

Minutes of the Lottery Advisory Commission
September 22, 2016

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 1:31 p.m. – 3:37 p.m., on Thursday, September 22, 2016. 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. Scott Tarno, customer service specialist, Mr. Mark Rauhauser, customer service specialist, and Ms. Sonja Walder, administrative assistant. Representing Scientific Games International 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 29, 2016 meeting. Commissioner Delmore 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 17,817 registered members. The following prizes were given away to players through the Points for Drawings program: three XBOX One bundles on June 21; one backyard spa package on July 12; two Samsung washer and dryer sets on July 12; three Sony PlayStation 4 bundles on July 26; three Phantom 3 Standard Quadcopters on August 30; and two Crosley Bluetooth Jukeboxes on September 13. There are two other Points for Drawings promotions in progress including a car care package and a Cook It Up-Turn It Up package. The Lottery is currently running a point sign-up bonus promotion. New Players Club members receive 500 bonus points upon registration. Upcoming Points for Drawings promotions include a cookware set, drum kit and game room.

The six-week post promotion analysis of the “Instant Luck” Lucky for Life promotion showed a 25.77% decrease in sales when compared to the weekly average sales prior to the promotion. The decrease was expected as post promotion sales would be difficult to match the sales prior to the promotion when the Lucky for Life game was launched. Current weekly per capita sales for Lucky for Life has settled at 12 cents after the first six months of the game launch. Initial projections were at 6 to 8 cents weekly per capita.

The Lottery is currently running a 2by2 7-draw promotion through October 1, 2016. The qualifying purchase is a single play 7-draw 2by2 ticket for \$7. With the qualifying purchase, players will have a

chance to instantly win a free 7-draw 2by2 ticket or \$500. All winners are chosen at random. This promotion is part of a multi-state 2by2 promotion with the majority of the prize expenses covered by the excess reserve in the 2by2 low-tier prize pool. Each state is allotted \$30,000 prize expense with a 10% buffer for a total of \$33,000. The Lottery will submit their total prize expenses to MUSL at the end of the promotion for reimbursement. Advertising costs are budgeted at \$40,000. Sales for week one and two were \$131,080 and \$138,008, respectively. After the first two weeks, the promotion is averaging a 70% increase in sales compared to the previous 26-week, weekly average.

The Lottery is planning to run a subscription promotion from October 9 through October 29, 2016. With the qualifying purchase of any \$12 Powerball or Powerball with Power Play, subscribers will receive a free \$2 Lucky for Life subscription play. Advertising costs are budgeted at \$30,000.

A retailer survey will be hand delivered to all retailers in October to seek feedback on numerous items such as promotions, equipment, service calls and point-of-sale materials. Details of this feedback will be available at the next LAC meeting.

The Lottery is planning to run a Cash Dash promotion from November 6 through December 3, 2016. The qualifying purchase will be a one of each of the Lottery's games with multipliers for \$10 (Powerball with Power Play, Mega Millions with Mega Plier, Hot Lotto with Triple Sizzler, 2by2 and Lucky for Life.) With the qualifying purchase, players will have a chance to instantly win \$5, \$20, \$100 or \$500. Winners will be chosen at random. Advertising costs are budgeted at \$80,000 and instant prize expense is budgeted at \$30,000.

The Lottery is planning to conduct a player survey in January or February of 2017.

b. Overview of Revenues and Expenses and Sales Activity (Unaudited)

Mr. Anderson presented the overview of revenues and expenses for the fiscal year ended June 30, 2016. Total ticket sales increased \$8.61 million or 31.89% compared to last fiscal year. The increase was primarily due to the \$1.5 billion Powerball jackpot run, along with the addition of the Lucky for Life game. Total operating expenses increased \$5.68 million or 27.89% compared to last fiscal year. Prize expense increased \$4.34 million or 31.08%, retailer commissions/bonuses increased \$450,217 or 32.88%, and contractual services expense increased \$918,563 or 32.66%. These increases were a direct incremental relation to the increase in ticket sales. Players Club expenses increased \$325,000 or 100% due to the Players Club expenses in fiscal year 2015 included in other operating expenses. Marketing expense increased \$18,370 or 2.9%. Other operating expenses decreased \$408,468 or 53.31% due to \$108,000 for PlayCentral terminals and gift sales reported as other operating expense in fiscal year 2015 that should have offset other operating revenue when comparing to fiscal year 2016, along with \$162,500 Players Club expenses reported as other operating expense in fiscal year 2015. Additionally the decrease in fiscal year 2016 other operating expenses was due to a decrease in IT contractual programming services that were completed in fiscal year 2015 and not ongoing expenses.

Total ticket sales for July and August 2016 increased \$2.01 million or 53.94% compared to the same period last year. The increase was due to the launch of the Lucky for Life game and two big jackpots runs, a \$487 million Powerball jackpot and a \$540 million Mega Millions jackpot.

c. Online System Conversion Update (Year 2)

i. General Overview

Ms. Thompson presented the general overview of the online system conversion for year two. In year two we had several new releases including a change to the Powerball game, the addition of the Lucky for Life game, a transaction engine (TXE) and terminal enhancement to accommodate free 2by2 plays, two claims management maintenance releases and implementation of a Multi-State Lottery Association (MUSL) approved lockdown alternative process. These were all tested and are now in full production.

A full failover test of our primary gaming system was conducted with unforeseen problems encountered. Scientific Games International noted the areas of concern and is working to correct them. Another failover test is scheduled for September 25, 2016 to insure that the system fully fails over. Thereafter failovers will be conducted every six months to meet MUSL requirements.

In December, the Lottery with the assistance of the Office of Attorney General IT division conducted a subscription flash promotion utilizing Players Club member emails. Players Club members were offered a discount if they met a minimum purchase requirement during a specific time and date. In October, 2016 the Lottery will do an automated subscription promotion that will decrease the amount of manual labor needed to run the promotions.

ii. Completed and Outstanding Requests summary

Ms. Darfler presented the completed and outstanding requests summary for year two. The completed requests summary included the planned failover of the gaming system; printer jam and “please be patient” message issues for the WAVE terminal; “please be patient”, bill acceptor, and printer disconnect issues on the PlayCentral terminal; 2by2 tickets winning more than 20 free plays; modifications to SciPlay Director for entering a player or group; increasing subscription funding limits; Visa card acceptance on the SciPlay system; Powerball game change; Lucky for Life implementation; Wild Card 2 termination; Claims management; Instant Luck promotion; 2by2 7-draw promotion; and sales analysis on new Wave and PlayCentral terminals.

The outstanding requests summary included “ticket stock low” message appearing erroneously; ticket checker needing to be reset; Business Intelligence reports for groups; subscription web interface; real time testing; automated SciPlay promotion; providing recommendations for online replacement games; and Blue and Amber alert changes.

iii. System Incident Report Summary

Ms. Darfler presented the system incident report summary for year two. There were a total of twelve incidents. The majority of the incidents were related to system errors.

iv. Play Central Terminal (PCT) Sales Summary

Mr. Tarno and Mr. Rauhauser joined the meeting at 2:25 p.m. to present the PlayCentral terminal (PCT) sales summary for year two.

There are currently 49 PCT's placed in 29 grocery stores and 20 convenience stores. PCT sales for the fiscal year ending June 30, 2016 totaled \$1.56 million and accounted for 4.4% of all North Dakota Lottery sales compared to 4% last year. Overall PCT's seem to have a limited impact on increasing sales, but they are convenient to players and reduce the time clerks need to use selling and checking tickets.

v. Sales and Terminal Summary

Mr. Tarno presented the sales and terminal summary for year two. The total lottery sales for retailers increased 32%. Lottery locations increased by two to 446. There are four remaining terminals designated for new retail locations opening in September and October 2016.

Retailers reported players lining up outside their doors during the \$1.5 billion Powerball jackpot run. The Canadian border had the top two volume stores in sales during this record-setting Powerball jackpot. Total lottery sales during the three week run were \$9.8 million, an increase of more than \$8.2 million when comparing to the Lottery's average three week sales in 2015.

Mr. Tarno and Mr. Rauhauser left the meeting at 2:38 p.m.

d. Subscription Sales Summary

Ms. Steele joined the meeting at 2:39 p.m. to present the subscription sales summary.

As of June 30, 2016, there were 926 active subscribers with 2,413 active subscriptions. Powerball subscriptions totaled 849, followed by Mega Millions with 545, Lucky for Life with 401, 2by2 with 365, and Hot Lotto with 253.

In fiscal year 2016, subscriptions sales totaled \$829,758 with the average purchase being \$21.50 and the average extension \$16.37. Average funding for ACH was \$59.07 and for debit cards was \$59.08. The Lottery ran nine flash promotions during the year that added 93 new players.

Ms. Steele left the meeting at 2:44 p.m.

Consideration to Offer 5 Card Cash as a New Online Game

Mr. Miller presented the 5 Card Cash online game concept to the Commission for consideration and feedback. 5 Card Cash combines an instant drawing at the time of the sale, along with the traditional daily drawing. It is considered a hybrid game with two chances to win. The cost per play is \$2. Drawings are held daily. The game is a combination of poker and lotto. A player wins an instant prize if the poker hand on their ticket is a pair of jacks or better. The top instant prize for a royal flush is \$5,000. A player may also win a prize after the daily drawing by matching at least three cards. The top draw prize for matching five cards is a set prize of \$100,000.

Mr. Miller asked the Commission for feedback regarding the instant win feature. The Commission thought the game was appealing to add to the mix of products already offered by the Lottery, but felt there may be concerns about the instant win feature. The Commission requested additional communication with Attorney General Stenehjem to make sure the Attorney General and the Commission were in agreement on all issues before a decision was made. Mr. Miller will meet with Attorney General Stenehjem to discuss in more detail.

Approval to Request a Change to Subdivision (a) of Subsection 4 of North Dakota Century Code 53-12.1-09

Mr. Miller asked the Commission for approval to request a change to subdivision a of subsection 4 of North Dakota Century Code 53-12.1-09 to be consistent with the proposed changes by the Department of Human Services. The term “compulsive gambling” is no longer used in the field of problem gambling and has been replaced with “gambling disorder”. The change would strike the word “~~compulsive~~” and add the word “disorder”. Commissioner Hanson made a motion to approve the request to change the North Dakota Century Code 53-12.1-09. Commissioner Poolman seconded the motion. The motion passed 5-0. Commissioners Poolman and Delmore will sponsor the bill in the next legislative session.

Overview of the 2017-19 Budget Request

Mr. Anderson presented an overview of the 2017-19 budget requested for the Lottery. The total budget request decreased from \$5,282,778 to \$5,253,584. The primary decreases were in travel, postage, and printing.

Commissioner Poolman and Commissioner Hanson left the meeting at 3:20 p.m.

Omnibus Items

Mr. Miller congratulated Commissioner Rud on being re-appointed to serve another three-year term on the Lottery Advisory Commission ending June 30, 2019. Mr. Miller thanked the other Commissioners for their loyal service.

On September 13, 2016, Mr. Miller testified before the Administrative Rules Committee to describe the procedures followed by the Lottery for the repeal of the Wild Card 2 game and miscellaneous rule changes.

On September 19, 2016, the Office of the State Auditor began the annual financial audit of the Lottery for the years ended June 30, 2016 and 2015. The auditors are planning to issue the final audit report in mid to late November.

Mr. Miller and Mr. Kopy will be attending the National Association of State and Provincial Lotteries annual conference in Atlanta October 2-7, 2016.

Mr. Miller and Mr. Tarno will be attending and setting up a display booth at the North Dakota Petroleum Marketers Conference and Trade Show in Fargo on October 26, 2016.

Mr. Miller reported that Darla McLaughlin was hired as a part-time draw operator for the Lottery replacing Kaycee Link. Darla began working on July 28, 2016.

Adjournment

Commissioner Delmore made a motion to adjourn. Commissioner Rud seconded the motion. The motion passed 3-0. The meeting adjourned at 3:37 p.m.