

Lottery Commission Meeting
August 30, 2016
Courtyard Marriott Columbia Point
Richland, WA

MINUTES

COMMISSION MEMBERS PRESENT

Chair Valoria Loveland; Commissioners Judy Guenther, Peter Bogdanoff, Fred Finn & Laura Cantrell

LOTTERY STAFF PRESENT

Director Bill Hanson, Deputy Director Jim Warick, Director of Sales and Marketing Ron Smerer, Director of Finance Beckie Foster, Research and Development Manager Stephen Wade, Director of Security Dan Devoe, Director of Human Resources and Customer Service Debbie Robinson, Director of Information Services Crystal Fischer, Instant Product Manager Gaylene Gray, Assistant Director of Marketing Randy Warick, Assistant Director of Sales Lance Anderson, and Executive Assistant Debbie Meyer

OTHERS PRESENT

Eric Sonju Attorney General's Office; Ron Miguel of Scientific Games; Becky Bogard, Bobby Hatam, & Richard Wheeler of IGT; Nadine Tull & Ryan Lyonnais of Cole & Weber

CALL TO ORDER

8:32 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 June 23, 2016 Commission Meeting. Commissioner Finn **so moved** and Commissioner Guenther **seconded**.*

*A vote was called for to approve the minutes of the June 23, 2016 Commission Meeting. Ayes were unanimous. **Motion carried.***

CR 101

Chair Loveland asked our AAG Eric Sonju to review the need of the CR 101.

Eric shared that the proposed CR 101 was to propose the adoption of rules to permit the sale of Lottery cards and to define shares. There is a term in the statute called shares, so the Lottery is permitted to sell tickets or shares and shares has never been defined in the statute. So the proposal was to define it by rule to mean Lottery cards that can be purchased from a Lottery retailer and later used to solely purchase Lottery tickets.

At the request of several Lottery Commissioners, legal counsel and several lottery staff a decision was made to revisit the issue at a later commission meeting after more information has been gathered and a legal analysis done.

Chair Loveland stated that was a very good review of what occurred during the work session and she was open to accepting a motion to table the CR 101 until we have further information and put it back on an agenda at a later date.

*Chair Loveland entertained a motion to table the CR 101 approval until further information has been gathered and then it will be put back on the agenda for a future meeting. Commissioner Bogdanoff **so moved** and Commissioner Finn **seconded**.*

*A vote was called for to table the CR 101 vote until future information is gathered and then it will be put back on a future agenda. Ayes were unanimous. **Motion carried.***

DIRECTOR'S UPDATE

Director Bill Hanson shared that there is a lot going on at the Lottery right now and you saw a part of it during yesterday's work session on Lottery innovations. Implementing any of these ideas even with the Governor's & Commission approval is a ways down the road for us.

Bill thought the CR 101 decision was a very good one. We'll get together and have a good conversation when we get back to Olympia. He and Jana had a good conversation and they went back and forth on it and they finally decided to put it on the agenda and see what the commissioner's thoughts were.

We have the legislative session coming upon us and he is not sure what that might bring. With the whole McCleary decision they are dealing with and the budget deficit, the Governor's Office does not want any new legislation from any of the departments. The Lottery doesn't have any pressing legislation and we have passed the time for submission, but if we came up with something there are ways of jumping the line to get legislation introduced.

Bill stated that he hasn't talked to many legislators during the interim and so he doesn't know what they might be planning for the next session. Bill wouldn't want to be a legislator during this session with so many issues that need to be resolved. Another cut for the Lottery would not be good. Bill shared that he didn't know how we would do it. Of course we say that every time and we would do it of course because we wouldn't have a choice. If there was some way that we could get three new FTE's he would be very happy. We could use an FTE at the airport kiosk; he could go around to every director and they would each have a place for a new staff person.

Director Hanson shared that he has broached this subject with the OFM Director and the Director told him to wait and see what comes down the pike. Bill shared that he told the OFM Director that we brought in almost \$700M in sales last year and we want to beat this record next year. Out of the last seven years, five have been recording breaking in sales. Bill feels really good at where we are right now.

Bill shared that we are doing some new things with tribal partnerships; Kurt Geisreiter is heading that up and we are going in to some interesting partnerships with some of the tribes. Kurt is really good at building relationships and all of the sudden we have not only the Kallispell's wanting to do another promotion with us, and we have three or four other tribes that we are talking with as well. From the Governor's perspective this is a good thing that the Lottery is partnering with the tribes and the Lottery's perspective is that we are doing good things.

The innovation side – Jim is all over that. Bill shared that he is lucky to have Jim to take care of things like this. Bill stated that as this next year goes on, there will likely be more fun things to bring to the Commissioners. The tribal stuff, the innovative stuff that we are going to work on and we will keep the commissioners involved in the loop. Bill believes he piqued the interest of the commissioners yesterday on some of the innovations, some

of the ideas we are prohibited from doing, but some of the ideas we can do, we just have to be careful as we go down the road. Bill thanked the vendors that presented during yesterday's work session.

There is a big NASPL meeting happening in Atlanta the first week of October. If one of the commissioner's would like to go we can pay for one person to attend. Chair Loveland asked if any of the commissioner's that hadn't attended a NASPL conference if they would like to go. Fred Finn was interested in attending but needed to check and see if he was available. Chair Loveland stated that if Fred couldn't go she would be interested in attending.

DEPUTY DIRECTOR'S UPDATE

Deputy Director Jim Warick shared that Beckie prepared a pro forma for the Commissioners. These are unaudited numbers for last year and he shared that our sales were \$695M which is a new record for Washington's Lottery. It exceeded what the Commissioner's approved as a budget in August by \$81M and it beat last year's numbers by \$95M. That \$95M is a spectacular number, to be able to have that kind of growth in one year and even if you give credit to Powerball and the \$1.5B jackpot we had, and you give it credit of about \$40M and there is still \$55M that our team generated in additional sales which is a huge number to do in one year and so again hats off and kudos to the team for making that happen. That translates down in to our bottom line as well, that we exceeded \$175M in contributions which again is a record for Washington's Lottery in contributions and about \$20M over what we were budgeted and where we finished last year.

Jim shared that we had some turnover at Washington's Lottery. Russell Burgess, our Lean Consultant, has accepted a position at the Department of Transportation in a much bigger role than he had at the Lottery and we will be filling his position. Jennifer McDaniel, who is Jana Jones's legal assistant and also works partly with Dan Devoe in licensing retailers has accepted a position with the Department of Veteran's Affairs. She is very excited about this opportunity. We will also be filling her position.

Jim shared information on the state's marijuana sales and for the first time marijuana sales are expected to exceed \$1B in sales in a calendar year. Out of that \$1B, they are generating about \$275M in tax revenue. What Jim finds amazing is that they have been able to hit that \$1B mark in a very short time. Last month the marijuana market set a record they sold \$121M in one month.

Chair Loveland commended the staff on a job well done. She believes that we should talk to OFM about the Lottery staffing. You are growing business, but you can't keep growing the business with less money or staff.

Bill suggested that she come to Olympia and we would set up a meeting with David Shoemaker. Valoria thought this would be a good thing to do. We need to have a discussion about the Lottery's needs.

LEGISLATIVE & LEGAL UPDATE

Eric Sonju stated that Jana wasn't able to attend the meeting.

He shared that he didn't have anything to report. He hadn't heard about any lawsuits coming in and he's not sure about public disclosure requests but he is assuming that it is steady as usual.

REGIONAL UPDATE

Commissioner Loveland shared that she loves hearing about what's happening in the field and she is looking forward to hearing Scott's report about Yakima.

Scott Gatterman, thanked the attendees for coming and he is looking forward to having an opportunity to share today. Scott shared that he is the new regional sales manager for the Yakima region; he started his new job on May 2 and it has been interesting and it has been fun.

Scott shared pictures of the Yakima region; the counties that are covered in my region are: Okanogan, Chelan, Douglas, Kittitas, Grant, Yakima, Benton, Walla Walla and Columbia. Our boundaries are west to Cle Elum, East to Dayton, North to the Canadian border and South to the Oregon border. The region's retailer count is 448 and the region's fiscal year goal is over \$83M.

For FY 2016, the region achieved its goals; as you can see the top line shows all game. Overall 113% to goal and scratch at 112% to goal, and the draw games with a high 119%. The Powerball jackpot really pushed us over the top.

Scott shared the region's retailer breakdown – there are a total of 448 retailers in the region - 12.2% of the state. We have 202 corporate retailers which is 13.97% of the state and we have 237 vending retailers.

The region's top retailer for FY16 are: corporate account is a 7-Eleven in East Wenatchee and the independent retailer is the Tri-Cities Minit Mart in Kennewick. The Tri-Cities Minit Mart is our retailer of the year for 2016.

Our current focus is to meet sales goals through promoting strong relationships with players, retailers and partners. We also need to become trusted advisors to our retailers. We need to focus on our instant games and the next gen procall. The system is now allowing us to better focus on the as needed replenishment of tickets and seems to be getting dialed in. We will be doing retailer promotions that will support headquarters and corporate accounts sales and marketing campaigns. We will also be focusing on merchandising, both interior and exterior point of sale as well as custom signage.

In the next set of pictures, Scott pointed out some of the new items such as the Gemini Touch and the check-a-ticket. He pointed out the lighted in counter displays and he hopes we will get these more and more. He sees the in counter displays as the number one selling tool at retail. When he talks with the retailers and suggests if someone comes in for a six-pack of beer, a pack of cigarettes and is paying with a \$20.00 and has a few dollars left over, right then and there he has the opportunity to say give me one of those lottery tickets. You want to take that whole \$20.00 from the customer, don't leave it up to chance. He also shared some pictures of custom lottery signage used in the region.

Scott shared some of the promotions that have been run in the region – Central Washington Fair; Seahawks 2nd Chance Drawings; Wenatchee Wild Hockey puck challenge along with the Tri-City Americans. We also have the happy hour promotion going with 7-Eleven and something that he especially likes in coming from the Federal Way region he really enjoyed the coupons. These coupons help drive draw game sales and they are a great way to start the communication with the retailer and the customer to generate better sales in the draw game field.

Scott also believes in the ambassador program – one site Lottery presence providing teaching opportunities for players to learn about the new gemini touch machine and the reinvestment capabilities. The Yakima region ran 13 ambassador programs starting the week of July 11 and they were all very successful. This is a good way to interact with the customers and have teaching opportunities to allow people to better understand our new equipment.

Scott shared pictures of some of their regional winners. The most recent is the gentleman's picture in the center; he is from Belize and he won \$2.8M in Lotto. He is going to share his win with his family in Belize.

Scott shared pictures of the 2015 Regional Retailer of the Year – Desert Food Mart and this is an Edge retailer store. His current 13 week average is \$8,144. This is an example of true business partnership. Not only do we have the Edge program installed at this retailer but they back it up with their own personal promotions.

Scott shared pictures of some of the recent regional office upgrades and also shared a picture of his team members.

SALES & MARKETING UPDATE

Sales and Marketing Director Ron Smerer shared numbers with the Commissioners. As of August 20 we are already at 110.45% to goal. There is some exciting stuff going on out in the field and one of them Scott mentioned. There is replay at the new touch machines and this has steadily grown; the first day we did about \$26,000 in replay and last Thursday we hit a new high at \$88,000 for the day in replay. We are averaging now over \$60,000 a day in replay at the machines – how much of that is incremental, Dr. Wade is working on that.

Ron shared a graph of the vending machine replay. Replay began on June 26. We have hit \$80,000 a day several times. Ron's goal is that sometime we hit \$100,000 and Jim thinks we will hit that during the holiday season but Ron thinks it will be sooner than that.

SALES UPDATE

Lance Anderson recognized Scott Gatterman. Sales people will all tell you that they are super competitive; Lance came out of private industry that was super competitive. Scott came to the Lottery out of the private industry too and he was pretty humble this morning giving his update but make no mistake he has raised the bar for everyone. He takes his job very seriously.

Lance shared a grocery store promotion that we do every single year. Lance shared that when he and Randy were in the CAM department they did individual promotions. For a few years now, the corporate account managers have combined those grocery stores and so now we are doing one promotion across nearly 500 stores. We found our sweet spot working with Dr. Wade, which is at the \$10 price point. By having this many stores we are able to offer more winners which is needed when you are combining 400 or 500 stores. Lance shared the price breakdown with the commissioners. The promotion is running

September 21 – November 1, 2016. We have always had good success with this promotion and we believe that the consumers continue to look for this promotion every year.

Over the last few years you have seen the journey that the Safeway fuel stations have taken. Lance licensed them years ago and Terri Killion has done a really good job developing these accounts with different merchandising techniques and different individual promotions and inventory control for the scratch tickets. She plans to make the same proposal to Fred Meyer for their fuel stations. If you have noticed, Fred Meyer is heavily invested in the fuel industry. Their stations are some of the most dynamic, they have all kinds of capabilities in terms of feeding information to their fuel pumps and so there might be a unique opportunity there for us to do something. Lance stated he would give the commission an update on this after the meeting has taken place.

The new counter top kiosks really came out of the Edge program. We have a unique counter top kiosk that we placed in the Edge stores and we have gone back to the drawing board and developed a better counter top kiosk and we have showed them to both Safeway and Albertsons and they have approved them.

MARKETING UPDATE

Randy Warick shared that high jackpots are still key, the media loves them and we were fortunate to have a \$540M Mega Millions and a \$487M Powerball jackpots which we received an estimated media value of \$646,000; 253 pieces of jackpot-related broadcast coverage, which resulted in 43 million impressions. That is good business, that is all provided to us because of great jackpots. That was an exciting time! Then to follow this up which was super exciting, we had two jackpot winners that were from our state that won Mega Millions. We often hear lots of conversations around nobody ever wins in Washington and we can't say this anymore. We had a \$157M winner and a \$25M winner; they were probably within blocks of each other, the stores that sold the tickets.

Randy also shared information on some of our other winners; we continue to promote – we have scratch ticket winners that win \$50,000 or \$75,000 and we had a Powerball Winner that won \$150,000. Our local Medias continue to pick up these stories and they especially like it when a winner comes from a small town. The smaller newspapers will pick it up and share it.

Let's talk about the Seahawks. We just launched the Seahawks scratch ticket. We were fortunate enough to work with Jim Zorn and Steve Largent. As you mentioned as you

watched pre-season football, there was a big presence of our advertising and hopefully you picked up on the word "Hawksome". This is something that Cole & Weber developed and what validated it more than anything was when we were doing the commercial spot with Jim & Steve, Jim Zorn looked over at them and asked who came up with Hawksome and Cole & Weber stated that they did and Jim Zorn shared that he thought it was one of the coolest things he ever heard.

Once we launched the spot we started tracking on social media and hawksome started resonating through Twitter and Instagram and Facebook and people started using it. Outside of our spot they were tagging things, instead of saying awesome, they were saying hawksome. This is good; it is trending and it will do a really great job for us.

Randy shared pictures of some of the digital banners. We went back to 1979, it was sort of the theme. We took Jim and Steve back to the days and picked up on some of the graphics that was back in 1979. These banners will play on our digital platforms and it is a rolling banner so this is a static version of the banner.

Randy played the 1979 Seahawks video. As you can see these guys were great; and we had a lot of fun making this video. Steve and Jim both had to sit in the trailer and had to get their hair put back like it was in 1979, so they both were in wigs. When Jim Zorn left he kept his wig on and said he was going home to show his wife. This video is a social media play for the Lottery; you won't see this spot on TV it will just be played through our social media networks and Randy shared that on social media there are things you measure – if they like it, if they view it, etc. We have for the first time, and this spot has only been out for three days, had over one million views. We have never had that, that is amazing and what is even cooler than that is, we buy media that is called boosting, so we pay to get it further out to more people. Our paid media reached about 329,000 and our organic has reached over 821,000 people. That means people are coming and finding it on their own. Right now we sit at 1.1 million views as of today. We have also been able to share it over 7,600 times and it has had over 452 comments; people are having an amazing time with this.

This has had a rippling effect through all social media out there. We are reaching so many people and again this was a strategic buy and a social push and we are really proud of what this is doing.

There will be some social videos that will come out and support it as well. There are sneak peeks that basically show behind the scenes – see the guys getting ready, you will see them have conversations of the past. When you first see them, right when they get to the meat of the story, something will block it out and then it says, Play Seahawks scratch to

hear the rest of the story. Eventually we will release the real story so everyone gets to hear it.

Randy played the next Seahawks video around the word hawksome. This video will play in our digital environments and it will play in the stadium. We have pushed the Seahawks in the advertising side of it; they are very pleased with what we have been able to deliver over the last couple of years. We are looking for another great year with the Seahawks; we love getting behind them. They are a fabulous partner of ours. We have the annual tailgate party that is coming up and Randy shared with the Commissioners if they have not participated in this event they might want to consider it. It is a super exciting time and right now in this state you can't do anything better than Seahawks football and we are side by side with them moving forward.

So Randy transitioned from Seahawks to Frogger; this scratch game is killing it. If you know Frogger this has been a lot of fun. This ticket is a different play style for us; it is a maze style. We are really impressed with how this ticket is doing. You will see in Gaylene's presentation of artwork that we are looking for different versions of this game because we are so impressed with this ticket. We can't keep this ticket stocked; people are playing it and looking for it at the stores. Dr. Wade reported that this was one of the most popular games we have ever had.

Randy shared a "how to play" video on how to play Frogger because our players aren't used to this type of ticket and we had many people ask how to play it. We have had some feedback from our players on the Frogger ticket and we've had the media share feedback with us as well and people are just having fun with this ticket.

Randy recapped social media – Holidays, Movies and Football. We are really engaging with the Lottery Facebook page and interacting with us. We really do a good job of putting content out there that is uplifting, that is fun that is entertaining. People love to talk about movies and they also love to talk about the Seahawks and our holiday themes always does really well. To give you a couple of examples – we did a promotion with 7-Eleven, the Seahawks are out, the 4th of July and people are resonating and sharing our product with their friends and family in a very positive manner.

COMMISSION REPORT – INSTANT TICKET ARTWORK REVIEW

Gaylene shared that the first piece of artwork is one of the things we talked about earlier which is a partnership with Northern Quest Casino. We are still working with them on exactly what the offers are going to be and what the slot tournament is going to look like

but we wanted to get the first concept of the ticket out to the commissioner's for your review so you could see the direction we were going as we are moving forward with them and developing the tournament.

We are hoping to have more information in the next couple of weeks from the casino. They are interested in providing prizes from their casino, everything from hotel stays, merchandise discounts, concert tickets so they are still working on everything they want to provide.

Commissioner Guenther asked what the casino thought of the scratch ticket artwork. Gaylene shared that their initial reaction was that they love it. One of the things is depending on what they decide to bring for prizes, we may take the far right inch of the ticket and make it a stub so that players have the ability to take that and detach it and then take that over to the casino to redeem the prizes at the casino.

Gaylene mentioned that the artwork is some additional concepts for Frogger; these again are just some concepts that we wanted the Commissioners to see. The next ticket is a play style that we have done before where we have the extra bonus areas in the bottom and then following up on the nostalgia as a different play style is Pac-Man and this again is a maze type style like Frogger.

Commissioner Cantrell doesn't like the Fiesta Frogger, which she finds offensive. Maybe this one can be redone with some other theme and that was the only issue she had.

COMMISSION BUSINESS

Chair Loveland asked if there was any commission business.

Chair Loveland shared that having the new technology information explained to the Commissioner's in a way they could understand it that will help us move our technology forward without causing a big ruckus was enlightening to her.

Chair Loveland asked that at our next commission meeting she would like the staff to really scrub and review what you really feel that you need to ask for in the way of FTEs and maybe as commissioner's we should have a serious conversation about trying to rebuild some of the staff that has been allowed to the Lottery but funds haven't been appropriated. There are other agencies that don't have the FTE's but they money to spend. The Lottery does not have enough staff to take on the new responsibilities and staying within all the boundaries that are expected of us.

Director Hanson stated that the Commissioners should really try to attend the tailgate party if they can. The electricity at this event is unbelievable and we have a promotion, a band, you can get autographs from former Seahawks players.

Randy shared that if any of the commissioners want to attend they need to let us know quickly because we will need to give their names to the Seahawks for event entry.

OTHER BUSINESS

Chair Loveland asked if there was any other business that needed to come before the Commission.

Chair Guenther thanked Debbie Meyer for all the hard work she put in to planning Monday evening's dinner; it was a lovely evening.

PUBLIC COMMENT

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

ADJOURNMENT

10:02 a.m. *Chair Loveland adjourned the meeting.*

August 30, 2016 Lottery Commission Meeting Minutes approved this _____ day of _____, 2016.

Respectfully submitted,

Valoria Loveland, Commission Chair

Debbie Meyer, Executive Secretary