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Terry E. Branstad · Governor

Kim Reynolds · Lt. Governor

Terry Rich · Chief Executive Officer

Departmental Background Memorandum

To: Members of the Iowa General Assembly and Staff

**From: Terry Rich, Mary Neubauer & Rob Porter
Iowa Lottery Authority**

Date: Nov. 17, 2014

Re: Proposed 2015 Code Change To Stabilize Lottery Proceeds To Iowa Veterans Trust Fund

The Iowa Lottery has raised proceeds for the Iowa Veterans Trust Fund (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, lottery proceeds to the IVTF have been on the decline for the past few years. 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. As part of its long-term business plans, the lottery is considering changes to its pull-tab product, which would also necessitate a change in Iowa Code language referencing 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. Lottery proceeds to the IVTF in individual years have varied, with overall results both higher and lower than that amount, 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.