



Minutes of the Commission Meeting

Room 412, Capitol Building

June 11, 2015

Chairman Chuck Turbiville called the June 11, 2015 meeting of the South Dakota Lottery Commission to order at 10:00 am.

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

SUPPORT STAFF PRESENT: Jen De Hueck, Norm Lingle, Clark Hepper, Joe Willingham, John Keyes, Sherry Lauseng, Jennifer Baker and Robyn Seibel

APPROVAL OF THE AGENDA

Commissioner Putnam moved that the agenda be approved. Commissioner Hartford seconded. Roll was called: Aye - Dykstra, Estes, Hartford, Novotny, Towler, Putnam, and Turbiville. Motion carried.

APPROVAL OF MARCH 26, 2015 COMMISSION MEETING MINUTES

Commissioner Hartford moved that the minutes be approved. Commissioner Dykstra seconded. Roll was called: Aye - Dykstra, Estes, Hartford, Novotny, Towler, Putnam, and Turbiville. Motion carried.

APPROVAL OF APRIL 22-23, 2015 COMMISSION MEETING MINUTES

Commissioner Putnam moved that the minutes be approved. Commissioner Novotny seconded. Roll was called: Aye - Dykstra, Estes, Hartford, Novotny, Towler, Putnam, and Turbiville. Motion carried.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

Director Lingle introduced Jen De Hueck, who filled in for Andy Fergel as legal counsel at this meeting.

Director Lingle gave an update on the Internal Revenue Service's (IRS) proposal to lower the reporting threshold to \$600. At the current level of \$1200, there's no effect on video lottery because the highest win is \$1,000. At \$600, the establishments will need to provide W-2G's to winners of \$600 or more. A letter was sent to the IRS explaining that the Lottery's systems would need to be adjusted, terminals would be down, and small businesses would need training to learn the new rule and provide IRS paperwork to winners. The IRS will conduct a public hearing on June 17, 2015.

Commissioner Putnam asked if this information was posted in a newsletter. Lingle responded there was an article in the video lottery newsletter.

Estes asked where the meeting will be held. Lingle responded Washington DC.

Director Lingle next gave an update on the Restoration of America's Wire Act. The North American Association of State and Provincial Lotteries (NASPL) and vendors are monitoring this topic. Representative Chaffetz from Utah picked up one co-sponsor, but his steam is slowly dissipating. The Lottery will continue to monitor progress on this bill.

Lingle also advised that tournament play and the request to exceed the 92% payback is on hold until Harms Vending is ready to proceed

STRATEGIC PLAN

Executive Director Norm Lingle reported on the following:

Director Lingle thought the meeting went well with great participation from vendors, manufacturers, and operators. Commissioners will be updated on progress at upcoming meetings.

Lingle reminded everyone of Lottery's mission statement and the objectives the Lottery has accomplished so far.

He then discussed the Legislative strategic plan objectives to add progressives and increase the maximum bet. The Lottery has hired Andrew Jones to undertake a qualitative study on progressives and maximum bets. Jones has conducted research for the Oregon Lottery using focus groups and other methods. He will conduct focus group surveys in three communities – Sioux Falls, Aberdeen, and Rapid City. There will be three focus groups of ten people each: one group consisting of people who play video lottery at least once a week, a second group of monthly video lottery players, and a third group that do not play video lottery but have visited a casino within the past six months. The Lottery looks forward to hearing the results of this study to help guide its decisions.

Novotny asked how the three focus groups and communities were selected. Lingle responded that Lottery relied on Mr. Jones' expertise to make those decisions.

Updates on non-legislative objectives were also provided. The Lottery is in discussions with Scientific Games International (SGI) regarding the management system and is looking to set up a webinar presentation regarding this update.

POWERBALL GAME CHANGE

Executive Director Lingle reported on the following:

Director Lingle reported that Powerball is South Dakota's number one lotto game, but the numbers through May 31 are down 16.7% year over year. Powerball accounts for over 50% of yearly lotto sales and was last changed in January 2012 when it went from a \$1 to a \$2 game.

Key Features of the new Powerball include:

- Higher Average Jackpots
- Better Overall Odds – 1:25 from 1:31
- Faster Growing Jackpots
- Match 4+1 prize goes from \$10,000 to \$50,000
- Includes a 10X feature for Power Play on jackpots between \$40 million and \$151 million

These changes will take effect on October 4, 2015. A rules hearing will be conducted on July 30, 2015.

Commissioner Towler asked if all states are looking at the same decline in play. Lingle stated the 16.7% decline is just in South Dakota, but all states are seeing a decrease. Towler questioned whether there was a correlation between the doubling of the ticket price and the decline in sales. Lingle replied that sales went up, but the number of plays decreased.

Commissioner Novotny added that games need to be refreshed, but wondered how key features were picked. Lingle answered that research was done on various potential game changes. This game has a 50% payback, for every \$2 ticket purchased, \$1 goes to Lottery, and \$1 goes into prizes and jackpots.

Commissioner Putnam wondered if other states are as dependent on big jackpots to drive sales. Lingle responded South Dakota is more dependent on large jackpot driven lotto games because we don't have the population base to support an in-state large jackpot game like some other states. The Lottery is looking into broadening the selection of lotto games, as it would like to lessen its dependence on Powerball.

VIDEO LOTTERY PRODUCT PERFORMANCE

Deputy Executive Director Hepper reported on the following:

Deputy Executive Director Hepper discussed the product performance agreement that was sent to Grand Vision Gaming, Harms Gaming, International Game Technology (IGT formerly GTECH), MTD, Scientific Games, and Techlink Entertainment. These manufacturers were requested to reply to sign the agreement June 30, 2015.

The agreement will allow the Lottery to share various performance numbers with manufacturers who sign the agreement. All manufacturers that sign the agreement will be able to see each other's numbers and performance stats. Results will be reported in three tiers - top, medium, and low – with about 444 establishments per tier. This will allow manufacturers to make adjustments by knowing which machines are performing best in a specific market. Also sharing cash in/cash out information based off game title and machine, as well as amount played/amount won and games played/games won.

Towler asked how top, middle, and bottom tiers were established. Hepper said the tiers were established by net machine income (NMI) per establishment. Lingle said the number of establishments was broken into thirds – based on NMI per category. They then take the number of machines per manufacturer in each tier and rank them.

Hartford wondered why requests were sent to only seven of the ten manufacturers. Hepper responded that three of the manufacturers are no longer producing games.

Putnam asked whether all of the industry would be able to see the performance data. Hepper said this data will be shared only with manufacturers that have signed the agreement. The public will see manufacturers' month and year to date machine count per machine model as well as the average daily NMI per month and year to date per machine model.

Hartford asked if hold would be included. Hepper responded in the affirmative.

Towler wondered how many agreements have come back. Hepper responded that none have come back at this time. Towler also wondered if the information would be useful if not all manufacturers signed the agreement. Hepper responded that there hasn't been resistance in signing these agreements. The only

negative comments came on reporting the information as a whole, so breaking information into tiers addressed that concern.

Performance sharing will begin July 2015 provided the manufacturers have signed the agreement.

VIDEO LOTTERY 18 GAME LIMIT

Deputy Executive Director Hepper reported on the following:

Deputy Executive Director Hepper explained that currently our central system is only capable of handling a certain number of games per set. The site controller within the establishment polls each machine and game per hour – and with the current communication system, the Lottery is only capable of handling a certain number of games per set. Limiting the game set to 18 games would solve this problem. Game sets would need to be maintained in penny, nickel, dime, and quarter games. Operators/manufacturers will select what games they want in their game set. Lottery has heard mostly support from operators and manufacturers. An 18 game set would cover approximately 87% of the games available in the market.

Putnam asked if the Commission has any say in how this can or can't be done. Hepper responded that the Lottery will bring a declaratory ruling to the Commission regarding the 18 game limit. Other states typically limit to 12 games.

Towler asked why Lottery polls every hour. Lingle said polling hourly helps to capture the most current machine data should a machine fail.

Towler asked if operators are losing money due to polling. Hepper answered no.

Novotny wondered if operators will need to drop a game to add a new game. Hepper answered they would need to trade games out. The software could contain more games, but only 18 would be available for play at one time.

VIDEO LOTTERY E-STATEMENTS

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

The e-statement pilot project is complete. Eleven operators were included in the three month beta test. In May the beta test was deemed successful and all remaining operators were notified of the upcoming change. Twice a month an auto-generated email will be sent to operators notifying them that their statement is ready. Statements can be downloaded as pdf or text files and exported to Excel.

About 50 operators have responded so far with around 80 left to go. The process will start out with paper and e-statements in July until operators are comfortable with the new system. In October Lottery will stop sending the paper statements.

VIDEO LOTTERY REPORT

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

Seibel reported on net machine revenue and terminal and establishment averages. Net machine income (NMI) for FY15 is \$182.51M which is a 7.38% increase over FY14. The number of terminals in FY15 is at 8,947, which is down 1.14% from last year. The number of establishments is at 1,378, which is 1.71% less than in FY14. So the number of terminals and establishments is down, but the NMI is up.

Video lottery FY15 revenue projection is \$98.67M vs. \$91.61M in FY14, projecting an increase of 7%.

Commissioner Estes asked why video lottery is up 7% over last year. Lingle answered it's a combination of adding new games, eliminating such things as the seating requirements and opening up the promotion policies, and the implementation of advertising.

Estes wondered if line games are the reason for the increase in NMI. Lingle responded the number one driving factor in the revenue growth is the newer machines. Estes commented that growth in revenue is outpacing growth in new machines, so the more line machines added, the faster revenue will grow.

Towler asked if more advertising dollars were spent on video lottery. Lingle replied, no, the Lottery allocated advertising dollars to video lottery for the first time two years ago.

Estes wondered what percent of advertising dollars are spent on video lottery. Lingle answered roughly one ninth of our advertising dollars are spent on video lottery.

INSTANT TICKET PACK AUTO SETTLEMENTS

Sales Director Joe Willingham reported on the following:

Auto settlement started May 12, 2015. Packs are now settled automatically based on the number of winners redeemed from each pack. No technical problems at all and no bounced sweeps (NSF due to retailers being unaware). Lottery sales staff did a great job of explaining the process to the retailers.

Benefits include:

- Fewer sell outs now that the pack can be settled before it's gone
- Fewer shipments – Retailers that used to carry extra tickets no longer need to
- Less work for the retailers – Lottery can settle for them
- Net sales on packs settled
- Number of packs needing settling is way down

Hartford stated that he doesn't understand how it works, but good job. Lingle responded this is just another way to use technology to improve our bottom line.

SALES REPORT

Sales Director Joe Willingham reported on the following:

INSTANT GAMES

The Instant Games – Up 1.05%, \$22.95M vs \$22.71M, led by our \$20 game Maximum Money and our new \$10 game \$100K No Tax.

Coming Soon – \$2 games Joker's Wild and Fire and Ice AND \$5 game South Dakota Limited

Play It Again (PIA) – Update for August 28 drawing of \$30,000 prize

- 43,918 tickets are entered so far – around 5% of non-winning qualifying tickets entered
- 64% of tickets are entered by female players
- \$3 games make up 58% of all entries
- All new \$2 and \$3 games will have the PIA logo on front and back beginning in August

Caesars Second Chance – January drawing

- Over 5,599 entries to date – 7% of all non-winners
- 977 different players
- 57% of tickets are entered by female players

MMC Second Chance – trip to Las Vegas and to be on the game show to possibly win \$1M.

- 11,472 tickets have been entered – 22% of all non-winners.

Instant ticket request for information (RFI) – Two vendors have scheduled July presentations; the Lottery is still waiting on the third vendor.

LOTTO GAMES

Down 11.41%, \$23.65M vs 26.69M

- Powerball - \$12.70M vs \$15.24M – Down 16.7%
- Mega Millions - \$3.63M vs 4.57M – Down 20.6%
- Hot Lotto - \$3.15M vs \$2.90M – Up 8.6%
- Dakota Cash - \$2.12M vs \$1.81M – Up 17.1%
- Wild Card - \$1.88M vs \$2.17M – Down 13.4%

REVENUE PROJECTIONS

- Instant - \$5.28M
- Lotto - \$7.82M
- Video - \$98.67M
- Total - \$111.77M

ADVERTISING AND RELATED SERVICES CONTRACT RECOMMENDATION

Executive Director Norm Lingle reported on the following:

The Lottery's current contract ends June 30, 2015. A request for proposals for Advertising and Related Services was issued March 6, 2015 with a due date of March 27, 2015.

Five agencies responded by the deadline:

- Epicosity, Sioux Falls
- Flynn Wright, Des Moines, IA
- Fuseideas, Winchester, MA
- Lawrence & Schiller, Sioux Falls
- Media One, Sioux Falls

Four agencies were invited to give oral presentations (all but Fuseideas) with presentations completed on May 18, 2015. Each presenting agency was scored individually by the Lottery evaluation team. All individual scores were added together to form an overall team score for each agency in each of seven rating areas – overall proposal, understanding Lottery's advertising standards and policies, efficient billing methods and effective performance measurement practices, cost proposal, experience, creativity/innovation, and overall ability to meet Lottery's advertising needs.

Based on overall scores and group discussion, the field was narrowed to three agencies then two finalists, neither of which worked with the Lottery previously. Finalists were further judged on what they

offered in terms of products, resources, knowledge, research capabilities, and overall advertising experience.

Our Recommendation: Lawrence & Schiller

Initial Contract: Two years

Emphasis: Performance measurement, effective media placement, market research, innovative advertising techniques

Extensions: Three one-year extensions with potential overall contract of five years

Effective date: July 1, 2015

Turbiville asked who was on evaluation committee. Lingle responded that he, John Keyes, Clark Hepper, Kelly Thompson, and Joe Willingham were on the committee.

Towler wondered what the contract was worth and if there is a performance clause. Lingle stated that \$900,000 is budgeted for advertising and related services. No performance clauses, but Lawrence & Schiller will be reporting on the effectiveness of their campaigns.

Towler asked the value of the initial contract. Lingle said Lottery has a total budget of \$900,000 per year for advertising and related services, which would include Lawrence & Schiller's fee, placement costs, cost of commercials, point of sale ads, and so on.

Hartford commented that the Commission doesn't need to be privy to Lawrence & Schiller's profit percentage and only needed to know that they are the best team for the job.

Estes stated he feels it's important to know where the money is going – what's spent on advertising and what's spent on placement of ads. Lingle said the contract has been through legal and is very similar to the previous contract held with Robert Sharp and Associates. The Lottery is eager to move forward with the contract as July 1 is fast approaching. Lingle then asked if it would be acceptable to get the Commissioners the numbers after the meeting.

Hartford moved that the Commission move forward with the 2 year contract. Dykstra seconded.

Estes wondered if the contract allocated certain amounts to go toward specific portions of Lottery. Lingle responded that money has been already been allocated to instant/online and video lottery, they are two separate budgets, and money cannot be moved between the two.

Putnam commented that Commissioners would like to be kept in the loop on budgeting. They'd like to know more about the numbers involved in this contract.

Hartford stated that these budgets were approved already and if commissioners wanted to make a change in the budgets, it should be done during budget discussions.

Estes asked if a one year contract would be a better idea so the Commission could increase video lottery advertising dollars. Lingle responded that Lottery can direct Lawrence & Schiller on how to spend the money.

Hartford moved that the Commission authorize Lottery staff to enter into a contract with Lawrence & Schiller for two years. Dykstra seconded. Roll was called: Aye – Hartford, Putnam, Turbiville, and after passing the first time around, Novotny. Nay – Estes and Towler. Motion carried.

Turbiville reiterated that Lottery staff will need to get Commissioners the numbers on how much money goes to Lawrence and Schiller, how much goes to placement, etc.

Hartford questioned whether the Commission could increase the video lottery advertising budget. Lingle responded in the affirmative.

PUBLIC RELATIONS/ADVERTISING REPORT

Business Analyst John Keyes reported on the following:

BIG WINNERS (SINCE 3/26/15)

Lotto Games

One Dakota Cash jackpot winner: Laura Landreth of Rushville, NE won \$97,589 in the May 13 drawing on a ticket purchased in Spearfish.

15 Non-jackpot high winners:

- POWERBALL with POWER PLAY - \$30,000 – Rapid City
- MEGA MILLIONS with MEGAPLIER - \$15,000 – Deadwood
- POWERBALL - \$10,000 – Yankton
- HOT LOTTO with SIZZLER - \$9,000 (2) – Kadoka – Sioux Falls
- WILD CARD 2 - \$6,000 (8) – Deadwood – Oacoma – Pierre – Rapid City – Sioux Falls
- HOT LOTTO - \$3,000 (2) – Coleman – Sioux Falls

Instant Games

There were 13 top prize winners of \$2,500 to \$50,000 since the last meeting on 12 different games

Biggest winners won \$50,000, one playing Aces High and one playing Right on the Money, both of which are \$5 games

VIDEO LOTTERY TARGETED ADVERTISING CAMPAIGN UPDATE

The targeted advertising campaign began March 30 in southeastern South Dakota. Counties included: Bon Homme, Clay, Hanson, Hutchinson, Lincoln, McCook, Minnehaha, Turner, Union, and Yankton. All video lottery advertising efforts were concentrated in that region, including TV, radio, nine static billboards, and digital marketing messages to people 21 years old and older in the target area who indicated an interest in gambling and video lottery. Television and radio campaigns ended June 6, but billboard and digital campaigns will continue through July 19. For April and May, the 10 counties in the southeast region were up 10.25% from the previous year – the rest of the state was up 8.53%. So it appears the targeted advertising campaign had a positive impact and the Lottery proposes continuing efforts in a different region in the first quarter of the new fiscal year.

Novotny asked how much money was spent on that campaign. Lingle responded that he will get those numbers to the Commissioners after the meeting.

Estes wondered how much money was spent versus how much was made during the advertising. Lingle said he will get those numbers as well.

Putnam asked if the Lottery will continue this campaign on a yearly basis. Keyes responded that the Lottery will continue to track the outcome to see if new players were gained from the campaign.

PLAY IT AGAIN DRAWINGS

The next grand prize drawing for \$30,000 is Aug. 28 – all \$2 and \$3 games currently available for purchase are eligible for the drawing.

To keep interest high among players, mini prize drawings will be held June 16 and July 14 – five winners will be randomly drawn from among all entrants for each drawing.

In the past, mini prize drawing winners received \$100 in scratch tickets, but to get Lottery retailers involved, the prizes for mini drawings will be \$100 gift cards from participating retailers and winners will choose which retailer to receive a gift card from.

As of June 9, 245 retailers in 80 different communities are participating.

The Lottery is advertising Play It Again through radio, TV, website, Players Club, and social media.

MONOPOLY MILLIONAIRES' CLUB TRIP DRAWINGS – GAME SHOW

To date, 12 South Dakota players have won trips to Vegas – six each went in January and February.

The next trip drawing is June 30 with the deadline to enter non-winning MONOPOLY Millionaires' Club tickets on June 28, 2015.

Each game show taping includes a local segment featuring a South Dakota trip winner playing a mini game for cash prizes – our players have won from \$100 to \$10,000 in mini game prizes.

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

The game show airs Saturday nights at 11:35 CT on KSFY and Sunday nights at 5:00 MT on KOTA.

Novotny said he was intrigued by the different programs available and wondered if they were driving sales. Keyes responded if we look at the percent of non-winning tickets entered, it shows that these programs are getting people involved.

NEXT MEETING DATE – July 30, 2015

Commissioner Turbiville set the next meeting date for July 30, 2015.

Putnam pointed out that three major events will transpire before the next meeting, including: the focus group, product performance reports, and e-statements. He would like Lottery staff to send information out in advance for the commissioners to review.

ADJOURNMENT

Commissioner Putnam moved to adjourn the meeting. Commissioner Novotny seconded. Motion carried. Chairman Turbiville adjourned the meeting at 12:05 p.m.