



## **Minutes of the Commission Meeting**

Room 414, Capitol Building

**December 11, 2014**

Lottery Commission Chairman Chuck Turbiville called the December 11, 2014 meeting of the South Dakota Lottery Commission to order at 10:00 am.

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

**SUPPORT STAFF PRESENT:** Andy Fergel, Norm Lingle, Clark Hepper, Joe Willingham, Kelly Thompson, John Keyes, Sherry Lauseng, Robyn Seibel, Mackenzie Decker

Chairman Turbiville welcomed Robyn Seibel to the Lottery staff as the Director of Security and Video Lottery.

### **APPROVAL OF THE AGENDA**

Commissioner Putnam moved the agenda be approved. Commissioner Hartford seconded. Motion carried.

### **APPROVAL OF THE SEPTEMBER 4, 2014 COMMISSION MEETING MINUTES**

Commissioner Novotny suggested a change on page five, second paragraph, in the second to the last line, the word "If" should be "it."

Noting the change, Commissioner Dykstra moved the minutes be approved. Commissioner Hartford seconded. Motion carried.

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

*Executive Director Norm Lingle reported on the following:*

Lingle stated the Lottery does not plan to introduce any bills during the 2015 Legislative Session but will have a presence during session to continue existing relationships and establish new ties with legislators. In regard to Governor Dugaard's budget address, there were no changes to the Instant and Online or Video Lottery budgets that the Commission approved in September. It was noted that Governor Dugaard has proposed to eliminate the Property Tax Reduction Fund; video lottery proceeds would then go directly into the General Fund. As the Lottery does bi-monthly sweeps for video lottery, depositing money directly into the Property Tax Reduction Fund, we would be replacing that fund with the General Fund if the proposal passes. This process eliminates an additional step for the Bureau of Finance and Management.

On the subject of unclaimed prizes, Lingle advised that the claim period for scratch tickets is 180 days from the date the game closes. For lotto games, the claim period is 180 days from the date of the draw. On average, 1.7-1.8% of sales for both categories combined go unclaimed. SDCL 42-7A-34 outlines the process for unclaimed prizes.

While the Lottery can track ticket and retailer information for unclaimed lotto prizes, the same cannot be said for unclaimed scratch ticket prizes. Press releases, web notices, social media and Players Club emails are utilized to alert players when unclaimed prizes are nearing the redemption deadline.

The Fiscal Year 2014 audit was completed with no findings. This marks more than 20 years of clean audits. Lingle complimented Sherry Lauseng and her staff for their hard work in ensuring that the streak continues.

Estes asked if Director Lingle would be available during the video lottery performance review to be presented by John Keyes. Lingle said yes. Estes also asked if the proposed change in the Property Tax Reduction Fund monies from video lottery will remove the direct relationship between the Lottery and the role in that tax reduction. Lingle said the funds will still be used to reduce property taxes, just through the General Fund. Governor Daugaard was very clear that the 30% tax reduction will still be in place in the budgeting process. Estes expressed concern about the perception that Lottery revenues are not going directly to help fund education, as promised. Lingle said that the process is currently set up for the video lottery dollars to go into the Property Tax Reduction Fund and then into the General Fund, 46% of which is used to fund education.

Turbiville commented that we will need to better educate the public that we are still helping to reduce property taxes. Estes agreed.

### **Problem Gaming Study RFP**

*Deputy Executive Director Clark Hepper reported on the following:*

Earlier this calendar year following discussions during the 2014 Legislative Session, the Lottery issued an RFP to conduct a study identifying and analyzing the effects of the gaming industry in South Dakota. Three proposals to the RFP were received. The respondents indicated that the request was very broad and that several more specific RFP's would better serve the Lottery. The responses came from Spectrum Gaming of New Jersey, the International Gaming Institute at the University of Las Vegas (a combined effort with the Gaming Studies Program at UCLA), and MGT of America from Tallahassee, FL. The bid estimates ranged from \$518,500 to \$600,000. In July, the proposal review deadline was extended indefinitely to allow for a thorough evaluation of the proposals. The Lottery is also in the process of partnering with the Department of Social Services (DSS) to obtain information on the services they provide for problem gaming. The South Dakota Lottery and the Commission on Gaming both provide funding for problem gambling treatment. In the FY2014 budget, \$214,000 was allocated for such treatment;

\$169,326 was used. The Lottery continues to work with DSS to determine how the funds are being used, ways the process can be improved, and how to increase public awareness of the availability of such treatment. Hepper asked for a recommendation or action from the Commission on how to proceed with the RFP process.

Hartford asked if the study was statewide and included Deadwood and tribal casinos as well as the Lottery. Hepper confirmed the study was all-inclusive. Hartford asked if any of the other entities would help to fund the study. Hepper said they have not been involved monetarily at this time. Hartford expressed reservations about the study initially and commented on the proposed cost and lack of participation from other entities.

Commissioner Hartford moved to decline all proposals and cease the study. Putnam seconded the motion.

Discussion continued with Putnam adding that the cost was a deterring factor, and his fear that data from other entities would skew the research information. In seconding the motion, if it was decided to cease the study, the Lottery should still work closely with other agencies like DSS to be sure we have information we can use to explain to the public how the consequences of the industry are addressed.

Hepper advised that staff is currently working to obtain the information and that an annual report for the funds provided by the Lottery has been requested from DSS.

Turbiville asked for updates on the situation. Hepper said the Lottery fully intends to be transparent with the information.

Hartford also asked if the funding for the Responsible Gaming Helpline comes from the Responsible Gambling Council and if the Lottery still advertises that service. Hepper confirmed it is still funded by the Council and there has been a steady decline in the number of calls to that service.

Turbiville asked if the partnership with DSS will provide detailed information about the type of addiction, such as online, scratch games, Deadwood and casino gambling, and if it separates alcohol and drug addictions. Hepper said the data received from DSS does break down the type of game as well as gambling related addictions specifically. In some cases, the gambling addiction is secondary to a drug or alcohol addiction, and that data is also provided.

Turbiville mentioned a discussion with the South Dakota Gaming Commission regarding the \$30,000 provided by Deadwood Gaming for problem gambling programs. Over the past five years, the amount utilized ranged from \$5,000 to \$25,000. This shows that funds are available for those that have a problem and want help, but the allocated money is not being spent. Turbiville asked if we can work with DSS to better sell the program to the public, and evaluate the severity of problem gambling in South Dakota.

Motion to decline the RFP's, cease the study, and continue research with DSS was carried by unanimous vote.

### **Powerball Game Change**

*Executive Director Lingle reported on the following:*

A Powerball game change is expected in April 2015. The primary reason for the change is that sales have become stagnant and are down \$3 million. The game has averaged about 57% of the total lotto sales in South Dakota for the last five years. The game hasn't been changed since 2012 when the price was increased to \$2 per play. Powerball has historically been refreshed every three to five years. The game would change to a matrix of 5 of 66 plus 1 of 32; currently it's 5 of 59 plus 1 of 36. Jackpot odds would go to 1:286,000,000 from 1:175,000,000. Overall odds of winning a prize would change from 1:31 to 1:30. The current Power Play option, which is \$1 extra, would be folded into the base game, allowing for multipliers of 2, 3, 5 and 10 to be applied to all prizes except the jackpot. The multipliers will be weighted. A new add-on option which would qualify players for a second drawing for \$10 million would be available for an additional \$1. A more detailed discussion will be held at the next meeting as a rules hearing is needed to adopt the changes. If the changes are not adopted, South Dakota will have to drop the game.

### **MONOPOLY Millionaires' Club Change**

*Executive Director Lingle reported on the following:*

MONOPOLY Millionaires Club (MMC) launched on October 19, 2014. The game is selling at two cents per capita instead of the estimated five cents per capita. South Dakota is ranked 12th of the 22 states that are selling the game. Among the reasons for the slow start is that the game is complex, with three different ways to win, and retailers have had difficulty explaining the game to players. The launch date marketing also competed with political advertisements with TV and radio spots limiting placement availability. Other states that were planning to offer MMC were not able to make the October launch date. In hindsight, a date should have been chosen to allow all interested states to start the game at the same time. The value proposition is also not as attractive compared to other lotto games. The game has a \$5 price point with a jackpot capped at \$25 million in a market where Powerball starts at \$40 million for \$2 and Mega Millions starts at \$12 million for \$1. Changes to the game are being considered; more information will be available by the end of the year.

Turbiville asked if a game failure has ever occurred previously in South Dakota. Lingle said it has not happened during his tenure.

Novotny asked if there had been marketing surveys and focus groups to study the complexity of the game and the price point for consumers. Lingle said yes. Responses were favorable to creating more winners of smaller prizes. Though MMC looked to create more \$1 million winners, it is becoming clear that the larger jackpot amounts are what sell tickets.

## **Video Lottery Performance Review**

*Business Analyst John Keyes reported on the following:*

The NMI references are for the total revenue and are not to be confused with the State's share of NMI. From October 1989 to the present, total net machine income (NMI) peaked in FY2008 at \$224.6 million. NMI declined in FY2012 to \$176 million but showed gains in the last two fiscal years. Based on the current 6.14% increase over FY2014, we are on pace for \$196.6 million in NMI for FY2015. This would be an increase of approximately \$11.4 million over last fiscal year. When reviewing monthly comparisons for the last three years, the months follow a similar pattern with the exception of October for FY2015. This October had the highest monthly revenue since October of 2010. Additionally, this fiscal year has been above the last two years in NMI, starting with a significant gain in July. Numbers based on average daily NMI by month reveal fluctuation patterns that occur on a monthly basis. February is the highest producing month on a per day basis while July is the lowest with almost a \$90,000 per day difference in NMI. Average daily NMI by day of the week shows that Fridays and Saturdays are the top two producing days. An average Friday brings in 86% more revenue than an average Sunday.

Keyes reminded commissioners that while NMI is the most important figure when analyzing video lottery performance, they should also be aware of cash in and cash out, which generates NMI. Comparing this fiscal year with the previous year, cash in is up 7.5% while cash out is up 8.12%, resulting in a 6.14% increase in NMI. Prior to this fiscal year, the Lottery ran its first video lottery marketing campaign consisting of radio ads, newsprint and YouTube tutorials which ran from February 24 until June 27. In January 2014, NMI was behind the previous year but began to show an increase of almost 2% after the ad campaign began. Through the end of November, NMI was up 5.5%. This is not to suggest that the marketing campaign was the sole reason for the change, but it did play a part.

Geographically, two-thirds of the counties that have video lottery are showing an increase in video lottery revenue. The smaller counties tend to be the most volatile. Of the 15 largest towns in South Dakota, only Brandon and Brookings are showing a decrease in NMI. Those communities not included among the 15 largest towns had a cumulative increase of 4.54% while the 15 largest towns show a cumulative increase of 6.73%. The top 15 towns account for 73.4% of the total NMI. Comparing East River to West River, about 75% of total NMI comes from establishments east of the Missouri River. However, year over year, West River shows an 8% increase in NMI that could be attributed to the early blizzard in FY2013, creating a bigger boost this year.

Keyes reported the line machines have been gradually increasing in NMI while legacy machines are slowly decreasing. Reviewing NMI per day by machine type, the line machines are outperforming the legacy machines (12.1% to 3.11%), but also the number of new line machines is increasing.

Without identifying the manufacturers, Keyes reported the NMI per machine per day for each manufacturers' line machines. Although the figures cannot be tied to their respective

manufacturers, the purpose is to show that there are differences in machine performance from one manufacturer to another.

Putnam asked if the system can detect glitches caused by machine break-ins or machines that are unable to connect to the system. Lingle replied that such occurrences are infrequent and that the system is more likely to identify issues affecting the phone lines.

Estes asked if there was a conclusion on the large gain in this fiscal year for total NMI. Lingle referred to cash in and net machine income by machine type, and indicated the line machine increase resulted in the increase in total NMI.

Estes inquired about the marketing campaign and the delay in the affected increase. Lingle said the focus of the campaign was to make the public aware of what types of games are available, so it could cause a delayed affect in revenues.

Estes asked if there is a legal reason why manufacturer names are not disclosed. Chief Legal Counsel Andy Fergel cited SDCL 47-7A-50.

Dykstra inquired whether Manufacturer A could use the information to compare their product to other manufacturers. Lingle replied the issue would be discussed as part of a later agenda item.

Dykstra asked if the monthly data could be used to strategically target a period of time for marketing purposes. Lingle said the suggestion could be considered.

Novotny asked whether the marketing campaign could be targeted to specific towns with lower NMI and inquired if an executive session was needed to discuss the specific names of the manufacturers. Fergel said that Chapter 42-7A and 1-25 do not warrant this instance to be a reason for an executive session.

Hartford asked whether Keyes' presentation would be available on the web. Lingle replied yes.

## **SALES REPORT**

*Sales Director Joe Willingham reported on the following:*

Instant ticket sales are down 1.5% (\$9.81m versus \$9.96m for the same period a year ago). New games in January include Very Cherry Slingo and Caesars (offering trips to Las Vegas via web entry) with Bingo Plus, Crazy Cashword and 10X The Money scheduled to launch in February.

Willingham provided an update on the Play It Again (PIA) second chance drawing program. For the \$10K Run promotion, 1,066 players have entered 18,955 tickets; 12.5% of all eligible tickets have been entered. Females account for 63% of the players and 54% of the ticket entries. 19% of players entered just one ticket with the most entries by a single player at 398. 212 towns and

eight states are represented. Several mini drawings were held during the course of the promotion; the grand prize drawing for \$10,000 is Dec. 18.

The \$2 and \$3 PIA promotion runs through Feb. 25, 2015 with the \$30,000 grand prize drawing on Feb. 27; mini-drawings will be scheduled prior to the final drawing. To date 931 players have entered 32,885 tickets; the most entries by one player is 1,892 (5.75% of the total). Females account for 65% of the players and 64% of the tickets. The most entries by game (25.30% of the total) are from Cowboy Cashword which is the Lottery's bestselling crossword game ever. 197 towns and 10 states are represented among the entries. Willingham announced that PIA has improved sell through for all \$2 and \$3 games.

Lotto games overall are down 18.7% from the previous year (\$10.3 million vs \$12.7 million). A huge Mega Millions jackpot last year at this time caused a boost in sales. By game, Powerball is down 34.5% (\$5.3 million vs \$8.1 million); Mega Millions is up 21.8% (\$1.73 million vs \$1.42 million); Hot Lotto is up 14.8% (\$1.47 million vs \$1.28 million); Wild Card 2 is down 16.9% (\$830,000 vs \$998,000); Dakota Cash is up 48.5% (\$1.27 million vs \$855,000); and MONOPOLY Millionaires' Club sales are at \$128,000. South Dakota's weekly per capita sales of 2 cents ranked us 12<sup>th</sup> out of the 22 participating MMC states; in terms of players entering their web codes on playmmc.com for a chance to win trips to Vegas, the state had a 47% entry rate which ranked us 3<sup>rd</sup> among the 22 states.

Regarding the question about lotto games that have failed for South Dakota, previous failed games include Roll Down, Daily Millions, and Cash 4 life. Willingham noted that none of them failed to the extent that MONOPOLY Millionaires' Club did in that they didn't lose money.

Willingham delivered the following revenue projections: video lottery \$97.32 million (\$96.72 million prior); instant \$5.04 million (\$5.54 million previously); and lotto \$7.52 million (\$6.86 million prior) with total projections at \$109.88 million (previously \$109.12 million).

## **PUBLIC RELATIONS/ADVERTISING REPORT**

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

Thompson responded to Commissioner Novotny's earlier comments about the video lottery marketing strategy and targeting resources to those localities showing a decrease in revenue by stating that the initial campaign focused on those areas facing direct competition with other forms of gaming. Novotny suggested data from targeted advertising could be used to measure the success of the marketing plan. Thompson said many factors affect revenues, and advertising that doesn't contain a definitive call to action can be hard to accurately measure but such information could be used to improve future marketing plans.

High tier lotto winners since the last commission meeting include: a \$366, 232 Dakota Cash jackpot shared by Brent Banning and Robi Jones-Ward, both of Rapid City; a \$1 million Powerball winner, John Chalk Jr. of Brandon, MS; a \$90,000 Hot Lotto ticket sold in Hot Springs;

\$30,000 and \$20,000 Powerball tickets sold in Rapid City; \$10,000 Powerball tickets in Aberdeen, Hot Springs and Sioux Falls; \$6,000 Wild Card 2 tickets in Herreid, North Sioux City, Wagner and Yankton; and \$3,000 Hot Lotto tickets in North Sioux City, Rapid City, Sioux Falls and Watertown.

Thompson announced 18 scratch ticket top prize winners of \$2,500 to \$50,000 on 14 different games; the largest prize of \$50,000 was won by Randall Deuhr of Sioux Falls and Blake Cunningham of Ewing, NE.

The Lottery's holiday advertising campaign "Pick the Perfect Gift: The Gift That Gives Back" launched the week before Thanksgiving with the goal of increasing instant ticket sales by 3%-5% from last year. The campaign is utilizing ceiling cards, posters, window decals, mall displays at the Rushmore Mall in Rapid City and the Empire Mall in Sioux Falls, television and radio ads, animated website banners, and digital billboards. A Facebook "Perfect Gift" photo contest is also being held for Players Club members with both weekly winners and a grand prize winner.

The first MONOPOLY Millionaires' Club (MMC) Las Vegas Trip Drawing was held Dec. 2. Six winners from South Dakota will travel to Vegas Jan. 8 – 12 with the opportunity to participate in tapings for the nationally televised game show.

The Play It Again \$10K Run grand prize drawing \$10,000 will be held Dec. 18; a mini drawing of five winners of \$100 in scratch tickets each was held Nov. 21. Mini drawings are planned for January and early February for the \$2 and \$3 PIA promotion, leading up to the Feb. 27 grand prize drawing for \$30,000. Play It Again is being promoted through radio, TV, Players Club, social media and the website.

Thompson reported on the completion of the Video Lottery Tool Kit which includes 3 newspaper ads, two posters, two :30 radio ads with donuts for a local tag, and a :30 music bed. The elements are free to establishments with the exception of placement costs. Availability of the toolkit was announced in the Nov. 7, Nov. 21 and Dec. 5 video lottery e-newsletter. To date, no inquiries from among establishments and operators have been received. A mailing is being developed for January to raise awareness of the tool kit, new promotions policy, and the premiums order form.

The Lottery's FY2014 Annual Report is in its final draft stage with a new look for the cover, layout, and highlights section. Hard copies are expected to be printed prior to Christmas and an electronic version will be posted on the website.

Putnam expressed concern about the low interest in the video lottery toolkit. Thompson replied that establishments need to be educated on the importance of advertising and the availability of these resources. Hartford commented that extra legwork in this regard will prove beneficial.



## **Video Lottery Report**

*Deputy Executive Director Hepper reported on the following:*

Video lottery NMI is up over 6% from last year despite a 1.28% reduction in the number of establishments and the number of terminals. As of the second week in December, NMI is up 13.9% making it the 3<sup>rd</sup> best week for revenue in FY2015.

## **Video Lottery Strategic Plan Update**

*Deputy Executive Director Hepper reported on the following:*

The first strategic planning meeting was held two years ago, followed by a meeting with industry representatives and partners to discuss the video lottery market. A consultant was also hired to make recommendations, some of which required legislative and/or administrative rule changes and commission approval.

Hepper reiterated that the overall goal of this process was to engage all partners in trying to increase NMI. Part of that effort includes finding ways to disclose manufacturer revenue information. Discussions have been held with four of the six current manufacturers and they are all interested in participating and understand the benefit of disclosing the information. A memorandum of agreement is being drafted. The Lottery's plan is to create two portals, one for manufacturers to upload and manage their information, and the other for the operators to access information about the manufacturer, the model of the machine, the number of games on the machine, and the net machine income per day. No negative feedback was received from the four manufacturers we have spoken with, and we are working to make contact with the remaining two. If a manufacturer does not sign the agreement, their information will not be shared but likewise they also will not have access to the portal.

Hartford asked if there is currently a way for manufacturers to get information about other manufacturers. Hepper replied that such information is presently shared only with the manufacturer about their own revenues.

Estes said that based on a data that was presented earlier, the line games are performing better and asked if any effort was being made to increase the number of line games in the field. Hepper responded that by sharing the manufacturers' information, all parties involved would be able to see the benefit of increasing the number of line machines in the field.

Estes also mentioned that the legislature allowed for the installation of machines offering penny bets and asked if the percentage of the machines in the field with penny bets is available. Hepper indicated he did not immediately have that information but would get it for all commissioners; currently there is only one manufacturer installing this option.

Hepper added that the strategic plan will also include implementing the G2S protocol in South Dakota. The benefits and infrastructure involved in creating real time connectivity will allow

for increased marketing opportunities, slot tournament play, an operator management system, and player rewards programs.

### **PROPOSED MEETING DATES**

*Executive Director Lingle reported on the following:*

By statute, the Lottery Commission is required to meet at least once per quarter. The following meeting dates were proposed for calendar year 2015:

- March 26
- June 11
- September 17
- December 10

Two or three additional meetings may be added, if necessary.

Putnam commented that knowing the dates in advance would help commissioners be better prepared. Hartford inquired about the deadline to submit an agency bill for legislative consideration. Turbiville replied the deadline was October 1.

Commissioner Putnam moved the meeting dates be put in the calendar. Commissioner Hartford seconded. Motion carried.

Chairman Turbiville encouraged all parties to be prepared for the strategic planning meeting.

Director Lingle advised that an additional meeting may be necessary in February to accommodate a rules hearing for the proposed Powerball changes.

### **ADJOURNMENT**

Commissioner Novotny moved the meeting be adjourned. Commissioner Towler seconded. Motion carried.

Chairman Turbiville adjourned the meeting at 12:05 p.m.