

Minutes of the Lottery Advisory Commission
September 8, 2022

Attendance

A meeting of the Lottery Advisory Commission (Commission) was held from 2:03 p.m. until 3:23 p.m., on Thursday, September 8, 2022. Commission members participating by telephone were Representative Karla Rose Hanson, Representative Emily O'Brien, and Mr. Russ Hanson. Members Mr. Mike Rud (Chairman) and Senator Nicole Poolman participated in the Commission meeting in person.

Representing the North Dakota Lottery were Mr. Lance Gaebe, director, Mr. Ryan Kopyy, sales and marketing manager, Mr. Matt Anderson, account budget specialist, Ms. Julie Thompson, security officer, Ms. Missy Steele, administrative staff officer, and Mr. Mark Rauhauser, customer service specialist, Ms. Jessica Seibel, administrative assistant.

Representing Scientific Games International was Dan Moran, general manager for North Dakota.

Selection of a Chairperson

Commissioner Russ Hanson made a motion to nominate Commissioner Rud to serve as chairperson for a one-year term. Commissioner Poolman 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 April 18, 2022, meeting. Commissioner O'Brien seconded the motion which passed 5-0.

Reports

a. **Marketing Activity and Short-Term Marketing Plans**

Mr. Kopyy presented an overview of marketing activity and short-term marketing plans. The North Dakota Lottery Players Club currently has 47,241 registered members. During the \$1.28 Billion Mega Millions jackpot run in July of 2022, the Lottery had a significant spike in club enrollments. The first six months of 2022 saw 1,819 new registrations and in July there were 1,894 additional verified registrations.

The following prizes were given away to players through the Points for Drawings program:

- Five Bison Cooler Bundles and two Beach Day Bundles on April 12, 2022
- Five Electric Smart Scooters on May 10, 2022
- Five Amazon Echo Shows, two Arcade bundles, and one 2022 Yamaha Drive2 PTV Golf Cart on June 7, 2022

- Five Barska Metal Detectors on July 13, 2022
- Ten free One Year (52 week/156 draws) Lotto America with All Star Bonus Pick & Click online plays and two Traeger Ironwood 650 Grill/Smoker bundles on August 9, 2022.

There are three Points for Drawings promotions in progress including:

- One Powerball First Millionaire of the Year Trip for two to New York City
- Two Troy-Bilt Snow Blowers
- Five Carson Red Planet Telescopes.

Future Points for Drawings promotions will be Theater Room package, iPhone 13 bundles, Capresso Grind/Brew/Froth bundles, and Oculus VY Headsets.

During November 20-28th, 2022, a Black Friday/Cyber Monday a 20% discount will be offered on Points for Prizes purchases using a multi-use promo code.

During the month of December 2022, a Season Savings Spectacular 15% discount will be offered on Points for Prizes cart purchases using a multi-use promo code.

Currently all new membership signups receive a 250-point signup bonus. During the month of December 2022, a 1,000-point signup bonus promotion will run. All players who sign up and complete registration during the prescribed promotional period will receive 1,000 bonus points.

Customer Relationship Management

The Lottery conducted a new promotion that targeted Players Club members who had never funded and purchased a Pick & Click online play. Lottery used the Optimove customer relationship management (CRM) platform and Players Club database to specifically target the players with an email that contained a promo code that allowed them to try Pick & Click online play for free.

Players who used a specific promo code received a single play, seven draw 2by2 Pick & Click online play (\$7 value) for free between the dates listed below:

- March 1 – March 7, 2022
- April 12 – April 18, 2022
- May 17 – May 23, 2022
- June 14 – June 20, 2022

Players who used a specific promo code received a free single play, three draw Powerball with Power Play Pick & Click online play (\$9 value) between July 2 – July 8, 2022. These promo codes were sent to eligible email addresses of individual players that met the following criteria: Total deposit amount = zero and number of online bets = zero – active players. Active players is defined as players who were active within the last 30 days and new players who had at least one additional activity date, ticket entry or online bet, in the last 14 days of their new period.

A reminder email was sent to eligible email addresses that did not use the promo code and was sent three days prior to the code's expiration dates. A third email was sent to players who had yet to use their winnings. This email was a reminder to these players that they had winnings in their account that they could use. This promotional campaign was a big success. Since the launch of

the campaign, the free codes have been used 212 times, by 212 individual players, 183 2by2 codes and 29 Powerball codes. Of the 212 players who used the code, 121 players, 57.1%, had further activity. The total sales for these code users were \$7,518, total deposits reached \$5,151 and \$125 in winnings have been withdrawn. Total cost for the prize/discount expense was \$1,542. To breakeven, the new sales needed to reach \$5,931, assuming Lottery makes \$0.26 on each dollar sold. The Lottery is planning to roll this out as a monthly campaign that occurs automatically.

The Lotto America game changed with an additional draw day, Monday, on July 18, 2022. Lotto America now draws three times a week: Monday, Wednesday, and Saturday. A Money Medal Madness retailer promotion ran during the first month of this game change July 17 through August 13, 2022. Qualifying purchase was a single draw, three play Lotto America with All Star Bonus ticket (\$6 value). Eligible qualifying purchases had a chance to instantly win a free \$2 Lotto America with All Star Bonus ticket, \$10, or \$100. Money Medal Madness instant winners were chosen at random. Advertising and prize expense budgets were set at \$40,000 and \$30,000 respectively.

The Pick & Click online play promotion, *Buy \$10, Get a \$2 discount*, was currently running as a set of FLASH promotions in October. This is set up as a FLASH promotion in which the sale is promoted on the day of the promotion only. Players who spend \$10 on any game or combination of games or spend \$10 to extend a current Pick & Click online play, receive a \$2 discount during the prescribed dates (October 4, 12, 20, and 28). For each increment of \$10 spent (e.g. \$20, \$50, etc.), a \$2 discount is applied to the purchase at checkout. For example: \$20 spent receives a \$4 discount and \$50 spent receives a \$10 discount. Advertising and prize expense are budgeted at \$10,000 and \$15,000 respectively. Advertising consisted of Connected TV, radio, social media posts, online ads (Facebook, YouTube pre-rolls), point-of-sale, and digital billboards. Advertising costs billed so far are \$5,697 and players won \$22,890 in instant prizes. Lotto America sales increased 133.8% when compared to the weekly average prior to the promotion. The total Lotto America sales during the promotion were \$440,836.

The Pick & Click online play promotion, *Buy \$10, Get A \$2 Discount*, ran as a set of FLASH Promotions in September. This is set up as FLASH promotions in which the sale is promoted on the day of the promotion only. Players who spend \$10 on any game or combination of games or spend \$10 to extend a current Pick & Click online play, receive a \$2 discount during the dates of September 8, 14, 20, and 26. Advertising and prize expense have been budgeted at \$10,000 and \$17,000 respectively.

The 2by2 Instant Win Promotion is scheduled to run Sunday, November 6 through Saturday, December 3, 2022. Qualifying purchase will be a single play, 7-draw 2by2 ticket for \$7. With the qualifying purchase, players will be eligible to instantly win a free 7-draw 2by2 ticket or \$500; winners will be chosen at random. This promotion will again be part of the multi-state 2by2 promotion. The majority of the prize expenses will be covered by the excess reserve in the 2by2 Grand Prize Pool. Each participating state is allotted \$35,000 with a 10% buffer (\$38,500 total). At the end of the promotion, the North Dakota Lottery will submit its total prize expense to MUSL. Advertising budget is set at \$40,000 and prize expense budgeted at \$7,000. The prize expense of \$7,000 is the overage budgeted within the marketing budget in case we go over the \$38,500 prize expense allocation. Media buy will include, point of sale, social media, programmatic video, and digital billboards.

The Pick & Click online play promotion, *Never Miss A Draw*, is scheduled to run December 1 through December 31, 2022. All purchases of 13 weeks, 26 weeks, 39 weeks or 52 weeks receive up to 10% discount. Advertising and discount expenses have been budgeted at \$18,000 and \$6,000 respectively.

Marketing and Advertising Contract

The contract for Marketing and Advertising Services with vendor KK BOLD ended on June 30, 2022. Both contract renewals had been executed. A formal procurement Request for Proposals (RFP) was no longer needed as a “Marketing Communications Services Pool” was already established by State Procurement. The vendor pool consists of eight marketing and advertising businesses that can be contacted with to provide these services to state agencies. A Task Order Request Form was compiled and signed by the ND Lottery and KK BOLD. The contract currently in place is good for fiscal year 2023 (July 1, 2022, through June 30, 2023), Payment is an hourly rate for documented tasks and production as well media advertising costs.

Player Survey

Player research will be conducted per the established plan to have the survey done every two years. Tentative schedule is for research to be conducted in January/February 2023. This will be an online based format, same as what was done in January/February 2021. Sparrow will be used to conduct the survey again and the budget for the survey is set at \$20,000.

b. Revenues and Expenses for Quarter ended March 31, 2022 (unaudited)

Mr. Anderson presented the overview of revenues and expenses for the quarter ended March 31, 2022 (unaudited) and for the fiscal year ended June 30, 2022 (unaudited).

Total ticket sales for quarter ending March 31, 2022, decreased \$3,883,591 or 35.19% compared to the same period last year. The decrease is largely attributable to jackpot related sales. Powerball jackpot reached \$731 million during the quarter ended March 2021 compared to \$632 million for March 2022. Mega Millions jackpot reached \$1 billion quarter ended March 2021 compared to \$421 million for 2022. The Lottery had record setting sales during the 2by2 7-draw promo for 2021 compared to 2022. Lucky 4 Life held draws every day of the week during 2022 compared to two days per week during 2021. Other operating revenue we received \$8,000 in retailer application fees in quarter ended 2021 compared to \$50 in application fees in 2022.

Total operating expenses for quarter ending March 31, 2022, decreased \$2,856,989 or 34.72% compared to same period last year. Prize expense decreased \$2,108,575 or 35.76%, retailer commissions/bonuses decreased \$208,698 or 38.84%, contractual services expense decreased \$409,994 or 34.82%. These decreases were a direct incremental relation to the decrease of sales. Players Club expense stayed the same as the period last year. Marketing expense decreased \$114,538 or 54.44% due to Pick & Click promotion expense in 2021 not present in 2022 and three payments of KK BOLD expenses were paid in 2021 compared to only two in 2022 due to the timing of invoices. Operating expenses decreased \$21,260 or 29% compared to same period last year. This is in part to North American Association of State and Provincial Lotteries (NASPL) dues being paid during this quarter in 2021 but were paid a quarter earlier in 2022.

c. **Sales Report for Fiscal Year ended June 30, 2022 (unaudited)**

Total ticket sales for fiscal year ended June 30, 2022, decreased \$1,207,304 or 3.97% compared to last fiscal year. The decrease was primarily due to bigger jackpots in fiscal year 2021. Powerball jackpot reached \$731 million in 2021 compared to \$699 million in 2022 and the Mega Millions jackpot reached \$1 billion in 2021 compared to \$432 million in 2022. However, 2022 had two \$600 million jackpots compared to one \$700 million jackpot in 2021. Also, Powerball began holding draws three days per week on August 23, 2021, compared to two days per week during fiscal year 2021. The high jackpot in Powerball and Mega Millions during 2021 increased 2by2 sales compared to 2022. The Lottery began holding Lucky 4 Life draws every day of the week effective July 19, 2021, compared to two days per week during fiscal year 2021.

d. **System Overview Fiscal Year 2022**

Ms. Thompson presented a general overview of the online system for fiscal year 2022. The lottery relocated to its current location in August of 2021. There was much coordination between North Dakota Information Technology Department, Scientific Games Inc. (SGI), and Attorney General IT to make this transition possible. The internal control systems (ICS) and network equipment were the first items moved to this location to ensure that the lottery would be able to conduct the draw, on the first night, without using the backup location. Once the equipment was moved and connected, everything came up, connected, and ran smoothly. The lottery did not have to utilize the backup site which is a testament to the pre-planning and coordination done by all parties.

The Lotto America game changed the number of draws per week, from two to three, by adding a Monday draw. User acceptance testing was done to test this change in May and June of 2022. This required testing of SciCore Pick and Click subscription purchases as well as the AEGIS online gaming system for the retail environment. The testing went very smoothly with few, if any, noted issues in the release. Testing was also completed for the promotions run throughout the fiscal year, as noted in the marketing report. There were no major issues with the promotions.

The MUSL Rule 2 Review originally scheduled for August of 2021 was postponed due to staffing issues at the MUSL. The review was completed on August 31, 2022, and a report of any findings will be submitted by the MUSL soon.

August 2021, two of the SGI transaction engines (TXE's) were up as the master TXE, at the same time. The transactions being processed at the terminals were being sent to either to TXE1, or TXE3, depending upon the availability of each TXE. These transactions included ticket sales and cashed winning tickets. This eventually caused one of the TXE's to crash as the system should not allow two TXEs to be the master at the same time. The transactions recorded on the second TXE that eventually crashed were not recorded in the database and the tickets would not have been eligible for their next draw. Lottery flagged these tickets in the system so when the tickets were scanned, the player would get a message to send the ticket to the lottery. When Lottery received any of these tickets, they were checked to determine if they would have been

winners in any draws that were missed. If they were non-winners, the player received promotional coupons for free tickets for the same game they were playing. If the tickets were winners, the lottery issued a check to the player for the amount of the win.

Some of the tickets were multiple draw tickets or for draw dates that were a few days out. Lottery purchased duplicate tickets, with the same plays and number of draws that were still available for these tickets. If a player sent in one of these tickets, Lottery was able to cash the duplicate tickets and pay the player for their prizes. Lottery also gave credits to retailers for the amount of cashed tickets recorded on the second TXE and paid out by them. SGI reimbursed the Lottery for 95% of tickets recorded on the second master TXE, the amount of the duplicated tickets purchased by the Lottery, the amount of credits manually given to retailers affected, the amount of the cash prizes paid to players that sent their tickets to the lottery, and the value of the promo coupons issued to non-winners follows:

| | |
|----------------------------------|-------------------|
| .95% unswept sales | \$1,717.00 |
| Re-purchased tickets: | 639.00 |
| Cash Credits to Retailers: | 472.00 |
| Player Prize checks issued: | 106.00 |
| Promotional Coupon free tickets: | <u>637.00</u> |
| Total | \$3,571.00 |

All other incidents encountered during the fiscal year were rather minor and did not result in any loss to the lottery or players. Most of these issues happen when a failover the system is done each month. SGI General Manager, Dan Moran, has provided a list of these incidents.

Completed and Outstanding Requests Summary

Mr. Moran presented the completed and outstanding requests summary for fiscal year 2022. The completed items included SciCore and AEGIS related items.

Other outstanding items related to software and network changes included changing 2by2 play slips, getting the App in the Google Play Store, HMAC cashing (evaluating tickets without a hash-based message authentication code), check processor logging and flexibility improvements, updating longitude and latitude coordinates, change the wording in the error messaging so easier to understand what the issue is, schedule CGS (computer gaming system) firewall changes and 2022 maintenance release.

Currently discussing and scheduling a resolution for additional chain reports evaluation, activity sales detail pending sweep, Give-a-Gift change to promo vouchers, automated email flows, SciCore promotions, talk of combining both Life games (L4L/Cash4Life), possible Powerball game change and Mega Millions game change.

System Incident Report Summary

Mr. Moran presented the system incidents. On January 1, 2022, TXE2 and TXE3 went into limbo state, business impact was low. On January 26, 2022, March 8, 2022, and March 23, 2022, TXE database time was 10 minutes ahead of system time, sales were disallowed for 10 minutes; now

all on “Chicago” time zone. On July 9, 2022, TXE3 (master) Xprocess on TXEs would not come up, sales were disallowed. On August 7, 2022, TXE4 times is ahead of the rest of the system, sales were disallowed. On August 12th and 31st off 2022, Day end flow ran twice on the primary (second roll didn’t touch system). This had no impact to lottery since happened during downtime.

SGI Employee Changes

Mr. Moran presented the Scientific Games staffing report. Some management changes were due to opportunity for promotions within the company while other vacancies were due to leaving the position or retired. The new test tech, Peter Reimer has left, will need to be replaced.

Sales and Terminal Summary

Mr. Rauhauser presented the sales and terminal summary for fiscal year 2021-2022. Total Lottery sales (includes SciPlay online sales) decreased \$1,122,990 to \$29,227,939 a 3.7% decrease compared to last fiscal year. Retailer terminal sales (excludes SciPlay online sales) decreased \$1,642,980 to \$26,239,213 a 5.9% decrease compared to last fiscal year.

Since July 2014, the number of Lottery terminals in regions 1, 3, and 4 have increased. The percent of N.D. Lottery terminals by region is within 4 percentage points of each region’s sales percentage. Fluctuations in the average sale per terminal was primarily due to the varying number and size of Powerball and Mega Millions jackpots, not from the number of terminals in the region. While improving the Lottery equipment and developing exciting promotions have effectively helped increase sales, history shows that lottery sales are still primarily driven by the number of and/or the size of large jackpot amounts. Although there were more jackpots over \$200 million this year, with seven compared to five last year, lottery sales were lower because this year’s two \$600 million jackpots didn’t drive near as many sales as last year’s \$700 million and \$1 billion jackpots.

PlayCentral (PCT) Sales Summary

Mr. Rauhauser presented the sales summary for the Play Central Terminals (PCTs) for fiscal year 2021-2022. There are 50 PCTs in retailer locations; 27 in grocery stores and 23 in convenience stores. PCT sales totaled \$2,060,953 a 2.6% increase compared to last fiscal year. The PCTs accounted for 7.1% of total Lottery sales. This is up from 6.6%, 6.3%, 5.5%, 5.5%, 5.2%, 4.4%, and 4.0% the previous seven years. PCTs accounted for 33.6% of the Lottery sales in the retail locations they were in, which is up from 32%, 28.5%, 25.8%, 24.4%, 21.9%, 19%, and 19% in previous years. In conclusion, PCTs continue to be used more and are part of the marketing/selling strategy for the stores in which they are positioned.

e. Pick & Click Sales Summary

Ms. Steele presented the Pick & Click sales summary for fiscal year 2021-2022. The total funding for Pick & Click was \$2,256,185, an increase of 19% compared to the prior year. The total purchases and extensions were \$2,946,568, an increase of 21% compared to prior year. Retailers earned \$10,299.80 in Pick & Click commissions in fiscal year 2022.

As of June 30, 2022, there were 2,523 Pick & Click players. The Pick & Click Players is up 82% compared to same time last year. Powerball online plays totaled 835, Mega Millions totaled 531, Lotto America totaled 319, Lucky for Life totaled 346, 2by2 totaled 492. From July through September 7, 2022, total sales are at \$800,000. Pick & Click had 17 high tier winners and nine of those were in 2by2 jackpots.

In October of 2021 the Pick & Click Buy \$10, Get a \$2 Discount Flash Sale ran and did well, and Lottery will do this again this year. The Never Miss A Draw (up to 10% discount on 13, 26, 39 or 52 week purchases) promotion will run again from December 1-December 31, 2022.

Operations Updates & Omnibus Items

Mr. Gaebe provided the following report:

Give a Gift Suspension

The Give a Gift (GAG) voucher option is for customers to purchase lottery gift certificates from any lottery retailer to give to others or to use themselves later. The feature was added to the lottery's online terminal system in 2004.

The GAG vouchers are purchased from retailers and printed on lottery terminals. Printed GAG tickets can be scanned and redeemed at any lottery retailer. When the GAG tickets are scanned, a credit is shown on the lottery terminal and the player can use the credit to purchase lottery game tickets or receive cash from the retailer.

When lottery retailers print GAG tickets, the value of the tickets is applied to the retailer's weekly invoice and that amount, along with all lottery game sales, are swept from retailers' bank accounts. When lottery retailers scan and redeem GAG tickets, their weekly invoice is credited for the value of the voucher and their weekly sweep is reduced by this amount.

The Lottery recently noted a marked increase in sales of GAG vouchers. Through July, there was a slight uptick in GAG sales at one Fargo retail location but starting in August, many GAG vouchers were printed each night on several Fargo area retailer terminals. Hundreds of GAG tickets were printed at a retail location and redeemed at different retailers' lottery terminal within hours. Six different Fargo-area retailers had suspicious GAG ticket sales and redemptions in August.

Managers at the retail locations were contacted and informed of the increased GAG ticket sales activity and of the specific time and date of the printing and redemption. In reviewing transactions, the stores collectively realized over \$3,000 of certificates which were printed but not paid for and later redeemed for cash at another location. If funds were not collected when the GAG ticket was printed, the loss is attributed to that retailer. The retailer which redeemed the presumed valid certificate does not lose the money, nor does North Dakota Lottery.

The Lottery shared transaction details with impacted store managers and the Fargo Police Department to help identify people involved in the illicit activity.

On August 17, 2022, Lottery took steps to disable the GAG option on all lottery terminals. All licensed retailers received a terminal message explaining that the feature was not available. Legitimate GAG ticket sales are insignificant and the interruption of the GAG option will have minimal effect on retailers or players. Sales of GAG vouchers in fiscal years 2020, 2021 and 2022 averaged about \$1,200 annually.

With the potential theft exposure highlighted by the recent transaction, the Lottery is investigating options for the GAG vouchers to only be usable for purchase of lottery game tickets and not redeemable for cash. If the change is complex or expensive, the Lottery Advisory Commission may be asked to suspend the GAG program and to initiate efforts to revoke it. Since the GAG feature was disabled, no calls have been received questioning the absence of the gift certificate option.

Lottery Advisory Commission Appointment

On June 30, 2022, Attorney General Wrigley reappointed Mike Rud to a three-year term on the LAC.

Mega Millions Jackpot

The *Mega Millions* \$1.3 billion jackpot in late July generated substantial lottery interest in North Dakota and across the country. The jackpot was second biggest ever for *Mega Millions* and the third largest jackpot in U.S. history. Weekly sales of all North Dakota lottery games exceeded \$1 million the third week and approached \$3 million the last week of July. This is the first over \$1 million weekly sales total since January 2021. The day before the *Mega Millions* jackpot was drawn, ticket sales averaged just under \$1,000 per minute. Jackpot interest increased membership in the North Dakota Lottery Players Club, enabling targeted communications and promotions to these members.

Lottery Contribution to State Government

During fiscal year 2022 the North Dakota Lottery contributed \$6.7 million to the state. The Lottery transferred \$5.6 million to the state general fund, \$800,000 to the Multi-Jurisdictional Drug Task Force Grant Fund, and \$320,000 to the Compulsive Gambling Prevention and Treatment Fund.

Game System Contract

The Lottery's on-line gaming system vendor contract with Scientific Games expires June 30, 2024. The objective is to have a firm selected six to nine months in advance of the implementation of a new contract. Because it may take up to one year to prepare and review requests of interest and requests for proposals, choose a vendor, and negotiate a contract, the Lottery has already initiated plans and will establish a timeline to choose its on-line gaming vendor. The LAC will be provided with progress reports throughout the procurement process.

Multi-State Lottery Association Audit

The MUSL Rule 2 Review on-site review was completed on August 31, 2022. A formal report of any findings will be sent by MUSL within three weeks, but the exit interview indicated only minor observations and no serious concerns.

Retailer Renewals

Each August, Lottery's 445 licensed retailers are encouraged to renew through an online portal. Postcards and terminal messages have prompted most, and only 13 locations needed personal follow-up to complete their license renewal. These renewals are expected soon.

Legislative Visit

On the morning of September 27, the Legislative Audit and Fiscal Review Committee will tour the building before their meeting at the Capital regarding the build here.

Adjournment

At Chairman Rud's request Commissioner Poolman made a motion to adjourn and Commissioner O'Brien seconded. The motion passed 5-0. The meeting adjourned at 3:23 p.m.