

Minutes of the Lottery Advisory Commission

September 14, 2023

A meeting of the Lottery Advisory Commission (Commission) was held from 1:01 p.m. to 2:25 p.m., on Thursday, September 14, 2023 in the Lottery office and by remote access. Commission members participating by telephone included Representative Karla Rose Hanson, Senator Jeff Barta, and Representative Emily O'Brien. Mr. Russ Hanson participated in the meeting in-person at the Lottery office. Mr. Mike Rud was absent and Mr. Russ Hanson acted chairperson. Representing the North Dakota Lottery (Lottery) were Mr. Lance Gaebe, director, Mr. Ryan Koppy, 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, Scott Tarno, customer service specialist. Representing Scientific Games Incorporated were Dave Berger, regional manager, and Dan Moran, general manager for North Dakota. Representing Odney was Kyle Niess. Kayla Effertz Kleven from Olson Effertz Lobbying & Consulting LLC attended as well.

Selection of a Chairperson

Commissioner O'Brien made a motion to nominate Commissioner Rud to serve as chairperson for a one-year term. Commissioner Barta seconded the motion. Commissioner Rud was elected chairman as the motion passed 4-0.

Approval of Minutes

Commissioner O'Brien made a motion to approve the minutes of the June 21, 2023, meeting. Commissioner K. Hanson seconded the motion, which passed 4-0.

Overview of Financial information

Mr. Anderson presented the overview of unaudited revenues and expenses for the fiscal year ended June 30, 2023. Total ticket sales increased \$10,152,568 or 34.80% compared to last fiscal year. The increase was primarily due to bigger jackpots in fiscal year 2023. Powerball jackpot hit \$2 billion on the November 7, 2022 draw and \$755 million on February 4, 2023, while the largest Powerball jackpot in fiscal year 2022 was \$699 million. Mega Millions jackpots reached \$1.28 billion on July 29, 2022 and \$1.35 billion on January 13, 2023, while the largest Mega Millions jackpot in fiscal year 2022 was \$432 million. Lotto America jackpot reached \$40.03 million on April 1, 2023, while the largest jackpot in fiscal year 2022 was \$7.61 million.

The increase in sales for fiscal year 2023 had a direct incremental impact on prizes, commissions, and contractual expenses. Total operating expenses increased \$6,206,789 or 28.22% compared to the prior fiscal year. Prize expenses increased \$4,789,924 or 31.18%, retailer commissions/bonuses increased \$445,957 or 32.64%, and contractual services expense increased \$720,803 or 23.71%. The rate paid to Scientific Games Inc decreased from 10.473% to 9.573% of net sales effective July 1, 2022. Players Club expenses stayed the same. Marketing expense decreased \$45,675 or 8.50%. The Lottery received a refund of \$31,955 for maintenance cost of its building for both fiscal years. Salaries and benefits increased by \$199,756 or 18.81%. Pension expense was \$193,597 in FY 2023 compared to \$33,898 in FY 2022. Salary and Benefits change without Pension adjustment was \$10,187 or 0.97%. Multi-State Lottery Association (MUSL) dues were \$141,671 in FY 2023 compared to \$34,639 in FY 2022. There was an increase because MUSL had extra funds from fiscal year 2021 that was applied it to fiscal year 2022.

Ticket Sales in Fiscal Year 2024

Total ticket sales for the period of July 1, 2023, to August 31, 2023, compared to same period in 2022 increased \$1,963,589 or 25.46%. This increase was primarily due to the Powerball jackpot reaching \$1.79 billion in 2023 compared to \$206 million in 2022.

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 currently has 54,800 registered members. The following prizes were given away to players through the Points for Drawings program (PFD). Ten \$1,000 Cash & NASCAR Powerball Playoff entries. Five Swagtron Foldable Electric Scooters. Five Home Theater Projector Bundles. Five Ninja Foodi Indoor Grills. Ten \$1,000 & Powerball First Millionaire of the Year Semi-Finalist entries. One 2023 Yamaha Viking EPS side-by-side utility vehicle.

Promotions

Currently three Points for Drawings promotions are in progress: One Ultimate Gamer Package, two HP Laptop Bundles and five Photo Printer Packages. Upcoming PFD promotions include “The Big 3” Pick & Click online play (26 weeks), HP Laptop Bundle, and an Echelon Fitness Mirror.

The Lottery will have two upcoming Points for Prizes Promo (PFP) Code promotions happening in November and December 2023. The Black Friday/Cyber Monday promo will run November 19 to November 27, 2023. Players can save 20% on their entire PFP cart purchase by using a Promo Code. This will be a multi-use code that can be used multiple times during the promotional period. December 1 to December 31, 2023, will have the Season Savings Spectacular promotion. Players can save 15% on their entire RFP cart purchase by using a holiday Promo Code. This will be a multi-use code that can be used multiple times during the promotional period.

Currently all new Players Club membership signups receive a 250-point signup bonus. During the month of December 2023, 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 Lucky for Life Instant Luck Flash Promotion ran one week in each April, May, and June 2023. This version had no in store promotion and a limited advertising budget of \$7,500 which included radio and social media only. Retailer screens and promotional images on tickets were utilized with zero cost. The promotion ran Sunday, April 23 through Saturday, April 29, 2023, Sunday, May 14 through Saturday, May 20, 2023, and Sunday, June 11 through Saturday, June 17, 2023. A qualifying purchase was a single draw, 3 play Lucky for Life ticket (\$6 value). Eligible qualifying purchases received a chance to instantly win a free \$2 Lucky for Life ticket, \$10, or \$100. Instant Luck winners were chosen at random. Advertising and prize expense budgets are set at \$7,500 and \$25,000 respectively. The three iterations of the FLASH promotion were a hit among players: Players won \$18,894 in instant prizes (\$7,630 – April; \$6,036 – May; \$5,228 – June). Sales increased 58.22% in total: 76.90% in April, 54.12% in May and 43.64% in June when compared to the 26-week, weekly average prior to the April 2023 promotion.

The Money Medal Madness promotion began September 3 and is scheduled to run through September 30, 2023. A qualifying purchase is a single draw, 3 play Lotto America with All Star Bonus ticket (\$6 value). Eligible qualifying purchases have a chance to instantly win a free \$2 Lotto America with All Star Bonus ticket, \$10, or \$100. Money Medal Madness instant winners are chosen at random. Advertising and prize expense budgets are set at \$50,000 and \$30,000 respectively. Advertising will consist of using Connected TV via Simpli.fi, radio, social media (Facebook) posts, online ads (Google Campaign Manager), point-of-sale, and digital billboards.

The Pick & Click online play promotion, *Buy \$10, Get a \$2 discount*, will run as a set of FLASH promotions on the following days: October 5, 11, 17, and 23. This is set up as FLASH promotions in which the sale is promoted on the day of the promotion only. Players who spend \$10 on any game or combination of games or spend \$10 to extend a current Pick & Click online play, receive a \$2 discount on the prescribed dates. For each increment of \$10 spent, a \$2 discount will be applied to the purchase at checkout. For example: \$20 spent will receive a \$4 discount and \$50 spent will receive a \$10 discount. Advertising and Prize Expense are tentatively budgeted at \$12,000 and \$18,000 respectively.

The 2by2 Instant Win Promotion is scheduled to run Sunday, November 5 through Saturday, December 2, 2023. Qualifying purchase will be a single play, 7-draw 2by2 ticket for \$7. With the qualifying purchase, players will be eligible to instantly win a free 7-draw 2by2 ticket or \$500; winners will be chosen at random. Advertising budget is set at \$55,000 and prize expense budgeted at \$47,000. Media buy will include point of sale, radio, social media, Programmatic Video, and digital billboards. The promotion will also include a 2nd Chance Drawing for ten (10) \$500 prizes. 2by2, single play, seven (7) draw (\$7) tickets will be eligible to enter the 2nd Chance Drawing via the REWARDS tab/page through the North Dakota Lottery Players Club website and mobile app. Entry timeline will be November 5 through December 2, 2023. The 2nd Chance Drawing for the ten individual winners will be conducted by SGI Draw Services on Wednesday, December 6, 2023.

The Lottery conducted a new promotion that targeted Players Club members who have never funded and purchased a Pick & Click online play. Using the OptiMove CRM platform and Players Club database, the Lottery specifically targeted players with an email with a Promo Code that allows them to try Pick & Click online play for free. Players who use the specific promo code receive free entry into specific game's online play (\$9 value). Active Players defined as: Players who were active within the last 30 days and New Players who had at least one additional activity date (ticket entry or online bet) in the last 14 days of their new period. A "reminder" email is sent to eligible email addresses (individual players) that do not use the promo code and sent three days prior to the code's expiration date to use remind players to they have winnings in their account they could use. Current plan is to run this code promotion in early December 2023.

The Pick & Click online play promotion, *Never Miss a Draw*, is scheduled to run December 1 through December 31, 2023. 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 expenses have been budgeted at \$18,000 and \$6,000 respectively.

Marketing and Advertising Services Contract Task Order (Update)

The state contract #268 Task Order Request number 125.2023-2024 was completed and signed by the Lottery and KK Bold on June 8, 2023. This new task order ends June 30, 2024. KK Bold was bought by Odney on June 30, 2023. Odney has assumed responsibility for the North Dakota Lottery Marketing and Advertising Services Contract Task Order.

Players Club App Access

Previously, to install the Android Version of the North Dakota Lottery Players Club official mobile app, players must go to the Lottery website and download a file and side-load the app on their devices as Lottery could not offer the Players Club app in the Google Play Store. In May 2023, the app was approved by Google to be offered in its Play Store.

The Android App version went live in Google Play on Tuesday, June 27, 2023 and the same day the APK side-load version of the mobile app was removed from the Players Club website.

All downloads and updates on Android devices are now done via Google Play, very similar to how updates already work for Apple devices.

Pick & Click Sales Summary

Ms. Steele presented the Pick & Click sales summary for July 1, 2022 – June 30, 2023. The total funding for Pick & Click was \$3,199,756, an increase of 42% compared to prior fiscal year. The total purchases plus extensions were \$4,060,600, an increase of 38% compared to prior fiscal year. Retailers commission from Pick & Click purchases was \$13,508. Two months into the new fiscal year, sales are already at \$1.1 million. There were 32 high tier Pick & Click winners in fiscal year 2023: one \$50,000 winner, two \$22,000 winners, one \$20,000 winner, three \$5,000 winners, two \$2,000 winners, three \$1,500 winners, six \$1,000 winners, six \$800 winners and eight \$600 winners.

On June 30, 2023, there were 2,576 Pick & Click players with 3,776 active plays. Powerball online plays totaled 1,330, followed by Mega Millions with 617, Lotto America with 492, Lucky for Life with 413, and 2by2 with 751.

Player Survey Market Research Summary

Mr. Niess with Odney presented a summary of findings from the Player Survey that was conducted online May 1 through May 26. Prospective were contacted via email newsletter, advertised on the website, within the players club, display advertising and social media. The goal of the survey was to assess entertainment habits and measure the overall awareness of the different North Dakota Lottery Games and the North Dakota Lottery itself. There were 2,400 individual respondents that had opened and interacted to take the survey, and 2,153 that completed it.

Gaming Interest

Overall gaming interest was assessed. Fifty-one percent said they played games of chance once per week, 33% played once per month. Non-Players Club players played 43% once a week and 39% played once a month.

When asked what games of chance the respondents play, lottery drawings ranked the highest at 17% followed by Pull-Tabs at 16%, slot machines at 13%, bingo at 13%, scratch offs at 11%, and E-Tabs at 10%. Those that said they played the lottery has decreased by about 6 percent.

When asked what respondents want to see if their gaming opportunities, instantly winning ranked highest at 27%, followed by higher possibility of smaller prizes with better odds at 24% and ability to play in social settings such as bars and restaurants at 17%. Respondents choose other gaming opportunities over lottery because of instantly winning 24%, convenience of playing in bars and restaurants 16%, prefer to play casino-type games 16%, and perception that other games have better odds 15%. It was recommended to focus messaging and promotions on instant win prizes, convenience of playing anywhere (including bars and restaurants), and integrate more group play options to entice players who like the social aspect of gaming.

Lottery Interest

Ninety-five percent respondents said they have played the Lottery at least once. Non-players club member data shows 45% of the respondents play lottery at least once a month and 33% of the respondents play at least once a week. Games of interest are Powerball at 41%, with the most interest, 2by2 at 25%, Mega Millions at 14% and Lucky for Life at 12%. Seventy-three percent of those responded said they prefer to buy their tickets at retailers, over online, which is at 27%. Of non-players club members, 91% prefer to purchase their lottery tickets at retailers over online. When analyzing players club members, 60% preferred to purchase at a retailer while 40% prefer online.

Previous surveys have indicated cash is the lottery game preference. Of the total respondents, 28% said they prefer instant cash prizes while 72% said they like instant cash prizes but also like other prize options. Of the additional prize options given to choose from, cash prize second chance drawings scored highest on the ranking scale with a 26% followed by free ticket at 24%, few large winners with a second chance drawings at 22%, trip or merchandise prize second chance drawings interest at 17%, and discount on ticket purchase was 11%. Merchandise prize preferences were ranked trips (23%), electronics (22%), recreational vehicles (21%), household items (20%), followed by sports/outdoor items (14%). For trip opportunities tropical beach vacations ranked highest in preferences at 33%, gaming/party vacations ranked slightly higher at 24% than sports-related vacations with 23% and tourist vacations followed at 21%.

The appeal of instantly winning is a large factor in respondents' gaming decisions and it was recommended to focus on instant win promotions and highlight this in future promotional messaging. Continue to focus on ease of play and close to home messaging by promoting the Players Club, Pick & Click Online Play and the North Dakota Lottery's Official Mobile App is also advised. This will ensure we reach both the group that prefer going to a retailer and those who prefer to buy online or via the mobile app. 2by2 and Lucky for Life have increased their awareness over the years. There is still room to grow for Lotto America.

Players Club Awareness & Consumer Perception

Of the total number of respondents, 72% said they are aware of the North Dakota Lottery Players Club. Of those respondents, 75% are currently a member (19% not a member and 7% were not sure).

The respondents who are currently a member of the players club were asked to identify the positives of the players club. Based on a ranking system, "entering tickets to earn points is quick and easy" ranked at 25% followed by "easy to use/user friendly" at 19%, "don't need a lot of points to participate" at 18%, "great selection of merchandise" at 17% and "more chances to win" was ranked at 15%. When asked what changes or improvements could be made, "more second chance drawings" ranked highest with a 38% followed by "more points per ticket/better benefits for small players" with 34% mirroring responses in the 2021 data.

Of the respondents who are not currently a member of the players club, most of them said what keeps them from joining is they don't play enough to get additional value from it. Non-players club members likelihood to join indicated 32% are somewhat likely, 21% likely, 20% not very likely, 14% very likely. It was recommended to continue to promote the specific benefits of a Players Club membership to keep increasing awareness and increase membership numbers. Highlighting benefits such as second chance drawings and other perks will encourage players to utilize their expendable income on Lottery games over other games of chance. Reinforcing details like "free to join" will help educate non-members that although they may not play regularly, their points when they do play can add up to earn benefits, they otherwise would not get.

Pick & Click Online Play Awareness

Of the total respondents, 62% are aware of the Pick & Click online play service. When analyzing the non-players club members, 56% are aware of Pick & Click online play; compared to 89% awareness for players club members. Of the Players Club respondents, 68% (up 7% from 2021) indicated they have played Pick & Click online play and 82% (down 7% from 2021 data) of those respondents indicated they currently use it.

When respondents were asked about reasons to use Pick & Click, the convenience and ease of use ranked highest at 27%, followed by the ability to use it from home or mobile device at 25%, ability to be notified of wins with no ticket checking necessary (21%), and players points are entered automatically (19%). This data matches 2021 survey findings. When asking respondents who have used Pick & Click before but are not currently using the online play for reasons, not winning ranked highest with 35%, followed by financial constraints (14%), geo-location errors, (10%) and technical problems (10%).

When asking respondents who have never used Pick & Click online play, 46% of them said what keeps them from using the service is that they prefer to go to a retailer. Respondents who were either not aware of Pick & Click or have not used Pick & Click were asked of their likelihood to use it once learning of its features and benefits. Of the 1,387 respondents asked, 24% said they were likely or very likely. The remaining respondents said somewhat likely (33%), not very likely (28%), not at all likely (9%) and not sure (5%).

Odney recommended continuing to include campaigns focused on increasing Pick & Click awareness while also promoting ease of use, convenience, and its benefits. The appeal for players to games of chance in bars and restaurants is a big factor in players' gaming decisions so highlighting that Pick & Click Online Play allows players to play anywhere in North Dakota is a message that should continue to be pushed.

Mobile App Awareness

This survey was conducted prior to having the app available on the Google Play Store. Of the total respondents, 57% reported they are aware that the North Dakota Lottery has a mobile app and 68% of those respondents report they have downloaded it. Among non-player club members, 47% reported they are aware of the mobile app and of those, 19% said they have downloaded it. For players club members, 85% reported they are aware of the mobile app and of those, 80% said they have downloaded it.

Of those that have downloaded the app, respondents reported the features most used were to use the ticket checker at 16%, Players Club point scanner (15%), make Pick & Click purchases, add money to their Pick & Click wallet and enter Points for Drawing promotions (14% each) and to shop the Points for Drawing store (9%). When analyzing the non-players club members, the ticket checker ranked highest. These results correlate similarly to results from previous surveys.

Of the respondents who have not downloaded the mobile app, 11% stated they are very likely to download it once they learned of the benefits and features (50% stated likely or somewhat likely). When analyzing non-players club members' responses, 9% stated they were very likely to download the mobile app and 49% stated likely or somewhat likely, 38% stated not very likely or not at all likely. As for players club members' responses, 12% stated they are very likely to download the mobile app (41% stated likely or somewhat likely, 40% stated not very likely or not at all likely).

Odney recommended continuing to promote the specific benefits of the mobile app including its features, convenience, and the ease of use. Offering mobile app specific incentives will also motivate consumers to download the mobile app.

Advertising Platforms

This year's survey results indicated the most effective resources for getting information to consumers were ranked: social media (15%), North Dakota Lottery website (12%), television and North Dakota Lottery mobile app (8% each), email messages and point of sale materials (7% each). Lower in the ranking system included broadcast radio, text messages and mail (6% each), streaming TV (5%) followed by digital billboards, newspaper, weekly circulars, online radio/video/display between 2-4% each.

When then asked if the respondents recall seeing or hearing North Dakota Lottery ads, 73% answered yes. In the 2019 survey results, ad recall was 59.2%. Of the respondents who answered yes in the 2023 survey, the top mediums they recalled seeing or hearing the ads were television (17%), social media (16%), broadcast radio (13%), point of sale materials (12%), North Dakota Lottery website (11%), North Dakota Lottery mobile app (9%) and digital billboards (5%).

Pleased that ad recall continues to increase with an overall increase of 14% since the 2019 survey. Social media continues to lead as the most effective way to reach consumers (followed by the website). Other mediums such as online radio/video/display continue to show a lower ranking of effectiveness as well as ad recall. This finding reenforces that these mediums are not meant to replace other more traditional mediums, but rather compliment them to increase ad frequency and brand awareness.

It was recommended to continue to implement a media mix that includes both online and traditional platforms to maximize efficiency and effectiveness and continue a strong presence on social media with an emphasis on video content.

System Overview FY 2023

Mr. Moran and Ms. Thompson presented the overview of system performance and function, including updates on system incident, completed and outstanding requests and employee changes.

System Incident Report Summary

Mr. Moran presented the system incident summary.

- On October 9, 2022, Retailers were unable to get reports from the terminals for a short period of time.
- February 18, 2023, TXE1 lost AUDA folder. TXE1 was stuck in a loop so sales started late.
- February 20, 2023, primary database(RDB2), had a controller failure causing late start for sales.
- April 8, 2023, iCore not balancing with GMS, RIAK server outage for about an hour and a half.
- April 12, 2023, network outage at QTS caused sales to stop for 20 minutes.
- May 3, 2023, firewall rule change caused ticket entries to stop.
- May 12, 2023, TXE4 time was off from the rest of the system. It was a time zone issue so now on Chicago time zone and no issue with the timing anymore.
- May 13, 2023, the EFE host proxy and the EFE TXEPassThru is kind of what we use as our firewalls to the outside world for the website.

The app functions have been moved to brand new servers, but while that was happening, there were issues with old servers going down and that was corrected quickly. The good thing about the online sales compared to the instore sales is if the terminal isn't selling, they could still put the cell into the system and then once an issue fixed, it automatically grabbed those sales.

- May 16, 2023, the Reward the World (RTW), the digital marketplace for Points for Prizes store front, did have an issue when doing some upgrades. This third-party contract storefront.

Completed and Outstanding Requests Summary

Mr. Moran presented the completed and outstanding requests summary. There was an issue with 2by2 E Play slips not working; but it was resolved. The 2023 maintenance release was just completed. The one-year extension of the gaming system contract with the Lottery has been completed. Got the app into the Google Play Store. We are still working on updating the SciGuard app so it's easier to verify high tier tickets.

The operating system upgrade is going to be part of your one-year extension. The Lottery has its own physical servers and Microsoft is going to stop supporting the current software, so need to upgrade to get through to June of 2025. The Give-a-Gift option is still turned off and just waiting for the Lottery to decide how to handle that.

Sgi Employee Changes

Mr. Moran presented the Scientific Games staffing report. Most of the employee turnover is related to changes in the management team. Most management changes were due to opportunity for promotions within the company while other vacancies were due to leaving the position.

2022 MUSL Rule 2 Review Update

Ms. Thompson presented the 2022 MUSL Rule 2 Review. MUSL issued its final Compliance Review Report. The three findings were resolved by the lottery and approved by MUSL. The three findings were of low risk including a time stamp discrepancy between the lottery's stand-alone camera system and the actual time, two http: firewall rules that were not in use, and a shared password to access a PC used for access to the MUSL FLEX site.

The time-stamp issue was resolved during the review, the firewall rules were removed by the Attorney General's IT group, after verification that there was no traffic moving across them, and the laptop used for access to the MUSL FLEX system was replaced with a PC with individual user logins.

Final Disposition of Retailer Theft

Ms. Thompson presented the final disposition of a ticket theft by retailer employees. Two former clerks pleaded guilty to theft of lottery tickets at Northdale Oil in Park River. The theft was discovered in January 2021 and three suspects were initially charged. The charge against one of the individuals, who had claimed three high tier winning tickets at the lottery office, was dropped as it could not be proven that he knew the tickets had been stolen. One clerk from the store pleaded guilty to a Class C Felony, Theft of Lottery Tickets, was ordered to pay restitution, and sentenced to three years' probation. A second clerk pleaded guilty to a Class A Felony, Accomplice to Theft greater than \$50,000, was ordered to pay restitution, and sentenced to three years' probation.

System Incidences

Ms. Thompson discussed system incidences. Most of the incidences are encountered during the failover process which happens every month. This is done to meet MUSL requirements for redundancy and to apply patches and updates to the servers and software on the backup system. The processes are refined as issues arise during the failovers. Other incidences generally occur due to equipment failure or in a few instances due to operator error.

System Testing and Updates

All the promotions included in the marketing summary were fully tested in the User Acceptance Testing environment. The changes listed in the operating systems for SciCore and AEGIS were updated to Ubuntu 20 and fully tested in the User Acceptance Testing environment.

Sales, Terminal, and PlayCentral (PCT) Summary

Mr. Tarno presented the sales and terminal summary. Total Lottery sales (including SciPlay) increased \$10,122,997 to \$39,350,936, a 34.6% increase compared to last fiscal year. Sales were 10.3% more than the Lottery's previous record sales of \$35,677,944 in fiscal year 2015-16. SCIPLAY (Pick & Click) online sales increased from 10.2% to 10.4% of total lottery sales. Terminal sales increased \$9,032,586 to \$35,271,799, a 34.4% increase compared to last fiscal year.

Since July 2014, the number of lottery terminals in regions 1, 3, and 4 have increased. The percentage of lottery terminals by region is within 3 percentage points of each region's sales percentage. Fluctuations in the average sales per terminal has been primarily due to the varying number and size of Powerball and Mega Millions jackpots not from the number of terminals in the region. The Lottery had three jackpots over a billion dollars in fiscal year 2022-23 which is three more than the previous year and two more than any other year in the Lottery's existence.

While improving lottery equipment and developing exciting lottery promotions has effectively helped increase lottery sales, history shows that lottery sales are still primarily driven by the number of and the size of large jackpot amounts.

There are 50 PCTs in retailer locations; 27 in grocery stores and 23 in convenience stores. PCT sales totaled \$2,571,086, which is an increase of 24.8% from last year. The PCTs accounted for 6.5% of total Lottery sales. This is slightly down from a high of 7.1% last fiscal year. PCTs accounted for 33% of the Lottery sales in the retail locations they were in, which is slightly down from a high of 33.6% last fiscal year.

Lottery continues to monitor every store sales on a weekly basis. If there's a problem with sales going up or down, that is out of the ordinary, that store is contacted if there is an issue. If a store has poor sales, we pull the self-serve terminal out of that location and put it into another store. The Lottery continues to work closely with Sci Games on any technical or terminal issues.

Director and Operations Updates

Mr. Gaebe presented this section.

Lottery Online Gaming System Vendor Contract

Over the next two years the Lottery will be selecting a gaming system vendor and undertaking a complete system conversion. Due to ongoing procurement efforts and delayed issuance of a Request for Proposals, the Lottery's on-line gaming system vendor contract with Scientific Games was extended from June 30, 2024, to June 28, 2025.

The extension amendment sets the contract expiration date on a Saturday to coincide with the end of the lottery sales week. The amendment also increases the insurance requirements Pursuant to 2021 House Bill 1057 liability (North Dakota Century Code Section (NDCC) § 32-12.2-02), which increases the statutory caps on State liability. Scientific Games agreed to lengthen the existing formal arrangement with the same compensation rate of 9.573% of gross sales that has been in place since 2022.

The State Procurement Office and the likely pool of vendors supported the extension, which was deemed to be the best interest of the State. It is hoped this extension will provide sufficient

time for the Lottery to undertake a proper gaming vendor procurement effort and successful conversion to a replacement system.

Staff with the Procurement Office and the State Information Technology Department have been assigned and are now helping the Lottery staff with the procurement and project management effort.

Lottery Advisory Commission Membership

On June 22, 2023, Attorney General Drew Wrigley received confirmation that Representative Mike Lefor, Chairman of Legislative Management, reappointed Senator Jeff Barta and Representative Emily O'Brien to 3-year terms on the Lottery Advisory Commission pursuant to NDCC 53-12.1-04. Their terms will expire June 30, 2026.

Mega Millions Jackpot and Game Changes

On August 8, 2023, an unprecedented Mega Millions® jackpot came to an end. After 31 drawings without a winner, a ticketholder in Florida had the matching numbers for a record \$1.602 billion (\$794.2 million cash).

Strong sales pushed the final jackpot amount past the previous record of \$1.537 billion, won in South Carolina on October 23, 2018.

The range of jackpots won this year is indicative of the random nature of lottery drawings. The first jackpot winner of 2023 was a big one: a \$1.348 billion Mega Millions prize was won in Maine on January 13; this is now the third-largest prize in Mega Millions history. The recent August 8 jackpot is number two in U.S. history, less than a year after the biggest jackpot of all time with the \$2.04 billion Powerball win on Nov. 7, 2022, in California.

The Mega Millions consortium is considering a change from a \$2 dollar game to a \$5 dollar game and adding a second chance draw within each participating jurisdiction. The second chance would be triggered whenever a national jackpot is won. The concept is that whenever there is a national jackpot won, every state lottery will also have its own sub-jackpot, which would be based on a percent of its Mega Millions sales.

Initially the modification was slated for Summer of 2024, but at the urging of lotteries and game system vendors, the change is now targeted for January 2025. Game rules, procedures, software, and in-state draw processes will be all need to be considered and modified in advance of the major game modification.

Retail License Renewals

The Lottery received all 442 retailer renewals in August. The Lottery has an online renewal tool which 432 retailers used to provide their current information. The remaining ten were sent to the Lottery office where staff completed the renewals online. Of the ten, eight were one chain of stores.

Lottery will collect the annual renewal fee of \$150 per location, totaling \$66,300, on September 19, 2023, and licenses will be mailed to retail locations on September 29, 2023.

Big fiscal year and biennium

Four \$1 billion plus national jackpots pushed sales in fiscal year 2023. For the year ended June 30, 2023, the Lottery realized a record \$39.34 million of ticket sales, well over the 5-year \$30 million average.

Slightly more than half of ticket revenue is paid out in prizes, but the Lottery also generates money for the state. In the 2021-2023 Biennium, the Lottery transferred \$13 million to the State

General Fund, \$2.76 million to the statewide litigation pool, \$1.6 million to the Multi-Jurisdictional Drug Task Force, and \$640,000 for compulsive gambling treatment.

Store Closure

On August 24, 2023, two Lottery licensed retailers, a Pilot station in Williston and a Starnart truck stop in Grand Forks, abruptly closed. The owner of both, Mountain Express Oil Co., had been in reorganizational bankruptcy but apparently that effort failed and stores in several states closed.

The Lottery has been unable to retrieve lottery terminals from these stores. Former store employees have been advised to stay off the premises. The Lottery is working with Blue Owl Real Estate Capital LLC, of Chicago, the apparent bank holding company, to recover lottery assets.

Besides the stranded equipment, the weekly sweep of lottery ticket sales revenue failed. The attempted August 31 2023 transfer of the net sales of \$331.85 from the stores' accounts was rejected as the stores' accounts had been frozen. These funds have also been requested from the bank holder.

Both store's lottery licenses are terminated, and lottery terminal machines are disabled.

Interim Judiciary Committee Study

The Interim Legislative Judiciary Committee is undertaking a comprehensive study of charitable gaming, including:

- The economic impact of charitable gaming;
- Gambling addiction and treatment services currently available;
- Gaming expansion.

The Lottery was not included in the committee's first meeting on August 31st but is likely to be included in future meetings.

The charitable gaming sector will receive the most examination from Lawmakers as the e-tab machines have proliferated, with 4,700 devices across the state. In the last fiscal year e-tabs generated nearly \$2 billion of gross wagering. the Lottery's 445 terminals which sold \$39.34 million of tickets in fiscal year 2023 is small in comparison.

The Judiciary Committee also heard from the director of Gamblers Choice withing the Department of Health and Human Services, about the economic and social impacts of gambling addiction in the state and treatment services. The committee also heard from several citizens who receive outpatient problem gambler treatment services. The Problem Gambler Treatment program was formerly offered as a contract service by Lutheran Social Services, but after it ceased operations, the program was moved with HHS. The Lottery funds the bulk of the Gamblers Choice funding with \$320,000 annually.

Gambling Advisory Committee

The Gambling Advisory Committee also met on August 31. The committee is made up of HHS representatives, Gamblers Choice counselors, casino representatives, from the Attorney General's office, the directors of State Gaming Commission and the Lottery.

With HHS financial support, the Committee plans to select a contractor to conduct a survey to validate the impact of gambling and societal impacts of problem gambling.

Adjournment

Commissioner O'Brien made a motion to adjourn. Commissioner Barta seconded the motion. The motion passed 4-0. The meeting adjourned at 2:25 p.m.