

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 2022

Introduction

The close of fiscal year 2022 will complete the most successful two years of lottery sales and proceeds in the 37-year history of the Iowa Lottery. It is the only two years in which total annual lottery sales will have exceeded not only \$400 million, but also \$430 million; and, each year the lottery surpassed at least \$95 million in proceeds delivered to the State of Iowa.

However, the Iowa Lottery is not immune to the strong economic headwinds generated by higher gas prices and inflationary pressures on all Iowa households. A softening of lottery sales, particularly in the popular scratch ticket category, developed over the final months of the fiscal year as average gas prices crossed the \$4.00 per gallon threshold. Those higher consumer prices along with continued lottery vendor supply-chain disruptions and increased competition for discretionary household spending remain a cause for concern as the Iowa Lottery approaches a new fiscal year.

The Iowa Lottery is in strong position to approach these challenges, and extends sincere thanks to its staff, retailers, customers and policymakers for their continued support of Lottery entertainment in Iowa.

While ongoing external economic pressures will continue to present a significant challenge to maintaining the lottery's record-breaking sales pace of the last two years, the Lottery's staff and partners are continuously working on game development and product innovations to ensure the lottery continues to meet the expectations of Iowa consumers well into the future.

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

FY 2022 Lottery Product Sales

Through May 2022, annual Iowa Lottery sales totaled \$398.9 million, a 4.4 percent decrease from the previous year's total for the same time period. Annual Lottery proceeds to state causes were \$89.7 million, down 5.5 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 \$253.2 million. Also of note, the Lottery's operational expenses remained about \$2.1 million under budget through May 2022.



Sales of scratch tickets and lotto games continue as the Lottery’s leading product categories. And although scratch-game sales saw an annual decrease through May, lotto sales were seeing a lift as the jackpots in Powerball® and Mega Millions® simultaneously climbed. (As this report was being filed in late June, the Powerball and Mega Millions jackpots had both topped \$300 million.)

Scratch-ticket sales in Iowa set annual records from FY 2015 to FY 2021 but are expected to see an overall decrease in FY 2022. Among the Lottery’s product lines, fuel prices historically have had the most direct impact on the sale of scratch games. Fuel prices in Iowa began to climb in spring 2022 and by mid-May, the Iowa average retail diesel price was above \$5 while the Iowa average price for retail unleaded gasoline was above \$4.

Retail prices for gasoline and diesel have remained high, and scratch-ticket sales have slowed. Through the end of May, scratch-game sales were down about 6.9 percent in Iowa, with the product category representing about 68 percent of total Iowa Lottery sales.

Conversely, lotto-game sales in Iowa appear to have benefitted from 2021 decisions by Iowa and other lotteries in the Powerball and Lucky for Life® game groups to increase the number of weekly drawings in those games. In a move designed to achieve larger, faster-growing jackpots and more prize winners, Powerball moved to three drawings per week in 2021 while Lucky for Life moved to daily drawings.

Lotto-game sales through May in Iowa were up about 2.5 percent, with the product category representing about 23.8 percent of total Iowa Lottery sales.

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. An outcome of that work will occur in July 2022 when the Lotto America® game moves to three drawings per week.

The Lottery also believes that increased competition for consumer discretionary spending has been a factor in its FY 2022 results. Any form of entertainment is a non-essential purchase from consumers’ discretionary dollars, and the Lottery recognizes that household budgets have been stressed in 2022 while leisure-activity options have expanded.

The Iowa Lottery will continue its 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 2022</u>	<u>FY 2021</u>
Instant-scratch games	\$270.9 million	\$290.8 million
InstaPlay games	\$21.4 million	\$22.0 million
Pick 3	\$8.5 million	\$8.7 million
Powerball	\$49.1 million	\$40.4 million
Mega Millions	\$18.6 million	\$27.6 million
Pick 4	\$5.1 million	\$5.0 million
Lucky for Life	\$7.4 million	\$5.1 million
Lotto America	\$6.3 million	\$5.8 million
Pull-tab games	\$11.6 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 2022 is included in this report as **Attachment A**.

FY 2023 Budget Approval

The Iowa Lottery's FY 2023 budget received final approval from the Iowa Lottery Board at its June 30 meeting.

Modest increases in sales, prizes, retailer compensation and advertising were made to the budget to reflect the latest actuals for Lottery products.

Within the Retailer Lottery System/Terminal Communications category, vendor compensation was decreased to reflect the options exercised in the Lottery contract for its central gaming system. Expenses for courier delivery of scratch games were raised to reflect increasing costs for shipping of those tickets to retail locations.

The Equipment expense was increased to reflect the replacing of workstations, monitors and laptops.

Copies of the Iowa Lottery's overall Budget and Operating Expenses for FY 2023 are included with this report as **Attachment C** and **Attachment D**.



Josh Cook



Mary Junge



Katie New



Mary Rathje



Dana Wingert



Michael Fitzgerald

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, senior tax manager at BerganKDV in Urbandale; 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 Michael Fitzgerald, who serves as an ex-officio member of the Board.

Support for National Problem Gambling Awareness Month

In March 2022, the Iowa Lottery secured a record level of support for its 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 Public Health on this public-service campaign. The effort is in support of National Problem Gambling Awareness Month.

Throughout March 2022, a 30-second public-service announcement produced by the Lottery aired statewide on radio, streaming services, broadcast television, cable television and outdoor billboards. A direct link to the PSA is here: <https://youtu.be/vs7fR50fBNc>

In addition, the Iowa Lottery printed and distributed hard-copy table tents that were on display throughout the month in the 2,400 retail locations where Lottery tickets are sold.

The combined total media value for the 2022 campaign was nearly \$446,000, a record total for this awareness effort.

The Iowa Lottery believes that utilizing a broad range of platforms 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 in a variety of ways, including through the “Play Smart, Be Informed” section of its website here:

https://www.ialottery.com/Pages/PlaySmartBeInformed/PlaySmartBeInformed_main.aspx

Website visitors at any time can utilize the Play Smart section to find information about playing responsibly, knowing your limits, understanding the odds, and Lottery myths vs. the facts. Throughout the year, the Lottery also prints information about 1-800-BETSOFF on Lottery tickets, brochures, point-of-sale materials and other publications.

Explore Iowa Game, Promotion and Special Events Around the State



The Iowa Lottery organized a 2022 project that brought together other state entities, an Iowa manufacturer, an Iowa vehicle dealership, and communities around the state in an effort designed to encourage Iowans to get outside and explore their state.

The campaign called “Explore Iowa” began in early May. Partnering with the Lottery in the effort are the Iowa Tourism Office, Iowa Department of Natural Resources, and Iowa Department of Cultural Affairs. The centerpiece of the project is the \$5 “Explore Iowa” scratch game that features artwork on its tickets of a map of Iowa along with three different Polariss® vehicles.



Players who buy tickets in the game can win instant prizes from \$5 up to \$50,000. Nonwinning tickets in the game can be entered in the Explore Iowa promotion that offers additional cash prizes and gift certificates for Polaris vehicles in drawings throughout the summer and fall.



With a focus on exploring Iowa, the Lottery worked with the other state entities to schedule stops at local events and festivals across the state. The Lottery sells tickets at the events and has the Polaris vehicles at many of the stops with the help of Van Wall Powersports.

And to highlight one of the many vital uses of Lottery proceeds, the Lottery is making presentations at many of the events to call attention to the Iowa Veterans Trust Fund! The Veterans Trust Fund has received a portion of Iowa Lottery proceeds since 2008, and the Lottery has raised nearly \$35 million for the IVTF so far! Veterans and service-organization members have participated in the IVTF events with the Lottery to help spread the word about the help available to Iowa Veterans and their families through the Trust Fund.



Full details about the Explore Iowa campaign are available here: <https://www.ialottery.com/Pages/Promotions/2022/ExploreIowa.aspx>

Lottery Security-Compliance Reviews At Retail

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



During the compliance checks, undercover Iowa Lottery investigators visit retail locations and pose as customers presenting Lottery tickets for validation and payment. The Lottery's annual performance target is for its investigators to conduct compliance checks in at least 20 percent of its 2,400 licensed retail locations. Through mid-June, the Lottery had conducted compliance checks at about 22.5 percent of its retail locations in FY 2022.

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.

Lottery Messaging Wins Awards

Two of the Iowa Lottery's recent ads telling the story of its products have received major awards.



The Lottery's "Perfect For Anyone" ad that highlighted its 2021 holiday-themed scratch games won a Gold Telly Award in the Regional TV General-Entertainment category.

And the Lottery's "The Champ" ad also won a Gold Telly Award in that same category. That ad followed a retired boxer who realized he could achieve a comeback by entering nonwinning scratch tickets for a chance to win more prizes in the Lottery's 2021 "Million Dollar Summer" promotion.

The Telly Awards were founded in 1979 to honor excellence in local, regional and cable television commercials, and non-broadcast video and television programming was added soon after. Today, the Telly Awards honor excellence in video and television across all screens.

The awards receive more than 12,000 entries annually from all 50 states and five continents. Entries are judged by a council representing more than 200 working industry professionals. Telly Awards are given at the gold, silver and bronze levels.

Entries in the latest round of the Telly Awards competition were submitted by Dec. 10, 2021, and winners were announced in late May.

The Iowa Lottery's 2021 Telly Award-winning ads that be viewed here:

<https://drive.google.com/drive/folders/1kwIBVjS-53zsggN3CvRFSB3D1vituqBL?usp=sharing>

Lottery Searches For Winners Of Two Large Unclaimed Prizes



The Iowa Lottery has issued reminders about two Powerball® prizes of \$50,000 that are still unclaimed months after they were won in the state. One of the prizes will expire in July if it isn't claimed in time, while the other has an October expiration date.

The first ticket was purchased at Casey's, 3434 Nebraska Ave. in Council Bluffs, for the Powerball drawing on July 21, 2021. The ticket matched four of the white balls and the red

Powerball in that night's drawing to win a \$50,000 prize. The prize will expire at the close of business on July 21 if it isn't claimed by then at an Iowa Lottery office.

The other big unclaimed ticket was purchased at Kum & Go, 629 S. Division St. in Stuart, for the Powerball drawing on Oct. 23, 2021. It also matched four of the white balls and the red Powerball in that night's drawing to win a \$50,000 prize. That prize will expire at the close of business on Oct. 24 if it isn't claimed in time at a Lottery office.

A current list of unclaimed lotto and InstaPlay prizes of more than \$600 in Iowa is available here: <https://www.ialottery.com/Pages/Games/Unclaimed.aspx>

Time does appear to be a factor in these situations. The Iowa Lottery reviewed plays from a sampling of recent lotto drawings and found that nearly all the prizes that were claimed happened within six months of the drawing. Less than 3 percent of prizes from those drawings were claimed after that point.

The issue is something that the Lottery will continue to evaluate for how best to encourage and remind players to claim their prizes.

The money from Lottery prizes that expire in Iowa without being claimed 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 Tuesday, May 31, 2022

	Month ended 5/31/2022	Month ended 5/31/2021	Year-to-date 5/31/2022	Year-to-date 5/31/2021
Operating revenues:				
Instant-scratch ticket sales	\$ 24,175,949.00	\$ 29,309,926.00	\$ 270,864,245.45	\$ 290,833,256.00
InstaPlay sales	1,854,826.00	1,976,183.00	21,373,510.00	22,049,304.00
Pick 3 sales	780,974.50	833,535.00	8,542,546.00	8,744,573.00
Powerball sales	2,939,731.50	3,564,285.00	49,052,198.00	40,418,042.50
Mega Millions Sales	1,520,027.00	3,219,738.00	18,601,442.00	27,601,765.00
Pick 4 sales	485,552.00	484,661.00	5,141,614.00	5,006,330.00
Lucky for Life sales	703,658.00	481,674.00	7,400,348.00	5,134,102.00
Lotto America sales	650,132.00	601,896.00	6,292,279.00	5,806,095.00
Pull-tab sales	1,058,622.00	1,116,811.16	11,636,614.83	11,590,282.26
Application fees	375.00	225.00	5,050.00	4,200.00
Other	293.86	1,355.28	12,281.81	5,387.04
Total operating revenues	<u>34,170,140.86</u>	<u>41,590,289.44</u>	<u>398,922,129.09</u>	<u>417,193,336.80</u>
Operating expenses:				
Scratch ticket prizes	15,799,852.00	19,102,125.34	180,729,307.20	193,942,519.57
InstaPlay prizes	1,340,478.68	1,540,362.78	15,652,759.66	16,187,195.52
Pick 3 prizes	468,584.70	500,121.00	5,125,527.60	5,289,446.20
Powerball prizes	1,470,788.00	1,782,204.00	24,533,755.50	20,209,700.50
Mega Millions prizes	765,963.46	1,609,869.00	9,298,876.30	13,800,882.50
Pick 4 prizes	291,331.20	290,796.60	3,084,968.40	3,003,798.00
Lucky for Life prizes	418,208.57	286,273.00	4,394,615.19	3,284,904.04
Lotto America prizes	325,066.00	300,948.00	3,146,139.50	2,903,047.50
Pull-tab prizes	658,698.13	699,704.72	7,260,145.34	7,243,231.18
Advertising/publicity	776,560.73	535,049.26	7,754,615.22	6,439,436.02
Retailer compensation expense	2,239,524.34	2,734,422.82	26,063,280.43	27,373,735.64
Ticket expense	137,742.15	345,318.78	3,055,317.85	3,303,093.54
Vendor compensation expense	526,839.35	564,153.95	6,110,890.21	5,755,973.61
Salary and benefits	862,862.23	850,220.25	9,674,285.01	9,735,687.04
Travel	25,687.19	29,729.98	255,395.47	172,529.63
Supplies	11,541.12	12,505.11	108,852.07	101,127.95
Printing	377.50	-	4,571.17	1,891.27
Postage	299.55	332.34	9,938.25	6,991.76
Communications	14,429.81	13,766.31	166,328.47	153,140.81
Rentals	17,796.00	23,950.12	195,868.31	279,555.18
Utilities	5,669.70	6,088.73	83,097.59	81,084.12
Professional fees	8,241.00	10,939.64	92,693.78	109,710.33
Vending machine maintenance	22,848.00	21,840.00	248,304.00	239,326.25
Outside services and repairs	90,062.37	82,943.22	1,189,515.67	794,112.41
Data processing	10,714.99	10,712.02	118,271.36	117,992.62
Equipment	36,498.60	157,462.71	374,869.95	472,090.71
Reimbursement to other state agencies	35,836.78	61,774.10	450,691.58	419,334.49
Depreciation	46,821.13	38,558.57	477,928.74	418,156.44
Other	9,622.07	4,170.27	62,795.03	48,942.34
MUSL/Lotto administrative expense	2,536.32	712.23	28,965.96	8,232.71
Total operating expenses	<u>26,421,481.67</u>	<u>31,617,054.85</u>	<u>309,752,570.81</u>	<u>321,896,869.88</u>
Operating income	<u>7,748,659.19</u>	<u>9,973,234.59</u>	<u>89,169,558.28</u>	<u>95,296,466.92</u>
Non-operating revenue (expenses):				
Proceeds to state causes	(7,510,303.59)	(9,991,764.36)	(89,715,538.02)	(94,944,480.24)
Interest income	7,101.52	4,579.01	47,825.44	55,025.26
Gain (Loss) on disposal of capital assets	-	-	38,672.00	18,400.00
Net non-operating revenues (expenses)	<u>(7,503,202.07)</u>	<u>(9,987,185.35)</u>	<u>(89,629,040.58)</u>	<u>(94,871,054.98)</u>
Change in net position	<u>245,457.12</u>	<u>(13,950.76)</u>	<u>(459,482.30)</u>	<u>425,411.94</u>
Net position beginning of period	<u>3,696,610.13</u>	<u>4,688,716.81</u>	<u>4,401,549.55</u>	<u>4,249,354.11</u>
Net position end of period	<u><u>3,942,067.25</u></u>	<u><u>4,674,766.05</u></u>	<u><u>3,942,067.25</u></u>	<u><u>4,674,766.05</u></u>

Budget For Lottery Fund

	FY 2021 Actual	FY 2022 Board Approved Budget	FY 2023 Board Approved Budget - Fall	FY 2023 Board Approved Budget
Resources				
Lottery sales	\$ 452,592,011	\$ 371,000,000	\$ 371,900,000	\$ 372,300,000
Interest income	59,467	500,000	60,000	60,000
Application fees	4,700	5,000	5,000	5,000
Other	6,317	5,000	5,000	5,000
Total Resources	452,662,495	371,510,000	371,970,000	372,370,000
Expenses and Change in Net Assets				
Prizes	288,877,229	229,722,000	230,301,000	230,501,000
Retailer compensation	29,694,891	24,858,000	24,918,300	24,945,100
Advertising production and media purchases	7,421,985	14,840,000	14,876,000	14,892,000
Retailer Lottery system/Terminal Communications	6,277,734	7,537,034	7,653,501	7,163,530
Instant/Pull-tab ticket expense	3,576,478	4,528,500	4,546,400	4,546,400
Vending machines & maintenance/Ticket dispensers	394,430	539,248	539,248	539,248
Courier delivery of instant tickets	710,983	660,000	660,000	1,135,000
Interest expense	0	0	0	0
Lottery operating expense	13,827,475	15,655,401	15,151,079	15,263,250
Increase (decrease) in net assets	133,796	(330,600)	(532,600)	(472,600)
Total Expenses and Change in Net Assets	350,915,001	298,009,583	298,112,928	298,512,928
Proceeds				
Proceeds Transfer to Veterans Trust Fund	2,500,000	2,500,000	2,500,000	2,500,000
Public Safety Survivor Benefit Fund	100,000	100,000	100,000	100,000
Department of Corrections Survivor Benefits Fund	100,000	0	0	100,000
Proceeds Transfer to General Fund	99,047,494	70,900,417	71,257,072	71,157,072
Total Proceeds Transfers	101,747,494	73,500,417	73,857,072	73,857,072
Total Expenses and Proceeds	452,662,495	371,510,000	371,970,000	372,370,000

Lottery Operations -Budget Detail

	FY 2021 Actual	FY 2022 Board Approved Budget	FY 2023 Board Approved Budget - Fall	FY 2023 Board Approved Budget
Administrative payroll	\$ 11,190,015	\$ 11,848,442	\$ 11,616,120	\$ 11,699,545
Travel & Transportation	196,657	417,500	407,500	407,500
Supplies	86,120	103,000	103,000	103,000
Printing	3,076	10,500	10,500	10,500
Postage	7,380	7,000	7,000	7,000
Communications	173,362	232,400	192,400	192,400
Rentals	304,104	299,179	299,179	299,179
Utilities	91,331	108,800	108,800	108,800
Professional fees	119,268	204,000	204,000	204,000
Outside services and repair	204,522	484,211	274,211	262,957
Data processing	128,506	150,000	150,000	150,000
Equipment	353,102	464,869	452,869	492,869
Reimbursement to state agencies	460,093	531,900	531,900	531,900
Depreciation	457,136	707,600	707,600	707,600
Other expenses	52,802	86,000	86,000	86,000
Total operating expenses	13,827,474	15,655,401	15,151,079	15,263,250

FY 2023 Board Approved Budget for "Administrative payroll" includes salary and benefit cost increases per DOM projections