The March meeting of the South Dakota Lottery Commission was called to order by Chairman Tom Leckey at 10:30 a.m. on March 31, 2006.

MEMBERS PRESENT: Douglas Sharp, Susan Shay Brugger, Tom Leckey, Dick Werner and Kory Menken by phone.

MEMBER ABSENT: Duane Schmautz and Virgina Nelson.

SUPPORT STAFF PRESENT: Norm Lingle, Mike Mueller, Joe Willingham, Jack Magee, Tim Weber, Sherry Lauseng and Valerie Johnson.

APPROVAL OF THE MINUTES:
A motion was made by Douglas Sharp and seconded by Susan Shay Brugger to approve the Dec. 2005 minutes. Motion carried.

SALES/MARKETING REPORT:
Director of Sales Joe Willingham reported on the following:

PRODUCT UPDATE:
Video lottery establishment numbers are up 1.0 percent. Terminal numbers were up 2.1 percent. Net machine income was up 1.2 percent.

Instant sales are up 13 percent due to aggressive efforts by sales representatives. Pac Man Cash lead the way at the start of FY06. Upcoming games include Dakota Derby and Bingo Blizzard in April, 8 Seconds Lucky, Majestic Jewels and Break the Bank in May and Golden Spin in June. Recent instant winners were announced.

Powerball sales were up 43.5 percent from FY05. Wild Card sales are down 8 percent. Hot Lotto sales are up 56 percent. Dakota Cash sales are up 8 percent.

Willingham announced recent lotto winners.

REVENUE PROJECTIONS FOR FY06:
Video lottery revenue projections for FY06 are $111.4 million, an increase of 1.94 percent over last year. Instant revenues for FY06 are expected to be $3.5 million, an increase of 2.34 percent over last year. Lotto revenues are expected to be $4.15 million, an increase of .73 percent over last year.

PUBLIC RELATIONS AND ADVERTISING REPORT:
Director of Public Relations and Advertising Mike Mueller reported on the following:
AD CAMPAIGNS:

Ran thirty second radio ads promoting the powerball jackpot. Ran the ad for three drawing as jackpot grew.

Ran thirty second radio ads promoting PacMan Cash from January 23 through February 3. The ad featured sounds from the classic arcade game. Sounders were also provided to the radio stations.

Two fifteen second television ads promoting Wild Card 2 and Dakota Cash began airing on January 30 and ran through February 19.

In February and March we offered radio station partners 3 Earnhardt jackets for use as prizes in local promotions in exchange for sponsorship and ad mentions. 22 radio stations participated.

Ran thirty second radio ads for Power Play 10x promotion from March 2 through March 16.

Radio ads for Dakota Derby will start April 3.

**January/February Winner Awareness Campaign**

Newspaper ads featuring recent lottery winners began running in daily newspaper on January 29. Depending on the paper, the ads ran from January 29th to February 4th.

Thirty second radio ads featuring recent lottery winners followed from February 13th to February 24th.

PUBLIC RELATIONS:

The Lottery’s FY05 annual report is at the printer and it will be sent out as soon as it is done being printed. A press release was issued regarding the Brookings $50,000.00 Power Play Prize on February 10. Another press release was issued regarding the Sisseton $200,000.00 Powerball prize and the Rapid City $68,995.00 Dakota Cash prize on February 15. The Powerball Jackpot reached a new record of $365 million for the February 18 drawing. A news release was issued on February 16 announcing that the Match 5 Bonus game feature was in effect. The jackpot run generated more then $851,000.00 in revenue to the state. A news release was issued on February 21 regarding revenues, prizes and retailer commissions from the jackpot run.

**OBSOLESCENCE:**

Mike Mueller reported on the following:

In a letter dated February 24, 2006, IGT has formally requested that the VLC model 8700 series video lottery machine be declared obsolete. The request meets the criteria as established in the first rule, 48:02:07:09. IGT’s request identifies parts and their components which IGT claims are no longer available or are in shortage.

The most important of these are related to what the Lottery designates as “critical parts” These parts are the most important to the integrity, security and administration of the game, designed and made by the manufacturer.
IGT’s request includes as unavailable components of these critical parts:

- Main Logic Board (brains – operating system and gaming software);
- Memory Communication Board (allows central system to communicate with the main logic board);
- Back Up Memory Board (back up of memory stored on the main logic board);
- Power Distribution Board (distributes power to all components needing electricity)

While IGT included a summary description of parts they claim are no longer available, and a complete listing of every part and every component of each part, we felt it necessary to request clarification regarding the specific components of the critical parts identified as unavailable. The Lottery sent a request to IGT for additional information on March 16 and received the additional information on March 24. All included in the handout.

The next step in the process is to use the services of an independent technical expert to analyze the request. The Lottery has had preliminary discussions with Gaming Laboratories International. GLI is an independent machine testing and certification company, and is the company the Lottery has contracted with for those services for video lottery machines, including the VLC 8700s. GLI has indicated they would perform the services of verifying IGT’s request.

With the commission’s permission, we will proceed with using GLI as the independent technical expert and analysis of the request. Once that analysis is complete we will schedule a public hearing on the request at a future Commission meeting.

Motion was made by Dick Werner and second by Susan Shay Brugger to proceed with the study on the VLC 8700. Motion carried.

LEGISLATIVE UPDATE

Executive Director Norm Lingle reported on the following:

On February 1, 2006 the Senate approved the reappointment of Chairman Leckey and Commissionaire Brugger. On February 3, 2006 the Senate approved the appointment of Commissionaire Sharp. On March 13 the Governor reappointed Commissionaire Schmautz to the SD Lottery Commission and also on March 13th, 2006 the Governor appointed Virginia Nelson to the SD Lottery Commission.

House Bill 1019 proposed to revise the way online proceeds are distributed. HB 1019 passed the House and was defeated on the Senate floor.

House Bill 1054 proposed raising the limit of top prizes that charitable organizations could offer from $30,000.00 to $80,000.00. This bill basically removed the cap so there is no cap for top prizes. This bill passed both the House and the Senate.

House Bill 1195 An Act to reduce state government reliance on video lottery proceeds and to revise the distribution of video lottery proceeds. This bill was defeated in the House State Affairs committee.

Senate Bill 191 An Act to permit certain organizations to conduct card game tournaments. This bill was defeated in the Senate State Affairs.
An initiated measure to repeal video lottery was submitted to the Secretary of State on February 17, 2006. It will require 16,728 signatures by May 2, 2006 to be placed on the November ballot.

**DAKOTA CASH DRAWING:**

Executive Director Norm Lingle reported on the following:

Worked out an agreement with the Department of Revenue and Regulation to provide the auditor services for the Dakota Cash game. They began performing those functions on February 1, 2006. To date this process is working well.

**EXECUTIVE SESSION:**

Susan Shay Brugger moved and Dick Werner seconded the motion that the commission move into executive session. Motion carried and at 11:40 a.m. the commission moved into executive session.

Motion was made by Dick Werner and seconded by Douglas Sharp to finalize the draft for addendum 6 to the contract for lotto systems and related services. Motion carried.

Motion was made by Kory Menken and seconded by Susan Shay Brugger to purchase three new Dakota Cash drawing machines. Motion carried.

**NEXT COMMISSION MEETING:**

The next commission meeting will be Friday June 30, 2006 at 10:30 a.m.

**ADJOURNMENT:**

Susan Shay Brugger moved and Douglas Sharp seconded the motion to adjourn. Motion carried and at 12:15 the meeting was adjourned.