



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

OREGON STATE LOTTERY COMMISSION MEETING NOVEMBER 20, 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: Ross Armstrong, Law Clerk Intern, Rules & Policies
Cornell Balagot, Product Development Manager
Chuck Baumann, Senior Communications Specialist
Sarah Castner, Assistant Attorney General, DOJ
Linda DeBlasio, Senior Executive Assistant to the Commission
Jean Gabriel, Finance Reporting & Analysis Manager
Steve Green, Senior Manager, Retail Operations
Jason Levine, Law Clerk Intern, Rules & Policies
Mary Loftin, Public Affairs Manager
Marianne Manning, Retail Sales Support Manager
Marlene Meissner, Public Affairs Specialist
Kathy Ortega, Chief Financial Officer
Jolene Richards, Executive Assistant for Retail Operations
Nancy Rivera, Executive Assistant for Support Services
Larry Trott, Senior Public Affairs Specialist
Valerie Wicklund, Chief Internal Auditor

Others Present: Bob Klingman, GTECH
Kevin Krietemeyer, GTECH
John Powell, GTECH
Grover Simmons, Independent Employer Association

OREGON STATE LOTTERY COMMISSION MEETING

The November 20, 2009, Oregon State Lottery Commission Meeting was called to order by Commissioner Pamela Fogg. Commissioner Fogg stated for the record that Vice Chair Ihle was previously excused from the meeting, and that Chair Ungar was attending via conference phone. Chair Ungar requested Commissioner Fogg to lead the meeting. It was noted that a quorum was present. Commissioners present at the roll call: Commissioner Howland, Commissioner Lowery, Commissioner Fogg, and Chair Ungar.

A. MINUTES OF THE PREVIOUS MEETING

Presenter: Commissioner Fogg

The draft minutes of the previous meeting were sent to the Commission for review prior to today's meeting (*Exhibit #1*). Commissioner Fogg requested comments, if any; no comments or changes to the record were presented. Commissioner Fogg called for a motion to approve.

Commissioner Lowery moved that the minutes of the Oregon State Lottery Commission Meeting held on October 30, 2009, be approved as final as presented today. Commissioner Howland seconded the motion. The motion passed by a unanimous quorum vote, 4-0.

B. GOVERNANCE MATTERS and DIRECTOR'S REPORT

Presenter: Director Penn

2010 Commission Meeting Calendar

A draft of the Commission Meeting Calendar for 2010 was sent to the Commission for review prior to meeting (*Exhibit #2*). It is noted for the record that two meeting dates were rescheduled due to conflicts with two state furlough days. It was also noted that approval of the calendar today does not preclude future date changes if needed. Commissioner Fogg called for the motion.

Commissioner Howland moved that the Oregon State Lottery Commission Meeting Calendar for 2010, as presented today, be approved. Commissioner Lowery seconded the motion. The motion passed by a unanimous quorum vote, 4-0.

Mega Million Game Sales

As the national economy experienced a downturn, state lotteries across the U.S. have experienced related issues with revenue production, just as the Oregon Lottery has. It has been a major concern throughout the U.S. lotteries, and a matter of discussion regarding other ways the lottery industry can increase revenue during these times.

The Multi-State Lottery Association (MUSL) is the organization that runs Powerball®. There are a total of 32 Powerball® states, including Oregon and Idaho. California and Washington are Mega Million states. Mega Millions is very similar to Powerball® with jackpot draws twice weekly. There are 12 Mega Millions states.

Recently, MUSL has held a number of meetings to discuss the proposal of cross-selling Mega Millions and Powerball® games in U.S. lotteries. The concept was initially proposed last spring but was not pursued at that time. As the economy has gotten worse, however, the proposal underwent discussion and reconsideration. Last month, the Mega Millions and Powerball® groups met and voted to agree in principle to begin the process to implement cross-selling these games as soon as the next calendar year.

Director Penn is currently a member of the MUSL Board of Directors. The Board of Directors meets in December to look at the necessary MUSL rules that must be revised to allow for sales by other states. Likewise, the Mega Millions rules will need to be revised.

Both organizations are moving forward at this time with what is certainly a large and complex enterprise to cross-sell these games. Needless to say, Lottery gaming vendors, like GTECH, have a lot of programming work ahead of them to enable these states to sell another state's game.

Many states have targeted January 31, 2010, to begin cross-selling Powerball® and Mega Millions. It is possible that 90 percent of the U.S. lotteries will be cross-selling by the end of March 2010. Organizationally, the Oregon Lottery is looking at the end of March 2010, as a more realistic timeframe for selling Mega Millions.

Although some game cannibalization is expected, research indicates an overall net gain in sales for state lotteries. In the grand design, cross-selling both Powerball® and Mega Millions allows every participating state in the U.S. to work together as partners. In the future, there will be an opportunity to offer a new single national game, although different from either Powerball® or Mega Millions.

The Lottery will eventually propose necessary rule changes to the Commission for consideration and approval for cross-selling. Director Penn will keep the Commission updated on this project's progress.

Revenue Forecast

At yesterday's Quarterly Revenue Forecast Meeting, Director Penn stated that although transfers to the state continue to be below the economic forecast, the Lottery has a number of business projects in the works to ensure that the biennium forecast is met, including the plan to offer Mega Millions in Oregon.

The Office of Economic Analysis highlighted the fact that there has already been a change in terms of the Lottery's transfer rate. The Lottery is transferring a larger percentage of sales revenue to the state and, of necessity, reducing its own administrative savings. In the previous biennium, the Lottery was able to transfer over \$100 million in administrative savings beyond the forecasted sales; however, in the current biennium additional administrative savings are being transferred quarterly with the higher transfer rate.

Revenue Committee

Director Penn appeared before the Revenue Committee to provide information regarding the Lottery's administrative process for the new retailer contract, which was approved by the Commission at its October 2009 meeting.

During Director Penn's appearance, he relayed information from an earlier OBP radio broadcast, "Think Out Loud." The topic was Lottery compensation rates in the new retailer contract. One of the panelists, Mr. Robert Whelan, is an economist who specializes in the area of gambling. Mr. Whelan is also the economist who conducted an economic study for the Lottery in 2004. Mr. Whelan's study had subsequently become a major component of the recent arguments for lowering the Video LotterySM compensation rate to 15 or 16 percent in the new contract.

During the radio broadcast, Mr. Whelan stated the information in his study was being misused regarding retailer compensation. Mr. Whelan stated his study was never designed to establish all of the business expenses incurred by a retailer. Mr. Whelan said he believes from

his analysis right now that the Lottery is at a tipping point, where, if retailer compensation rates were reduced, retailers will go out of business and the state will lose overall revenue. Mr. Whelan also said, for those who argue that there isn't a problem if some retailers go out of business because customers will just go to a different retailer, he believed that players would not simply go to another retailer and the Lottery would lose revenue.

Director Penn stated this appeared to be new information for the legislature.

At the Quarterly Economic Forecast meeting it was said that, even though it appears that the recession is over in Oregon, it will be a jobless recovery and will take 5.5 years to return to full employment. The economic recovery is expected to be a very long, slow, and difficult process. These factors illustrate that the Commission's decision, for the retailer contract to have a five-year contract term, will help to bring business stability to the retailers and Lottery revenue.

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

C. RULES AND POLICIES

Presenter: Director Penn

Director Penn requested adoption of the Protection of Cardholder Information Policy. A copy of the Policy was sent to the Commission for review prior to the meeting (*Exhibit #3*). The policy is necessary to comply with business operations at the Port of Portland, where the Lottery's kiosk is opening at the Portland International Airport in a few weeks. The Port of Portland requires that people be allowed to use different payment mechanisms at the Port, specifically the use of credit/debit cards. The Lottery's rules already authorize the use of a purchase card for sales of its products. The Lottery policy presented today mandates that procedures to be put in place. The draft procedures are already developed and in alignment with the Lottery's and the Port of Portland's financial rules. They also comply with the national security standards for the protection of this information. There were no questions or comments from the Commission. Commissioner Fogg called for the motion.

Commissioner Lowery moved that the proposed Protection of Cardholder Information Policy presented today and recommended by the Director, be adopted as an Internal Operating Policy of the Oregon State Lottery, effective November 20, 2009. Commissioner Howland seconded the motion. The motion passed unanimously, 4-0.

[End of Rules and Policies.]

D. SUPPORT SERVICES

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

The Commission received the October 2009 Financial Statement for review prior to the meeting (*Exhibit #4*). Ms. Ortega provided an overview of the Financial Statement.

Monthly Financial Statement for Month Ended October 31, 2009

• Operating Statement

October's net revenue of \$68,106,594 on a budget of \$70,166,473 resulted in a negative variance of \$2,059,879.

October's net profit of \$42,821,818 on a budget of \$42,636,901 resulted in a positive variance \$184,917.

October's year-to-date net revenue of \$264,711,159 on a budget of \$267,139,312 resulted in a negative variance of \$2,428,153.

October's year-to-date net profit of \$164,975,248 on a budget of \$161,724,582 resulted in a positive variance of \$3,250,666.

Ms. Ortega reported on direct expenses and on other specific line items. There were no questions or comments on the Financial Statement from the Commission. Ms. Ortega requested Commission approval of the October 2009 Financial Statement for the record.

Commissioner Lowery moved that the Oregon State Lottery Financial Statement for month ended October 31, 2009, be approved for the record as presented today. Commissioner Howland seconded the motion. The motion passed unanimously by a quorum vote, 4-0.

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 14 items are on the report, all are within the approved budget. Four contracts were executed this month for an approximate total of \$3.3 million, including the contract and lease terms for the Portland kiosk, and the amendment for the IGT Triline game software.

Commissioner Howland asked if the Lottery takes into consideration whether the time is right to proceed with a purchase even if the purchase is budgeted and approved. AD Niswender replied that the Lottery reviews all expenditures for their necessity and that expenses are tracking below budget in almost every category in Services & Supplies as a result of on-going cost containment efforts. AD Niswender noted that the Lottery is beginning the process to develop a mid-year budget realignment request to share with the Commission at the January 2010 meeting and indicated that a goal for this effort is to remain within the approved overall FY09/10 budget amount.

[End of the Support Services Section.]

E. RETAIL OPERATIONS and MARKETING

Presenters: Carole Hardy, Assistant Director for Marketing; Tim Eaton, Assistant Director for Retail Operations; Brian Sullivan, Marcom Manager; and, Marianne Manning, Retail Sales Support Manager

Business Year Comparisons Report

The Commission received the Business Year Comparisons Report for week ending November 14, 2009, prior to the meeting for review (*Exhibit #6*). AD Eaton reported on YTD

sales compared to sales in the same week last year. Sales information on the key Lottery products is provided below:

- YTD Scratch-itSM sales of \$38,944,128 are 8.96 percent below last year. The 2009 Holiday tickets are currently being delivered to the field.

Scratch-itSM Tickets for December 2009

- “Lots O’Luck” is a \$1.00 ticket with a top prize of \$500
- “Super Tic Tac Toe” is a \$3.00 ticket with a top prize of \$30,000
- “Royal 7’s” is a \$5.00 ticket with a top prize of \$45,000
- “Lucky Lines” is a \$3.00 ticket with a top prize of \$30,000
- “Gold Rush” is a \$5.00 with a top prize of \$50,000

Mr. Sullivan presented the media campaign for the 2009 holiday Scratch-itSM tickets that launched earlier in November. In addition to print, radio and TV ads, this campaign includes an on-line feature that allows players to follow characters from the holiday Scratch-itSM tickets on Twitter.

- YTD MegabucksSM sales of \$16,078,037 are 0.20 percent above last year. The current jackpot is \$8 million. Last week’s jackpot was \$7.4 million compared to last year’s jackpot of \$12.5 million.
- YTD Powerball[®] sales of \$21,312,351 are 13.92 percent above last year. The current jackpot is \$32 million. Last week’s jackpot was \$20 million compared to last year’s jackpot of \$42 million.
- YTD Keno sales of \$35,969,212 are 6.40 percent below last year. AD Eaton noted a sales spike as a result of the current Keno promotion in the field.
- Thanksgiving RaffleSM sales of \$250,000 equaled sales of the Lottery’s first RaffleSM game, the St. Patrick’s Day RaffleSM. Tickets for the Thanksgiving RaffleSM sold out in 11 days, one day earlier than the St. Patrick’s Day RaffleSM.

The winning numbers for the Thanksgiving RaffleSM will be announced on Tuesday, November 24. Andy Carson from the KPTV Channel 12 News will be live at the Lottery for the announcement. Channel 6 will also be on-site as well as local radio stations.

- Total YTD Traditional Product sales of \$119,143,021 are 0.98 percent below last year.
- Total YTD Video LotterySM sales of \$259,089,499 are 22.17 percent below last year.
- Total YTD Lottery sales of \$378,232,520 are 16.54 percent below last year.

Retail Operations Update

- As of the end of October, there has been a growth of 22 additional traditional retailers this business year.
- For the same time period, six new Video LotterySM retailers have been added. Some retailers have voluntarily ended their business association with the Lottery due to economy related business closures.

- A software upgrade was recently completed statewide on the Da Vinci Diamonds game.
- The new Spielo prodiGi terminal deployment will be about 60 percent complete this week.
- The percentage of sales from line games is nearing 80 percent of total Video LotterySM sales.
- Retail Contracts and Retail Operations have worked closely together to develop a comprehensive contract package for Field Sales Representatives to take to their retailers to assist in the administrative process of getting over 3,900 contracts signed.

Scratch-itSM Promotion

Ms. Manning provided an overview of the next Scratch-itSM sales incentive promotion for retailers and clerks, and corresponding employee incentive promotion for Field Sales Representatives (*Exhibit #7*). Ms. Manning described the components of the promotion. The promotion runs for a six-week period from February 28, 2010 to April 10, 2010.

Marketing Update (*AD Hardy*)

- As a result of the focus placed on Scratch-itsTM in the Business Plan, sales seem to be trending back up to where they were last year for the holiday season.
- Another focus product in the Business Plan is Powerball®. That game too has performed well to date.
- The Lottery's decision to introduce Mega Millions in the spring of 2010 means a shifting of plans and budget dollars to move forward to support this game introduction.

AD Hardy stated that one of the biggest most visible means of Lottery advertising support is its outdoor boards. The Lottery plans to add a second LED outdoor board to promote Mega Millions jackpots. The cost will be paid out of savings in Lottery's Capital Expenditures this year and from repurposing some of the advertising budget. The retailer's on-site jackpot signs will be programmed to include the Mega Millions jackpot amounts. The Lottery may also tag its Powerball® ads with a reference to Mega Millions. Mega Millions and Powerball® games are so similar to each other that Marketing is looking at whether to position them under one umbrella, as "Powerball® games." The Powerball® drawings are on Wednesday and Saturday and Mega Millions drawings are on Tuesday and Friday. In addition, we will be working with GTECH on how to position Mega Millions and Powerball® on the terminals together.

In the next weeks, Marketing will begin player research on its web site using a series of questions to solicit player feedback on the intent to play Mega Millions and how it could influence play of other games.

[At this time, Chair Ungar excused himself from the remainder of the meeting. A Commission quorum was still present.]

- AD Hardy noted that the Lottery is working with game vendors on the research of offering casino-type poker games on Video LotterySM terminals. IGT created demo poker games that the Lottery may make available on its web site as a form of player outreach.
- Offering a Video LotterySM game with a prize payout of over \$600 has been something that players and retailers alike have requested from the Lottery. So, the Lottery is currently conducting system testing for “Wheel of Fortune,” a game with the first prize of over \$600. Prizes over \$600 will be paid at the Lottery office. Other Lottery game vendors are in the process of producing games for their terminals with the prizes over \$600. “Wheel of Fortune” may be ready for deployment by March 2010.

Marcom Update (Mr. Sullivan)

Mr. Sullivan presented the following media advertising:

- Television spots for three new Powerball® ads and corresponding point of sale merchandise.
- Television spots advertising this year’s holiday Scratch-it™ tickets.
- A new Video LotterySM campaign to be launched in December. The campaign focuses on the entertainment value of Video LotterySM games and how they add a bit of unexpected fun to a night out. The strategy is an overall evolution of the “Knight of Fun” campaign, focusing on characters from several different Video LotterySM line games (Cleopatra, for example), setting the characters into a modern retail environment. There will also be Internet and point of sale support involved in this campaign.

[End of the Retail Operations and Marketing Section.]

F. OTHER BUSINESS

There was no other business brought before the Commission. Commissioner Fogg adjourned the November 20, 2009, Lottery Commission Meeting. The next meeting is scheduled on December 18, 2009, at the Debbs Potts Oregon State Lottery Commission Building.

Respectfully submitted,

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

Approved by:

Commissioner Pamela Fogg
Oregon State Lottery Commission