

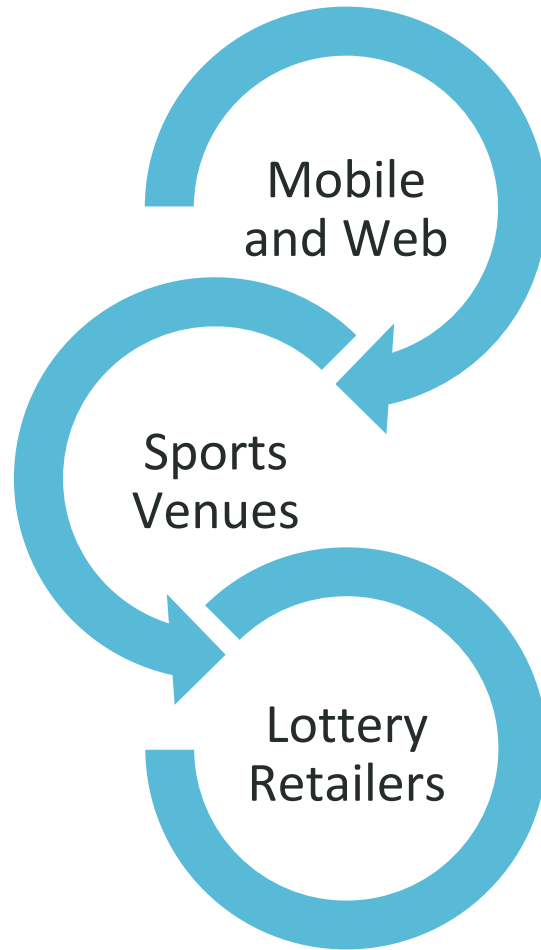


Retail Contract Renewal Forums

Agenda

1. Welcome and Introductions, Ground Rules
2. Update on Sports Betting
3. New Retail Contracts - Process and Timeline
4. Proposed Substantive Changes to the Retail Contract
5. Retailer Commissions – Setting the Context
6. Video Lottery Commission Rates
7. Traditional Commission Rates
8. Retailer Feedback (Please limit to three minutes)
9. Conclusion

MULTI-PHASED APPROACH TO SPORTS BETTING



MOBILE CHANNEL (Q3 2019)

- Mobile device wagering for sports within Oregon
- Full range of wagering options including single-event wagering and in-play wagering

RETAIL SPORTS VENUES PILOTS (Q1/Q2 2020)

- Kiosks enable wagering within sports bars and sports-themed restaurants
- Social wagering capabilities differentiate mobile and retail experience

BROAD SALES AMONG LOTTERY RETAILERS (Q3/Q4 2020)

- Parlay and simple wagering options extended to entire retailer network through upgraded lottery systems

GUARDRAILS

- Geo-fencing to prevent wagering within tribal casinos or outside Oregon
- Single player account allows seamless movement between channels
- No High Churn, High Velocity Games (like Video Lottery)
- No Fantasy Sports/Daily Fantasy
- No games that conflict with Oregon Lottery's Responsible Gambling Code of Practice

New Retail Contracts - Process and Timeline

- Retailer Forums (August 28, Portland; August 29, Albany; September 5, Medford; September 6, Bend)
- Director reviews feedback, finalizes recommendation to Commission
- Administrative Rule Process Begins (September, TBD)
- Proposed contract and administrative rules presented to the Commission (October 25, Hood River)
- Public Hearing on the administrative rules (November, TBD)
- Commission vote on final contract (December, TBD)
- Contract distributed electronically to all retailers for signature (December)
- Old contracts expires; new contracts effective – 6/28/2020

Proposed Substantive Changes to 2020 Retail Contracts

- Separating contracts into contract options: for instance, traditional only, video only, or a combo package. All will be five-year contracts.
- Specify that a retailer can not grant a security interest in Lottery proceeds to a third party (for example: a retailer can not obtain a loan with a promise to pay X% of Lottery proceeds to pay off the loan).
- Retailers are required to provide and monitor a working email address.
- Modify the “compliance with laws” paragraph so the Lottery can contract with businesses that sell hemp-based CBD products (some CBD are still illegal federally).
- Require a separate account for Lottery funds and grant Lottery a secured interest in that account in case of bankruptcy.

Lottery Retail Commissions

Setting the context.

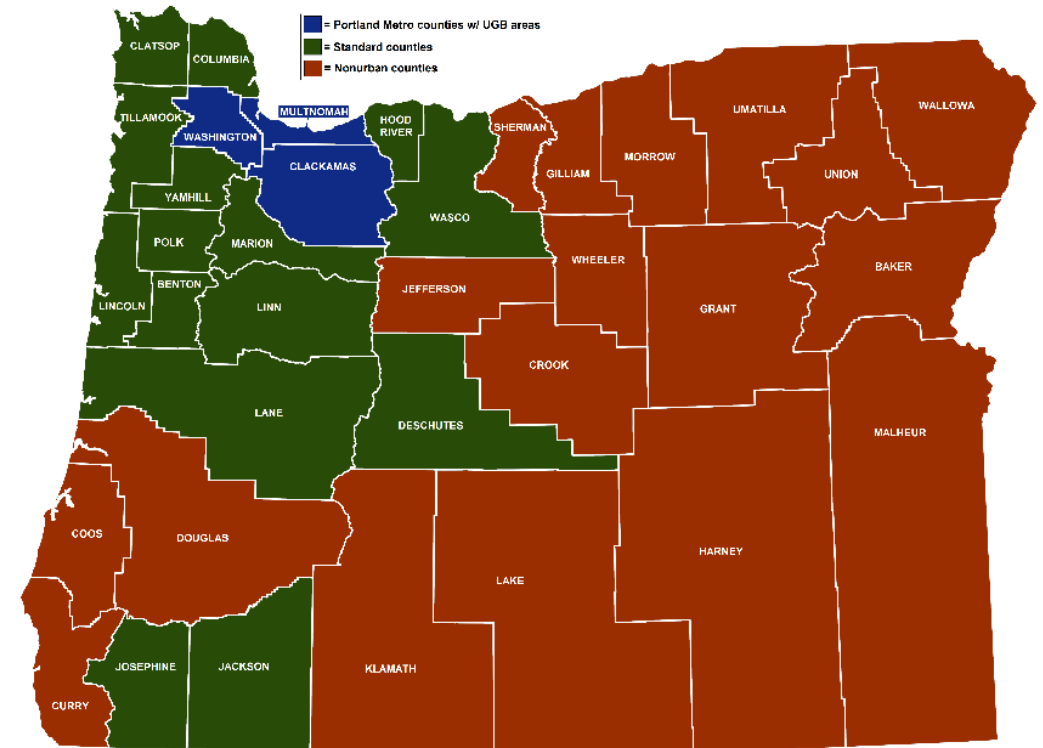
Rising Retailer Expenses | Minimum Wage & Paid Family Leave

Minimum wage will have increased by 23% (36% in Portland Metro) from the 2015 contract to the 2020 contract and will continue to rise. Additionally, the paid family leave bill that passed in 2019 may further increase labor costs for retailers.

Oregon Minimum Wage by Year

Date	Standard	Portland Metro	Nonurban Counties
July 1, 2016	\$9.75	\$9.75	\$9.50
July 1, 2017	\$10.25	\$11.25	\$10.00
July 1, 2018	\$10.75	\$12.00	\$10.50
July 1, 2019	\$11.25	\$12.50	\$11.00
July 1, 2020	\$12.00	\$13.25	\$11.50
July 1, 2021	\$12.75	\$14.00	\$12.00
July 1, 2022	\$13.50	\$14.75	\$12.50
July 1, 2023	Adjusted annually based on the US City average CPI for All Urban Consumers	\$1.25 over the standard minimum wage	\$1 less than the standard minimum wage

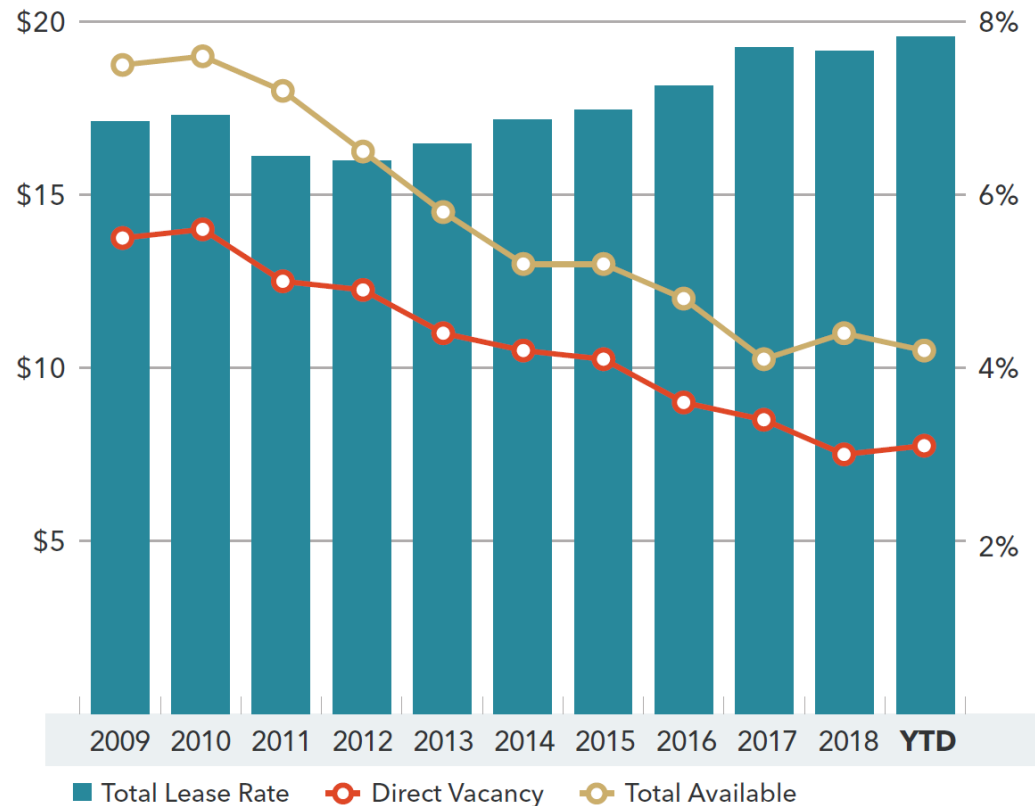
Source: <https://www.oregon.gov/boli/WHD/OMW/Pages/Minimum-Wage-Rate-Summary.aspx>



Rising Retailer Expenses | Real Estate Trends – Portland Retail

Retail property in the Portland-Metro area has become more expensive and less available over the past several years. Per kiddermatthews.com, lease rates for retail property have increased steadily since 2012 and vacancy rates have steadily decreased.

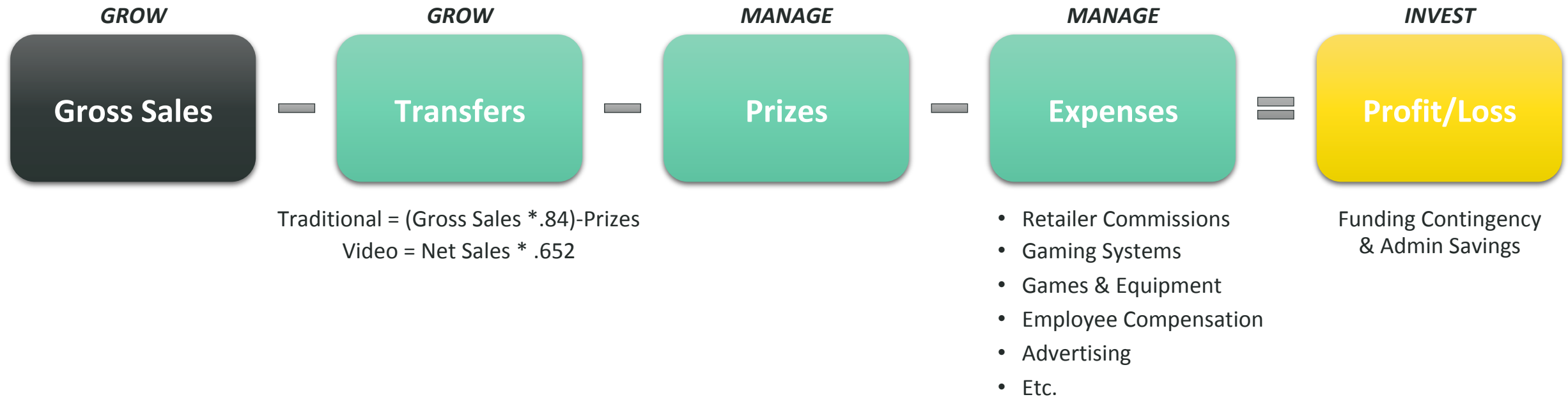
LEASE RATE, VACANCY & AVAILABILITY



Oregon Lottery Mission:

To maximize profits for the people of Oregon commensurate with the public good.

How the Oregon Lottery is Funded



Director's Objectives in Proposing New Rate Structures

- Recognize pressures felt by both retailers and the Lottery in the current market
- Support Lottery operations and future investment in games and technology
- Eliminate retailer financial barriers to offering Platinum Series games and shared jackpots across the retailer network
- Create a simpler structure that is easier to understand and predict
- Reduce disincentive to increase sales
- Minimize impact to retailers – while understanding there will always be “winners” and “losers” in any change

Current Video Lottery Retail Commissions

A Little Context.

Every \$1 Played on Video Lottery

Prizes
(92%)

Transfer
(5%)

Retailer
(2%)

Other Expenses
(1%)



Pays for gaming system, equipment, advertising, sales support, employee compensation, services, supplies, etc.

NOTE: Future investments are funded with whatever is remaining. Video Lottery ended fiscal year 2018 with a “net gain” of \$1.8 million.

Future Video Lottery Retail Commissions

Simpler structure, based on dollars played.

Video Lottery Commissions as % of Net Sales vs. Dollars Played – BY 2019

Retailer Commissions	
\$220,430,354	
Net Sales	Dollars Played
\$963,907,252	\$12,582,006,294
Commission % of Net Sales	Commission % of Dollars Played
22.87%	1.75%

Reasons to Pursue Dollars Played-Based Commissions

- Commissions no longer affected by payout % or prize amounts of any size.
 - Easier for retailers to anticipate week-to-week commission payments.
 - Retailers would never experience a negative commission week due to payouts exceeding 100%.
 - Retailers would be reimbursed their negative cash flow if validated cash slips exceeded dollars in.
- Lottery would bear all volatility associated with payout percentage.
- Commissions would be based on volume of play which can be influenced with promotions, customer service, etc.
- Lottery would be able to generate more transfers.
 - 100% adoption of Platinum Series games.
 - Introduction of jackpot prizes higher than \$10,000.
 - Introduction of linked progressives.

Commission Rate Scenarios | Video Lottery Structures

Current	Merged Current Option A&B	Two Tier Desc Gross	Four Tier Desc Gross	Flat Gross 1.75%	Flat Net 23%
Option A: \$0 - \$175K 27.5% \$175K - \$475K 23% \$475K - \$800K 14% \$800K+ 11%	\$0 - \$175K 27.5% \$175K - \$475K 23% \$475K - \$600K 22% \$600K+ 17.5%	\$0 - \$2.5M 2.2% \$2.5M+ 1.45%	\$0 - \$2.25M 2.2% \$2.25M - \$4.0M 1.75% \$4.0M - \$7.0M 1.5% \$7.0M+ 1.25%	Flat 1.75% against dollars played	Flat 23% against net sales
Option B: \$0K - \$600K 22% \$600K - \$1.8M 17.5% \$1.8M+ 11%	<i>Converted to Gross (Rounded)</i> \$0 - \$2.29M 2.11% \$2.29M - \$6.20M 1.76% \$6.20M - \$7.83M 1.69% \$7.83M+ 1.34%				

Four Tier Asc Gross	Four Tier Asc Net	Three Tier Desc Gross	Two Tier Desc Net	Parabola Four Tier Net
\$0 - \$2.5M 1.6% \$2.5M - \$5M 1.75% \$5M - \$7.5M 1.9% \$7.5M+ 2.05%	\$0 - \$200K 20% \$200K - \$400K 22.5% \$400K - \$600K 25% \$600K+ 27.5%	\$0 - \$2.25M 2.1% \$2.25M - \$3.8M 1.8% \$3.8M+ 1.5%	\$0 - \$200K 27.5% \$200K+ 20%	\$0 - \$100K 27% \$100K - \$300K 24% \$300K - \$500K 20% \$500K+ 22%

Comparison of Video Lottery Commission Structures



Scenario Type	Current Structure	Merged Current Option A&B	Four Tier Desc Gross	Two Tier Desc Gross
Minimal Impact to Retailers	Excellent	3/4	Excellent	3/4
Simple and Easy to Understand	1/4	3/4	3/4	3/4
Reduce Disincentive to Increase Sales	Poor	Poor	Poor	3/4
Product Growth Opportunity	1/4	1/4	Excellent	Excellent
Overall	1/2	1/2	3/4	3/4

Commission Rate Scenarios | Video Lottery Structures

	Current	Merged Current Option A&B	Four Tier Desc Gross	Two Tier Desc Gross
Difference Compared to Current Structure (BY 19)	N/A	\$8,512,035	\$635,425	(\$251,522)
Avg Commission per Retailer	\$93,052	\$96,649	\$93,321	\$92,946
Avg Commissions by Sales Volume per Retailer				
Avg Net Sales: \$1,082,026 Avg Dollars Played: \$14,416,733	\$215,758	\$228,838	\$217,739	\$227,793
Avg Net Sales: \$539,032 Avg Dollars Played: \$7,049,932	\$123,164	\$128,975	\$123,305	\$120,791
Avg Net Sales: \$246,587 Avg Dollars Played: \$3,135,143	\$64,112	\$64,144	\$64,178	\$62,880
Avg Net Sales: \$87,970 Avg Dollars Played: \$1,099,981	\$24,178	\$24,196	\$24,186	\$24,195

Current Traditional Lottery Retail Commissions

A Little Context.

Every \$1 Played on Traditional Lottery

Prizes
(62%)

Transfer
(22%)

Retailer
(9%)

Other Expenses
(7%)



Pays for gaming system, ticket printing, equipment, advertising, sales support, employee compensation, services, supplies, etc.

NOTE: Future investments are funded with whatever is remaining. Traditional products ended fiscal year 2018 with a “net loss” of \$2.5 million.

North American Comparisons

Nearly every jurisdiction in North America sells some form of draw and scratch games (what the Oregon Lottery calls “Traditional Lottery”).

Traditional Commission Rates

	Jurisdictions	Average commission rate by retailer
Oregon	1	8.5%
Québec; N. Carolina; S. Carolina; West Virginia	4	7 – 8%
Arizona; Colorado; Ontario; Rhode Island; Tennessee; Maine; California; Georgia; Indiana; Michigan; New Mexico; New York; Oklahoma	13	6 – 7%
Wisconsin; Vermont; Iowa; Maryland; Minnesota; Ohio; Nebraska; Atlantic Lottery; Arkansas; British Columbia; Connecticut; D.C.; Delaware; Florida; Idaho; Illinois; Kansas; Kentucky; Louisiana; Missouri; Montana; N. Hampshire; New Jersey; Pennsylvania; South Dakota; Texas; Virginia; Washington; Western Canada	29	5 – 6%
Massachusetts; Wyoming; North Dakota	3	< 5%

Future Traditional Lottery Retail Commissions

Simpler structure, aligned to market.

Commission Rate Scenarios | Traditional Structures

Current		Add 5.5%; 6%; 6.5%		Add 6%		Add 6%; \$2,000 Increments		Flat 5% to \$5K		Flat 5%	Flat 6%
\$0 - \$1,000	5%	\$0 - \$1,000	5%	\$0 - \$1,000	5%	\$0 - \$2,000	5%	\$0 - \$5,000	5%	Flat 5% against gross sales	Flat 6% against gross sales
\$1,000 - \$2,000	7%	\$1,000 - \$2,000	5.5%	\$1,000 - \$2,000	6%	\$2,000 - \$4,000	6%	\$5,000 - \$6,000	6%		
\$2,000 - \$3,000	7.5%	\$2,000 - \$3,000	6%	\$2,000 - \$3,000	7%	\$4,000 - \$6,000	7%	\$6,000 - \$7,000	7%		
\$3,000 - \$4,000	8%	\$3,000 - \$4,000	6.5%	\$3,000 - \$4,000	7.5%	\$6,000 - \$8,000	8%	\$7,000 - \$8,000	8%		
\$4,000 - \$5,000	8.5%	\$4,000 - \$5,000	7%	\$4,000 - \$5,000	8%	\$8,000 - \$10,000	9%	\$8,000 - \$9,000	9%		
\$5,000 - \$6,000	9%	\$5,000 - \$6,000	7.5%	\$5,000 - \$6,000	8.5%	\$10,000+	10%	\$9,000+	10%		
\$6,000 - \$7,000	9.5%	\$6,000 - \$7,000	8%	\$6,000 - \$7,000	9%						
\$7,000+	10%	\$7,000 - \$8,000	8.5%	\$7,000 - \$8,000	9.5%						
		\$8,000 - \$9,000	9%	\$8,000+	10%						
		\$9,000 - \$10,000	9.5%								
		\$10,000+	10%								

Commission Rate Scenarios | Traditional

	Current Structure	Add 6%; \$2,000 Increments	Flat 6%
Difference Compared to Current Structure (BY 19)	N/A	(\$5,182,441)	(\$8,311,651)
Avg Commission per Retailer	\$8,542	\$7,121	\$6,262
Avg Commissions by Sales Volume per Retailer			
Avg Gross Sales: \$274,361	\$25,529	\$22,529	\$16,462
Avg Gross Sales: \$108,093	\$8,739	\$7,116	\$6,486
Avg Gross Sales: \$86,884	\$6,582	\$5,256	\$5,213
Avg Gross Sales: \$29,665	\$1,847	\$1,560	\$1,780



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