

Minutes of the Lottery Advisory Commission

October 10, 2019

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 1:38 p.m. – 3:47 p.m., on Thursday, October 10, 2019. 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. Scott Tarno, customer service specialist, and Ms. Sonja King, 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 Poolman seconded the motion. With no other nominations, Commissioner Rud was elected chairman. The motion passed 5-0.

Approval of Minutes

Commissioner R. Hanson made a motion to approve the minutes of the June 13, 2019 meeting. Commissioner Poolman 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 37,210 registered members. The following prizes were given away to players through the Points for Drawings program: five electric pressure washers and two Rowenta complete air care bundles on June 11; five GoPro HERO7 camera bundles on July 10; five DEEBOT robot vacuums, a home office package, and two Canon Rebel DSLR camera bundles on August 7; and five Ring video doorbells on September 10. There are three Points for Drawings promotions in progress including a Celestron telescope, a 28" Arians snow thrower and a trip for two to Key West, Florida. Upcoming Points for Drawings promotions include a Cuisinart air fryer, an iPhone X bundle and a one year Lucky for Life Pick & Click online play.

The Lottery held a Father's Day promotion during the month of June. Players entered the promotion code DADSDAY15 to receive 15% off their entire cart purchase. 23 players used the code.

To kick off the summer celebration of the ND Lottery's 15th anniversary, new member sign-up points of 1,500 were offered June 1 through June 30. Players Club members received an additional 5X multiplier bonus on all Lotto America tickets entered July 14 through August 3.

During the holiday season, two separate Points for Prizes promotions and a sign up bonus will be offered. Black Friday/Cyber Monday will run from November 24 through December 2 giving players a 20% discount on their cart purchase with the promotion code BFCYM2019. The Season Savings Spectacular promotion

will run from December 1 through December 31 giving players a 15% discount on their cart purchase using the promotion code HOLIDAY2019. From December 1 through December 31, new member registrants will receive a 1,000 point bonus.

The Players Club Mobile Application launched an update in May. There have been 13,541 Android downloads and 10,842 iOS downloads since the launch of the application in May 2018.

The 2by2 7 Draw promotion ran from May 5 through June 1. 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. The promotion had an overall increase in weekly sales (compared to the 26-week, weekly average) of 85.9%. The 6-week post promotion analysis had an increase of 6.2% compared to the 26-week, weekly sales average prior to the promotion.

The Pick & Click “Never Miss a Draw” promotion was held June 1 through June 30. All purchases of 13, 26, 39 or 52 weeks received up to a 10% discount. There were 172 individual players, saving \$2,514. Eligible promotion sales totaled \$25,584.

The Lottery, in conjunction with Dick Clark Productions, held a joint promotion called “New Year’s Rockin’ Eve.” Players who purchased Powerball tickets and entered them into the Players Club during the promotion were eligible to win one of two VIP trips to New York City’s Time Square during the ball drop. Hotel, airfare, and spending money were included. The promotion ran from July 7 through August 31. Every Powerball ticket entered received one entry. Every Powerball with Power Play ticket entered received two entries. The advertising budget was set at \$120,000 and prize expense was set at \$15,000. Two North Dakota Powerball players won the trip to New York City and a chance to be crowned the “First Powerball Millionaire of the Year.” In addition, fifteen ND Lottery players won \$1,000 cash. The drawing was conducted on September 3.

The Cash Dash promotion will run from November 3 through November 30. The qualifying purchase is one each of the games with the multiplier (Powerball with Power Play, Mega Millions with Megaplier, Lotto America with All Star Bonus, Lucky for Life, and 2by2) for \$11. Eligible qualifying purchases have a chance to instantly win \$5, \$20, \$100, or \$500. The advertising budget is set at \$80,000 and the prize expense budget is \$30,000.

The Lottery is currently working with KK Bold to convert the Lottery’s website to a bootstrap template. A bootstrap template gives the site a modern look and feel, better mobile responsiveness making it easier to use for players on mobile devices, and makes any future changes/updates to the website more efficient.

A Pick & Click branding campaign and promotion is scheduled to begin January 6 through January 31, 2020. The branding campaign will include an emphasis on the mobile application to make Pick & Click online play purchases. A “Buy \$10, Get A \$2 Discount” promotion will run concurrently with the branding campaign. The promotion will be available every Monday, Wednesday, and Friday in January 2020 (beginning January 6). The advertising budget is set at \$106,000 and the prize expense budget is \$25,000.

b. Revenues and Expenses for Fiscal Year Ended June 30, 2019 (unaudited) and July- September 2019 Sales (unaudited)

Mr. Anderson presented the overview of revenues and expenses for the fiscal year ended June 30, 2019. Total ticket sales increased \$4,045,663 or 12.92% compared to last fiscal year. Total operating expenses

increased \$2,959,806 or 12.75% compared to last fiscal year. Prize expense increased \$2,100,207 or 13.01%, retailer commissions/bonuses increased \$201,765 or 13.01%, and contractual services expense increased \$511,858 or 15.65%. These increases were a direct incremental relation to sales, primarily due to the Mega Millions jackpot of \$1.53 billion and Powerball jackpot of \$687 million in FY 2019. Players Club expenses remained the same. Marketing expense increased \$51,367 or 8.42%. Salaries and benefits increased \$27,236 or 2.57%. Other operating expenses increased \$67,373 or 26.16%.

Total ticket sales for quarter ending September 30, 2019 compared to September 30, 2018 decreased \$1,449,581 or 19.95%. This was due to smaller jackpots and no promotion for 2by2.

Mr. Anderson left the meeting at 2:08 p.m.

c. Online System Update (year 5)

General Overview

Ms. Thompson arrived at 2:09 p.m. to present a general overview of the online system for year five. There were no major changes to any of the games offered by the Lottery this past year. The Advanced Entertainment Gaming Information System (AEGIS) side of the online system, which is predominantly the lottery retailer network, had no significant issues that caused any disruption for retailers or players.

There were some promotions run throughout the year that required User Acceptance Testing prior to launch to ensure they worked properly and all accounting reports were accurate.

In May, the Multi-State Lottery Association (MUSL) conducted an onsite review of the Lottery's gaming system. MUSL's review identified six low risk findings and four medium risk findings. Five of the low risk findings have been resolved. The remaining low risk finding is related to validating winning tickets with a prize of \$50,000 or greater. MUSL changed the requirements of this rule and is working with Scientific Games to review their solution to meet the new requirements. It is anticipated the new validation process will be available for implementation in the first or second quarter of 2020. Of the four medium risk findings, three were in reference to firewall rule reviews and configurations for the ICS firewall and the CGS firewall. They have been resolved. The remaining medium risk finding was in regards to updates and patches to servers. This is expected to be resolved when Scientific Games updates the servers by the end of 2019 or early 2020.

In April 2019 a new geo-location provider was implemented on the by SciPlay side of the online system. The previous provider, Location Smart, had lost contracts with the major cellular providers and was replaced with GeoComply.

The Lottery is currently testing the conversion of the SciPlay Internet Payment Provider to a new company. The conversion from Everi to Paysafe is expected to be completed by December 31, 2019.

Completed and Outstanding Requests Summary

Mr. Durante presented the completed and outstanding requests summary for year five. The completed requests summary included the 3 Great Deals promotion, Silver Alert changes, semi-annual failover of the gaming system, web/mobile sales report, conversion to GeoComply, several Pick & Click promotions, reporting player's login history in director, web code research, 2by2 promotion, Instant Luck promotion, and document changes.

The outstanding requests summary included Tanium server installations, ICS server upgrades, Ubuntu migration, real time testing, semi-annual failover of the gaming system, enhanced promotion capabilities for SciPlay, reduce number of debit/credit declines, several promotions, create MUSL MARS automation utility, MUSL API release for automatic upload, enhance WEB server, enhance TXQP server scripts, and printing retailer licenses.

Currently scheduled requests summary included the reprint of reference cards for the WAVE terminals, account reset after lockout for SciPlay, Americans with Disabilities Act compliance of Player's Club website, retailer coordinates, improve software delivery process from SGI, and additional training for SGI's National Data Center staff.

System Incident Report Summary

Mr. Durante presented the system incidents for year five. In July 2018, SciPlay service was down and 2by2 7 draw promotion tickets printed "No" for Tuesday Prize x2. In August 2018, Verizon terminals were down. In September 2018, Lotto America multiplier did not give 2x points. In January 2019, Mega Millions multiplier did not give 3x points, Pick & Click discount promotion banner ran after end date, and the Pick & Click geolocation banner was not up in time. In February 2019, the Instant Luck button was not displaying on the PCTs. In March and April 2019, the validation control reports were not sent over on the SFTP server for several days. In May 2019, players were misinformed about available items in storefront, the Mother's Day promotion code didn't work, the mobile application automatically logged players out, and the 2by2 7 draw promotion tickets printed "No" again for Tuesday Prize 2x. In June 2019, the 2by2 7 draw promotion ended earlier than advertised and an existing defect in production led to the extensions having to be performed manually.

Review of the Contract Extension Proposal from Scientific Games (Executive Session)

The agenda was rearranged to accommodate Commissioner Beadle's request to exit the meeting. Mr. Durante left the meeting at 2:50 p.m. Commissioner R. Hanson made a motion to move in Executive Session at 2:51 p.m. Commissioner Beadle seconded the motion. The motion passed 5-0.

(Executive Session)

At 2:57 p.m. Commissioner R. Hanson made a motion to move out of Executive Session. Commissioner K. Hanson seconded the motion. The motion passed 5-0. Commissioner Beadle left the meeting at 2:57 p.m. Mr. Durante re-joined the meeting at 2:58 p.m.

Recommendation of the Contract Extension Proposal from Scientific Games

Commissioner R. Hanson made a motion for Mr. Miller to continue negotiations with Scientific Games for a percentage discount similar to the discount the Lottery received the last time there was a contract extension. Commissioner K. Hanson seconded the motion. The motion passed 4-0. Commissioner Poolman left the meeting at 3:04 p.m. The recommendation will be presented to Attorney General Stenejem for approval prior to moving forward with continued negotiations.

d. Pick and Click Online Sales Summary

Ms. Steele joined the meeting at 3:04 p.m. to present the Pick and Click sales summary for year five. As of June 30, 2019, there were 1,160 Pick & Click players with 3,032 active online plays. Powerball online plays totaled 1,047, followed by Lucky for Life with 620, Lotto America with 496, Mega Millions with 455, and 2by2 with 414.

In FY 2019, Pick and Click sales totaled \$1,593,272, a 50% increase from FY 2018. The ACH funding amount was \$752,614. The debit/credit card funding amount was \$499,247. The Lottery ran three flash promotions during the year that credited players with a \$7,046 discount. Players saved \$13,395 during the Buy \$10, Get A \$2 Discount promotion and \$2,514 during the Never Miss a Draw promotion.

Pick & Click had five high tier winners in FY 2019. Two \$1 million winners, one \$50,000 winner, and two \$22,000 winners.

The amount of commissions retailers earned from Pick & Click purchases in FY 2019 was \$7,909. Ms. Steele left the meeting at 3:09 p.m.

Sales & Terminal Summary

Mr. Tarno joined the meeting at 3:09 p.m. to present the sales and terminal summary for year five. Total Lottery sales (including SciPlay) were \$35.3 million (unaudited) for FY 2019. This was the second highest sales year in Lottery history.

Since July 2014, the number of lottery terminals in regions 1, 3, and 4 have increased and have also had the highest sales increases.

In conclusion, while adding retailers, improving lottery equipment, and implementing exciting promotions have effectively helped increase lottery sales, history shows the largest increases in sales are driven by high jackpots.

PlayCentral (PCT) Sales Summary

Mr. Tarno presented the sales summary for the Play Central Terminals (PCTs) for year 5. There are 50 PCTs in retailer locations; 27 in grocery stores and 23 in convenience stores. PCT sales totaled \$1.93 million and accounted for 5.5% of total Lottery sales. This is the same percentage as last year and up from 5.2%, and 4.4% the previous two years. PCTs account for 25.8% of the Lottery sales in the retail locations that host them. This is up from 24.4%, 21.9%, and 19% the previous three years. In conclusion, PCTs continue to be used more and are part of the marketing/selling strategy for the stores they are in.

Retailer Survey Summary

Mr. Tarno reviewed the results from the June 2019 Lottery Retailer Survey. A total of 230 retailers returned the survey. The overall results were very favorable, with the exception of the self-serve checker and some communications issues that need to be monitored.

Omnibus Items

Mr. Miller provided updates on the following:

Mr. Miller, Mr. Rauhauser, and Mr. Kopyy attended the 2019 North American Association of State and Provincial Lotteries annual conference in Little Rock, Arkansas the week of September 16-20.

Mr. Tarno will be attending and setting up a display booth at the North Dakota Petroleum Marketers Association Convention and Trade Show on October 30.

The Office of the State Auditor completed the Lottery's financial audit for the years ended June 30, 2019 and 2018. The auditors are planning to issue the final report later in October.

There is nothing new to report on the U.S. Department of Justice interpretation of the Wire Act ruling that the Wire Act only applies to sports betting and not lotteries or other forms of state-sanctioned gaming. The U.S. Department of Justice deadline for businesses to bring their operations into compliance with federal law remains December 31, 2019 or 60 days after entry of final judgment in the New Hampshire litigation, whichever is later.

It appears Lottery.com (formerly known as AutoLotto), a third party ticket courier service is no longer allowing ticket sales in North Dakota at this time.

Congratulations to Commissioner Mike Rud on being re-appointed to serve another three-year term on the Lottery Advisory Commission ending June 30, 2022. Thank you to everyone on the Lottery Advisory Commission for your dedicated work.

Adjournment

Commissioner R. Hanson made a motion to adjourn. Commissioner K. Hanson seconded the motion. The motion passed 3-0. The meeting adjourned at 3:47 p.m.