

Lottery Commission Meeting  
April 28, 2016  
Lottery Headquarters  
Olympia, WA

## **MINUTES**

### **COMMISSION MEMBERS PRESENT**

Chair Valoria Loveland, Commissioners Laura Cantrell, Peter Bogdanoff and Fred Finn.

### **LOTTERY STAFF PRESENT**

Director Bill Hanson, Deputy Director Jim Warick, Director of Sales and Marketing Ron Smerer, Director of Legal Services Jana Jones, Director of Finance and Administration Beckie Foster, Research and Development Manager Stephen Wade, Director of Security Dan Devoe, Marketing Assistant Director Randy Warick, Sales Assistant Director Lance Anderson, Instant Product Manager Gaylene Gray, Lean Consultant Russell Burgess, Internal Audit Manager Ilene Frisch, Director of Information Services Crystal Fischer, and Executive Assistant Debbie Meyer

### **OTHERS PRESENT**

Eric Sonju Attorney General's Office; Bobby Hatam, Richard Wheeler and Steve DiMasi of IGT; Nadine Tull and Ryan Lyonnais of Cole & Weber; Ann Marie Ricard of Curator; Ron Miguel of Sci Games; and Bree Jones of Miller Nash

### **CALL TO ORDER**

9:34 a.m. Chair Loveland called the meeting to order.

## **INTRODUCTIONS**

Chair Loveland asked for self-introductions from all attendees.

## **APPROVAL OF MEETING MINUTES**

*Chair Loveland entertained a motion to adopt the minutes of the February 25, 2016 Commission Meeting.*

*Commissioner Finn **so moved** and Commissioner Bogdanoff **seconded**.*

*A vote was called for to approve the minutes of the February 25, 2016 Commission Meeting. Ayes were unanimous. **Motion carried.***

## **21-DAY SETTLEMENT**

*Chair Loveland entertained a motion to approve the filing of a CR 102 and 103 for an additional retailer settlement option allowing instant ticket settlement 21 days following pack activation as presented during the work session.*

*Commissioner Bogdanoff **so moved** that we approve the filing of the CR 102 and 103 for an additional retailer settlement option. Commissioner Cantrell **seconded**.*

*A vote was called for to approve the filing of the CR 102 and 103 for an additional retailer settlement option. Ayes were unanimous. **Motion carried.***

## **RETAILER PAYMENT ON INSTANT TICKETS**

*Chair Loveland entertained a motion to approve the filing of a CR 102 & 103 to revise the WAC that allows retailers to make payments by electronic funds transfers. If retailers are overdue or delinquent they will pay by cashier's check, money order, wire transfer or by EFT sweep.*

*Commissioner Finn **so moved** that we approve the filing of the CR 102 and 103 for additional retailer payment options. Commissioner Bogdanoff **seconded**.*

*A vote was called for to approve the filing of the CR 102 and 103 for additional retailer payment options. Ayes were unanimous. **Motion carried.***

### **DIRECTOR'S UPDATE**

Director Bill Hanson shared that the Powerball jackpot is up again and our revenue is going up. He can't think of a better time that the Lottery has been in such a great place. Our new gaming system will go live at the end of June and this is a big deal for all of us. Bill believes that the conversion is going to work just fine; he has a lot of confidence in the staff that have put in a lot of hours to make this happen. Management team is briefed on all the pieces of this conversion every Tuesday morning.

In the big world of Lottery, he hasn't seen so much innovation. When he goes to the Director's meetings and NASPL conferences, the innovation in the Lottery world is unbelievable. Some of the smaller Lottery vendors are coming up with some unbelievable things that no one has thought of that Lotteries can take advantage of and our large vendors are charging away at the same thing. You are going to see huge changes across all lotteries in the future and of course this all depends on what the legislature will allow us to do.

Bill feels that in the future that tablets and iPhones will play a big part in the future of the Lottery. He shared that at this time we are not able to do anything with the tablets because we are restricted by the legislature in what we can and cannot do. Bill believes that we will see tribal gaming change as well.

Commissioner Bogdanoff commented that now that the Lottery is funding chartered schools, will there be any issues with the legislature. He knows that we will need RCW changes and asked Bill if he had any concerns of getting the cooperation of the legislators to approve them for the innovations we want to see for the future of the Lottery.

Director Hanson stated that the Lottery's beneficiary has not changed. We will still be putting our dollars in to the Opportunity Pathway Account. This will be very interesting because it is going to get really political. We will send the money where the legislature tells us to and they can do with it what they want to do. Bill believes that the courts will have to make the decision about whether using beneficiary dollars to fund charter schools is legal.

Chair Loveland stated that as she read the packet materials she read a lot about the new innovations. She thinks the first step for the Lottery in this state is to have a discussion with the appropriate staff in the Governor's Office. We need to make sure that staff fully

understand what it is that we want to do because without the approval of the Governor we will not be able to move forward.

Chair Loveland also believes that it is very important that the commissioners be educated on the various innovations and suggested this presentation be on the August agenda.

Director Hanson has been contacted by a number of people who commented on the fact that the Lottery was going to fund charter schools and he shared that he has been telling people that our beneficiary still is the Washington Opportunity Pathway Account and that likely some of those dollars will pay for charter schools. If this Lottery wants to move forward, we will need to sit down at some point and discuss the tribal interests and Lottery and card rooms are in the mix and talk about the future so that we can try and come out with a win-win for everybody.

Director Hanson shared that on a national level NASPL, Mega Millions and MUSL are about to hire a consultant to look at those three entities to give recommendations as to how they might be restructured. When the Eddie Tipton situation happened, the Mega Millions states didn't agree on how things were handled and the result of the conversations with MUSL was the decision to hire a consultant. The consultants will look at the possibility of merging Mega Millions with MUSL and possibly NASPL too.

#### **DEPUTY DIRECTOR'S UPDATE**

Deputy Director Jim Warick started off by recognizing Beckie Foster and her team have for 26 years an award for our consolidated annual financial report. Beckie had a new staff person working on the report this year and she did a great job.

Jim shared that he and Kurt Geisreiter attended the National Indian Gaming Association conference and they both found it very interesting. It has opened some doors for us; Kurt was able to make some contacts with some of the tribal chairs in our state and by attending the conference we hope that will benefit us in the future. What was interesting was that a lot of the issues that we talk about were the very issues that were discussed at this conference too. They look at tribal gaming totally different than how most gaming is considered. To them it is caring for their community; the revenue funds things like veterans support, health care, jobs, scholarships, community infrastructure and protecting sacred areas.

Tribes are concerned about the whole cashless opportunity; they have had the ability to go cashless for ten years and tribes are just starting to take advantage of this where they can go cashless on the casino floor. One of the first tribes to take advantage of this is the

Mohegan Sun in Connecticut. Jim also learned that the US Air Force has operated cashless casinos across the world for the last five years and where they have been able to do this they have seen double digit growth in sales and they are utilizing big data in a way that has never been utilized before. Apparently the Mohegan Sun has partnered with the Discover Card and they have created a momentum plus credit card where you can load money on the card and use it at the casino; it will also allow you to load your winnings on the card and then you can take the credit card off premise and use it to purchase items where the Discover card is accepted. The beauty of this is the casino is getting all that information from the provider and so now they have a new way of reaching out and talking to their customer and create potential ties with other businesses.

Another area that the tribes are concerned about are attracting the millennials. Millennials are not attracted to gaming; they like experiences and many of the tribes were talking about the entertainment, bars, restaurants, sports facilities and swimming pools – it's all about the social interaction that they are trying to figure out how to do.

The tribes want to reduce state control in the gaming industry; there was a lot of talk about needing to respect the tribe vs. tribe because they are sovereign nations and each tribe is an individual entity. They are really interested in the whole big data and how to integrate that in to what they are doing in their casinos.

Jim and Kurt were concerned that when they introduced themselves as lottery employees that people would ask what they were doing at the conference and they were welcomed by the attendees. He said that he would be happy to take any questions that the commissioners had.

Chair Loveland shared that she had talked with Kurt, and Kurt believes that the state of Washington is way ahead of other states as far as cooperating and talking with the tribes. Chair Loveland believes Washington is on the right track with how we interact with the tribes in our state.

Jim wanted to make the commissioners aware that in July of 2015 the Gambling Commission approved what is considered group 12 amusement games which has commonly become known as nudge games and by February of 2016 there were 400 machines in our state and they look very similar to a slot machine that you would find at a casino, and part of this was somewhat recognizing patterns and being able to nudge the machine to align those patterns. Initially you could actually get cash back out of these machines. In the supplemental budget that just came out, there was a proviso asking the gambling commission to rescind their approval of these games.

At the April commission meeting they passed a couple of things, they passed that there could be 10 machines for a commercial license; there could be up to 20 machines for a charitable, non-profit and then the type of prizes that could be offered would eliminate the cash and make it merchandise or coupons only and this doesn't take effect until July 15.

Now they didn't actually vote on rescinding these games because apparently there was some concern that they hadn't gone through the proper steps so there may be at the next meeting in Pasco on May 12 and 13 and they may talk about this again and may actually take a vote to rescind. This was interesting, this just kind of exploded on the scene. One day there was an article in the Daily Olympian talking about it and then we received word on what was happening with the Gambling Commission.

Jim shared that our gaming migration was going well. Primarily right now, IGT is out doing the installs of equipment. Out of 3,634 retailers we have currently, the new GT 1200 which is the basic terminal in the store, they have got 3,033 installed, which is about 83% which is ahead of schedule – kudos to IGT on that. For our new touch machines we have roughly 1,449 to install and currently there is 497 of those installed or about 34% and so again that is also right on schedule. The initial reaction to the touch machines here has been phenomenal; customers love them, retailers love them and this is a good thing for the Lottery. From everything that we have seen, people are not bashful about walking up and interacting with the touch screen.

### **LEGISLATIVE & LEGAL UPDATE**

Legislative Services and Legal Director Jana Jones shared that things are going well at the Lottery from a legal perspective. Public records requests are remaining pretty constant. We had some public records requests related to the Eddie Tipton issue and wondering if any similar issues could happen in our state.

Jana has been working on some promotions contracts out of sales and marketing. One of the issues that she did want to mention was that the Department of Social and Health Services (DSHS) has contacted her about a new federal law that requires they work with and obtain from the State Lottery, the names of winners and social security numbers in order to determine public benefits eligibility and other programs they have. Last legislative session DSHS dropped a bill that would require that we participate in a data sharing agreement and that bill didn't go anywhere, so now they are wanting to meet with us to discuss the possibility of a data sharing agreement and it doesn't appear that we will be able to do that without statutory authority, so we are looking in to this. Eric is helping Jana and we just want to make sure that we have all the legal structures in place before we share our data with them.

Currently the only data sharing agreement we have for exchange of information of our winners is for debt collection and we have a statute that requires us to exchange this information. There are five state agencies that participate in this agreement.

Chair Loveland hopes there is a way that we will be able to share our data with DSHS without needing legislation. Jana stated that the difficulty will be around sharing social security numbers because the federal privacy act states when an agency can share social security numbers but we will look in to this and if we can go right to a data sharing agreement that is what the Lottery will do. If we do need statutory authority, Jana will talk with DSHS and let them know that will need to drop a bill with the legislature. Jana did talk with Crystal Fischer our IT director and she stated that it would be relatively easy for us to have that information and deliver it to DSHS.

### **Sales and Marketing**

Sales & Marketing Director Ron Smerer shared the good numbers. Jim mentioned all the numbers with the new machines and you saw one of the new machines in the lobby as you walked in to the building. Ron shared a few numbers with the commissioners. We started with nine stores on a soft launch and the Safeway Store in Lacey was one of them and their sales are up over \$29,000 and they were doing about \$23,000. The Lacey Fred Meyer – they are up \$17,000 and they were about \$14,000. We are seeing some substantial lifts in the stores that have gotten the touch machines.

Ron mentioned Tacoma Mall and Southcenter Mall where we have a standalone unit and the one standalone at Tacoma Mall was only doing about \$381 a week. We put the new machine in and the first week we had \$2,200 in sales and the second week it has dropped to \$1,300 in sales, but still substantially more than what we were doing before.

At Southcenter that standalone was doing about \$1,400 a week and the first week of the new machine did \$3,330 in sales. So these are kind of crazy numbers but it gives us an idea that we could be looking at a big increase in sales with the new machines.

Coming soon – this was put together before; but it is done. The SeaTac Airport kiosk is up and running as of this week. Mr. Loveland is doing a great job out there and got everything put in, signed off and it is an amazing looking unit. If you get to the airport check it out, it can be found on Concourse A, right across from gate A1. Ron shared that as we move along he believes the numbers at the airport will skyrocket also.

### **Sales Update**

Assistant Sales Director Lance Anderson shared a personnel update. We have a new RSM in the Yakima region. Scott Gatterman, who promoted from a district sales representative here on the west side is moving to the east side and he is extremely excited. Sales and marketing staff are all excited about this hire and Scott has a ton of energy and his bar is as high as anyone's at the Lottery. He has worked hard for the past seven years to put himself in a position to be promoted. You will likely see him at the August Tri-Cities meeting and Lance believes that the commissioners will see that we made a fantastic choice.

### **Marketing Update**

Marketing Assistant Director Randy Warick shared that we had a \$157M winner come in. As you can see from the picture the staff had a lot of fun and got dressed up. It is a really neat opportunity to have a big winner come in. Beckie Foster's staff person Jenna Johnson, did a great job in putting this event on. She helped get a lot of things prepared for the event – she got the shirts and cupcakes and these are neat events. It would be great if we could coordinate the event so that commissioners were able to see what goes on. Unfortunately sometimes our winners just call and say they are headed in and then we react quickly.

It was a great event and the family had a lot of fun and Randy wasn't able to attend himself because he was out on the road but he heard that the winners were really nice. We got 108 placements of basically advertising the winner and we had 230 million impressions which is good at a value of about \$1.2M and this kind of coverage was great.

The retailer that sold the ticket was very excited and Ann Marie Ricard from Curator talked with him often. He wanted us to decorate up his store advertising that the winner had bought the winning ticket at his store.

Randy shared that we have recently relaunched our website; Alex Borso has done an amazing job and worked with Cole & Weber to redesign our website. We have been able to add a number of new benefits for our players and this should make our players happy.

We are excited about launching our first Seattle Sounders scratch ticket and we are having some fun out in the market right now. The second chance prize is to have a seat on a sideline couch and this will get a fan as close as they possibly can to the action.

Randy showed the commissioners some of the POS for the Sounders ticket and he also showed the commissioners some Sounders social videos which we showed on our Facebook page. The interaction that we are getting from our players is amazing. We leaked these videos out slowly and have been getting a great response from our players.

Our players love to win and we do a great job of sharing stories on our website and in social media and Randy shared a few of those.

We had a Hit 5 jackpot that was getting ready to expire and so Curator put a Facebook post out as a reminder to check your tickets and we received a call the day before the prize was to expire. A gentleman saw the Facebook post and he was flying to California and he had a stack of tickets in his pocket; he got off the plane and took his mobile phone out which has our app. on it and he checked all the tickets and found out that he was the winner of the jackpot. The guy called his boss and got back on a plane; came home and grabbed his wife and came in the office to claim his prize.

We also talk about the imagination of winning and we tie in to local events like boat shows. Cole & Weber recently hired a social strategist, his name is Justin, and he has a lot of high energy and he is pushing things and it is nice to see that they are looking at things differently.

Typically around St. Patrick's Day we share a list of our top 10 "luckiest retailers" in each of our regions, so six press releases go out. We have done this for a number of years and our retailers love having this list shared because if they happen to be on the list they will usually get a sales spike for a short period of time.

Randy shared that our app. continues to do amazing things; we have 115,513 downloads of our app. We can talk about what Powerball financially did for us but that also drove almost 40,000 downloads to our app. Randy shared some analytic information on who uses the app.

### **COMMISSION REPORT – INSTANT TICKET ARTWORK REVIEW**

Gaylene Gray, Instant Product Manager, pointed out that included in the instant ticket artwork is the Slingo ticket that the commissioners had a concern about from the last meeting. She got rid of the cherub and went for a heart themed ticket.

Commissioner Cantrell asked about the timing of the Loteria ticket; when will it be in the market. Gaylene shared that Loteria is an ongoing game so we refresh it about every five months. The one that is in the market right now should be replaced in late May/early

June. The one being reviewed in this packet would go out towards the end of the calendar year. This is a game that we always have out in the market. Commissioner Cantrell reiterated that this is a kid's game played in Mexico and teachers use this to teach Spanish and that is why this ticket is not her favorite. Gaylene shared that this ticket is out year round and we have never pulled it and we have never had one question or inquiry. She believes our players see it as an extended play game where they are matching pictures instead of letters or number.

None of the commissioners had questions or issues with the artwork.

### **COMMISSION BUSINESS**

Chair Loveland asked if there was any commission business to bring before the commission.

Commissioner Bogdanoff is curious about is the effect of the billion dollar jackpot – has there been any noticeable effect or changed perceptions or any changes in buying patterns.

Stephen shared that we can certainly see affects already. The record jackpot happened in February and first of all we saw a sales lift for all the draw games, so people went in and while they bought Powerball tickets, they also bought tickets for other games.

Since the record jackpot when we have a low jackpot, like a starting jackpot, up to about a \$100M jackpot, in that range we see sales that are very consistent with what they had been in 2013 and 2014 but once the jackpot starts growing between \$100M and \$300M the sales for the level of jackpot are noticeably lower. So the inference is that people just don't notice. Those who are always playing the game are still playing the game; they play regardless of what the jackpot is.

These are the players we see at the start of a jackpot and up to \$100M. It used to be that people would start noticing a jackpot at \$100M and they would start coming in and spending more and that would accelerate sometimes by the time the jackpot passed \$300M.

We haven't had enough history now to see if there now an inflection point at \$500M which some of us expect but we haven't seen that happen yet. So for sure the likelihood of another \$1B jackpot in the immediate future goes down a little bit because people are not responding as quickly as they had been. He is hoping within the next couple of months to be able to update his projections of what's likely to happen.

Stephen shared that the real challenge for Lotteries will be to manage the expectation for next year. Frankly the likelihood of seeing a \$1B jackpot next year is now lower than it was a couple of months ago.

### **OTHER BUSINESS**

Chair Loveland asked if there was any other business that needed to come before Commission and there was none.

### **PUBLIC COMMENT**

Chair Loveland asked if there was any public comment and there was none.

### **FUTURE AGENDA ITEMS**

Chair Loveland asked about future agenda items and she believes further discussion with OFM would be good and that we ask OFM to convene a meeting with the appropriate people to talk about the potential new technology. With the understanding that this would be a long process. Let's find out if the Governor's Office would be interested in us pursuing the new technology.

Commissioner Bogdanoff thought that for the summer session it would be good to have a presentation that would outline what staff have seen as far as the new technology's so that you could share that with the Commissioners to give them an idea of what the Lottery is thinking about.

Chair Loveland stated that if there are costs associated with the new technology that she would like to have that information as well. She said that the Commission needs to do their homework before we start talking to OFM and the Governor's Office.

Director Hanson thought this was a good idea. We can put together something and we will work with our vendors and ask them to help with this.

Commissioner Bogdanoff asked Bill if he was concerned about putting this information out during a public forum. Bill shared that it is a concern of his. He doesn't want people to get too concerned about what we are looking at because we don't know if we will be moving forward with any of the ideas that we have looked at.

Chair Loveland believes Bill should check with the Governor's Office first to see how they feel about starting the discussion around new technology's and that way everyone understands that this is not a done deal, we are just starting the discussions. This will take time and the Commissioners need to take time to understand the options.

Director Hanson stated that he would talk this through with the Governor's Office. Bill believes that the Commissioner's do need to see these innovations.

Chair Loveland asked a question about connecting with our stakeholders on these new innovations; how will they react to these new technologies.

Director Hanson talked about the tribes; the tribes can do what we do, so these new innovations would be a good thing for the tribes in some cases. If we can agree that we want to do this, Governor's Office agrees, the legislature agrees and the Lottery starts it and the tribes can fall in line if it is something good for them.

### **ADJOURNMENT**

**11:03 a.m.** *Chair Loveland adjourned the meeting.*

*April 28, 2016 Lottery Commission Meeting Minutes approved this \_\_\_\_\_ day of \_\_\_\_\_, 2016.*

Respectfully submitted,

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Valoria Loveland, Commission Chair

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Debbie Meyer, Executive Secretary