



Minutes of the Commission Meeting

Room 412 Capitol Building

August 14, 2013

Chairman Bob Hartford called the August 14, 2013 meeting of the South Dakota Lottery Commission to order at 10:00 a.m. He congratulated Norm Lingle on his election to the position of president of the Multi-State Lottery Association (MUSL).

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

MEMBER ABSENT: Brent Dykstra

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

APPROVAL OF THE AGENDA

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

APPROVAL OF THE MINUTES

Commissioner Novotny moved that the minutes of the May 15, 2013 meeting as corrected and the May 28-29, 2013 Strategic Planning meeting be approved. Commissioner Turbiville seconded the motion. Motion carried.

SECRETARY OF REVENUE'S COMMENTS

Secretary of the Department of Revenue Andy Gerlach spoke briefly:

Secretary Gerlach stated that South Dakota sales and use tax revenues were up 2 percent from FY2012. He also reported on the revenue generated by the Sturgis Motorcycle Rally, recent task forces and work groups, and tribal gaming compacts. Discussions ensued regarding a recent tribal ballot issue, rally revenues, and the impact of casinos on video lottery revenue.

PUBLIC HEARING TO ADOPT RULES

At 10:15 Chairman Hartford opened the Public Rules Hearing. Executive Director Norm Lingle and Sales Director Joe Willingham discussed the proposed Administrative Rule changes:

ARTICLE 48:01 ON-LINE LOTTERY REQUIREMENTS:

Lingle gave an overview of the changes presented by the MUSL Game Groups following a red tape review with the objective of bringing consistency to the Powerball, Mega Millions, Wild Card 2, and Hot Lotto game rules.

CHAPTER 48:03:06:05 POWERBALL GAME RULES:

Lingle presented the proposal by MUSL to return to a randomly drawn multiplier to replace the current fixed multiplier. It applies to all levels except jackpot and the Match 5, which will automatically be raised from \$1 million to \$2 million. All other prizes will be multiplied by 2 to 5 times, according to the Power Play multiplier number that is drawn.

CHAPTER 48:03:15:04 MEGA MILLIONS GAME RULES:

Willingham stated that the Mega Millions game change is a result of Florida joining the game group. Sales of the revised game tickets will begin on October 22, 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 (with possible multiplication of 2 to 5 times with the Megaplier option). The Match 4 plus Mega Ball prize will decrease from \$10,000 to \$5,000 (with possible multiplication of 2 to 5 times with the Megaplier option). The Match 4 prize will increase from \$150 to \$500 (with possible multiplication of 2 to 5 times with the Megaplier option). The Match 3 plus Mega Ball will decrease from \$150 to \$50 (with possible multiplication of 2 to 5 times with the Megaplier option). The Match 3 prize will decrease from \$7 to \$5 (with possible multiplication of 2 to 5 times with the Megaplier option). The Match 2 plus Mega Ball prize will decrease from \$10 to \$5 (with possible multiplication of 2 to 5 times with the Power Play option). The Match 1 plus the Mega Ball prize decreases from \$3 to \$2 (with possible multiplication of 2 to 5 times with the Power Play option). The prize for matching just the Mega Ball will decrease from \$2 to \$1 (with possible multiplication of 2 to 5 times with the Power Play option). The new Mega Millions game will feature starting jackpots of \$15 million and the annuity will be 29 years.

Lingle stated that by adopting the rules, South Dakota would be allowed to continue offer multi-state games.

Chairman Hartford opened the hearing to public testimony. There being none, the meeting was closed to public testimony.

Commissioner Turbiville moved to adopt the proposed rule changes. Commissioner Towler seconded the motion. The roll was called and the motion passed unanimously. The hearing was closed at 10:35.

Secretary of the Department of Revenue Andy Gerlach entertained further questions regarding tribal and Deadwood casinos.

ELECTION OF THE COMMISSION CHAIR AND VICE-CHAIR

Executive Director Norm Lingle stated that by statute the Lottery is required to elect a commission chairman at the first meeting of the fiscal year.

Commissioner Turbiville nominated Bob Hartford to the position of Commission Chair. Commissioner Novotny seconded the motion. Motion carried. Commissioner Novotny nominated Doyle Estes as Vice Chair. Commissioner Turbiville seconded the motion. Motion carried.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

The Lottery is currently working on the FY2015 budget. It will be presented to the Commission for approval upon completion. Legislative Audit will begin their annual audit in September. Liz Stewart was introduced as the Lottery's new Accountant I. As of the start of FY2014, the Lottery has seven licensed video lottery manufacturers, down from nine the previous year.

Scientific Games will be speaking to the Lottery Commission about the digital subscriber line (DSL) pilot project. Eight of the 11 test sites are performing well. Trouble shooting is being done on the three sites that are performing poorly. Possible solutions may be utilizing IP cellular or dedicated DSL lines.

Commissioner Hartford asked if DSL uses land lines. Lingle responded in the affirmative.

FY2013 SALES

Executive Director Norm Lingle reported on the following:

All three products saw year over year increases. It is the first time since 2008 that all three products had sales increases. Instant sales were \$25.19 million, the second best sales since the start-up year. On-line sales were \$32.05 million, breaking the previous record. Powerball sales generated \$19.02 million of the on-line sales. Video lottery state's share of net machine income was \$91.4 million, which is a 4.5 percent increase over FY2012. It is the first year over year increase since FY2008.

VIDEO LOTTERY CONSULTANT UPDATE

Deputy Executive Director Clark Hepper reported on the following:

The consultant hired to review the video lottery industry has visited the state two times, conducting interviews with establishment owners, operators, distributors, industry associations and players. Most participants expressed significant concerns about the current status and future outlook of their particular business interests and the overall health and long-term viability of the video lottery program as a whole. Feedback and recommendations received by participants reflect the "highly fragmented and competitive nature of the market."

The consultant also visited four tribal casinos, several casinos in Deadwood, Iowa casinos, including Grand Falls Casino, Argosy Casino Sioux City, and site of the proposed Hard Rock Casino Sioux City.

Subsequent to fieldwork, the consultant made follow up calls with several of the interview participants that were eager to expand or elaborate on issues and concerns discussed. The consultant interviewed several sales representatives of licensed manufacturers to get recommendations on how to make the South Dakota market more attractive to manufacturers.

The consultant is scheduling telephone interviews with representatives of other states with video lottery programs similar to South Dakota.

Commissioner Putnam asked when the final report would be available. Hepper responded it would be completed by August 30, 2013. Hepper requested that the extension be deferred to September 30, 2013, giving the consultant

time to make his presentation to the Commission while still under contract. Commissioner Putnam asked if an extension would affect the cost of the contract. Hepper responded in the negative.

Commissioner Estes moved and Commissioner Turbiville seconded the motion to extend the contract deadline to September 30, 2013. Motion carried.

SALES REPORT

Joe Willingham reported on the following:

INSTANT GAMES:

Instant sales are up 4 percent. The current best-selling game is 50X Times the Money. Willingham showed examples of upcoming games.

LOTTO GAMES:

Lotto sales are up 10 percent. Powerball sales are up 17.5 percent, Mega Millions sales are down 17.7 percent, Hot Lotto sales are up 62 percent, Dakota Cash sales are down 37.5 percent and Wild Card sales are down a fraction.

The Powerball Game Group is planning an NFL Hall of Fame promotion, which will award three trips for four to a Hall of Fame 50th Anniversary event. Players purchasing a \$10 Powerball Power Play ticket will be able to enter the drawing on the internet.

REVENUE PROJECTIONS:

Projected revenue for FY2013 for video lottery is \$93.15 million, for instant tickets, \$5.78 million, and for lotto tickets, \$8.77 million. The total projection is \$107.7 million.

WYOMING TO OFFER ON-LINE LOTTERY GAMES:

Wyoming anticipates beginning lotto ticket sales by the end of January 2014. The impact of lost sales will be difficult to determine, as lotto sales are driven largely by the jackpot size.

STRATEGIC PLAN UPDATE:

Willingham reported on progress in implementing goals of the 2013 Strategic Plan. Games are being designed with higher payouts and better odds. Sales representatives are encouraging retailers to sell more games. Game launch acceleration will likely begin in November. Game “families” are being developed. The Bureau of Information and Telecommunications (BIT) is developing procedures for second-chance drawings for instant tickets. Players’ reward programs are being considered. Legislation will be required to allow retailers to pay higher prizes. Changing the Dakota Cash game is also being considered.

Commissioner Towler asked if the impact of the Grand Falls Casino on video lottery revenue had been determined. Lingle responded that there are no numbers to cite regarding the impact, but he believes neighboring communities were impacted. The economic downturn and the smoking ban occurred at about the same time.

RETAILER BONUS DECLARATORY RULING 13-2

Joe Willingham reported on the following:

Changes in the Mega Millions game require amending the retailer bonus program to reflect the prize level changes. The jackpot bonus remains unchanged at \$50,000. The second-level bonus (for selling a \$1 million prize) will be \$20,000. The third-level bonus (for selling a \$5,000 prize) will be \$500. A retailer selling the

Megaplier option for a jackpot-winning ticket will receive a bonus of \$50,000, unchanged from the previous bonus program. The second-level with Megaplier option bonus (for selling a \$2 million to \$5 million prize) is \$25,000. The third-level with Megaplier option bonus (for selling a \$9,000 prize) is \$500.

Chairman Hartford asked if the bonus program ruling changes affected only the Mega Millions game. Willingham answered in the affirmative.

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

PUBLIC RELATIONS/ADVERTISING REPORT

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

BIG WINNERS SINCE MAY 15, 2013:

Three lotto jackpots were claimed. Robert Hales, Sioux Falls won a \$118,899 Dakota Cash jackpot. Jacob Barbarevech, Deadwood, won an \$84,797 Dakota Cash jackpot. Duane Delaney, Pierre, won a \$499,694 Wild Card jackpot.

There have been 26 non-jackpot high tier winners since May 15, 2013. Nineteen instant game players won top prizes.

VIDEO LOTTERY ADVERTISING CAMPAIGNS:

Responses to the video lottery advertising survey were received from 31 percent of the operators and 41 percent of the manufacturers. Of the responding operators, 85 percent have line games, with 54 percent of those not advertising and the remainder advertising with print and radio, spending \$5,000 to \$10,000 per year. Operators suggested that lifting the smoking ban, allowing more machines per establishment, and increasing the maximum bet limit would be more beneficial than advertising.

Fifty-seven percent of manufacturers said they offer to help operators advertise to in-house customers, 66 percent offer POS or promotional opportunities, and 50 percent have game trailers or demos that could be displayed on the Lottery website.

Following the video lottery consultant's report, a branding campaign and advertising by region will likely be implemented.

Chairman Hartford asked how much of the advertising budget is being dedicated to video lottery. Thompson responded that the budget is \$100,000 for the current fiscal year. Commissioner Estes asked what percent of the total advertising budget that represents. Thompson responded that the advertising funds for video lottery come from a different source. Lingle stated that that amount represents approximately 1/8th the amount of the general advertising budget. Commissioner Estes asked why the response to the survey was low. Thompson responded that she does not know.

MOBILE WEBSITE:

The Lottery's new mobile website offers the same information found on the traditional website. It may be accessed by going to the browser on a mobile device. The new site is hosted by BIT.

SOCIAL MEDIA:

The Lottery joined Twitter on June 10, 2013 and currently has 224 followers. The Lottery's Facebook page has 3,510 followers. Promotions are being offered to spur interest.

PRESS RELEASES/WEB POSTINGS:

From May 16, 2013 through August 13, 2013, three jackpot winner alerts, 15 other winner alerts, 18 press releases/web announcements and 24 winner counts were issued.

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 \$16.55 million, which is 2.68 percent ahead of the same time last year. There is an average of 9,122 terminals, .16 percent behind last year. There is an average of 1,415 establishments, which is behind last year by 2.62 percent.

MCD's:

There are currently 630 MCD's and 1,607 line games connected to the central system.

LINE GAME PERFORMANCE:

From May 1, 2012 through July 31, 2013 legacy machines were averaging \$47.25 net machine income per machine per day and line games were averaging \$63.95. Line games made up 17.74 percent of the total machines and produced 22 percent of the net machine income.

FILE DIRECTOR:

The Lottery is transferring its paper files to a document management system called File Director.

Commissioner Novotny asked about penny denomination implementation. Lingle responded that Spielo and IGT have submitted software that offers penny games. They should be available in the field in six to eight weeks.

EXECUTIVE SESSION SDCL 1-25-2 (1) PERSONNEL

Commissioner Estes moved and Commissioner Novotny seconded the motion to move into Executive Session. Motion carried. Chairman Hartford called for a five minute recess and at 11:58 a.m. the Commission moved into Executive Session.

At 12:51p.m., Chairman Hartford declared the Executive Session ended.

NEXT MEETING DATE

The next meeting will be determined at a later date.

ADJOURNMENT

Commissioner Estes moved and Commissioner Turbiville seconded the motion to adjourn. Motion carried and at 12:57p.m. the Commission adjourned.