# Memo

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| Date: | Feb. 20, 2025 |
| To: | Oregon Lottery Commissioners |
| From: | Mike Wells, director |
| Subject: | Follow up from the Jan. 31, 2025, OSL Commission Meeting |

1. During the January commission meeting, Commissioner Weller questioned why several items, including billboards and the building security upgrade project, had not been budgeted appropriately.

   Director Wells stated lottery would investigate the matter further to ensure it was not a reporting error. After a review, Lottery verified items listed under "depreciation (Indirect)" were accurately reported as variances.

   The depreciation variances were due to billboards which were budgeted as marketing expense, but upon implementation review these were deemed leases under GASB 87 and expensed as depreciation of the right of use asset. Also, the Security upgrade was part of the capital budget as well as the depreciation budget, but some of the assets were placed into service earlier than initially budgeted, so the amount of budgeted depreciation is insufficient to cover the actual depreciation.

   Lottery continues to make improvements with budgeting and minimizing budget variances including the depreciation category.

2. Director Wells told the Commission that he would provide additional history on the alternative compensation agreement process.

   **Oregon Administrative Rule:**

   **Retailer Compensation — Traditional Lottery Games** - **OAR 177-040-0025(4)** Alternative Compensation Agreements: Upon approval of the Commission, the Director may enter into an alternative compensation agreement with certain Lottery retailers to accommodate new business models aimed at the retention and recruitment of Lottery retailers offering different sales styles. Under such alternative compensation agreements, the Lottery retailer may receive a compensation rate, selling bonuses, and prize payment bonuses that are less, or more, than the rates or bonuses established in sections (1), (2), and (3) of this rule. The compensation rate and bonuses shall be determined by the Director for each agreement.

   The Commission approved a rule change effective on Oct. 1, 2009, to give the director the authority to enter into alternative compensation agreements.

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The alternative compensation structure offers an incentive-based model for any higher-volume retailer for traditional lottery products.

The threshold determined by the previous Lottery Director is $2.5 million in traditional sales per fiscal year to be eligible for the alternative compensation agreement. This threshold is not in rule and can be changed.

Compensation for traditional retailers is 8%. When approved by the Lottery Commission for an Alternative Compensation Agreement, the retailer currently receives 10% commission once the $2.5 million threshold is reached. This compensation rate is determined by the Director.

Commission structures for both video lottery and traditional are outlined in administrative rule and is not a provision of the contract.

Video Lottery retailers are not eligible for alternative compensation structures.

**<u>Current Retailers:</u>**

There are three current Retailers that have been approved for and receive Alternative Compensation.

*Hop House, LLC,* dba **Produce Row Café**, Retailer #332578, and *Broadway on Deck, LLC*, dba **Independent Sports Bar & Grill**, Retailer #314873 were approved for an alternative compensation agreement by the Lottery commission on August 28, 2020.

**The Pit Stop Sports Bar & BBQ** alternative compensation agreement was approved by the Lottery Commission on March 25, 2022. The owners of **The Pit Stop Sports Bar & BBQ** sold that business and opened a traditional only location *Game Store, LLC* dba **Game Store** Retailer #374257. An Alternative Compensation Agreement was approved on January 31, 2025.