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# Overview Presentation for: House Revenue Committee



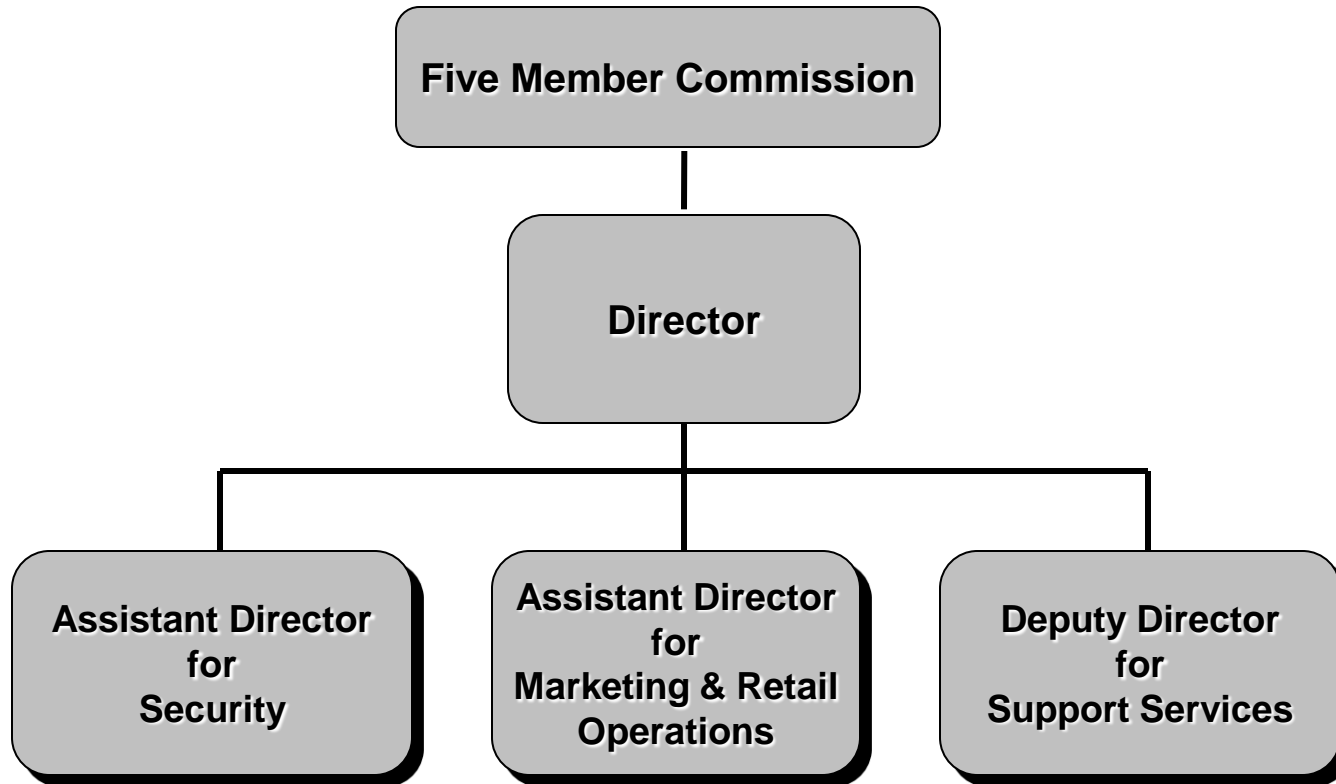
# The Lottery is a Constitutionally Created Agency with Strong Public Support

- 1984:** 66% of Oregon voters approved a State Constitutional Amendment to create a self-supporting State Lottery. Lottery revenues directed to fund economic development.
- 1995:** Constitutional Amendment authorized Lottery Bonds with a first lien on revenues for debt service; 15% of Unobligated Net Lottery Revenues were dedicated to the Education Endowment Fund.
- 1998:** Constitutional Amendment authorized 15% of Unobligated Net Lottery Revenues to be dedicated to Natural Resources (State Parks and watershed enhancements).
- 2002:** Constitutional Amendment changed the Education Endowment Fund to the Education Stability Fund, with appropriations increasing from 15% to 18%.
- 2010:** Constitutional Amendment removed the Sunset Provision and made permanent the 15% dedication of Unobligated Net Lottery Revenues to Natural Resources (State Parks and watershed enhancements).



# Lottery's Operating Structure

## Organizational Structure



# Commissioners and Directors

- The Oregon Constitution provides for a five member, Governor-appointed, Senate-confirmed Commission to oversee operation of the Lottery<sup>®</sup>.
- No more than three commissioners can be from one political party.
- One member must be a CPA and one must have a minimum of five years of law enforcement experience.
- The Constitution provides for a Director and a maximum of four Assistant Directors.



# Lottery's Mission

Mission: Operate a lottery with the highest standards of integrity and security to earn maximum profits for the people of Oregon commensurate with the public good.



# Security

Security emphasis preserves the integrity of the Lottery which is an essential component of maintaining public trust and confidence. Public trust and confidence is the cornerstone of all aspects of Lottery operations.

# Update of Oregon Lottery® Audits

## ➤ **Financial Audits**

- ➔ 2010, 2011, and 2012 Secretary of State audits had no findings (clean opinions).

## ➤ **Security Review**

- ➔ The 2012 security review was performed by Delehanty Consulting. The team that performed the review noted their findings in its public report, including this assessment: "... overall security of the Oregon Lottery is very good" and ...we believe that the Oregon Lottery has some of the best security practices in the industry."

## ➤ **Audit Committee of the Oregon Lottery® Commission**

- ➔ Provides on-going oversight over internal and external audits.
- ➔ Comprised of Lottery Director and two Commissioners.

## ➤ **Internal Audit (Independent of Lottery Management)**

- ➔ Annually executes the audit plan approved by the Commission Audit Committee.
- ➔ Audit Plan developed annually with focus on high-risk areas.



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# Responsible Gambling

- Lottery efforts to promote Responsible Gambling include:
  - ➔ Installing time of day clocks on all Video Lottery<sup>SM</sup> terminals (VLTs).
  - ➔ Displaying both dollars as well as credits on all VLTs.
  - ➔ Posting the 1-877-MY-LIMIT number on all VLTs.
- Approximately ten percent of the Lottery's advertising budget is dedicated to creating advertising that encourages responsible Lottery play such as set a budget, set a time limit and play for fun.





# Problem Gambling

- 1% of net Oregon Lottery® proceeds are dedicated by statute to fund gambling treatment programs throughout the state.
- The State of Oregon is recognized as having one of the most effective problem gambling treatment and outreach programs in the country.
- Highest per capita expenditures in the nation for problem gambling treatment.
- Treatment is free, effective, and confidential.



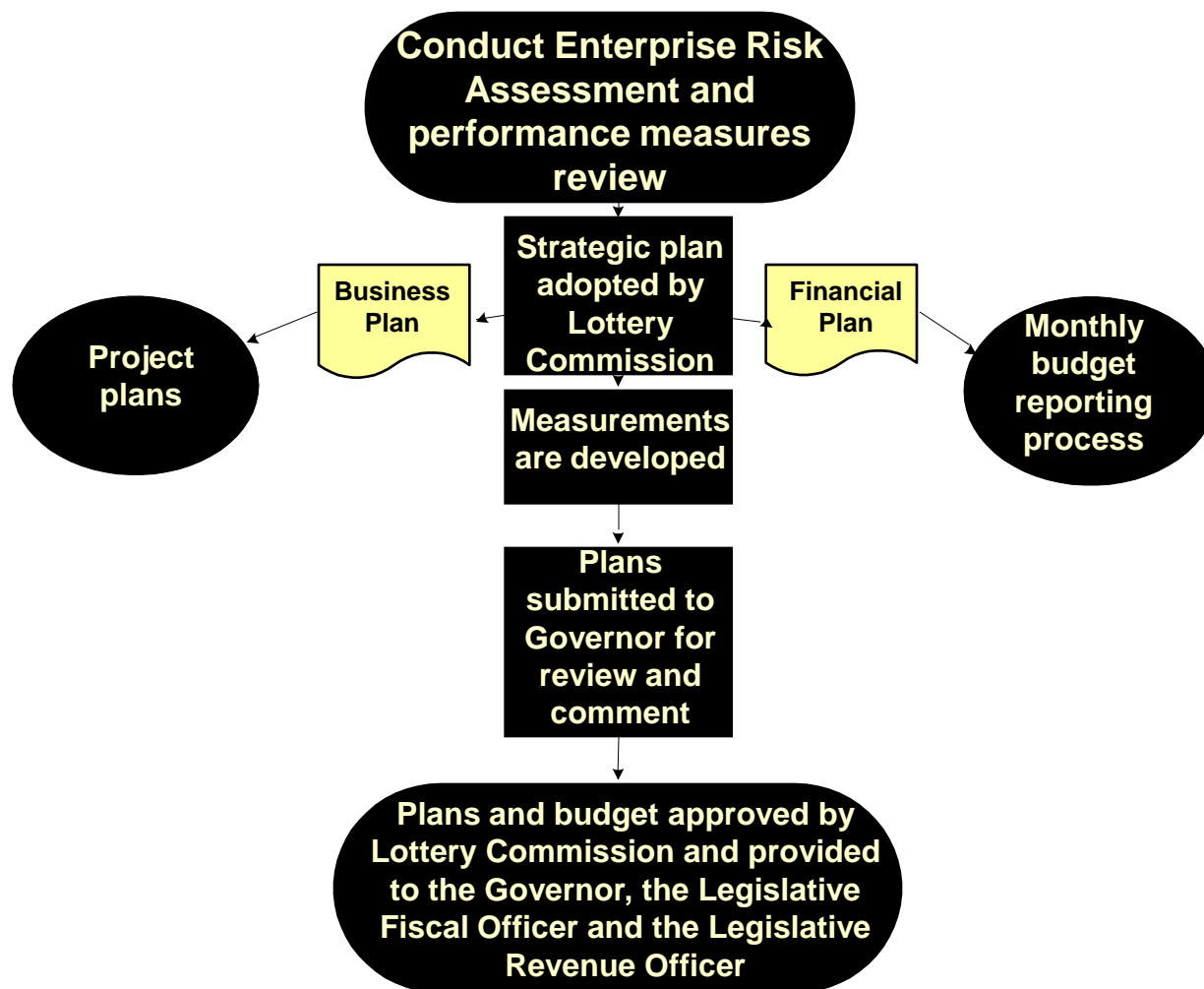
# Strategic and Business Plans

**Five-year Strategic Plan:** Adopted by the Lottery Commission, sets the stage for long term planning, innovation, operational efficiencies, product development and sales.

**Annual Business Plan:** Adopted by the Lottery Commission, sets yearly goals for sales, marketing, product development, and other areas of operation and administration. Used as a primary source for internal performance measures.



# Planning / Budget Process



# Value of the Lottery as a State Revenue Source

- Lottery has been a stable and publicly well regarded source of revenue for the state.
- Lottery revenues are used as a bonding source for long-term investments in Oregon.
- Lottery backing improves bond ratings and increases the state's borrowing capacity.
  - ➔ As of March, 2012, Standard & Poor's rated Lottery-backed bonds AAA (the best credit rating possible).
  - ➔ As of March, 2012, Moody's rated Lottery-backed bonds Aa2.
- Stable, strong performance is based on Lottery's responses to market challenges affecting revenues.

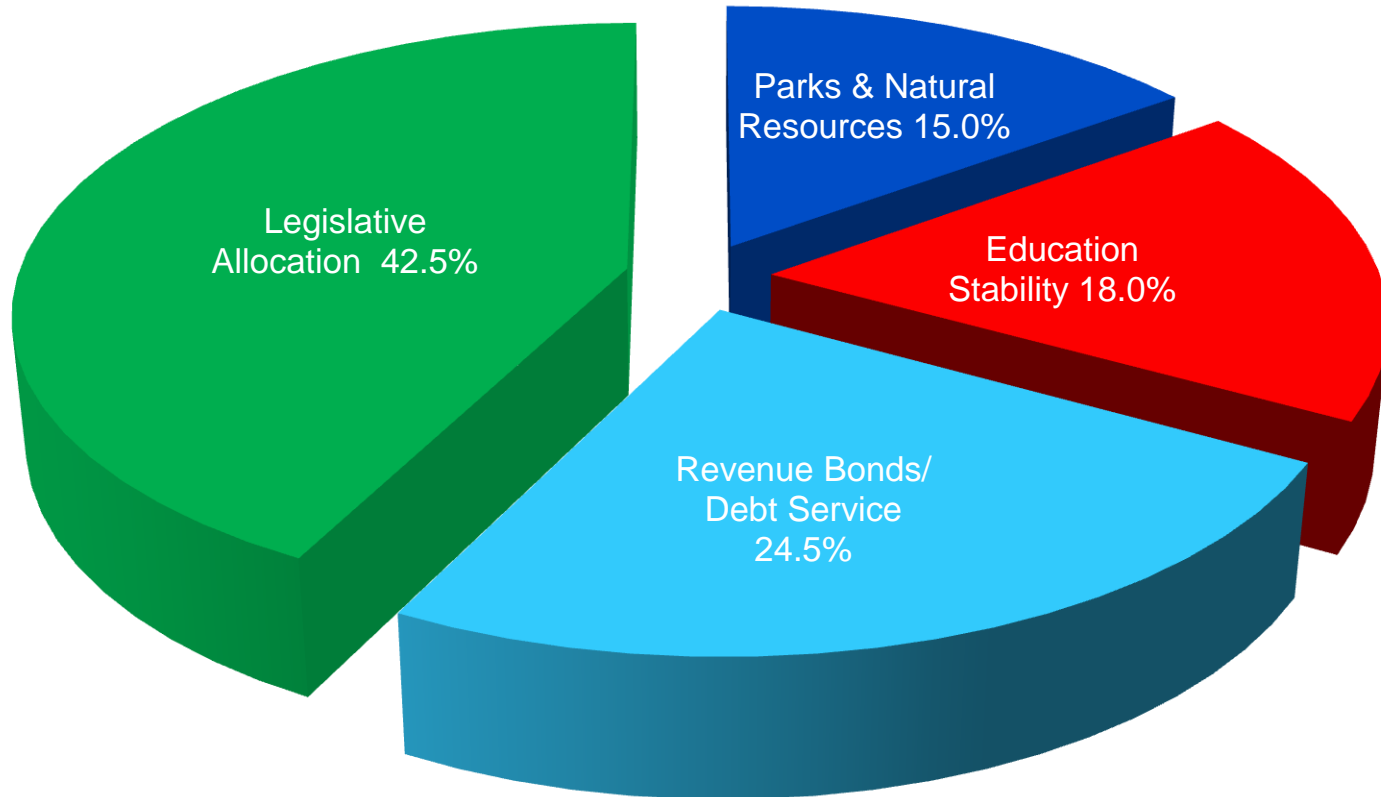


# Oregon State Lottery Challenges

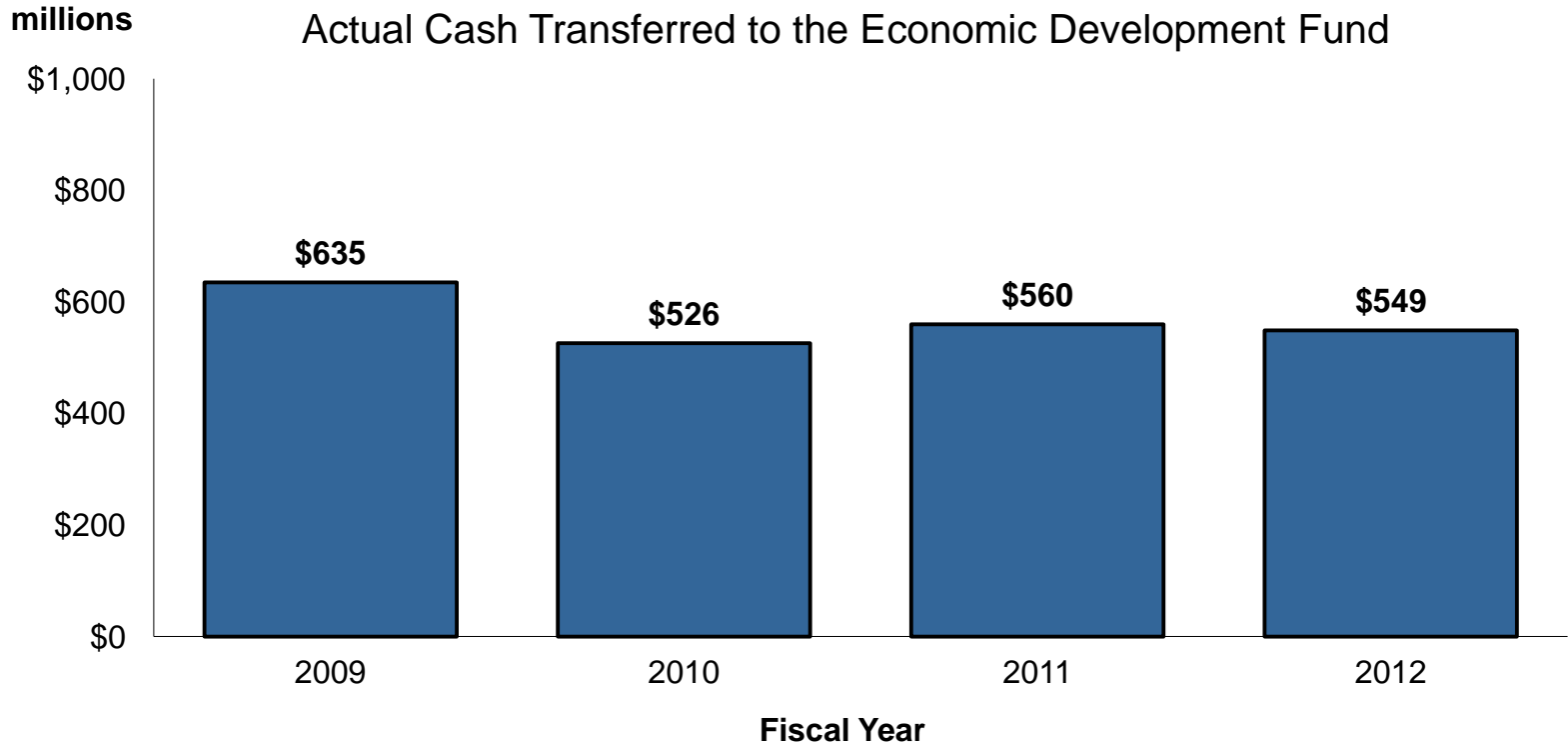
- Public perception and expectations of Lottery, including how the revenue generated by the Lottery is used, and concerns about problem gambling.
- Continued effects of the current economic conditions and technological obsolescence.
- Continually evolving consumer preferences for new and more entertaining games.
- Competition from other forms of gaming and entertainment.



# 2011-2013 Distribution of Lottery Funds by the Oregon Constitution & Legislature

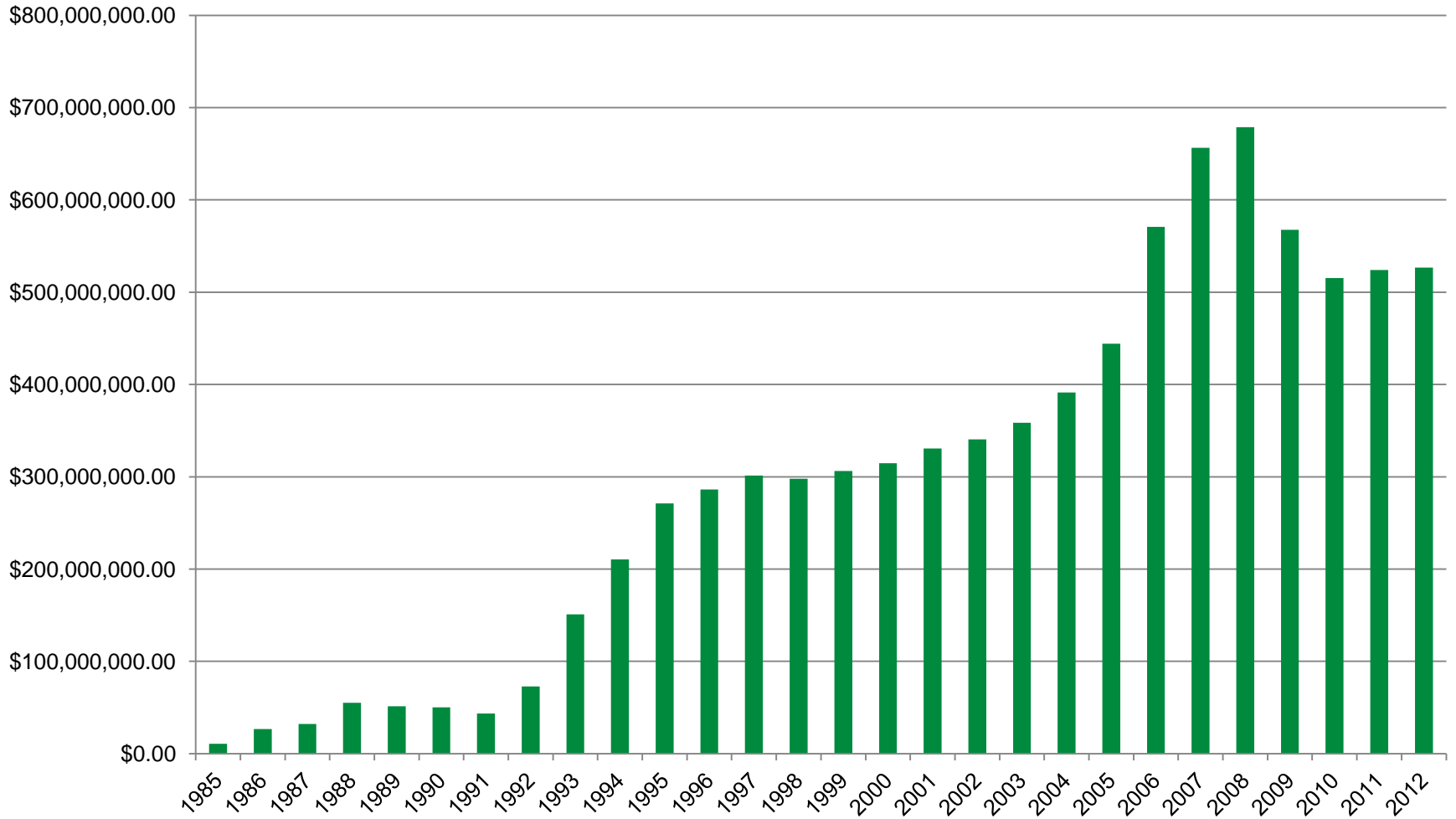


# Historical Transfers



- Transfers from inception to date: \$8.49 billion.
- Lottery manages expenditures, as a percent of revenue, below 4% Commission guideline. In FY 2012, expenditures were 3.02%.

# Net Profit History

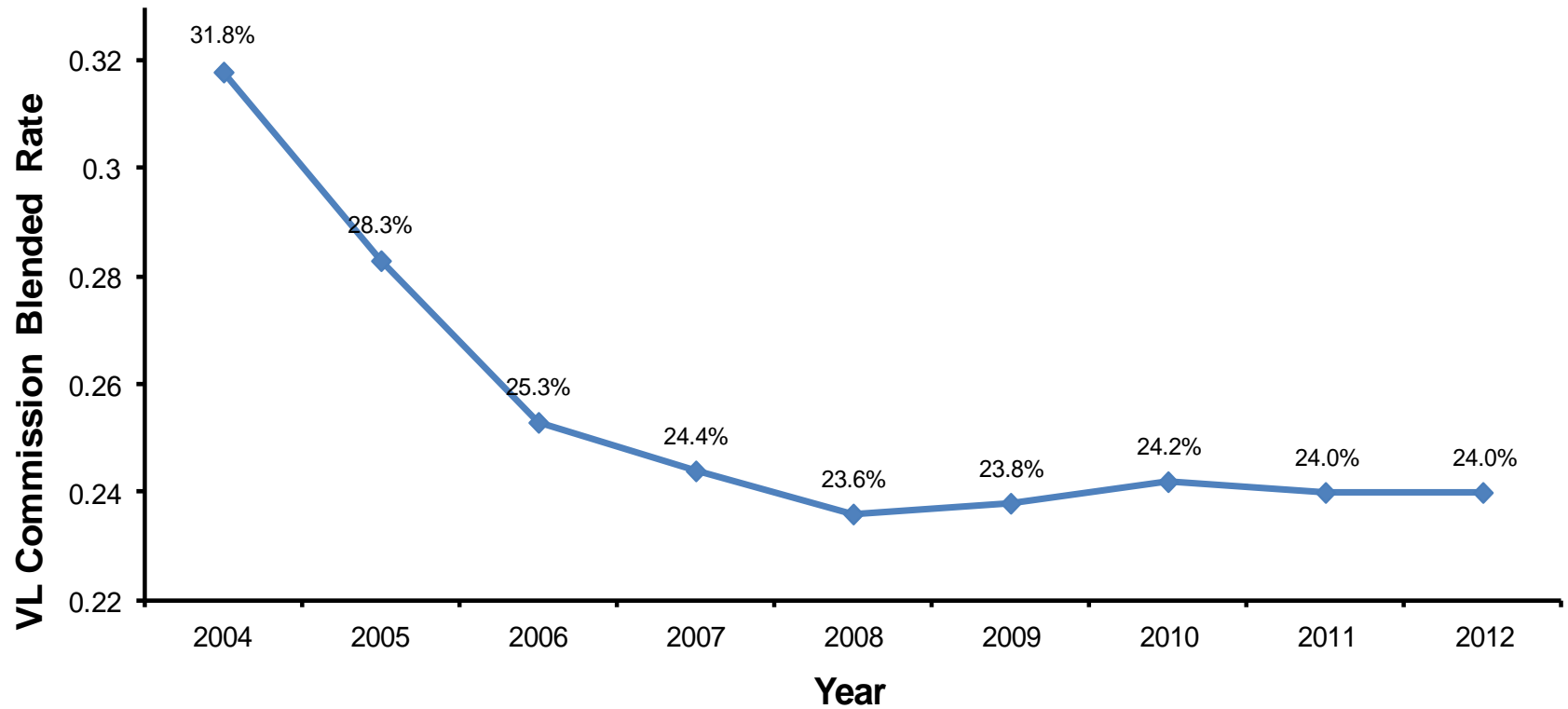


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# Video Lottery<sup>SM</sup> Commission Rates by Year



Source: Oregon Lottery Data Warehouse



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# Video Lottery Retailer Compensation

- The current five-year retailer contract and compensation system ends on June 28, 2015. Lottery administrative rules require the Director to conduct a comprehensive Video Lottery retailer compensation study to be completed no later than October 1, 2014.
- The study must be completed by an economic consultant with the requisite knowledge, experience, and expertise.
- The study must analyze and compare various retailer compensation systems including, but not limited to: a tiered system (currently in use); a single rate system; and an individualized system; and the relative merits and costs of each system.
- The study must address all Lottery constitutional and statutory responsibilities, which includes:
  - Ensuring the fairness, integrity, security, and honesty (FISH) of the Lottery,
  - Developing a system to maximize revenue while providing a reasonable rate of return for retailers,
  - Selecting retailers who best serve the public convenience and promote sales,
  - Ensuring an adequate number of games which are conveniently available in both rural and metropolitan areas, and
  - Basing the system on an ongoing study and comparison of lotteries in other states and countries.
- The study will be taken into consideration by the Director and Lottery Commission along with public testimony provided during public hearings related to administrative rule making and the retailer contract.

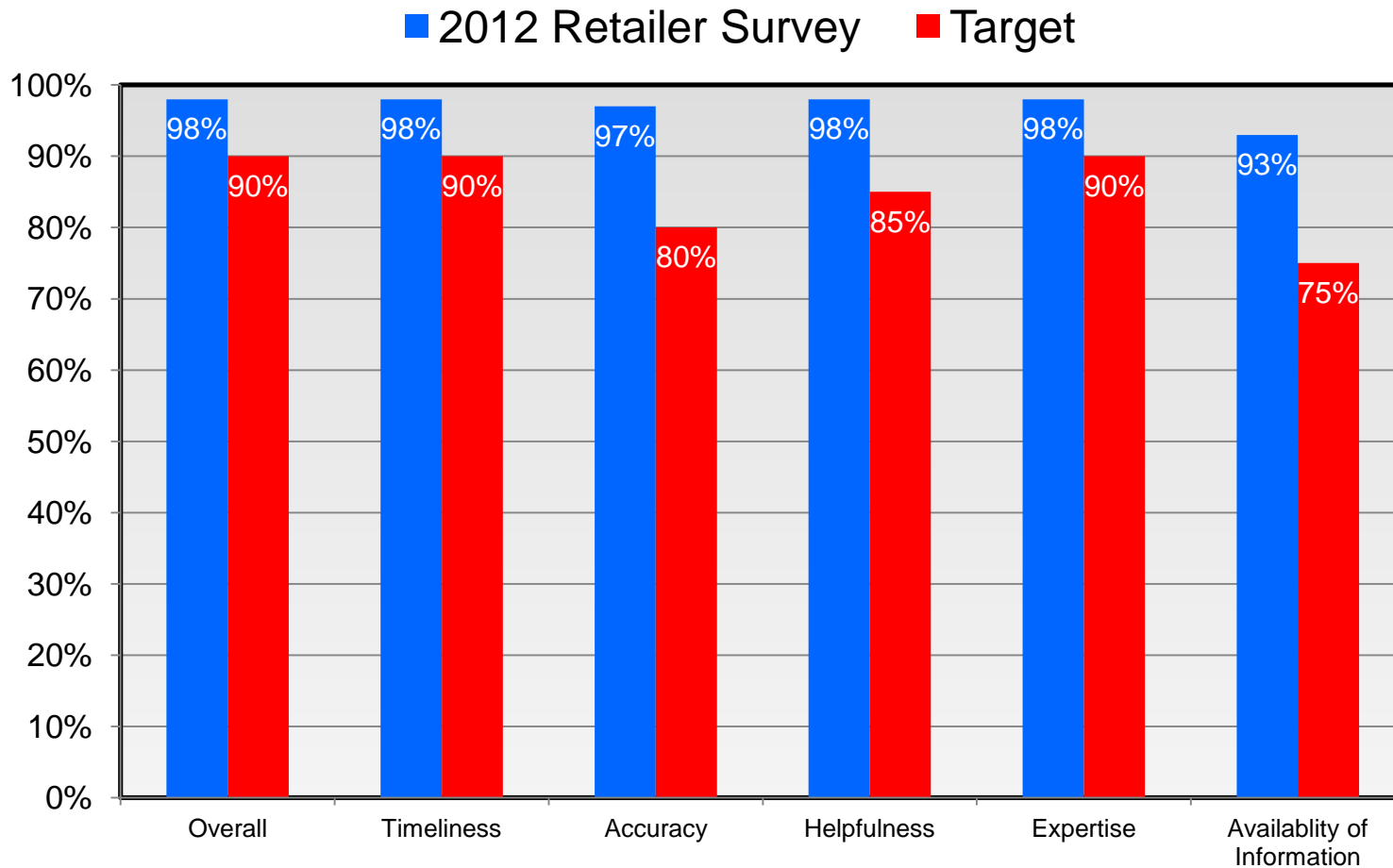


# Video Lottery Terminal Replacement Plan

- The 12,000 Video Lottery Terminals (VLTs) deployed statewide are nearing 8+ years of service. The useful life for these VLTs is 3-5 years.
- Suppliers are no longer willing or able to service these outdated VLTs. As a result, the Lottery needs to begin replacing them.
- In order to maintain a stable source of revenue, the Lottery must once again invest in replacing these VLTs. This is the third time since the inception of Video Lottery that such a replacement effort has been necessary.
- The Lottery will begin replacing the first 3,000 lowest performing VLTs along the I-5 corridor in late calendar year 2013. The Lottery will replace the remaining VLTs over the next four succeeding years.
- The estimated cost of this 5-year VLT replacement effort is \$215 million (or approximately \$43 million per year). Game refreshes for each new VLT are contained within this amount.
- The Lottery generates roughly \$740 million in net video sales per year, so the recovery of investment recovery period is relatively short.



# Key Customer Service Measures



➤ **66% of Oregonians rate the Lottery favorably. (May 2012 Tracking Study)**



# 2012 Key Performance Measures

	<b>Target</b>	<b>Actual</b>
<b>Transfers to state</b>	\$ 543.04 Million	\$ 549.05 Million
<b>Percentage of Oregonians who rate Lottery favorably</b>	60%	66%
<b>Administrative expenses as a percentage of sales</b>	Not > 4%	3.02%



Thank you

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