

Lottery Commission Meeting
October 22, 2015
Lottery Headquarters
Olympia, WA

MINUTES

COMMISSION MEMBERS PRESENT

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

LOTTERY STAFF PRESENT

Deputy Director Jim Warick, Director of Sales and Marketing Ron Smerer, Director of Finance and Administration Beckie Foster, Director of Human Resources and Customer Service Debbie Robinson, Director of Information Services Crystal Fischer, Marketing Assistant Director Randy Warick, Sales Assistant Director Lance Anderson, Instant Product Manager Gaylene Gray, Lean Consultant Russell Burgess, Everett Regional Sales Manager Fil Gudmundson, Research and Development Manager Stephen Wade, Internal Audit Manager Ilene Frisch, Executive Assistant Debbie Meyer

OTHERS PRESENT

Eric Sonju Attorney General's Office; Bobby Hatam of IGT; Nadine Tull, Jennifer Voss and James Mackenzie of Cole & Weber, Ann Marie Ricard and Paul Balcerak of Curator; Aubrey Seffernick of Miller Nash

CALL TO ORDER

9:52 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 August 26, 2015 Commission Meeting.

Commissioner Cantrell stated that the minutes had her name down as Judy Cantrell but it is Laura. This change was noted.

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

*A vote was called for to approve the minutes of the August 26, 2015 Commission Meeting with the correction. Ayes were unanimous. **Motion carried.***

2016 Lottery Commission Meeting Dates

Chair Loveland shared the proposed dates of the meetings and asked the other commissioners if they would like to have a meeting outside of Olympia. She stated that we didn't need to hold the meeting in Pasco, that we could have a meeting in another city in Eastern Washington.

Deputy Director Warick suggested that the meeting outside of Olympia be the August meeting.

Chair Loveland entertained a motion to adopt the 2016 meeting schedule.

*Commissioner Guenther **so moved** that we approve the bi-monthly schedule with the August meeting being held somewhere in Eastern Washington. Commissioner Finn **seconded**.*

*A vote was called for to approve the 2016 Commission meeting schedule. Ayes were unanimous. **Motion carried.***

DEPUTY DIRECTOR'S UPDATE

Deputy Director Jim Warick shared information on NASPL. What we refer to as the big NASPL was just recently held in Dallas. We were able to send the largest that we have ever sent; we had 11 people attend which included Commissioner Cantrell. The difference between this NASPL and most others is that the big NASPL has a trade show as well. There are still the speakers and breakout sessions and then the trade show which had about 30-40 vendors that were showcasing their latest wares. Jim shared that this was the fourth NASPL he has attended and he thought there was more innovation at this show than he has ever seen before. What was unique about that was that not only did the innovation come from our predominant vendors but there were a lot of new companies there as well. Jim feels that as we continue to see all the changes in technology within this industry, it will open the doors to other businesses that have not participated in the Lottery before.

Our staff that attended the conference were able to see an actual production model of our new touch vending machine; IGT had it in their booth at the trade show.

Bill has shared information in the past about the situation with Eddie Tipton who used to be the Security Director at MUSL; he was being accused of tampering with one of the games in Iowa. He tried to cash a prize and ended up being convicted and was sentenced to 10 years in prison, which is currently under appeal. Right before the NASPL meeting in Dallas, it turned out that Mr. Tipton had been arrested again because they found two additional jurisdictions. One was in Colorado where he actually had put a random number generator in their Lottery and it looks like his brother and a friend claimed a prize in 2005. They also found another situation in Wisconsin where the law firm part of the Iowa case had claimed a prize on behalf of a winner in Wisconsin in 2007. Mr. Tipton in his time with MUSL created 27 random number generators for different lotteries. The good news for Washington State is that Mr. Tipton has never set foot in Washington's Lottery.

Commissioner Finn asked about the issue in Illinois about their ability to pay their winners. Is there anyone that could brief the commissioners on this? Jim shared that his understanding is that the way their Lottery is set up is that all the payments for Lottery prizes go through their Treasury Department. Since there is no budget, they are not able to pay prizes. Initially they were not able to pay prizes of \$25,000 and greater until a budget gets passed. That has now been reduced to where they are not paying prizes over \$600. They continue to sell their games; they had a larger winner in either Mega or Powerball and they have not been able to pay the winner. NASPL put out a bulletin that stated they were \$6B behind in prize payments. Jim has heard that there were groups that were considering lawsuits to stop the Lottery for selling.

There was a lot of conversation at NASPL around Draft Kings and FanDuel and what implications they were going to have on the Lottery Industry. Jim believes there is a convergence coming but he doesn't know when it will happen. When it does happen he stated that the Lottery will look dramatically different on the other side of the convergence than what it looks like today.

Commissioner Finn commented that he believed some of these things we can't legally do. AAG Eric Sonju stated that he believes we couldn't because it would constitute online gambling. Jim drew his attention to it in the commercials that were shown during the football games. There is a disclaimer at the bottom for three states where you can't win money you would just be playing for fun and Washington is one of those three states. These companies are advertising really heavily in Washington for an online gambling service essentially.

Jim shared that Nevada was one of the first states to pass some legislation which now outlaws FanDuel and Draft Kings saying they didn't have the appropriate license from a Nevada standpoint. Jim believes at our state's next gambling commission meeting that they will be talking about this very topic because they don't know what to do about this in our state.

Our gaming system conversion is going very well; we are still on track with that. It's hard to believe that we will be flipping that switch in about eight months. The team is working really hard and spending lots of hours in preparation for the new system.

Chair Loveland asked Commission Cantrell if she had any comments about her experience at the NASPL meeting. Commissioner Cantrell encouraged any commissioner that hasn't attended a NASPL conference do so, if they can. It was a great picture of what was happening in other states compared to what we can do in our state.

Jim shared that the next big NASPL will be in Atlanta in October, 2016. If any of the commissioners would like to attend please let Debbie know.

LEGISLATIVE & LEGAL UPDATE

Both Jana Jones and Jennifer McDaniel were unavailable but Debbie Meyer shared an update.

Jana asked that two items be shared: there is no pending litigation which is the best news. The public disclosure requests are down; we had fewer than ten over the last two months.

AAG Eric Sonju provided a quick update on the Department of Imagination trademarking process. It is moving along slowly but surely. He was informed that the applications were approved mid-September and it takes another three to four months from then and then it will proceed to registration. Hopefully at the next meeting he can report that it is a done deal.

Jim shared that the marketing department with our partnership with the Seahawks had always created shirts with the Seahawks logo and the Lottery logo on them and we use them at different events. Bill asked that the marketing department have additional shirts made because he wanted to be able to hand them out to folks like at the Governor's Office. He took a handful up to the Governor's Office and gave one to the Governor and one for his wife and he went back up for a meeting the next day and the Governor was wearing the shirt and then the whole office wanted shirts so he had to bring up more shirts. The day that the Governor was wearing his shirt he had to attend an event that night and he wore his shirt during that event. It is probably the first time in history that a Governor wore a Lottery branded t-shirt.

Commissioner Guenther shared that she missed the last meeting because she was on vacation. She was with friends and they were in a store at Martha's Vineyard and asked where they were from. When the employees found out they were from Washington they shared that they had been in Oregon and saw one of our Department of Imagination commercials and they wanted to see their state's Lottery agency get fun commercials like ours.

Chair Loveland commented that whatever team came up with this idea, they did a great job.

REGIONAL UPDATE

Chair Loveland stated that recently we decided to have the regional sales managers update the commissioner's on what's going on in their region. This meeting we will hear from Fil Gudmundson, manager of the Everett region.

Fil thanked the commissioners for the opportunity to present some of his team's regional activities over the last year and what the team has coming up this year. Fil shared that he was an original member of the Lottery; he has been with the Lottery for 33 years and his anniversary date is October 25, 1982.

Fil shared a slide that gives an overview of his team's territory. From Mt. Baker to the border; to the ferries and the San Juan Islands to Husky stadium.

Fil shared a little profile of the area – the counties that are covered are: Whatcom, Skagit, San Juan, Island. Snohomish and north King. The boundaries are on the west side Whidbey Island and San Juan's; to the north we have the Canadian border; to the east side is Stevens Pass and Snoqualmie Pass and down south the west side of Lake Washington. The territory goes all the way down to Magnolia and a bit north of Queen Anne and on the east side we go down to Renton. There are 1,001 retailers and our sales goal this current year is \$162.6M, which is an increase of about \$1.7M over last year's goal.

26.6% of the state's retailers are in his territory and they have 359 corporate retailers and that's 32% of the state's retailers. There are 344 vending retailers which is 25% of the state. Their top selling retailer last fiscal year was the Fred Meyer in Lynnwood – they sold \$1,051,230; their currently weekly average is \$16,000. The top independent retailer in the region is Super Lucky in Bothell; it's a small little convenience store with an incredible history. They have reader boards set up outside which is great exposure for us with custom signage and a ton of winner information on the inside of the store. They did \$823,073 in sales last year.

For our current focus this year, we have made our sales goals with our inspired, happy and productive employees. There is an interior point of sale plan, an exterior point of sale plan and a plan called "Take Back our Space".

Fil talked about the POS Up and Down plan. Fil went out with Debbie Robinson on a field ride doing ADA compliance checks. They came across some outdated POS and it wasn't what he wanted to have represented for the region. He put together a plan for the DSR's where they use their iPad's on a program called OnePlace, where they do in to a store and they document what they did in the store. Fil asked them to document when they have been in the store and taken down all old point of sale and they only have the newest point of sale up in the store. This was done for every retailer in the region in a three month period.

In the first half of this fiscal year we will be working on the exterior. We started this project in July when the weather was a bit better and look at all the outside signage. Again he put the task on One Place. We have some help from IGT as they will hang banners for us. We are also looking for opportunities to customize signs for retailers when that is a good idea.

A couple of years ago we were putting vending machines out in stores that really hadn't had them before. Part of Fil's requirements for his DSRs was if we put a vending machine in we wanted to keep the in-counter presence too.

We were given a goal to have 2 – 2.5 weeks of inventory on hand at a retailer's store. Every month we get a great report from headquarters that gives us the averages by DSR, by region and by the state of how much inventory is sitting at retail. This is inventory that is being shipped or sitting in received status. He provides this information to his reps. and gave them a goal in their performance development plan at the first of the year that we want inventory at that 2 – 2-1/2 weeks. He shares monthly with his reps. how they are doing.

Fil shared information on Everett's Retailer of the Year. The retailer is called Quick and Easy Food Store in Ballard. The owners are Herman and Preet. We had a great celebration and we did some promotions with them. It is a great little store, they are very supportive. Not one of our higher volume stores compared to some of the ones we have, but so supportive. We had a promotion running in the stores for a couple of weeks where players could enter non-winning \$5 or more Lottery scratch tickets for an Apple Watch or some Lottery scratch tickets; we had over 650 entries in those two weeks.

The Everett region acts as a mini warehouse and the awesome support staff that work in the regional office help nine DSR's and Fil too. Another big thing they do is pay the winners that come in to our office. The staff have a goal to get 70% of the winners to agree to have a photo taken and get a story. In FY15 we paid 190 winners over \$10,000 and 77.9% of the winners agreed to have their picture taken.

Fil shared a picture of his regional team with the commissioners.

Lance announced after Fil's presentation that he is the Regional Sales Manager of the Year.

Chair Loveland thanked Fil for the great presentation; he helps her better understand what is being done out in the field. She congratulated Fil and his team on a great job.

Sales Update

Sales & Marketing Director Ron Smerer thanked Fil for his great presentation.

Ron shared that he was able to attend the Fall NASPL meeting and got to see the new touch screen vending machines. Not only are we all thrilled with the new machines but

Ron believes our players will love the new machines as well. The machine is very interactive and it's like nothing that is out in the marketplace right now and that will be a big kudo's to IGT for coming up with it.

Ron shared sales information with the Commissioners.

The one good thing that is positive is that we are seeing some better numbers in the draw games in the second quarter obviously due to the jackpots we had.

Ron shared the region goals; the regions are pretty close to all hitting their goals. This is encouraging and we hope that it continues.

Ron gave an update on the airport kiosk which has been a note of contention for quite some time. He and Kurt have worked on this for a long, long time to get things up and running. We put David Loveland in charge of getting this up and running. He has been birdogging this thing to try and get things moving forward. He has done an excellent job and as of this morning, we are hoping to have the kiosk open right after Thanksgiving. We have finally gotten approvals from pretty much everyone at the airport to move forward. Basically we are waiting for one drawing to come back from the manufacturer and as soon as that comes back then it's a formality and then we will start construction. This is a good and positive thing.

At the last meeting, which Ron wasn't able to attend, he understood that Chair Loveland asked for specific information about retailers who were upset about the commission and selling bonus reductions; Ron put together a report which he will hand over to the chair and the commissioners.

Sales Update

Assistant Sales Director Lance Anderson shared a couple of quick updates.

He gave a quick update on how things are going with the Safeway Customer Service Initiative that Terri Killion is managing. By selling at customer service, players will be able to use their debit and credit card to purchase their tickets.

The project has been completed; 139 of the 182 stores received dispensers at customer service. Our overall sales are up \$4.5M January through September.

Every year we present a Regional Retailer of the Year award.

Spokane's retailer was Valley View Conoco in Spokane Valley. They are a great retailer for us and we had a celebration with them.

Yakima's retailer was Desert Food Mart in Benton County; it is way out there. Chair Loveland shared that she drives by this place when she comes over to Commission meetings. Lance shared that it would be great if a Commissioner could stop by one of these retailers and congratulated them on their award, that would be a big deal.

Federal Way's retailer was Café Truong Nguyen; this is the state's number one retailer. They average \$24,000 in sales each week and they do that with all of \$5 scratch tickets and higher.

Vancouver's retailer of the year was Quickway Market in Vancouver and a great retailer to work with. They agreed to upgrade to the largest in-counter we could fit in their store.

And of course Fil shared in his update about their retailer of the year event with Quick N Easy Food Store in Ballard.

Commissioner Guenther asked for the names and contact information of the retailer of the year winners; Lance will give this information to Debbie and then she will forward on to the commissioners.

Marketing Update

Marketing Assistant Director Randy Warick shared that he worked with Cole & Weber back in June and had a focus group research with some of our players to see how we are doing. The good news is that our players are very positive and are having a lot of fun with us. Some of the words they used were generous, fun, good-natured, down to earth and honest. He appreciates the word honest, because they are honest about their play, it's for fun and our players are having a good time. It's a break in the day, it's a day to dream, it's a game that is just fun.

Our players still play because of the thrill of anticipation and the great part about this is the moment you purchase the ticket. For some it happens at that very moment and for others it is from that moment until the drawing. Each person takes that moment and they use it differently. It is nice to see that if the jackpot isn't hit, they do reignite; the imagination comes back.

We continue to engage with these players and that is the best part. After learning all this it makes all the sense in the world; how we engage with them. We engage with them

through all the different types of games we have, but they really like experiences. It is all about what I can do, what I can't purchase or what I can't win somewhere else. It's that experience that you can give them that they never had before and what aligns with that more than anything – our Seahawks.

Working with the Seahawks and the partnership that we have has given us a lot of opportunities to offer experiences that our players typically wouldn't have. We are definitely working in an awesome environment now with the Seahawks. Some of the campaigns that we have been able to do – we have been able to work with three hall of famers; we developed amazing POS that is very popular. One of the first experiences included having dinner with Walter Jones. Randy was able to greet all the winners and he got to see our players/winners engage with Walter; it was a very intimate setting and they had one on one attention with Walter and he was dynamic as ever with our winners.

Randy shared with Kathi Patnode, it's always a sign that things are right when they seek the lottery person out to shake my hand and say thank you. We received an e-mail message from one of the winners and he shared that it was the most amazing day of his life.

Randy shared the Seahawks radio spot with the commissioners. Randy followed up with the TV commercial. He shared that he was biased, he expects that next year we will win some awards for this commercial and we are super proud of this commercial. To be able to have the resources to be able to work with three hall of fame players is amazing. This is because of the partnership and relationships that Kathi has built with the Seahawks in her contract negotiations.

The first day that this commercial was released, some fan had captured a video with their phone and posted it on the We are 12's Facebook site and there were 200,000 watches by the end of the night. It went crazy and it caught viral. The publicity, the comments and the engagements on the spot was amazing. Then you have the Seattle Seahawks who pick up on the spot and they share it with their 4 million followers and it keeps going. All those eyes are on our spot and that only helps us.

Curator was able to work with KIRO radio; KIRO reached out and they wanted to do a spot about our spot. There was a phone interview and talked about the spot and then they took our partnership with the hawks and posted it out and shared with their fans.

We had our annual tailgate party which is the first home game of the Seahawks season and we throw a party. We have live music, we have interactive games, we sell our scratch tickets, we have a meet and greet where people can get signatures from alumni. This year we took an opportunity and Cole and Weber actually captured what was happening.

This spot will be entered in to the LaFleur's contest. Lotteries can enter a featured Lottery event and lotteries then vote for the best spots.

The Seahawks approached Kathi and asked if they could show the spot and we said yes. Randy asked Angela Brunetti and Kathi Patnode to stand and thanked them for their hard work on this event.

Randy stayed with the football theme. Last year we partnered with WSU and had a scratch ticket. This was something we had never done and it was great but we had some learning experiences. It became very clear that you are either a dawg or cougar fan and if you are not one of the others then you don't buy the ticket. So this year we tried to broaden the base of players and just say college in general, because there are a lot of college fans. We are still out selling the ticket. What's nice about this one is that we looked at the opportunity, again looking for an experience. Basically if you win the second chance drawing you can go to any of the college bowl games and that is including the national championship; this is an amazing opportunity.

We can never forget about our winners and he shared some of our winner stories. You will see a theme of what our players share; they talk about their bucket lists and they talk about imagination and what they will do with their winnings.

Our social community continues to grow. You can see from March to October that we went from 184,000 to 217,000 Facebook fans. Washington's Lottery is looked at as a leader in social media. We are very proud of what we are doing here.

One of Randy's favorite subjects is our mobile app. We are almost to 50,000 downloads. This is a utility app. that allows people to check their tickets. Over 295,000 tickets have been scanned and this is only on draw because you can't check scratch tickets yet. We have also had over 5,500 people set up a lottery account and we will be able to contact these players and communicate with them back and forth. There are stages 2, 3, and 4 for this app. and we are excited to see what the future can hold on that.

COMMISSION REPORT – INSTANT TICKET ARTWORK REVIEW

Commissioner Bogdanoff shared that he reviewed the artwork and he didn't see anything that caused him to be concerned.

Commissioner Cantrell has a concern about the Loteria ticket. Loteria is the most popular game in Mexico, for both adults and children. Teachers use this game to teach Spanish in

schools here in the US; she wanted people to know that. Chair Loveland thanked Commissioner Cantrell for her very helpful observation.

Gaylene shared that on the positive side that we are currently on our ninth version of Loteria out in the market and we have never had one complaint, one issue, and no one anything said to us about Loteria. We have not done any advertising for this game, we have just put this ticket out in the market as an extended play game, similar to Crossword, Slingo, Bingo. It has been accepted as an extended play game by our players.

Commissioner Cantrell thanked Gaylene for her feedback. There was a conversation around whether we could print in Spanish that you had to be 18 years or older to play. Commissioner Guenther asked how the ticket sells in California and Arizona; have those states had any issues around people thinking they are marketing to children.

Gaylene shared that not all lotteries offer a Loteria game because it is a licensed product. Some lotteries have gone to a more generic Loteria where they don't use the official symbols. They use state symbols and those games have not performed as well as the one with the official symbols because the official Loteria symbols are known throughout the communities by our players. Gaylene knows that in Arizona and New Mexico they use the licensed Loteria game and they don't have anything in Spanish on their tickets right now.

The only Lottery that has anything in Spanish is in Colorado and they have what's called "Understand". This is something that Scientific Games offers and it is English on the top and when you scratch it, the play instructions are then in Spanish underneath.

Commissioner Guenther asked if there are other states that feel they should not target children with the scratch ticket artwork like we do. Gaylene shared that it varies so much from state to state as to what Lotteries do and how they advertise. There are states that have done Double Bubble tickets. There is such a variety of legislation and political elements, just even management philosophies from Lottery to Lottery in how progressive they are and what risks they are willing to take.

Jim stated he agreed with what Gaylene shared; it is different from state to state, but he thinks for the most part as lotteries as a whole, he doesn't know one single Lottery that is interested in marketing to kids and that is evident especially around the holidays. There is a huge campaign through Problem Gambling to make sure that lotteries are doing their due diligence to ensure that these tickets aren't being given as gifts to kids, even though it happens. To Gaylene's point there is a huge difference in lotteries across the board as to what is perceived to be as whimsical or kid like. He joined the Lottery just after the Hershey ticket we had here in the state and we happened to be at a NASPL conference and the attendees were all amazed that we couldn't sell the ticket.

Chair Loveland appreciated the discussion that just took place and Commissioner Cantrell stated that given that there is a history around this game and haven't had any issues come up so far, the timing of the next versions release makes this a positive thing. She believes that we should move forward with the game.

Commissioner Finn commented that Washington was misspelled on the crossword game artwork; Gaylene will get this fixed.

There are two tickets that Gaylene wanted to talk about because we have a new opportunity. We are doing a scratch ticket in conjunction with the Seattle Sounders. We will be doing second chance drawings with them to award the sideline couch seats for the upcoming season. The game will launch in February and we will have four of five second chance drawings.

One thing that is really exciting about this second ticket is that Crazy 8's has been a licensed name for many, many years and it is no longer licensed, so we are able to bring Crazy 8's out which is really great. 8's are a very popular number in gaming and with scratch tickets.

Gaylene also shared the artwork for the next proposed \$30 game. Chair Loveland asked how the current \$30 ticket is doing.

Dr. Wade shared that it has been a big success. What we saw was there was some migration of play from the \$20 to the \$30 ticket immediately but the overall dollar volume between those two went up dramatically. We are seeing about a million and a half of sales each week in that category. Usually the \$30 ticket as a single ticket is selling as much as all the \$20's that we have on the market.

Gaylene shared that when we initially created the first \$30 ticket we planned on having it in the market for two to three years. With our current pace we will sell out in about 18 months. We definitely found some people that like what we are offering.

There is a late entry that didn't make it in to the book. This is a new licensed game that we are looking at from Honda. Players will have an opportunity to win either in a vehicle they get to choose between a Honda Pilot, a CRV or the new truck that Honda will be bringing out at the first of the year; a pair of ATVs or a pair of scooters. This ticket will be coming out in January and this will replace our holiday tickets out in the market.

Chair Loveland asked if the products were built in America and Gaylene stated they are. Randy shared that was a key factor for us.

COMMISSION BUSINESS

Chair Loveland asked if there was any commission business. Are there any issues they want to bring forward or anything you would like to have presented by staff for the next meeting.

Commissioner Finn would like to follow-up on the Sports Fantasy concept and how it might impact us and our sales in the future.

Chair Loveland said that she has heard that there are some legislators in this state talking about outlawing fantasy sports in the state of Washington.

Randy Warick believes that Colorado has a current fantasy game and they do NASCAR and the NFL. It's a third party that does it, but for our state all fantasy is illegal today. There are two types of fantasy, so what Draft Kings does, they basically have multiple teams by game. The old school fantasy that's been around for over 21 years is that you build a team amongst your peers and you compete for a season and you would win prizes. There are over 200,000 people that play this type of fantasy football in our state.

Randy's personal opinion is that the fantasy industry is so gigantic that if it was legal that it could be a wonderful thing for the Lottery. Jim stated that we will provide an update at the next meeting.

Commissioner Guenther stated that it was nice to read another industry article that was written by Dr. Wade.

OTHER BUSINESS

Chair Loveland asked if there was any other business that needed to come before Commission. Chair Loveland asked if anyone knew how the person was doing that used to come before the Commission. Jim stated that as far as we know he is surviving happily in Texas where he has family.

PUBLIC COMMENT

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

ADJOURNMENT

11:55 a.m. *Chair Loveland adjourned the meeting.*

*October 22, 2015 Lottery Commission Meeting Minutes approved this _____ day of
_____, 2016.*

Respectfully submitted,

Valoria Loveland, Commission Chair

Debbie Meyer, Executive Secretary