



Minutes of the Commission Meeting

Room 464 Capitol Building
September 27, 2011

Chairman Doug Sharp called the September 27, 2011 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. (CT)

MEMBERS PRESENT: Doug Sharp, Virginia Nelson, Kory Menken, Bob Hartford, Duane Schmautz, and Jim Peterson.

MEMBERS ABSENT: Dick Werner

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

APPROVAL OF THE AGENDA AND MINUTES

Commissioner Menken moved and Commissioner Schmautz seconded the motion to approve today's agenda and the minutes of the June 1, 2011 meeting. Motion carried.

ELECTION OF THE COMMISSION CHAIR

Commissioner Nelson nominated Kory Menken to the office of Commission Chair. Commissioner Sharp seconded the motion. Motion carried.

Commissioner Menken now chairing.

Sharp nominated Bob Hartford to the office of Commission Vice Chair. Nelson seconded the motion. Motion carried.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

NEW COMMISSIONERS:

Lingle thanked Sharp for serving as chairman. He also welcomed new commissioners Bob Hartford of Pierre and Jim Peterson of Reville.

GAME TESTING:

Gametech started its final phase of the testing and approval process with a beta test. Three machines were enrolled in Pierre and two machines were enrolled in Aberdeen. Player response has been favorable. The company is also conducting technician training.

Spielo and IGT machines are being tested at Gaming Laboratories International.

LOTTERY ANNIVERSARY:

Lingle announced that September 30 will be the Lottery's 24th anniversary and read excerpts from Public Gaming International magazine's cover story on the South Dakota launch in 1987.

SECRETARY OF THE DEPARTMENT OF REVENUE'S COMMENTS:

Secretary Andy Gerlach addressed the Commission briefly:

COMMENTS:

Gerlach congratulated Chairman Menken, welcomed the new commissioners, and complimented the Lottery on its efforts to implement the new video lottery line games.

He also reported on the Department of Revenue's sales and use tax summer study and the agricultural productivity, wind energy and tribal relations task forces.

The Department of Revenue's budget has been submitted to the budget office for review, and legislation has been submitted to the governor's office for review.

FY2013 BUDGET

Executive Director Norm Lingle reported:

INSTANT/ON-LINE INFORMATIONAL BUDGET:

In-state travel expenses were down due partly to a reduction in vehicle expense rates by Fleet and Travel and because some sales representatives are using cars instead of vans. The budget request for GTECH's computer consulting is a function of sales. Bureau of Information and Telecommunications expenses reflect services provided by it. Central Services fees are assessments for the Bureau of Personnel, Records Management, and the Bureau of Finance and Management accounting system. Communication fees are paid to GTECH and are based on the number of retailers. Instant ticket delivery costs are for delivering tickets to the retailers. Audit services are the result of a more in-depth audit which was conducted in FY11. Prize expenses are a function of sales. Ticket printing costs were higher as more games were printed during the fiscal year. Computer hardware and software expenses reflect new personal computers and moving expenses. Escrow to reservations go to instant ticket retailers who receive half of net proceeds.

Bob Hartford asked if the telephone expense was a set-back before a transfer. Lingle responded that the half percent operating fund is for video lottery.

Hartford asked if the Lottery anticipated prize expenses being over budget next year. Lingle responded that increased prizes would mean sales are increasing.

VIDEO LOTTERY BUDGET:

Telephone expenses were reduced because of agreements with Qwest which resulted in reductions in batch polling costs. Computer consulting services to Scientific Games International are a percentage of net machine income. Inspection services provided by the Department of Public Safety may increase as new machines enter the market and are placed in establishments.

Operating transfers to the Department of Human Services decreased because the department did not access the full amount available.

Nelson asked about the reduction of postage expenses. Lingle responded that fewer things are mailed because of advances in technology.

Hartford moved the budget be approved. Schmautz seconded the motion. Motion carried.

FY2011 SALES SUMMARY

Executive Director Norm Lingle reported:

Instant ticket sales were up 10 percent, on-line sales were down just under 2 percent and video lottery was down 11 percent. The first transfer was up nearly 3 percent. The final transfer will be made after the audit is complete.

POWERBALL GAME CHANGE

Director of Sales Joe Willingham reported on the following:

The Powerball game will reflect changes adopted by the Powerball Group with sales beginning after the January 14, 2012 drawing. The first drawing will be held on January 18, 2012. The new matrix will be 5/59 plus 1/35 and each play will cost \$2. The Match 5+0 prize level will change from \$200,000 to \$1 million. The Match 0+1 prize level will change from \$3 to \$4. Power Play will be an option for \$1 per play. Set prize levels will be established as follows, rather than being multiplied by a number that is drawn.

Match 5+0	\$2 Million
Match 4+1	\$40,000
Match 4+0	\$200
Match 3+1	\$200
Match 3+0	\$14
Match 2+1	\$14
Match 1+1	\$12
Match 0+1	\$12

The Match 5 BONUS Rolldown prize feature will end. Prize levels will continue to be a pari-mutuel jackpot and eight set cash prize levels.

Jackpots will start at \$40 million. One to two South Dakota players should statistically hit the \$1 million 5+0 prize each year.

Lingle added that rules for the Powerball game revisions will need to be adopted at the next Commission meeting.

SALES REPORT

Director of Sales Joe Willingham also reported:

INSTANT GAMES:

Willingham stated that instant game sales are up 8.05 percent. Top sellers include Wheel of Fortune, South Dakota Gold and Camaro Cash. Over 3,145 entries have been received in the Camaro Cash drawing. The winner of the drawing, to be held October 19, will win a Camaro. One Camaro is yet to be won instantly.

Over 1,301 entries have been received in the Wheel of Fortune drawing for trips to Hollywood. The drawing will be held February 9, 2012.

Holiday games will launch next week including Holiday Bells, Frosty Cash, and Jingle Jumbo Bucks. Also Ruby Red Slingo will be launched. Games to be launched in mid-November include Fireball 7's and Bonus Word Cashword. Willingham showed samples of upcoming games.

LOTTO GAMES:

Lotto sales are up 3.61 percent from the same period last year. The current Powerball jackpot run should help this year's sales meet the record sales of FY11.

Powerball sales are up 12.8 percent, Hot Lotto sales are down 9.7 percent, Mega Millions sales are up \$9.6 percent, Dakota Cash sales are down 8.3 percent and Wild Card sales are down 5.2 percent.

REVENUE PROJECTIONS:

Video Lottery revenue projection for FY2012 is \$75.92 million, instant projection is \$4.98 million, and lotto projection is \$6.40 million.

STAFF RETIREMENT:

Peggy Moller retired from the Lottery after 24 years, having served state government for 29 years.

STATE FAIR:

Instant sales at the State Fair were up 17.9 percent, lotto sales were up 28.6 percent and the total sales were up 18.7 percent.

PUBLIC RELATIONS/ADVERTISING REPORT

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

BIG WINNERS:

Three jackpot winners since July were Lee Johnson of Wall, who won 130,000 on Wild Card, Cheri Ludwig of Watertown, who won \$82,988 on Dakota Cash, and Carol Bentz of Huron, who won \$130,000 on Wild Card. Seventeen other players won lotto prizes from \$5,000 to \$30,000.

One \$100,000, three \$50,000, and eight \$30,000 scratch ticket prizes have been awarded since the last meeting.

PRESS RELEASES:

The Lottery has released 11 jackpot winner alerts, 15 winner alerts, 16 press releases and 32 winner counts since June 1.

MOBILE WEBSITE:

The mobile website went live on August 29 and works with smartphones. It can be accessed from the Lottery's website or directly at lotterysd.mobi. The site provides winning numbers, game information, latest winners, and contact information.

FACEBOOK:

The Lottery's Facebook page went live on August 26 and has 274 fans. It was developed to be a tool to form a player "community." It features winner photos, winner counts, jackpot information, event photos, and basic contact and product information. The site is only accessible to those 18 years old and older.

VAN DECALS:

Three lottery vans will be outfitted with decals promoting products and our website.

CAMARO CASH PRE-CAR GIVEAWAY:

A drawing was held for all entries to help test the drawing system and to provide more prizes.

UPCOMING EVENTS:

The final Camaro Cash giveaway will be October 19, 2011. Holiday advertising will begin in November.

Advertising for the \$2 Powerball game will also begin in November.

Menken asked if the new video line games will be promoted by the Lottery. Thompson responded that discussions are being held, and any marketing would probably take place when more games have been placed in establishments.

VIDEO LOTTERY REPORT

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

VIDEO LOTTERY REVENUE:

Net machine income is \$36.06 million, which is down 21.48 percent from the same time last year. There is an average of 9,134 establishments, .6 percent fewer than last year. There is an average of 1,509 establishments. Establishment numbers are not available for last year.

NEW MANUFACTURERS:

There are currently six licensed manufacturers: Speilo, IGT, Gametech, MTD Gaming, Grand Vision, and Aristocrat. The aforementioned licensees are also distributors in addition to Happ Controls and Harms Vending. Manufacturing applications have also been received from Harms Vending and Scientific Games.

Reese also announced that Al Jorgenson has notified the Lottery that he will be vacating his position.

MULTI-DROP CONNECTIVITY DEVICE

Executive Director Norm Lingle reported:

Multi-Drop Connectivity Devices (MCD's) are needed to run the new SAS protocol, the most widely used gaming protocol in the industry. Manufacturers using the SAS protocol can adapt their existing games to make them compatible with the South Dakota system.

Sharp made a motion to affirm the purchase of 500 MCD's to fulfill orders already placed by operators and to be available to operators who are purchasing games from the new manufacturers. Hartford seconded the motion.

Schmautz commented that we were in a situation earlier with a proprietary protocol and he asked if this will be a problem with the new protocol. Lingle responded that the Lottery will have a perpetual use agreement for the protocol. Schmautz asked about the increase in number of licenses. Lingle responded that four manufacturers have become licensed as a result of having the SAS protocol available.

Chairman Menken called the question and the motion carried.

NEXT COMMISSION MEETING

The date of the next meeting will be discussed and announced when finalized.

ADJOURNMENT

Sharp moved and Schmautz seconded the motion to adjourn. The motion carried and at 10:59 a.m. the Commission adjourned.