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Iowa Lottery Report On Operations

To: Members of the House Government Oversight Committee and Senate Government Oversight Committee, Iowa General Assembly

From: Matthew N. Strawn, CEO

Date: June 2023

Introduction

The Iowa Lottery continues to build upon the strong results of its previous two years, with Fiscal Year 2023 on track to break records for lottery sales, proceeds to state causes, prizes to players, and sales commissions to local businesses across the state. The time period of FY 2021-2023 is expected to be the most successful three years in Iowa Lottery history.

They are the only years in which total annual Iowa Lottery sales have exceeded \$430 million, and each year the lottery surpassed \$97 million in proceeds for the State of Iowa. The Iowa Lottery is in strong position, and extends sincere thanks to its staff, retailers, customers and policymakers for their continued support of Lottery entertainment in Iowa.

Specific to FY 2023, gross lottery sales for the year are approaching \$480 million, while net proceeds are expected to eclipse the record of \$101.7 million established in Fiscal Year 2021.

However, external economic factors will continue to impact the Iowa Lottery as they do Iowa household budgets and businesses. For example, the popular scratch-ticket category, which historically has been the most directly affected by higher fuel prices and inflationary pressures, lagged behind the previous year's results for the first half of FY 2023. But sales in those games have rebounded significantly over the final six months of the fiscal year.

Those pressures along with increased competition for consumer discretionary spending remain factors as the Iowa Lottery approaches its next fiscal year.

The Lottery's staff and partners continue to work on game development and prize innovations to ensure the Lottery continues to meet the expectations of Iowa consumers into the future.

This bi-annual Report on Operations details the Lottery's latest work in continuing to fulfill its role of responsibly generating revenues for important state causes.

FY 2023 Lottery Product Sales



Through May, the latest month for which complete figures are available, annual Iowa Lottery sales in FY 2023 totaled \$443.4 million, an 11.2 percent increase from the previous year's total for the same time period. Annual Lottery proceeds to state causes were \$101 million through May, up 12.6 percent from the total for the same time period in the previous year.

Prizes to players during the first 11 months of the fiscal year totaled \$280.3 million, while lottery sales commissions to Iowa businesses totaled \$28.8 million for the time period, with both figures up more than 10 percent from the year before. Also of note, the Lottery's operational expenses remained about \$1.4 million under budget through May 2023, and up only 2.6 percent from the previous year.

Lotto games and scratch tickets continue as the Lottery's leading product categories. And although scratch-game sales saw a slight overall annual decrease through May, sales of those games had rebounded from earlier in the fiscal year, when fuel prices and inflationary factors were high. Scratch-ticket sales are expected to hold steady or be down slightly overall in FY 2023.

Meanwhile, lotto sales saw a big lift as the jackpots in Powerball® and Mega Millions® both climbed into the stratosphere during the fiscal year. The Powerball jackpot hit a world-record \$2.04 billion before it was won in that game's drawing on November 7, while the Mega Millions jackpot topped \$1.3 billion before it was won on January 13.

The Iowa Lottery continues to work with other lotteries around the country to proactively explore ideas that could expand the pool of eligible players, control operational costs and increase lotto sales through jackpot growth. The Iowa Lottery also will continue its own efforts to produce innovative products, responsible promotions and efficient operations that will allow it to remain a meaningful source of proceeds for state causes in Iowa.

Here is a year-to-year comparison of Lottery sales (July-May) by product:

	<u>FY 2023</u>	<u>FY 2022</u>
Instant-scratch games	\$268.3 million	\$270.9 million
InstaPlay games	\$28.4 million	\$21.4 million
Pick 3	\$8.4 million	\$8.5 million
Powerball	\$61.8 million	\$49.1 million
Mega Millions	\$41.7 million	\$18.6 million
Pick 4	\$5.3 million	\$5.1 million
Lucky for Life	\$7.7 million	\$7.4 million
Lotto America	\$9.9 million	\$6.3 million
Pull-tab games	\$12.0 million	\$11.6 million

Historically, Lottery sales and proceeds results fluctuate from year to year based upon the strength of sales in particular product categories. The Iowa Lottery bases its revenue projections on a five-year rolling average to best provide estimates that it can reliably achieve.

As always, the Iowa Lottery continuously monitors its sales results and will keep the Government Oversight Committees apprised of significant developments. The Lottery also provides regular updates regarding sales and proceeds through the State of Iowa's I-3 accounting system. The Lottery's latest monthly financial statement for May 2023 is included in this report as **Attachment A**.

FY 2024 Budget Approval

The Iowa Lottery's FY 2024 budget received final approval from the Iowa Lottery Board at its June 29 meeting.

Increases in sales, prizes, retailer compensation and proceeds along with retailer system costs were made to the budget to reflect the continued growth in sales for Lottery products. Shipping costs for the delivery of scratch tickets also were increased to reflect increased sales of that product category and increased costs for the service. The Lottery's net assets also were adjusted to reflect the anticipated purchase of additional self-service kiosks for Lottery sales in retail locations.

Copies of the Iowa Lottery's overall Budget and Operating Expenses for FY 2024 are included with this report as **Attachment B** and **Attachment C**.



Josh Cook



Mary Junge



Katie New



Mary Rathje



Dana Wingert



Roby Smith

The members of the Lottery Board are: Josh Cook of Ankeny, president and CEO of the Johnston-based Community Choice Credit Union; Mary Junge of Cedar Rapids, a CPA and practicing tax- and estate-planning attorney; Katie New of Urbandale, a CPA at Ellipsis Iowa in Des Moines; Mary Rathje, manager and controller at Rathje Construction Co. in Marion, where she resides; Dana Wingert, chief of police in Des Moines, where he resides; and State Treasurer Roby Smith, who serves as an ex-officio member of the Board.

Responsible Gambling

The Iowa Lottery secured a record level of support this spring for its annual public-service campaign to highlight the help available in Iowa for those impacted by problem gambling.

Each March, the Iowa Lottery works with the Problem Gambling Services Program within the Iowa Department of Health and Human Services on this public-service campaign in support of National Problem Gambling Awareness Month.

Throughout March 2023, a 30-second public-service announcement produced by the Lottery aired statewide on radio, streaming services, broadcast television and cable television. Messages also were displayed on outdoor billboards across the state. A direct link to the television PSA is here: <https://youtu.be/vs7fR50fBNc>



The combined total media value for the 2023 campaign was more than \$450,000, a record total for this awareness effort.

The Iowa Lottery believes that utilizing a broad range of placements for its problem-gambling messages is critical to reaching Iowans in all demographic groups to ensure they know where they can find help for themselves or a loved one.

In addition to this annual March campaign, the Iowa Lottery provides consumers with ongoing responsible play messages throughout the year in a variety of ways. Those include 1-800-BETS OFF details on the tickets, brochures, point-of-sale materials and other publications it prints, through messaging on its Lottery terminals and self-service kiosks. It also includes information through the “Play Smart, Be Informed” section and the Lottery’s *Responsible Gambling Plan* on its website here:

https://www.ialottery.com/Pages/PlaySmartBeInformed/PlaySmartBeInformed_main.aspx
https://www.ialottery.com/PDF/IowaLottery_ResponsibleGamblingOverviewPlan.pdf

Change In Prize-Claim Period For Four Lotto Games



In late April, the prize-claim period was changed for tickets purchased in Iowa in the Powerball, Mega Millions, Lotto America, and Lucky for Life games.

The Lottery Board voted in December to change the rules in the four games to require that Iowa prizes be claimed within 180 days of the drawing for which the winning tickets were eligible. The previous Iowa prize-claim period in those games was 365 days, the longest in the United States and outside the norm for the U.S. lottery industry.

The effort is designed to align Iowa Lottery procedures with current industry standards and encourage players to claim prizes in an expeditious manner.

The change has no monetary benefit to the Iowa Lottery: Under state law, the money from prizes that expire in Iowa without being claimed go back to players through the Lottery’s prize pools for future games and promotions. In the past three fiscal years, the annual total in Lottery prizes that expired in Iowa without being claimed ranged from about \$1.3 million to more than \$1.7 million.

Iowa was one of only 14 states that allowed 365 days for a player to claim a prize in a multi-jurisdictional lotto game. By contrast, 33 jurisdictions (including the three most populous U.S. states) require those prizes to be claimed within 180 days or six months (182 days).

The change that took effect in April was made after analysis of prizes that expired in Iowa without being claimed. A review of recent drawings in the four games found that the vast majority of prizes were claimed within the first six months. In fact, less than 3 percent of prizes from those drawings were claimed after 180 days.

The prize-claim change will hopefully mean that the maximum number of prizes won are claimed in the games.

Iowa Code section 99G.31(3)(d) requires the Lottery to use unclaimed prizes (prizes not claimed within the prize claim period) for future prizes or special prize promotions. With the prize-claim change, the money from unclaimed prizes will more quickly be returned to Lottery players while new promotions can generate revenue for important state causes.

Additionally, time is an important consideration from a security perspective. As time passes, it becomes more difficult for those involved to accurately recall the details of a ticket purchase and provide that information to the Iowa Lottery for verification purposes.

Here are the details that currently apply to Iowa tickets for multi-jurisdictional games:

- In Mega Millions: Tickets purchased for the April 21 drawing or before have a prize-claim deadline of 365 days from the drawing. Beginning with tickets purchased on April 22, the prize-claim deadline is 180 days from the date of the drawing.
- In Powerball, Lotto America and Lucky for Life: Tickets purchased for the April 22 drawing or before have a prize-claim deadline of 365 days from the drawing. Beginning with tickets purchased on April 23, the prize-claim deadline is 180 days from the date of the drawing.

The prize-claim periods in the Iowa Lottery's other games are unchanged:

- Tickets in Iowa-specific lotto games (Pick 3 and Pick 4) are valid for 90 days from the date of the drawing.
- Tickets in scratch games are valid for 90 days after the announced end of the game.
- Tickets in pull-tab games are valid for 90 days after the announced end of the game.
- Tickets in InstaPlay games are valid for 90 days from the date of purchase.

Lottery Security-Compliance Reviews At Retail



The Iowa Lottery's Security Department continues to make unannounced security checks at retail locations across the state to ensure that winning tickets are being handled appropriately by retail licensees and the placement of Lottery equipment is in compliance with Lottery requirements.

During the compliance checks, undercover Iowa Lottery investigators visit retail locations and pose as customers presenting Lottery tickets for validation and payment.

In FY 2023, the Lottery has met its annual performance target for its investigators to conduct compliance checks in at least 20 percent of the 2,500 retail locations that are licensed to sell Iowa Lottery products.

The Iowa Lottery is committed to conducting its games with fairness and integrity and invites anyone with a question or concern about the Lottery or its products to contact Iowa Lottery Security directly at 515-725-7900 or wmaster@ialottery.com.

\$1 Million Prize Unclaimed In Ames

A \$1 million Mega Millions prize remains unclaimed in Ames after nine months, and the Iowa Lottery reminds its players to double-check their tickets.

The \$1 million-winning Mega Millions ticket was purchased at the Filling Station/Gateway Express, 2400 University Blvd. in Ames, for the game's drawing on September 6, 2022. It was the only ticket in the country that night to match the five white balls but miss the yellow Mega Ball to win at the game's second prize level.



The winner or winners of the \$1 million prize have until the close of business on September 6, 2023, to claim it at Iowa Lottery headquarters in Clive.

The Iowa Lottery held an event and put up a sign inside the Ames store on June 6 to highlight the unclaimed prize and remind players to double-check their tickets. Here is a direct link to the Lottery's video from that event: <https://youtu.be/nHoJB507ygc>

Year-End Flurry Of Winners



Demonstrating the random nature of lottery games, FY 2023 ended with a flurry of major wins by Iowa Lottery players.

In a five-day span in late June, four large prizes were won in four different Lottery games. The first was a \$1 million Mega Millions prize won June 23 in Davenport. Then on June 24, an InstaPlay jackpot of nearly \$400,000 was won in Cascade and a Powerball prize of \$2 million was won in Ottumwa. And on June 27, a prize of \$25,000 a year for life was won in the Lucky for Life game.

The winning streak is a real-world display of the detail so often emphasized by the Iowa Lottery: You never know when or where the next big winner will hit.

IOWA LOTTERY AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Eleven Months Ending Wednesday, May 31, 2023

	Month ended 5/31/2023	Month ended 5/31/2022	Year-to-date 5/31/2023	Year-to-date 5/31/2022
Operating revenues:				
Instant-scratch ticket sales	\$27,853,551.00	\$24,175,949.00	\$268,305,239.00	\$270,864,245.45
InstaPlay sales	2,384,301.00	1,854,826.00	28,390,120.00	21,373,510.00
Pick 3 sales	816,187.50	780,974.50	8,350,958.00	8,542,546.00
Powerball sales	3,294,687.50	2,939,731.50	61,771,654.00	49,052,198.00
Mega Millions Sales	1,538,581.00	1,520,027.00	41,720,579.00	18,601,442.00
Pick 4 sales	488,422.50	485,552.00	5,334,065.00	5,141,614.00
Lucky for Life sales	721,416.00	703,658.00	7,724,180.00	7,400,348.00
Lotto America sales	580,798.00	650,132.00	9,854,213.00	6,292,279.00
Pull-tab sales	1,107,052.26	1,058,622.00	11,969,741.19	11,636,614.83
Application fees	275.00	375.00	5,525.00	5,050.00
Other	12,696.11	293.86	21,417.63	12,281.81
Total operating revenues	38,797,967.87	34,170,140.86	443,447,691.82	398,922,129.09
Operating expenses:				
Scratch ticket prizes	18,855,358.00	15,799,852.00	182,246,354.69	180,729,307.20
InstaPlay prizes	1,614,192.14	1,340,478.68	20,833,146.77	15,652,759.66
Pick 3 prizes	489,712.50	468,584.70	5,010,574.80	5,125,527.60
Powerball prizes	1,647,699.50	1,470,788.00	30,804,235.75	24,533,755.50
Mega Millions prizes	769,290.50	765,963.46	20,945,032.70	9,298,876.30
Pick 4 prizes	293,053.50	291,331.20	3,490,576.50	3,084,968.40
Lucky for Life prizes	428,762.79	418,208.57	4,590,750.53	4,394,615.19
Lotto America prizes	290,399.00	325,066.00	4,927,106.50	3,146,139.50
Pull-tab prizes	690,032.52	658,698.13	7,481,922.19	7,260,145.34
Advertising/publicity	877,663.35	776,560.73	8,419,929.05	7,754,615.22
Retailer compensation expense	2,534,452.33	2,239,524.34	28,806,973.51	26,063,280.43
Ticket expense	240,055.74	137,742.15	3,247,709.28	3,055,317.85
Vendor compensation expense	624,142.62	526,839.35	7,054,454.71	6,110,890.21
Salary and benefits	928,256.81	862,862.23	9,674,168.35	9,674,285.01
Travel	28,787.03	25,687.19	301,545.32	255,395.47
Supplies	27,103.28	11,541.12	125,657.40	108,852.07
Printing	90.05	377.50	1,775.92	4,571.17
Postage	182.73	299.55	7,379.11	9,938.25
Communications	14,869.58	14,429.81	167,075.82	166,328.47
Rentals	8,583.15	17,796.00	103,646.79	195,868.31
Utilities	5,962.88	5,669.70	100,573.21	83,097.59
Professional fees	38,045.20	8,241.00	233,616.28	92,693.78
Vending machine maintenance	25,200.00	22,848.00	270,176.64	248,304.00
Outside services and repairs	140,009.15	90,062.37	1,387,377.09	1,189,515.67
Data processing	12,764.04	10,714.99	140,287.83	118,271.36
Equipment	69,110.17	36,498.60	480,932.95	374,869.95
Reimbursement to other state agencies	34,162.39	35,836.78	442,997.78	450,691.58
Depreciation	36,403.11	46,821.13	442,202.34	477,928.74
Amortization	45,884.70	-	502,300.86	-
MUSL/Lotto administrative expense	17,996.67	2,536.32	178,514.43	28,965.96
Debit card fees	15,226.87	5,098.16	146,000.75	11,673.53
Other	5,663.89	4,523.91	78,569.39	51,121.50
Total operating expenses	30,809,116.19	26,421,481.67	342,643,565.24	309,752,570.81
Operating income	7,988,851.68	7,748,659.19	100,804,126.58	89,169,558.28
Non-operating revenue (expenses):				
Proceeds to state causes	(8,308,957.17)	(7,510,303.59)	(101,020,559.35)	(89,715,538.02)
Interest income	98,993.36	7,101.52	616,453.19	47,825.44
Interest expense	(2,671.84)	-	(31,093.87)	-
Gain (Loss) on disposal of capital assets	(1,655.00)	-	5,822.11	38,672.00
Net non-operating revenues (expenses)	(8,214,290.65)	(7,503,202.07)	(100,429,377.92)	(89,629,040.58)
Change in net position	(225,438.97)	245,457.12	374,748.66	(459,482.30)
Net position beginning of period	6,168,529.75	3,696,610.13	5,568,342.12	4,401,549.55
Net position end of period	5,943,090.78	3,942,067.25	5,943,090.78	3,942,067.25

Budget For Lottery Fund

	FY 2022 Actual	FY 2023 Board Approved Budget	FY 2024 Board Approved Budget - Fall	FY 2024 Board Approved Budget - Final
Resources				
Lottery sales	\$ 432,663,770	\$ 372,300,000	\$ 374,200,000	\$ 397,685,000
Interest income	87,823	60,000	60,000	500,000
Application fees	5,300	5,000	5,000	5,000
Other	21,083	5,000	5,000	5,000
Total Resources	432,777,976	372,370,000	374,270,000	398,195,000
Expenses and Change in Net Assets				
Prizes	274,214,107	230,501,000	231,698,000	247,597,000
Retailer compensation	28,255,266	24,945,100	25,072,400	26,645,900
Advertising production and media purchases	8,393,217	14,892,000	14,675,815	15,907,400
Retailer Lottery system/Terminal Communications	5,335,129	7,163,530	7,160,657	8,334,867
Instant/Pull-tab ticket expense	3,288,224	4,546,400	4,546,400	4,734,400
Vending machines & maintenance/Ticket dispensers	487,152	539,248	571,120	571,120
Courier delivery of instant tickets	1,045,771	1,135,000	1,135,000	1,335,000
Lottery operating expense	12,668,005	15,263,250	15,457,919	15,815,149
Interest Expense	19,546	-	19,546	35,000
Increase (decrease) in net assets	1,120,136	(472,600)	(308,200)	2,360,680
Total Expenses and Change in Net Assets	334,826,553	298,512,928	300,028,657	323,336,516
Proceeds				
Proceeds Transfer to Veterans Trust Fund	2,500,000	2,500,000	2,500,000	2,500,000
Proceeds Transfer to Public Safety Survivor Benefit Fund	100,000	100,000	100,000	100,000
Proceeds Transfer to Department of Corrections Survivor Benefits Fund	100,000	100,000	100,000	100,000
Proceeds Transfer to General Fund	95,251,422	71,157,072	71,541,343	72,158,484
Total Proceeds Transfers	97,951,422	73,857,072	74,241,343	74,858,484
Total Expenses and Proceeds	432,777,975	372,370,000	374,270,000	398,195,000

Lottery Operations - Budget Detail

	FY 2022 Actual	FY 2023 Board Approved Budget	FY 2024 Board Approved Budget - Fall	FY 2024 Board Approved Budget - Final
Administrative payroll	\$ 9,518,539	\$ 11,699,545	\$ 11,699,545	\$ 11,532,905
Travel & Transportation	278,982	407,500	407,500	407,500
Supplies	79,320	103,000	103,000	103,000
Printing	4,571	10,500	10,500	10,500
Postage	10,130	7,000	10,000	10,000
Communications	187,447	192,400	192,400	192,400
Rentals	106,831	299,179	179,617	179,617
Utilities	94,376	108,800	120,500	120,500
Professional fees	99,832	204,000	204,000	204,000
Outside services and repair	374,532	262,957	262,957	262,957
Data processing	129,246	150,000	150,000	150,000
Equipment	238,502	492,869	527,434	651,184
Reimbursement to state agencies	514,973	531,900	531,900	531,900
Depreciation	527,833	707,600	543,200	723,320
Amortization	429,366	-	429,366	489,366
Other expenses	73,525	86,000	86,000	246,000
Total operating expenses	12,668,005	15,263,250	15,457,919	15,815,149

FY 2024 Board Approved Budget for "Administrative payroll" includes salary and benefit cost adjustments per DOM projections