

Minutes of the Lottery Advisory Commission  
April 23, 2014

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 1:07 p.m. – 2:43 p.m., on Wednesday, April 23, 2014. Representing the Commission were Mr. Mike Rud (Chairman) and Mr. Russ Hanson; Representative Lois Delmore and Senator Lonnie Laffen participated by telephone. Representative Joe Heilman was absent. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, Mr. Ryan Koppy, sales and marketing manager, Ms. Julie Thompson, security officer and Ms. Sonja Walder, administrative assistant. Mr. Scott Tarno, customer service specialist, joined the meeting at 2:02 p.m. Also present were Mr. Richard Fuher, financial auditor, Office of the State Auditor, Mr. Doug Parker, regional operations director, Scientific Games International and Ms. Leslie Darfler, general manager for North Dakota, Scientific Games International. Attending by teleconference were Ms. Leslie Badger, vice president online marketing and game development, Scientific Games International, Ms. Pam Lee, vice president, Linked Games and Mr. Kyle Rogers, executive vice president and general manager, MDI Entertainment, Inc.

Approval of Minutes

Commissioner Delmore made a motion to approve the minutes of the December 16, 2013 and January 17, 2014 meetings. Commissioner Hanson seconded the motion. The motion passed 4-0.

Presentation of the Audit Report for the Fiscal Years Ended June 30, 2013 and 2012

Mr. Fuher provided an overview of the audit report for the fiscal years ended June 30, 2013 and 2012. It is the opinion of the State Auditor the financial statements present fairly in all material aspects to the financial position of the business type of the North Dakota Lottery as June 30, 2013 and 2012 and the revenues, expenses and cash flows thereof for the years then ended are in accordance with the generally accepted accounting principles. There were no deficiencies in internal control to be neither material weakness nor potential that a material weakness may exist which has not been identified. There were three informal recommendations. The Office of the State Auditor recommended the Lottery complete their checklist for prizes of \$5,000 or greater to ensure all requirements have been completed, the preparer of the Lottery financial statements review all formulas used in preparing the financial statements and the Lottery establish policies and procedures to ensure management reviews and approves the financial statements, including significant adjustments and elimination entries, before they are provided to the auditors. Management of the Lottery agreed with these recommendations.

Commissioner Hanson made a motion to accept the audit report. Commissioner Delmore seconded the motion. The motion passed 4-0. Mr. Fuher left the meeting at 1:20 p.m.

Consideration to Offer Monopoly Millionaires' Club as New Game

Mr. Miller provided an overview of the Monopoly Millionaires' Club game to the Commission. Monopoly is the best known and most successful brand in gaming. Hasbro executed Monopoly Millionaire which was one of the most popular licensed brands in 2013. Based on the success, Scientific Games International created Monopoly Millionaires' Club. The game will create tens to hundreds of millionaires when the jackpot is hit. As the jackpot continues to roll, the number of \$1 million club prizes increase as well. The cost is \$5 per play with only one drawing per week. The matrix is 5 of 52

and 1 of 28. There are 10 prize levels and overall odds are 1 in 10. The jackpot odds are 1 in 72.77 million. The prize payout is 50.7% of sales. The jackpot starts at \$25 million and caps at \$50 million. When the \$50 million cap is reached the number of \$1 million club prizes significantly increase with each draw. Set prizes range from \$5 to \$100,000. There is an instant win add-on optional component. The Lottery will request an opinion from the assistant attorney general as to whether it is allowed to offer this feature. 26 lotteries plan to start the game on October 19, 2014 and 8 other lotteries plan to start the game sometime between November 2014 and March 2015. North Dakota would like to start the game in January or February 2015.

The Monopoly Millionaires' Club has a television game show that compliments the draw game. With each ticket purchased, players are awarded one Monopoly Property. Players register that ticket online. Every time a player collects a Monopoly, they get at least one entry into a drawing to be on the television game show. Better monopolies result in more entries. Lottery players on the game show will have an opportunity to win \$1 million. Every participating Lottery has a minimum of three players in each television game show audience. Every participating Lottery will have a guaranteed contestant from their state playing on television in a Monopoly mini-game for an opportunity to win \$10,000.

Additional fees would range from approximately 4.25% to 5.25% of sales, depending on the sales. These fees would include the costs associated with the production of the television game show, prizes won on the television game show, transportation/lodging/per diem costs for lottery winners and one guest for taping of the television game show, multi-channel distribution of the television game show through a syndicated television network, a national cablecast and video streaming, and use of Millionaires' Club patents.

Commissioner Hanson made a motion to add the Monopoly Millionaires' Club game as a sixth game for North Dakota Lottery players. Commissioner Delmore seconded the motion. The motion passed 4-0. The recommendation will be presented to Attorney General Stenehjem for final approval.

#### Review of Scientific Games International Contract

Mr. Miller provided an overview of the online lottery system and services contract with Scientific Games International. The contract was signed on February 19, 2014 and continues through June 30, 2022 with the option to renew or extend for a period up to 24 months. Phase 1 is to be completed no later than March 25, 2014. Phase 2 is to be completed no later than July 6, 2014. Compensation by the Lottery will begin on July 6, 2014. The fee is 10.473% of net sales. In addition, a Contractor Incentive Payment (CIP) bonus of 8% of all incremental annual net sales exceeding the prior 3-year rolling net sales average. Payment of the CIP will not begin until the end of contract year 4.

The Lottery received 450 new terminals, customer play units, wireless self-service ticket checkers, Lottery InMotion monitors, and wireless two-game jackpot signs for retailers. In addition, two new terminals, customer display units, Lottery InMotion monitors, and wireless two-game jackpot signs for the Lottery office, along with one wireless self-service ticket checker and all the necessary PC's, computer monitors, laser printers, scanners, and other general office equipment and standard office suite software. Other equipment and services the Lottery received included 50 new self-service lottery terminals, implementation of Players Club and Points for Prizes Program, implementation of automated internet subscription service, and a testing facility in Bismarck.

Mr. Tarno informed the Commission that the Lottery has added 25 new retailers and 15 more are in the process of applying. Mr. Tarno left the meeting at 2:10 p.m.

#### Discuss Online System Conversion Items

#### A. Players Club

Mr. Kopyy presented samples of logos and names for the players club. The consensus of the Commission was to name the lottery players club the "North Dakota Lottery Players Club" and to use the logo with the blue banner. The recommendation will be presented to Attorney General Stenehjem for final approval.

Mr. Miller informed the Commission that the Lottery is considering including fun play games as part of the players club. Fun play games are free and played for entertainment only. Mr. Miller will confirm with IT that fun play games are allowed. The information will be provided to Attorney General Stenehjem for approval.

#### B. Production ICS at UAT Facility in Bismarck

Ms. Thompson presented the report on the UAT facility in Bismarck. The Multi-State Lottery Association rules require that the Lottery have two internal control systems (ICS). Currently there are two ICS at the Lottery office and a third ICS is in Oklahoma City. Once the testing facility is fully operational in Bismarck, the third ICS can be taken out of production and used only for testing. The second ICS can be moved to the testing facility. There is a need for backup power source at the testing facility. An engineer was consulted for the purchase and installation of a generator. The estimated cost was \$15,000. An electrician provided a preliminary estimate of \$7,580. The consensus of the Commission was to use the direct services of an electrician for the purchase and installation of a generator. The recommendation will be presented to Attorney General Stenehjem for final approval.

#### Overview of Marketing Activity and Short-Term Marketing Plans

Mr. Kopyy provided an overview of marketing activity and short term marketing plans. The Mega Dash promotion ran October 19 through November 16, 2013. The qualifying purchase was five plays of Mega Millions with Megaplier for \$10. Eligible qualifying purchases had a chance to instantly win \$5, \$20, \$100, or \$500. Winners were chosen at random. When compared to similar jackpots between \$15-\$100 million, Mega Millions sales increased approximately 20%.

The holiday subscription promotion ran November 17 through December 31, 2013. Subscribers were eligible to save up to 10% on all lottery subscriptions. The Lottery attended the Pride of Dakota Holiday Showcase events in Fargo and Bismarck. 38 subscriptions totaling \$2,795 in sales were sold in Fargo. 38 subscriptions totaling \$3,132 in sales were sold in Bismarck. Total sales during the subscription promotion were \$86,787 which was a decrease of 3% compared to the subscription promotion period the previous year. Players received \$9,548 in discounts. Total advertising costs for point-of-sale items and Pride of Dakota Holiday Showcase registration fees were \$719.

The Powerball game change took effect on January 19, 2014 with the return of the 2x, 3x, 4x and 5x random multipliers. The cost per play remains at \$2 with an additional \$1 to add Power Play. North Dakota Lottery Power Play is currently at 45.82% participation rate. North Dakota ranks 2<sup>nd</sup> among all states in Power Play participation rate. Total advertising cost for point-of-sale items was \$2,863.

The Lottery's rebranding campaign kicked off on March 17, 2014 with the launch of our TV and radio ads. The rebranding campaign message is "When you win, what you do is up to you. IMAGINE THE POSSIBILITIES!" The first campaign flight consists of TV and radio ads, Pandora and Facebook promoted posts running from March 17 through April 13, 2014. The second campaign flight consists of radio ads,

Pandora, digital outdoor billboards, and Facebook promoted posts from May 5 through June 1, 2014. The total budget for both flights is \$139,000.

A media day event was held at Dan's Supermarket south in Bismarck on March 24, 2014 to kick off the Lottery's 10-year anniversary, installation of new equipment and introduction of the rebranding campaign. Attorney General Stenehjem spoke to media representatives and players about his experiences with lottery winners and the excitement from both retailers and players in regards to the new equipment.

#### Overview of Revenue and Expenses for the Quarter Ended December 31, 2013 and Sales Activity Through March 31, 2014 (unaudited)

Mr. Miller provided an overview of revenue and expenses for the quarter ended December 31, 2013 and sales activity through March 31, 2014. Total ticket sales decreased \$807,257 or 10.10% compared to the same period last year. The decrease was mainly due to the Powerball jackpot hitting \$550 million and the Hot Lotto jackpot hitting \$6.38 million in 2012. Mega Millions sales increased due to the \$636 million jackpot in December 2013 and a Mega Dash promotion in October/November, offsetting some of the decrease sales from Powerball and Hot Lotto.

Total operating expenses decreased \$260,345 or 4.71% compared to the same period last year. Prize expense decreased \$319,317 or 7.87%, retailer commissions/bonuses decreased \$31,545 or 7.92%, and contractual services expense decreased \$61,542 or 8.69% due to the decrease in ticket sales. Marketing expense increased \$50,943 or 38.11% and other operating expenses increased \$89,072 or 189.09%. The increase in marketing was due to the timing of payment of an invoice to KK Bold and the cost for some of the TV ads for the Mega Dash promotion. Other operating expenses increased because of the timing of the payment for MUSL dues. Last year the MUSL dues were paid in January.

Ticket sales for January through March 2014 increased \$471,712 or 7.83% compared to the same period last year. Powerball sales decreased \$272,273 possibly because of the frequency of jackpot runs for Powerball and Mega Millions. Wild Card 2 sales decreased \$219,990 because last year One Wild Deal promotion ran. Mega Millions sales increased \$839,410 because the jackpot hit \$400 million in March 2014.

#### Adjournment

Commissioner Hanson made a motion to adjourn. Commissioner Delmore seconded the motion. The motion passed 4-0. The meeting adjourned at 2:43 p.m.