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Debbs Potts Oregon State Lottery Commission Building

500 Airport Road SE
Salem, OR 97301

**OREGON STATE LOTTERY COMMISSION MEETING
June 23, 2023**

Lottery Commission: MardiLyn Saathoff, chair
Maulin Patel
Marty Ramirez
Julie Wilcox

Interim director: Mike Wells

Chair Saathoff called the June 23, 2023, Oregon State Lottery Commission meeting to order and stated for the record that Commissioner Patel is attending today's meeting via a web meeting, and a quorum of commissioners is present.

Commissioners present at roll call: Commissioners Patel, Ramirez, Wilcox, and Chair Saathoff.

A. PUBLIC COMMENT

Chair Saathoff opened the meeting for public comment. She noted for the record that members of the public had the opportunity to provide written public comment, or public comment via the web meeting or in person and shared that this portion of the meeting is an opportunity for the Commission to hear from the public. During public comment, the Commission listens but neither discusses, nor responds to questions and concerns.

- Written public comment was received from Heather Field and is posted on the website and is part of the permanent meeting materials.
- Bill Perry from Oregon Restaurant & Lodging Association was in attendance and provided comment about the proposed Video Lottery terminal equipment management rulemaking. Perry thanked the staff for working with ORLA to address their concerns and shared that the main concerns are related to Lottery's quarterly determination of the number of new retailers, which will make it difficult for new businesses to plan and obtain financing. Perry would like to see some certainty in the number of applications that are processed and noted that retailers are not operating at full hours due to staffing shortages and other supply issues. As a result, meeting the sales floor may be difficult. Perry would like to see a stair-step of the sales floor until the industry gets back to full operations.

B. DIRECTOR'S REPORT

Presenter: Mike Wells, interim director

Lottery news

Interim Director Wells shared that Lottery's roof is currently being replaced and is scheduled for completion by June 30 and thanked the facilities manager and staff for their work leading this project and overcoming some logistical hurdles.

Today's agenda includes proposed changes to some of the Video Lottery rules, and Interim Director Wells shared that the proposed changes are intended to lift the pause on Video Lottery applications and improve the overall long-term sustainability, efficiency, and profitability of the Video Lottery product. Lottery is looking forward to reopening the application process and changing the way it manages the product based on lessons learned over the past few years. Interim Director Wells shared that Lottery communicated with retailers and other partners and requested feedback as part of the rulemaking process and thanked those who took the time to share their feedback, noting that all comments were reviewed and considered. Interim Director Wells continues to recommend the proposed changes and assured the Commission and retailers that Lottery plans to implement the rule changes carefully, with ongoing review of the data to ensure the changes are having the intended effect.

Earlier this month, about 20 Lottery employees spent time cleaning up the Luckiamut State Natural Area in preparation for State Parks Day on June 3. The work is part of a restoration project, which totaled approximately \$2.4 million through July 2022. The money for this project was funded through Oregon Lottery grants from the Oregon Watershed Enhancement Board and Oregon Parks and Recreation Department. Interim Director Wells thanked the Lottery staff who volunteered.

- Chair Saathoff thanked the staff for participating in the various volunteer opportunities throughout the year.

Sales

- Overall sales remain down slightly by 1.3 percent compared to last year.
- Video Lottery sales are down about five percent compared to last year at this time.
- Scratch-it sales continue to trend downward from the peak of the pandemic but remain ahead of 2020 and 2019 sales.
- Powerball and Mega Millions are ahead of all previous years due to the recent billion-dollar jackpots. Sales are up 33 percent and 129 percent respectively.

Winners - Interim director Wells shared stories about the following winners:

- Ruth S. of Grants Pass won \$52,000 a year playing Win for Life.
- Robert P. of Neskowin won \$50,000 playing Powerball.
- Jeanne of Hillsboro won \$20,397.45 playing Big City 5's Diamond Video Lottery.

C. MINUTES OF THE PREVIOUS MEETING, Exhibit 1

Presenter: MardiLyn Saathoff, chair

The Commission reviewed the May 19, 2023, Oregon State Lottery Commission meeting draft minutes, which were circulated in advance of the meeting. There were no recommended changes.

Chair Saathoff called for a motion.

Commissioner Ramirez moved that the minutes of the May 19, 2023, Oregon State Lottery Commission meeting be approved as final, as presented today. Commissioner Wilcox seconded the motion.

The motion passed by a 3-0 quorum vote, with Commissioners Patel, Ramirez, and Wilcox voting aye, and Chair Saathoff abstaining since she was not present at the May 19 meeting.

D. FINANCIAL REPORT

Presenter: Kathy Ortega, chief financial officer

Financial statements, May 2023, Exhibit 2

Ortega provided an overview of the financial statements and described expenses and variances in the operating statement, services and supplies, and balance sheet.

- Chair Saathoff asked if Lottery has been able to identify why sales are trending downward. Ortega replied that Video Lottery sales have been slightly under forecast and shared that she has reached out to our analytics department and Office of Economic Analysis for more information but noted that it is too soon to draw conclusions as to the cause.

Chair Saathoff called for a motion.

Commissioner Wilcox moved that the Oregon State Lottery financial statements for the month ended May 31, 2023, be approved for the record as presented today.

Commissioner Ramirez seconded the motion.

The motion passed by a 4-0 quorum vote, with Commissioners Patel, Ramirez, Wilcox, and Chair Saathoff voting aye.

Commit Funds for Video Lottery terminal purchases and gaming network upgrades FY24 Lottery budget and compensation, Exhibit 3

Ortega provided an overview of the FY24 proposed budget and noted that the information was provided to the Commission earlier this month to ensure there was time for the commissioners to review the materials and ask questions. Ortega briefed the Commission on the budgeting process and highlighted some key points about revenues, expenses, and the capital budget. Ortega noted that this budget will allow Lottery to continue with the projects from the modernization budget that are in flight and return to a regular Video Lottery terminal strategy replacement program. To support the budget, Ortega asked the Commission to set aside \$35 million from administrative savings to fund Video Lottery terminal purchases and the costs associated with upgrading the wide-area network.

- Chair Saathoff asked clarifying questions about the modernization projects and if Lottery will continue to track the funds that were set aside for modernization and Ortega confirmed that since there is a balance moving from FY23 to FY24 that Lottery will continue to track the spending.
- Chair Saathoff noted that the budget includes the compensation increase for the assistant director and shared that Lottery ensures the compensation matches the industry and the job market.

Chair Saathoff called for a motion to commit funds for the purchase of Video Lottery terminals and gaming network upgrades.

Commissioner Ramirez moved that the Oregon State Lottery Commission set aside \$35 million to be committed for the purchase of Video Lottery terminals and gaming network upgrades, as discussed today, and anticipated in the proposed FY24 budget.

Commissioner Patel seconded the motion. *The motion passed by a 4-0 quorum vote, with Commissioners Patel, Ramirez, Wilcox, and Chair Saathoff voting aye.*

Chair Saathoff called for a motion to approve the FY24 budget and compensation.

Commissioner Wilcox moved that the Oregon State Lottery Commission adopt the Lottery's proposed FY24 budget, including the associated compensation increases for the assistant director as presented today. Commissioner Ramirez seconded the motion.

The motion passed by a 4-0 quorum vote, with Commissioners Patel, Ramirez, Wilcox, and Chair Saathoff voting aye.

E. MAJOR PROCUREMENTS: SCRATCH-IT TICKET AGREEMENTS, Exhibit 4

Presenter: Mike Wells, interim director

Interim Director Wells reminded the Commission that the Lottery product team is seeking approval to enter into major procurements with three vendors to provide Scratch-it printing services. The current agreements with IGT Printing, Pollard Banknote and Scientific Games International expire on June 30 and have multiple amendments to keep up with the changes needed over the last 13 years that the agreements have been active. To ensure no lapses in the current service with these vendors while negotiating the new agreements, Lottery plans to execute an amendment extending the current term by 90 days, or upon the execution date of the new agreements, whichever comes first.

- Chair Saathoff asked clarifying questions about the vendors and procurement process.

Chair Saathoff called for a motion.

Commissioner Ramirez moved that the Oregon State Lottery Commission authorize the director of the Oregon Lottery to enter into major procurements with IGT Printing, Pollard Banknote and Scientific Games International, Inc. for the purchase of Scratch-it ticket printing services and associated deliverables. These contracts are renewals of existing contracts and related costs are included in the FY24 budget. Commissioner Wilcox seconded the motion.

The motion passed by a 4-0 quorum vote, with Commissioners Patel, Ramirez, Wilcox, and Chair Saathoff voting aye.

F. RULEMAKING: VIDEO LOTTERY TERMINAL INVENTORY MANAGEMENT, Exhibit 5

Presenters: Spencer Haley, manager, operational excellence, Lyndsey Peterson, manager, gaming products portfolio, and Kris Skaro, rules and policy analyst

OAR 177-040-0001, General Application Requirements

OAR 177-040-0003, Application for Temporary Lottery Retailer Contract

OAR 177-040-0017, Additional Video Lottery Retailer Application Requirements and Lottery Authority to Prevent and Resolve Concentrations

OAR 177-045-0030, Video Lottery Game Terminals

OAR 177-045-0035, Temporary Pause on Additional Video Lottery Retailer Locations

Skaro reminded the Commission that in April, Lottery proposed rules changes to support the next phase in Video Lottery terminal equipment management, including lifting the pause on processing applications that has been in effect since December 2021. Skaro provided an overview of the proposed changes and informed the Commission of the rulemaking process and the public outreach that took place. The public comments were provided to the Commission at the end of the public comment period. Skaro shared that Lottery considered the comments and updated the proposed rules related to the quarterly process in response to some of the public comment. Lottery also conducted further analysis of the sales floor requirements in response to the public comment but are not changing the recommendation.

Haley provided an overview of the equipment management approach and explained the reasoning for Lottery maintaining the recommendation of the \$10,000 per week sales floor, including some of the metrics Lottery used in its analysis. Haley noted that Lottery will continue to monitor the data to ensure the changes are having the intended affect. Along with the continuous monitoring, Lottery will use the data that is gathered to work with staff and retailers when needed. Haley pointed out that the locations of the affected retailers are spread throughout the state and match the statewide Video Lottery demographics.

- Chair Saathoff appreciates the process Lottery went through and understands that moving the weekly threshold to \$10,000 a week is related to efficiency but asked what this means for the retailers. Haley reported that fewer terminals typically bring up the amount played on the remaining terminals and shared that retailers that have a terminal removed will also have the opportunity to get one back if and when the retailer qualifies to add a terminal.
- Commissioner Wilcox asked how many retailers have only one terminal and Haley shared that there are currently eight retailers with only one terminal. Retailers with one terminal will not have their terminal removed.

Chair Saathoff called for a motion.

Commissioner Wilcox moved that OAR 177-040-001, 003, 0017 and OAR 177-045-0030 be amended, and OAR 177-045-0035 be repealed as presented today, effective July 1, 2023. Commissioner Ramirez seconded the motion.

The motion passed by a 4-0 quorum vote, with Commissioners Patel, Ramirez, Wilcox, and Chair Saathoff voting aye.

G. COMMISSIONER COMMUNICATIONS AND OTHER BUSINESS

Commissioner Wilcox thanked the Lottery staff for the work that has gone into this rulemaking process and the outreach to the retailers.

The next monthly commission meeting is scheduled on July 28, 2023.

The Oregon State Lottery Commission approved the minutes of the June 23, 2023, Oregon State Lottery Commission meeting on July 28, 2023.

Alisa Zavala
Senior Executive Assistant
Oregon State Lottery Director's Office

Approved by:

Commissioner MardiLyn Saathoff, Chair
Oregon State Lottery Commission