



Debbs Potts Oregon State Lottery Commission Building
500 Airport Road SE
Salem, OR 97301

OREGON STATE LOTTERY COMMISSION MEETING JULY 24, 2009

Lottery Commission Commissioner Steven Ungar, Chair
Commissioner Bill Ihle, Vice Chair
Commissioner Pamela Fogg
Commissioner Amy Lowery
Commissioner LeRon Howland

Lottery Executive Team Dale Penn, Lottery Director
Larry Niswender, Assistant Director for Support Services
Tim Eaton, Assistant Director for Retail Operations
Carole Hardy, Assistant Director for Marketing
Major Craig Durbin, Assistant Director for Lottery Security

Lottery Staff Present Cornell Balagot, Product Development Manager
Pat Bouchie, Human Resources Business Process Manager
Sarah Castner, Assistant Attorney General, Department of Justice
Linda DeBlasio, Senior Executive Assistant for the Commission
Jean Gabriel, Finance Reporting & Analysis Manager
Steve Green, Senior Manager, Retail Operations
Tiffany Griffiths, Administrative Assistant, Retail Operations
Mark Hohlt, Rules and Policies Manager
Brandi Hurtado, Executive Assistant for Marketing
Jason Levine, Law Clerk Intern, Rules & Policies
Mary Loftin, Public Affairs Manager
Marianne Manning, Retail Sales Support Manager
John Margaronis, Chief Information Officer
Kathy Ortega, Chief Financial Officer
Louise Plata, Traditional Product Manager
Jolene Richards, Executive Assistant for Retail Operations
Nancy Rivera, Executive Assistant for Support Services
Laura Sofro, Marketing Research Manager
Keri Stocks, Materials Manager
Brian Sullivan, Marketing/Communications Manager
Sharon Tietsort, Human Resources Manager
Larry Trott, Senior Public Affairs Specialist
Valerie Wicklund, Chief Internal Auditor

Others Present Russ Harben, GTECH
Bob Klingman, GTECH
Bill Perry, Oregon Restaurant Association (ORA)
Grover Simmons, Independent Employer Association

Note: Oregon Lottery® (Oregon Lottery)

COMMISSION MEETING

The July 24, 2009, Oregon Lottery Commission Meeting was called to order by Vice Chair Ihle. The Vice Chair noted for the record that Commissioner Howland was previously

excused from today's meeting and that there was a quorum present. Chair Ungar arrived at the meeting while in progress. Commissioners present for the roll call: Commissioner Lowery, Commissioner Fogg, and Vice Chair Ihle.

A. MINUTES OF THE PREVIOUS MEETING

Presenter: Vice Chair Ihle

Vice Chair Ihle noted that the draft minutes of the previous meeting were sent to the Commission for review in advance of the meeting (*Exhibit #1*). Vice Chair Ihle requested comments, if any; no comments or changes were made to the record.

Commissioner Lowery moved that the minutes of the Oregon State Lottery Commission Meeting held on June 26, 2009, be approved as final as presented today. Commissioner Fogg seconded the motion. The motion passed by a quorum vote, 3-0.

B. GOVERNANCE MATTERS and DIRECTOR'S REPORT

Presenter: Director Penn

DIRECTOR'S REPORT

Oregonian Article

Director Penn relayed a recent article in the *Oregonian* where a man stealing lottery games was sent to prison and ordered to pay \$10,000 restitution. Director Penn mentioned the article because it quoted the Deputy District Attorney saying, "*The scheme may have seemed easy, but the Oregon Lottery has safeguards that alert Lottery officials when purchases fall outside of normal ranges. It didn't take authorities long to figure out something odd was happening in both businesses.*" It was a very positive comment to see in the paper in terms of Lottery's safeguards and its integrity and game security.

Certificate of Achievement for Excellence in Financial Reporting

The Lottery was notified recently that it had received the *Certificate of Achievement for Excellence in Financial Reporting* for its *Comprehensive Annual Financial Report (CAFR)* for the *Fiscal Year Ended June 30, 2008*. This is the first time Lottery's Finance & Accounting Department had applied to the Government Finance Officers Association of the United States and Canada for evaluation of the Lottery's CAFR. The Lottery will receive the certificate and a plaque in honor of this award. It is unusual for an organization to receive this award the very first time it applies. All categories are individually judged and the Lottery received the highest grading of "proficient" in all 14 categories.

Director Penn and the Commission acknowledged this award as a great accomplishment for the Lottery as well as Finance & Accounting. Director Penn recognized key Finance & Accounting staff for this achievement: Kathy Ortega, Chief Financial Officer, Jean Gabriel, Financial Reporting and Analysis Manager, and Martha Wildfang, Senior Financial Analyst, as well as the other members of the section.

Portland International Airport – Lottery Kiosk

Director Penn gave an update on the Lottery kiosk at the Portland International Airport. Challenges are being met and everything is proceeding toward opening the kiosk on schedule.

Rulemaking Process – Commission Rates

Director Penn stated that the public rulemaking process has started which will ultimately establish a new retailer contract with commission rates for Video LotterySM and Traditional product sales. The new contract takes effect in June 2010.

A Notice of Rulemaking was filed and a public hearing scheduled on August 18, 2009, at the Salem Armory Auditorium at the State Fairgrounds. The acceptance period for written comments will remain open until October 16, 2009. The first opportunity for the Commission to have a public discussion and to adopt a rule for the terms of the new contract will be at the October 30, 2009 Commission Meeting. The next opportunity will be at the November 20, 2009 Commission Meeting. Public comments, verbal and in writing, will be summarized and shared with the Commission. Following rule adoption, the new six-year contract will be printed and Lottery representatives will have about six months to contact approximately 3,500 retailers for signature.

The Lottery expects the new Retailer Contract, and more specifically the Video LotterySM commission rates, to generate a lot of publicity in the next few months. Director Penn shared some history on the Video LotterySM commission rates. In 2004, at the end of the last six-year contract, the commission rate went from 32 percent to about 28 percent. In 2005, the rates were further reduced to 25 percent. With the addition of line games and the adoption of the "Look Back Rule," rates were lowered to about 23 percent. In 2008, sales were a bit higher, and the average commission rate was 23.5 percent. This year sales have been lower due to the smoking ban and the economic downturn, but overall the average commission rate remained at 23.7 percent.

Details will be provided to the Commission on the Public Rulemaking Hearing, as they become available. Director Penn encouraged the Commission to attend if possible.

Lottery Sales

In fiscal year ended June 30, 2009, even with the economic challenge and the smoking ban, the Lottery's unaudited revenue figure is about \$1.1 billion for the state's biennium. For the 4th year in a row Lottery has transferred over \$1 billion to the state per biennium. Unfortunately, our 10-year run of record sales has ended due to lower sales this year compared to last year's all time record.

The Lottery met all funding obligations of legislatively adopted budgets for state programs in the biennium. The Lottery was also able to reserve funds for Spielo game changes that were purchased last fiscal year and for building expansion.

Economic Impact in the Industry

Consumer spending has experienced turbulent times in the last year. Some people believed that gambling was recession-proof which was not the case. The State of Nevada has reported revenue down an average of 8.3 percent. The Washington Lottery has reported revenue is down by six percent. It has been a somewhat consistent message nationwide.

One illustration of the downturn is the recent announcement at the Rhode Island Lottery. The Rhode Island Lottery operates casinos that produce funds for state services. A press release from Rhode Island stated that, in an effort to turn around a 10 percent drop in revenue in casino operations, they are implementing a 90-day program where they will be giving away \$300,000 per month of free play at their casinos.

The Oregon Lottery has the unique challenge of coping with current economic conditions plus the negative impact from the smoking ban. Sales remain about 20 percent less per week. Nevertheless, the Lottery is still very positive. At last week's statewide meeting sales staff acknowledged these difficulties and yet was enthusiastic about meeting goals and doing their best to help retailers increase sales.

[End of Governance Matters and Director's Report Section.]

C. RULES AND POLICIES

Presenters: Director Penn; and Mark Hohlt, Rules and Policies Manager

Legislative Update

An updated *Listing of Lottery Tracked Legislation* report was sent to the Commission for review prior to the meeting (*Exhibit #2*). Mr. Hohlt reported that the Legislative Session adjourned on June 29, 2009. Mr. Hohlt reported on the last legislative activity pertinent to the Lottery.

One bill that passed before the end of the session was HB 2518, which amended Senate Bill 30, the ethics bill that was passed earlier in the session. SB 30 eliminated the filing requirement of Quarterly Public Official Disclosure reports to be effective January 1, 2010. HB 2518 fixes the date with an emergency clause that made the effective date upon the Governor's signature (signed July 7, 2009). The Ethics Commission no longer requires the filing of that report beginning with the second quarter report that was due July 15, 2009.

The Legislature gave notice on how the special session, already scheduled for February 2010, will be conducted. The 2010 special session will be conducted similar to the 2008 special session, with Legislative topics and the ability to introduce bills strictly controlled. Each senator will be allowed to introduce two bills, and each representative will be allowed one. There will be no process for agencies to directly introduce bills.

Rule Update – Division 40, Video LotterySM Compensation Rates

Mr. Hohlt filed a Notice of Rulemaking with the Secretary of State's Office. The administrative rule hearing is scheduled on August 18, 2009, for oral and written testimony on the compensation rate for Video LotterySM retailers under the new retailer contract, effective June 2010.

Public comment will assist the Lottery in developing a compensation system that maximizes net revenue to the state commensurate with the public good while providing a reasonable rate of return to Video LotterySM retailers, in accordance with the Lottery's constitutional and statutory mandates and guidance from the Oregon Supreme Court.

Proposed rule amendments also include the repeal of three existing rules that become obsolete effective with the new contract. The written public comment period ends October 16, 2009. Lottery will prepare a report of the public comments received for the Lottery Commission. The rule amendments and the new retailer contract also recognize the end of BreakopensSM and the end of video poker as a standalone option. There are currently six video poker only retailers.

IT Governance Policy

Copies of the new Internal Operating Policy for IT Governance were sent to the Commission prior to the meeting for review (*Exhibit #3*). The IT Governance Policy establishes the framework and sets out high-level responsibilities and objectives for governance of the Lottery's information

technology and resources. This policy creates an IT Steering Committee for the purpose of oversight and direction and to advise the Commission, functioning basically as a management tool. The policy has been reviewed internally and by the Attorney General and is recommended by the Director. Chair Ungar called for a motion.

Vice Chair Ihle moved that the IT Governance Policy presented today, and recommended by the Director, be adopted by the Oregon State Lottery Commission as an Internal Operating Policy of the Oregon State Lottery, to be effective August 1, 2009. Commissioner Fogg seconded the motion. The motion passed by a quorum vote, 4-0.

[End of the Rules and Policies Section.]

D. SUPPORT SERVICES

Presenters: Larry Niswender, Assistant Director for Support Services; Kathy Ortega, Chief Financial Officer

Ms. Ortega presented the June 2009 Financial Statement in preliminary form as an informational item only. The year-end Financial Statement is preliminary, pending the Secretary of State's Annual Financial Audit, in progress.

June 2009 Financial Statement (Preliminary)

Copies of the preliminary June 2009 Financial Statement were sent to the Commission for review prior to the meeting (*Exhibit #4*).

For month ending June 30, 2009, net revenue of \$65,364,195 on a budget of \$66,833,356 resulted in a negative variance of \$1,469,161. Net profit of \$38,662,146 on a budget of \$42,051,046 resulted in a negative variance of \$3,388,900. Ms. Ortega noted that the over budget status in June is a direct result of projects being closed at year-end, and are basically timing differences.

Year-to-date, net revenue of \$895,170,575 on a budget of \$894,667,165 resulted in a positive variance of \$503,410. Net profit of \$566,848,221 on a budget of \$560,268,018 resulted in a positive variance of \$6,580,203. Ms. Ortega noted that the Lottery is under-spent or significantly under-spent in direct expenses all around.

Year-to-date, actual services and supplies of \$9,845,715, on a budget of \$12,900,250 resulted in a positive variance of \$3,054,535 (unspent dollars).

Ms. Ortega highlighted the key accounting and variance information. The balance sheet was also reviewed with the Commission and the FY09 year end Capital Outlay Status Report.

There were no questions or comments from the Commission. The year-end Financial Statement will be brought to the Commission for approval at the August 2009 Commission Meeting.

Procurement Activity Report

The Commission received a copy of the Procurement Activity Report for review prior to the meeting (*Exhibit #5*). AD Niswender reported that there are 17 items on the report and seven contracts were executed, all within budget, for an approximate total of \$716,000.

The Lottery kiosk at the Portland International Airport is currently ongoing. The Lottery budgeted about \$100,000 for improvements and the lease. The kiosk at PDX is one of the Lottery's major business initiatives for this budget year.

The Lottery awarded the vendor contract for the Enterprise Resources Planning (ERP) software system. The ERP software will replace the Lottery's core financial system and provide other connectivity enhancements to the Agency. The contract, in the amount of approximately \$500,000, is currently being reviewed at the Department of Justice. With the selection of the software vendor, the Lottery has started the vendor selection process for implementation of the software system.

FY10 Business Plan (Exhibit #6).

The Lottery's request for approval of the FY10 Business Plan is being postponed until the August 28, 2009 Commission Meeting. The Business Plan will be brought to the Commission for approval along with the [FY08/09] June 2009 Financial Statement, after the Annual Financial Audit by the Secretary of State Audit Division is complete.

[End of the Support Services Section.]

E. RETAIL OPERATIONS and MARKETING

Presenters: Tim Eaton, Assistant Director for Retail Operations; Carole Hardy, Assistant Director for Marketing; Brian Sullivan, Marketing/Communications Manager; Louise Plata, Traditional Product Manager; and, Marianne Manning, Retail Sales Support Manager

AD Eaton provided a draft letter addressed to Lottery retailers providing information on the timeline of the new Retailer Contract process and details of the August 18, 2009, for the Public Rulemaking Hearing on Compensation Rates.

Business Year Comparisons Report

The Commission received the Business Year Comparisons Report for week ending July 18, 2009, prior to the meeting for review (Exhibit #7). The Report compares sales to the same week in the previous year. Key product totals were reported by AD Eaton as follows, in part:

- August 2009 Scratch-itSM Tickets (Ms. Plata)
 - "24 Karat Crossword" – is a \$5.00 ticket with a top prize of \$50,000
 - "Football Fever" – is a \$2.00 ticket with a top prize of \$10,000
 - "Lucky Break" – is a \$1.00 with a top prize of \$2,000
 - "King Ramses Riches" – is a \$3.00 ticket with a top prize of \$30,000

Scratch-itSM sales are tracking 13 percent below last year.

- MegabucksSM sales are tracking at 62.52 percent above last year. The Saturday jackpot was \$10 million compared to a jackpot of \$1.6 million last year. The current jackpot is \$10.6 million.
- Powerball® sales are tracking at 1.29 percent above last year. The Saturday jackpot was \$61 million compared to a jackpot of \$43 million last year. The current jackpot is \$88 million.
- Keno sales are tracking at 7.64 percent below last year. Keno sales are 30 percent of total Traditional sales.

- Total Traditional only Product sales of \$16,970,255 are 0.22 percent below last year.
- Total Video LotterySM product sales of \$39,443,841 are 22.12 percent below last year.
- Total Lottery sales of \$56,414,096 are 16.61 percent below last year.

Retail Operations Update

- AD Eaton reported on a concentrated cross-departmental effort to improve the inventory management of Scratch-itSM ticket stock. The project is going extremely well in controlling product rotation in retail locations and inventory levels in Distribution. The project will also benefit the Lottery in preparing for its holiday ticket stock placement.
- AD Eaton provided a status updates on the prodiGi terminal deployment and performance, and the new CineVision games that are currently being installed.
- The next Retailer Forum will be held at Portland Community College's Rock Creek Campus on August 13, 2009.
- The Commission received the Annual Retailer Survey at the last Commission Meeting for their review. AD Eaton requested the Commission's input or feedback. Chair Ungar stated that the Survey was very comprehensive and would be a good resource during the Retailer contract process.

Marketing Update

- Mr. Sullivan presented the upcoming advertising campaign for "Football Fever," to support the launch of the Scratch-itSM ticket.
- It was noted that the Lottery has scaled back on its level of sponsorship to both Oregon State and the University of Oregon as a budget efficiency this fiscal year.
- Ms. Plata gave a progress report on the Lottery kiosk at the Portland International Airport. After a very involved and extensive process the kiosk is scheduled to open on October 18, 2009. There were over 300 applications submitted for the kiosk's six employee positions.
- Laura Sofro, the new Marketing Research Manager, introduced herself to the Commission and gave a brief business bio which included previously working with Lottery's Marketing staff as a member of one of our previous research companies.

Executive Summary – Raffle Promotion

The Commission received the Executive Summary for review prior to the meeting (*Exhibit #8*). Ms. Manning talked about the success of the Raffle promotion and provided survey results from the Field Sales Representatives.

[End of the Retail Operations and Marketing Section.]

F. OTHER BUSINESS

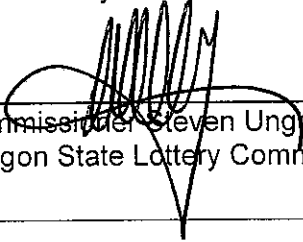
There was no other business brought before the Commission. Chair Ungar adjourned the July 24, 2009, Lottery Commission Meeting. The next meeting is scheduled on August 28, 2009, at the Debbs Potts Oregon State Lottery Commission Building.

Respectfully submitted,

Linda DeBlasio

Linda DeBlasio
Senior Executive Assistant to the Commission
Lottery Director's Office

Approved by:



Commissioner Steven Ungar, Chair
Oregon State Lottery Commission

Lottery Commission Meeting exhibits are available by calling Public Affairs in Salem at 503.540.1016, or on-line at the following sites:

- info.oregonlottery.org: Agenda, Meeting Minutes, Financial Statement, and B.Y. Comparison Sales Report
- lottery.webcenter@state.or.us: Oregon Administrative Rules and Internal Operating Procedures