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

**AGENDA**  
***IOWA LOTTERY BOARD***  
**October 20, 2015 – Teleconference only**  
**2:30 p.m.**

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

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**MINUTES**  
**IOWA LOTTERY BOARD**  
**September 29, 2015**

The Iowa Lottery Board convened at 10:01 a.m., Board Chairperson Matt McDermott presiding.

Board members participating: Matt McDermott, Mike Klappholz, Mary Rathje, and Connor Flynn (in-person) and Ying Sa (via teleconference).

Lottery staff present: Terry Rich, CEO; Larry Loss, EVP; Brenda Nye, CFO; Mary Neubauer, VP External Relations; Teri Wood TeBockhorst, VP Marketing; Rob Porter, VP General Counsel; Steve Bogle, VP, Security; Jamie Shae, Sr Project Director/Board Secretary.

Others present: Dave Berger, Scientific Games; Darwin Danielson, Radio Iowa; Brian Guillaume, House Democratic Caucus Staff; Terry Brown, Lottery Procurement.

Chairperson McDermott called the meeting to order and announced the meeting would be held via teleconference in accordance with Iowa Code section 21.8.

Flynn moved to conduct the meeting by teleconference and Rathje seconded. Motion carried unanimously.

**Approval of Minutes**

Klappholz moved to approve the June board meeting minutes. Flynn seconded. Motion carried unanimously.

**Quarterly Reports**

**Financial**

Nye reported that fiscal year 2015 concluded with nearly \$325 million in sales led by record sales of instant-scratch tickets at nearly \$212 million. Nye stated that proceeds for the year totaled \$74.5 million, the fourth-highest annual amount for the lottery since its start in 1985. Nye pointed out three new line items in the Statement of Net Position, due to the implementation of a new accounting requirement known as GASB 68: Deferred Outflows of Resources, Net Pension Liability and Deferred Inflows of Resources. The Governmental Accounting Standards Board (GASB) standard requires state and local governments that provide their employees with pension benefits to include their proportionate share of net pension liability as determined by an actuarial valuation. Several new footnotes will be included in the audit report. Nye stated that in this first year of implementation, a prior period adjustment of \$5,271,391 was made to the beginning net position which represents the Lottery's portion of the total unfunded net pension liability at June 30, 2014, as adjusted. The net effect on proceeds for FY15 was \$345,227.

Ying Sa joined the meeting via teleconference at 10:05am.

Nye stated that a new actuarial valuation will be calculated each year.

Nye presented the Out-of-State travel summary for conferences and training, noting that the board must approve travel outside of North America. Nye stated that the board

approved Larry Loss and Mary Neubauer to travel to Rome for the World Lottery Summit at the June 30, 2014, board meeting. Terry Rich added that Mary Neubauer had won a scholarship and therefore most of Mary's expenses were paid for by the WLA.

Nye stated that performance measures through August are in the packet along with the July and August financials, which show sales ahead of budget by 3% and proceeds slightly ahead of budget.

Sa stated that she, Brenda Nye and Andy Nelson from the State Auditor's Office met the previous week and went over the financials in depth. Sa then led a discussion about the type of travel information included in the annual travel report. Board members ultimately concluded that no changes to the report will be made.

Flynn moved to approve, Rathje seconded. Motion carried unanimously.

Sa left the board meeting at 10:32 a.m.

### **Marketing**

Wood reported that the 30 Somethings promotion concluded successfully and ticket sales were impressive. Immediately following that promotion was a 30-Day Ticket Give-Away where a free Mega Millions, Hot Lotto or All or Nothing ticket was awarded to surprised lotto purchasers. Wood stated that the Powerball Refresh is set to launch Sunday, October 4 followed by the launch of the holiday promotion on Monday, October 5. The holiday promotion is called Holiday Hoopla and will have a total of 78 winners of \$500 cash and 48 winners of two suite tickets to the men's college basketball tournament in March in Des Moines at Wells Fargo Arena. Wood said point-of-sale materials will be in the stores starting Monday with television and radio ads starting in November.

Wood stated that TV ads highlighting lottery proceeds to the Iowa Veteran's Trust Fund have been refreshed and can be found on YouTube. These spots feature a veteran and the wife of a veteran who previously appeared in lottery veteran's commercials.

Flynn moved to approve the marketing report and Klappholz seconded. Motion carried unanimously.

### **Security**

Bogle stated that the Security reports are included in the packet and added that lottery investigators were able to reach 24% of lottery retailers for compliance checks during the fiscal year and very few issues were found. Investigators also worked on 82 criminal cases in FY15. Bogle stated retail employee theft cases are the majority of the criminal cases.

Rathje moved to approve the security reports and Flynn seconded. Motion carried unanimously.

### **Legislative**

Neubauer stated that the lottery's vending machines are ten years old and are in need of replacement. Pull-tabs are sold exclusively in Iowa through vending machines in about 800 locations and instant-ticket vending machines supplement sales at the counter for about 260 retailers.

Neubauer stated that, with advances in technology, the newest self-service machines – including lottery vending machines – now utilize touch screens. New vending machines available to lotteries today create a complication with Iowa law. Because the vending machines have a touch screen, they meet the legal definition of a monitor vending machine, a program that was known as TouchPlay when it was in operation. Code language passed in 2006 defines monitor vending machines and prohibits their operation in 99G.3(7), 99G.3(9) and 99G.30A. Neubauer added that the lottery is not seeking to alter the TouchPlay sections of Code, but instead proposes adding a new section to the Code to define lottery self-service kiosks and allow their use in Iowa. Neubauer then demonstrated the self-service kiosks. Rich stated that self-service machines cost more than the machines being used today therefore fewer machines will be in the field and will be placed in retailers with the highest traffic.

Flynn asked if the lottery would lease the machines and Rich stated that purchasing and leasing options will be explored. Porter added that these machines will be leased or owned by the lottery and not privately owned, like the machines that were outlawed. Flynn asked if there was anyone who would be opposed to the self-service kiosks and Neubauer stated she wasn't aware of anyone who would be opposed but the complication is that TouchPlay must be referenced and could be considered controversial.

Neubauer went on to talk about the public art project underway at lottery headquarters, stating that Dennis Reynolds and TJ Moberg proposed a 4-leaf clover concept several months ago and have since presented images of where the clovers will be installed on the lottery's property along with images of the proposed clovers. Neubauer stated that some clovers will be 4-5' in diameter, others will be 2-3' in diameter, and smaller ones will be 18" and scattered about the property. Neubauer said once the clovers are installed, the lottery anticipates that people will want to come see them and perhaps take their picture with the clovers. The proposed clovers are: a copper clover - when people touch it for good luck the patina will change over time; a 5-leaf clover to represent the 5 branches of the military and our efforts to support the Iowa Veteran's Trust Fund; a '3 leaf, I mean 4 leaf' clover to represent people creating their own luck; a clover made from an old school bus representing proceeds from the lottery to the General Fund and therefore education; and a clover with a collage of lottery winners printed onto it. The smaller ones will vary in creativity and color. Neubauer said the clovers are scheduled to be installed by the end of October.

Rathje moved to approve the legislative report, Klappholz seconded. Motion carried unanimously.

### **Legal**

Porter stated that MUSL employee Eddie Tipton went to the trial in July 2015 for his role in seeking to defraud the Iowa Lottery and to claim a disputed Hot Lotto jackpot, which Iowa Lottery subsequently refused to pay in 2012. Tipton's trial lasted over a week and he was convicted on both counts of fraud and sentenced to ten years in prison; with two 5-year sentences to be served consecutively, along with a \$2,000 fine. Porter stated that Tipton appealed immediately and bonded out, pending appeal. This now moves to the appellate court and the lottery will continue to support the Attorney General's Office. Porter stated that Robert Rhodes from Houston, Texas, was also charged for his role in the fraud but

Rhodes has been fighting extradition from Texas. Porter stated that this is all under the control of Texas authorities but believes Rhodes has lost his fight and the timeframe for appeal has passed. Rhodes is expected to face his charges in Iowa. Porter thanked the Attorney General's Office and Iowa Division of Criminal Investigation for their efforts in pursuing this case. Porter also thanked lottery employees who have dedicated substantial efforts on the case, such as Kathy Cubit and Steve Bogle, along with numerous others. Porter stated that although the board meeting agenda says "Hot Lotto Wrap up," the efforts and support on this case will continue. Klappholz thanked the DCI, Attorney General and lottery staff who worked on the case and acknowledged the number of hours put in. Rich thanked the members of the Iowa press for correctly identifying Tipton as someone who once worked at a vendor organization within the lottery industry.

Klappholz moved to approve the legal report, Rathje seconded. Motion carried unanimously.

### **Lucky for Life**

Loss stated that Lucky for Life is a lotto game that is currently sold by 16 U.S. lotteries. This game was first previewed with the board during the December 2014 board meeting but further discussion was tabled. The game was started in 2012 by six New England lotteries. Ten additional lotteries joined the game on January 29, 2015. Loss stated that LFL is a \$2 game with 10 prize levels and a top prize of \$7,000 per week, or \$1,000 per day. The secondary prize is \$25,000 per year for life. Loss stated that Lottery employees are not eligible to play.

Loss stated that Iowa, Wisconsin and Minnesota conducted focus groups for games with for-life prizes and Lucky For Life received the highest score. The New England lottery group is offering licensing opportunities for this game and Loss compared that to the Mega Millions licensing agreement currently in place. Loss stated that the Iowa Lottery needs to sign a participation agreement, in which three amendments have been made by other lotteries. Loss stated there is also a sublicense agreement that allows Scientific Games to take the necessary steps to get the game on the terminals. Loss said the lottery's legal team has reviewed the agreements and anticipates sales starting January 24, 2016. \$3.5 million in sales is projected in FY16 and \$7 million for FY17. Loss stated the packet includes the budget for this game.

Loss asked the board for approval for the Iowa Lottery to move forward with the Lucky For Life game. Flynn asked what the projected net income is and Loss stated 40% of sales. Rich added that the lottery is trying to expand the price points of lotto games that is has available and offer more regional games.

Loss stated that the game's top prize is paid out for the natural life of the winner and the winner has an option of taking cash up front versus payments over time. Loss added that if a group bought a ticket the prize automatically defaults to a cash amount. Loss added that there is a minimum of twenty years of payouts, regardless of the winner's age.

Klappholz moved to approve Iowa Lottery's participation in the Lucky for Life game. Flynn seconded. Motion carried unanimously.

### **Instant Ticket Printing Extensions**

Loss stated that the initial RFP for Instant Ticket Printing and Related Services went out in March of 2012, and on May 31, 2012, the Iowa Lottery Authority Board approved a notice of intent to award, subject to the DCI investigation, to GTech Printing which is now IGT, Pollard Banknote Limited and Scientific Games, Inc. The original contract term was January 1, 2013, to December 31, 2014. On September 23, 2014, the board approved the first extension on the contract. There are three extensions still available. Loss stated one of the goals of the RFP was to be able to utilize all of the potential products that are available from various vendors.

Loss added that instant-ticket sales have increased from \$188 million to \$212 million annually since utilizing all three vendors. Loss stated that the value of IGT's contract was \$102,000, Pollard Banknote was \$1.3 million and Scientific Games was \$1.1 million. Loss stated that approval is being sought from the board to exercise the second extension available in the contact, which would extend the contract through December 31, 2016.

Rathje moved to approve the extensions and Flynn seconded. Motion carried unanimously.

### **On-line Gaming System Contract Extension**

Porter stated that the on-line gaming system contract is the largest and most complex contract the lottery has. The RFP for the on-line gaming system was issued in summer of 2010 and the contract was awarded and started July 3, 2011. The current contract runs through July 2, 2018, and also provides three one-year extensions. Porter stated that the lottery is pleased with Scientific Games and that the vendor has proven to be a capable business partner and perform many functions. Porter stated that Scientific Games has been a factor in Iowa Lottery's success over the last several years. Porter clarified that that on-line game system is the system used for checking and validating tickets and allows the use of terminals at retailer locations.

Porter asked the board to approve the first extension, which runs from July 3, 2018, through July 2, 2019. Porter noted that, if approved, the extension would allow the waiver of two different types of claims; 1) any claims from Scientific Games against the Iowa Lottery for ending the Monopoly Millionaire's Club game and 2) any claims the Iowa Lottery would have against Scientific Games for limited system outages that occurred prior to June 30, 2015. Porter stated the compensation to Scientific Games under the current agreement is 2.1395% of on-line sales but during the extension period the cost is decreased to 1.5%. Porter then asked the board to approve the extension. Loss added that the RFP process for this type of contract generally takes about three years to develop and award due the time needed for research, writing the proposal, demonstrations, and transition.

Flynn asked what is typical in regards to extensions and Rich stated that typically all extensions are exercised unless new technology comes out. Flynn asked if Scientific Games always held this contract with the Iowa Lottery and Loss stated that both GTech (now IGT) and Scientific Games have provided the lottery with that service. There was then a brief discussion on the lengthy and costly process of this type of RFP. Rathje asked how far into the future all available the extensions would take the lottery and Porter stated July 2, 2021. Flynn asked if there was any advantage to extending all three years of the contract and Klappholz commented that the lottery would lose flexibility to end the contract should that

occur. Porter added that there would be no benefit in that decision other than the certainty of knowing exactly when the RFP will need to be done.

Flynn moved to approve the contract extension and Klappholz seconded. Motion carried unanimously.

### **FY17 Budget**

Nye stated that the Board approved the FY16 and FY17 budgets in September 2014 and the FY16 Budget was brought to the Board for final approval in June just before fiscal year 2016 started. Nye said the amendment adjusts the original budget for salary and benefit increases that have been approved for the AFSCME contract and adjusts other line items to more closely align with the FY15 actual expenses. Nye asked for approval of an amended FY17 Budget.

Rathje moved to approve the budget and Flynn seconded. Motion carried unanimously.

### **CEO Update**

Rich recognized the years of hard work and efforts of the General Manager of Scientific Games, Dave Berger, and presented him with the NASPL Powers Award he had been awarded earlier in the year in recognition of his support to Iowa Lottery.

Rich then noted that Larry Loss had received the Peter J .O'Connell Lifetime Achievement Award for his years of service in the lottery industry and with Iowa Lottery specifically.

Rich then recognized Steve Bogle for his long public-service history as well as his service at the Iowa Lottery. Rich stated that Bogle has accepted a position outside the lottery and his last day with the lottery will be Sept. 30. Bogle stated that as of Oct. 1 he will become the Director of Corporate Security and Resiliency with MidAmerican Energy. Bogle stated he's excited to put his extensive experience to use there and has enjoyed the people and his time at the lottery.

Rich then stated that in relation to the Internet gaming bills that have been introduced in Congress, it appears that the states' rights issue has prevailed thus far. Rich stated that Iowa Lottery will continue to work with the Legislature, Governor and casinos on a gaming policy in preparation for online gaming, although there are no plans currently to launch online gaming.

Terry Brown joined the meeting and Rich introduced him. Brown stated he previously worked for Homeland Security for 14 years managing their procurement and taking care of disasters throughout the state. Rich stated that Brown is now handling the lottery's procurement and also taking care of the facilities management. Rich thanked Brown and Brown then left the meeting.

Rich talked about a suspicious app called JackPocket that is getting some attention. Rich stated that players can add money to the app then someone buys lottery tickets with that money similar to a courier service but is believed to be illegal. Rich stated that New York Post had published an article about it and the New York Lottery states they have not authorized this app. Rich said this situation will be watched closely.

Rich stated he has enjoyed his time as the NASPL President, speaking at events throughout the United States, and that his final trip as the NASPL President will be to Sweden in October. Rich said he also served on the MUSL Board as the Marketing Chair for Powerball and said his committee came up with the new Powerball commercials and marketing materials that just came out with the Powerball change.

Rich stated that other state lotteries have several layers to get through to reach their Governor but Dr. Ed Stanek set up the Iowa Lottery as an Authority rather than an Agency which allows the Iowa Lottery to determine its budget and have flexibility to do things other states/state agencies can't. Rich stated this his personal goal was to give the state \$100 million more in proceeds than the average of the eight-years prior to his start with the lottery. Rich stated he feels comfortable that will be accomplished.

### **Adjournment**

Klappholz moved and Rathje seconded. Motion carried unanimously.

Meeting adjourned at 11:57am