

Minutes of the Lottery Advisory Commission  
April 19, 2013

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 7:00 a.m. – 7:50 a.m., on Friday, April 19, 2013. Representing the Commission were Mr. Mike Rud (Chairman) and Mr. Russ Hanson; Representative Lois Delmore, Senator Lonnie Laffen, and Representative Joe Heilman participated by telephone. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, Mr. Rob Yost, accountant/budget specialist, Mr. Ryan Koppy, sales and marketing manager, and Ms. Sonja Walder, administrative assistant. Ms. Julie Thompson, security officer and Ms. Missy Reich administrative staff officer participated by telephone. Also, in attendance was Ms. Leslie Darfler, general manager for North Dakota, Scientific Games International.

Approval of Minutes

Commissioner Delmore made a motion to approve the draft minutes of the January 14, 2013 meeting. Commissioner Hanson seconded the motion. The motion passed 5-0.

Approval of the Audit Report for the Fiscal Years Ended June 30, 2012 and 2011

Commissioner Delmore made a motion to accept the audit report for the fiscal years ended June 30, 2012 and 2011. Commissioner Hanson seconded the motion. The motion passed 5-0.

Review of the Draft Request for Proposals for an Online Lottery System and Services

Mr. Miller provided a summary of the draft Request for Proposals (RFP) for an online lottery system and services. The current online lottery system includes 400 lottery retailer terminals across the state. There are at least 25 retailer locations that have been identified as potential prospects for a terminal. The Lottery's data center is located in Oklahoma City, OK where the ND Lottery and the OK Lottery share space. The contract with the current online vendor expires March 24, 2014.

The contract term will begin March 25, 2014 and continue through March 24, 2020 with two (2) two (2) year extension options (concluding on March 24, 2024, if exercised).

The RFP includes both base and optional costs. The base cost proposal includes 425 retailer terminals, printers, self-service ticket checkers, customer display units, interior and exterior signage, along with subscription service as currently offered by the Lottery.

The optional cost proposal includes an additional 25 retailer terminals, printers, self-service ticket checkers, customer display units, interior and exterior signage. Also, the vendor may provide an alternate terminal and self-service ticket checker as an option to those included in the base proposal. Other optional cost requests include player activated terminals in limited retailer locations, automated subscription service, and player's club/loyalty and rewards program.

Mr. Miller asked the Commission to consider moving the automated subscription service from the optional cost proposal to the base cost proposal. Chairman Rud asked the Commission to consider including 425 player activated terminals in the optional cost proposal.

Commissioner Delmore made a motion recommending the approval of the base and optional cost proposal with the following changes. Move the automated subscriptions service into the base cost proposal and including 425 player activated terminals in the optional cost proposal. Commissioner Heilman seconded the motion. The motion passed 5-0.

#### Overview of Revenues and Expenses for the Quarter Ended December 31, 2012 and Sales Activity Through March 2013 (unaudited)

Mr. Yost provided an overview of revenue and expenses for the quarter ended December 31, 2012 and sales activity through March 2013. Total ticket sales increased \$1.98 million or 33.03% compared to the same period last year. The increase was mainly due to the \$550 million Powerball jackpot run in November 2012 and the price change in Powerball from \$1 to \$2 in January 2012.

Operating expenses increased \$1.15 million or 26.17% compared to the same period last year. Prize expense increased \$966,522 or 31.27%, retailer commissions/bonuses expense increased \$93,271 or 30.58%, and contractual services expense increased \$78,762 or 12.50%. These increases were a direct incremental relation to the increase in ticket sales.

Ticket sales for the quarter ended March 31, 2013 decreased \$2.63 million or 30.40% compared to the same period last year. The decrease was mainly due to the record Mega Millions jackpot run of \$656 million in March 2012.

#### Overview of marketing activity and short-term marketing plans

Mr. Kopyy provided an overview of marketing activity and short-term marketing plans. The Get in it to Win it promotion ran September 6, 2012 through March 7, 2013. Each month active subscribers were entered into a drawing for prizes valued at \$500, \$200, and \$50. Subscribers received one entry for every active subscription they held. Subscription sales increased 14.3% which was slightly short of the goal of 15%.

Player research and survey was conducted December 2012 through February 2013 by Winkelman Consulting, Fargo, ND. The research consisted of a pilot study to collect qualitative data about players' feelings toward the lottery/lottery games and why they play the lottery. A telephone survey of players and non-players focused on collecting data related to acquisition and retention of players. As of March 2013, the total cost of the research and survey was \$33,157. A summary of the research and survey will be provided at the next Commission meeting.

The Wild Card 2 game changed on January 13, 2013. The Lottery ran a 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. Due in part to a large Wild Card 2 jackpot run of \$815,000, sales during the promotion increased over 58% compared to similar jackpot runs. \$15,039 was spent on promotional costs (point-of-sale materials, production costs, radio and online ads), along with over \$37,000 in prize expense for the free tickets.

During the month of April, the Lottery is offering a discount of up to 10% on Mega Millions subscriptions purchased online. The budget for advertising (Facebook, Twitter, and Weather Eye Radio) is \$4,000.

The Lottery's website redesign is nearing completion. This is the first time the website has been redesigned since the Lottery began. Enhancements make it more innovative, user-friendly and helpful, along with providing a responsive design to adjust to different screen sizes (computers, smartphones, and tablets), an active Facebook plug-in that displays all current posts and updates, and a Find-A-retailer link using Google maps. The new website is planned to launch in early May 2013.

The Hot Lotto game will change effective May 12, 2013. The Lottery plans to run 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, radio and online ads) is \$25,000, along with \$25,000 in prize expense for the \$1 discounts.

#### Omnibus Items

Mr. Miller reported other lotteries have either begun selling or are showing interest in selling Powerball and Mega Millions. California began selling Powerball on April 8, 2013. The Wyoming legislature authorized the selling of Powerball on July 1, 2013, although sales are more likely to begin in the fall of 2013. Puerto Rico is interested in selling Powerball. Florida will begin selling Mega Millions on May 15, 2013. Due to the increased population from these lotteries, game changes including a matrix change may be considered by the Powerball and Mega Millions Game Groups.

Mr. Miller asked the Commission if anyone was interested in volunteering to serve on the evaluation committee for the online vendor system and services RFP. Mr. Miller will send an email to Commissioners for responses if anyone is interested.

#### Adjournment

Commissioner Hanson made a motion to adjourn. Commissioner Delmore seconded the motion. The motion passed 5-0. Meeting adjourned at 7:50 a.m.