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Terry Rich
Chief Executive Officer

Iowa Lottery Report On Operations

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

From: Terry Rich, CEO

Date: December 2013



Lotteries were definitely in the headlines this month with the giant Mega Millions[®] jackpot run capped off with the \$648 million grand prize in the Dec. 17 drawing. The monster prize that night was split by two winning tickets in Georgia and California. While the jackpot run will definitely produce a boon in lottery proceeds to state causes (we estimate that the state will receive around \$3 million in proceeds from the sale of Mega Millions tickets during the run), the situation also highlights a budgeting dilemma for

Iowa's lottery.

During the past few years, the Iowa Lottery has been able to repeatedly achieve record results. Strategic planning has been a large part of that success, but so has lottery luck in the form of the big jackpot runs that have driven strong sales in Powerball[®] and Mega Millions.

Iowa Lottery leadership knows that not every year will be as successful as our record-breaking fiscal year 2013. **We also know that big jackpot runs are unpredictable. We therefore believe it is important to continue to budget for results that reliably can be achieved.** The lottery's budgeting focus has therefore been switched to a five-year rolling average to provide a longer-term perspective on its results and avoid the peaks and valleys that can crop up in any particular year.

We know it also will take investment in new and emerging technologies to continue to achieve success, and plan to research potential product ideas in FY 2014 and FY 2015 to determine whether they would be a good fit for Iowa in terms of integrity, revenue potential and social impact.

Just what were Iowa's results from the recent Mega Millions jackpot run? The timeframe covered was from the game's drawing on Oct. 4 through the drawing on Dec. 17. The Iowa Lottery sold nearly \$8.6 million in Mega Millions tickets for those drawings. About 35 percent of the money from Mega Millions sales here in Iowa is returned as proceeds to state causes, so,

the state will receive a little more than \$3 million from that jackpot run. Across the nation, this jackpot run generated more than \$1 billion in sales, with about \$300 million going to the good causes benefitted by the 45 lotteries that sell the Mega Millions game.

A total of 174,234 plays purchased by Iowa Lottery players won prizes ranging from \$1 up to \$5,000 in the Dec. 17 drawing. The two Iowa tickets that each won a \$5,000 prize that night were just one number away from having a share of the big jackpot, matching four of the first five numbers drawn and the Mega Ball. Those tickets were purchased in Burlington and Ankeny.

Iowa Lottery players bought nearly \$2.9 million in Mega Millions tickets for the Dec. 17 drawing alone. During the busiest sales stretch from about 5-6 p.m. on Dec. 17, Mega Millions tickets were selling at an average of about \$4,450 per minute in Iowa. However, the average Mega Millions ticket price for the day in our state remained just \$4. Lottery officials were pleased that Iowans enjoyed playing at a fun level.

Final FY 2013 Figures, Early FY 2014 Results and FY 2015 Budget

The Iowa Lottery achieved record results in sales, proceeds to state causes, and prizes to players in FY 2013.

The official results for the year show that lottery sales in Iowa totaled \$339.3 million, making it the fourth year in a row that the lottery achieved record combined sales from lotto, instant-scratch and pull-tab games.

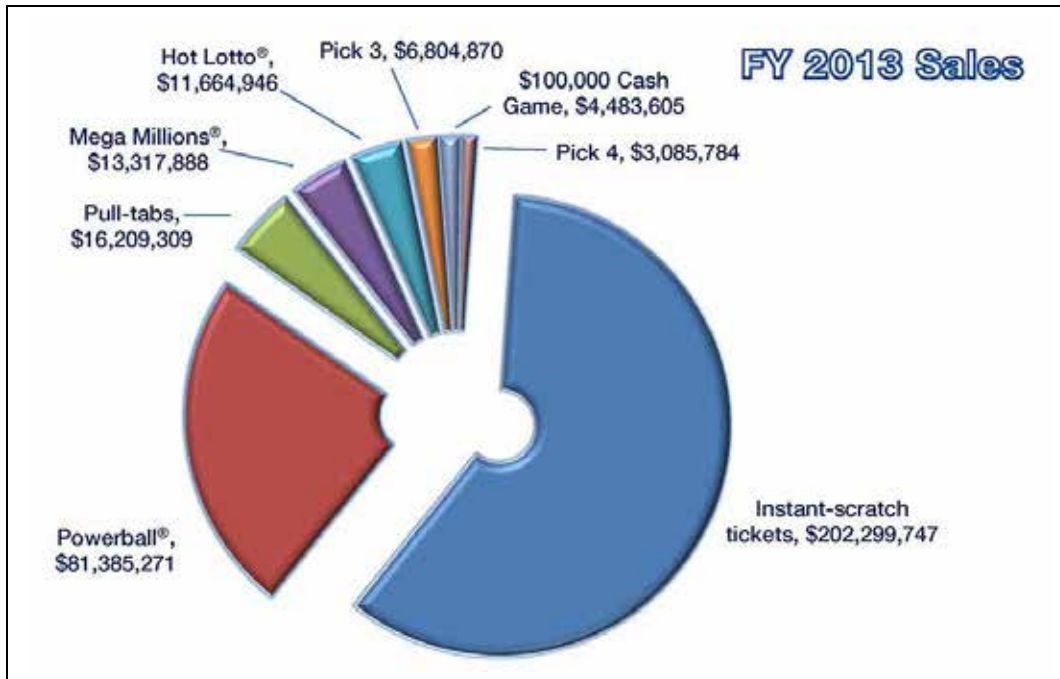
Lottery proceeds to state causes, meanwhile, totaled more than \$84.9 million, the highest proceeds total since the lottery's start in 1985. Lottery proceeds to the Iowa Veterans Trust Fund in particular totaled more than \$2.1 million, meaning that the lottery has met or exceeded its annual proceeds goal for veterans' causes for a fifth straight year.

Prizes to lottery players in Iowa also set a record in FY 2013, totaling \$200.8 million. It was the first time that Iowa Lottery prizes to players had topped \$200 million.

Another significant positive financial development for the lottery in FY 2013 came when it paid off the revenue bonds it had issued in 2004 to buy its headquarters building in Des Moines and the vending machines it currently has in the field to dispense tickets. The lottery's strong results for the year meant that it was able to pay off the bonds six years early. The \$8.8 million in revenue bonds had a maturity date of June 2019. However, the lottery paid off the entire remaining principal and interest of a little more than \$1 million on June 5.

Here are year-to-year comparisons of lottery sales:

	<u>FY 2013</u>	<u>FY 2012</u>
Instant-scratch games	\$202.3 million	\$188.8 million
Pick 3	\$6.8 million	\$6.7 million
Powerball	\$81.4 million	\$57.9 million
Mega Millions	\$13.3 million	\$22.3 million
Hot Lotto	\$11.7 million	\$10.5 million
Pick 4	\$3.1 million	\$2.8 million
Iowa's \$100,000 Cash Game	\$4.5 million	\$4.3 million
Pull-tab games	\$16.2 million	\$17.4 million



Lottery products remain today what they have always been: an affordable, local entertainment option. And, while consumers may have cut back on larger entertainment expenditures during the economic downturn of recent years, lottery products are something that is still available for just a dollar or two in local areas.

The lottery continues to evaluate potential impact on its sales from several factors, including continued high fuel prices and the rise of Internet gaming in other jurisdictions, and will keep your committees apprised of significant developments.

The lottery's latest financial performance figures for FY 2014 are included in this report as **Attachment A**. In that attachment, you'll note that through November, lottery sales and proceeds to the state were running ahead of both budget projections for the year and the lottery's five-year average. A five-year comparison of lottery results through FY 2013 also is included in this report as **Attachment B**.

FY 2015 Budget Update

In September 2012, the Iowa Lottery Board had approved the lottery's preliminary budgets for FY 2014 and FY 2015 in accordance with state budgeting guidelines. Budget amendments for FY 2014 were then approved at the Board's meeting in June, and amendments for FY 2015 were approved at its meeting in September.

The FY 2014 amendments reflected salary adjustments approved during the 2013 legislative session; elimination of the lottery's annual payment on the revenue bonds it had issued in 2004, as those bonds were paid off in June; and an increase in the lottery's potential building costs, as issues are under consideration concerning its headquarters building in Des Moines, which we detail later in this report.

The FY 2015 amendments also eliminated the interest expense the lottery would have had on its revenue bonds, as those were paid off early. The amendments also included \$3.5 million in the budget for building needs, as detailed later in this report; and elimination of \$1.6 million in

payroll expense, which originally had been included in the budget to account for new Governmental Accounting Standards Board (GASB) requirements related to unfunded pension liability. Further discussion and analysis concluded that the GASB expense would not affect lottery proceeds to the state so it was eliminated from the budget.

As part of standard procedures, the lottery's budget figures have been entered into the state's I-3 accounting system and are available for review by all interested parties. In addition, detailed updates to the lottery's sales and budget figures are also regularly provided through the state's I-3 accounting system.

Copies of the lottery's Overall Budget and Operating Expenses for FY 2015 are included with this report as **Attachment C** and **Attachment D**.



The members of the Lottery Board are: Chairperson Mike Klappholz of Cedar Rapids, a retired police chief; Vice Chair Herman Richter, president of The Three Sons clothing store in Milford and a co-founder of the popular and mythical University of Okoboji; Mary Junge of Cedar Rapids, a CPA and practicing tax and estate-planning attorney; Deb Burnight, a certified professional facilitator and trainer from Sioux City; Matt McDermott of West Des Moines, an attorney at a Des Moines law firm; and State Treasurer Michael Fitzgerald, who serves on the Board as a nonvoting member.

Latest Audit of Lottery & Our Annual Report

Each year, the Iowa Lottery is audited by the State Auditor's Office. The auditors review the Lottery's operations as required by state law. The auditor's efforts are in addition to the security and integrity standards the Lottery has adopted and employed throughout its operations to ensure the veracity of its games.

State Auditor Mary Mosiman released the results of the FY 2013 audit of the Lottery on Nov. 18, providing another **clean report** for Iowa's lottery. Copies of the audit are provided by the Auditor's Office to the Governor, Department of Management, Legislative Services Agency, members of the Lottery Board and the Lottery CEO. In addition, the audit report is available on the state auditor's website at: <http://auditor.iowa.gov/reports/1460-6270-B000.pdf>

The official language in the report includes these highlights:

- In the opinion of the Auditor's Office, the financial statements of the lottery for FY 2013 "present fairly, in all material respects, the financial position of the Iowa Lottery Authority as of June 30, 2013."
- The Auditor's Office "did not identify any deficiencies in internal control we consider to be material weaknesses."

- The results of tests conducted by the Auditor's Office "disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards."

Once the lottery has received its audited figures from the Auditor's Office, it releases its annual report for the year. A link to the Lottery's Annual Report for FY 2013 is available here:

<http://www.ialottery.com/PDF/2013AnnualReport.pdf>

Update Regarding Lottery Headquarters Building

In the Lottery's report to your committees in June, we noted that maintenance issues at our headquarters building in Des Moines may mean major change ahead.

The Lottery Board discussed the issues at its meetings in June, September and December, and lottery staffers have continued to meet with experts to gather as much information as possible. Here is the latest overview of the project:

In late 2012, Terry Rich asked Lottery staff to work with the Department of Administrative Services (DAS) to review major maintenance and improvement needs at Lottery headquarters. State law gives DAS the responsibility for all leasing and purchasing of State of Iowa buildings and office space wherever located throughout the state.

Although the lottery has achieved long-term savings by purchasing its headquarters property, the review revealed maintenance issues that need to be addressed in the near future and may involve major changes. Lottery executives met with state, city and private-sector experts to gather information regarding potential solutions. The goal is to ultimately make the best-informed fiscal decision for the good of the state of Iowa and the Iowa Lottery.

As part of the review, serious concerns were raised pertaining to the existing HVAC system at the headquarters building in addition to other items including window replacement, roof replacement and other major maintenance needs.

Two separate engineering firms were consulted (MODUS in Des Moines and KJWW in Urbandale) and both concluded that the HVAC system is well past its life expectancy and major parts of the system are no longer produced. If the system were to fail, the lottery would be forced to make an emergency replacement of the system, displace workers and potentially compromise lottery sales.

Due to the fact that lottery sales average nearly \$1 million a day, Lottery staff working in conjunction with DAS decided that it was essential to proceed with proactively managing the risk associated with the building maintenance needs rather than allowing an emergency to develop.

At the June 28 Lottery Board meeting, the Board was advised that the following options were identified as potential solutions:



- Replacement of the HVAC system, knowing that other major items would also need to be replaced in the next few years.
- Selling the building and leasing or buying other existing property.
- Constructing a new building.

The Department of General Services-General Services Enterprise (DAS-GSE) Real Estate Team, working with lottery staff, developed a list of Critical and Secondary Business requirements. DAS-GSE then incorporated those requirements into an Iowa Lottery Relocation Project document. On Sept. 9, DAS-GSE publicly released the Iowa Lottery Relocation Project document to allow interested parties to competitively bid for the acquisition/relocation of the Iowa Lottery's headquarters. The document established Ben Brackett as the point of contact for this project and all proposals were to be submitted to DAS-GSE by Sept. 27. A copy of that document is included in this report as **Attachment E**.

DAS-GSE received approximately 20 proposals that offered different solutions to the Lottery relocation project. Following receipt of the proposals, DAS-GSE completed an analysis of the proposals to determine which best met the goals that had been identified for the project.

Keeping in mind that the Lottery Board previously approved funds for this project as part of the lottery's FY 2014 budget and the desire to proactively manage the risk associated with the existing building's issues, the focus has been on the acquisition of an existing property. The pool of respondents was narrowed to a final group by DAS-GSE. As part of DAS-GSE's discussions with the respondents in the final group, the potential disposition of the current Lottery building has been discussed. Representatives of the respondents in the final group completed tours of Lottery headquarters during the week of Nov. 25.

Additionally, DAS-GSE ordered an appraisal of the headquarters building. Representatives from the company contracted to do the appraisal completed their walk-through of the building on Dec. 11. DAS-GSE expects to receive that appraisal by the end of December.

Moving forward, here are the next steps in the process:

Dec. 16-31, 2013

1. DAS-GSE will perform comparative economic analysis of the final response proposals.
2. The third-party appraisal of 2323 Grand Ave. is to be completed and submitted to DAS-GSE.
3. DAS-GSE will develop counter-responses to the submitted proposals.

When those three items have been completed, DAS-GSE will schedule a meeting with the lottery's senior management team and internal building committee to:

1. Summarize submitted proposals and counter-responses.
2. Discuss any questions, changes or additions to the counter-responses.
3. Ask for approval to proceed with the counter-responses.

If it receives approval from the lottery to proceed with the counter-responses, DAS-GSE would deliver them and enter into negotiations with the finalists. Once final terms and price were agreed to with a finalist, DAS-GSE would draft a Purchase Agreement including Due Diligence Language stating that the agreement is subject to approval by the Iowa Lottery Board and Executive Council of Iowa, and will require notification to the legislative Government Oversight Committees.

After a Purchase Agreement were drafted:

1. A Lottery Board meeting would be scheduled and detailed information about the preferred location would be presented to the Lottery Board for approval.
2. If the Purchase Agreement were approved by the Lottery Board, the Lottery would proceed with scheduling an appearance before the Executive Council of Iowa and preparing documents for the presentation.
3. If the Purchase Agreement were approved by the Executive Council, the Lottery would then notify the legislative Government Oversight Committees of the approvals and proceed with the acquisition of the property.

DAS-GSE and lottery staffers plan to provide the Lottery Board with another update at its next meeting, which likely will occur in January.

Iowa Lottery Game Receives Top Industry Honors



For a third time in recent years, an Iowa Lottery game has received top industry honors for innovation.

In October, the lottery's "Game Book" was named the 2013 best new instant-scratch game by the North American Association of State and Provincial Lotteries (NASPL), an industry group that represents lotteries in the United States, Canada and Mexico. The award was presented at NASPL's annual conference held in Providence, R.I.

When Game Book began sales in January of this year, it was the first product of its kind in Iowa. The lottery ordered what normally would have been a two-year supply of tickets in a \$20 game and they sold out in four months. The Game Book set numerous sales records for an Iowa Lottery product and its performance helped push scratch-game sales and overall lottery sales to record levels in the 2013 fiscal year.

Each \$20 Game Book ticket was actually a six-page booklet that sported eight scratch games, all in one ticket. Game Book featured prizes ranging from \$20 up to \$100,000 and players said they really enjoyed its mix of prizes and extended playing time.

The Game Book was produced and printed by Pollard Banknote Limited of Winnipeg, Manitoba, one of the companies with which the Iowa Lottery has contracts for ticket printing.

As the Game Book's run continued, the Iowa Lottery realized it would run out of tickets much sooner than anticipated, so it ordered a second game book product, this one called the "Blazing Hot 7s Game Book" and moved up its sales launch to June 17. Blazing Hot 7s, with seven games in each six-page booklet, remains on the market in Iowa today and also has proven to be a player favorite.

Game Book was selected as the winner from among 13 entries in the NASPL best new instant-scratch game category. Each year, NASPL recognizes lottery games and campaigns that have been identified as innovative and successful. A panel of judges evaluated this year's scratch-

game submissions based on several criteria including innovative aspects, cost-benefit analysis, visual appeal and ease of play.

In 2005, an Iowa Lottery game was recognized with product-of-the-year awards from two lottery-industry groups. Quarter Play, the world's first battery-powered, electronic version of a scratch game, was named product of the year by NASPL and the Public Gaming Research Institute (PGRI), a Kirkland, Wash.,-based organization that researches the gaming industry.

And in 2006, another Iowa Lottery game also won a top industry honor. Lucky 7s was a double-sided game that combined two popular products into one. Its tickets featured a traditional scratch game on the front and a pull-tab game on the back. It was chosen as the 2006 lottery product of the year by PGRI.

Supporting Veterans' Causes

A one-of-a-kind motorcycle custom painted by a well-known Iowa artist will be up for grabs in a lottery promotion this winter to support the Iowa Veterans Trust Fund.

The Iowa Lottery has raised money for veterans' causes since 2008 and is teaming up with artist Ray "Bubba" Sorensen II on the upcoming motorcycle project.

It will be the first time that Sorensen, the artist best known for his annual artwork on the huge "The Freedom Rock[®]" boulder near Greenfield in western Iowa, has painted a motorcycle.

The one-of-a-kind motorcycle from Victory[®] Motorcycles in Spirit Lake is just now being finished and assembled.

The Lottery and Sorensen will unveil the Veterans Victory motorcycle for the first time during a special event at 11 a.m. Jan 6 in the atrium at Capital Square, 400 Locust St. in downtown Des Moines. Anyone who would like to see the work of art on wheels is invited to attend! The lottery also is making arrangements for the motorcycle to be at the Statehouse on Jan. 22 for the 2014 Veterans Day at the Capitol.

Here are the details about how players can have a chance to win the motorcycle, valued at an estimated \$31,000, in the lottery's upcoming "Veterans Victory" promotion:

- **Promotion entry period:** noon on Jan. 6 through noon on March 26.
- **What to enter:** any nonwinning ticket in the \$1 "Ride to Riches" instant-scratch game, which hits the market Jan. 6. (Each nonwinning ticket in the game will be good for one promotion entry.) All proceeds from the sale of Ride to Riches tickets will benefit the Iowa Veterans Trust Fund.
- **Where to enter:** www.ialottery.com. Players need to join or already be a member of the lottery's free VIP Club, then key in the entry number from the front of a nonwinning Ride to Riches ticket along with the ticket number on the back.
- **Drawing for motorcycle:** Thursday, March 27. The winner will be announced that day if possible, or no later than Friday, March 28.



· **How winner will be notified:** The lottery will send an email to the winner's VIP Club member email address. The winner's name and city of residence also will be posted on the lottery's website.

Since its first games to benefit the Iowa Veterans Trust Fund debuted in July 2008, the Iowa Lottery has raised more than \$14.1 million for the IVTF and thanks its players for their continued support of this noble cause.

Internet Gambling



We've been following developments regarding Internet gaming and providing Iowa lawmakers with updates over the past few years about the issue.

Three states – Nevada, New Jersey and Delaware – are now allowing full-scale Internet gaming, and a handful of other states have implemented lottery sales on the Internet. The issue of Internet gaming is being discussed in state after state, including here in Iowa.

And, although several proposals were introduced during the last Congressional session, no federal Internet gaming legislation ultimately was passed. You'll recall that the National Governor's Association, National Conference of State Legislatures, and National Council of Legislators from Gaming States all stepped forward last winter to emphasize that the federal government should not infringe on states' rights to implement and regulate Internet gaming within their own borders. And Iowa Lottery officials traveled to Washington last December to lend our voices to those of the state elected officials who had spoken out.

Two bills that would establish federal regulation of Internet gaming now have been introduced in the current session of Congress. One of the bills is from U.S. Rep. Peter King, R-New York, who would legalize Internet wagering and establish federal licensing and regulation under the U.S. Secretary of Treasury.

The other bill is sponsored primarily by U.S. Rep. Joe Barton, R-Texas, who would legalize Internet poker and establish federal licensing and regulation for it under the U.S. Secretary of Commerce.

And proving that for every yin there is a yang, in November came word that a billionaire casino developer is lobbying lawmakers in Washington and at the state level with the goal of banning Internet gambling. He is Sheldon Adelson and his properties include the Venetian and the Palazzo in Las Vegas as well as huge new Asian casinos in Macau and Singapore. The advocacy group he has organized is called the Coalition to Stop Internet Gambling. The group is portraying online gambling as dangerous to children, the poor and others who could be easily exploited.

Recently, three prominent political voices have identified themselves as national co-chairman for the Coalition to Stop Internet Gambling. They are: former Gov. George Pataki (R-N.Y.); former U.S. Sen. Blanche Lincoln (D-Ark.); and former Denver Mayor Wellington Webb, (D). They have published op-ed pieces in support of the group's cause.

On Dec. 10, there was a Congressional hearing in Washington about Congressman Barton's bill (H.R. 2666, the Internet Poker Freedom Act). The hearing was before a subcommittee of the U.S. House Committee on Energy and Commerce. Those testifying before the group included the CEO of the American Gaming Association; the executive director of the Poker Players Alliance; the national director of the Stop Predatory Gambling Group; a law professor, a public health professor; and a representative of The Sands, Sheldon Adelson's company.

The testimony was quite varied, with some of the panelists in favor of Internet gaming, some completely opposed to it and others focusing on the legal and public health issues that could come along with it.

We anticipate that Internet gaming will remain an ongoing topic of discussion in Congress. We continue to emphasize that the federal government should not infringe on states' rights to implement and regulate Internet gaming within their own borders.

The Iowa Lottery has the authority to conduct Internet gaming and continues to study the issue, remaining cognizant of the fact that there would be a negative impact on proceeds to state causes if it does not adapt to player expectations for convenience and the use of technology.

As stated before, we will continue to provide updates to your committees and the Legislature as a whole about changes that could be involved in Iowa and the impact such issues could have on the state budget. We also believe it is crucial to continue efforts to ensure that the state protects its rights and resources in this matter.

We offer ourselves as a business analyst to provide outside perspective, advice and revenue projections in these discussions.

IOWA LOTTERY
PERFORMANCE MEASURES
FY 2014

Attachment A

		JUL	AUG	SEP	OCT	NOV		DEC	JAN	FEB	MAR	APR	MAY	JUN	
Month															
Gross Sales	Budget '14	21,480,287	23,387,161	21,894,427	22,749,084	25,139,749		24,001,852	24,352,692	25,533,435	29,111,897	25,298,981	27,014,412	23,036,023	
	5-year av.	20,836,440	22,686,157	21,238,166	22,067,206	24,386,214		23,282,424	23,622,747	24,768,100	28,239,301	24,540,673	26,204,685	22,345,545	
	Actual '14	26,045,310	27,668,618	26,044,760	24,595,516	24,637,797		-	-	-	-	-	-	-	
Prize Expense	Budget '14	12,600,256	13,718,820	12,843,188	13,344,527	14,746,882	58.66% 1)	14,079,396	14,285,197	14,977,817	17,076,929	14,840,287	15,846,552	13,512,846	
	5-year av.	12,342,598	12,972,723	12,388,357	12,786,810	13,663,667	56.03% 2)	14,175,858	14,229,622	15,011,692	16,099,572	14,422,795	15,136,777	12,986,412	
	Actual '14	15,942,444	15,944,936	15,424,112	14,558,510	14,087,386	57.18% 3)	-	-	-	-	-	-	-	
Operating Expenses	Budget '14	580,184	1,046,345	1,046,345	1,489,947	924,193		1,046,345	1,046,345	1,046,345	1,046,345	1,489,947	924,193	1,816,860	
	5-year av.	551,107	795,468	903,895	942,875	980,401		929,762	836,710	892,337	872,587	947,155	1,028,017	1,661,642	
	Actual '14	510,053	946,787	1,032,424	1,338,916	811,525		-	-	-	-	-	-	-	
Proceeds to General Fund	Budget '14	4,771,655	4,780,594	4,408,678	4,178,015	5,339,406		4,933,745	5,021,157	5,315,341	6,206,919	4,813,324	5,806,480	3,922,593	
	5-year av.	4,870,293	5,458,740	4,796,504	5,415,740	6,703,588		4,845,621	5,409,546	5,431,812	7,325,740	6,017,791	6,500,545	4,561,737	
	Actual '14	5,818,399	6,789,813	6,463,986	6,149,653	6,563,816		-	-	-	-	-	-	-	
Proceeds to Veterans Trust	Budget '14	133,453	482,971	301,434	166,950	140,083		142,482	227,620	354,551	368,677	206,227	154,877	120,675	
	5-year av.	127,700	462,152	288,440	159,754	134,044		136,340	217,808	339,267	352,785	197,338	148,201	115,474	
	Actual '14	163,182	422,439	83,623	47,564	61,355		-	-	-	-	-	-	-	
Total Proceeds	Budget '14	4,905,108	5,263,565	4,710,112	4,344,965	5,479,489		5,076,227	5,248,777	5,669,892	6,575,596	5,019,551	5,961,357	4,043,268	
	5-year av.	4,997,993	5,920,892	5,084,944	5,575,494	6,837,632		4,981,961	5,627,354	5,771,079	7,678,525	6,215,129	6,648,746	4,677,211	
	Actual '14	5,981,581	7,212,252	6,547,609	6,197,217	6,625,171		-	-	-	-	-	-	-	
YEAR TO DATE															
Gross Sales	Budget '14	21,480,287	44,867,448	66,761,875	89,510,959	114,650,708		138,652,560	163,005,252	188,538,687	217,650,584	242,949,565	269,963,977	293,000,000	
	5-year av.	20,836,440	43,522,597	64,760,763	86,827,969	111,214,183	15.99% 4)	134,496,607	158,119,354	182,887,454	211,126,755	235,667,428	261,872,113	284,217,658	
	Actual '14	26,045,310	53,713,928	79,758,688	104,354,204	128,992,001	12.51% 5)	-	-	-	-	-	-	-	
Prize Expense	Budget '14	12,600,256	26,319,076	39,162,264	52,506,791	67,253,673	58.66% 1)	81,333,069	95,618,266	110,596,083	127,673,012	142,513,299	158,359,851	171,872,697	
	5-year av.	12,342,598	25,315,321	37,703,678	50,490,488	64,154,155	57.69% 2)	78,330,013	92,559,635	107,571,327	123,670,899	138,093,694	153,230,471	166,216,883	
	Actual '14	15,942,444	31,887,380	47,311,492	61,870,002	75,957,388	58.89% 3)	-	-	-	-	-	-	-	
Operating Expenses	Budget '14	580,184	1,626,529	2,672,874	4,162,821	5,087,014		6,133,359	7,179,704	8,226,049	9,272,394	10,762,341	11,686,534	13,503,394	
	5-year av.	551,107	1,346,575	2,250,470	3,193,345	4,173,746		5,103,508	5,940,218	6,832,555	7,705,142	8,652,297	9,680,314	11,238,670	
	Actual '14	510,053	1,456,840	2,489,264	3,828,180	4,639,705		-	-	-	-	-	-	-	
Proceeds to General Fund	Budget '14	4,771,655	9,552,249	13,960,927	18,138,942	23,478,348		28,412,093	33,433,250	38,748,591	44,955,510	49,768,834	55,575,314	59,497,907	
	5-year av.	4,870,293	10,329,033	15,125,537	20,541,277	27,244,865		32,090,486	37,500,032	42,931,844	50,257,584	56,275,375	62,775,920	67,352,481	
	Actual '14	5,818,399	12,608,212	19,072,198	25,221,851	31,785,667		-	-	-	-	-	-	-	
Proceeds to Veterans Trust	Budget '14	133,453	616,424	917,858	1,084,808	1,224,891		1,367,373	1,594,993	1,949,544	2,318,221	2,524,448	2,679,325	2,800,000	
	5-year av.	127,700	589,852	878,292	1,038,046	1,172,090		1,308,430	1,526,238	1,865,505	2,218,290	2,415,628	2,563,829	2,679,303	
	Actual '14	163,182	585,621	669,244	716,808	778,163		-	-	-	-	-	-	-	
Total Proceeds	Budget '14	4,905,108	10,168,673	14,878,785	19,223,750	24,703,239		29,779,466	35,028,243	40,698,135	47,273,731	52,293,282	58,254,639	62,297,907	
	5-year av.	4,997,993	10,918,885	16,003,829	21,579,323	28,416,955	14.59% 4)	33,398,916	39,026,270	44,797,349	52,475,874	58,691,003	65,339,749	70,031,784	
	Actual '14	5,981,581	13,193,833	19,741,442	25,938,659	32,563,830	31.82% 5)	-	-	-	-	-	-	-	

- 1) Budget FY14 Prize Payout
- 2) Actual 5-year average Prize Payout
- 3) Actual FY14 Prize Payout
- 4) Actual FY14 compared to Actual 5-year average
- 5) Actual FY14 compared to Budget FY14

IOWA LOTTERY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR FISCAL YEARS 2009 THROUGH 2013
FINAL

	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
OPERATING REVENUES					
Instant-scratch ticket sales	\$202,299,747	\$188,814,325	\$165,329,031	\$143,759,258	\$136,268,555
Pick 3 sales	6,804,870	6,743,717	6,573,020	6,531,001	6,534,765
Powerball sales	81,385,271	57,934,104	47,124,656	59,190,012	58,220,203
Mega Millions sales	13,317,888	22,293,152	16,051,016	5,544,128	0
Hot Lotto sales	11,664,946	10,525,347	11,608,730	13,653,746	14,329,610
Raffle sales	0	0	0	789,200	0
Pick 4 sales	3,085,784	2,788,613	2,701,949	2,662,191	2,555,237
\$100,000 Cash Game sales	4,483,605	4,314,098	3,687,370	3,908,785	4,113,307
Pull-tab sales	16,209,309	17,438,369	18,315,275	20,217,316	21,315,424
Application fees	5,125	4,075	5,575	3,975	3,680
Other revenue	11,706	212,884	138,133	22,147	65,449
Total operating revenues	339,268,251	311,068,684	271,534,755	256,281,759	243,406,230
OPERATING EXPENSES					
Scratch ticket prize expense	128,096,203	116,954,213	103,652,725	91,479,848	81,846,620
Pick 3 prize expense	4,009,581	3,993,780	3,894,422	3,958,003	3,834,735
Powerball prize expense	39,682,727	28,287,777	22,553,385	28,558,287	28,118,140
Mega Millions prize expense	6,538,181	11,307,020	8,365,976	2,879,811	0
Hot Lotto prize expense	5,652,815	5,118,123	5,608,729	6,610,476	7,015,713
Raffle prize expense	0	0	0	392,876	(10,500)
Pick 4 prize expense	1,812,515	1,634,063	1,596,054	1,544,018	1,473,587
\$100,000 Cash Game prize expense	2,740,099	2,175,236	1,745,257	2,005,333	2,271,476
Pull-tab prize expense	10,140,042	10,912,790	11,458,672	12,702,718	13,389,649
VIP Club prize expense	1,950,002	1,907,142	0	0	0
Promotional prize expense	179,603	152,303	85,858	322,417	485,921
Advertising/Publicity	6,603,905	6,605,304	6,647,468	7,539,052	7,007,617
Retailer compensation expense	22,116,797	20,125,497	17,284,432	16,109,637	15,298,641
Ticket expense	3,945,970	3,115,487	2,784,308	2,683,364	2,674,067
Vendor compensation expense	6,885,203	6,204,116	5,848,081	8,168,273	7,796,934
Online game expense	295,663	0	0	0	0
Salary and benefits	9,375,334	9,120,063	8,650,620	9,819,749	8,759,206
Travel	425,300	451,040	415,007	369,153	404,876
Supplies	100,620	147,091	110,465	104,863	110,739
Printing	13,459	15,031	13,830	14,477	9,582
Postage	6,337	6,238	5,112	6,166	4,718
Communications	155,755	130,366	518,708	562,025	568,096
Rentals	304,452	290,595	277,163	285,660	290,254
Utilities	103,386	97,579	103,438	98,468	103,240
Professional fees	125,004	165,225	118,062	165,833	121,965
Vending machine maintenance	577,841	537,941	526,196	488,697	489,809
Outside services & repairs	326,659	460,445	306,730	403,083	197,386
Data processing	57,072	50,320	46,670	37,700	40,929
Equipment	380,142	719,188	387,674	152,832	204,598
Reimbursement to other					
state agencies	415,056	433,436	432,878	455,697	435,976
Depreciation	245,805	173,611	117,508	864,963	1,403,051
Other	67,345	56,009	58,006	104,355	132,141
MUSL administrative expense	37,050	45,106	40,528	17,818	0
Total operating expenses	253,365,923	231,392,135	203,653,962	198,905,652	184,479,166
Operating income (loss)	85,902,328	79,676,549	67,880,793	57,376,107	58,927,064

IOWA LOTTERY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR FISCAL YEARS 2009 THROUGH 2013
FINAL

	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
Non-operating revenues (expenses)					
State General Fund	(82,764,005)	(76,012,455)	(64,896,382)	(55,245,512)	(56,550,792)
Veterans Trust Fund	(2,126,724)	(2,719,494)	(3,105,371)	(2,661,554)	(2,783,377)
Gambler's Treatment Program	0	0	0	0	(1,219,137)
Interest income	110,073	105,755	146,178	364,957	421,090
Interest expense	(33,453)	(39,134)	(42,418)	(45,702)	(48,986)
Net non-operating revenues(expenses)	(84,814,109)	(78,665,328)	(67,897,993)	(57,587,811)	(60,181,202)
Change in net position	1,088,219	1,011,221	(17,200)	(211,704)	(1,254,138)
Net position, beginning of period	5,195,960	4,184,739	4,201,939	4,413,643	5,667,781
Net position, end of period	\$6,284,179	\$5,195,960	\$4,184,739	\$4,201,939	\$4,413,643

Budget for Lottery Fund

Attachment C

	FY 2013 ACTUAL	FY 2014 FINAL BOARD APPROVED BUDGET	FY 2015 ORIGINAL BOARD APPROVED BUDGET	FY 2015 BOARD APPROVED BUDGET
<u>Resources</u>				
Lottery sales	339,251,420	293,000,000	287,685,000	295,505,000
Interest income	110,073	500,000	500,000	500,000
Application fees	5,125	5,000	5,000	5,000
Other	11,706	5,000	5,000	5,000
Total Resources	339,378,324	293,510,000	288,195,000	296,015,000
<u>Expenses and Change in Net Assets</u>				
Prizes	200,801,768	171,872,697	169,357,666	173,321,198
Retailer compensation	22,116,797	18,969,721	18,625,612	19,264,839
Advertising production and media purchases	6,600,550	11,720,000	11,507,400	11,820,200
Retailer Lottery system/Terminal Communications	7,180,866	6,827,940	6,628,262	6,885,655
Instant/Pull-tab ticket expense & machine maintenance	4,605,036	4,085,000	4,185,000	4,345,000
Terminal equipment/Ticket dispensers/Vending machines	202,330	250,000	250,000	250,000
Courier delivery of instant tickets	105,353	535,000	535,000	535,000
Interest expense (ITVM/PTVM/Building)	33,453	-	29,556	-
Lottery operating expense	11,753,223	13,503,394	14,519,808	13,380,054
Increase (decrease) in net assets; building	1,088,219	3,448,341	48,341	3,448,341
Total Expenses and Change in Net Assets	254,487,595	231,212,093	225,686,645	233,250,287
<u>Proceeds</u>				
Proceeds Transfer to General Fund	82,764,005	59,497,907	59,708,355	60,564,713
Proceeds Transfer to Veterans Trust Fund	2,126,724	2,800,000	2,800,000	2,200,000
Total Proceeds Transfers	84,890,729	62,297,907	62,508,355	62,764,713
Total Expenses and Proceeds	339,378,324	293,510,000	288,195,000	296,015,000

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Lottery Operations - Budget Detail

Attachment D

	FY 2013 ACTUAL	FY 2014 FINAL BOARD APPROVED BUDGET	FY 2015 ORIGINAL BOARD APPROVED BUDGET	FY 2015 BOARD APPROVED BUDGET
Administrative payroll*	9,375,334	10,027,895	11,515,649	10,027,895
Travel	416,086	495,000	495,000	495,000
Supplies	93,045	125,000	125,000	125,000
Printing	13,459	16,000	16,000	16,000
Postage	6,337	6,500	6,500	6,500
Communications	155,755	160,000	160,000	160,000
Rentals	304,452	328,000	310,000	333,000
Utilities	103,386	105,000	105,000	105,000
Professional fees	121,004	495,000	230,000	530,000
Outside services and repair	160,870	427,840	400,000	400,000
Data processing	57,072	55,000	55,000	60,000
Equipment	177,812	430,500	250,000	270,000
Reimbursement to state agencies	415,056	475,000	495,000	495,000
Depreciation	245,805	251,659	251,659	251,659
Other expenses	107,750	105,000	105,000	105,000
Total operating expenses	\$ 11,753,223	\$ 13,503,394	\$ 14,519,808	\$ 13,380,054

* 2015 Proposed Budget for "Administrative Payroll" does not include salary and benefit cost increases.

Consistent with prior years, salary and benefit cost increases will be requested as a budget amendment in June 2014.



FR: Ben Brackett
GSE Real Estate Services

DT: September 9, 2013

RE: IOWA LOTTERY RELOCATION PROJECT

On behalf of the Iowa Lottery (ILOT) and the Department of Administrative Services, General Services Enterprise (GSE) Real Estate Services is pleased to present a public opportunity to competitively bid for the relocation/acquisition of the ILOT headquarters, currently located at 2323 Grand Avenue.

ILOT began in 1985 with the intention of making Iowa a better place to live, work, and raise a family. By providing entertainment and prizes to its players, ILOT simultaneously raises billions of dollars for state programs that benefit all Iowans. Through the years, these funds have been used in a variety of ways to enhance the state, including projects to create new recreation areas, support research at Iowa's public universities, benefit Iowa veterans, develop new products and techniques for agriculture, and promote tourism.

The intent of this broadcast is to solicit proposals for a real estate solution; a variety of results are possible. The current property at 2323 Grand Avenue is too large for the ILOT operation and a full scale review of the integrity of the property has led away from a state-funded renovation project.

More detail will be provided through the document, but generally the solutions we are open to include:

1. Purchase of raw/semi-improved land (*State of Iowa would self-perform construction*)
2. Purchase an existing structure (*State of Iowa would self-perform renovation*)
3. Build-to-suit lease with an option to purchase upon lease expiration
4. Sale-leaseback of current location with an option to purchase upon lease expiration

Due to the scope of the project, it will be handled in phases:

- **Phase 1** – market research, site selection (*September – November 2013*)
 - **Phase 2** – proposals, negotiations, (potentially design), final selection (*November – December 2013*)
 - **Phase 3** – (potentially design), relocation, full occupancy (*2014*)
 - **Phase 4** – disposition of 2323 Grand Avenue (*2014*)
- Phase 3 & 4 are likely to be simultaneous and/or overlapping actions.

Over the next 6-8 weeks, GSE Real Estate Services will compile, tour, and analyze all viable sites with the intention of paring the selection to 4-6 properties to present to the ILOT Building Committee early in November. A final selection is anticipated at the turn of the calendar year and we expect ILOT to have a clear direction as we move into 2014.

Thank you for your interest!

Best regards,

Ben Brackett
GSE Real Estate Services

SECTION 1. CRITICAL BUSINESS REQUIREMENTS

ILOT has a small number of requirements that are absolutely critical and will act objectively as barriers to entry for the project. Secondary requirements may apply more to existing properties and/or assist insomuch as a barometer for the type of facility ILOT aspires to occupy.

I. Critical Business Requirements

- a. **Connectivity/IT – Fiber Optic capability/connectivity**
 - Minimum bandwidth requirement of 50 MBPS, but could utilize up to 100 MBPS
 - Access to State of Iowa network – solution will be driven by ILOT
- b. **Location**
 - Des Moines Metro
 - Accessible
 - Visible (bolstered by signage)
- c. **Security**
 - Free-standing, single tenant building
 - Physical Security (existing property) – cameras, key card access, alarm system
 - Design/layout (existing property)
- d. **Generator Power**
 - Current operation utilizes 750 kilowatts

II. Secondary Business Requirements

- a. **Upgrade to Modern Space Standards**
 - Targeting 20,000 SF
 - Open floor plan
 - Multiple conference rooms/enclaves
 - Break room
- b. **Dedicated space for public-facing interaction**
 - Interface with winners/guests/visitors
 - Media room
 - Clear delineation/separation from office area
- c. **Parking**
 - Must accommodate 55 employees
 - 5-10 visitor spaces
- d. **Computer Room**
 - Raised floor
 - Dedicated HVAC/cooling system
 - Fire suppression
 - Redundancy
- e. **Storage Area – up to 5,000 SF**
- f. **Secured Receiving Area and Truck/Loading Dock**

SECTION 2. SOLUTIONS

Due to the unique nature of the requirement, GSE understands that there are a number of potential approaches to the relocation of ILOT. An additional layer is formed by the need to dispose of 2323 Grand upon successful relocation of the ILOT operation. Below are our preferred solutions; however, GSE will entertain creative solutions such as a property swap or redevelopment of the current location.

1. Purchase raw/semi-improved land (State of Iowa would self-perform construction)
2. Purchase an existing structure (State of Iowa would self-perform renovation)
3. Build-to-suit lease with an option to purchase upon lease expiration
4. Sale-leaseback of current location with an option to purchase upon lease expiration

Considerations for preferred solutions:

- 2-3 acres to be required in order to accommodate the appropriately sized building
 - Current operation houses a small warehouse space – any potential for warehouse space in addition to approximately 20,000 SF of office is of interest.
 - All options that include a lease would be subject to meeting the terms of GSE standard lease form, attached as Exhibit A.
 - Lease term minimum: 10 years
 - Energy efficient solutions are of interest
 - Des Moines proper will hold a slight advantage over other markets due to location of the current operation
 - Collaboration among companies is anticipated – for example a land owner partnering with a construction company to deliver a solution or a developer to create an investment platform with ILOT as the Tenant.
-
- Regarding the eventual disposition of 2323 Grand: GSE understands the property to be eligible for state and federal tax credits due to the age of the property. More information can be found at the State Historical Preservation Office web site (<http://www.iowahistory.org/historic-preservation/>).

SECTION 3. RESPONSE

Proposal Format

GSE strives to compare solutions in a like-for-like scenario. Accordingly, all respondents must provide similar response packages. Respondents are required to submit responses electronically. Each response is expected to include the following:

- Resume/qualifications from responding entity
- Narrative describing proposed solution
- Marketing materials
- Pricing proposal
- Floor plans and site plans – upon final selection these files will be required in AutoCAD format

Incomplete proposals will not be considered.

Proposal Deadline

GSE will accept proposals until end of business on Friday, September 27, 2013. Again, responses are required to be submitted electronically, although including a hard copy as well is welcomed.

Communication

All questions, concerns, and comments regarding this project must filter through GSE Real Estate Services. Due to the high profile of this project, any inappropriate contact with ILOT staff will disqualify the respondent from the project. All contact should be directed to Ben Brackett.

Ben Brackett
GSE Real Estate Services
Hoover Building, Level A
1305 E Walnut
Des Moines, IA 50319
O: 515.725.2282
C: 515.802.1729
ben.brackett@iowa.gov

Any project-critical questions that are raised will be answered to the entire pool of respondents via email.

Timeline for the Project

- **Phase 1** – market research, site selection (*September – November 2013*)
 - **Phase 2** – proposals, negotiations, (potentially design), final selection (*November – December 2013*)
 - **Phase 3** – (potentially design), relocation, full occupancy (*2014*)
 - **Phase 4** – disposition of 2323 Grand Avenue (*2014*)
- Phase 3 & 4 are likely to be simultaneous actions or at least overlap.