

Minutes of the Lottery Advisory Commission
December 3, 2024, Meeting

A meeting of the Lottery Advisory Commission (Commission) was held from 3:02 p.m. to 4:30 p.m. on December 3, 2024, in the 17th Floor Conference Room of the State Capitol.

Representative Karla Rose Hanson, Senator Jeff Barta, Mr. Mike Rud, and Mr. Russ Hanson participated in the meeting in-person. Commission member Representative Emily O'Brien was absent.

Representing the North Dakota Lottery (Lottery) were Mr. Lance Gaebe, director; Mr. Ryan Koppy, sales and marketing manager, Mr. Matt Anderson, account budget specialist, and Ms. Jessica Seibel, administrative assistant II. Mr. Mark Rauhauser, customer service specialist, Mr. Scott Tarno, customer service specialist, and Ms. Julie Thompson, security officer, connected remotely.

In-person guests included Attorney General Drew Wrigley; Dan Moran, the Scientific Games Inc. General Manager of North Dakota; Lonnie Grabowska, Ben Leingang and Casey Miller from North Dakota Bureau of Criminal Investigations (BCI); and Delan Hellman, from the State Auditor's Office. Howard Schultz, State Project Manager (NDIT) and Mellony Michaux, Scientific Games Inc. Project Manager joined by video conference.

Approval of Minutes

Commissioner Russ Hanson made a motion to approve the minutes of the September 17, 2024, meeting, Commissioner Karla Rose Hanson seconded the motion, which passed unanimously.

Overview of Financial information

Office of the State Auditor report for fiscal year ended June 30, 2024, and 2023

Mr. Hellman presented the review of the audit report of the Lottery for the fiscal years ended June 30, 2024, and 2023 conducted by the Office of the State Auditor. North Dakota Century Code § 53-12.1-03 and § 54-10-01 stipulate that the auditor annually conducts an audit of the Lottery.

The audit and financial statements report is available at the Office of the State Auditor website: <https://www.nd.gov/auditor/lottery-north-dakota>

For fiscal year 2024 the Lottery received a clean audit, with no formal or informal findings. The review is primarily financial but also considers procedures, contracts, and functions, so the entire Lottery staff, and Attorney General accounting staff, deserve credit for a good review.

Unaudited Revenues and Expenses for the Quarter ended September 30, 2024

Mr. Anderson presented unaudited revenues and expenses for the quarter ended September 30, 2024, and October 2024 sales update.

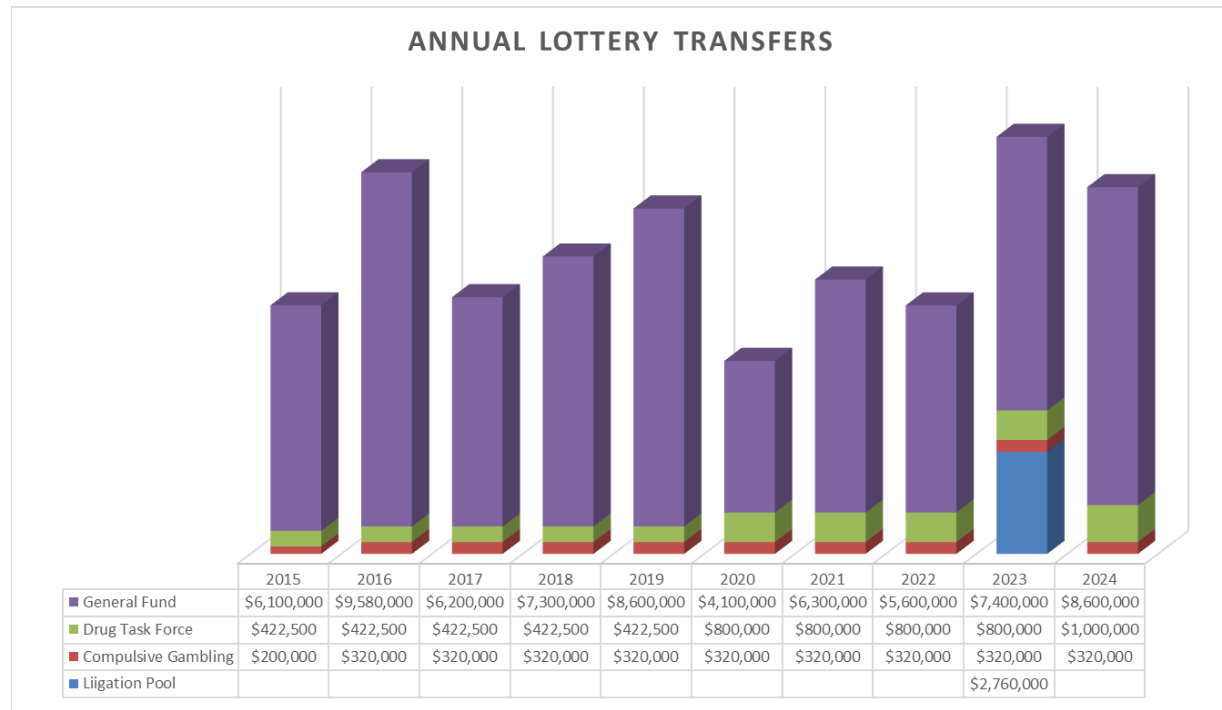
Total ticket sales for quarter ended September 30, 2024, decreased \$5,946,492 or 45.85% compared to same period in 2023. Total operating expenses for quarter ended September 30, 2024, decreased \$4,022,899 or 41.31% compared to same period in 2023. Prize expense decreased \$2,898,789 or

43.74%, retailer commissions and bonuses decreased \$269,646 or 45.60%, contractual services expense decreased \$869,235 or 42.64%.

Total ticket sales for October 2024, compared the same period in 2023, decreased \$2,337,392 or 51.67%.

Lottery Transfers

Mr. Gaebe presented a summary of the Lottery's annual transfers for the prior ten years. He highlighted that the Multijurisdictional Drug Task Force annually receives \$1 million.



Description of Multijurisdictional Drug Task Force Efforts

Mr. Lonnie Grabowska, Mr. Ben Leingang and Mr. Casey Miller from BCI discussed the use of the Drug Task Force funds.

The North Dakota Bureau of Criminal Investigation is the investigative division of the North Dakota Office of Attorney General (NDOAG) and is governed by the authority outlined in N.D.C.C. 12-60. The Division oversees North Dakota's criminal history and records system and manages the state's fingerprint classifications for federal, state, and local partners. It consists of both civilian and sworn employees.

The Bureau of Criminal Investigation is tasked with investigations to include felony level crimes, violent offenses against persons, officer involved use of force, cybercrime related crimes, and specialty needs for investigative support and response.

Among its other responsibilities, the BCI has an enforcement role to address illegal narcotics activity through statewide multi-jurisdictional drug task forces. The representatives explained that Lottery transferred funds are used to support local, county, and state combined law enforcement task forces that collaborate and share information in crime investigations, evidence collection, and apprehension of

criminals. The money is granted to be used for protective gear, training, vehicles, rent and investigation tools and is not used for salaries.

Marketing Activity and Short-Term Marketing Plans

Mr. Koppy presented an overview of marketing activity and short-term marketing plans.

2025 Benefactor Branding Campaign Plan

As other lottery jurisdictions have a cause that their efforts benefit, since its inception, the North Dakota Lottery has not shown to the public how playing benefits those who live in, work in and visit the state of North Dakota.

Recently, the dollars transferred to the Multijurisdictional Drug Task Force Fund increased to \$1 Million. Since 2008, the ND Lottery has transferred over \$9.27 Million to the Task Force Fund. Initial discussions with BCI have given the Lottery insight into how this yearly transfer funds the operational aspects of the Task Force: specialized training, rent, equipment, protective gear, and vehicles. Without the Lottery funds, the eleven Drug Task Force jurisdictions could not operate.

The Lottery, in conjunction with its ad agency (Odney) and with assistance from BCI, plan to conduct a Benefactor Branding Campaign. Initial thoughts are to inform lottery players that not only does buying a ticket give them a chance to win a life-changing prize, but players also help fight crime. The BCI and the Drug Task Forces work to “Identify, Disrupt, and Dismantle” local and state drug rings. Players, by proxy, assist in this work. The Lottery will share public relations concepts with the Commission at future meetings.

Players Club

The North Dakota Lottery Players Club currently has 59,976 registered members. In October, there were 2,962 unique monthly active users with activity or funded an account, purchased, or entered tickets in the Club.

Several Points for Drawings (PFD) prizes were given to players in recent promotions. On October 2, two winners received Karaoke Party Packages, and five winners received Start the Morning Right Coffee Bundles. On November 6, five winners received Amazon Fire Bundles.

Three PFD promotions are currently in progress: five At Home Spa Bundles, two Home Office Upgrade Packages and one Biking Adventure Package. Upcoming (PFD) Drone Starter Pack for Two, Google Pixel Bundles, Apple Tech Bundles, A Day at The Lake Bundles, Grill Game Strong Packages, Amazon Home Essentials Bundles, Gaming Essentials Bundles, Stanley Favorites Packages, Marathon Madness Bundles, “Hot Tub Night” Party Packages, Pizza Party At Home Packages, Drone Kit Bundles, and “Feel the Beat” With JBL Bundles. Currently, all new membership signups receive a 250-point signup bonus.

Lottery Promotions

Via OptiMove CRM platform and Players Club database, the Lottery can target players with a Promo Code that allows them to try Pick & Click online play for free. Players who use the specific promo code between specified dates, receive a single play, 7-draw 2by2 Pick & Click play (\$7 value) free. The promo codes are sent to individual players who were active within the last 30 days, and new players who had at least one additional activity. Reminder emails are sent to players who did not use the promo code

prior to its expiration date. An email is sent monthly from October to December 2024 to players that they have winnings in their account that they could use.

The 2by2 Instant Win Promotion ran September 1, through September 28, 2024. 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. The promotion included a 2nd Chance Drawing: a 2by2, single play in which seven (7) draw (\$7) tickets could be entered on the Lottery mobile App or website, to win one of ten \$500 second chance prizes. Advertising budget for the promotion is \$60,000 and prize expense budgeted at \$47,000. This promotion includes a 2nd Chance Drawing promotion.

There were 1,513 unique individual entrants for the 2nd Chance Drawing, with 10,447 total entries. The ten winners were from Valley City, Jamestown, Grand Forks, Dickinson, McClusky, LaMoure, Bottineau, Wilton, New Leipzig, and Minot, ND.

The 2by2 promotion sales total was the second highest ever at \$685,596. The 6-week Post Promo Analysis showed 2by2 sales at a 10% increase when compared to sales prior to the promotion. Players won \$58,482 in instant prizes including thirteen \$500 instant wins. There were four \$22,000 2by2 jackpot prizes and one \$44,000 Tuesday Doubler Jackpot prize won during the promotion.

The Pick & Click online play promotion, Buy \$10, Get A \$2 Discount, ran as a set of FLASH promotions on October 11, 17, 23, and 31, 2024. Players who spent \$10 on any game or combination of games or spend \$10 to extend a current Pick & Click online play, received a \$2 discount. For each increment of \$10 spent, a \$2 discount was applied at checkout. Advertising expense totaled \$15,756.67 and prize expense budget was \$25,000.

Cash Dash ran November 3 through November 30, 2024. Qualifying purchase: one of each of the Lottery's games with multipliers (Powerball with Power Play, Mega Millions with Megaplier, Lotto America with All Star Bonus, Lucky for Life and 2by2) for \$11, had a chance to instantly win \$5, \$20, \$100 or \$500. Cash Dash instant winners were chosen at random. Budgeted Costs are \$40,000 in instant prizes and \$95,000 in advertising costs.

The Pick & Click online play promotion, *Never Miss A Draw*, is scheduled to run December 1 through December 31, 2024. All purchases of 13 weeks, 26 weeks, 39 weeks, or 52 weeks receive up to a 10% discount. Advertising and Discount expenses are budgeted at \$10,000 and \$8,000 respectively.

Website Update/Refresh

The North Dakota Lottery is working with Odney to update the website with a refreshed look. Along with the website update, an overall North Dakota Lottery branding update is underway. This is refresh, not a full-scale rebranding effort.

Long-Term Marketing Plan Prior to Conversion (January 2025 – June 2025)

Due to the ongoing online gaming vendor conversion coming in September 2025, all retailer and Pick & Click online play promotions will be on hold. Points for Drawings promotions will continue until late May/early June 2025. Tentative plan is to run the crime-fighting benefactor campaign in Spring of 2025 as well as an informational campaign for the April 2025 Mega Millions Game Change. The market research and survey will be postponed until late 2025 or early 2026.

Lottery Online Gaming System Conversion

Mr. Gaebe discussed the status of the Gaming System contract and conversion. After an extensive procurement process, on June 7, 2024, Scientific Games was selected as the next Lottery Gaming System Vendor. The Lottery Advisory Commission approved the procurement process and the evaluation committee's selection, and contract negotiations commenced between the Office of the Attorney General and Scientific Games.

Lengthy contract discussions coupled with the likelihood that the new system conversion will take up to one-year, prompted the Lottery and Scientific Games to extend their existing contract by three-months to expire on September 27, 2025, instead of June 2025.

The new contract with Scientific Games was signed and finalized on November 15, 2024. The contract is active, but the initial 6-year term will not commence until the anticipated 'go live' date on September 28, 2025. Thereafter it may have up to two 2-year renewal options executed. Thus, the agreement could total up to 10-years with mutual agreement.

The new contract is the third time North Dakota has chosen Scientific Games as its system vendor. Scientific Games was the Lottery's first vendor in 2004. The company helped the Lottery launch its subscription program in 2014 and mobile app in 2018. The company will continue to provide the Lottery with an online and mobile Pick & Click draw game purchase program, as well as a Players Club and its Points for Prizes online store and Points for Drawings program.

The goal in converting to a new system was to modernize the Lottery's technology so that players can have an "omni-channel" experience, merging retail and digital. The Lottery sought to work with a tech partner that provided the best technical solution to responsibly grow sales. All screens, terminals, systems, networks, mobile app, and web site will be new.

The integrated central gaming system will include an integrated solution for Pick & Click and the Players Club, improved retail technology, and intuitive self-service terminals. The relationship includes an account management solution, a customer relationship management, and a player loyalty program will continue player engagement with a combined web and mobile user experience.

Lottery security chief Julie Thompson led the procurement effort on Lottery's behalf and will continue managing the complicated process of converting to the next gaming system. She will oversee the review and approval of procedures, interfaces, standards, and training connected to implementing the new online game system.

The State Information Technology Department requires a Project Manager to oversee the system implementation efforts. North Dakota Information Technology Project Manager Howard Schultz was

introduced to the Commissioners. He has been engaged on the project since the issuance of the RFP in December and will participate in all conversion interactions with the vendor.

The vendor also has a dedicated Senior Client Project Manager. Mellony Michaux introduced herself to the Commission meeting. She will lead the effort to accomplish the many tasks and projects connected with complete conversion of lottery hardware, game management systems, interfaces, and peripherals. The formal face-to face kickoff meeting is planned on December 17, 2024, and weekly meetings are planned throughout the conversion process.

Lottery and Scientific Games are dedicated to accomplishing the conversion by the September 28, 2025 “go-live” target date.

Director and Operations Updates

Mr. Gaebe also presented this section.

Mega Millions Jackpot and Game Changes

The Mega Millions consortium has announced a change from a \$2 to a \$5 game. The game will include a built-in multiplier, and the matrix will be modified to slightly improve winning odds. The change is planned for April 2025.

Game rules, procedures, software, and in-state draw process changes are all underway and will need to be considered and modified in advance of the major game modification. A Mega Millions press release and fact sheet was shared with commission members.

Budget

The Lottery is not requesting major budget modifications, nor FTE changes in its appropriation approval from the 2025 Legislature. As part of the Office of the Attorney General budget, the Lottery update and operations summary will be provided in its presentation to the Appropriations Committees.

North Dakota Century Code requires that Attorney General report to each appropriations committee the Lottery’s actual and estimated operating revenue and expenditures for the current biennium and projected operating revenue and expenditures for the subsequent biennium. That information was shared for the Commissioners’ information and background.

Lottery Division

The North Dakota Lottery is responsible for administering, regulating, and promoting the state’s lottery, which offers five multi-state games: Powerball®, Lucky for Life®, Mega Millions®, Lotto America®, and 2by2®.

The Lottery sells ticket in partnership with 450 retailers and offers ticket subscriptions through its website and mobile app. The Lottery manages a loyalty program in which its 60,000 members can use points to purchase merchandise or win prizes.

The Lottery Division transfers net proceeds annually to the State General Fund and makes quarterly transfers to the Multijurisdictional Drug Task Force Grant Fund and Compulsive Gambling Prevention and Treatment Fund.

During the 2021-23 biennium the Lottery transferred

- \$13 million of revenue to the General Fund
- \$1.6 million to the Drug Task Force Grant Fund
- \$640,000 to support compulsive gambling treatment
- \$2.76 million to the Statewide Litigation Pool.

In the first year of the 2023-25 biennium, the Lottery had record ticket sales of \$40 million due in large part to interest in several billion-plus jackpots.

- Total operating expense in FY 2024 of \$29.9 million
- Transferred \$8.6 million to the General Fund
- \$1 million to the drug fighting efforts
- \$320,000 for compulsive gambling.

In FY 2025 the Lottery projects reduced ticket sales and resulting revenue due to fewer large jackpots. It anticipates \$31.7 million of ticket sales, allowing for statutory transfers to drug fighting and compulsive gambling funds and \$5.3 million to the General Fund.

Based on the five-year trend, during the 2025-2027 biennium, the Lottery estimates \$32.8 million of sales each year, \$24.5 million of annual operating expenses, and total transfers of \$14 million.

Lottery tickets are sold in partnership with 446 licensed retailers, additionally registered and verified North Dakota based players have been able to make subscription ticket purchases since 2014. With Pick & Click online play, players can purchase tickets on the website via computer or, since 2018, on a mobile device using the North Dakota Lottery Players Club® mobile app. Pick & Click online play sales totaled over \$8 million, or 11% of total Lottery sales, during the last biennium. Internet sales have increased steadily each year since inception.

Only registered members of the Players Club with a current North Dakota mailing address, physically located within the borders of North Dakota can purchase Lottery online plays.

Staffing

The North Dakota Lottery has the smallest staff of any of the 48 lotteries in the country. Eight FTE positions make up the Lottery Division, including the Division Director, an account budget specialist, security officer, two customer service specialists, a sales and marketing manager, an administrative staff officer and one administrative assistant. The Division also has two temporary draw operators. Several employees have dual or more roles including operations, security, and draw validation; retailer background, licensing and servicing; player verification and subscription management; accounting and budgeting; and prize validation and redemption.

The Lottery's appropriation for the 2023-2025 biennium was \$2,399,293 for salaries and benefits for 10 positions and \$3,014,160 for operating expenses. In FY 2024 \$1,171,999 was spent on salaries and benefits and \$1,084,321 on budgeted operating expenses.

The Lottery has a continuing appropriation authority for variable expenses of prizes, retailer commissions, online gaming system vendor fees, and multi-state game group expenses which have a direct correlation relationship to sales and cannot be budgeted.

Attorney General Drew Wrigley joined the meeting

He arrived at 4:04 p.m. and thanked the Lottery staff and commission for their efforts and for operating an effective and professional lottery operations. He complimented the fun offering and the efforts to remind, but not over-promote lottery to North Dakotans.

Additional Business

Director Gaebe announced his retirement from the Lottery effective January 3, 2025. The Attorney General and Commissioners thanked him for his service.

Adjournment

Commissioner Rud called to adjourn the meeting and Commissioner Barta seconded the motion, which passed unanimously. The meeting was adjourned at 4:30 p.m.