



Lottery Commission Meeting Minutes
Thursday, August 20, 2020
Conducted virtually via Microsoft Teams

Commission Member Attendees:

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

Lottery Staff Attendees:

Jim Bevan, SharePoint and Office Administrator
Dan Devoe, Director of Security and Licensing
Crystal Fischer, Director of Information Services
Marcus Glasper, Director
Gaylene Gray, Instant Product Manager
Shar Hawley, Lean Program Manager
Josh Johnston, Deputy Director

Maria Lourenco-Douka, Director of Finance
Kathi Patnode, Marketing Operations Manager
Stephanie Porter, Executive Assistant
Debbie Robinson, Director of Human Resources
Ron Smerer, Director of Sales & Marketing
Randy Warick, Assistant Director of Marketing
Kristi Weeks, Director of Legal Services

Other Attendees:

Scott Battishill, Curator
Delaney Berreth, Curator
Becky Bogard, IGT
Kristie Christensen, Wunderman Thompson
Rosina DePoe, WA Indian Gaming Association
Rebecca George-Kaldor, WA Indian Gaming Assoc.
Lisa Levine, IGT

Ryan Lyonnais, Wunderman Thompson
James Mackenzie, Wunderman Thompson
Dan Miller, Curator
Haylee Mills, Assistant Attorney General
Ashley O'Connell, WA Indian Gaming Assoc.
Shannon Struempf, IGT

Call to Order:

8:33 a.m. – Chair Valoria Loveland 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.

Chair Loveland provided instruction for the virtual meeting participants to keep their microphones muted during the meeting, unless they are presenting or asking a question.

Approval of Meeting Minutes:

Chair Loveland entertained a motion to adopt the minutes of the April 23, 2020 Commission Meeting as presented.

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

Chair Loveland called for a vote for approval of the minutes of the April 23, 2020 Commission Meeting. Ayes were unanimous. **Motion carried.**

Director's Update:

Director Marcus Glasper began by reminding participants that the meeting was being recorded. He shared the Lottery currently has two management position vacancies that are being recruited for; Internal Auditor and Administrative Services Manager, which is being renamed Support Services Manager. He also mentioned because of the pandemic, many of the in-person educational conferences that employees usually attend have been cancelled this year. The North American Association of State and Provincial Lotteries (NASPL) and other Lottery organizations have adapted to the ongoing challenges and are hosting virtual conferences in order to provide continued collaboration and education sharing within the industry.

The Lottery ended fiscal year 2020 on a very high note, surpassing last year's goal in total revenue by over \$10 million. Director Glasper explained there was a significant spike in sales during the early stages of the "Stay at Home Order," as people were challenged with what to do for entertainment. As restrictions in the state eased slightly, sales began to return to normal levels. He said although the final numbers are not yet audited, unfortunately they are estimating a lower percentage in contributions to beneficiaries as compared to the 26.5 percent in contributions last year. This is largely attributed to a higher percentage of sales related to scratch tickets, and as discussed during previous presentations, the profit margin is much lower on scratch tickets than draw tickets. Maria will be providing a more in depth financial update at the October Commission meeting. Director Glasper said there were also some significant one-time expenditures that have been mentioned before, such as early expenditures for the Department of Imagination (DOI) retail store in Spokane, and the purchasing of the G-20 bins for Walmart stores. By purchasing all the machines at once, rather than over an extended period of time, the Lottery was able to save a large amount of money. He expressed his gratitude to staff for their efforts towards the success of fiscal year 2020.

Director Glasper said the Lottery continues to make progress on their responsible gambling initiative. The team is diligently working on the completion of a training video for Lottery staff, and one for retailers. These videos provide education on where and how they can direct people to problem gambling resources in our community. Director Glasper offered to make the videos available to the Commissioners once they are complete.

The 2018-2020 Strategic Plan rounded out on June 30th, with 86% of the 22 initiatives completed. The initiatives that were not completed will carry-over to the next plan, one of which is the DOI Retail Store. Director Glasper said they are currently developing the Strategic Plan for 2020-2022, and adjusted the original plans of a June retreat into a series of virtual meetings. They hope to have it completed by the end of September.

Director Glasper concluded his remarks by providing an update on Lottery operations during the current COVID-19 pandemic. He expressed gratitude to staff for adjusting and maintaining high spirits over the last several months. In response to the Governor's Stay Home Order, several agency policies were suspended. Most of them were related to the work of the District Sales Representatives and their work in the field collecting and reconciling tickets at retail stores. During the first few months of the order, all Lottery offices were closed. Players were asked to mail in winning tickets to be processed and paid, and this seemed to work well with very few complaints from the public. When Thurston County entered into Phase 3 in mid-July, the Olympia Headquarters office was reopened to the public and to the limited staff required to fulfill essential services. All other Lottery employees continue to work from home and the regional offices remain closed. Director Glasper said due to growing complaints from retailers, a revised plan has been implemented allowing retailer visits for limited purposes and under strict safety protocols.

State employees are still under a furlough mandate, with few exceptions, requiring they take one furlough day a week for the first four weeks of July, and one day a month from August to November. Director Glasper said approximately 1/3 of Lottery staff, including himself, were recent victims of fraud concerning the Unemployment Insurance System. This created significant challenges applying for and receiving unemployment benefits through the Employment Security Department's (ESD) Shared Work Program. He said most of the issues have been resolved, but there are still a handful of Lottery employees experiencing problems. As one of the fraud victims, Commissioner Sullivan expressed her gratitude to Lottery HR staff for their role in alerting her to the problem and assisting with issues.

Chair Loveland asked for clarification on the mention of the large purchase of G-20 bins for Walmart stores. Director Glasper explained that G-20 bins are the shorter ticket vending machines that had to be manufactured to meet Walmart specifications, and purchasing them all at once rather than amortizing over time resulted cost savings. Chair Loveland asked if any other retailers are aware of, or requested this alternative machine. Director Glasper said retailers are aware, but the Lottery is taking a conservative approach deploying them and only using them when it makes sense for the layout of a retail store.

Commissioner Finn asked about the nature of the fraud that people encountered. Director Glasper explained that a large number of state employees' names were used to file false unemployment claims. Once the fraud was discovered, ESD locked down the accounts for those employees that were victims, and set-up a special unit that investigated and recovered most of the money. The fraud victims then had to go through a process with ESD to prove their identity.

Deputy Director's Update:

Josh Johnston, Deputy Director, began with an update on the Department of Imagination (DOI) retail store in Spokane. He was pleased to announce that construction began on August 17, and is expected to take about 10 weeks to complete. Josh said they will plan a grand opening event and inform the Commissioners once it has been scheduled. He expressed his gratitude to everyone

that has been involved in the complicated two-year project, and gave special thanks to Ron Smerer, Crystal Fischer, Les Dennison, and Randy Warick.

Josh reminded the Commissioners that during the April Commission meeting, the rules were finalized to make Hit 5 a daily draw game, and change the name of the Daily Game to Pick 3. These changes will go into effect on August 30th, and there have been very few issues related to the project. He thanked the project manager, Shar Hawley, the executive sponsor, Crystal Fischer, and the rest of the project team for their tremendous work.

The Lottery is currently working to finalize the Certified Annual Financial Report (CAFR). Josh said the financials and reporting schedules were sent to auditors, Eide Baily, for review a little over a week ago. They are working through the financial verification process, and so far there have not been any findings. The annual prize payment audit is also currently underway. Josh said the auditor has reviewed data and selected a number of sample prize payments to verify that the Lottery has handled them appropriately. Because the files cannot leave a secured area, the auditor is using an isolated conference room at the Lottery headquarters building to perform the review. The audit is anticipated to be completed by mid-September.

Chair Loveland commented she was glad to hear about the Spokane retail store progress, and asked if the current office is on a month-to-month lease. Josh said yes, they have been extending the lease in increments trying to keep pace with the opening of the new location. He said the property owner has been extremely great to work with and very flexible with the lease.

Legislative & Legal Services Update:

Kristi started her update by sharing that between April, when the last Commission meeting was held, and what would have been the June Commission meeting eight formal requests for public records were received. Since June, a total of 15 requests have been received. There was one administrative case concerning a retailer applicant who was denied a license because they failed to disclose their criminal history. The retailer requested an administrative hearing, but before they were too far into the process the retailer withdrew the request. Kristi said there was also an issue concerning a request for public records related to a Request for Proposal (RFP). One of the vendors that submitted documents for the RFP had marked them confidential, however this does not prevent the Lottery from having to disclose the documents. The Lottery provided the vendor with appropriate notification so they could file for an injunction, which Kristi said they did. That was the only semblance of legal action, and she was happy to report there were no lawsuits filed.

On the legislation side, Kristi said it has been a quiet interim for the Lottery. There are no plans for a special session this summer or fall and despite the current budget shortfalls, Governor Inslee believes there are sufficient funds to get through the end of the year. Kristi expects that in January the Legislature will be searching for additional revenue sources, and she speculates it may bring opportunities or questions for the agency. The Lottery does not have any agency request bills or decision packages, other than the usual operating budget decision package. At this time, Kristi said she is unaware of any bills from other agencies that might impact the

Lottery. She said the only exception is the budget proviso from last year requiring the Lottery to participate in a Problem Gambling Task Force. Kristi has been assigned as the Lottery representative and said they are making great progress. However, because of the state government freeze on personal contracts due to COVID-19, the preliminary and final reports to the Legislature will be delayed. The legislative task force members will be running a bill to extend those dates and the available funding.

Another project Kristi has been involved in over the last year was the 2020 Census, which is now winding down. The Governor recruited state agencies to help distribute information about the Census and encourage participation. The Lottery displayed posters in offices and window clings on agency vehicles. The Lottery also provided written materials, branded pens, and had a scrolling message on the ticket vending machines. With just over a month to go, Washington's response rate is 69.2%. This places the state in third place behind Wisconsin and Minnesota. She attributes some of that success to the efforts of Lottery staff who helped get the message out.

Chair Loveland asked if the Lottery has had consistent difficulty with contractors concerning what the agency is required to disclose as public records. Kristi said often with RFP's unsuccessful bidders will request all documents related to the bidding process to gain knowledge of what they could have improved on with their proposal. She said they provide the materials as required by law, unless a court order is received stating not to.

Before moving on to the next agenda topic, Josh asked if he could quickly interject with information he omitted during his report. In February, he had shared the Lottery's contract with IPSOS was ending and an RFP was being released for a new marketing research company. A new vendor has been selected, American Research, and they began their work on July 1, 2020.

Sales & Marketing Update:

Ron Smerer, Director of Sales and Marketing, began by sharing the fiscal year 2020 final sales results. The overall sales finished at \$817.1 million, which was 104.9% to goal, and Scratch again led the way with \$619.7 million in sales. Ron said the fourth quarter sales for Hit 5, Match 4, Keno, and the Daily Game all did well, while Mega Millions and Powerball continued to struggle. He also shared the fiscal year 2021 sales goals, which were raised based on the success of fiscal year 2020, to \$800 million. He said they are already off to a great start and are ahead of where they were last year at this time. He thanked the staff for their flexibility and continued efforts while working through the COVID-19 restrictions.

Kathi Patnode, Marketing Operations Manager, provided a marketing update beginning with public relations and the great work done by Curator. She highlighted some of the recent Lottery coverage in the media, which included articles about the new bacon scented scratch ticket, the Spokane office moving to the NorthTown Mall, and large unclaimed lottery jackpots. With construction now underway at the NorthTown Mall, Kathi said they have a large wall wrap covering the store front to advertise and increase excitement about the future DOI store. She also

shared a number of things the marketing team has been working on, including promoting the changes to Hit 5 and Pick 3, and celebrating National Lottery Week, July 13-17.

Because of the COVID-19 pandemic, Kathi explained they decided to shift their brand strategy and pause product advertising. Instead they focused on moments of fun that they could provide players while they were stuck at home. They utilized social media and asked players where they would escape to, drawing a lot of interest and providing them with some much needed entertainment. Kathi said the Lottery enjoyed record breaking Scratch ticket sales so they equipped ticket machines with “Play Safe” messaging across the state to ensure players were taking proper precautions. They also displayed similar messaging on the website and social channels to make sure players stayed aware of office closures, how they could collect prizes, and what the Lottery was doing to keep players and employees safe.

Kathi shared they will continue this fall with the “Let’s Imagine Together” campaign, bringing some new player ideas to life. They are currently developing three final advertising spots, Meowza, Garage, and Beehive, which will roll-out over social, digital and broadcast media. She shared the storyboards for the new spots and walked through the concept of each idea. After these three spots, Kathi said they will be working with Wunderman Thompson on some new campaign designs that are scheduled to be revealed in February of 2021.

The new Seahawk’s scratch ticket is set to launch on August 31, 2020, and includes three second chance drawings for 2021 season tickets. It will also give players a chance at additional prizes, to include a Seahawks mini fridge, 70” TV, and Pro Shop gift cards. Wunderman Thompson created a fun Seahawks advertisement that aimed to bring the stadium experience to fans at home. Kathi shared the storyboard for the broadcast spot called, “Hot Dog,” which should start airing at the beginning of September. They also created a social campaign called, “The Blitz Challenge,” allowing fans to go head-to-head with the NFL mascot on fun challenges.

Commission Report – Instant Ticket Artwork Review:

Gaylene Gray, Instant Product Manager, presented some new Scratch ticket artwork. Chair Loveland asked if there were any concerns or questions about the designs from any of the commissioners. The Commissioners did not express any objections to the artwork.

Commission Business:

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

Public Comment:

Chair Loveland asked Director Glasper to quickly explain how the public can comment in the virtual meeting setting, if they would like to share something. Director Glasper deferred to Kristi, who said the public is allowed to watch and hear the meetings live, however there is no

requirement to allow them to comment in real time. She said public comment through written mail or email is always welcome.

Director Gasper said he wanted to take a moment to recognize the Lottery's new Assistant Attorney General (AAG), Haylee Mills, who took over after Mary Tennyson retired in June. Haylee introduced herself and shared she worked with the Gambling Commission prior to this assignment and is looking forward to working with the Lottery.

Agenda Items for Next Commission Meeting:

Chair Loveland asked if there were any suggestions for the next meeting agenda, which will be held on October 22, 2020. Commissioner Giniger asked if the Gambling Commission presentation could be rescheduled for the October meeting. Director Gasper said he will reach out to the Director to see if they are available.

Adjournment:

9:40 a.m. – Chair Loveland adjourned the meeting.

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

Respectfully submitted,

Valoria Loveland, Commission Chair

Stephanie Porter, Executive Secretary