



## **Minutes of the Commission Meeting**

Room 413 Capitol Building

**September 10, 2010**

Chairman Virginia Nelson called the September 10, 2010 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. (CT).

MEMBERS PRESENT: Virginia Nelson, Tom Leckey, Dick Werner, Doug Sharp, Duane Schmautz and Susan Shay Brugger. Kory Menken attended via teleconference.

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

### **APPROVAL OF THE AGENDA AND MINUTES**

Commissioner Shay Brugger moved to approve the agenda for today's meeting and the minutes of the May 21 meeting. Tom Leckey seconded the motion. The roll was called and the motion carried.

### **ELECTION OF THE COMMISSION CHAIR**

Commissioner Werner nominated Doug Sharp to the office of Commission Chair. Commissioner Schmautz seconded the motion. Werner moved nominations cease. The roll was called and the motion carried.

*Commissioner Sharp now chairing.*

Werner nominated Kory Menken to the office of Commission Vice Chair. Shay Brugger seconded the motion. Werner moved nominations cease. Shay Brugger seconded the motion. Motion carried. The roll was called on the motion to elect Menken to the office of Commission Vice Chair. Motion carried.

### **EXECUTIVE DIRECTOR'S COMMENTS**

Executive Director Norm Lingle reported on the following:

#### OPEN MEETING LAW CHANGES:

Lingle reported on some of the relevant changes to the open meeting laws SDCL 1-27-16, 17 and 18 and SDCL 1-25-1. Printed materials sent to meeting members must be made available to the public through a web posting or at the meeting. Drafts of minutes must be available for inspection within 10 days of the meeting.

#### OFFICE MOVE:

The Lottery moved to the Capitol Lake Plaza on Friday August 21 through Monday August 23.

### PERSONNEL CHANGES:

Randy Sturm resigned as warehouse manager in Sioux Falls. Matt Sommerfeld will transfer to that position from his current position of video lottery testing specialist in Pierre. Al Jorgenson was promoted to video lottery testing specialist. The lateral transfer and promotion, and the death of Linda Titze leaves two senior computer operator positions open.

### FY2010 SALES SUMMARY:

Lingle reported that instant sales were flat in FY10. On-line sales were up 21.7 percent as a result of good jackpot runs and the cross-selling of the Powerball and Mega Millions games. Video net machine income is down 2.1 percent.

Instant games prizes and commissions were flat and on-line prizes and commissions were up relative to sales.

The General Fund does not reflect a final transfer from instant sales. On-line games contribute \$1.4 million to this fund. Video manufacturers' license fees contribute \$45,000.

The Capital Construction Fund receives the balance of on-line revenue.

The Property Tax Reduction Fund receives the balance of the state's share of video lottery revenues less the \$214,000 made available to the Department of Human Services for problem gambling treatment services.

Leckey asked if the amount made available to Human Services is all used each year. Lingle responded that it is. Menken asked how long we have been making the contribution at this amount. Lingle responded four or five years.

Werner suggested that the unapproved minutes be reviewed by the Commission members prior to their public posting. Andrew Fergel responded that he would like to review the statutes to determine if that is allowable. Schmautz stated that the intent of the law is to make all communication between the Commission members public. Shay Brugger stated that voting on the approval of the minutes should be done at the following meeting.

### **MEGAPLIER CHANGE**

Lingle reported that the Mega Millions group has adopted rules making the Match Five prize, purchased with the multiplier, worth \$1 million. An 8X promotion has also been proposed. Lingle would like the Commission to adopt the proposed rules at the next meeting.

Schmautz asked if the vendor has the software ready for the change. Lingle responded that GTECH is working on it. Nelson asked if all jurisdictions have accepted the proposal. Lingle responded that they have. Werner asked about the ramifications of not accepting the proposal. Lingle said we could lose sales to surrounding states who are adopting it. Leckey asked what effect the change would have on the bottom line. Lingle responded that it would generate more participation in the Megaplier option.

### **FY2012 INSTANT/ON-LINE INFORMATIONAL BUDGET**

Lingle explained several items from the budget. In-state travel costs increased; however, the number of miles traveled decreased. GTECH computer services costs were less. BIT services include all Lottery IT services. Other contractual services include security and banking services. Audit costs were down because

a smaller-scope audit was conducted. Retailer commissions and prize expenses are a function of sales. Ticket printing costs were down because fewer games were printed.

Shay Brugger asked about a negative amount for FY09 promotional supplies. Finance Manager Sherry Lauseng responded that the costs were reduced out of promotional supplies to the unclaimed prize pool. Werner asked if the previous year's budget request could be included as a new column in the budget spreadsheet. Werner asked how we could operate on a smaller budget. Lingle responded that because actual sales are not known, the budget must reflect a projected amount.

Werner moved and Shay Brugger seconded the motion to approve the Instant/On-Line Informational Budget. The roll was called and motion carried.

## **FY2012 VIDEO LOTTERY BUDGET**

Lingle explained that telephone expenses were down due to the installation of two new T1 lines. Scientific Games projected costs are down due to a rate buy-down. Inspection services are contracted with Department of Public Safety at an hourly rate, which has increased. An increase of \$434,000 for other contractual services is for the cost of installing site controllers.

Schmautz asked if site controllers reduce the cost of out-going calls. Lingle responded that the modem communicates with the other terminals within an establishment and then with the central system. Werner asked if audited numbers could be presented to compare to the proposed budget. Lauseng responded that the audited numbers are available in the annual report. Werner asked if there will be a savings with the new office location. Lingle responded that the Lottery will be charged a flat rate for rent, utilities and janitorial services, which is less than monthly expenses at the St. Charles.

Werner moved and Shay Brugger seconded the motion to approve the Video Lottery Budget. The roll was called and the motion carried.

## **SALES REPORT**

*Director of Sales Joe Willingham reported on the following:*

### LOTTO GAMES:

Total lotto sales are down 11.8 percent compared to the same period last year. Powerball is down 29.5 percent, Hot Lotto is down 32 percent, Wild Card is down 40 percent and Dakota Cash is up 13 percent. MegaMillions has produced \$445,000 in sales.

Recent winners were announced.

### INSTANT GAMES:

Instant sales are up 2.37 percent from the same period last year due to player awareness of several big prizes being won.

Willingham reported on upcoming games and recent winners.

### REVENUE PROJECTIONS:

Willingham reported that the projection for lotto revenue is down 12.62 percent and the projection for instant revenue is up 9.49 percent.

### STATE FAIR ESTIMATES:

Lotto and instant sales were up slightly from the previous fair.

### **PUBLIC RELATIONS/ADVERTISING REPORT**

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

#### NEWS ITEMS:

Thompson reported on recent jackpot winners Mary Broders of Yankton, Marlene Hanson of Langford, Kevin Barber of Sioux Falls and Jim Mulder of Flandreau. Press releases were issued for all but the Barber wins. Web posts announced five instant ticket prize winners. Press release also announced a \$260 million Powerball jackpot and that the Power Play 10X promotion was extended, the suspension and suspension lifting of Wild Card ticket sales, an expiring \$5,000 lotto prize and the Pierre Lottery office relocation.

#### MARKETING MEETING:

The marketing budget for FY2011 is \$660,000, the same as last year. The plan calls for earmarking funds for Mega Millions, a National Game and other lotto changes and promotions; scratch game product campaign; possible banner ads on newspaper websites; streamlining sponsorships and eliminating the use of a newspaper clipping service.

#### WEBSITE:

The Lottery's website was used to post six winner alerts, 12 winner updates and 27 winner counts.

#### SUMMER PROMOTIONS:

Free scratch tickets and Lottery prize packs were given to Pheasant fans at Lottery Night at the Ballpark. The Lottery had a booth at the State Fair but did not sponsor the Championship Bull Riding event. Recent scratch prize winners were promoted at the fair.

#### PLAYERS CLUB:

Club membership has reached 5,387 with 5,055 active members. 189 members have been added since May 2010. Thompson is looking into finding better uses for club messages and expanding the microsite.

#### UPCOMING EVENTS:

Point-of-sale for Aces & Eights and Cherry-Orange-Lemon Twist will be deployed soon. A scratch ticket marketing campaign will feature T-shirts, POS and radio ads. A holiday scratch ticket campaign will run. The December Mega Millions Megaplier change will be promoted.

Werner asked if there is a way to track how many Players Club members open the e-mails they receive from the Lottery. Thompson responded that she could track that sending the e-mails with read receipts.

### **VIDEO LOTTERY REPORT**

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

#### VIDEO LOTTERY REVENUE:

Net machine income is \$36.01 million year to date, ahead .12 percent from last year. There were 1,474 establishments as of September 1, 2010. There are 9,216 terminals, 1.8 percent ahead from the same time last year.

#### COMPLIANCE TESTING CONTRACT:

A contract has been signed with Gaming Laboratories International for a period starting July 1 2010 to June 20, 1012. There are four one-year extension options.

## MIGRATION:

The video lottery central system migration was completed at the end of June.

## **INSTANT GAME TICKETS AND RELATED SERVICES UPDATE**

*Willingham reported on the following:*

Scientific Games International was awarded the contract for Instant Game Tickets and Related Services. Willingham reminded the Commission that SGI's bid came in at 12 percent below the cost of the current contract. Following negotiations, the contract will provide for full UV ticket coating, free ticket reconstruction and keyed dual security, and keyless validation and failsafe barcoding at no cost. Keyless validation does not require a PIN to be entered by the retailer. The failsafe barcode will allow players to check their own tickets.

SGI receives exclusivity and up to three, up-front extensions and requires the purchase of four licensed games per year. Only three "in person" press checks per year will be financed, but virtual press checks will be available. The final contract negotiations resulted in a nearly 20 percent reduction from FY2010 costs.

Werner asked if an instant ticket game with a car giveaway is being planned. Willingham said that such a game is being planned.

## **INSTANT TICKET DELIVERY AND RELATED SERVICES UPDATE**

*Willingham reported on the following:*

One bid was received from Spee Dee for \$3.77 per parcel plus a 5.5 percent fuel surcharge. The contract is binding for three years, although the fuel surcharge is not. Overnight delivery will be guaranteed, and delivery failures will be forwarded daily. Credits for failures will be given monthly. There will be no credit for weather-related failures. There will be credit for failures caused by vehicle breakdowns. Credit will also be issued for past delivery failures.

Werner suggested using multiple options for ticket delivery. Lingle stated that Lottery negotiations with vendors result in higher net transfers to the state.

Schmautz expressed his concern over signing a six-year contract for instant printing services because a better offer could be found if technology changes. Willingham responded that the Lottery owns the back office systems. Nelson asked about ITVM's. Willingham reviewed ownership changes, remodeling, and location moves in stores testing the vending machines. Werner asked about the Dakota Raffle and jackpot signs not displaying Mega Millions jackpot amounts. Lingle responded that the Dakota Raffle sold through 81 percent and he is not comfortable with that rate. We do not plan to offer another Dakota Raffle as we now have another on-line game to boost sales. Lingle also responded the ESMM's are able to display the Mega Million jackpot amounts. Werner suggested investigating new technology in jackpot signage. Willingham responded that the Daktronic signs' warranty has expired, so this may be the time to look at new signs. Schmautz suggested investigating scrolling signage. Leckey asked about selling tickets on the Internet. Willingham responded that there is little support for Internet ticket sales. Lingle stated that two states are selling subscription services and that federal regulations are currently under review.

## **NEXT COMMISSION MEETING**

The next meeting is set for 9:30 a.m. on Wednesday, Oct. 27, 2010.

## **ADJOURNMENT**

Commissioner Schmautz moved and Shay Brugger seconded the motion to adjourn. The motion carried and at 11:45 a.m. the Commission adjourned.