

Minutes of the Teleconference of the Lottery Advisory Commission
June 9, 2011

Attendance

A teleconference of the Lottery Advisory Commission (Commission) was held from 1:30 p.m. – 3:06 p.m., on Thursday, June 9, 2011. Representing the Commission were Representative Dwight Wrantham and Mr. Mike Rud. Representative Lois Delmore and Mr. Laurel Thoreson participated by telephone. Senator Gary Lee (Chairperson) was absent. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, Ms. Tasha Gerding accountant/budget specialist, Ms. Kassondra Keller, sales and marketing manager, and Ms. Sonja Walder, administrative assistant. Representing Scientific Games International were Mr. Doug Parker, regional operations director, Ms. Leslie Darfler, general manager for North Dakota, and Mr. Christian Ross, online product marketing director.

Acting Chairperson

Commissioner Wrantham made a motion to nominate Commissioner Rud to serve as acting chairperson for the meeting. Commissioner Delmore seconded the motion. The motion passed 4-0.

Approval of Minutes

Commissioner Delmore made a motion to approve the minutes of the April 27, 2011 and May 5, 2011 meetings. Commissioner Thoreson seconded the motion. The motion passed 4-0.

Overview of Revenues and Expenses for the Quarter Ended March 31, 2011 (unaudited)

Ms. Gerding provided an overview of the quarter ended March 31, 2011. Unaudited ticket sales increased \$809,583 or 14.65% and expenses increased \$525,060 or 12.3% compared to the same period last year. Variable expenses were in line with the increase in sales. Ms. Gerding noted factors that impacted the marketing expense included that last year the Lottery paid three months of marketing vendor invoices during this quarter whereas in this year the Lottery paid two months. In addition, the dollar discount offered during the Big 3 promotion significantly increased marketing expenses. Operating expenses decreased due to the office moving expenses in 2010 that will not be incurred this year. Unaudited ticket sales for April and May 2011 were down \$765,632 or (16.33%) compared to the same period last year. A major factor contributing to the loss in sales was in May 2010 the Lottery ran a 10X Powerball promotion, but the promotion was not run this year. Mr. Miller stated the reason the 10X promotion was not run this year was there was not enough interest among the Powerball group members.

Commissioner Wrantham asked if Mega Millions ticket sales was the cause of the decrease in Powerball sales. Mr. Miller stated there may have been some cannibalization, along with players jumping to the game with the highest jackpot, but for the most part, big Powerball jackpots increase sales. This year we have not had as many big Powerball jackpots. The Mega Millions jackpot had a few nice runs, but there is no comparison in sales versus Powerball. Powerball sales are nearly double Mega Millions sales when the jackpot hits one hundred and two hundred million. Mr. Miller added that the Lottery has done extremely well compared to other lotteries cross-selling Powerball and Mega Millions. In a recent analysis provided by the Multi-State Lottery Association, the North Dakota Lottery ranked number one among lotteries with a 26% increase in combined Powerball and Mega Millions sales since cross-selling began. Ms. Gerding left the meeting at 1:34 p.m.

Overview of Marketing Activity

Ms. Keller presented the overview of marketing activity. The Wild Card 2 promotion “Wild Winnings” ran from May 1 through May 28. Players had a chance to win merchandise prizes when purchasing a \$5 Wild Card 2 quick pick ticket. The prizes ranged from \$25 in value up to \$500 and included Visa gift cards, iPods, Garmin GPS units, Nooks, Wii’s, Sony handycams, and blu-ray players. Total spent on the media and prizes was approximately \$38,000. Overall it was a successful promotion. Wild Card 2 sales were up \$68,831 or 61%.

The Father’s Day subscription promotion is currently running on the Lottery’s website. The promotion offers up to a 10% discount on all online subscriptions during the month of June. Beginning June 9, the Lottery will run a week of radio advertising. The results of the promotion will be provided at the next meeting. Commissioner Rud asked if this promotion was available in the retailer locations as well. Ms. Keller stated that players can ask for a subscription application from the retailer, then complete and return to the Lottery. Ms. Keller left the meeting at 1:42 p.m.

Consideration of \$2 Powerball Game Proposal

Commissioner Delmore made a motion to move into executive session at 1:42 p.m. to review the details of the \$2 Powerball game proposal. The proposal contains confidential data and proprietary information. Commissioner Wrangham seconded the motion. The motion passed 4-0.

Executive Session – Confidential Minutes

Commissioner Wrangham made a motion to move out of executive session at 2:51 p.m. Commissioner Delmore seconded the motion. The motion passed 4-0.

Mr. Miller asked for a recommendation from the Commission to vote in favor or against the \$2 Powerball game. Representatives from Scientific Games International left the meeting at 2:52 p.m. Commissioner Wrangham recommended the Commission oppose moving to the \$2 game. He stated that when North Dakotans voted it was to allow the citizens to play the lottery and they voted to do that and they are doing that. While the \$2 game doubles the amount of commission that the retailers receive is favorable, our goal should not necessarily be to increase Lottery revenues for the State of North Dakota.

Commissioner Rud asked how Mr. Miller felt about the \$2 Powerball game change. Mr. Miller stated that the information provided identified both the positives and negatives to assist the Commission in making a decision. Commissioner Rud asked Mr. Miller if he had heard anything from retailers. Mr. Miller stated there has not been much discussed as far as a \$2 game, although it would be a benefit to retailers as they would earn 5% commission on a single transaction of a \$2 sale.

Commissioner Thoreson stated the Commission should lend approval to this idea, with the positives outweighing the negatives. The Lottery is not taking away the option for a \$1 game, as players can still play other big jackpot games such as Mega Millions or Hot Lotto for \$1.

Commissioner Delmore said the decision is conflicting because there are some very interesting numbers. First, this was initiated by the people of North Dakota. It wasn’t passed by a legislative delegation. Second, it may be a better deal for retailers, but what if players decide they don’t want to change to \$2 lottery tickets? Commissioner Delmore noted there doesn’t seem to be any excitement about the

increase with the people she has talked to about the \$2 game. A dollar seems like a fair return, but the return on increasing the price, is it is enough to make it worthwhile to go to \$2?

Commissioner Wrangham made a motion to recommend the Lottery vote against the \$2 Powerball game. Commissioner Delmore seconded the motion. Ms. Walder called for a roll call vote. Commissioner Delmore-yes, Commissioner Thoreson-no, Commissioner Rud-no, and Commissioner Wrangham-yes. Motion tied 2-2. Mr. Miller will present the Commission's recommendation to Attorney General Stenehjem for a final decision.

Omnibus Items

No omnibus items.

Adjournment

Commissioner Wrangham made a motion to adjourn. Commissioner Delmore seconded the motion. The motion passed 4-0.

Meeting adjourned at 3:06 p.m.