



Minutes of the Commission Meeting

Room 413 Capitol Building

May 21, 2010

Lottery Commission Chairman Virginia Nelson called the May 21, 2010 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. (CT).

MEMBERS PRESENT: Virginia Nelson, Tom Leckey, Dick Werner and Susan Brugger, Kory Menken, Doug Sharp and Duane Schmutz.

SUPPORT STAFF PRESENT: Norm Lingle, Kelly Thompson, Joe Willingham, Deb Reese, Andrew Fergel and Mary Jo Bibby

APPROVAL OF THE AGENDA AND MINUTES

Commissioner Tom Leckey moved to approve the agenda for today's meeting and the minutes of the March 26, 2010 meeting. Commissioner Susan Shay-Brugger seconded the motion. The roll was called and the motion carried.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

VIDEO SYSTEM MIGRATION:

1,328 establishments have migrated to the new video lottery central system. The remaining terminal migrations should be complete by the end of May.

MEGA MILLIONS:

The new game tickets went on sale on May 16.

OFFICE MOVE:

The Capital Lake Plaza office remodel is progressing. Test racks will be moved in July. Aug 22 is the targeted move date.

NEW SYSTEM IMPLEMENTATIONS:

Lingle thanked the Lottery staff and vendors for successfully implementing the new video lottery on instant-online systems.

Commissioner Werner asked what the Mega Millions jackpot amount is. Willingham responded that it is currently \$54 million.

Commissioner Leckey asked when the Lottery office would move. Lingle responded that the St. Charles has been notified that the Lottery will be out of the building by August 31.

Chairman Nelson recessed the meeting at 9:40 and reconvened the meeting at 9:45

Chairman Nelson opened the Public Hearing.

PUBLIC HEARING ON INSTANT/ON-LINE LICENSING RULES.

Sales Director Joe Willingham explained that rule changes are needed to 48:01:01:01, 48:01:02:01, 48:01:02:11, 48:01:05:05, 48:01:05:06 48:03:01:01, 48:03:02:02, and 48:03:02:03 because the new GTECH instant/on-line contract does not allow for “instant-only” retailers and eliminates the need for the WIT terminals which validated “instant-only” retailers’ tickets.

The proposed changes require new retailers to pay a \$1,200 licensing fee and monthly communication fees of \$12.93. Retailers located on tribal land will pay communication fees and \$150 renewal fees but will not be allowed to sell on-line tickets. Communication fees are refunded quarterly to non-chain retailers averaging \$5,000 in quarterly instant ticket sales and to chain retailers averaging \$6,000 in quarterly instant ticket sales. Any retailer licensed before July 1, 2010 will not be required to pay communication fees.

Willingham stated that the rates were comparable to those charged in other states.

Chairman Nelson asked if anyone in attendance wanted to testify on the rule changes. No testimony was offered.

Nelson asked if the Lottery’s legal counsel had received any written testimony. Andrew Fergel responded that he had not.

Chairman Nelson closed the hearing from public testimony.

Commissioner Leckey asked about the average retailer sales. Willingham responded that the average was \$5,000 per quarter to \$500,000 per year.

Commissioner Werner asked if a new chain store would be required to pay communication fees. Willingham responded that they would.

Werner asked about the timing of renewal fees. Willingham responded that fees due prior to October 30 will not be assessed.

Chairman Nelson closed the hearing.

Commissioner Menken moved to adopt the rules with approved style and form changes. Commissioner Schmautz seconded the motion. The roll was called and the motion carried.

SALES REPORT

Director of Sales Joe Willingham reported on the following:

LOTTO GAMES:

Powerball sales are up 13 percent, with the addition of Mega Millions driving the jackpot amounts. Hot Lotto is up 31 percent, topping the previous year’s sales. Wild Card is up 58 percent and Dakota Cash is up 29 percent, also beating FY09 sales. It is too soon to assess Mega Millions sales. Total lotto sales are up 18 percent. The first drawing sold \$26,510 in tickets with 25 percent of sales going to the Megaplier.

Recent winners were announced.

Menken asked how Mega Million compared to Powerball sales. Lingle responded that we are expected to see a 5 to 10 percent overall increase with the new game.

INSTANT GAMES:

Instant sales are down 2.7 percent. A spike in the sales chart is due to a Colossal Cash winning ticket being claimed.

It is still too early to analyze vending machine sales.

Willingham reported on upcoming games and recent winners.

REVENUE PROJECTIONS:

Willingham reported that the projection for instant revenue is down 15 percent and the projection for lotto revenue is down 1.8 percent.

Commissioner Menken asked if the new ticket self-checkers could be used to check scratch tickets. Willingham responded that they could not. He also asked about plans for new jackpot signs. Willingham responded that the Lottery is looking into signs.

MEGA MILLIONS RETAILER BONUS

Lingle explained the bonus program for the new Mega Million lotto game as set forth in Declaratory Ruling 10-1. Menken amended the ruling to read "\$10,000" instead of "\$20,000" as the bonus for selling a \$250,000 winning Mega Millions ticket. Commissioner Menken moved that the ruling be adopted. Commissioner Shay Brugger seconded the motion. The roll was called and the motion carried.

PUBLIC RELATIONS/ADVERTISING REPORT

Director of Public Relations and Advertising Kelly Thompson reported on the following:

PRESS RELEASES:

Press releases were issued in April announcing the Mega Millions launch, unclaimed lotto prizes and the claiming of a \$100,000 Colossal Cash ticket. A release was issued May 11th announcing the start of Mega Million ticket sales on May 16.

MEGA MILLIONS GAME LAUNCH EFFORTS

Mega Millions billboards were erected in Aberdeen, Pierre, Rapid City, Sioux Falls, Watertown and Yankton. Thirty-second radio ads will run for seven days in the second half of May. Pocket game guides and sell-in cards will be deployed. Point-of-sale will include ceiling tiles, floor stickers and 3-D crash ball window clings. Retailers are encouraged to display Mega Millions on their marquees.

WEBSITE:

Ten winner alerts, weekly winner counts and seven winner updates have been added to the website through March 26. Mega Millions information has been also added.

SPONSORSHIPS:

The Lottery will sponsor a second-chance drawing at Huset's Speedway, Lottery Night at a Pheasants Game, ticket give-aways at the State Fair Speedway and a booth at the State Fair.

PLAYERS CLUB:

The Players Club listserv currently has 5,198 members, having added 154 members since March 26, 2010. There has been steady traffic on the player microsite. A "Race to Summer" promotion was held.

UPCOMING EVENTS AND ACTIVITIES:

The "Black" ticket will be promoted this summer. A Beneficiary Awareness Campaign is being planned. A meeting will be held to form the FY2011 Marketing Plan. Lottery Night at the Ballpark will be held.

Commissioner Werner asked about unclaimed prizes. Thompson said a \$5,000 and \$10,000 prize had gone unclaimed. Werner asked about car window bug washers (squeegees) and suggested using billboards throughout the tourist season. Thompson responded that bug washers have a limited shelf life and that Mega Millions was not in the current year's budget, so a one-year contract for billboards was not affordable. Werner suggested using T-shirts as clerk incentives. Willingham responded that many employers restrict dress codes to items with store logos.

Werner asked which bordering states sell Mega Millions. Thompson responded that the game is sold in Minnesota, Iowa, North Dakota, Nebraska and Montana.

VIDEO LOTTERY REPORT

Director of Security and Video Lottery Operations Deb Reese reported on the following:

VIDEO LOTTERY REVENUE:

Net machine income is down 2 percent, establishment numbers are down 1 percent, and terminal numbers are up by 36 terminals.

COMPLIANCE TESTING AND CONSULTING SERVICES RECOMMENDATION

Director Reese reported:

One proposal for Compliance Testing and Consulting Services was received from Gaming Laboratories International. Reese outlined the proposal for the Commission. Lingle discussed costs associated with the contract and noted that most of the costs will be passed on to the manufacturers. Werner asked about the possibility of aligning contract periods with fiscal years. Lingle responded that contract periods are based on the end date of the previous contract period.

Commissioner Schmautz moved and Commissioner Shay Brugger seconded the motion to execute a contract with Gaming Laboratories International. The roll was called and the motion carried.

INSTANT GAME TICKETS AND RELATED SERVICES RECOMMENDATION

Director Willingham reported:

Three responses to the RFP for Instant Game Tickets and Related Services were received. He outlined the process of awarding points to respondents based on various criteria. Shay Brugger asked about Scientific Games' annual printing charges. Willingham responded that they are \$462,317 with various options.

Commissioner Leckey moved and Commissioner Menken seconded the motion to negotiate and execute a contract with Scientific Games. The roll was called and the motion carried.

TICKET DELIVERY AND RELATED SERVICES RECOMMENDATION

Director Willingham reported:

One response was received to the RFP for Ticket Delivery and Related Services. He outlined the proposal from Speedee Delivery. Nelson asked why a contract is needed for this service. Lingle responded that state bid laws require the process. Werner asked about the possibility of not entering into a contract in a case where only one bid is received. Willingham responded that a contract protects the Lottery from liability. Werner suggested offering a one-year contract. Lingle responded that the terms of the RFP were for a minimum contract length of three years. Lingle further stated that the bid process was followed and that he would not want to reject the bid after the terms of the bids have been announced. Schmautz remarked that if a second RFP were issued, Speedee could raise its bid. Werner asked if all expenses had been evaluated for the services. Lingle noted that all vendor services of \$25,000 or more are put through the RFP process. Commissioner Sharp suggested reviewing the costs of the service and reporting back within six months.

Commissioner Sharp moved and Commissioner Menken seconded the motion to award Speedee Delivery a contract for Ticket Delivery and Related Services. The roll was called and the motion carried.

NEXT COMMISSION MEETING

The next meeting is set for 9:30 a.m. on Friday September 10 , 2010.

ADJOURNMENT

Commissioner Werner moved and Commissioner Menken seconded the motion to adjourn. The motion carried and at 12:00 p.m. the Commission adjourned