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Terry E. Branstad · Governor  
Kim Reynolds · Lt. Governor  
Terry Rich · Chief Executive Officer

**AGENDA**  
**IOWA LOTTERY BOARD**  
**August 14, 2014 – Teleconference only**  
**1:30 p.m.**

- I. Call to Order
  - a. Approval of Minutes
  
- II. **Closed Session**
  - a. Personnel – VP - General Counsel Candidate Recommendation
  
- III. Open Session
  - a. Consideration of General Counsel Hiring
  
- IV. Adjournment

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**MINUTES  
IOWA LOTTERY BOARD  
June 30, 2014**

The Iowa Lottery Board convened at 10:30 a.m., Board Chairperson Mike Klappholz presiding.

Board members participating: Mike Klappholz, Herman Richter, Deb Burnight, Matt McDermott, Ying Sa.

Lottery staff present: Terry Rich, CEO; Brenda Nye, CFO; Mary Neubauer, Vice President External Relations; Teri Wood TeBockhorst, Vice President Marketing; Steve Bogle, Vice President Security; Jamie Shae, Sr Project Director/Board Secretary, Dave Van Compernelle, Assistant Attorney General.

Others present: Marian White, Department of Administrative Services, Brittany Telk, House Republicans; Darwin Danielson, Radio Iowa.

Chairperson Klappholz called the meeting to order.

Klappholz asked for a motion to amend the agenda moving Key Employee Merit Increases (agenda item V) before FY 2015 Budget (agenda item IV). Richter moved to approve the agenda change, McDermott seconded. Motion carried unanimously.

Klappholz then introduced Ying Sa as the newest member of the Iowa Lottery Board and introductions were made by all attendees. Ying Sa then introduced herself and shared information on her professional background.

**APPROVAL OF MINUTES**

Burnight moved to approve the April Board meeting minutes. Richter seconded. Motion carried unanimously.

**Quarterly Reports**

**Financial**

Nye stated that performance measures through May and Financials for March, April and May were included in the packet. Through May, sales were ahead of budget by over 7% and ahead of 5-year average by 11%. Proceeds through May exceed our total budgeted proceeds and are ahead of the monthly budget by over 19% and ahead of the 5-year average by over 6%. These proceeds numbers includes the \$3 million paid for the new building.

Rich handed out a consolidated financial overview (attached). Rich stated that FY13 was the largest reported (proceeds) year in Iowa Lottery history. Instant scratch ticket sales were huge due to the highly successful Game Book which sold out a 2-year supply in just 4 months. Rich said another factor in FY13's success was that there were three historic Powerball and Mega Millions jackpot runs, including the highest Powerball jackpot in history. Rich said that Powerball is drastically down this year and said Mother Nature and the bad winter impacted sales across the nation this winter. Rich said even with those factors the lottery still had another historic year.

Rich stated that the lottery is self-funded and for every dollar spent, the lottery has to sell \$4 to break even. Major expenses must be budgeted and anticipated during good times to provide promised budgeted numbers to the legislature. Rich stated that sales are about \$35 million more per year and proceeds are about \$10 million more per year than when he started at the lottery. Rich stated that he had a personal goal of a quarter of a billion dollars more in sales and \$76 million more in proceeds in

the years 2009-2017 and the lottery is on target. Rich went on to say that last year the Iowa Lottery had a record year with increased proceeds by 40% over the original goal.

Looking ahead, Rich said, the lottery budgeted \$293 million in sales and it is estimated that sales will reach \$310 million with \$74-75 million in proceeds to the state. This number includes the \$3.5 million each year for the new building expense. The building transition is anticipated to be on-budget and completed by the end of calendar year 2014.

Rich stated the lottery feels good about the proceeds tide being raised and believe the lottery is in healthy times which allowed the lottery to pay cash, rather than long-term debt, for the needed building infrastructure and still meet and exceed budgeted goals for the state of Iowa. Rich said this should put the lottery in a solid financial position for years to come.

Rich concluded that the lottery will be recommending that the FY2015 budgeted proceeds sent to the state for good causes be increased by 10%.

Ying Sa asked what kind of technical background the lottery uses to determine the upcoming budget. Rich stated that the philosophy has been to look at the previous five years and the proceeds budget is raised 1% each year. Sa asked when the budget is completed each year and Nye stated that a preliminary budget for the following two years is presented in the fall to the board and then again in the spring. Sa then asked about the profit margin and how expenses are broken down. Rich stated that 62-63% goes to prizes, 6-7% goes to retailers, 8% is overhead operating expenses, and 2% goes to the online vendor. Rich stated the profit margin averages between 22-25%.

McDermott asked what the raffle game was and Rich stated that the Halloween Raffle was a one-time game held with multiple states.

Klappholz commented on the accomplishments of the lottery being able to increase the proceeds budget each year. Rich stated that being an authority has allowed the lottery to make decisions quickly which translates to more dollars for the state.

### **Marketing**

Wood stated that the Mike's Picks promotion with Antique Archeology ran from April 3 through June 30. This was a Play It Again promotion, where players could win a basket of Mike's "picks", a trip to Antique Archeology in LeClaire, Iowa or a trip to Antique Archeology in Nashville. Over 2,000 new members joined the VIP Club during this promotion and over 56,000 entries have been made with 7 of the 9 top prizes being won. Over 1 million tickets were printed and over 939,000 have sold, indexing at 138. Wood then stated that the summer promotion, Sun Time Fun Time, will launch July 7. Four tickets, designed by an internal lottery staff member, will be eligible to Play It Again in the VIP Club. The tickets are considered a family of games and are called 5x, 10x, 15x, and 20x The Money. The prizes in this promotion are a 16-foot pontoon boat, a 16-foot fishing boat, a pop-up tent camper and 10-\$500 cash prizes, all procured through an Iowa vendor. This promotion runs through September 2.

Wood then stated that Iowa Lottery will be the opening day sponsor at the Iowa State Fair this year and will not have a booth. Fair staffers will be giving away All or Nothing tickets at the gates along with some merchandise (must be 21 or older). At 9am on opening day on Expo Hill the lottery will be giving away a prize package which includes tickets to the sold out Lady Antebellum show. The lottery has teamed up with 12 radio stations around the state to give away 24 additional packages. Wood stated that marketing is also working on the new national game, Monopoly Millionaire, which will launch October 19 and has started working on the holiday promotion, called 12 Weeks of Winning Wishes.

Wood stated that the biannual attitudinal research has concluded and that information will be coming out later this week. Wood added that the contract with the research firm is complete and the lottery will be going to RFP for a research firm.

Burnight asked to hear more about the attitudinal research. Wood stated there are two phases done every other year. This year a telephone survey and focus group survey was conducted to tell us what players think about the games we offer. On the opposite years the research is done with retailers.

Sa asked if the lottery is a sponsor to the fair or a vendor. Wood replied that, in cooperation with the fair, the fair offered the lottery the opportunity to sponsor opening day at the fair.

### **Security**

Bogle stated the reports from April and May are included in the packet. Sa asked what "Employee Theft" meant and Bogle stated it's typically retailer employee theft of lottery products and the lottery investigators work with law enforcement on criminal charges. McDermott asked what "Other" represented and Bogle said he would need to check the database. Bogle said the investigators sometimes do reconstruction of tickets, work with law enforcement agencies almost daily, work with Alcohol and Beverage Distributors (ABD) when retailers sell liquor to those who are underage, and complete compliance checks where investigators cash in live tickets to see if retailers handle the transaction properly. Over 60 compliance checks were completed in April but this varies month to month. Bogle stated that the investigators also do a meet-and-greet for new retailers and follow up on complaints of retailers.

### **Legislative**

Neubauer stated that the lottery had recently worked to change an administrative rule that was approved by the board back in December. The rule change was prompted by a retailer who had self-reported the sale of a lottery ticket to a minor. That resulted in the suspension of that retailer's license due to the verbiage in the administrative rule which stated their license "shall" be suspended. The lottery had no choice and therefore sought to change the rule to give the lottery discretion to suspend in such a case. Neubauer stated that there is a double approval process involved in changing an administrative rule, which is designed to give the legislators, public and the board ample opportunity to be aware. In February, the rule change went before the Administrative Rules Change Committee and there were two comments; one was positive in that the rule change aligns with the law, the other comment was that the rule change would give the lottery too much discretion. In April, the board voted to change the rule from "shall" to "may" and on June 10 Bogle and Neubauer appeared before the Administrative Rules Change Committee yet again. On June 18<sup>th</sup> the rule change took effect.

Neubauer then reported on the federal internet gambling topic stating that there are two bills in congress on different types of internet gaming with regulation at the federal level and now another bill has been introduced to outlaw all types of internet gaming with enforcement at the federal level. Groups representing state legislators and governors have sent letters to congressional leaders citing that internet gaming is a states' rights issue. Neubauer said that although these bills haven't moved, the lottery is closely watching any progress. Neubauer stated that in the oversight report she will be submitting later that day, she has included copies of the letters sent to congressional leaders. Rich stated that Neubauer will be sending the board members a copy of the oversight report for their review.

McDermott moved to approve the quarterly reports. Burnight seconded.

Steve Bogle then commented on the "other" category in the Security report that McDermott inquired about, stating that the lottery investigators are providing unique assistance to a law enforcement agency in an on-going criminal investigation. Providing any more details could compromise that

investigation as well as similar investigations that may be done in the future. Any update would have to be done in a closed session.

Motion carries unanimously.

### **Real Estate Update**

Rich stated that the project and move to 13001 University Ave is on track and on budget. Rich then went on to say that the Des Moines Public Schools has approved the purchase of 2323 Grand Ave. for \$1.6 million. The board previously approved selling the building and Rich asked the board to approve the purchase price of \$1.6 million less real estate and agreed-to closing costs.

Richter moved to approve, McDermott seconded.  
Richter thanked Marian White for all her hard work.  
Motion carried unanimously.

### **Key Employee Compensation**

Terry Rich reported that it has been policy to follow state of Iowa in terms of increases for key employees. Rich asked the board to approve the first four points set forth by the State of Iowa for non-contract employees, which includes 1% increase July 1, 2014, 1% increase on January 1, 2015, a step increase where appropriate and key employees paying 20% of their healthcare coverage costs.

Burnight moved to approve, McDermott seconded.

Klappholz stated that with the medical coverage increases it's a wash for many staff. Rich added that employees also will lose the 2% from FY2014, and then will get another 1% of their new base pay, if they had a merit increase. Rich stated there is no increase in the actual range. Sa asked about the percentage allocation and Rich confirmed that key employees pay 20% of medical coverage, the state covers 80%. Rich added that there was an additional \$24 million to the state last year and commended the key employees for their hard work and dedication.

Motion carried unanimously.

### **FY2015 Budget**

Nye reported that the preliminary FY15 Budget was approved by the board last September. The budget has been updated for anticipated changes including:

- Proceeds from the sale of the current headquarters building
- Maintenance and utility costs during the transition to the new building
- Sales from a new multi-state game
- Projected salary and benefit increases. Total FTEs remain the same but have been re-allocated to better serve the changing needs of the Lottery.

Nye stated that this budget includes \$3.5 million in payments and expenses to complete the purchase of the building in Clive. Once those payments are complete, the Lottery will own the building in Clive with no debt. Proceeds are budgeted at \$68.7 million which is a 10% increase over FY14 budgeted proceeds.

Rich added that there were 10 more full time employees in 2009 than there are today. Rich pointed out that the lottery is bringing more money to the state with fewer employees. Sa asked if retirees are an accrued liability and Rich stated that the lottery paid off all five years of the early retirement payments in the year the employees retired, whereas the State of Iowa is still paying off the 5 year retirement plans

McDermott asked where the interest income comes from and Nye responded that the \$500,000 is budgeted so that the lottery can utilize the prize reserve with MUSL. McDermott then asked why it's so much lower this year and Nye stated that \$110,000 is the actual interest earned on cash held with the Treasurer's Office and any interest income utilized from the prize reserve fund. The \$500,000 is just what the lottery has earmarked for 2015. Rich pointed out that advertising expenses are budgeted at 4% but only 1.9 – 2.2% is used. Sa asked if Rich believes that sales would continue to grow and if it's related to the recovering economy and Rich responded that sales are related to the economy but that it's a balance of game diversity and growth, social responsibility and integrity. Sa then asked if the Iowa Lottery benchmarks against other state lotteries and Rich stated that the lottery would benchmark against other states with a similar per capita, which is mostly midwest states. Sa asked if there was an organization for state lotteries and Rich confirmed that the lottery is included in the National Association of State and Provincial Lotteries activities and that Rich will be the Vice President this year and President of NASPL next year.

Richter commented on the transparency and integrity of the lottery and Rich stated that besides financial, transparency is a top goal of his.

McDermott motioned to approve budget. Sa seconded.  
Motion carried unanimously.

### **UPS Extension**

Rich stated that the UPS extension is for the courier service and asked the board to approve the extension.

Richter moved to approve. Sa seconded.  
Motion carried unanimously.

### **WLA**

Rich stated the lottery would like to send one delegate to the WLA conference in Rome, Italy in November. Rich stated that typically two employees are sent to the WLA conference and asks the board to approve to send one employee and approve travel expenses only for a second employee, if a scholarship is awarded to that employee.

McDermott moved to approve. Burnight seconded.

Richter added that attending these conferences is critical for knowledge and networking within the lottery industry. Rich added that the lottery typically sends employees every two years.

Motion carried unanimously.

### **CEO Update**

Rich stated that the National Game has been approved and rules will be sent to the board to review. The scheduled start date is October 19. This is a new product, a \$5 multi-state lotto game, and will be exciting for players. Now that California has joined Powerball and Florida has joined Mega Millions there are 45 participating states in both games. Powerball is run by MUSL, which is located in Urbandale, Iowa. Rich has accepted the national marketing role for Powerball and the new national game with the goal to ensure that Iowa and other small states are well represented.

### **Election of Officers**

Klappholz stated that the members rotate the Chair and Vice Chair positions on the board each year. McDermott moved to nominate Herman Richter as Chair. Burnight seconded. Motion carried unanimously.

Klappholz stated that takes effect July 1.

Burnight moved to nominate Matt McDermott as Vice Chair. Sa seconded. Motion carried unanimously.

Burnight moved to adjourn. Richter seconded. Motion carried unanimously.

Meeting adjourned at 11:45am.