

NEW HAMPSHIRE LOTTERY® COMMISSION
14 INTEGRA DRIVE, CONCORD, NEW HAMPSHIRE 03301
MINUTES OF COMMISSION MEETING
October 26, 2016, 9:30 a.m.

Commissioners:

Debra Douglas, Chairman
Paul J. Holloway, Commissioner
David Gelinás, Commissioner

Lottery staff in attendance:

Charles McIntyre	Kelley-Jaye Cleland	Paul Kelley	Maura McCann
Lynda Plante	George DiMauro	Valerie King	Sudhir Naik
Cynthia Baron	Stephen Johnston	Leonard Mannino	Cammy Nolin
Katie Brown			

Others in attendance:

Ashley Spicer, GYK Antler	Colleen Hernandez, CBC	Ryan Gloddy, Casablanca Casino
Rosé Longo-White, GYK Antler	Kurt Mathias, Boston Billiards	Teri Blouin, Dept Admin Services
Ryan Sahr, Intralot		

Chairman Douglas convened the Commission meeting at 9:35 a.m.

1. ACCEPTANCE AND SIGNING OF PREVIOUS MINUTES:

Commissioner Gelinás moved to approve the September 20, 2016, minutes; seconded by Commissioner Holloway. So voted, unanimous.

2. RULE ADOPTIONS:

- a. Motion to adopt SW 1000 (pertaining to instant lottery game tickets); Commissioner Gelinás moved, Commissioner Holloway second. So voted, unanimous.
- b. Motion to adopt Pari 1200 (pertaining to games of chance); Commissioner Gelinás moved, Commissioner Holloway second. So voted, unanimous.
- c. Motion to submit conditional approval response for SW 6000 (pertaining to second chance drawings); Commissioner Holloway moved, Commissioner Gelinás second. So voted, unanimous.

Valerie King explained that these three rule adoptions, now signed by Commissioner Douglas, will be dispatched to the Office of Legislative Services (OLS) for fast-track approval. The rules will then be brought back this morning for final signatures by Commissioner Douglas.

3. PUBLIC HEARING:

Commissioner Douglas opened the public hearing for SW 900, Lottery intercept. As no individuals had signed up for oral testimony, the hearing was closed.

4. FINANCIAL REPORT:

a. Financials

Chief Financial Officer Cindy Baron reported that for the month of September, \$5.6M was transferred to the Education Trust Fund from Lottery, and an additional \$376K was transferred from Racing and Charitable Gaming. The scheduled transfer for October was \$7.1M (\$18.6M year to date), resulting in a variance (deficit) of \$664K year-to-date. Some of the factors that contributed to the deficit were payouts in retailer bonuses in the first quarter of fiscal year 2017, and prize expenses for two jackpot winners of Lucky 4 Life in September.

Other items of note are increased telephone and IT expenses due to the larger staff post-merger with Racing and Charitable Gaming; and advertising and promotional expenses which include the new Chuck McLuck campaign.

Racing had a profit of \$375K for the month of September, helped by \$165K in unclaimed ticket revenue. This unclaimed revenue is disbursed in January from the parks, but we already received Rockingham's revenue when it recently closed; Seabrook's revenue will be disbursed in January.

Commissioner Holloway asked for aged analysis of the unclaimed prizes. Cindy explained that we accrue an average liability of 70% of instant ticket sales. Commissioner Holloway rephrased whether we have \$1M instant ticket jackpots. Director McIntyre affirmed that the \$25 scratch games still have top prizes available; and we have retained prizes. The games are open until we sell out of tickets or we declare the game closed, and one year from that date is when we realize the expired/unclaimed prizes.

Commissioner Holloway asked about the payable to the educational trust fund of \$246K in relation to the deficit of \$664K. Cindy explained that is what we owe the ETF based on extra revenue realized after closing the books in 2016. That line item will be paid after our current audit is complete, which should be in December.

Commissioner Holloway inquired why the compensated absence line item was so high. Director McIntyre explained that several long term employees retired and were paid for their accrued vacation and comp time.

b. Rockingham Park

Division Director Paul Kelley explained the loss at Rockingham Park; we are down about \$55K through games of chance and pari-mutuel taxes. When Rockingham wound down, they created their own wind-down procedures, but Director Kelley has suggested that the agency make some statutory changes to ensure that in the future there is a bond that covers the charity and the state, but also covers the player. Director McIntyre affirmed that leadership in the House has requested that we make changes in the law to protect charitable gaming. There is a new gaming location opening in Nashua called Boston Billiards. Once they are licensed, they should help mitigate the lost revenue. Kurt Mathias from Boston Billiards was recognized from the visitor panel, and he described their location in Nashua which parallels the Everett Turnpike. The facility is 18,600 square feet, with parking for over 600 cars. They have signage, and are asking the city for a variance to add a gaming/casino description as well. They have hired nearly 60 employees from Rockingham Park. Commissioner Gelinás inquired their projections for the first year; Kurt responded they project \$1.5M, but he thinks that is very conservative and could potentially end at \$2.5M-\$3M. Sudhir Naik said that it would be difficult to gauge revenues on those projections as it depends largely on the type of games they run and the related taxes.

Chairman Douglas concluded with a question about the hit to revenues if Seabrook closes. Director Kelley responded that it would be about 99% of revenue. Hinsdale, which has restrictions to live racing has have about a year left on a 36-month window to add live racing simulcast. Director Kelley is pushing the owner of Hinsdale to get keep the revenue stream running.

5. SUBPEONAS:

Sudhir Naik reported that the two remaining game operators have responded to the first round of subpoenas, but we were not satisfied with their responses. Sudhir followed up with additional questions through their attorney; and the next step would be to meet with them in person. Chairman Douglas wishes to attend that interview should it take place.

Of the second round of 506 subpoenas, 465 (92%) have responded. Staff is following up; some of the operators are difficult to reach based on the nature of the charity (volunteer staff, after-hours work, etc). Sudhir reports that of the responses received, nothing is out of the ordinary. Commissioner Gelinis inquired what the penalty is if the first two parties fail to respond. Paul responded that statute allows the commission to impose fines. Discussion followed regarding taking those two parties to court to force them to comply; there are many complications to this, including putting employees out of work and shutting down a revenue stream for a charity. Chairman Douglas wants to see progress by the next meeting on November 30.

6. INTRALOT:

Ryan Gloddy reported that Intralot has been busy removing equipment and helping seasonal retailers close down for the winter. There are three fast-play games debuting in November, and currently they are working with Katie Brown to get the test system ready for the new release of software which will go live November 13. Commissioner Douglas asked for a status of the iLook software; Ryan explained that this software has been around for a while, but is newly updated. It will allow the LSRs to access retailer data and perform functions on their iPads while out in the field. The software is still under evaluation and a meeting will take place at Lottery on November 10. As there are other similar options available, Lottery is still assessing tools, but Intralot hopes to win Lottery's interest.

7. TRI-STATE:

Product Marketing Manager Maura McCann recounted the October 13-14 Tri-State meeting held in York, Maine. The first day featured speakers from marketing, sales, and PR firms who provided great presentations on product advertising, particularly when a product is winding down. They also discussed how best to spend advertising dollars throughout the lifecycle of a product. The Tri-State meeting took place the following day.

8. ADVERTISING:

- a. Holiday scratch tickets will be launching on Monday, October 31. A kick-off to the Tiny House promotion will take place October 27 at Alvirne High School, and the promotion will also include Kennet High School, N. Conway; Laconia High School; and a school on the seacoast. Power Cruise Powerball promotion is coming up through vendor Alchemy3 in March.
- b. Chairman Douglas asked if subscriptions are picking up. Katie has a promotion scheduled to start on Black Friday giving 10% off subscriptions; and Director McIntyre observed that subscriptions are up 10% from last year.
- c. Rose Longo-White and Ashley Spicer of GYK Antler presented the key advertising efforts for FY2017, which fall under a combined budget of \$3.62M. They include:

- Chuck McLuck video campaign;
- improved dashboard report which will illustrate parallels between advertising efforts and effects of sales;
- digital targeting to ensure that the marketing dollars stay within New Hampshire; and
- website targeting to tailor marketing to the player based on their profile, particularly the smaller frequency customers

d. Promotions

- \$3 Frogger scratch ticket is done and was tremendously successful; and it was the first interactive game which included an online component.
 - \$2 Granite Getaway, in conjunction with Bass Pro Shops, is doing well.
 - \$5 Patriots instant game kicked off with great participation from the Patriots.
 - \$3 Super7s Slingo is a reimagined electronic game; consumers can play for free online similar to Frogger. There is an enter-to-win component in the online play.
 - Holiday efforts will include POS, social media promotions, support subscriptions, television and online paid media, and personal appearances with Chuck.
 - “Always on” tactics include development of online interactive applications, focus group research, social media advertising, promotion of content, etc.
- e. Maura reported that exploration of online gaming options will continue, and offers customers the opportunity to stay engaged. A mobile app will be introduced for the Power Cruise game that lets players scan their tickets for a replay-style game. Chairman Douglas asked why the Replay games can't include a QR code to allow users to scan their ticket number instead of typing all the digits. Maura responded that this would be the next generation of the game, and we do want to update the way the game is played; Power Cruise will be a good indication of how that interaction will work. Director McIntyre recognized that Replay is in decline and the number and value of the prizes have diminished; however it provides a way for loyal customers to stay engaged. Chairman Douglas would like to see the Power Cruise app when we get it from Alchemy3.

9. OTHER BUSINESS:

- a. Kelley-Jaye Cleland reported on Sales Representative Bonuses for first quarter FY 2017. Eight of twelve LSRs received bonuses, based on a \$4.7M increase in sales of instant tickets; and one more rep met their numbers, but was not awarded a bonus. Commissioner Holloway asked why this person was not compensated. Kelley-Jaye responded that first year reps are on probation, which prevents them from being rewarded for their predecessor's work, though there could have been another reason behind that rule. Discussion over the length of probation ensued, and concern was expressed by the commissioners that it may in fact be a disincentive to new employees. They suggested that the first full quarter or six months would be a more appropriate probation period for new LSRs, and asked what would be involved in changing that rule.

To Do: Director McIntyre and Valerie King are to investigate the history and reason for the one year probationary period for Lottery Sales Representatives and report back next meeting.

- b. Director McIntyre introduced Lottery's Warehouse Manager, George DiMauro, who was welcomed by the commissioners.
- c. Valerie King appeared before JLCAR on October 20 and all of our items were on consent, but one item was a conditional approval and required us to make a substantive change. We agreed to change it, which was the paperwork submitted for adoption at the beginning of the meeting (refer

to item 2), and which was returned to Chairman Douglas during this meeting. A final motion to adopt these rules was made by Commissioner Holloway, second by Commissioner Gelinás, and motion was unanimously adopted. Valerie reminded the commission that there are public hearings coming up next month regarding:

- 100 rules (organizational rules, pertaining to removing the reference to Racing and Gaming);
- 200 rules (practice and procedures, pertaining to how we conduct a hearing, removing Racing and Gaming, and updated sweepstakes);
- bingo and Lucky 7; and
- games of chance rules amended for administrative fines.


Later in December we will have a hearing about the shared/simulcast bingo. All stakeholders have been reached and there has been no pushback. Director McIntyre and Paul Kelley have been asked to examine ways to increase the revenues of charitable gambling efforts.

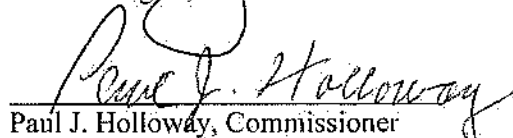
- d. The Fantasy Sports bill will be filed to allow legal daily fantasy sports play in New Hampshire. Last year there were an estimated 200K players wagering what Director McIntyre estimates at tens of millions of dollars; the gross profits for the vendors would be \$4-5M. They are not profitable yet, but the bill may be filed sometime in January. Rath Young and Pignatelli are writing the bill and Director McIntyre believes it will not be hard to find someone to sponsor it. The agency will contribute how to write the regulations, monitor the tax level, and provide auditing functions. Director McIntyre suggests that it be regulated from the Racing and Charitable Gaming side as the function will be more regulatory in nature. Commissioner Gelinás asked if it's certain that Lottery will be responsible for the oversight; Director McIntyre believes so, and will stay involved in reviewing the bill. The operators would be responsible to ensure compliance that players are physically located in New Hampshire. He concluded that he thinks we should consider renaming the organization as we have absorbed all gaming.

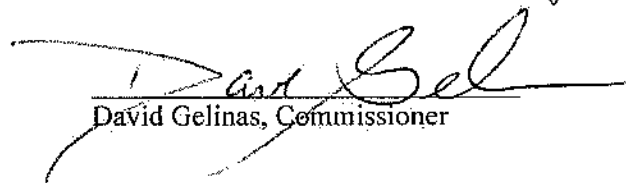
10. NEXT MEETING:

Chairman Douglas confirmed the next meeting is November 30 at 9:30 a.m.

Commissioner Holloway made a motion to adjourn the meeting at 10:37 a.m., seconded by Commissioner Gelinás. So voted, unanimous.


Debra Douglas, Chairman


Paul J. Holloway, Commissioner


David Gelinás, Commissioner