



Minutes of the Commission Teleconference Meeting
Room 414, Capitol Building
June 26, 2014

Lottery Commission Chairman Bob Hartford called the June 26, 2014 meeting of the South Dakota Lottery Commission to order at 10:00 am.

MEMBERS PRESENT: Bob Hartford, Jim Putnam, Jim Towler (via phone), Doyle Estes, Chuck Turbiville and Roger Novotny.

MEMBER ABSENT: Brent Dykstra

SUPPORT STAFF PRESENT: Revenue Secretary Andy Gerlach, Andy Fergel, Norm Lingle, Clark Hepper, Joe Willingham, Deb Reese, Kelly Thompson, John Keyes, Mackenzie Osadchuk, Sherry Lauseng, Peggy Livingston and Julie Pirnat-Schultz

APPROVAL OF THE AGENDA

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

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

LOTTERY PERSONNEL:

Director Lingle provided an update on recent Lottery position vacancies and new hires. The Information Officer position, vacated by recent retiree Mary Jo Bibby, has been filled by Mackenzie Osadchuk. The Sales Representative position, vacated by recent retiree Mary Deuchar, is still in the interview process. Peggy Livingston has been hired to fill the Accountant position vacated by Liz Stewart.

VIDEO LOTTERY MANUFACTURERS AND DISTRIBUTORS:

Director Lingle reviewed the differences between video lottery manufacturers and video lottery distributors. As of July 1, 2014, there will be six video lottery manufacturers licensed by the South Dakota Lottery. One manufacturer/distributor, MTD Gaming, has elected to be only a licensed distributor, and Fortunet, Inc. will not be renewing its licenses for the new fiscal year.

STRATEGIC PLAN:

One objective from the strategic plan the Lottery is currently targeting is determining ways to post video lottery machine data on the Lottery website as well as share game performance information between manufacturers. Video lottery operators would be able to review manufacturer machine performance to assist them in deciding which new machines to purchase. From the manufacturers' perspective, sharing more detailed performance data between the manufacturers only will allow them to see the performance of their competitors and use that information to change their software

or game design. The Lottery has reached out to one manufacturer to provide feedback on the different types of information available.

Commissioner Hartford asked if all the manufacturers will participate in information sharing or will there be some resistance. Director Lingle responded that It appears all manufacturers are in favor of this but we may need to make a decision if there is resistance by a manufacturer if we push forward or just share information between manufacturers who agree to it. Commissioner Estes asked for, and Director Lingle provided, an update on the performance of the penny video lottery machines. There are a couple of manufacturers that do have approved penny game software. Lottery and manufacturers need to talk more about the pros and cons of the games. There is some hesitancy from video lottery operators to put penny games on their machines for various reasons. In addition to slowly overcoming that, they will evaluate how often those games are played and see the benefits. Estes commented that there is substantial penny game play in Deadwood. Lingle replied that the Lottery is somewhat beholden to manufacturers to develop and submit penny game software and, once approved, it then becomes a business decision of operators to invest in that new software. Reviewing the penny games and providing data would allow operators to see how the penny games are generating play and along with the penny denomination comes the non-linear pay table. A bet to award ratio is no longer a requirement.

MONOPOLY MILLIONAIRES' CLUB:

A rules hearing will be conducted at the next Commission meeting to adopt rules to allow the Lottery to participate in this game. The primary purpose behind the Monopoly Millionaires' Club game was to come up with a game that would complement our portfolio of lotto style games and not to compete with the existing national games of Mega Millions and Powerball. Price will be \$5 per play. This is a multi-jurisdictional game that includes lotto components, digital interaction for players, and a national game show. The proposed launch date is Oct. 19, 2014. The game is a partnership between the lotteries, Scientific Games and MDI. As part of the partnership, MDI will include a package with a mobile application, play at home games, and social marketing components.. It is a Monopoly style game using game properties and a dual matrix. Players choose 5 numbers from a pool of 52 plus receive a random draw of 1 of 28 in a second pool consisting of Monopoly game properties. There are 10 prize levels with overall odds of winning a prize of 1 in 10, better than Mega Millions and Powerball. The top prize will start at \$15 million with a \$25 million cap. In addition to the top prize, there will be \$1 million club prizes for the Millionaires' Club. It will be a once a week draw on Fridays. Monopoly is a game that everybody recognizes across a wide range of demographics. The game show will be filmed in Las Vegas and produced by Hasbro. Qualifying for the game show and the 4-day/5-night trip for two requires a second chance offering through our Players Club.

Commissioner Putnam asked about the network for the TV show and whether it will be cable, major, or otherwise. He also inquired as to what say South Dakota has in the rules with other states involved. Director Lingle answered that for participation with multi-state games, South Dakota usually adopts the uniform multi-state rules. MDI is currently in talks with Tribune Network, Game Show Network, and On Demand for the Monopoly game show. There are issues with airing the show in states that do not allow lottery.

Director Lingle reminded the Commission that the next meeting of the Commission will be the first of the new fiscal year and the Commission, by statute, is required to elect a Commission Chair and Vice-Chair.

SALES REPORT

Sales Director Joe Willingham reported on the following:

PLAY IT AGAIN

Through June 14, 588 players have entered 5,343 tickets. These players are located in 149 cities. There are 18 out-of-state players representing WY, ND, AZ, MN, and MT.

Other stats presented:

- Females 61% of the players and 57% of the tickets.
- Ages – 18-29 = 14.1%, 30-39 = 13.6%, 40-49 = 19.2%, 50-59 = 25.3%, 60-69 = 20.2%, 70+ = 7.6%
- 14% of the accesses to the PIA site are through mobile devices
- 23% of players entered just 1 ticket.
- Most entries by 1 player is 160 (2.52% of the total).
- Most entries in 1 day by 1 player is the maximum of 40(1) and 39(3).
- Most days that one player has entered at least 1 ticket is 26 days(3).
- Most total entries in 1 day is 212 on 5/11.
- Most total entries in 1 week is 811

Commissioner Hartford inquired about the timing of the announcement for the July 1 mini drawing and the relationship to sales. Director Willingham said sales and entries increased substantially and more information on that will be reviewed at the next meeting.

Play it Again may expand to all \$2, \$3, and \$5 games with possible drawings for \$50,000 every six months. Each entry will be worth the dollar value (\$2 – 2 entries, \$3 – 3 entries, \$5 – 5 entries) and this conversion will be automatic when the player enters their ticket. Drawings along the way for smaller prizes also give more opportunities for marketing. From a customer standpoint, players can continue to buy the games they normally play and still register for second chance drawings. The expansion of Play It Again is expected to launch mid-August.

INSTANT GAMES

Sales are up .13% - \$23.62 million versus \$23.59 million. We had a great start to fiscal year that was in line with the previous number, but an early blizzard caused a decline that we never recovered from. New game coming soon will be Devlin' 7s, 2X The Money, Junior Jumbo Bucks, Jumbo Bucks Two, Big Bucks, Cowboy Cash, Very Cherry Slingo, and Bingo Plus.

LOTTO GAMES

Sales are down 10.5%, \$27.8 million versus \$31.06 million a year ago. Powerball is down 22% from a year ago, at \$15.9 million versus \$20.4 million, Mega Millions is at \$4.69 million versus \$2.94 million, UP 59%. Hot Lotto sits at \$3.12 million versus \$3.31 million, down 5.7%. Wild Card 2 is at \$2.27 million versus \$2.28 million, a drop of .5%. Dakota Cash is down 8%, at \$1.92 million versus \$2.09 million from the previous year.

Powerball jackpot comparisons also show a decline. FY2013 was a record year with November 2012 having a \$580 million jackpot and \$2.03 million in Wednesday draw sales. Then May 2013 had a similar jackpot at \$590 million with a 24% drop of \$1.44 million in Saturday draw sales. In FY2014 our biggest jackpot was \$448 million in Aug. 2013 with \$805,000 in sales for one draw. Then in February 2014, a similar jackpot of \$425 million showed \$555,000 in sales for that one draw. The drop in sales follows the decrease in jackpots which is attributed to players feeling like “once-in-a-lifetime” jackpots happen more often. This is why we are looking at new games like the Monopoly Millionaire’s club.

STORE WRAP

In May the Lottery wrapped the EZ Mart on Hwy 44 in Rapid City with marketing materials, making it our first wrapped store. Minimal sales information is available but it’s still early to come to a conclusion about the success of the store wrap. Sales from a year ago show a good reason for optimism.

1. Instant sales – store up 12.7%, state down 5.1%
2. Lotto sales – store down 47.5%, state down 51.7%
3. Total sales – store down 10.7%, state down 28%

REVENUE PROJECTIONS

- A. Video Lottery - \$91.56M Prior \$91.48m
- B. Instant - \$5.44m Prior \$5.42m
- C. Lotto - \$8.66m Prior \$8.80m
- D. Total - \$105.66m Prior \$105.7m

Commissioner Hartford asked about the projections showing a decrease with only a few days left in the fiscal year. Director Lingle expressed that it is a complicated process and these figures are adjusted on a monthly basis. Unclaimed prizes are the biggest factor of the estimate and this number is just based off of sales.

Commissioner Putnam inquired about licensing fees for the new games. Director Willingham said the Very Cherry Slingo game requires a license. Commissioner Putnam followed up with a question about a license fee for brands and what other states use. Director Willingham responded that Scientific Games, the printer, has the rights to use the name and can give them to anyone to sell. Fees are dependent on each individual game. Commissioner Hartford questioned what the process is for licenses requirements. Indexing is used to determine the success of the game in other jurisdictions and games are chosen based on that.

PUBLIC RELATIONS/ADVERTISING REPORT

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

The Play it Again drawing campaign started in June with email blasts, social media and radio.

LOTTO GAMES

We had one jackpot winner since the last meeting, Derek Ronning of Vermillion with a \$154,737 Dakota Cash jackpot from the June 7 drawing. Other high tier lotto winners include:

Powerball	\$10,000	Sioux Falls
Hot Lotto w/Sizzler	\$9,000	North Sioux City
Wild Card 2	\$6,000 (4)	Faith, Pierre, Rapid City, Sisseton

Hot Lotto	\$3,000 (5)	Sioux Falls (4), Whitewood
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INSTANT GAMES

There have been 15 top prize winners of \$2,500 or more since last meeting. The biggest winner was \$100,000 with 20x the Money. That was Derik Noeldner of Waconia, MN.

\$50,000	2	Black Diamonds, 10x the Money
\$30,000	4	Badlands Bingo, Slingo, Tripling Cashword
\$20,000	1	\$20,000 Pay Day
\$15,000	1	5x the Money
\$12,000	1	Safecracker
\$7,000	1	Sparkling 7's
\$5,000	1	Your Ticket to Fun
\$4,000	1	2x the Money
\$2,500	1	Junior Jumbo Bucks

FY2015 MARKETING PLANNING MEETING

The annual marketing meeting was held in Pierre May 13 with Lottery officials and representatives from Robert Sharp and Associates. The Lottery will use a more targeted approach with its marketing efforts in the coming fiscal year; holiday advertising will no longer be the largest campaign and we will use fewer but larger advertising runs due to the increase of long-term advertising needs with Play It Again, game families, Monopoly Millionaires' Club, and video lottery.

We will also utilize more effective campaigns for Beneficiary Awareness and Problem Gambling Awareness. Other large ticket items for marketing will be a website redesign for the main website and the Players Club, and an increase in jackpot alerts.

STORE WRAP EVENT

We unveiled our first Premier Store May 2, EZ Mart on Hwy 44 in Rapid City. This included a ribbon cutting, two hour remote with KSKY, scratch ticket specials, free refreshments and in-store specials. Pre-promotion for that particular event included social media and website marketing, Players Club emails, in-store posters, media alert/invitation to all area media, 30 second radio ads and remote broadcast promos in the previous week, newspaper ad in the Rapid City Journal, and live tweets and posts on social media.

Overall we had good turn-out from players and the press. There is an event video posted on our YouTube channel.

GRILLS GONE WILD GIVEAWAYS

As a value added promotion for all partner radio stations for FY2015, all stations are receiving Chill and Grill packs to give away during promotions of their choosing. It is an all-in-one portable charcoal grill in a pack with a cooler space on the top and Lottery logo on the side.

Some stations already had grilling promotions planned – others are working with local grocery stores – SD Beef Council – meat markets to design grill specific promotions. The first of those will start

tomorrow with KMIT in Mitchell. We are encouraging our radio station partners to use non-winning Grills Gone Wild tickets as the entry mechanism to promote sales and awareness of the game. We also have some for Players Club promotions and social media followers.

Commissioner Estes asked whether the store wrap resulted in an increase in sales, what can be concluded from that and are there plans for more stores? Director Thompson replied that the wrap is definitely having an impact but we would like to see more numbers first before making any conclusions. Plans for another store will probably be in the next fiscal year and on the east side of the state. Commissioner Estes asked if that success has had staying power. Director Lingle clarified that the numbers reflect the staying power so far and the Lottery wants to see how long the success continues before expanding the program to the eastern part of the state. The nature of the relationship with the store owner is key to the success of the project. Director Thompson added that we literally go in and take over their store so the owner needs to be open to make that happen. Commissioner Estes followed up with a request to clarify how the store selection is made and the total cost. Director Thompson said the cost of covering the store and the promotions was about \$12,000. In selecting a store, the Lottery looks at the history of lotto sales of the establishment, if the store is aesthetically pleasing on its own, if there are places for logo application, the location of the store, and the willingness of store owner. Commissioner Estes asked about the process to let retailers know how premier stores are selected. Director Thompson replied that sales reps scout out possible locations while on their routes. This particular store owner was key because he was willing to have an update and he needed it.

Commissioner Hartford expressed concern about approving the new promotions policy and inquired if there had been any complaints or misuse since the implementation. Director Thompson said it has been progressing slowly but steadily. There has been cautious interest by operators and establishments, but not a lot of complaints. A policy like this that is giving them a little more latitude is allowing them to try some smaller promotions that they wouldn't have done before. There has been interest but it will take some time for them to take full advantage of the offerings of the promotions policy. Director Lingle added that it is an education process for the operators and establishments.

VIDEO LOTTERY

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

The net machine income is \$177 million, which is ahead .29% from the same time period last year. Terminals are averaging 9,048 which is behind .93% from the same time period last year.

Establishments are averaging 1,041 connected to the system on any given day which is 1.82% behind the same time period last year. There are 682 MCDs connected to the central system currently. We also 1,927 line games connected to the central system.

LINE GAME PERFORMANCE VS THE LEGACY GAME PERFORMANCE.

We are now reporting the last completed ruling year, so during FY14 the legacy machines were averaging \$47.82 net revenue per machine per day, and the line game machines were averaging \$62.63. The line games represent 21.38% of the machines in the market.

FISCAL YEAR UPDATE

The new machines and destructions are at 370 destructions and new machines are at 355.

NEXT COMMISSION MEETING

The next Commission meeting will include a rules hearing for Monopoly Millionaires Club and will be set for the end of August or early September.

ADJOURMENT

Commissioner Estes made a motion, seconded by Commissioner Turbiville, to adjourn. Motion carried and at 11:12 a.m. the Commission adjourned.