

## Minutes of the Lottery Advisory Commission

October 11, 2018

### Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 1:30 p.m. – 3:22 p.m., on Thursday, October 11, 2018. Representing the Commission were Mr. Mike Rud (Chairman) and Mr. Russ Hanson, with Senator Nicole Poolman, Representative Karla Rose Hanson 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 was Mr. Jimmy Durante, general manager for North Dakota.

### Selection of a Chairperson

Commissioner R. Hanson made a motion to nominate Commissioner Rud to serve as chairperson for a one-year term. Commissioner Beadle 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 28, 2018 meeting as amended. The amendment changed the word ratify to rectify. 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 28,520 registered members. The following prizes were given away to players through the Points for Drawings program: five Cuisinart ice cream and gelato makers on June 26; three Char-Broil stainless steel grills on July 31; three Segway miniPlus self-balancing scooters on July 31; one 2018 Yamaha VX Limited wave runner with trailer on August 7; five Xscape Designs tent packages on August 28; five Coleman tailgate packages on September 25; and two Bushnell Maksutov-Cassegrain telescopes on September 25. There are three other Points for Drawings promotions in progress including a Cuisinart Alfrescamore outdoor pizza oven, a 28" Ariens snow thrower and a movie night package. Upcoming Points for Drawings promotions include a Brookstone Shiatsu foot massager, a bedroom furniture set and an electric pressure cooker.

The Lottery held a Dog Days of Summer Sale from August 8 through August 31. Players entered the promo code DOGDAYS30 to receive 30% off any pet supply item. Seven items were purchased using the code.

During the month of September, all Lotto America tickets that were entered for points earned an additional 2X multiplier.

As of October 4, 2018, there were 9,685 Facebook fans and 2,916 Twitter followers.

The Players Club Mobile App launched in two phases in 2018. The Android device app launched May 18, 2018 and the iOS launched on June 8, 2018. As of September 30, 2018, there have been 3,833 Android downloads and 2,801 iOS downloads.

During the mobile launch, the Lottery conducted a re-brand of the subscription service renaming it Pick & Click. A four-week campaign (May 21 through June 17, 2018) ran across several mediums promoting the new name. The advertising budget was set at \$80,000 with total billing at \$65,593.95. Comparative sales June 2017 versus June 2018 showed a sales increase of 5.38% and a 20.70% increase for the months of July through September 2017 versus July through September 2018. A second re-branding campaign will run in November/December 2018 along with a promotion for Pick & Click "Buy \$10, Get \$2 Back".

The 2by2 7 Draw promotion ran from July 8 to August 4, 2018. The qualifying purchase was a single play, 7-draw 2by2 ticket for \$7. With the qualifying purchase, players were eligible to instantly win a free 7-draw 2by2 ticket or \$500. Winners were chosen at random. Weekly sales increased steadily over the four weeks. Week four now holds the record for the highest weekly 2by2 sales of \$160,174, along with the record for the highest single day 2by2 sales of \$32,246. The promotion had an overall increase in weekly sales (compared to the 26-week, weekly average) of 74.90%. This was the best 2by2 promotion to date.

The Lottery will be holding three separate promotions that will run concurrently. Mega Mondays, Lucky Wednesdays and All Star Fridays start November 5 and run through December 14. Mega Mondays will require the purchase of two plays of Mega Millions with Megaplier for \$6 to receive a free 2by2 ticket. Lucky Wednesdays will require the purchase of three plays of Lucky for Life for \$6 to receive a free 2by2 ticket. All Star Fridays will require the purchase of three plays of Lotto America with All Star Bonus for \$6 to receive a free 2by2 ticket. The advertising and prize expense budgets are estimated at \$30,000 each.

Player research is tentatively scheduled to be conducted in January or February of 2019.

b. Revenues and Expenses for Fiscal Year Ended June 30, 2018 (unaudited) and July Through September 2018 Sales (unaudited)

Mr. Anderson presented the overview of revenues and expenses for the fiscal year ended June 30, 2018. Total ticket sales increased \$3,687,070 or 13.35% compared to last fiscal year. Total operating expenses increased \$2,575,863 or 12.48% compared to last fiscal year. Prize expense increased \$1,816,845 or 12.68%, retailer commissions/bonuses increased \$167,324 or 12.09%, and contractual services expense increased \$387,205 or 13.43%. These increases were a direct incremental relation to the Powerball and Mega Millions jackpot runs in 2018 that had increased sales. Players Club expenses remained the same. Marketing expense increased \$28,395 or 4.88%. Salaries and benefits increased \$194,737 or 22.50% due to new accounting pronouncements that shifted the reporting of pension expense to individual companies instead of solely reported through NDPERS. Pension expense is affected by the annual valuation of the projected retirement liability performed by a third party for NDPERS. Other operating expenses decreased \$18,643 or 6.75%.

Total ticket sales July through September 2018 decreased \$2,492,328 or 25.67% compared to the same period last year primarily due to a \$758 million Powerball jackpot, along with a Powerball promotion in fiscal year 2017.

Commissioner Poolman left the meeting at 1:55 p.m.

c. Online System Update (year 4)

Completed and Outstanding Requests Summary

Mr. Durante presented the completed and outstanding requests summary for year four. The completed requests summary included the Mobile App, SciPlay Interface, planned failovers, Money Medal Madness promotion, Mega Luck promotion, game changes to Mega Millions, termination of the Hot Lotto game, the implementation of the Lotto America game, ticket checker issues, Points for Drawings promotions, and other miscellaneous software requests and game changes.

The outstanding requests summary included several SciPlay resolutions including User Acceptance Testing (real time testing) and database wiping for subscribers, enhanced capabilities for subscription promotions, declined credit and debit card transactions, Players Club weekly marketing data summary, director not reporting all players' login history, Hot Lotto Web code, and Wave quick reference cards.

Currently scheduled requests summary included the 3 Great Deals promotion, Silver Alert changes, semi-annual failover, geo-location error issues, and web/mobile sales report.

General Overview

Ms. Thompson arrived at 2:01 p.m. to present a general overview of the online system for year four. Fiscal year 2018 included changes to the Mega Millions game, the ending of the Hot Lotto game, and the launch of the Lotto America game. All of these required User Acceptance Testing and were implemented without any issues. There were also some promotions run throughout the year that required User Acceptance Testing prior to launch.

There were very few incidences with the online system during the fiscal year. The addition of an experienced operations manager has helped to recognize abnormalities before they become problematic.

March 28 through April 13, 2018, subscribers were unable to fund their subscription wallets using the Automated Clearing House (ACH) function in SciPlay. The problem was an issue between the internet payment provider (Everi) and Cyber Service.

There were a number of minor instances related to the cashing of winning subscriptions the day after the draw occurred. Scientific Games addressed these quickly.

The mobile application was implemented in May 2018. Testing took several weeks due to the quality of the app provided. Numerous changes were required during testing. There are still some requests for improvements being addressed. The most important outstanding issue is the geolocation functionality. Scientific Games is presently working on trying to resolve the issues that remain.

The SciPlay system continues to have ongoing issues for User Acceptance Testing as it only allows a limited number of test players during testing. In addition, Everi does not have a testing system to allow for manipulation of the date and time. Therefore, only one day of testing can be conducted for each real time day. In addition, it has been

problematic to wipe old data from the SciPlay test system when new testing has started. These all cause delays in the testing cycle.

The Lottery conducted two failover tests of the online system in November 2017 and May 2018, both went smoothly.

#### System Incident Report Summary

Mr. Durante presented the system incidents for year four. On October 18, 2017, terminal messages were unable to send regarding the step down for Mega Millions sales. The message sent later so it had no real impact on the retailers, except for the delay of the message.

On October 31, 2017, the Lottery could not enter winning numbers for Mega Millions. The draws were late being completed.

On November 8, 2017, customers received a backlog of unsent emails from 11/1/17 to 11/8/17.

On March 28, 2018, an Automated Clearing House failure caused customers to lose the ability to fund their online accounts using the Automated Clearing House feature until April 13, 2018.

On June 13, 2018, the data aggregator was not allowing morning cashes of subscriptions. The previous day's subscription files were late in being cashed.

Ms. Thompson left the meeting at 2:40 p.m.

#### Sales & Terminal Summary

Mr. Rauhauser joined the meeting at 2:40 p.m. to present the sales and terminal summary for year four. Total Lottery sales (including SciPlay) were \$31.26 million for fiscal year 2018. This was an increase of \$3.69 million or 13.4% compared to last fiscal year. This was the second highest sales year in North Dakota Lottery history. The Lottery had eight jackpots over \$200 million compared to six last year.

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.

#### PlayCentral (PCT) Sales Summary

Mr. Rauhauser presented the sales summary for the Play Centrals (PCTs). There are 50 PCTs in retailer locations; 27 in grocery stores and 23 in convenience stores. PCT sales totaled \$1.70 million and accounted for 5.50% of total Lottery sales. This is up from 5.20%, 4.40%, and 4.00% the previous three years. PCTs account for 24.40% of the Lottery sales in the retail locations that host them. This is up from 21.90% and 19.00% the previous two years.

Mr. Rauhauser left the meeting at 2:55 p.m.

d. Pick and Click Online Sales Summary

Ms. Steele joined the meeting at 2:55 p.m. to present the Pick and Click (formerly subscriptions) sales summary for year four. As of June 30, 2018, there were 999 Pick & Click players with 2,769 active online plays. Powerball subscriptions totaled 940, followed by Mega Millions with 492, Lucky for Life with 475, Lotto America with 436, and 2by2 with 426.

In fiscal year 2018, Pick and Click sales totaled \$1,061,040 with the average purchase of \$19.92 and the average extension of \$16.31. The average ACH funding amount was \$54.04. The average debit card funding amount was \$53.01. The amount paid to players from winnings was \$275,377. The Lottery ran five flash promotions during the year that credited players with \$10,568.

The mobile app has seen a steady increase of funding and purchases each month since it was launched in May 2018. From May through October 2018, mobile purchases totaled \$98,495. Mobile funding totaled \$5,407, although reporting data was only made available for September and October. The mobile purchase amount is 20% of total Pick and Click online sales, including web-based sales.

Ms. Steele left the meeting at 3:01 p.m.

Overview of 2019-21 Budget Request

Mr. Anderson presented an overview of the 2019-21 budget request for the Lottery. The total budget request decreased from \$5,336,797 to \$4,956,700. The \$380,097 decrease was primarily in travel, postage, printing, and operating fees and services.

Omnibus Items

Mr. Miller provided updates on the following:

On September 12, 2018, Mr. Miller testified before the Administrative Rules Committee describing the procedures followed by the Lottery in adopting the rules related to the method used to sell a ticket, changing subscription to Pick and Click online play, and replacing the trademark symbol <sup>SM</sup> with <sup>®</sup> to identify registered ownership of the North Dakota Lottery Players Club. There were no concerns or issues.

Mr. Miller and Mr. Kopyy attended the 2018 North American Association of State and Provincial Lotteries annual conference in Cleveland the week of September 24, 2018.

Mr. Miller and Mr. Tarno will be attending and setting up a display booth at the North Dakota Petroleum Marketers Association Convention and Trade Show on October 24.

In December 2018, the Office of the State Auditor is planning to begin the Lottery's financial audit for the years ended June 30, 2018 and 2017. Mr. Anderson is in the process of preparing the annual financial statements.

Mr. Miller congratulated Commissioner Russ Hanson on being re-appointed to serve another three-year term on the Lottery Advisory Commission ending June 30, 2021 and welcomed Representative Karla Rose Hanson on her appointment to serve a three-year term ending June 30, 2021. Mr. Miller thanked everyone on the Lottery Advisory Commission for his or her dedicated work.

The Commission suggested an appreciation plaque or letter be presented to Commissioner Delmore for her 15 years of service on the Lottery Advisory Commission. Commissioner Delmore resigned her seat effective June 30, 2018.

The next regular Lottery Advisory Commission meeting is tentatively planned for December 2018 (date/time to be determined).

Adjournment

Commissioner R. Hanson made a motion to adjourn. Commissioner K. Hanson seconded the motion. The motion passed 4-0. The meeting adjourned at 3:22 p.m.