

Lottery Commission Meeting  
April 27, 2017  
WA Association of Sheriffs & Police Chiefs Building  
Lacey, WA

## **MINUTES**

### **COMMISSION MEMBERS PRESENT**

Chair Valoria Loveland, Commissioners Judy Guenther, Peter Bogdanoff, Laura Cantrell 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, Sales Assistant Director Lance Anderson, Director of Legal Services Jana Jones, Instant Product Manager Gaylene Gray, Business Development Manager Kurt Geisreiter, IS representative Jim Bevans and Executive Assistant Debbie Meyer

### **OTHERS PRESENT**

Eric Sonju of the Attorney General's Office; Bobby Hatam of IGT; Nadine Tull, Ryan Lyonnais and Sara Doering of Cole & Weber; AnnMarie Ricard, Erin Brown & Stephanie Kirk of Curator; Drew Scolaro of Sci Games; Ernie Stebbins of WIGA; Aubrey Seffernik of Miller Nash

### **CALL TO ORDER**

9:48 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 February 16, 2017 Commission Meeting. Commissioner Guenther **so moved** and Commissioner Bogdanoff **seconded**.*

*A vote was called for to approve the minutes of the February 16, 2017 Commission Meeting. Ayes were unanimous. **Motion carried**.*

### **DIRECTOR'S UPDATE**

Director Bill Hanson mentioned the legislative session. He talked with the OFM Director David Shoemaker about our FTE request and it is still in the Governor's Budget. Apparently the legislature wants to solve the McCleary funding before they work on the rest of the budget. This worries Bill because to fix McCleary, it is going to take some cuts in areas and we just don't know where those cuts might be. The shutdown issue was talked about at a cabinet meeting yesterday that Bill attended. Bill got the impression from everyone, including the Governor, they really didn't think that a shutdown would happen.

There was an interesting federal report during the Cabinet meeting. The Governor's contact in Washington, DC gave a report on how things are going in Washington, DC. Bill got the sense that things were calming down a little bit. He believes that all the states are just sitting back and waiting for the confusion of a new White House team to calm down and they are waiting for a flow to begin. The Governor spoke and he is frustrated that the legislature went in to special session. Bill believes he expected it but that he believes in the end it will all work out.

Bill mentioned the construction going on at the office. We are doing the remodel in sections. First Sales & Marketing moved to the drawing studio while the construction work took place and they recently just moved in to their new area. Finance has now moved in to the drawing studio while work is being done in their area. It is not an ideal situation but hopefully we can live through all of this.

Commissioner Finn asked who is managing the project. Jim shared that the Lottery worked with Dept. of Enterprise Services. There was a negotiation between the Lottery, DES and the landlord. The landlord agreed to cover most of the expenses but the Lottery contributed about \$150,000 to the costs. There was an agreement to extend the lease for 10 - 15 years, but there is a guarantee for us. Certain rental increments will happen and

over the long term the landlord will get his money back. In the short term we will have a very small increase in to what we have to pay. The landlord knew this needed to be done because if we were to have moved out he would have had to do some remodeling in order to get the building upgraded to the standards that were needed. So, it felt like a win-win situation for everyone.

Bill believes the office is running well. He wished thought that he had a big jackpot that would help increase our revenue. But in the end, he believes that we will still come out alright. There are some innovations out there that eventually the Lottery will embrace. We are always thinking about how we can do some of these things so we can increase our revenue.

Bill shared that he thought that tribal relations were going really well. He just attended the National Indian Gaming Association conference in San Diego and was amazed by all the different slot machines that are available. Our Indian gaming partnerships/licenses is going well. There are always little bumps because the tribes are controlled by federal law and you are dealing with another nation. Kurt has been a great asset. He has done a great job and has had several meetings recently with some of the tribes. We are working on several promotions with some of the tribal casinos. There is one coming up on May 20; it is a slot tournament at Northern Quest casino in Spokane and Bill invited the commissioners to attend if they would like to go.

Chair Loveland asked about the coupon on the side of the Northern Quest scratch ticket. There were concerns raised at the last meeting and wondered how things were going. Bill shared that the issue was that there was a coupon on the side of the ticket that you could redeem at Northern Quest for \$5 - \$100. We did mention our concern about the liability to Northern Quest if everyone redeemed their coupon. The casino had more players than they anticipated redeem the coupons and so they changed their rules to limit the number of tickets a person could redeem at one time. If we do something like this again on a scratch ticket we will definitely review how that would play out. It was bad PR for all involved.

### **DEPUTY DIRECTOR'S UPDATE**

Deputy Director Jim Warick wanted to clarify something that was said earlier about the budget. We mentioned our FTE request but we didn't mention to you was that in the Senate budget there is a reduction in the Lottery. It is not spelled out as a reduction, but it says that OFM must do this. It talks about reducing our exempt level by \$277,000 and it talks about reducing additional expenses by \$44,000 on top of that. Jim stated that if any

of the commissioners are having conversations with legislators that they make sure to tell them we don't want any part of the Senate budget cut.

Chair Loveland shared that you have to be diligent to look and see how the wording in the budget is. Beckie shared that in the agency activity detail it was not listed; it was in the narrative piece in the legislation. Fortunately for us, Debbie Robinson was at an HR meeting and it came out that there were these two sections of the Senate bill that indicated that there was going to be a 10% reduction of EMS/WMS and then there was another section that said there was a reduction in the classified positions of a smaller amount. So that is where the \$277,000 and \$44,000 came from. When we supplied information to Valoria earlier, it was not in the agency detail because it wasn't there. We just found this out last week.

Jim mentioned the shutdown. OFM did send out their first document starting to talk about this. There is some homework that is due from the agency on May 5<sup>th</sup>. We, because of the situation with what we have and how we operate, we have already had to start some practices. We sent notices to our retailers that we will start step down of our games that have advance play. We cannot have any sales of any tickets that would happen for a draw after June 30. We are actively doing what we need to do to manage our business in case shutdown does happen.

Jim shared that in March the Mega Millions consortium got together and voted on making changes to the game. The changes will become effective October 28, 2017 and they will be making changes to make it resemble Powerball. It will go from a \$1.00 game to a \$2.00 game. The current jackpot starts at \$25M and it will move to \$40M. There will still be \$5M guaranteed incremental rolls from draw to draw at a minimum but it can be more, based on sales. The megaplier will still be an additional \$1.00 per play. There is an additional portion of this game that will be jurisdictional. There is an option that each jurisdiction may add if they desire and it is called Just the Jackpot. Basically what this is, is a player for \$3 can get two plays, but they are only playing to win the jackpot. There are nine basic tiers that you can win prizes in Mega Millions as it currently exists but for that "jackpot only" portion of the game you are only playing for the jackpot. All the research shows that this would be revenue neutral to any of the jurisdictions that decide to offer this option. The only potential is that there could be some additional revenue that is generated when we see the big jackpots.

The game matrix will change. Currently there are two pools – today you pick five numbers out of 77 and then you pick one number out of a pool of 15. The new changes are – you will pick five numbers out of a pool of 70 and for the megaball you will choose one number out of a pool of 25.

The effective date could be a logistical issue for us because as we move forward preparing for shut down. We will do a step down process for Mega Millions to be prepared for shutdown and then come July 1<sup>st</sup> of the year we will go back to our normal way of doing business. Then in September, we will have to do another step down in order to prepare for the revised game change date of October 28. We have some logistical issues to work out for ourselves.

Chair Loveland asked if we knew how many states might be interested in the "jackpot only" option of the game? Jim shared that during the meeting that was held to take the game change vote, they asked the states how many would include the jackpot only option. Eight states indicated they would probably look at doing it and three weren't sure.

Commissioner Guenther asked if we were going to opt in. Jim shared that we were one of the unsure states. We want to investigate it and spend more time talking about that option.

Bill shared that changing the cost of the MegaMillions ticket to \$2.00 has been in the works for awhile. There are 11 states that control the MegaMillions game. Bill is anxious to see what this will do for the revenue for our state. Dr. Wade seems to think that we will be fine and we might gain a little bit of revenue.

Chair Loveland stated that there is no reason to complicate our lives beyond what is necessary and a lot of times it depends on what the activity is. She would rather have someone get involved first before we follow suit. By adding the option we might be making it difficult for the average player to figure out what they are doing; it just might be too many options of how to purchase a ticket that they don't buy one out of frustration. Is it worth it this year? Maybe we should just wait until next year.

Bill's thoughts right now are not to opt in but he wants to wait for a big jackpot and see what the sales are in other states that opt in for this jackpot only option.

Commission Guenther asked if we knew what the cost would be to implement the jackpot only option. Jim explained that there wouldn't be costs associated to implementing the jackpot only at the time we made changes to the Mega Millions game because we already have to change the play slip. We already have to do things like that to be able to prepare for the new game. If we choose to offer the jackpot only option at a later date, then there would be additional costs associated with that change.

Chair Loveland would be interested in hearing the outcome of our discussions at a future commission meeting. Bill said we could include two commissioners to listen in during a meeting at the office if we didn't discuss at a commission meeting.

Commissioner Bogdanoff asked when we would have to make a decision about opting in the jackpot only option to meeting the deadline for the October change to the game?

Jim stated this would be depend on things like when do we have to have artwork for the new play slips. He doesn't know what the drop dead date is at this time. He thinks it could be July/August timeframe if he were to guess. The vendors will be doing this. It is part of their base system.

Commissioner Bogdanoff asked if this would need to be run by the commission?

Jim believes that anytime we make a change to a game that we would ask for the commissions input.

Jana Jones stated that we would be required to inform the commission but the MegaMillions game and the approval to participate in the game was already agreed to by the commission in that we enter in to the multi-state game agreement. The multi-state agreement as it changes and evolves and changes the nature of the game, certainly we have to consult with the commission because you determine the games that we sell. Whether or not you would be required to actually have a vote is questionable because you have already given permission for us to participate in the multi-state game contractual agreement and were a party to that contract already. Certainly we would discuss and inform you.

### **LEGISLATIVE & LEGAL SERVICES**

Legal Counsel Jana Jones shared that she was unable to attend the last meeting so today's report will be particularly riveting.

We are not being sued by anyone which is always good news. Our public records requests remain pretty consistent. We get about 10 a month. She has reviewed 10 contracts in the last two months and that is a little bit of an increase and it is because sales is approaching the spring-summer season when there are a lot of sporting events going on.

### **SALES & MARKETING**

Sales & Marketing Director Ron Smerer shared the sales numbers with the commissioners. Our sales are down a bit because this time last year we had a jackpot that was working in our favor. Our scratch sales right now though are remarkable. We are up about \$9M over last year's sales. With the introduction of Pac-Man he believes our sales

are going to be higher and then we have a couple of new games coming on beyond Pac-Man that will really be big in the market also.

Ron shared that we are up and running at Walmart. We have four stores with machines in place. We have Lacey, Vancouver, Bellevue and Lynnwood up and running. So far Walmart has been great to work with. They are very involved with the business and the people that are running the Lottery business for Walmart are remarkable to work with. We have a phone meeting with them every Thursday afternoon and they want to know what's moving forward. We have sent them all the information on Pac-Man and they were very excited to see what was going in right at the beginning. We have had indication that the SuperStores are soon to follow, possibly in the next fiscal year. This is exciting news for us.

Ron shared that we had lost Terri Killion. She is moving to Arizona to be near her mom. We are excited for her because she already has found a job there, back in the industry that she used to be in. She left yesterday to head down to Arizona. We are already interviewing candidates for her position.

Ron gave an update on the daily average of reinvestments on the touch machines is \$101,000 a day. We have not had a day under \$100,000 since January 22<sup>nd</sup>. In the last couple of weeks we have been averaging \$125,000 to \$155,000 a day in reinvestment. It is a great tool and the retailers like it and they are happy that they are not spending more time paying out small winners.

Ron also shared pictures of some of the Pac-Man POS that we have out in the marketplace. Our retailers are very excited about Pac-Man. Randy shared that one of the jackpots has already been hit and we have already given away one of the vending arcade machines. First day sales were \$405,000.

Sales Assistant Lance Anderson shared information on the Scratch advertising on the conveyor band covers that we ran at Rosauer's as a test for 14 weeks. Dr. Wade evaluated this project and the goal was to find out in that path of purchase if we would see a lift in sales. Lance discussed how Dr. Wade would evaluate the effects on sales and the evaluation did show a 25% lift overall which is a pretty good lift for any initiative. With that being said, most of that lift came right after the first of the year and mostly due to tickets priced \$5.00 and up.

Lance shared that we will be deploying 32" monitors in retail to see if we can impact purchases. We will be giving each DSR three monitors to put in their territory and then after a period of time we will have Dr. Wade evaluate sales in those stores to see if there is

a lift in sales. This is a fairly inexpensive way to intercept that player as they are flying in and out of the market.

Lance shared that Safeway is interested in this initiative and it would be great to jump in to this initiative with them. They are also talking to the company who make the conveyor band and so there may be a different way to go about it. We went with a smaller chain and purchased all the belts and put them all in. There might be an opportunity that Safeway gets in on this initiative and we get in with them and maybe purchase two lanes. The nice thing to be first at market is that we are already having a conversation with another company. We are excited to see where this opportunity might take us.

### **Marketing Update**

Marketing Assistant Director Randy Warick talked about the Boat Show. It was the first time we had ever done this event and it was a lot of fun. We definitely intersected with a different consumer. We were in a spot that they weren't prepared to see us and we got a lot of "oh the lottery is here, that is cool". We gave a way a boat and the person that won the boat was actually at the Boat Show to purchase a boat. He almost hung up on Kathy because he couldn't believe that he had won the boat. They live on a lake and his family took it out the minute they got it. It was a really great story. We almost got 21,000 impressions. It was the first time we had worked with this company and they were easy and fun to work with. We will look at this once it has wrapped up and if there is a chance to do this again next year maybe we would change it a bit different. The Boat Show runs very long and we just participated the first week-end of it. It was a great opportunity and we are always looking for new places to surprise people and we had a lot of fun with this event.

Every St. Patrick's Day we share a list of the "luckiest stores" and our media partners across the state look forward to this list every year. After this list becomes public, those retailers will see an increase in sales. This year's article received 267,000 impressions.

Randy shared some of our winner's stories. He took a moment to introduce Stephanie and Erin from Curator. They are the ones that track these stories down. It is a lot of work. You would think that somebody that won would want to talk with you and share but sometimes that is not the case.

Some of our winners these past couple of months - donated to an orphanage in Ukraine. One winner celebrated his 40<sup>th</sup> anniversary. One helped the Union Gospel Mission. One took a much needed vacation and one paid off his mortgage. Many are very practical and they do good things with their winnings.



Randy mentioned that we partnered with the Sounders. This year Kathi Patnode and Terri Killion put together a Hit 5 promotion with the Sounders and Fred Meyer. Players purchase a \$5 Hit 5 ticket at Fred Meyers and you get a chance to win some fabulous prizes. We are very early in to this promotion. We have about 2,500 entries into the second chance drawing.

A Sounders Hit 5 Chant was played. Randy mentioned that there is a very passionate crowd that attends the Sounders games and there is a section of the stadium that some passionate fans sit in. We shared this spot with the Sounders and they shared it with the passionate fans that do the chants in the stadium. The Sounders wanted to make sure we weren't messing up their chant.

The next spot that played was the Sounders Hit 5 Pre-roll.

We also have on the Gemini Touch machines a soccer ball comes across for the Fred Meyer promotion and it definitely catches your attention. We have a great partnership with Fred Meyer.

The next video played was our beneficiary message and it is called origami. It is a nice way to put our message out there. Randy is interested in hearing the feedback of the commissioners. The commissioners thought it was wonderful.

Our mobile app. usage continues to grow. We broke the 200,000 mark and now have over 215,000 downloads. This app. has limited capabilities. The best thing about this app. is that you can check your draw tickets and we want to expand on that. If we can figure out how to check scratch tickets we could see possibly half a million downloads. We are getting more proactive in doing push notifications with it to educate our consumer.

Randy updated the commission on our social media presence. We supported the Northern Quest Casino promotion. We talk to our consumers in so many ways and our main avenue right now is Facebook. Cole & Weber continues to do a great job in pushing things out. They recently brought on a new social media expert and she did something we had never done. She tied in to the tulip festival. She had some fun and hid some scratch tickets in a picture of the tulips and asked people how many they could find, and people went crazy.

Randy recapped two things – we had almost 84,000 people enter online for the Northern Quest slot tournament. Northern Quest Casino had a vending machine on property, that vending machine from January 1<sup>st</sup> – April 11, sold over half a million dollars, which

generated them almost \$27,000 in commission. As much as we had some bumps Randy didn't want to lose the opportunity to say with had some great successes with this ticket.

Randy shared a radio commercial that is hot off the press for Pac-Man. When we sent this to the owner's of Pac-Man. They loved it! They thought it was fresh and modern. We will have an extended version for social media.

Comissioner Cantrell asked the last time we had done a beneficiary ad. She doesn't remember seeing one. Randy shared that we do something every year. Last year we created a pamphlet but we also created a spot that was used on radio. We are trying to be more strategic with our message but we usually update the beneficiary message every year.

Jana mentioned that we will have having three of our lottery vehicles that will be participating in the Blossomtime Parade in Bellingham that is coming up soon and she received an e-mail from the employee that was arranging this and they wanted to have a boom box with music playing. Jana thinks the Pac-Man spot would be a great thing to play.

### **COMMISSION REPORT – INSTANT TICKET ARTWORK REVIEW**

Instant Product Manager Gaylene Gray pointed out a couple of things on this morning's presentation. One is the revision to the Year of the Dog. The one on the left is the artwork brought forward at the February meeting and based on feedback from the Commissioner's we made some changes and the updated artwork is on the right.

Gaylene talked about the new \$3 crossword ticket. This is a new prize structure we are looking at and she wanted to get feedback from the Commissioner's. This has very high odds – 1 in 10 but there are only \$50 and \$100 prizes in the game. It's a \$10 game but the only prizes that you can win are \$50 or \$100. This has been launched in several states including Minnesota, Ohio, Pennsylvania, and California is getting ready to launch one and it has been extremely successful. It reaches a group of players that we don't currently have something for right now and we are anticipating that this will be very well received in the marketplace and is something totally different. We are looking at a December/January launch for this ticket.

Randy commented that when Minnesota launched this ticket, they were very careful and so they launched a smaller number of tickets and they are on their fourth rendering and each time they have increased the number of tickets printed and they are having great success with this ticket.

We will not be hiding from the fact that it is a 1 in 10. We are going to shout it out and let people know that. We are also going to tell people that there are only \$50 and \$100 prizes only.

Commissioner Guenther asked how we would tell the players. Randy said we would do this with the call out. What we have right now it shows on the bottom it says 1 in 10. We are going to pull that up and make it bigger and we will pull the odds up and make them bigger, so they can be seen. We want to be very, very open.

Commissioner Cantrell asked when we might have an idea of how successful the ticket is. Gaylene stated that she thinks we would get a good indication within the first three or four weeks. We would have an update on how the ticket is doing at the February 2018 meeting.

The holiday ticket in the presentation is a large format ticket – it is a 10 x 8 ticket. We are not the first to launch a big ticket. It has become a very popular ticket with players in other states. This ticket is very whimsical. We have used symbols that were used in other holiday tickets and we are looking to have this one launched with our normal holiday games and then come back in late December with a replacement so we continue to have a big ticket format out in the marketplace.

Commissioner Bogdanoff's concern is this is clearly a child's advent calendar and so he has some trouble with the ticket. He asked if the symbols could be changed to make them more "adultish". Randy shared that we already have a ticket that was previously approved that is a more classic ticket and he challenged Gaylene to find a more modern holiday ticket and run it by the commission.

Commissioner Guenther said that she remembers some of the symbols but she thinks it is having them altogether. It does look like an advent calendar to her and something her grandkids would love to get a hold of.

Randy stated that the one that was previously approved is an advent calendar as well but very classic. It's almost old fashioned.

Commissioner Cantrell commented that she didn't have a problem with the advent calendar concept, but the snowman looked child-like. She thought it caught her eye because it was the biggest image on the card.

Commissioner Cantrell asked what the next steps were. Gaylene shared that she will go back to the version that was approved. Debbie will send a copy of the approved artwork out to the Commissioners.

Commissioner Cantrell complimented Gaylene on all the work she does to be creative with the artwork concepts but to be aware of the limitations that we set around the artwork not being child-like.

Commissioner Bogdanoff commented that this creates extra work for Gaylene and she has to go back and redo artwork but one of the reasons that this sub-group was set up was to screen the artwork and make sure it is adult oriented.

### **COMMISSION BUSINESS**

Chair Loveland asked if there was any commission business to bring before the commission.

Commissioner Guenther asked where the eastside meeting was going to be held.

Debbie shared that it would be held in Leavenworth.

### **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.

Chair Loveland would like to have continued discussion on what we do around the Mega Millions game changes. She would like an update before a decision is made.

Commissioner Loveland asked if there have been any other state lotteries that have used the Department of Imagination. Randy shared that states haven't used the exact Department of Imagination but they have moved in to the imagination. Randy has traveled to several conferences and you can see in other lottery presentations that that are somewhat using the concept.

The next meeting is June 22<sup>nd</sup> in the same place.

**ADJOURNMENT**

**11:20 a.m.** *Chair Loveland adjourned the meeting.*

*April 27, 2017 Lottery Commission Meeting Minutes approved this \_\_\_\_\_ day of \_\_\_\_\_, 2017.*

Respectfully submitted,

\_\_\_\_\_  
Valoria Loveland, Commission Chair

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Debbie Meyer, Executive Secretary