

Minutes for the Colorado Lottery Commission

Call to Order

A Commission Meeting for the Colorado Lottery was held on Wednesday, March 11, 2020, 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 8:00 a.m., and was presided over by Chairman Jim Bensberg.

Attendees

In attendance were the following:

Present Denver:

Jim Bensberg, Chairman
 Stan Podolski, Commissioner
 Bill Clayton, Commissioner
 Trisha Macias, Lottery
 Jessica Ross, AGO
 Meghan Dougherty, Lottery
 Tyson Barr, IGT
 Ethan Nosky, Cactus
 Todd Greco, Lottery
 Angela Saviano, SGI
 Barry Kaplan, Public
 Christian Hawley, Lottery
 David Aldag, Lottery
 Diane Boddicker, Lottery

Present in Pueblo:

Dennis Maes, Commissioner
 Cristi Gannon, Lottery
 Nancy Bartosz, Lottery
 Tom Seaver, Lottery
 Dwayne Wilson, IGT
 Emily Stewart, Lottery
 Jay Sisson, Lottery
 Wendy Weldon, Lottery
 John Koncilja, Lottery
 Jennifer Anderson, Lottery

Public Comment

A member of the public, Barry Kaplan, expressed concern to the Commission that Second Chance prizes are not awarded and not all top prizes are claimed when a game ends. Mr. Kaplan suggested unclaimed prizes be used to create additional prizes. Todd Greco responded that each game is audited upon creation to ensure that all prizes are included in the game. The fiscal department also audits tickets and reports any errors in prizes. There have been instances where tickets have been lost, washed, misplaced, etc. and the prize goes unclaimed. Unclaimed prizes are distributed to proceeds recipients and not to other Lottery expenses. By statute the Lottery is mandated to pay out 50% of the sales of tickets in the form of prizes. Lottery currently exceeds that mandate at 64% pay out. Mr. Kaplan provided Mr. Greco with his email address for additional follow up.

Lottery Spotlight

Mr. Greco presented the return of the Blowout Scratch game. The game first launched last summer and was immediately a best seller, being the first game that was ever reordered. The game will be reintroduced on March 23rd and supported with a full ad campaign via

point of sale, radio, television and digital with the original ads. The television ad had the highest ad recall of Lottery ads in a player poll.

The Cash Family of Games will launch in May with a full ad campaign. A Top Prizes Remaining campaign will launch in June to remind players to go after remaining prizes before the games sell out. Similar campaigns have resulted in a jump in sales, sometimes supplanting the first week of game sales, and remain high until the game sells out. Ads are adjusted throughout the campaign as prizes are claimed. The campaign will run even if there is just one prize remaining to help ensure that it gets claimed.

Approval of Minutes

One amendment to the minutes was suggested by Commissioner Maes, to correct the name of Jackpocket, on Page 5, second sentence in the Director's Report.

A motion was made by Commissioner Podolski to approve the minutes for the Commission Meeting held on February 12, 2020, as amended, and was seconded by Commissioner Clayton. The motion passed unanimously.

Colorado Lottery

MAIN MOTIONS

Approval of Scratch Game Guidelines, presented by Trisha Macias;

- Game #163 \$2 7s Series
- Game #164 \$5 \$100,000 4X Crossword
- Game #165 \$10 \$250,000 Crossword

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

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

- Game #881 10 To Win
- Game #106 50X

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

FY20 Projected Sales, Expenses, and Disbursements

David Aldag reported that Scratch sales continue to run ahead of year end projections. Direct sales expenses are lower because of lower prize expense as a result of lower Jackpot sales. Personal services are on track with vacancies well in play to be filled. Operations expenses are running as projected. Travel expenses were a concern earlier in the year but some travel is now running through vendor contracts at no cost to the Lottery, alleviating that concern. Beneficiary distributions with four months remaining in the fiscal year are now projected at

\$143-\$147M versus \$166M from last year, as a result of low Power Ball and Mega Millions sales. A large Jackpot run in the next four months could increase proceeds distributions.

Scratch Game Performance

Mr. Greco reported that Scratch sales continued to do extremely well in February with \$39M in sales, about \$4.7M more than last February and \$34.5M ahead of last year. The eXtreme games continued to do well. Four base Scratch games were launched in February and the Powerball Scratch game was popular.

Commissioner Clayton asked if higher priced tickets are still producing well. Mr. Greco responded that each Scratch category over \$10 is doing over \$1M a week in sales. The \$10 game is the new entry level game and sales continue to increase. \$1, \$2 and \$3 tickets are struggling in the industry but are starting to climb because of the way they are displayed and advertised as part of a family of games.

Mr. Seaver added that lower price point games are an important part of our game mix because lower payouts help profitability maintain balance with payout percentages.

Jackpot Game Performance

Jay Sisson reported that Jackpot sales for February were \$12.3M, about \$5.8M or 31% down to January. The average Powerball jackpot in February was \$57.8M compared to \$302M in January. Mega Millions jackpots were also down to an average of \$96.9 in February compared to \$237 in January. Two Lotto jackpots, one Powerball jackpot and one Mega Millions were all hit in February. All of the jackpots were starting to build when they were hit.

All other Jackpot products were down in February compared to January but in the last two weeks Pick 3 and Cash 5 with EZ Match picked up, with both having their highest sales of the fiscal year last week. Players may be spreading their money from Powerball and Mega Millions to try other games while the jackpots are low.

Lotto is still maintaining a 30% increase over like-sized jackpots from the previous game. Players cited better odds, the multiplier, and bigger jackpots as the best features of the new game in a player poll taken in February. Purchases of the Plus feature were as high as 55% in February. Overall the new game is up approximately \$5.2M over sales of the previous version of the game. Lotto may not hit projections but the gains remain very consistent.

The Lucky for Life consortium is looking to increase drawings from two to seven nights per week at the end of the calendar year. We do not think changing the game to a daily drawing will increase sales dramatically. The larger problem is that Colorado has never had a top prize winner. We will have to decide whether to continue to offer the game if an increase in drawings does not result in more sales and we still don't get a Colorado winner. Mr. Seaver

added that the coverage will decrease by adding more players to each drawing and adding more drawings. Expanding the game in this way does not work for Colorado players and may also cannibalize other games. In addition, the back office conversion is taking all of our resources and we may not have additional resources available for a late year game change, especially with a potential for a Powerball game change around the same time.

Chairman Bensberg asked whether a compromise of increasing the number of drawings to less than seven per week would be possible. Mr. Seaver responded that a compromise could be possible but that the states pushing for the change have a different mentality about the game in pushing to make it a daily game.

Mr. Sisson continued that the second push for Colorado Lotto will start on March 23 with four weeks of TV, radio, and digital ads. There will be a system promotion for players who buy \$10 in Powerball to get a \$3 Lotto with the Plus option to give them a trial play. There will be a bonus draw for players to enter any Lotto ticket into the MyLottery app to win one of ten \$500 prizes. The push is to increase Lotto sales to 40% and Plus play to 55%.

Director's Report

- **FY21 Decision Items Update**

Jennifer Anderson reported that the DOR had a figure setting hearing last Friday with the Joint Budget Committee (JBC). The JBC analyst presented Lottery's Decision Item (DI) and recommended approving it. However, the JBC amended the Lottery's original DI request to consolidate Operations, Travel, Research and Marketing/Communications lines into one operating budget for a total of \$17.5M, to only allow the consolation of the Travel and Research lines, which reduces the impact of the DI by about \$15M. Lottery has requested approval from the Office of State Planning and Budgeting (OSP) to file a comeback which will allow the JBC to reconsider their decision. At the hearing the JBC seemed to think that this year's DI was related to last year's request for vending machines which they rejected; however, this year's request is entirely unrelated to last year's DI. If approved, the comeback will allow Lottery staff to provide accurate information and request reconsideration.

Chairman Bensberg asked if a DOR lobbyist attended the hearing. Ms. Anderson did not know whether a DOR lobbyist was in attendance, but the public is not given an opportunity to speak at the hearing. Ms. Anderson and Mr. Seaver tried to meet with members of the JBC before the hearing, but not all legislators responded to their request. They did have an opportunity to meet with Rep. Esgar, Rep. Hansen, Sen. Rankin, and Sen. Moreno.

Chairman Bensberg also asked if the Commission should meet with Lu Cordova or Jeanne Robinson ahead of FY22 to discuss Lottery needs for growth. Ms. Anderson responded

that time would be better spent talking to members of the JBC once the comeback is approved by OSPB, to reiterate that budget lines are being consolidated to be consistent with other state departments and allow the Lottery much needed spending flexibility. Mr. Seaver added that pushback was not anticipated after the positive meetings with Rep. Esgar, Sen. Rankin, and Sen. Moreno where we made clear that that vending machines would not be part of this year's request, but it seems the Lottery still has a long way to go regarding educating the JBC and building their trust. Ms. Robinson was trying to help Lottery get meetings with Sen. Zenzinger and Rep. Ranson, but she expressed that there are a lot of competing issues at DOR, and she may only get one meeting with each, so she has to ensure that other issues are brought up as well, not just Lottery's issues.

Commissioner Maes expressed his disappointment that Rep. Esgar did not take the extra time to reach out for clarification and that the JBC as a whole got hung up on a relatively small amount of money.

Mr. Aldag added that the language in the comeback request specifically states that Marking/Communications money is for advertising communications only and does not provide funding for game costs or vending machines.

Commissioner Clayton asked what the net effect will be if the DI does not get approved as it was originally drafted. Mr. Seaver responded that it is an accounting measure and there would be no negative effect on operations per se. However, approval would provide flexibility to move money between accounts, depending on the needs of the fiscal year. Ms. Anderson added that the bigger problem is what this means for Lottery's FY22 DI, since it will be much bigger, requesting increased spending authority for multiple lines to support Lottery's growth. There is still a lot of education to be done with the JBC.

- **Public Gaming Research Institute (PGRI) Conference Recap**
Mr. Seaver attended the first part of the PGRI conference earlier in the month to participate in the MUSL Marketing and Promotions discussions and discuss potential game changes. Mr. Seaver was asked to fill a two year vacancy on the Promotions Evaluation Team for MUSL. The team will work to develop a successful promotions library and independent evaluation of promotions. For example, the New Years Rockin' Eve promotion was discussed, in which Colorado and other lotteries did not experience an increase in sales or expanded press coverage of winners from but other lotteries did. The team will work on developing promotional ideas that will be more universally successful for all lotteries rather than just a handful.

Ms. Anderson also attended the conference and participated in sessions, most of which addressed industry innovation in order to attract younger players, iLottery, sports betting, and instant online games. Retailers in states who offer iLottery have seen increases in sales without cannibalization of other games. Colorado is not discussing iLottery yet but going online someday seems inevitable. There was a lot of talk among other lotteries regarding how lower jackpots are having such a negative impact on their revenue. Ms. Anderson was thankful that Lottery has a strategy to decrease its dependence on multi-state games for this reason and credits Mr. Seaver's vision for the Lottery that focuses on impacting what we can control. Colorado Lotto Plus and the increase in Scratch sales are perfect examples of this.

- **Problem Gambling Awareness Month**

Meghan Dougherty reported that Lottery has doubled its advertising spend across the board to promote Problem Gambling Awareness Month in March, to include organic and paid social media posts, website graphics, and emails to MyLottery members. Training videos for employees and retailers were developed.

Commissioner Clatyon asked whether casinos partner in Problem Gambling Awareness Month. Ms. Dougherty responded that DOR agencies have discussed crossover efforts with sports betting and enforcement but not much has been done to date. Mr. Seaver added that Lottery dramatically outspends the casinos when it comes to Problem Gambling Awareness. There is not an equivalent to the World Lottery Association for casinos to manage growth responsibly or to hold them to industry standard.

Ms. Dougherty added that the Lottery is hosting a problem gambling prevalence study. The study will provide a baseline of problem gambling prevalence before sports betting kicks in to allow us to go back and measure against in the future. A problem gambling prevalence study has not been conducted since 1997.

- **COVID19**

Mr. Seaver informed the Commission that in light of the statewide concern for the Coronavirus, DOR and other state departments will conduct a trial run of work from home next week. As many people at the Lottery who are able to work from home next week will do so. The trial run is not a permanent change, but a trial to see what is needed in the way of additional technology and equipment to maximize the safety of employees by minimizing the number of people needed in the office. Customer service to players and retailers will be business as usual.

The Director's Report was concluded at 9:23 a.m.

Commission Items

Jessica Ross provided the annual Best Practices and Code of Ethics Training to the Lottery Commissioners pursuant to C.R.S. 24-3.7-102 and C.R.S. 44-40-110.

Adjournment

Chairman Bensberg adjourned the meeting at 10:04 a.m.

Trisha Macias

Completed by: Trisha Macias

4/8/2020

Date of Approval