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

AGENDA

IOWA LOTTERY BOARD

December 15, 2016
10:00 am

Dial In: 1-866-685-1580
Code: 000 999 0332

- I. Call to Order
 - a. Approval of Agenda
 - b. Approval of Minutes – September 27, 2016
- II. Quarterly Reports
 - a. Financial
 - b. Marketing
 - c. Security
 - d. IT
 - e. External Relations
 - f. Legal
- III. Contract Extension - Lottery Gaming System
- IV. CEO Update
- V. 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

September 27, 2016

10:00 a.m.

The Iowa Lottery Board convened at 10:00 a.m. at Lottery Headquarters in Clive; Board Chairperson Mike Klappholz presiding.

Board Members Present:

Connor Flynn; Mike Klappholz (via teleconference); Mary Rathje (via teleconference); Mary Junge (via teleconference)

Board Members Absent:

Ying Sa; Hon. Michael Fitzgerald, ex officio

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; Mary Neubauer, VP, External Relations; John Lundquist, Assistant AG; David Ranscht, Assistant AG; Deb Bassett, Board Secretary

Others Present:

Deirdre Demmerly, ILOT; David Berger, Scientific Games

CALL TO ORDER

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

Junge moved to conduct the meeting via teleconference. Flynn seconded. Motion carried unanimously.

APPROVAL OF AGENDA

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

APPROVAL OF MINUTES

Rathje moved to approve the June 28, 2016, board meeting minutes. Junge seconded. Motion carried unanimously.

EMPLOYEE RECOGNITION

Rich presented Deirdre Demmerly, Lottery Instant Ticket Product Manager, with the 2016 Powers Award she had been awarded by the North American Association of State and Provincial Lotteries (NASPL). Demmerly received the award in recognition of her significant contributions and exceptional performance at the Lottery.

QUARTERLY REPORTS

Financial:

Nye presented several financial reports including the final FY16 performance measures and financial statements; the 5-year comparison of the Statement of Revenues, Expenses and Changes in Net Position; a summary of out-of-state travel for conferences and training; the FY17 July and August financials, and the Lucky for Life Agreed-Upon Procedures Report.

FY16 concluded with nearly \$367 million in sales led by record sales of instant-scratch tickets of \$233.7 million. Powerball also had a huge year with sales of \$74.9 million following the record jackpot of nearly \$1.6 billion. That sales activity resulted in record proceeds of \$88 million.

The FY17 performance measures through August show that sales are ahead of budget by 23% and that proceeds are ahead of budget by 36%.

Flynn asked if the spike in retailer compensation was due to the Powerball. Nye explained that retailer compensation is a percentage of sales so when sales go up, the commission to retailers goes up too.

Marketing:

Wood gave an update on the success of the summer Ghostbusters promotion. The promotion resulted in 1,800 new VIP Club members. Wood provided details about the upcoming holiday promotion, Jingle Bills, which will be an all cash promotion. She also explained the Powerball Power Cruise promotion that will launch in February on Super Bowl Sunday.

Security:

Copess provided a Security Report which included the Security Division's 2016 Records of Contact for June–September. Copess noted the security team conducted a Powerball “lockdown” exercise in preparation for the Multi State Lottery's (MUSL) standard 2-year assessment of ILOT security procedures related to MUSL Rule 2. Copess also reported that security investigators are currently conducting compliance checks at retailer locations to see how well retailers are servicing players. The information gathered from compliance checks will be used to build a retailer training program.

External Relations:

Neubauer showed a video for a recent media event held in Cedar Rapids. The video called attention to a \$2 million unclaimed prize for a Powerball ticket that was purchased in the Cedar Rapids area in July. Thus far no one has come forward to claim the prize.

Neubauer stated the External Relations team is updating security information on the ILOT website to focus on how players can protect themselves. Security related tips are also being shared with retailers in the Lottery Action Newsletter.

Neubauer also shared that a bill has been introduced in the Congress to outlaw internet gaming. Some states currently offer their products online because a 2011 justice department opinion letter stated that previous federal legislation did not apply to internet gaming. The new bill rejects the justice department's opinion and believes the previous law does apply to internet gaming.

Legal:

Porter informed the Board that Dave VanCompernelle is no longer the Assistant Attorney General (AAG) assigned to ILOT. Porter introduced John Lundquist and David Ranscht as the newly assigned AAG's.

Porter gave an update on the Larry Dawson lawsuit brought against ILOT and MUSL. ILOT is currently waiting for the judge's ruling on a motion to dismiss the case. Porter also gave an update on pending criminal court cases and appeals related to ILOT's Hot Lotto investigation.

Rich restated the management team's gratitude to the Board and others for their support in ILOT's efforts to ensure the highest ethical standards for fair and honest games.

There was brief discussion as to whether other states involved in the Hot Lotto investigation (Oklahoma, Colorado, Wisconsin and Kansas) paid out potentially fraudulent claims for jackpots. The Iowa Lottery was the only state that did not pay. Flynn stated the fact that Iowa did not pay points to the integrity and security of the Iowa Lottery. Porter stated ILOT is committed to following the evidence to wherever it leads and will continue that commitment in the future.

Flynn moved to approve the Quarterly Reports. Rathje seconded. Motion carried unanimously.

INSTANT TICKET PRINTING CONTRACT EXTENSION

Loss provided information related to instant-ticket printing and related services for RFP IL 12-02 issued in March 2012. Three vendors were awarded the contract: International Game Technology (IGT), Pollard Banknote Limited and Scientific Games International (SGI)

Loss requested board approval to exercise the third contract extension for each vendor contract through December 31, 2017.

Flynn moved to approve the contract extensions. Junge seconded. Motion carried unanimously.

INSTAPLAY UPDATE

Loss gave an update on InstaPlay, the new lottery product under development in Iowa. ILOT is currently doing production testing of the games produced in conjunction with SGI. Working papers for 3 production games have been developed and programming is underway. Loss stated that Marketing and External Relations are working on education materials for retailers and players in addition to marketing materials for players. ILOT's goal is to launch InstaPlay on November 13, 2016.

RETAILER COMPENSATION PROGRAM

Loss stated the Retailer Compensation Program has been updated to include InstaPlay language with a base commission rate of 5.5% for tickets sold.

Loss requested approval of the new Retailer Compensation Program.

Rathje moved to approve the Retailer Compensation Program. Junge seconded. Motion carried unanimously.

ADMINISTRATIVE RULES

Porter stated the Board previously approved filing a Notice of Intended Action to change the Administrative Rules to implement the InstaPlay product line. Since that time, the administrative rules approved by the Board were published in the Administrative Rules Bulletin and was open for public comment with no public comments received. ILOT was asked to present at the Administrative Rules Review Committee meeting on August 5, 2016. The next step in adopting and implementing the administrative rules is for the Board to formally adopt the proposed rules, which permits ILOT to proceed with filing the Adopted and Filed Rules.

Porter requested the Board adopt the administrative rules changes and permit ILOT to move forward with the filing of the InstaPlay administrative rules changes.

Junge moved to approve the administrative rules changes. Flynn seconded. Motion carried unanimously.

FISCAL POLICIES

Nye informed the Board that a section has been added to an existing Lottery fiscal policy, 210.400 – Travel-International-Mode of Transportation, to clarify the Lottery’s passport expense reimbursement policy.

Nye asked the Board to approve fiscal policy 210.400.

Flynn moved to approve fiscal policy 210.400. Rathje seconded. Motion carried unanimously.

FY18 AND FY19 BUDGET

Nye presented a two-year budget for FY18 and FY19. Sales are budgeted at \$333.8 million each year. Proceeds are budgeted at \$70.2 million for FY18 and \$70.7 million for FY19. Both the sales and proceeds budgeted are more than the budgeted figure in those categories for FY17. Salary and benefit increases are not included for either year. The FY18 budget will be brought back to the Board in June for final modifications needed for salary and benefit changes.

Nye asked the Board to approve the FY18 and FY19 proposed budgets.

There was discussion about interest income.

Flynn moved to approve the proposed budgets. Rathje seconded. Motion carried unanimously.

CEO REPORT

Rich stated sales numbers continue to be strong. He also explained an upcoming professional development opportunity for ILOT employees. Rich touched upon the issue of daily fantasy sports and his belief that the topic may be discussed in the upcoming legislative session. There was discussion of the flooding taking place in Eastern Iowa and the ILOT retailers impacted.

ADJOURNMENT

Junge moved to adjourn. Rathje seconded. Motion carried unanimously.

Meeting adjourned at 11:06 a.m.

IOWA LOTTERY
PERFORMANCE MEASURES
FY 2017

October 31, 2016

		JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
MONTH													
Gross Sales	Budget FY 2017	23,477,855	24,903,072	23,632,301	25,244,816	26,997,242	27,197,660	31,905,507	29,700,139	30,596,726	27,338,762	28,973,109	24,952,811
	5-year av.	24,456,151	25,940,756	24,617,034	25,486,553	27,312,000	27,520,770	32,424,788	30,127,524	31,061,472	27,667,752	29,370,200	25,182,384
	Actual '17	32,964,786	26,681,566	25,881,328	26,389,149								
Prize Expense	Budget FY 2017	13,956,616	14,803,847	14,048,427	15,007,000	16,048,745	16,167,885	18,966,506	17,655,505	18,188,489	16,251,764	17,223,316	14,833,415
	5-year av.	14,753,208	15,376,630	14,538,122	15,161,469	15,731,423	17,216,882	19,364,442	17,764,470	19,086,348	16,212,399	17,385,913	15,177,272
	Actual '17	19,638,247	16,797,147	15,829,952	16,510,060								
Operating Expenses	Budget FY 2017	1,159,018	1,295,375	1,204,727	1,229,243	1,121,127	1,206,747	1,164,432	1,156,962	1,288,279	1,158,402	1,260,984	1,375,394
	2-year av.	1,076,139	977,545	1,002,983	1,023,962	983,978	1,200,509	1,024,982	995,750	1,063,325	990,392	1,064,393	1,100,706
	Actual '17	1,031,110	1,078,325	997,684	1,035,019								
Total Proceeds	Budget FY 2017	4,936,993	5,170,692	4,931,385	5,325,558	5,888,690	5,855,108	7,119,813	6,554,660	6,656,142	5,940,090	6,261,866	5,103,588
	5-year av.	5,834,699	5,970,453	6,453,205	6,275,145	7,241,802	5,686,223	8,334,905	7,835,507	7,106,183	7,030,221	7,298,430	4,960,522
	Actual '17	8,482,628	5,304,496	6,168,146	5,667,010								1,115,229

YEAR TO DATE

Gross Sales	Budget FY 2017	23,477,855	48,380,927	72,013,228	97,258,044	124,255,286	151,452,946	183,358,453	213,058,592	243,655,318	270,994,080	299,967,189	324,920,000
	5-year av.	24,456,151	50,396,907	75,013,941	100,500,494	127,812,494	155,333,264	187,758,052	217,885,576	248,947,048	276,614,800	305,985,000	331,167,384
	Actual '17	32,964,786	59,646,352	85,527,680	111,916,829								
Prize Expense	Budget FY 2017	13,956,616	28,760,463	42,808,890	57,815,890	73,864,635	90,032,520	108,999,026	126,654,531	144,843,020	161,094,784	178,318,100	193,151,515
	5-year av.	14,753,208	30,129,838	44,667,960	59,829,429	75,560,852	92,777,734	112,142,176	129,906,646	148,992,995	165,205,393	182,591,306	197,768,579
	Actual '17	19,638,247	36,435,394	52,265,346	68,775,406								
Operating Expenses	Budget FY 2017	1,159,018	2,454,393	3,659,120	4,888,363	6,009,490	7,216,237	8,380,669	9,537,631	10,825,910	11,984,312	13,245,296	14,620,690
	2-year av.	1,076,139	2,053,684	3,056,667	4,080,629	5,064,607	6,265,116	7,290,098	8,285,848	9,349,173	10,339,565	11,403,958	12,504,664
	Actual '17	1,031,110	2,109,435	3,107,119	4,142,138								
Total Proceeds	Budget FY 2017	4,936,993	10,107,685	15,039,070	20,364,628	26,253,318	32,108,426	39,228,239	45,782,899	52,439,041	58,379,131	64,640,997	69,744,585
	5-year av.	5,834,699	11,805,152	18,258,357	24,533,502	31,775,304	37,461,527	45,796,432	53,631,939	60,738,122	67,768,343	75,066,773	80,027,295
	Actual '17	8,482,628	13,787,124	19,955,270	25,622,280								

	Current Month	Year to Date
Prize Payout - Budget	59.45%	59.45%
Prize Payout - 5-Year Average	59.49%	59.53%
Prize Payout - Actual	62.56%	61.45%
Sales - Actual increase (decrease) vs. 5-Year Average		11.36%
Proceeds - Actual increase (decrease) vs. 5-Year Average		4.44%
Sales - Actual increase (decrease) vs. Budget		15.07%
Proceeds - Actual increase (decrease) vs. Budget		25.82%

IOWA LOTTERY AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Three Months Ending Friday, September 30, 2016

	Month ended 9/30/2016	Month ended 9/30/2015	Year-to-date 9/30/2016	Year-to-date 9/30/2015
Operating revenues:				
Instant-scratch ticket sales	\$17,766,079.00	\$16,415,298.00	\$54,022,710.00	\$52,087,597.00
Pick 3 sales	565,428.50	598,750.50	1,744,357.50	1,840,081.00
Powerball sales	3,713,801.00	5,846,720.00	15,556,369.50	12,362,806.00
Mega Millions Sales	1,114,005.00	1,129,823.00	5,577,425.00	3,491,473.00
Hot Lotto sales	521,940.00	804,799.00	1,992,505.00	2,306,936.00
Pick 4 sales	304,397.50	284,093.50	931,230.50	886,409.50
All or Nothing sales	276,646.00	362,460.00	850,096.00	1,060,398.00
Lucky for Life sales	525,844.00	-	1,500,098.00	-
Pull-tab sales	1,093,186.72	1,349,478.38	3,352,888.26	3,844,651.61
Application fees	300.00	250.00	825.00	900.00
Other	248.05	276.13	871.27	1,227.97
Total operating revenues	<u>25,881,875.77</u>	<u>26,791,948.51</u>	<u>85,529,376.03</u>	<u>77,882,480.08</u>
Operating expenses:				
Scratch ticket	11,537,386.65	10,485,018.47	35,751,745.62	33,536,041.47
Pick 3	313,307.70	353,340.30	1,011,905.10	1,087,448.60
Powerball	1,780,187.50	2,875,420.50	7,636,480.00	6,065,132.50
Mega Millions	549,859.14	552,464.50	2,758,566.46	1,701,084.50
Hot Lotto	248,610.00	393,494.50	968,785.50	1,115,663.00
Pick 4	180,638.50	168,956.10	548,898.30	525,805.70
All or Nothing	163,600.05	214,268.26	502,658.77	626,752.97
Lucky for Life	334,694.63	-	913,725.75	-
Pull-tab	683,905.07	841,650.44	2,096,741.59	2,406,102.66
VIP Club prize expense	1,150.00	600.00	28,491.70	71,423.77
Promotional	36,612.95	23,608.22	47,347.36	45,112.66
Advertising/publicity	524,200.05	553,806.32	1,608,411.97	1,648,277.03
Retailer compensation expense	1,692,974.58	1,715,648.46	5,521,605.14	5,019,594.05
Ticket expense	207,597.42	207,742.74	645,907.53	684,288.68
Vendor compensation expense	527,027.88	548,088.01	1,733,459.44	1,577,712.44
Salary and benefits	805,901.18	827,853.00	2,524,978.85	2,544,535.24
Travel	27,102.37	19,903.92	80,118.13	74,540.80
Supplies	7,160.10	5,911.14	50,467.88	37,847.33
Printing	-	-	1,171.96	93.80
Postage	223.18	366.46	912.73	1,113.12
Communications	12,469.37	12,472.16	35,827.09	36,945.00
Rentals	25,577.98	26,015.13	76,648.94	77,153.21
Utilities	8,905.20	7,659.25	30,683.69	23,562.90
Professional fees	13,460.68	7,175.45	27,070.38	25,930.75
Vending machine maintenance	50,390.76	48,421.47	151,172.28	145,394.69
Outside services and repairs	69,736.26	68,131.19	201,062.97	202,451.53
Data processing	9,680.61	9,581.80	29,072.05	29,838.73
Equipment	15,509.91	24,173.38	57,562.63	129,122.73
Reimbursement to other state agencies	30,528.93	36,950.76	91,846.53	95,886.60
Depreciation	27,450.57	27,655.92	81,487.82	80,469.30
Other	4,820.75	6,299.39	13,081.65	16,585.81
MUSL/Lotto administrative expense	13,016.59	15,952.71	39,049.78	28,011.59
Total operating expenses	<u>19,903,686.56</u>	<u>20,078,629.95</u>	<u>65,266,945.59</u>	<u>59,659,923.16</u>
Operating income	<u>5,978,189.21</u>	<u>6,713,318.56</u>	<u>20,262,430.44</u>	<u>18,222,556.92</u>
Non-operating revenue (expenses):				
Proceeds provided to State General Fund	(6,168,145.73)	(6,813,453.57)	(17,455,269.70)	(15,604,724.77)
Proceeds provided to Veteran's Trust Fund	-	-	(2,500,000.00)	(2,500,000.00)
Interest income	38,078.59	14,168.88	38,078.59	14,168.88
Interest expense	-	-	-	-
Gain (Loss) on disposal of capital assets	-	-	25,225.00	4,750.00
Net non-operating revenues (expenses)	<u>(6,130,067.14)</u>	<u>(6,799,284.69)</u>	<u>(19,891,966.11)</u>	<u>(18,085,805.89)</u>
Change in net position	<u>(151,877.93)</u>	<u>(85,966.13)</u>	<u>370,464.33</u>	<u>136,751.03</u>
Net position beginning of year	<u>7,076,419.74</u>	<u>6,021,054.94</u>	<u>6,554,077.48</u>	<u>5,798,337.78</u>
Net position end of year	<u><u>6,924,541.81</u></u>	<u><u>5,935,088.81</u></u>	<u><u>6,924,541.81</u></u>	<u><u>5,935,088.81</u></u>

IOWA LOTTERY AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Four Months Ending Monday, October 31, 2016

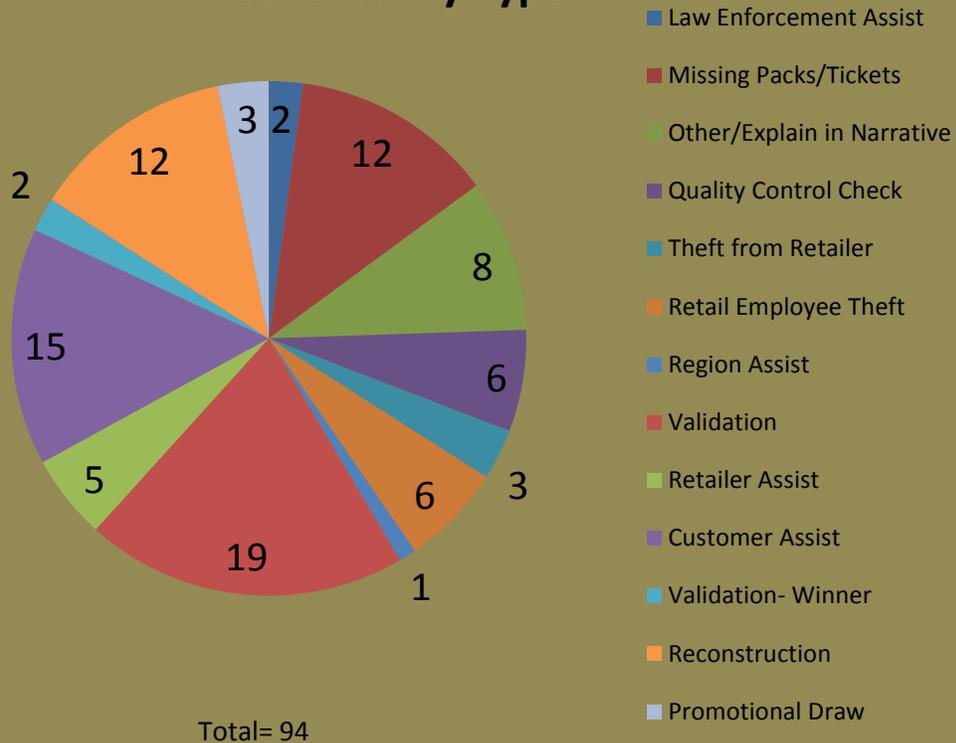
	Month ended 10/31/2016	Month ended 10/31/2015	Year-to-date 10/31/2016	Year-to-date 10/31/2015
Operating revenues:				
Instant-scratch ticket sales	\$18,370,564.00	\$18,106,200.00	\$72,393,274.00	\$70,193,797.00
Pick 3 sales	604,610.00	607,301.50	2,348,967.50	2,447,382.50
Powerball sales	3,750,035.00	3,528,318.50	19,306,404.50	15,891,124.50
Mega Millions Sales	826,008.00	1,338,869.00	6,403,433.00	4,830,342.00
Hot Lotto sales	619,621.00	834,524.00	2,612,126.00	3,141,460.00
Pick 4 sales	325,647.00	291,286.00	1,256,877.50	1,177,695.50
All or Nothing sales	283,389.00	367,649.00	1,133,485.00	1,428,047.00
Lucky for Life sales	533,178.00		2,033,276.00	
Pull-tab sales	1,076,096.53	1,210,802.91	4,428,984.79	5,055,454.52
Application fees	375.00	575.00	1,200.00	1,475.00
Other	185.97	1,728.94	1,057.24	2,956.91
Total operating revenues	26,389,709.50	26,287,254.85	111,919,085.53	104,169,734.93
Operating expenses:				
Scratch ticket	12,123,964.00	12,092,161.00	47,875,709.62	45,628,202.47
Pick 3	351,557.10	360,220.90	1,363,462.20	1,447,669.50
Powerball	1,834,620.00	1,729,838.50	9,471,100.00	7,794,971.00
Mega Millions	404,782.39	644,818.50	3,163,348.85	2,345,903.00
Hot Lotto	300,983.50	381,229.65	1,269,769.00	1,496,892.65
Pick 4	193,583.20	173,771.60	742,481.50	699,577.30
All or Nothing	166,871.25	218,812.13	669,530.02	845,565.10
Monopoly Millionaires' Club		(2,232.00)		(2,232.00)
Lucky for Life	454,690.03		1,368,415.78	
Pull-tab	672,371.17	755,335.48	2,769,112.76	3,161,438.14
VIP Club prize expense	1,000.00	9,044.56	29,491.70	80,468.33
Promotional	5,637.71	7,728.95	52,985.07	52,841.61
Advertising/publicity	619,418.82	554,220.50	2,227,830.79	2,202,497.53
Retailer compensation expense	1,706,615.21	1,700,076.81	7,228,220.35	6,719,670.86
Ticket expense	287,451.02	246,301.58	933,358.55	930,590.26
Vendor compensation expense	517,282.23	523,901.94	2,250,741.67	2,101,614.38
Salary and benefits	841,170.40	779,640.28	3,366,149.25	3,324,175.52
Travel	21,750.93	26,537.62	101,869.06	101,078.42
Supplies	5,777.91	6,047.21	56,245.79	43,894.54
Printing	1,410.10		2,582.06	93.80
Postage	290.98	392.45	1,203.71	1,505.57
Communications	13,832.58	13,574.41	49,659.67	50,519.41
Rentals	25,301.98	25,528.28	101,950.92	102,681.49
Utilities	1,180.57	2,695.42	31,864.26	26,258.32
Professional fees	14,191.07	6,289.52	41,261.45	32,220.27
Vending machine maintenance	40,597.96	48,504.04	191,770.24	193,898.73
Outside services and repairs	62,660.01	76,141.84	263,722.98	278,593.37
Data processing	9,665.67	10,371.21	38,737.72	40,209.94
Equipment	11,578.80	10,764.60	69,141.43	139,887.33
Reimbursement to other state agencies	31,922.57	58,582.83	123,769.10	154,469.43
Depreciation	30,362.66	27,655.92	111,850.48	108,125.22
Other	10,772.17	4,398.53	23,853.82	20,984.34
MUSL/Lotto administrative expense	13,016.59	9,337.21	52,066.37	37,348.80
Total operating expenses	20,776,310.58	20,501,691.47	86,043,256.17	80,161,614.63
Operating income	5,613,398.92	5,785,563.38	25,875,829.36	24,008,120.30
Non-operating revenue (expenses):				
Proceeds provided to State General Fund	(5,667,009.63)	(5,656,822.45)	(23,122,279.33)	(21,261,547.22)
Proceeds provided to Veteran's Trust Fund			(2,500,000.00)	(2,500,000.00)
Interest income	4,741.83	84,414.07	42,820.42	98,582.95
Interest expense				
Gain (Loss) on disposal of capital assets	(109,066.00)	4,850.00	(83,841.00)	9,600.00
Net non-operating revenues (expenses)	(5,771,333.80)	(5,567,558.38)	(25,663,299.91)	(23,653,364.27)
Change in net position	(157,934.88)	218,005.00	212,529.45	354,756.03
Net position beginning of year	6,924,541.81	5,935,088.81	6,554,077.48	5,798,337.78
Net position end of year	6,766,606.93	6,153,093.81	6,766,606.93	6,153,093.81



October/November 2016 Security Report



October/November 2016 Record of Contacts by Type



Other: (1) InstaPlay reconstruction, (1) InstaPlay sales review, (1) Full serial number request, (1) on-line ticket research (1) Ticket printed on non-Lottery paper (1) Packs incorrectly received, (1) Player Assist, (1) Scan code scratched without being scanned

October/November 2016 Cases By Type



Other Duties and Activities;

- Conduct three (3) Jingle Bells promotional drawings
- Presentations to Law Enforcement Intelligence Network regional intelligence meetings
- Presentation to the Iowa State Police Association Conference
- Conducted **168** compliance checks on retail outlets, sent follow up letters to all retailers to provide results of the compliance check at their store

Why Lottery Results Can And Do Fluctuate Over Time

- In January 2016, a world-record event occurred that produced record results for lotteries across the country, including the Iowa Lottery. We're of course referring to the Powerball® jackpot of nearly \$1.6 billion that was split on Jan. 13, 2016, by three tickets purchased in California, Florida and Tennessee. Lottery sales leading up to that drawing set daily, weekly and monthly records, produced an enormous one-time influx of proceeds to good causes, and ultimately helped the Iowa Lottery achieve its highest annual sales and proceeds since its start in 1985.
- The world-record drawing highlights an issue we repeatedly emphasize: Lottery results can and do fluctuate over time. That is why at the Iowa Lottery, we budget conservatively and base our sales and proceeds projections on a five-year rolling average. We do our best to factor in the natural fluctuations in lottery results that will occur and should be expected.
- Because of the enormous impact of that world-record jackpot, we anticipate there will be a noticeable difference in annual lottery results here in Iowa and across the country in fiscal years 2016 and 2017.
- The world-record jackpot was an event that generated buzz around the world. Lottery sales followed the jackpot up as it reached record heights. It was exciting to see so many people join in the fun. When the huge prize was won, the Powerball jackpot returned to its starting level of \$40 million for the next drawing and sales returned to an anticipated level for a prize of that size.
- The world-record prize was a ton of fun and something to celebrate, but it won't occur every day – or every year. World records draw enormous attention because of what they are. We don't anticipate seeing lotto sales at their January 2016 levels until there is another big event.
- In general, the particular type of lottery product that sells best in a given time period has a big impact on overall lottery results. For example, instant-scratch games have a smaller profit margin than lotto games like Powerball. But sales in lotto games are largely jackpot driven and can fluctuate greatly from week to week and month to month. Scratch-game sales and pull-tab sales are more consistent over time. So in a year when scratch tickets sell particularly well, lottery profits may be a smaller percentage of total sales simply because scratch games have a smaller profit margin. In a year when lotto tickets sell particularly well, lottery profit margins will likely be higher.
- Everything from game design, to the top prize available, the color of the ticket, the artwork on the ticket, the jackpot on the line, and the particular time of year involved all have an impact on lottery sales. We at the Iowa Lottery do our best to be cognizant of all those factors and keep a good mix of games in the field to appeal to different customers.

Gift Responsibly!

**Lottery tickets
are for an
adult audience.**



1-800-BETS OFF

**SECOND CONTRACT EXTENSION AND AMENDMENT TO THE AGREEMENT
BETWEEN THE IOWA LOTTERY AUTHORITY
AND
SCIENTIFIC GAMES INTERNATIONAL, INC.
FOR AN ON-LINE GAMING SYSTEM AND
RELATED PRODUCTS AND SERVICES**

December ____, 2016

This Second Contract Extension and Amendment (the "Second Amendment"), is effective upon full execution by the parties (the "Effective Date") and is made by and between the Iowa Lottery Authority (the "Lottery") and Scientific Games International, Inc. ("Contractor").

SECTION 1. IDENTITY OF PARTIES.

1.1 The Iowa Lottery Authority is an instrumentality of the State of Iowa whose address is 13001 University Avenue, Clive, IA 50325. The Lottery is authorized by Iowa Code Chapter 99G to conduct a lottery in the State of Iowa.

1.2 Scientific Games International, Inc. is a wholly owned subsidiary of Scientific Games Corporation, whose business, is among other things to design, develop, install and operate a lottery gaming system. The Contractor's principal place of business is 1500 Bluegrass Lakes Parkway, Alpharetta, GA 30004.

SECTION 2. EXTENSION OF INITIAL TERM. In October, 2010, the Lottery and Contractor entered into an "Agreement between the Iowa Lottery Authority and Scientific Games International, Inc. for an On-Line Gaming System and Related Products and Services" (the "Contract"). The initial term of the Contract commenced on July 3, 2011, and runs to and through July 2, 2018, plus three one-year extension periods (if renewed) exercisable at the option of the Lottery, plus such time as is necessary to finish out the Lottery business week then in progress.

On or about October 9, 2015, the Lottery and Contractor entered into the "First Contract Extension and Amendment to the Agreement" ("First Extension"), which amended the Contract and exercised the first available extension, with an ending date of July 2, 2019.

The Lottery desires to exercise all remaining Contract extension options, thereby extending the Contract for the last two optional one-year extension periods. In consideration of the promises made in this Amendment, the Lottery hereby exercises its option to extend the Contract for the second and third one-year option periods with an ending date of July 3, 2021, except as otherwise provided herein.

SECTION 3. AMENDMENTS. The Lottery and Contractor hereby agree as follows:

3.1 Relief on Contract Rate During Extension Periods for Specified Options. Consistent with Section 7.1.2 of the Contract, the Lottery exercised certain options for goods or services set forth in the Contractor's Proposal. The Lottery and Contractor agree that the retailer flat panel monitor option, the self-service ticket checker option, and the jackpot signs option will continue to be utilized during the First Extension and this Second Extension, but that the compensation rates paid to Contractor for the optional flat panels, self-serve

validators, and jackpot signs will each be reduced by 10% during the First Amendment extension period and the extension period set forth in this Second Extension.

3.2 Development and Upgrade of Iowa Lottery Smartphone Applications. By December 31, 2016, at no additional cost to the Lottery, Contractor shall do the following:

- 3.2.1 Develop, test, and deliver an Android smartphone application for the Iowa Lottery.
- 3.2.2 Upgrade, test, and deliver an enhanced iPhone application for the Iowa Lottery.
- 3.2.3 The applications delivered and updated pursuant to this section shall, at a minimum, be capable of the following functionality:
 - 3.2.3.1 Scan and check whether instant, lotto, and InstaPlay tickets are winning or non-winning tickets;
 - 3.2.3.2 Scan and enter non-winning tickets into Lottery contests and promotions;
 - 3.2.3.3 Permit players to locate lottery retailers closest to the player via GPS technology;
 - 3.2.3.4 Present information regarding lottery games, winning numbers, and remaining prizes; and
 - 3.2.3.5 Provide an avenue for lottery players to remain engaged through tutorials, as well as video and audio content.
 - 3.2.3.6 Produce electronic playslips with the capability of generating self-selected or randomly selected numbers, utilizing barcodes that can be read by the Lottery's wave terminals and kiosks.
 - 3.2.3.7 Contain the capability to link to other applications which may be utilized in Iowa Lottery promotions, including but not limited to the Power Cruise™ promotion.

3.3 Sales Force Automation and Retailer Engagement Capabilities. Contractor shall arrange for the demonstration and documentation of options and pricing of sales force automation and lottery retailer engagement applications. The demonstration and documentation shall include, but not necessarily be limited to, deliverables offered by Hudson Alley Software and Lapis Software Associates. Contractor shall also make a written recommendation to the Lottery relating to the most effective sales force automation and retailer engagement solution for the Lottery, in light of the Lottery's structure, retailer base, and capabilities.

Based upon the recommendation of the Contractor with the approval of the Lottery, the Contractor shall also execute appropriate agreements necessary to facilitate the offering of sales force automation and lottery retailer engagement applications to the Lottery, which shall be coterminous to the duration of this Second Extension. The Contractor shall perform all necessary work under this provision so that it will be complete before the September 30, 2017 expiration of the Lottery's existing agreement with Hudson Alley Software, to ensure that the Lottery will experience a seamless continuation or transition of sales force automation and lottery retailer engagement.

3.4 UPS Shipping Rate Review. By June 30, 2017, Contractor shall provide, at no additional cost to the Lottery, the services of a qualified third party consultant to perform a review of available carriers and of the Lottery's rates for small package shipments, and develop a written recommendation to the Lottery as to potential savings for the shipment of instant tickets and other small package shipping. The Lottery shall be under no obligation to

adopt any of the consultant's findings or recommendations.

3.5 Enhanced Retailer Corner Capabilities. Contractor shall develop, at no additional cost to the Lottery, enhanced Retailer Corner website capabilities that will permit retailers to create customized reports on the retailer's lottery business and that will serve as a repository for retailer training and marketing information. The enhanced capabilities for Retailer Corner shall be made available to Iowa Lottery retailers by no later than September 30, 2017, with specification approval by March 30, 2017

3.6 Lottery Gift Card. At no additional cost to the Lottery, by January 31, 2017, Contractor shall develop a written report, recommendation and proposal to the Lottery for an expansion of Contractor capability necessary to permit the sale of preloaded, closed-loop lottery gift cards in Iowa. Vendor acknowledges that gift card transactions shall also be identifiable from terminal daily and weekly activity reports, daily and weekly transactions reports, and weekly settlement reports. If requested by the Lottery, Contractor shall develop and implement the expanded capability proposed by the Contractor within the terms and schedule mutually agreed upon by the parties.

3.7 Prize Remittance on Cash Card. At no additional cost to the Lottery, by January 31, 2017, Contractor shall develop a written report, recommendation and proposal to the Lottery for an expansion of Contractor capability to permit Lottery retailers, with the consent of the player, to issue prizes below \$600 to be paid via an open-loop stored-value card ("Cash Card") that can be utilized at other retailers or can be used to withdraw cash from the account associated with the player's cash card. Contractor shall also develop a written report, recommendation and proposal for functionality necessary to permit the Lottery to issue prizes up to \$2,000 to be paid via a Cash Card. If requested by the Lottery, Contractor shall develop and implement the expanded capability proposed by the Contractor within the terms and schedule mutually agreed upon by the parties.

3.8 In-Lane Solutions. At no additional cost to the Lottery, by January 31, 2017, Contractor shall develop a written report, recommendation and proposal to the Lottery relating to the current state of solutions for In-Lane sales of lottery products in multiple lane retail environments, including but not limited to the ability to securely print lottery tickets and plays on retailer paper and allow multiple lane retailers to generate lotto purchases without a dedicated lottery terminal. If requested by the Lottery, Contractor shall develop and implement the solution recommended by the Contractor as approved by the Lottery within the terms and schedule mutually agreed upon by the parties.

3.9 GMS Upgrade Compatibility. Contractor shall ensure that the Games Management System provided by Contractor to the Lottery shall remain compatible with Windows 10, Internet Explorer (IE) 11, and all future versions of Windows, IE, and other programs necessary for the operation of the Games Management System. Contractor's obligation to maintain the compatibility of the Games Management System shall be an obligation for the duration of the Contract, including all extensions thereto, and shall be done at no additional cost to the Lottery.

3.10 Terminal Offsets. At no additional cost to the Lottery and concurrent with the launch of PlayCentral HD or EX kiosks, Contractor shall perform the necessary development, testing, and implementation work necessary to permit retailer sales information from multiple terminal ID numbers in a single retail location to be rolled up under one retailer ID number.

3.11 Retailer Fee Toggle. At no additional cost to the Lottery and concurrent with the launch of PlayCentral HD or EX kiosks, terminal equipment provided pursuant to this Second Amendment or any Addendum to the Agreement, including but not limited to PlayCentral HD and PlayCentral EX kiosks, shall be designed and implemented by SGI in a manner that permits the Lottery to turn the retailer communication fee on and off on a terminal-by-terminal basis and by a terminal type basis, with the default setting placed at “on”.

3.12 Use of Jackpot Party® Name & Logo. Contractor agrees to license the Lottery to utilize the logos, trademarks and images associated with Contractor’s proprietary Jackpot Party® brand on a premium-priced Lottery InstaPlay ticket. Contractor shall perform all programming and execute all agreements necessary to permit the use of this licensed property by the Lottery in the Lottery’s InstaPlay portfolio. Contractor will, concurrent with the term of this agreement, waive the standard 2% license fee applicable to the use of the logos, trademarks and images associated with Jackpot Party® brand.

SECTION 4. RATIFICATION. Except as expressly hereby amended, the Contract dated October 28, 2010 as amended by the First Extension on October 9, 2015 shall remain in full force and effect, and the parties hereby ratify and confirm the terms and conditions thereof.

SECTION 5. AUTHORIZATION. Each party to this Amendment represents and warrants to the other that:

5.1 It has the right, power and authority to enter into and perform its obligations under this Amendment.

5.2 It has taken all requisite action (corporate or otherwise) to approve execution, delivery and performance of this Amendment, and this Amendment constitutes a legal, valid and binding obligation upon itself in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency and similar laws.

SECTION 6. EXECUTION.

IN WITNESS WHEREOF, in consideration of the mutual covenants set forth above and for other good and valuable consideration, the receipt, adequacy and legal sufficiency of which are hereby acknowledged, the parties have entered into the above Amendment and have caused their duly authorized representatives to execute this Amendment.

Iowa Lottery Authority

By: _____

Date: _____

Name: Terry Rich

Title: President and CEO

Scientific Games International, Inc.

By: _____

Date: _____

Name: _____

Title: President