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Debbs Potts Oregon State Lottery Commission Building

500 Airport Road SE
Salem, OR 97301

**OREGON STATE LOTTERY COMMISSION MEETING
Oct. 25, 2024**

Lottery Commission: Mardilyn Saathoff, chair
Marty Ramirez
Jeff Weller
Julie Wilcox

Director: Mike Wells

Chair Saathoff called the Oct. 25, 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 Ramirez is excused, and a quorum of commissioners is present.

Commissioners present at roll call: Commissioners 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 comment was received.

B. DIRECTOR'S REPORT

Presenter: Justin Hedlund, assistant director for security

Lottery news

AD Hedlund shared that he is standing in for Director Wells while he's attending the World Lottery Summit.

AD Hedlund informed the Commission that Shari's recently closed all its remaining restaurants in Oregon, and as a result, Lottery disabled all equipment and is moving forward with its compliance process regarding their retailer contract. Lottery staff have been working to collect Video Lottery terminals and other equipment from all the locations. It's still too early to determine the revenue impact but Lottery will monitor the metrics and report back next month.

- Commissioner Wilcox asked how many Video Lottery terminals are being returned and AD Hedlund shared that there are approximately 258 terminals being returned from 43 locations. (These numbers were corrected after the meeting. There were approximately 252 terminals from 42 locations.)

During a recent Retail Integrity Check that was conducted in partnership with Oregon State Police, an employee at the Short Stop in La Grande was caught stealing a winning lottery ticket. Oregon State Police detectives issued this person a citation for Aggravated Theft in the First Degree and Computer Crime. The case has been forwarded to the Marion County District Attorney's Office for

prosecution with a recommendation of additional charges for Theft by Deception and Forgery in the First Degree. The business has been an Oregon Lottery retailer since 2005 and does not have a history of compliance issues. Retail Integrity Checks are done routinely by Oregon State Police at Oregon Lottery retailers throughout the year to ensure Lottery's games are played with fairness and integrity.

- Discussion ensued about what determines the jurisdiction for prosecution.
- Chair Saathoff was comforted to know the integrity checks are routine and employee thefts are not a widespread issue.

Oregon's Teacher of the Year was named earlier this month. Brian Butcher Jr., a math teacher at Beaumont Middle School in Portland was presented the award along with a \$10,000 check at a surprise assembly with students and faculty. Director Wells, Lottery staff, and the Director of Oregon's Department of Education also attended the assembly. Butcher's Teacher of the Year duties will include serving as a spokesperson and representative for all Oregon teachers, and he will receive year-long professional development and networking opportunities with other state Teachers of the Year. Beaumont Middle School also received \$5,000 from Oregon Lottery as part of the honor.

Sales – AD Hedlund reported that staff will be providing a quarterly sales report later in the meeting.

Winners – AD Hedlund shared stories about the following winners:

- Elizabeth L. of Salem won \$20,000 playing a Double Strike Scratch-it.
- Heather C. of Toledo won \$25,000 playing a \$3 Disco Bingo Scratch-it.
- A player from Terrabonne won \$25,420.50 on a \$2.69 NFL four-leg parlay bet on the sports betting app.

C. MINUTES OF THE PREVIOUS MEETING, Exhibit 1

Presenter: MardiLyn Saathoff, chair

The Commission reviewed the Sept. 27, 2024, 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 Weller moved that the minutes of the Sept. 27, 2024, 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 Weller, Wilcox, and Chair Saathoff voting aye.

D. FINANCIAL REPORT, Exhibits 2-5

Presenter: Monique Fawver, manager, financial reporting

Financial statements, July 2024, August 2024, September 2024

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

- Commissioner Weller raised concerns about the reporting of investments at market value when Lottery will not realize more than face value. Fawver confirmed the reporting follows

GASB requirements and clarified that while Lottery only realizes face value, Lottery is required to report at market value. Commissioner Weller followed up with questions about required disclosures and Fawver stated that Lottery follows the disclosures required by GASB in the footnotes of the annual report. Fawver offered to meet with Commissioner Weller to get a better understanding of his questions and ensure the questions are being answered.

- Chair Saathoff asked about the variance in technology expenses and Fawver responded that the variance is mainly a result of the GASB requirements on the treatment of subscription costs and Lottery's budgeting process. Lottery begins the budgeting process about a year and a half in advance and it is difficult to have the needed information that far in advance. Accounting is working on how to best align the budget process with the timing of when information is known and noted that it is an ongoing process.
- Discussion ensued about how the contract with Oregon State Police is structured, specifically in relation to the Retail Integrity Check and if Lottery will need additional Oregon State Police staff to assist with new retailer background investigations due to the loss of the Shari's locations. AD Hedlund replied that Lottery pays for services rendered and has dedicated Oregon State Police detectives assigned as part of the contract, noting that there may be slight fluctuations due to overtime costs.

Chair Saathoff called for a motion.

Commissioner Wilcox moved that the Oregon State Lottery financial statements for the months ended July 31, August 31, and September 30, 2024, be approved for the record as presented today. Commissioner Weller seconded the motion.

The motion passed by a 3-0 quorum vote, with Commissioners Weller, Wilcox, and Chair Saathoff voting aye.

E. TEMPORARY LETTER OF AUTHORITY, Exhibit 6

Presenter: Justin Hedlund, assistant director for security

AD Hedlund reported that The Kroger Co. is attempting to purchase Albertsons Companies, Inc., which will also result in additional transactions with C&S Wholesale Grocers, LLC, 1918 Winter Street ABS LLC, and 1918 Winter Street Pacific Northwest LLC. While the sale is subject to pending lawsuits, Lottery is requesting an approval to grant Temporary Letters of Authority to these entities to prepare for an acquisition of this size. AD Hedlund explained that ORS 461.335 allows the Oregon State Lottery Commission to grant a temporary letter of authority for up to 90 days on change of ownership applications. Lottery is working with the entities to complete all related retailer application documents before the purchase deal between The Kroger Co. and Albertsons Companies, Inc. is finalized. If the applications can be submitted prior to a finalized deal, The Kroger Co. could use the 100% stock buy-out application process and would not need require the need to utilize ORS 461.335. However, if The Kroger Co. finalizes the purchase prior to Lottery submitting and approving their applications, the application type will change from a 100% stock buy-out to a change of ownership application and a Temporary Letter of Authority could be used to minimize Lottery products not being available at these locations.

- Chair Saathoff confirmed the letters may not be needed and AD Hedlund added that the letters will be used only if needed to allow the retailers to move quickly, depending on the timing of the transactions.

Chair Saathoff called for a motion.

Commissioner Weller moved that the Oregon State Lottery Commission approve the granting of Temporary Letters of Authority to C&S Wholesale Grocers, LLC; 1918 Winter Street ABS LLC; 1918 Winter Street Pacific Northwest LLC; and The Kroger Co., as presented today. Commissioner Wilcox seconded the motion.

The motion passed by a 3-0 quorum vote, with Commissioners Weller, Wilcox, and Chair Saathoff voting aye.

F. RULEMAKING

Presenter: Kris Skaro, rules and policy analyst

Cash Pop: OAR 177-084, OAR 177-010-0003, Exhibit 7

Skaro reminded the Commission that the FY25 budget and strategic plan included replacing the Lucky Lines game with a game called Cash Pop in early 2025. The game rules presented during this meeting will authorize Lottery to offer Cash Pop and includes information such as how the game works, the cost to play, the value of prizes, how winners are determined and how to claim a prize. Skaro will continue the rulemaking process, including soliciting public comment, and will report back in December when the process is completed.

- Chair Saathoff asked if this game is offered in other states and Skaro confirmed that it is and informed the Commission that more information on the game will be provided during the staff updates presentation.

Misc. prize claims and payment rule changes: OAR 177-046, OAR 177-075, OAR 177-085, OAR 177-098, OAR 177-200, Exhibit 8

Skaro reported that the proposed prize claim and payment rule changes make changes to the prize claim processes that apply when claiming a prize at Lottery, including requiring identification to claim a prize, imposing new restrictions that apply when a prize is claimed by multiple people, clarifying prize payment methods and authority and housekeeping changes to improve the accuracy and clarity of the rules. Many of these changes align with current practices or to make non-substantive updates, but some of the changes will be new for players who mail claims in to Lottery. Lottery is proposing pushing the effective date to March to use the additional time to communicate the new changes to players. Skaro will continue the rulemaking process, including soliciting public comment, and will report back in December when the process is completed.

- Commissioner Weller raised a concern about the confusion between the terms “tenants in common” and “equal share” in the proposed rules. Skaro will clarify with the Dept. of Justice that the usage of the terms is not conflicting and will confirm when the rules are brought to the Commission for approval.

G. STAFF UPDATES

Presenters: Tina Erickson, manager, lottery products portfolio; Kerry Hemphill, manager, sports betting products; Lyndsey Peterson, manager, gaming products portfolio; and Laura Sofro, senior manager, business analytics and insights

Lottery products

Erickson shared that sales for lottery products were in line with expectations, with a slight percentage difference due to the launch of new games in the scratch environment. Erickson highlighted an increase in the average purchase value for business year 2024, attributing it to customers moving from lower to higher price points, as shown by four of the top five sellers this

quarter being \$10 to \$20 tickets. Erickson noted that the next quarterly update will include a report on holiday game sales and the launch of a \$30 ticket.

- Chair Saathoff asked what price point is the most popular and Erickson shared that the \$5 price point seems to be the most popular.
- Commissioner Wilcox asked if this is Oregon’s first \$30 ticket and Erickson confirmed that it is.

Erickson shared that IGT Printing reported that in FY24, Oregon was one of six out of 45 jurisdictions that sell scratch tickets, that saw an increase in instant sales and attributed this to the addition of a \$20 crossword line, the introduction of limited tier games, and the development of games with no break-even prizes.

Jackpot and Keno sales are down year-over-year which is attributed to lower jackpots. Sales for these games are driven by jackpots.

Erickson shared information about Cash Pop, which was developed by IGT and is offered in over 14 jurisdictions in various ways. Erickson gave an overview of the game highlights and added that players like the flexibility and ease of the game. The decision to introduce this game was based on a financial analysis of its potential compared to other games and Erickson added that this is a good opportunity to infuse the portfolio with something different.

- Commissioner Wilcox and Chair Saathoff expressed their support for Lottery’s efforts to increase revenue for state programs.

Video Lottery

Peterson provided a quarterly update on Video Lottery, reporting that year over year sales were up nearly two percent for the quarter, despite it being the slowest period for this product historically.

Peterson provided an update on the Video Lottery terminal replacement cycle and shared that Lottery has ordered 1,200 additional Light and Wonder Kascada terminals that will be delivered in FY25. Approximately 70 percent of the E20s, which is the oldest model, have been replaced in the last year and a half.

Testing of IGT’s Fort Knox bonus game has been completed and will be deployed this next quarter. Peterson explained that this game is a bonus game that is part of other games, known as host games. This game offers players an opportunity to win one of five tiered, incrementing bonus pots anytime they are playing one of the host games. Fort Knox will be launched as a bonus feature with two host games, Samurai 888 Katsumi and Las Vegas Cash Eruption. Performance of the game will be closely monitored, and more information will be provided next quarter.

Sports betting

Hemphill shared that the first quarter saw over \$184 million in wagers/turnover, and \$23.3 million in gross gaming revenue, which is a \$7.6 million increase over last year.

Year-over-year growth included:

- The number of unique active customers was up 24 percent.
- The number of bets placed was up 27 percent.
- The turnover was up 22 percent.
- Gross Gaming Revenue was up 49 percent.

Hemphill shared that the top sports this quarter were baseball, the start of NFL regular season, and table tennis. The Summer Olympics helped generate close to \$5 million in turnover and \$470,000 in gross gaming revenue and favorites included basketball, soccer, and tennis.

- Commissioner Wilcox asked if Hemphill had any information on the WNBA and Hemphill replied that she didn't have that information with her but shared that there was a positive increase.

Hemphill pointed out that there is a new product feature called DraftKings Paid Pools that are live within the sports betting app. The paid pools are a new wagering option that adds a social aspect to sports betting. A fact sheet has been posted on the website and in the app and there are tutorials to help players learn how to play.

The second quarter of FY25 will offer MLB World Series, NFL, NBA, NHL games.

- Chair Saathoff asked for a breakdown of the revenue contribution from sports betting as a percentage of overall revenue, and Sofro reported during the following section that it represents 5.4 percent of the game portfolio, which is up compared to the previous fiscal year.

Lottery revenue, transfers and payout trends

Sofro presented the net revenue, transfers and comparison to the June 2024 DAS forecast for the first quarter, including the following statistics:

- Overall net revenue was \$354.1 million, .4 percent lower than the previous year, and 1.4 percent below the net revenue forecast from June.
- Overall transfers are 1.3 percent lower year-over-year, and 1.3 percent below the transfer forecast.
- Sports betting experienced a 60 percent increase in net revenue and transfers year-over-year.
- Video Lottery performance was stable.
- Lottery products, which includes jackpot games and Scratch-its, was down 22 percent - attributed to lower jackpots in Q1 FY25 compared to Q1 FY24.

Sofro shared that gross revenue was \$4.2 billion, with Video Lottery accounting for 93 percent of total gross revenue and 83 percent of total net revenue. Sofro added that 91.7 percent of total gross revenue was paid out in prizes to players.

Sofro reviewed the actual and projected quarterly net revenue over the 23-25 biennium, noting that Lottery experienced a .4 percent decline to \$354.1 million in quarter one in FY25 to FY24. Sofro pointed out the seasonal trends and noted that the DAS forecast that was released in September estimates revenue for the second quarter to reach \$372.6 million.

- Chair Saathoff commented that she finds this information to be helpful and appreciates this information being added to the presentation.

H. COMMISSIONER COMMUNICATIONS AND OTHER BUSINESS

The Commissioners expressed their appreciation for the Lottery staff's work and the information that was shared during the meeting.

Chair Saathoff stated that the next monthly commission meeting is scheduled on Nov. 22, 2024, and adjourned the meeting.

The Oregon State Lottery Commission approved these minutes on Nov. 22, 2024.

Alisa Zavala, Senior Executive Assistant
Lottery Director's Office

Approved by:

Commissioner MardiLyn Saathoff, Chair
Oregon State Lottery Commission

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