



13001 University Avenue
 Clive Iowa 50325-8225
 www.ialottery.com
 515.725.7900

Kim Reynolds · Governor
 Adam Gregg · 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: June 2018



The Iowa Lottery’s results through May show that fiscal year 2018 will be one of the most successful in the organization’s history, with sales, proceeds and prizes at or near record levels.

Lottery sales and proceeds for the current year are ahead of projections and ahead of the lottery’s results for the same time period in FY 2017. Strong sales of instant-scratch tickets continue to lead the way, but lotto sales also got a solid start to the year when the jackpots in Powerball® and Mega Millions® both topped the \$300 million mark at the same time in early August. It was the first time that had ever occurred, and that “chance factor” has made a positive difference in the lottery’s FY 2018 results.

Statistically, we know that lottery results will fluctuate from year to year, but the tide has steadily risen for lottery sales in the past few years. We anticipate that lottery games will continue to be a consistent source of proceeds for state causes here in Iowa.

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

	<u>FY 2018</u>	<u>FY 2017</u>
Instant-scratch games	\$225.1 million	\$217.9 million
InstaPlay games*	\$8.7 million	\$5.2 million
Pick 3	\$7.1 million	\$6.7 million
Powerball	\$55.4 million	\$49.2 million
Mega Millions	\$19.6 million	\$13.7 million
Hot Lotto*	\$3.8 million	\$7.5 million
Pick 4	\$4 million	\$3.6 million
All or Nothing*	-----	\$2.9 million
Lucky for Life	\$5.2 million	\$5.2 million
Lotto America*	\$4.2 million	-----
Pull-tab games	\$10 million	\$10.5 million

*The Hot Lotto game ended in October 2017. The All or Nothing game ended in June 2017. The Lotto America game debuted in November 2017.

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. The lottery's latest monthly financial statement is included in this report as **Attachment A**.

FY 2019 Budget Updates

At the Lottery Board's meeting on June 20, the lottery's FY 2019 budget was given final approval to make needed modifications for salary and benefit changes and to adjust some line items to more closely align with FY 2017 actual expenses. Copies of the lottery's Overall Budget and Operating Expenses for FY 2019 are included with this report as **Attachment B** and **Attachment C**.



Connor Flynn



Sherrae Hanson



Mary Junge



John Quinn



Mary Rathje



Michael Fitzgerald

The members of the Lottery Board are: Chairperson Connor Flynn Jr., chairman of an advertising agency in Des Moines, where he also resides; Sherrae Hanson of Ankeny, tax manager at a CPA firm in West Des Moines; Mary Junge of Cedar Rapids, a CPA and practicing tax- and estate-planning attorney; John Quinn of Urbandale, who serves as the chief of police in Waukee; Mary Rathje, manager and controller at a construction company in Marion, where she resides; and State Treasurer Michael Fitzgerald, who serves on the Board as a nonvoting member.

Lottery Wins International Award For Work In Long-Running Case



The Iowa Lottery has won an international gaming-compliance award for its work in the long-running lottery jackpot investigation that uncovered fraud against U.S. lotteries and resulted in guilty pleas from three men.

In April, GamblingCompliance named the Iowa Lottery its 2018 recipient for outstanding achievement in compliance. The organization's annual awards that recognize excellence in 11 categories focused on regulatory compliance and responsible gaming were presented in London. The lottery was one of five finalists worldwide for the gaming-compliance award.

GamblingCompliance, with headquarters in London and its U.S. hub in Washington, D.C., provides independent legal, regulatory, and business intelligence to the global gambling industry.

The jackpot investigation case began with a lottery ticket purchased in Des Moines in December 2010 and culminated in 2017 with guilty pleas from three men who admitted they illegally claimed prizes by rigging lottery drawings in five states. Eddie Tipton, the man at the center of the investigation, installed malicious computer code that allowed him to predict winning numbers in some lottery drawings.

Tipton pleaded guilty to three felony charges in Iowa and Wisconsin and was sentenced in August 2017 to up to 25 years in prison. He had conspired with friends and family to claim lottery prizes in Colorado, Kansas, Oklahoma and Wisconsin and attempt to claim a lottery jackpot in Iowa, which ultimately was not paid.

Tipton's younger brother, Tommy Tipton, also pleaded guilty in the case, as did Tipton's long-time friend, Robert Rhodes.

Murphy vs. NCAA & The Future Of Sports Betting In The United States



In May, the U.S. Supreme Court issued a landmark ruling that is already rewriting the future of sports betting in our country. In its decision in *Murphy vs. the National Collegiate Athletic Association*, the Supreme Court struck down the 1992 federal law known as PASPA (Professional and Amateur Sports Protection Act), which had largely prohibited sports betting in the United States except in four states: Nevada, Delaware, Montana and Oregon. In its ruling, the high court noted that Congress lacks the authority under the U.S. Constitution to prevent state legislatures from legalizing sports betting.

With PASPA overturned, more states moved quickly to go live with sports betting. Delaware went live on June 5, allowing “full-scale” sports betting in casinos and more limited sports lottery in retail locations across the state. New Jersey quickly followed, going live with sports betting in casinos there on June 14. The governor in each state placed the first legal sports wager there.

Other states also are nearing the go-live point. The state budget making its way through the legislative process in June in Rhode Island included provisions to regulate sports betting there. Legislation also has been approved to allow sports betting in other U.S. states and is being discussed in scores more, including Iowa.

After the Supreme Court ruling, the Iowa Lottery heard from several of its largest retail organizations, who said that if sports betting were to be legalized in Iowa, they would want the option of offering it as a product in their locations. They believe that a variety of businesses in all counties should have the option of offering that form of entertainment to their customers, and that doing so could support local economies in rural and urban areas alike. That approach also would ensure variety and convenience in the locations that offer sports betting – a key element that experts cite in strategies to overcome the illegal black market.

The lottery shared with its retailers that while the decision ultimately will be up to Iowa lawmakers, sports betting is offered as a lottery product worldwide, so that same approach could be used here.

Currently, about 60 countries worldwide have legalized sports betting. Nine out of the 10 leading sports-betting marketplaces utilize lotteries to offer the product. In six of those (Japan, Hong Kong, Australia, Spain, South Korea and Austria) sports betting is conducted through the lottery and commercial casino operations. Worldwide, lotteries regulate 70 percent of sports betting.

The latest polling indicates that nearly 1 in 5 Americans bet on sports in the past year, and an estimated 28 million Americans say they would be more likely to wager on sports if sports betting were legal. Two of the most notable estimates of illegal U.S. sports betting come from the American Gaming Association (AGA), which estimates that marketplace at \$150 billion annually, and Ernst & Young, which estimates it at \$107 billion annually.



The entire illegal sports-getting market is never expected to transfer to a state-regulated site. For a variety of reasons, some consumers will simply choose to remain loyal to the illegal sources through which they already place bets. Also important is the fact that sports betting is a high-volume, low-margin form of wagering. The total “hold” – meaning bets minus winnings – in traditional, single-game sports betting is somewhere between 5 percent and 7 percent.

And, while legalized sports-betting in Iowa would allow a regulated form of gaming in which thousands of our state’s residents already participate, we should not expect that it would produce a huge income to the state of Iowa. Upon full deployment from a system with convenient sports-betting locations statewide, the experts say that revenue potential to the state would likely range from around \$1 million to \$6 million annually. That is again because sports betting is such a high-volume, low-margin form of wagering.

Experts also say that a ramp-up period would follow introduction of any state-regulated system for sports betting. That’s because consumers would need to become familiar with the new system, understand how to place bets through it and determine their level of interest. In general, estimates point to a five-year period before legalized sports betting would be fully deployed and embraced in a marketplace. So, revenue assumptions in the early years would need to be considerably curtailed. It’s also reasonable to assume that in the early years, the costs of the sports-betting operations would consume most if not all of the revenue potential.

Different states are utilizing different models when it comes to sports betting. That’s true of the businesses involved as well. For example, not all locations that have legalized sports betting offer the same selections. Some limit bets to just the big three – meaning those sports where the majority of gambling occurs: football, basketball and baseball. Other locations allow betting on a huge number of sports – from football out to tennis, boxing and golf.

Some locations allow an array of fast-paced, in-game betting, such as wagers on the outcome of the coin toss, whether the next play will be positive or negative yards, whether the next pitch will be a ball or a strike. Some locations don’t offer that many options.

Some U.S. states have limited sports betting only to casino locations. Others, such as Delaware that went live with it in June, have full-blown sports betting at casinos, and sports lottery, with more limited selections, at retail locations. The offerings involved are largely dictated by the type of business involved. For example, casinos can have large areas dedicated to banks of screens where customers can watch games and track the live spreads. Retail environments, which have many other business functions within their locations, would not have dedicated areas like that, and instead would serve the more casual bettor, someone who might place a quick bet while they’re out running other errands.

Already today, the lottery and casinos in general serve different customers. There is some overlap, but the two industries co-exist and have different player bases. The lottery believes that

would be the case with sports betting at casinos and sports lottery as well: They would co-exist, but with different player bases.

The money involved also would break down differently. If sports betting were offered as a product by the Iowa Lottery, then all of the revenues remaining after prizes and expenses were paid would be transferred to the state. If sports betting were operated by commercial casinos, then the remaining revenues after prizes and expenses would be subject to a state tax.

In locations where sports lottery is offered, bets are placed and printed from the same type of lottery equipment that already is in retail locations today. Sports bet slips (play slips) can be used, as can a lottery app to display electronic bets. Parlay betting – meaning bets that involve the outcome of more than one game at a time – also are likely to be involved.

The current provider of the Iowa Lottery's statewide gaming system of terminals, self-service kiosks and self-checkers is Scientific Games (SGI), based in Alpharetta, Ga. SGI is one of the largest providers in the world of games, equipment and services to both the lottery and casino industries. (SGI is the system provider to the Delaware Lottery that went live with sports betting in June.) Sci-Games' sports book for sports betting is William Hill, one of the world's largest sports-book providers.

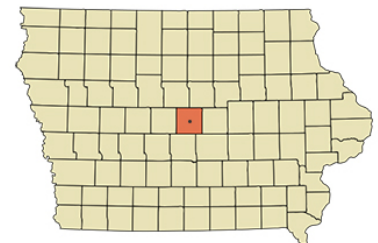
Given the expertise involved, the Iowa Lottery fully anticipates that its current system provider could allow the lottery to offer sports betting, and there are other large vendor organizations serving the lottery industry that also have that capability.

Ultimately, the decision as to whether sports betting will be legalized in Iowa and what exactly sports betting would look like if that were to occur is a decision for Iowa lawmakers. But from the technical capability perspective, the Iowa Lottery could definitely offer sports betting or sports lottery.

Because the lottery has heard from so many of its retailers about this matter, and because sports betting is such a big topic of discussion not only in this country but around the world, the Iowa Lottery Board during its June 20 meeting voted to direct the lottery to continue to explore sports lottery and its feasibility in Iowa. We at the lottery believe it is our responsibility to continue to learn all we can about sports betting/sports lottery so that we can help ensure that Iowa is best positioned on the matter.

\$1 Million Prize Still Unclaimed In Central Iowa

A \$1 million Powerball® prize is still unclaimed nearly three months after it was won with a ticket purchased in central Iowa. The Iowa Lottery is reminding players to double-check their tickets to see if they have the big winner.



The \$1 million prize was won in the Powerball drawing on April 11 with a ticket purchased at Casey's, 1800 S. B Ave. in Nevada. It came close to winning that night's \$89.7 million jackpot, matching the first five numbers but missing the Powerball. The winning numbers that night were: 16-18-27-55-67 and Powerball 18. The Power Play® number was 3. The Nevada ticket was the only one in the country to win a \$1 million prize in that night's drawing.

The winner or winners have until the close of business at 4 p.m. on April 11, 2019, to claim the \$1 million prize at lottery headquarters in Clive.

Players in Iowa have up to 365 days from the date of the drawing to claim prizes in Powerball, Mega Millions[®], Lucky for Life[®] and Lotto AmericaSM. Players have up to 90 days from the date of the drawing to claim prizes in the Iowa Lottery's Pick 3, Pick 4 and InstaPlay games. If the expiration date falls on a weekend or holiday when the lottery's offices are closed, the winner has until the close of business on the next business day to turn in the ticket.

IOWA LOTTERY AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Eleven Months Ending Thursday, May 31, 2018

	Month ended 5/31/2018	Month ended 5/31/2017	Year-to-date 5/31/2018	Year-to-date 5/31/2017
Operating revenues:				
Instant-scratch ticket sales	\$21,574,813.00	\$22,024,009.00	\$225,143,013.00	\$217,982,429.00
InstaPlay sales	793,620.00	904,594.00	8,725,074.00	5,211,794.00
Pick 3 sales	644,874.50	664,329.00	7,081,647.00	6,690,682.50
Powerball sales	4,061,965.00	4,874,424.00	55,366,547.50	49,153,247.00
Mega Millions Sales	1,368,487.00	892,479.00	19,555,359.00	13,685,044.00
Hot Lotto sales	-	792,008.00	3,761,425.00	7,467,295.00
Pick 4 sales	349,554.00	347,536.50	4,005,061.00	3,608,934.00
All or Nothing sales	-	260,741.00	-	2,939,862.00
Lucky for Life sales	505,158.00	460,652.00	5,180,164.00	5,163,868.00
Lotto America sales	718,678.00	-	4,218,684.00	-
Pull-tab sales	1,169,433.29	916,619.02	9,959,234.16	10,453,804.98
Application fees	375.00	150.00	3,475.00	3,500.00
Other	1,017.59	797.18	7,691.01	18,221.31
Total operating revenues	31,187,975.38	32,138,338.70	343,007,374.67	322,378,681.79
Operating expenses:				
Scratch ticket prizes	13,127,928.67	13,684,048.92	147,974,606.81	142,944,459.65
InstaPlay prizes	518,512.09	550,335.71	5,698,599.92	3,375,665.42
Pick 3 prizes	384,344.70	394,357.40	4,199,468.20	3,889,388.10
Powerball prizes	2,089,009.63	2,295,534.00	26,960,851.13	23,355,033.00
Mega Millions prizes	702,854.64	426,833.50	9,871,667.54	6,752,689.13
Hot Lotto prizes	207,057.68	387,262.00	1,791,335.18	3,635,797.50
Pick 4 prizes	146,017.40	206,491.90	2,319,121.60	2,128,915.40
All or Nothing prizes	60,941.82	155,199.91	(29,218.00)	1,737,517.34
Lucky for Life prizes	291,940.91	380,053.37	3,075,576.86	3,336,779.69
Lotto America prizes	359,339.00	-	2,109,342.00	-
Pull-tab prizes	731,547.38	573,940.72	6,225,456.81	6,532,689.75
VIP Club prize expense	6,500.00	3,000.00	164,448.44	237,570.70
Promotional prize expense	(12,958.90)	5,138.84	110,415.54	211,775.35
Advertising/publicity	748,812.78	625,085.32	6,646,413.95	6,037,110.08
Retailer compensation expense	2,054,844.11	2,095,363.72	22,402,285.68	20,948,415.65
Ticket expense	235,771.04	317,147.32	2,955,226.17	2,992,026.35
Vendor compensation expense	722,707.33	668,191.96	7,602,154.07	6,560,406.02
Salary and benefits	941,462.53	1,025,822.17	9,738,934.32	9,566,587.96
Travel	32,455.89	19,499.97	232,954.36	258,801.76
Supplies	18,087.05	9,651.57	96,599.96	94,474.90
Printing	-	120.60	10,087.74	3,201.90
Postage	255.26	249.37	5,323.37	5,569.68
Communications	11,923.92	12,810.92	151,692.59	138,986.12
Rentals	25,254.28	25,414.73	279,985.61	279,299.68
Utilities	4,533.16	5,424.03	83,143.74	78,667.88
Professional fees	12,526.64	11,191.03	146,091.40	146,151.81
Vending machine maintenance	21,192.00	37,045.59	274,985.33	489,239.62
Outside services and repairs	80,983.08	70,406.48	741,501.28	719,757.01
Data processing	9,468.70	9,351.44	85,050.04	108,775.73
Equipment	75,469.47	30,987.22	543,233.76	980,192.41
Reimbursement to other state agencies	40,363.80	57,418.12	389,890.15	397,841.21
Depreciation	44,258.05	46,006.19	501,228.54	415,082.56
Other	5,080.60	6,088.66	85,245.43	62,746.85
MUSL/Lotto administrative expense	659.11	12,840.75	7,297.01	141,681.03
Total operating expenses	23,699,143.82	24,148,313.43	263,450,996.53	248,563,297.24
Operating income	7,488,831.56	7,990,025.27	79,556,378.14	73,815,384.55
Non-operating revenue (expenses):				
Proceeds provided to State General Fund	(7,657,873.84)	(8,327,087.05)	(77,556,752.90)	(70,750,915.29)
Proceeds provided to Veteran's Trust Fund	-	-	(2,500,000.00)	(2,500,000.00)
Interest income	23,067.76	19,709.14	204,847.42	133,425.27
Gain (Loss) on disposal of capital assets	-	3,625.00	(139,571.99)	(726,000.06)
Net non-operating revenues (expenses)	(7,634,806.08)	(8,303,752.91)	(79,991,477.47)	(73,843,490.08)
Change in net position	(145,974.52)	(313,727.64)	(435,099.33)	(28,105.53)
Net position beginning of period	6,068,404.90	6,839,699.59	6,357,529.71	6,554,077.48
Net position end of period	5,922,430.38	6,525,971.95	5,922,430.38	6,525,971.95

Budget For Lottery Fund

	FY 2017 ACTUAL	FY 2018 BOARD APPROVED FINAL BUDGET	FY 2019 BOARD APPROVED FINAL BUDGET
<u>Resources</u>			
Lottery sales	352,242,810	334,420,000	338,300,000
Interest income	182,107	500,000	500,000
Application fees	3,600	5,000	5,000
Other	18,841	5,000	5,000
Total Resources	352,447,359	334,930,000	338,810,000
<u>Expenses and Change in Net Assets</u>			
Prizes	215,620,567	199,557,641	204,672,000
Retailer compensation	22,915,600	22,352,605	22,667,100
Advertising production and media purchases	6,591,778	13,356,800	13,532,000
Retailer Lottery system/Terminal Communications	7,387,578	9,489,381	6,521,491
Instant/Pull-tab ticket expense	3,272,386	3,928,000	3,977,250
Vending machines & maintenance/Ticket dispensers	1,384,720	508,500	531,928
Courier delivery of instant tickets	594,509	660,000	660,000
Lottery operating expense	13,379,294	15,270,127	15,367,308
Increase (decrease) in net assets	526,200	(447,275)	(237,100)
Total Expenses and Change in Net Assets	271,672,632	264,675,779	267,691,977
<u>Proceeds</u>			
Proceeds Transfer to General Fund	78,274,727	67,754,221	68,618,023
Proceeds Transfer to Veterans Trust Fund	2,500,000	2,500,000	2,500,000
Total Proceeds Transfers	80,774,727	70,254,221	71,118,023
Total Expenses and Proceeds	352,447,359	334,930,000	338,810,000

Lottery Operations - Budget Detail

	FY 2017 ACTUAL	FY 2018 BOARD APPROVED FINAL BUDGET	FY 2019 BOARD APPROVED FINAL BUDGET
Administrative payroll*	10,714,713	11,534,327	11,637,508
Travel	273,368	435,000	410,000
Supplies	77,856	105,000	105,000
Printing	3,202	20,000	20,000
Postage	5,817	7,000	7,000
Communications	253,908	186,000	186,000
Rentals	304,714	320,000	320,000
Utilities	90,824	101,000	101,000
Professional fees	191,334	259,500	259,500
Outside services and repair	202,040	341,500	419,000
Data processing	117,021	125,000	125,000
Equipment	189,281	696,200	494,200
Reimbursement to state agencies	427,884	506,000	506,000
Depreciation	460,967	547,600	691,100
Other expenses	66,365	86,000	86,000
Total operating expenses	\$ 13,379,294	\$ 15,270,127	\$ 15,367,308

* FY 2019 Proposed Final Budget for "Administrative Payroll" includes salary and benefit cost increases per DOM projections