

Lottery Commission Meeting
June 22, 2017
WA Association of Sheriffs & Police Chiefs Building
Lacey, WA

MINUTES

COMMISSION MEMBERS PRESENT

Chair Valoria Loveland, Commissioners Judy Guenther, Peter Bogdanoff and Fred Finn

LOTTERY STAFF PRESENT

Director Bill Hanson, Deputy Director Jim Warick, Director of Sales and Marketing Ron Smerer, Director of Finance Beckie Foster, Marketing Assistant Director Randy Warick, Director of Legal Services Jana Jones, Instant Product Manager Gaylene Gray, Business Development Manager Kurt Geisreiter, Security Director Dan Devoe, Internal Audit Manager Ilene Frisch, Research Manager Stephen Wade, Interim Finance Director Maria Douka, Legal assistant Audrey Price, IS representative Jim Bevans and Executive Assistant Debbie Meyer

OTHERS PRESENT

Eric Sonju of the Attorney General's Office; Becky Bogart of IGT; Ryan Lyonnais and Mike Doherty of Cole & Weber; AnnMarie Ricard of Curator; Steve Gano & Brent Indeman of Sci Games

CALL TO ORDER

10:03 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 April 27, 2017 Commission Meeting. Commissioner Guenther **so moved** and Commissioner Bogdanoff **seconded**.*

*A vote was called for to approve the minutes of the April 27, 2017 Commission Meeting. Ayes were unanimous. **Motion carried**.*

APPROVAL OF THE 2017-19 LOTTERY BUDGET

Chair Loveland asked Maria Douka to give a quick statement that repeats the overall budget information.

Interim Maria Douka shared that a biennial budget is required to be approved prior to the start of the new biennium. The pro-forma numbers that were presented during the work session are the projected lottery numbers and at the August meeting we will vote on the actual budget passed by the legislature.

Chair Loveland asked if any of the commissioner's had questions. She shared that staff did a great job talking about the budget during the work session.

Beckie Foster pointed out that the way the law is written the commission is required to approve the expenses and the contributions for the Lottery's budget prior to the start of each biennium. In the work session we not only talked about the expenses and contributions but we also presented the sales numbers.

Commissioner Bogdanoff wanted to be clear on the action being taken. What we will be voting on is a placeholder until we get the correct budget numbers at the August meeting.

Beckie said that was correct. The Lottery is not allowed to go forward in a biennium without first getting approval from the Commission.

*Chair Loveland entertained a motion to approve the 2017-19 biennial budget for expenses and contributions. Commissioner Bogdanoff **so moved** and Commissioner Finn **seconded**.*

*A vote was called for to approve the 2017-19 biennial budget for expenses and contributions. Ayes were unanimous. **Motion carried**.*

DIRECTOR'S UPDATE

Director Bill Hanson mentioned that he just returned from a Lottery Directors meeting in Denver. It was an interesting meeting for a couple of reasons. One reason is because Mega Millions and Powerball are making changes to their games. A Mega Millions ticket will cost \$2.00 in October and Powerball is planning on coming up with an add-on to the draw game. He doesn't know how that will work out with Powerball.

There are a lot of new Lottery Directors at the moment, so the conversations in the meetings were different than it has been at past meetings. We have directors who have been around for a long time and somewhat control a lot of the conversations because of the length of time they have been a Lottery Director.

Many of the new directors are younger and they have new thoughts and ideas on innovation and Bill believes the Lottery world will see lots of changes in the next three years.

There was a conversation that took place about sports betting. Bill believes sports betting is coming to the US. All the major professional sports teams are behind this idea now and Bill believes that laws will start changing in states and at the federal level to make way for this.

Bills thinks that we will be seeing a different attitude with the legislature because we are getting younger legislators who are coming from the tech field who will look at the politics of the gaming industry.

Bill talked about the government shutdown. He participated in a staff meeting yesterday afternoon and he left that meeting not really knowing whether they said yes that a shutdown was going to happen or that there wasn't going to be a shutdown.

Bill said he was surprised to hear that the legislators were not talking about the budget in the same room. He was told they were sending notes and proposals back and forth between the two rooms they were in.

The lottery has already stopped advance play in anticipation of a government shutdown. It makes no sense to shut the lottery down when the state shuts down but if it shuts down that is what we will do.

Chair Loveland stated that one of her goals, and hopefully the other commissioners will agree, to work on getting the Lottery out of the appropriated side so that the Lottery can operate if there were a government shutdown. Chair Loveland thinks this is something

that we start talking about now and talk with OFM and the Governor's Office. She believes this should be one of our highest legislative goals for next year because it makes no sense to shut down the Lottery.

The last thing Bill wanted to talk about was the Washington Indian Gaming Association (WIGA) meeting that he, Jim and Kurt attended earlier this week. The promotions that we do with the tribes as our licensed retailers is near and dear to Bill's heart. He thinks the government-tribal relations between the Lottery and the tribe's shows that government can work with tribes and maybe that will open doors for other state agencies to establish relationships with the tribes. We will be trying some new innovative things in the future with some of the tribes. We had some great conversations with key tribal people.

DEPUTY DIRECTOR'S UPDATE

Deputy Director Jim Warick stated that at the last commission meeting we talked about changes to the Mega Millions game and he wanted to give a quick update. The Mega Millions game will change to a \$2.00 ticket on October 28 with the starting jackpot going from \$15M to \$40M and a guaranteed \$5M, at a minimum, between each draw.

The last time we had quite a bit of conversation around an add-on game that was called "Just the Jackpot". Through conversations at our lottery and taking in to consideration things that were said at the last commission meeting, we have decided at this point in time that we will not be moving forward with "Just the Jackpot". We are asking that our vendor program that in so that it is in the system but we will not go live with it. We believe that it is more important to educate the consumer about the game changes. Jim shared that he understands that some lotteries will be making this add-on available but the number of lotteries joining in on this piece have dropped dramatically.

Jim reminded the commissioners that the fall NASPL meeting will be held in Portland in September. If you are interested in attending, please let Debbie Meyer know so that she can make arrangements.

Jim briefly touched on sports betting. This was a topic discussed at WIGA and to give you some context, there are numbers out there that says that the illegal sports betting that happens in the state of Washington alone is greater than what's being done in the lottery business right now. Jim enjoyed attending the WIGA conference as he finds it insightful to learn about other businesses and things that are going on in the gaming industry. He feels like he really knows what is going on with the Lottery but the whole gaming side of things is brand new and bright and shiny. There was a lot of conversation around class 3 gaming but there was a huge push around class 2 gaming at this conference and the interesting

thing around the class 2 gaming is that is it outside the scope of the Washington State Gambling Commission. There are no machine limits when it comes to class 2 gaming and there are no bet limits on those class 2 gaming machines. What is interesting is that 12 out of the 29 casino properties do class 2 gaming and some are exclusively class 2 gaming. They lease out their class 3 machines to other properties. Those tribal casinos that have both class 2 & class 3 gaming, Jim learned that at some properties that class 2 outperforms class 3 gaming.

By one account, Washington State accounts for 5% nationally of all illegal sports betting and that is higher than the national average and they would say this would be worth about \$750M in this state.

LEGISLATIVE & LEGAL SERVICES

Legal Counsel Jana Jones shared that she didn't have a lot to report. Things are pretty quiet. Lottery headquarters is being remodeled with team being disrupted and moved around. She has been reviewing some contracts and there are no claims against the lottery which is good.

Right now we are involved in complying with a discovery request. There is litigation at the Attorney General's Office which started in 2007 against a number of companies who sell CRT computer screens to the state and the claim is that there was collusion for price fixing. A discovery request from the defendant's is impacting us so we are in the process of searching for records or communication documents that might be relevant to the discovery request.

Jana shared that our public records requests are very low and we don't have any issues with any of our tickets or any of our games. We are in a good place right now.

SALES & MARKETING

Sales & Marketing Director Ron Smerer shared the sales numbers with the commissioners. We are doing a lot better than we did last month. We had a great Powerball roll that worked to our advantage along with right now our Lotto numbers are moving forward because of an \$8.9M Lotto jackpot which continues to roll.

Ron shared a graph with our top 21 retailers. If you look at this list, Fred Meyer and Safeway pretty much own the top 20+1 except for two retailers. Hilltop Red Apple Market used to be our number one retail account for years and years. They have fallen down a

little bit but are still over a million dollars and just a few years ago we would only have a couple retailers over a million dollars. Now you can see we have a lot of retailers that are doing over a million dollars in sales and of them through number 21 are very close to a million dollars. The +1, Café Truong Nguyen, #21 player had to close down for six weeks to go on vacation, they probably would be well over a million dollars. This is a Vietnamese café in Seattle that does a heck of a job with sales.

Marketing Update

Marketing Assistant Director Randy Warick shared winner's stories and there is a theme – they are all going to find the sun. They are going to Disneyland, Tahiti, Honolulu and for some reason someone is going to Park City, Utah. Winning is happening all over Washington.

Randy stated that throughout May & June Powerball reached \$447M. What it did drive home again to us is that at about \$400M is when we see interest. It used to be when Randy started about 10 years ago that there was interest at \$100 - \$200M. \$400M seems to be the magic number now. This is when we see the national TV pick it up. We picked up 83 pieces of broadcast coverage which garnered about 3M impressions for about \$150,000 media value.

Randy talked about the fun the Lottery is having with Pac-Man. This ticket is really popular out in the market right now and people are loving the game. One of the aspects of this game is we put four vending machines that are instant wins inside of the ticket and we haven't done something like this in a very long time. Two of the vending machines have already been won and both people were very excited and so there are still two machines still out there to be won.

We had such success with the Frogger ticket and then came out with that play style again of a maze which is Pac-Man. Then we launched Trucks and Bucks against Pac-Man as well, so Trucks and Bucks 2 and Pac-Man are in the market at the same time. Both of these tickets are having great success for us.

We learned quickly on the Frogger ticket that it was a different play style and amazing to us it was difficult for our players to figure out how to play it. So we did everything we could to teach our players how to play. We learned from that experience and we came out ahead of the launch of the Pac-Man ticket and we pushed out the information on how to play this game. Cole & Weber put together the following video that was pushed out to social media, our website and anywhere else we could place it digitally so our consumers could see it.

Randy shared some pictures of Bill standing by the Pac-Man Sounder train. We have had so much fun with this train. Our consumer that plays and even those that don't play have shared it back to us. We are getting social media impact all the time. People were tagging us and saying, "Oh my gosh I am on my way to work and Pac-Man is eating me" or "Oh my gosh I am riding the Pac-Man train". It has been a lot of fun to see everyone's comments. The train runs back and forth between SeaTac and downtown Seattle. We had the train running during Paul Allen's Music Fest downtown and the train was running then. There were thousands and thousands of people on the train seeing this imagery. We shared it with Namco which is the licensee of Pac-Man and they wanted to put it on their social media because they were so impressed and proud of it.

We are giving away trucks & bucks and it is a super ticket. What is great about this is everybody in the state of Washington loves trucks and cash. We found this out the first time we ran this ticket and we tried to get it back into the market quickly but we finally got it back in to the ticket schedule. We have over 50,000 entries for the first drawing which was yesterday and the winner lives in Mead, Washington which is north of Spokane. They will get to go in and pick the truck of their dreams. They can pick any brand they want – Dodge, Ford or Chevy.

Randy shared a spot that is being played at the video gas pumps for the Trucks & Bucks ticket. Some gas stations have the gas station TV and that's where the spots are being advertised. We advertise their pretty heavily. What's nice about it is we were able to get a year contract with them and in the meantime there was a merger that brought in an additional 60 – 70 locations that we were able to broadcast in. At the end of these broadcasts we can do a call to action because, typically, at all the convenience stores, we have the lottery products. Consumers can pump their gas and then go in to the store and purchase their lottery tickets.

We have a relationship with the Seattle Sounders that we have had for years now. Kathi has worked closely with them and we are pushing our brand out there. There is a really good fan base for the Sounders here in the state of Washington and there is a good connection between the Sounders and the Lottery players. We have built out some digital videos that we will be using in-stadium and post-game and we had some fun with something that is really modern and current right now. We took a spin off the Alexa dots and echo's and Randy shared a couple of the spots.

Randy shared a few more social media updates. Here are some of the social media spots that we shared with our fans. We have a very engaged audience and in the Lottery world our state is in the top 3 in social media presence.

Chair Loveland commented that she loves that we are putting "how to play" videos out there for our players.

COMMISSION REPORT – INSTANT TICKET ARTWORK REVIEW

Chair Loveland asked if there were comments or questions about ticket artwork.

Commissioner Bogdanoff stated the artwork was fine.

Randy shared that the Lottery is very excited about the Ms. Pac-Man ticket. Ms. Pac-Man was recently licensed and we figured out the schedule so we could get this ticket in to the schedule.

COMMISSION BUSINESS

Chair Loveland asked if there was any commission business to bring before the commission other than being concerned about the legislature completing its work.

OTHER BUSINESS

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

Jim Warick suggested an agenda item for the next meeting. Kurt will be doing a tribal update at the August meeting if that is ok with the commission.

Chair Loveland thanked Beckie Foster for her service. She enjoyed working with Beckie and stated she was very efficient in putting together budget information for the commission to review.

ADJOURNMENT

11:09 a.m. *Chair Loveland adjourned the meeting.*

June 22, 2017 Lottery Commission Meeting Minutes approved this _____ day of _____, 2017.

Respectfully submitted,

Valoria Loveland, Commission Chair

Debbie Meyer, Executive Secretary