



Minutes of the Commission Meeting

Room 412 Capitol Building

May 15, 2013

Chairman Bob Hartford called the May 15, 2013 meeting of the South Dakota Lottery Commission to order at 10:00 a.m.

MEMBERS PRESENT: Bob Hartford, Roger Novotny, Doyle Estes, Jim Putnam, Chuck Turbiville, Brent Dykstra and Jim Towler

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

APPROVAL OF THE AGENDA

Commissioner Estes moved that the agenda be approved. Commissioner Turbiville seconded the motion. Motion carried.

APPROVAL OF THE MINUTES

Commissioner Turbiville moved that the minutes of the March 20, 2013 meeting be approved. Commissioner Estes seconded the motion. Motion carried.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

NEW COMMISSIONER:

Jim Towler of Dakota Dunes was welcomed and Lingle reported on his background.

JACKPOT RUNS:

Last night's Mega Millions jackpot was \$170 Million. The Powerball jackpot for tonight's drawing is \$360 million.

STRATEGIC PLAN MEETING:

Lingle announced that a Strategic Plan meeting will be held May 28-29.

PUBLIC HEARING TO ADOPT RULES

Chairman Hartford opened the Public Hearing. Norm Lingle presented amendments to proposed rule numbers 48:02:01:01 and 48:02:08:01:

Lingle stated that the amendments would provide definitions in rule for distributors, manufacturers, and operators consistent with definitions adopted by the Legislature during the 2013 Legislative Session, eliminate the bet to award ratio for video lottery game play, and cap the maximum award allowed per bet at \$1,000.

Commissioner Estes asked if changing the rule allowed for penny wagering. Lingle responded that allowing the penny as an eligible denomination was already identified in statute.

Chairman Hartford opened the Hearing to public testimony:

Larry Mann, representing the Association of Video Lottery Establishments, stated that it is important to understand that the bet to award ratio is no longer fixed and language is permissible.

Chairman Hartford asked if any written testimony had been received. There being none, the Public Hearing was closed.

Commissioner Estes moved that the rules be adopted. Commissioner Turbiville seconded the motion. The roll was called and the motion carried.

DIGITAL SUBSCRIBER LINE (DSL) UPDATE

Deputy Executive Director Clark Hepper reported on the following:

Ten sites are presently utilizing DSL technology in a pilot test. Anticipated benefits include a reduction in the number of non-reporting terminals (NRT's); cost savings by the Lottery, operators and establishments; and the ability to communicate with sites at any time. A written report evaluating the test will be forthcoming.

Commission Chairman Hartford asked what was being reported from the test sites. Hepper stated that most sites are seeing benefits, but some sites are losing internet connectivity. Hartford asked who would monitor "F Ping" signals. Hepper stated that would be done by Scientific Games. Lingle stated that the Lottery could determine if communications had failed. Finding the cause of the dropped communication would be done by Scientific Games.

Commissioner Turbiville asked about the benefits of using DSL's to communicate with establishments. Hepper responded that there would be a reduction in phone costs for the Lottery and the establishments. The technology would also put the Lottery in a position to introduce other technologies such as players'/rewards clubs and progressive gaming.

Hartford asked if the pilot test will determine why terminals are not reporting. Hepper stated that is correct and that the modem, the router and the site controller are all involved in the communication process. Hartford asked if a machine is not reporting, would we have to go to Scientific Games to find out what the problem is. Hepper stated that terminals can be manually brought up by the Lottery and technicians. Novotny asked if South Dakota is the first state to use DSL technology. Hepper stated that this technology is being used here for the first time. Lingle stated that another lottery is using cellular technology for communication.

VIDEO LOTTERY CONSULTANT RECOMMENDATION:

Deputy Executive Director Clark Hepper reported on the following:

An RFP was issued to hire a consultant to review the video lottery program and make recommendations to ensure the long term viability and sustainability of net machine income. The RFP was developed by industry members, a Lottery Commission sub-committee and Lottery staff.

Hepper gave an overview of the two proposals which were received and recommended hiring Union Gaming Analytics.

Commission Chairman Bob Hartford asked if negotiations with the consultant had begun. Hepper responded they would begin following commission approval.

Commissioner Novotny moved to authorize the Lottery to negotiate final terms and conditions of the video lottery program review proposal with Union Gaming Analytics and to enter into an agreement based on those negotiations. Estes seconded the motion. Motion carried.

MEGA MILLIONS GAME CHANGE

Director of Sales Joe Willingham reported on the following:

The Mega Millions Group has adopted several changes to the Mega Millions game. Sales will begin in October 2013. Currently players pick 5 numbers from a field of 56 and a Mega Ball from a field of 46. In the new game players will pick 5 of 75 white balls and 1 of 15 Mega Balls. The current odds of winning the jackpot are 1:175.7 million; the new odds are 1:258.9 million. The overall odds will change from 1:40 to 1:15.

The Match 5 prize will increase from \$250,000 to \$1,000,000. The Match 4 plus Mega Ball prize will decrease from \$10,000 to \$5,000. The Match 4 prize will increase from \$150 to \$500. The Match 3 plus Mega Ball will decrease from \$150 to \$50. The Match 3 prize will decrease from \$7 to \$5. The Match 2 plus Mega Ball prize will decrease from \$10 to \$5. The Match 1 plus the Mega Ball prize decreases from \$3 to \$2. The prize for matching just the Mega Ball will decrease from \$2 to \$1.

Commissioner Novotny asked what jackpot level generates player interest. Willingham responded that growth starts at the triple digit level. Commissioner Turbiville asked what would happen if the South Dakota Lottery did not adopt the proposed changes. Willingham responded that the game would change regardless. Commissioner Putnam asked about the South Dakota Lottery's role in the Mega Millions Group. Lingle responded that the Multi-State Lottery Association has representation in the group and that, as the Powerball Group chairman, he is a member of the group. Commissioner Towler asked how the changes will affect revenue. Lingle responded the change will increase the size of the jackpots, which drives up sales.

SALES REPORT

Joe Willingham reported on the following:

INSTANT GAMES:

Instant sales are up 3.8 percent. There have been 505 entries into the Take Me Out to the Ballgame drawing. Willingham showed examples of upcoming games.

Commissioner Putnam asked who decides whether to offer a licensed scratch ticket. Willingham responded that Lottery staff, the Lottery's ticket printer and the license holder decide together. Lingle added that the name recognition factor of licensed games is valuable.

LOTTO GAMES:

Lotto sales are up 8.9 percent. Powerball sales are up 24.3 percent, Mega Millions sales are down 39 percent, Hot Lotto sales are up 1 percent, Dakota Cash sales are down 4 percent and Wild Card sales are up 23 percent. Lotto is on track to beat last year's record sales.

The new Hot Lotto game will have its first drawing tonight.

REVENUE PROJECTIONS:

Projected revenue for FY2013 for video lottery is \$91.6 million, for instant tickets, \$5.4 million, and for lotto tickets, \$9.04 million. The total projection is \$106.01 million.

RETAILER BONUS DECLARATORY RULING 13-1

Joe Willingham reported on the following:

Changes in the Hot Lotto game require amending the retailer bonus program to reflect the prize level changes. The jackpot bonus remains unchanged at \$10,000. The second level bonus (for selling a \$30,000 prize) will increase from \$1,000 to \$3,000. The third level bonus (for selling a \$3,000 prize) is a new level and is \$300. A retailer selling the Sizzler option for a jackpot-winning ticket will receive \$10,000. The second level with Sizzler bonus (for selling a \$90,000 prize) is \$9,000. The third level with Sizzler bonus (for selling a \$9,000 prize) is \$900.

Commissioner Novotny moved and Commissioner Turbiville seconded the motion to amend the Declaratory Ruling. The roll was called and the motion carried.

INSTANT TICKET DELIVERY SERVICES AGREEMENT

Joe Willingham reported on the following:

The contract for delivery services with Speedee Delivery expires on June 2, 2013. The Bureau of Administration's Central Mail division has negotiated agreements with shippers for other state agencies and has obtained favorable rates. Willingham recommends letting the contract expire and using BOA to find shippers with the best rates.

Commissioner Dykstra moved to allow the current contract with Speedee Delivery to expire. Commissioner Estes seconded the motion. Motion carried.

PUBLIC RELATIONS/ADVERTISING REPORT

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

BIG WINNERS SINCE MARCH 20, 2013:

Two \$10,000 Mega Millions tickets and one \$10,000 Hot Lotto ticket were claimed. One \$6,000 Wild Card ticket was claimed. Twelve scratch ticket prizes from \$2,550 to \$50,000 were claimed.

ADVERTISING CAMPAIGNS:

Radio ads for the new Hot Lotto game began on Monday. Animated banner ads on the Lottery's website will begin Friday. Posters have been deployed. Facebook, Players Club, website and PR messages were released.

A winner awareness TV commercial is currently in production and will feature interviews with winners from around the state.

A TV commercial for Take Me Out to the Ballgame will air in July. A radio ad will also air during the All Star Game and the Home Run Derby on stations that carry ESPN radio.

Star Trek TV commercials and You Tube video are attracting great attention.

2014 MARKETING PLAN/MEETING

The Marketing Plan meeting will be scheduled when the contract with the new advertising agency has been signed.

PRESS RELEASES/WEB POSTINGS:

From March 20, 2013 through May 14, 2013, three winner alerts, four press releases/web announcements and 15 winner counts were issued.

Commissioner Putnam asked if the Lottery works with the Tourism Department on co-op advertising. Thompson responded it does not. Commissioner Turbiville commented on Deadwood's co-op relationship with Tourism. Chairman Hartford suggested the concept should be investigated. Commissioner Estes asked about promoting video lottery. Chairman Hartford said it would be good to discuss that at the upcoming Strategic Plan meeting.

ADVERTISING RFP:

Kelly Thompson reported on the following:

Five agencies responded to the Lottery's RFP, which was issued on March 8, 2013. Their proposals were evaluated, based on seven rating areas. Robert Sharp & Associates were selected for their good track record, willingness to learn about and promote the Lottery and its offer of a cost-effective plan. The initial contract will be for two years with three one-year extensions available.

Commissioner Estes moved to authorize the Lottery staff to negotiate final terms and conditions of the Advertising and Related Services Proposal of Robert Sharp & Associates and to enter into an agreement based on those negotiations.

Commissioner Novotny seconded the motion. Motion carried.

VIDEO LOTTERY REPORT

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

VIDEO LOTTERY REVENUE:

The year-to-date net machine income is \$156.7 million, which is 4.81 percent ahead of the same time last year. There is an average of 9,132 terminals, .56 percent ahead of last year. There is an average of 1,428 establishments.

MCD's:

There are currently 620 MCD's and 1,601 line games connected to the central system.

LINE GAME PERFORMANCE:

From May 1, 2012 through April 30, 2013 legacy machines were averaging \$47.85 net machine income per machine per day and line games were averaging \$66.37. Line games made up 16.91 percent of the total machines and produced 22 percent of the net machine income.

NEXT MEETING DATE

The next meeting will be August 21, 2013 at 10 a.m.

ADJOURNMENT

Commissioner Turbiville moved and Commissioner Dykstra seconded the motion to adjourn. Motion carried and at 11:28 p.m. the Commission adjourned.