



Lottery Commission Meeting Minutes
Thursday, December 17, 2020
Conducted virtually via Microsoft Teams

Commission Member Attendees:

Peter Bogdanoff, Commissioner
Fred Finn, Commissioner
Judy Giniger, Commissioner
Eileen Sullivan, Commissioner

Lottery Staff Attendees:

Jim Bevan, SharePoint and Office Administrator
Dan Devoe, Director of Security and Licensing
Cheryl Earsley, Scratch/Promotions Coordinator
Crystal Fischer, Director of Information Services
Marcus Glasper, Director
Gaylene Gray, Instant Product Manager
Shar Hawley, Lean Program Manager
Jenna Johnson, Procurement Manager
Josh Johnston, Deputy Director
Maria Lourenco-Douka, Director of Finance

Rebecca McGinn, Administrative Assistant
Kathi Patnode, Marketing Operations Manager
Stephanie Porter, Executive Assistant
Maegan Reed, Procurement Specialist
Debbie Robinson, Director of Human Resources
Ron Smerer, Director of Sales & Marketing
Patti Swihart, Events Coordinator
Randy Warick, Assistant Director of Marketing
Kristi Weeks, Director of Legal Services

Other Attendees:

Scott Battishill, Curator
Becky Bogard, IGT
Kristie Christensen, Wunderman Thompson
Scooter Churchill, Wunderman Thompson
Rosina DePoe, WA Indian Gaming Association
Belle Eliason, Curator

Lisa Levine, IGT
Ryan Lyonnais, Wunderman Thompson
Dan Miller, Curator
Haylee Mills, Assistant Attorney General
Andrew Scolaro, Scientific Games
Shannon Struempf, IGT

Call to Order:

8:30 a.m. – Commissioner Bogdanoff served as Acting Chair for the meeting and called the meeting to order.

A Commissioner roll call was performed, and Commissioners Peter Bogdanoff, Fred Finn, Judy Giniger, and Eileen Sullivan were confirmed present at the virtual meeting.

Approval of Meeting Minutes:

Acting Chair Bogdanoff asked if the Commissioners had a chance to review the minutes from the October Commission meeting and if there were any recommended changes. Hearing none, he

entertained a motion to adopt the minutes of the October 22, 2020 Commission Meeting as presented.

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

Acting Chair Bogdanoff called for a vote for approval of the minutes of the October 22, 2020 Commission Meeting. Ayes were unanimous. **Motion carried.**

CR 102 – Chapter 315-04 WAC, Licensing Procedure:

Acting Chair Bogdanoff asked Kristi Weeks, Director of Legal Services, to brief the Commissioners on the CR 102 they would be voting on. Kristi reminded the Commissioners of the CR 101 they approved a couple months ago to open up the licensing rules. These rules had not been reviewed since 2007, and many had not been updated since 1985. Over the years many Lottery processes have changed, and during an internal audit last year it was discovered that some of the rules were not in sync with those processes. The Commissioners were mailed copies of the proposed rule changes to review prior to today's meeting, and Kristi explained that the underlined language is new and the language that is struck-out is existing language that the Lottery would like to remove. She highlighted some of the more significant changes being requested and offered to answer any questions.

Commissioner Finn asked if the Lottery has ever been challenged on the section in the license eligibility criteria that precludes individuals related to lottery employees living in the same household, but does not preclude relations residing elsewhere. Kristi said she does not know of it ever being challenged.

Commissioner Giniger asked if there will be uncertainty for applicants regarding what criteria the Lottery will consider with the change from "shall" to "may." Kristi said applicants are encouraged to contact the Lottery's licensing team and they are provided with hands-on, one-on-one service to help applicants through the process.

Kristi said she is asking the Commissioners to approve the draft rules, and if approved they will then be posted to the Lottery website for public review and comment, and also sent to key stakeholders for review.

Acting Chair Bogdanoff entertained a motion to approve the CR 102, Chapter 315-04 WAC, Licensing Procedure draft rules.

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

Acting Chair Bogdanoff called for a vote for the approval of CR 102, Chapter 315-04 WAC, Licensing Procedure draft rules. Ayes were unanimous. **Motion carried.**

Director's Update:

Director Marcus Glasper said at the last Commission meeting Chair Valoria Loveland asked for an update on the Governor's budget as it relates to the Lottery. Chair Loveland was unable to join the meeting today, but Director Glasper said he does not have much detail to share at this point as the budget rollout is happening this week. Governor Inslee has hosted a series of press conferences each day this week related to his policy priorities for the budget which will be culminating in the release of the actual budget this afternoon. Although it is too early to know all the details, the Governor has indicated that his budget will not be focused on cutting services, so Director Glasper said he is hopeful they will not see many cuts to the Lottery's budget. During a meeting last week, the Office of Financial Management (OFM) said due to the hiring freezes, furloughs, early reductions, and a few additional factors the budget can be balanced for the remainder of this biennium with no new revenue. However, the Governor's budget will propose revenue increases for the new biennium because of projected shortfalls and to pay for policy priorities. Director Glasper said he will send the Commissioners a summary once they receive the Lottery's budget detail.

Director Glasper was pleased to announce that everything is on track for the new Spokane Department of Imagination (DOI) store and regional office to open on December 21st. He said the team, led by Chief Information Officer Crystal Fischer, has done an amazing job. Unfortunately, because of the pandemic the scheduling of a grand opening will be held sometime later in 2021. Also as a result of the pandemic, the Governor's Office and OFM instituted a new process in early November regarding the re-opening of state office facilities. The Lottery had to go through a review and approval process before the new store was allowed to open, and they will be strictly following all safety related precautions established for a retail environment. Director Glasper said the Spokane staff are very excited and ready to open the store. He said Randy would be sharing some photos of the new space during his presentation.

With the surge of COVID cases in Washington over the past couple of months, Director Glasper shared that the Department of Health (DOH) recently sent out a request to all state agencies seeking help. They are looking for volunteers to assist with the state's response to the pandemic. They hired a new contractor to help with the surge, but are about 4-8 weeks from being fully staffed so they asked for the volunteers to help fill in the gap. They were looking for about 350 state employees to assist them over the next few months mostly with case investigation and contact tracing. DOH received an overwhelming response to the request, including five employees from the Lottery. Director Glasper thanked each of the Lottery volunteers for their willingness to assist the state in saving lives.

Director Glasper wrapped up his report by sharing that the Lottery recently received the annual Employee Engagement Survey results, and they are extremely encouraging. The initial review indicates that the agency is continuing to progress in their efforts to build an inclusive, respectful, and collaborative work environment. The results exceeded the statewide average in all questions and he talked a little about the two highest and lowest scoring questions. In years past, the Management Team would do some analysis in order to identify strategies for improvement

within the agency. This year however, they have established a volunteer employee committee to review the results, talk with their peers, and develop recommendations for the Management Team to consider.

Deputy Director's Update:

Josh Johnston, Deputy Director, began by talking about the One Washington project. The state's core financial systems are more than 30 years old and becoming obsolete, expensive to maintain, and supported by a shrinking pool of resources. In 2013, the legislature began funding a replacement to this fundamental system called One Washington. It started with a business case, followed by funding for research and planning, and finally in 2019 the project was funded for implementation. The One Washington team is overseen by OFM, and the first phase of the project, "Phase 1a," is focused on replacing the core financials. The company, Workday, was selected to bring forward a software solution. The new system is expected to launch in the summer of 2022. Josh said the Lottery is currently building their agency team to support the project. He will serve as the executive sponsor and Denise Mitchell will be the project manager.

At the last commission meeting, Josh reported that they were in the process of recruiting for a new internal audit manager. He explained that the position serves in a dual role, as both the agency's internal auditor and as the enterprise risk manager. The individual in this role coordinates all external audits, conducts internal audits, and helps to guide the agency through enterprise risk management. Unfortunately, after the first recruitment effort a successful candidate was not selected. They opened a second recruitment and have first round interviews scheduled for next week.

Legislative & Legal Services Update:

Kristi Weeks, Director of Legal Services, began by sharing that since the October Commission meeting they have only received six formal requests for public records and no lawsuits, administrative actions, or assignments have been filed. Due to COVID, she has been working on numerous contract amendments which mostly stemmed from cancelled or altered events.

Kristi talked briefly about the 2021 Legislative Session, which will be primarily virtual this year through Zoom, except for restricted floor action. The House issued guidance, asking members not to file more than six bills each to help manage the workload. Kristi said as of this morning, there have been 23 House bills and 16 Senate bills that have been pre-filed. None of those bills are related to the Lottery.

Marcus and Kristi were asked to give a presentation on November 30th in front of the House Commerce and Gaming committee. The Liquor and Cannabis Board, the Gambling Commission, and the Horse Racing Commission were also asked to present. The other agencies provided an update on implementing last year's bills, COVID challenges, and a preview of this session's bills. The Lottery was asked to give a financial update and report how sales were impacted by

COVID. Unfortunately, the committee ran out of time and because of the restrictions on their Zoom account the committee could not extend the meeting so the Lottery was unable to present.

Lastly, Kristi informed the Commissioners that there has been an increase in reported lottery scams, not just in Washington but nationwide. In response to these scams a very prominent warning was placed on the scrolling home screen of the Lottery's website. It reminded players that Washington's Lottery will never randomly contact people asking for personal information or money. Kristi said one of the scams appeared to generate from scammers using lists of winner's names from the Lottery's website to contact individuals about fake second-chance prizes. Because of this, the Lottery decided to remove the full names of winners from the website and instead only use first names and last initials.

Financial Report:

Maria Lourenco-Douka, Finance Director, presented the Lottery's Fiscal Year (FY) 2020 audited results. Both the annual prize payment audit and the financial statements audit were conducted by external, independent certified public accountants. The prize payment audit resulted in no exceptions, and the financial statements audit resulted in a control finding related to proper controls over the securities valuation at year-end. The valuation has been corrected and the control improved.

Maria shared the FY2020 actuals compared to the prior year. Contributions were down slightly from the previous year, and she said this was due to the shift in the product mix and a higher vendor expense. Maria next shared the fiscal year actuals compared to the budgeted income, and then went over the vendor expense comparison outlining the three major vendor's expenditures. She next discussed the sales and estimated net profit by product for the fiscal year, followed by the expenditure authority report for FY2020.

Acting Chair Bogdanoff asked if his understanding was correct, that sales for the fiscal year were up, but expenses were up even more. Maria said that was correct.

Commissioner Giniger asked Maria if she could expand a little on the increased expenditures for vendors over FY2019. Maria said that it was primarily due to an increase in capital expense related to the investment in new vending equipment for Walmart stores. She said the instant ticket vendor increases were related to types of paper, and things of that nature that were used for scratch tickets generated that year. Director Glasper also added that because the Lottery receives a lower profit margin on scratch tickets than on draw tickets, and the vendors receive a percentage of sales, the spike as a result of COVID is also a contributing factor for the higher expenditures for the instant ticket vendors.

Sales & Marketing Update:

Ron Smerer, Director of Sales and Marketing, began by sharing that the Lottery ended last year with 76% scratch sales, and this year are already at 75.8% scratch sales. He said they are hoping

to see the draw ticket jackpots continue to grow to try and offset the increased scratch sales. He shared the year-to-date FY2021 sales, and said they are up \$50 million compared to last year. Ron provided a breakdown of each game, and Scratch sales continue to do extremely well, along with Hit 5 which he said will reach over \$1 million in sales this week. The Hit 5 jackpot is currently at \$835,000 and they hope to see it reach \$1 million before Christmas. Overall ticket sales for the game are 29% higher than last year, and daily ticket sales are 60% higher. The average Hit 5 jackpot is up by 58%, and since August 30th when the game was changed to a daily draw, the jackpot has been reset nine times. Ron said one of those nine times there were three winners, which is extremely unusual and has happened only two other times in the past.

Ron said he has been spending a lot of time touching base with the Regions and their staff over the last few months. The District Sales Representatives (DSR) and customer service staff are all doing well and have adapted quickly to doing their jobs very differently as the pandemic continues. He also gave a special acknowledgement of Jenny Whiteside, who handles the Sales Wizard program for the Lottery and assists the DSR's with program issues. He said there have been a large number of challenges over the last couple of months and she has done a phenomenal job getting those issues handled quickly.

Randy Warick, Assistant Director of Marketing, said the marketing team has done a great job of advertising the Hit 5 game, and thanked Curator and Wunderman Thompson for all their work pushing the changes out to the public. He shared that since October they have had over 768,000 impressions and the majority of it has been generated through the Hit 5 and Pick 3 changes, as well as the continued messaging about unclaimed prizes.

The holiday Scratch campaign began mid-November and will run through Christmas. The new holiday spot can be seen on television, digital, social and gas station television. He shared the digital and social advertising, however technical difficulties prevented him from sharing the television spot but it was emailed to each Commissioner to watch on their own. Randy said gas station television is something they have begun using to market lottery products and has 230 stations across the state, and over 1,900 screens at the pumps showing lottery advertising. They have had over 1.4 million impressions so far and have advertised Seahawks Scratch, Holiday spots, Responsible Gambling messaging, and growing jackpots. Randy also talked about the Jackpot Out-of-Home billboards that promote Mega Millions and Powerball in Seattle, Everett, Tacoma, Vancouver, Yakima, and Spokane.

Randy said they continue to have great success with the Seahawks scratch, and the first virtual meet-and-greet went extremely well. They have the second virtual meet-and-greet with Marshawn Lynch coming up Saturday. He said they are also working on the final Seahawks scratch second-chance drawing, and with the last drawing they received over 44,000 entries.

They are wrapping up the Let's Imagine Together campaign with three final spots, Meowza, Dinosaur Garage, and Beehive. They will then transition into the new campaign, Imagination Unite, and will be sharing more as the final details are completed.

Randy shared some images from the new Department of Imagination store in Spokane, and thanked Crystal Fischer for all the work she has done as the project manager. The store is opening on December 21st and will be the first regional office that allows the sale of Lottery tickets from the office location. He talked about the interactive gaming experience that is built into the store and how excited the Spokane staff is for the new space. He said Crystal is currently in Spokane overseeing last minute installations, but will have more to share at the next Commission meeting.

Mobile App Update:

Gaylene Gray, Instant Product Manager, provided an update on the Lottery 360 program and mobile app. She said it has been live for just over a year now, and the Points-for-Prizes store one year anniversary is approaching. She talked about the three initiatives of the project: The ability for players to check draw and scratch tickets; open a loyalty store that used accumulated points from scanning non-winning scratch tickets; and provide players experiential prizes that players cannot ordinarily purchase. Gaylene was proud to report that they have completed all of these initiatives.

She shared images of the Loyalty store and talked about the different prizes offered to players, and what has been the most popular among players so far. She also provided statistics on monthly average engagement, tickets being scanned into the app, and points activity for the year.

Commission Report – Instant Ticket Artwork Review:

Gaylene shared the scratch ticket art for two tickets for the Commissioner's review, which included one for the new Seattle Kraken hockey team. The Commissioners had no concerns or questions.

Commission Business:

Acting Chair Bogdanoff asked if there was any other business that Commissioners wished to put forward. There was none.

Public Comment:

Acting Chair Bogdanoff asked if any members of the public wished to make public comment or voice any concerns. There were no comments made.

Agenda Items for Next Commission Meeting:

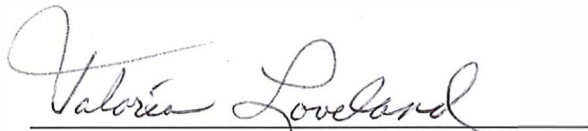
Acting Chair Bogdanoff asked if there were any suggestions for the next meeting agenda, which will be held on February 18, 2021. Director Glasper mentioned that the CR 102 rule language for the Voluntary Self-Exclusion program will be presented for the February meeting. Kristi said they are also planning to hold the public hearing on the licensing rules at that meeting.

Adjournment:


9:55 a.m. – Acting Chair Bogdanoff adjourned the meeting.

The December 17, 2020 Lottery Commission Meeting Minutes were approved this 18 day
of February, 2020.

Respectfully submitted,



Valoria Loveland, Commission Chair



Stephanie Porter, Executive Secretary