



**Minutes of the Commission Meeting**  
Room 414, Capitol Building  
**September 4, 2014**

Lottery Commission Chairman Bob Hartford called the September 4, 2014 meeting of the South Dakota Lottery Commission to order at 10:00 am.

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

**SUPPORT STAFF PRESENT:** Revenue Secretary Andy Gerlach, Andy Fergel, Norm Lingle, Clark Hepper, Joe Willingham, Kelly Thompson, John Keyes, Sherry Lauseng, Marla Gruber and Julie Pirnat-Schultz

**APPROVAL OF THE AGENDA**

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

**APPROVAL OF THE APRIL 10, 2014 COMMISSION MEETING MINUTES**

Commissioner Estes moved that the minutes be approved. Commissioner Putnam seconded. Motion carried.

**APPROVAL OF THE JUNE 26, 2014 COMMISSION MEETING MINUTES**

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

**SECRETARY OF REVENUE COMMENTS**

*Secretary Andy Gerlach reported on the following:*

Secretary Gerlach provided information on Sales and Use Tax. South Dakota saw an increase of 5.97% from July 2013 to July 2014. Contractors' Excise Tax is up 14.91% for the same period. Both increases are good for South Dakota, and reflect a steady economy. They are on track with the Bureau of Finance and Management estimates and projections for the appropriated budgets.

The Sturgis Rally saw a slight decrease in vendors in 2014 compared to 2013, but revenue is expected to be similar from 2014 to 2013. 2015 brings the 75<sup>th</sup> Anniversary of the Sturgis Rally which should mean higher attendance and more vendors. The Department of Revenue is already making plans to have extra staff and operations planning to help with the expected increase.

The Department of Revenue is participating in a variety of legislative and governmental Task Forces and Work Groups including those addressing out-of-state alcohol shipping efforts, highway needs and financing, an education study to look at needs and funding of education, and the agriculture land assessment task force.

Issues being discussed include:

- The alcohol and wine distribution proposal will allow South Dakotans to have wine delivered to their homes from out of state. The department is looking into tax issues and how this would affect wholesalers and in state wineries.
- Senator Vehle from Mitchell is leading the highway needs work group which is gathering input about the condition of South Dakota highways. This comes from a decrease in federal highway funding .
- Education funding is always an issue and a work group is studying whether it is necessary to put a cap on the capital outlay at the local level.
- Senator Rhoden and the Agricultural Assessment Task Force is working to get to full productivity for both crop land and non-crop land by 2019. Non-crop land is in good shape, but crop land is behind in some counties, lesser in others.

The Department submitted its budget to the Bureau of Finance and Management on August 29. They will formulate a recommendation to the Governor on what will become his budget. If the alcohol distribution legislation does pass, it will cause more workload for administration within the Department of Revenue.

Putnam asked if the Governor required departments to put in a five year advance program for the budget. Gerlach said this is not a formal requirement, but the Governor does ask for a strategic evaluation over a longer period and DOR already looks three and five years ahead.

## **MONOPOLY MILLIONAIRES' CLUB RULES PUBLIC HEARING**

*Director Lingle presented the proposed rules for consideration and approval.*

The MONOPOLY Millionaires' Club (MMC) game is a lotto style game, operated by the Multi-State Lottery Association (MUSL), at a \$5 price point in which there are three ways to win. The first way to win, by playing the "base game", is very similar to Powerball; it's a dual matrix game, 5 of 52 from the first pool and 1 of 28 from the second pool. The second pool is comprised of Monopoly™ properties instead of numbers. Top prize odds are 1 in 72,770,880 and overall odds are 1 in 10. The game's top prize starts at \$15 million and is capped at \$25 million. Any sales for the rolls after the top prize is capped will help fund the Millionaires' Club prizes. Drawings are weekly on Friday nights.

The second way to win, the million dollar club prizes, will start at the base level of 10 \$1 Million dollar prizes which will roll and grow as the top prize grows. The Millionaires' Club number is printed on the ticket and those prizes will only be awarded when the top prize is hit.

The third way to win is the TV game show. Each ticket will have a web code that will be tied to a Monopoly property. As players acquire a property set, they earn entries into a drawing to attend and possibly participate in the TV game show. The web code must be entered on the internet through the South Dakota Lottery Players Club. Players will set up an account to track the properties they acquire and earn entries for the TV game show. Each lottery will have one participant in a mini game show with the top prize of \$100,000, and one person selected from all lotteries will be eligible to participate in a bonus round for a chance to win \$1 million. One mini game show will be customized for each lottery for broadcast within their respective state. Drawings for the TV game show will be held throughout the year.

### **Proposed Rules for MONOPOLY Millionaires' Club**

- Rule 48-03-16-01: Would allow the South Dakota Lottery to participate in the MMC game operated by MUSL.
- Rule 48-03-16-02: Identities people that are not eligible to claim a prize for the MMC game.

- Rule 48-03-16-03: Adopts the MMC game rules 26-50 inclusive of the National Premium Game Product group of MUSL as the rules for the South Dakota Lottery pertaining to this game.

Hartford reminded everyone that if these rules are not adopted, South Dakota Lottery would not be able to participate in the MMC game.

No public or written comments were received.

### **APPROVAL OF THE PROPOSED MONOPOLY MILLIONAIRES' CLUB RULES 48-03-16-01 to 48-03-16-03, INCLUSIVE**

Commissioner Estes moved that the rules be approved. Commissioner Turbiville seconded and the rules were passed unanimously.

### **DECLARATORY RULING 14-1**

*Director Lingle reported on the following:*

DECLARATORY RULING 14-1 establishes the incentive commissions paid to retailers for the various lotto games offered by the South Dakota Lottery and includes proposed commissions for the MMC game. If approved, the ruling will become effective on October 19, 2014 when MMC sales begin.

Novotny asked how many prizes are paid annually. Lingle indicated the Lottery has paid out the most with Dakota Cash because it's an in-state game followed by Wild Card 2. South Dakota has paid jackpot winners for Powerball and Hot Lotto but has yet to have a Mega Millions jackpot winner in South Dakota. On average, about 2-3 are paid annually.

Novotny inquired if an incentive is necessary if there are not winners very often. Lingle said the incentives help to reward the retailers for selling the tickets and maintain Lottery visibility in retailers.

Novotny asked if other incentive options have been explored such as an annual award to the retailer that sells the most tickets. Lingle expressed that the retailer does get 5% of each ticket sold in addition to the retailer bonuses.

Dykstra asked if the incentives on the document were the same as last year. Lingle replied yes with the addition of the MMC.

### **APPROVAL OF DECLARATORY RULING 14-1**

Commissioner Novotny moved that Declaratory Ruling 14-1 be approved. Commissioner Putnam seconded. Motion passed 7-0.

### **EXECUTIVE DIRECTOR'S COMMENTS**

*Director Lingle reported on the following:*

#### FY2014 SALES REPORT:

Directed Lingle reminded the Commission that the presentation included unaudited numbers, as the legislative audit is in process. Video lottery FY14 sales for state share net machine income was \$91,697,131. This represents an increase of .3% or \$300,000 over the FY13 numbers, and results in two years of growth after four years of decline. Instant ticket sales for FY14 reached \$25, 517,805 which represents a .9%, or approximately \$220,000, increase over FY13. This results in four consecutive years of growth with FY14 being the second highest year of ticket sales since start-up. FY14 was about \$500,000 less than the record year in 1988. Lotto

sales were \$28,580,432, a decrease of 10.8%. Powerball is the largest seller in South Dakota, making up over half of lotto sales. FY14 Powerball sales compared to FY13 were down 23.52%. With that, FY14 was still the second highest year in overall sales since the start of the lottery.

LOTTERY PERSONNEL:

Director Lingle provided an update on recent Lottery position vacancies and new hires. Marla Gruber joined the Lottery in early July as a sales rep, replacing Mary Deuchar who retired.

**ELECTION OF CHAIRMAN**

Estes nominated Commissioner Turbiville for Chairman of the South Dakota Lottery Commission. Novotny seconded, and the election was completed by unanimous voice vote.

**ELECTION OF VICE CHAIRMAN**

Novotny nominated Commissioner Putnam for Vice Chairman of the South Dakota Lottery Commission. Estes seconded, and the election was completed by unanimous voice vote.

**BUGET REQUEST FISCAL YEAR 2016**

*Director Lingle reported on the following:*

The instant and online budget is an informational item, and second budget is for the video lottery program which is part of the overall Department of Revenue budget and approved by the Legislature. Both budgets are status quo, no change, budgets. We are not seeking any increase in either budget.

INSTANT ONLINE BUDGET 0281

- Line 9: In-state travel – The bulk of this expense is for fleet and travel expense for our sales reps and the use of their vans to visit the various retailers across South Dakota. FY14 did see a slight decrease in the charge per mile, but the miles driven was virtually the same.
- Line 18: Consulting/Computer, GTECH – This is the fee that is paid to GTECH for the lotto ticket system, as well as the validation for the instant tickets. This item is a function of sales. Our contract with GTECH is a percentage basis, so as more tickets are sold the fee will increase. Conversely, if we do not as many tickets, that fee will decrease.
- Line 20: Computer Services – This is for the AS400, which is the South Dakota Lottery’s back office system for accounting for the instant and online tickets. This line also includes the BIT development costs. This category tracks the amount that BIT bills back to use for their time in development process.
- Line 28: GTECH Communication Fee – As part of our work with GTECH requires a monthly communication fee. This is the cost for the terminal to communicate with the primary and back-up lotto systems, as well as communication with State’s AS400.
- Line 32: Instant ticket delivery – This is the cost for delivering instant tickets to our retailers. Tickets are initially delivered to our warehouse in Sioux Falls from the printer. From there they are dispersed by UPS to the retailer locations to be sold.
- Line 35: Payment to MUSL for the administration of the four multi-state games that South Dakota Lottery participates in. We hope to add a fifth game to this line with MMC.
- Line 36: Other contractual services – This includes charges for banks, meeting rooms, legal notices, shredding, background check fees, etc...
- Line 38 & Line 39: Retail commission and prize expense: Both of these items are a function of sales.
- Line 44: Ticket Printing – the cost of printing the instant ticket games.

Putnam said he understands that there are royalties paid from certain tickets, does that come from the ticket printing bill? Lauseng confirmed that if we paid any royalties they would part of line 44.

Novotny asked if we show a sales increase of .9% in instant tickets, why on line 38 & 39 have we budgeted less for the retailer commission and the prize expense if we're increasing or staying the same. Lingle explains that this is an information budget, so we are not tied to that amount. Lingle says that it has been used since he has been with the Lottery. Putnam added that informational budgets are not used in the construction of the budget, but used for the information of those who are making decisions. It is for the purpose of seeing that everything is running smoothly from a legislative standpoint.

- Line 58: Escrow to Reservations – Reservations receive 50% of the net proceeds from the sale of instant tickets from retailers within that reservations. We currently have 10 Reservation retailers, and FY2014 we paid a little more than \$68,000 to various tribes.

### **APPROVAL OF THE INSTANT/ONLINE FY16 INFORMATIONAL BUDGET 0281**

Hartford made a motion to approve the Instant/Online Information Budget. Putnam seconded the motion, and the budget request was approved unanimously.

### VIDEO LOTTERY BUDGET 0282

- Line 26: Advertising – We have identified \$100,000 to be used towards that effort.
- Line 28: Telephone Costs – This is the cost to the Lottery for the nightly polling of the video lottery terminals
- Line 34: Computer consulting SGI – Scientific Games (SGI) is the vendor for the video lottery central system. We pay a percentage of the net machine income to SGI for the use of that system. As net machine income grows, this line item will grow.
- Line 35: Inspection Services – We have an agreement with the Department of Public Service to inspect video lottery establishments and video lottery terminals. In FY14 a one-time health insurance increase passed legislation, resulting in 1,700 more inspections in FY14 than there were in FY13. The Public Safety officials conducted 18,835 inspections as they relate to video lottery.

Dykstra asked about the large increase in Line 34 from the last two fiscal years. Lingle said the amount will allow for some growth and gives room in order to pay that fee. As it relates to the video lottery budget, Lottery is considered "other funds."

- Line 37: Other contractual services – This includes charges for background check fees, GLI testing costs, ACH costs, etc...
- Line 60: Transfers Out – The dollars that are set aside for use by the Department of Social Services for assistance with responsible gaming efforts. As they incur expenses we reimburse them for those expenses up to \$214,000.

Turbiville asked for clarification that Lottery has only paid \$152,000. Lingle said that in FY14 that is correct. Turbiville further commented on this line being well below the budget in FY13 as well. Lingle agreed.

Putnam asks again about line 34, and where the overage in funds would go. Lingle said it would go into the video lottery operating fund. Lauseng added that it stays in that fund. Putnam also asks where we would see that amount in the operational budget. Lauseng says that the overage remains in those earnings that are retained in that operating fund.

## APPROVAL OF THE VIDEO LOTTERY FY16 INFORMATIONAL BUDGET 0282

Dykstra made a motion to approve the Video Lottery Information Budget 0282. Estes seconded, and the budget request was approved by unanimous vote.

### LINE GAME REVIEW

*Business Analyst John Keyes reported on the following:*

The percent of net machine income **by game type** (all terminals) with a total net machine income of \$186,151,527.

- Bingo .35%
- Black Jack .29%
- Keno 57.60%
- Line 15.8% *\*Only available on the new terminals*
- Poker 25.97%

Over 12 months, the line games are the only ones showing any kind of increase. Other game types are steady. Line games are up almost 3%, and of the approximate 9,000 terminals, only 2,000 have line games.

The percent of net machine income by game type (Excluding VLC Terminals) for a total of \$57,102,602 net machine income:

- Keno 38.93%
- Line 51.50%
- Poker 9.57%

Over 12 months, line games are up about 5%. Both poker and keno share the decline as line games increase. The percent of net machine income **by credit size** (all terminals) with a total net machine income of \$186,151,527:

- Penny 1.01%
- Nickel 20.85%
- Dime 1.08%
- Quarter 77.10%

The penny and dime denominations are only available on the newer machines. The penny credit games began in February and show a 4% growth over less than six months.

The percent of net machine income by credit size (Excluding VLC Terminals) for a total of \$57,102,602 net machine income:

- Penny 3.54%
- Nickel 48.12%
- Dime 3.78%
- Quarter 44.56%

Looking at the percent of net machine income by credit size of line games only, reducing the net machine income to \$29 Million, the nickel games are far above everything else. Looking at the numbers over the 12 months, all of the credit sizes show a drop, while the penny credit rises significantly and makes up over 25% of the revenue.

The average bet on a penny line game is 62 cents, which is higher than all the other games at the nickel level. When the VLC machines are excluded, there is a slight change in keno and poker and the line games show the highest average.

Line games are bringing in an increasing share of revenue with penny games accounting for an increasing share of the line game revenue. On the newer terminals the average bet for line games exceeds that of keno and poker games.

Hartford asked how many of the line game terminals take penny bets. Keyes expressed that penny bets can only be tracked by game and not by terminal. Lingle added that only one of the Spielo machines has penny games.

Estes commented on the Commission’s efforts to allow penny bets in South Dakota and to provide more line games. The data reflects the need for more line games.

**SALES REPORT**

*Sales Director Joe Willingham reported on the following:*

INSTANT: Year to Date - at the end of 8 weeks

- FY2015 - \$3.53M
- FY2014 - \$3.72M

Sales are down 5% from last year, but the most recently completed week with the expansion of the Play it Again promotion and the South Dakota State Fair showed improvement. Upcoming game launches include Duck Dynasty, a \$2 game based on the TV series, and holiday games Naughty or Nice and Winnertime.

ONLINE: Year to Date - at the end of 8 Weeks

- FY2015 - \$3.53M
- FY2014 - \$4.99M

29.27% behind last year.

Powerball	FY2015 - \$1.94M	FY2014 - \$3.36M	Down 42.2%
Hot Lotto	FY2015 - \$757,000	FY2014 - \$618,000	Up 22%
Mega Millions	FY2015 - \$558,000	FY2014 - \$442,000	Up 26%
Wild Card 2	FY2015 - \$314,000	FY2014 - \$350,000	Down 10.3%
Dakota Cash	FY2015 - \$301,000	FY2014 - \$298,000	Up 1%

Willingham offered comments on the retailer incentives, expressing that there are bonuses on larger winning tickets, not just jackpots, and retailers appreciate the incentives as not all states have an incentive program. He also assured commissioners that South Dakota’s program is in line with many other states.

Putnam asked if some states offer a tiered incentive system. Willingham said yes.

PROJECTIONS

	FY2015 Estimate	FY2014 Actual (Cash Basis)
Video Lottery	\$96.72	\$91.61
Instant Games	\$5.54	\$4.80
On-line Game	\$6.86	\$9.89
<b>Revenue:</b>	<b>\$109.12</b>	<b>\$106.30</b>

Novotny asked about the South Dakota State Fair promotions, and if other on site promotions are held. Willingham said that the Lottery sets up at the Black Hills Stock Show, and has tried the Sturgis Motorcycle Rally but did not feel it was beneficial.

#### PLAY IT AGAIN

A \$2 and \$3 game promotion has been added along with the \$10K Run promotion. The \$2/\$3 promotion started August 24 and has a \$30,000 grand prize drawing on February 27, 2015. This exceeds the \$2 game top prize and matches the \$3 game top prize, and also allows for a wider variety of players to participate in a second chance drawing. The \$2 games are worth two entries each and the \$3 games are worth three entries each. Monthly drawings will be held during the promotion in addition to the grand prize drawing. Expansion of the program to include the \$5 games will not happen until after the February drawing. The first week saw 5,478 entries, in comparison to 201 entries in the first week of the \$10K Run drawing.

\$10K Run Play it Again Update:

- So far 945 players have entered 12,834 tickets
- Females 62% of the players and 54% of the tickets.
- 19% of players entered just 1 ticket.
- Most entries by one player is 331
- Most days that one player has entered at least 1 ticket is 48 days.
- Most total entries in 1 day is 382
- Most total entries in 1 week is 1,568

These players are located in 192 cities in South Dakota. There are 23 out-of-state players representing WY (15), ND(4), AZ(1), MN(2), and MT(1).

Other stats presented:

- 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
- Most entries in 1 day by 1 player is the maximum of 40(1) and 39(3).

#### **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

A group of 14 coworkers from EMPI in the Clear Lake area won the \$230,000 Wild Card 2 jackpot. Six non-jackpot lotto winners were sold in Beresford, Sioux Falls, Hartford, Mitchell, Huron and Sturgis.

#### INSTANT GAMES

There have been 13 top prize winners of \$4,000 to \$400,000 since the last meeting. The biggest winner was Mary Jo Gortmaker of Miller, who won the \$400,000 top prize in the \$400,000 Jackpot game.

#### FY2015 MARKETING PLANNING MEETING

The plan has now been implemented as FY2015 has begun. The plan shows a shift to more long term consolidated marketing as opposed to campaigns promoting individual products. There will be fewer, more expensive, campaigns that will last longer and utilize more mediums.

The Lottery has also changed the timing of its advertising schedules for better performance measurement. Scheduling marketing campaigns in a more consistent manner will provide a better avenue to compare sales to advertising efforts. The first campaign to use the new scheduling is for the Maximum Money scratch ticket.

**VIDEO LOTTERY MARKETING**

A tool-kit will be available for video lottery establishments with sample print ads, 30 second radio spots and posters. These will be available free of charge and can be customized for the establishment. Casinos will be responsible for the cost of scheduling and printing. The bi-weekly e-newsletter has been redesigned and the Lottery is working to add better content for subscribers as well as improve the accuracy of the distribution list.

**\$10K RUN MINI-DRAWING**

The second mini-drawing was held on August 5, with 11,476 entries and 5 winners who each won \$100 in scratch tickets. Membership in the Players Club has grown steadily due to the Play it Again promotion.

**MCD PURCHASE**

*Deputy Director Clark Hepper reported on the following:*

Currently the MCD (Multi-Channel Communication Device) allows SAS machines to be hooked up to a site controller to connect to multiple SAS machines with the Lottery’s back office system. The lottery requested approval to purchase 100 additional MCD’s at a rate \$525.80 for a total purchase price of \$52,580.00 through its video lottery contractor, Scientific Games International.

Hartford asked what the purchase price was for the original MCD’s purchased. Hepper said the same price applied for the new MCD’s.

**APPROVAL OF THE PURCHASE OF 100 ADDITIONAL MCDs AT \$525.80 each FOR A TOTAL PURCHASE PRICE OF \$52,580.00**

Hartford moved to approve the purchase of 100 additional MCDs. Estes seconded, and the motion carried unanimously.

**VIDEO LOTTERY**

*Deputy Director Clark Hepper reported on the following:*

Net Machine Revenue: Year to Date (as of August 23, 2014)

- FY2015 - \$27.78M
- FY2014 - \$26.23M
- 5.89% ahead of last year

Terminals and Establishment averages: Year to Date (as of August 23, 2014)

<b>Terminals</b>	<b>Establishments</b>
FY2015 - 8,980	FY2015 - 1,390
FY2014 - 9,109	FY2014 - 1,414
1.42% behind last year	1.70% behind last year

The Lottery is seeing an increase in the amount of revenue being generated through the video lottery market with less machines as well as an increase in line games.

Towler asked about the opening of the Hard Rock Casino on August 1 in Sioux City, IA and the possibility of tracking the effect on the North Sioux City video lottery casinos. Hepper said that Lottery has been tracking

revenue in that area since the opening and there has been a slight impact, but year over year net machine income is still increasing in Union County. The situation will continue to be monitored.

Putnam asked to verify the number of legacy games that went offline. Hepper said there were 80. Putnam asked about the data on the net machine revenue and the specifics on the locality or the reason for the increase. Hepper said that the analysis shows that the heaviest populated county had a decrease compared to last year, but there was an increase overall across the state. Analysis continues.

Lingle added that the actions that the Commission has taken to make it easier for the video lottery operators to do business has had an effect on the revenue increase. Turbiville asked about the incentives that the Commission has agreed to allow and the reaction or trend. Lingle said the lottery knows there are promotions out there, but have not heard direct feedback. Social media can be used to help get the word out about these promotions. Hepper added that some of the operators have commented that the increase might be due to the increase in play on the line games.

Hartford asked about the manufacturers granting permission to give information on their games and where the process stands. Hepper said we are still in the process of getting permissions and finding the best way to report that information. Hartford asked if any have responded in the affirmative. Hepper said one has so far.

#### **NEXT COMMISSION MEETING**

The next Commission meeting will be set for the end of November or early December.

#### **ADJOURNMENT**

Hartford moved to adjourn, seconded by Estes. Motion carried and at 12:18 pm the Commission meeting was adjourned.