

Minutes of the Lottery Advisory Commission

October 11, 2017

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 2:02 p.m. – 3:44 p.m., on Wednesday, October 11, 2017. Representing the Commission were Mr. Mike Rud (Chairman), Mr. Russ Hanson, and Senator Nicole Poolman with Representative Lois Delmore and Representative Thomas Beadle participating by telephone. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, Mr. Ryan Kopyy, sales and marketing manager, Mr. Matt Anderson, account budget specialist, Ms. Julie Thompson, security officer, Ms. Missy Steele, administrative staff officer, Mr. Mark Rauhauser, customer service specialist, and Ms. Sonja Walder, administrative assistant. Representing Scientific Games International were Mr. Jimmy Durante, field services manager for North Dakota and participating by telephone was Ms. Leslie Darfler, general manager for North Dakota.

Selection of a Chairperson

Commissioner Hanson made a motion to nominate Commissioner Rud to serve as chairman for a one-year term. Commissioner Poolman seconded the motion. With no other nominations, Commissioner Rud was elected chairman. The motion passed 5-0.

Approval of Minutes

Commissioner Poolman made a motion to approve the minutes of the June 30, 2017 meeting. Commissioner Beadle seconded the motion. The motion passed 5-0.

Reports

a. Marketing Activity and Short-Term Marketing Plans

Mr. Kopyy presented the overview of marketing activity and short-term marketing plans. The North Dakota Lottery Players Club has 23,884 registered members. The following prizes were given away to players through the Points for Drawings program: three Algoma Cloud 9 hanging loungers on July 11, 2017; two 65" Samsung 4K UHD TVs and Bose surround speaker bundles on July 25, 2017; one outdoor entertainment package on July 25, 2017; three tailgating pro packages on August 16, 2017; three Arachnid arcade style electronic dartboards on September 13, 2017; and two his & hers Citizen Eco-Drive watch sets on September 27, 2017. There are three other Points for Drawings promotions in progress including an American Legend foosball table, an Ariens 28" snow thrower and a New York City trip for two. Upcoming Points for Drawings promotions include a 75" Samsung 4K OLED TV and a kitchen cart and island.

In recognition of the 25th anniversary of the Powerball game, the Lottery ran a Power 25 promotion. The promotion ran from August 6 through September 2, 2017. The qualifying purchase was a single draw four play Powerball with Power Play ticket for \$12. Winners were chosen at random and received \$25 in cash. The total prize expense was \$136,725 with \$127,329.50 covered by the excess reserve in the Power Play prize pool and \$9,395.50 expensed to the Lottery marketing budget. 5,469 \$25 prizes were won by players. Advertising cost was budgeted at \$80,000 with \$66,034 billed to date and some remaining to be billed. The promotion was a huge success as sales were up 266.6% when compared to the 26-week, weekly average prior to the promotion and up 42% when compared to similar jackpots.

The \$758 million Powerball jackpot run had a significant impact on Powerball sales during the promotion.

On Saturday, October 28, 2017, Mega Millions will undergo a systematic matrix change. The cost will increase to \$2 per play. The number of white balls will decrease to 70 from 75 and the number of gold balls will increase to 25 from 15. To coincide with the game change the Lottery will offer a promotion called Mega Luck that will run from October 28 through November 11, 2017. The qualifying purchase will be a three play Mega Millions ticket with Megaplier for \$9. With the qualifying purchase, players will receive a free \$2 Lucky for Life ticket. The prize expense budget for this promotion is \$15,000 and the marketing expense budget is \$20,000.

The Hot Lotto game will end after the October 28, 2017 draw in all 14 participating jurisdictions. Hot Lotto tickets will be available for purchase up to the final draw on October 28, 2017. Players must claim Hot Lotto prizes within 180 days of the draw date.

Lotto America, the Lottery's newest game, will begin sales on November 12, 2017. Cost per play is \$1, with a starting jackpot of \$2 million. Drawings will be held twice a week, on Wednesday and Saturday. This multi-state game will be available in 13 states. Marketing expense for the game launch is budgeted at \$40,000. Players Club members will receive a 2X point multiplier on all Lotto America tickets entered through the Players Club website from November 12 through December 31, 2017. The Lottery is planning a promotion for Lotto America called "Money Medal Madness" in February, 2018 to coincide with the 2018 Winter Olympics.

b. Revenues and Expenses for Fiscal Year Ended June 30, 2017 (unaudited) and July Through September 2017 Sales (unaudited)

Mr. Anderson presented the overview of revenues and expenses for the fiscal year ended June 30, 2017. Total ticket sales decreased \$8,004,659 or 22.47% compared to last fiscal year. Total operating expenses decreased \$5,223,240 or 20.06% compared to last fiscal year. Prize expense decreased \$3,885,366 or 21.2%, retailer commissions/bonuses decreased \$435,745 or 23.95%, and contractual services expense decreased \$848,115 or 22.73%. These decreases were a direct incremental relation to the decrease in ticket sales due to the \$1.5 billion Powerball jackpot run in January 2016 that had record sales. Players Club expenses remained the same. Marketing expense decreased \$20,253 or 3.11%. Other operating expenses decreased \$91,158 or 25.49%.

Total ticket sales for July through September 2017 increased \$1,661,793 or 20.8% compared to the same period last year. The increase was primarily due to the \$758 million Powerball jackpot run.

Mr. Anderson left the meeting at 2:19 p.m.

c. Online System Update (year three)

i. General Overview

Ms. Thompson presented a general overview of the online system for year three. In January 2017, a major release of the claims management process and related accounting and tax reports was tested and approved. During this same time, the Power 25 promotion was tested and approved for release. Currently, testing is being done for the Mega Millions game change scheduled for October 27, 2017, the Hot Lotto game

ending on October 28, 2017, the Mega Luck promotion scheduled to begin on October 28, 2017, and the launch of the Lotto America game on November 12, 2017.

In June 2017, the Multi-State Lottery Association (MUSL) conducted a compliance review of the Lottery. These reviews are done every two years and evaluate the Lottery's compliance with MUSL's Rule 2 for lottery systems and their minimum game security standards. There were seven findings by MUSL. Five of the findings have been addressed and the remaining two should be resolved within the next three weeks.

The Powerball game is scheduled to change and re-launch in April 2018. The launch of the Lottery's mobile app is anticipated sometime after the first of the year. The mobile app will be a complex undertaking and will require extensive testing.

Requests for Action (RFA's) have been significantly reduced. The system is stable and running quite smoothly as familiarity has set in with all involved.

The Lottery will be working with a new general manager from Scientific Games. Leslie Darfler will be retiring on November 1, 2017.

Commissioner Poolman left the meeting at 3:20 p.m. Ms. Thompson left the meeting at 3:27 p.m.

ii. Completed and Outstanding Requests Summary

Ms. Darfler presented the completed and outstanding requests summary for year three. The completed requests summary included subscription web interface, first SciPlay promotion, "ticket stock low message" on PlayCentral terminal, Power Cruise promotion, additional Players Club reports, planned failover of gaming system, deployment of promotions without need for terminal release, Amber and Blue alert changes, enhancements to claims management interface in GMS, Three Great Deals promotion, enhanced marketing, LIM, and promotion support, maintenance enhancements to GMS, Power 25 promotion, and provided suggestions on a replacement game for Wild Card 2.

The outstanding requests summary included Mega Luck promotion, Mega Millions game change, Hot Lotto game ending, Lotto America game launch, ticket checker needing to be reset, Powerball game change – Winner Take All feature, and mobile application launch.

Commissioner Rud noted that Scientific Games has been working on getting the mobile application finalized for some time. Commissioner Rud had concerns about it taking so long. Ms. Darfler assured the Commission the mobile application was a high priority and is planned to launch in April 2018.

Other outstanding request to be discussed and scheduled for resolution included Business Intelligence reports for groups, changes to purchase history interface for subscriptions, real time testing, enhanced customizable promotion capabilities for subscriptions, number of declined debit and credit card transactions, and geolocation checks.

iii. System Incident Report Summary

Ms. Darfler presented the system incident report summary for year three. There were a total of twelve incidents. The incidents consisted of system, operational, network, and external errors. None of the incidents were considered critical and had very little impact on the Lottery, retailers or players.

iv. Sales & Terminal Summary

Mr. Rauhauser joined the meeting at 3:15 p.m. to present the sales and terminal summary for year three. The total Lottery sales (including SciPlay) decreased \$8.1 million due to the record-setting Powerball jackpot from last year. This year the Lottery had six jackpots over \$200 million compared to seven last year.

The northwest region has 26% of the Lottery retailers that comprise 28% of retailer sales. The northeast region has 18% of the Lottery retailers that comprise 15% of retailer sales. The southwest region has 26% of the Lottery retailers that comprise 30% of retailer sales. The southeast region has 29% of the Lottery retailers that comprise 27% of retailer sales.

In conclusion, while adding retailers, improving lottery equipment, and implementing exciting promotions have all effectively helped increase lottery sales, the largest increases in sales are driven by high jackpots. Due to the recognized brand of Powerball, high Powerball jackpots drive considerably more sales than high Mega Millions jackpots.

v. PlayCentral (PCT) Sales Summary

Mr. Rauhauser presented the sales summary for the PlayCentrals (PCTs). There are 50 PCTs in retailer locations; 29 in grocery stores and 21 in convenience stores. PCT sales totaled \$1.4 million and accounted for 5.2% of total Lottery sales. This is up from 4.4% and 4% the previous two years. PCTs accounted for 21.9% of the Lottery sales in the retail locations that host them. This is up from 19% the previous two years.

Mr. Rauhauser left the meeting at 3:34 p.m.

d. Subscription Sales Summary

Ms. Steele joined the meeting at 3:34 p.m. to present the subscription sales summary for year three. As of June 30, 2017, there were 942 subscribers with 2,553 active subscriptions. Powerball subscriptions totaled 874, followed by Mega Millions with 505, Lucky for Life with 454, Hot Lotto with 376, and 2by2 with 344.

In fiscal year 2017, subscriptions sales totaled \$895,398 with the average purchase of \$19.83 and the average extension of \$17.44. The average ACH funding amount of each subscription was \$56.57. The average debit card funding amount was \$55.40. The amount paid to subscribers from winnings was \$230,475. The Lottery ran five flash promotions during the year that added 67 new players.

Ms. Steele left the meeting at 3:35 p.m.

Final Approval of the Proposed Administrative Rules for the Changes to the Mega Millions Game, Repeal of the Hot Lotto Game, Addition of the Lotto America Game, and Miscellaneous Rule Changes.

Mr. Miller presented the proposed administrative rules for the changes to the Mega Millions game, repeal of the Hot Lotto game, addition of the Lotto America game, and miscellaneous rule changes. The changes to the Mega Millions game will begin on October 28, 2017. The Hot Lotto game will be repealed as of October 29, 2017, and Lotto America game will begin sales on November 12, 2017. The comment period ended on September 18, 2017. The only comment was per an amendment from the Lottery to identify the color of the numbers in the Lotto America game. When the draft rules were presented to the Lottery Advisory Commission on June 30, 2017, MUSL had not made a determination as to the color of the numbers. The revision includes Section 10-16-12-01 (Game description), Section 10-16-12-02 (Expected prize pool percentages and odds), and Section 10-16-12-04 (All Star Bonus option).

Commissioner Delmore made a motion that the Commission considered all comments on the proposed rules and to adopt the final proposed rules as revised. Commissioner Hanson seconded the motion. The motion passed 4-0. The recommendation will be presented to Attorney General Stenehjem for final approval prior to moving forward with the rule adoption process.

Review of Revised Price Proposal from Scientific Games for Mobile Application

Mr. Miller asked that the agenda item be tabled as Scientific Games had not yet submitted a revised price proposal.

Omnibus Items

Mr. Miller and Mr. Kopyy attended the North American Association of State and Provincial Lotteries annual conference in Portland, OR the week of September 11, 2017.

Mr. Rauhauser will be attending and setting up a display booth at the North Dakota Petroleum Marketer's Association Convention and Trade Show in Fargo on October 25, 2017. Mr. Miller is not able to attend this year as he will be in Atlanta, GA that week attending the MUSL/Powerball meetings.

In November, the Office of the State Auditor is planning to begin the Lottery's financial audit for the years ended June 30, 2017 and 2016. Mr. Anderson is in the process of preparing the annual financial statements.

Mr. Miller congratulated Representative Beadle and Senator Poolman on being re-appointed to serve another three-year term on the Lottery Advisory Commission ending June 30, 2020. Mr. Miller thanked everyone on the Lottery Advisory Commission for their dedicated work.

The next regular Lottery Advisory Commission meeting is tentatively planned for December 2017 (date/time to be determined).

Adjournment

Commissioner Hanson made a motion to adjourn. Commissioner Delmore seconded the motion. The motion passed 4-0. The meeting adjourned at 3:44 p.m.