



Minutes of the Commission Meeting
Room 412, Capitol Building
April 10, 2014

Chairman Bob Hartford called the April 10, 2014 meeting of the South Dakota Lottery Commission to order at 10:00 a.m.

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

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

APPROVAL OF THE AGENDA

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

APPROVAL OF THE MINUTES

Commissioner Turbiville moved that the minutes of the December 10, 2013 meeting be approved. Commissioner Novotny seconded the motion. Motion carried.

Commissioner Turbiville moved that the minutes of the March 24, 2014 meeting be approved. Commissioner Estes seconded the motion. Motion carried.

EXECUTIVE DIRECTOR COMMENTS

Lottery Executive Director Norm Lingle reported on the following:

At a future meeting, a rules package may be presented for a new online game being promoted by MUSL. As lotto sales are lagging behind the previous year in South Dakota, the Lottery is considering several options being discussed by the multi-state group, including a lotto game with a \$5 price point. Adding a higher price point game would widen the state's product mix and could appeal to a different type of player. Also being considered is a change to the existing Dakota Cash game; the game has remained virtually the same since implemented and a refresh of the product could help to boost sales.

Lingle referenced the CAFR (Comprehensive Annual Financial Report) being compiled by the State of South Dakota. The report is a priority for the Governor and Legislative Audit has adjusted their schedule for completing audits accordingly to coincide with the deadlines set for the CAFR. They will begin conducting their FY2014 audit of the Lottery in the coming weeks, a process which normally doesn't occur until September.

STRATEGIC PLAN UPDATE

Lottery Executive Director Norm Lingle reported on the following:

Several objectives relating to the Strategic Plan were reviewed and Lingle stated the Lottery's intention to complete every objective in the plan, despite the difficulties experienced during the recent Legislative session in getting statute changes approved. The Lottery will need to rethink its strategy on how to accomplish the statutory objectives.

Lingle and Deputy Executive Director Clark Hepper have reprioritized the objectives within the timelines previously set by the Commission for more efficient completion. Free play/match play and site promotions would be completed through action taken by the Commission during today's meeting. The next priority will be finding a way to share game performance with manufacturers and operators to stimulate competition for product development; legal counsel may be called upon to develop an MOU or letter of agreement for this purpose. This may also impact hold percentage. The Lottery may also reach out to its central system provider, Scientific Games International (SGI), regarding a management system that would allow operators to access performance information for their own terminals through the state's video lottery central system.

PROBLEM GAMBLING STUDY RFP

Lottery Executive Director Norm Lingle reported on the following:

Reference was made to the letter distributed to the South Dakota House of Representatives regarding conducting a problem gambling study in South Dakota. The offer for the study resulted from discussions regarding Senate Bill 180 which involved a possible amendment by Representative Hunhoff to include a problem gambling study in the bill. Representative Hunhoff agreed to a letter of commitment from the Lottery in lieu of an amendment.

Work has begun on a draft RFP for the study with completion pending commission approval at today's meeting. The intent is for the RFP to be shared with Representatives Hunhoff and Parsley as well as LRC staff for review. Timeframe would be to have the study completed in late November or early December and presented to the Legislature during the 2015 Legislative Session.

Lingle stated that if we intend to complete all of the objectives in the Strategic Plan, now that the problem gambling issue has been raised, such a study could be beneficial in garnering legislative support.

Chairman Hartford commented on the Deloitte and Touche problem gambling study that was conducted several years ago, saying that he would have liked to have seen the Legislature itself or another body such as Social Services conduct this new problem gambling study. Lingle replied that the draft RFP includes having whatever vendor is chosen to conduct the study reach out to Social Services as well as to other groups in the state who opposed the lottery bills during the 2014 legislative session.

Commissioner Novotny asked if the study would also cover other forms of gambling in South Dakota that compete with the products offered by the South Dakota Lottery and whether the Gaming Commission would help cover the costs of the study. He noted that the timeframe may not allow for the report to be presented to the Legislature in a timely enough manner to bring legislation forward in 2015. Lingle replied that the draft RFP requests a breakdown of what gambling issues can be directly attributed to video lottery, Deadwood, tribal casinos, border casinos and other gaming options and what would the effect to problem gambling be if video lottery went away. He acknowledged that the timeframe is tight but still attainable and that payment opportunities for the study are being reviewed. Novotny commented that it may be a good idea to review studies from other states to see how they were conducted and how broad an area they covered.

Commissioner Putnam acknowledged the importance of having an accurate “clean” study and that opponents be a part of the process to ensure the study is conducted fairly and covers the entire scope of problem gambling.

Commissioner Turbiville inquired about the cost of the 1998 study; Lingle replied it was around \$250,000. Turbiville commented that this new study could cost between \$500,000 and \$750,000 and will not change the minds of gambling opponents. He noted that extending the letter of commitment to the Legislature didn’t garner the necessary support for the Lottery bills to get them passed.

Chairman Hartford said it’s necessary to complete a study at this point. Lingle clarified that his request is to get Commission approval to finish and issue the RFP for the study and then bring the RFP responses to the Commission for review.

Commissioner Estes acknowledged that the study won’t change the minds of gambling opponents but would provide comfort to those who support the industry if the study shows that a major problem gambling issue doesn’t exist in South Dakota.

Estes moved to instruct Lottery staff to prepare and distribute an RFP for a problem gambling study. Novotny seconded. Motion carried unanimously.

GAMING LABORATORIES INTERNATIONAL CONTRACT EXTENSION

Lottery Executive Director Norm Lingle reported on the following:

The second amendment to the agreement between Gaming Labs International and the South Dakota Lottery for third party video lottery testing services was presented for approval. The latest contract was issued in 2010 and provided for four one-year contract extensions; two extensions have been approved thusfar. The Lottery is requesting approval to exercise the remaining two extensions.

Commissioner Putnam asked whether there would be a rate change for services. Lingle replied that any rate increases would come before the Commission for approval.

Estes moved, Turbiville seconded that those extensions be granted. Motion carried unanimously.

VIDEO LOTTERY PROMOTIONS POLICY/ REPEAL OF DECLARATORY RULING 91-2

Lottery Deputy Executive Director Clark Hepper reported on the following:

Changes are being proposed to the video lottery promotions policy to give video lottery partners more latitude in conducting promotions in their establishments to maintain their current customer base and attract new players. These promotions would have to follow the framework specified in administrative rule and could not reflect negatively on the Lottery, the State, or the video lottery industry. The revised policy would allow them to create these promotions without the Lottery’s specific permission but the agency should be informed about the activities. Establishments must post specific rules about the promotions within their businesses for the benefit of their customers. Hepper requested approval of the new promotions policy and the repeal of Declaratory Ruling 91-2 which relates to prize payouts in addition to those authorized by approved pay tables.

Hepper referenced the implementation of the ruling which was approved in 1991 in the early years of video lottery. He requested the ruling be repealed to allow for the implementation of the new promotions policy.

Commissioner Putnam inquired as to how the promotions policy has been enforced and why it needs to be changed. Hepper responded that it was policed by the industry itself along with the Lottery. Director Lingle added

that establishments found to be in violation of the promotions policy were contacted by the Lottery and if the violation was not addressed, penalties including fines or license revocation could result.

Commissioner Novotny asked if the promotion rules and guidelines to be drafted by the establishments would have to be approved by the Lottery for the sake of consistency. Hepper answered that it is not a requirement that Lottery review and approve those rules. Novotny voiced concern that not requiring that approval will result in an unfair playing field between operators across the state. Hepper replied that the Lottery is providing some guidelines as to what the rules should entail. Chairman Hartford commented that adding more restrictions rebuilds the fence that the new promotions policy is intended to tear down to allow establishments to hold these promotions.

Commissioner Putnam questioned why the Lottery wouldn't want to brand these promotions to ensure the public knows the agency stands behind them. Hepper responded that the Lottery logos and materials are trademarked and the Lottery's advertising director reviews those items being used by the establishments to ensure the logo, etc. is being used in a responsible manner. Lingle added that the Lottery has received some calls from establishments wanting to run promotions and the Lottery will assist them with logo use, promotional materials and social media exposure.

Chairman Hartford asked for public comments regarding the new promotions policy and the repeal of the declaratory ruling.

Bob Riter of the SD Music and Vending Association inquired as to whether a particular promotions policy would be adopted or just a policy that would authorize the conduct of promotions. Riter commented that the new policy presented to the Commission provided good examples of what operators could do to promote their businesses. He further asked if repealing the declaratory ruling meant there would be no limit on the pay-out percentage. Hartford responded that promotions materials would not count as part of the pay table. Riter expressed concern that some casinos were better equipped to offer promotions to their customers than others and would the promotions policy create a divergence between those groups without more specific parameters; he conceded that those involved in the industry are very competitive and will find ways to make the policy work for them.

Hepper confirmed the pay-out percentage is still contained in administrative rule and statute and will not be removed by the repeal of the declaratory ruling.

Commissioner Turbiville moved that Declaratory Ruling 91-2 be repealed. Commissioner Novotny seconded. Voice vote was uncertain; roll call vote requested. Novotny, Turbiville and Hartford voted aye. Estes and Putnam voted nay. The motion passed 3-2.

IP CELLULAR UPDATE

Lottery Deputy Executive Director Clark Hepper reported on the following:

The Lottery last year implemented several DSL locations to change up the type of communication protocol used with video lottery terminals to allow for real time communication and decrease the number of non-reporting terminals. The outcome of the initial project was not as favorable as expected so the Lottery began exploring alternate options. The IP cellular proposal presented at the December Commission meeting allowed for the Lottery to contract with SGI for \$57,000 to provide IP cellular to five sites for a six-month trial basis. The Lottery has renegotiated with SGI to service seven sites on a three-month trial basis for \$49,000. With this communications protocol, it would be possible to implement some loyalty programs and progressive gaming platforms. The Lottery plans to move forward with signing the renegotiated contract with SGI.

PLAY IT AGAIN

Sales Director Joe Willingham reported on the following:

The Play It Again second chance drawing program is part of the Instant Online Strategic Plan developed last summer. The program is web-based, open to members of the free Players Club, password-protected, and allows members to enter their non-winning tickets into second chance drawings. The first game eligible for Play It Again is \$10K Run, a \$2 scratch ticket game which launches April 23. Members are limited to 40 entries per day to discourage dumpster divers who pull non-winning tickets out of the trash to enter them in the drawing and to deter those who may try to digitally crash the system with excessive entries. The Dakota Cash random number generator will be used to determine the winners at the end of the second chance promotion. Players will not have to keep their tickets once they've entered them into the system. Play It Again is an added value program for players that does not require them to mail in an entry to participate. It is also expected to improve sell-thru beyond 90% for the Lottery's \$2, \$3 and \$5 scratch ticket games and reduce printing costs. The first Play It Again drawing is scheduled for mid-December.

Chairman Hartford asked how frequently the drawings would be held and what the amount of the award would be. Willingham stated that the first drawing would be held 8 months after the program launches with a grand prize of \$10,000 but monthly drawings for smaller amounts are also possible. Games could also be grouped for a single grand prize.

Willingham stated that the Iowa Lottery gave the South Dakota Lottery written permission to use the Play It Again name for the program. Many states offer such added value for their players through vendor-designed programs; South Dakota developed the program itself with the Bureau of Information and Telecommunications.

Commissioner Putnam inquired if other states wait so long to hold the drawings. Willingham replied that the length of the promotions vary from state to state.

SALES REPORT

Sales Director Joe Willingham reported on the following:

Instant ticket sales are up .13% led by the new \$20 scratch ticket, \$400,000 Jackpot. Severe weather contributed to the minimal increase in sales. The X-Games and Jumbo Bucks game families are also doing well. Five new games will be launching in April and May.

Lotto sales are down 4.65% overall from the previous year. All games show sales declines except for Mega Millions which is up 80%. Powerball is down 15.45%, Dakota Cash 12.2%, Hot Lotto 8.8% and Wild Card 2 4.4%. It may be possible to implement flashing digit technology on jackpot signs to draw more attention to the games.

Projected revenue for FY2014 for video lottery is \$91.48 million, for instant tickets \$5.42 million, and for lotto tickets \$8.80 million with total projections of \$105.7 million.

PUBLIC RELATIONS/ADVERTISING REPORT

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

The Dakota Cash jackpot was hit twice since the last Commission meeting in December. Kevin Webster of Sioux Falls won \$65,629 in the March 5 drawing and Terry Arshem of Sioux Falls won \$70,809 in the January 17

drawing. There were 18 non-jackpot high winners from \$3,000 to \$10,000 during the same period. There were 26 scratch ticket top prize winners from \$2,500 to \$400,000 since December.

The Lottery conducted its Problem Gambling Awareness Month campaign in March with 30-second radio ads on 24 stations from March 3-8 and 18-23 and newspaper ads in 11 daily newspapers March 2-5. The observance was also noted on the Lottery website, Players Club emails and social media. Previous to 2014, the national problem gambling awareness event was the first full week of March but has been expanded to cover the entire month. All Lottery product advertising is blacked out during those periods when problem gambling ads are scheduled.

Thirty-second video lottery radio ads began running February 24 and will continue through June. Two ads are being rotated, one to highlight the new games and the other to promote group play. Full-color newspaper ads appeared March 27-30 in 9 newspapers statewide, concentrating on newspapers serving areas with more gambling competition. A series of YouTube tutorials have been developed to show people how to play the new video lottery games. Tee shirts, can koozies and coasters have been ordered with the video lottery logo to be used by establishments for giveaways and branding. An ordering system is being developed to distribute these items.

A comprehensive advertising campaign is being utilized to launch Play It Again; the second chance drawing program will also be advertised on a continuing basis after the launch. Teaser ads have begun appearing on Facebook, Twitter, the website and Players Club emails. Television and radio ads will start April 23 along with POS in all retailers and an animated web banner. The two-fold purpose of the campaign is to make people aware of the Play It Again program and to specifically promote the \$10K Run scratch ticket game.

As of April 9, the Lottery has 667 Twitter followers, 6,009 Facebook fans, and 17 YouTube subscribers.

From December 10 thru April 9, the following were issued to the media and/or posted to the web: 2 jackpot winner alerts, 9 other winner alerts, 17 press releases and 35 winner counts.

Commissioner Putnam asked why Problem Gambling Awareness Week changed to a monthly observance. Thompson replied that the change was made by the National Council on Problem Gambling. Putnam inquired whether stats exist showing this campaign is effective in South Dakota. Thompson responded that performance measurement numbers are not available on this campaign, which is considered to be a public service effort nationwide. Putnam also questioned whether South Dakota invests money in the campaign and what the guidelines are for how extensive the campaign should be. Thompson stated that the Lottery budgets for this campaign, requests Public Service Announcement matches from radio stations and determines its own schedule for airing during the observance.

Commissioner Estes inquired how the blackout of regular advertising during Problem Gambling Awareness Month affects the rate of gambling in general in South Dakota. Thompson replied that no stats had been compiled indicating whether gambling overall decreases if there is no advertising. Estes commented that if such stats existed, it would be possible to tell whether advertising or the lack thereof affects how much people gamble.

VIDEO LOTTERY REPORT

Director of Security Deb Reese reported on the following:

FY2014 net machine income is up .13% from the previous year at \$137.91 million. The number of terminals is down .84% from FY2013, at 9,057. There are 1,404 establishments currently operating, down 1.82% from a year ago, and 676 MCD's and 1,850 line game machines connected to the central system. From May 1, 2012 to March 31, 2014, legacy machines averaged \$46.72 net revenue per machine per day compared to \$61 for line game machines. Line games make up just over 20% of the machines currently in the market.

The initial phase of the File Director project has been completed. The purpose of the project is to convert hard copy files to digital files. Three scanners have been installed by work stations for this purpose.

Commissioner Hartford commented that according to projections, revenue video lottery revenues are flat; Reese agreed.

NEXT MEETING DATE

Executive Director Lingle proposed that the next meeting be held in early June. A specific date is pending.

ADJOURNMENT

There being no further business, Commissioner Turbiville moved and Commissioner Estes seconded that the meeting be adjourned. Motion carried.

Chairman Hartford adjourned the meeting at 11:58 a.m.