

## Minutes of the Lottery Advisory Commission

December 21, 2016

### Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 10:06 a.m. – 11:36 a.m., on Wednesday, December 21, 2016. Representing the Commission was Mr. Russ Hanson; with Mr. Mike Rud (Chairman), Representative Lois Delmore, Senator Nicole Poolman 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, and Ms. Sonja Walder, administrative assistant. Representing the Office of Attorney General state and local government division was Ms. Laura Balliet, assistant attorney general.

Since Chairman Rud was participating by telephone, the consensus from the Commission was for Commissioner Hanson to serve as chairman for the meeting.

### Approval of Minutes

Commissioner Delmore made a motion to approve the minutes of the September 22, 2016 meeting. Commissioner Beadle seconded the motion. The motion passed 5-0.

### Overview of Revenues and Expenses and Sales Activity (Unaudited)

Mr. Anderson presented the overview of revenues and expenses for the quarter ended September 30, 2016. Total ticket sales increased \$1.61 million or 25.27% compared to the same period last year. The increase was primarily due to the \$487 million Powerball jackpot and the \$540 million Mega Millions jackpot that were hit in July. Total operating expenses increased \$1.38 million or 29.64% compared to the same period last year. Prize expense increased \$934,753 or 28.15%, retailer commissions/bonuses increased \$69,406 or 20.74%, and contractual services expense increased \$251,769 or 46.48%. These increases were in direct incremental relation to the increase in ticket sales. Players Club expenses remained the same. Marketing expense increased \$142,679 or 461.61%. The increase in marketing expenses was due to the timing of payments for advertising services and partial payment to Alchemy 3 for the Power Cruise promotion. Other operating expenses decreased \$29,700 or 19.21% due to \$13,000 of unused MUSL dues returned to the Lottery and IT contractual expense decreased \$12,500 compared to the same period last year.

Total ticket sales for October and November 2016 increased \$673,024 or 17.37% compared to the same period last year. The increase was due to the \$420 million Powerball jackpot that was hit in late November and a successful Cash Dash promotion in November.

### 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 18,696 registered members. The following prizes were given away to players through the Points for Drawings program: three car care packages on September 27; one Turn It Up & Cook It Up package on October 12; three Cuisinart 12 piece cookware sets on October 26; two Imperialstar 5-piece Drum kits on November 23; and three Samsonite 4-piece luggage sets on November 23. There are three other Points for Drawings promotions in progress including a Dyson vacuum, a

fitness package, and a game room. Upcoming Points for Drawings promotions include an LED fireplace and a 2017 Polaris Sportsman ATV.

The Lottery is currently running a point sign-up bonus promotion and a Points for Prizes promotion through December 31, 2016. During the point sign-up bonus promotion, new Players Club members receive 1,000 bonus points upon registration. During the Points for Prizes promotion, Players Club members can save 15% on their Points for Prizes purchase by entering the code "SEASON 15."

The Lottery ran a 2by2 7-draw promotion through October 1, 2016. The qualifying purchase was a single play 7-draw 2by2 ticket for \$7. With each qualifying purchase, players had a chance to instantly win a free 7-draw 2by2 ticket or \$500. All winners were chosen at random. Players won \$34,957 in instant prizes. The promotion averaged a 73.6% increase in sales compared to the previous 26-week, weekly average. The participation rate was 44.42%. This was the most successful 2by2 promotion to date. Advertising consisted of in-store point-of-sale, digital billboards, 15 second TV ad used in YouTube Pre-Rolls and Teads In-Read spots, 15 second radio ad, social media, Lottery website, Players Club website, and Lottery-In-Motion monitors. Advertising costs totaled \$37,050.69. A six-week post promotion analysis indicates 2by2 sales are still holding at a 9.9 % increase.

The Lottery ran a subscription promotion through October 29, 2016. The qualifying purchase was any \$12 Powerball or Powerball with Power Play subscription. With the qualifying purchase, subscribers received a free \$2 Lucky for Life subscription play. During the promotion, the number of new Powerball subscribers increased 4.3% and the 26-week, weekly Powerball subscription sales average was \$4,801. Weekly Powerball subscription sales increased 27.4% or \$6,117 when compared to the previous 26-week, weekly average. Advertising consisted of digital billboards, 15 second TV ad used in YouTube Pre-Rolls and Teads In-Read spots, 30 second radio ad, social media, Lottery website, Players Club website, and Lottery-In-Motion monitors. Advertising costs were budgeted at \$30,000 with \$25,282.87 billed to date.

The Lottery ran a Cash Dash promotion through December 3, 2016. The qualifying purchase was 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 each qualifying purchase, players had a chance to instantly win \$5, \$20, \$100 or \$500. Winners were chosen at random. Players won \$36,135 in instant prizes. During the promotion, total Lottery sales increased over \$456,000 or 23.5% when compared to the 13-week, weekly average. Advertising consisted of in-store point-of-sale, digital billboards, TV, radio, YouTube Pre-Rolls and Teads In-Read spots, Facebook and Pandora and Lottery-In-Motion monitors. Advertising costs were budgeted at \$80,000 with \$7,320.46 billed to date.

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

The Lottery is planning to run a multi-state Powerball promotion called Power Cruise™. The promotion will run from February 5 through March 29, 2017. Players need to log on to the North Dakota Lottery Players Club website to enter their code (one entry per ticket) where they will earn entries into the promotion as well as points to be used in the Points for Prizes or Points for Drawings. There are 6 top prizes that include a trip for two on a privately chartered Royal Caribbean Cruise Lines, **Brilliance of the Seas**® and 40 first prizes of \$500 cash. Six ND Powerball players will win a Power Cruise Trip Prize. The drawing will be conducted on March 31, 2017. The total advertising budget is \$140,000 and will include traditional radio, TV (broadcast and cable), Pandora radio, Social Media, digital billboards, All-Over-

Media (pump toppers at 20 select gas station ND Lottery retailers), Google Display Ads, YouTube Prerolls, and Teads In-Read video. The total prize expense is budgeted at \$60,000.

The Marketing and Advertising Services contract with KK BOLD ends on June 30, 2017. The Lottery will begin the RFP process in early January 2017. The tentative plan is for the RFP to be issued in early March, 2017 with proposals due by mid-April, 2017. Finalists' oral presentations will take place in early May 2017.

Commissioner Hanson suggested Mr. Kopyy cover agenda item number five, retailer survey summary.

#### Retailer Survey Summary

Mr. Kopyy presented a summary of the retailer survey that was conducted in October 2016. Two different surveys were hand-delivered by the customer service specialists; one to the 400 retailers that had only a WAVE terminal and one to the 47 retailers that had both a WAVE terminal and a PlayCentral terminal (PCT). 291 surveys were returned (65.1% return rate). There were a total of 227 written comments with the self-serve ticket checker receiving 67. Other comments were received related to the 24-hour hotline, WAVE terminal, store visits, and Lottery-In-Motion monitors.

The section of the survey with the highest average ranking was the Lottery store visits with a 4.62, meaning good to excellent and the section of the survey with the lowest average ranking was the self-serve ticket checkers with a 3, meaning ok.

Overall most retailers were happy with the new terminals, 24-hour hotline, customer service representatives, Scientific Game technicians, and Lottery communications. The biggest area that needs improvement is the self-serve ticket checkers. Currently, the Lottery is working with SGI to resolve the issue.

#### Acceptance of the Audit Report for the Years Ended June 30, 2016 and 2015.

Mr. Miller presented the audit report for the years ended June 30, 2016 and 2015. There were no formal or informal recommendations in the audit report and because of this Mr. Miller suggested the Lottery not request a representative from the Office of the State Auditor to present the report. The Commission agreed. Since the Commission serves as the audit committee for the Lottery, Mr. Miller asked the Commission for a motion to accept the audit report. Commissioner Delmore made a motion to accept the audit report for the fiscal years ended June 30, 2016 and 2015. Commissioner Beadle seconded the motion. The motion passed 5-0.

#### Information on AutoLotto

Mr. Miller informed the Commission that the Lottery was contacted by AutoLotto in late September 2016. AutoLotto stated they would soon be selling Powerball tickets in North Dakota via an agreement with a North Dakota Lottery retailer. The AutoLotto application allows players to purchase Powerball tickets through a mobile device. AutoLotto then generates a play slip, scans the play slip through a retailer lottery terminal, prints a lottery ticket, scans the ticket while sending an image of the ticket to the player (at the same time, stamping AutoLotto on the back of the ticket), then stores the ticket for the player. AutoLotto is currently doing business in New Hampshire and Minnesota.

Laura Balliet, assistant attorney general with the North Dakota Office of Attorney General noted that the agreement between the retailer and AutoLotto has numerous requirements and obligations that conflict with the North Dakota Lottery Retailer License Agreement. Areas of concern, include retailers must supervise employees who sell tickets, although AutoLotto explicitly states it operates as an independent contract not an employee of the retailer; retailers must make their terminals readily accessible to the public, yet AutoLotto requires the retailer to dedicate a terminal for AutoLotto's sole use that will operate in a back office at the retailer site; AutoLotto acts as a "pass-through" of prize winnings, requiring the retailer to deposit winnings in an account with AutoLotto from where AutoLotto will pay winnings to players, although AutoLotto claims to act as an "agent" of winning players and will collect winnings from the Lottery on the player's behalf, but not as the "ticket-holder"; and AutoLotto will notify players of winning tickets and give the players 30 days to respond to the notification to collect winnings, but does not state what actions occur if no timely response is received in comparison to the Lottery allowing 180 days for players to redeem winning tickets.

Commissioner Delmore asked if there would need to be legislation enacted to protect the integrity of the North Dakota Lottery. Mr. Miller stated that may be a possibility to consider. Commissioner Rud asked if legislation was necessary to change the North Dakota Lottery Retailer License Agreement. Mr. Miller responded that legislation is not necessary, but unless an amendment was made to the North Dakota Lottery Retailer Agreement, a change would not be made until the next licensing renewal period on October 1, 2017. Commissioner Beadle stated that the concern for the liability issues of the retailers was something that needed to be looked at in more detail.

Mr. Miller informed the Commission that the Lottery also has the capability to sell lottery tickets through a mobile device with an application that is available from the Lottery's online vendor, Scientific Games International.

Mr. Miller asked the Commission for direction in regards to AutoLotto selling Powerball tickets in North Dakota, along with a recommendation that the Lottery gather more information on the application offered by Scientific Games International. Commissioner Beadle made a motion that the Lottery Director and the Attorney General work together to get the best options regarding AutoLotto and report back to the Commission. Commissioner Poolman seconded the motion. The motion passed 5-0. Mr. Miller asked for clarification on the motion. Commissioner Beadle amended his motion recommending the Lottery Director and the Attorney General work together to determine the most appropriate action the Lottery should take in response to AutoLotto and report back to the Commission. Commissioner Poolman seconded the motion. The motion passed 5-0.

The consensus from the Commission was for Mr. Miller to work with Scientific Games International to get a cost estimate and timeframe as to when they could implement an application for the Lottery.

#### Omnibus Items

As a follow up to the discussion at the last Lottery Advisory Commission meeting, Mr. Miller informed the Commission that Attorney General Stenehjem has decided the Lottery will not offer the Five Card Cash game. Mr. Miller will evaluate other game options and provide information at a future meeting.

## Adjournment

Commissioner Delmore made a motion to adjourn. Commissioner Beadle seconded the motion. The motion passed 5-0. The meeting adjourned at 11:36 a.m.