



Lottery Commission Meeting Minutes
Thursday, February 20, 2020
Lottery Headquarters, Olympia, WA

Commission Member Attendees:

Fred Finn, Commissioner
Judy Giniger, Commissioner
Valoria Loveland, Chair
Eileen Sullivan, Commissioner

Lottery Staff Attendees:

Jim Bevan, SharePoint & Office Administrator
Cheryl Earsley, Promotions/Scratch Coordinator
Crystal Fischer, Director of Information Services
Marcus Glasper, Director
Gaylene Gray, Instant Product Manager
Shar Hawley, Lean Program Manager
Jenna Johnson, Procurement Specialist
Josh Johnston, Deputy Director
Maria Lourenco-Douka, Director of Finance
Brian Minks, Corporate Accounts Manager

Kathi Patnode, Marketing Operations Manager
Stephanie Porter, Executive Assistant
Bev Reinhold, Security Specialist
Debbie Robinson, Director of Human Resources
Ron Smerer, Director of Sales & Marketing
Stacy Sund, Merchandising Specialist
Randy Warick, Assistant Director of Marketing
Kristi Weeks, Director of Legal Services
Jenny Whiteside, Corporate Accounts Manager

Other Attendees:

Luis Antezana, Crown
Delaney Berreth, Curator
Becky Bogard, IGT
Kelsey Dingman, Catalysis
Scott Foreman, Copacino
Nelson Fortier, Catalysis
Devon Hansen, IGT

Rebecca Kaldor, WA Indian Gaming Assoc.
Ryan Lyonnais, Wunderman Thompson
Janice Merlino, Merlino Media
Dan Miller, Curator
Ashley O'Connell, WA Indian Gaming Assoc.
Shannon Struempf, IGT
Mary Tennyson, Assistant Attorney General

Call to Order:

8:30 a.m. – Chair Valoria Loveland called the meeting to order.

Chair Loveland asked everyone in the room to introduce themselves.

Approval of Meeting Minutes:

Chair Loveland entertained a motion to adopt the minutes of the December 19, 2019 Commission Meeting.

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

A vote was called for approval of the minutes of the December 19, 2019 Commission Meeting. Ayes were unanimous. **Motion carried.**

Director's Update:

Director Marcus Glasper began by informing the Commissioners that the Gambling Commission, who were originally scheduled to give a presentation today, were unable to attend. They will be rescheduled for a future commission meeting.

At a previous meeting, Director Glasper had mentioned that Mega Millions had voted to adopt an add-on feature to the game called, "Double Play." This is a feature that provides players with a second chance to win for an additional dollar. It will be launched in several states on April 21, 2020. Powerball has also adopted the same add-on feature, and it will launch on April 22, 2020. This will give states choosing to use the add-on feature an advantage in their marketing strategies to encompass both games. Currently five states are planning to launch the feature in April, however Director Glasper said the Lottery is still evaluating whether the add-on feature makes business sense for Washington. He said the national games are still suffering from low jackpots, and Ron will talk more about the strategies his team is working on during his update later in the meeting.

Director Glasper said earlier this month he announced two organizational changes at the Lottery which will take effect in April. The first is the establishment of an Organizational Performance and Planning Office. This new office will combine many of the cross-organizational functions of the agency under one umbrella, which will better align the positions performing those roles and achieve stronger collaboration. He said the Lottery will be recruiting for a newly created position, Organizational Performance and Planning Administrator, which will lead the new team. The second change will be moving Administrative Services under the Human Resources Division, which will continue to be led by the current Human Resources Director, Debbie Robinson. Director Glasper said this will streamline the interrelated support functions of the Lottery.

Chair Loveland asked how this change was going to affect the employee's work. She wanted to know if it was going to cause additional duties or take them away from their primary responsibilities, and if there would be duties left behind that someone else would need to take over. Director Glasper explained that each of the employees would continue with their normal job duties, however their position will be placed within this new division. They will not have any lingering duties from their old divisions, because their tasks will be transferring with them to the new division.

March is Problem Gambling Awareness month and similar to years past, the Lottery will have problem gambling messaging displayed on terminal reader boards at retailers, information on social media, and posters in all offices. State and provincial lotteries across the United States and

Canada participate in this annual program. Director Glasper said as part of the Lottery's responsible gambling certification process, a responsible gambling tagline was developed, which is "Keep it fun. Know your limit." This will be used on future materials, products, and advertising. Chair Loveland suggested staff also look at areas outside of vending machines and social media to get the message out. She mentioned groups often use buses or shuttles to take them places to gamble which could be a good place to advertise problem gambling information. She also suggested partnering with the tribal casinos.

Director Glasper said the legislative session is almost over, with only three more weeks. He and Kristi Weeks, Director of Legal Services, took the opportunity to visit with legislators from key committees and talk about the contributions the Lottery makes to its beneficiaries. This was something they did last year as well, focusing on members of the House Commerce and Gaming Committee and the Senate Labor and Commerce. This year they reached out to legislators on the education committees in order to sit down and talk with them about the contributions Lottery makes towards education in Washington. They met with several legislators from Early Learning, K-12, and Higher Education which proved to be very beneficial. Many of the newer legislators were not familiar with how the money was distributed out of the Washington Opportunity Pathways account, so this was an opportunity to educate them. Director Glasper said during these meetings they also provided legislators with statistics related to their district, including sales information, winnings, and commissions to their retailers.

It has been a busy year for the Lottery Security team. Director Glasper shared that since the December Commission meeting there have been three new incidents of retailers failing compliance checks administered by undercover investigators. Compliance checks consist of an undercover investigator entering a retail location and attempting to cash a winning ticket. In some cases the retailer keeps the ticket, telling the investigator that the ticket is not a winner. The retailer then attempts to claim the winning ticket at one of the Lottery offices. During the ongoing investigations, the Lottery suspends their license so they are not able to sell. Director Glasper said they are currently reviewing processes and looking to see what other controls they might put in place.

Director Glasper was happy to report that a lease agreement for the Spokane retail store has finally been signed by Northtown Mall, and they are moving forward with a more definitive project plan. The move date on the lease is scheduled for July 1, 2020, so construction will be scheduled for completion in mid-summer. The next step is for the mall to send the project out for bid, and once that is complete a more precise timeline will be implemented. The August Lottery Commission meeting will be planned again this year for Spokane, in hopes of holding a store grand opening. Director Glasper thanked everyone that has been involved in the project for their perseverance through all of the struggles and triumphs, and recognized all the work and effort they have put in.

Director Glasper also shared that earlier in the month, as part of their After School Advantage Program, IGT donated a computer lab to the Boys and Girls Club, Ron Sandwith Teen Center in Federal Way. Some of the Lottery staff attended a ribbon cutting ceremony and he thanked IGT

for their contributions to the community and for finding other ways to support Washington education.

Deputy Director's Update:

Josh Johnston, Deputy Director, began with an update on the mobile app. As previously reported, after the November launch the Lottery received a lot of customer feedback on the requirement to set-up an account on the new mobile app in order to access the ticket checker. In response, the Lottery worked with Scientific Games to update the app to allow for players to anonymously check tickets outside of logging into an account. The update launched on January 8, 2020, and players have been able to check their tickets inside and outside of login. However, to accrue loyalty points players must still create and be logged into an account. Josh said there has been a great response from players after this change was made.

Commissioner Giniger asked if the Lottery had information related to the percentage of players using the anonymous ticket checker versus using an account. Josh referred to Randy Warick, Assistant Director of Marketing, who said they do not currently have the reporting mechanisms in place to gather that information but are working closely with Scientific Games to look at the app activity and how they can measure it. Josh said once they are able to track the information they will share it with the commissioners.

On January 15, 2020, the Loyalty Store was launched successfully. As of this week over 85,000 distinct users have accessed the store; 2,062,995 tickets have been entered for points; and there have been 9,923,528 points awarded. Josh said it is interesting to see that although scratch is 70 percent of the Lottery's portfolio there are currently more draw tickets being entered for points, at 1,126,894, versus 936,101 scratch tickets. He said some of that can be attributed to the team using every tool available to drive sales and running draw promotions to help with the low numbers. Some of it may also be the player's familiarity with our new app. They are accustomed to using the app to check their draw tickets, however the ability to check scratch is still new. It is expected the number entered for points will continue to grow as more people discover this new function. So far, players have redeemed 1,469,670 points and the top prizes have been gift cards and jewelry.

Chair Loveland asked how the team is keeping track of everything in the mobile app. Josh said they have the ability to set-up reports to pull specific information about activity in the app. They are currently looking at all the data to determine what they need to track in order to measure the success of the app. The intention of the app is to drive Lottery sales and engage players, and they want to pull the right data to determine if that is happening and where improvements can be made.

Although he would not normally share the requests for proposal (RFP) information, Josh said they currently have two significant ones open right now. One is for the Lottery's advertising agency and the other one is for market research. The current ad agency contract expires June 30, 2020, and the RFP process began in early December. The team is currently going through the

evaluation process for the received responses, and they will be doing onsite interviews soon. They hope to announce an apparent successful bidder in mid-March. Chair Loveland asked how many bidders the Lottery received. Josh informed her that unfortunately due to the risk of compromising the evaluation process, he cannot share any other information about it at this time.

The Lottery's current marketing research contract is held by IPSOS, who performs a quarterly market tracking study. This contract is set to expire on June 30, 2020 and the RFP will be released in early April, with an announcement of an apparent successful bidder in late April. Commissioner Giniger asked what that contract is worth over its lifetime. Josh said it is roughly \$25,000 a quarter for a four year term.

Legislative & Legal Services Update:

Kristi started her update by sharing that since the last Commission meeting they have received 11 formal requests for public records. They have not had any law suits filed, however there have been three requests for administrative hearings. She said all three are related to failed compliance checks and subsequent retailer license suspensions. Per Lottery policy, when an appellant is represented by counsel then the Office of the Attorney General represents the Lottery. This will happen for two of the hearings, and the third hearing Kristi will be handling.

The legislative session started on Monday, January 13th, and the house of origin cut-off was yesterday, February 19th. Kristi said the legislative meetings Director Glasper mentioned earlier have been going really well. They have had 14 meetings so far, and have primarily focused on legislators who are interested in educational issues. The reception has been mostly positive, with members encouraging them to keep up the good work. Part of their message has included the work on responsible gambling, so they shared with legislators the new scratcher coins that feature the Problem Gambling Helpline number on one side. Kristi also provided some of the scratchers to the Commissioners.

Kristi said this year there are no bills directly impacting the Lottery. The Gambling and Horse Racing Commissions both had agency request bills. The Horse Racing Commission bill did not make it out of the house of origin. The Gambling Commission bills are moving along, and relate directly to their power and authority over their licensees and do not impact the Lottery. She said there were two sports wagering bills introduced this year, but they also have no impact on the Lottery. House Bill (HB) 2478 and its companion Senate Bill (SB) 6277 would allow sports wagering at tribal casinos, card rooms, and horse racing tracks. The bill had a hearing in the Senate but not the House. There were significant concerns voiced at the hearing because the bill would allow mobile or online wagering. It also imposes a 10 percent tax on revenue, including on the tribes.

The other set of bills, HB 2638 and its companion SB 6394, would only allow sports wagering at tribal casinos. It has limited mobile wagering attached to it, but they would be geofenced to the tribal property. Both bills were voted out of their policy committees, and HB 2638 made it out of Appropriations and was voted off the floor. It has a hearing in the opposite house on

February 24th. Kristi said along the way there were several failed attempts to adopt amendments related to revenue sharing with the State. It is generally believed this bill could be successful this year. During their meetings with legislators, Kristi said they were asked a couple of times what role, if any, other state lotteries play in sports wagering. In response they provided information about the various models used in other states.

Kristi said the country is gearing up for the 2020 Census, which is used to determine federal funding for critical government services, such as schools and roads. About a year ago, the Governor's office put together a committee to work with state agencies to assist in promoting a positive message about the census. The Governor's office understands that the Lottery has a different relationship with the public than most state agencies, so Lottery staff were allowed to take the standard materials being used statewide and re-brand them to look and feel like Lottery messages. These re-branded written materials, pens, posters, vending machine messages, and window clings are being distributed and used at Lottery events, offices, and retailer stores. Kristi provided each of the Commissioners with a window cling for their vehicles.

Commissioner Finn asked Kristi about the nature of the request for hearings that she mentioned at the beginning of her update. She said in the three separate cases the allegations all concern an employee of the retailer keeping a winning ticket, rather than giving it back to the undercover investigator. The retailers are taking the position that they cannot control their employees, however the Lottery does not allow a retail employee that has been accused in the theft of Lottery products to handle tickets. So the retailer has a choice to fire the employee or the Lottery will revoke their license. Kristi explained that the Lottery's integrity and the public's trust is extremely important. Some of these cases stem from players who report they may have been cheated, and in response a Lottery investigator is sent to those locations.

FY20 Quarter 2 Financial Review:

Maria Lourenco-Douka, Director of Finance, presented financial data through December 31, 2019. She talked through the actual results compared to the previous year, which are down about \$37 million. She mentioned there are only two more CenturyLink payments left for the next calendar year.

Chair Loveland asked if the Lottery communicates with the Office of Financial Management (OFM) ahead of submitting final numbers when annual totals look like they will be significantly lower than the year before. Maria said they are required to report regularly to the Economic Revenue Forecast Council (ERFC) and they track the Lottery's projected revenue. Chair Loveland also asked, knowing the CenturyLink contribution increases four percent each year, if the Lottery factors it in to their budget. Maria said yes they do forecast those increases into the budget.

Maria next discussed the year's actual results versus what the Lottery had budgeted. The Mega Millions and Powerball games being hit frequently this fiscal year is negatively impacting the sales numbers, when compared to the positive impacts of last year's long jackpot streak. Looking

at the year-to-date sales, Maria said they have been lower through October. There has however, been incremental growth each month since then so things are moving in the right direction. Total operating profit was five percent lower than the budgeted amount, and total contributions came in about seven percent less than the budgeted amount.

Commissioner Giniger said she noticed and wondered why promotional and other operational expenses are very low compared to the budgeted amounts. Maria said that budget is annually set based on planned promotions for the year. The promotions are spread out over the year and currently they are only reporting what has been spent during the first two quarters.

Commissioner Finn said he thought he read recently there was a sizable Powerball jackpot win, and asked how it compared to what was happening this time last year. Josh said they are not seeing the same size jackpots as last year, which was a pretty remarkable year for jackpot size. It is taking more rolls to achieve those levels of jackpots, and more rolls expose the jackpot to being hit more frequently. Ron added, because of jackpot fatigue the games are currently experiencing, they do not see increased sales until the jackpots hit close to \$400 million.

Chair Loveland asked if there is any concern that the passing of a sports wagering bill could hurt Lottery revenue. Kristi said illegitimate sports wagering is already occurring, so the general belief is when there is a transfer to legal gambling there will not be a significant rush of new money being spent. There is no way to know for sure, but they are not anticipating a large impact to other forms of gambling. Commissioner Giniger asked if there were other states they might be able to look at and get more information about the impacts. Kristi said there will be, however because sports wagering is so new there is not currently reliable data available. Marcus added that they are closely watching the Vancouver area sales to see if there are any notable impacts from Oregon's sports wagering.

Maria next talked about the vendor expense comparison, and the sales and estimated net profit by game. Commissioner Finn asked what role the company Curator played, and where they were reflected in the budgeted amounts. Randy responded that Curator is the Lottery's public relations firm, and are a subcontractor of their advertising agency, Wunderman Thompson.

Chair Loveland inquired why the non-operating revenue was displayed at over 300 percent. Maria explained they budget the non-operating revenue at a flat line rate because they do not have a way to project when those revenues will be received; therefore actuals may be different or higher than projected.

Sales & Marketing Update:

Ron Smerer, Director of Sales and Marketing, said sales are down \$17.1 million to goal, and down \$35 million from last year. As discussed, this is mostly attributed to Powerball and Mega Millions sales being down. He said in more positive news, since the December Commission meeting, the Lottery's draw games sales have improved and they have made-up over \$1 million in sales. Ron said his team is working hard to find ways to improve sales.

They are currently in the second phase with Walmart and are completing 11 more store installations over the next couple of weeks. Overall they will have installed 57 Walmart locations in Washington, with a total of 90 machines. They are also working on options to place machines in the remaining store locations in the state. He said Washington's Lottery is currently the second highest sales in Walmart stores, behind Florida.

Chair Loveland asked if they anticipate having a clearer picture of overall sales once the installs are complete. Ron said yes, they expect numbers to grow significantly as they finish the installations and as more players learn they can purchase Lottery products at Walmart.

Ron also shared that he is continuing to work with Costco and just had a very successful business meeting with them yesterday. The Lottery sales team is now working to figure out a plan that will fit Costco's model and they are very optimistic at this point.

The Gemini touch machines are getting some new features. A "bundle" ticket button is being added to allow players to purchase a special bundle of tickets without having to select different individual tickets. Ron said as an example they could offer a \$5 bundle, that might include one Mega Millions ticket, one Powerball ticket, and one Lotto ticket. The button can also be used for promotional options. Ron said the current \$5 Golden Nugget Scratch ticket promotion is going very well. It includes a mail-in second chance drawing option and winners get to take five friends to stay at the Golden Nugget in Las Vegas. Another ticket doing really well, is the \$30 Cash Blowout ticket, bringing in over \$1 million in sales per week.

Ron turned it over to Randy to provide a marketing and public relations (PR) update. He began by talking about a press release that the Lottery's PR company, Curator, put out on the Retailer of the Year award. He played a clip from the HGTV television show, "My Lottery Dream Home," featuring a Washington's Lottery player who won the top prize from the Game of Life scratch game. He played some local television news reports on the \$394 million Powerball jackpot, which Commissioner Finn mentioned was claimed recently. Randy also showed a Q13 Fox news clip highlighting the Lottery's Seahawks scratch ticket event at the Tacoma Mall. It was a very well attended event, with a lot of media attention around it.

Randy talked about the "Let's Imagine Together" (LIT) brand campaign that has been running for just over a year, and the great success the Lottery has had with it. It has won a few national awards, and brought an abundance of social media engagement from players. He provided a look back at all the ideas players have sent and been brought to life since the campaign began. Randy then showed the two new LIT broadcast commercials, "Proposal," and "Zoo."

In the product update, Randy showed some of the creative work they are doing, with the help of Wunderman Thompson, around the Golden Nugget scratch promotion. The first drawing for the promotion has already occurred, and they received over 20,000 mail-in entries. Entries for the second drawing are currently being collected, and from what they have received so far they expect the number of entries to exceed 20,000. Randy also did a wrap up on the Seahawks scratch promotion. He noted that over 100,000 mail-in entries were received for the second

chance drawing, and they sold almost 98 percent of the 1.4 million game tickets produced. He showed a short video they created from the Lottery's Seahawks scratch event. Randy concluded his update by showing a new beneficiary broadcast spot, called "Beyond the Ticket."

Commissioner Finn asked if the Lottery has any plans to work with the XFL. Randy said they are keeping an eye on it and watching to see how successful the football league becomes. The Lottery already partners with the Seahawks and with the NHL, so they are open to the future possibility.

Chair Loveland asked if information about which scratch games are doing well gets to the sales teams to make sure they are refilling machines and meeting demands. Ron said they definitely get that information to the district sales representatives in the field and do everything possible to stay on top of it. Often when a ticket is as popular as the Golden Nugget is proving to be, staying on top of it can be a challenge because they have no way of predicting how successful a ticket will be. They do run reports three times a week showing which tickets retailers are out of and then respond accordingly.

Commission Business:

Chair Loveland asked if there was any new commission business. There was none.

Public Comment:

Chair Loveland asked if there were any public comments. There were none.

Agenda Items for Next Commission Meeting:

Chair Loveland asked if there were any suggestions for the next meeting agenda, which will be held on April 23, 2020. Commissioner Giniger asked if the Gambling Commission presentation will be rescheduled for the April meeting. Director Glasper said yes they have been invited to present in April.

Director Glasper asked if he could confirm with the Commissioners that they plan to attend the April meeting. He wanted to ensure they will have a quorum to hold the rules hearing for the Hit 5 and Daily Game rule changes.

Adjournment:

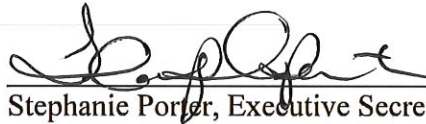
10:20 a.m. – Chair Loveland adjourned the meeting.

The February 20, 2020 Lottery Commission Meeting Minutes were approved this 20 day
of August, 2020.

Respectfully submitted,



Valoria Loveland, Commission Chair



Stephanie Porter, Executive Secretary