



Lottery Commission Meeting Minutes
Thursday, April 21, 2022
Virtual Meeting – Microsoft Teams

Commission Member Attendees:

Fred Finn, Commissioner
Judy Giniger, Chair
Rudy Mendoza, Commissioner
Eileen Sullivan, Commissioner

Lottery Staff Attendees:

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| Jim Bevan, SharePoint and Office Administrator | Kathi Patnode, Marketing Operations Manager |
| Anquone Conyer, Support Services Manager | Derek Poppe, Acting Director of Security & Licensing |
| Crystal Fischer, Chief Information Officer | Stephanie Porter, Executive Assistant |
| Jon Flores, Security Specialist | Debbie Robinson, Director of Human Resources |
| Marcus Glasper, Director | Ron Smerer, Director of Sales & Marketing |
| Carissa Glassburn, Gaming Vendor Liaison | Stacy Sund, Merchandising Specialist |
| Gaylene Gray, Instant Product Manager | Patti Swihart, Events Coordinator |
| Shar Hawley, Org. Perf. & Planning Administrator | Randy Warick, Assistant Director of Marketing |
| Josh Johnston, Deputy Director | Kristi Weeks, Director of Legal Services |
| Maria Lourenco-Douka, Director of Finance | Jenny Whiteside, Corporate Acct. Manager |
| Shanelle Montano, Administrative Assistant | |

Other Attendees:

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| Eric Allen, Assistant Attorney General | Brent Ludeman, Gano and Associates |
| Scott Battishill, Curator | Ellis Madison, Wunderman Thompson |
| Becky Bogard, IGT | Dan Miller, Curator |
| Kristie Christensen, Wunderman Thompson | Patrick Nesbitt |
| Xiamara Garza, Curator | Shannon Struempf, IGT |
| Thomas Kitts, Consultant | |

Rules Hearing:

Chair Judy Giniger began asking for a commissioner roll call. Commissioners Fred Finn, Eileen Sullivan, and Rudy Mendoza confirmed their virtual attendance.

Chair Giniger began the public hearing on proposed rules for chapter 315-06-125 WAC, filed on March 1, 2022, and published in the Washington State Register as number 22-06-087. She stated the hearing was being held by video conference on April 21, 2022, in accordance with the Administrative Procedure Act, chapter 34.05 RCW, and Executive Orders by the Governor. She noted the time as 8:31 a.m. and stated the hearing was being recorded.

Chair Giniger next read through a list of instructions for individuals wishing to testify during the hearing. The instructions included direction on unmuting to provide comment, not interrupting others, limiting the time they speak, and only commenting on the content of the licensing rules. She stated the Commissioners would not respond to questions during the hearing but may ask clarifying questions regarding the comments received. She said all comments would be summarized and sent to anyone requesting a copy. Chair Giniger then stated the public hearing was open for public testimony.

Participants were given the opportunity to speak, or type in the chat feature of the virtual meeting, comments related to the proposed changes to the licensing rules. Hearing and seeing no one come forward after several minutes, Chair Giniger stated the hearing was closed. She stated all comments received will become part of the official rulemaking file and be considered by the Commission and used to adopt the rules or make changes to the proposed rule language. If the rules are adopted, the notice of adoption will be filed with the Code Reviser and become effective 31 days after filing.

Chair Giniger concluded the public hearing at 8:36 a.m.

Call to Order:

8:45 a.m. – Chair Judy Giniger called the meeting to order.

Chair Giniger began by asking for a commissioner roll call. Commissioners Fred Finn, Eileen Sullivan, and Rudy Mendoza confirmed their virtual attendance.

Approval of Meeting Minutes:

Chair Giniger entertained a motion to adopt the minutes of the February 17, 2022, Commission Meeting as presented.

Commissioner Finn **so moved**, and Commissioner Mendoza **seconded**. Chair Giniger called for a vote for approval of the minutes of the February 17, 2022, Commission Meeting. Ayes were unanimous. **Motion carried.**

Approval of CR 103:

Kristi Weeks, Director of Legal Services, spoke briefly about what the Commissioners would be voting on. In February, the Commission approved the filing of a CR 102 and proposed rule language for the brief adjudicative proceeding, or BAP, process. The BAP process allows agencies to resolve simple administrative cases in-house rather than using the full process and the Office of Administrative Hearings. Using the BAP process benefits both parties because it resolves cases much faster and at less cost.

The purpose of filing proposed rule language is to place the world on notice of the proposal and allow people to comment. Kristi said in addition to being posted on the Code Reviser's website,

she also had the language posted on the Lottery's website and encouraged people to provide their comments. A few public comments were received via the website and included in the packets each Commissioner received. Since the packets were put together and mailed, Kristi said they received two more comments and read them aloud for the Commissioner's consideration. Neither comment had any relevance to the BAP process.

Chair Giniger asked if any of the Commissioners had questions or comments they wished to discuss regarding the BAP process. Hearing none, she stated the Commission has not identified any changes that need to be made to the rule. Chair Giniger entertained a motion to adopt the CR 103, Chapter 315-06-125, Brief Adjudicative Proceeding rules.

Commissioner Sullivan **so moved**, and Commissioner Finn **seconded**. Chair Giniger called for a vote for approval of the CR 103, Chapter 315-06-125, Brief Adjudicative Proceeding rules. Ayes were unanimous. **Motion carried.**

Director's Update:

Director Marcus Glasper began by sharing that the Multi-State Lottery Association (MUSL) voted in late March to expand the Powerball game internationally. They plan to start by offering a shared game in both Australia and the United States next year, with the hope to further expand into the United Kingdom in the future. Currently, MUSL does not anticipate any change to their matrix or jackpot structure, the draw frequency, or the starting jackpot. Director Glasper said Washington, along with 9 other states, are not part of the MUSL group so they were not part of this decision. However, the MUSL group is hosting a meeting in May for the directors of the Mega Millions states to offer more information and answer questions about the expansion. Director Glasper said they are not aware of any legal constraints that would prohibit Washington's Lottery from continuing to carry Powerball, and they are not expecting any additional revenue to be generated by this move, but he will keep the Commission informed as things progress.

Director Glasper said the Mega Millions consortium continues to evaluate potential changes to the game. At the last meeting it was mentioned that a request for quote (RFQ) had been released to identify a research firm to collect market and player input on three proposed concepts. They received responses from three firms, and selected Russell Research as the vendor to conduct product testing on the conceptual designs. Due to the announced Powerball changes, the consortium adjusted the study to accommodate the potential results of the Powerball expansion. They anticipate the research will be concluded by June.

Director Glasper said Brookfield Business Partners L.P. has completed the acquisition of Scientific Games' global lottery services business. The transaction now allows Scientific Games to focus its attention on providing games, services, and technology to the global lottery and lottery-administered sports betting markets. The company will continue to operate under the Scientific Games name and their entire executive leadership team will remain in place. Additionally, prior to the acquisition last month, the remaining portion of the company focusing on Gaming and iGaming, rebranded themselves with the name, "Light & Wonder."

At the February meeting, Director Glasper shared information about the increase in retailer thefts the Lottery has been experiencing. He said he asked Derek Poppe, Director of Security and Licensing, to present more information to the Commission later in the meeting. Director Glasper also talked about the development of the new Strategic Plan. Over the last two years, Lottery staff have done very well with completing the initiatives established in the current plan. He said the only exception is the debit card project, which is still being worked on and will cross over to the next strategic plan. Planning and preliminary activities have been begun, and an off-site strategic planning retreat will take place in mid-June. Director Glasper said we may see fewer initiatives for the new plan, because he expects there will be larger, time-constrained initiatives that will be overlapping or happening simultaneously. He said he will continue to share information and reach out for input as the plan progresses.

Deputy Director's Update:

Josh Johnston, Deputy Director, began by providing an update on the debit card project. The development and quality assurance testing are complete, and International Game Technology (IGT) transferred the software to the Lottery for six weeks of customer acceptance testing. This testing is progressing well and so far, they have identified several small issues but nothing critical. The marketing and advertising have been developed, and he said Kathi Patnode would be sharing more on that during her presentation later in the meeting. Josh talked about the ongoing supply chain issues and the struggle to get the necessary card readers. He explained the three different types of vending machines the Lottery uses, and which already have debit readers installed but covered, and which need to be retrofitted. Josh said they ordered 1600 retrofit kits and they currently have 330, which they will begin installing on May 3rd. There are 800 more kits enroute and expected to be available for install by the end of May, leaving 500 that are still needed. He said they are working closely with Verifone and hope to have the needed devices soon. The phased rollout of the machines equipped with debit card readers is set to begin mid-June, and they will continue to adjust the full rollout plan as they receive the needed devices. Josh said the overall project is progressing as expected, and the only concern is the device shortage.

Chair Giniger asked for clarity on the total number of machines the Lottery will have debit card readers installed on. Josh said currently there are 400 that already have them and 1600 that need to be retrofitted, so 2,000 total. Of the 1600 retrofit kits needed, they currently have 330, with 800 currently on a ship, and 500 still needed.

Commissioner Finn asked where the retrofit kits are manufactured. Crystal Fischer, Chief Information Officer for the Lottery, and the Project Manager for the debit card project, said the kits are manufactured in China. She said she was notified the kits are at the Port in California and once they get through customs, they will be sent to Texas to have the software uploaded which will take 3-4 weeks.

Chair Giniger asked if the Lottery's Regional Sales Managers are working with retailers and communicating the rollout plans. Crystal said they will be reaching out to the retailers with

rollout schedules and training. She said they have also established an ambassador program, which will place sales representatives and IGT staff onsite at retail locations to teach people how to use the new debit features.

Josh continued his report by providing an update on the progress of One Washington, which is the state enterprise-wide replacement of the backend financial systems. As shared at the last Commission meeting, the statewide project team announced in January that they would be pushing back the October 2022 go-live date. This was due to agencies struggling with remediating legacy systems that feed into the current financial system, AFRS. If those agency specific systems cannot get the information transmitted to the new software, WorkDay, then agencies will need to develop manual work-around processes. Josh explained for many agencies, including Lottery, the risk can be great, and more time is needed to complete the remediation. He said the statewide team is still working to determine a new go-live date as they refine their project goals, and the Lottery project team continues to work on remediating the legacy system to ensure games can be tracked through WorkDay.

Lastly, Josh shared a quick update on the courier issue that was mentioned at the February meeting. Due to the state's contract with UPS expiring last December, the Lottery suffered some shipping issues having to suddenly rely completely on FedEx to deliver their products. Josh explained that typically they split services between UPS and FedEx, and the sudden transition to solely FedEx caused shipping to be delayed. However, they have since worked closely with FedEx to resolve most of the issues and shipping is running much smoother. Josh said they looked at sole sourcing a contract with UPS, but the time it would take to get through UPS's legal department made it too prohibitive. The state is currently in negotiations to renew the UPS contract, but Josh said the Lottery plans to send out a Request for Proposal for other courier services to hopefully protect against this happening in the future.

Legislative & Legal Services Update:

Kristi Weeks, Director of Legal Services, began by sharing that after a few months without an assistant, she has someone new starting on May 2nd. So far in 2022, Kristi said she has tracked 33 bills, reviewed 11 fiscal notes, provided four legislative updates to Lottery staff, reviewed 23 contracts and 6 contract amendments, and fulfilled 11 new public records requests. She also mentioned there has not been any voluntary self-exclusion participation, and they have not received any new administrative or annuity assignment cases.

Kristi said they had one court case that was a bit unusual, involving the very large public disclosure request the Lottery received for the records related to IGT contracts. She said RCW 46.56.540 allows agencies to give notice to the subject of a records request, alerting them that a request has been made and the date the records will be released. This is so the subject of the request may seek a court order to protect sensitive documents. Pursuant to the Lottery's contract with IGT, Kristi said she notified them of the request and the date the records would be released. IGT sought a temporary restraining order prohibiting the Lottery from releasing sensitive information contained in the records. Although the Lottery was named as the defendants in the

case, Kristi said it was not an adversarial situation. The Public Records Act requires the release of documents absent a court order, so when IGT was granted the temporary restraining order the Lottery abided by it. Kristi said she expects the order to become permanent following the next hearing.

Kristi also provided a brief recap of the legislative session, and said it ended on time and without any bills or budget provisos that caused the Lottery angst. Lottery staff, along with all state employees will be receiving a well-deserved raise in July. The Governor's Office sent out notice yesterday on the process and timelines for the 2023 session. Kristi said at this time the Lottery does not have any plans for agency requested legislation, but should that change, she will report back to the Commission in the coming months.

Retailer Theft Update:

Derek Poppe, Director of Security and Licensing provided an update on the recent rise in retailer thefts and what the Lottery is doing to mitigate the issue. Like many other lotteries, Washington's Lottery continues to experience an increase in product thefts. Derek shared a chart that showed the number of cases in the first three months of 2022 compared to the last three years, which clearly demonstrated the concerning growth. He explained there are three different categories of theft the Lottery investigators track. The first is robbery, which involve force or threat of force, typically with a gun. Derek said while all theft cases are important, robbery cases are top priority. The next category is burglary, which involves a break-in when the retailer is closed. Derek explained that burglary cases often have the most financial impact to the retailers, with an average loss of around \$1,500, not including costs for damages or other stolen items. The final category is grab-and-run thefts and involves someone grabbing unattended tickets and fleeing. Derek said in these cases the thief typically asks for a large number of tickets then uses distraction techniques to avert the clerk's attention hoping they will set the tickets down within arm's reach.

Derek talked about retailer theft reporting and said if they can provide the Lottery with the game name, pack numbers, and ticket ranges then the tickets can be placed into stolen status and prevent any payouts to the thieves. Unfortunately, Derek explained that often these thefts happen quickly, and the tickets are redeemed at another retailer within 10 minutes of them being stolen. Once a theft is reported, the Lottery works closely with local law enforcement and provides the retailers with a copy of the case report for insurance purposes. The cost of the stolen tickets is not reimbursed, so thefts are having a major impact on Lottery retailers. Derek said so far in 2022, retailers have suffered a loss of over \$151,000 in just stolen tickets.

The Lottery is looking into several options to reduce ticket thefts, but Derek said the first step is education. They will be working with IGT to visit retailers and provide them printed information and training materials on best practices for scratch ticket inventory and security. They are also looking at some possible inventory system solutions but are currently still evaluating available options.

Chair Giniger asked about the hardest hit areas, and Derek said Tacoma and Federal Way have seen the biggest increase in ticket thefts. Chair Giniger asked if any retailers have decided to stop selling lottery tickets due to theft. Derek said yes, unfortunately they recently had a chain with 24 locations in the state choose to stop selling Lottery products.

Financial Report:

Maria Lourenco-Douka, Finance Director, presented the third quarter financial results. She began by sharing the fiscal year 2022 actuals for the period ending March 31, 2022 compared to the previous year. Total operating income for the quarter came in \$16.7 million less than last year, but she noted that last year's sales were unusually high. Maria said last year's sales have been attributed to increased scratch sales during the pandemic and two large jackpots for Mega Millions and Powerball. Total expenses came in at \$528.6 million compared to last year's \$536.5 million. The net income was at \$163.8 million compared to \$172.8 million in 2021, and total contributions were \$12.2 million less this year, at \$155.4 million.

Next Maria went through the quarter three actual results for fiscal year 2022, compared to the forecasted results. She said although they did not exceed last year's sales, the Lottery did exceed the forecasted target amounts. The total operating income exceeded the forecasted amount by \$30 million, and the total contributions exceeded the forecasted amount by \$7.7 million. Maria also shared the quarter three vendor expense comparisons for the Lottery's three major vendors, and the sales and estimated net profits by product. Maria finished by sharing the expenditure authority report showing the Lottery's appropriation, amount spent, and the remaining appropriation for the current biennium.

Sales & Marketing Update:

Ron Smerer, Director of Sales and Marketing began by sharing that the Lottery's year-to-date sales for fiscal year 2022 are \$26.5 million away from their sales goal of \$883.6 million. He said despite this, they fully expect to reach their sales goal by the end of the fiscal year. Many other state lotteries are also seeing decreases in sales, and like Maria mentioned they too are partially crediting the slump to the large jackpots at the beginning of the year. Ron talked a little about corporate accounts and shared the numbers and information they look at each week to ensure they order the items and quantity each of those large retail locations need to keep products in stock. Currently, Winco Foods is out-selling other stores each week by bin, and Fred Meyer stores are ahead in weekly sales per terminal.

Ron also shared a drawing of the new SeaTac Airport kiosk, that they hope to have in place in the next few weeks. The kiosk has been built and as soon as they have the go ahead from the airport, it will be installed. Ron said that by the June commission meeting it should be operational, and they will plan to have some actual pictures to share. Ron also mentioned that regional managers and sales representatives will be joining security staff as they visit retailers to share best practices and training for theft prevention. He said they did try to offer some solutions to the retailer that Derek mentioned who recently chose to discontinue lottery products.

However, the retailer decided it was not in his best interest and even removed the ATMs from his stores. Ron said the Lottery is continuing to look at options and once they have some improvements in place they will see if the retailer is interested in coming back.

Kathi Patnode, Marketing Operations Manager, began the marketing report with an update on public relations efforts since the last Commission meeting. The Lottery received positive news coverage for unclaimed winnings, new Scratch game launches, luckiest retailers, winner's stories and more, resulting in 32 stories and over 6 million impressions. Kathi also talked about the Seattle Kraken social media campaign, "Legends of the Deep," and the super fan contest that was held. She said the contest had 2,390 entries and 223,000 people voted on eight super fan categories. Contest winners received two tickets to the Seattle Kraken's fan appreciation night and one winner received a signed Seattle Kraken jersey.

March was Problem Gambling Awareness Month, and to help support this Kathi said a press release was sent out sharing the important message of gambling responsibly and the resources available for individuals seeking help. Messaging was added to the Lottery's vending machine attract screens at all retailers, posters were hung in all regional offices, and informational posts were made on social media throughout the month.

Kathi next shared a quick peek at some of the planned marketing for the launch of debit at Lottery vending machines, and then talked about the new beneficiary spot that was filmed last month. She said the spot, titled "A Series of Fortunate Events," highlights pre-K education unlike past messaging that has focused on lottery funding that goes to college education. The spot is currently playing on the ROOT Sports channel, social media, and the Lottery website.

Kathi said they just kicked-off the new Department of Imagination brand campaign called, "Go Full You." The campaign focuses on people going out and doing the things they have always wanted to do with the help of winning the lottery. She said they shot two brand spots last week, "Cake" and "Cowboy," and they will go live in mid-May.

Chair Giniger asked if the beneficiary spot will be aired on any other channels besides the ROOT Sports. Kathi said it will air on other channels eventually, but they are still working on those details. Commissioner Finn asked how the Seattle Kraken hockey team is doing and what the average attendance has been like. Kathi said game attendance is doing well, but the team is unlikely to make this year's playoffs. She said she would find out the average game attendance and send it to the Commissioners.

Commission Report – Instant Ticket Artwork Review:

Gaylene Gray, Instant Product Manager, presented new scratch ticket artwork for the Commissioners review and briefly talked about each one. The Commissioners did not have any questions or concerns with the presented scratch artwork.

Commission Business/Agenda Items:

Chair Giniger asked if the Commissioners wished to bring anything forward for discussion. There was nothing brought forward. Chair Giniger asked if there were any topics the Commissioners wanted to see on the next meeting agenda. She said she will be interested in receiving updates on the retailer theft situation and the debit card launch. Commissioner Finn said he would also be interested in an update on how the Spokane DOI store is doing. Josh said he will be sure to include an update in his report in June. He mentioned the expanded hours pilot project is underway at the Spokane DOI store and they have seen a significant increase in the average sales and things appear to be going well so far.

Public Comment:

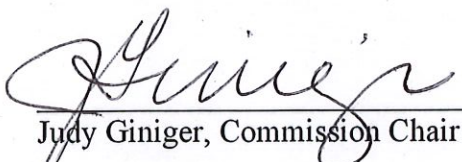
Chair Giniger asked if any members of the public wished to make public comment or voice any concerns. There were no comments made.

Adjournment:

10:05 a.m. – Chair Giniger adjourned the meeting.

The April 21, 2022, Lottery Commission Meeting Minutes were approved this 18 day of August, 2022.

Respectfully submitted,



Judy Giniger, Commission Chair



Stephanie Porter, Executive Secretary

