

Minutes for the Colorado Lottery Commission

Call to Order

A Commission Meeting for the Colorado Lottery was held on Wednesday, February 13, 2019, at the Denver Lottery Office, 720 Colorado Blvd., Denver, CO 80246, and via videoconference at the Pueblo Lottery Headquarters, 225 N. Main St., Pueblo, CO 81003. The meeting was called to order at 8:02 a.m., and was presided over by Chairman Jim Bensberg.

Attendees

In attendance were one (1) Chairman, (1) Vice Chair, three (3) Commissioners, thirteen (13) representatives from the Colorado Lottery, two (2) representatives from Cactus, one (1) representative from the Attorney General's Office, one (1) representative from Scientific Games Inc., two (2) representatives from the Department of Revenue (DOR), two (2) representatives from IGT, and one (1) representative of the public.

Present in Denver:

Jim Bensberg, Chairman
Stella Peterson, Vice Chair
Dennis Maes, Commissioner
Stan Podolski, Commissioner
Bill Clayton, Commissioner
Colin Waters, Lottery
Jennifer Churchill, Lottery
Jean Robinson, DOR
David Skaggs, Denton's
Tyson Barr, IGT
Dwayne Wilson, IGT
Joe Conrad, Cactus
Christian Hawley, Lottery
Angela Saviano, Sci Games
Summer Hershey, Cactus
Jennifer Anderson, Lottery
Cindy Delaney, AGO
Tom Cargal, Lottery
Tom Seaver, Lottery
Trisha Macias, Lottery

Present in Pueblo:

Jay Sisson, Lottery
Carol Sanchez, Lottery
Byron Martinez, Lottery
Nancy Bartosz, Lottery
Cristi Gannon, Lottery
Brian Kohnlein, Lottery

Lottery Spotlight

Christian Hawley presented the television ad for the second run of the Family of Games, launching February 18th. The Powerball jackpot is currently at \$242M. If it continues to roll, a trigger campaign for radio, TV, digital and social media will launch tomorrow to increase sales and awareness.

Approval of Minutes

A motion was made by Vice Chair Peterson to approve the minutes for the Commission Meeting held on January 9, 2019, and was seconded by Commissioner Podolski. The motion passed unanimously.

Colorado Lottery

MAIN MOTIONS

Approval of Scratch Game Guidelines, presented by Trisha Macias;

- Game #114 \$3 A-MAZE-ING Money
- Game #115 \$5 Super Special Ultra Fun Bingo
- Game #116 \$10 \$250,000 High Card Crossword
- Game #117 \$10 \$50 and \$100 Blowout

A motion to approve the Scratch Game Guidelines presented was made by Commissioner Podolski and seconded by Commissioner Clayton. The motion passed unanimously.

Approval of Repeal of Scratch Games, presented by Trisha Macias;

- Game #809 Back Scratch Series I
- Game #817 A Latte Money
- Game #820 \$500,000 Spotlight Game VI
- Game #831 Super 7-11-21
- Game #842 Special Bling Bingo
- Game #854 \$250,000 Royal Crossword Multiplier
- Game #860 20X
- Game #861 30X

Commissioner Maes asked what was learned from Game #817 with only 71% of the game sold. Todd Greco responded that the coffee scented ticket was not as big of a draw as anticipated. It was pulled to make room for the \$1 holiday games, since it was the lowest selling game at the time.

Chairman Bensberg asked of the cost to print a scented ticket and what the return is on them. Mr. Greco stated that cost is based on ticket size but for a smaller ticket the price is around \$12,000-\$13,000. The reward is that a ticket like this is an affordable entry level game to appeal to a new, broader audience and potential players. Tom Seaver added that games like this play an important role in the product mix for a mature lottery to attract new players.

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

Financial Reports

Cristi Gannon presented financials for the five months ended November 30, 2018. Financial statements show sales are up \$52M for the year from the same month last year, thanks to big jackpot sales in October. The increase in prize expense is due to the high jackpots. Other operating expenses are comparable between this year and last year. Sales for the month of November were around \$46.7M and proceeds at \$12.2M.

On the projections sheet, sales are updated to actual for November, December, and January, and expenses are updated to actual through November. Scratch and jackpot sales were up in December due to strong holiday sales. The gross profit for December is about even with previous months due to a Lucky for Life first tier winner, which is good for the game but increases the game's prize expense. Proceeds are projected at \$18M over goal for the year. Projections will be reevaluated and adjusted since we are at the halfway mark of the fiscal year. Powerball will continue be closely watched as it continues to grow.

Mr. Seaver pointed out that the overall strategy is to become less dependent on Powerball and Mega Millions performances. Multi-state games currently make up twenty-seven percent of sales. New game developments in Lotto and Scratch aim to increase sales and lessen dependence on multi-state games.

Decision Items

Approval of Scratch Games, presented by Todd Greco;

- Game #118 \$5 Monopoly™
- Game #119 \$1 9s in a Line
- Game #120 \$2 7s Series
- Game #121 \$3 Special Square Deal Tripler Bingo

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

Director's Report

- DOR Status Update

Mr. Seaver informed the Commission that Heidi Humphreys is the Acting Director for the Department of Revenue.

- Starburst Update

Colin Waters reported that the 2019 Starburst Awards season has begun with a call for submissions. Starburst Awards have been the staple of proceeds recognition for twenty-eight years to provide the opportunity to attach the Lottery name to GOCO projects.

Projects are evaluated on whether they met their goals, the impact on the local economy, and the social impact and long term benefit to the community. Nominees will be scored internally and a shortened list will be forwarded to beneficiaries for their review. Special effort is made to spread recognition across the state. Awards will be announced in April and presentations will be made at award sites to better position ourselves to speak about Lottery proceeds at the local level.

Vice Chair Peterson asked whether the public is ever invited to participate in voting for nominees online. Mr. Waters responded that public voting has not been an element of the awards because we want to have more control over who receives the award per the stated criteria. Awards acknowledgement however has shifted from newspaper ads to social media to reach a different demographic.

Commissioner Clayton asked what is entailed in the application process. Mr. Waters responded that it is a one page application discussing the project's timeline through completion, the amount of funding provided by beneficiaries, a short narrative and images. Nominated projects have to have been completed within the last five years.

- **Legislative Update**

Jean Robinson reported that Lottery has two decision items scheduled to go before the Joint Budget Committee. Since the back office restructure contains a technology component it will go before the Joint Technology Committee on March 1st. The original request was for the authority to spend \$2.4M per year to migrate the back office and its functions into the IGT contract, a lot of which has to do with the end of life of the internal system. The current system is inefficient and will not be supported after March 31, 2019. An agreement has been reached with IGT about compensation and what elements will be migrated.

Commissioner Podolski asked if the migration will include the accounting system. Nancy Bartosz responded yes, retailer billing and the creation of journal entries occurs in the back office and is transmitted to the state system, among other parts.

Ms. Robinson continued that the other item before the legislature is Lottery's expansion into Wal-Mart. We are trying to assure legislators that providing Lottery outlets in Wal-Mart stores does not prey on the poor by enticing low income customers to purchase lottery products. Ninety-four percent of all consumers shop at Wal-Mart, not all of whom are low income. Mr. Seaver pointed out the resources it required to even be able to negotiate with Wal-Mart about going into their stores and the years it has taken for their national approval, in addition to approval from NASPL. Lottery is always working with other stores and chains to expand. Entry into Wal-Mart would remove a barrier from expanding into other stores and chains.

Chairman Bensberg asked of the status of a 2020 Lottery operations move to Colorado Springs. Mr. Seaver responded that we are formulating the Decision Item for next fiscal

year. Site presence in Colorado Springs is very high on the priority list and would serve multiple purposes.

Commissioner Clayton asked of the timing of the Decision Item for the back office funding. Ms. Robinson responded that we do have a short term solution in place and have conveyed that it is not reasonable to not fund a system that has reached end of life.

Ms. Robinson continued that a Lottery intercept bill is in play to add court fees to our intercept process. It has yet to be figured out in what order intercepts will be prioritized for payment. Sports betting conversations continue with Majority Leader Garnett leading the charge. Indications are that it will probably go to Gaming. More information will be available later this week after a meeting with the bill drafter.

Chairman Bensberg noted that seven states have taken advantage of the Supreme Court ruling on sports betting. Ms. Robinson responded that Colorado is slow to respond to issues because of how the legislative calendar is structured. We also have gaming and lottery in our state constitution, which adds complications. Mr. Seaver added the additional challenge of being competitive with payouts from black market sports betting and daily fantasy sports. Wherever sports betting lands, there will be small margins to make it work and to find revenue for any beneficiary. A number of states who have taken on sports betting are struggling with thin margins.

Commissioner Clayton asked what percentage of sports betting is done online. Mr. Seaver stated that he is not aware of that number but online access is an essential piece, otherwise bettors would potentially have to travel to gambling towns to place their bets.

Ms. Robinson concluded with Senator Sonnenberg's presentation of a measure to put to the vote of the people a redirection of Lottery proceeds from GOCO to education. The legislature has been very clear that outdoor space in Colorado is a priority.

- **Trust for Public Land (TPL)**
Wade Shelton provided an update of the TPL, a national non-profit conservation group working in all fifty states. TPL does not own land or conservation easements, they are facilitators to raise the money, plan and help local communities look for options to find funding and get issues on the ballot. TPL works with communities to identify interest and available space for parks. Of recent park renovations, three were leveraged with GOCO/Lottery funds. The acquisition of Fisher's Peak with the City of Trinidad is utilizing \$7.5M from GOCO/Lottery funds, the closing is expected to place at the end of this month. Another Lottery beneficiary, Colorado Parks and Wildlife, will take permanent responsibility of managing of property in two to three years. It is both a conservation project and will provide economic development for Trinidad.
- **License Product Research**
Mr. Greco reported on upcoming product research for Scratch games. The goal is to attract infrequent and new Scratch players with licensed properties. Two different research projects begin this morning to identify trends among 650 panel members and

400 Colorado residents. Leger, a national research company, will lead the research. The panel will discuss brands and narrow them down to the most popular ones. A Scratch game concept, artwork, and timeline will be developed from the results.

Mr. Seaver added that licensed game research is hard because brands can be popular but do not always provide compelling play as a Scratch game.

Mr. Greco added that it takes a considerable amount of time to work with developers to approve how their licensed property is used and portrayed.

Commissioner Clayton asked how often Lottery has partnered with the Denver Broncos. Mr. Greco responded that we have done Bronco tickets twice. One did well and the other did not.

- **Lotto Enhancement Research**

Jay Sisson presented potential enhancements and game change to Lotto. Lotto was introduced thirty years ago and has not changed during that time. Its average draw sales are declining and needs to be refreshed or completely changed to grow and attract new players. A research project with IGT to determine enhancements to or a replacement of the game will begin shortly. 900 current and past lottery players from the last year will participate in the research and evaluation of three different options for consideration. Options include a drop in odds and increase in prizes, adding an integrated multiplier with set prizes, or the addition of a \$1 add-on for a second set of numbers played in the base game.

Commissioner Podolski asked whether the multiplier would be random. Mr. Sisson responded yes, and referenced a frequency table indicating how often a multiplier would come up.

Mr. Sisson continued that research will be complete by mid-March. The rule process would begin after research is complete and the game would go into development from April to May. Testing would occur from June to August and the new/enhanced game would be relaunched in September.

Commissioner Maes asked if coming enhancements will be advertised. Mr. Sisson responded that enhancements will begin in the fall and be as heavily advertised as a new game launch. A countdown to offer advance play for the old Lotto game will inform players and retailers of the end of the current Lotto game.

The Director's Report was concluded at 9:50 a.m.

Commission Items

Vice Chair Peterson asked if we look into self-help brands as themes for Scratch tickets. Ms. Hawley responded no, a game like that has not been considered.

Vice Chair Peterson offered kudos to the Lottery presence and energy at the Mexican rodeo at the Stock Show.

Executive Session

Vice Chair Peterson made a motion that the Commission enter into Executive Session for the purpose of conferencing with counsel pursuant to C.R.S. 24-6-402(3)(a)(II) concerning DOJ Wire Act Option – Non-Sports Gambling. Commissioner Podolski seconded. There was no discussion and the motion passed unanimously.

No decisions or votes were made in Executive Session.

Executive Session ended at 10:23 a.m.

Public Comment

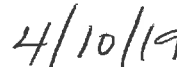
Chairman Bensberg asked for public comment. There was none.

Adjournment

Chairman Bensberg adjourned the meeting at 10:24 a.m.



Completed by: Trisha Macias



Date of Approval