



Minutes of the Commission Meeting

Room 412 Capitol Building

March 20, 2013

Chairman Bob Hartford called the March 20, 2013 meeting of the South Dakota Lottery Commission to order at 10:00 a.m.

MEMBERS PRESENT: Bob Hartford, Roger Novotny, Doyle Estes, Jim Putnam and Chuck Turbiville. Kory Menken participated via teleconference.

MEMBER ABSENT: Brent Dykstra

SUPPORT STAFF PRESENT: Norm Lingle, Kelly Thompson, Joe Willingham, Deb Reese, Clark Hepper, Sherry Lauseng, Andrew Fergel and Mary Jo Bibby

APPROVAL OF THE AGENDA

Commissioner Turbiville moved that the agenda be approved. Commissioner Novotny seconded the motion. Motion carried.

APPROVAL OF THE MINUTES

Commissioner Turbiville moved that the minutes of the December 19, 2012 meeting be approved. Commissioner Estes seconded the motion. Motion carried.

REVENUE SECRETARY'S COMMENTS:

Secretary of the Department of Revenue Andy Gerlach spoke briefly:

Secretary Gerlach reported on the highlights and successes of the 2013 Legislative Session and stated that working groups will begin meeting, including the Lottery's Strategic Plan committee.

PUBLIC RULES HEARING

Director of Sales Joe Willingham reported on the changes to Article 48:03:13, the Hot Lotto Game.

Willingham detailed changes in the game's matrix, odds and prize-level payouts. The grand prize will be paid in a lump sum, with no option for annuitized payments. Initial withholding taxes will be paid by the group.

Chairman Hartford opened the Hearing to public testimony. There being none, written testimony was called for. There was none.

The Chair closed the Hearing to public testimony.

Commissioner Estes asked what prompted the game changes. Lingle responded that changes are proposed based on the game's longevity, change in the number of member states and a desire to keep the games fresh. Generating larger jackpots will create increased sales.

Commissioner Menken moved to approve the Rules as presented. Novotny seconded the motion. The roll was called and there were six favorable votes.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

NEW COMMISSIONERS:

Jim Putnam and Chuck Turbiville were welcomed and Lingle reported on their backgrounds.

2013 LEGISLATION:

Senate Bill 52 passed the Senate 30-5 and the House of Representatives 39-28 and was signed by the Governor on March 4, 2013. The bill was well supported by the video lottery industry. Administrative Rules will need to be revised to comply with the new Legislation.

Senate Bill 242 sought to increase the allowable number of video lottery terminals per establishment from 10 to 14. It was tabled in the Senate Commerce committee.

The appointments of Commissioners Dykstra, Novotny, Putnam and Turbiville were confirmed by the Senate.

STRATEGIC PLAN:

The primary focus of the Strategic Plan was the video lottery program. Nine short-term objectives, two long-term objectives and two on-going objectives were established. Eight of the nine short-term objectives have been met. Future Strategic Plan meetings will address instant and on-line products.

Lingle thanked reporter Bob Mercer for his recent positive press coverage of Lottery issues.

Hartford thanked the Lottery for its efforts in achieving eight of the Strategic Plan objectives.

DIGITAL SUBSCRIBER LINE (DSL) UPDATE

Deputy Executive Director Clark Hepper reported on the following:

The pilot project for testing the DSL technology began March 4, 2013. Nine of the 10 test sites are operating. The cost of the project is \$38,000. Improved communication speeds have been observed at the test sites. Eliminating phone lines will reduce phone costs for the Lottery and establishments. A desired outcome is to reduce the number of non-reporting terminals (NRT's). If the test results prove the DSL's to be effective, expansion of the project is planned with the Commission's approval.

Hartford asked if the Lottery will pay to expand the project throughout the network. Hepper responded that establishments would be required to pay for the hardware. The Lottery will bear costs of network upgrades and software. Hartford requested a report comparing the number of NRT's of the test sites to those not participating in the test.

Lingle stated that operators should see a phone cost savings of \$25 to \$60 a month and that some of the test sites for the project have been able to use modems that were already on site. Hepper stated that the modems would cost \$400.

Novotny requested a written analysis of the project.

VIDEO LOTTERY CONSULTANT RFP

Clark Hepper also reported on the following:

An RFP to procure a consultant to review the video lottery program was issued on March 19, 2013. The objective is to determine alternative investments that may be offered to ensure the long term viability and sustainability of video lottery net machine income to the state. The consultant will interview lottery staff, video lottery associations, establishment owners, operators and manufacturers to assess all aspects of the video lottery market. The proposals are due April 26, 2013 and a recommendation to the Commission will be presented at the May 15, 2013 meeting.

SALES REPORT

Joe Willingham reported on the following:

INSTANT GAMES:

Sales are up 3.1 percent. Holiday sales were good, but lagged slightly behind the previous year. Efforts to re-launch the 50X the Money game have produced good results, making it the current best-selling game and driving sales above the \$500,000 mark for four straight weeks. Willingham showed examples of upcoming games.

LOTTO GAMES:

Lotto games are up 18.2 percent, boosted by a record \$588 million Powerball run. Powerball sales are up 25 percent, Mega Millions sales remain unchanged, Hot Lotto sales are down 1 percent, Dakota Cash sales are up 7.1 percent and Wild Card sales are up 31 percent. The Wild Card game changes have helped boost the game's sales.

REVENUE PROJECTIONS:

Projected revenue for FY2013 for video lottery is \$91.58 million, for instant tickets, \$5.39 million, and for lotto tickets, \$8.85 million. The total projection is \$107.07 million.

Chairman Hartford asked about the video lottery projection. Willingham responded that projects are recalculated prior to each Commission meeting.

REQUEST FOR INFORMATION:

The Lottery is gathering information for a players' reward program. An RFI was issued in January.

PUBLIC RELATIONS/ADVERTISING REPORT

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

BIG WINNERS SINCE December 19, 2012:

Three players won Dakota Cash jackpots –Charlotte Troska of Watertown won a \$64,510 jackpot, Douglas Spelhaug of Sioux Falls won a \$20,000 jackpot and Tom Eggers of Sioux Falls won a \$149,141 jackpot. Twelve players won lotto prizes from \$5,000 to \$250,000.

Twenty-nine players have won scratch ticket prizes from \$2,500 to \$100,000.

MAGAZINE ADVERTISING:

Thompson announced the purchase of Lottery advertisements for the next year in *Now! Pavilion* and *South Dakota Magazine*.

ADVERTISING CAMPAIGNS:

The 50X the Money game was re-launched with a major campaign, six months after the initial launch. The campaign includes radio and television ads, animated web banners, posters, pennants and 4' x 8' standees. Teasers for the TV ads appeared on the Lottery's Facebook page. The campaign has been very successful and the concept may be utilized in the future.

Take Me Out to the Ballgame is being marketed with radio ads, posters and tear sheets. In July, television ads and animated web banners will remind players to submit their entries.

Star Trek will play off the new movie hitting theaters in May. Television and radio ads, animated web banners and lenticular posters will be utilized. A video will be produced for YouTube. South Dakota fans of Star Trek on Facebook will be sent game launch information.

FACEBOOK/PLAYERS CLUB:

The Lottery's Facebook page has 1,683 likes. The Players Club currently has 6,364 members.

PRESS RELEASES/WEB POSTINGS:

From December 20, 2012 through March 19, 2013, three jackpot winner alerts, seven other winner alerts, 16 press releases/web announcements and 26 winner counts were issued.

ADVERTISING RFP:

Kelly Thompson also reported on the following:

An RFP for full-service advertising services was issued to qualified South Dakota agencies on March 8, 2013. The proposal includes strategic planning creation, production and placement of television, radio, print, website, billboard and point-of-sale advertisements and development and expansion of social media efforts. Written proposals are due April 5 and evaluations will be completed by the first week of May.

VIDEO LOTTERY REPORT

Director of Security and Video Lottery Operations Deb Reese reported on the following:

VIDEO LOTTERY REVENUE:

The year-to-date net machine income is \$127.0 million, which is 4.84 percent ahead of the same time last year. There is an average of 9,120 terminals, .63 percent ahead of last year. There is an average of 1,417 establishments.

MCD's:

There are currently 602 MCD's and 1,536 line games connected to the central system.

LINE GAME PERFORMANCE:

From May 1, 2012 through February 28, 2013 legacy machines were averaging \$47.55 net machine income per machine per day and line games were averaging \$66.52. Line games made up 16.46 percent of the total machines and produced 21.61 percent of the net machine income.

NEXT MEETING DATE

The next meeting will be May 15, 2013 at 10 a.m.

ADJOURNMENT

Commissioner Novotny moved and Commissioner Estes seconded the motion to adjourn. Motion carried and at 11:20 a.m. the Commission adjourned.