

Terry E. Branstad
Governor

Kim Reynolds
Lt. Governor



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 2012

Jackpot News Galore



The Shipping 20

We highlighted headline-grabbing jackpot news in our June report to your committees, and even more lottery jackpot headlines have been generated in the months since then.

For the first time since Powerball's start in 1992, two jackpot-winning tickets in the game were sold in Iowa in the same calendar year – and it happened this year.

In June, The Shipping 20, a group of co-workers from the Quaker Oats Co. plant in downtown Cedar Rapids, claimed a \$241 million Powerball jackpot. And then in October, a

central Iowa couple stepped forward to claim a \$202.1 million Powerball jackpot. Mary and Brian Lohse of Bondurant won the prize in the Sept. 26 jackpot and chose to receive their prize as a lump-sum payment of \$129.8 million.

This month, both the Lohses and a member of The Shipping 20 have announced big donations to their communities. Kelly Mulford of Marion is giving \$75,000 to the United Way of East Central Iowa Endowment Fund. Mulford said he decided to share his story because he hoped to inspire others to give to the community through the United Way.

The Lohses are donating \$3 million to the Bondurant-Farrar Community School District, where their three children are students, for a new football stadium.

Along with all that big Iowa winner news, Powerball generated headlines around the world in late November when its jackpot rolled to a record amount. Two tickets in Missouri and Arizona ended up splitting the \$587.5 million jackpot in the Nov. 28



Mary and Brian Lohse

drawing. More than 114,000 tickets sold in Iowa won prizes that night, including seven tickets that came within one number of having at least a share of the jackpot.

During the busiest sales stretch leading up to that drawing, Powerball tickets were selling at more than \$11,000 per minute in Iowa. But the average purchase remained just \$6, or three plays. The lottery is pleased that Iowans got in on the fun of the big jackpot but didn't go overboard.

Iowa Lottery sales and proceeds for fiscal year 2013, which already were running ahead of FY 2012 results, got a big boost from those Powerball sales.

FY 2012 Results, Early FY 2013 Figures And FY 2014-15 Budgets



The lottery's latest financial performance figures for FY 2013 are included in this report as **Attachment A**, showing positive results for state causes.

Lottery proceeds through November, the latest month for which complete figures are available, were running about 17 percent ahead of FY 2012 figures for the same time period. That is especially positive news, given that FY 2012 was the best year in the lottery's history for proceeds from its current products (lotto games, instant-scratch games and pull-tab games).

Year-end figures for FY 2012 show that overall lottery proceeds for the year were nearly \$78.7 million compared to about \$68 million the previous year. Annual lottery sales totaled nearly \$311 million, the third year in a row that the lottery has achieved record combined sales from its core products. Prizes to players totaled more than \$182 million, also a record.

A five-year comparison of lottery sales, expenses and proceeds is included in this report as **Attachment B**.

During its Sept. 27 meeting, the Iowa Lottery Board approved both the lottery's FY 2014 and FY 2015 budgets in accordance with current state budgeting guidelines.

The lottery projects that its sales will total at least \$281 million in FY 2014 and \$287.7 million in FY 2015, while lottery proceeds to state causes will total at least \$62.2 million and \$62.5 million each year respectively. **We continue to be optimistic that our publicly stated goal of providing at least \$60 million in annual proceeds to state causes will be attainable over the coming years. (This goal is based on the highest core-product proceeds amount raised during the Lottery's first 25 years.)**

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 are both included with this report as **Attachments C** and **Attachment D**. In addition, a direct link to the lottery's annual report for FY 2012 is available here: <http://www.ialottery.com/AboutUs/AnnualReport.asp>



Matt McDermott



Mary Junge



Mike Klappholz



Deb Burnight



Herman Richter



Michael Fitzgerald

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

Internet Gambling

Internet gaming became a major topic of discussion in Congress in the months since our last report to your committees, and the Iowa Lottery has been part of the conversation in Washington, D.C. In November, the lottery sent a letter to U.S. Senate and House leadership as well as Iowa's Congressional delegation. Lottery CEO Terry Rich and Vice President for External Relations Mary Neubauer also traveled to D.C. for in-person meetings with federal lawmakers in early December.

As discussed in our June report, the U.S. Justice Department in December 2011 issued a letter providing its conclusion that the federal Wire Act prohibits only the transmission of communications relating to bets or wagers on sporting events or contests. Following the release of that letter, several states around the country began to closely examine the issue of introducing lottery games and other forms of gaming on the Internet. A few have already taken steps to do so. Illinois and Georgia are now both selling lottery tickets on the Internet and Delaware has authorized Internet gaming under the control and operation of the Delaware Lottery.

The Iowa Lottery has the authority to conduct Internet gaming, and continues to study the issue. The lottery is 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 use of technology.



In late November, Lottery CEO Terry Rich joined the National Governor's Association, National Conference of State Legislatures and National Council of Legislators from Gaming States in stating his opposition to legislation that would impede states' rights on gaming. A copy of Rich's Nov. 21 letter is included in this report as **Attachment E**.

Rich and Neubauer then traveled Dec. 4-6 to Washington along with representatives from several other lotteries on behalf of the North American Association of State and Provincial Lotteries (NASPL). During

their visit, the NASPL representatives met with lawmakers and staffers from more than 100 House and Senate offices, including all members of Iowa's delegation. The lotteries emphasized that the federal government should not infringe on states' rights to implement and regulate Internet gaming within their own borders. Lottery staff also stressed that Individual states are best equipped to respond to their citizens' unique local preferences and decide what, if any, intrastate gaming should occur within their jurisdictions.

The lottery will continue to monitor and evaluate the proper use of new technology to meet citizens' demands. As stated, before, we will 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 should we decide to proceed. We also believe it is crucial to continue efforts to ensure the state protects its rights and resources in this matter.

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

That Unclaimed Jackpot Money

This past summer, the Iowa Lottery gave away about \$2 million in prize money from two big jackpots that expired without being claimed. The lottery's "Mystery Millionaire" promotion gave players the chance to win prizes from \$10,000 up to \$1 million. The process culminated in a live give-away show on the Grand Concourse during the final day of the 2012 Iowa State Fair. Dean Stuhr of Des Moines, a retired police officer, won the \$1 million top prize that day.

Lottery executives believe the situation that led up to the Mystery Millionaire promotion was unprecedented: Two big jackpots expired at nearly the same time. The first was that Hot Lotto jackpot won in Des Moines that was briefly claimed before the claim was withdrawn in January. The second was a \$77 million Powerball jackpot won in Georgia that had expired without being claimed in December 2011.



The money from unclaimed jackpots goes back to the individual lotteries that sell the games in proportion to the percentage of sales that came from each state. Iowa's share was a total of about \$2 million. The lottery gave that money away in Mystery Millionaire, with 49 players winning prizes of \$10,000 to \$1 million; and audience members at the Fair and lottery retail locations also winning prizes.

Meantime, the investigation into what occurred with the brief Hot Lotto claim in Des Moines remains ongoing. It is an open, active case at this time. The Iowa Attorney General's Office and the Iowa Division of Criminal Investigation continue to follow leads.

Ongoing Issues To Monitor

Lottery Winner Anonymity: Legislators in New Jersey and Michigan have introduced and discussed bills that would allow lottery winners to remain anonymous, at least for some time. While a handful of U.S. states allow winners to remain anonymous, the vast majority require disclosure of winners'

information for transparency about the lottery's operation. Concerns appear to be growing regarding those open records requirements, however.

Legislators in New Jersey have been discussing a proposal that would allow lottery winners to remain anonymous for one year. The bill's sponsor said his goal was to allow winners time to better manage their lives after claiming their prize.

Retail Security Compliance Checks: As it has for the past few years, the Iowa Lottery continued this year to conduct unannounced security compliance checks at lottery retail locations across the state to see how winning tickets would be handled.

Lottery investigators conducted 410 security compliance checks at Iowa retail locations in 2012. And as in the retail checks in years past, all prizes have been properly paid by store personnel.

There have been problems involving lottery-ticket redemption outside Iowa, however, so the lottery will continue to double-check the process here. Cases involving retailer fraud have been documented in several states, including Minnesota, Idaho and California. All of the suspects in those states were accused of cheating lottery customers.

In addition, we continue to focus on player security through education to players and retailers regarding ticket receipts and requiring signatures on tickets.



IOWA LOTTERY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR FISCAL YEARS 2008 THROUGH 2012
FINAL

	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
OPERATING REVENUES					
Instant-scratch ticket sales	\$ 188,814,325	\$165,329,031	143,759,258	136,268,555	\$137,917,848
Pick 3 sales	6,743,717	6,573,020	6,531,001	6,534,765	6,373,362
Powerball sales	57,934,104	47,124,656	59,190,012	58,220,203	63,761,024
Mega Millions sales	22,293,152	16,051,016	5,544,128	0	0
Hot Lotto sales	10,525,347	11,608,730	13,653,746	14,329,610	11,724,416
Raffle sales	0	0	789,200	0	1,425,460
Pick 4 sales	2,788,613	2,701,949	2,662,191	2,555,237	2,315,469
\$100,000 Cash Game sales	4,314,098	3,687,370	3,908,785	4,113,307	4,291,933
Pull-tab sales	17,438,369	18,315,275	20,217,316	21,315,424	21,407,956
Application fees	4,075	5,575	3,975	3,680	5,150
Other revenue	212,884	138,133	22,147	65,449	47,962
Total operating revenues	311,068,684	271,534,755	256,281,759	243,406,230	249,270,580
OPERATING EXPENSES					
Scratch ticket prize expense	116,954,213	103,652,725	91,479,848	81,846,620	85,907,684
Pick 3 prize expense	3,993,780	3,894,422	3,958,003	3,834,735	3,763,710
Powerball prize expense	28,287,777	22,553,385	28,558,287	28,118,140	30,749,779
Mega Millions prize expense	11,307,020	8,365,976	2,879,811	0	0
Hot Lotto prize expense	5,118,123	5,608,729	6,610,476	7,015,713	5,668,710
Raffle prize expense	0	0	392,876	(10,500)	1,200,000
Pick 4 prize expense	1,634,063	1,596,054	1,544,018	1,473,587	1,352,661
\$100,000 Cash Game prize expense	2,175,236	1,745,257	2,005,333	2,271,476	2,525,366
Pull-tab prize expense	10,912,790	11,458,672	12,702,718	13,389,649	13,397,429
VIP Club prize expense	1,907,142	0	0	0	0
Promotional prize expense	152,303	85,858	322,417	485,921	104,236
Advertising/Publicity	6,605,304	6,647,468	7,539,052	7,007,617	7,307,529
Retailer compensation expense	20,125,497	17,284,432	16,109,637	15,298,641	15,650,431
Ticket expense	3,115,487	2,784,308	2,683,364	2,674,067	2,444,025
Vendor compensation expense	6,204,116	5,848,081	8,168,273	7,796,934	7,823,721
Salary and benefits	9,120,063	8,650,620	9,819,749	8,759,206	9,435,111
Travel	451,040	415,007	369,153	404,876	443,445
Supplies	147,091	110,465	104,863	110,739	107,592
Printing	15,031	13,830	14,477	9,582	17,737
Postage	6,238	5,112	6,166	4,718	4,528
Communications	130,366	518,708	562,025	568,096	574,029
Rentals	290,595	277,163	285,660	290,254	277,173
Utilities	97,579	103,438	98,468	103,240	114,292
Professional fees	165,225	118,062	165,833	121,965	144,953
Vending machine maintenance	537,941	526,196	488,697	489,809	492,495
Outside services & repairs	460,445	306,730	403,083	197,386	264,151
Data processing	50,320	46,670	37,700	40,929	37,998
Equipment	719,188	387,674	152,832	204,598	155,425
Reimbursement to other					
state agencies	433,436	432,878	455,697	435,976	500,235
Depreciation	173,611	117,508	864,963	1,403,051	1,407,901
Other	56,009	58,006	104,355	132,141	129,169
MUSL administrative expense	45,106	40,528	17,818	0	0
Total operating expenses	231,392,135	203,653,962	198,905,652	184,479,166	192,001,515
Operating income (loss)	79,676,549	67,880,793	57,376,107	58,927,064	57,269,065

IOWA LOTTERY AUTHORITY
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FOR FISCAL YEARS 2008 THROUGH 2012
FINAL

	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
Non-operating revenue (expense)					
State General Fund	(76,012,455)	(64,896,382)	(55,245,512)	(56,550,792)	(55,296,265)
Veterans Trust Fund	(2,719,494)	(3,105,371)	(2,661,554)	(2,783,377)	0
Gambler's Treatment Program	0	0	0	(1,219,137)	(1,249,853)
Interest income	105,755	146,178	364,957	421,090	699,922
Interest expense	(39,134)	(42,418)	(45,702)	(48,986)	(109,467)
Net non-operating revenues(expense)	(78,665,328)	(67,897,993)	(57,587,811)	(60,181,202)	(55,955,663)
Change in net assets	1,011,221	(17,200)	(211,704)	(1,254,138)	1,313,402
Net assets, beginning of period	4,184,739	4,201,939	4,413,643	5,667,781	4,354,379
Net assets, end of period	\$5,195,960	\$4,184,739	\$4,201,939	\$4,413,643	\$5,667,781

Budget for Lottery Fund

Attachment C

	FY 2012 ACTUAL	FY 2013 BOARD APPROVED BUDGET	FY 2014 BOARD APPROVED BUDGET	FY 2015 BOARD APPROVED BUDGET
<u>Resources</u>				
Lottery sales	310,851,725	277,100,000	281,000,000	287,685,000
Interest income	105,755	500,000	500,000	500,000
Application fees	4,075	5,000	5,000	5,000
Other	212,884	5,000	5,000	5,000
Total Resources	311,174,439	277,610,000	281,510,000	288,195,000
<u>Expenses and Change in Net Assets</u>				
Prizes	182,442,447	163,617,856	165,430,394	169,357,666
Retailer compensation	20,125,497	17,648,025	18,193,075	18,625,889
Advertising production and media purchases	6,603,456	11,084,000	11,240,000	11,507,400
Retailer Lottery system/Terminal Communications	6,213,722	6,392,184	6,474,240	6,628,262
Instant/Pull-tab ticket expense & machine maintenance	3,705,428	3,622,000	4,085,000	4,185,000
Terminal equipment/Ticket dispensers/Vending machines	213,216	200,000	250,000	250,000
Courier delivery of instant tickets	108,581	455,000	535,000	535,000
Interest expense (ITVM/PTVM/Building)	39,134	45,000	32,840	29,556
Lottery operating expense	11,979,788	12,592,649	13,015,308	14,519,808
Increase (decrease) in net assets	1,011,221	48,341	48,341	48,341
Total Expenses and Change in Net Assets	232,442,490	215,705,055	219,304,198	225,686,922
<u>Proceeds</u>				
Proceeds Transfer to General Fund	76,012,455	59,104,946	59,405,802	59,708,078
Proceeds Transfer to Veterans Trust Fund	2,719,494	2,800,000	2,800,000	2,800,000
Total Proceeds Transfers	78,731,949	61,904,946	62,205,802	62,508,078
Total Expenses and Proceeds	311,174,439	277,610,000	281,510,000	288,195,000

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Lottery Operations - Budget Detail

Attachment D

	FY 2012 ACTUAL	FY 2013 BOARD APPROVED BUDGET	FY 2014 BOARD APPROVED BUDGET	FY 2015 BOARD APPROVED BUDGET
Administrative payroll	9,120,063	9,915,649	9,915,649	11,515,649 *
Travel	451,040	443,000	495,000	495,000
Supplies	116,163	105,000	125,000	125,000
Printing	11,022	15,000	16,000	16,000
Postage	6,238	6,000	6,500	6,500
Communications	124,769	175,000	160,000	160,000
Rentals	290,595	300,000	305,000	310,000
Utilities	97,579	105,000	105,000	105,000
Professional fees	161,225	135,000	170,000	230,000
Outside services and repair	340,749	400,000	400,000	400,000
Data processing	50,320	50,000	55,000	55,000
Equipment	500,015	170,000	430,500	250,000
Reimbursement to state agencies	433,436	450,000	475,000	495,000
Depreciation	173,611	223,000	251,659	251,659
Other expenses	102,963	100,000	105,000	105,000
Total operating expenses	\$ 11,979,788	\$ 12,592,649	\$ 13,015,308	\$ 14,519,808

* Step increases and cost of living adjustments are not included in FY14 or FY15 budgets. Budgets will be adjusted after contract negotiations are complete and salary and benefit increases are known. FY15 Administrative payroll includes an estimated \$1.6 million for unfunded pension liability. This will be required to be recorded under a new GASB statement that goes into effect in FY15.



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Terry E. Branstad · Governor

Kim Reynolds · Lt. Governor

Terry Rich · Chief Executive Officer

Nov. 21, 2012

The Honorable Harry Reid
Majority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable John Boehner
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Nancy Pelosi
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Majority Leader Reid, Senator McConnell, Speaker Boehner, and Representative Pelosi:

I write to reiterate my concerns regarding legislation that would authorize federal regulation of Internet gaming activities. Historically, states have retained full authority to regulate gambling activities within their borders in accordance with the unique views of their citizens. I urge you to oppose any efforts to infringe on states' statutory and regulatory rights regarding gaming activities.

The proposed Reid-Kyl legislation would prohibit interstate and intrastate Internet gaming, with the exception of off-track horse wagers, licensed online poker, and lottery games with no more than one drawing per day. The proposed legislation appears to effectively limit participation in the online marketplace to only those gaming operations with a presence in the State of Nevada.

According to early drafts of the Reid-Kyl proposal, states that wanted to participate in online gaming would have to "opt in" to the federal system or be boxed out entirely. States also would be prohibited from choosing for themselves which games to offer on the Internet. Moreover, the proposed tax structure on Internet poker overrides state tax rates and disproportionately favors states in which online poker licensors are located. Gaming laws vary from state to state as do the interests of local citizens and the federal government has traditionally deferred to the states by enacting only those laws necessary to support local policies. This proposal supersedes states' authority over lawful gaming within their borders.

Gambling activities in the states include modern lotteries, and Iowa's own lottery has operated with great integrity for 27 years. During that timeframe, the Iowa Lottery has raised more than \$1.4 billion for vital causes, including economic development, education, and support for Iowa veterans and their families. Across the nation, in 2011 alone, lotteries provided more than \$25 billion in net profits to local causes. In short, state lotteries are funding important missions.

The federal government should not infringe on states' rights to implement and regulate Internet gaming within their own borders. The Iowa Lottery has responsibly enacted and enforced gaming statutes and regulations. Individual states are best equipped to respond to their citizens' unique local preferences and decide what, if any, intrastate gaming should occur within their jurisdictions.

Congress should not enact legislation that supersedes state authority and that selects winners and losers. I respectfully join with the National Governors Association, National Conference of State Legislatures, and National Association of State and Provincial Lotteries in urging you to oppose any legislation that would pre-empt or encroach on states' sovereignty regarding gaming matters.

Sincerely,

A handwritten signature in black ink that reads "Terry Rich". The signature is written in a cursive, flowing style with a large, prominent initial "T".

Terry Rich, CEO

cc: Iowa Congressional Delegation
Governor Terry Branstad
Iowa Senate Leaders
Iowa House Leaders
Iowa Lottery Authority Board of Directors