoopla promotion. Wood also discussed the success to date of three (3) new \$20 instant scratch ticket products (The Big Ticket, The Little Black Game Book, and \$250,000 Riches) that launched in January 2016.

Wood updated the Board on the new Lucky for Life lotto game that launched in Iowa in January and discussed the Power-for-Live promotion that took place in February.

Wood announced that the Lottery's new logo and brand positioning statement will be launched at the Annual Meeting in May. The last time the logo was updated was in 1994.

Wood also announced that this summer, the Lottery will be partnering with Sony Pictures to launch three (3) instant tickets tied to the movie Ghostbusters.

There was discussion on the role marketing plays in the growth of sales. Wood stated that all departments work together to make the Lottery successful.

Security:

Coppess provided a Security Report and noted that the report has been changed in order to provide the Board with more information.

Legislative:

Neubauer stated that House File 2146, a bill related to the Lottery's "self-service" kiosk has passed in both the House and Senate and is now awaiting the Governor's consideration.

Neubauer also informed the Board that the Governor has appointed Mary Junge to the Board, replacing Matt McDermott in the role of attorney. Junge's appointment is currently awaiting Senate confirmation and her term will begin May 1, 2016.

Neubauer shared information about the Lottery's partnership with the Iowa Gambling Treatment Program to produce new PSAs for March's Problem Gambling Awareness Month.

There was discussion on the Lottery's efforts to address the issue year round.

Legal:

Porter gave an update on the ongoing investigation and prosecution of Eddie Tipton. Porter also noted that the Iowa Lottery has been named as a defendant in a civil lawsuit filed by Larry Dawson related to the Hot Lotto jackpot he won in May 2011.

Klappholz moved to approve the Quarterly Reports. Sa seconded. Motion carried unanimously.

CONTRACT EXTENSIONS**Game Auditing Contract:**

Nye presented information related to the Lottery's contract with McGladrey for game auditing services. Nye requested the Board approve a one-year contract extension through April 30, 2017.

Advertising Services Contract and Media Services Contract:

Wood presented information on the two contracts with Strategic America for advertising services and for media services. Wood stated the Lottery is requesting approval of a one-year contract extension for each contract along with a Consumer Price Index (CPI) adjustment in accordance with language in each of the contracts.

Sa moved to approve the contract extension for each of the three contracts. Rathje seconded. Motion carried unanimously.

MEMBERSHIP DUES

Loss presented information related to the Lottery's request to renew memberships with four associations; the Iowa Grocery Industry Association (IGIA), Petroleum Marketers and Convenience Stores of Iowa (PMCI), the North American Association of State and Provincial Lotteries (NASPL), and the World Lottery Association (WLA).

There was discussion on the value of membership in NASPL and WLA.

Sa moved to approve the renewal of all four memberships. Rathje seconded. Motion carried unanimously.

WLS 2016

Rich requested approval to send one (1) staff person to the 2016 World Lottery Summit in Singapore.

Klappholz moved to approve travel to the conference. Sa seconded. Motion carried unanimously.

LUCKY FOR LIFE UPDATE

Wood stated the Lucky for Life game group's Marketing Committee is in the final phase of an RFP evaluation for the selection of a national advertising agency.

SUCCESSION PLANNING

Rich provided the Board an updated succession plan.

CLOSED SESSION

Chair McDermott stated: *"The Chair is advised that the CEO has a matter to discuss with the Board within the parameters of Iowa Code 99G.34 (7) and Chapter 21.5(1)(a); that the matter pertains to the DCI background check of a current or prospective Iowa Lottery Vendor."*

The Chair noted that a vote is required during the public portion of the meeting prior to entering closed session. *"The Chair will now entertain a motion to go into closed session pursuant to the provisions of Iowa Code Chapter 21.5(1)(a) which provides for a closed session to review or discuss records which are required or authorized by state or federal law to be kept confidential. Do I hear such a motion?"*

Sa moved to go into closed session. Rathje seconded. A Roll call vote was taken: Klappholz – aye; Sa – aye; Rathje – aye; McDermott – aye. Motion carried unanimously.

Open session suspended at 11:14 a.m. Open session resumed at 11:40 a.m. McDermott called the meeting back into session.

CEO REPORT

Rich stated based on financials, this will be a very good year for the Lottery and noted the efficient use of marketing dollars. He also mentioned the Lottery is monitoring a fantasy sports bill in the legislature. The Board was reminded to file their personal financial disclosure report with Campaign Finance and Disclosure Board by the April 30th deadline. Rich told the Board that the Annual Meeting will take place in May with all staff and that the management team will be participating in EEO/AA training in April as part of the Lottery's Affirmative Action Plan.

BOARD RECOGNITION

Rich announced that McDermott's term on the Board expires May 1st. Rich thanked McDermott for his service.

ADJOURNMENT

Meeting adjourned at 11:52 a.m.

IOWA LOTTERY
PERFORMANCE MEASURES
FY 2016

| Month | | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | | | JUN |
|--------------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------|--|-------------|
| Gross Sales | Budget '16 | 23,834,084 | 25,461,659 | 23,733,551 | 24,811,289 | 27,194,561 | 26,705,439 | 26,858,803 | 29,997,407 | 31,388,556 | 27,291,539 | 28,928,003 | | | 24,945,109 |
| | 5-year av. | 23,411,245 | 25,009,945 | 23,312,496 | 24,371,114 | 26,712,104 | 26,231,659 | 26,382,303 | 28,787,466 | 30,153,935 | 26,129,603 | 27,737,035 | | | 23,824,802 |
| | Actual '16 | 25,907,997 | 25,180,933 | 26,791,422 | 26,284,951 | 25,413,630 | 30,084,542 | 54,079,072 | 29,293,000 | 31,694,590 | 31,841,324 | 31,128,157 | | | - |
| Prize Expense | Budget '16 | 14,116,232 | 15,080,197 | 14,056,689 | 14,695,002 | 16,106,544 | 15,816,852 | 15,907,685 | 17,766,588 | 18,590,525 | 16,163,982 | 17,133,211 | 59.23% 1) | | 14,774,260 |
| | 5-year av. | 14,170,986 | 14,598,857 | 13,709,047 | 14,346,043 | 15,220,681 | 16,164,184 | 16,073,258 | 17,141,508 | 17,868,628 | 15,188,040 | 16,429,395 | 59.23% 2) | | 14,296,686 |
| | Actual '16 | 15,690,151 | 15,581,596 | 15,908,821 | 16,370,729 | 14,944,595 | 19,305,677 | 30,211,996 | 17,381,510 | 21,131,356 | 18,918,383 | 18,774,244 | 60.31% 3) | | - |
| Operating Expenses | Budget '16 | 503,008 | 1,092,391 | 1,579,119 | 953,326 | 1,092,391 | 1,092,391 | 1,092,391 | 1,092,391 | 1,579,119 | 1,092,391 | 953,326 | | | 2,039,118 |
| | 5-year av. | 508,168 | 841,926 | 1,067,719 | 1,035,796 | 1,004,500 | 862,588 | 923,101 | 979,081 | 1,002,573 | 1,087,245 | 1,021,482 | | | 1,419,524 |
| | Actual '16 | 452,290 | 958,895 | 1,402,002 | 832,037 | 950,019 | 979,097 | 946,697 | 977,077 | 1,424,206 | 837,171 | 968,758 | | | - |
| Total Proceeds | Budget '16 | 5,680,642 | 5,513,526 | 4,578,448 | 5,483,856 | 5,963,120 | 5,836,220 | 5,876,009 | 6,690,306 | 6,564,506 | 5,988,281 | 6,551,919 | | | 4,432,783 |
| | 5-year av. | 5,566,219 | 6,066,103 | 6,037,982 | 6,196,005 | 7,314,599 | 5,605,872 | 6,159,970 | 7,271,757 | 7,422,268 | 6,634,641 | 6,935,723 | | | 4,809,997 |
| | Actual '16 | 6,188,361 | 5,102,911 | 6,813,453 | 5,656,822 | 6,099,550 | 6,211,365 | 17,267,602 | 7,421,985 | 6,126,772 | 8,460,634 | 6,809,085 | | | - |
| YEAR TO DATE | | | | | | | | | | | | | | | |
| Gross Sales | Budget '16 | 23,834,084 | 49,295,743 | 73,029,294 | 97,840,583 | 125,035,144 | 151,740,583 | 178,599,386 | 208,596,793 | 239,985,349 | 267,276,888 | 296,204,891 | | | 321,150,000 |
| | 5-year av. | 23,411,245 | 48,421,190 | 71,733,686 | 96,104,800 | 122,816,904 | 149,048,563 | 175,430,866 | 204,218,332 | 234,372,267 | 260,501,870 | 288,238,905 | 17.16% 4) | | 312,063,707 |
| | Actual '16 | 25,907,997 | 51,088,930 | 77,880,352 | 104,165,303 | 129,578,933 | 159,663,475 | 213,742,547 | 243,035,547 | 274,730,137 | 306,571,461 | 337,699,618 | 14.01% 5) | | |
| Prize Expense | Budget '16 | 14,116,232 | 29,196,429 | 43,253,118 | 57,948,120 | 74,054,664 | 89,871,516 | 105,779,201 | 123,545,789 | 142,136,314 | 158,300,296 | 175,433,507 | 59.23% 1) | | 190,207,767 |
| | 5-year av. | 14,170,986 | 28,769,843 | 42,478,890 | 56,824,933 | 72,045,614 | 88,209,798 | 104,283,056 | 121,424,564 | 139,293,192 | 154,481,232 | 170,910,627 | 59.29% 2) | | 185,207,313 |
| | Actual '16 | 15,690,151 | 31,271,747 | 47,180,568 | 63,551,297 | 78,495,892 | 97,801,569 | 128,013,565 | 145,395,075 | 166,526,431 | 185,444,814 | 204,219,058 | 60.47% 3) | | |
| Operating Expenses | Budget '16 | 503,008 | 1,595,399 | 3,174,518 | 4,127,844 | 5,220,235 | 6,312,626 | 7,405,017 | 8,497,408 | 10,076,527 | 11,168,918 | 12,122,244 | | | 14,161,362 |
| | 5-year av. | 508,168 | 1,350,094 | 2,417,813 | 3,453,609 | 4,458,109 | 5,320,697 | 6,243,798 | 7,222,879 | 8,225,452 | 9,312,697 | 10,334,179 | | | 11,753,703 |
| | Actual '16 | 452,290 | 1,411,185 | 2,813,187 | 3,645,224 | 4,595,243 | 5,574,340 | 6,521,037 | 7,498,114 | 8,922,320 | 9,759,491 | 10,728,249 | | | |
| Total Proceeds | Budget '16 | 5,680,642 | 11,194,168 | 15,772,616 | 21,256,472 | 27,219,592 | 33,055,812 | 38,931,821 | 45,622,127 | 52,186,633 | 58,174,914 | 64,726,833 | | | 69,159,616 |
| | 5-year av. | 5,566,219 | 11,632,322 | 17,670,304 | 23,866,309 | 31,180,908 | 36,786,780 | 42,946,750 | 50,218,507 | 57,640,775 | 64,275,416 | 71,211,139 | 15.37% 4) | | 76,021,136 |
| | Actual '16 | 6,188,361 | 11,291,272 | 18,104,725 | 23,761,547 | 29,861,097 | 36,072,462 | 53,340,064 | 60,762,049 | 66,888,821 | 75,349,455 | 82,158,540 | 26.93% 5) | | |

1) Budget FY16 Prize Payout

2) Actual 5-year average Prize Payout

3) Actual FY16 Prize Payout

4) Actual FY16 compared to Actual 5-year average

5) Actual FY16 compared to Budget FY16

IOWA LOTTERY AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Eight Months Ending Monday, February 29, 2016

| | Month ended 2/29/2016 | Month ended 2/28/2015 | Year-to-date 2/29/2016 | Year-to-date 2/28/2015 |
|---|----------------------------|-----------------------------|----------------------------|-----------------------------|
| Operating revenues: | | | | |
| Instant-scratch ticket sales | \$20,445,722.00 | \$19,015,281.00 | \$149,122,524.00 | \$137,696,877.00 |
| Pick 3 sales | 592,757.50 | 579,362.50 | 4,891,365.00 | 4,573,503.00 |
| Powerball sales | 4,244,453.00 | 10,178,872.00 | 57,205,170.00 | 39,029,089.00 |
| Mega Millions Sales | 1,011,856.00 | 1,315,901.00 | 9,886,821.00 | 12,638,924.00 |
| Hot Lotto sales | 602,128.00 | 868,652.00 | 6,101,418.00 | 7,198,990.00 |
| Pick 4 sales | 281,310.00 | 269,244.50 | 2,309,543.00 | 2,098,292.00 |
| All or Nothing sales | 311,395.00 | 344,014.00 | 2,781,148.00 | 3,101,155.00 |
| Monopoly Millionaires' Club sales | | | | 591,605.00 |
| Lucky for Life sales | 667,724.00 | | 745,198.00 | |
| Pull-tab sales | 1,135,654.20 | 1,255,885.27 | 9,992,359.20 | 10,519,423.72 |
| Application fees | 250.00 | 600.00 | 2,525.00 | 2,200.00 |
| Other | 96.54 | 303.41 | 4,060.27 | 3,287.90 |
| Total operating revenues | <u>29,293,346.24</u> | <u>33,828,115.68</u> | <u>243,042,131.47</u> | <u>217,453,346.62</u> |
| Operating expenses: | | | | |
| Scratch ticket | 12,804,638.28 | 12,241,417.00 | 96,659,787.88 | 89,608,806.54 |
| Pick 3 | 351,184.50 | 342,467.50 | 2,894,039.00 | 2,699,291.80 |
| Powerball | 1,946,439.50 | 4,982,625.50 | 28,138,911.00 | 18,981,742.00 |
| Mega Millions | 491,020.00 | 641,448.50 | 4,789,217.50 | 6,041,198.43 |
| Hot Lotto | 289,159.00 | 425,215.00 | 2,937,362.65 | 3,458,362.51 |
| Pick 4 | 157,976.00 | 172,189.00 | 1,354,325.80 | 1,329,200.90 |
| All or Nothing | 183,854.79 | 186,588.51 | 1,646,084.24 | 1,853,969.82 |
| Monopoly Millionaires' Club | | | (14,945.00) | 668,442.74 |
| Lucky for Life | 415,009.31 | | 465,323.66 | |
| Pull-tab | 711,054.78 | 783,539.72 | 6,251,315.44 | 6,577,632.20 |
| VIP Club prize expense | | | 155,691.13 | 165,810.90 |
| Promotional | 31,173.68 | 7,357.09 | 117,961.33 | 90,158.93 |
| Advertising/publicity | 717,926.02 | 616,640.57 | 4,831,546.91 | 4,627,845.61 |
| Retailer compensation expense | 1,915,826.50 | 2,169,141.68 | 15,687,578.02 | 13,989,231.97 |
| Ticket expense | 482,621.88 | 464,232.91 | 2,261,043.20 | 2,283,615.70 |
| Vendor compensation expense | 614,304.03 | 712,845.52 | 5,021,991.74 | 4,429,178.31 |
| Online game expense | | | | 6,563.40 |
| Salary and benefits | 802,153.66 | 770,994.55 | 6,634,857.35 | 6,429,709.34 |
| Travel | 23,858.60 | 22,156.82 | 182,537.34 | 288,992.50 |
| Supplies | 3,399.60 | 25,201.39 | 89,210.61 | 94,185.82 |
| Printing | 392.30 | 1,413.68 | 656.10 | 5,354.41 |
| Postage | 368.29 | 4,068.41 | 5,334.80 | 6,345.58 |
| Communications | 13,076.06 | 36,291.28 | 104,726.10 | 128,426.52 |
| Rentals | 25,373.75 | 25,187.80 | 204,322.94 | 202,469.83 |
| Utilities | 6,964.24 | 6,133.91 | 56,233.73 | 102,997.86 |
| Professional fees | 6,901.01 | 5,338.09 | 63,769.69 | 98,122.38 |
| Vending machine maintenance | 50,390.76 | 48,561.61 | 397,398.49 | 385,064.40 |
| Outside services and repairs | 69,459.85 | 63,499.78 | 550,482.52 | 562,627.84 |
| Data processing | 9,857.97 | 8,093.52 | 81,983.94 | 66,375.69 |
| Equipment | 39,567.77 | 29,071.10 | 306,671.92 | 366,195.56 |
| Reimbursement to other state agencies | 40,248.23 | 18,086.84 | 288,282.72 | 266,333.16 |
| Depreciation | 27,829.77 | 26,047.84 | 219,444.30 | 178,300.59 |
| Other | 4,854.86 | 4,050.90 | 38,956.44 | 75,041.02 |
| MUSL/Lotto administrative expense | 25,458.78 | 7,329.47 | 90,819.18 | 76,190.78 |
| Total operating expenses | <u>22,262,343.77</u> | <u>24,847,235.49</u> | <u>182,512,922.67</u> | <u>166,143,785.04</u> |
| Operating income | <u>7,031,002.47</u> | <u>8,980,880.19</u> | <u>60,529,208.80</u> | <u>51,309,561.58</u> |
| Non-operating revenue (expenses): | | | | |
| Proceeds provided to State General Fund | (7,421,984.95) | (8,538,867.73) | (58,262,049.55) | (47,917,336.24) |
| Proceeds provided to Veteran's Trust Fund | | (362,550.06) | (2,500,000.00) | (1,928,617.47) |
| Interest income | 1,609.75 | 1,896.41 | 118,834.57 | 34,664.92 |
| Interest expense | | (608.99) | | (5,399.98) |
| Gain (Loss) on disposal of capital assets | | (2,930.69) | 24,250.00 | (366,526.59) |
| Net non-operating revenues (expenses) | <u>(7,420,375.20)</u> | <u>(8,903,061.06)</u> | <u>(60,618,964.98)</u> | <u>(50,183,215.36)</u> |
| Change in net position | <u>(389,372.73)</u> | <u>77,819.13</u> | <u>(89,756.18)</u> | <u>1,126,346.22</u> |
| Net position beginning of year | <u>6,097,954.33</u> | <u>10,562,382.88</u> | <u>5,798,337.78</u> | <u>9,513,855.79</u> |
| Net position end of year | <u><u>5,708,581.60</u></u> | <u><u>10,640,202.01</u></u> | <u><u>5,708,581.60</u></u> | <u><u>10,640,202.01</u></u> |

IOWA LOTTERY AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Nine Months Ending Thursday, March 31, 2016

| | Month ended 3/31/2016 | Month ended 3/31/2015 | Year-to-date 3/31/2016 | Year-to-date 3/31/2015 |
|---|--------------------------|--------------------------|---------------------------|---------------------------|
| Operating revenues: | | | | |
| Instant-scratch ticket sales | \$ 22,749,521.00 | \$ 19,944,921.00 | \$ 171,872,045.00 | \$ 157,641,798.00 |
| Pick 3 sales | 652,145.50 | 635,108.56 | 5,543,510.50 | 5,208,611.56 |
| Powerball sales | 3,817,989.00 | 3,273,134.00 | 61,023,159.00 | 42,302,223.00 |
| Mega Millions Sales | 1,089,725.00 | 1,050,074.00 | 10,976,546.00 | 13,688,998.00 |
| Hot Lotto sales | 676,949.00 | 875,532.00 | 6,778,367.00 | 8,074,522.00 |
| Pick 4 sales | 306,781.50 | 294,020.00 | 2,616,324.50 | 2,392,312.00 |
| All or Nothing sales | 327,634.00 | 378,365.00 | 3,108,782.00 | 3,479,520.00 |
| Monopoly Millionaires' Club sales | - | - | - | 591,605.00 |
| Lucky for Life sales | 637,000.00 | - | 1,382,198.00 | - |
| Pull-tab sales | 1,436,844.75 | 1,499,042.36 | 11,429,203.95 | 12,018,466.08 |
| Application fees | 400.00 | 475.00 | 2,925.00 | 2,675.00 |
| Other | 20,205.13 | 601.92 | 24,265.40 | 3,889.82 |
| Total operating revenues | 31,715,194.88 | 27,951,273.84 | 274,757,326.35 | 245,404,620.46 |
| Operating expenses: | | | | |
| Scratch ticket | 16,193,192.00 | 12,928,380.00 | 112,852,979.88 | 102,537,186.54 |
| Pick 3 | 387,227.30 | 377,185.10 | 3,281,266.30 | 3,076,476.90 |
| Powerball | 1,824,912.50 | 1,602,389.00 | 29,963,823.50 | 20,584,131.00 |
| Mega Millions | 533,354.50 | 466,807.00 | 5,322,572.00 | 6,508,005.43 |
| Hot Lotto | 327,641.50 | 427,275.00 | 3,265,004.15 | 3,885,637.51 |
| Pick 4 | 182,853.90 | 174,487.00 | 1,537,179.70 | 1,503,687.90 |
| All or Nothing | 195,060.94 | 213,371.36 | 1,841,145.18 | 2,067,341.18 |
| Monopoly Millionaires' Club | (6,107.29) | - | (21,052.29) | 668,442.74 |
| Lucky for Life | 573,638.20 | - | 1,038,961.86 | - |
| Pull-tab | 896,236.73 | 937,839.46 | 7,147,552.17 | 7,515,471.66 |
| VIP Club prize expense | 63.16 | 75,000.00 | 155,754.29 | 240,810.90 |
| Promotional | 23,282.49 | 12,071.76 | 141,243.82 | 102,230.69 |
| Advertising/publicity | 299,320.94 | 525,081.83 | 5,130,867.85 | 5,152,927.44 |
| Retailer compensation expense | 2,055,184.06 | 1,826,289.11 | 17,742,762.08 | 15,815,521.08 |
| Ticket expense | 278,497.00 | 260,865.30 | 2,539,540.20 | 2,544,481.00 |
| Vendor compensation expense | 662,626.60 | 582,491.98 | 5,684,618.34 | 5,011,670.29 |
| Online game expense | - | - | - | 6,563.40 |
| Salary and benefits | 874,241.72 | 833,772.96 | 7,509,099.07 | 7,263,482.30 |
| Travel | 27,540.90 | 34,106.87 | 210,078.24 | 323,099.37 |
| Supplies | 11,702.10 | 3,155.27 | 100,912.71 | 97,341.09 |
| Printing | 61.50 | 874.95 | 717.60 | 6,229.36 |
| Postage | 358.01 | (1,559.44) | 5,692.81 | 4,786.14 |
| Communications | 12,955.15 | 51,378.29 | 117,681.25 | 179,804.81 |
| Rentals | 27,027.78 | 25,130.79 | 231,350.72 | 227,600.62 |
| Utilities | 6,432.35 | 5,663.18 | 62,666.08 | 108,661.04 |
| Professional fees | 6,442.83 | 13,040.42 | 70,212.52 | 111,162.80 |
| Vending machine maintenance | 50,390.76 | 48,486.61 | 447,789.25 | 433,551.01 |
| Outside services and repairs | 13,656.58 | 53,161.11 | 564,139.10 | 615,788.95 |
| Data processing | 10,707.37 | 12,682.14 | 92,691.31 | 79,057.83 |
| Equipment | 15,592.00 | 27,909.49 | 322,263.92 | 394,105.05 |
| Reimbursement to other state agencies | 18,766.26 | 38,957.55 | 307,048.98 | 305,290.71 |
| Depreciation | 28,785.45 | 24,886.72 | 248,229.75 | 203,187.31 |
| Other | 3,652.41 | 4,247.13 | 42,608.85 | 79,288.15 |
| MUSL/Lotto administrative expense | (2,170.46) | 7,329.47 | 88,648.72 | 83,520.25 |
| Total operating expenses | 25,533,127.24 | 21,592,757.41 | 208,046,049.91 | 187,736,542.45 |
| Operating income | 6,182,067.64 | 6,358,516.43 | 66,711,276.44 | 57,668,078.01 |
| Non-operating revenue (expenses): | | | | |
| Proceeds provided to State General Fund | (6,126,771.63) | (6,355,959.34) | (64,388,821.18) | (54,273,295.58) |
| Proceeds provided to Veteran's Trust Fund | - | (121,876.74) | (2,500,000.00) | (2,050,494.21) |
| Interest income | 10,288.93 | 4,600.16 | 129,123.50 | 39,265.08 |
| Interest expense | - | (599.44) | - | (5,999.42) |
| Gain (Loss) on disposal of capital assets | - | 1,650.00 | 24,250.00 | (364,876.59) |
| Net non-operating revenues (expenses) | (6,116,482.70) | (6,472,185.36) | (66,735,447.68) | (56,655,400.72) |
| Change in net position | 65,584.94 | (113,668.93) | (24,171.24) | 1,012,677.29 |
| Net position beginning of year | 5,708,581.60 | 10,640,202.01 | 5,798,337.78 | 9,513,855.79 |
| Net position end of year | 5,774,166.54 | 10,526,533.08 | 5,774,166.54 | 10,526,533.08 |

IOWA LOTTERY AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Ten Months Ending Saturday, April 30, 2016

| | Month ended 4/30/2016 | Month ended 4/30/2015 | Year-to-date 4/30/2016 | Year-to-date 4/30/2015 |
|---|--------------------------|--------------------------|---------------------------|---------------------------|
| Operating revenues: | | | | |
| Instant-scratch ticket sales | \$22,005,748.00 | \$19,019,897.00 | \$193,877,793.00 | \$176,661,695.00 |
| Pick 3 sales | 634,564.00 | 596,747.50 | 6,178,074.50 | 5,805,359.06 |
| Powerball sales | 5,031,241.50 | 3,193,253.00 | 66,054,400.50 | 45,495,476.00 |
| Mega Millions Sales | 1,054,723.00 | 997,994.00 | 12,031,269.00 | 14,686,992.00 |
| Hot Lotto sales | 690,874.00 | 1,024,867.00 | 7,469,241.00 | 9,099,389.00 |
| Pick 4 sales | 304,871.00 | 272,202.00 | 2,921,195.50 | 2,664,514.00 |
| All or Nothing sales | 306,733.00 | 364,488.00 | 3,415,515.00 | 3,844,008.00 |
| Monopoly Millionaires' Club sales | | | | 591,605.00 |
| Lucky for Life sales | 572,544.00 | | 1,954,742.00 | |
| Pull-tab sales | 1,240,025.23 | 1,401,397.06 | 12,669,229.18 | 13,419,863.14 |
| Application fees | 150.00 | 350.00 | 3,075.00 | 3,025.00 |
| Other | 125.94 | 1,487.56 | 24,391.34 | 5,377.38 |
| Total operating revenues | <u>31,841,599.67</u> | <u>26,872,683.12</u> | <u>306,598,926.02</u> | <u>272,277,303.58</u> |
| Operating expenses: | | | | |
| Scratch ticket | 13,713,874.00 | 11,691,510.00 | 126,566,853.88 | 114,228,696.54 |
| Pick 3 | 376,878.40 | 353,578.50 | 3,658,144.70 | 3,430,055.40 |
| Powerball | 2,490,910.50 | 1,555,888.50 | 32,454,734.00 | 22,140,019.50 |
| Mega Millions | 516,603.50 | 487,476.00 | 5,839,175.50 | 6,995,481.43 |
| Hot Lotto | 335,568.00 | 501,094.50 | 3,600,572.15 | 4,386,732.01 |
| Pick 4 | 182,142.60 | 155,796.20 | 1,719,322.30 | 1,659,484.10 |
| All or Nothing | 181,485.78 | 212,265.36 | 2,022,630.96 | 2,279,606.54 |
| Monopoly Millionaires' Club | | | (21,052.29) | 668,442.74 |
| Lucky for Life | 340,283.26 | | 1,379,245.12 | |
| Pull-tab | 774,988.25 | 874,780.38 | 7,922,540.42 | 8,390,252.04 |
| VIP Club prize expense | | | 155,754.29 | 240,810.90 |
| Promotional | 5,648.24 | 7,034.61 | 146,892.06 | 109,265.30 |
| Advertising/publicity | 444,509.11 | 413,297.52 | 5,575,376.96 | 5,566,224.96 |
| Retailer compensation expense | 2,069,606.78 | 1,736,093.72 | 19,812,368.86 | 17,551,614.80 |
| Ticket expense | 238,523.52 | 253,344.90 | 2,778,063.72 | 2,797,825.90 |
| Vendor compensation expense | 645,855.60 | 552,290.08 | 6,330,473.94 | 5,563,960.37 |
| Online game expense | | | | 6,563.40 |
| Salary and benefits | 752,062.79 | 824,045.15 | 8,261,161.86 | 8,087,527.45 |
| Travel | 23,685.11 | 28,436.01 | 233,763.35 | 351,535.38 |
| Supplies | 4,567.64 | 15,787.69 | 105,480.35 | 113,128.78 |
| Printing | 313.80 | (298.42) | 1,031.40 | 5,930.94 |
| Postage | 312.36 | 312.23 | 6,005.17 | 5,098.37 |
| Communications | 13,078.58 | 7,093.62 | 130,759.83 | 186,898.43 |
| Rentals | 26,626.98 | 28,228.83 | 257,977.70 | 255,829.45 |
| Utilities | 6,056.17 | 3,608.53 | 68,722.25 | 112,269.57 |
| Professional fees | 6,200.65 | 26,756.08 | 76,413.17 | 137,918.88 |
| Vending machine maintenance | 50,390.76 | 48,486.61 | 498,180.01 | 482,037.62 |
| Outside services and repairs | 123,419.86 | 84,654.47 | 687,558.96 | 700,443.42 |
| Data processing | 9,985.88 | 7,420.53 | 102,677.19 | 86,478.36 |
| Equipment | 33,820.63 | 14,462.78 | 356,084.55 | 408,567.83 |
| Reimbursement to other state agencies | 33,667.61 | 29,789.65 | 340,716.59 | 335,080.36 |
| Depreciation | 28,449.22 | 26,708.39 | 276,678.97 | 229,895.70 |
| Other | 4,584.45 | 16,037.92 | 47,193.30 | 95,326.07 |
| MUSL/Lotto administrative expense | 18,661.55 | 2,329.53 | 107,310.27 | 85,849.78 |
| Total operating expenses | <u>23,452,761.58</u> | <u>19,958,309.87</u> | <u>231,498,811.49</u> | <u>207,694,852.32</u> |
| Operating income | <u>8,388,838.09</u> | <u>6,914,373.25</u> | <u>75,100,114.53</u> | <u>64,582,451.26</u> |
| Non-operating revenue (expenses): | | | | |
| Proceeds provided to State General Fund | (8,460,633.94) | (6,863,599.59) | (72,849,455.12) | (61,136,895.17) |
| Proceeds provided to Veteran's Trust Fund | | (96,512.93) | (2,500,000.00) | (2,147,007.14) |
| Interest income | 9,098.48 | 9,206.09 | 138,221.98 | 48,471.17 |
| Interest expense | | (724.87) | | (6,724.29) |
| Gain (Loss) on disposal of capital assets | 7,950.00 | | 32,200.00 | (364,876.59) |
| Net non-operating revenues (expenses) | <u>(8,443,585.46)</u> | <u>(6,951,631.30)</u> | <u>(75,179,033.14)</u> | <u>(63,607,032.02)</u> |
| Change in net position | <u>(54,747.37)</u> | <u>(37,258.05)</u> | <u>(78,918.61)</u> | <u>975,419.24</u> |
| Net position beginning of year | 5,774,166.54 | 10,526,533.08 | 5,798,337.78 | 9,513,855.79 |
| Net position end of year | <u>5,719,419.17</u> | <u>10,489,275.03</u> | <u>5,719,419.17</u> | <u>10,489,275.03</u> |

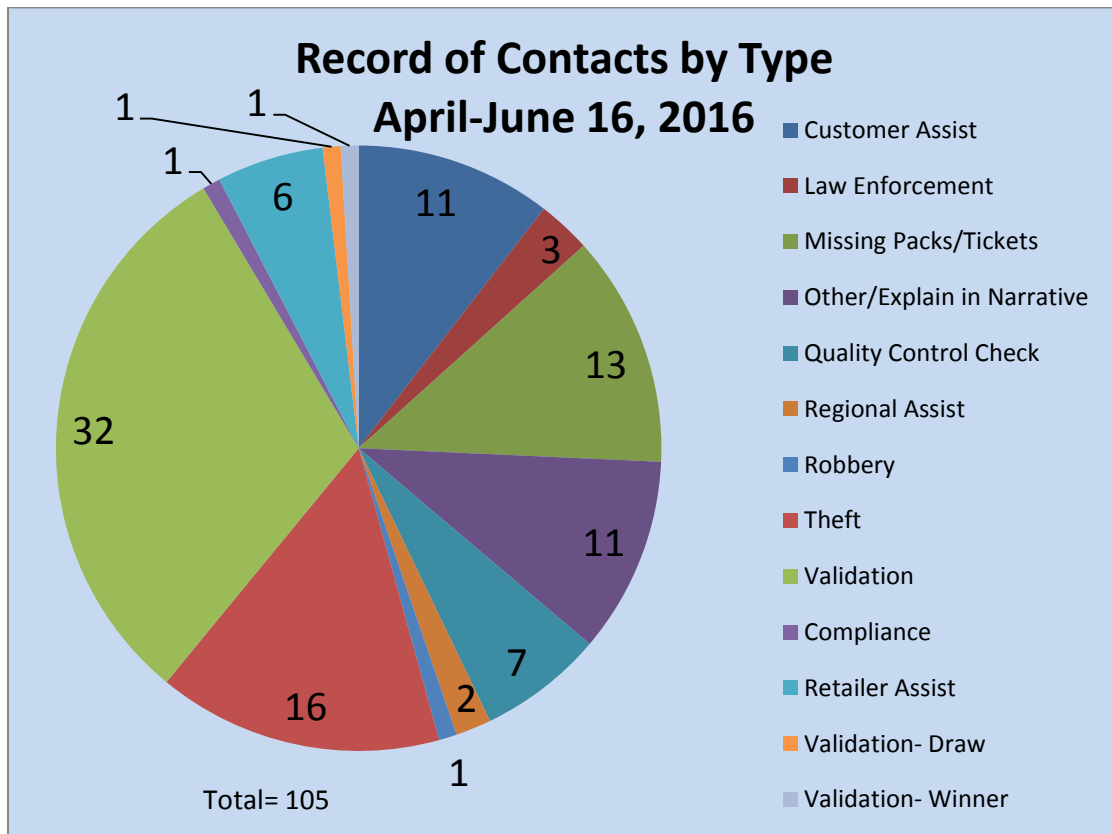
IOWA LOTTERY AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Eleven Months Ending Tuesday, May 31, 2016

| | Month ended 5/31/2016 | Month ended 5/31/2015 | Year-to-date 5/31/2016 | Year-to-date 5/31/2015 |
|---|--------------------------|--------------------------|---------------------------|---------------------------|
| Operating revenues: | | | | |
| Instant-scratch ticket sales | \$20,758,858.00 | \$18,438,340.00 | \$214,636,651.00 | \$195,100,035.00 |
| Pick 3 sales | 624,138.50 | 628,247.00 | 6,802,213.00 | 6,433,606.06 |
| Powerball sales | 4,975,110.00 | 3,813,134.00 | 71,029,510.50 | 49,308,610.00 |
| Mega Millions Sales | 1,655,480.00 | 1,955,779.00 | 13,686,749.00 | 16,642,771.00 |
| Hot Lotto sales | 640,944.00 | 1,038,888.00 | 8,110,185.00 | 10,138,277.00 |
| Pick 4 sales | 325,983.50 | 282,243.50 | 3,247,179.00 | 2,946,757.50 |
| All or Nothing sales | 296,650.00 | 356,339.00 | 3,712,165.00 | 4,200,347.00 |
| Monopoly Millionaires' Club sales | | | | 591,605.00 |
| Lucky for Life sales | 639,438.00 | | 2,594,180.00 | |
| Pull-tab sales | 1,211,555.49 | 1,251,797.19 | 13,880,784.67 | 14,671,660.33 |
| Application fees | 250.00 | 500.00 | 3,325.00 | 3,525.00 |
| Other | 8,330.48 | 412.75 | 32,721.82 | 5,790.13 |
| Total operating revenues | 31,136,737.97 | 27,765,680.44 | 337,735,663.99 | 300,042,984.02 |
| Operating expenses: | | | | |
| Scratch ticket | 13,414,679.07 | 12,327,972.51 | 139,981,532.95 | 126,556,669.05 |
| Pick 3 | 371,923.10 | 372,818.20 | 4,030,067.80 | 3,802,873.60 |
| Powerball | 2,397,241.00 | 1,871,781.00 | 34,851,975.00 | 24,011,800.50 |
| Mega Millions | 797,319.00 | 939,868.96 | 6,636,494.50 | 7,935,350.39 |
| Hot Lotto | 276,839.00 | 490,470.43 | 3,877,411.15 | 4,877,202.44 |
| Pick 4 | 190,340.10 | 164,756.10 | 1,909,662.40 | 1,824,240.20 |
| All or Nothing | 175,891.54 | 207,278.47 | 2,198,522.50 | 2,486,885.01 |
| Monopoly Millionaires' Club | | | (21,052.29) | 668,442.74 |
| Lucky for Life | 380,039.05 | | 1,759,284.17 | |
| Pull-tab | 757,856.75 | 780,298.02 | 8,680,397.17 | 9,170,550.06 |
| VIP Club prize expense | | | 155,754.29 | 240,810.90 |
| Promotional | 12,115.88 | 21,953.43 | 159,007.94 | 131,218.73 |
| Advertising/publicity | 667,331.55 | 620,383.11 | 6,242,708.51 | 6,186,608.07 |
| Retailer compensation expense | 2,032,260.39 | 1,795,648.71 | 21,844,629.25 | 19,347,263.51 |
| Ticket expense | 233,943.66 | 233,573.78 | 3,012,007.38 | 3,031,399.68 |
| Vendor compensation expense | 656,758.54 | 557,206.61 | 6,987,232.48 | 6,121,166.98 |
| Online game expense | | | | 6,563.40 |
| Salary and benefits | 872,532.82 | 774,321.39 | 9,133,694.68 | 8,861,848.84 |
| Travel | 25,662.48 | 28,693.15 | 259,425.83 | 380,228.53 |
| Supplies | 14,355.36 | 13,103.08 | 119,835.71 | 126,231.86 |
| Printing | | 59.99 | 1,031.40 | 5,990.93 |
| Postage | 273.90 | 254.63 | 6,279.07 | 5,353.00 |
| Communications | 12,655.29 | 12,237.75 | 143,415.12 | 199,136.18 |
| Rentals | 25,418.39 | 23,443.15 | 283,396.09 | 279,272.60 |
| Utilities | 3,938.87 | 4,705.18 | 72,661.12 | 116,974.75 |
| Professional fees | 6,811.43 | 21,447.86 | 83,224.60 | 159,366.74 |
| Vending machine maintenance | 50,390.76 | 48,486.61 | 548,570.77 | 530,524.23 |
| Outside services and repairs | 47,450.60 | 75,207.99 | 735,009.56 | 775,651.41 |
| Data processing | 9,856.47 | 9,637.84 | 112,533.66 | 96,116.20 |
| Equipment | 57,926.55 | 36,681.13 | 414,011.10 | 445,248.96 |
| Reimbursement to other state agencies | 51,204.48 | 54,531.48 | 391,921.07 | 389,611.84 |
| Depreciation | 29,242.76 | 25,590.05 | 305,921.73 | 255,485.75 |
| Other | 3,842.54 | 5,411.60 | 51,035.84 | 100,737.67 |
| MUSL/Lotto administrative expense | 10,112.05 | 10,329.47 | 117,422.32 | 96,179.25 |
| Total operating expenses | 23,586,213.38 | 21,528,151.68 | 255,085,024.87 | 229,223,004.00 |
| Operating income | 7,550,524.59 | 6,237,528.76 | 82,650,639.12 | 70,819,980.02 |
| Non-operating revenue (expenses): | | | | |
| Proceeds provided to State General Fund | (6,809,084.72) | (6,110,050.28) | (79,658,539.84) | (67,246,945.45) |
| Proceeds provided to Veteran's Trust Fund | | (30,390.20) | (2,500,000.00) | (2,177,397.34) |
| Interest income | 13,573.61 | 2,775.23 | 151,795.59 | 51,246.40 |
| Interest expense | | (645.28) | | (7,369.57) |
| Gain (Loss) on disposal of capital assets | | 625.00 | 32,200.00 | (364,251.59) |
| Net non-operating revenues (expenses) | (6,795,511.11) | (6,137,685.53) | (81,974,544.25) | (69,744,717.55) |
| Change in net position | 755,013.48 | 99,843.23 | 676,094.87 | 1,075,262.47 |
| Net position beginning of year | 5,719,419.17 | 10,489,275.03 | 5,798,337.78 | 9,513,855.79 |
| Net position end of year | 6,474,432.65 | 10,589,118.26 | 6,474,432.65 | 10,589,118.26 |



2016 Security Report

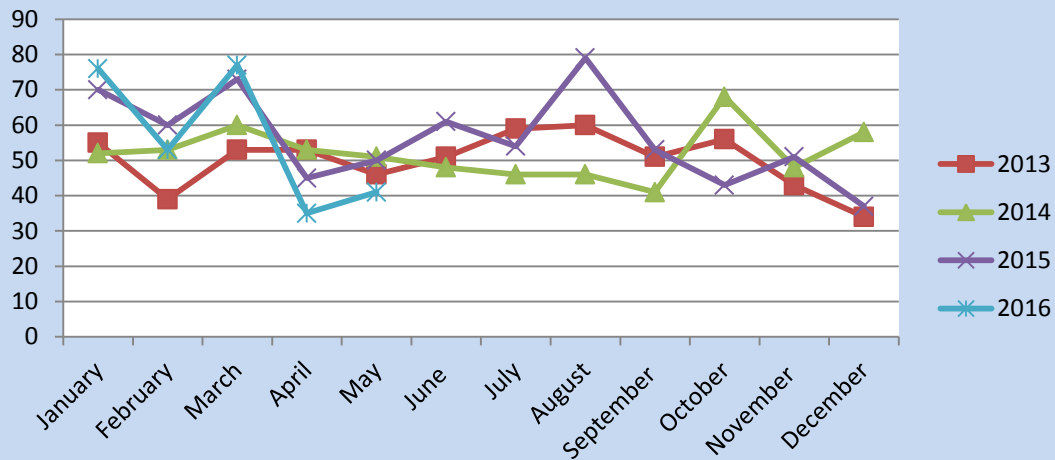
June 28, 2016



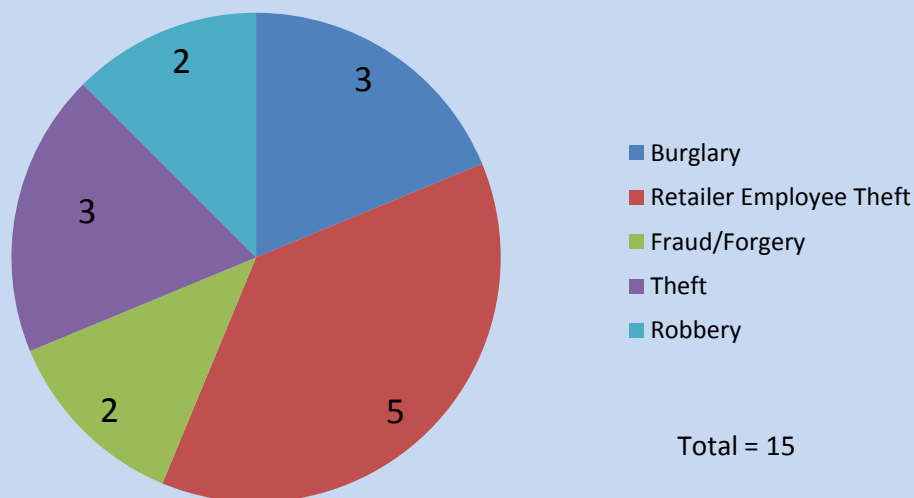
**Goal to work with staff to define the categories of “Other/Explain in Narrative” update;
Reduced usage of “Other/Explain in Narrative” from 74 to 11**



Record of Contact 3 Year Trend



Cases by Type April- June 16, 2016



A Record of Contact is given a case number when the event being investigated is considered a criminal act

- **1 Fraud case involves lottery tickets purchased with counterfeit \$20 bills, the other resulted in criminal charges by Law Enforcement**
- **1 Robbery case suspect identified and working with Law Enforcement to resolve**
- **Retailer Employee Theft is in reference to a store clerk taking product from their employer, to include lottery tickets, one case ended in criminal charges filed**





2323 Grand Avenue · Des Moines · Iowa 50312-5307
Telephone: 515-725-7900 · Fax: 515-725-7882
www.ialottery.com

Terry E. Branstad · Governor

Kim Reynolds · Lt. Governor

Terry Rich · Chief Executive Officer

Date: June 28, 2016

To: Iowa Lottery Board
Terry Rich
From: Larry Loss
Re: Pull-Tab Vending Machines and Related Services

Executive Summary

The Iowa Lottery issued RFP IL 16-11, seeking proposals from qualified vendors interested in leasing or selling pull-tab vending machines to the Iowa Lottery Authority. American Games, an Iowa company and the current supplier of Iowa Lottery pull-tab vending machine equipment and maintenance, was the sole bidder in response to RFP IL 16-11.

In order to move forward with the replacement of necessary equipment, the Lottery asks that this Board issue a notice of intent to award to American Games for RFP IL 16-11 and authorize the Lottery to proceed to enter into a contract with American Games for the lease or purchase of pull-tab vending machines and related services.

Background Information

The Iowa Lottery became the first US lottery to sell pull-tab tickets in 1987. The Iowa Lottery sold \$16 million in pull-tabs in FY2015, which accounted for approximately five (5) percent of lottery sales for that fiscal year. This fiscal year, pull-tabs sales are anticipated to be in excess of \$15 million dollars.

Today, the Iowa Lottery sells pull-tab tickets exclusively through vending machines, which are presently installed in approximately 765 licensed retail locations throughout Iowa. The Lottery purchased its current pull-tab vending machines from American Games in 2004, and have been utilizing and maintaining them ever since.

The current contract for pull-tab vending machine maintenance and related services, held by American Games, expires on September 30, 2016. There are no extensions remaining for that contract. Accordingly, the Iowa Lottery issued RFP IL 16-11, seeking proposals from qualified vendors interested in leasing or selling pull-tab vending machines to the Iowa Lottery Authority.

The Lottery requested pricing for machine quantities from 250 – 400 pull-tab vending machines, for purchase or lease. The Lottery anticipates placing an initial order for a minimum of 250 machines. The final number of pull-tab vending machines ordered will be determined by the price of the machines and the business needs of the Lottery.

The contract will cover the cost of the new pull-tab vending machines, maintenance and repair of the new machines, maintenance and repair of the old machines during a transitional period, and removal/disposal of the old machines. It is the Lottery's intent to award a three-year agreement plus three additional one-year option periods.

RFP Process

A five-member team from the Iowa Lottery participated in the drafting of the RFP, which was issued to vendors in April 2016, as well as the review of responses received. As noted previously, American Games was the only vendor to respond to this RFP. The Lottery's evaluation team utilized the written materials received from American Games to ensure compliance with the RFP and evaluate the proposal. In addition, a sample pull-tab vending machine ("PTVM") was delivered to the Iowa Lottery in order to facilitate testing and review. The proposed PTVM includes the following upgraded features from the Lottery's current machines:

- Vending speed has increased
- Printing speed has increased
- Additional lighting has been included
- Overall size is reduced
- Cabinet door and base have been adjusted to comply with current Americans With Disabilities Act (ADA) requirements

Pricing

The Lottery currently utilizes PTVMs that are configured to sell six or twelve games. It is the Lottery's intent to continue using these configurations in the future.

The base price for PTVM's quoted in response to this RFP is as follows:

| | | |
|--------|---------|-------------|
| Lease: | 6 game | \$137/month |
| | 12 game | \$178/month |

| | | |
|-----------|---------|---------|
| Purchase: | 6 game | \$4,298 |
| | 12 game | \$5,573 |

Monthly Maintenance Fee: \$60/month

Recommendation

American Games, an Iowa company, has supplied the Lottery with vending equipment since 1991. The Lottery has found their equipment to be of high quality and function very well. The company has been a dependable business partner. The Lottery has no concerns about moving forward with a contract for new machines from American Games.

In order to move forward with the replacement of necessary equipment, the Lottery asks that this Board issue a notice of intent to award to American Games for RFP IL 16-11 and authorize the Lottery to proceed to enter into a contract with American Games for the lease or purchase of pull-tab vending machines and related services.

Budget for Lottery Fund

| | FY 2014 ACTUAL | FY 2015 ACTUAL | FY 2016 BOARD APPROVED FINAL BUDGET | FY 2017 BOARD APPROVED PRELIMINARY BUDGET | FY 2017 PROPOSED FINAL BUDGET |
|--|----------------------|----------------------|---|---|--|
| <u>Resources</u> | | | | | |
| Lottery sales | \$314,055,429 | \$324,767,416 | \$321,150,000 | \$321,020,000 | \$324,920,000 |
| Interest income | \$51,716 | \$76,038 | \$500,000 | \$500,000 | \$500,000 |
| Application fees | \$4,375 | \$3,800 | \$5,000 | \$5,000 | \$5,000 |
| Other | \$99,932 | \$6,220 | \$5,000 | \$5,000 | \$5,000 |
| Total Resources | \$314,211,452 | \$324,853,474 | \$321,660,000 | \$321,530,000 | \$325,430,000 |
| <u>Expenses and Change in Net Assets</u> | | | | | |
| Prizes | \$186,948,985 | \$196,882,288 | \$190,207,767 | \$189,611,640 | \$193,151,514 |
| Retailer compensation | \$20,131,428 | \$20,977,399 | \$20,586,201 | \$20,735,345 | \$20,987,254 |
| Advertising production and media purchases | \$6,933,352 | \$6,766,994 | \$12,846,000 | \$12,840,800 | \$12,996,800 |
| Retailer Lottery system/Terminal Communications | \$6,453,429 | \$6,733,505 | \$7,643,516 | \$7,503,301 | \$7,593,157 |
| Instant/Pull-tab ticket expense | \$3,463,298 | \$3,267,564 | \$3,938,000 | \$3,942,000 | \$3,942,000 |
| Vending machines & maintenance/Ticket dispensers | \$696,302 | \$799,644 | \$2,378,333 | \$2,018,000 | \$1,819,000 |
| Courier delivery of instant tickets | \$322,729 | \$572,194 | \$710,000 | \$660,000 | \$660,000 |
| Interest expense | \$12,622 | \$8,046 | \$3,805 | - | - |
| Lottery operating expense | \$12,073,776 | \$12,408,648 | \$14,161,362 | \$14,559,330 | \$14,620,690 |
| Building (purchase and sale) | \$3,432,016 | \$- | \$- | \$- | \$- |
| Increase (decrease) in net assets | \$(202,339) | \$1,920,125 | \$25,400 | \$(85,000) | \$(85,000) |
| Total Expenses and Change in Net Assets | \$240,265,598 | \$250,336,407 | \$252,500,384 | \$251,785,416 | \$255,685,415 |
| <u>Proceeds</u> | | | | | |
| Proceeds Transfer to General Fund | \$72,141,420 | \$72,365,900 | \$66,659,616 | \$67,544,584 | \$67,244,585 |
| Proceeds Transfer to Veterans Trust Fund | \$1,804,434 | \$2,151,167 | \$2,500,000 | \$2,200,000 | \$2,500,000 |
| Total Proceeds Transfers | \$73,945,854 | \$74,517,067 | \$69,159,616 | \$69,744,584 | \$69,744,585 |
| Total Expenses and Proceeds | \$314,211,452 | \$324,853,474 | \$321,660,000 | \$321,530,000 | \$325,430,000 |

Lottery Operations - Budget Detail

| | FY 2014 ACTUAL | FY 2015 ACTUAL | FY 2016 BOARD APPROVED FINAL | FY 2017 BOARD APPROVED PRELIMINARY BUDGET | FY 2017 PROPOSED FINAL BUDGET |
|---------------------------------|---------------------------|---------------------------|---|--|--|
| Administrative payroll* | \$ 9,461,004 | \$ 9,565,122 | \$ 10,965,362 | \$ 11,443,330 | \$ 11,302,592 |
| Travel | \$ 400,279 | \$ 410,225 | \$ 495,000 | \$ 435,000 | \$ 435,000 |
| Supplies | \$ 88,328 | \$ 99,454 | \$ 125,000 | \$ 105,000 | \$ 105,000 |
| Printing | \$ 20,435 | \$ 6,291 | \$ 20,000 | \$ 20,000 | \$ 20,000 |
| Postage | \$ 6,993 | \$ 6,118 | \$ 7,000 | \$ 7,000 | \$ 7,000 |
| Communications | \$ 178,880 | \$ 227,509 | \$ 180,000 | \$ 180,000 | \$ 317,098 |
| Rentals | \$ 307,286 | \$ 308,922 | \$ 320,000 | \$ 320,000 | \$ 320,000 |
| Utilities | \$ 120,101 | \$ 126,902 | \$ 101,000 | \$ 101,000 | \$ 101,000 |
| Professional fees | \$ 123,287 | \$ 157,782 | \$ 260,000 | \$ 220,000 | \$ 220,000 |
| Outside services and repair | \$ 256,838 | \$ 289,302 | \$ 246,000 | \$ 315,000 | \$ 315,000 |
| Data processing | \$ 89,573 | \$ 105,400 | \$ 90,000 | \$ 110,000 | \$ 125,000 |
| Equipment | \$ 220,684 | \$ 329,016 | \$ 370,000 | \$ 386,000 | \$ 436,000 |
| Reimbursement to state agencies | \$ 424,834 | \$ 418,625 | \$ 495,000 | \$ 480,000 | \$ 480,000 |
| Depreciation | \$ 287,356 | \$ 278,004 | \$ 400,000 | \$ 350,000 | \$ 350,000 |
| Other expenses | \$ 87,898 | \$ 79,976 | \$ 87,000 | \$ 87,000 | \$ 87,000 |
| Total operating expenses | \$ 12,073,776 | \$ 12,408,648 | \$ 14,161,362 | \$ 14,559,330 | \$ 14,620,690 |

* FY 2017 Proposed Final Budget for "Administrative Payroll" includes salary and benefit cost increases per DOM projections

IOWA LOTTERY AUTHORITY [531]

Notice of Intended Action

Pursuant to the authority granted in Iowa Code 99G.9(3), the Board of Directors of the Iowa Lottery Authority hereby gives Notice of Intended Action to amend Chapters 12, 18, and 19 of Chapter 531, Iowa Administrative Code. Chapter 12 (“General Operation of the Lottery”); Chapter 18 (“Scratch Ticket General Rules”) Chapter 19 (“Pull-Tab General Rules”); and Chapter 20 (“Computerized Games General Rules”) are each being modified to update and modernize the rules regarding the Iowa Lottery’s sale of traditional lottery products known as “instant tickets”.

Historically, the Iowa Lottery has utilized the terms “instant tickets” and “scratch tickets” synonymously, to refer to printed lottery tickets that contain play symbols concealed by a removable coating that the player must scratch to reveal. Indeed, the first game ever sold by the Lottery, a scratch ticket called “Scratch, Match & Win”, was introduced in 1985.

Scratch tickets remain popular with Iowa Lottery players, having accounted for 65% of total Iowa Lottery sales in fiscal year 2015. Certainly, scratch tickets will remain core Iowa Lottery offerings for years to come.

However, in light of the specialized paper stock and latex coating utilized to produce scratch tickets, scratch tickets are necessarily more expensive for the Iowa Lottery to produce than computerized lotto games such as the popular Powerball® or Mega Millions® games.

Since 2004, thirteen U.S. lotteries have introduced a different type of instant ticket. These instant tickets are printed using the same lotto terminals and secure paper that licensed retailers already use for printing plays in computerized lotto games such as Powerball® or Mega Millions®.

Those instant tickets use play symbols just like traditional scratch tickets. However, the symbols aren’t concealed by any latex coating. By using the secure paper already in place to print lotto tickets, these “scratchless” printed tickets are far less expensive to produce. And, they still provide the same play symbols and entertainment value that lottery players have come to expect from traditional scratch tickets.

The Iowa Lottery and its Board have the authority under Chapter 99G to introduce and administer lottery games, including these instant play games. However, the Lottery seeks to update its administrative code to reflect that printed instant tickets may not always contain a latex covering that must be removed by the player.

These modifications were identified through a regular review of the Iowa Lottery Authority’s administrative rules. The Board does not intend to grant waivers under the provisions of these rules. After analysis and review of this rule making, the Board finds that there is no adverse fiscal impact or impact on jobs from the adoption of these amendments. These amendments are intended to implement Iowa Code Chapter 99G.

Twenty-five interested persons, a governmental subdivision, an agency or association of 25 or more persons may demand an oral presentation hereon as provided in Iowa Code section 17A.4(1)(b). Notice is also given to the public that the Administrative Rules Review Committee may, on its own motion or on written request by any individual or group, review this proposed action under section 17A.8(6) at a regular or special meeting where the public or interested persons may be heard.

Interested persons may submit comments orally or in writing by 4:00 p.m. on August 23, 2016, to Rob Porter, Vice President/General Counsel, Iowa Lottery Authority, through the following methods:

- Via mail, to 13001 University Avenue, Clive, Iowa, 50325-8225;
- Via email, to rkporter@ialottery.com; or
- Via phone; to (515) 725-7851.

The following amendments are proposed.

Amend rule 531-12.4(1)(99G) as follows:

531—12.4(1) The lottery has discretion to license a qualified applicant to sell any one of the following lottery products or any combination of the following products: ~~scratch~~ instant tickets; pull-tab tickets; and computerized game tickets, if available. The lottery may require an applicant to sell one or more lottery products as a condition of selling any other lottery product. A lottery license authorizes the licensee to sell only the type of lottery products specified on the license.

Amend the header to chapter 531-18 (99G) as follows:

CHAPTER 18
SCRATCH INSTANT TICKET GENERAL RULES

[Prior to 1/14/87, Iowa Lottery Agency[526] Ch 8]
[Prior to 11/30/88, Instant Game General Rules[705] Ch 8]
[Prior to 9/17/03, see 705—Ch 8]

Amend rule 531-18.1(99G) as follows:

531—18.1(99G) Authorization of ~~scratch~~ instant ticket games. The lottery authority board authorizes the sale of ~~scratch~~ instant tickets that meet the criteria set forth in this chapter.

This rule is intended to implement Iowa Code Supplement section 99G.9(3).

Amend rule 531-18.2(99G) as follows:

531—18.2(99G) Definitions.

“Instant ticket” means a scratch ticket or an instaplay ticket as defined in this chapter.

“Instaplay ticket” means an instant ticket printed on lotto terminal paper with play symbols that are not concealed by a removable covering.

“Play symbols” means the numbers or symbols appearing under the removable covering on ~~the~~ a scratch ticket or on the face of an instaplay ticket.

“Scratch ticket” as used in this chapter means an instant lottery ticket that is played by removing a rub-off covering on the ticket.

“Validation number” means the characters or numbers found on a ticket or ticket stub.

This rule is intended to implement Iowa Code Supplement sections 99G.3 and 99G.9(3).

Amend rule 531-18.3(99G) as follows:

531—18.3(99G) ~~Scratch~~ Instant ticket price. The lottery shall specify the price of scratch tickets and instaplay tickets in the specific game rules for each game.

This rule is intended to implement Iowa Code Supplement sections 99G.9(3) and 99G.21.

Amend rule 531-18.5(2)(99G) as follows:

18.5(2) At the lottery’s discretion, a scratch ticket game or an instaplay game may include a special prize event. The number of prizes and the amount of each prize in the prize event shall be determined by the lottery. The dates and times, as well as the procedures for conducting any elimination drawings or prize events, shall be determined by the lottery in the specific game rules. Finalists for prize events shall be selected in the manner stated in the specific game rules.

This rule is intended to implement Iowa Code Supplement sections 99G.9(3), 99G.21, and 99G.31.

Amend rule 531-18.6(99G) as follows:

531—18.6(99G) Annuity prizes. If a prize offered in a scratch game or an instaplay game is an annuity, the prize shall consist of an initial prize payment followed by yearly installments as described in the specific game rules. If the current cash value of an annuity prize attributable to a single ticket or entry is less than \$100,000, the lottery may elect to pay the current cash value of the prize in one lump-sum payment.

This rule is intended to implement Iowa Code Supplement sections 99G.9(3), 99G.21, and 99G.31.

Amend rule 531-18.8(1)(99G) as follows:

531—18.8(99G) Claiming prizes.

18.8(1) Claim period. Scratch ticket prizes must be claimed within 90 days of the announced end of the scratch game. Instaplay ticket prizes must be claimed within 90 days of the date of sale of the Instaplay ticket.

Amend rule 531-18.8(5)(99G) as follows:

18.8(5) Variation by specific game rules. The specific game rules may vary the terms of this rule in respect to the manner in which prizes are claimed or the claim period applicable to any scratch or instaplay game or special event.

Amend rule 531-18.9(99G) as follows:

531—18.9(99G) Ticket validation requirements.

18.9(1) To be a valid scratch ticket, a ticket must meet all of the following validation requirements. A ticket must:

- a. Have been issued ~~by the lottery~~ in an authorized manner as determined by the lottery.
- b. Not be altered, unreadable, reconstructed or tampered with in any manner.
- c. Not be counterfeit in whole or in part.
- d. Not be stolen or appear on any list of omitted tickets on file with the lottery.
- e. Be complete and not blank or partially blank, miscut, misregistered, defective, or printed or produced in error.
- f. Have play symbols and captions as described in the specific game rules. All symbols, numbers and codes must be present in their entirety, legible, right side up, and not reversed in any manner.
- g. Have the appropriate bar code, pack-ticket number, retailer verification code and security code.
- h. Have a validation number that appears on the lottery's official list of validation numbers of winning tickets. A ticket with that validation number shall not have been previously paid.
- i. Pass all additional validation requirements stated in the specific game rules and any confidential validation requirements established by the lottery.

18.9(2) To be a valid instaplay ticket, a ticket must meet all of the following validation requirements. A ticket must:

- a. Have been issued in an authorized manner as determined by the lottery.
- b. Not be altered, unreadable, reconstructed or tampered with in any manner.
- c. Not be counterfeit in whole or in part.
- d. Not be stolen, cancelled, or appear on any list of omitted or test tickets on file with the lottery.
- e. Be complete and not blank or partially blank, miscut, misregistered, defective, or printed or produced in error.
- f. Have play symbols and captions as described in the specific game rules. All symbols, numbers and codes must be present in their entirety, legible, right side up, and not reversed in any manner.
- g. The information on the ticket or share must correspond precisely with the lottery's computer record.
- h. The ticket or share serial number must appear in its entirety, and correspond, using a computer validation file, to the winning game play or plays printed on the ticket or share.
- h. A ticket or share shall be void unless the ticket or share is printed on a paper stock roll that was validly

issued to and used, at the time of the play, by the retailer from whom the ticket or share was purchased.

i. Pass all additional validation requirements stated in the specific game rules and any confidential validation requirements established by the lottery.

18.9(32) Any ticket not passing all applicable validation requirements is invalid and is ineligible for any prize. The chief executive officer's determination that a ticket is invalid is final.

The chief executive officer, in the chief executive officer's sole discretion, may choose to pay an amount equal to the prize that would have been won on an invalid ticket if the lottery is able to determine the prize which would have been won by use of a symbol, number, color code, or other mechanism. The chief executive officer's decision as to whether to pay a player the sum equal to the prize on an invalid ticket is final.

If an invalid ticket is purchased by a player, the only responsibility or liability of the lottery shall be to replace the invalid ticket with an unplayed ticket from the same game or any other game or issue a refund of the sale price.

This rule is intended to implement Iowa Code Supplement sections 99G.9(3), 99G.21, and 99G.31.

Amend rule 531-18.10(99G) as follows:

531—18.10(99G) Official end of game. The lottery shall announce the official end of each scratch game and each instaplay game. Retailers may continue to sell tickets for each game up to the cutoff date specified by the lottery.

This rule is intended to implement Iowa Code Supplement sections 99G.9(3) and 99G.21.

Amend rule 531-18.11(99G) as follows:

531—18.11(99G) Board approval of games. The lottery shall provide board members with a written description of each specific scratch game and each specific instaplay game. The chairperson or a quorum of the board may call a special meeting to review the instant game selection. The board shall not contest the selection of a scratch game or an instaplay game more than five days after receiving written notice of the selection.

This rule is intended to implement Iowa Code Supplement sections 99G.9(3) and 99G.21.

Amend rule 531-19.2(99G) as follows:

531—19.2(99G) Definitions. As used in this chapter the following definitions are applicable.

"Low-tier prizes" are prizes which are included in the guaranteed low-end prize structure of a pull-tab game.

"Pull-tab tickets" are instant lottery tickets that are played by opening tabs to reveal if a prize was won. "Pull-tab tickets" do not include "scratch tickets" that are played by removing a rub-off covering from the play area or instaplay tickets that are played using the play symbols printed on lotto terminal paper.

This rule is intended to implement Iowa Code Supplement sections 99G.3 and 99G.9(3).

Amend rule 531-20.2(99G) as follows:

531—20.2(99G) Computerized lottery definitions. For the purposes of interpreting this chapter, the following definitions are applicable unless the context requires a different meaning.

"Central computer" or *"central computer system"* is a computer system designated to control, monitor, and communicate with the terminals and to record the transactions processed by the terminals.

"Drawing" means that process that is used to randomly select a winning combination for the game plays.

"Drawing machine" means a computer or other device that determines the outcome of the process of selection of winning and losing tickets or shares in a lottery.

"Easy pick" means the random selection by the computer terminal of a valid play for the game that was selected.

"Electronic ticket" or *"e-ticket"* means a lottery ticket or share for which an electronic visual facsimile on a computer is available from the lottery.

“Game” shall mean any computerized game conducted by the lottery.

“Game ticket” or *“ticket”* means a ticket or share produced by a terminal or manufacturing process that is the tangible evidence to prove participation in a game.

“Gaming machine” means a drawing machine that upon winning dispenses coins, currency, or a ticket, credit, or token that is redeemable for cash or a prize.

“Lotto terminal” means a vending machine that prints and dispenses tickets or shares that will be determined to be winning or losing tickets or shares either by a predetermined pool drawing machine or by a drawing machine at some time subsequent to the dispensing of the tickets or shares.

“Monitor vending machine” means a vending machine that dispenses or prints and dispenses lottery tickets or shares that have been determined to be winning or losing tickets or shares by a predetermined pool drawing machine prior to the dispensing of the tickets or shares.

“On-line vending machine” means a vending machine that prints and dispenses lottery tickets or shares that have been determined to be winning or losing tickets or shares by a predetermined pool drawing machine prior to the dispensing of the tickets or shares.

“Panel” or *“game panel”* means that area of a play slip that contains marked squares that may be played.

“Play” or *“game plays”* means the selection of an appropriate number of available variables that constitutes a valid entry in the game or the purchase of a ticket or share with a sequentially generated variable appearing on the face of the ticket or share that constitutes a valid entry in a pool exhaustion game.

“Play slip” means a card used by the player in marking a player’s game plays.

“Pool exhaustion game” means a game where a predetermined pool of plays is established.

“Predetermined pool drawing machine” means a computer or other device external to a lotto terminal, scratch ticket vending machine, on-line vending machine, or monitor vending machine that predetermines winning and losing tickets or shares, assigns them to preprogrammed and prepackaged sequential electronic pool files and subsequently utilizes the files in production and distribution of electronic game cards and paper game tickets or shares produced in manufactured packs or through lotto terminals or vending machines.

“Retailer” means the person or entity licensed by the Iowa lottery to sell game plays.

~~*“Scratch (iInstant) ticket vending machine”* or *“ITVM”* means a vending machine or self-service kiosk that dispenses preprinted paper lottery tickets, with or without a scratch-off area, or electronic game cards with preprogrammed and prepackaged sequential electronic pool files that have been determined to be winning or losing tickets by a predetermined pool drawing machine prior to the dispensing of the tickets.~~

“Specific game rules” means the rules promulgated by the lottery pursuant to Iowa Code Supplement section 99G.9(4) that contain the features of a particular computerized game or promotion.

“Terminal” means a device that is authorized by the lottery to function with a central computer system for the purpose of issuing, entering, receiving, and processing lottery transactions.

“Vending machine” means a lottery ticket or share dispensing machine either with a mechanical operating mechanism or with computer components that perform accounting functions and activate the ticket or share dispensing mechanism.

“Winning numbers” means the selection of an appropriate number of the variables, randomly selected at each drawing, which shall be used to determine winning plays contained on a game ticket or share.

This rule is intended to implement Iowa Code Supplement sections 99G.3 and 99G.9(3).



Iowa Lottery

Fiscal Year 2017

Vision

The Iowa Lottery continually strives to deliver value to the State of Iowa by providing entertainment to the public while maintaining the highest standards of integrity, security, and accountability.

Mission

The Iowa Lottery is a nonprofit authority that operates the state's lottery in an entrepreneurial and business-like manner, accountable to a public Board of Directors, the Governor, the General Assembly, and the People of the State while providing entertainment to the public and maximizing revenues for the state.

Key Principles and Strategies

Maintain a High Level of Lottery Integrity

- Maintain public and retailer education about Lottery products and policies
- Open and transparent oversight of lottery operations
- Continue to emphasize responsible play
- Ongoing integrity checks and balances

Exceed ILOT's Base Proceeds Goal of \$69 Million

- Execute diversification of the lottery retail base
- Refresh games for sales growth and portfolio diversity
- Execute the transition to new kiosk and pull-tab vending machines
- Manage expenses and deliver budgeted ILOT proceeds

Best-in-Class Lottery Operations

- Meet and exceed player expectations for value, entertainment and game security
- Deliver great customer service and sales support by all staff
- Strive for continuous improvement of performance in all areas of the lottery's business
- Provide training and redundancy for all aspects of the business