

Minutes for the Colorado Lottery Commission

Call to Order

A Commission Meeting for the Colorado Lottery was held on Wednesday, August 12, 2020, via Google Hangouts. The meeting was called to order at 8:03 a.m. and was presided over by Chairwoman, Stella Peterson.

Attendees

In attendance were the following:

Stella Peterson – Chairwoman	Emily Stewart – Lottery
Stan Podolski – Vice Chair	Ethan Nosky – Cactus
Dennis Maes – Commissioner	Heather Love - Lottery
Bill Clayton – Commissioner	Jay Sisson – Lottery
Jim Bensberg – Chairman	Jennifer Anderson – Lottery
Andy Stine - BEST	Jessica Ross – Attorney General
Carol Sanchez – Lottery	Marie Valtakis – Lottery
Christian Hawley – Lottery	Meghan Dougherty – Lottery
Clint Petrun – Lottery	Nancy Bartosz - Lottery
Cristopher Schroll - Lottery	Thomas Campbell – Lottery
Cristi Gannon – Lottery	Todd Greco – Lottery
Daniel Bewley – Lottery	Tom Cargal – Lottery
David Aldag – Lottery	Tom Seaver – Lottery
Diane Boddicker – Lottery	Tyson Barr - IGT
Eliza Tyndall – Lottery	

BEST Grant

Andy Stine, the Director of capital construction for the Department of Education, presented a slideshow on the Building Excellent Schools Today (BEST) grant program, which is a recipient of lottery funds. The grant is available to all public-school districts, charter schools, institute charter schools, boards of cooperative education services and the Colorado School for the Deaf and Blind. Priorities include health, safety, security, technology, overcrowding, CTE programs and other programs. Applicants are required to provide matching money. The Advisory Board consists of nine appointed members. The BEST grant includes cash funds, which are used for smaller projects, and lease-purchase funds, which are used for larger projects. The Charter School Capital Construction Program has funds available to all qualified charter schools and is used for things like construction, remodeling, leasing land and buildings, etc. Emergency Grants are available for unanticipated events that threaten health or safety or render all or a significant portion of a public-school facility unusable for education purposes. Facility insight assessments state that revisions began in 2016 and will be completed in 2021, with reassessments every five years. 508 schools were assessed, with 148 districts touched

and \$4.6 billion in assessed capital needs identified so far. There is \$1.2 billion in total revenue through FY20. Revenue, plus local matching dollars, plus financing through Certificates of Participation (COP) generated \$2.3 billion in projects. New roofs and new school construction topped the BEST projects through FY18-19. The FY20-21 grant round has 69 applications totaling \$1,137,649,135, with BEST awarding \$234,957,052. Beyond FY20-21, BEST has \$85 million per year spending authority and \$55 million for debt service on prior COPs. The School Finance Act increased allowable debt service to \$62.5 million. Average \$125 million in revenue since FY14 and with debt service subtracted, it leaves \$70 million for cash grants. BEST awards average \$120 million in projects against \$270 million in requests. Rely on partners for marketing and social media but also try to do some of it themselves. Mr. Stine presented BEST's Twitter feed, which highlighted the Starburst Awards, outdoor activities in Colorado and social distancing. Last fiscal year, Colorado Lottery gave BEST \$14.7 million. The average over ten years has been almost \$4.7 million. This money goes towards operation costs, project requests, roofs, security overhauls and HVAC.

Mr. Maes thanked Mr. Stine and included that two BEST grants have been received in Pueblo, which will be used to build two new elementary schools; it will be a \$250 Million boost to the economy in Pueblo. The BEST grant is a difficult process and vetted very well.

Chairwoman asked Mr. Stine to further explain the rigorous process of getting a BEST grant. Mr. Stine stated that it is a year-round process, with only one award presented in May. It could take applicants up to two or three years to get their applications perfected and it is a slow and arduous process. This year has 69 applications and, with not getting to award all of them, the applications must be buttoned-up and well put together.

Public Comment

Chairwoman Peterson called for Public Comment. There was none.

Lottery Spotlight

Christian Hawley presented the well performing spots of Bill and Barb in the outdoors. The spots shown at the previous meeting were rough cuts and these spots are the final product. Ms. Hawley presented a spot for the new cash family game, which features past presidents on their respective denomination/price point. The holiday spots are currently being worked on.

Vice Chair Podolski asked where the spots were filmed. Ms. Hawley stated that the spots were filmed in Roxborough Park, Golden Gate State Park in Boulder and the cash family games were filmed in a large mansion in Highlands Ranch. Only the cast, crew and essential staff were allowed on location – this was the first production made since COVID-19 began. The mansion was sanitized every night and masks were worn so that everyone stayed safe.

Tom Seaver included that Colorado may have been the first state to complete a production since the pandemic began. The actors screen guild and Colorado have strict guidelines.

Approval of Minutes

A motion to approve the minutes from the June 10, 2020 and July 8, 2020 lottery commission meeting was made by Commissioner Maes and seconded by Commissioner Bensberg. The motion passed unanimously.

Colorado Lottery

MAIN MOTIONS

Approval of Scratch Game Guidelines, presented by Emily Stewart;

- Game #178 \$5 Super Special Bubble Bingo
- Game #179 \$10 \$500,000 Spotlight Game X

A motion to approve the Repeal of Scratch Games presented was made by Commissioner Bensberg and seconded by Vice Chair Podolski. The motion passed unanimously.

Approval of Repeal of Scratch Games, presented by Emily Stewart;

- Game #116 \$250,000 High Card Crossword

A motion to approve the Repeal of Scratch Games presented was made by Commissioner Bensberg and seconded by Commissioner Maes. The motion passed unanimously.

FY20 Projected Sales, Expenses, and Disbursements

David Aldag presented highlights from FY20, which was a record breaking scratch game sales year. Proceeds, distributions to beneficiaries, was the second highest in the past four years but wasn't what was hoped for this year due to jackpot sales. Mr. Aldag presented graphs for scratch and jackpot games – pointed out the dip in scratch games due to COVID-19 and where jackpot sales had risen along with jackpot amounts. Jackpot this year totaled \$168 Million in sales, the lowest in four years, and compared to FY19 at \$236 million, it was a significant change. Having this much of lottery's portfolio dependent on jackpot is a little risky. Mr. Aldag also pointed out that scratch game prize payouts have climbed as sales move to higher price points, with \$5 and \$10 price points being the most popular. This drives the payout percentage up as well – this year is at 69.3%, which is the highest Colorado Lottery ever had. Sales are typically about 2/3 of overall sales and this year was about 75%. Direct cost ended up being about 74% of sales, compared to about 71% in past years.

Lottery has four open positions. Ended up under spending authority for the year, primarily due to vacancy savings. FY21 is going to be tight and there isn't quite enough pots money, but it will be made up through vacancy savings.

Operating expenses for FY20 were down as a percentage of sales primarily due to not advertising for two months.

Beneficiary distributions were down to 21.6% of sales, which is a combination of scratch sales being a much bigger percentage of overall sales and the shift to higher price points.

There were no questions or comments from the commissioners.

Decision Items

Approval of Scratch Games, presented by Todd Greco;

- Game #180 \$10 Wild Cash
- Game #181 \$1 Tic-Tac-Toe Tripler
- Game #182 \$2 Fireball 5's
- Game #183 \$5 Power Shot
- Game #184 \$5 007
- Game #185 \$10 007

Mr. Seaver stated that there was concern over the James Bond games due to the restrictions on public outings such as theaters. Learned that several other states have already launched the game, even with the movie not being released, and all the states showing the game has done really well. Confident that the game will do very well and don't feel there is a level of risk that there had been in previous discussions of launching the game.

Chairwoman Peterson stated that she would like to see the Lottery show more pandemic connection with the community. Supports the James Bond game and stated that it will be interesting if the theaters recover. Chairwoman Peterson would like to see the Lottery be a little more reflective of the pandemic and using games as an opportunity to show the community that the Lottery understands the current environment.

A motion to approve the Scratch Games presented was made by Commissioner Bensberg and seconded by Vice Chair Podolski. The motion passed unanimously.

Scratch Game Performance

Mr. Greco stated that July was a good month for scratch sales at \$44.5 Million dollars, down \$1.3 million compared to June. Compared to July in FY20, sales were up \$4.5 million. Scratch sales should keep getting better with the launch of the cash family game and new games coming up, including a Wonka game. Started the fiscal year very strong. In the past, the July and August timeframe has been the slowest for scratch sales and usually pick up during the holidays. Starting out well in the first quarter bodes well for the rest of the fiscal year.

Mr. Seaver added that every lottery in the U.S. have faced low inventories due to unexpected surge of demand in the wake of bounce-back from the pandemic. Thanked the commissioners for permission to do reorders in order to get additional inventory in the hands of retailers. Mr. Greco stated there were four or five games that were reordered. The big numbers were because of the capability of reordering games. Mr. Seaver also thanked the sales team for their hard work that helped prevent the drop-off that some other lotteries saw.

Jackpot Game Performance

Jay Sisson reported that Jackpot games were up \$87,000 or about 0.7% from June. Compared to last July, jackpot is up about \$527,000. There were week-to-week Mega Millions jackpot winners - one on July 24th, then another on July 31st, so the jackpot is not being built up very fast. There was a bigger jackpot for Mega Millions in June and July had a bigger Powerball jackpot. In FY21, \$19.5 Million of jackpot games have been sold. Largest sellers were Powerball and Mega Millions. Colorado Lotto+ is ahead of where it was last year but still a little behind. Powerball is at \$169 Million and Lotto+ is at \$3.9 Million. September 22nd is the one-year anniversary of Colorado Lotto+ and celebration plans will be revealed in future dates. Lucky for Life will have a drawing seven days per week and the Colorado Lottery will decide whether it wants to keep Lucky for Life as one of its products.

Mr. Seaver added that it has been a turbulent time for block lottery games, such as Powerball and Mega Millions. Each game is being examined for changes. Have asked vendors to do statistical analysis and came back stating that it has been a run of bad luck. There has been a push to be more dependent on in-state games and not on multi-state games. Pennsylvania lottery only gets 6% of sales from block lottery games, meaning that they have successfully shifted dependency to in-state games. They are doing things that are more advanced and have a leading edge than Colorado but are things that the Colorado Lottery are working towards. Colorado Lotto+ had passed Mega Millions in sales for the past two weeks. Mr. Sisson confirmed that sales have been averaged at around \$750,000 for Lotto+ and Mega Millions is at about \$469,000.

Director's Report

- Hackathon and Block Lottery Games - Tom Seaver
Monday concluded the first ever Hackathon. The Hackathon was a way to create new products for the Colorado Lottery. Over 185 people signed up and over 30 games were submitted. Anyone around the world could participate due to it being a virtual hackathon. In order to be successful, the lottery needs to strengthen its in-state games. The games were evaluated and judged, with the top three being awarded. IGT used product research and development funds to support the hackathon. Governor Polis was part of the opening ceremonies, being a big proponent of developing new games and reaching new players. Colorado is the first lottery to do this and is groundbreaking territory. Will hopefully get to share graphics and products next month or October, since they were just received. Will need commission approval and support to move forward on these products but just needed the fresh thinking on how to provide new games and products. One was from Colorado, one from New Jersey and another from California – one submission was from India.

The higher price point games are nothing to be worried about as other states have shown the trend is pointing towards them – the nature of the scratch product has progressed toward higher price points. The set game launches have been a big part of the success in scratch sales.

The gambling prevalence study is a big piece of research – involves researching how many people gamble in the state, any issues of problem gambling, the demographics, etc. Not

taking it to market until things around the gambling market stabilize. Putting the project on hold, indefinitely, until there is a more normal environment to measure. Measuring gambling behavior right now is not a true representation with the current environment – customers don't have all options available. Will work with other gaming departments within the state to keep informed of what the outcomes are and possible work with them to help create programs to help discourage problem gambling.

Commissioner Bensberg questioned popularity of sports betting within Colorado – asked Mr. Seaver how sports betting plays out once things move back towards normal. Mr. Seaver stated that once different sports get back to playing games, sports betting will go up. Commissioner Bensberg asked how to keep lottery players from drifting over to other forms of gambling. Mr. Seaver stated that it will include keeping players engaged in lottery products and that it's a big challenge for lotteries all over the country.

Possible Powerball changes update – those running the block lottery games are nervous due to low jackpot numbers and there are a lot of changes being considered. States are becoming protective over their in-state games without Powerball cannibalizing their in-state products. Adding players is the least invasive recommendation – adding Australia would be like adding another large state. Having more players involved in the games would help the jackpots to grow faster. Plan A is a test-market with Australia, but we are far from knowing what the final solution will be. More than a couple people at Scientific Games feel there may be a merger between Powerball and Mega Millions. They started out as competitors but are now more similar and customers “jackpot shop” between the two. All lotteries selling these games are concerned about their performance.

Mr. Seaver announced that Heather Love is moving into the executive assistant and commission secretary position, effective September 1st. Ms. Love is moving over from the Denver claims office and will provide great support and knowledge in her new role. Mr. Seaver thanked Clint Petrun for his great work as acting commission secretary.

- **Volunteers of Colorado - Marie Valtakis**
Partnering with Volunteers of Colorado on Gatewin Mesa Open Space project. Dates of the project are October 3rd and 10th – waiting on approval to add October 4th and 11th. Currently, the project is limited to 10 participants per day and hoping when October arrives, the limit will be raised up to 25 participants per day. The project is located between Castle Rock and Franktown. It's very scenic and 275 acres of very diverse terrain, very beautiful yet rugged. Second year of trail project and building out the Legacy Trail. Going to break ground on a remaining mile that will connect to the current Chuck's Loop Trail, on the eastern edge of the property. Work is moderate in nature - going to add stone steps, treads, digging drainage areas. Current loop is 106 miles and the trail will be a hiker only extension. A lottery representative will be there to recognize the volunteers.
- **Lottery Return to Work Update – Jennifer Anderson**
An update regarding staff and status of COVID-19 working environment. Staff continue to be wonderful and good sports at adapting to changes. Some people like working from home and

others it has been more challenging but understanding the circumstance. Do all-hands meeting every other week to check in with all staff. Managers and supervisors check in frequently with their direct reports to make sure they don't feel too isolated. Right now, DPA said that nobody will be coming back to the office until at least November 1st. Staff that do go into the office are always required to social distance and wear a mask, wash hands, and sanitize surfaces frequently. Have provided N95 masks to employees who come in close contact with others, including sales staff. Implemented health screening stations at all offices. Nobody can enter without first taking temperature and answering series of questions. Sales team went back into field in July and service retailers on a 30-day cycle, instead of two-week cycle. Presented as an option and not a mandate – have made it clear that they do not have to visit retailers and can service over phone. Grand Junction and Fort Collins claims offices have been opened by appointment only. Lowered threshold to \$600 or more for customers to claim prizes by appointment. Will continue to service players in this manner indefinitely. Have been successful and fortunate in not having any cases of COVID-19 within the division. Focused on remaining vigilant and not becoming too relaxed about it. Will continue to update as changes happen.

Mr. Seaver added that the \$600 threshold is the starting amount at which retailers cannot pay customers. No ticket needs to be mailed in anymore for customers that are uncomfortable sending their tickets through the mail.

Ms. Anderson added that Denver claims have not been reopened yet due to unique challenges and do not want the claims staff to have to come out into the lobby to let customers in and there is frequent foot traffic. Waiting on a magnetic lock to help secure the flow of traffic in that office.

Vice Chair Podolski added that the \$600 threshold is also an IRS requirement.

Ms. Anderson included that Governor Polis is wanting the Lottery to look into way of providing payments and other services virtually.

Mr. Seaver added that Tom Cargal is retiring from the Colorado Lottery and this will be the last commission meeting he will be attending.

The Director's Report was concluded at 9:38 a.m.

Commission Items

- Tom Seaver, Jennifer Anderson, Daniel Bewley and Chairwoman Peterson met with Senator Moreno on July 31st. Ms. Anderson reported that it was a great meeting and it couldn't have gone any better. Ms. Anderson thanked Chairwoman Peterson for setting up the meeting with Senator Moreno. The reason for the meeting was to get advice on how to be more successful moving forward with decision items that come before the JBC. Senator Moreno was very candid and gave his opinions on how to be more successful with in the future. He noted that, in his opinion, the JBC doesn't understand the Lottery very well – since it falls outside the General Fund and is an enterprise. He said that the Lottery seems to be getting glazed over because

there are other items within the department that are taking precedence during briefings and that doesn't leave much time to be briefed on the Lottery. The Senator was very generous to offer the Lottery a separate briefing at the JBC and it was enthusiastically accepted. He said that other entities that are similar to the Lottery have separate briefings, and it would make sense for Lottery to have the same. He said he would move forward with making this happen by letting his staff know that Lottery should be briefed separate from the rest of DOR.

Jennifer said she would like to reach out to Senator Esgar to have a similar meeting to request support, but also mentioned that the Lottery cannot talk about the specifics of the FY21 decision items until November 1st when the Governor releases his proposed budget publicly. This is an OSPB rule, since they do not want draft decision items being discussed publicly while they are still in the process of editing them and finalizing the budget. The OSPB is the Office of State Budget and Planning. The Lottery is a unique agency in that any reductions made will not have an impact on the overall budget.

Mr. Seaver announced that Lu Cordova has been asked by Governor Polis to take on a new position as his advisor of efficiencies and technological advancement for the entire state. Ms. Cordova started her new role this past Monday. Heidi Humphreys is the acting Director of DOR for the time being. They will do a search for a new executive director for DOR and hope to have someone in place by January of next year.

Vice Chair Podolski asked Nancy Bartosz about the audit timing. Ms. Bartosz stated that the past week has been spent working with auditors doing field work and provided everything that has been asked for – the auditors will go back to their offices and review items. Some items are requiring permission to enter the office to obtain. Ms. Bartosz and Cristi Gannon will begin working on the audit report which takes a while. Have not received any GASBY 31 information for gains and losses nor have they received any pension GASBY, which is the big one they're always waiting for. It will probably be through August before getting close to being done.

Vice Chair Podolski asked if the back-office conversion is complete and whether it is going well. Ms. Bartosz stated that the last twenty-five days through June had to be completed and although it was a bit of a struggle, they did get things reconciled and received the reports they needed. Still working on some to get correct reporting but moving in the right direction. The auditors were accepting of reports given to them. Will be working on new processes for FY21 in order to meet the auditors demands and to feel confident in the system.

Adjournment

Chairwoman Peterson adjourned the meeting at 9:53 a.m.



Completed by: Heather Love

9/9/2020

Date of Approval