



**Minutes of the South Dakota Lottery Commission Meeting**  
**Video Lottery Strategic Planning Meeting**  
Red Rossa, Pierre, SD  
**November 19 & 20, 2013**

**CALL TO ORDER**

Lottery Commission Chairman Bob Hartford called the November 19, 2013 meeting of the South Dakota Lottery Commission to order at 1:00 p.m.

MEMBERS PRESENT: Bob Hartford, Jim Putnam, Jim Towler, Doyle Estes, Chuck Turbiville and Roger Novotny.

MEMBER ABSENT: Brent Dykstra.

STAFF PRESENT: Revenue Secretary Andy Gerlach, Deputy Revenue Secretary David Wiest, Norm Lingle, Clark Hepper, Deb Reese, Kelly Thompson, Ron Leidholt, Joe Willingham, Andrew Fergel, John Keyes and Mary Jo Bibby

**APPROVAL OF THE AGENDA**

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

**MEETING OVERVIEW**

Revenue Secretary Andy Gerlach stated that he was pleased with the attendance at the meeting and encouraged participants to feel free to express their opinions.

Lottery Executive Director Norm Lingle gave an overview of the agenda items. His presentation included a history of the percentage changes in the state's share of net machine income, net machine income by year, and statistics on recent game performance comparing line games to legacy games. Lingle discussed the cost of three scenarios for replacing the legacy terminals over a five year period and discussed the rate of machine enrollment and destruction for the past two fiscal years. He also reviewed the FY2013 Strategic Plan, stating that all nine short-term goals had been accomplished. The remaining medium and long-term goals established in the plan have not been completed.

Consultant Rich Baldwin gave background information on Union Gaming Analytics' qualifications and experience and presented a summary of his study of the South Dakota video lottery program completed in September 2013.

Lottery Deputy Director Clark Hepper stated the purpose of the video lottery study was to recommend alternative investments that may ensure the long term viability and sustainability of video lottery net

machine income with a goal of replacing 50 percent of the legacy games over the next five years. Hepper also explained the matrix used to rank the importance of the study's recommendations.

## **MUSIC AND VENDING ASSOCIATION PRESENTATION**

Bob Riter, Music and Vending Association of South Dakota, stated that in order to succeed in keeping the industry sustainable we need to work outside the normal business model. He presented three possible scenarios for replacing legacy games by:

- Disincentivizing operators from keeping legacy machines with two options, with and without rebates.
- Offering a straight percentage rebate provided from the state's share.
- Offering a rebate by equally reducing the private sector's and state's shares of net machine revenue.

Commissioner Jim Putnam asked if the scenarios factored in any revenues gained from the increased play with the line games. Riter responded that his scenarios did not consider the possibility of increased play, taking a conservative approach in estimating revenue.

Chairman Hartford asked if rebated monies would come from that operator's revenues or a common pool. Riter responded it would be from a common pool.

Chairman Hartford asked if it would be possible for one operator to use all of the available funds. Riter responded that an allocation formula for distributing the funds fairly may be needed.

Commissioner Turbiville asked if all operators would contribute to the pool. Riter responded in the affirmative.

Commissioner Turbiville asked about operators whose players prefer the legacy games. Riter responded that players will have to be weaned off those games.

## **ASSOCIATION OF VIDEO LOTTERY ESTABLISHMENTS**

Larry Mann, South Dakota Association of Video Lottery Establishments, stated that disincentives are not supported by his association members. He presented several suggestions to improve the industry:

- The Legislature should grant more authority to the Lottery Commission.
- The public must be educated on how Lottery revenues are used.
- It must be determined how to maintain the player base and keep the machines profitable.
- The industry must address competition and the aging player base.
- Expertise of the manufacturers must be utilized.

## LICENSED BEVERAGE DEALERS OF SOUTH DAKOTA

Steve Brinkman, Licensed Beverage Dealers of South Dakota, recommended:

- Increasing the maximum bets and awards.
- Increasing the establishment terminal cap from 10 to 15.
- Offer progressive jackpots statewide.
- Offer incentives to purchase new machines.

Mr. Brinkman reported that the Union Gaming Analytics report did not address how to attract 21 to 40 year old players. He would also like to be allowed to have an establishment with 45 terminals in one room by combining three licenses.

Commissioner Turbiville asked if it would be beneficial to not have the terminals walled off. Brinkman responded that some players prefer the privacy of secluded playing areas.

### REMARKS BY ATTENDEES

Video Lottery Operator Rich Ward asked Mr. Riter if all operators would be required to contribute to the pool. Riter responded in the affirmative. Mr. Ward stated that he would not support that. He also stated that line games have a lower hold percentage than the legacy games. He asked the Commission to provide statistics which include hold percentages.

Video Lottery Operator Rick Law stated that he had witnessed similar decreases in hold percentages.

Mr. Ward stated that video lottery terminals have a set maximum payout percentage, whereas Deadwood slot machines do not.

Chairman Hartford stated that the maximum payout percentage is set at 95 percent; however, no manufacturers have yet to request approval for software set at that rate.

Video Lottery Operator Troy Erickson stated he has also been tracking hold and he agrees with Ward's findings. Mr. Erickson suggested short term objectives of increasing the number of machines per establishment to 15, with the additional five machines being new. He suggests increasing the bet limit to \$5 and the maximum payout to \$2,500. He also favors phasing out legacy games and offering incentives for purchasing new machines. Erickson would like to see the establishment of an end date for legacy games; site promotions; loyalty programs and free spins. Medium-term goals should include the implementation of theme games and progressives. Long-term goals should include electronic table games and bar top games.

Commissioner Estes questioned whether encouraging line games is the best strategy.

Steve Brinkman stated that he endorses Erickson's remarks.

Robin Drummond, GTECH, stated that he fully endorses the Commission sharing hold information. He stated that the Union Gaming Analytics study did not mention protocol support and that the G2S protocol can support progressive games. He stated that it is more practical to set the life expectancy of machines at

five years rather than seven to 10 years. Manufacturers could assist with financing new machine purchases. A tax structure that is based on how long a machine has been in the market should be considered.

Rich Ward stated that he was in favor of a graduated tax structure and asked how the machine's age would be determined. Mr. Drummond responded it should be based on the machine's serial number and not software updates.

## **RECESS**

Hartford declared the meeting in recess and at 4:30 p.m. the Commission recessed.

## **RECONVENE**

Commission Chairman Bob Hartford called the meeting to order at 8:30 a.m. on Nov. 20, 2013.

Discussions were held on the following and timeframes for implementation were assigned.

- Grant the Commission more authority. [Medium to Long]
- G2S protocol. [Long]
- Multiple licenses in a single room. [Long]
- Phase out legacy machines. [Short for discussion] [Long]
- Study hold percentages of line games. [Lottery Research Issue]
- Decrease the state's share of net machine revenue. [Short to Medium]
- Increase the maximum bet and award limit. [Short]
- Progressive jackpots. [Medium]
- Free play and match play. [Short]
- Site promotions. [Short]
- Player loyalty programs. [Short]
- Electronic table games, bar top games. [Short]
- State-owned terminals. [Long]
- Theme games. [Short]

- Management systems. [Short]
- Slot tournaments. [Medium]

Chairman Hartford stated that achieving the objectives of the Strategic Plan will be a process.

Larry Mann asked where the Strategic Plan leaves the associations. Hartford responded that agency participation is at the center of the process. Mann asked if the agency would be pre-filing legislation. Secretary Gerlach responded in the affirmative, adding that even if legislation does not get introduced, there is still an opportunity to communicate the need for changes in the video lottery system.

Commissioner Turbiville suggested asking the Legislature to conduct a summer study on the issue.

Director Lingle stated that the objectives will not be a one-size-fits-all solution to improving the viability and sustainability of the video lottery net machine revenue. Each establishment and operator will have the ability to choose the concepts that appeal to them.

## **ADJOURNMENT**

Commissioner Estes moved and Commissioner Novotny seconded the motion to adjourn. Motion carried and at 10:50 a.m. the Commission adjourned.