



Minutes of the Commission Meeting

View 34 – Pierre, SD

Thursday, July 30, 2015

Chairman Chuck Turbiville called the July 30, 2015 meeting of the South Dakota Lottery Commission to order at 10:04 am.

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

SUPPORT STAFF PRESENT: Jennifer De Hueck, Andrew Fergel, Norm Lingle, Kelly Thompson, Joe Willingham, John Keyes, Sherry Lauseng, Jennifer Baker, and Robyn Seibel. Clark Hepper was present by teleconference.

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 JUNE 11, 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.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

Director Lingle gave an update on the 18 game set policy saying that it would be put on hold until an unanticipated issue can be resolved.

Next Lingle discussed the licensed manufacturers and distributors in South Dakota. For fiscal year 2016 (FY16), there are five licensed manufacturers and six licensed distributors. Techlink is no longer a licensed manufacturer or distributor and MTD switched from distributor to manufacturer.

Director Lingle updated the Commission on the Restoration of America's Wire Act. Senator Graham of South Carolina submitted a bill that allows lotto, instant and video lottery, but would prohibit online/internet gaming. The Lottery will work with the North American Association of State and Provincial Lotteries (NASPL) and continue to support that this is a state's rights issue.

POWERBALL GAME CHANGE – 10:15 a.m.

Executive Director Lingle reported on the following:

The Powerball game group voted to make a change to the Powerball game. The primary reason for the change is that sales have become stagnant. Sales in South Dakota were down about 18% in FY15 when compared to FY14. Powerball accounts for close to 50% of Lotto sales in South Dakota. 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. This change is the eighth time it's been revamped since it began in 1992.

The game would change to a matrix of 5 of 69 plus 1 of 26; currently it's 5 of 59 plus 1 of 35. The number of white balls would increase by 10 and the number of red balls would decrease by 9. Jackpot odds would go to 1:292,000,000 from 1:175,000,000. The overall odds of winning a prize would change from 1:31 to 1:25. Key features include a higher average jackpot, a faster growing jackpot, the match 4 plus 1 prize goes from \$10,000 to \$50,000, and in the Power Play portion of the game a 10 times multiplier would be included on jackpots between \$40,000,000 and \$150,000,000. The matrix change is scheduled to take effect on October 4, 2015. If the change is not adopted, South Dakota will be required to stop selling the game when the change takes effect.

If approved, the change will be presented to the Legislative Rules Review Committee for approval on August 17, 2015.

Chairman Turbiville opened the floor to public testimony, but no one came forward and no written comments were submitted.

Commissioner Novotny moved to approve the proposed Powerball game changes. Commissioner Dykstra seconded. Roll was called: Aye - Dykstra, Estes, Hartford, Novotny, Towler, Putnam, and Turbiville. Motion carried.

EXECUTIVE DIRECTOR'S COMMENTS (CONTINUED)

Executive Director Norm Lingle reported on the following:

The Dakota Cash drawing process will now be conducted by the Multi-State Lottery Association (MUSL). Director Lingle gave some background to explain how this decision was made. In 2005, MUSL paid for auditors to be present at each lottery to verify that all drawings were conducted correctly. MUSL can now oversee the drawings through a connection with all the vendor and state systems. This eliminated a need to have auditors at all drawing locations. MUSL continues to have auditors at their office in Des Moines, IA and South Dakota utilizes those auditors for its services. Once the need for the MUSL auditors went away, a request for proposals (RFP) for auditor services was issued, but there were no responses. Lottery had auditors from the Department of Revenue serve as auditors for Dakota Cash, but it became increasingly difficult to get people to perform those duties. MUSL already had auditors, so Lottery reached out to have MUSL conduct the draw for Dakota Cash.

Hartford asked if the audit from MUSL is done electronically. Lingle explained that it will be similar to how the Multi-State games are handled. MUSL will receive a fee for performing the Dakota Cash drawing.

The Lottery's Sioux Falls office is moving from the corner of Western and 49th to a space in the same area near the Western Mall. Remodeling will be done to make the warehouse space into an office complex. The new space will give the Lottery access to electronic signage on 41st and Western Avenue and will have a warehouse space and loading dock to unload, store and ship tickets to retailers.

Commissioner Turbiville suggested that once the Sioux Falls office is complete, a meeting should be held in that office. Lingle said that around October 15, the Lottery anticipates moving into that space. Commissioner Dykstra wondered if the Lottery was the only tenant in the new building. Lingle responded that Scheels also has storage there. Turbiville asked whether there will be enough room to have a meeting in the new Sioux Falls location. Lingle answered that there are plans to create a nice sized meeting room in the new Sioux Falls office.

STRATEGIC PLAN

Executive Director Norm Lingle reported on the following:

The Lottery staff went through a webinar proposal with Scientific Games regarding their management system and concluded that upgrading the management system should be put on hold since real time connectivity is such an important component of the system.

Lingle talked about the real time communication objective. DSL real time hasn't been very successful. The Lottery is working with SGI on using Interface Protocol (IP) cellular to make real time connections. A pilot project of around 6-10 establishments will be started in August and by the time the Commission meets in September those sites should be connected.

Shared performance reports will start in August. The July data will be posted within the first two weeks of August. Agreements with Grand Vision, International Gaming Technology (IGT), and Spielo have been signed, but all other manufacturers have indicated that they will sign.

A focus group report on progressives and increasing the maximum bet was completed. In the draft report, the participants were supportive of progressives in the \$10-\$15,000 range and not opposed to increasing the max bet if needed.

ELECTION OF COMMISSION CHAIR AND VICE CHAIR

Commission Chair Chuck Turbiville reported on the following:

Commissioner Turbiville asked for nominations for Chair. Hartford moved to re-elect Commissioner Turbiville, Dykstra seconded. Roll was called: Aye - Dykstra, Estes, Hartford, Novotny, Towler, Putnam, and Turbiville. Motion carried.

Commissioner Turbiville called for nominations for Vice Chair. Hartford moved to re-elect Commissioner Putnam, Novotny seconded. Roll was called: Aye - Dykstra, Estes, Hartford, Novotny, Towler, Putnam, and Turbiville. Motion carried.

FY15 SALES

Director Lingle reported on the following:

Director Lingle reported instant sales were up 1.2%, with a total of \$25.8 million. This is the second highest level since lottery began – just under the first year at \$26 million. \$2 and \$10 games had the greatest increase in sales. \$5 games had the largest decline.

Lotto sales were down 11.3%, finishing at \$25.3 million. Powerball had the highest sales at just over \$12 million, which was a decrease of 18% since last year. Dakota Cash was up 15% and Hot Lotto was up 7%.

Video Lottery was up 7.5% over last fiscal year. Line games seem to be a significant factor in driving those sales increases.

MULTI-CHANNEL COMMUNICATION DEVICE (MCD) PURCHASE

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

Multi-channel communication devices (MCDs) are distributed to establishments so that the slot accounting system (SAS) protocol can connect to the central system. The Lottery retains ownership of the MCDs and

provides them to the establishments. As of July 29, 2015, there were 797 active MCDs installed and 2,432 line games connected to the central system. Around this time last year there were 682 active MCDs and 1,927 line games connected. Seibel asked the Commission for authorization to purchase 100 more MCDs at a cost of \$52,580.

The Lottery has a total of 900 MCDs, 797 of them are active, five are in the Lottery office to ship out, 15 are being repaired, and 41 are active but waiting to be hooked up.

Director Lingle stated that the Lottery has encouraged establishments to invest in new machines and that helping them out by providing MCDs is important.

Dykstra moved to allow Lottery to purchase 100 MCDs, Hartford seconded. Roll was called: Aye - Dykstra, Estes, Hartford, Novotny, Towler, Putnam, and Turbiville. Motion carried.

VIDEO LOTTERY REPORT

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

Video lottery's net machine income (NMI) is at \$13.62 million as of July 25, 2015. Last year at this time it was at \$12.72 million, so the NMI is up 7% over last year.

In comparing the number of terminals, the Lottery currently has 8,935 terminals and at this time last year there were 8,990, making the number of terminals .61% behind last year.

There are currently 1,365 establishments and at this time last year there were 1,388.

The revenue projection for FY16 is \$105.55 million, at this time last year we were at \$98.29 million.

Next, Seibel provided an update on e-statements project. The pilot project started in May went well, so Seibel set up most of the remaining operators with access to the system. The Lottery has been receiving positive feedback from all but a few operators. At this time, 116 operators are set up, three are closing their business, and six have yet to be set up. Operators will receive paper copies through October 2015 and the Lottery will be sending email reminders as time gets closer to going paperless.

SALES REPORT

Sales Director Joe Willingham reported on the following:

INSTANT GAMES

The Instant Games are up 6.86%, \$1.89 million versus \$1.76 million, led by our \$20 game and new \$10 game \$100K No Tax, and Mega Fortune.

COMING SOON

In late August Lucky Dog Doubler, Black & White, and Big Money Cashword will be available. In mid-September Beginners Luck Bingo and Diamond Slingo make their debut.

Play It Again – UPDATE FOR AUGUST DRAWING

This is the Lottery's second chance drawing for all \$2 and \$3 non-winning tickets. Top prize is \$30,000 for a late August drawing. Kelly will have further details.

- 67,000 tickets are entered so far, which is on par with first drawing
- 64% are female
- \$3 games make up 56% of all entries

- 69 out of state players (3.82% of the total) from 13 states: WY(27), ND(14), MN(7), IA(6), NE(5), MI(2), CO(2), ID(1), IN(1), NY(1), MT(1), NC(1), OK(1).

OTHER SECOND CHANCE – CAESARS

This is our \$5 game that offers two trips for two to Las Vegas including rooms, airfare, meals, and spending money. All non-winning tickets for this game are eligible for entry.

- Over 6,644 entries to date – 7% of all non-winners – Drawing in January
- 1,116 different players

OTHER SECOND CHANCE – MONOPOLY MILLIONAIRES’ CLUB scratch ticket game

Non-winning tickets from this \$5 game allows players to win a trip for two to Las Vegas and appear on the MMC game show with a chance to win up to \$1,000,000.

- 16,617 tickets have been entered – 24% of all non-winners – Next Drawing August 18.

Instant ticket request for information (RFI) saw presentations from Scientific Games (SGI), IGT, and Pollard (PB). The RFI is the prelude to the instant ticket Request for Proposal (RFP). The RFI’s purpose in part is to find out what each vendor offers exclusively and whether or not to ask for any of these exclusives. The RFI also helps us to word and format the RFP to help ensure that we get the best possible offers from all vendors. The RFP target date is November 1 and the contract is due in a year. Starting on the RFI-RFP now gives the Lottery plenty of time to prepare and plenty of time for vendors to read and respond and makes a small contract such as ours more attractive as there is less pressure and resources diverted from big states that may also be bidding contracts at the same time.

LOTTO GAMES

The Lotto Games are down 9.33%, \$1.55 million versus \$1.71 million. No big jackpots was the main reason.

GAME BY GAME

- Powerball - \$744,000 versus \$892,000, down 16.6%
- Mega Millions - \$308,000 versus \$220,000, up 40%
- Hot Lotto - \$207,000 versus \$327,000, down 58%
- Dakota Cash - \$153,000 versus \$131,000, up 16.8%
- Wild Card - \$135,000 versus \$136,000 – almost Unchanged

Novotny asked if our numbers coincide with other states’ numbers. Willingham responded in the affirmative, saying all the states are in the same boat with low jackpots and low ticket sales.

REVENUE PROJECTIONS

- Instant - \$5.79 million
- Lotto - \$7.14 million
- Video - \$105.55 million
- Total - \$118.48 million

ADVERTISING SERVICES CONTRACT

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

The advertising and related services contract was signed and filed July 2, making Lawrence & Schiller of Sioux Falls our advertising agency of record.

A fiscal year 2016 marketing planning meeting was held in Pierre July 9-10, 2015.

Discussion included:

- Projects that need to be accomplished within the next three to six months – (State Fair, Powerball branding campaign (joint campaign among all states), signage for new Sioux Falls office, holiday scratch tickets)
- Researching who our players are and how to reach them better
- Rebranding the Lottery with a new logo, new website design, and a new image. The Lottery has had the same logo for 10-12 years.

Work has already started on a study that would look at why people don't currently play the lottery – and the public's perception of the Lottery as a brand and what messages about our agency resonate with potential players.

Lottery staff met with Lawrence & Schiller on July 29 to discuss potential changes to the Lottery logo, ideas for the Lottery website, and how to make it a better resource yet more engaging for visitors. The re-branding will launch January 2016.

PUBLIC RELATIONS/ADVERTISING REPORT

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

BIG WINNERS (SINCE 6/11/15)

LOTTO GAMES

5 Non-jackpot high winners:

- Mega Millions with Megaplier - \$25,000 – Spearfish
- Hot Lotto with Sizzler - \$9,000 (2) – Pierre – Rapid City
- Hot Lotto - \$3,000 (2) – Fort Pierre - White

INSTANT GAMES

There have been 12 top prize winners of \$2,500 to \$100,000 since the last Commission meeting in 12 different games. The biggest winners were two \$100,000 winners, one on 20x the Money, and one on Mega Fortune.

VIDEO LOTTERY MAILING

A video lottery mailing was sent to about 1,370 establishments statewide. Each received an updated poster (rules of play, where to find odds information, problem gambling contact information), a copy of the promotions policy, information on the marketing tool kit, and an order form for premium items (t-shirts, can koozies, coasters). The Lottery has received several emails thanking them for the information.

53 requests for premium items have already been processed and three requests for the tool kit (poster and ad templates, as well as radio ads) have been received. The Lottery is capturing email addresses from these premium orders so the establishments can start receiving the bi-weekly Video Lottery E-Newsletter to keep them better informed.

PLAY IT AGAIN/MONOPOLY MILLIONAIRES' CLUB DRAWINGS

PLAY IT AGAIN

There have been two Play it Again (PIA) mini drawings since the last meeting, held June 16 and July 14. Five winners were randomly drawn from among all entrants for each drawing.

Each winner received a \$100 gift card from the participating lottery retailer of their choice. As of the July 14 drawing, about 260 retailers from 80 communities were participating.

The next PIA grand prize drawing for \$30,000 is August 28. All \$2 and \$3 games currently available for purchase are eligible. Beginning August 29, we'll be promoting the first PIA promotion for 2016 called "Lucky Leap". The \$30,000 grand prize drawing for that promotion will take place on Leap Day, February 29, 2016.

MONOPOLY MILLIONAIRES' CLUB

A Vegas trip drawing was held on June 30. Three South Dakota players were drawn to win a trip to Las Vegas and a chance to appear on the televised MONOPOLY Millionaires' Club game show. Winners in the June 30 drawing were from Clear Lake, Hartford, and Watertown. Their trip is August 9-13.

The next MONOPOLY Millionaires' Club drawing is August 18.

STURGIS BILLBOARDS

One million people are expected to attend the 75th Annual Sturgis Motorcycle Rally. The Lottery has 10 digital billboards in the Rapid City area, running July 27 thru August 10. The billboards are rotating Lottery branding messages on non-draw days with jackpot alerts for Mega Millions and Powerball on draw days.

NEXT MEETING DATE – SEPTEMBER 17, 2015

Commissioner Turbiville set the next meeting date for September 17, 2015 at LRC room 412.

ADJOURNMENT

Commissioner Turbiville moved to adjourn the meeting. Commissioner Hartford seconded. Motion carried. Chairman Turbiville adjourned the meeting at 11:11 a.m.