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Debbs Potts Oregon State Lottery Commission Building

500 Airport Road SE
Salem, OR 97301

**OREGON STATE LOTTERY COMMISSION WORK SESSION
JUNE 6, 2022**

NW Natural, 250 SW Taylor St., Portland, OR

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

Director: Barry Pack

Chair Saathoff called the June 6, 2022, Oregon State Lottery Commission budget and planning work session to order. Chair Saathoff stated for the record that a quorum of commissioners is present, and the work session is being livestreamed on the Oregon Lottery's website.

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

Oregon Lottery staff present: Barry Pack, Tai Calandriello, Kathy Ortega (remote), Matt Shelby, Kathy Stromberg, Mike Wells, Alisa Zavala, and Nick Elliano

Others present: Nate Carter, Department of Justice

Chair Saathoff welcomed everyone to the NW Natural office, thanked everyone for attending, and noted that the purpose of the work session was to consider the financial health of the Lottery. Chair Saathoff provided an overview of the Commission's role and emphasized that approving the annual budget is one of the most important tasks of the Commission and stated that viability, financial stability, and sustainability are critical to the State of Oregon. Chair Saathoff encouraged the Commission to ask questions during the work session and noted that no decisions would be made. Information will be brought to the Commission for approval at the June 24 OSL Commission meeting.

Director Pack reviewed the agenda for the day and asked meeting participants to introduce themselves.

Mission, Vision & Values, Business Objectives for FY 23

Director Pack shared that the focus for the next two to three years should be sustainability and relevancy to get more people playing responsibly and stated that this vision should help guide the recommendations and decision making.

Lottery's Executive Team has spent several months updating Lottery's organizational values that include the FISH (fairness, integrity, security, and honesty), reach high and respect constraints, accountability and trust, outside-in approach, become a learning organization, and diversity, equity, inclusion and belonging.

Director Pack shared the business objectives that Lottery is proposing to focus on for fiscal year 23, including sustainably funding the base budget, contingency fund and investment reserves; sustaining the Video Lottery Terminal ecosystem over the long-term; supporting ongoing modernization and operational excellence initiatives; making progress toward known play or account-based play; and rethinking how Lottery manages some projects to be more nimble.

Director Pack and staff spoke about known play, including the current state, options for what a potential future state of known play might look like, and the potential benefits of known play. Commissioners asked questions about monitoring player behavior, how the responsible gaming community feels about the concept, and how other jurisdictions use known play.

FY23 Draft Budget

Kathy Ortega and Director Pack walked through the FY23 draft budget, including profit and loss statements, services and supplies, capital projects, and the proposed business investment fund. Director Pack shared that the Executive Team spent time to build roadmaps for each of their areas that include a baseline budget and items to grow the business that will be included in the business investment fund budget, and shared high-level trends and key unknowns. Commissioners asked for clarification about specific items.

Director Pack spoke about items included in the business investment fund, noting that it is intended for new capabilities and once funded items are operational, related expenses move to the operations budget. The fund also includes a line item for research and development that is intended for discovery, exploration, and research on initiatives that Lottery may want to consider funding. Commissioners asked how this will be reported to the Commission and Ortega noted that it could be a quarterly report, similar to the capital expenditures report.

Director Pack shared information about the contingency fund, which is currently capped at \$100 million and is fully funded and recommended that the cap on the contingency fund be raised to a minimum of \$125 million. Director Pack reminded the Commission that the contingency fund is Lottery's emergency fund. The Commissioners asked for additional information on the working capital that would be needed for 60 and 90 days, and discussed what amount would be adequate and the variables that should be considered when setting the cap. The group also discussed

indexing the cap to the Consumer Price Index. Director Pack shared possible options for funding the contingency fund and the business investment fund.

Director Pack shared the purpose of business investment fund and recommended that critical expenses like Video Lottery Terminal replacements move into the operating budget to avoid false choices if, and when, cutbacks need to be taken. Staff and the Commission discussed putting a cap on the business investment fund and if a cap should be indexed to the Consumer Price Index.

The Oregon State Lottery Commission took a recess for lunch.

Executive Session

The Oregon State Lottery Commission reconvened at 12:30 pm in executive session pursuant to ORS 192.660(2)(f), which allows the Commission to consider attorney-client privileged information that is exempt from public inspection.

The Oregon State Lottery Commission reconvened the public work session at 2 pm.

Video Lottery Ecosystem

Director Pack talked about the challenges that Lottery faces with the Video Lottery program and two key issues that need to be addressed, including short-term inventory management and long-term sustainability. Director Pack shared the guiding principles that were used to make recommendations and noted that these principles will change existing operating practices. The immediate need is to replace the remaining obsolete equipment and Director Pack talked about key decisions that need to be made, including funding, timeline, and other key considerations. Discussion ensued about Video Lottery transfer rates to the State.

Director Pack shared information about optimizing the Video Lottery ecosystem over the long-term, including what to do with new retailers, existing retailers, inventory management and saturation, noting that this work would take rule changes, process changes, and potentially contract changes.

Director Pack presented recommendations for the replacement of obsolete terminals and funding, including pursuing a more fluid Video Lottery transfer rate based on business need, and asked the Commission to consider policy choices for optimized management of the product.

Interim Legislative Activity

Director Pack shared information about the Legislature's Joint Interim Committee on Gambling Regulation, noting that he presented an overview of the Lottery at the first committee meeting last week. Director Pack noted that the co-chairs do not anticipate introducing legislation during the upcoming legislative session and stated that this work may continue past the next regular legislative session.

Matt Shelby and Director Pack spoke about the tribal consultation with the tribes and upcoming opportunities to build those relationships and share information.

Shelby also shared that the Oregon Council on Problem Gambling has launched an Oregon-based research institute, in part with the use of Lottery funds.

Chair Saathoff thanked the staff for today's presentation and looks forward to the meeting at the end of the month.

Chair Saathoff noted that the next monthly commission meeting is scheduled June 24, 2022.

The Oregon State Lottery Commission approved the minutes of the June 6, 2022, Oregon State Lottery Commission Work Session on June 24, 2022.

Alisa Zavala
Senior Executive Assistant to the Commission
Lottery Director's Office

Approved by:

Commissioner MardiLyn Saathoff, Chair
Oregon State Lottery Commission

OSL Commission meeting exhibits are available at www.oregonlottery.org/about/how-we-operate/commission-and-director-info/.