

Minutes of the Lottery Advisory Commission

June 22, 2020

Attendance

A teleconference meeting of the Lottery Advisory Commission (Commission) was held from 10:01 a.m. – 10:40 a.m., on Monday, June 22, 2020. Representing the Commission by telephone were Mr. Mike Rud (Chairman), Mr. Russ Hanson, Representative Karla Rose Hanson, Senator Nicole Poolman, and Representative Thomas Beadle. Representing the North Dakota Lottery (Lottery) by telephone were Mr. Randy Miller, director, Mr. Ryan Koppy, sales and marketing manager, Mr. Matt Anderson, account budget specialist, Ms. Sonja King, administrative assistant and Ms. Jessica Seibel, administrative assistant.

Approval of Minutes

Commissioner R. Hanson made a motion to approve the minutes of the April 14, 2020 meeting. Commissioner Poolman seconded the motion. The motion passed 4-0.

Final Approval of the Proposed Administrative Rules Changes to the Powerball Game, Mega Millions Game, and Lotto America Game. (These are emergency rules with declared effective dates as interim final rules of April 8, 2020 and April 9, 2020.)

Commissioner Beadle joined the call at 10:05 a.m.

Mr. Miller presented the proposed rule changes to the Powerball, Mega Millions and Lotto America games relating to the starting grand prize amount for each game. Commissioner Poolman made a motion that the Commission acknowledged there were no comments on the proposed rules and to adopt the proposed rules as presented. Commissioner R. Hanson seconded the motion. The motion passed 5-0.

Overview of Revenues and Expenses and Sales Activity (unaudited)

- a. Quarter ended December 31, 2019
- b. Quarter ended March 31, 2020
- c. April-May 2020 sales

Mr. Anderson presented the overview of revenues and expenses for the quarters ended December 31, 2019 and March 31, 2020.

Total ticket sales for quarter ending December 31, 2019 decreased \$6,262,648 or 50.23% compared to the same period last year. The decrease was due to the \$1.6 billion Mega Millions jackpot and the Powerball jackpot of \$687 million in FY2019. Jackpots for Mega Millions and Powerball were \$372 million and \$203 million respectively for FY2020. Total operating expenses decreased \$4,003,019 or 45.40% compared to the same period last year. Prize expense decreased \$3,357,981 or 51.97%, retailer commissions/bonuses decreased \$319,884 or 51.42%, and contractual services expense decreased \$418,029 or 32.12%. These decreases were a direct incremental relation to the decrease in ticket sales. Players Club expense increased \$27,083 or 33.33% due to the timing of payments, two quarterly payments were expensed. Other operating expenses increased \$56,020 or 133.77% due to the timing of payment of the MUSL dues for this fiscal year.

Total ticket sales for quarter ending March 31, 2020 decreased \$1,885,295 or 23.19% compared to the same period last year. This decrease was due to a Powerball jackpot of \$768 million and a Mega Millions jackpot of \$267 million in FY2019. Jackpots for Powerball and Mega Millions were \$396 million and \$202 million respectively for FY2020. Total operating expenses decreased \$1,508,277 or 23.37% compared to the same period last year. Prize expense decreased \$1,276,634 or 27.72%, retailer commissions/bonuses decreased \$101,199 or 25.24%, and contractual services expense decreased \$180,127 or 20.39%. These decreases were a direct incremental relation to the decrease in ticket sales. Players Club expense decreased \$27,083 or 33.33% due to the timing of payments. Marketing expense increased \$58,853 or 31.21% due to Pick & Click promotional expenses including six How-To videos and two live action commercials.

Total ticket sales for April 1, 2020 through May 31, 2020 decreased \$1,154,947 or 22.05% due to Powerball jackpot reaching \$327 million in 2019 compared to \$190 million in 2020 and the impact of COVID-19. Mega Millions jackpot reached \$444 million in 2019 and only \$336 million in 2020, Lotto America's jackpot reached \$20.2 million in 2019, and the Lottery ran a very successful 2by2 7-draw promotion that drove sales to record levels in 2019. COVID-19 also impacted Mega Millions sales.

Overview of Marketing Activity and Short-Term Marketing Plans

Mr. Kopy presented the overview of marketing activity and short-term marketing plans. The North Dakota Lottery Players Club currently has 41,131 registered members. The following prizes were given away to players through the Points for Drawings program. Five JBL Pulse 3 speakers and two Dremel 3-D printers on February 11, 2020. Five travel steam packages and one ultimate entertainment package on March 10, 2020. Three smart home mystery boxes and two Samsung washer/dryer sets on April 14, 2020. Five Xscape Designs camping packages on May 12, 2020. Five DeWALT drill combo kits, two 65" Samsung 4K UHD TVs, and one 2020 Yamaha Drive2 PTV golf cart on June 17, 2020. There are three Points for Drawings promotions in progress including an Amazon Fire bundle, an Escalade air hockey table, and an 82" Samsung 8K UHD Smart TV. Upcoming Points for Drawings promotions include a Yamaha home theater system. The Lottery is in the planning stages for additional Points for Drawings promotions.

In May 2020, a 15% discount was offered on Points for Prizes cart purchases using promo code MOM2020. Players saved 54,262 points on their purchases. During June 2020 players also receive a 15% discount on cart purchases through June 30, 2020 using the promo code DAD2020. Currently all new membership signups receive a 250 point signup bonus.

Commissioner R. Hanson left the meeting at 10:22 a.m.

The Lottery's new website went live on Monday, June 15, 2020. The bootstrap template design has a modern look with better mobile responsiveness and will make future changes more efficient.

The 2by2 7 Draw Promotion ran March 1 through March 28, 2020. With a qualifying purchase of a single play 7-draw ticket, players were eligible to win a free 7-draw 2by2 ticket or \$500. This promotion was part of a multi-state 2by2 promotion. Each participating state was allotted \$35,000 with a 10% buffer to cover prize expenses from the 2by2 Grand Prize Reserve Pool. The advertising cost totaled \$34,280 and the prize expense totaled \$38,859. The promotion saw an overall increase in weekly sales (compared to the 26-week, weekly average) of 73.7%. The current 12-week post promotion analysis is holding about a 14.56% increase in weekly sales.

The Lottery will be running an Instant Luck promotion from August 2 to August 29, 2020. The qualifying purchase will be a single draw, 3-play Lucky for Life ticket. With the qualifying purchase, players will be eligible to win a free Lucky for Life ticket, \$10, or \$100 at random. Advertising expense and prize expense budgets are set at \$50,000 and \$30,000 respectively.

Omnibus Items

Mr. Miller provided the following report.

Fiscal year 2020 sales have been sluggish throughout the year. For the first 11 months of the fiscal year (July-May), unaudited ticket sales totaled \$22.37 million. This represents a \$10.79 million decrease in sales or 32.54% compared to last fiscal year.

The Lottery has not seen annual sales below \$26 million since fiscal year 2011. The primary reason for the decrease in sales is the Powerball and Mega Millions jackpots have not reached over \$500 million this fiscal year. Comparing to last fiscal year, the Mega Millions and Powerball jackpots peaked at \$1.53 billion and \$687 million, respectively.

In addition, the COVID-19 pandemic impacted sales. During the six-week period from March 15th through April 25th, the Lottery estimates total sales decreased approximately 8% due to reduced retailer traffic as a result of the COVID-19 pandemic, along with the change to the Powerball starting jackpot from \$40 million to \$20 million.

Pick & Click online sales increased from 7% of total sales to about 9% of total sales. Since early May, Lottery sales have rebounded to match up closely with comparable jackpot sales. Retailer sales are steadily increasing and online sales are leveling out.

On June 18, 2020, the First Circuit Court of Appeals heard the oral arguments of the Federal case, New Hampshire vs. the Department of Justice. This was related to the Department of Justice 2019 ruling that the Wire Act only applies to sports betting and not lotteries or other forms of state-sanctioned gaming.

I have requested a few outstanding items be addressed before I bring the Scientific Games contract extension request to the Lottery Advisory Commission for approval. If all goes as planned, I will request approval at the September 2020 Lottery Advisory Commission meeting.

Adjournment

Commissioner Poolman made a motion to adjourn. Commissioner Beadle seconded the motion. The motion passed 4-0. The meeting adjourned at 10:40 a.m.