

**STATE LOTTERY DEPARTMENT**  
**Lottery Board Meeting**  
**January 22, 2003**

The State Lottery Board met on Wednesday, January 22, 2003, at 9:30 a.m., at the State Lottery Department, 900 East Main Street, Richmond, Virginia.

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MEMBERS PRESENT:      Stephen C. Fogleman (Chairman)  
                                 Virginia D. Hall (Vice Chairman)  
                                 Paul J. Lanteigne  
                                 Stuart C. Siegel

MEMBER ABSENT:      Gilliam M. Cobbs

STAFF PRESENT:      Penelope W. Kyle, Executive Director  
                                 Mark D. Cannon, Director – Internal Audit  
                                 Shelton M. Coleman, Director - Information Technology  
                                 Mickey K. Collins, Director – Human Resources  
                                 Mark R. Merritt, Director – Sales  
                                 S. Kyle Rogers, Director - Marketing  
                                 Edward A. Scarborough, Director - Public Affairs  
                                 Dennis P. Shaw, Director - Security  
                                 Donna M. VanCleave, Director – Finance  
                                 Richard G. Wilkinson, Director – Lottery Operations  
                                 Barbara L. Robertson, Board, Legislative & Regulatory  
   Coordinator - Legislative & Regulatory Affairs

OTHERS PRESENT:      Dennis J. Yecke, Senior Analyst – Department of Planning  
   and Budget  
                                 Kendra B. Shifflett, Budget Analyst – Department of  
   Planning and Budget

Mr. Stephen C. Fogleman, chairman, presided and Barbara L. Robertson was the recording secretary.

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**CALL TO ORDER**

The chairman called the meeting to order and noted that a quorum was present. Ms. Kyle announced that Mr. Dennis Yecke, senior analyst at the Department of Planning and Budget, would be moving soon to Minnesota and that Ms. Kendra Shifflett will be assuming his responsibility as budget analyst for lottery matters.

MINUTES OF LAST MEETING

On motion duly made and seconded, the minutes from the regular and closed meetings held on December 11, 2002 were approved as distributed.

PUBLIC COMMENT

Mr. Fogleman then opened the floor for public comment. There was none.

FINANCIAL REPORT

Ms. VanCleave reported the Lottery's financial performance for the first half of FY 2003. She stated that sales and net income for the first half of FY 2003 were greater than during the same period last year and near forecasted levels. Sales were \$24.4 million (5%) more than last year and net income was \$15.5 million (10%) higher due to lower prize payouts and savings in operating expenses. Compared to budget, sales were almost \$7 million (1%) lower than the revised forecast, but net income was \$5.5 million (3%) ahead of budget. About \$4.2 million of the additional net income resulted from lower than statistically expected prize rates. Because prize payouts can vary significantly in the short term, the additional income realized because of low prize payouts could quickly be offset by higher payouts in the coming months.

She reported that total Lottery sales through December 2002 were \$547.5 million, which was \$24.4 million (5%) more than sales for the same period in FY 2002. All of the sales increase was in the scratch ticket product line; sales of the online products were level with last year. She explained that online sales during the same period last year were boosted by a large lotto jackpot; therefore, maintaining sales at the FY 2002 level is still a positive position. Compared to budget, total sales were nearly \$7 million (1%) below forecasted levels. All of the shortfall was experienced in the jackpot games, due to low advertised jackpots. Scratch sales were 1% more than the forecast, and daily game sales were on target. She stated that the Lottery continues to be on target for another record sales year, consistent with its forecast for FY 2003.

The total prize expense rate (prizes as a percentage of sales) was 0.8% lower through December than at this same time last year, and 0.8% lower than forecasted for FY 2003. The overall prize payout rate was 55.4% of sales, compared with 56.2% at this point last year and forecast for FY 2003. This lower prize payout rate combined with higher sales resulted in gross profit (sales minus prizes, ticket printing and retailer compensation) through December 2002 of \$13.5 million more than through December 2001, and \$1.8 million more than forecast.

FINANCIAL REPORT

The retailer compensation rate through December was 5.6% of sales, on target with the forecast. Due to the increased sales, retailers have earned nearly \$900,000 more in FY 2003 than at the same point last year.

Ms. VanCleave reported that operating costs for FY 2003 through December were \$31.2 million, which was \$3.4 million less than last year and \$3.1 million less than budgeted. Much of the additional spending in FY 2002 was for the launch of the Lotto South game; however, cost cutting and efficiency measures already implemented and reflected in the Lottery's official revenue projections are also contributing to the overall reduction in operating expenses. Several product promotions will be launched in the first quarter of the 2003 calendar year that should bring actual expenses more closely in line with budget.

With strong sales and overall prize expense slightly lower than the expected rate, net income generated through December 2002 was \$181.3 million, which was \$16.6 million (10%) more than for the same period last year and \$5.5 million (3%) more than forecasted. About \$4.2 million of the additional net income is due to lower than statistically expected prize rates. Prize payouts can vary significantly in the short term, so the additional income realized because of low prize payouts could quickly be offset by higher payouts in the coming months.

BOARD ISSUES

Nominating Committee Report and Election of Officers

Mr. Fogleman, chairman of the Nominating Committee, recommended the following slate of officers and committee members for calendar year 2003:

Board

Chairman ..... Virginia D. Hall  
Vice Chairman ..... Paul J. Lanteigne

Compensation and Personnel Committee

Chairman ..... Stuart C. Siegel  
Member ..... Paul J. Lanteigne

Audit Committee

Chairman ..... Gilliam M. Cobbs  
Member ..... Stephen C. Fogleman

Mr. Fogleman opened the floor for further nominations. There were none.

BOARD ISSUES (Continued)

Nominating Committee Report and Election of Officers (Continued)

On motion duly made and seconded, all members present voted to elect the slate of officers, as recommended by the Nominating Committee.

Audit Committee Report

Ms. Virginia Hall, chair of the Audit Committee, reported that the committee met today at 9:00 a.m. Mr. Fogleman, Mr. Cannon and she attended. Mr. Cobbs was unable to attend.

Mr. Cannon had reviewed with the committee significant findings noted in the audit reports issued since September 11, 2002. The audit division follows up annually to determine the status of management actions to address audit findings.

Mr. Cannon had provided a report on the audit division's progress in completing the audit plan for the fiscal year 2003. The audit division has completed eight audits this year. Eleven additional audits are scheduled to be completed or will begin during the second half of the year. Two of these audits, however, may be moved to Fiscal Year 2004 because two auditors will be taking Family Medical Leave for several months during the second half of the year.

He had reported that the Audit Committee reviewed the audit schedule for the second half of FY 2003. The plan includes completion of the four audits now in progress as well as five additional audits. The plan also includes time for special projects that may be requested by management and for systems development.

Ms. Hall stated that the committee will hold its next scheduled meeting in August 2003 to review progress on achieving the audit plan, discuss major findings and review fiscal year 2004 audit plan. The committee may meet on an ad hoc basis as necessary.

Minor League Baseball Sponsorships

As part of the 2003 minor league baseball sponsorship program, Mr. Kyle Rogers proposed second chance promotions with eight of the nine Virginia teams. The teams are: The Norfolk Tides, The Richmond Braves, The Potomac Cannons, The Salem Avalanche, The Lynchburg Hillcats, The Danville Braves, The Martinsville Astros, and The Pulaski Rangers. The ninth team, The Bristol Sox, will participate in the sponsorship program but is unable to conduct second chance promotions because of its nonprofit

BOARD ISSUES (Continued)

Minor League Baseball Sponsorships (Continued)

organizational structure. He pointed out that the sponsorship programs will give the Lottery an avenue for additional name and logo visibility in a cost-effective manner, it will generate additional jackpot advertising opportunities and will demonstrate the Lottery's commitment to local communities.

A component of the sponsorship program will be nightly second chance promotions conducted by the eight sponsored teams. The total cost of the sponsored second chance promotions for the sponsorship program for the 2003 season is \$15,120, which includes \$11,190 for the Lottery sponsored second chance promotions and \$3,930 for promotional signage and scratcher tickets.

On motion duly made and seconded, the board members present approved the minor league baseball second chance promotion, as presented.

Advertising Update

Mr. Rogers then reported on several marketing initiatives underway, including television and point of sale advertising, and he showed several new television advertisements for Lotto South.

DIRECTOR'S REPORT

Ms. Kyle reported that pursuant to the Setoff Debt Collection Act, the Lottery made a payment to the Department of Taxation totaling \$41,697 in November and \$58,306 in December. Also, in accordance with provisions in the Lottery Law, the department transferred unclaimed prizes of \$436,899 in November and \$647,278 in December to the Literary Fund. The year-to-date total for debt setoff was \$280,145 and for the Literary Fund was \$4,392,588.

Ms. Kyle then announced the names and hometowns of recent major prize winners and stated that the current jackpots for Lotto South and Mega Millions are \$58 million and \$18 million, respectively.

She stated that during its meeting last month, the ten Mega Millions consortium member states decided to develop a more formal organization. She was elected chairman and Mr. Buddy Roogow, Director of the Maryland Lottery, was elected vice chairman. The group also adopted operating principles to govern the decision making process regarding admittance of new states, matrix changes, etc.

DIRECTOR'S REPORT (Continued)

She advised that Public Gaming and SMART-Tech will co-host SMART-Tech 2003 in Charleston, SC, in February. She and Mr. Cy Coleman will attend. She is scheduled to lead a panel discussion among lottery leaders on key issues in the lottery industry.

Ms. Kyle then reported that the Lottery's Retailer Advisory Group has been reconstituted. New members have been appointed and the group name has been changed to Retailer Advisory Council. The board members then discussed issues of interest to the Council, including retailer compensation, cashing bonuses and quarterly incentives.

Ms. Kyle reviewed two lottery-related bills under consideration by this year's General Assembly: HB 1564 (Delegate Callahan) that permits voluntary assignment of lottery prizes as collateral for a loan; and HB 2209 (Delegate Jones) that exempts from the provisions of the Freedom of Information Act lottery board deliberations regarding retailer licensing appeals.

Finally, Ms. Kyle stated that the Maryland Lottery has proposed the placement of video lottery machines at its racetracks. She then distributed newspaper articles related to lotteries and the operation of video games.

OTHER BUSINESS

Mr. Fogleman then announced that the next meeting of the board is scheduled for Wednesday, March 5, 2003.

CLOSED MEETING

Ms. Hall made the following motion:

MOVED: that, in accordance with the provisions of § 2.2-3712 of the *Code of Virginia*, the board go into a closed meeting for the purpose of discussion, consideration or review of: (i) pursuant to subdivision A 16 of § 2.2-3711, State Lottery Department matters related to proprietary lottery game information exempted from disclosure under subdivision A 37 of § 2.2-3705, specifically, game information for proposed instant games; (ii) pursuant to subdivision A 7 of § 2.2-3711, legal matters, including consultation with legal counsel and briefings by staff members, pertaining to specific legal matters requiring the provision of legal advice by counsel regarding current litigation; and (iii) pursuant to subdivision A 1 of § 2.2-3711, State Lottery Department matters related to personnel issues.

CLOSED MEETING (Continued)

The motion was seconded and approved by all members present. Mr. Fogleman then announced the conclusion of the open session, and the board went into a closed meeting.

RECONVENED MEETING

Following its closed meeting, the board reconvened in open session. Ms. Hall read the following certification for the closed meeting:

WHEREAS, the State Lottery Board has convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of The Virginia Freedom of Information Act; and

WHEREAS, § 2.2-3712 of the *Code of Virginia* requires a certification by this Board that such closed meeting was conducted in conformity with Virginia law and the motion by which the closed meeting was convened;

NOW, THEREFORE, BE IT RESOLVED that the State Lottery Board certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered by the Board.

By roll call, all members present voted in the affirmative that the certification was accurate as read.

On motion duly made and seconded, the board members present approved, as presented in the closed meeting, prize structures for Instant Games 251 through 253, 322, and 566 through 568, including the  $\pm 0.5\%$  prize structure policy adopted by the board on September 13, 2000.

ADJOURNMENT

There being no further business to come before the board, the chairman declared the meeting adjourned.

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Stephen C. Fogleman  
Chairman

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Penelope W. Kyle  
Secretary