

Minutes of the Meeting of the Lottery Advisory Commission
April 13, 2010

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 2:00 – 2:50 p.m., on Tuesday, April 13, 2010. Representing the Commission were Mr. Russ Hanson (Chairperson), Mr. Laurel Thoreson, Representative Lois Delmore, and Senator Gary Lee. Representative Delmore and Senator Lee participated by telephone. Representative Wrangham was absent. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, Ms. Donna Thronson, sales and marketing specialist, Ms. Tasha Gerding, accountant/budget specialist, and Ms. Missy Reich, administrative staff officer.

Also in attendance was Mr. Delan Hellman, financial auditor, Office of the State Auditor.

Approval of Minutes

Commissioner Delmore made a motion to approve the minutes of the January 15, 2010 meeting. Commissioner Thoreson seconded the motion. The motion passed 4-0.

Presentation by the Office of the State Auditor

Mr. Hellman provided an overview of the Lottery's financial statements for the fiscal year ended June 30, 2009. The Lottery's total operating revenue and net proceeds (profit) were \$21,815,381 and \$5,730,624, respectively. The ratio of net proceeds to operating revenue was 26.3%. Mr. Hellman indicated the audit went very well with only one audit finding related to the debt setoff procedures for determining if a lottery winner owes any money to another state agency. The audit recommendation was that the Lottery determine a method to notify agencies of lottery winners for debt setoff procedures in a manner that keeps all confidential information secure. Mr. Hellman noted that immediately after the audit finding was brought to the Lottery's attention, the Lottery implemented a new procedure utilizing the state secure e-mail system when notifying other state agencies of lottery winners. There was one informal recommendation for the Lottery to document and perform a formal fraud risk assessment on a recurring basis. The Lottery agreed with the informal recommendation and is currently working on the fraud risk assessment. All internal controls were adequate and functioning effectively.

Commissioner Delmore made a motion to accept the audit report. Commissioner Lee seconded the motion. The motion passed 4-0.

Overview of Revenue and Expenses for the Quarter Ended December 31, 2009 (unaudited)

Ms. Gerding provided an overview of the quarter ended December 31, 2009. Unaudited ticket sales increased \$596,509 (10.33%) compared to the same period last year. Prize expenses increased \$214,541 (7.2%) due to the increase in sales. Contractual services expense increased \$102,269 (16.17%) due to increase in sales and timing of payments. Operating expenses increased \$94,546 due to MUSL dues and membership expense of \$115,000.

Ticket sales increased approximately \$1.5 million (12.23%) for the first six months of the fiscal year (July-December) compared to the same period last year. Ticket sales for the quarter ended March 31, 2010 increased \$354,804 (6.42%) compared to the same period last year. Mega Millions ticket sales for February and March were \$729,109.

Overview of Marketing Activity

Ms. Thronson provided an overview of the most recent marketing promotions, as well as short term marketing plans. As of April 11 (10 week period), Mega Millions sales are \$843,635. Powerball and Mega Millions sales increased \$454,230 or approximately 20% based on comparable Powerball jackpots. There is some erosion of sales on all four of our other games due to the addition of Mega Millions, although through April 11 overall sales increased approximately \$1.8 million or 11.10% compared to the same period last year.

Ms. Thronson provided a one-day comparison of per cap sales from April 9 for Mega Millions. North Dakota's per cap sales for Mega Millions were 5.8 cents when the jackpot was estimated at \$90 million while the per cap sales for the MUSL lotteries joining Mega Millions were 4.4 cents and per cap sales for the original 12 Mega Millions lotteries were 14.7 cents.

Ms. Thronson provided a one-day comparison of per cap sales from March 31 for Powerball. North Dakota's per cap sales for Powerball were 14.8 cents when the jackpot was estimated at \$82 million while the per cap sales for the Mega Millions lotteries joining Powerball were 8.1 cents and per cap sales for the original MUSL lotteries selling Powerball were 16.4 cents.

Ms. Thronson summarized the Independent Lottery Research survey on cross-selling. Only 12% of the players surveyed played the new multi-state game. About 37% of the regular players who play every week said they played the new game in their jurisdiction. 26% surveyed said they spent more on the lottery that week while 66% said they spent the same amount on the lottery that week, but they used money from other games to play the new multi-state game.

The Powerball Power Play 10X promotion will run from April 29 to May 29. During this promotion one of the 5X Power Play multiplier numbers is replaced with a 10X multiplier. The Lottery budgeted \$59,372 for media advertising and H2M has added \$15,810 for bonus advertising for a total media budget of \$75,182.

The Powerball Cash Dash promotion is planned for October. With every One of Each purchase (an \$8 purchase), players have a chance to win an instant cash prize of \$5, \$20, \$100, or \$500.

Final Approval of Proposed Administrative Rules for the Mega Millions Game and Other Amended Administrative Rules

Mr. Miller indicated there were no written or oral comments submitted and no changes to the proposed administrative rules.

Commissioner Delmore made a motion to approve the proposed administrative rules. Commissioner Thoreson seconded the motion. The motion passed 4-0.

Omnibus Items

Mr. Miller informed the commissioners no other lotteries were interested in joining the Wild Card 2 game. The lottery directors from North Dakota, South Dakota, Montana, and Idaho have reviewed multiple add-on feature options, but were not able to come to a unanimous agreement. The marketing directors from each of the Wild Card 2 lotteries will now review the add-on feature concepts and provide 2-3 options to the lottery directors. The Wild Card 2 game group plans to meet again in late April. Tentatively the re-launch of the Wild Card 2 game was changed from July 28 to August 19.

Mr. Miller informed the commissioners the Lottery continues to experience the blocking of most credit card payments for subscriptions. A notice to subscribers was placed on the Lottery website to let them know they may experience problems with the credit card transactions. The Lottery is seeing a shift from credit cards to other forms of payment such as ACH, check, or money order. The Lottery is not making any changes at this time and will continue to monitor the credit card blocking issue.

Mr. Miller informed the commissioners the National Game Development Committee is requesting lotteries to submit national game concepts for consideration by April 30. The national game is projected to launch in the spring of 2011. A company that specializes in product development will then review all concepts received, present their findings, and assist with developing the strategy for researching and ultimately executing the best concepts. Participation by all lotteries in the national game is not required.

Mr. Miller informed the commissioners the World Lottery Association is projecting the world game to launch in the spring of 2012. Participation by all lotteries in the world game is not required.

Mr. Miller informed the commissioners the Mega Millions group adopted the Match 5 with Megaplier feature always setting the multiplier to 4X, pushing the prize to \$1 million no matter what the Megaplier number drawn. The Lottery will need to adopt administrative rules for the Mega Millions game changes.

Mr. Miller informed the commissioners that due to inclement weather in January, he was not able to attend the North Dakota Grocers Association trade show in Fargo. He will consider attending next year to set up an informational booth to visit with grocers from around the state that sell lottery tickets or may be interested in selling tickets.

Adjournment

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

The meeting adjourned at 2:50 p.m.