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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 2014

The Iowa Lottery finished fiscal year 2014 with strong results, and its sales and proceeds in the current year continue that trend, running ahead of both budget and the lottery's five-year average through November.

The lottery puts great emphasis on having variety in its games to offer choices to consumers and has seen success from those efforts, particularly in recent years. But some of the lottery's good fortune in FY 2015 also has come from falling gasoline prices, which have meant more discretionary income for consumers after they've fueled up their vehicles. Rising gas prices historically have had a negative impact on lottery sales, and current conditions indicate that the opposite is true as well.

Instant-scratch tickets in particular are having a very strong year in FY 2015, with year-to-date sales through November totaling nearly \$82 million in that product category. That is \$6.5 million ahead of last year's total for the same time period, and scratch-ticket sales have exceeded the FY 2014 total in each month of the fiscal year thus far.



Statistically, we know that our results will fluctuate from year to year, but we anticipate that with the lottery's healthy long-term position, lottery games will continue to be a consistent, key source of proceeds for vital state causes here in Iowa.

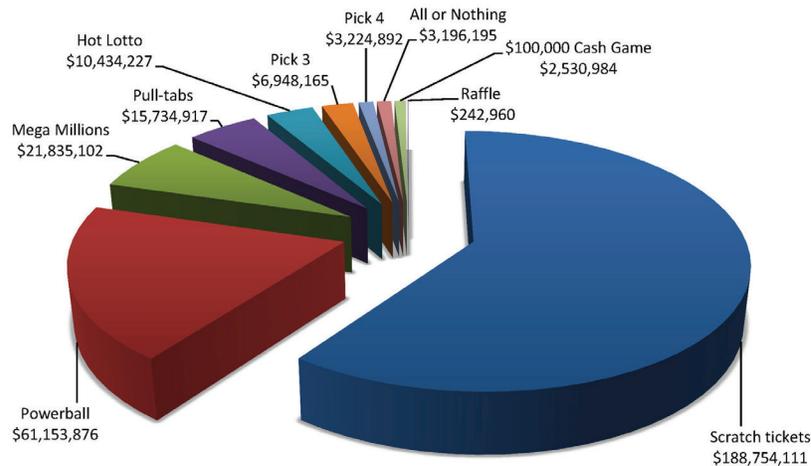
Lottery sales in FY 2014 totaled more than \$314 million, marking the third year in a row that the total has topped the \$300 million mark. Proceeds to state causes totaled nearly \$74 million, the fourth-highest amount for the lottery since its start in 1985. Prizes to lottery players totaled \$186.9 million in FY 14, the second-highest total in the lottery's history. And local Iowa businesses received \$20.1 million in commissions from the lottery for selling its products in FY 2014.

Here is a year-to-year comparison of lottery product sales in the last two fiscal years:

	FY 2014	FY 2013
Instant-scratch games	\$188.8 million	\$202.3 million
Pick 3	\$6.9 million	\$6.8 million
Powerball	\$61.2 million	\$81.4 million
Mega Millions	\$21.8 million	\$13.3 million
Hot Lotto	\$10.4 million	\$11.7 million
Pick 4	\$3.2 million	\$3.1 million
Iowa's \$100,000 Cash Game	\$2.5 million	\$4.5 million
All or Nothing*	\$3.2 million	\$-----
Pull-tab games	\$15.7 million	\$16.2 million
Raffle game**	\$0.2 million	\$-----

*The All or Nothing lotto game replaced Iowa's \$100,000 Cash Game. All or Nothing began sales in January 2014.

**The lottery offers raffle games only occasionally, so there will be years, such as FY 2013, when it does not sell such a product.



As always, we are closely tracking lottery results and will keep your committees apprised of significant developments. We also provide regular updates about sales and proceeds through the state's I-3 accounting system for review. The lottery's latest financial performance figures are included in this report as **Attachment A**.

FY 2016 and FY 2017 Budgets

At its Sept. 23 meeting, the Iowa Lottery Board approved the lottery's preliminary budgets for FY 2016 and FY 2017 in accordance with state budgeting guidelines.

Sales are budgeted at \$312.7 million each year, with lottery proceeds to state causes budgeted at \$69.1 million for FY 2016 and \$69.7 million for FY 2017. The anticipated results for both sales and proceeds are an increase from the lottery's budgeted figures for FY 2015. However, salary and benefit adjustments are not yet included for either year, as is the routine procedure. Once the Legislature has made decisions concerning state salary adjustments, the Lottery Board will approve final modifications to the lottery's budget, with the FY 2016 budget modification expected in June.

The lottery remains optimistic that our publicly stated goal of providing at least \$60 million in annual proceeds to state causes will be attainable in the coming years. (This goal is based on the highest core-product proceeds amount raised during the lottery's first 25 years.)

Copies of the lottery's Overall Budget and Operating Expenses for FY 2016 and FY 2017 are included with this report as **Attachments B** and **Attachment C**. And as always, the lottery's budget details are available through the state's I-3 accounting system.



Mike Klappholz



Herman Richter



Deb Burnight



Matt McDermott



Ying Sa



Michael Fitzgerald

The members of the Lottery Board are: Mike Klappholz of Cedar Rapids, retired police chief of that city; Chairperson Herman Richter, president of The Three Sons clothing store in Milford and a co-founder of the popular and mythical University of Okoboji; Deb Burnight, a certified professional facilitator and trainer from Sioux City; Vice Chair Matt McDermott of West Des Moines, an attorney at a Des Moines law firm; Ying Sa, the founder and principal certified public accountant at a CPA firm in Des Moines, where she also resides; and State Treasurer Michael Fitzgerald, who serves on the board as a nonvoting member.

Lottery Headquarters Moving To Clive This Month

A major project we have discussed with your committees for the past two years is nearing completion – and remains on time and under budget. At noon on Dec. 31, Iowa Lottery headquarters will open for business at its new location at 13001 University Ave. in Clive.

The Lottery Board had approved a total of \$7 million in the lottery's budgets for fiscal years 2014 and 2015 for a possible headquarters purchase and relocation (\$3.5 million in each year). And the plan has come to fruition just as it was designed: The lottery will complete the project and ultimately be debt free.



Meantime, Des Moines Public Schools has purchased the lottery's current headquarters property at 2323 Grand Ave. in Des Moines for \$1.6 million and plans to use the location for the district's administrative offices. From the school district's description of its plan, it will be able to accomplish what the lottery can't as the business currently operating at the site: The school district has purchased the property and will be able to do the major repairs necessary to the building's mechanical systems while it is empty, then

move in once the work is done. That was one of the major complications that the lottery faced with the location.

The lottery had been reviewing its headquarters situation since late 2012, when its internal long-range planning led to the discovery of some maintenance issues at its Des Moines headquarters building. Since that time, the lottery's concern has been to minimize the risk of a disruption in its operations that could be caused by the headquarters maintenance issues. Iowa Code Chapter 99G.21 gives the lottery the ability to acquire real and personal property by lease or purchase and to incur debt in its own name, however, any purchase of real property and any borrowing of more than \$1 million requires prior approval of the Executive Council of Iowa and notification to your Government Oversight committees. The Executive Council approved the lottery's purchase of the Clive property during its meeting on Feb. 3, and the lottery provided notification to your committees that same day.

The lottery consulted with a number of building and maintenance specialists in its property review and ultimately worked with the state of Iowa's property experts – the General Services Enterprise Real Estate Team within the Iowa Department of Administrative Services – to ensure an open and thorough process.

The DAS-GSE Real Estate Team evaluated the options of renovating the lottery's existing headquarters location in Des Moines; purchasing land and constructing a new building; and moving to an available existing property. The option identified as providing the lowest operational risk for the lottery and the best financial option for the state was for the lottery to move to a different existing building within the Des Moines metropolitan area.

The purchase of the Clive property had a lower effective occupancy cost (defined as the price for the lottery to operate at the particular site over a 10-year period, minus any property value at the end of that time) than the other two options.

The DAS Real Estate Team handled all public input, notification and negotiations for the lottery project. DAS identified more than 20 potential properties and toured several of them before ultimately making an offer on the commercial property at 13001 University Ave. in Clive. The location had once been listed at \$7.9 million, but after aggressive negotiations, the lottery agreed to a purchase price of \$5.35 million as described above.

The Class A office building was unoccupied at the time of the lottery's offer and in the possession of several different banks.

Art In Public Buildings Project At Lottery Building In Clive

The Art in State Buildings program applies to the lottery's Clive headquarters project. Under Iowa law, 0.5 percent of the state's portion of total construction costs for new and renovated state buildings is dedicated to public art at those locations.

The Iowa Lottery is working with the Iowa Arts Council to facilitate the artist selection and design concept phases of the public art project, with a total art budget of \$27,000. The lottery's goal with the project is to incorporate at the site a statement piece of art that conveys the fun and excitement in the lottery's mission of providing entertainment and prizes to its players while raising proceeds for vital state causes.

The lottery hopes to have artwork installed at its Clive location by June 30.

Proposed Code Change – Lottery Proceeds To Veterans Trust Fund

The Iowa Lottery has filed a bill-draft request for the upcoming 2015 legislative session with the goal of stabilizing proceeds to help Iowa veterans and their families through the Iowa Veterans Trust Fund (IVTF).

The Iowa Lottery has raised proceeds for the IVTF since 2008, providing more than \$16 million to this worthy cause to date. The Lottery is proud to provide support for the brave men and women who have served our country and our goal is to ensure that we continue to provide a stable, ongoing source of funding for the IVTF.



However, in FY 2014, for the first time since it began raising money for the cause, the lottery did not reach its publicly stated goal of providing between \$2 million and \$3 million for the IVTF. (The annual total raised by the lottery for the IVTF in FY 2014 was \$1.8 million.)

There is a larger issue that must be addressed in order to ensure continued lottery proceeds for the IVTF.

While overall lottery sales and proceeds in recent years have been strong and repeatedly exceeded budget projections, the lottery is seeing a long-term decline in the sale of its pull-tab games, which have the oldest play style among the lottery's products. Pull-tabs currently are closely tied to the lottery's efforts to benefit the IVTF, as Iowa Code 99G.9A requires the lottery to use two pull-tab games in conjunction with two scratch-ticket games each year to generate the proceeds it transfers to the IVTF. The continued sales decline of pull-tabs will negatively impact the lottery's ability to support the IVTF.

In order to stabilize ongoing proceeds to the IVTF and provide the lottery with the business flexibility it needs to maximize its overall proceeds to state causes, the lottery suggests that the Code references to lottery support for veterans' causes be changed in 2015. We are requesting that a specific amount in lottery proceeds (\$2.5 million) be dedicated annually to the IVTF. That amount is the midpoint of the lottery's publicly stated goal for this ongoing initiative, and it also is the yearly average that the lottery has raised for the cause to date.

Lottery proceeds to the IVTF in individual years have varied, with overall results both higher and lower than \$2.5 million, so the lottery anticipates no fiscal impact to the General Fund from this change. The impact to the IVTF would be positive, with lottery proceeds to that cause being stabilized.

Sales In Lotto Game Suspended



Sales in the current format of the MONOPOLY MILLIONAIRES' CLUB™ lottery game will end Dec. 26 in Iowa and across the country.

The \$5 game had debuted Oct. 19 with Iowa and 22 other lotteries offering it. But sales came in below industry projections, leading the Texas Lottery Commission to suspend sales of the game in that state following the Dec. 12 drawing. Lotteries participating in the game then made the decision to end all sales in its current format later this month.

Like any good business, lotteries have to try new ideas. We incorporated concepts into this game that have been popular elsewhere, but they just didn't do as well here. We will continue to discuss the possible future of this game and certainly believe in the concept of spreading the winnings around to players.

As a lottery, we look to provide our players with the new and innovative forms of entertainment so we can continue to maximize our proceeds for state causes. And with innovation, every project gives you the chance to experience and grow.

Players who purchase MONOPOLY MILLIONAIRES' CLUB lottery tickets can continue to win prizes in the game's remaining weekly drawings this month. Tickets will be sold until the cutoff for the game's final weekly drawing, which will occur at 10:15 p.m. on Dec. 26. The sales cutoff time here in Iowa is 8:59 p.m. on the night of the drawing.

Lotteries have repeatedly heard from players who say they want to see more people have a share of the winnings rather than just one gigantic top prize. That was the inspiration for the current game, but players didn't respond to it as well as we'd hoped. We'll continue to review this concept, much like other ideas are evaluated and evolve over time.

Internet Gambling Discussions In D.C.

As the current Congressional session draws to a close in Washington, D.C., it does not appear that any of the proposals at the federal level concerning Internet gaming will be passed. However, Congressional leaders have said they expect such discussions to be renewed when the new Congress begins its work next year.

You'll likely recall that three groups representing state lawmakers all contacted Congressional leadership in recent weeks to urge states' rights on regulatory decisions about Internet gaming.

Two bills were introduced during the current Congressional session to establish federal regulation of Internet gaming, while another proposal was introduced that would federally prohibit all forms of Internet gambling.

The Iowa Lottery will continue to monitor developments on the federal level to analyze their potential impact on Iowa.

Members of the National Governor's Association (NGA), the National Council of Legislators from Gaming States (NCLGS), and the National Conference of State Legislators (NCSL) all had contacted Congressional leadership this session, urging Congress to include state input in any decisions at the federal level that could affect state regulatory authority concerning gaming; and to respect the sovereignty of states in deciding if they want to participate in online gaming.

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 use of technology.



IOWA LOTTERY
PERFORMANCE MEASURES
FY 2015

Attachment A

		JUL	AUG	SEP	OCT	NOV		DEC	JAN	FEB	MAR	APR	MAY	JUN	
Month															
Gross Sales	Budget '15	22,563,936	24,740,910	22,564,660	24,167,717	26,654,393		26,233,633	25,403,221	27,386,408	30,744,113	26,649,057	28,047,356	24,344,596	
	5-year av.	22,329,041	24,483,352	22,329,757	23,036,491	25,497,280		25,080,900	24,259,133	26,221,675	29,544,425	25,492,000	26,875,742	23,211,529	
	Actual '15	24,451,416	24,918,146	24,528,311	26,637,717	25,534,403		-	-	-	-	-	-	-	
Prize Expense	Budget '15	13,220,985	14,496,549	13,221,409	14,160,695	15,617,724	58.59% 1)	15,371,186	14,884,619	16,046,637	18,014,031	15,614,597	16,433,909	14,264,334	
	5-year av.	13,441,873	14,083,100	13,068,239	13,476,179	14,382,302	56.41% 2)	15,169,339	15,004,176	15,762,623	17,196,943	14,965,463	15,587,091	13,784,285	
	Actual '15	14,654,310	15,464,731	14,661,732	15,939,727	15,369,268	60.19% 3)	-	-	-	-	-	-	-	
Operating Expenses	Budget '15	529,360	1,043,576	1,492,457	919,971	1,043,576		1,043,576	1,043,576	1,043,576	1,492,457	1,043,576	919,971	1,862,686	
	5-year av.	515,122	831,945	936,425	1,039,663	967,638		866,257	877,836	943,890	888,817	1,036,369	1,040,534	1,564,606	
	Actual '15	507,364	883,294	1,470,640	813,553	992,429		-	-	-	-	-	-	-	
Proceeds to General Fund	Budget '15	5,301,997	5,350,392	4,339,088	5,325,863	5,844,907		5,736,167	5,521,558	6,034,087	6,452,961	5,843,528	6,328,505	4,428,862	
	5-year av.	5,148,789	5,940,071	5,238,419	5,649,789	7,017,504		5,589,852	5,164,542	5,961,690	7,243,875	6,015,535	6,781,189	4,460,700	
	Actual '15	5,416,154	3,446,294	7,068,157	6,293,178	5,450,756		-	-	-	-	-	-	-	
Proceeds to Veterans Trust	Budget '15	122,382	380,593	217,733	119,495	102,878		110,798	198,509	328,309	245,822	159,426	118,212	95,843	
	5-year av.	138,154	429,641	245,792	134,894	116,136		125,077	224,091	370,618	277,501	179,971	133,446	108,194	
	Actual '15	266,208	521,130	259,202	70,185	160,296		-	-	-	-	-	-	-	
Total Proceeds	Budget '15	5,424,379	5,730,985	4,556,821	5,445,358	5,947,785		5,846,965	5,720,067	6,362,396	6,698,783	6,002,954	6,446,717	4,524,705	
	5-year av.	5,286,943	6,369,712	5,484,211	5,784,683	7,133,640		5,714,929	5,388,633	6,332,308	7,521,376	6,195,506	6,914,635	4,568,894	
	Actual '15	5,682,362	3,967,424	7,327,359	6,363,363	5,611,052		-	-	-	-	-	-	-	
YEAR TO DATE															
Gross Sales	Budget '15	22,563,936	47,304,846	69,869,506	94,037,223	120,691,616		146,925,249	172,328,470	199,714,878	230,458,991	257,108,048	285,155,404	309,500,000	
	5-year av.	22,329,041	46,812,393	69,142,150	92,178,641	117,675,921	7.13% 4)	142,756,821	167,015,954	193,237,629	222,782,054	248,274,054	275,149,796	298,361,325	
	Actual '15	24,451,416	49,369,562	73,897,873	100,535,590	126,069,993	4.46% 5)								
Prize Expense	Budget '15	13,220,985	27,717,534	40,938,943	55,099,638	70,717,362	58.59% 1)	86,088,548	100,973,167	117,019,804	135,033,835	150,648,432	167,082,341	181,346,675	
	5-year av.	13,441,873	27,524,973	40,593,212	54,069,391	68,451,693	58.17% 2)	83,621,032	98,625,208	114,387,831	131,584,774	146,550,237	162,137,328	175,921,613	
	Actual '15	14,654,310	30,119,041	44,780,773	60,720,500	76,089,768	60.36% 3)								
Operating Expenses	Budget '15	529,360	1,572,936	3,065,393	3,985,364	5,028,940		6,072,516	7,116,092	8,159,668	9,652,125	10,695,701	11,615,672	13,478,358	
	5-year av.	515,122	1,347,067	2,283,492	3,323,155	4,290,793		5,157,050	6,034,886	6,978,776	7,867,593	8,903,962	9,944,496	11,509,102	
	Actual '15	507,364	1,390,658	2,861,298	3,674,851	4,667,280									
Proceeds to General Fund	Budget '15	5,301,997	10,652,389	14,991,477	20,317,340	26,162,247		31,898,414	37,419,972	43,454,059	49,907,020	55,750,548	62,079,053	66,507,915	
	5-year av.	5,148,789	11,088,860	16,327,279	21,977,068	28,994,572		34,584,424	39,748,966	45,710,656	52,954,531	58,970,066	65,751,255	70,211,955	
	Actual '15	5,416,154	8,862,448	15,930,605	22,223,783	27,674,539									
Proceeds to Veterans Trust	Budget '15	122,382	502,976	720,708	840,203	943,081		1,053,879	1,252,388	1,580,697	1,826,519	1,985,945	2,104,158	2,200,000	
	5-year av.	138,154	567,795	813,587	948,481	1,064,617		1,189,694	1,413,785	1,784,403	2,061,904	2,241,875	2,375,321	2,483,515	
	Actual '15	266,208	787,338	1,046,540	1,116,725	1,277,021									
Total Proceeds	Budget '15	5,424,379	11,155,365	15,712,185	21,157,543	27,105,328		32,952,293	38,672,360	45,034,756	51,733,539	57,736,493	64,183,211	68,707,915	
	5-year av.	5,286,943	11,656,655	17,140,866	22,925,549	30,059,189	-3.68% 4)	35,774,118	41,162,751	47,495,059	55,016,435	61,211,941	68,126,576	72,695,470	
	Actual '15	5,682,362	9,649,786	16,977,145	23,340,508	28,951,560	6.81% 5)								

1) Budget FY15 Prize Payout

Attachment B**Budget for Lottery Fund**

	FY 2014 ACTUAL	FY 2015 BOARD APPROVED FINAL BUDGET	FY 2016 BOARD APPROVED BUDGET	FY 2017 BOARD APPROVED BUDGET
Resources				
Lottery sales	314,055,429	309,500,000	312,700,000	312,700,000
Interest income	51,716	500,000	500,000	500,000
Application fees	4,375	5,000	5,000	5,000
Other	99,932	5,000	5,000	5,000
Total Resources	314,211,452	310,010,000	313,210,000	313,210,000
Expenses and Change in Net Assets				
Prizes	186,948,985	181,346,675	184,122,172	184,122,172
Retailer compensation	20,131,428	20,037,982	20,044,543	20,044,543
Advertising production and media purchases	6,933,352	12,380,000	12,508,000	12,508,000
Retailer Lottery system/Terminal Communications	6,453,429	7,248,100	7,388,828	7,311,608
Instant/Pull-tab ticket expense & machine maintenance	4,077,813	4,295,000	4,328,000	3,728,000
Vending machines/Ticket dispensers	81,787	250,000	1,723,333	2,018,000
Courier delivery of instant tickets	322,729	610,000	660,000	660,000
Interest expense (ITVM/PTVM/Building)	12,622	-	3,220	-
Lottery operating expense	12,073,776	13,478,358	13,264,328	13,264,328
Building (purchase and sale)	3,432,016	1,964,000	-	-
Increase (decrease) in net assets	(202,339)	(308,030)	25,400	(185,000)
Total Expenses and Change in Net Assets	240,265,598	241,302,085	244,067,824	243,471,651
Proceeds				
Proceeds Transfer to General Fund	72,141,420	66,507,915	66,942,176	67,538,349
Proceeds Transfer to Veterans Trust Fund	1,804,434	2,200,000	2,200,000	2,200,000
Total Proceeds Transfers	73,945,854	68,707,915	69,142,176	69,738,349
Total Expenses and Proceeds	314,211,452	310,010,000	313,210,000	313,210,000

Lottery Operations - Budget Detail

	FY 2014 ACTUAL	FY 2015 BOARD APPROVED FINAL BUDGET	FY 2016 BOARD APPROVED BUDGET	FY 2017 BOARD APPROVED BUDGET
Administrative payroll*	9,461,004	10,145,328	10,145,328	10,145,328
Travel	400,279	495,000	495,000	495,000
Supplies	88,328	125,000	125,000	125,000
Printing	20,435	16,000	20,000	20,000
Postage	6,993	6,500	7,000	7,000
Communications	178,880	160,000	180,000	180,000
Rentals	307,286	310,000	310,000	310,000
Utilities	120,101	128,000	84,000	84,000
Professional fees	123,287	260,000	260,000	260,000
Outside services and repair	256,838	449,500	246,000	246,000
Data processing	89,573	60,000	90,000	90,000
Equipment	220,684	300,000	320,000	320,000
Reimbursement to state agencies	424,834	495,000	495,000	495,000
Depreciation	287,356	423,030	400,000	400,000
Other expenses	87,898	105,000	87,000	87,000
Total operating expenses	\$ 12,073,776	\$ 13,478,358	\$ 13,264,328	\$ 13,264,328

* 2016 and 2017 Proposed Budget for "Administrative Payroll" does not include salary and benefit cost increase projections by DOM