



WYOMING LOTTERY CORPORATION

Board Minutes

February 10, 2016

Teleconference

Board Members Present:

Mark Macy-Chairman, Gerry Marburger-Treasurer, Dave Bonner-Secretary, Sandi Chitwood, Ross Newman, Brian Gamroth, Sandra Wallop, and Jim Whalen.

Board Members Absent: Erin Taylor-Vice Chairman

Staff Members Present:

Jon Clontz-CEO, Macy Holmes-Administrative Assistant, Mike Scissons-CFO, Kayla Runkel-Product Marketing/Retail Specialist, Justin Ballard-Sr. Research Analyst, Dave Stevens-Security Manager

Guests: Matt Kaufman-Lawyer, Paul Ostendorf-Intralot, Tim Rutten-Intralot, Tim Monroe-AP, Michelle Panos-Governor's Office

Chairman Macy called the meeting to order at 1:04 p.m. with a roll call of board members and welcomed guests. Motion made by Sandi Chitwood to approve the minutes from the November 2, 2015 & January 18, 2016 meeting. The motion seconded by Gerry Marburger and the motion passed by a unanimous 8/0 vote.

CEO/Operations Report:

Mr. Clontz provided Lottery activity update to include:

Line of Credit Retirement discussed. Press conference details on those in attendance and announcement of final payment.

Also discussed four major goals given to CEO when Lottery first came together. Keep money in Wyoming, create entertainment value, boost Wyoming economy, and transfer money to Treasury. Accomplishments achieved on or before original targets.

Most excited about Lottery progress and celebrating with us.

Treasury meeting and update discussed. Met recently with staff for details about first transfer. Supported in decision to make first transfer in April. First opportunity logically and will be made quarterly thereafter. Treasury made decision to transfer money to cities, towns, and counties within 10 days of our transfer. Our requirement according to statute is the 15th of each quarter month, but that's when Treasury wanted to distribute funds, so we agreed to submit payment by the 5th of each quarter month that payment is due.

MH&P came in to make sure that the transfer is set properly. First transfer by check.

Wants to do co-press conference with Treasury to celebrate historic happening for the first time. Transfer amount was originally discussed being sent in July; beat original deadline by months due to cuts in budget and high jackpot. Every dollar we can maximize to the transfer, we will. Reserve account has increased due to recent Powerball run; with board approval & sub-committee guidance we have seeded the reserve account.

Pays for jackpot hits (multiple hits); had to consider going back and borrowing more money. Instead got jackpot coverage through SCA, took out on Cowboy Draw game only and it reduced overall profit in taking that on; deliberately high payout for this game caused only 2% return. Jackpots allowed us to seed reserve account to remove SCA coverage going forward so Cowboy Draw profit return will go back to 13%.

This money will assist us in new game development without having to go back and borrow more money. Turn of events with jackpots pushed us into this position.

Now that the reserve account is established to board's memo requirement, until April 1st, we'll fund but the most money will be going into the transfer account.

*Question Brian Gamroth-Will \$250k be funded from the reserve account or prize account?

* Answer Justin Ballard-Without SCA, a secondary jackpot account will be funded from there. If we get hit early, the funds will come from reserve account at that point.

*Question Dave Bonner-How did you work it when we had jackpot hit previously?

*Answer Justin Ballard-It came from the primary jackpot account, so basically players paid for that.

*Response Jon Clontz-We always make sure we have the money for a jackpot. Now that SCA coverage is dropped, they will pay us back and use reserve in multiple hits instances. We can always bring SCA coverage back. We will get to a high jackpot amount sooner than anticipated with higher than average number of rolls exceeded already. We're prepared for it how we should be as opposed to when we first started.

Expense reductions for FY16-17 discussed; mainly came from marketing and advertising budget. Lowest value in ROI and equate to lowest risk; clearly moving further away from startup-will end the year the way we need to end the year.

Engaged in renegotiating our FY17 budget with Warehouse 21; created amendment to contract with our legal team to lower contractual requirement.

Projected spend is now lower. Savings of over a million dollars for FY17 anticipated.

Asked Research Analyst to look at neighboring lotteries and similar jurisdictions for comparison. Percentage of spend to budget is more than appropriate that we accentuated spend for brand awareness and development is important in startup. Some risk involved, but done in scientific and methodical way; plan to best utilize the saved dollars.

Most lotteries operate at a much lower spend in marketing as compared to their budget. May be further adjustments but this is pretty drastic to begin with and we want to see impact of this first, but still some needs related to us being a new company.

Operating room but can still maximize transfers to the state. Appreciative of everyone who worked with us on this. Expecting great results.

Problem Gambling-Attended New Horizons conference with Justin Ballard. Discussed those in attendance and issues discussed while in attendance to this event. Good to introduce Justin Ballard as he's the liaison for the problem gambling department as we progress. Very good

exchange and there is another meeting in the summer that Board Member Wallop will try to attend.

We will make sure all employees get trained at some point but that will come in time.

Well attended monthly meeting trying to size and scope problem in Wyoming. Fully funded the unclaimed prize account; met our requirement and money is available for Department of Health to utilize.

One representative per county is going to have training specifically relating to problem gambling; glad to see money put to use as they address the scope of impact, and we're happy to meet the requirements as it is stated in statute.

Glad to see Pari-Mutuel coming and casino attendance; support, input and guidance is sincerely appreciated. Problems more easily identified, so the Department of Health can decide where treatment will be needed.

*Question Brian Gamroth-With casino presence and Pari-Mutuel presence, is Lottery the only monetary contributor here? Is anyone else footing the bill or is it open only for input on what to do with these dollars?

*Answer Justin Ballard-There was discussion of Pari-Mutuel contributing, as well as Freemont county discussions of contribution but nothing has been brought up recently; the tracker study has been decided and it all is coming out of our dollars.

*Response Jon Clontz-We're paying and leaders of other organizations have not got in contact to contribute, only aloof discussion, but at this point it is only mere discussion.

*Question Brian Gamroth-After the Problem Gambling seminar last year, more often question posed, why are you here as a lottery? Indian casinos, Pari-Mutuel, and every other aspect of gaming more than lottery seen as far as problem, some were surprised we were there. Why are we shouldering fiscal responsibility if they want to attend and have input at meetings? Also, following statute, do they have to spend what we make available to them and this is not a roll over account, correct?

*Answer Jon Clontz-We are operating under the assumption that it is a roll over account. We don't have much authority over that and our attorney agrees. The statute doesn't give the lottery authority on how the money is spent.

*Question Brian Gamroth- We thought Department of Health was brought on due to language to help make decisions on what to do with the funds?

*Answer Jon Clontz-We have to all agree money will be used in the Problem Gambling realm; provided us courtesy on what is acceptable to spend money on. Internal agreement but technically/legally, they don't have to ask about anything. It is time they get officers in a board/commissions/group, because we can't afford for Lottery staff to play all the roles; make sure assignments and work are farmed out. Justin Ballard can't be responsible for all impact.

*Response Matt Kaufman-Language specifically says it shall be used in consultation with Department of Health to treat the disorder. We have some argument of influence in decision making, but not much.

*Question Sandi Chitwood-If money outlined by statute is there, can we give less at our discretion?

*Answer Jon Clontz-We have operated off the assumption that we needed to fund to the amount of unclaimed prizes, even if it exceeds amount statute outlines.

*Response Matt Kaufman-The statute references unclaimed prizes in net proceeds, excluding certain unclaimed prize money and it doesn't outline to fund beyond that.

*Question Dave Bonner-This allows return of unclaimed prize money then, but to clarify, when does that kick in?

*Answer Matt Kaufman-It is discretionary as long as we're fully funding the program.

*Response Dave Bonner-I'm bothered by this. It doesn't say the first \$200k, so we're not committed to paying that in full.

*Answer Mark Macy-We are funding to educational programs beyond that, and up to this time Department of Health has had no money put aside. My fear is nothing is developed and sucked into black hole of Department of Health so there has to be some accountability and it has to be spelled out that these funds are used specifically for Problem Gambling.

*Response Jon Clontz-We were clear that they have to use it for this issue, but Board Member Bonner may be right and it needs to be explored. It was written that way so money can't just be funded into the account if it isn't being utilized. It is necessary to prevent that from happening

*Response Justin Ballard-We haven't transferred money yet specifically because of this reason.

*Response Jon Clontz-We have agreed to training, but haven't dumped money into account as of now

Discussed transfer of money from one place to another, but don't want us to transfer money so it gets swept into a general fund.

*Response Sandi Chitwood-Back to the original question, the other side is it continues to build and gets spent in a "use it or lose it" fashion, but we want it to be spent to really help people with this. Didn't have anyone who is versed in this and that's an awful lot of money going into something we don't know much about.

*Answer Jon Clontz-One thing we can say is we've certainly met our statutory obligation. Second, we haven't actually transferred any funds, third going forward can work with Mr. Kaufman, Mr. Ballard, and leaders at Department of Health to get a Memorandum of Understanding until it's acceptable by the board.

*Response Mark Macy-We want to understand where the money is and what it's going to be used for. We're going to have to talk about it and when they may not need the full amount. It is within our bounds to set some guidelines, so it's good things to talk about it early on. MUSL meeting attended; MUSL pays for these meetings. Discussion for capping jackpots but it has been shelved indefinitely. Monitor trending of matrix change and how it works. Discussed security issues and recent internal audit.

Pleased with progress with Macy Holmes, discussed maternity leave of Alisha Pineda, and the promotion of Kayla Runkel. New position title has been arranged, rather than hiring in under same title as position left. Covered in vision statement previously sent to board and staff and this position will still report directly to CEO. Position salary change is a savings. Announcement out and will hopefully have good responses from here.

*Mark Macy-Thanks to staff for coming to line of credit payoff event, as we had a great turnout.

Finance & Accounting Report:

Mr. Scissons presented the following updates:

Discussed originally in sub-committee the quarterly financials and budget amendments.

Similar in comparison to Q1; in line with projected net income.

Overall, gross profit fairly in line. Expenses also fairly in line with budget; depreciation expense was not budgeted. Department of Health account is now fully funded, A/P was fairly high, but now current on that.

Line of Credit is now paid off as well.

Assets still in the negative, but as of today we've made a big swing.

*Response Jon Clontz-As a reminder, this was reviewed with the sub-committee.

Discussed separate line item in budget for unclaimed prize money and funded accounts to track in journal entries. Lottery will discover a mechanism for the board to communicate how much they want in there for Department of Health Problem Gambling funding.

Discussed budget amendments in line detail of what was changed.

*Added Jon Clontz-We need to make sure board members are submitting expense reports; Macy Holmes has cross trained with Alisha Pineda and we'll get up to speed on sending those out as well. We will get on top of that. We still don't think we'll spend as much as budgeted for compensation, but we will get caught up with that immediately.

Looking at contracted services decrease, mainly in the marketing spend.

Compensation decrease due to staffing changes; increases in staff training and development in expenditures. Budget amendments summarized again for the chairman before motion to approve. Motion made by Dave Bonner to approve the Q2 Financials & FY16 Budget Amendments as presented. The motion seconded by Brian Gamroth and the motion passed by a unanimous 8/0 vote.

Marketing & Sales Report:

Mr. Ballard presented the following updates in sales:

Sales graphs previously discussed with sub-committees.

Currently only Powerball & Mega Millions in year over year graph. Demonstrates impact over jackpot run up and matrix change. Trends presented for each game separately.

Actual vs. original projected sales trends discussed; had a previous gap and sat down as a team to revise projections to become more realistic. Based more on historical data, but revisions were made before Powerball run so extraordinary sales were not factored into this. Much more achievable and realistic amount shown, and a good basing for the FY17 budget. We were below our original projection, but now above.

Sales after Powerball hit have still been doing well for us, under the influence of jackpot for Cowboy Draw; we will rebase-line and see where we are going forward without large jackpots. Wave 3 Tracker Study results had an incentive. Used social media promoted tracker, \$200 a day prize. By the end of the study, there was a \$500 winner. Had increase in number of respondents by over 400%. High results previously but volume of respondents increased significantly, but doesn't allow for comparison. Got results from younger demographic as we had hoped.

Used social media to blast tracker, plus incentive; everyone available to qualify for incentive. Discussed respondent rates by age demographics and regional profiles; education levels as well. Income addressed; key findings show millennials hardest to bring in.

Agreement that most people want scratch tickets.

Cowboy Draw is our best game due to better odds; women happier with Wyolotto; scratch tickets desired is a continuing theme.

Lottery availability believe it is readily available; website subscribers very strong.

Corresponds directly to popularity of sales in games.

Gaming behavior demographic profile shows that the millennials are not as popular in traditional gaming as other options available to them.

Convenient stores and grocery stores most popular to buy.

Jackpots are the most motivation to play for players; monitoring that closely.

Compared product types by surrounding states.

Jackpot impact on spend discussed.

Purchase frequency per game outlined and discussed, by different demographics.

Net promoters score vs. distractors; significantly more responders skewed results, still have possibility of connecting more with younger demographic.

Suggested changes for Wyolotto discussed, as well as what they liked best about the Lottery.

*Question Mark Macy-Has anything surprised you since the last study?

*Answer Justin Ballard-The younger demographic data backs up future campaigns to appeal to the younger demographic; going forward, we will transition this to a once a year study due to cost and data that we needed has been collected.

Focus group to study and test Keno. Background given on these groups and key findings presented. Strong interest, but confusion on how to play.

Some states used it as a scratch play; we would have to be clear it was a draw game.

People liked the selection of price points on the games.

*Response Jon Clontz-We had this research done prior to direction to not pursue this game, just to clarify.

Lack of awareness was top reasons for why the Lottery hasn't been played; Powerball run up may have helped us with that issue.

Strong marketing and training would be required if we did decide to move forward with Keno.

*Question Dave Bonner-Who pays for these studies/focus groups?

*Answer Justin Ballard-Lottery paid for them, but Intralot will help going forward related to new game strategy and research. New game development will be covered in a portion by them

Mrs. Runkel presented the following updates in marketing:

Discussed original trigger campaigns slated; change in marketing budget adjusted refresh of Cowboy Draw.

People had already seen these so focus was shifted to all games for jackpot awareness.

Gathered additional airtime during the Super bowl at no additional cost.

Jackpot drives sales so we had to figure out which trigger to launch at what times to get the best results. Determined prior to Powerball jackpot run up, but not sure much change on awareness beyond a certain point.

May be skipping certain triggers due to high jackpots; website coded to each triggers to assist.

Website will change, digital ads, TV ads will change along with them; not a static design.

Discussed radio and TV ads in some detail, ad focuses on each game in the trigger.

Attempted to display radio and TV ads, had audio issues.

UW Basketball Sponsorship overview given for giveaway promotion. Discussed what went along with this giveaway; two week run completely done on social media and had a great turnout and a great way for people to get engaged on our website.

Facebook giveaway had RNG used to select winner, which was from Cheyenne. Waiting for jackpot to get out and not monopolize that time; should be going out soon now.

Halftime show discussed and displayed in board materials provided.

Last season showed we didn't have success selling tickets at the games; changed to swag giveaways, etc.

Powerball was the focus during football and part of basketball; shifting back to Cowboy Draw for "Cowboy" basketball.

Made sense to have something branded for UW if we aren't selling tickets.

SWAG items continued to be given away; courtside LEDs help promote our brand.

UW marketing team helped pick participants and they were given prizes. Halftime game explained and moved on to PA script given to announcers to promote fun verbiage that was branded specifically for us. Kept it on track and had some control over what was said.

Showed how branding had changed in game switch; mention of game and purchase of tickets.

\$15k giveaway mentioned; unique because it was a 2 month long giveaway. Twice a week, players were given new codes to enter for a chance to win; got thousands more entries this way.

Winner purchased ticket in Sheridan and excited for this promotion's turnout.

Motion made by Dave Bonner to approve the Marketing & Sales Report as presented. The motion seconded by Sandi Chitwood and the motion passed by a unanimous 7/0 vote.

Governance Activity:

Mr. Clontz presented the following updates:

Implementation of Performance Management Plan has been promised to create benchmarks, conducted quarterly reviews, and site issues before they become critical. Moving away from startup, our goal was to be working on it by now. Delayed due to staffing position not filled; idea still there and not new to this. Working with the rest of the team, we will report our results to the board.

Policy discussion will be walked through by legal team.

Matt Kaufman did a refresh on policies for the board's benefit. New effort undertaken on employee manual due to issues coming up over the last year. Board governance manual was original a working draft and hadn't been updated, but not many changes made.

New sections in employee manual, starting with complaint resolution process. Whistleblowing previously stated in employee handbook, so this was added for complaints against CEO or board members. Outlined that chairman can convene a sub-committee meeting to determine an appropriate course of action. Outlines what alternative actions can be used; specific enough for direction and to employees if issues arise.

Bonuses was a simple change as a recognition of flexibility of Wyolotto to deem appropriate amount for performance bonuses. This allows the CEO to award performance bonuses at his discretion and we didn't attempt to create a list of reasons why these can be given, as it is intended to be flexible.

Donated Leave discussed. There is a policy about accrual of leave and how staff is entitled to use that leave. We didn't have anything about time needed that they had not accrued. Created a formal mechanism so employees knew that this was an option. Can allow donation of leave, if approved by CEO on case by case basis.

*Added Jon Clontz-The guideline was taken from the state and other companies so it is managed in a way that is considered a standard.

Made note of language change needed and amended to state “sick leave” rather than just “leave”. Discussed that these policies came up over time where we had situations and no policies in place and these were issues previously discussed in sub-committee.

Matt Kaufman stated that all board members were emailed the revised governance manual; went through this revised governance manual with sub-committee; adopt new policy so both new versions are set and can move forward from here.

Motion made by Jim Whalen to approve the Governance Manual & Employee Handbook as revised. The motion seconded by Sandi Chitwood and the motion passed by a unanimous 7/0 vote.

Closing Remarks:

Chairman Mark Macy called for any closing questions, remarks, or discussion:

Jon Clontz stated that it is not on the agenda but discussed new game research and development. Lucky for life is a draw game that is being considered. Colorado is bringing it in, but that is not the main issue for bringing it in, although it enhances reasons why we think it would be a great game to bring in. Top game on Intralot’s list as well; poll as displaying that it will be a good game for entertainment and revenue.

Higher payout percentage than Cowboy Draw; game portfolio development brings it back to looking at ways for games not to cannibalize each other and for players not to get bored.

Creating a three year plan that will outline the new game and we’re confident that we need to move forward but will need at least 6 months to go through development and testing.

Comments about keeping TRW informed, but clearly understanding this is a board decision. If the board approves or denies going forward, we need to start to do some tangible things to develop project timeline, etc., rather than research part of it. Lucky for Life game specifics discussed, as well as impact on reserve account funds.

Board Member Dave Bonner requested documentation on the game summary before decision is made by the board.

Jon Clontz stated the goal for today was to lay it out there and push this game to the top, but we will put together a summary and will get that out to the board.

Some thoughts on TRW involvement between now and the next meeting on how deeply the legislative involvement should be. TRW not thrilled they weren’t consulted on the game that was selected previously; verbalized it would be taken back to the board for consideration.

*Response Dave Bonner-Lottery has done a masterful job communicating with legislators, but as board we need to go back to statute on this issue. Statute outlined, and emphasized “free of political influence”. Recommended CEO work the relationship, but not here to ask permission on these types of issues.

Discussion had on new game training and education plan prior to launch.

Board acknowledged team accomplishments and excitement for new game proposal. Financial position is staggering due to Powerball run up and deserved mention and amazing what the potential is with large jackpots. Tremendous job with a lot of staffing changes at Lottery Headquarters and ability to keep hype going also is something that deserves more coverage.

Website refresh on domain purchase of wyominglottery.com and also update on Atchison case progression. Underlined what the Lottery was built for and thanks put forward for proving our worth.

CEO acknowledgement for taking on additional duties from open COO position and it's commendable in respect to his dedication to the Lottery. Solvency reach in operations which is a huge step for the Lottery in gaining respect and momentum. People are starting to recognize the good things that we are doing and will see even more through distribution of funds throughout the state. Board had burden of launch with hardly any guidance and kudos are due there as well; couldn't have done it without them.

Quality assurance was done in Evanston and going out to discuss their needs in preparation for next jackpot run.

Asked to speak at WCCA and WAM; opportunity to speak of positive happenings and looking forward to engagements with these groups.

Closing:

Chairman Mark Macy announced closure of meeting. Motioned for adjournment by Dave Bonner and the motion seconded by Sandy Chitwood. Meeting was adjourned at 2:56 p.m. by a unanimous 7/0 vote.