

## Iowa Lottery Report On Operations

**To: Members of the House Government Oversight Committee and Senate Government Oversight Committee**

**From: Matthew N. Strawn, CEO**

**Date: June 2019**



**The Iowa Lottery’s results through May demonstrate that fiscal year 2019 will be among the most successful in the organization’s history, with sales, proceeds, prizes, and retailer compensation all at or near record levels.**

Iowa Lottery sales and proceeds for the current year remain ahead of projections and ahead of the lottery’s results for the same time period in FY 2018. Strong sales of instant-scratch tickets continue to lead the way, with the lotto product category also seeing year-over-year growth, notwithstanding the real and long-term concern of player “jackpot fatigue.”

Historically, lottery sales results often fluctuate from year-to-year, but sales and proceeds have steadily risen during the past few years in Iowa. In addition to consistent sales and revenue growth, the Iowa Lottery anticipates its operating expenses for the current fiscal year will again come in under budget. Consistent sales and proceeds driven by innovative products and responsible promotions, combined with efficient operations, will position the Iowa Lottery to be a meaningful source of proceeds for state causes in Iowa.

Iowa Lottery sales through May 2019 topped \$361 million, marking the eighth year in a row that the total has exceeded the \$300 million threshold. Here is a year-to-year comparison of lottery sales (July-May) by product:

	<u><b>FY 2019</b></u>	<u><b>FY 2018</b></u>
Instant-scratch games	\$230.7 million	\$225.1 million
InstaPlay games*	\$11.2 million	\$8.7 million
Pick 3	\$7.2 million	\$7.1 million
Powerball	\$51.1 million	\$55.4 million
Mega Millions	\$34.3 million	\$19.6 million
Hot Lotto*	-----	\$3.8 million
Pick 4	\$3.9 million	\$4.0 million
Lucky for Life	\$5.0 million	\$5.2 million
Lotto America*	\$7.9 million	\$4.2 million
Pull-tab games	\$9.9 million	\$10 million

\*The Hot Lotto game ended in October 2017. The Lotto America game debuted in November 2017.

As always, the Iowa Lottery is continuously monitoring its sales results and will keep the Government Oversight Committees apprised of significant developments. The Iowa Lottery also provides regular updates regarding sales and proceeds through the State of Iowa’s I-3

accounting system. The Iowa Lottery's latest monthly financial statement is included in this report as **Attachment A**.

## **FY 2020 Budget Updates**

At the Iowa Lottery Board's June 25 meeting, the lottery's FY 2020 budget received final approval. Modest adjustments were made in order to account for salary and benefit changes approved by the Legislature in 2019 and the creation of the Public Safety Survivor Benefits Fund as an annual beneficiary of Iowa Lottery proceeds. Copies of the Iowa Lottery's Overall Budget and Operating Expenses for FY 2020 are included with this report as **Attachment B** and **Attachment C**.



Josh Cook



Sherrae Hanson



Mary Junge



John Quinn



Mary Rathje



Michael Fitzgerald

The members of the Lottery Board are: Josh Cook of Ankeny, president and CEO of the Johnston-based Community Choice Credit Union; Sherrae Hanson of Ankeny, tax manager at a CPA firm in West Des Moines; Mary Junge of Cedar Rapids, a CPA and practicing tax- and estate-planning attorney; John Quinn of Urbandale, who serves as the chief of police in Waukee; Mary Rathje, manager and controller at a construction company in Marion, where she resides; and State Treasurer Michael Fitzgerald, who serves on the Board as a nonvoting member.

## **Additional Use Of Lottery Proceeds Beginning In FY 2020**

Beginning July 1, there will be an additional use for the proceeds that the Iowa Lottery raises for state causes. A portion of annual lottery proceeds now will be used to help the surviving family members of Iowa peace officers and fire fighters who have died in the line of duty.

The Justice System Appropriations Act of 2019 (Senate File 615), signed into law on May 22, contained a provision establishing a new use for lottery proceeds. Specifically, the legislation created a new Public Safety Survivor Benefits Fund within the state treasury and dedicates \$100,000 in annual Iowa Lottery proceeds to the fund.



**PUBLIC  
SAFETY  
SURVIVOR  
FUND**

*Benefits the Families of Fallen Heroes*

The Iowa Department of Public Safety (DPS) will distribute the money in the fund each year to nonprofit organizations that provide grants to help the families of eligible peace officers and firefighters killed in the line of duty pay for accident or medical insurance coverage. Half the money in the fund will be awarded to organizations that assist surviving families of eligible peace officers, while the other half will support organizations that help the surviving families of eligible fire fighters.

The Iowa Lottery will make its \$100,000 transfer to the new fund as part of its first quarterly transfer to the state each year, which occurs in late October.

The Iowa Lottery and DPS worked together to develop a logo to identify and brand the fund, with the image combining the silhouettes of law enforcement and fire fighter badges in a striking red-and-blue motif.

## **Responsible Gaming**

For most Iowans, gaming is recreational; however, for some people, gaming leads to problems. The Iowa Lottery understands its responsibility to not only promote responsible play, but to also support and provide educational resources for any Iowan struggling with problem gambling.

IOWA GAMBLING TREATMENT PROGRAM

**I-800-BETS OFF**

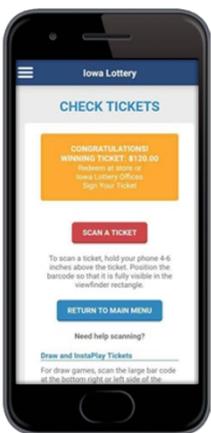
**1800BETSOFF.ORG**

This year, the Iowa Lottery secured more than \$200,000 in in-kind media placement services to assist the Iowa Department of Public Health in delivering problem gambling messages to Iowans during March, the month recognized each year as National Problem Gambling Awareness Month.

In addition to traditional advertising on broadcast television, cable, radio and outdoor billboards, these messages were also delivered online in March through streaming services such as Pandora. Utilizing a broad range of media platforms is critical to reaching Iowans across all demographic groups to ensure they know where to turn if they need help for themselves or a loved one.

Each day, the lottery provides the public with information about 1-800-BETSOFF, the helpline of the Iowa Gambling Treatment Program, by including messages about the helpline on millions of lottery tickets, brochures, point-of-sale materials and other publications.

## **Updated Mobile App For Consumer Protection & Player Convenience**



In late April, the Iowa Lottery unveiled its new mobile app that places player convenience and consumer protection at the forefront. The updated mobile app now displays the actual prize amount an Iowa Lottery player has won when they scan in a winning ticket.

In 2017, the Iowa Lottery debuted an app for both Apple and Android devices, and like any technology, it has been updated over time. Before the most recent innovation, the lottery app only showed whether a ticket was a winner or a non-winner, but it did not specify the prize amount involved for a winning ticket.

In addition to the details about the prize amount won, the app also displays where a winning ticket can be redeemed: at a lottery retail location, at a lottery office, or at lottery headquarters only, depending on the prize amount involved.

Iowa Lottery players have been asking for this update and it is an important innovation. It is a convenience factor for sure, and provides a layer of consumer protection and security that allows a player to determine the outcome of a lottery ticket on their own.

## **Innovation, Responsible Gaming & Security Through Modernization**



The Iowa Lottery continues to focus on security, integrity and social responsibility as it studies ways to modernize its operations and product offerings to keep pace with changing consumer preferences and ensure continued growth of lottery proceeds for state causes.

The Iowa Lottery is currently in a very strong position as it has continuously enhanced and re-invigorated long-term product lines to maintain a fresh selection of games. Unfortunately, changing demographics and consumer preferences signal that a continued reliance on paper-only product offerings could imperil the sales and proceeds growth the Iowa Lottery has delivered in recent years.

To ensure the Iowa Lottery can continue to meet its charge of responsibly raising revenue for vital state causes, innovation of product offerings needs to be a priority. The Iowa Lottery is not immune to market forces and demographic changes, and it must work collectively with stakeholders to innovate and modernize its game offerings and product portfolio to continue to meet anticipated revenue targets.

Failure to responsibly modernize the Iowa Lottery's product offerings raises the prospect of stagnant-to-negative sales growth over the coming years. Given the steep decline in the use of cash for day-to-day retail transactions and an overall trend toward e-commerce across all sectors of the economy, the Iowa Lottery takes seriously its responsibility to advise lawmakers of market developments to best plan for the future.

Consumer transactions are moving increasingly online and businesses large and small are adapting to meet that demand. The Iowa Lottery has long recognized that trend, and in 2019, introduced legislation (HSB 93) to allow modernization of its operations. However, shortly after the lottery filed its legislation, the U.S. Department of Justice in January released an opinion concluding that the 1960s-era Wire Act could broadly prohibit lawful gaming activities within a state. In an abundance of caution, the Iowa Lottery requested Iowa lawmakers pause on its legislation until there was greater legal clarity.

That legal clarity arrived in June 2019, when a federal court in New Hampshire ruled the Wire Act applied only to sports betting, and numerous U.S. states – including Iowa through its new sports wagering law – approved online or mobile gaming in 2019, even after the Department of Justice opinion. The Iowa Lottery believes, with the disposition of the State of New Hampshire case, that continuing its focus on responsibly modernizing its product offerings is prudent.

Ten U.S. lotteries currently sell products online, and the issue is under discussion in multiple other jurisdictions across the country. Just as these jurisdictions have proactively identified changing consumer behaviors, the Iowa Lottery can similarly position itself to innovate its portfolio of offerings through the sale of products through personal consumer electronic devices in addition to lottery retail locations. Iowa Code Chapter 99G already allows the Iowa Lottery to sell its lotto games online, but the lottery has not yet taken that step.

With the modernization changes under discussion, the payment types accepted would include cash, check, money order, debit card, prepaid gift card, non-deferred electronic payments through electronic wallets or mobile applications, electronic funds transfer or other forms of cash-based payment **so long as credit is not used**. Electronic wallets would allow for the use of advance-deposit wagering by lottery players who would establish electronic accounts with the lottery.

The Iowa Lottery is committed to ensuring retail involvement in any innovations of its product offerings, and sales data from states with mature online product platforms clearly demonstrate a sales lift to “bricks and mortar” traditional retail locations as the added convenience creates an “omni-channel” approach to lottery sales.

Modernizing the Iowa Lottery’s product offerings also offers enhanced responsible gaming opportunities that simply are not possible with cash transactions. Daily and weekly deposit limits are a standard feature of electronic lottery player accounts. Playing-time limitations are utilized to shut a player out if they have been continuously online for an extended period, with responsible-play “push notifications” delivered as part of that process. Players also can self-exclude themselves from online lottery play for a set period of time or permanently.

State-of-the-art age-gating and geo-gating are being used by all of the lotteries that offer online gaming, ensuring that players are of the legal minimum purchasing age for lottery products and that they are physically located within the borders of that state in order to play.

### **Iowa Co-Workers Win \$1 Million Prize That Initially Went Unclaimed**



A group of co-workers at a Cedar Rapids company won the \$1 million prize in an Iowa Lottery promotion that came about after a big prize in Iowa had expired without being claimed.

The Iowa Lottery held the prize drawing June 19 in the “Woo Hoo A Million For You Giveaway,” and an entry that Laurie Ginder of Anamosa made on behalf of her office pool at Collins Aerospace in Cedar Rapids was selected as the promotion’s \$1 million winner. The group of 34 co-workers call themselves The Dream Big Team.

In April 2019, a \$1 million Powerball® prize expired in central Iowa without being claimed. The Iowa Lottery had issued several reminders about that unclaimed prize and held repeated events at the Nevada Casey's store where the winning ticket was purchased, but a winner never came forward.

Under Iowa law, the money from lottery prizes that expire without being claimed goes into the Iowa Lottery's prize pool for future games and promotions, and the lottery decided to hold an innovative promotion this spring to give away the \$1 million. The promotion's name was a nod to the lottery's long-time celebratory catch phrase of "Woo Hoo For You™."

From May 29 through the morning of June 18, Iowa Lottery players – and only Iowa Lottery players – could enter the promotion with any Powerball ticket they purchased in Iowa during that three-week timeframe. Players made a total of 165,265 entries into the promotion.

Ginder purchased the ticket that became her office pool's \$1 million winning entry at Casey's, 500 E. Main St. in Anamosa. Casey's received a \$1,000 bonus from the lottery for selling that lucky ticket at one of its stores.

It was the fifth lottery prize of at least \$1 million to be won in Iowa in 2019.

**IOWA LOTTERY AUTHORITY**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Eleven Months Ending Friday, May 31, 2019**

	Month ended 5/31/2019	Month ended 5/31/2018	Year-to-date 5/31/2019	Year-to-date 5/31/2018
<b>Operating revenues:</b>				
Instant-scratch ticket sales	\$22,861,081.00	\$21,574,813.00	\$230,704,659.00	\$225,143,013.00
InstaPlay sales	1,083,382.00	793,620.00	11,182,790.00	8,725,074.00
Pick 3 sales	702,627.50	644,874.50	7,220,509.00	7,081,647.00
Powerball sales	4,235,314.00	4,061,965.00	51,123,996.00	55,366,547.50
Mega Millions Sales	2,763,536.00	1,368,487.00	34,326,807.00	19,555,359.00
Hot Lotto sales	-	-	-	3,761,425.00
Pick 4 sales	394,291.50	349,554.00	3,923,549.50	4,005,061.00
Lucky for Life sales	463,764.00	505,158.00	5,026,400.00	5,180,164.00
Lotto America sales	831,457.00	718,678.00	7,931,539.00	4,218,684.00
Pull-tab sales	1,018,064.72	1,169,433.29	9,941,622.59	9,959,234.16
Application fees	325.00	375.00	3,650.00	3,475.00
Other	439.56	1,017.59	55,042.44	7,691.01
<b>Total operating revenues</b>	<b>\$34,354,282.28</b>	<b>\$31,187,975.38</b>	<b>\$361,440,564.53</b>	<b>\$343,007,374.67</b>
<b>Operating expenses:</b>				
Scratch ticket prizes	14,403,648.00	13,127,928.67	153,893,345.22	147,974,606.81
InstaPlay prizes	798,998.47	518,512.09	7,812,919.59	5,698,599.92
Pick 3 prizes	417,536.50	384,344.70	4,280,105.40	4,199,468.20
Powerball prizes	2,065,334.50	2,089,009.63	23,645,670.59	26,960,851.13
Mega Millions prizes	1,370,358.00	702,854.64	17,475,230.19	9,871,667.54
Hot Lotto prizes	-	207,057.68	(46,872.00)	1,791,335.18
Pick 4 prizes	234,294.90	146,017.40	2,332,339.70	2,319,121.60
All or Nothing prizes	-	60,941.82	(354,534.99)	(29,218.00)
Lucky for Life prizes	265,263.10	291,940.91	2,887,435.86	3,075,576.86
Lotto America prizes	392,363.50	359,339.00	3,889,553.50	2,109,342.00
Pull-tab prizes	637,562.49	731,547.38	6,218,198.48	6,225,456.81
VIP Club prize expense	-	6,500.00	315,879.79	164,448.44
Promotional prize expense	11,911.13	(12,958.90)	109,753.11	110,415.54
Advertising/publicity	639,716.25	748,812.78	6,606,563.77	6,646,413.95
Retailer compensation expense	2,238,702.80	2,054,844.11	23,540,599.32	22,402,285.68
Ticket expense	306,826.70	235,771.04	3,014,495.73	2,955,226.17
Vendor compensation expense	567,613.83	722,707.33	5,895,832.36	7,602,154.07
Salary and benefits	920,425.84	941,462.53	9,433,450.73	9,738,934.32
Travel	22,985.95	32,455.89	240,433.70	232,954.36
Supplies	31,731.97	18,087.05	100,124.14	96,599.96
Printing	108.15	-	3,354.94	10,087.74
Postage	246.93	255.26	5,224.45	5,323.37
Communications	14,431.03	11,923.92	160,384.52	151,692.59
Rentals	26,072.70	25,254.28	284,133.16	279,985.61
Utilities	5,526.00	4,533.16	85,109.50	83,143.74
Professional fees	19,214.71	12,526.64	149,366.92	146,091.40
Vending machine maintenance	21,105.00	21,192.00	232,247.77	274,985.33
Outside services and repairs	85,254.76	80,983.08	756,712.15	741,501.28
Data processing	8,438.87	9,468.70	98,606.98	85,050.04
Equipment	33,345.19	75,469.47	468,146.17	543,233.76
Reimbursement to other state agencies	45,810.98	40,363.80	410,124.26	389,890.15
Depreciation	43,634.74	44,258.05	498,335.64	501,228.54
Other	4,774.80	5,080.60	57,724.26	85,245.43
MUSL/Lotto administrative expense	5,516.54	659.11	65,974.75	7,297.01
<b>Total operating expenses</b>	<b>25,638,754.33</b>	<b>23,699,143.82</b>	<b>274,565,969.66</b>	<b>263,450,996.53</b>
<b>Operating income</b>	<b>8,715,527.95</b>	<b>7,488,831.56</b>	<b>86,874,594.87</b>	<b>79,556,378.14</b>
<b>Non-operating revenue (expenses):</b>				
Proceeds provided to State General Fund	(9,060,886.68)	(7,657,873.84)	(84,530,500.58)	(77,556,752.90)
Proceeds provided to Veteran's Trust Fund	-	-	(2,500,000.00)	(2,500,000.00)
Interest income	18,057.44	23,067.76	399,602.93	204,847.42
Gain (Loss) on disposal of capital assets	6,350.00	-	11,364.08	(139,571.99)
<b>Net non-operating revenues (expenses)</b>	<b>(9,036,479.24)</b>	<b>(7,634,806.08)</b>	<b>(86,619,533.57)</b>	<b>(79,991,477.47)</b>
<b>Change in net position</b>	<b>(320,951.29)</b>	<b>(145,974.52)</b>	<b>255,061.30</b>	<b>(435,099.33)</b>
<b>Net position beginning of period</b>	<b>5,526,206.29</b>	<b>6,068,404.90</b>	<b>4,950,193.70</b>	<b>6,357,529.71</b>
<b>Net position end of period</b>	<b>5,205,255.00</b>	<b>5,922,430.38</b>	<b>5,205,255.00</b>	<b>5,922,430.38</b>

## Budget For Lottery Fund

	FY 2018 ACTUAL	FY 2019 BOARD APPROVED FINAL BUDGET	FY 2020 FALL BOARD APPROVED BUDGET	FY 2020 BOARD APPROVED FINAL BUDGET
<b>Resources</b>				
Lottery sales	370,956,887	338,300,000	346,500,000	346,500,000
Interest income	313,694	500,000	500,000	500,000
Application fees	3,725	5,000	5,000	5,000
Other	8,135	5,000	5,000	5,000
<b>Total Resources</b>	<b>371,282,441</b>	<b>338,810,000</b>	<b>347,010,000</b>	<b>347,010,000</b>
<b>Expenses and Change in Net Assets</b>				
Prizes	227,491,072	204,672,000	209,944,600	209,944,600
Retailer compensation	24,213,812	22,667,100	23,216,500	23,216,500
Advertising production and media purchases	7,162,018	13,532,000	13,860,000	13,860,000
Retailer Lottery system/Terminal Communications	8,290,135	6,521,491	7,800,085	7,800,085
Instant/Pull-tab ticket expense	3,198,940	3,977,250	4,120,750	4,120,750
Vending machines & maintenance/Ticket dispensers	525,394	531,928	531,928	531,928
Courier delivery of instant tickets	612,121	660,000	660,000	660,000
Interest expense	-	-	-	-
Lottery operating expense	13,747,904	15,367,308	15,351,608	15,351,608
Increase (decrease) in net assets	(262,764)	(237,100)	(482,600)	(482,600)
<b>Total Expenses and Change in Net Assets</b>	<b>284,978,631</b>	<b>267,691,977</b>	<b>275,002,871</b>	<b>275,002,871</b>
<b>Proceeds</b>				
Proceeds Transfer to General Fund	84,596,200	68,618,023	69,507,129	69,407,129
Public Safety Survivor Benefit Fund	-	-	-	100,000
Proceeds Transfer to Veterans Trust Fund	2,500,000	2,500,000	2,500,000	2,500,000
<b>Total Proceeds Transfers</b>	<b>87,096,200</b>	<b>71,118,023</b>	<b>72,007,129</b>	<b>72,007,129</b>
<b>Total Expenses and Proceeds</b>	<b>372,074,831</b>	<b>338,810,000</b>	<b>347,010,000</b>	<b>347,010,000</b>

### Lottery Operations - Budget Detail

	FY 2018 ACTUAL	FY 2019 BOARD APPROVED FINAL BUDGET	FY 2020 BOARD APPROVED BUDGET	FALL FY 2020 BOARD APPROVED FINAL BUDGET
Administrative payroll*	10,936,612	11,637,508	11,637,508	11,583,716
Travel	252,945	410,000	417,800	417,800
Supplies	122,963	105,000	105,000	105,000
Printing	5,288	20,000	20,000	20,000
Postage	5,561	7,000	7,000	7,000
Communications	147,069	186,000	186,000	186,000
Rentals	305,225	320,000	320,000	323,980
Utilities	95,757	101,000	101,000	101,000
Professional fees	150,430	259,500	259,500	259,500
Outside services and repair	224,823	419,000	379,000	379,000
Data processing	94,977	125,000	125,000	150,000
Equipment	364,117	494,200	494,200	494,200
Reimbursement to state agencies	440,449	506,000	506,000	530,812
Depreciation	546,260	691,100	707,600	707,600
Other expenses	55,428	86,000	86,000	86,000
<b>Total operating expenses</b>	<b>\$ 13,747,904</b>	<b>\$ 15,367,308</b>	<b>\$ 15,351,608</b>	<b>\$ 15,351,608</b>

\* FY 2020 Proposed Final Budget for "Administrative Payroll" includes salary and benefit cost increases per DOM projections