



# WYOMING LOTTERY CORPORATION

## Board Minutes

July 27, 2015

QUARTERLY BOARD MEETING

Parkway Plaza Hotel & Convention Centre – Casper, WY

### Board Members Present:

Mark Macy-Chairman, Erin Taylor-Vice Chair, Gerry Marburger-Treasurer, Dave Bonner – Secretary, Sandi Chitwood, Brian Gamroth, Ross Newman, and Jim Whalen.

### Staff Members Present:

Jon Clontz-CEO, Louise Plata-COO, Donna Dittimore-CFO, Justin Ballard-Sr. Research Analyst.

### Staff Members Present by Phone:

David Stevens-Security Manager, Kayla Runkel-Product Marketing/Retail Specialist, and Alisha Pineda – Player Services/Administrative Assistant.

### Guests:

Laura Hancock – Casper Star Tribune, Tim Monroe – Wyoming Business Report, Tim Rutten – Intralot, Jennifer Bohlig – Intralot, Matt Kaufman – Hathaway & Kunz, Ed Atchison.

Chairman Macy called the meeting to order at 1:00 p.m. with a roll call of board members and welcomed guests. Quorum was present. Motion made by Secretary Dave Bonner to amend the minutes from the June 15, 2015 meeting. The amendment was:

- On page 3, corrected Governor Mead's name.

A motion was presented by Board Member Brian Gamroth to approve the minutes with the amendment. The motion seconded by Board Member Sandi Chitwood.

### CEO Executive Update:

- NASPL Spring Director's Conference
  - CEO attended this conference in June which was held in New Orleans, Louisiana.
  - Conference was fully reimbursed by the Multi-State Lottery Association (MUSL).
  - Lottery directors networked, brainstormed, discussed and voted on multi-state issues and upcoming events.
    - Final vote and determination to move forward with the Powerball® changes effective October 4, 2015.
  - Wyoming Lottery opted out of the MUSL Powerball® campaign to go with a cost and productive effective alternative.
  - A discussion was held regarding the Hot Lotto case.
    - The trial was held for Eddie Tipton and Mr. Tipton was found guilty and sentencing will be held in September.

- MUSL will now conduct an investigation of their internal controls. This will be conducted by an outside party. This should start in August.
    - CEO will attend the NASPL Annual Conference. It will be held in Texas in October.
- Cheyenne Frontier Days (CFD)
  - Strategy was to focus on player and non-player education, outreach and brand awareness.
  - The return on investment presentation will be completed in September.
  - Chairman Macy and Vice Chair Taylor did attend some events.
  - Military Appreciation Day
    - Implemented a contest and three (s) winning families received VIP experiences.
    - VIP included a day and luncheon at the rodeo and passes to the VIP sponsor area for the Toby Keith concert.
    - CEO Jon Clontz met with the families and took pictures.
  - Ticket sales for CFD averaged at \$956.00 per day.
  - The WyoLotto™ Bus was present at Frontier Park and tickets were sold from the bus. It was also in the parade as the Wyoming Lottery Float.
- Community Outreach
  - CEO Jon Clontz has met with nineteen (19) legislators and will continue to meet with others. Intralot Lobbyists, Laura Lewis and Jody Levin have provided assistance.
    - Feedback from legislators has been excellent.
  - Also reaching out to local officials.
- Intralot
  - A meeting was held with Byron Booth-Government Affairs Officer, Paul Ostendorf-Regional Manager, and Tim Rutten-General Manger the week of July 22<sup>nd</sup>-26<sup>th</sup>.
    - This meeting was to discuss the communication plan, operations and expectations.
- Audit
  - McGee, Hearne & Paiz will begin the second full third-party audit beginning on August 17, 2015.
- Upcoming Events
  - Joint Interim Judiciary Committee Meeting
    - Wyoming Lottery is presenting on August 14, 2015, in Gillette, WY.
    - Presenting in the same time slot as the Pari-Mutuel Commission.
    - Lottery team will prepare to stay for the entire meeting to answer any questions and help where it is possible.

- The purpose of lottery and pari-mutuel attendance is to examine the totality of gaming in Wyoming.
  - In September, lottery will provide its quarterly report to Travel, Recreation and Wildlife Committee, Governor's Office, Department of Audit and Joint Revenue Interim Committee.
- Out-of-State Legislature
  - A member from the Alabama legislature called the Lottery Office to inquire about the Wyoming Lottery start-up.
    - There will be a bill up for vote in Alabama to start a lottery. A representative from Alabama called and requested information regarding the Wyoming Lottery start-up.
    - Intralot has also been in contact with the Alabama legislature.
  - Alaska is also trying to get a bill passed for lottery.
- Questions for CEO
  - Board Member Brian Gamroth has asked if there are funds available to go to the Wyoming State Fair, Central Wyoming Rodeo & Parade and other county rodeos to give the WyoLotto™ bus visibility at these events.
    - CEO, Jon Clontz responded with saying the funds for sponsorships have been scaled back compared to 2014. It is mainly to control costs while the corporation focuses on loan payback.
  - Board Member Brian Gamroth asks about a legal opinion from the Attorney General's Office (AG) regarding the Pari-Mutuel off-tracking betting (OTB) machines, as to whether they were slot machines or historic gaming machines and asked if CEO Clontz has heard opinion.
    - CEO Clontz responded that Lottery COO Plata has searched AG pending opinions and the opinion was not listed.
  - Board Member Brian Gamroth reminded the other board members that OTB is a 300 Million Dollar business and is a significant competitor to the Wyoming Lottery Corporation. OTB has transferred approximately ½% of sales to the State of Wyoming.
    - CEO Clontz stated that many legislators are interested in the impact OTB has on lottery and they also have other concerns.
    - Lottery will focus on what is relative to the lottery and how to assess and deal with the competition and that is the context in which Pari-Mutuel has been discussed.

Motion presented by Secretary Dave Bonner to convene in executive session and discuss matters that are attorney-client privilege and proprietary to the lottery. Motion was seconded by Board Member Brian Gamroth. Regular session was adjourned at 1:35 pm.

The regular board meeting resumed and was called into session at 2:55 pm.

## Public Records Policy

- Public Records policy was addressed.
  - Board member Gamroth initiated the motion. Pursuant to state statute 9-17-120 that records, including the loan documents, are protected records. He requested that the words “non-disclosure records” be added to the definition of “protected records”.
  - Dave Bonner, second the motion.
  - The policy passed with amendments as a unanimous vote.
  - Chairman Macy provided public comment. He stated that staff needed a ruling on this policy to address public records request in an organized fashion.
    - Chairman Macy addressed the audience and stated that if there are any outstanding public records request pending that the requestors revisit their requests based upon the new rule.

## Financial Report

- CFO Dittmore provided a review and update on quarterly financials.
  - Balance Sheet review
  - Cash Accounts
    - Total net assets equal \$1.3 million
  - Profit & Loss
    - Total income equal \$6,091,674
    - Cost of Goods equal \$4,926,727.65
    - Expenses equal \$648,662.64
    - Net ordinary income equals \$516,283.71
  - End of year projected revenues were \$18.5 mil; actual revenues equaled \$17.6 mil (5% difference)
    - Contributing factor to the 5% difference was the number of jackpot hits for both Powerball® and Cowboy Draw™.
  
- Board Member Gamroth recognized the staff for the great work in establishing the projections and the minimal miss of 5% under forecast.

## Marketing & Sales Update

- Cheyenne Frontier Days Overview
  - A PowerPoint presentation was given to the Board of Directors on CFD.
  - COO Louise Plata discussed the prize giveaways and game promotions. The event and game promotions were show-cased on the lottery website and on a social media platform.
  - Total Net sales for the WyoLotto™ bus for the week ending Saturday July 25, 2015 were \$8600.
  
- Sales Trend for 2015
  - Powerball® and Mega Millions® sales are jackpot driven.
  - When the jackpots are high sales increase. When jackpots are low, sales decrease.
    - MUSL games are on a declining trend nationally.

- With the introduction of Cowboy Draw™, the sales trend has remained positive.
- Promotions Calendar
  - University of Wyoming Football
  - Football season is September 5<sup>th</sup> through November 28<sup>th</sup>.
    - November 7, 2015 is a home game vs. Colorado State University. This game is the popular border war game and we'll be active in the half-time show.
  - March 6, 2016 and March 26, 2016
    - Focus will turn to programming for a "Roundup" purchase.
    - This is a \$10 purchase which includes each game: 1- Powerball Powerball with Power Play®; 1-Mega Millions with Megaplier®; and 1- Cowboy Draw™.
    - This purchase was tested at the bus for CFD and was successful.

Secretary Dave Bonner asked if there are funds available from the marketing budget or special promotion budget to make this available.

COO Plata responded positively. There are funds in the existing budget to manage the coding and also leverage the social media budget to make this new purchasing opportunity prominent in our social space.

- Social Media
  - Facebook fans are at 28,351 with a 4 million reach since June of 2014.
  - With the state population of 584,000, we are reaching 20% of the population.
    - Wyoming fans:
      - 61% women and 38% male
      - 25-34 year old age group: 16% females; 11% males
      - 35-44 year old age group: 15% females; 10% males
    - Utah Fans:
      - 765 fans and growing.
  - There are 40,547 email update subscribers.
  - Web/Digital Traffic
    - Have had 2 Million sessions, seen 720,000 users with 4.8 million page views.
    - The percentage breakdown for uses is: 46% desktop, 41% mobile, over 12% tablet.
    - Looking at the marketplace, 53% are using mobile technology.
    - The email open rate is 34%. The average open rate for gaming emails is 17.7%.
- Future Digital Plans
  - New Mobile App
  - Projected launch: end of September.
  - Cost is less than what we are doing today and we'll add additional functionality and interaction.

- Increasing RSS ad widgets
- Website Updates
  - Homepage Redesign
  - Number Checker Updates
- Powerball®
  - Stepdown - Last day to purchase 20 advance draws will be July 29, 2015.
  - Official Launch day is October 4<sup>th</sup>.
  - The white balls will increase from 59 to 69. The red balls will decrease from 35 to 26.
  - New Power Play 10x multiplier. When the jackpot is in excess 150 Million the 10x will no longer apply.
  - The 4+1 (4 white balls + red ball) prize level will increase from \$10,000 to \$50,000.
    - If a player matches this prize level with the Power Play and the 10x multiplier hits, the player will in win \$500,000.
  - Payout remains at 50%, however the overall odds of winning will improve from 1:3.1 to 1:2.4.
  - Gaming Laboratories International (GLI) and Elsym will start testing on August 10, 2015.
  - MUSL has set a go/no-go date for September 14, 2015, but no problems are anticipated for launch.
- Problem Gambling
  - COO Plata attended the National Conference on Problem Gambling in Baltimore, Maryland on July 8-11, 2015.
    - A presentation was given to the Board of Directors to include information from Dr. David Mealy and Dr. Jeff Marotta.
  - Department of Health (DOH) update was provided.
    - The DOH and Lottery team has been focusing on educating each other on corporate and agency operations, finding what the limitations are and discussing next steps.
  - Currently DOH has instituted an action that will provide data on the number of individuals reporting a gambling issue.
    - This is important because there have been numbers reported in the newspaper and articles about the number of gamblers in Wyoming without a credible resource provided.
  - Funds
    - There \$49,306.00 available for use by WLC and DOH and these monies are a result of unclaimed prizes stemming back to FY15. Every dollar will be designated to problem gambling and responsible gaming efforts.
  - Next steps include:
    - Continuing our efforts with DOH
    - Continue to give quarterly reports to the board

- Continue to develop a relationship with NCPG

Secretary Bonner asked if the tickets sold (with the year validation deadline) were included in \$49,000 prize fund.

COO Louise Plata replied to Mr. Bonner stating that only those past the six-month deadline were added and every month lottery will be adding to the unclaimed prize fund. Once the unclaimed prizes associated with the one-year validation period are past the sales date, those prizes will be added to the fund as well.

Board Member Brian Gamroth stated there are zero dollars provided through Pari-Mutuel for problem gambling. Conversely, the Wyoming Lottery will transfer up to \$200,000 annually.

Board Member Jim Whalen asked if the \$49,000 is considered Lottery money, or, is it given to DOH? He also asked what would happen if there is a difference of opinion regarding how the funds should be spent. Who would make the final decision?

COO Louise Plata responded that DOH continues to be a very collaborative partner. There is agreement to complete the development of a charter which will dictate how and when money should be spent and dictate how problems will be solved.

CEO Jon Clontz stated that we respect and recognize that the DOH are addiction and treatment experts and they obviously respect our expertise in gaming.

### **Transfers to the State**

- There are questions lingering regarding the transfer of \$6 Million to the state. Projections documented within the FY16 budget expresses approximately \$200,000 in transfers to the state. The budget also illustrated the payoff of the loan and no new games added to the portfolio.
  - Expectations - In the future as the lottery adds new games to the portfolio, the cost of adding those new games will impact the revenue, including the ability to transfer large amounts of money.
    - Adding a new game to the portfolio may include game equipment expenses, game testing, marketing for game and additional labor costs.
  - It is unlikely that \$6 Million in transfer will ever be possibility with a draw game portfolio.
    - Sales needed to achieve a \$6 Million transfer would need to be approximately \$30-50 Million, under the current operating parameters.
    - With a draw game portfolio, you have the same type of players buying these similar games. The challenge is to bring games to the market that would appeal to a broader audience.
    - With a small portfolio and without an industry lottery product leader that yields high revenues, like scratch products, the Lottery's ability to transfer \$6 Million is inhibited.

- Wyoming has a small population and without additional products to diversify the draw game portfolio and attract new players, transferring \$6 Million to the counties and cities will be challenging. By offering additional enhancing product that appeal to a broader audience, the Lottery will be able to transfer more money to the state.
- We are not at full base line today, meaning we are growing our portfolio, the Lottery is vested in reaching that \$6 Million goal and beyond.

### **Cost of Goods Sold**

Charts representing a current costs of goods sold and budget was presented by Sr. Research Analyst, Justin Ballard.

- Costs of Goods Sold (COGS)
  - Currently, the transfer to the state would is a little less than 1%
  - The Prize Pool Liability is 58.5%
  - Operating Budget is approximately 21.65% of total revenue.
- Preliminary estimates:
  - With eight scratch games priced at \$1, \$2, \$5, \$10 and \$20, our gross revenue could grow to approximately \$73.6 Million. The prize liability would increase appropriately and our transfers to the state would increase significantly to 9.97%, approximately \$10 million dollars.

CEO Clontz stated that Lottery has a major gaming competitor and we will continue to compete for market share. Additionally, Scratch products will continue to be discussed and not because Lottery is advocating for the product. Lottery will continue to address and manage expectations around our current portfolio and continuing its understanding on the impact and competition associated with the instant games already offered in the Wyoming market.

Board Member Jim Whalen asked: If everything were to stay the same but the loan was paid off, what would the transfer projections be?

CEO Clontz responded that Lottery is working on those figures and final projections will be available with the FY17 preliminary budget.

Board Member Brian Gamroth asked: Do players understand that we are limited to draw games or do they continue to question why the Wyoming Lottery is not providing them with scratch games?

COO Plata responds that this topic will be covered in the tracker study segment but the short answer is, no. Players want scratch products. The tracker study will show information on how players are looking for the product and how players are traveling out of state to buy it and illustrate how the state is missing out on those revenues.



## Tracker Study (Wave 2)

The key study objectives:

- Understand player behavior
- Measuring advertisement awareness
- Understand attitudes towards lottery and gaming
- Determine lottery favorability
- Understand responses to (potential) new games, and
- Understand technology usage

The study was conducted between the months of May and June of 2015.

- Great sample size.
  - Emails were sent out to the people who have signed up to receive lottery email updates.
  - Participants indicated that they had purchased a lottery ticket since January 1, 2015.
- Respondent Profile
  - 55+ older demographic.
    - Next tracker study we'll develop a plan to reach the younger demographic as well.
  - Education Level - Indicated education after high school; 70%
  - Household Income - Indicated an income above \$50,000 at 53%
  - Majority of respondents were from Wyoming.
- Key Findings
  - Cowboy Draw™ had excellent awareness with 92% having made a purchase.
  - Wyoming is keeping more lottery purchases in the state when compared to Wave 1 results.
  - Tremendous interest in the addition of scratch.
    - Majority of participants indicated they would spend at least \$10 per month if scratch were available.
    - 14% of participants indicated they had purchased scratch tickets outside of the state.
  - Wyoming Lottery Availability
    - Participants indicated they would like to see more locations.
    - Participants indicated they would like the allowance of debit purchases.
  - Winning number Notifications
    - Most people go the website for information (50% of the respondents).
  - Motivations for buying Lottery Products
    - Most indicated the jackpot size.
  - Wagering Spent in Casinos, including Off Track Betting
    - Most indicated spending \$100-250 (20% of the respondents)

27% of the respondents purchased lottery products in Colorado. Most of those who purchase lottery products out-of-state will travel across the border to purchase scratch tickets and some will buy MUSL draw games as well. This demonstrates that we are losing potential revenue to other surrounding jurisdiction and it is largely due to our inability to offer scratch products.

- Scratch Tickets
  - Participants willing to buy scratch tickets at any price level: 26%
  - Participants willing to buy scratch tickets under \$5: 45%
  - Frequency of purchase
    - Once every 2-3 weeks: 23%
    - Largest percent of players buy every 4-6 weeks.
    - 84% of participants are interested in having scratch tickets in Wyoming.
    - 15% said they would spend \$100 or more per month.

COO Plata comments about the frequency of play that players have reported. The reporting has shown that it is not as much of a concern as early reported and commented on from people and legislators.

- Technology Usage
  - Cell phones are the highest usage at 73%.
- Participant Comments
  - 31%, the largest group, suggest that Lottery make no changes.
  - 23% suggested the addition of scratch tickets.
  - 48% like the lottery because it is convenient.
  - 12% like that the money benefits Wyoming.
  - 10% like the better odds.
  - 10% like the chances of winning.

Vice Chair Taylor asked: How much of this data will be presented to the Interim Judiciary Committee?

CEO Clontz responded that much of the data will be presented.

Board Member Ross Newman asked: What would it take to change and accept debit cards? He expressed how people do not have cash on them.

CEO Clontz responded that Lottery would have to make a change to the Administrative Rule and the board would have to vote on the proposed change.

#### **Strategic, Business, Marketing and Sales Plans**

- The Strategic Plan is for FY15 to FY2020 and will be revisited every year.

- The Business Plan does highlight some of the successes we had in 2015 and includes the strategies we will be initiating in 2016.
- The Marketing and Sales Plan does stipulate that it has been developed in support of the Strategic Plan.

Secretary Dave Bonner placed a motion for the Strategic, Business and Marketing Plan for Fiscal Year 2016 be accepted. Motion seconded by Treasurer Gerry Marburger and motion passed with a unanimous 8/0 vote.

### **Board Business**

- Board Member Brian Gamroth asked Lottery staff to research what it would take to get Debit purchases approved and bring to the Governance Committee for review.
- Treasurer Marburger provided a positive report on the Finance Sub-Committee Meeting and in particular the efforts made by CFO Dittmore...
  - Secretary Bonner inquired about the status of the loan repayment and if it is on schedule to be paid off by June 2016.
    - CFO Dittmore responded by stating that the repayment is on track.
- Vice Chair Taylor reports on the Marketing Sub-Committee stating a lot of focus has gone into the information from the Tracker Study and going through the fine detail.
  - Having the numbers and information to give to legislators and others.
  - Discussing CFD and sponsorship money and the marketing for that event.
  - University of Wyoming sponsorship.
  - Overall bringing marketing in house and reducing the contract fees associated with Warehouse Twenty One and utilizing the talents of the staff to make that happen.
- Next Board Meeting
  - Will be held in Jackson on September 29, 2015.

### **Round Table**

- Board Member Chitwood commented that the people she comes in contact with are fascinated with the lottery and also the number one question she gets is about scratch. She stated that she tries to educate that Scratch is prohibited by statute.
- Board Member Gamroth reiterated that we are bound by statute to only sell draw games. Lottery was built to keep money in Wyoming and have a positive economic impact. Also noted that Colorado had a retailer on the border close because of lottery offered and bought in Wyoming.
- Secretary Bonner commented on how well Cowboy Draw™ has been going.

- Chairman Macy commented about how wonderful everything is going. He mentioned how proud he is of the staff and board members have done.
- Vice Chair Taylor comments about how well Cheyenne Frontier Days went and says she felt it was a great success. Comments about how great it is for CEO Clontz to travel around the state to meet with the legislators.
- Treasurer Marburger says that this is the most enjoyable board he has been on. Comments on how great the staff is.
  - Cowboy Draw™ is very popular and is over half the revenue on a daily basis. The concern is that it is the least profitable.
- Board Member Newman would reiterate the comments on the outreach to the legislators, feels we are going about that the right way.
- Board Member Whalen says that he doesn't have any other comments than what has already been said.

Motion to adjourn made by Board Member Brian Gamroth. Motion seconded by Treasurer Gerry Marburger.