

WYOMING LOTTERY CORPORATION

Special Session Minutes

June 9th, 2020

Zoom Video Conference

Board Members Present: N/A

Board Members via Zoom: Sandi Chitwood-Chairman, Gerry Marburger-Vice Chairman, Dave Bonner-Secretary, Gina Monk-Treasurer, Sandra Wallop, Todd Peterson, Mary Throne and Ed Liebzeit.

Staff Members Absent: Jim Willox

Staff Members Present: Jon Clontz-CEO, Robin Medina-COO, Loy Jackson-CFO, Dave Stevens-Security Manager, Sarah Shoden- Executive Assistant & Social Media/ Events Coordinator, Ashley Pexton- Marketing Manager and Arin Schlensker- Player Services Specialist.

Staff Members Absent: n/a

Guests Present: Matt Kaufman-Legal Counsel

Guests Present via Zoom: n/a

Establish Quorum:

Chairman Sandi Chitwood called the meeting to order at 8:34 a.m. with a roll call of board and staff members. All guests were welcomed.

Board Officer Appointments:

Legal Counsel for the Wyoming Lottery, Mr. Matt Kaufman, presented the results of the board officer voting which he oversaw via email. The board officer positions for the upcoming fiscal are as follows:

- Current Vice Chairman Gerry Marburger will now serve as Chairman.
- Current Board Member Jim Willox will now serve as Vice Chairman.

- Current Board Member Ed Liebzeit will now serve as Secretary.
- Current Board Secretary Dave Bonner will now serve as Treasurer.

Board Member Sandra Wallop motioned that the board officer positions be approved as presented and Board Secretary Bonner seconded. It was approved with a unanimous 8/8 vote.

CEO Report:

Wyolotto CEO Jon Clontz presented the following overview report:

He began by thanking the board for their time for the Special Session. He briefly explained that the purpose of the Special Session is to ensure any matters are concluded before the end of the fiscal year, vote on the new board officer positions and approve the budget for the upcoming fiscal.

He then noted that a large majority of summer events and promotions had been postponed or canceled at this time. He continued to explain that the promotions that the Wyoming Lottery Corporation (WLC) had executed included the Cowboy Draw Double Shot which would be concluding on the 15th of June. He noted that after it's completion they would conduct an ROI of the promotion and share that with the board. Mr. Clontz then noted that the WLC is currently in conversations with the University of Wyoming (UW) in regard to the upcoming season for purposes of their sponsorship. He explained that currently there were still a lot of unknowns on what to expect for the football season, so his team was working closely with UW to ensure they have the best plans and back up plans in place.

He then made mention of the state's budget and the Governor's comments regarding consideration for any new revenue producing activities. Mr. Clontz explained that the WLC plans to further explore this with regards to Keno, scratch ticket prohibition and the possibility of adding new games. He then noted that in the upcoming weeks he was going to be doing some research around the game "2 by 2".

Mr. Clontz concluded his report by sharing that at this time his staff was back in the office full time. He commended his team for their work while being remote and that beginning that day the WLC was going to initiate limited reopening to customers with safety measures set in place. He explained that based on how the reopening went the WLC would continue to look at opening more to the public in the upcoming weeks. He ended by noting that sales were seeing an increase in the last few weeks.

This concludes the CEO report.

Board Member Ed Liebzeit then asked if there had been any particular learnings that had arisen based on the previous weeks of working remote, lower sales and alternative planning. Mr. Clontz responded that he had learned that his team worked remotely better than he had planned given the circumstance. He went on to explain that while he did not believe anything negative would occur, he was not sure what would happen to productivity during this time with so many team members working remotely at once. He commended his team for not “missing a beat” and that all deadlines continued to be met during this time. He then shared that he was pleased at the level of communication that took place between his staff as well. He concluded that based on this learning, remote work may be a possibility in the future as needed. Mr. Clontz then noted another learning being that while sales were affected by COVID-19, the WLC did not see the dramatic drop that he thought would happen. He further explained that while the WLC did see record lows for several weeks due to a combination of the pandemic as well as low jackpots, the total impact was not as severe as he had anticipated. He continued by stating that this time also further reinforced his feelings that there needs to be more non-jackpot driven games in place for the Wyoming Lottery. He concluded that his final big learning during this time was that through social media and other digital media avenues, they were able to keep in touch with the players during this time and keep them well informed.

Board Member Mary Throne then asked if Wyoming’s experience during the pandemic was comparable to other state lotteries. Mr. Clontz responded that he did not feel that it was comprompable. He went on to explain that each lottery has a unique situation varying from being state agencies and having to completely close up in person operations, to larger lotteries having struggles already with lower jackpots and then adding on the reduction of sales of their other games. He then noted that places that he did see a bigger impact in the industry were organizations like NASPL and MUSL. He shared that due to the unforeseen circumstances, there was a vote taken between all the state lotteries to assist NASPL financially. He explained that since they depend heavily on events and training the pause across the country had a large impact on companies such as NASPL. Chairman Chitwood commended the lottery team for their work during these unprecedented times and was glad that there had been previous planning set in place to create a reserve fund in case of situations such as this. Mr. Clontz then shared his appreciation for the work the board had done to allow that reserve fund to be set up years ago. Chairman Chitwood concluded that it was important to have one in case of

unforeseen situations that can arise as well as the ability to utilize those funds as needed for game payouts or new game development.

FY21 Sales Projections

Wyolotto COO Robin Media presented the sales projections for FY21 as follows:

Mrs. Medina began by sharing that the sales projections were within the Profit and Loss report within the FY21 proposed budget. She noted that after the previous board meeting in April, the WLC staff continued to monitor sales, industry trends and what was happening within Wyoming during the pandemic. She began with a review of Powerball, noting that this projection remained the same as the previous presentation with weekly sales at \$135,000. She then moved on to Mega Millions, which was reduced from the initial presentation of \$97,000 per week to \$92,000. She noted that Cowboy Draw had also been changed from the previous presentation of \$185,000 to \$175,000. She then noted that Lucky for Life remained at \$45,000 per week. She concluded that the total sales projections had decreased from the initial presentation from \$24.2 million to \$23.2 million which was a reduction of \$780,000 which she felt was achievable and had anticipation that they could exceed that.

Board Member Liebzeit asked what the weekly trends on sales were by season (spring, summer, winter and fall). He continued by asking how level this looked or if there were peaks and valleys within that. Mrs. Medina responded that they do see a lot of seasonality around the holidays where the focus of players tends to shift to other discretionary spending. She then noted that going into spring, sales begin to pick up and that typically sales do increase during the summer due to tourism. Mr. Clontz included that based upon the seasonality around the holidays, the WLC is hoping to one day bring in scratch tickets as those do very well during that time. Chairman Chitwood noted that due to weather and travel restrictions likely some of the sales dip in winter is due to that as well. She suggested that the team consider what travel and tourism may look like this summer where it likely could be more in-state or close proximity traveling. Mrs. Medina agreed with her and that they would continue looking into marketing options to maximize on that.

FY21 Budget Proposal

Wyolotto CFO Loy Jackson presented the proposed FY21 Budget for approval as follows:

Mrs. Jackson began by picking up after the sales projections that Mrs. Medina had previously shared. She noted that with the reduction in the overall sales projections the costs of goods sold

(COGS) did change as well and is now at \$17.48 million. She continued by explaining that this was a reduction by \$626,000 from what was presented in April. She then noted that with this change, it left the gross profit at \$5.76 million.

She then went on to review the other expenses. She shared that they were under in most areas in comparison to the prior year. She noted the decrease in business expenses which was due largely to pushing the board strategic planning session to the following year. Mrs. Jackson then covered the contract services noting that both accounting and legal services were being estimated to be under from the prior year. She explained the difference in the marketing budget as compared to what was presented in April showing that the marketing contract with Warehouse Twenty One (W21) would now be \$475,000 which was a reduction by \$75,000. She then explained that both she and Mrs. Medina had spoken to W21 in regards to the budget change and that they felt comfortable that this budget still allowed for successful marketing in addition to the in-house marketing capabilities. Mr. Clontz then noted that when he did review the budget change he took into consideration several factors to ensure a strong continued support of the brand. He continued by noting that throughout the years they have taken the time to thoroughly assess campaigns and efforts to determine the ROIs. He then explained that this reduction will not have a negative impact on sales and that if amendments need to be made to increase the budget during the year, they would be sure to present those plans to the board for approval. Mrs. Jackson then concluded the section that the total marketing budget was \$741,890 which is under from the prior year by \$85,000.

Mrs. Jackson then covered the reductions that were made to the compensation budget. She began by noting that previously the WLC had the budget at \$867,475 which was reduced to \$843,421 resulting in a reduction of \$24,000. She noted that this reduction did affect the taxes as well, which then left the total personnel salaries and benefits to \$1.2 million which is just slightly over the year prior. She explained that this was largely due to the increase in benefit costs. She concluded that this took the total operating expenses to \$2.8 million which is under the prior year by \$300,000.

Mrs. Jackson then noted that with the changes the resulting net income of \$2.9 million is a decrease of \$1.6 million from the prior year. She then explained that with the decrease in the budgeted sales, they are only \$52,000 under from what they originally presented in April due to the additional decreases in COGS and the budgeted expenses. She ended by stating that with this change the estimated state transfer at the minimum of 75% would be \$2.2 million.

Mrs. Jackson then concluded her presentation of the FY21 proposed budget and asked for any questions.

Board Secretary Bonner asked if based upon the 75% minimum transfer percentage, if the WLC was going to be at \$3.2 million in transfers to the state for the current fiscal year. Mrs. Jackson responded that was correct and explained that they planned to transfer \$800,000 in the final FY20 quarter which added onto the other three previous quarters of \$800,000. Board Secretary Bonner then asked in regard to revenue based upon the estimated amount of \$30 million what was the final amount going to result in for FY20. Mrs. Jackson responded that they plan to come in just a little over \$23 million. She then further explained that the \$3.2 million that was going to be transferred for FY20 was slightly over the mandated minimum of 75%. Board Secretary Bonner then asked what the revenues were for FY19. Mrs. Medina responded that they were at \$37 million for FY19, which was a record year. Board Member Liebzeit noted that it would be beneficial to see this budget in comparison to the actual expenses for FY20 and then further asked what the final net would be in comparison to the budgeted amount. Mrs. Jackson responded that they planned to be under in planned expenses by \$300,000 so approximately \$2.7 million. Mr. Clontz then responded that in the future they would plan to provide those comparisons to the budget approval meetings. Board Member Liebzeit continued by noting that this was an important factor to take into consideration since the first portion of the year there was no impact of the pandemic in comparison to the later months. He continued by stating that he believes that the impact of COVID-19 may continue into the beginning of FY21 if not further, therefore he thought the comparison could be overly aggressive. Mr. Clontz responded that based upon previous feedback they had reduced the sales projections several times to align with the trends they were seeing and felt confident that they could hit these sales numbers even if the pandemic extended into FY21. He then continued by stating that if the board felt that the numbers needed to be further reviewed, he and his team would be happy to do so. Mr. Clontz then noted that they could approve the budget as presented, but then plan to share with the board weekly updates of sales and if needed could edit the projections. Board Member Liebzeit said that was a satisfactory decision.

Motion to approve the FY21 budget as presented. Vice Chairman Marburger motioned to approve. The motion was seconded by Board Member Todd Peterson and the motion passed by a unanimous 8/8 vote.

Executive Session:

Motion to move into the Executive Session was made by Board Secretary Bonner. The motion was seconded by Board Member Liebzeit and the motion passed by a unanimous 8/8 vote.

Meeting Adjournment:

Chairman Chitwood announced the closure of the meeting, with the motion being made by Board Secretary Bonner. The motion was seconded by Board Member Liebzeit and passed with a unanimous 8/8 vote. The meeting was adjourned.