

Minutes of the Lottery Advisory Commission
October 20, 2020

Attendance

A teleconference meeting of the Lottery Advisory Commission (Commission) was held from 2:11 p.m. – 3:58 p.m., on Tuesday, October 20, 2020. Representing the Commission by telephone were Mr. Mike Rud (Chairman), Representative Karla Rose Hanson, Senator Nicole Poolman, and Representative Emily O'Brien. Mr. Russ Hanson was absent. Representing the North Dakota Lottery (Lottery) by telephone were Mr. Randy Miller, director, Mr. Ryan Kopy, sales and marketing manager, Mr. Matt Anderson, account budget specialist, Ms. Julie Thompson, security officer, Ms. Jessica Seibel, administrative assistant, Ms. Missy Steele, administrative staff officer, Mark Rauhauser, customer service specialist. Representing Scientific Games Lottery by telephone were Bryan Colbert, general manager for North Dakota, Doug Parker, regional operations director, and Michelle Solomon, digital account manager.

Selection of a Chairperson

Commissioner K. Hanson made a motion to nominate Commissioner Rud to serve as chairperson for a one-year term. Commissioner Poolman seconded the motion. With no other nominations, Commissioner Rud was elected chairman. The motion passed 4-0.

Approval of Minutes

Commissioner Poolman made a motion to approve the minutes of the June 22, 2020 meeting. Commissioner K. Hanson seconded the motion. The motion passed 4-0.

Reports

a. 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 42,274 registered members. The following prizes were given away to players through the Points for Drawings program. Five Dewalt Drill sets on June 16, 2020. Two Samsung 65" 4K UHD TV's on June 16, 2020. One 2020 Yamaha Drive2 PTV golf cart on June 16, 2020. Five Amazon fire tablet bundles on July 21, 2020. Five Yamaha 5.1 channel home theater systems on August 18, 2020. Two Escalade air hockey tables on August 18, 2020. Five Carson red planet telescopes on September 29, 2020. One Samsung 82" 8K UHD Smart TV on September 29, 2020. There are three Points for Drawings promotions in progress including one free full year (364 Draws) of 2by2

Pick & Click online play, \$1,000 Cash Powerball First Millionaire of the Year semi-finalist entry, and a Sunview Imports bedroom package. Upcoming Points for Drawings promotions include a 9-in-1 Ninja Foodi, Stamina exercise bike system, Bose mystery box, Troy-Bilt 24" snow blower, clean room package, & St. Croix outdoor kitchen package.

During the month of June 2020, a 15% discount was offered on Points for Prizes cart purchases using one-time promo code DAD2020. Players saved 55,832 points on their purchases. Total points redeemed (weekly average) during promotional period was 227,341; that's a 48.4% increase compared to lifetime weekly average.

November 22 – November 30, 2020, a Black Friday/Cyber Monday 20% discount will be offered on Points for Prizes cart purchases using multi-use promo code BFCYM2020.

During the month of December 2020, a Season Savings Spectacular 15% discount will be offered on Points for Prizes cart purchases using multi-use promo code HOLIDAY2020.

Currently all new membership signups receive a 250 point signup bonus. During the month of December 2020, a 1,000 point signup bonus promotion will run. All players who sign up and complete registration during the prescribed promotional period will receive 1,000 bonus points.

The Instant Luck Promotion ran from August 2 through August 29. The qualifying purchase of a single draw, 3 play Lucky for Life ticket (\$6 value). With the qualifying purchase, players had the chance to instantly win a free \$2 Lucky for Life ticket, \$10 or \$100. Instant Luck winners were chosen at random. The prize expense was budgeted at \$30,000. Players won \$31,202 in instant prizes. The advertising expense was budgeted at \$50,000, with \$41,960.12 expensed so far. Lucky for Life sales for the four week promotion increased 119% compared to the 26-week, weekly average prior to the promotion. Total Lucky for Life sales during the promotion were \$480,132.

The Lottery held a Pick & Click Flash Sale promotion on Wednesday, September 16. Players spending \$10 on any game or combination of games or \$10 to extend a current Pick & Click online play, during the prescribed promotion date and time, received a \$2 discount. Also, for each increment of \$10 spent (e.g. \$20, \$50, etc.), a \$2 discount was applied to the purchase at checkout. For example, \$20 spent will receive a \$4 discount; \$50 spent will receive a \$10 discount. Total Pick & Click sales during the Flash Sale totaled \$6,812. Players received \$1,674 in discounts.

The Pick & Click online play promotion, *Buy \$10, Get a \$2 discount*, is currently running. Every Tuesday in October, players spending \$10 on any game or

combination of games or \$10 to extend a current Pick & Click online play, receive a \$2 discount. For each increment of \$10 spent (e.g. \$20, \$50, etc.), a \$2 discount is applied to the purchase at checkout. For example, \$20 spent will receive a \$4 discount; \$50 spent will receive a \$10 discount. Advertising and prize expense have been budgeted at \$10,000 and \$10,000 respectively.

The Cash Dash promotion is scheduled to run from November 1 through November 28, 2020. The qualifying purchase will be one of each of the Lottery's games with multipliers (Powerball with Power Play, Mega Millions with Megaplier, Lotto America with All Star Bonus, Lucky for Life, and 2by2) for \$11. With the qualifying purchase, players will have the chance to instantly win \$5, \$20, \$100, or \$500. Cash Dash winners will be chosen at random. The budgeted costs are \$30,000 in instant prizes, \$80,000 in advertising costs (production, point of sale items, TV, radio, YouTube Pre-rolls, Midco CTV/OTT, digital billboards, and Facebook).

The Pick & Click online play promotion, *Never Miss a Draw*, is scheduled to run December 1 through December 31, 2020. All purchases (new and/or extension) of 13 weeks, 26 weeks, 39 weeks, or 52 weeks will receive up to 10% discount. Advertising and prize expense have been budgeted at \$18,000 and \$5,000 respectively.

Player research is tentatively schedule to be conducted in January/February 2021. Due to continually increasing costs of conducting a phone survey, the Lottery will be changing to an online based format. The Lottery and KK Bold tested three different online vendors, ultimately selecting Survey Sparrow as the vendor. Initial cost estimates reduce survey costs in half.

Brian Colbert joined the meeting at 2:21 p.m.

b. Revenues and Expenses for the Fiscal Year Ended June 30, 2020 (unaudited) and July-September 2020 Sales (unaudited)

Mr. Anderson presented the overview of revenues and expenses for the fiscal year ended June 30, 2020. Total ticket sales decreased \$10,961,132 or 31% compared to last fiscal year. The decrease was primarily due to bigger jackpots in fiscal year 2019 including a \$1.6 billion Mega Millions jackpot. In fiscal year 2019, there were five Mega Millions jackpots greater than \$200 million compared to four in fiscal year 2020. In fiscal year 2019, there were five Powerball jackpots greater than \$200 million compared to only one in fiscal year 2020.

Total operating expenses decreased \$7,245,683 or 27.68% compared to last fiscal year. Prize expenses decreased \$5,571,385 or 30.54%, retailer commissions/bonuses decreased \$565,004 or 32.24%, and contractual services expense decreased \$936,247 or 24.75%. These decreases were a direct incremental relationship to sales. Players Club expenses stayed the same. Marketing expense decreased \$97,005 or 14.67%.

Salaries and benefits increased by \$338 or .03%. Operating expenses decreased \$76,380 or 23.51%.

Total ticket sales for the quarter ending September 30, 2020 compared to September 30, 2019 increased \$52,584 or .90%. This increase was primarily due to the Lucky for Life Instant Luck (August 2020) promotion that ran during the quarter ended September 30, 2020 compared to no promotion for quarter ended September 30, 2019.

c. Online system update (year 6)

General Overview

Ms. Thompson presented a general overview of the online system for year six. The AEGIS CGS (Central Gaming System) and SciCore (Subscription/Pick & Click) systems saw many changes during fiscal year 2020. Some of these were implemented as part of the June 2019 Multi State Lottery (MUSL) review and changes to MUSL Rule 2 and others were enhancements requested by Scientific Games.

The upgrade from SciGuard to SciGuard Plus was approved by the MUSL. SciGuard Plus was scheduled to be added to the North Dakota Lottery system in the first quarter of 2020. This was not completed during that timeframe and is now scheduled for our User Acceptance Testing (UAT) environment within the next three months.

Enhancements to CyberArk were completed. Also a jump box was added to the ICS environment that includes keystroke logging and video recording of all remote access activities. The jump box can be used to send Windows updates and patches to the ICS servers from the state's WSUS server.

SGI replaced a WSUS server used to update all Windows servers in the lottery network, with a Tanium server that could push patches and updates in a more secure fashion.

The Linux servers were updated to Ubuntu as the existing Red Hat version was no longer supported. This was a major change to the CGS environment as the transaction engine servers (TXE's) use Linux.

There were some unforeseen problems during the production migration, which were addressed quickly. These primarily affected TXE3 but seem to have been resolved at this time. TXE3 is located in a different facility than the primary TXE's and would be used in the event of a disaster at the primary location.

MUSL initiated a new requirement that all member lotteries and their online gaming vendors automatically upload daily sales, draw sales, and draw winners to the MUSL website. The new ICS production servers and operating system were placed on the lottery network in December 2019. The automated upload is now being used during the draw and day end CGS processes with no issues.

There were numerous Windows 7 pc workstations used by the lottery in the UAT and production environment. Windows 7 is no longer supported and these pc's were updated to Windows 10.

A new rule required that Scientific Games have camera coverage in the warehouse area along with card scanner capabilities. Scientific Games has installed a door card scanner and cameras at the warehouse, but has not finished placing them onto the network for remote viewing by the lottery. The date for completion of this project is still to be determined.

Some changes need to be made to the CGS firewall rules. Scientific Games is still determining the scope of work to complete this project and has not provided an estimated delivery date.

The SciCore group contracted with a new company, GeoComply, to do the geolocation process for subscriptions/Pick & Click and the mobile application. The new geolocation service is more accurate than the former provider was, with a higher success rate for subscription funding and purchasing.

SciCore changed the internet payment processor, for subscriptions/Pick & Click from Everi to PaySafe. There continues to be some refinement done in conjunction with the SciCore group as the lottery learns what information is available from the new processor. We continue to request new business reports that are deemed necessary by various Lottery staff.

There were updates to the Ravenweb and Nagios applications used by the National Data Center, in Georgia. Nagios and Ravenweb are not used by Lottery staff, but are valuable tools used to monitor the system for any errors or potential issues.

Completed and Outstanding Requests Summary

Mr. Colbert presented the completed and outstanding requests summary for year six. He noted that Ms. Thompson covered many of the items in her report. Other completed items included several retailer and Pick & Click promotions, updates to the mobile application, random issues related to day-to-day activity, updating game logos, and document changes.

Other outstanding items related to software and network changes included RDTOT report page breaks, Pick & Click plays on the draw game summary report, PCT sales report, PCT event log report, purged uncashed tickets summary, sales summary/game rollup, daily sales activity, printing of retailer licenses, voucher report for single promotions, wallet updates, prize claim for URL update, cart promotion message, Optipush mobile application configuration update, 1, 000 point sign-up bonus promotion, and December Pick & Click Promotion. Scientific Games plans to have most of the outstanding items completed by December 31, 2020. If any are still outstanding, they will be completed in early 2021.

Requests currently discussing and scheduling for resolution included additional chain reports evaluation, activity sales detail, improvements to the Amber Alert program, check printing, new BI reports, Powerball game changes, and Lucky for Life game changes.

System Incident Report Summary

Mr. Colbert presented the systems incidents for year six. In September 2019, the Pick & Click survey was open after scheduled completion date. In October 2019, there was a database failure. In November 2019 there were multiple incidents including the Cash Dash promotion button did not appear on the retailer terminals, inadvertent shutdown by the operators, Everi servers timed out for transactions, and an email blast didn't go out until 4 days after the scheduled send date. In January 2020, the banner for the new subscription discount promotion went live 5 days before it was scheduled. Also in January 2020, the winners file failed to import into GMS. In February 2020, the NDC connection to QTS was lost. In March 2020, there was a printing error when a ticket was purchased using the 7 Draw 2by2 promotion button. Also in March 2020, there was a player funding issue. April 2020 incidents included another player funding issue, an imbalance of gift amounts between the TXE and GMS, and no internet sales after start of day. In May 2020, there was a 2by2 exchange ticket issue. In June 2020, there was an issue while updating an expiring SSL certification.

SGI Employee Changes

Mr. Colbert and Mr. Parker presented the Scientific Games staffing report. Mr. Colbert stated that some of the system incidents in the report summary were due to operator errors. Scientific Games has put in safeguards for when these operator errors occur. Most of the employee turnover is related to changes in the management team. Some management changes were due to opportunity for promotions within the company while others vacancies were due to leaving the position.

Sales and Terminal Summary

Mr. Rauhauser presented the sales and terminal summary for year six. Total Lottery sales (including SciPlay) were \$24.4 million (unaudited) for fiscal year 2020. This was the lowest sales since fiscal year 2011. The primary reason for the decrease in sales from fiscal year 2019 was the Powerball and Mega Millions jackpots did not reach over \$500 million. Of course, the COVID-19 pandemic impacted ticket sales. During the six-week period from March 15 through April 25, the Lottery estimates total sales decreased approximately \$225,000 or 8% due to reduced retailer traffic/purchases and the change to the Powerball starting jackpot (from \$40 million to \$20 million) as a result of COVID-19 because the public was directed to stay home/socially distance. Pick & Click online sales increased from 7% of total sales to about 9% of total sales during this six-week period.

Since July 2014, the number of lottery terminals in regions 1, 3, and 4 have increased. The percentage of lottery terminals by region remains within three percentage points of each regions sales percentage.

While improving lottery equipment, developing exciting lottery promotions, and growing online sales all positively impact lottery sales, history shows again the largest increases in sales are driven by high jackpots.

PlayCentral (PCT) Sales Summary

Mr. Rauhauser presented the sales summary for the Play Central Terminals (PCTs) for year six. There are 50 PCTs in retailer locations; 27 in grocery stores and 23 in convenience stores. PCT sales totaled \$1.53 million, which was down 20.7% from last year. The PCTs accounted for 6.3% of total Lottery sales. This is up from 5.5%, 5.5%, 5.2%, 4.4%, and 4% the previous five years. PCTs accounted for 28.5% of the Lottery sales in the retail locations they were in, which is up from 25.8%, 24.4%, 21.9%, 19.0%, and 19.0% the previous five years. In conclusion, PCTs continue to be used more and are part of the marketing/selling strategy for the stores they are in.

Pick & Click Sales Summary

Ms. Steele presented the Pick & Click sales summary for year six. The total funding for Pick & Click was \$1,219,134, a decrease of \$32,727 or 3% compared to fiscal year 2019. The total purchases + extensions was \$1,600,693, an increase of \$7,655 or .5% compared to fiscal year 2019. Retailers earned \$6,584 in Pick & Click commissions in fiscal year 2020.

As of June 30, 2020, there were 1,407 Pick & Click players with 3,776 active online plays. Powerball online plays totaled 1,201, followed by 2by2 with 811, Lucky for Life with 645, Mega Millions with 583, and Lotto America with 536.

In September 2019, the Pick & Click Buy \$10 get \$2 off promotion ran every Tuesday. The total discount amount was \$9,340. This was a great promotion, as sales increased every Tuesday.

In January 2020, the Pick & Click Buy \$10 get \$2 off promotion ran every Monday, Tuesday, and Friday. The total discount amount was \$22,633.

Pick & Click had 13 high tier winners in fiscal year 2020. Three \$22,000 winners, one \$20,000 winner, one \$5,000 winner, one \$2,000 winner, three \$1,500 winners, one \$1,000 winner, one \$800 winner, and two \$600 winners. Ms. Steele left the meeting at 3:30 p.m.

Review of the Contract Extension Proposal from Scientific Games (Executive Session)

Commissioner Poolman made motion to move into Executive Session at 3:34 p.m. Commissioner O'Brien seconded the motion. The motion passed 4-0.

(Executive Session)

Commissioner O'Brien made a motion to move out of Executive Session at 3:55 p.m. Commissioner K. Hanson seconded the motion. The motion passed 4-0.

Recommendation of the Contract Extension Proposal from Scientific Games

Commissioner Poolman made a motion to approve the additional two year extension for services proposal dated June 5, 2020, from Scientific Games reducing the rate of compensation for services provided to the Lottery from July 1, 2022 through June 30, 2024. Commissioner K. Hanson seconded the motion. The motion passed 4-0. The recommendation will be presented to Attorney General Stenehjem for final approval.

Overview of 2021-23 Budget Request

Mr. Anderson presented the overview of the 2021-23 budget request. The budget for 2019-2021 to 2021-2023 increased from \$5,191,454 to \$5,205,496, respectively. The increase of \$14,042 was due to the increase in salaries/benefits.

Omnibus Items

Mr. Miller provided the following report:

Congratulations to Commissioner Poolman on being re-appointed to serve another three-year term on the Lottery Advisory Commission ending June 30, 2023.

Again, welcome to Commissioner O'Brien, and congratulations on being appointed to serve a three-year term on the Lottery Advisory Commission. Thank you to everyone on the Lottery Advisory Commission for your dedicated work.

On September 15, 2020, Mr. Miller met before the administrative rules committee to provide information describing the procedures followed by the Lottery in adopting the rules published in the October 2020 supplement to the North Dakota Administrative Code. These rule changes were related to Powerball, Mega Millions, and Lotto America games addressing the grand prize will be determined and announced by the game group. The Administrative Rules Committee had no issues or concerns on the rule changes.

Powerball and Lucky for Life game changes coming. Draft rule changes will be presented at the December 2020 Commission meeting. The Powerball game change increases the number of drawings from two to three drawings per week, adding Monday. The Powerball game change is tentatively scheduled for August 2021. The Lucky for Life game change increases the number of drawings to seven days per week. The Lucky for Life game change is tentatively scheduled for July 2021.

The Office of the State Auditor is near completion of the Lottery's financial audit for the years ended June 30, 2020 and 2019. The auditors are planning to issue the final report later in October.

Adjournment

Commissioner Poolman made a motion to adjourn. Commissioner K. Hanson seconded the motion. The motion passed 4-0. The meeting adjourned at 3:58 p.m.