

**REPORT ON THE NORTH DAKOTA LOTTERY**

Prepared for  
Judiciary Committee

by  
Mathias Anderson  
Account/Budget Specialist, North Dakota Lottery

May 4, 2022

# NORTH DAKOTA LOTTERY

## 1. Organization

On November 5, 2002, North Dakota citizens approved a constitutional amendment by nearly two-thirds majority vote that enabled the state to participate in a multi-state lottery. The 2003 Legislative Assembly passed a law, effective April 4, 2003, that created the North Dakota Lottery as a division within the Office of Attorney General. The Lottery launched its first game (Powerball) on March 25, 2004.

Under the supervision of the attorney general, the director considers the sensitive nature of the lottery, promotes games, and ensures the integrity, security, and fairness of the lottery's operation.

The goal of the Lottery is to provide a service to the citizens of North Dakota by conducting joint lottery games with integrity, security, and fairness. To accomplish this, the Lottery offers games that add value to its product mix, license retailers that are in convenient locations, create effective annual marketing plans, provide quality customer service to retailers and players, and control operating expenses.

Services provided by the Lottery include:

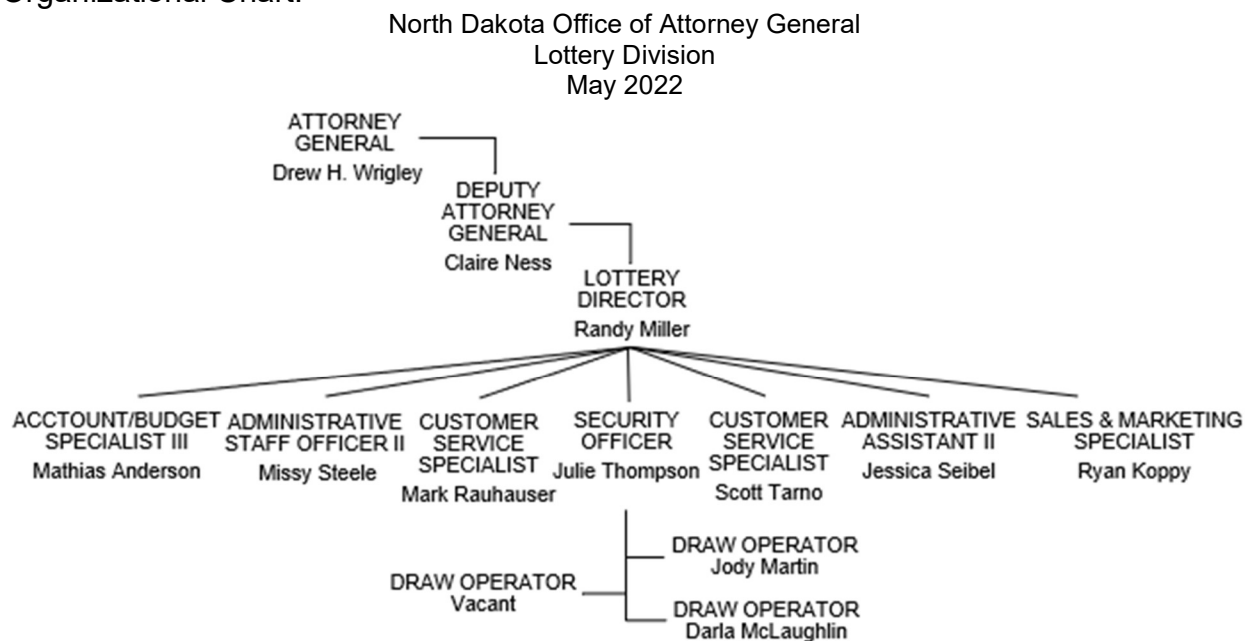
- Processes license applications and collects application and license fees;
- Selects eligible retailers for licensing;
- Conducts criminal history record and credit checks;
- Launches new games, develops point-of-sale promotional items;
- Trains employees of retailers how to sell and redeem lottery tickets;
- Assists retailers in promoting games;
- Does electronic fund transfers of lottery money from retailers' bank accounts;
- Completes debt setoff process;
- Pays certain prizes to players;
- Develops creative marketing, advertising, promotional, and educational programs;
- Develops sales incentive promotions;
- Issues news releases, quarterly retailer newsletters, and annual financial reports;
- Develops administrative rules and proposes laws;
- Ensures compliance with the lottery law and rules;
- Works with the Lottery Advisory Commission, on-line system vendor, and advertising agency;
- Conducts draw procedures;
- Forecasts revenue and net proceeds;
- Develops and implements security policies and procedures to protect assets;
- Complies with the Multi-State Lottery Association's (MUSL) computer gaming system and computer internal control system requirements, game security standards, system standards for new lottery implementations, and game rules;
- Investigates allegations of unlawful activity; and
- Provides full accountability to the public and Legislature.

## 2. Appropriation

The Lottery's appropriation for the 2021-23 biennium is \$2,118,319 for salaries and fringe benefits for 10 FTE's, and \$3,136,525 for operating expenses, totaling \$5,254,844. The Lottery has a continuing appropriation for variable expenses of prizes, retailer commissions, online gaming system vendor fees, and MUSL game group dues which have a direct incremental relationship to sales and cannot be budgeted.

The appropriation funds 8 FTE positions in the Lottery Division, 1 FTE position in the Information Technology Division, and 1 FTE position in the Finance and Administration Division. Also, the appropriation funds 3 part-time draw operators.

Organizational Chart:



## 3. Retailers

The Lottery selects and annually licenses 450 businesses as lottery retailers. There is approximately one lottery terminal for each 1,734 residents. The numbers of retailers and sales percent, by type, for the period ending June 30, 2021 are:

No.	Type	Retailer Sales %	Total Sales
351	Convenience Store	75.8%	69.6%
63	Grocery Store/Supermarket	19.8%	18.2%
5	Gas/Service Station	0.8%	0.8%
23	Truck Stop/Plaza	3.2%	2.9%
5	Other (i.e. Bar, Drug Store)	0.4%	0.4%
447	Total Retailers	100.0%	91.9%
	Pick & Click	0.0%	8.1%

#### 4. Products

The Lottery conducts five multi-state games:

	<u>Launch Date</u>
Powerball	March 25, 2004
2by2	February 2, 2006
Mega Millions	January 31, 2010
Lucky for Life	January 31, 2016
Lotto America	November 12, 2017

These games have a range of minimum jackpots of \$22,000 to \$20 million, and a range of overall odds of winning a prize of 1:3.59 to 1:24.87.

The Lottery's Give-A-Gift service provides players an opportunity to purchase lottery gift certificates in values of \$1, \$5, \$10, and \$20 to give as gifts to family members and friends for special occasions. The certificates are printed on Lottery terminals. The certificates may be redeemed for lottery tickets at any Lottery retailer and have no expiration date.

The Lottery's Pick & Click online play service (formerly known as the subscription service) provides players an opportunity to prepay and be automatically entered into a single draw or up to 52 weeks. The service is available for the games of Powerball, 2by2, Mega Millions, Lucky for Life, and Lotto America. Pick & Click online play is convenient for players that cannot always get to a Lottery retailer before every drawing or for players that travel to another state on vacation during winter months. As of June 30, 2021, there were 1,383 Pick & Click players and 3,811 Pick & Click plays.

The Lottery's Players Club is a rewards program that provides players an opportunity to earn points by becoming registered members and submitting valid tickets at club.lottery.nd.gov or via the Players Club mobile app. Players can redeem their points for items at the Points for Prizes store at store.lottery.nd.gov. In addition, players can use their points to enter into special promotional drawings in the Points for Drawings program. As of June 30, 2021, there were 41,284 registered Players Club members.

#### 5. Financial Overview

Below is an overview of financial information for the 2019-2021 biennium. The Lottery's net proceeds (actual profit) are 22.7% of total revenues.

<u>Operating Revenues:</u>		<u>Operating Expenses:</u>	
Ticket Sales	\$54,775,253	Prize Expense	\$28,946,092
Other Operating Revenue	\$231,965	Retailer Commissions	\$2,549,193
Total Operating Revenues	\$55,007,218	Retailer Bonuses	\$98,500
		Contractual Services	\$5,998,592
<u>Nonoperating Revenues:</u>		Players Club	\$650,000
Interest Income	\$17,819	Marketing	\$1,087,093
		Salaries & Benefits	\$2,377,673
		Operating	\$813,732
Net proceeds Before Transfers	\$12,504,162	Total Operating Expenses	\$42,520,875

For the 2019-2021 biennium, the Lottery projected sales were \$60,000,000 and transfers of \$16,485,000 (\$15.0 million - state general fund; \$640,000 - Compulsive Gambling Prevention and Treatment Fund; and \$845,000 - Multijurisdictional Drug Task Force Grant Fund).

**Ticket Sales and Transfers:**

Fiscal Year	Ticket Sales	Net Proceeds Before Transfers	General Fund Transfers	Compulsive Gambling Transfers	Drug Task Force Transfers
2020	\$24,391,859	\$5,587,699	\$4,100,000	\$320,000	\$800,000
2021	\$30,383,394	\$6,916,463	\$6,300,000	\$320,000	\$800,000
Totals 19-21 Biennium	\$54,775,253	\$12,504,162	\$10,400,000	\$640,000	\$1,600,000
Totals Since Inception	\$453,610,629	\$123,650,496	\$111,004,005	\$4,320,000	\$6,670,000
2022 thru Mar '22 Unaudited	\$22,303,266	\$5,645,519	\$-	\$240,000	\$600,000

For the 2021-2023 biennium, the Lottery projected sales are \$64,000,000 and transfers of \$15,840,000 (\$13.6 million - state general fund; \$640,000 - Compulsive Gambling Prevention and Treatment Fund; and \$1,600,000 - Multijurisdictional Drug Task Force Grant Fund).

Unaudited ticket sales through March 31, 2022 (first 9 months of the fiscal year) are \$22.3 million. This reflects a \$1.3 million decrease in sales or 5.4% decrease compared to the same period last year. The Lottery is slightly under projections but feels we will meet projected sales of \$32 million and transfers of \$7,920,000 (\$6.8 million - state general fund; \$320,000 - Compulsive Gambling Prevention and Treatment Fund; and \$800,000 - Multijurisdictional Drug Task Force Grant Fund) for the first year of the biennium.

Once a year, the Lottery transfers its net proceeds to the State Treasurer for deposit in the state's general fund.

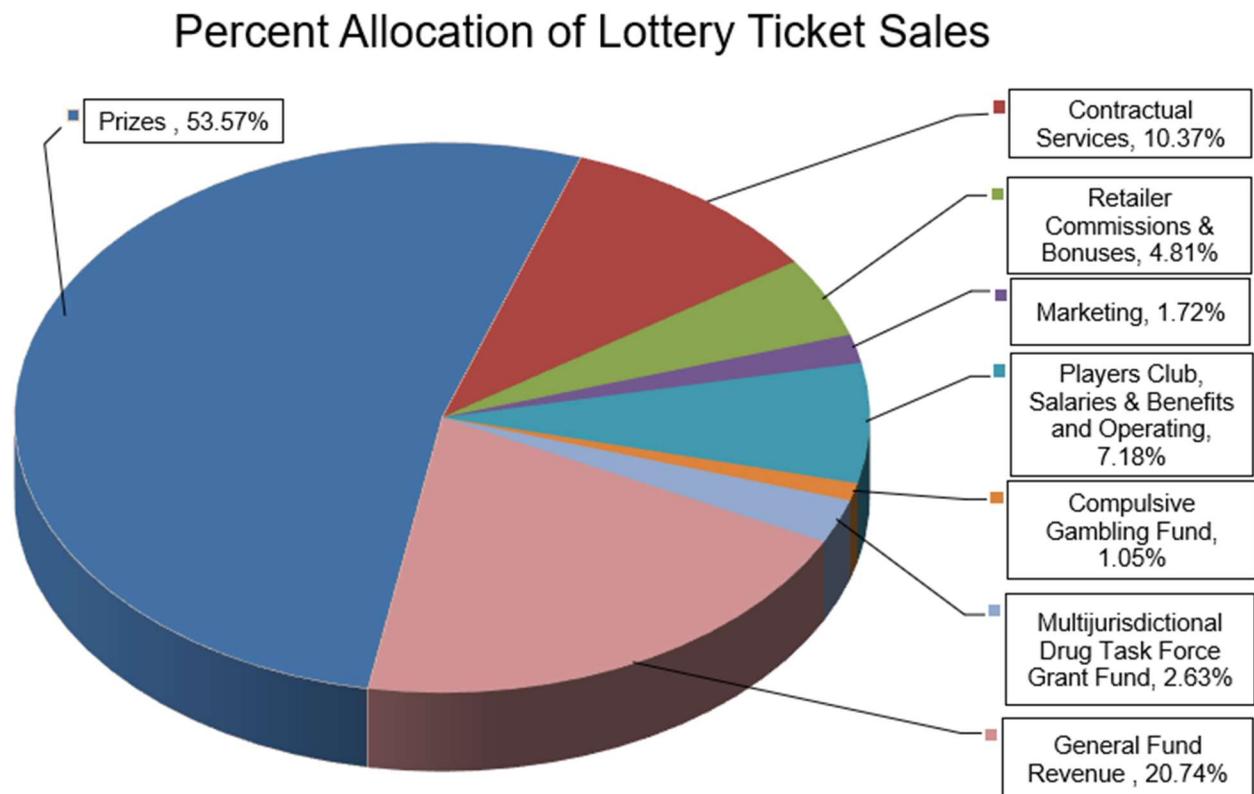
**Prize Expense:**

Fiscal Year	ND Prizes	MUSL Prizes	Expired Prizes	Net Prizes
2020	\$8,738,974	\$4,370,395	(\$439,902)	\$12,669,467
2021	\$13,565,491	\$3,144,106	(\$432,972)	\$16,276,625
Totals 19-21 Biennium	\$22,304,465	\$7,514,501	(\$872,874)	\$28,946,092
Totals Since Inception	\$159,375,522	\$81,132,940	\$(7,694,009)	\$232,814,453
% of Gross Prizes	66.30%	33.70%		
2022 thru Mar '22 Unaudited	\$8,037,873	\$4,158,496	(\$433,425)	\$11,762,944
% of Gross Prizes	65.90%	34.10%		

Since the Lottery began through June 30, 2021: \$159.3 million or 66.3% of the prize expenses were payable to North Dakota players and \$81.1 million or 33.7% were payable to MUSL to fund prizes.

Through March 31, 2022 (first 9 months of the fiscal year): \$8.0 million or 65.9% of the prize expenses were payable to North Dakota players and \$4.1 million or 34.1% were payable to MUSL to fund prizes.

Below is a pie chart of a “Percent Allocation of Lottery Ticket Sales” for the fiscal year ended June 30, 2021.



#### 6. Compulsive Gambling Prevention and Treatment Fund

By law, \$640,000 is transferred to the State Treasurer each biennium for deposit in the Compulsive Gambling Prevention and Treatment Fund. The Department of Human Services utilizes the \$640,000 appropriation for treatment services, media/awareness, and certification training for counselors. (Transfers are made on a quarterly basis.)

The Lottery is sensitive to problem gambling and encourages players to play responsibly through messages in its media ads, point-of-sale items, and on its website.

## 7. Multijurisdictional Drug Task Force Grant Fund

By law, \$1,600,000 is transferred to the State Treasurer each biennium for deposit in the Multijurisdictional Drug Task Force Grant Fund. The Office of Attorney General utilizes the funds for defraying the expenses and operating costs incurred by the multijurisdictional narcotics task forces, including rent, equipment, travel, fuel, and other costs associated with the undercover operations. (Transfers are made on a quarterly basis.)

## 8. Plans for the 2021-2023 Biennium

To sustain sales and net proceeds each year the Lottery must be innovative, energetic, and offer exciting and attractive games that add value to the Lottery's product mix for players to play, license retailers which are in convenient locations to sell tickets, develop attractive point-of-sale items and creative marketing promotions, provide quality customer service to retailers and players, and control operating expenses. Attractive games must include a broad range of player odds and minimum jackpot prizes.

Total sales of a game are significantly affected by the size of the game's jackpot. Larger jackpots generate higher sales. However, large jackpots cannot be predicted or counted on. Therefore, a variety of games with varying jackpots and odds of winning a prize are necessary to consistently attract players.

During the 2021-2023 biennium, the Lottery plans to:

- Add a new online game that will complement the Lottery's product mix;
- Increase awareness and usage of the Players Club Mobile Application;
- Increase Pick & Click online play sales;
- Build membership in the Players Club that rewards players for their continued loyalty;
- Continue to develop and conduct innovative marketing promotions and public awareness campaigns; and
- Continue to review and enhance security policies and procedures to ensure the integrity and fairness of its operation.

## 9. Multi-State Lottery Association

The Lottery is a member of the Multi-State Lottery Association or (MUSL) that administers games on behalf of its members. The Lottery is authorized to conduct games of Powerball, 2by2, Mega Millions, Lucky for Life, and Lotto America. Drawings for Powerball are held Monday, Wednesday and Saturday evening. Drawings for Lotto America are held each Wednesday and Saturday evening. Drawings for Mega Millions are held each Tuesday and Friday evening. Drawings for Lucky for Life and 2by2 are held 7 evenings a week, Sunday through Saturday.

Each member lottery of MUSL makes weekly wire transfers to MUSL in an amount equal to the member lottery's share of the prize liability. If this is a negative amount due to the member lottery having prizes in state which exceed the normal game's prize allocation, the MUSL transfers funds to the member lottery. Pooling the lotteries' prize money to fund prizes reflects the multi-state concept and is very effective. Each member lottery pays prizes directly to winning players.

MUSL prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities. The prize reserve fund monies are refundable to member lotteries if MUSL disbands or if a member leaves MUSL. Any prize reserve fund monies remaining at the end of a game are carried forward to a replacement game or expended in a manner as directed by the game group. The MUSL's Prize Reserve Pools' account balance and the Lottery's share of that balance are:

	<u>6/30/2021</u>
MUSL Prize Reserve Pools' account balance	\$ 207,500,427
ND Lottery's share of the account balance	\$ 993,980

## 10. Lucky for Life Game Group

The New England Lotteries (CT, ME, MA, NH, RI, and VT) offer the Lucky for Life game. In addition to the New England Lotteries, other government authorized lotteries may join the multi-jurisdictional game. The North Dakota Lottery began selling the game on January 31, 2016. There are twenty-six lotteries offering the Lucky for Life game. Game related services are provided by MUSL through a contract with the lotteries selling the Lucky for Life game.

## 11. Line of Credit

The Lottery has a short-term line of credit with the Bank of North Dakota. The law provides that the line of credit be limited to the amount of each prize of \$100,000 or more that relates to prize funds known to be due and forthcoming to the Lottery from other government-authorized lotteries through the MUSL. The line of credit may not exceed \$1 million in the aggregate.

## 12. Debt Setoff Program

In accordance with law, the Lottery established a debt setoff program in which a lottery prize of \$600 or more is used to setoff a delinquent debt owed to any state agency or collected through a state agency on behalf of a third party. Twenty-five agencies or divisions participate in the debt setoff program.

Through March 31, 2022, the Lottery has conducted 3,033 debt setoffs. 93 claims have been identified as delinquent debts with the Lottery collecting \$172,458.

## 13. Major Contracts

The Lottery has major contracts with:

- Scientific Games, LLC, a Delaware corporation. The vendor provides an online lottery gaming system and related services through June 30, 2024. Payments for the fiscal years ended June 30, 2021 and 2020 totaled \$3,152,070 and \$2,846,522, respectively based on 10.473% of ticket sales. The Lottery's future obligation through June 30, 2022 is 10.473% of ticket sales. There is an annual fee of \$325,000 to fund the Player's Club Points for Prizes and Points for Drawings programs. In addition, Scientific Games International, Inc. is eligible to earn a contractor incentive payment (CIP) of 8% of all incremental annual sales exceeding the prior three-year rolling sales average.
- KK Bold of Bismarck, North Dakota. The vendor provides marketing and related services through June 30, 2022. Payments for the fiscal years ended June 30, 2021, and 2020 totaled \$324,509 and \$404,052, respectively. The Lottery's future obligation is for actual services requested. There is no minimum fee or retainer fee.

## 14. Online Gaming System

Scientific Games, LLC provides the Lottery with online and secondary online gaming systems hardware, games management system software (GMS), and retailer telecommunications network; 450 lottery terminals, self-service ticket checkers, jackpot signs, Lottery InMotion monitors, and customer display units; and 50 self-service lottery terminals; primary and secondary internal control systems (ICS); four field technicians and one general manager/field service supervisor to provide service to the Lottery and its retailers; and one remote computer operator for the test facility. The Lottery does not own this equipment. The GMS manages retailers and tracks and controls the sale of tickets, validation of winning tickets, and payments on winning tickets. The ICS's are independent databases of all retailer sales transactions that are controlled only by the Lottery, and are used for each draw to determine the number of winning tickets, by prize value, and other confidential data. The telecommunications network that connects retailers to the computer data center is primarily cellular based.

## 15. Americans with Disabilities Act (ADA)

The State of North Dakota is obligated under Title II (State and Local Government Services) of the ADA to make its government services - lottery tickets - accessible to individuals with disabilities. The Lottery meets its obligation, in part, through the license renewal process.

Most retail sites, as places of public accommodation, have a responsibility under Title III (Public Accommodations) of the ADA to be accessible to individuals with disabilities, a responsibility that can be enforced by the United States Department of Justice or through private lawsuits. The North Dakota Human Rights Act also prohibits discrimination on public accommodations based on a disability.

If a retailer or the Lottery determines that the retailer is not accessible to individuals with disabilities, the Lottery requires the retailer to advise the Lottery of the steps the retailer is taking to become accessible and the expected timeline. The Lottery also provides information on the retailer to the Protection and Advocacy Project. The Protection and Advocacy Project assists the retailer to become compliant.

If necessary, the Lottery will issue a conditional license to a retailer to prompt the retailer to become compliant and may use ADA compliancy as a factor in renewing or not renewing the license.

## 16. Debit Card vs. Credit Card

The lottery rules allow retailers to accept cash, checks, and debit cards as payment for lottery tickets, but prohibit retailers from accepting credit cards. The rules do authorize players to use automated clearinghouse (ACH), credit card, or debit card to purchase a Pick and Click online play.

## 17. Potential Factors Affecting Future Operations

The Lottery must partner with one or more other government-authorized lotteries to conduct a game. This restriction generally limits the Lottery to games sponsored by the MUSL. The MUSL may not have a broad range of games available to fulfill the Lottery's desired product mix. Should the MUSL disband, although it is not anticipated, the Lottery may not have an adequate number of games to continue operations.

## 18. Disaster Recovery Plan

The Lottery has a Disaster Recovery Plan for the ICS and connectivity to the GMS in the event of a natural or man-made disaster. The Lottery would utilize its secondary ICS system located at its test facility in Bismarck, North Dakota. The Lottery would also have remote access to the production GMS system, located in Alpharetta, Georgia, from the test facility. The use of the secondary site for operating the Lottery would be transparent to the Lottery retailers and players.

## 19. Lottery Advisory Commission

A five-member Lottery Advisory Commission serves as a policy advisor to the Attorney General and Director of the Lottery and as the Audit Committee of the Lottery. The Commission provides an independent perspective on issues and operation of the Lottery and presents ideas and recommends solutions while it represents the best interests of the state, public, and lottery industry. It meets at least on a quarterly basis. The Attorney General and Director consult with the Commission on policies, plans, issues, contracts, timelines, and other activities of the Lottery.

The members of the Commission are appointed by the chairman of the Legislative Management and the Attorney General. The members are:

Mr. Mike Rud - Chairman  
Senator Nicole Poolman  
Representative Karla Rose Hanson  
Representative Emily O'Brien  
Mr. Russ Hanson

## 20. Critical Success Factors

To evaluate the performance of the Lottery, these critical success factors are applied:

- Maintaining an image of public trust and confidence – transparency;
- Exercising due diligence managing and promoting the Lottery;
- Being sensitive to problem gambling and encouraging responsible play;
- Audit report recommendations issued by the Office of the State Auditor;
- Selecting promising retailers and effective training of retailers;
- Providing quality customer service to retailers and players;
- Educating the public on how to play the games;
- Developing and conducting effective marketing campaigns;
- Amount of actual annual gross sales compared to projected annual gross sales;
- Amount of weekly and annual per capita sales in North Dakota compared to amount of weekly and annual per capita sales of other state lotteries that are similar demographically and geographically to North Dakota; and
- Amount of actual annual state general fund revenue compared to projected annual state general fund revenue.