CALL TO ORDER

Commission Chairman Bob Hartford called the May 28, 2013 special meeting of the South Dakota Lottery Commission to order at 1:00 p.m.

MEMBERS PRESENT: Bob Hartford, Brent Dykstra, Jim Putnam, Jim Towler, Doyle Estes, Chuck Turbiville.

MEMBER ABSENT: Roger Novotny

LEGISLATOR PRESENT: Representative Roger Solum

SUPPORT STAFF PRESENT: Revenue Secretary Andy Gerlach, Deputy Revenue Secretary David Wiest, Norm Lingle, Clark Hepper, Kelly Thompson, Deb Reese, Joe Willingham, Andrew Fergel and Mary Jo Bibby

WELCOME

Department of Revenue Secretary Andy Gerlach welcomed everyone to the meeting, reviewed the goals of the Department of Revenue, and congratulated Norm Lingle on his 25 years of service to the State of South Dakota.

STRATEGIC PLAN REVIEW

Executive Director Norm Lingle reviewed the status of the 2012 Strategic Plan, noting that most of the objectives of the plan had been accomplished. Lingle read the Lottery’s Mission Statement:

To work cooperatively with our partner licensees to promote and ensure the integrity, fairness, security and honesty of lottery games, to maximize revenues for state programs and initiatives, and to ensure the Lottery remains a viable and sustainable source of revenue and entertainment for the State of South Dakota.

Commissioner Putnam asked if there had been a change in the Lottery’s Mission Statement. Lingle stated that a new statement was drafted which more accurately reflects the current state of the South Dakota Lottery. Commissioner Hartford complimented Lingle on accomplishing the objectives of the last Strategic Planning meeting.
VIDEO LOTTERY PROGRAM CONSULTANT

Deputy Executive Director Clark Hepper discussed what the timeline and objectives are for hiring a video lottery consultant. The consultant will interview Lottery staff, industry leaders, manufacturers, operators, and establishment owners. The Lottery’s goal is to have operators replace 50 percent of the current active terminals. Currently, the 16 percent of terminals that offer line games are generating 22 percent of the video lottery revenue.

Commission Chairman Bob Hartford asked when the completion date will be. Hepper stated it will be completed by August 30, 2013. Commissioner Putnam expressed disappointment in the press’ reporting on the hiring of the video lottery consultant. Lingle stated that the headline of the news story was misleading.

OPERATOR’S VIEW ON THE CURRENT STATE OF VIDEO LOTTERY

Bob Riter, Music and Vending Association of South Dakota, stated that industry members appreciated working with the Lottery during the past Legislative Session and that he is pleased with the results of the action taken. Although the video lottery market has changed significantly, there is still a place for legacy games. More players are needed to bring net machine income to previous levels. Taxes on operators should be lowered. Lottery operations staff should be increased to keep terminals up and running. There is interest in a player loyalty program.

Commission Chairman Bob Hartford stated that there needs to be a change in the perception of how much operators make on their video lottery terminals. Riter suggested reaching out to legislators one on one to share the message. Commissioner Estes stated that he hears there is reluctance by operators to make changes. Riter stated that in some locations legacy games are doing as well as the line games. Reducing the state’s share of net machine income on line games may be an incentive to purchase new machines.

Larry Mann, South Dakota Association of Video Lottery Establishments, reported on the objectives achieved since the last strategic planning meeting. He suggested considering progressive play, stating it should be run “in-house.” Reducing the number of non-reporting terminals would ease a burden for operators. Special considerations should be made for South Dakota manufacturers.

Commission Chairman Bob Hartford asked if DSL was required to offer progressive games. Director of Security Deb Reese responded that progressive games require real-time connectivity. Hartford asked Mann what was considered “in-house.” Mann responded that would be games within an operator’s route. Commissioner Estes asked how progressive games could be implemented. Lingle responded that the statute would have to change to allow for larger maximum payouts. Commissioner Putnam said half of the objectives sought are in the hands of the Legislature. Mann stated the beneficiary message must continue to be publicized. Estes asked if the Legislature would be willing to consider progressive games. Representative Solum responded that they would.

INSTANT TICKET GAMES

Dennis Miller, Scientific Games International, spoke about the 16 percent scratch game sales increase in South Dakota. Families of games and loyalty programs have sparked sales in other lotteries. Miller reported on several lotteries that implemented higher prize payouts and saw sizeable gains in sales. Other strategies used to improve sales are price-point management, sales representative incentives, retailer
incentives, game introduction planning, and the “Sales Maker” program. He suggested the South Dakota Lottery consider increasing payouts to 68-70 percent, examining the payouts by price point, and increasing facings, game launches, and the average selling point.

Director Lingle asked what the optimum product mix is. Miller responded that some jurisdictions are plateauing on higher price points. It is important to differentiate between the prizes of a $10 game and a $20 game. Lingle asked how long it would take for players to notice an increase in the aggregate payout percentage. Miller replied that they would know almost immediately with or without advertising. Lingle asked how long it would take for all games offered to have the higher price point. Director of Sales Joe Willingham responded it would take 18 months or more. To see a change in net transfers would take several years. Willingham asked if research had been conducted on the number of rollouts by state size. Miller responded that South Dakota is currently rolling out about the right number of games per year.

Nate Sullivan, GTECH, reported on the state of the draw-based (lotto) gaming industry. The U.S. average weekly per capita amount played is $1.61. South Dakota’s average is $.65. South Dakota has a high rate of players who purchase ticket when the jackpot gets large. Trends in lotto games include implementing Five Card Cash games, introducing games with multiple draws a day, and adding an EZ Match feature. Sullivan recommended introducing an EZ Match feature to the Dakota Cash game, maximizing multi-state game enhancements, and capitalizing on large jackpots.

Chris Shabans, GTECH, related that over 100 legislative bills were introduced by states this year. State lotteries are enhancing their loyalty programs. Two states are selling tickets in real time. States are using technology to encourage responsible play. South Dakota’s statute does not prohibit internet gaming.

Kathy Muenks, GTECH, stated that there isn’t one solution for every state.

Legal Counsel Andy Fergel asked about the disparity in the sales between western states and eastern states. Miller responded that many eastern states have a long tradition of numbers games. Those games are difficult to implement in states that have never offered them. South Dakota would have to implement games that are competitive with video lottery. Deputy Director Clark Hepper asked what the average redemption at the retailer is nationally. Miller responded that it is usually $599.

**PLAYER LOYALTY PROGRAMS**

Director of Sales Joe Willingham stated that player loyalty programs are more popular than ever. MDI’s program aims to increase the player base, increase sales, allow Lottery to impact player behavior, and give players value for non-winning tickets. Players receive points for non-winning tickets and use them to get prizes. Lingle asked how prizes are fulfilled. Willingham responded that the vendor would fulfill the prizes. GTECH’s loyalty program goals are to provide value to all Lottery products sold, in any channel, whether instant or draw, and to provide a winning experience to all players. The Monkota player rewards program offered a system for video lottery players. The program features individual recognition, perceived value and interactive promotional games using player cards swiped on a kiosk.

Hartford asked if the cards would be used directly on the video lottery terminal. Willingham responded that they would be used with a kiosk. Public Relations and Advertising Director Kelly Thompson asked how prizes would be fulfilled. Willingham responded that the Lottery would contract out fulfillment of prizes. The process would involve both hardware and software. Commissioner Estes asked if such programs could be implemented by individual establishments without Lottery involvement. Fergel responded that the maximum award limit would have to be addressed.
ADVERTISING AND PUBLIC RELATIONS

Director of Public Relations and Advertising Kelly Thompson reported on the Lottery’s annual marketing plan. The plan includes game promotion, winner awareness, brand support, beneficiary awareness, and problem gambling awareness. The components of small, medium and large advertising campaigns were compared. A survey will be conducted by Robert Sharp and Associates to determine how to most effectively market video lottery. The video lottery consultant will also make suggestions for marketing. Thompson discussed the Lottery’s interactive tools – website, mobile website, and possible mobile app.

Hartford asked if the advertising budget was authorized by the Legislature. Thompson responded that it is, but it can be adjusted if needs change. Estes asked if the advertising budget could be delayed until the video lottery consultant’s report is complete. Lingle responded that a focus group report will be completed by the end of the fiscal year.

RECESS

At 5:32 Chairman Hartford declared the meeting recessed.

RECONVENE

Commission Chairman Hartford called the meeting to order at 8:30 a.m. on May 29, 2013.

Executive Director Norm Lingle discussed IT projects and issues, the Dakota Cash game, and Multi-State Lottery news

The Lottery currently owns its back office system, but it could be provided by a vendor in the future. The vendor could work with baseline software when a game changes. Then the Lottery would take over administration.

Paper records will be converted to digital format beginning next week. Commissioner Towler asked if all records need to be kept forever. Lingle responded that it is the policy to keep paper records, as they are needed for machine reconciliations. Larry Mann asked if once a machine is destroyed, the records could be destroyed also. Lingle responded they could be destroyed after three years.

Automated ticket returns would make it possible to place packs in inactive status as soon as the last top prize goes out. Creating a BIT database for all Lottery data would facilitate report generation. Enhancing the Lottery’s mobile website, player entering of non-winning tickets for drawings, and the use of tablets by sales representatives were also discussed.

The Dakota Cash game is due to be refreshed.

California started selling Powerball tickets, making it a national game and allowing possible partnerships with national corporations. A rebranding of the game is slated for the near future.

Secretary Gerlach asked about Wyoming legalizing multi-state games. Lingle responded that sales analysis revealed that during the last Powerball jackpot run five of the top 15 retailers were from the western edge of South Dakota.
Representative Solum stated that involvement by Commission members [in Legislative matters] would be effective.

Points to be included in the strategic plan were discussed by the Commission.

- Increase instant ticket payout percentage
- Relate payout percentages to price point
- Develop smart phone technology (mobile/website apps)
- Develop second-chance drawings
- Investigate loyalty programs
- Target fringe and lapsed players
- Automate/streamline the return process
- Enhance marketing/advertising efforts
- Investigate increasing the prize level that may be claimed at the retailer
- Consider joining multi-state instant game
- Expand social media efforts
- Refresh Dakota Cash game
- Explore opportunities for progressive games
- Increase the maximum award amount
- Market video lottery

ADJOURNMENT

Commissioner Turbiville moved and Commissioner Estes seconded the motion to adjourn. Motion carried and at 10:56 a.m. the Commission adjourned.