

COLORADO LOTTERY COMMISSION
Minutes of Meeting
November 9, 2005

Present(Denver Lottery Office)

Micheal Acree, Chair
Joan Ringel, Vice-Chair
Dick , Commissioner
Timothy Bachicha, Commissioner (via phone conference)
Peggy Gordon, Director
Brent Voge, Department of Revenue
Maurice Knaizer, Deputy Attorney General
Jessica Kirscht of Oberthur Gaming Technology
Jeff Shoemaker of Oberthur Gaming Technology
Toben Molica of Scientific Games International, Inc.
Paul Louderman of Karsh and Hagan Communications
Peggy Brown, private citizen
Members of the Lottery staff.

Present(Pueblo Lottery Office)

Betty Martinez, Commissioner
Tom Kitts, Deputy Director
Carol Harmon, Operations and PMO Director
Members of the Lottery staff.

The Meeting (via videoconference) was called to order by Chair Acree at 9:17 a.m. on November 9, 2005 at the Denver Lottery Office.

Chair Acree inquired if there were any comments, additions, or corrections to the Minutes of the Public Hearing and Meeting on October 12, 2005. There were none. Commissioner Reeve made a motion to approve the Minutes of the Public Hearing and Meeting on October 12, 2005. The motion was seconded by Vice-Chair Ringel and unanimously passed.

The next Agenda item Chair Acree called for was the Financial Statement (Unaudited) for two (2) months Ended August 31, 2005. At the request of Chair Acree, Debbi Marroney, an accountant with the Lottery's Fiscal staff, reviewed the Financial Statement. Ms. Marroney stated sales for the month ended August 31, 2005 were \$36.1 Million. Scratch sales were \$25.2 Million, Lotto sales were \$3 Million, Cash 5 sales were \$1.4, Powerball sales were \$4.7 Million and Powerplay sales were \$1.8 Million. Fiscal Year Sales through the month ended August 31, 2005 were \$69.7 Million compared to fiscal year sales through the same period ending August 31, 2004 at \$64.2 Million. She reported the total prize expense percentage for the month ended August 31, 2005 was 61.57% as compared to 60.03% for the same period ending August 31, 2004. Further comparisons to the same period of fiscal year 2004 showed: 1) distributions have increased by approximately \$1.2 Million; 2) sales have increased by approximately \$5.5 Million; 3) game costs have increased by approximately \$4.8 Million; 4) operating expenses have decreased

by approximately \$275,000; and 5) other revenue is increased by \$133,000. The Lottery had a slight reduction in unclaimed prizes of approximately \$35,000 over last year. She reported Administrative Costs for the month ended August 31, 2005 were at 6.5 percent, compared to 7.6 percent for the same period ending August 31, 2004. She further stated as of August 31, 2005, the Lottery had achieved nearly 100% of its year-to-date sales goal of \$69.73 million.

Chair Acree asked if there were any questions or comments. Commissioner Bachicha commented that it was significant to note the reduction of 6.5 percent this period compared to 7.5 percent a year ago in the total Administrative Costs as a percent of Total Income. Ms. Marroney stated the large increase in sales was a significant factor contributing to the 6.5 percent.

Chair Acree called for the first "Decision Item," Prize Structures, presented by Product Manager Todd Greco. Mr. Greco stated he had four prize structures to present for approval. He reviewed the prize structures for Mountains of Money, Game No. 339; Mining for Money, Game No. 340; Payday Riches, Game No. 341; and Colorado Quarter, Game No. 342. He reviewed game features including prize levels, the prize percentage payout, the number of times a player may win on a ticket, the number of tickets to be ordered, and the projected launch date of the games. Chair Acree inquired if there were any comments from the Commission. Commissioner Bachicha inquired about a licensing fee for the Colorado Quarter. Product Manager Todd Greco stated he checked with the Mint and was told that you can use currency as long as you do not say the Mint endorsed it or put the U.S. Mint banner on the ticket. Chair Acree inquired if there were any other questions from the Commission. There were none. Chair Acree inquired if there were any comments from the public. There were none. Commissioner Martinez made a motion to approve the prize structure for Mountains of Money, Game No. 339; Mining for Money, Game No. 340; Payday Riches, Game No. 341; and Colorado Quarter, Game No. 342. The motion was seconded by Vice-Chair Ringel and passed unanimously.

Chair Acree called for the next "Decision Item," Multi-Hand Easy Win Concept, presented by Marketing Director Tom Cargal. Prior to Mr. Cargal's presentation, Lottery Director Gordon stated the Multi-Hand Easy Win new game is being further discussed today due to some budget issue relative to the Joint Budget Committee.

Brent Voge, of the Department of Revenue, stated dollars must be approved for vendor fees, retailer compensation and prizes in the FY07 budget. A budget amendment must be submitted to the Office of State Planning and Budgeting by November 23, 2005. After review and approval, the OSPB would forward the budge amendment to the Joint Budget Committee prior to January 1, 2006. Supplemental budget requests are not anticipated for Fiscal Year 06. Mr. Voge stated if the game was approved by the Commission today and through the Legislature this year, staff

would anticipate spending some Marketing/Communications money as well as other base resources, which are currently in the budget. Director Gordon stated additional funding is not required for the proposed new game. Mr. Voge stated the resources requested for Fiscal Year 07 are the variable type expenses that are directly related to sales. Therefore, new base dollars for operating costs or marketing/communications are not being requested. Director Gordon stated if the Joint Budge Committee did not approve the additional spending authority, the increased retailer fees, commissions to be paid and game costs would be covered by the sales of the Multi-Hand Easy Win Concept game.

Lottery Director Peggy Gordon turned it over to Marketing Director Tom Cargal for the presentation on Multi-Hand Easy Win (MHEW). There were several factors looked at and MHEW was the game that positioned well against our other games and would complement our other games. We feel the cannibalization would be minimal to our other games. Tom Cargal introduced the sub-committee for this project: Tom Horvat, Sales Manager, Paul Louderman, Karsh & Hagan, Todd Greco served as chairman and Kathy Wallace. A new copy of the deck was distributed. Tom Cargal turned the presentation over to Kathy Wallace.

Kathy Wallace started the presentation. She explained that plays are three plays for \$2.00 and the second and third plays will always be Quick Picks. Kathy stated the research showed Lotto has a lot of brand loyalty. Focus groups in phase 1 and phase 2 both showed MHEW came out as the top choice. MHEW is a 6 of 38-matrix game. This game would have two drawings a week on Tuesdays and Fridays. The jackpot starts at \$100,000 with growth increments of \$10,000 and the assumed run is 8.7 draws. There are multiple ways to win. You can win on one line or a combination of lines. The odds are 1 in 6.5. The prize payout is 59.6%. Since the game module is already developed, it is a significant cost savings to Colorado. Pennsylvania replaced their Lotto game with this game. Commissioner Reeve asked what other states have implemented this game. Kathy Wallace stated that Pennsylvania, Delaware and the triple states of Maine, New Hampshire and Vermont have launched under other names. South Carolina is currently looking at a game called Lotto Play, which is similar and was launched in Ohio.

Research showed that 17% of lapsed players liked this game and they would start playing again. The research also showed the majority of the players who would play are college graduates or had some college. Citizen Peggy Brown asked why this was so significant. Kathy Wallace responded for herself, from an integrity standpoint that people that are drawn to the game can afford to play the game. Commissioner Reeve asked how those numbers compared to the Lotto audience. The Lotto and Powerball players both tend to be more educated. Research also showed that players most likely to play MHEW were female with an income of \$50,000 or more and appeals to the age groups of 35 years and older.

Optimal timeline - September 2006. We currently have approximately \$790,000 we can set aside for materials that could be delivered in this year's timeframe. We can break these expenses into two fiscal years. Also fall would be the optimal time for the most exposure for a new game and it would be before we introduce the holiday scratch games.

Lee Burnett presented the Marketing Revenue Projections research. There are three states that have implemented this game, the Tri-states, Pennsylvania and Delaware. Based on the research, the sales curve for this game is acting much like our Cash 5 game. The projection is based on the Cash 5 curve as the model and using census data and demographic data from the state of Colorado to look at the figures. Lee Burnett reviewed how the projections were derived and what the projections would be. Marketing revenue projections: Pessimistic figures for sales would be approximately \$19 million, Probable sales at \$23 million; Optimistic at \$29 million. Commissioner Bachicha asked Lee Burnett if these projections are new revenue, and not cannibalism from the other games. Lee Burnett responded that the cannibalism effect is unknown at this time for Lotto and Cash 5. These projections are not incremental, these are the revenue projections for the game and they will continue to work with Scientific Games and Fiscal to look at what the cannibalism effect would be. Commissioner Bachicha was interested in knowing what the net revenue projections would be. Lee Burnett said they would continue to work on these projections. Commissioner Bachicha then inquired as to what our revenue would be if this game were not introduced. Commissioner Bachicha requested the Marketing Department put together a comparison of revenue with and without the new game. Commissioner Reeve asked how does the Marketing Department come to the conclusion that this is the right new game for Colorado. Kathy Wallace answered through research and feedback from our focus groups. Peggy Gordon stated that Colorado has a high percentage of players buying the Powerplay option on their Powerball tickets and that Colorado players may have additional discretionary income. Commissioner Reeve inquired if there was a basis for new players being drawn into playing this game. Tom Cargal stated that research indicated that lapsed players showed interest in this game. We are always looking at what would bring in new players with all games.

Commissioner Bachicha asked if there would be a formal action taken on this today. Chair Acree stated that the action taken today would be preliminary to go through the budget process. However, it would still need to go through the normal rule making process. Chair Acree inquired if there were further questions or comments. There were none. Vice-Chair Ringel made a motion to approve the concept of Multi Hand Easy Win Game. The motion was seconded by Commissioner Martinez and passed unanimously.

Commissioner Bachicha left the meeting at 10:15 a.m.

Chair Acree next called for the first "Information Item," Director's Report presented by Director Peggy Gordon. Director Peggy Gordon informed the Commission of two external audits for the Lottery: A Performance Audit that occurs every five years and that was completed in 2003 and a financial audit conducted yearly with oversight by the state auditor's office. Director Gordon stated the Lottery met with the Legislative Audit Committee on Monday, November 7, 2005. The Legislative Audit Committee had three audit findings. The Lottery agreed with these findings and is in the process of complying with them. A follow-up audit for the State Fair Truck Drawing was also conducted and was satisfactory.

Chair Acree thanked the Lottery staff and leadership of the Lottery for reviewing/addressing the audit recommendations in a timely and professional manner.

Chair Acree stated several written reports were included in the Commission packet and inquired if there were any questions of the Commission in regard to the reports. There were none.

Chair Acree next inquired if there were any Commission Issues. Chair Acree stated as a result of a previous audit and discussion by the Commission, it was decided that at least once a year the Commissioners would have a presentation on Integrity and Ethics. Chair Acree would be working with Director Gordon to develop a program to be addressed in the December or January meeting.

Chair Acree inquired if there were any comments from the public. There were none.

Commissioner Reeve made a motion to adjourn the meeting at 10:25 a.m. The motion was seconded by Chair Acree and passed unanimously.

Marie Burnett
Secretary