



**Minutes of the South Dakota Lottery Commission Meeting**  
**Video Lottery Strategic Planning Meeting**  
Cedar Shore Resort, Oacoma, SD  
**May 30, 2012 – May 31, 2012**

**CALL TO ORDER**

Commission Chairman Kory Menken called the May 30, 2012 meeting of the South Dakota Lottery Commission to order at 1:00 p.m.

MEMBERS PRESENT: Kory Menken, Dick Werner, Doyle Estes, Roger Novotny, Bob Hartford, Jim Peterson, and Brent Dykstra.

SUPPORT STAFF PRESENT: Revenue Secretary Andy Gerlach, Deputy Revenue Secretary David Wiest, Bureau of Finance and Management Commissioner Jason Dilges, Norm Lingle, Kelly Thompson, Ron Leidholt, Andrew Fergel and Mary Jo Bibby

**APPROVAL OF THE AGENDA**

Executive Director Norm Lingle stated that there would not be a Spielo representative addressing the Commission and to let the agenda reflect that change.

Commissioner Bob Hartford moved that the agenda be approved as amended. Commissioner Novotny seconded the motion. Motion carried.

**OVERVIEW AND OUTCOMES**

Secretary Gerlach welcomed everyone to the meeting and quoted an article from John Musgrave, Executive Director, West Virginia Lottery, about the importance of retaining current players and attracting new players to the video lottery market. He stated that the new line games are seeing positive results and expressed disappointment in the outcome of Lottery measures introduced by the industry in the last Legislative session. Goals should be set for the next one to three years to increase video lottery revenue.

Norm Lingle gave an overview of where Lottery revenues go and the growth patterns of net machine income and numbers of terminals and establishments since the inception of the Lottery. He also reported on the decrease in video lottery revenue due to the smoking ban.

Commissioner Jim Peterson asked about the impact of the Grand Casino in Larchwood, IA on video lottery revenues. Lingle responded that there seems to have been some impact on Sioux Falls area establishments based on decreased surety bond requirements. Commissioner Novotny asked about regional trends in video lottery play. Lingle stated that population centers with the highest growth rate such as the I-29 corridor and the Black Hills have seen more growth in play than other regions.

## **OPERATOR'S VIEW ON THE CURRENT STATE OF VIDEO LOTTERY**

Bob Riter, Music and Vending Association of South Dakota, gave a history of the state's share of net machine income (NMI). He cited the *Video Lottery Cost/Return Study*, conducted by Green Consulting in 1993, which determined the highest state's share rate the market could bear. He also outlined the labor and non-labor expenses of operators.

Riter reported on factors that have negatively impacted net machine income – the November 2010 smoking ban, casino competition and a minimal return on investment for new games. Placing new machines in high earning establishments skews the revenue picture. Without consideration from the state it will be difficult to accomplish everyone's goals. The Lottery's purchase of MCD's is an example of the State reducing operator expenses.

Riter stated that the future of video lottery hangs in the balance. He suggested the following means for recouping operator profits:

- Reassessing annual renewal fees
- Reducing the state's share of NMI on machines that offer line-up games
- Allowing operators access to central computer system data for their machines
- Increasing operations center staffing for nights, weekends and holidays
- Increasing Lottery marketing of video lottery
- Allowing technician certification to be completed on-line
- Allowing Non-Reporting Terminals (NRT's) to be attended to in seven days rather than three
- Allowing electronic transfer forms
- Supporting increased bet limit
- Keeping local government out of State video lottery

Commissioner Hartford asked how many NRT's are listed daily. Kathy Oligmiller-Miles of Rushmore Amusement said her business has between 18 and 48 NRT's per day.

Commissioner Estes asked how South Dakota compared with other video lottery jurisdictions. Riter responded that South Dakota has the highest state's share of NMI. Norm Lingle added that not all state lotteries offer video lottery games.

A discussion was held on the expense of new machines and raising the jackpot amount.

Larry Mann, South Dakota Association of Video Lottery Establishments, reported on the risks taken by members of the video lottery industry in terms of the frequent ballot issues. The ballot results indicate the public support for the game. Establishments are feeling the pressure of the economic downturn, competition and the smoking ban.

Mann stated that he believes the Lottery has not been successful in expressing how revenues are used by the state, and if the public had a better understanding of where the money goes, such ballot initiatives could possibly have been avoided.

The industry needs to encourage operators to purchase new machines. Incentives would make the purchases more likely. The SDAVLE supports an increase in the number of terminals from 10 to 14, with four of those machines being line-up games. His association also supports increasing the bet limit. Both measures were defeated in the 2012 Legislative session.

Other suggestions included:

- Adding bill acceptors that will take \$50 and \$100 denominations
- Amending rules regarding “stacked” licenses
- Removing the relative seating requirement
- Lowering the state’s share of NMI for a limited time to enable new machines to be purchased

Commissioner Hartford asked if Mann’s association had investigated the costs of “ticket in/ticket out” technology. Mann responded that it had not. Andy Fergel stated that current Lottery statutes require the machines to be “cash in/ticket out.”

Revenue sharing was discussed and Commissioner Estes said the concept should be given some consideration.

## **AN INDUSTRY VIEW OF THE CURRENT STATE OF VIDEO LOTTERY**

Mike Tessmer, MTD Gaming, and Kevin Lintner, IGT, stated the players are tiring of the current games and that a wider range of games must be launched to attract a wider range of players. Games can be designed in a more cost effective manner and video lottery needs to compete with other gaming entities.

Tessmer and Lintner suggested several changes:

- Increasing game jackpots may attract more players by eliminating the bet to award ratio requirement. A W2G would have to be generated
- Eliminate bet limit regulation. Most people want to bet the maximum amount
- Raising the payout percent to 95 percent
- Allow penny play
- Offering free games as a bonus feature

Commissioner Werner asked if all locations would be able to pay out a \$5,000 jackpot. Tessmer responded that locations that generate less income could disable games with higher jackpots. Lingle asked if a player could win \$5,000 on a \$.25 bet. Tessmer responded that that would probably require a \$2 bet. Dilges asked if progressive games would be possible in South Dakota. Lintner responded in the affirmative, stating that the payout is usually pre-calculated into the pay table.

Further discussion ensued about the legal, technical and administrative issues that allowing progressive games would entail.

Kathy Oligmiller-Miles asked if adding the penny as a denomination would be possible with the current games. Tessmer responded that it would require new software. She asked if allowing penny play would be more profitable than increasing the bet limit to \$5. Tessmer and Lintner responded in the affirmative. She asked if penny play could be test-marketed. Lintner responded that other comparable markets could be researched. Commissioner Menken requested that this be done and Lintner agreed to do that.

Gerlach asked what steps the presenters would advise be taken next. Tessmer said loosening requirements to allow for a bigger product mix and adding bill acceptors that would handle \$50’s and \$100’s. Lintner advised adding “secondary devices” to facilitate free-play bonus features, community-style bonuses and progressive jackpots.

Brennen Lawrence and Rodney Hill, SGI, stated that taking strategic steps now will result in a higher cash box. SAS protocol, real-time site connectivity and progressive machines are needed.

The next steps would be to add bonus features, which would provide players with longer time on the device, match play, restricted promotional credits, random rewards and campaign management. VLT content download would reduce operational expenses and updates could be deployed more quickly.

Commissioner Werner asked about players club cards. Hill responded that that can be accomplished with a PIN and that MDI offers the service.

Commissioner Hartford asked if bonus and progressive play require real time connectivity. Hill responded in the affirmative.

Lingle asked if content download could be used with SAS protocol. Lawrence responded in the affirmative.

## **MARKETING AND PROMOTING VIDEO LOTTERY**

Kelly Thompson, Director of Public Relations and Advertising, reviewed the laws, regulations and policies regarding video lottery advertising. Video lottery advertising must be in good taste and cannot make misleading claims. Promotions must be offered to all business patrons, not just video lottery players.

Lottery advertising efforts from 1989 to 2011 consisted of publishing and distributing an odds brochure and a rules poster. In October 2011 radio advertising began to announce line games. In April of 2012 lotto ticket headers promoted the new line games.

Marketing video lottery is challenging because it is not a uniform product. Each establishment markets itself differently. Radio is the least expensive and allows for audio cues. Website ads would be good for demonstrating the new games. Facebook ads could be geared to specific player bases and locations. Cross promotions could utilize the ESMM's and lotto ticket headers. Point of Sale items could be provided to retailers that have video lottery in their businesses. Lottery premium items could be provided for on-site promotions.

Jerry Freidel of Freidel Music stated the importance of getting the beneficiary message out to the public.

## **RECESS**

Hartford moved and Estes seconded the motion to recess. Motion carried and at 5:45 P.M. the Commission recessed.

## **RECONVENE**

Commission Chairman Kory Menken called the meeting to order at 8:30 a.m. on May 31, 2012. Menken appointed a committee of Commissioners Dykstra, Hartford and Novotny to prepare a formal strategic plan for presentation to the Governor.

Andy Gerlach stated that the goal for the meeting was to create a road map for the future of the Lottery.

Points to include in the strategic plan were discussed by the commission.

- Penny denomination
- Progressive jackpots
- Larger jackpots
- Bonuses and free spins
- Eliminate bet to award ratio
- Allow 14 terminals per establishment
- Posting manufacturers performance records
- Financial incentives for new equipment
- Mission Statement
- Real-time connectivity – SGI study
- NRT's/operator expenses
- Marketing
- Agency sponsorship of legislation
- Increase Lottery Commission authority over municipalities
- Red tape/obsolete law review

*The Commission recessed at 11:00 a.m.*

Commission Chairman Menken called the meeting to order at 11:15 a.m. Commissioner Novotny asked about how to present a unified front when introducing legislation. Commissioner Peterson said that industry representatives should wait to introduce legislation until after agency bills have been presented. Commissioner Estes suggested that Commissioners should testify on agency legislation. Menken stressed the importance of preserving the Lottery's integrity and moving cautiously in legal matters.

Lingle showed the commissioners weekly sales reports. The reports will be sent to the Commission on a monthly basis.

Commissioner Hartford asked if an operator could lease a terminal from a manufacturer. Lingle responded that such an arrangement would have to culminate in the operator eventually owning the terminal. Discussion ensued.

Andrew Fergel suggested a "cash for clunkers" concept for new machine purchases. Discussion ensued.

## **NEXT COMMISSION MEETING**

The next meeting of the South Dakota Lottery Commission will be held on June 22, 2012 at 9:30 a.m.

## **ADJOURNMENT**

Commissioner Dykstra moved and Commissioner Estes seconded the motion to adjourn. Motion carried and at 12:20 p.m. the Commission adjourned.