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Debbs Potts Oregon State Lottery Commission Building

500 Airport Road SE
Salem, OR 97301

**OREGON STATE LOTTERY COMMISSION MEETING
March 27, 2024**

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

Director: Mike Wells

Chair Saathoff called the March 27, 2024, Oregon State Lottery Commission meeting to order and stated for the record that the commissioners are attending today's meeting via a web meeting, Commissioner Patel is excused, and a quorum of commissioners is present.

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

A. PUBLIC COMMENT

Chair Saathoff stated that members of the public had the opportunity to provide written public comment and confirmed with the clerk that no written public comments were received.

B. DIRECTOR'S REPORT, Exhibit 1

Presenter: Tai Calandriello, deputy director

Deputy Director Calandriello shared that Lottery's Chief Marketing Officer, Kathy Stromberg, retired last week and shared a message from Director Wells that thanked Stromberg for her years of public service and wished her the best in her retirement.

Deputy Director Calandriello reported that March is National Problem Gambling Awareness Month and shared that Oregonians have access to free counseling and resources through the [Oregon Problem Gambling Resource](#) website. In 2023, 2,765 calls were made to the help line and 200 chats and texts came in for assistance. Since 1992, one percent of Oregon Lottery profits, or over \$137 million to date, have funded problem gambling treatment and prevention efforts throughout Oregon.

The Oregon Legislative session adjourned earlier this month with little impact to Lottery operations. A memo outlining the bills Lottery tracked is included in the meeting materials. Legislators and agencies are looking ahead to the next session and Lottery will continue to track and provide updates as needed.

- Chair Saathoff asked about the bill that was going to define a casino and if Lottery is prepared to participate in any interim discussions related to this, if asked. Deputy Director Calandriello replied that Lottery is prepared to take part in discussions, if invited, and commented that Lottery believes the House Committee on Gambling Regulation will work toward creating a statutory definition during the next Legislative session. Chair Saathoff asked for periodic updates regarding this.

Deputy Director Calandriello reported that 95 percent of the organization completed the Gallup Employee Engagement survey. This survey is one of the Governor's expectations and is something that Lottery has been doing since 2022. Lottery values employee input and recognizes that it is critical in helping guide improvements and action plans.

The annual Governor's State Employee Food Drive wrapped up and Lottery staff donated a over \$10,000 to provide over 30,000 meals. Deputy Director Calandriello thanked the staff involved in organizing the events.

- Commissioner Wilcox thanked staff for their participation in these community events.

Sales – Deputy Director Calandriello shared the following sales information:

- The St. Patrick's Day Raffle sold out five days early this year.
- Lottery sales are up almost \$3 million, compared to this time last year, with recent Mega Millions sales helping to close the gap since last month's report.
- Win for Life daily sales are still seeing a slight lift seven months after the end of a marketing campaign.
- Scratch-it sales are even with last year.
- Video Lottery is down .9 percent compared to this time last year.
- Sports betting turnover is strong, with the total amount wagered up about 35 percent compared to last year.

Winners – Deputy Director Calandriello shared stories about the following winners:

- Donald J. of Corvallis won \$41,456 playing Keno.
- Heather D. of Salem won \$250,000 playing Second Chance.
- Genevieve and Steve H. won \$16,912.85 playing Big City 5's Diamond in Oregon City.

C. MINUTES OF THE PREVIOUS MEETING, Exhibit 2

Presenter: MardiLyn Saathoff, chair

The Commission reviewed the draft minutes of the Feb. 23, 2024, Oregon State Lottery Commission meeting, which were circulated in advance of the meeting. Commissioner Weller noted that the draft minutes included an extra word, which was not a substantive change to the content of the minutes, and the clerk noted that the word had been removed.

Chair Saathoff called for a motion.

Commissioner Ramirez moved that the minutes of the Feb. 23, 2024, Oregon State Lottery Commission meeting be approved as final, as presented today.

Commissioner Wilcox seconded the motion.

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

D. FINANCIAL REPORT, Exhibit 3

Presenter: Monique Fawver, manager, financial reporting

Financial statements, February 2024

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

- Commissioner Ramirez asked about the positive variance in the modernization spending and if Lottery anticipates the variance will lessen towards the end of the fiscal year. Fawver replied that some of the related contracting for these items have taken longer than expected so some of the expenses will carry into FY25. Fawver added that this also part of an ongoing struggle with the budget process, as often it is unknown how long the contracting will take and resource availability for these projects once the contracting is completed. Commissioner Ramirez noted that this was an issue last year and the Commission was told that Lottery was taking steps to correct this in FY24, but it does not seem like there has been much change. Fawver replied that Lottery is working on how to best estimate projects that cross multiple fiscal years and Lottery is continuing to focus on improvement for FY25.
- Chair Saathoff noted that she appreciates the variance analysis but would like Lottery to start addressing the budgeting issues. Chair Saathoff would like to hear more information about how Lottery is adjusting the budget process to be more accurate in a future meeting. Fawver shared some improvements the Commission can look forward to, including looking at variances on a quarterly basis instead of monthly and how Lottery is looking into how it can report classification issues differently.
- Chair Saathoff asked that the variance analysis include an explanation of what is primarily driving the overall variance in the summary paragraph.

Note: In response to the questions asked during the meeting, the attached memo was provided to the Commissioners after the meeting.

Chair Saathoff called for a motion.

Commissioner Ramirez moved that the Oregon State Lottery financial statements for the month ended Feb. 29, 2024, be approved for the record as presented today. Commissioner Wilcox seconded the motion.

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

E. COMMISSIONER COMMUNICATIONS AND OTHER BUSINESS

No other business was shared.

Chair Saathoff stated that the next monthly commission meeting is scheduled on April 26, 2024, and adjourned the meeting.

The Oregon State Lottery Commission approved these minutes on April 26, 2024.

Alisa Zavala, Senior Executive Assistant
Lottery Director's Office

Approved by:

Commissioner MardiLyn Saathoff, Chair
Oregon State Lottery Commission

DRAFT

OSL Commission meeting exhibits are available for one year on the [Oregon Lottery's website](#).



Memo

Date:	April 10, 2024
To:	Oregon Lottery Commissioners
From:	Monique Fawver, Manager, Financial Reporting
Subject:	Follow-up from the March OSL Commission meeting

I'm writing to provide additional detail regarding our current budget variance, how we arrived where we are, and how Lottery continues to tighten our budgeting process. At a high level, the net profit variances shown in recent reports is due to a combination of increased transparency, higher interest earnings, unrealized expenses and shifting project schedules.

Reminder, we did not rebalance the budget mid-year

In previous years, Lottery asked budget owners to evaluate their budget mid-year and identify funds they believed would not be spent or would be overspent. The funds would then be adjusted in the budget and future reporting would show variances against the adjusted budget.

It was extremely difficult to evaluate budget spending and accuracy at the end of the fiscal year when the budget was being transferred and moved throughout the year. Because of this we changed the process so reporting will continue to show over and under spending compared to the original budget, rather than a modified, mid-year budget. These over/under items identified in the mid-year review will continue to show in the budget variance amounts each month until the end of the fiscal year.

Modernization - updated report through 2/29/24

The modernization budget for FY24 was \$22,949,000 and was all classified as expense. Through February we have used \$9,249,832. However, \$3,425,515 was classified appropriately as capital which artificially creates an equivalent favorable variance for expense that will remain. The YTD variance not caused by classification differences is \$6,049,488.

- The D365 project rollover is favorable \$485,579 at the end of February. The variance included in the amount shown on the statements will continue to grow, reaching \$1,100,247 by year end. The FY24 budgeted amount was estimated before the completion of testing and launch of the application. An estimated FY24 budget included system fixes, future releases, and enhancements with many unknown variables at the time of budget creation. This project work has been closed and the application is fully operational.
- The project for making changes to Aurora allowing D365 to become the source of record for invoicing has been postponed due to vendor time constraints. We shifted the completion of Aurora invoicing discovery to FY25 and will not need funds to accomplish that. The February YTD favorable variance \$1,333,332 will grow to \$2,000,000 by year end.
- RPM phase 4 is ongoing throughout FY24. The non-classification variance at the end of February was \$2,047,183. The project is active and there is currently no reason to believe the variance will continue.
- The project for integration changes necessary for the RPM project has a YTD favorable variance (non-classification) of \$2,463,199. This work is ongoing with an expected spend from March through June of \$6,233,453.



Memo

- The data center co-location project is closed and has a negative variance of \$(231,757). This project variance will essentially close by year end.

Non-Modernization Variances

Lottery has realized favorable variances in Technology Expenses and Professional Services including:

- Projects initiated but timelines in procurement have pushed out start dates:
 - eFleet (\$200k, unknown updated costs)
 - IT Financial Management Software (\$690k, still facing procurement challenges impacting timelines)
 - Enterprise Architecture Tool (\$550k, vendor just selected. Timelines and budget TBD)
- Projects delayed by business/enterprise and likely not to complete this FY:
 - LexisNexis for 2nd Chance (\$264k)
 - IT Operating Model - On hold until post-Leadership Pipeline Institute (\$1.15m)
 - Digital Channel (\$200k)
 - Mac Hardware (\$250k) and Mac Consulting (\$100k)
- Projects Proceeding with Adjusted Costs
 - Information Security Consulting (\$3.5m, this money will be spent in this fiscal year, timing has changed due to contract and vendor requirements)
 - Enterprise Architecture Roadmap (\$5.27m budgeted, -\$900k reduced after shifts in priorities)
 - GLI Testing (\$2.3m remaining, updates TBD)

Improvements for FY25 budget planning

Last year Lottery asked managers to think hard about their budget asks and incentivized all employees in FY24 with a .5% bonus if Lottery's spending actuals were within 10% of our budget. While those efforts did generate some good discussions, we're still facing a sizeable underspend. Moving forward we're adding additional budget scrutiny on the front end of the budgeting process – continuing to shift away from the historical practice of overly ambitious budgeting.

Starting in FY25:

- Budget managers must submit one complete budget that includes a 10% reduction package.
- We implemented a budget summit for all budget managers to walk through their department budget with key stakeholders, including Finance & Accounting, to ensure the projects are aligned with strategy and not duplicated between multiple budgets in the Lottery. We anticipate this to bring clarity, understanding of priority projects, and transparency for Finance & Accounting to ensure we are budgeting in the correct categories/line items to reduce variances throughout the year due to misallocation.
- We are implementing a quarterly budget review -- a mini-version of the budget summit to discuss variances and current project status.
- We are moving to a quarterly budget variance analysis. This allows Finance & Accounting to evaluate budget variances quarterly and reduces the amount of variances with a monthly analysis.