

Minutes of the Lottery Advisory Commission
October 7, 2015

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 1:30 p.m. – 2:50 p.m., on Wednesday, October 7, 2015. Representing the Commission were Mr. Mike Rud (Chairman), Mr. Russ Hanson, and Senator Nicole Poolman; Representative Lois Delmore and Representative Thomas Beadle participated by telephone. Representing the North Dakota Lottery (Lottery) were Mr. Randy Miller, director, Mr. Ryan Koppy, sales and marketing manager, Ms. Julie Thompson, security officer, Ms. Missy Steele, administrative staff officer, and Ms. Sonja Walder, administrative assistant. Representing Scientific Games International were Ms. Leslie Darfler, general manager for North Dakota and Mr. Danny Albertson, audit and security manager.

Selection of a Chairperson

Commissioner Delmore made a motion to nominate Commissioner Rud to serve as chairperson. Commissioner Hanson seconded the motion. With no other nominations, Commissioner Rud was elected chairman. The motion passed 5-0.

Approval of Minutes

Commissioner Poolman made a motion to approve the minutes of the June 3, 2015 meeting. Commissioner Delmore seconded the motion. The motion passed 5-0.

Approval of the Audit Report for the Fiscal Years Ended June 30, 2014 and 2013

Commissioner Poolman made a motion to accept the audit report for the fiscal years ended June 30, 2014 and 2013. Commissioner Delmore seconded the motion. The motion passed 5-0.

Final Approval of the Proposed Administrative Rules for the Addition of the Lucky for Life Game, Changes to the Powerball Game, and Miscellaneous Changes to General Rules, Retailer, Conduct and Play, Points for Prizes, and Points for Drawings

Mr. Miller provided an overview of the final proposed administrative rule changes/additions. The proposed amendments addressing changes to the Powerball game including the game description, expected prize pool percentages and odds, and power play option; Retailer sales commission and bonus; and North Dakota Lottery Players Club Points for Prizes general and Points for Drawings general are emergency rules with a declared effective date of October 4, 2015.

The proposed amendments adopting rules for the Lucky for Life game including game description, prizes and odds, prize pool and payment, and prize liability limits; addressing changes to General Rules definitions; and Conduct and Play games authorized, claim of a prize, and subscription are not emergency rules and are effective January 31, 2016.

The only comment was per an amendment to the Powerball Group Rules by the Multi-State Lottery Association to add “sometimes” when referencing the 10X multiplier for the power play option in subsection 3 of 10-16-04-06 (Power play option). The revised rule would read as follows:

A qualifying play which wins one of the seven lowest set prizes (excluding the match 5+0 prize) will be multiplied by the number selected, two through five or sometimes ten, in a separate random power play drawing. The match 5+0 prize, for players selecting the power play option, shall be paid two million unless a higher limited promotional dollar amount is announced by the game group or unless a lower dollar amount is announced by the game group under its limitation of liability rules.

Commissioner Delmore made a motion that the Commission considered all comments on the proposed rules and to adopt the final proposed rules as revised. Commissioner Beadle 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.

Marketing Activity and Short-Term Marketing Plans

Mr. Kopy presented the overview on marketing activity and short-term marketing plans. The North Dakota Lottery Players Club has 8,964 registered members. The following prizes were given away to players through the Points for Drawings program: four Weber tailgate packages; three outdoor furniture/fire pit sets; four Dyson hot + cool fan heaters; and one home theater package. The North Dakota Lottery is currently running a point sign-up bonus promotion through October 31. New Players Club members receive 250 bonus points upon registration. Through November, Players Club members will receive an additional point multiplier on all Powerball tickets entered. Also in November, Black Friday and Cyber Monday sales promotions will offer players a percentage off all Points for Prizes store purchases. During the month of December, Players Club members will receive a percentage off all Points for Prizes store purchases and bonus points for new registrations. The Lottery will also be promoting the “Give-a-Gift” gift certificates.

Commissioner Beadle asked if there was a report that would show the number of registered players that are active players. Mr. Miller said he would gather the information and send to the Commission after the meeting.

The Lottery ran a 2by2 7-draw promotion from July 12 through August 8, 2015. The qualifying purchase was a single play, 7-draw 2by2 ticket for \$7. With the qualifying purchase, players were eligible to instantly win a free 7-draw 2by2 ticket or \$500 cash. Sales increased 48.2% when compared to the 26-week, weekly average prior to the promotion. Players won over \$27,000 in prizes. The prize expense was covered by the excess reserve in the 2by2 low-tier prize pool.

Mr. Kopy presented the Commission with a presentation via Webex showing the new website administration application made available to the North Dakota Lottery by the IT Department of the Office of Attorney General and Eide Bailly of Fargo. This application allows real-time changes to the North Dakota Lottery’s website without having to submit changes to IT.

The Powerball game change went into effect on October 4, 2015. Changes to the game included the addition of 10 white balls, the deletion of 9 red balls, the overall odds improved from 1:31.85 to 1:24.87, the addition of the 10X multiplier on jackpots of \$150 million or lower, and the match 4 prize increased

from \$10,000 to \$50,000. The price remains \$2 per play. The North Dakota Lottery is running a Powerball branding campaign which is part of a national branding campaign, promoting the Powerball game. The total budget for the campaign is \$70,000 including radio and TV ads, social media posts, online ads, point-of-sale, and digital billboards. The campaign will run through November 15, 2015.

The Lucky for Life game is scheduled to launch on January 31, 2016. It is a \$2 draw game, match 5 of 48 white numbers and one of 18 lucky ball numbers. The top prize is \$1,000 a day for life and the second prize is \$25,000 a year for life. Drawings will be held on Mondays and Thursdays. The total budget for is \$80,000 to \$100,000 including radio and TV ads, social media posts, online ads, point-of-sale, and digital billboards.

Revenues and Expenses for the Fiscal Year Ended June 30, 2015 and July Through September 2015 Sales (Unaudited)

Mr. Anderson joined the meeting at 2:05 p.m.

Mr. Anderson presented the overview of revenues and expenses for the fiscal year ended June 30, 2015. Total ticket sales increased by \$118,534 or 0.44% compared to fiscal year 2014. Total operating expenses increased \$1,050,629 or 5.46% compared to fiscal year 2014. Prize expense increased \$215,574 or 1.57% and retailer commissions/bonuses expense increased \$13,509 or 1.00%. These increases were in direct incremental relation to the increase in ticket sales. Contractual services expense increased \$574,459 or 23.94% due to the rate change with Scientific Games with the new contract.

For the quarter ended September 30, 2015, ticket sales increased by \$251,441 or 4.10% compared to the same period last year. This increase was primarily due to the 2by2 promotion that was held in July and August of 2015, along with the Powerball jackpot hitting over \$300 million during the quarter.

Mr. Anderson left the meeting at 2:18 p.m.

Online System Conversion Update

General Overview

Ms. Thompson provided an update on the online system conversion. After one year, the list of open items is getting shorter as testing and releases are being completed. Not everything was able to be tested before the conversion. So as issues arise, they are being fixed. Because of promotions and game changes, there may be some items that are still in need of a fix. The North Dakota Lottery and Scientific Games have an action plan to address the majority of the open items within the next six months.

Completed Requests Summary

Ms. Darfler provided a list of completed requests as of September 30, 2015. The list included items related to PCT EX terminals, Wave terminals, subscriptions, players club, and other miscellaneous software requests, game changes, promotions, and planning calendar.

Outstanding Requests Summary

Ms. Darfler provided a list of the outstanding requests as of September 30, 2015. The list included items related to PCT EX terminals bill acceptor and printer disconnect issues, WAVE terminal printer jams and please be patient message concerns, cashing 2by2 tickets that win more than 20 free plays, increase subscription funding limits, Business Intelligence (BI) reports, subscription web interface, subscription promotions, VISA credit card acceptance, subscription funding failures, real-time user-acceptance-testing, launch of the Lucky for Life game, AMBER Alert changes, lockdown alternative, and other miscellaneous items.

Ms. Darfler provided a list of system incident reports from July 1, 2014 through July 31, 2015. Many of the incidents were related to communications errors.

PlayCentral Terminals (PCT) Sales Summary

Mr. Tarno joined the meeting at 2:32 p.m.

Mr. Tarno provided a sales summary on the PlayCentral terminals (PCT's). Currently, PCT's are placed in 50 of the North Dakota Lottery's top selling grocery stores and convenience stores. PCT sales from September 2014 through July 2015 accounted for 4% of all North Dakota Lottery sales. PCT's are convenient for players to use, alleviate congestion away from the service counters, and reduce sales clerk time selling/checking lottery tickets. PCT's are being used in the retail locations, although do not seem to have a significant impact on sales. Retailers are supportive of the PCT's. Scientific Games will continue to work with the North Dakota Lottery to eliminate technical issues to optimize PCT sales.

Additional WAVE Terminals Sales Summary

Mr. Tarno provided a sales summary on the WAVE terminals for fiscal year 2015. The North Dakota Lottery added 44 WAVE terminal locations increasing the total retailer base to 444. Total North Dakota Lottery retailer sales increased .3%. The northwest region (includes Williston and Minot) added 23 new locations and had the largest increase in sales at 9.2%. The southwest region added 13 new locations and sales increased 1.8%. The northeast region added 1 new location and sales decreased 6.3%. The southeast region added 7 new locations and sales decreased 6.1%. The total sales increase of the cities/counties that received additional WAVE terminal locations was 3.3%. Past sales history has indicated that lottery sales are driven by large jackpots for Powerball and Mega Millions. The number of large jackpots during fiscal year 2015 decreased significantly from last fiscal year. The additional 44 WAVE terminal locations offset the decrease in sales caused by the fewer number of large jackpots.

Mr. Tarno left the meeting at 2:45 p.m.

Subscription Sales Summary

Ms. Steele joined the meeting at 2:45 p.m.

Ms. Steele provided a sales summary on subscriptions for fiscal year 2015. Subscription sales were \$488,060 which was a decrease of \$15,997 or 3% compared to last fiscal year. Prior to the launch of the new online subscription service, there were 1,377 subscribers. As of September 30, 2015 there were 493 active subscribers.

Ms. Steele left the meeting at 2:47 p.m.

Omnibus Items

Mr. Miller reported the Office of the State Auditor began the North Dakota Lottery's financial audit for the period ending June 30, 2015. The final report from the Office of the State Auditor should be issued in late November.

Mr. Miller and Mr. Kopyy will be attending the 2015 National Association of State and Provincial Lotteries Annual Conference in Dallas the week of October 12.

Mr. Miller and Mr. Tarno will be attending and setting up a display booth at the North Dakota Petroleum Marketers Convention and Trade Show in Fargo on October 28, 2015.

Mr. Miller congratulated Commissioner Delmore and Commissioner Hanson as both were re-appointed to serve another three-year term on the Lottery Advisory Commission ending June 30, 2018. Mr. Miller thanked the entire Lottery Advisory Commission for their dedicated work.

Adjournment

Commissioner Hanson made a motion to adjourn. Commissioner Poolman seconded the motion. The motion passed 5-0. The meeting adjourned at 2:50 p.m.