

Minutes of the Teleconference of the Lottery Advisory Commission
May 5, 2011

Attendance

A teleconference of the Lottery Advisory Commission (Commission) was held from 2:00 p.m. – 2:42 p.m., on Thursday, May 5, 2011. Representing the Commission were Senator Gary Lee (Chairperson), Representative Lois Delmore, Mr. Laurel Thoreson, and Mr. Mike Rud. Representative Dwight Wrangham was absent. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, and Ms. Sonja Walder, administrative assistant. Meeting convened at 2:03 p.m.

Continue Discussion Related to Consideration of Scientific Games International Proposal for Ticket Checkers

Chairman Lee stated there was a quorum and called the meeting to order. Mr. Miller provided the Commission with additional information to assist in their decision making. Based on current projections, it does not look like the Lottery will meet its goal to transfer \$11 million to the general fund for the 2009-2011 biennium. Keep in mind the remainder of the biennium is dependent upon big jackpot runs for Powerball and Mega Millions. If the big jackpots continue to roll and sales increase, the Lottery could still meet its goal to transfer to the general fund. The original projection was for the Lottery to transfer \$11.155 million, but was revised in February to \$11 million. \$5.1 million was transferred to the general fund the first year of the biennium. The second year estimate is approximately \$5.4 million which is \$500,000 under projection. Depending on sales for the 2011-2013 biennium, it may be difficult for the Lottery to meet the \$11 million transfer to the general fund. Adding the expense for the ticket checkers may make it even more difficult to meet the general fund transfer for the next biennium.

Ticket checkers have been around for approximately seven years. A NASPL survey conducted in April 2010 acknowledged that 56% of the lotteries had ticket checkers. As online vendor contracts for lotteries terminate and new contracts are issued, more and more lotteries will implement ticket checkers as they are becoming an industry standard. Commissioner Delmore asked who is paying for the ticket checkers at these other lotteries. Mr. Miller stated that the expense is included in the online vendor contract and the lotteries pay for the ticket checkers as part of their vendor fee.

The Director's Message in the Lottery Links Newsletter that was mailed out in late March/early April focused on the Lottery reconsidering the implementation of a limited number of ticket checkers and highlighted the factors of why the Lottery is reconsidering the ticket checkers. Mr. Miller invited retailers to call or email him if they had any comments or suggestions about ticket checkers. He received no responses. Commissioner Thoreson asked if about 300 Lottery retailers received the ticket checker survey that was sent out by the North Dakota Petroleum Marketers Association. Mr. Miller confirmed that approximately 300 retailers received the survey and 61 out of the 73 that responded to the survey requested ticket checkers.

Commissioner Rud stated that some retailers are requesting ticket checkers and are willing to help offset the cost, while others feel the Lottery should pay the entire cost. We have a fair amount of demand out there right now for retailers that would really like to see a ticket checker. I think we need to give retailers the option and consider some kind of agreement amongst the Commission and the Attorney General where retailers pay part of the ticket checker expense, for example \$500 or \$700 and maybe place in 200 retailer locations.

Commissioner Rud added that some retailers would like to see a more automated system like buying a Lottery ticket at an ATM or other technologies that will be introduced in the future. Also we have to be sure if we do invest in ticket checkers that the ticket checkers are compatible when the next online vendor contract begins in March 2014. There are a number of issues that we are facing right now with the implementation of ticket checkers and the technology that lies ahead.

Commissioner Thoreson stated that it is not wise to invest in ticket checkers now when we have no guarantee the ticket checkers will be compatible with the online vendor's lottery equipment and software when our next contract begins. Considering the responses from retailers requesting ticket checkers, the assumption would be that if retailers wanted them, there would be a majority of them asking for the ticket checkers. His recommendation was rather than the Lottery losing money in the process now, the Lottery delay purchasing the ticket checkers.

Commissioner Delmore stated it makes sense to wait to purchase until the next contract based on the risk of the ticket checkers not being compatible, not that long of a time until our online vendor contract ends, along with the Lottery projections being short of making the general fund transfer.

Commissioner Rud asked in March 2014 will everyone will get ticket checkers. Mr. Miller stated the Lottery is not sure at this time how many ticket checkers would be needed in 2014, but does not see the need for all 400 retailers to have ticket checkers based on weekly sales. It does not seem practical for all retailers to have a ticket checker, but the Lottery will determine that as it gets closer to the time to develop the RFP.

Commissioner Rud asked if it was likely that the ticket checkers would be compatible. Mr. Miller stated that Scientific Games will make no guarantee that these ticket checkers will be compatible whether Scientific Games would be awarded the next contract or a different vendor. Commissioner Rud asked if lotteries that are nearing the term of their online vendor contracts are opting for different vendors or are the generally sticking with the same vendor they had. Mr. Miller stated that other lotteries follow a procurement process similar to North Dakota. The successful vendor is awarded the contract which may in some instances be the same online vendor while other times may be a new online vendor.

Commissioner Lee asked if the Lottery purchases some of these checkers now and re-bids the contract, would that limit us to staying with Scientific Games in 2014. Mr. Miller stated that the purchase of ticket checkers now would not limit us to staying with Scientific Games.

Commissioner Rud asked if we purchase the ticket checkers now and they are obsolete in 2014, would it still be an option for the online vendor that is awarded the contract to be able to provide the Lottery with new ticket checkers to replace the ones purchased now. Mr. Miller stated the online vendor that is awarded the next contract would have ticket checkers available to meet the Lottery's needs, but the based on the assumption the ticket checkers would not be compatible, the Lottery would then need to pay for the ticket checkers again. The consensus that we had from the Commission and Attorney General Stenehjem when we discussed the ticket checkers previously was that all intentions were to include ticket checkers in our next bid process. Commissioner Delmore added there were two concerns, one that the Lottery would have to pay for the ticket checkers twice if they were purchased now and again in 2014 and two that in 2014 there would be a better chance to get a more reasonable checker because there would be greater demand nationwide. Chairman Lee agreed with Commissioner Delmore and felt it would not be a logical decision to move forward with the purchase of ticket checkers at this

time. He recommended letting the retailers know that the Lottery plans to include that option in the next contract.

Commissioner Thoreson reaffirmed what Commissioner Delmore stated. The Lottery should not have to spend the money twice for these ticket checkers, especially if we are behind in what we need to transfer to the general fund. Commissioner Thoreson felt we should wait until our contract is up.

Commissioner Delmore noted that the Lottery hears what the retailers are saying, but at this time it would not be fiscally responsible to spend the money. In 2014 it will be one of the things the Lottery will do to accommodate.

Chairman Lee stated the recommendation is to wait until 2014 when the contract is up and to let the retailers know that the ticket checker will be part of the contract. He then asked the Commission for further discussion. Commissioner Rud asked the Commission to consider a cost sharing of the expense with retailers, and if not feasible, he is hopeful that retailers will not become frustrated with the lack of ticket checkers at this time. Commissioner Rud stated he would go with the consensus of the Commission, but reiterated the concerns from retailers. The consensus from the Commission was to wait until March 2014 to implement ticket checkers. Mr. Miller will present the Commission's recommendation to Attorney General Stenehjem for final approval.

Omnibus Items

Mr. Miller informed the Commission that on December 15 he met before the Administrative Rules Committee to describe the procedure followed by the Lottery in adopting the rule changes for ineligible player; claim of a prize; and the Mega Millions game. The Committee had no concerns. The rule changes were published in the January 2011 supplement of the North Dakota Administrative Code.

Mr. Miller informed the Commission that on March 10 he met before the Administrative Rules Committee to describe the procedure followed by the Lottery in adopting the rule changes to the Power Play option for Powerball game and the Megaplier option and prize pool for the Mega Millions game. The Committee had no concerns. The rule changes were published in the April 2011 supplement of the North Dakota Administrative Code.

Mr. Miller informed the Commission that some retailers continue to experience tickets not printing from their terminal. Scientific Games is reviewing the issue and has assigned engineers to work on finding the cause of the problem. As the weather gets nicer, the occurrence of tickets not printing becomes less, so the issue may be weather related. Retailers are reimbursed for the tickets that do not print after submitting a request for reimbursement to the Lottery. It is very frustrating for the retailer and the player.

Mr. Miller informed the Commission that the Multi-State Lottery Association Development Committee continues to review game concepts for a \$2 Powerball game. No specific details on the game concepts have been provided to the Powerball Game Group at this time, but it is anticipated the game concepts will be presented in the near future to allow time for each lottery to review them prior to the next Powerball meeting on June 14. The assumption is there will be a vote by the Powerball Game Group for some sort of game change to a \$2 game. As more information becomes available, it will be passed on to the Commission.

Adjournment

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

Meeting adjourned at 2:42 p.m.