Minutes of the Commission Meeting  
Room 412, Capitol Building  
January 7, 2016

Chairman Turbiville called the Jan. 7, 2016, meeting of the South Dakota Lottery Commission to order at 10:00 a.m.

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

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

APPROVAL OF THE AGENDA
Commissioner Hartford moved that the agenda be approved. Commissioner Putnam seconded. Roll was called: Aye – Dykstra, Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

APPROVAL OF THE MINUTES FROM DEC. 10, 2015 MEETING
Commissioner Putnam moved that the minutes be approved. Commissioner Hartford seconded. Roll was called: Aye – Dykstra, Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

EXECUTIVE DIRECTOR’S COMMENTS
Executive Director Norm Lingle reported on the following:

Lingle briefed the commissioners on the Powerball jackpot run, saying it was creating a lot of excitement and press coverage. The jackpot was sitting at $650 million for the Jan. 9 drawing.

Next Lingle talked about the future of Wild Card 2 which is offered in Idaho, Montana, South Dakota, and North Dakota. The game group decided to end the Wild Card 2 game with the last draw on Feb. 24. The decision was made because the game was paying out more in prizes than when it was designed, which caused prize reserves to be depleted, and the risk of continuing the game was too great. Wild Card had been around since 1997 and originally started in Idaho, Montana, and South Dakota. Approximately 10 years ago North Dakota joined. Each game has a life span and over the last 20+ years Wild Card exceeded its lifespan. Now Lottery will work with vendors to come up with a game to fill that niche.

Dakota Cash has been offered in South Dakota since 1993, and has only undergone one change – going from a once a week draw to a twice a week draw. Lottery worked with International Game Technology (IGT) to come up with ways to refresh the game, and decided to add an EZ Match option to the game that would cost an extra $1 much like the multiplier options in other lottery games. Dakota Cash is a five number game; with the EZ Match instant win feature an additional five numbers will be generated, each with a different prize value. If any EZ Match numbers match the Dakota Cash base game numbers, the player instantly wins that amount. EZ Match has been instituted at a number of lotteries across the United States and has increased sales by 17-25%, which equals an increase in net revenue. Lottery staff plans to have rules for the EZ Match add-on ready for the next Commission meeting.

Chairman Turbiville asked where the money to pay off the Powerball jackpot comes from when someone in South Dakota wins. Lingle explained that Powerball is a 50% game, which means that 50% is kept by the State and 50% funds prizes. The sales information gets reported to the Multi-State Lottery Association (MUSL), who determines the jackpot for the drawing and an estimate for the next drawing. Lingle advised jackpot winners to first sign the back of the ticket.
and put it in a safe place, then take a moment to relax, collect their thoughts, visit with a financial advisor, and take time to make decisions. It takes two weeks for MUSL to collect the funds to pay the jackpot. Winners should use that time to consider whether to take the annuity or cash option. Once the winner comes in to claim the prize, the Lottery is required to take 25% of the value and send it to the Internal Revenue Service (IRS) as a down payment on taxes, and it is just a down payment – there will be additional obligations owed. Lingle encouraged people to play responsibly, because it only takes one ticket to win.

**LAWRENCE & SCHILLER REBRANDING CAMPAIGN**

*Lawrence & Schiller representative Sam Gotham reported on the following:*

Sam Gotham from Lawrence & Schiller (L&S) said the Lottery needs an image campaign because out of 1700 survey respondents from all over the state, 54% had a neutral opinion of the Lottery. That means that Lottery needs to define itself better. The main component of a brand or image is the logo. Lottery’s current logo has been around for over 10 years. The new logo is cleaner, more modern, and works well in multiple sizes and mediums.

Through research, L&S found that there are many misconceptions about how the Lottery works, where the money comes from, where it goes, and how many people win. The branding campaign will focus on “good fun” – that’s who Lottery is. Good for South Dakota. Fun for South Dakotans.

The feel and tone of the branding message will be fun, social, creative, approachable, different, entertaining, and optimistic.

**CAMPAIGN ELEMENTS**

A NEW CAMPAIGN SITE, GoodFunSD.com, will explain what “good fun” is, where the money goes, and who Lottery is in an entertaining and social way. All other campaign elements will draw players back to the GoodFunSD.com landing page to learn more about the Lottery. The campaign site is different than the Lottery site, but both sites will link to each other.

BILLBOARDS would be digital and start with a corner scratched off – every week revealing more of the url – GoodFunSD.com. Another option would be a static billboard that says “Good for fun. Fun for good” with the url and logo.

POINT OF SALE (POS) POSTERS will take an odd random fact (for example – Did you know cotton candy was invented by a dentist?) and add a fact about the Lottery (How about that the South Dakota Lottery gave $112 million back to the state last year?), and then lead potential players to GoodFunSD.com for more amazing facts.

TV/RADIO/DIGITAL CAMPAIGNS will showcase “Good Fun” in all three areas of the Lottery (instant, online, and video) and again lead customers to GoodFunSD.com.

L&S plans to roll out the campaign in mid-February, with the campaign website, POS products, and radio ads running throughout the campaign, and television, digital media and billboards running intermittently.

Commissioner Estes asked what a landing page is. Gotham explained that a landing page is a simple website with only one or two pages.

Commissioner Putnam wondered if the campaign would cover only SD. Gotham responded in the affirmative, but added that radio and digital will hit a larger audience.

Commissioner Estes asked if specific games would be promoted. Gotham said that the plan is to promote the Lottery as a whole first and specific game promotions will come later.
Lingle commented that a lot of hard work went into the research and development of the new branding campaign. The branding campaign is just the first step and will evolve to include various products into the advertising. Redesign of the Lottery’s main website will also be done to reflect the new brand and image.

**VIDEO LOTTERY PERFORMANCE REVIEW**

*Business Analyst John Keyes reported on the following:*

TOTAL FISCAL YEAR (FY) NET MACHINE INCOME (NMI) THROUGH DECEMBER was 4.29% ahead of last year and on pace for $207.68 million for FY16. In FY15 NMI was almost $200 million, which was a 7.5% increase over the previous year. If NMI continues to increase at 4.29%, Lottery will surpass its FY08 peak revenue in FY18.

IN A THREE YEAR MONTHLY COMPARISON OF NMI, you can see that July was the strongest month (7.7% over the year before) and August was the weakest month when compared to last year. Over the past four months NMI has been sitting at the 3-4% range, with no strong trend upward or downward. February, March, April, and May are historically the strongest for video lottery, and will have a big impact in how video lottery ends up for the fiscal year.

**TERMINAL COUNTS BY MACHINE TYPE – FY15 & FY16**
The overall number of terminals stayed steady at around 8,900 through FY15 and FY16, with line terminals increasing while legacy were decreasing. In December line machines were 29.7% of active machines, up from 23.7% last December. This trend has been ongoing and the replacement of the legacy machines is continuing at about the same rate.

**CASH IN AND NET MACHINE INCOME BY MACHINE TYPE – FY15 & FY16**
Line machine revenues were increasing, while legacy revenues were decreasing with 39% of revenues coming from line machines versus 30% the previous year. This trend has also been ongoing and is continuing at about the same rate.

**NMI PER TERMINAL PER DAY BY TERMINAL TYPE – FY15 & FY16**
To get a true comparison of line and legacy machines, you need to look at NMI/Day/Terminal. For the 12 months ending in December, line terminals averaged $90.30 in NMI per day per terminal, while legacy averaged $52.01. Over this 18 month period legacy terminals have been flat, while line terminals increased from about $77 to the current $90 level. More recently, during FY16, the line terminals have leveled off at around $90. This is possibly due to the performance of video lottery in general – last year 7.5%, this year 4.29%. Also, the increase in the number of line terminals caused their performance to level off. The bigger increases we saw previously should not have been expected to continue as more and more line machines were put in the market. But line machines are still outperforming legacy machines by almost $40 in NMI per terminal per day.

**VIDEO LOTTERY MARKETING CAMPAIGN**
Region 4 (southeast portion of the state) was targeted for the video lottery marketing campaign due to underperforming in that region. The video lottery marketing campaign’s success is based on looking at three different time period comparisons - pre, campaign, and post, using regions 1-3 as a baseline for comparison for region 4. Pre-campaign region 4 underperformed by -5.38% (this is why we targeted this region). During the campaign region 4 outperformed regions 1-3 by 1.89%. Post-campaign region 4 still outperformed regions 1-3 by 0.24%, which leads to the determination that the campaign had a positive impact.

**TOP VIDEO LOTTERY MARKETS**
The top cities for video lottery are Sioux Falls, Rapid City, North Sioux City, Aberdeen, Yankton, Watertown, Mitchell, Huron, Pierre, Brookings in that order. All of these cities are the most populated, except for North Sioux City. In North Sioux City there are only 2,600 people, yet that city generates a NMI similar to Aberdeen (27,800 people), so North Sioux City has far and away the highest per capita NMI. This is obviously due to Sioux City, IA being just across the border. Video Lottery NMI in North Sioux City after the first year of Hard Rock Casino (opened August 1, 2014) was 0.02% year over year, while statewide NMI was up over 8%. The money loss attributable to Hard Rock Casino is around $976,000, which is about a half percent loss on statewide revenues. The good news is that this is isolated to North Sioux City, and five-county nearby area was in line with the rest of the state.
PRODUCT PERFORMANCE SHARING is made available on the Lottery website each month. The three manufacturers agreeing to it were Grand Vision Gaming (GVG), IGT, and Spielo. The performance report includes monthly data and fiscal year to date.

Commissioner Dykstra asked if the North Sioux City amount of $2,172 per capita was correct. Keyes answered that the population of Sioux City, IA of about 82,000 is not included in the population of North Sioux City.

Commissioner Hartford pointed out that if the 2010 NMI of $215 million was used as a base and all lost revenue was added up (possibly from the smoking ban that started part way through 2011), it would equal around a 147 million loss.

Commissioner Estes wondered why the line games were leveling out. Keyes responded that in general when there were less line machines they were in higher demand, but when more are added in they start to level out. Estes mentioned that the most desirable locations have the new machines already and operators fear buying new machines won’t give them the growth that the line machines had in the beginning. Keyes responded that line machines are still outperforming legacy, but the growth has been flattening out over time.

Commissioner Hartford pointed out that an increase is an increase and the increase has been sustained which adds to revenue. It’s still a growth over the legacy machines; it’s just not going any higher at this point.

VIDEO LOTTERY SECURITY RECOMMENDATIONS
Director of Video Lottery and Security Robyn Seibel reported on the following:

Seibel reported that currently the Lottery sends a burglary self-assessment form to all new licensees when a new license is mailed out. The self-assessment form is also available on the Lottery’s website and asks questions about the establishment’s alarm system, safes, windows, doors, and building exterior. The assessment is provided as a guide for establishments, but the licensing process requires establishments to monitor machines by mirror, direct visual observation, camera system or all three, as long as the machines are being monitored.

At the Dec. 10 Commission meeting, Commissioners asked Lottery staff to look into a security assessment for video lottery establishments. Seibel said Lottery can have a security assessment completed. First, a risk assessment would be conducted, and would include reviewing the exterior and interior of the building, current safety practices, and employee and customer interaction. The assessment would also include assistance in the creation of best practices and building criteria for self-assessment based on their findings from the risk assessment. This kind of an assessment would cost between $41,000 and $55,000 and would require Lottery to open up a request for proposal (RFP).

Lingle reiterated the current practices of the Lottery and recommended taking a month or two to put together an RFP that would bring in a firm to visit a couple of establishments and bring back best practices recommendations for establishments as well as the Lottery itself.

Commissioner Putnam asked if the Lottery’s website had an assessment of what should be done by establishments to stay secure. Seibel said the burglary self-assessment is available on the website and covers what should be done in all aspects of security for establishments.

Next Putnam asked if any of the security measures are mandated and if that would be part of the RFP. Lingle responded that there is not a mandate, but in administrative rule there are some general guidelines.

Commissioner Hartford suggested the Lottery tread carefully in regard to mandates and treat different levels of risk differently. He suggested moving toward highly recommended rather than mandated security measures.

Commissioner Putnam agreed with looking into security recommendations.

Commissioner Estes agreed that the Lottery needs to seek security recommendations, but would also like to consider some security requirements because of the recent number of robberies in Rapid City and Sioux Falls. Estes would like to put out the RFP and then consider whether to mandate or recommend certain security measures to establishments. He
also suggested that Lottery staff work with Chairman Turbiville to draft the RFP since he has had discussions with law enforcement.

Commissioner Dykstra agreed that research should be done, but would want to look over the facts before considering any mandates.

Commissioner Novotny would also like to go ahead with the RFP, find out the facts, get the recommendations, and follow up later.

Turbiville asked that an RFP be put together and ready for Commissioners to look over at the next commission meeting.

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

Seibel reported NMI for FY2016 as of Dec. 31, 2015, was $101.93 million versus $97.74 million in FY2015, 4.29% ahead of the previous year.

Looking at terminals, there are currently 8,915 terminals which is .46% down from FY2015’s 8,956 terminals.

The number of establishments was 1,350, which is down 2.03% from the 1,378 the previous year.

The revenue projections through the end of December show $102.80 million and in FY2015 it was $98.29 million.

Commissioner Hartford mentioned that a 2% loss in establishments would equal 28 establishments and wondered if that was a larger than normal loss. Lingle replied that the contraction in the number of establishments may be reflective of some adjustments that were recently made.

Commissioner Novotny would like some analysis done on video lottery NMI based on date of deployment to find out if where the machines are deployed makes a difference in NMI. Lingle suggested that Novotny and John Keyes discuss this further and bring their findings to the next meeting.

PUBLIC RELATIONS/ADVERTISING REPORT
Director of Advertising and Public Relations Kelly Thompson reported on the following:

Within the last hour the jackpot for Powerball was raised to $700 million which is the highest ever jackpot in Powerball and United States Lottery history. Thompson reminded people to please play responsibly because it only takes one ticket to win. There are a lot of new players because of the high jackpot. If someone in South Dakota wins the jackpot – first thing to do is panic, then gather the Lottery team who will each take care of their own part of the process.

Thompson reminded the commissioners that although the L&S branding campaign is focusing on the lottery as a whole, Lottery staff will still be using social media, the website, and the Players Club to promote specific areas.

Big Winners Claimed (since 12/10/15)

LOTTO GAMES

There have been two jackpot winners since the Dec. 10 meeting. Susan Nickle of Deadwood won $6.7 million in the Dec. 9 Hot Lotto drawing and Roger Van Twisk of Sioux Falls won $149,512 in the Dec. 12 Dakota Cash drawing.

4 Non-jackpot high winners:

- Hot Lotto: $9,000 – Rapid City
- Wild Card 2: $6,000 - Sturgis
- Hot Lotto: $3,000 (2) – both in Sioux Falls

INSTANT GAMES

There have been five top prize winners of $5,000 of more since last meeting in three different games. The biggest winner was Tammy Philips-Lundie of Rapid City, who won $133,333.33 playing $100,000 No Tax.
**Branding Campaign**
Initial changes will be to update the logo on the signage at all lottery offices, letterhead, and business cards. Lottery staff is currently working to update forms, applications, publications, etc. with the new logo and will roll them out when the branding campaign launches.

Lottery staff is working with BIT and L&S on the re-design of the main website and Players Club site, but if the site is not ready by the branding launch, the logos on the current site will be updated.

**Wild Card 2**
Wild Card 2 will have its final draw Feb. 24, with a press release issued after today’s meeting. To date, only Montana has announced the game is ending. They issued a press release in mid-December, because their method for purchasing advance draws is different than the other three states. There will be no joint marketing effort by the remaining three states. Notice will be posted on the Wild Card 2 game page on the website, in the January-February Lottery Link, on social media, in terminal messages to retailers, and in Players Club messages. Jan. 27 will be the last opportunity to buy advance plays.

**Marketing the Sioux Falls office move**
The Sioux Falls office has been in the same location since Lottery started, so there is a need to get the public used to not going so far down Western Avenue. Lottery began marketing the move on Dec. 30 with pictures posted on the website and social media of new office construction. This marketing will continue weekly until March 1 (expected move in date). There is an article in the Jan./Feb. Lottery Link and the video lottery e-newsletter will also be covering the move. A press release will be issued closer to the actual move-in date, as well as Players Club messages and social media posts.

**Retailers Association booth**
The South Dakota Retailers Association’s Annual Meeting and Legislative Briefing will be held Jan. 11 at the Ramkota in Pierre. The Department of Revenue will have a booth and Lottery will help man it. This is a good opportunity to remind retailers of the benefits of selling Lottery products and to reach out to businesses that don’t currently sell but may be interested. Lottery will give out a hand-out, copies of the FY2015 Annual Report, problem gambling brochures, and some small premium items.

**Black Hills Stock Show**
The Black Hills Stock Show is Jan. 29 – Feb. 7 and Lottery has a booth at the Rushmore Plaza Civic Center in Rapid City. The Stock Show will be Lottery’s first chance to showcase the new logo/brand with banners, as well as premium items for giveaways. The stock show special features the new X-Family games that launch Feb. 1.

**SALES REPORT**
*Sales Director Joe Willingham reported on the following:*

**INSTANT GAMES**
Instant games were up 2.3%, $12.8 million versus $12.5 million, led by the 3 holiday games. Lottery had a good holiday season and was up 8% over last year from Dec. 20 to Jan 3.

On March 1, the Make My Year scratch ticket will be the newest $10 game and have a $100,000 top prize. Wild West Slingo ($5 game), 7s game ($5 scene game), and Score Me 7s ($1 game) will debut on April 1.

**PLAY IT AGAIN**
1,564 players entered 50,433 tickets for the Lucky Leap promotion that will be drawn Feb. 29. The top game entered in the promotion is Big Money Cashword with 11,734 entries (23%).

The Caesars drawing for two winners of a trip for two to Las Vegas with deluxe accommodations at Caesars Palace for four nights will be held January 15. So far 1,311 players have entered 8,868 tickets (7% of non-winners sold).
INSTANT TICKET REQUEST FOR PROPOSAL (RFP)
The instant ticket RFP will be out soon. Lottery needed to work with IGT on some research and needed to be able to interact freely with them. New contract will start in August 2016 when the current one will expire.

LOTTO GAMES
As of Saturday, Jan. 2, lotto games were down 7.63%, $11.55 million versus $12.50 million.

POWERBALL RUN RECAP – Final Jackpot was $524.1 million for the Jan. 6 draw. Sales for the Jan. 6 draw were $1,146,851. Powerball sales on Jan. 6th alone equaled $795,181 and sales for the entire run which began Nov. 5 (17 draws in 8.5 weeks) were $3,426,891. Total revenue (25%) for the run was $856,722. The Powerball record at the time of the meeting was $587 million on Nov. 28, 2012 and sales for that draw were $2.03 million, with sales on the day of the draw at 1.33 million. So Lottery is excited to see what happens with the next draw.

Game by game (as of 01/02/2016)
- Powerball - $6.46 million versus $6.18 million – Up 4.5%
- Mega Millions - $1.74 million versus $2.07 million - Down 15.9%
- Hot Lotto - $1.38 million versus $1.69 million – Down 18.3%
- Dakota Cash - $1.03 million versus $1.41 million - Down 38%
- Wild Card - $935 thousand versus $978 thousand – Down 4.4%

The Powerball run will effect sales of all Lotto and scratch tickets – they benefit from it.

REVENUE PROJECTIONS
- Instant - $5.52 million
- Lotto - $6.77 million
- Video - $102.80 million
- Total - $115.09 million

NEXT MEETING DATE – April 7, 2016
Lingle proposed quarterly meeting dates for calendar year 2016 of April 7, June 9 (possible strategic plan meeting), Sept. 22, and Dec. 8.

Commissioner Turbiville set the next meeting date for April 7, 2016.

ADJOURNMENT
Commissioner Dykstra moved to adjourn the meeting. Commissioner Estes seconded. Motion carried. Chairman Turbiville adjourned the meeting at 11:44 a.m.