

Minutes of the Lottery Advisory Commission

April 24, 2018

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 1:34 p.m. – 2:29 p.m., on Tuesday, April 24, 2018. Representing the Commission were Mr. Mike Rud (Chairman), Mr. Russ Hanson, and Senator Nicole Poolman. Representative Thomas Beadle and Representative Lois Delmore participated by telephone. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, Mr. Ryan Koppy, sales and marketing manager, Mr. Matt Anderson, account budget specialist, Ms. Missy Steele, administrative staff officer and Ms. Sonja Walder, administrative assistant. Representing Scientific Games were Mr. Jimmy Durante, general manager for North Dakota; with Mr. Doug Parker, regional operations director, Ms. Jessica Diorio Dunn, senior director of customer engagement and planning, and Mr. Walt Eisele, chief technology officer participating by telephone.

Approval of Minutes

Commissioner Hanson made a motion to approve the minutes of the January 30, 2018 meeting. Commissioner Delmore seconded the motion. The motion passed 5-0.

Mr. Miller requested that one of the agenda items from the Omnibus items be reviewed first to accommodate the schedules of the Scientific Games' employees participating by telephone. The Commission provided consensus for the change.

Overview of ACH Funding Issues

Mr. Miller informed the Commission that for over two weeks players of the North Dakota Lottery were not able to fund their wallets to purchase subscriptions using the Automated Clearing House (ACH). This issue caused a great deal of frustration for subscription players. Scientific Games' employees were asked to attend the meeting to explain the situation to the Commission and the steps they plan to take in the future.

Mr. Durante explained that Everi, their third party vendor, had updated their software to TLS1.2 to comply with banking regulations and at that time ACH funding began to fail. The vendor that Everi uses, Cyber Source made the change on their side and it immediately broke the connections between Cyber Source and Everi and in turn between Scientific Games and Everi. Once Everi was notified they began attempting to fix it. The problem continued for 16 days. Neither Scientific Games, nor the North Dakota Lottery was told of the plans to update this software and only found out when customers began calling in with complaints.

Commissioner Rud asked about restitution due to loss of sales. Mr. Parker stated that once an assessment is made as to the monetary effect of this issue, Scientific Games and the North Dakota Lottery will work together to determine a fair restitution amount.

As for the future, Scientific Games is evaluating their continued partnership with Everi.

Mr. Eisele and Ms. Diorio Dunn left the meeting at 1:52 p.m.

Overview of Revenues and Expenses and Sales Activity for Quarter Ended December 31, 2017 and January Through March 2018 Sales (unaudited)

Mr. Anderson presented the overview of revenues and expenses for the quarter ended December 31, 2017. Total ticket sales increased \$254,668 or 3.99% compared to the same period last year. Total operating expenses decreased \$141,321 or 2.96% compared to the same period last year. Prize expense decreased \$81,054 or 2.4%, retailer commissions/bonuses increased \$5,013 or 1.54%, and contractual services expense decreased \$55,221 or 8.86%. Players Club expenses remained the same. Other operating expenses increased \$36,495 or 89.48% due to the timing of rent payments. Marketing expense decreased \$60,583 or 56.26% due to the majority of the Power 25 promotional prize expense being paid in the first quarter which resulted in lower than normal second quarter marketing expense.

Total ticket sales for January through March 2018 increased \$2,304,348 or 35.12% compared to the same period last year. The increase was due to the Mega Millions and Powerball jackpot runs in the quarter ended March 2018.

Overview of 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 currently has 26,017 registered members. The following prizes were given away to players through the Points for Drawings program: two Brookstone Zero-Gravity Massage chairs on January 30, 2018; one Samsung 75 inch QLED 4K television also on January 30, 2018; three eight piece Cuisinart cooking sets on February 13, 2018; three 40 inch Samsung 4K smart televisions on March 14, 2018; two Samsung electric ranges on March 27, 2018; and three Amazon Echo Dot bundles on April 17, 2018. Currently the Lottery has three Points for Drawings promotions in progress, an outdoor game set; an Ocean Kayak Trident 13 Angler; and a 2018 Yamaha Viking EPS side by side. Upcoming promotions include a Segway miniPLUS and a 2018 Yamaha VX Ltd Wave Runner with trailer.

The Lottery ran two Flash sales for subscriptions on February 14 and 28, 2018. The qualifying purchase was any \$10 subscription or renewal. With each qualifying purchase, subscribers received a \$2 credit to their account. On February 14 the total amount of sales was \$10,741 and subscribers were credited for \$2,032. 185 players participated and three were new subscribers. On February 28 the total amount of sales was \$12,864 and subscribers were credited with \$2,468. 196 players participated and four were new subscribers. Advertising cost was \$92.50 for each promotion.

The Money Medal Madness promotion ran from February 4 through March 3, 2018. The qualifying purchase was a single draw, three play Lotto America with All Star Bonus ticket for \$6. With the qualifying purchase, players were eligible to instantly win a free \$2 Lotto America ticket with All Star Bonus ticket, \$10, or \$100. Winners were chosen at random. The promotional prize budget was \$30,000 and advertising budget was \$80,000. Players won \$30,296 in instant prizes. Total advertising costs billed so far are \$74,244.21. Lotto America sales increased 102.3% when compared to the 12 week weekly average prior to the promotion. Total sales during the four week period were \$490,525.

The Lottery is currently conducting User Acceptance Testing for the mobile application for iOS and Android mobile devices. The launch of the mobile application is planned for May 14, 2018. With this application, players will be able to purchase subscriptions, fund their wallet, scan tickets to check winning numbers, scan tickets to redeem webcodes for point rewards, find the nearest retailer, use their points to enter Points for Drawings promotions, purchase merchandise from the Points for Prizes store, and create ePlayslips for the purchase of tickets.

During the mobile app launch, the Lottery will be rebranding the subscription service with the new Pick & Click campaign. The website and Players Club will undergo a small overhaul to introduce players to the newly branded subscriptions. Advertising budget is \$80,000 and the campaign is scheduled to start on May 16, 2018.

The 2by2 Seven-Draw promotion is scheduled to run July 8 through August 4, 2018. The qualifying purchase will be a single play, seven-draw 2by2 ticket for \$7. With the qualifying purchase, players will be eligible to instantly win a free seven-draw 2by2 ticket or \$500. Winners will be chosen at random. The promotional prize expense budget is \$30,000. The advertising budget is \$40,000.

Acceptance of the Audit Report for the Fiscal Years Ended June 30, 2017 and 2016.

Mr. Miller requested this agenda item be tabled until the Office of the State Auditor provides the final report. The Commission provided consensus to table.

Approval of the Draft Administrative Rules Related to the Launch of the Mobile Application, Re-branding of Subscriptions to Pick and Click Online Play, and Miscellaneous Rule Changes

(Proposed amendments are attached).

Mr. Miller provided the Commission with copies of the following rule changes:

- a. General Rules
- b. Retailer
- c. Conduct and Play
- d. 2BY2[®] Game
- e. North Dakota Lottery Players ClubSM Points for Prizes[®]
- f. North Dakota Lottery Players ClubSM Points for DrawingsSM

The proposed amendments address changes to update the rules related to the method used to sell a ticket, changing subscription to Pick and Click online play, and replacing the trademark symbol SM with [®] to identify registered ownership of the North Dakota Lottery Players Club. These are emergency rules with declared effective date as interim final rules of May 14, 2018.

Commissioner Poolman made a motion to accept the rules as emergency rules with an effective date of May 14, 2018. Commissioner Delmore seconded the motion. The motion passed 5-0. The recommendation will be presented to Attorney General Stenehjem for approval prior to moving forward with the rule adoption process.

Omnibus Items

Mr. Miller provided the following:

The Powerball Game Group indefinitely postponed the launch of the Winner-Take-All game feature that was tentatively scheduled to begin in September 2018.

Unaudited ticket sales from July 2017 through March 31, 2018 are \$25.1 million. This represents a \$4.1 million increase in sales or 20% compared to the same period last year. The Lottery is on track for its second highest sales year.

On April 2, 2018, Mr. Miller met before the Judiciary Committee to provide an update on the operation of the Lottery. Testimony went very well. The Judiciary Committee requested more information on the amount of retailer commissions earned through subscription sales.

Representatives from the North Dakota Office of Attorney General legal counsel continue to have discussions with AutoLotto (Lottery.com) legal counsel.

Ms. Walder will be contacting Commissioners to schedule a date/time for the next meeting. The meeting is tentatively planned for the last week of June.

Adjournment

Commissioner Poolman made a motion to adjourn. Commissioner Delmore seconded the motion. The motion passed 5-0. The meeting adjourned at 2:29 p.m.