

Minutes of the Lottery Advisory Commission

April 27, 2011

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 2:00 p.m. – 2:58 p.m., on Wednesday, April 27, 2011. Representing the Commission were Mr. Laurel Thoreson and Mr. Mike Rud. Senator Gary Lee (Chairperson), Representative Lois Delmore, and Representative Dwight Wrangham participated by telephone. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, Ms. Cassandra Keller, sales and marketing manager, Ms. Tasha Gerding, accountant/budget specialist, Mr. Ryan Koppy, customer service specialist, Mr. Scott Tarno, customer service specialist, and Ms. Sonja Walder, administrative assistant. Also in attendance was Mr. Delan Hellman, financial auditor, Office of the State Auditor. Meeting convened at 2:04 p.m.

Approval of Minutes

Commissioner Rud made a motion to approve the minutes of the December 14, 2010 meeting. Commissioner Delmore seconded the motion. The motion passed 5-0.

Presentation of the Audit Report for Fiscal Year Ended June 30, 2010

Mr. Hellman provided an overview of the Lottery's audit report the fiscal year ended June 30, 2010. The audit report included information for the year ended June 30, 2009 for comparative purposes. The audit was performed in September and October of 2010. On November 17, 2010, the Office of the State Auditor issued an unqualified opinion on the financial statements that included the statement of the net assets, statement of revenues, expenses and changes in net assets and the statement of cash flows. Compliance was found with all statutes, laws, rules, and regulations that were examined and there were no findings. Internal control was found to be adequate and functioning effectively at the Lottery. There were no indications of a lack of efficiency in financial operations or in the management of the agency. It was determined that any findings found during the last fiscal year audit of 2009 were addressed properly. In the past the Office of the State Auditor issued a management letter in the back part of the audit report. This year, because there were no informal recommendations, you will not find a management letter. A few other things that were noted during the audit: There were no significant changes in the accounting policies, no management conflict of interest, no contingent and liabilities identified, and no significant or unusual transactions that were found during the audit. The North Dakota Lottery's financial statements did not include any significant accounting estimates. During the audit process there were no significant audit adjustments made, no disagreements with management relating to any financial, accounting or auditing related matters, no serious difficulties encountered in performing the audit, and no management consultations with other accounts about auditing or accounting matters. There were four significant information systems identified during the audit that the lottery uses in their processes, including ConnectND, Human Resource Management System, Games Management System (GMS), and Internal Control System (ICS). An information system application review was conducted on GMS and ICS and noted no issues. Overall the audit process went very smooth. Mr. Miller and the staff were very accommodating. Mr. Miller commended all of the Lottery staff for their hard work throughout the fiscal year to make this such a positive report.

Commissioner Delmore made a motion to accept the audit report. Commissioner Thoreson seconded the motion. The motion passed 5-0. Mr. Hellman left the meeting at 2:10 p.m.

Overview of Revenue and Expenses for the Quarter Ended December 31, 2010 (unaudited)

Ms. Gerding provided an overview of the quarter ended December 31, 2010. There was not much change when comparing the same period last year to this year. Unaudited ticket sales increased \$45,260 or .78% and expenses decreased \$111,324 or (2.5%). Mega Millions ticket sales are not on the report from last year because we didn't have that game yet. Unaudited ticket sales for January through March 2011 were up \$810,000 or 14.65% compared to the same period last year. Ms. Gerding left the meeting at 2:15 p.m.

Overview of Marketing Activity

Ms. Keller provided an overview of marketing activity. The Holiday Subscription Discount promotion ran from December 1 through December 31. The Lottery offered up to a 10% discount on subscriptions for Powerball, Hot Lotto, Wild card 2, and 2by2. The advertising expense for this promotion was \$17,000 and included radio coverage for the month of December and Pride of Dakota Holiday Showcases in Fargo and Bismarck. In addition, free methods of advertising were utilized via Facebook, text messaging, e-mail, and the Lottery website. This promotion was very successful considering the blocking of most subscription transactions with a credit card requiring subscribers to pay with cash, check, or ACH. A total of \$73,000 in subscriptions was sold in December.

The Big 3 promotion ran from February 6 through March 5. The promotion focused on our big three jackpot games and offered a \$1 discount with the qualifying purchase of Powerball with Power Play, Mega Millions with Megaplier, and Hot Lotto with Triple Sizzler. A \$6 value for \$5. The advertising expense for this promotion was \$54,000 and concentrated on TV. There were 100,368 Big 3 qualifying purchases generated during the promotion. Total sales increased \$199,600 or 15% after expenses. The promotion was very successful and we plan on continuing it in some form in the future.

The Mega Millions subscription promotion ran from March 1 through March 31. The Lottery offered up to a 10% discount on subscriptions for Mega Millions. Only free methods of advertising were utilized via Facebook, text messaging, e-mail, and the Lottery website. During the promotion the Lottery sold 123 Mega Millions subscriptions.

The Wild Card 2 promotion Wild Winnings is planned to run from May 1 through May 28. The promotion provides players an opportunity to be eligible for a chance to win items such as gift cards and electronic prizes with a \$5 Wild Card 2 qualifying purchase. The Lottery will give away over \$8,000 in prizes, including Visa gift cards, iPods, Garmin GPS units, Nooks, Wii's, Sony handycams, and blu-ray players. Top prizes each week are valued at \$500 and the Lottery is giving away 20 prizes per week ranging in value from \$25 to \$500. The total budget for this promotion, including prizes is \$38,000. Winning numbers will be available on the Lottery's website, at retailer locations, and by calling the winning numbers hotline at 701-328-1111.

After the Wild Winnings promotion, a 2by2 poster will be displayed at retail locations to educate players on the 2by2 double Tuesday prize feature. If a player purchases a seven draw ticket, the value of the player's prize, including the grand prize won on a Tuesday, is doubled.

A Cash Dash One of Each promotion is being planned to run October 23 through November 19. The promotion provides players an opportunity to win an instant cash prize with a qualifying one of each purchase (\$8 purchase = \$2 Powerball with Power Play, \$2 Mega Millions with Megaplier, \$2 Hot Lotto with Triple Sizzler, \$1 Wild Card 2, and \$1 2by2). The instant cash prize increments are \$5, \$20, \$100, and \$500.

The Lottery will give away a total of \$30,000 in instant cash prizes. Commissioner Wrangham asked if the instant cash prizes up to \$500 for the Cash Dash promotion closely resembles the scratch-offs or the type of gaming that charitable gaming conducts. Mr. Miller stated Cash Dash is not a new promotion for the Lottery. The Lottery conducts the Cash Dash promotion once a year. It is not a game offered by the Lottery that runs day-in and day-out, but rather only runs once a year for a limited time of approximately 30 days. Commissioner Wrangham asked if the player had to purchase a separate ticket. Mr. Miller stated that the \$8 qualifying purchase for one of each game, along with the add-on feature qualifies them for the prize.

The Lottery is researching the concept of Quicker Pix. Quicker Pix is a card that has a specific Lottery game on it, along with the amount the player wants to purchase. An example would be a \$2 Powerball with Power Play Quicker Pix card. The process is quicker and easier for both current and new players, as well as would save time for cashiers at the retailer location. The player simply brings the Quicker Pix card up to the cashier, the cashier scans it through the terminal, and the ticket prints. Because players may be intimidated by filling out a play slip, the concept of Quicker Pix eliminates the need for the player to fill out a play slip each time. The Lottery is still in the early planning phase of this program and hope to roll it out to select stores on a test basis in the early fall.

The Lottery is working on the redesign of the website. The website has not been redesigned since the Lottery began in 2004. The goal of the redesign is to make the site more user friendly and more attractive looking. The expense for this project is approximately \$27,000.

The Lottery is considering rebranding by gradually transitioning away from the Lady Luck imagery and language.

The Lottery received consensus from the Commission to move forward with the website redesign and rebranding. Mr. Miller will present the Commission's recommendation to Attorney General Stenehjem for final approval.

Retailer Sales Enhancement Pilot Program

Mr. Tarno provided a summary of the retailer visits conducted by Jeff Sinacori, vice president of retail development and three other staff from Scientific Games. They gathered feedback from 23 retailers in seven cities throughout North Dakota during their visit February 7 through February 10. They provided recommendations for the Lottery to implement, including create a lottery section; increase point-of-sale items; improve placement of point-of-sale, terminal, and beta-brite; increase winner awareness; promote jackpot awareness; implement second chance drawings; and provide clerk talking points about the Lottery. Based on these recommendations, the Lottery would like to implement a six month sales enhancement pilot program. The Lottery would provide 10-20 pilot stores within the top 20% sales rankings with enhanced lottery signage, point-of-sale materials, and a lottery information area. Set up would include special signing, a continued flow of new lottery information, and insights for the retailers and players. Information would include winner awareness, game education/features, upcoming special promotions, and other newsworthy items. Our goal is to increase these pilot stores sales from 10-20%, depending on the retailer. The total planned investment for the pilot program would not exceed \$25,000. Participation by retailers would be voluntary. However should a retailer commit to participate in the program, they agree to allow the Lottery to implement these changes in their store throughout the pilot period. Mr. Tarno and Mr. Kopp reported retailers have shown interest in participating in the pilot program.

The Lottery received consensus from the Commission to move forward with the retailer sales enhancement pilot program. Mr. Miller will present the Commission's recommendation to Attorney General Stenehjem for final approval.

Mr. Tarno, Mr. Koppy, and Ms. Keller left the meeting at 2:35 p.m.

Consideration of Scientific Games International Proposal for Ticket Checkers

Commissioner Delmore made a motion to move into executive session at 2:36 p.m. to discuss Scientific Games International proposal for ticket checkers. The proposal contains confidential pricing data and proprietary information. Commissioner Wrangham seconded the motion. The motion passed 5-0.

Executive Session – Confidential Minutes

Commissioner Delmore made a motion to move out of executive session at 2:44 p.m. Commissioner Rud seconded the motion. The motion passed 5-0.

Mr. Miller provided the Commission with information to assist in their decision making. With the increase in population in the northwest part of the state, some Lottery retailers have inquired on the need for ticket checkers to reduce clerk labor time by allowing players to check their own tickets. The Lottery has lost a few retailers in this area that decided to no longer sell Lottery products because of the amount of time it takes for these retailers to check tickets for Lottery customers, while non-Lottery customers become frustrated as they stand in line to pay.

Mr. Miller provided a breakdown of the top 100 and 200 Lottery retailers by average weekly sales in the four different regions of the state. If ticket checkers were distributed to the top 100 retailers in the state, 15 convenience stores with gas and 6 grocery stores in the northwest region would receive one. Statewide, 66 convenience stores with gas and 34 grocery stores would receive a ticket checker. If ticket checkers were distributed to the top 200 retailers in the state, 36 convenience stores with gas and 7 grocery stores in the northwest region would receive one. Statewide, 162 convenience stores with gas and 38 grocery stores would receive a ticket checker. Assuming retailers in Stark County (Dickinson area) which is in the southwest region would be included in the northwest region because this area is impacted by the oil boom and the ticket checkers were distributed to the top 100 retailers in the state, 22 convenience stores with gas and 7 grocery stores in the northwest would receive one. Statewide, 66 convenience stores with gas and 34 grocery stores would receive a ticket checker. Based on this same assumption, if ticket checkers were distributed to the top 200 retailers in the state, 44 convenience stores with gas and 9 grocery stores in the northwest region would receive one. Statewide, 162 convenience stores with gas and 38 grocery stores would receive a ticket checker. The top 100 and 200 Lottery retailers by average weekly sales are not all in one region of the state, but rather we see a wide variety and spread throughout the state. Scientific Games staff did receive requests for ticket checkers from the retailers when they visited them in early February.

Mr. Miller stated there is no guarantee the ticket checkers will be compatible with the online vendor's lottery equipment and software when our next contract begins. So in March 2014, these ticket checkers may be obsolete whether the current online vendor or another online vendor is awarded a contract. There is no correlation that ticket checkers will increase Lottery ticket sales. The Lottery may see some indirect increases but does not anticipate anything substantial. Ticket checkers would free up clerk's time to up-sell Lottery products, relieve cash register lines and the frustration from non-Lottery players, add another level of security to reduce potential fraudulent activity, provide the convenience to players, and enhance the relationship with our top selling retailer partners. However the retailer down the street may not be happy they didn't get a ticket checker because they did not meet the sales requirements to get in the top 100 or 200.

It is a substantial investment for only approximately 28 months remaining on the contract with Scientific Games after the ticket checkers would be implemented in December. The Lottery did receive a reduction in

the online vendor fee when the two year extension was utilized with Scientific Games which does leave the Lottery some savings that could possibly offset the price of the ticket checkers.

Nine retailers out of 189 that responded to the manager opinion survey conducted by the Lottery in March 2009 requested ticket checkers. The North Dakota Petroleum Marketers Association recently sent out a survey to approximately 300 Lottery retailers. 61 out of the 73 that responded to the survey requested ticket checkers. Commissioner Rud stressed the need for the ticket checkers based on requests he receives from North Dakota Petroleum Marketer Association members. Commissioner Rud noted that retailers would like to see the state pay for the entire portion of ticket checkers, but retailers and marketers are also very open about taking a look at paying for a portion of the ticket checker themselves. This would depend on if these ticket checkers would be compatible with the Lottery's next online vendor contract.

Commissioner Wrangham stated he had to get to the Chambers. Mr. Miller suggested that we can reconvene next week allowing everyone time to review the material. Commissioner Lee requested Ms. Walder send to the Commission tentative date options to meet again next week.

Adjournment

Commissioner Delmore made a motion to adjourn. Commissioner Thoreson seconded the motion. The motion passed 5-0.

Meeting adjourned at 2:58 p.m.