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 Matthew N. Strawn · Chief Executive Officer

## 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 2020**

### Introduction

The closing months of fiscal year 2020 for the Iowa Lottery were a time of adaptation. Just as Iowa households, businesses, schools, organizations and policymakers had to adapt to a global public health emergency, so too did the Iowa Lottery.

This meant significant modifications to how the Iowa Lottery managed its workforce, collaborated with other state agencies, serviced its network of licensed retailers, promoted its products, and paid winning prize claims. All changes were initiated in the immediate public interest of mitigating public health risks to both Iowa Lottery personnel and the Iowans we serve.

This bi-annual Report on Operations details a number of those modifications and demonstrates that, notwithstanding the ongoing public health emergency, the Iowa Lottery continues to meet its statutory mandate to responsibly generate revenue for important state causes.

The Iowa Lottery is on pace to meet and exceed its budgeted projections for both sales and proceeds transferred to state causes in fiscal year 2020. Additionally, through the first eleven months of FY 2020, the Iowa Lottery’s operational expenses remain below budgeted projections.

### FY 2020 Lottery Product Sales

While the Iowa Lottery’s sales in the current year understandably did not reach the heights of its record-breaking fiscal year 2019, sales of lottery products remain strong despite significant underperformance by national lotto games and a continuing public health emergency.

FY 2020 Iowa Lottery sales through May topped \$335 million, marking the ninth year in a row that the sales total has exceeded the \$300 million threshold. Here is a year-to-year comparison of lottery sales (July-May) by product:

	<u>FY 2020</u>	<u>FY 2019</u>
Instant-scratch games	\$235.1 million	\$230.7 million
InstaPlay games	\$14.5 million	\$11.2 million
Pick 3	\$7.7 million	\$7.2 million
Powerball	\$34.1 million	\$51.1 million
Mega Millions	\$18.3 million	\$34.3 million

Pick 4	\$4.5 million	\$3.9 million
Lucky for Life	\$4.9 million	\$5.0 million
Lotto America	\$6.3 million	\$7.9 million
Pull-tab games	\$9.8 million	\$9.9 million

Historically, lottery sales results fluctuate from year to year based upon the strength of sales in particular product categories. In two product categories – Instant-Scratch tickets and InstaPlay – the Iowa Lottery is on pace for record sales in FY 2020. However, in the national lotto game category that includes the Powerball and Mega Millions jackpot games, sales results failed to keep pace with recent years.

In addition to a national sales decline attributed to the COVID-19 emergency, the performance of national jackpot games in FY 2020 was adversely affected by the lack of large jackpots that traditionally drive product sales. For example, the Mega Millions and Powerball jackpots simultaneously climbed into the stratosphere in FY 2019 as both exceeded more than half a billion dollars. Neither game witnessed a jackpot prize that approached that amount in FY 2020 as current year jackpots have been won with increased frequency at comparatively lower levels (\$40 million to \$100 million). That, in turn, has meant lower overall sales in both games.

Sales in multi-jurisdiction lotto games are always subject to the peaks and valleys of jackpot prize amounts, and the lotto category performance in FY 2020 is illustrative of that fact.

The Iowa Lottery bases its revenue projections on a five-year rolling average to best provide estimates that it can reliably achieve. Those consistent efforts along with innovative products, responsible promotions and efficient operations continue to position the lottery as a meaningful source of proceeds for state causes in Iowa.

The Iowa Lottery provides regular updates regarding its sales and proceeds through the State of Iowa's I-3 accounting system. In addition, the Iowa Lottery's latest monthly financial statement through May 2020 is included in this report as **Attachment A**.

### **FY 2021 Budget Updates**

The Iowa Lottery's FY 2021 budget received final approval at the Iowa Lottery Board's June 23 meeting. Modest adjustments were made in order to account for updates including the salary and benefit changes approved by the Legislature in 2020. Copies of the Iowa Lottery's Overall Budget and Operating Expenses for FY 2021 are included with this report as **Attachment B** and **Attachment C**.



Josh Cook



Sherrae Hanson



Mary Junge



John Quinn



Mary Rathje

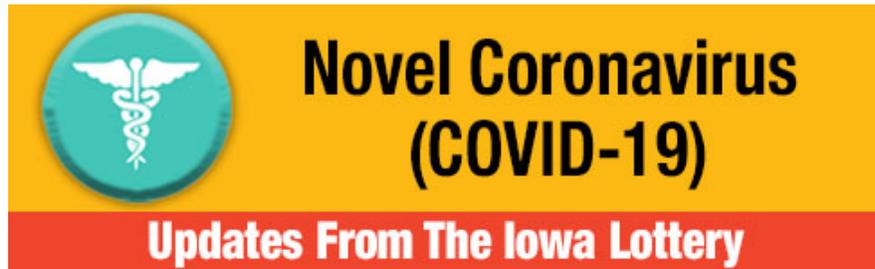


Michael Fitzgerald

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. Ms. Hanson and Mr. Quinn, will serve as Board Chair and Vice-Chair respectively, for fiscal year 2021.

### **Doing Business With Safety First**



The Iowa Lottery modified its operations multiple times to safeguard public health since the declaration of the statewide COVID-19 public health emergency in March. The lottery has remained open for business during the pandemic, but with safety paramount, it followed guidelines set by public health officials in placing limitations on numerous types of personal interactions, some of which continue at this time.

Consistent with calls by public health officials to utilize and promote social distancing practices in the workplace, the Iowa Lottery modified a number of workplace practices. This includes remote work and staggered workplace hours for many headquarters personnel. The schedule for the Iowa Lottery's team of statewide district sales representatives was, and continues to be, significantly modified. These lottery personnel traditionally service the Iowa Lottery's nearly 2,400 statewide retail licenses with weekly, in-person store visits. During the first two months of the public health emergency, these retailers were serviced via telework only. More recently, the lottery is utilizing a schedule that alternates between telework and in-person visits at retail locations. All public-facing lottery personnel have been equipped with personal protective equipment and are required to follow appropriate virus-mitigation procedures.

Since the March declaration of a public health emergency, the Iowa Lottery has worked to balance public health protocols with meeting the needs of Iowans who seek access to Iowa Lottery services. In-person public access to the interior of Iowa Lottery facilities was limited in mid-March. The Iowa Lottery encouraged Iowans to engage with their lottery through telephone, email, social media, or traditional mail methods. While general in-person public access to lottery offices remains limited, starting in June, the lottery developed an in-person curbside prize claims process by appointment for players who have prizes they want to claim directly from the lottery. Players who utilize this curbside process remain in their vehicles as lottery personnel wearing personal proactive equipment take prize-claim documentation out to them, then return to the lottery office to process the claim before returning



with a prize check with the player's winnings. This curbside claims process is available at all Iowa Lottery offices.

Iowa Lottery players also have the option of mailing or shipping their winning tickets to the lottery or using a secure drop-box at lottery headquarters in Clive. During this COVID-19 emergency, some people prefer a prize-claim process with no direct human interaction. The lottery understands this is an uncertain time for Iowans and has attempted to create a variety of safe prize-claim options.

### Sharing Public Health Messages with Iowans



As the COVID-19 emergency unfolded in Iowa, the Iowa Lottery utilized its marketing and communications assets on multiple occasions as part of a broader State of Iowa effort to mitigate the spread of the virus.

The lottery partnered with the State Emergency Operations Center and the Iowa Department of Public Health in these efforts to provide information statewide. The lottery has provided COVID-19 messaging on the outdoor billboard space it had reserved, on its website, and on the display screens at lottery terminals and on lottery self-service kiosks in nearly 2,400 statewide retail locations. The lottery also has shared COVID-19 messaging on its social media channels.

### National Problem Gambling Awareness Month



At the beginning of March, the Iowa Lottery emphasized its core principle of responsible play by highlighting National Problem Gambling Awareness Month.

The lottery requested that radio, television and cable companies as well as digital outdoor billboard providers statewide display public-service announcements about National Problem Gambling Awareness Month and the help available all across Iowa for those struggling with problem gambling. The public-service messages were co-branded by the lottery and the Iowa

Department of Public Health, and the lottery further amplified the message by providing information across its social media platforms.

During the first week in March, the public-service announcements were provided thousands of times across the state, with a combined media value of more than \$300,000. Lottery staff also participated in a Statehouse event where Gov. Kim Reynolds signed a proclamation recognizing National Problem Gambling Awareness Month in Iowa.

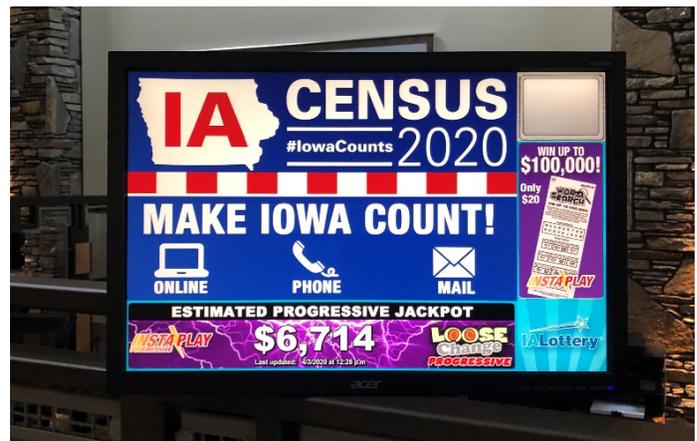
In a case of fortuitous timing, this initiative occurred during the first week of March, which allowed the responsible-gaming message to receive strong attention before the COVID-19 emergency was declared in our state later that month.

### **Promoting 2020 Census Participation**

In early April as U.S. households began receiving official mail from the U.S. Census Bureau providing details about how to complete the 2020 Census, the Iowa Lottery highlighted the importance of lowans' participation in the once-in-a-decade count.

The lottery shared information on its social media channels, printed special Census messages at the top of all lotto tickets purchased in Iowa, and displayed Census messages on the point-of-sale screens at lottery terminals and on self-service kiosks.

After an initial two-week campaign to highlight the Census in early April, the lottery continued to run Census messages on its lotto tickets for one-week intervals through the end of May.



Shown here is a lottery point-of-sale screen displaying a Census message, and below are some of the messages that were printed on lotto tickets to encourage Census participation.

*Make Iowa count! Complete the 2020 Census online or by phone or mail.*

*You matter to Iowa! Take the 2020 Census online or by phone or mail.*

*Iowa needs you! Complete Census 2020 online or by phone or mail.*

### **Lottery Equipment Statewide Will Change Next Year**

One of the biggest projects involved in the operation of the Iowa Lottery is currently underway and will mean an updated look for the lottery in 2021.



The lottery itself won't change, and it will still have the products available that players expect on the market. But most of the equipment used by Iowa retailers to sell and cash lottery tickets will be replaced.

During its March 24 meeting, the Iowa Lottery Board voted 5-0 to allow the lottery to proceed with contract negotiations for a new statewide gaming system with Scientific Games International (SGI), a company based near Atlanta. The company was one of three that participated in a months-long and public competitive bid process.

Like any technology, lottery equipment needs to be replaced over time. Most of the lottery equipment now in the field in Iowa has been in use since 2011.

SGI also supplies the Iowa Lottery's current gaming system, and the lottery's contract for it expires in July 2021. So during the next year, the contract with the company will be finalized, new equipment for Iowa will be manufactured, and then the lottery's existing equipment will be updated with a new version.

The Iowa Lottery's new statewide gaming system is scheduled to go live on July 11, 2021. As with the current system, it will link all 2,400 retail locations in Iowa where lottery tickets are sold. The gaming system includes a central communications backbone as well as the lottery terminals, self-checkers, self-service kiosks, and lighted jackpot signs in the local businesses where lottery tickets are sold.

### Sizeable Unclaimed Lottery Prize in Southwest Iowa



A lottery prize of nearly \$75,000 won in southwest Iowa will expire in early July if not claimed in time, and the lottery has been sending out reminders about the winning ticket in the hope of reaching the winner.

The winning ticket in the Extreme Green Progressive InstaPlay game was purchased in April at Casey's, 204 Sixth St. in Corning. The ticket won a progressive jackpot that had reached \$74,938.00 in the game on April 6. The prize will expire in early July if not claimed by then.

Players in InstaPlay games must claim their prizes within 90 days of the date they purchased their ticket, so the winner of the prize in Corning has until 4 p.m. on Monday, July 6, to claim it at one of the Iowa Lottery's offices.

The money from unclaimed lottery prizes in Iowa goes into the lottery's prize pools for future games and promotions, so it will be used to pay prizes, just not those prizes that have expired.

**IOWA LOTTERY AUTHORITY**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Eleven Months Ending Sunday, May 31, 2020**

	Month ended 5/31/2020	Month ended 5/31/2019	Year-to-date 5/31/2020	Year-to-date 5/31/2019
Operating revenues:				
Instant-scratch ticket sales	\$28,041,132.00	\$22,861,081.00	\$235,112,266.00	\$230,704,659.00
InstaPlay sales	2,374,779.00	1,083,382.00	14,524,026.00	11,182,790.00
Pick 3 sales	895,897.50	702,627.50	7,671,386.00	7,220,509.00
Powerball sales	2,708,556.00	4,235,314.00	34,117,202.50	51,123,996.00
Mega Millions Sales	2,348,323.00	2,763,536.00	18,281,646.00	34,326,807.00
Pick 4 sales	508,087.50	394,291.50	4,458,094.50	3,923,549.50
Lucky for Life sales	415,162.00	463,764.00	4,851,148.00	5,026,400.00
Lotto America sales	534,264.00	831,457.00	6,262,507.00	7,931,539.00
Pull-tab sales	1,020,730.26	1,018,064.72	9,768,257.85	9,941,622.59
Application fees	125.00	325.00	3,550.00	3,650.00
Other	657.95	439.56	7,174.63	55,042.44
Total operating revenues	<u>38,847,714.21</u>	<u>34,354,282.28</u>	<u>335,057,258.48</u>	<u>361,440,564.53</u>
Operating expenses:				
Scratch ticket prizes	19,758,180.00	14,403,648.00	156,835,519.38	153,893,345.22
InstaPlay prizes	1,649,376.98	798,998.47	10,331,712.01	7,812,919.59
Pick 3 prizes	537,538.50	417,536.50	4,602,831.60	4,280,105.40
Powerball prizes	1,354,283.00	2,065,334.50	17,063,588.00	23,645,670.59
Mega Millions prizes	1,174,161.50	1,370,358.00	9,140,823.00	17,475,230.19
Hot Lotto prizes	-	-	-	(46,872.00)
Pick 4 prizes	304,852.50	234,294.90	2,942,631.30	2,332,339.70
All or Nothing prizes	-	-	-	(354,534.99)
Lucky for Life prizes	246,746.49	265,263.10	2,859,255.86	2,887,435.86
Lotto America prizes	267,132.00	392,363.50	3,131,253.50	3,889,553.50
Pull-tab prizes	635,921.05	637,562.49	6,104,727.10	6,218,198.48
VIP Club prize expense	-	-	-	315,879.79
Promotional prize expense	-	11,911.13	-	109,753.11
Advertising/publicity	410,542.05	639,716.25	6,321,408.49	6,606,563.77
Retailer compensation expense	2,547,358.55	2,238,702.80	21,876,908.40	23,540,599.32
Ticket expense	281,819.61	306,826.70	2,970,421.73	3,014,495.73
Vendor compensation expense	627,478.39	567,613.83	5,452,215.67	5,895,832.36
Salary and benefits	832,977.98	920,425.84	9,511,225.37	9,433,450.73
Travel	11,829.08	22,985.95	225,341.37	240,433.70
Supplies	7,196.69	31,731.97	85,275.55	100,124.14
Printing	56.00	108.15	1,458.06	3,354.94
Postage	363.19	246.93	5,580.72	5,224.45
Communications	13,134.98	14,431.03	168,480.59	160,384.52
Rentals	26,484.42	26,072.70	291,538.34	284,133.16
Utilities	5,248.93	5,526.00	82,855.01	85,109.50
Professional fees	10,382.50	19,214.71	142,221.98	149,366.92
Vending machine maintenance	21,504.00	21,105.00	235,536.00	232,247.77
Outside services and repairs	85,792.25	85,254.76	776,420.06	756,712.15
Data processing	10,613.11	8,438.87	115,906.06	98,606.98
Equipment	13,177.89	33,345.19	378,730.53	468,146.17
Reimbursement to other state agencies	31,857.57	45,810.98	403,045.29	410,124.26
Depreciation	37,704.57	43,634.74	444,896.64	498,335.64
Other	4,996.84	4,774.80	58,799.78	57,724.26
MUSL/Lotto administrative expense	2,735.29	5,516.54	30,756.26	65,974.75
Total operating expenses	<u>30,911,445.91</u>	<u>25,638,754.33</u>	<u>262,591,363.65</u>	<u>274,565,969.66</u>
Operating income	<u>7,936,268.30</u>	<u>8,715,527.95</u>	<u>72,465,894.83</u>	<u>86,874,594.87</u>
Non-operating revenue (expenses):				
Proceeds to state causes	(7,713,140.13)	(9,060,886.68)	(73,000,585.03)	(87,030,500.58)
Interest income	26,577.08	18,057.44	340,697.26	399,602.93
Gain (Loss) on disposal of capital assets	(2,602.57)	6,350.00	1,647.43	11,364.08
Net non-operating revenues (expenses)	<u>(7,689,165.62)</u>	<u>(9,036,479.24)</u>	<u>(72,658,240.34)</u>	<u>(86,619,533.57)</u>
Change in net position	247,102.68	(320,951.29)	(192,345.51)	255,061.30
Net position beginning of period	<u>4,363,207.26</u>	<u>5,526,206.29</u>	<u>4,802,655.45</u>	<u>4,950,193.70</u>
Net position end of period	<u>4,610,309.94</u>	<u>5,205,255.00</u>	<u>4,610,309.94</u>	<u>5,205,255.00</u>

**Budget For Lottery Fund**

	FY 2019 Actual	FY 2020 Board Approved Budget	FY 2021 Board Approved Budget
<b><u>Resources</u></b>			
Lottery sales	\$390,895,551.00	\$346,500,000.00	\$355,853,000.00
Interest income	495,974.00	500,000.00	500,000.00
Application fees	3,775.00	5,000.00	5,000.00
Other	55,516.00	5,000.00	5,000.00
<b>Total Resources</b>	<b>391,450,816.00</b>	<b>347,010,000.00</b>	<b>356,363,000.00</b>
<b><u>Expenses and Change in Net Assets</u></b>			
Prizes	241,940,643.00	209,944,600.00	216,000,723.00
Retailer compensation	25,447,739.00	23,216,500.00	23,843,151.00
Advertising production and media purchases	7,276,923.00	13,860,000.00	14,234,120.00
Retailer Lottery system/Terminal Communications	6,466,081.00	7,800,085.00	9,191,012.00
Instant/Pull-tab ticket expense	3,301,724.00	4,120,750.00	4,284,428.00
Vending machines & maintenance/Ticket dispensers	433,771.00	531,928.00	535,216.00
Courier delivery of instant tickets	616,718.00	660,000.00	660,000.00
Interest expense	-	-	-
Lottery operating expense	13,264,808.00	15,351,608.00	15,376,419.00
Increase (decrease) in net assets	(112,817.00)	(482,600.00)	(462,600.00)
<b>Total Expenses and Change in Net Assets</b>	<b>298,635,590.00</b>	<b>275,002,871.00</b>	<b>283,662,469.00</b>
<b><u>Proceeds</u></b>			
Proceeds Transfer to General Fund	2,500,000.00	2,500,000.00	2,500,000.00
Public Safety Survivor Benefit Fund	-	100,000.00	100,000.00
Proceeds Transfer to Veterans Trust Fund	90,364,965.00	69,407,129.00	70,100,531.00
<b>Total Proceeds Transfers</b>	<b>92,864,965.00</b>	<b>72,007,129.00</b>	<b>72,700,531.00</b>
<b>Total Expenses and Proceeds</b>	<b>391,500,555.00</b>	<b>347,010,000.00</b>	<b>356,363,000.00</b>

**Lottery Operations -Budget Detail**

	FY 2019 Actual	FY 2020 Board Approved Budget	FY 2021 Board Approved Budget
Administrative payroll*	\$ 10,459,454	\$ 11,583,716	\$ 11,624,950
Travel	\$ 257,758	\$ 417,800	\$ 417,500
Supplies	\$ 90,709	\$ 105,000	\$ 103,000
Printing	\$ 3,767	\$ 20,000	\$ 20,000
Postage	\$ 5,458	\$ 7,000	\$ 7,000
Communications	\$ 195,803	\$ 186,000	\$ 192,400
Rentals	\$ 310,280	\$ 323,980	\$ 301,689
Utilities	\$ 95,043	\$ 101,000	\$ 98,800
Professional fees	\$ 162,023	\$ 259,500	\$ 308,500
Outside services and repair	\$ 207,315	\$ 379,000	\$ 374,211
Data processing	\$ 109,069	\$ 150,000	\$ 150,000
Equipment	\$ 308,666	\$ 494,200	\$ 452,869
Reimbursement to state agencies	\$ 457,598	\$ 530,812	\$ 531,900
Depreciation	\$ 541,020	\$ 707,600	\$ 707,600
Other expenses	\$ 60,845	\$ 86,000	\$ 86,000
<b>Total operating expenses</b>	<b>\$ 13,264,808</b>	<b>\$ 15,351,608</b>	<b>\$ 15,376,419</b>

\* FY 2021 Proposed Final Budget for "Administrative Payroll" includes salary and benefit cost increases per DOM projections