

Minutes of the Lottery Advisory Commission
January 14, 2013

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 4:02 p.m. – 4:34 p.m., on Monday, January 14, 2013. Representing the Commission were Mr. Mike Rud (Chairman), Mr. Russ Hanson, Representative Lois Delmore, and Senator Lonnie Laffen. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, Mr. Rob Yost, accountant/budget specialist, Mr. Ryan Kopy, sales and marketing manager, and Ms. Sonja Walder, administrative assistant. Also in attendance was Mr. Jess Wright, account development manager, GTECH.

Approval of Minutes

Commissioner Delmore made a motion to approve the draft minutes of the November 19, 2012 meeting. Commissioner Hanson seconded the motion. The motion passed 4-0.

Overview of Revenues and Expenses for the Quarter Ended September 30, 2012 and Sales Activity Through December 2012 (unaudited)

Mr. Yost provided an overview of revenue and expenses for the quarter ended September 30, 2012 and sales activity through December 2012. Total ticket sales increased \$764,392 or 13.90% compared to the same period last year. The increase was mainly due to the price change in Powerball from \$1 to \$2, the jackpot of \$337 million in August, and a successful Instant 10 promotion.

Operating expenses increased \$111,914 or 2.72% compared to the same period last year. Prize expenses increased \$229,155 or 7.87% and retailer commissions/bonuses expenses increased \$31,992 or 11.41%. Both increased due to the direct incremental relation to the increase in ticket sales. Contractual services expenses decreased \$48,693 or 8.89% due to the decrease in the online vendor's rate. Marketing expenses decreased \$44,112 or 54.19% because only one marketing vendor invoice was paid this year, compared to two invoices paid last year. Other operating expenses decreased \$65,297 or 57.06% because only one quarter of rent was paid this year, compared to two quarters paid last year and MUSL board dues were paid during this period last year, but the Lottery was not invoiced for MUSL board dues yet this year.

Ticket sales for the quarter ended December 31, 2012 increased \$1.98 million or 33.04% compared to the same period last year. The increase was due to the record Powerball jackpot of \$587 million in November.

Overview of the 2013-2015 Governor's Executive Budget Recommendation

Mr. Yost provided an overview of the 2013-2015 Governor's executive budget recommendation. The Governor's budget recommendation was the same as the Office of Attorney General budget request for the Lottery, other than the inclusion of \$32,622 (\$21,675 for health insurance increases and a retirement increase of \$10,947). The total 2013-2015 Governor's executive budget recommendation for the Lottery is \$4,101,199 as presented to the Lottery Advisory Commission on November 19, 2012, plus \$32,622 for a total budget of \$4,133,821.

Mr. Yost left the meeting at 4:12 p.m.

Overview of Marketing Activity and Short-Term Marketing Plans

Mr. Kopyy provided an overview of marketing activity and short-term marketing plans. The Lottery is currently sponsoring a subscription promotion that started on December 6, 2012 and will end on March 7, 2013. For every active subscription a subscriber has, the name is entered once a month for a chance to win one of three prizes. As of December, 2012, current renewal rates are 49%, up from 35% and sales are up approximately 7%.

The Cash Dash promotion ran November 4 through December 1, 2012. A qualifying purchase was of one of each lottery game with the add-ons for \$9. The player had the chance to instantly win \$5, \$20, \$100 or \$500. This promotion, when coupled with the historic Powerball jackpot run of \$587 million, increased Powerball sales by 142% compared to the 26-week, weekly sales average prior to the beginning of the promotion. Players won over \$31,000 in instant prizes. \$61,127 was spent on promotional costs (point-of-sale materials, production costs, TV/radio and online ads).

The Holiday Subscription Discount promotion ran December 1 through December 31, 2012. Subscribers were eligible to save up to 10% on all lottery subscriptions. Total subscription sales for this promotion were \$72,234. The Lottery also participated in both the Fargo and Bismarck Pride of Dakota Holiday Showcases. 33 subscriptions for total sales of \$2,224 were sold in Fargo and 37 subscriptions for total sales of \$2,302 were sold in Bismarck.

The Lottery ran the One Wild Deal promotion in conjunction with the Wild Card 2 game change. The promotion ran from January 13 through February 9, 2013. With the qualifying purchase of a \$5 Wild Card 2 quick pick ticket, players received a \$1 Wild Card 2 quick pick ticket free. The Lottery planned for a soft re-launch of the Wild Card 2 game, budgeting \$15,000 for promotional costs (point-of-sale materials, production costs, radio and online ads), along with \$12,000 in prize expense for the free tickets.

The Hot Lotto game will change effective May 12, 2013. The Lottery plans to sponsor a Three Times the Sizzle promotion in conjunction with the Hot Lotto game change. The promotion will run from May 12 through June 8, 2013. With the qualifying purchase of three plays of Hot Lotto with Triple Sizzler, players receive a \$1 discount (\$6 value for only \$5). The budget for promotional costs (point-of-sale materials, production costs and radio ads) is \$30,000, along with \$15,000 in prize expense for the \$1 discounts.

Mr. Kopyy left the meeting at 4:20 p.m.

Final Approval of the Administrative Rules for the Hot Lotto Game Changes (effective May 12, 2013)

Mr. Miller provided an overview of the written and oral comments related to typographical errors in the odds structure. The match 5 white + 0 orange odds was corrected to 1:1,619,158 rather than 1:619,158. The 1 white + 1 orange odds was corrected to 1:52 rather than 1:1.52. The 0 white + 1 orange odds was corrected to 1:34 rather than 1:1.34. The corrected odds are consistent with the Multi-State Lottery Association game rules for Hot Lotto. The final comment was related to requiring a higher federal withholding tax on a resident winner that does not have a social security number. The proposed rules include language that reduces the gross grand prize amount by the required federal tax rate. Therefore there was no change necessary to the rules for federal withholding tax as the Lottery would be following IRS guidelines.

Commissioner Delmore made a motion to acknowledge that the Commission considered the comments on the proposed rules and recommended to approve the proposed rules as revised on January 14, 2013 to correct the odds. Commissioner Laffen seconded the motion. The motion passed 4-0. The recommendation will be presented to Attorney General Stenehjem for final approval.

Omnibus Items

Mr. Miller reported that no appointment has been made to fill the vacant position on the Lottery Advisory Commission.

Mr. Miller reported the Lottery received responses from vendors related to converting and updating the online gaming system. The Lottery is in the process of reviewing the vendor responses. The information will be used to develop the Request for Proposals that will result in the best value and most responsive proposal for the Lottery.

Adjournment

Commissioner Laffen made a motion to adjourn. Commissioner Delmore seconded the motion. The motion passed 4-0. Meeting adjourned at 4:34 p.m.