



Minutes of the Commission Meeting

Room 412 Capitol Building

March 30, 2012

Chairman Kory Menken called the March 30, 2012 meeting of the South Dakota Lottery Commission to order at 9:30 a.m.

MEMBERS PRESENT: Kory Menken, Dick Werner, Doyle Estes and Roger Novotny were present. Bob Hartford and Brent Dykstra participated via teleconference.

MEMBERS ABSENT: Jim Peterson

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 Dick Werner moved that the minutes of the November 18, 2011 meeting be amended to include additional details about the cost of MCD's. Commissioner Doyle Estes seconded the motion to approve the amended minutes and today's agenda. Motion carried.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

NEW COMMISSIONERS:

Director Lingle welcomed Roger Novotny and Brent Dykstra to the Commission.

RECORD MEGA MILLIONS JACKPOT:

The Mega Millions jackpot for tonight's drawing is \$540 million. The Lottery is including "please play responsibly" messages in media releases regarding the jackpot.

Commissioner Werner stated that the current jackpot signs do not include the Mega Millions game. Lingle responded that the ESMMs display the jackpot amounts for all games. The Lottery is negotiating with GTECH to purchase new signs. Negotiation results should be available by the next Commission meeting.

LEGISLATION:

Lingle reported on the confirmations of Commissioners Hartford, Estes and Peterson.

Senate Bill 167, an act to increase the maximum bet on video lottery terminals from \$2 to \$5, was defeated in the Senate State Affairs committee.

Senate Bill 175, an act to increase the maximum number of machines in establishments from 10 to 14, was defeated in the House State Affairs committee.

JUSTICE DEPARTMENT OPINION:

An opinion issued on Dec. 23, 2011 by the U.S. Department of Justice declared that the Wire Act does not affect state lotteries. Lingle explained the potential impact of the opinion and stated that South Dakota has no plans to offer internet ticket sales at this time.

Commissioner Estes asked who would make the decision to offer internet sales. Lingle responded that the Lottery would need statutory authority and Commission approval to begin selling tickets via the internet.

Commissioner Werner asked what would preclude South Dakota players from purchasing tickets from other state lotteries. Lingle responded that a state could only accept transactions originating from within its own exterior boundaries.

Commissioner Novotny asked how long the North Dakota Lottery has been offering a subscription service. Lingle responded four to five years, with results being less than what had been hoped for.

Werner asked about the MCD order distribution system. Lingle responded that MCD's are only provided to those establishments that do not already have the device installed.

SECRETARY OF THE DEPARTMENT OF REVENUE'S COMMENTS:

Secretary Andy Gerlach addressed the Commission:

COMMENTS:

Secretary Gerlach welcomed the new Commissioners and gave an overview of significant action from the 2012 Legislative session. He expressed the importance of differentiating between video lottery and Deadwood gaming and of presenting a unified effort by the Lottery Commission, the Revenue Department and industry partners in setting public policy for the future of the Lottery.

Commissioner Estes said he and Commissioner Novotny have discussed contracting with an entity such as the University of South Dakota Business School to study trends in gaming. Gerlach agreed that it's time to make a marketing and research effort, and that the industry, the administration, and the Commission should all take part.

Estes said the industry should guide the development of new machines to assure they offer cutting- edge technology.

Commissioner Menken agreed that everyone should be brought together in a one to two-day forum to discuss the future of the Lottery and take things off the books that are no longer relevant.

Werner suggested that those commissioners who are not eligible for reappointment not participate.

\$2 POWERBALL GAME UPDATE:

Director of Sales Joe Willingham reported:

Willingham used a chart to show the impact of the conversion to the \$2 Powerball game. After the conversion, the jackpot grew quickly from \$52 million to \$336 million. The \$336 million jackpot was reached in 9 drawings; whereas, previously it would have been reached in 18 drawings. Powerball sales are up in South Dakota by 29.3 percent and nationally by 28 percent.

Werner asked if there would be merit in a chart comparing South Dakota sales to nationwide sales. Lingle responded that such a chart could be prepared.

Novotny also asked for a chart that goes back five years and shows the points when major changes in the game occurred. Lingle stated that a chart would be prepared.

SALES REPORT

Director of Sales Joe Willingham reported:

INSTANT GAMES:

Willingham stated that instant game sales are up 11.6 percent from the same period in FY2011. Holiday sales set a record with \$750,000 worth sold in one week. There were 6,186 entries into the Wheel of Fortune trip drawing. A second drawing will be held for chances to spin the wheel with other state winners for \$1 million in cash. 6,863 entries have been submitted for the second drawing.

Upcoming games include 7-Up, Star Spangled 7's, 3X Cashword and Carnival Cash.

LOTTO GAMES:

Lotto sales are up 7.2 percent from the same period last year. Mega Millions is down 3.8 percent, Powerball is up 29.3 percent. Hot Lotto is down 17.9 percent, Dakota Cash is down 27 percent and Wild Card is down 10.2 percent.

REVENUE PROJECTIONS:

Video Lottery revenue projection for FY2012 is \$83.64 million, the instant projection is \$5.42 million and the lotto projection is \$7.75 million.

WILD CARD GAME CHANGE

Director of Sales Joe Willingham reported:

The Wild Card game has not been changed since May of 1999. The new game will have a starting jackpot of \$200,000. The new odds will be slightly higher, there will still be two plays for \$1, the game will feature a card theme and will likely have an add-on feature. New member states could be added. The target date for the launch is mid-September.

PUBLIC RELATIONS/ADVERTISING REPORT

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

BIG WINNERS:

There were six jackpot winners since the November 18, 2011 meeting. David Yuhas of Rapid City won a \$256,515 Wild Card jackpot, the Robert Maisch family of Mobridge won a \$40,553 Dakota Cash jackpot, Ruth Dahl of Hot Springs won a \$25,561 Wild Card jackpot, Kenneth Keimig of Estelline won a \$20,000 Dakota Cash jackpot, Richard Amdahl of Mitchell won a \$140,000 Wild Card jackpot, and Terry Kleinsasser of Mitchell won a \$49,041 Dakota Cash jackpot.

Other high tier winners for that period include, a \$250,000 Mega Millions, a \$30,000 Hot Lotto and a \$30,000 Mega Millions, two \$10,000 Powerball, a \$10,000 Hot Lotto, a \$10,000 Powerball and a \$5,000 Wild Card.

Thirty-three top scratch ticket prizes of \$3,000 or more were paid. The largest prizes were \$100,000 South Dakota Gold winners from Winner and Gregory. Thirty-one players claimed scratch prizes from \$3,000 to \$50,000.

The final instant win Camaro was won by Dale Pastian of Gregory on January 17.

Eric Peterka of Yankton and Melissa Fischer Olson of Sioux Falls won trips to Hollywood in the Wheel of Fortune drawing.

PRESS RELEASES:

The Lottery has released two jackpot winner alerts, nine other winner alerts, 29 press releases/web announcements and 35 winner counts since November 18, 2011.

FACEBOOK PAGE:

The Lottery's Facebook page has 711 fans. Most comments are positive. New promotions are being considered to increase exposure.

UPCOMING EVENTS AND ACTIVITIES:

A television winner awareness ad is being produced. Airing will begin in April.

Die-cut window decals are being tested on new fleet vans to determine if they hold up better than the full window wraps that are on three of the current vans.

A new display booth will be purchased, as the old one is showing wear and cannot support the weight of the extra equipment now used at events.

Werner asked how long the vans were used by the Lottery. Willingham responded that they are driven from 130,000 to 160,000 miles. Werner asked if the Lottery had looked into using body wraps. Willingham said they are not recommended by Fleet and Travel because they could damage the vehicles' paint.

Werner asked what the retail commission was for the second-level Mega Millions prize. Thompson responded that it is \$10,000.

Novotny asked how the Lottery gets a winner to agree to participate in advertising. Thompson responded that our prize claim form allows winners to say “yes” or “no” to advertising. Winners agreeing to be in advertising may be used in all advertising. If a winner does not agree to be in advertising, he or she is not featured in ad venues, but we do release the winner’s name. Thompson explained what will happen if a jackpot winner agrees to participate in advertising. Lingle reported on the past Powerball jackpot winners’ media participation.

VIDEO LOTTERY REPORT

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

VIDEO LOTTERY REVENUE:

Net machine income is \$125.3 million, which is down 10.97 percent from the same time last year. There is an average of 9,058 terminals, 1.67 percent fewer than last year. There is an average of 1,506 establishments, 1.26 percent ahead of last year.

LICENSING/TESTING UPDATE:

Summit/Gametech, IGT, Spielo, MTD and Aristocrat all have machines deployed in establishments. Harms and Grand Vision Gaming are in the final stages of testing. Scientific Games has submitted hardware but not software.

LINE GAMES UPDATE:

As of March 27 there were 350 MCD’s and 1,020 line games connected to the central system.

NET MACHINE INCOME:

The average net machine revenue per machine per day from November 1, 2011 to February 29, 2012 was \$51.86 for all machines, \$65.28 for line game machines and \$50.40 for legacy (GMMS protocol) machines.

Werner asked if the Lottery has paid for all of the 800 MCD’s that have been authorized to be purchased. Reese responded that the initial order of 500 has been paid for. Werner asked why we were not paying for the devices as we received them. Lingle responded that there is an 8-week lead time needed for the production of the MCD’s. The Lottery wanted the MCD’s available as needed.

Werner asked why there are fewer terminals but more establishments. Reese said she did not know. Lingle stated that operators move machines from establishment to establishment and establishments change ownerships. Those actions could cause fluctuation in the numbers. Werner requested that the number of machines and number of establishments be reported as averages.

Werner asked if 11 percent of our machines offered line games. Reese responded that is correct. Werner asked what the goal is for the number of line games by the end of the year. Reese said the Lottery is trying to get all of the manufacturers’ machines out the door so they can be evaluated. Lingle said the goal is to get the machines out there, collect the data and then determine what it will take to get operators to invest in the new machines. Werner stated that quick conversion will increase the revenue stream and asked if other states had done this. Lingle responded that each state has individual differences. The Oregon Lottery has line games but they own their own machines. Hartford stated that in Oregon the state owns the terminals so that anyone who wanted a terminal could get one. In South Dakota it’s a business decision by the operators to purchase and place the machines.

Hartford stated that if a retreat were to be held it would be good to have the two commissioners in their final terms in attendance.

Menken stated his appreciation to the Lottery staff for the success of the new line games and that he is impressed with the caliber of the commission members. He also stressed his support of having a retreat to discuss the Lottery's future direction.

NEXT COMMISSION MEETING

The next Commission meeting will be in early June, and the date will be announced when finalized.

ADJOURNMENT

Commissioner Estes moved and Commissioner Novotny seconded the motion to adjourn. The roll was called. Motion carried and at 11:23 a.m. the Commission adjourned.