



Minutes of the Commission Meeting

Room 412 Capitol Building

December 10, 2013

Chairman Bob Hartford called the December 10, 2013 meeting of the South Dakota Lottery Commission to order at 10:07 a.m.

MEMBERS PRESENT: Bob Hartford, Roger Novotny, Doyle Estes, Jim Putnam, Brent Dykstra

MEMBERS ABSENT: Jim Towler, Chuck Turbiville

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

APPROVAL OF THE AGENDA

Commissioner Putnam moved that the agenda be approved. Commissioner Novotny seconded the motion. Motion carried.

APPROVAL OF THE MINUTES

Commissioner Dykstra moved that the minutes of the September 25, 2013 meeting be approved. Commissioner Putnam seconded the motion. Motion carried.

Commissioner Estes moved that the minutes of the November 19–20, 2013 Strategic Planning meeting be approved. Commissioner Dykstra seconded the motion. Motion carried.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

Lingle introduced John Keyes, the new Business Analyst for the Lottery.

EXECUTIVE SESSION

Commissioner Putnam moved and Commissioner Estes seconded the motion to move into executive session per SDCL 1-25-2 (3). Motion carried and at 10:17 the Commission moved into executive session. At 10:28 Chairman Hartford declared the Commission returned to regular session.

STRATEGIC PLAN OBJECTIVES PRIORITIZING

Executive Director Norm Lingle gave an overview of the Strategic Plan objectives.

- 1 Decrease state share of net machine income for investment in new technology
- 2 Increase max bet and max award (\$5 - \$2,500)
- 3 The state lottery should investigate ways to share individual game performance with licensed VLT manufacturers and operators to stimulate healthy competition from a product development perspective.
- 4 Progressive Jackpots
- 5 Increase the maximum number of VLT's per establishment from 10 to 15
- 6 Free play/match play
- 7 Player Loyalty/Rewards program
- 8 Approve the placement of electronic table games
- 9 Site promotions
- 10 State owned terminals
- 11 Bar top machines
- 12 Themed games
- 13 Management system
- 14 Slot tournaments
- 15 Granting Commission more authority
- 16 G2S protocol
- 17 Multiple licenses in a single room
- 18 Machine subsidies should be retroactive
- 19 Phase out legacy machines
- 20 Hold percentage

Commissioner Estes asked why G2S (item 16) is a long-term goal. Lingle responded that G2S is a protocol that can only be implemented at the time a new video system contract is in place. Discussion ensued regarding slot tournaments and bar top machines. Lingle stated that a memorandum of understanding would allow the Lottery to release game performance information to manufacturers and operators.

Bob Riter of the Music and Vending Association of South Dakota stated that this is an opportunity to modify the state's share and create a reserve fund to be used for upgrades. He also spoke in favor of giving the Commission the authority to set the state's share.

Commissioner Estes moved and Commissioner Putnam seconded the motion to accept the objectives prioritized as presented. Motion carried. Chair Hartford will seek volunteers from the Commission to present the prioritized objectives to the Governor. Commissioner Dykstra stated that he feels items 1, 2, 4, and 5 are important priorities.

FY2015 BUDGET REQUEST

INSTANT/ON-LINE:

The instant/on-line budget does not contain any funding increase requests. Travel expenses are largely Fleet and Travel, incurred by the sales representatives for retailer visits. Consulting fees to GTECH are based on lotto sales for system administration. The Bureau of Information and Telecommunication expenditures are for the back

office system required for paying instant and on-line prizes. Central Services are fees paid to Human Resources, Records Management and Bureau of Finance and Management. Communication fees to GTECH are paid monthly, based on the number of retailers. Instant ticket delivery fees are for the delivery of instant tickets to the retailers by UPS. Payments to the Multi-State Lottery Association are for lotto game administration. Retailer commissions and prizes are a function of sales. Ticket printing expenses are for scratch tickets printed by Scientific Games. Reservations and the Lottery each receive 50 percent of net proceeds of reservation ticket sales.

The total instant/on-line budget for FY2015 is \$38,181,437.

Commissioner Putnam moved and Commissioner Dykstra seconded the motion to approve the instant/on-line budget. Motion carried.

The video lottery budget includes a request of \$100,500 for advertising, telephone fees for the nightly batch polling (a function of net machine income), and computer consulting to Scientific Games International (a percentage of NMI). Fees paid to the Department of Public Safety are for terminal inspections. Other expense items include background checks by the Division of Criminal Investigation, ACH transaction costs, and testing costs by Gaming Laboratories Inc. Funds are set aside for gambling treatment programs to the Department of Social Services.

The total video lottery budget for FY2015 is \$2,546,247.

Commissioner Dykstra moved and Commissioner Estes seconded the motion to approve the video lottery budget. Motion carried.

IP CELLULAR PROPOSAL

Deputy Director Clark Hepper reported the following:

The IP Cellular trial proposal was submitted to the Lottery by Scientific Games International. The technology offers real time communication, enabling the central system to connect with machines at any time, and a platform for other revenue sources such as loyalty programs, progressive gaming, and new protocols. AT& T and Verizon would be able to provide coverage to all but 5 percent of retailers.

The proposal will be tested in five sites at a cost of \$57,000 for development, equipment and cellular charges.

Chairman Hartford asked if the DSL project has been halted. Hepper stated it is still being used in 11 locations statewide.

Commissioner Novotny moved and Commissioner Estes seconded the motion to allow the Lottery to negotiate the proposal up to \$57,000. Motion carried.

PUBLIC RELATIONS/ADVERTISING REPORT

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

BIG WINNERS:

Two players won Dakota Cash jackpots since August 14, 2013. Claudia Boelman, Sisseton, won \$143,706 on November 2, 2013 and Denise Spelts, Gillette (WY), won \$74,505 on November 22, 2013. Seventeen players won scratch prizes of \$2,550 or more since the August meeting.

PRESS RELEASES/WEB POSTINGS:

From August 15, 2013 through December 9, 2013, two jackpot winner alerts, 10 other winner alerts, 10 press releases/web announcements and 20 winner counts were issued.

HOLIDAY ADVERTISING CAMPAIGN:

Holiday advertisements featured Lucky the Dog and the slogan “The gift that gives back.” Ads were shown on eight TV stations and 50 radio stations. Window clings and bulkhead banners were placed in malls. Ads were also on digital billboards, lotto headers and ESMM’s. Facebook fans could win gift cards and scratch tickets.

FACEBOOK PROMOTION:

Players participating in the Lucky Days of Christmas promotion vied for \$100 Amazon gift cards and scratch tickets. The grand prize was a \$250 Amazon card for one player and a \$250 Pet Smart gift card to be donated to the animal shelter of their choice.

SOCIAL MEDIA:

The Lottery has 597 Twitter followers, 5,268 Facebook fans and 12 YouTube subscribers.

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 \$76.02 million, which is 1.16 percent ahead of the same time last year. There is an average of 9,078 terminals, .65 percent behind last year and an average of 1,408 establishments, which is behind last year by 1.81 percent.

MCD’s:

There are currently 654 MCD’s and 1,743 line games connected to the central system.

LINE GAME PERFORMANCE:

From May 1, 2012 through Nov. 30, 2013 legacy machines were averaging \$47.87 net machine income per machine per day and line games were averaging \$63.01. Line games made up 18.36 percent of the total machines and produced 23 percent of the net machine income.

SALES REPORT

Joe Willingham reported on the following:

INSTANT GAMES:

Instant sales are up 1.5 percent. The current best-selling game is \$400,000 Jackpot. Willingham showed examples of upcoming games. Two new game families, Jumbo Bucks and the X Games, are launching soon. Eighty percent of retailers are selling at least 24 games at a time. New games have higher payouts. BIT is working on the second-chance website.

LOTTO GAMES:

Lotto sales are down 13.5 percent. Powerball sales are down 18.5 percent, Wild Card sales are down 33.6 percent, Hot Lotto sales are down 5 percent, Dakota Cash sales are down 10.3 percent and Mega Millions sales are up 6 percent.

REVENUE PROJECTIONS:

Projected revenue for FY2013 is \$92.46 million for video lottery, \$5.53 million for instant tickets, \$8.49 million for lotto tickets. The total projection is \$106.48 million.

INSTANT/ON-LINE 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.

RETAILER BONUS DECLARATORY RULING 13-3

Joe Willingham reported on the following:

Changes in the Powerball game must be reflected in the retailer bonus program. The second-level Power Play bonus was increased from \$20,000 to \$25,000 to align with the bonus for the Mega Millions prize of that size.

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

NEXT MEETING DATE

The next meeting will be determined at a later date.

ADJOURNMENT

Commissioner Estes moved and Commissioner Dykstra seconded the motion to adjourn. Motion carried and at 11:45 a.m. the Commission adjourned.