

Minutes of the Lottery Advisory Commission
July 9, 2012

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 10:00 a.m. – 10:35 a.m., on Monday, July 9, 2012. Representing the Commission were Representative Dwight Wrangham and Mr. Russ Hanson. Mr. Mike Rud (Chairman), Representative Lois Delmore, and Senator Lonnie Laffen participated by telephone. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, Mr. Ryan Kopyy, sales and marketing manager, Ms. Julie Thompson, security officer, and Ms. Sonja Walder, administrative assistant. Also in attendance was Ms. Leslie Darfler, general manager for North Dakota, Scientific Games International.

Selection of a Chairperson

Commissioner Delmore made a motion to nominate Commissioner Rud to serve as chairman for a one-year term. Commissioner Hanson seconded the motion. With no other nominations, a roll call vote was taken. Commissioner Wrangham-yes, Commissioner Delmore-yes, Commissioner Laffen-yes, Commissioner Hanson-yes, and Commissioner Rud-no. The motion passed 4-1.

Approval of Minutes

Commissioner Delmore made a motion to approve the draft minutes of the March 6, 2012 and June 7, 2012 meetings. Commissioner Wrangham seconded the motion. The motion passed 5-0.

Overview of Revenues and Expenses for the Quarter Ended March 31, 2012 and Sales Activity Through June 2012 (unaudited)

Mr. Miller provided an overview of the quarter ended March 31, 2012. Ticket sales increased \$2,321,180 or 36.62% and other operating revenue increased \$103,393 compared to the same quarter last year. The increase in sales was primarily due to the Mega Million's jackpot reaching \$656 million in late March, the Powerball jackpot reaching \$336 million in early February, and the Powerball game change in mid-January increasing the price to \$2. The increase in other operating revenue was the result of an unclaimed Powerball grand prize in Georgia. Based on sales, the unclaimed prize was returned to the participating lotteries. North Dakota received \$104,248.

Total expenses increased \$1,117,474 or 23.31% compared to the same quarter last year. The prize expense and retailer commissions/bonuses increase was a direct incremental relation to the increase in ticket sales. The contractual services expense decreased because of the decrease in Scientific Games contractual fee from 10.63% to 8.8761%.

Ticket sales for the quarter ended June 30, 2012 increased \$292,469 or 5.27% compared to the same period last year. Fiscal year 2012 was a record-breaking year for the Lottery with approximately \$26 million in sales.

Overview of Marketing Activity and Short-Term Marketing Plans

Mr. Kopyy provided an overview of marketing activity. The Mega Monday's promotion ran March 5 through April 30 on Monday only. The qualifying purchase was three plays of Mega Millions with Megaplier for \$5 (\$1 discount). Players saved \$36,333. Sales increased \$206,529 or 76.73%. Sales were

significantly impacted by the \$656 million Mega Millions jackpot. Post-promotion sales continue to be positive as Mega Million's sales were up 24% six weeks after the promotion ended when compared to similar jackpots. The Lottery spent \$37,293 on promotion costs that included point-of-sale materials, production costs, and radio.

The 2by2 7-draw promotion ran June 3 through June 30. The qualifying purchase was a seven draw 2by2 ticket for \$7. Players had a chance to instantly win a free 7-draw 2by2 ticket. Sales increased 11% compared to the five month weekly average prior to the promotion. Total sales during the promotion were \$316,788.

The June Father's Day subscription promotion ran the month of June. The promotion offered a discount of up to 10% on a subscription purchase. Players saved \$3,117. Subscription sales increased 35% compared to May 2012. Total sales during the promotion were \$30,696.

The Lottery awarded the marketing and advertising services contract to KK Bold of Bismarck. This is a three year contract from July 1, 2012, through June 30, 2015, with the option to extend the contract period for an additional period of time, not to exceed six months beyond the expiration date of the contract and a renewal option to execute up to two options to renew the contract under the same terms and conditions for a period of twelve months each.

The Lottery issued the Notice of Intent to Award a Contract for production and media placement of radio commercials to A&B Advertising, LLC of St. Paul, Minnesota. Upon the successful completion of the background checks, a one year contract will be awarded with the option to extend for an additional six months or renew the contract for a maximum of two additional one year periods.

Beginning in late summer or early fall the Lottery is planning a promotion whereas subscribers with active subscriptions will be entered into a drawing each month. The subscriber will receive one entry for each active subscription they hold. There will be three prize tiers, the first prize tier valued at \$500, the second prize tier valued at \$200, and the third prize tier valued at \$50. The prizes will vary each month consisting of merchandise or gift cards. The prize budget for the six month promotion is \$4,500.

The Instant 10 promotion will begin August 5 and run through September 1. The qualifying purchase is four plays of Powerball with Power Play for \$12. Players have a chance to instantly win \$10. The budget for point-of-sale materials, productions costs, and radio is \$30,000. Mr. Kopyy left the meeting at 10:24 a.m.

Approval of Draft Administrative Rules for the Wild Card 2 Game Changes

Ms. Thompson provided an overview of the draft administrative rules for the Wild Card 2 game changes.

CHAPTER 10-16-06 WILD CARD 2® GAME

10-16-06-01. Game description. To play WILD CARD 2®, a player selects five different white numbers, between one and ~~thirty-one~~ thirty-three, and one out of sixteen card symbols (wild card) selected from the jack, queen, king, or ace of any suit. The player selects two plays for a minimum price of one dollar. A grand prize is paid on a single-payment cash pari-mutuel basis and a set prize (cash prize of ~~five~~ six thousand dollars or less) is paid on a single-payment cash basis. Draws are held every Wednesday and Saturday.

History: Effective February 1, 2004; amended effective April 1, 2006; January 13, 2013.

General Authority: NDCC 53-12.1-13

Law Implemented: NDCC 53.12.1-13

10-16-06-02. Expected prize pool percentages and odds. The minimum grand prize is ~~one~~ two hundred thousand dollars and is paid on a pari-mutuel basis. Except as provided by rule, a set prize must be paid according to these matches per play and prize amounts with these expected prize payout percentages:

Matches Per Play	Prize	Prize Pool Percentage	
		Allocated to Prize	Odds*
5 white + Wild Card	Grand prize	36.25 <u>42.23</u> %	1:1,359,288 <u>1:1,898,688</u>
5 white + no Wild Card	\$5,000 <u>\$6,000</u>	10.41 <u>8.32</u> %	1:90,619 <u>1:126,579</u>
4 white + Wild Card	\$500	9.02 <u>6.47</u> %	1:10,456 <u>1:13,562</u>
4 white + no Wild Card	\$20 <u>\$30</u>	5.41 <u>5.82</u> %	1:697 <u>1:904</u>
3 white + Wild Card	\$5 <u>\$6</u>	2.26 <u>2.10</u> %	1:418 <u>1:502</u>
3 white + no Wild Card	\$2	13.53 <u>10.48</u> %	1:281 <u>1:33</u>
2 white + Wild Card	\$1 <u>\$2</u>	3.61 <u>6.05</u> %	1:81 <u>1:58</u>
1 white + Wild Card	\$1	10.38 <u>9.46</u> %	1:81 <u>1:19</u>
0 white + Wild Card	\$1	9.13 <u>9.08</u> %	1:81 <u>1:19</u>

Overall odds of winning a prize on a one dollar play are ~~1:61~~1:6.67.

*Reflects the odds of winning and probable distribution of winning plays in and among each prize tier, based on the total number of possible combinations.

History: Effective February 1, 2004; amended effective April 1, 2006; January 13, 2013.

General Authority: NDCC 53.12.1-13

Law Implemented: NDCC 53-12.1-13

10-16-06-04. Prize pool and payment.

1. The prize pool for all prize categories must consist of ~~fifty-five~~ fifty-seven percent of each draw period's sales after the prize reserve account is funded.
2. The prize money allocated to the grand prize pool must be divided equally by the number of plays that win the grand prize. If the grand prize is not won in a draw, subject to any restrictions by the game group, the prize money allocated for the grand prize must roll over and be added to the grand prize pool for the next draw. A grand prize must be paid in cash in a single payment.
3. The prize pool percentage allocated to set prizes must be carried forward to the next draw if all or a portion of it is not needed to pay the set prizes awarded in the current draw.
4. The lottery may not pay a grand or set cash prize until after it receives authorization from the MUSL. The lottery may pay the prize before it receives the funds from the MUSL.

History: Effective February 1, 2004; amended effective April 1, 2006; April 1, 2008; January 13, 2013.

General Authority: NDCC 53-12.1-13

Law Implemented: NDCC 53-12.1-13

Commissioner Delmore made a motion to approve the draft administrative rules for the Wild Card 2 game changes. Commissioner Hanson seconded the motion. The motion passed 5-0. The recommendation will be presented to Attorney General Stenehjem for approval prior to moving forward with the rule adoption process.

Omnibus Items

Mr. Miller reported since the launch of the \$2 Powerball game, Powerball with Power Play sales are up 14.6% for North Dakota which is consistent with the average increase of 16.2% for all participating lotteries. Mega Million's sales are up 73.9% for North Dakota while the average increase for all participating lotteries was up 42.2%. This increase is not an accurate reflection of Mega Millions performance as the sales were significantly impacted by the \$656 million jackpot run.

In June 2012, a change was made to the "file claim at Lottery receipt" for the customer and the retailer when a player wins \$600 or more. The change provides more detailed information on the front of the receipt so the winner knows they have 180 days from the specified draw date to claim the prize. The message on the receipt states "File claim at Lottery with original ticket within 180 days of XX/XX/XXXX". The date printed in the XX/XX/XXXX is the date of the draw the ticket won on.

Mr. Miller informed the Commission that Representative Lois Delmore was reappointed to serve a three year term effective July 1, 2012, and Mr. Russ Hanson was appointed to serve a three year term effective July 1, 2012.

Mr. Miller updated the Commission on new Lottery employees. Mr. Rob Yost, accounting budget specialist III began working on May 29, 2012. Mr. Mark Rauhauser, customer service specialist, began working on June 25, 2012. Mr. Ryan Kopyy moved from the customer service specialist position to the sales and marketing manager position.

Adjournment

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

Meeting adjourned at 10:35 a.m.