OREGON STATE LOTTERY

- Terminology
- History
- Net Proceeds
  - Traditional
  - Video
- Transfers
- Issues
LOTTERY TERMINOLOGY

- Revenue
  - Game
  - Other (interest and unclaimed prizes)

- Prizes

- Net Receipts = Game Revenue Less Prizes

- Expense
  - Game
  - Operating
  - Contingency Reserves

- Net Proceeds = Net Receipts Less Expense
LOTTERY HISTORY

1984 Created by Initiative Petition
- Traditional Games
- Net Proceeds Dedicated to Economic Development

1989 Legislative Action
- Created Sports Action Lottery
- Authorized Video Lottery (suspended by Governor)

1991 Legislative Action
- Implemented Video Lottery, prohibited private lotteries
- Dedicated 2.5% of Net Receipts to counties

1995 Referred Measure # 21
- Added “financing public education” as allowable use
- Gave lottery bonds first claim on revenue
- Dedicated 15% of Net Proceeds to Education Endowment Fund

1998 Initiative Petition (Ballot Measure # 66)
- Dedicated 15% of Net Proceeds to Parks, Beaches, and Watershed Protection
Lottery History (cont.)

- **1999 Legislative Action**
  - Dedicated not less than 1% of Video Net Proceeds to Problem Gambling

- **2002 (3rd SS) Legislative Referral**
  - Converts EDF to Education Stabilization Fund (ESF)
  - Lottery Dedication Increased, Conditionally
    - If Fund Balance < 5% of GF, 18% to ESF
    - Else 15% to School Capital Matching Subaccount
  - Allows Appropriation of Principal, Conditional
    - 3/5 Vote Plus Specified Economic Conditions or Emergency

- **2005 Legislative Action**
  - Repealed Sports action and like games.
  - Dedicated 1% of Net Proceeds to Collage athletic programs.
Traditional Lottery Games
2007-08 Net Receipts

- Instant Tickets: 34%
- Daily 4/Win for Life: 2%
- Keno: 29%
- Multi-State Lottery: 24%
- Megabucks: 10%
- Other: 1%

$118.7 million
VIDEO LOTTERY
Lottery Distributions

- Lottery bonds
- 2.5% (Video net receipts) county economic development
- 18% Education (ESF) up to 5% of GF, then 15% to School capital sub account.
- 15% to Parks and recreation. ½ to parks, and ½ to fish and wild life
- 1% to college athletics
- 1% minimum to Problem gambling
- 1% county fairs

The rest for legislature to allocate to one of the uses mentioned above.
2009-2011 Lottery Distributions

$1,409.2 Million

Leg. Approp. 53.4%

Revenue Bonds 11.8%

Education Stability 14.8%

Parks & Recreation 14.0%

Counties/Fair 4.2%

Other 1.9%
ISSUES

- Line Games
- Video Payout Percentage
- Retailer Compensation
- Lottery Expense
- The smoking ban
- The perfect storm (Snow and freeze, The economic meltdown, trivialize the Ban)
Line Games

✓ Lottery (Line Games) explosive growth

✓ Video net receipts, % change
   ✓ 2003-05 $131.7 million 13.5%
   ✓ 2005-07 $460 million 41.4%
   ✓ 2007-09* $242 million 15.4%

✓ Dollars in, % change
   ✓ 2003 7.2%  
   ✓ 2004 6.7%  
   ✓ 2005 8.3%  
   ✓ 2006 31.8%  
   ✓ 2007 23.1%  
   ✓ 2008 8.9%  
   ✓ 2009* ?? Predicted

We used to ask 30% growth for how long??
Video Prize Percent


- 85%
- 86%
- 87%
- 88%
- 89%
- 90%
- 91%
- 92%
- 93%
- 94%
- 94%
Annual Growth: Video
## Video Compensation Rates

**OLD Rates**

<table>
<thead>
<tr>
<th>Annual Net Receipts</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 200,000</td>
<td>35%</td>
</tr>
<tr>
<td>200,000 to 400,000</td>
<td>30%</td>
</tr>
<tr>
<td>400,000 to 600,000</td>
<td>25%</td>
</tr>
<tr>
<td>Over 600,000</td>
<td>20%</td>
</tr>
<tr>
<td>Average</td>
<td>32%</td>
</tr>
</tbody>
</table>
## Video Compensation Rates

### New Rates 2004

**Poker only**

<table>
<thead>
<tr>
<th>Annual Net Receipts</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3-Tier Option</strong></td>
<td></td>
</tr>
<tr>
<td>Up to 175,000</td>
<td>32.5%</td>
</tr>
<tr>
<td>175,000 to 475,000</td>
<td>26.0%</td>
</tr>
<tr>
<td>Over 475,000</td>
<td>17.0%</td>
</tr>
</tbody>
</table>

| **2-Tier Option**   |      |
| Up to 650,000       | 26.0%|
| Over 650,000        | 19.0%|

- **Estimated Overall Blended Rate**: 28% to 29%
## Video Compensation Rates

### New Rates Video (2005)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>4-Tier Option</strong></td>
<td></td>
</tr>
<tr>
<td>Up to $175,000</td>
<td>29%</td>
</tr>
<tr>
<td>$175,000 to $475,000</td>
<td>24%</td>
</tr>
<tr>
<td>$475,000 to $800,000</td>
<td>15%</td>
</tr>
<tr>
<td>$800,000 and up</td>
<td>12%</td>
</tr>
<tr>
<td><strong>3-Tier Option</strong></td>
<td></td>
</tr>
<tr>
<td>Up to $600,000</td>
<td>23.0%</td>
</tr>
<tr>
<td>$600,000 to $1,800,000</td>
<td>18.5%</td>
</tr>
<tr>
<td>$1,800,000 and up</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

- **Estimated Overall Blended Rate**: 22% to 26%
## Video Compensation Rates

In 2007 if sales exceed $805,000 because of line games, then Rates change

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</tr>
<tr>
<td>$475,000 to $800,000</td>
<td>14%</td>
</tr>
<tr>
<td>$800,000 and up</td>
<td>11%</td>
</tr>
</tbody>
</table>

| **3-Tier Option**           |            |
| Up to $600,000              | 22%        |
| $600,000 to $1,800,000      | 17.5%      |
| $1,800,000 and up           | 11%        |

- Estimated Overall Blended Rate: 21% to 25%
Retailer Compensation
One view of Revenue

Gross Revenue

Net Revenue

Retailers commissions makes the difference

Retailer Compensation

0 100 200 300 400 500 600 700
1% 6% 11% 16% 21% 26% 31% 36% 41% 46% 51% 56% 61% 66% 71% 76% 81% 86% 91% 96%
Retailer Compensation

Another view of Revenue

Gross Revenue

Net Revenue

Retailer Compensation

0% 100% 200% 300% 400% 500% 600% 700%

1% 6% 11% 16% 21% 26% 31% 36% 41% 46% 51% 56% 61% 66% 71% 76% 81% 86% 91% 96%
Lottery Expense Percents

- Traditional
- Video
- Total

Year:
- 1984-85
- 1986-87
- 1988-89
- 1990-91
- 1992-93
- 1994-95
- 1996-97
- 1998-99
- 2001-02
- 2003-04
- 2005-06
- 2007-08

Expense Percentages:
- 0%
- 2%
- 4%
- 6%
- 8%
- 10%
- 12%
- 14%
- 16%
- 18%
- 20%
What is happening this year

The smoking ban: Expectation of 1 to 2% decrease in growth rate. At the time of 30% increase,

Who is going to notice???

Forecast now estimates the impact about $7.5 to $15 million a year.
What is happening this year

- The perfect storm (Snow and freeze, The economic meltdown, add but trivialize the Ban)
- 2 weeks of the storm (snow and freeze)
  - $8.1 million below December forecast (24.5%)
  - $9.4 million below September forecast (27.4%)
- Economic conditions (meltdown)
  - $18.7 million below December forecast (2.6%)
  - $37.9 million below September forecast (4.2%)
- Compared with last year $212 million (31.6%)