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Edward J. Stanek, Ph.D
President and CEO

Iowa Lottery Report On Operations

To: Members of the House Government Oversight Committee and Senate Government Oversight Committee

From: Dr. Ed Stanek, President and CEO

Date: December 2006

Calendar year 2006 saw the Iowa Lottery present the two biggest prizes yet in its 21-year history. First, a Des Moines man claimed a \$113.2 million Powerball jackpot on Jan. 3, which he had won in the drawing on Dec. 14, 2005. At the time, Hugh Hawkins' jackpot was the largest lottery prize ever won in Iowa. But that was eclipsed in October by the winners of another large Powerball jackpot!

On Oct. 4, Tim and Kellie Guderian of Fort Dodge claimed a \$200.8 million Powerball jackpot from the drawing on Sept. 23. Their prize now ranks as the largest lottery prize ever won in Iowa.

The Guderians bought their winning ticket at Kum & Go, 115 N. 22nd St. in Fort Dodge. The winning numbers in the Sept. 23 drawing were: 13-21-26-45-50 and Powerball 20. The Power Play® number was 4. The jackpot-winning ticket matched all six numbers drawn and became the sixth ticket sold in Iowa to win the game's big prize. The Guderians' ticket also was the 89th purchased in Iowa to win a prize of \$1 million or more.



Iowa Lottery CEO Dr. Ed Stanek presents Tim and Kellie Guderian with a ceremonial check for their Powerball jackpot win.

The couple chose to receive their Powerball jackpot in a lump-sum payment of \$95,974,824.23.

Tim Guderian, 36, is a former U.S. Marine Corps member who served in the Gulf War and left active duty in 1994. He now works as an automotive detailer at Irwin Auto Co. in Fort Dodge. Kellie Guderian, 44, has worked at Wal-Mart for nine years.

The couple said they plan several charitable donations, most within the Fort Dodge community, including gifts to the Fort Dodge Community Foundation to be used for community projects; the Christ Lutheran Church where they are members; and the Humane

Society of North Central Iowa to be used toward the building of a new animal shelter. Both said they plan to continue working and aren't anticipating any big lifestyle changes.

The Iowa Lottery's five previous Powerball jackpot winners are:

- Ed Brown of Washington, who split a \$10.4 million jackpot with a Missouri woman in December 1992.
- Tim Schultz of Des Moines, who won a \$28 million jackpot in February 1999.
- The Larry Hasken family of Sabula, who claimed a \$31.8 million jackpot in January 2000.
- Jacquelyn Moore of Omaha, Neb., who won a \$14.4 million jackpot in October 2004 (she bought her ticket at a convenience store in Carter Lake in western Iowa).
- Hugh Hawkins of Des Moines, who won a \$113.2 million jackpot on Dec. 14, 2005.

Powerball tickets are sold in Iowa, 28 other states, Washington, D.C., and the U.S. Virgin Islands.

Record Sales, Profits In Fiscal Year 2006

The Iowa Lottery achieved record sales in its latest fiscal year and raised nearly \$81 million for state programs. Some key financial highlights from FY 2006:

- Lottery sales increased for a fifth straight year. For fiscal year 2006, lottery sales totaled more than \$339.5 million, which marked the highest sales total for the lottery since its start in 1985. The lottery's previous sales record of \$210.7 million was set just a year earlier. Overall, sales were up over 61 percent in fiscal year 2006 after a 1 percent increase in fiscal year 2005 and an 11 percent increase in fiscal year 2004.
- Lottery proceeds for state programs were nearly \$81 million for fiscal year 2006, an increase of over 58 percent from the previous year. The lottery's previous record for proceeds to the state was set in fiscal year 1995, when \$58.2 million was raised for state programs.
- Changes introduced in the Powerball game in August 2005 were reflected in the Lottery's strong 2006 results, with Powerball sales increasing more than 31 percent to \$71.1 million, a record level in Iowa (the previous record of \$65.9 million was set in FY 2004). As a result of the changes, jackpots now begin at \$15 million compared to the \$10 million in years past and the prize for matching the first five numbers without the Powerball has doubled to \$200,000.
- Sales of instant-scratch tickets, the first product introduced by the lottery and always one of its sales leaders, were also up in fiscal year 2006 compared to a year earlier, increasing more than 3 percent to nearly \$106.6 million. That was a record for instant-scratch ticket sales in Iowa (the previous record of \$103.9 million was set in FY 1995).
- Net revenue from TouchPlay machines totaled more than \$121.4 million in fiscal year 2006, compared to \$6.4 million in fiscal year 2005. The TouchPlay program was ended in May 2006.
- Since the Lottery's inception in 1985, more than \$2 billion has been awarded in prizes and more than \$1 billion has been raised for state programs.

Lottery Budget

In the Lottery's June report to the Oversight Committees, it noted that the Lottery Board had voted unanimously in June to adjust the Lottery's FY 2007 budget to reflect three major areas of change:

- The discontinuation of the TouchPlay program. With the end of the program, the estimate of Lottery sales for FY '07 was decreased from a projected total of \$241.5 million to \$212 million.
- Salary adjustment. For budgeting purposes, salary projections for lottery personnel are based on rates in existence at the time the lottery budget is prepared, which is from nine months to one year before the beginning of the fiscal year. Under state law, the Lottery may not accept funds from the General Fund and the Board must therefore make budget adjustments out of Lottery revenues to cover salary-adjustment costs. The increased salary costs include cost-of-living adjustments, merit increases and increased health insurance costs. The Board approved the same pay increases for lottery employees as the Legislature approved for all contract and non-contract executive branch employees.
- Utility costs. The cost of natural gas has been much higher than expected and projections indicate that the per-unit cost of natural gas will continue to be volatile until additional supplies can be located and made available.

At its meeting in August, the Lottery Board approved the FY 2008 budget for the lottery. There are very few differences from the FY 2007 budget amendment approved by the Board in June. Copies of Lottery Operations budget and the budget for the Lottery Fund are both included with this report as Attachments A and B.

The voting members of the Iowa Lottery Board are: Chairperson Tim Clausen, a Sioux City attorney; Vice Chairman Mike McCoy, an insurance executive from West Des Moines; Elaine Baxter, a former secretary of state from Burlington; Mary Junge, an accountant and lawyer from Cedar Rapids; and Mike Klappholz of Cedar Rapids, the Cedar Rapids chief of police. State Treasurer Michael Fitzgerald is an ex-officio member of the Board.

Product Of The Year Award For "Lucky 7's" Game



In July, the Iowa Lottery was recognized with an industry Product of the Year award for its "Lucky 7s" game, the first product to combine two lottery tickets into one.

2006 marked the second straight year that an Iowa Lottery game had received a product of the year award.

Tickets in the "Lucky 7s" game feature an instant-scratch game on the front and a pull-tab game on the back. The \$5 game offers prizes ranging from \$5 to \$50,000 and has proven so popular with players that the lottery placed an



additional order for it within a month of its sales start in April. The new round of tickets, in blue as opposed to the original game’s yellow tickets, began sales in mid-June. A third version of the game, this one called “Twice Lucky,” is slated to begin sales in January.

“Lucky 7’s” received a 2006 lottery product of the year award from Public Gaming Research Institute, a Kirkland, Wash.,-based organization that researches the gaming industry. The award was given in July at PGRI’s International Expo conference in Las Vegas by a committee of judges that included executives from several U.S. lotteries and lotteries in Uruguay, Spain and El Salvador.

Lucky 7’s was the Iowa Lottery’s 21st game at the \$5 price point, but the double-sided tickets proved so popular that sales during their first eight weeks were double those of other \$5 games in the past decade. The game was produced and printed by Pollard Banknote Limited of Winnipeg, Manitoba, one of the companies with which the Iowa Lottery has contracts for ticket printing.

In 2005, another Iowa Lottery game was recognized with a product of the year award from two lottery-industry groups. Quarter Play, the world’s first battery-powered, electronic version of the instant-scratch game, was released for statewide sales by the Iowa Lottery in May 2005. PGRI made Quarter Play its product of the year, as did the North American Association of State & Provincial Lotteries, which represents lotteries in the United States, Canada and Mexico.

The objective of the PGRI awards program is to promote understanding of the most successful new lottery products and help lotteries generate more money for the valuable causes they benefit. To be selected as product of the year, a game must be in use in at least one lottery jurisdiction; be regarded as successful; be broadly applicable to other jurisdictions; and offer substantial benefit to new locations that would implement it.

Newest Electronic Game Cards

The Iowa Lottery’s electronic game cards, a worldwide “first” when they were introduced in October 2004, continue to be a popular product in the marketplace.



The third version of the game card went on sale in late July, and a fourth version is slated for release this spring.



The current game card, called “Pocket Poker,” features a card-game theme, sells for \$20 and offers a top prize of \$500. Each card is loaded with 80 plays.

The Iowa Lottery was the first in the world to introduce the battery-powered version of the traditional instant-scratch game. Each electronic game card is about the size of a driver’s license. Players activate the card by pulling off a plastic tab on the back,

then push the “play” button on the front to get started. Each play loaded onto the card is the equivalent of an individual scratch ticket. But in the case of the game card, an electronic play replaces the traditional scratch area on a paper ticket. Small LED screens on the front of the game card display the numbers in a particular play and show whether that play has won a prize.

The fourth version of the game card, called “Crazy 8’s,” will feature a pool-game theme, sell for \$20 and offer a top prize of \$5,000. It is scheduled to go on sale in spring 2007.

Lottery Self-Exclusion Program



Since December 2005, the Iowa Lottery has offered a player “self-ban” policy to address issues related to problem gambling. The lottery has worked throughout this past year to provide information about the program to the public.

In addition to information about the program that the lottery offers on its Web site at www.ialottery.com, the lottery has developed a brochure about the program and distributed copies to the 10 agencies across the state that provide treatment and prevention services through the Iowa Gambling Treatment Program.

In addition, the lottery has provided copies of the brochure to state Gambling Treatment Program administrators at the Iowa Department of Public Health. The lottery also has copies of the brochure available at its five regional offices in the state.

A copy of the brochure is included with this report as Attachment C.

The lottery’s self-ban policy allows players to sign contracts stating that they are problem gamblers and wish to enter into voluntary self-exclusion agreements with the lottery. The agreements ban those players from the lottery’s five regional offices in the state and allow the lottery to deny payment of any prize at a lottery office to those players.

Under the policy, a lottery player who wishes to enter into a lifetime self-ban agreement with the lottery can sign a contract provided by the lottery and have it notarized, then turn it in to the lottery (the player also can fill out the agreement at a lottery regional office, where a number of lottery staffers are notaries). In the contract, players acknowledge that they are problem gamblers and that their ability to claim lottery prizes is an unwelcome incentive for them to play. The players acknowledge that they want to reduce their incentive to play lottery games by entering into a self-exclusion agreement restricting them from claiming prizes at lottery offices.

The lottery honors the players’ requests by maintaining a computer database of the names and Social Security numbers of those who have signed the contracts. The lottery checks information against the database whenever someone tries to claim a prize at an Iowa Lottery office. Those players on the list are denied prize payment.

The lottery also removes from any mailing or promotional lists the names of those players who have entered into self-ban contracts.

On-Going Issues

New and expanding casinos in Iowa: In calendar year 2006, three new casinos opened in Iowa while another is scheduled to open in early 2007; expansions were underway at several existing casino properties in Iowa, including major expansions in Council Bluffs and Altoona; and a riverboat casino that currently splits its time between Fort Madison and Burlington was given permission to operate as two permanent casinos in each of those communities.

While the Iowa Lottery does not consider itself to be in direct competition with casinos, it does compete with them and any other entertainment venue for consumers' disposable income. When riverboat gambling was introduced in Iowa in the early 1990s and slot machines underwent a major expansion in the mid-1990s, there was a noticeable, negative impact on Iowa Lottery sales. After experiencing multiple-year declines, lottery sales in Iowa eventually stabilized and began to rebound in 2002. Lottery executives will continue to monitor casino expansion in Iowa and the potential impact that could have on lottery sales.

High fuel prices: Iowa Lottery executives continue to closely monitor fuel prices to determine their effects on lottery sales and profits. Gasoline prices around the world spiked into record territory in 2006 and home heating and cooling costs also have been extremely high.

With fuel prices cutting into consumers' discretionary income, sales of lottery products and other convenience items likely will be impacted. And the lottery, like other businesses, has faced higher delivery costs and seen other budget impacts from the higher fuel costs. But while some businesses can adjust the price of their products to pass along higher costs to consumers, that is not a possibility for lotteries, which sell products for firmly established prices such as 25 cents or \$1. An increase in the price of a lottery ticket from \$1 to \$1.05 would be shunned by consumers and have an extremely detrimental effect on sales.

Federal Internet gambling legislation: Although the U.S. Congress passed legislation in September 2006 designed to prohibit illegal Internet gambling, the effect of the new law remains to be seen and analysts continue to debate exactly what is spelled out in the bill. The legislation was designed to make it illegal for banks and credit card companies to make payments to online gambling sites. Estimates before Congress took action stated that more than \$12 billion was being wagered annually through more than 2,300 gambling Web sites. Many of the operations have been run from outside the United States, rendering efforts to regulate them largely meaningless.

In the weeks following Congress' action, media reports from around the globe warned that Internet gambling operators were looking for loopholes in the new law. Iowa Lottery executives will continue to monitor developments.

World Trade Organization and gambling: The new U.S. Internet gambling ban also is being scrutinized as part of legal proceedings between the United States and the small Caribbean nation of Antigua & Barbuda.

The World Trade Organization (WTO) based in Geneva, Switzerland, had given the United States until April 2006 to comply with a decision that a U.S. ban on Internet gambling from Antigua & Barbuda violates WTO rules. Antigua & Barbuda, which has invested heavily in the electronic gambling industry to improve its economy and job opportunities, had filed a complaint against the United States, basing its arguments on the General Agreement on Trade in Services (GATS) that was signed in 1994.

A WTO dispute panel and appeals body both have found for the island nation. Under GATS, the United States agreed that it would not enact any laws or take any action that

would be counter to open trade among nations signing the agreement. The United States agreed that entertainment and recreational services would be covered in GATS, but later argued that it did not mean for gambling to be included in that category.

Antigua & Barbuda had argued that because the United States allows casinos, lotteries and other forms of betting, it has no basis to claim that gambling shouldn't be included in GATS. It remains to be seen how the new U.S. Internet gambling ban will affect and/or figure into the Antigua & Barbuda case.

TouchPlay shutdown and lawsuits: During the 2006 session of the Iowa Legislature, legislation was passed that banned the operation of TouchPlay machines in Iowa. The lottery took steps to ensure that all machines were shut down by the deadline established in the legislation and all machines in the state were disabled by 11:59 p.m. May 3. The companies that owned the equipment have since removed the machines from retail locations.

More than 30 companies that had invested in TouchPlay equipment have filed lawsuits over the shutdown of the program. As of late November, five separate lawsuits were pending in both state and federal court. In addition, several companies that were retailer-operators in the TouchPlay program owe the lottery money from the sales on the machines. The lottery collected revenues through electronic funds transfers (EFT) from the companies' accounts. In the final weeks of the program, the lottery was unable to collect funds from some of those accounts. As of late November, 14 companies owed the lottery a total of about \$2.4 million.

The lottery continues to work with the Iowa Attorney General's Office about the TouchPlay-related legal matters. Under instructions from the Attorney General's office, the lottery is refraining from commenting further about the TouchPlay-related legal matters.

Open records lawsuit: The Des Moines Register filed an open records lawsuit against the Iowa Lottery regarding the release of TouchPlay sales records in March. The case was presented to a Polk County District Court judge in October and both sides await the judge's decision. Under instructions from the Attorney General's office, the lottery is refraining from commenting further about this matter.

Budget for Lottery Fund

	FY 2006*	FY 2007	FY 2008
Resources			
Lottery Sales	339,519,523	212,000,000	212,000,000
Interest	938,212	500,000	500,000
Application Fees	60,525	25,000	25,000
Other -	1,326,245	5,000	5,000
Total Resources	341,844,505	212,530,000	212,530,000
Expenditures			
Prizes	122,258,604	114,194,146	114,185,393
Retailer Compensation	107,849,743	13,782,504	13,642,595
Marketing, Education and Information	6,952,369	8,480,000	8,480,000
Retailer Lottery System	6,754,262	6,562,190	6,752,131
Instant/PT Ticket Expense	2,348,063	2,323,342	2,346,972
Terminal Communications	441,791	540,000	500,000
Terminal equipment/Ticket dispensers	62,542	100,000	100,000
PTVM/ITVM Servicing	549,354	503,076	550,000
Depreciation Expense (ITVM/PTVM/BUILDING)	1,262,138	1,401,245	1,401,245
Interest Expense (ITVM/PTVM/BUILDING)	240,811	180,592	115,000
Increase in fixed assets due to principal payment in excess of book value	605,123	598,755	598,755
Refunds/Other	16,712	2,100	2,100
PTVM/ITVM's	-	-	-
Building/Improvements	830,512	-	-
Lottery Operations	10,796,685	11,293,159	11,293,159
Total Expenditures	260,968,709	159,961,109	159,967,350
Tranfers			
Proceeds Transfer	79,166,575	51,506,241	51,500,000
Gamblers Assistance Tranfer	1,709,221	1,062,650	1,062,650
Total Expenditures and Tranfers	341,844,505	212,530,000	212,530,000

* - Unaudited

Lottery Operations - Budget Detail

	FY 2006*	FY 2007	FY 2008
Personal Services	8,462,406	9,049,084	9,049,084
Personal Travel in State	82,643	100,000	100,000
State Vehicle Operation	261,190	229,648	259,648
Vehicle Depreciation	155,455	170,111	158,250
Personal Travel Out of State	22,316	45,000	40,000
Office Supplies	129,802	99,294	99,294
Facility Maintenance Supplies	12,394	11,753	11,753
Other Supplies	943	1,996	1,000
Printing and Binding	34,253	30,000	30,000
Postage	48,989	35,000	35,000
Communications	210,400	141,300	141,300
Rentals	366,065	311,500	366,500
Utilities	114,856	116,515	116,515
Prof & Scientific Services	83,723	78,875	78,875
Outside Services	100,939	104,340	100,000
Outside Repairs	55,795	66,188	55,000
Attorney General	50,320	116,190	116,190
Auditor of State	66,110	92,750	92,750
Reimbursement to Other Agencies	195,649	257,665	200,000
ITS Reimbursement	22,908	22,000	22,000
Equipment	6,096	30,000	20,000
Equipment Non Inventory	18,391	20,000	20,000
IT Equipment (Inventory, non-inventory)	77,921	70,000	70,000
Other Expenses	130,157	91,650	107,700 (1)
Fees	1,675	2,300	2,300
MUSL Admin	85,289	-	-
Total Lottery Operations	10,796,685	11,293,159	11,293,159

* - Unaudited



**Voluntary
Self-Exclusion
Program**



Iowa Lottery Voluntary Self-Exclusion Program

Questions and Answers

Since December 2005, the Iowa Lottery has offered a program that allows a person to ban him/herself from receiving lottery prizes over \$600 as well as any lottery promotional materials. The agreement bans those players who sign it from the lottery's five regional offices in the state and allows the lottery to deny payment of any prize at a lottery office to those players.

How does the program work?

Under the policy, a lottery player who wishes to enter into a lifetime self-ban agreement with the lottery signs a contract provided by the lottery and has it notarized, then turns it in to the lottery. In the contract, players acknowledge that they are problem gamblers, and that their ability to claim lottery prizes is an unwelcome incentive to them to play. The players acknowledge that they want to reduce the incentive to play lottery games by entering into a voluntary self-exclusion agreement restricting them from claiming prizes at lottery offices.

The lottery developed a computer database containing the names and Social Security numbers of those who have signed the contracts. The lottery checks information against the database whenever someone tries to claim a prize at an Iowa Lottery office. Those players on the list are denied prize payment.

The lottery also removes from any mailing or promotional lists the names of those players who enter into self-ban contracts.

How do I get a self-exclusion form?

- You may download and print the most current version of the lottery's self-exclusion form at the lottery's Web site. Go to this address to

access the form: <http://www.ialottery.com/LegalRequirements/selfexclusionform.html>.

- Visit any Iowa Lottery regional office and staff will assist you in obtaining and filling out the form.
- Forms are also available through the Iowa Gambling Treatment Program and may be notarized at local treatment providers if that service is available.

When the form is completed and notarized, it should be returned to any Iowa Lottery regional office.

Is the lottery self-ban program affiliated with the Iowa Gaming Association (IGA) statewide exclusion program?

No. If a person has signed an IGA voluntary self-exclusion form for casinos, he/she is not automatically placed on the Iowa Lottery's self-ban list.

Iowa Lottery Regional Office Locations

2323 Grand Ave., Des Moines, IA 50312-5307
515-725-7900

2345 Blairs Ferry Road N.E., Cedar Rapids, IA
52402-1918 319-395-9313

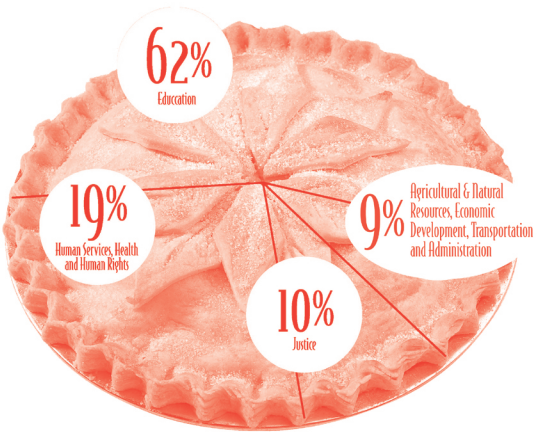
2900 Fourth St. S.W., Mason City, IA 50401-1531
641-424-6011

822 Flindt Drive, Storm Lake, IA 50588-3205
712-732-6662

Omni Centre, Ste. 8, 300 W. Broadway, Council Bluffs, IA 51503-9030 712-242-2161

Iowa Wins!

Lottery revenues fund state programs



In fiscal year 2005, \$51.1 million in lottery proceeds were deposited in the state general fund, where they are used to pay for a variety of programs. Some of the programs that receive money from the general fund include education, natural resources, health and family services and public safety. The chart* above illustrates the breakdown of how money from the general fund is distributed.

The Governor and the Iowa Legislature allocate money from the general fund based on where they believe those funds are needed most. Since 1992, Iowa Lottery proceeds have been directed to the General Fund.

In addition to the commitment to the general fund, lottery revenues are linked to the Vision Iowa program. The Vision Iowa program was created in 2000 with direct funding provided by state revenues from racetracks and casinos. However, investors indicated there was a need to strengthen the Vision Iowa bonds by dedicating \$20 million annually in lottery revenues as a backup.

The Lottery also provides a portion of its revenues to the state Gambling Treatment Program, which administers the 1-800-BETSOFF helpline for those concerned about problem gambling. Through the years, the Lottery has provided more than \$11.7 million in funding to the Gambling Treatment Program.

*Source: Iowa Department of Management - FY 2005 appropriations