



Minutes of the Commission Meeting
Room 412, Capitol Building
March 26, 2015

Chairman Chuck Turbiville called the March 26, 2015 meeting of the South Dakota Lottery Commission to order at 10:00 am.

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

MEMBER ABSENT: Roger Novotny

SUPPORT STAFF PRESENT: Revenue Secretary Andy Gerlach, Norm Lingle, Clark Hepper, Joe Willingham, Kelly Thompson, John Keyes, Sherry Lauseng, Jennifer Baker and Robyn Seibel

APPROVAL OF THE AGENDA

Commissioner Putnam moved that the agenda be approved. Commissioner Dykstra seconded. Roll was called: Dykstra – Yea, Estes – Yea, Hartford – Yea, Towler – Yea, Putnam – Yea, Turbiville – Yea. Motion carried.

APPROVAL OF THE DECEMBER 11, 2014 COMMISSION MEETING MINUTES

Commissioner Hartford moved that the minutes be approved. Commissioner Dykstra seconded. Roll was called: Dykstra – Yea, Estes – Yea, Hartford – Yea, Towler – Yea, Putnam – Yea, Turbiville – Yea. Motion carried.

SECRETARY OF REVENUE COMMENTS

Secretary Andy Gerlach reported on the following:

Secretary Gerlach introduced Jonathan Harms as the new Public Information Officer and Special Projects Director for the Department of Revenue and explained his position.

2015 LEGISLATIVE SESSION

Secretary Gerlach reported that the Department of Revenue (DOR) was involved in 102 bills and brought 13 bills forward. The Governor signed 11 of those bills. One was deferred to the 41st day and one failed in committee. DOR was tasked to kill 12 bills and killed 10 of them.

10 DOR bills that passed:

- HB 1016 – Revise auditing standards used by DOR
- HB 1017 – Repeal outdated statutes
- HB 1018 – Revise sales & use tax exemptions on farm machinery
- HB 1019 – Revise exemptions on irrigation equipment
- SB 19 – Revise IRS provisions
- SB 20 – Revise age of mobile or manufactured home for real property status

- SB 21 – Revise income guidelines for paraprofessional property tax exemption
- SB 22 – Revise penalty for altering a registration device by auto dealer
- SB 56 – Calculate the gaming tax in Deadwood
- SB 57 – Authorize keno, craps, and roulette in Deadwood
- SB 58 – Adjust penalties given by the Gaming Commission

2 bills that failed:

- HB 1020 – Revise mailing fees for license plates and decals
- SB 59 – Authorize a State Debt Collection Office

Gerlach applauded the Gaming Commission for shepherding SB 56, SB 57 (by referendum), and SB 58 through session and getting them all passed.

Other key legislation:

- HB 1001 – Enables the direct shipment of wine and goes into effect on January 1, 2016. This bill allows up to 12 cases of wine per year, per person shipped to your home from out of state or in state.
- SB 01 –Governors and Highway Funding Committee bills (will raise \$85 million more per year for roads in South Dakota)
 - Motor Vehicle Excise Tax will be raised from 3 to 4 percent on April 1.
 - Motor Fuel Tax raised from 22 to 28 cents per gallon on April 1
 - Increased license plate fees on non-commercial vehicles by 20 percent
 - County Wheel Tax increased from max of \$4 to \$5 per wheel
 - Allow counties and townships to impose additional property taxes for roads and bridges
 - Raise the speed limit on I-29 and I-90 to 80 mph on April 1.
- SB 139 – Authorizes the increase in the number of video lottery machines that may be placed in a licensed establishment. This bill failed in committee. The intent is to get more line games into the inventory. Secretary Gerlach expressed the need to get the Legislature behind this bill going forward as video lottery sales are up 7% and that is the largest increase in revenues in the last year.

The Joint Committee on Appropriations trimmed the Governor’s recommended budget by \$10 million. This was due in part to the ag economy and declining commodity prices. The core funding proposals were 2 percent increases for K-12 per student allocation, State employee salaries, and Medicaid service providers.

DOR’s proposed budget stayed intact, with \$73,638,880 and 248.5 FTE. One FTE will be used to implement the new direct wine shipment program. DOR asked for \$22,125 for auditor out-of-state travel and \$1,300,000 to implement the license plate renewal program as new license plates will be issued in 2016. It’s the first time since 2006 that South Dakota has had new plates.

EXECUTIVE DIRECTOR’S COMMENTS

Executive Director Norm Lingle reported on the following:

Director Lingle introduced Jennifer Baker as the Lottery’s new Information Officer.

Director Lingle provided a legislative update. He explained that House Bill 1050 eliminated the Property Tax Reduction Fund which means that beginning July 1 the video lottery proceeds will go directly into the General Fund.

Commissioners Hartford, Dykstra, and Novotny were all re-appointed to their Lottery Commission positions.

Director Lingle announced the IRS is proposing lowering the reporting threshold from \$1200 to \$600 on a top prize win. Currently the maximum win on a video lottery machine is \$1000. If the IRS were to move forward with their proposal the reporting threshold would be changed to \$600 on a single win. Establishments would need to provide a W2G to winners of a top prize over \$600 on a single wager. The IRS is having a 90 day comment period which expires on June 2, 2015 and they may hold a public hearing on June 17. The Lottery has reached out to industry groups, and included information in our Video Lottery Newsletter to let our partners know this change is being considered.

Several mergers and acquisitions are taking place in the gaming industry. On April 7, the merger between IGT and GTech takes effect. GTech is acquiring IGT, and the new company will retain the IGT name. GTech is our online vendor and also provides some video lottery terminals. Scientific Games, which provides the video lottery central system, has acquired Williams (WMS) and Bally. The Lottery considers these mergers/acquisitions to be a good thing. IGT, Williams, and Bally are widely known within the gaming industry. Lingle said it may be possible to take their game content and introduce new games into the South Dakota market, which could lead to increased revenue.

Lingle noted a March 19 Argus Leader column which posed the following questions: who owns video lottery terminals, how many they own, what is the net machine income of each terminal, etc. The Argus Leader is correct in that how many terminals a person owns and how much net machine income they generate is considered confidential but the licensed operator's names are public knowledge and are posted on our website.

Commissioner Putnam asked if the IRS situation will be explained better in the newsletter. Lingle replied that we will give an overview and provide a link to the IRS website.

Commissioner Hartford asked what document would need to be filled out if the IRS implements the new reporting threshold. Director Lingle was unsure but assumed it will capture the name, social security number, amount of win, and the type of withholding. Hartford asked if it would apply to tribal casinos and Deadwood. Lingle responded yes. Hartford replied that he thought the threshold had been \$600 or \$1000 about 20 years ago and that they had it changed to \$1200. Hartford also commented that if this goes into effect it will be cumbersome for small establishments to keep track of and invasive to the customers.

Commissioner Estes stated it sounds like this IRS rule is beyond the Lottery's responsibility. The responsibility will be on casino operators to follow these new rules if they are implemented. Estes also wondered if, other than making the operators aware of the change, the Lottery will have any involvement. Lingle responded that these operators are our partners, so making things easy for them will benefit the Lottery in the long run. Estes replied that their obligations are created by the IRS, so we have no say in the matter.

Chairman Turbiville reiterated that the Lottery will need to communicate the rules to the operators so operators know what their responsibility is.

Commissioner Hartford asked whether the Lottery Commission could testify at the IRS public hearing. Lingle stated such a public hearing would most likely take place in Washington DC but that written comments could be submitted.

Commissioner Estes inquired about having the Commission direct Lingle to communicate its position to the IRS.

Commissioner Hartford moved to instruct lottery staff to communicate to the IRS what a hardship this will create and what a burden this will put on our system. Commissioner Estes seconded the motion.

Commissioner Towler commented that the proposal did not affect the Lottery or Commission but the operators who may be working through their associations to make comments directly to the IRS. He stated he was having trouble seeing our responsibilities other than notifying operators.

Director Lingle stated a letter could be drafted to the IRS in which the Lottery could act as a proponent for our partner operators.

Chairman Turbiville reminded Commissioners of the motion made by Commissioner Hartford and seconded by Commissioner Estes to have the Lottery staff draft a letter to the IRS indicating our concerns with the new requirements. Roll was called: Dykstra – yea, Estes – yea, Hartford – yea, Towler – yea, Putnam – yea, Turbiville – yea. Motion carried.

STRATEGIC PLAN MEETING

Executive Director Norm Lingle reported on the following:

Director Lingle reminded everybody of the Strategic Planning Meeting scheduled for April 22 and 23. The meeting agenda will include a review of the current plan and what's been accomplished. Input will also be taken from various vendors, associations, and operators to formulate an update to our strategic plan. The meeting will take place at View 34 in Pierre.

RESTORATION OF AMERICA'S WIRE ACT

Executive Director Lingle reported on the following:

Director Lingle provided background on the Restoration of America's Wire Act. The Wire Act is a 1961 statute implemented to prohibit gambling businesses from using wire communication facilities to transmit interstate or foreign commerce sports bets and related information. In 2009, the New York and Illinois Lotteries sought an official opinion from the U.S. Department of Justice to use the internet, including smartphones and out-of-state transaction processors to sell Lottery tickets to in-state adults. In December of 2011, the Department of Justice (DOJ) issued an opinion that the interstate transmission of wire communications that do not relate to sporting events or contests do not fall under the Wire Act. Since then, eight lotteries are selling Lotto tickets through internet subscriptions, real time play of lottery games is being conducted by five lotteries and casino-type games are being offered by two lotteries, along with the state of Nevada.

Director Lingle reported that Representative Chaffetz from Utah intends to roll back the interpretation of the Wire Act to the pre-Department of Justice opinion. Senator Graham from South Carolina may introduce a similar bill on the Senate side. They are getting help pushing this legislation forward from Sheldon Adelson, chairman and CEO of the Sands Corporations.

Lingle stated that he has had conference calls with other lotteries as well as Lottery vendors and their attorneys regarding what effect this will have on the Lottery. It is their opinion that the bill, rather than reinstating the Wire Act pre-DOJ opinion, will actually broaden the Wire Act and prohibit lotteries from using any network involving a wire or like connection including the internet, in transmitting interstate or foreign commerce.

Lingle said under the proposed bill, it's not clear if South Dakota's video lottery program will be legal. A court may have to make that determination. The proposed bill would also severely restrict or eliminate our ability to market or sell lottery products via the internet.

Some things that remain unclear are using the EFT process to pay large prizes, using a smart phone to access additional information (ie. what prizes are available, Play It Again), posting how to play information on websites, use of instant ticket vending, second chance drawings, loyalty programs, ticket checkers, activation and verification of instant tickets, television commercials and promotional advertising, and it may even extend to convenience stores not being able to offer their store location app because they sell lottery products.

The North American Association of State and Provincial Lotteries (NASPL) is opposed to the legislation. NASPL and the lotteries are arguing that this is a State's rights issue. Lingle says that some of his counterparts as well as NASPL attended a hearing on the bill in Washington DC on March 25. The Lottery is working to defeat this bill collectively as a Lottery Association.

Commissioner Putnam asked if Lingle had the House and Senate bill numbers so the commissioners could do their own research. Lingle responded that he would email them that information.

Commissioner Putnam also asked if Lingle was being advised that each state will have to clarify its laws and rules or will the federal rules override what the States have in effect? Lingle explained that as the bill sits now, it's making a blanket federal level decision on what can and cannot be done via the internet.

Commissioner Towler pointed out that both Chaffetz and Graham are Republicans and Adelson is thought to be a good friend of Harry Reid. These relationships could mean there's a better chance the legislation will reach the House and Senate floor. He suggested the South Dakota Congressional delegation be alerted.

VIDEO LOTTERY PRODUCT PERFORMANCE

Deputy Executive Director Hepper reported on the following:

Deputy Executive Director Hepper updated commissioners about the sharing of video lottery product performance numbers, a suggestion that resulted from the Union Gaming Analytics study. The Video Lottery Product Performance agreement will allow the Lottery to share machine manufacturers' performance numbers with each other and our operators. Currently SDCL 42-7A-50 prohibits the sharing of that information. Under the signed agreement, certain information could be shared with operators

via the web. That information would include the manufacturer's machine count by model, software type, and the average daily net machine income.

The second part of the package is to share a detailed report with each manufacturer to let them know what machines are performing best in our market and help them find a variety that best suits the customer base. It also allows the manufacturers to make adjustments as they see fit.

Currently the Lottery shares each manufacturer's performance numbers with them. This proposed agreement would share each manufacturer's performance numbers with all licensed manufacturers in the state that sign the agreement.

The information that would be provided includes the percent of hold per machine, the individual game performances, the percentage of line, keno, and poker games on each manufacturer's machine model, the manufacturer's machine count by individual model, the software on each machine, the cash in/cash out net machine income for each product available, the amount paid, the amount won, payback percentage, games played, games won, and average net machine income by month and day.

Hepper said the Department of Revenue legal staff are currently reviewing the agreement language and the Lottery plans to bring this forward at the next commission meeting.

Discussions have been held with some of the manufacturers; four out of the six are supportive of the agreement. There are 9 manufacturers with products in our market and all of them will be contacted.

VIDEO LOTTERY PRODUCT TOURNAMENT MODE

Deputy Executive Director Hepper reported on the following:

Hepper stated that the video lottery tournament mode was a strategic plan objective. It's a tool to give to operators to increase the play within the establishments. This will allow operators to offer a tournament mode to bring in new players, offer new games, and reward existing players to increase play during slow periods. Tournament games play at a higher win percentage, averaging around 200% versus the normal 92% payout percentage. They're based on a time mechanism where the player has a certain amount of time to play each game and earn credits for each win. Tournament games would be separate from the current programming on the machines and there would be no meter readings available. The bill acceptors and meters are turned off so it would have to be administered by a tech in the field. The Lottery will need safeguards to ensure that we know when the machine is in tournament mode and for how long.

Hepper stated there are a lot of details that still need to be worked out, but the Lottery will be putting together recommendations for commission's approval.

Commissioner Turbiville asked what the payout percentage would be for tournament mode. Hepper responded that currently only one manufacturer has provided a product for the Lottery to review and that manufacturer had around a 200% win percentage.

Commissioner Putnam asked if we'd cover this more in depth at the next meeting. Hepper responded yes.

Putnam also asked if there are other state models that we can look at. Hepper stated he isn't aware of what other states are doing with this but knows this product is used a lot in the casino arena.

VIDEO LOTTERY 18 GAME LIMIT

Deputy Executive Director Hepper reported on the following:

Hepper explained that the Lottery's central system is only capable of handling a certain number of games per software program. The system polls the meters for each game played on a machine every hour and the more games offered, the longer the polling takes. The Lottery is recommending going to an 18 game set for any new software going forward. This change will decrease the cost for game development, machine adjustments, and software packages for the Lottery and all of its partners. The limit would cover an average of 87% of the games currently in the market.

Hepper advised that many of the manufacturers support the concept as it markets the most popular games and evens the playing field from manufacturer to manufacturer.

INSTANT TICKET PACK AUTO SETTLEMENTS

Sales Director Joe Willingham reported on the following:

The Lottery will be implementing auto settlement for ticket packs effective May 12. Willingham offered some background on the current process: originally, in 1987 all packs were billed monthly on the 15th. Retailers had until the first of the month to pay. Retailers had to pay for all packs delivered on or before the 15th, sold or otherwise. Instant ticket automation as we now know it arrived in 1993. We changed it to more of a consignment basis, so retailers didn't need to pay for tickets until they were sold. We now carry more instant games and retailers were reluctant to carry these games until we switched to a consignment type of system.

The way this currently works is that packs are issued via a central computer system. All packs must be activated by retailers via the pack activity card (PAC). The retailer needs to hold onto the PAC until the game is sold out, because the pack must be settled via the PAC. Settled packs are billed each week via electronic funds transfers. Retailers are only billed for settled packs, so they are free to have more inventories without having so much of their funds tied up. The downside is that settling a pack is a manual process. Lottery sales representatives spend a lot of time monitoring these settlements and retailers need to settle promptly to trigger reorders.

AUTO SETTLEMENT

Starting on May 12th, packs will be settled automatically based on the number of winners redeemed from each pack. We know that each pack has an average number of winners and settlement occurs when a percentage of winners from each pack is redeemed - 75% for small packs (\$10 & \$20), and up to 90% for larger packs (\$1 to \$5). Settlement occurs in batch each night.

Before we went into auto settlement we asked the Bureau of Information and Telecommunications (BIT) to develop new web reports for retailers for better tracking. Retailers will now get more details about settlements, inventory, sales, redeems, and end of month reports.

Auto settlement will offer better inventory control for retailers and lottery because settlements occur before sell outs. This will also reduce unnecessary shipping and returns

South Dakota is one of the last states to implement auto settlement, so we would just now be catching up. We think retailers will like the idea.

The PAC card will go away and the Lottery will save \$2,000 per year in printing costs. Retailers will use the ticket itself to activate the pack so there is no need for the PAC card.

SALES REPORT

Sales Director Joe Willingham reported on the following:

INSTANT GAMES

The instant ticket games are up 1.5%, \$17.69m vs \$17.49m. We got a nice bump in February from the Maximum Money soft re-launch (about a 20% bump) and also the \$3 games are doing well due to the Play It Again feature.

The MONOPOLY Millionaires' Club scratch ticket launched March 16th. The Lotto ticket version of this was suspended quickly, but the entries for the second chance went well, so they've created a scratch ticket and so far it's doing well.

Other upcoming ticket launches include Jr. Jumbo Bucks and Jumbo Bucks Two (early April); and \$100K No Tax (the initial withholding is covered in the prize amount so you walk away with \$100K) in mid-May along with \$50K Jumbo Bucks and Sunny 7s.

We had our Play It Again drawing in February for a \$30,000 winner. Nearly 77,000 tickets were entered, 63% of those were entered by females. Cashword games were the most popular entry (about 25% of the entries) and 6% of all non-winners were entered.

There will be a Play It Again drawing in August to draw a \$30,000 top prize winner. 9,400 tickets have been entered so far and the stats are nearly identical to the February promotion. The \$3 games are selling better than ever.

Other second chance games include Caesars, which offers 2 trips to Caesars Palace in Vegas. Caesars is doing well with over 3,600 entries to date – 7% of all non-winners. MONOPOLY Millionaires' Club is another second chance game and so far has 606 entries – 15% of non-winners.

The second chance drawings offer some benefits like better sell through, reduced printing – FY15 = \$368K, FY14 = \$474K, down 22.3% in cost, and reduced ticket returns – down 22.7% to date.

We will be sending out requests for information for a new instant ticket contract. Our current contract expires in August of 2016. This is just the information gathering part of the RFP process.

LOTTO GAMES

The Lotto games are down 12% (\$18.9m vs 21.5m). The Lottery gained a little ground since our last meeting when we were down 18.7%. There was one big Powerball jackpot run of \$585 million and that helped a lot, but we still have a lot of ground to make up before the end of the fiscal year with no big jackpots for Powerball and Mega Millions right now.

Game by game stats

Powerball - \$10.42m vs. \$12.07 – DN 13.7%

Mega Millions - \$2.853m vs. 2.72m – UP 4.7%

Hot Lotto - \$2.34m vs. \$2.15m – UP 8.8%

Dakota Cash - \$1.76m vs. \$1.37m – UP 48.5%

Wild Card - \$1.39m vs. \$1.66m – DN 16.8%

REVENUE PROJECTIONS

Video Lottery - \$98.43 million

Instant - \$5.22 million

Lotto - \$8.03 million

Total - \$111.68 million

Commissioner Estes asked if we are running ahead last year, but behind the budget amount. Lingle said that collectively we are running ahead of the budget and ahead of last year due mostly to the strong performance of video lottery. Estes summed up that we are getting more revenue out of fewer machines in fewer locations.

Commissioner Estes left the meeting at 11:30 a.m. and at that time a five minute break was taken.

Commissioner Towler was unavailable directly after the break.

ADVERTISING AGENCY RFP

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

The Lottery's current advertising services contract with Robert Sharp & Associates ends on June 30, 2015. A request for proposals (RFP) was issued on March 6 for a new advertising agency. Twelve advertising agencies in South Dakota and fourteen out-of-state agencies (IA, MN, NE, ND) were notified directly about the RFP. This is the first time for notifying out-of-state agencies. The RFP was also posted by the state Purchasing office and appears on the Lottery Insider and NASPL websites.

The terms of the contract resulting from the RFP will be the same as our current contract. The initial contract is for two years, with the option to extend for additional periods for a total term of five years.

The Lottery is looking for a full-service agency – one that can assist with strategic planning, the creation, production and placement of television, radio, print, website, billboard and point-of-sale, the development and expansion of social media and digital marketing, as well as new innovations in marketing.

Questions to the RFP were due March 20. Questions were received from three different agencies and the answers were posted on the Lottery website.

Written proposals are due by 4:00 p.m. on March 27. The evaluation team will review the proposals during April and hear oral presentations from the finalists in early May. A recommendation will be presented to the Lottery Commission at the June 11 meeting. Following the Commission's approval, a Notice of Intent to Award a Contract will be issued and a new agency will be in place to start July 1.

Commissioner Putnam asked if there would be a report at the Strategic Planning Meeting. Thompson answered no. Director Lingle clarified that the April meeting will be a Strategic Planning Meeting and the RFP would be discussed at the June 11 Commission meeting.

PUBLIC RELATIONS/ADVERTISING REPORT

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

BIG WINNERS (SINCE 12/11/14)

Lotto Games

There were two Dakota Cash jackpot winners: \$102,417 was won by Charles Beynon of Watertown in the January 24 drawing and \$53,682 was won by Merle Hulm of Bison in the March 4 drawing.

16 Non-jackpot high winners were noted in Mega Millions, Powerball, Hot Lotto, and Wild Card 2 ranging from \$3,000 to \$25,000.

Instant Games

The Lottery has had 23 top prize winners of \$2,500 to \$400,000 since the last meeting in 16 different games. The biggest winner for \$400,000 was Elmer Hermann of Mitchell on a Maximum Money ticket. That's the largest scratch ticket prize out there right now.

MONOPOLY Millionaires' Club Trip Drawings – Game Show

Two drawings have been held and 12 South Dakota players have won trips to Vegas; six each went in January and February.

During each trip, six game show tapings are held and each show has a local segment. The South Dakota trip winners will be featured during the local segments playing a mini game for cash prizes.

All trip winners also have the chance to win cash during the show, either by being called onstage to play a big game or if someone from their section is called up to play and if that person wins, everyone in their section wins the cash prize as well.

Thompson advised that the MMC game show was to premiere on Saturday, March 28 at 11:35 p.m. CT on KSFY and again on Sunday, March 29 at 5:00 p.m. MT on KOTA.

The featured South Dakota winner during the premiere was Charlotte Corbine of Rapid City who went on the first trip January 8 -12.

Play it Again

The first grand prize drawing was held on December 18, 2014. The \$10,000 grand prize winner was Wanda Howey-Fox of Yankton.

The second grand prize drawing was held February 27, 2015. The \$30,000 grand prize winner was Edward Ries of Mobridge.

The third promotion began February 27, 2015 and that drawing will be held on August 28, 2015. There is a \$30,000 grand prize and all \$2 and \$3 games currently available for purchase are part of this promotion.

Play it Again is promoted through radio, TV, web, Players Club, and social media.

Between Play it Again and MMC, the Players Club has 9,874 active members now on the listserv. They are receiving weekly emails and are eligible to enter tickets in the Play it Again and MMC drawings.

Video Lottery Targeted Advertising

Thompson reminded the commission that at its last meeting, Commissioner Novotny asked about geo-targeting video lottery advertising to determine its effectiveness and see the impact on net machine income.

A targeted advertising campaign will begin March 30 and run thru May 31 in southeastern South Dakota. Counties include: Bon Homme, Clay, Hanson, Hutchinson, Lincoln, McCook, Minnehaha, Turner, Union, and Yankton.

In choosing where to target first, Lottery business analyst John Keyes divided the state into four regions and looked at the percentage increase in net machine income in each region over the preceding four months. Since no region showed a decrease, the region that posted the smallest increase was chosen. All video lottery advertising efforts will be concentrated in that region for three months. This will involve TV ads, radio ads, and nine static billboards, with a couple of them along the interstate and the rest along SD highways. Digital marketing which will deliver ad messages across websites, mobile devices and social media will also be used. Those messages will go to people 21 years old and older in the target area who've indicated an interest in gambling and video lottery. The ad will drive them to the Lottery website to the list of video lottery casinos. The digital marketing and billboards will start in April.

Thompson advised that net machine income in the target area will be tracked during the geo-targeted campaign and any measurable increases noted. If it proves successful, other areas may be geo-targeted in the future.

VIDEO LOTTERY E-STATEMENTS

Director of Video Lottery and Security Robyn Seibel reported on the following:

Seibel reported that the Lottery has started a pilot project of giving operators access to their video lottery and phone billing statements electronically. Nine operators ranging from large to small are participating in a beta test. Twice a month an auto generated email will go out and they will log into a secured website where they can view the statement as either a pdf or a text file. The e-statements are stored on a secured site for up to six months after which time the oldest statements are deleted. The test operators reported that they are very pleased with this new process. The Lottery plans to have all operators comfortable with downloading the e-statements by the end of fiscal year 2015.

VIDEO LOTTERY REPORT

Director of Video Lottery and Security, Robyn Seibel reported on the following:

As of March 14, the net machine income for fiscal year 2015 is \$139.34 million, up over 7% from last year at this time.

As of March 14 there were 8,946 terminals for fiscal year 2015, down 1.24% from 2014. There are 1,381 establishments for fiscal year 2015, a 1.64% reduction when compared to 2014. Seibel said even with the reductions noted the net machine income is still ahead of fiscal year 2014 at 9.64 million.

As of March 20, there were 2,219 line game machines, 743 MCDs connected to the central system and 6,712 legacy game machines in the field. That's an increase of 369 line games; MCDs increased by 67 from this time last year.

The Lottery has been promoting ways to protect establishments from burglary and theft. On the website, under the Retailer and License Information link, there is a section called Burglary Alert: Protecting Your Business. There are tips for casino owners such as training employees to make note of suspicious activity, implementing a plan for employees to protect themselves and customers and making sure employees empty the video lottery machines and tills before closing. There is also a Burglary Self-Assessment test available online for our operators to help them identify areas they can improve to protect their business. Some of the areas addressed on the assessment include: building exterior (are entrance points well lit), door security (are any unused doors secured, are keys issued to the appropriate people), windows (are unused windows sealed), other openings (skylights, roof hatches secured), safes (is the safe designed and placed in an area to eliminate the threat of burglary), alarms (is there an alarm system, is it tested periodically, does it protect all vulnerable areas) and office security (are keys restricted to those that need them, is there a way to track keys from terminated employees, is there a policy in place and enforced that discusses the guarding of keys). To be sure casino owners know that these safety tests are available online, the information has been posted in the Video Lottery Newsletter and included in the packet sent to all new video lottery licensees.

Chairman Turbiville asked if with the reduction in terminals and establishments, is there any one area or community that we can see is part of a pattern. Seibel directed the question to Lingle, who said the Lottery would review the data to see if a pattern exists.

TWO DRAW POKER PAYBACK PERCENT REQUEST

Brian Harms reported on the following:

Director Lingle provided information on Declaratory Ruling 89-1 which was repealed and states that the commission would not entertain any request for a payback higher than 92%. Part of the reason for repealing 89-1 was ARSD 48:02:08:03. Manufacturers are required to file a request and seek approval for any machine paying out greater than 92%. Such a request was made by Brian Harms with Monkota Gaming of Watertown.

Brian Harms and Travis Carrico addressed the commission regarding a two draw poker game on which Carrico holds a patent. It was explained that two draw poker has an additional skill level to give the player a second chance to purchase an additional draw. After the initial play, the player can choose to be done or for an additional purchase, can draw again from the same deck. Adding that second level of skill creates a higher expected return for the house. With video poker there is the optimal payback percentage as well as the expected payback percentage because video poker players in general do not play perfectly. Carrico advised that the expected hold percentage will be much greater than 92%, so if they came out with this game at 92%, the expected hold would be lower than 88%. This will result in players not wanting to play the game and the game will fail. Harms and Carrico are requesting to have an optimal payback of 96%, since the expected payback percentage would still remain below 92%.

Director Lingle recommended that discussions continue between Harms, Carrico and the Lottery and that a recommendation be made at the June meeting.

Commissioner Hartford commented that he thought 95% was the limit and that the commission had the right to go from 92-95% but not past that. Lingle responded that video lottery games that are affected by player skill, such as draw poker, should pay out a minimum of 83% and no more than 96%.

Chairman Turbiville asked if coming back to the June meeting for a recommendation is acceptable to Harms and Carrico. They replied in the affirmative.

NEXT MEETING DATE – APRIL 22 & 23, 2015

Executive Director Norm Lingle reported on the following:

Director Lingle advised that the Strategic Planning Meeting would go from 1-5 p.m. on April 22 and from 8:30 a.m. until we get done on April 23 at View 34 in Pierre. More information will be made available as the date gets closer.

Chairman Turbiville encouraged anyone involved with video lottery to attend the Strategic Planning Meeting and send their comments to Director Lingle .

Commissioner Towler inquired about lodging for the meeting. Director Lingle asked the commissioners to reach out to June Classen in our Lottery office to make arrangements.

ADJOURNMENT

Commissioner Hartford moved to adjourn the meeting. Commissioner Putnam seconded. Motion carried.

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