

OREGON STATE LOTTERY

DIVISION 40 – RETAILER CONTRACT

Video LotterySM Compensation Rate Rule Project

July 7, 2009

OAR 177-040-0026

Retailer Compensation – Video LotterySM Games

(1) **General:** The compensation ~~amount~~ the Lottery shall pay a retailer for the sale of ~~v~~Video ~~H~~LotterySM game shares is calculated on a percentage of net receipts during a business year. “Net receipts” means the amount of money that is received at a retailer’s premises from the sale of ~~v~~Video ~~H~~LotterySM game shares after ~~the~~ payment ~~for~~ of prizes. ~~The compensation rates for the sale of video lottery game shares for retailers that offer only video poker games is set forth in OAR 177-040-0027. The compensation rates for the sale of video lottery game shares for retailers that offer both video poker games and video line games is set forth in OAR 177-040-0028.~~

(2) **Compensation When Net Receipts Exceed Tier Threshold:** During the course of a business year, when a Video LotterySM retailer’s ~~weekly~~ net receipts exceed the threshold of a tier applicable to the retailer under ~~this rule, OAR 177-040-0027 or 177-040-0028,~~ the Video LotterySM compensation rate shall remain unchanged for the remainder of the business ~~day week in on~~ which the threshold is exceeded. The compensation rate for that tier, as set forth in ~~this rule OAR 177-040-0027 and 177-040-0028,~~ shall apply at the start of the next business ~~day week.~~

For example, if a retailer has chosen option (a) under OAR 177-040-0026~~8~~(42)(a) and on ~~a~~ Wednesday the net receipts reach \$175,001, the retailer is compensated at ~~27.5% 29%~~ of the net receipts for the remainder of the business ~~day week.~~ At 5:00 a.m. on the ~~next day, Thursday, following Sunday~~ which is the start of the next business ~~day, week,~~ the compensation rate is reduced to ~~23% 24%~~ of net receipts.

~~(3) **Retroactive Application:** Section (2) of this rule shall apply to retailer compensation for video lottery games beginning June 27, 2004.~~

~~(3) **Applicability:** The compensation rates for the sale of Video LotterySM game shares set forth in this rule apply to compensation for the sale of shares on all Video LotterySM game terminals at all Video LotterySM retailers effective June 27, 2010.~~

~~OAR 177-040-0027 — Compensation Rates — Video Lottery Retailers Offering only Video Poker Games~~

~~(1) **Applicability:** The compensation rates for the sale of video lottery game shares set forth in this rule are limited to compensation for the sale of shares on video lottery~~

~~terminals at retailers that offer only video poker games as described in OAR 177-200-0070.~~

~~(2) **General:** At the time a retailer signs a Retailer Contract, the retailer must choose in writing to receive compensation in accordance with either subsection (2)(a) or subsection (2)(b) of this section. If the retailer fails to choose as required, the Lottery shall compensate the retailer pursuant to subsection (2)(a) of this section for the first business year the Retailer Contract is in effect. For each subsequent business year that the Retailer Contract is in effect, no less than 60 days before the beginning of the upcoming business year, a retailer may submit a written notice to the Lottery that the retailer chooses to be compensated under the alternative compensation method for the upcoming business year. If the retailer does not submit or fails to timely submit a written notice, the Lottery shall compensate the retailer using the retailer's current compensation method for the next business year.~~

~~(a) **3-Tier Option:**~~

<u>Net Receipts per Year</u>	<u>Compensation Percent of Net Receipts</u>
Up to \$175,000	32.5%
\$175,000 to \$475,000	26%
\$475,000 and up	17%

~~For example, if a retailer's annual net receipts are \$600,000, the retailer would receive over the course of the business year: 32.5% of the first \$175,000 (\$56,875), and 26% of the next \$300,000 (\$78,000), and 17% of the remaining \$125,000 (\$21,250), for a total of \$156,125.~~

~~Or, if a retailer's annual net receipts are \$400,000, the retailer would receive over the course of the business year: 32.5% of the first \$175,000 (\$56,875), and 26% of the next \$225,000 (\$58,500), for a total of \$115,375.~~

~~(b) **2-Tier Option:**~~

<u>Net Receipts per Year</u>	<u>Compensation Percent of Net Receipts</u>
Up to \$650,000	26%
\$650,000 and up	19%

~~For example, if a retailer's annual net receipts are \$1,000,000, the retailer would receive over the course of the business year: 26% of the first \$650,000 (\$169,000), and 19% of the remaining \$350,000 (\$66,500), for a total of \$235,500.~~

~~OAR 177-040-0028 — Compensation Rates — Video LotterySM — Retailers Offering Video Poker Games and Video Line Games~~

~~(1) **Applicability:** The compensation rates for the sale of Video LotterySM game shares set forth in this rule are limited to compensation for the sale of shares on Video LotterySM terminals at retailers that offer both video poker games as described in OAR 177-200-0070 and video line games as described in OAR 177-200-0075.~~

~~(42) **General:** At the time a retailer signs a Retailer Contract, the retailer must choose in writing to receive compensation in accordance with either subsection (42)(a) or subsection (42)(b) of this section. If the retailer fails to choose as required, the Lottery shall compensate the retailer pursuant to subsection (42)(a) of this section for the first business year the Retailer Contract is in effect. For each subsequent business year that the Retailer Contract is in effect, no less than 60 days before the beginning of the upcoming business year, a retailer may submit a written notice to the Lottery that the retailer chooses to be compensated under the alternative compensation method for the upcoming business year. If the retailer does not submit or fails to timely submit a written notice, the Lottery shall compensate the retailer using the retailer's current compensation method for the next business year.~~

~~(a) **4-Tier Option:**~~

<u>Net Receipts per Year</u>	<u>Compensation – Percent of Net Receipts</u>
Up to \$175,000	27.5%
\$175,000 to \$475,000	23%
\$475,000 to \$800,000	14%
\$800,000 and up	11%

~~(b) **3-Tier Option:**~~

<u>Net Receipts per Year</u>	<u>Compensation – Percent of Net Receipts</u>
Up to \$600,000	22%
\$600,000 to \$1,800,000	17.5%
\$1,800,000 and up	11%

~~(3) **Amendment:** If the Lottery and a retailer sign an amendment to a Retailer Contract that authorizes the retailer to sell Video LotterySM game shares on Video LotterySM terminals that offer both video poker games and video line games, then:~~

~~(a) At the time the retailer signs the amendment, the retailer must choose in writing to receive compensation in accordance with either subsection (2)(a) or subsection (2)(b) of OAR 177-040-0028 (2). If the retailer fails to choose as required, the Lottery shall compensate the retailer pursuant to subsection (2)(a) of OAR 177-040-0028 (2) through the end of the business year. For each subsequent business year that the Retailer Contract is in effect, no less than 60 days before the beginning of the upcoming business year, a retailer may submit a written notice to the Lottery that the retailer chooses to be compensated under the alternative compensation method for the upcoming business year. If the retailer does not submit or fails to timely submit a written notice, the Lottery shall compensate the retailer using the retailer's current compensation method for the next business year.~~

~~(b) Beginning on the effective date of the amendment, the Lottery shall compensate the retailer pursuant to OAR 177-040-0028 based on net receipts from the beginning of the current business year.~~

~~**OAR 177-040-0029 ——— Review of Compensation Rates for Video LotterySM Retailers Offering Video Poker Games and Video Line Games**~~

~~(1) **General:** The Lottery Commission finds that the adoption of the compensation rates set forth in OAR 177-040-0028(2) is based on a projected Video LotterySM game share sales target of \$700,000,000 for the period June 25, 2006 to June 30, 2007 (Business Year '07.) This is a growth increase of 22% from actual sales of Video LotterySM game shares for the period June 27, 2004 to June 25, 2005 (Business Year '05.) This projection includes the sales of video line game shares which have never been offered by the Oregon Lottery. The purpose of this rule is to establish a process for a review of the retailer compensation rates set forth in OAR 177-040-0028(2) on or after July 1, 2007.~~

~~(2) **Review:** On or after July 1, 2007, the Lottery shall determine the actual sales of all Video LotterySM game shares from the period June 25, 2006 to June 30, 2007 (Business Year '07.) If the actual sales are less than \$595,000,000, the Lottery Commission will conduct a review of the compensation rates set forth in OAR 177-040-0028(2), and may increase those compensation rates. If the actual sales exceed \$805,000,000, and the Commission determines that the sales increase is not primarily due to an increase in the number of Video LotterySM retailers, the following compensation rates will replace the compensation rates specified in OAR 177-040-0028(2) and will be effective beginning no sooner than the start of the third business week following the Commission's determination that the sales increase is not primarily due to an increase in the number of Video LotterySM retailers:~~

~~(a) **4-Tier Option:**~~

Net Receipts per Year	Compensation — Percent of Net Receipts
Up to \$175,000	27.5%

\$175,000 to \$475,000	23%
\$475,000 to \$800,000	14%
\$800,000 and up	11%

~~(b) 3-Tier Option:~~

<u>Net Receipts per Year</u>	<u>Compensation Percent of Net Receipts</u>
Up to \$600,000	22%
\$600,000 to \$1,800,000	17.5%
\$1,800,000 and up	11%

~~(3) **Determination of Actual Sales Growth:** The Commission shall only consider the actual sales growth as determined by the Lottery for purposes of section (2) of this rule. The Lottery's determination is final.~~

~~(4) **Findings:** On July 25, 2007, the Lottery Commission initiated the review set forth in section (2) of this rule and makes the following determinations. The Lottery Commission finds:~~

~~(a) The actual sales of all Video LotterySM game shares from the period June 25, 2006 to June 30, 2007 (Business Year '07) exceeded \$805,000,000;~~

~~(b) This represents a sales increase of 50% from actual sales of Video LotterySM game shares for the period June 27, 2004 to June 25, 2005 (Business Year '05); and~~

~~(c) This sales increase was not primarily due to an increase in the number of Video LotterySM retailers.~~

~~(5) **Compensation Rates:** Effective as of the start of the business week beginning October 14, 2007, the compensation rates set forth in section (2)(a) and (b) of this rule replace the compensation rates set forth in section (2)(a) and (b) of OAR 177-040-0028.~~

~~(6) **Commission Authority:** The review process set forth in subsection (2) of this rule is not intended to limit in any way the authority of the Lottery Commission to review or adopt compensation rates for the sale of Lottery game tickets or shares at any time deemed necessary by the Lottery Commission.~~