

**SOUTH DAKOTA
LOTTERY COMMISSION**

April 22, 2015 – 1:00 p.m.

April 23, 2015 – 8:30 a.m.

View 34 Meeting Room, Pierre, SD



Meeting Agenda

April 22, 2015 – 1:00 p.m.

1. Welcome Chairman Turbiville
2. Approval of Agenda Chairman Turbiville
3. Overview of Current Strategic Plan Director Norm Lingle
4. FY15 Video Lottery Performance John Keyes
5. Vendor Presentations
 - IGT Robin Drummond
 - Scientific Games Steve Angelo
6. Association Presentations
 - Music and Vending Association Bob Riter
 - Association of Video Lottery Establishments Larry Mann
 - Licensed Beverage Dealers Matt Krogman
7. Other Interested Parties
8. Recess

April 23, 2015 – 8:30 a.m.

1. Recap of Previous Day Norm Lingle/Clark Hepper
2. Prioritize Objectives Norm Lingle/Clark Hepper
3. Wrap Up Chairman Turbiville
4. Adjourn Chairman Turbiville

Expiration Dates of Commissioner Terms

Bob Hartford	01/01/2017	Chuck Turbiville	01/01/2016
Doyle Estes	01/01/2017	Brent Dykstra	01/01/2018
Jim Putnam	01/01/2017	Roger Novotny	01/01/2018
Jim Towler	01/01/2016		

Individuals wanting to testify before the Lottery Commission must sign the attendance sheet and in prefacing their remarks, state their name and the entity they represent.

NOTE: This meeting is being held in a physically accessible location. Individuals needing assistance, pursuant to the Americans with Disabilities Act, should contact the South Dakota Lottery at 605.773.5770 in advance of the meeting to make any necessary arrangements.



P.O. Box 7107 • Pierre, SD 57501-7107 • Phone: 605-773-5770 • Fax: 605-773-5786 • <http://lottery.sd.gov>

Strategic Plan II – Video Lottery *Implemented January 2014*

Lottery Mission Statement

The Lottery's mission is to work cooperatively with our partner licensees to promote and ensure the integrity, fairness, security and honesty of lottery games to maximize revenues for state programs and initiatives and to ensure the Lottery remains a viable and sustainable source of revenue and entertainment for the State of South Dakota.

Strategic Goals

Priority deadlines have been categorized as **short** (3 to 12 months), **medium** (1 to 3 years), **long** (3 to 5 years), **on-going/annually** (repetitive and consistent tasks with no specific deadline), and **undetermined** (status is not determined at this time). Following is a comprehensive review of each goal within these categories.

Short Term Objectives

1. Free play/match play.

Free play provides individuals who are members of an establishments' players club a specified number of free credits, based upon a set of specified criteria, on a video lottery game. Match play refers to promotions in which an establishment will match a specific dollar amount inserted by a player into the terminal. Both practices as they allow players more time on the terminal, help create player loyalty and are useful marketing tools.. Match play is permissible under the existing promotions policy; a new promotions policy will be implemented which allows both promotions with the intent to draw in more traffic to video lottery establishments.

2. Site Promotions.

Onsite promotions can be used by operators and establishment owners to increase traffic at video lottery establishments. A new promotions policy will be implemented to allow for activities that are available at Deadwood, tribal or border casinos insofar as they do not undermine the security and integrity of the Lottery.

3. The Lottery should investigate ways to share individual game performance with licensed VLT manufacturers and operators to stimulate healthy competition from a product development perspective.

Providing manufacturers' game performance information to operators would allow them to make educated business decisions regarding which terminals to purchase. Such information is confidential under current law. To make this information available to operators, existing statute could be changed; manufacturers could agree via an

agreement or memorandum of understanding to share and post play data; or manufacturers could be asked to sign a waiver allowing the posting of the information. In addition, a more comprehensive report of game performance information would be shared among manufacturers only.

4. Management system.

A management system has been proposed that would allow operators to access performance information for their terminals through the state's video lottery central system. Scientific Games International (SGI), the Lottery's central system provider, would develop a method in which an operator could log-in to a secured area of the central system to obtain play data on their terminals only. There would be a cost to the Lottery to implement this feature. Administrative rules may need to be developed or amended for the administration of this option.

5. Player loyalty/rewards programs.

Players clubs may be used to identify player demographics, terminal and game preferences, longevity of play, and average amounts wagered. Loyalty programs reward players with free play, food or drink, or entertainment based on their level of play. Such programs could be implemented on an establishment, operator or state level. If operated at a state level, an RFP may be necessary to develop a program that would include all Lottery products (instant, online and video lottery) and administrative rules may be needed for the administration of the program.

6. Decrease state share of net machine income (NMI) for investment in new terminals.

To free up capital for video lottery operators to invest in new terminals, the State would take a decreased percentage of NMI, the operators would take a decreased percentage of NMI, or a combination of both to allow for the creation of a funding pool. Monies in that pool would be allocated to owners and operators to help pay a percentage of the costs for newly purchased machines. The percentage could range from 30 to 100% of terminal replacement cost, and would be available over a five-year period with the goal of replacing 50% of the legacy machines currently in the market. These terminal subsidies could also be made retroactive. Such action requires a change in statute and administrative rule. An incentive plan would be developed by the Lottery and could emulate the plan presented by the Music and Vending Association of South Dakota at the November 2013 strategic planning meeting.

7. Increase max bet and max award.

Current statute defines the max bet as \$2 and the max award as \$1,000. The max bet and max award have not changed since start up in 1989. Increasing the max bet and the max award may attract younger players as well as lapsed players. The additional NMI generated by an expanded player base could provide needed capital for operators to invest in new machines without an incentive. Statute and administrative rule changes are necessary for these increases to occur. Another option is to give the Lottery Commission the authority to adjust the max bet and max award within a set range allowed by the South Dakota Legislature.

8 Themed games.

Themed games are similar in style to those found in traditional casinos and are based on popular TV shows, board games and major movies. These types of terminals appeal to a certain demographic and may grow the player base.. These games are owned by

the manufacturer and are typically leased, rather than sold. Under current state law, licensed manufacturers and/or distributors cannot be licensed operators and/or establishments so they cannot share in a percentage of cash in, NMI, etc. Statute and administrative rule changes are necessary to allow for the placement of these games in video lottery establishments.

9. Approve the placement of electronic table games.

Electronic table games (ETG's) appeal to both slot and table game players. ETG's allow for social or group play and appeal to the younger demographic. Depending on the types of games proposed, administrative rules may need to be developed or amended.

10. Bar top machines.

Preliminary research indicates bar top machines operate similar to cabinet style gaming machines; the only apparent differences are that they are physically contained within the bar itself. Inclusion of them in the South Dakota market is an option that may increase the player base at video lottery establishments.

Medium Term Objectives

1. Progressive jackpots.

Progressive jackpot games allow multiple machines to compete for a large jackpot and appeal to players because of their action and ability to offer a top prize ranging from \$10,000 to millions of dollars, replicating the excitement generated by large lotto jackpots. Progressive jackpots can connect to all terminals at a single establishment, terminals owned by a single operator, within a city or geographic area or on a statewide basis. Generally machines offering progressive play require players to bet the maximum amount to win the largest jackpot prize. 42-7A-38 currently allows a maximum award per bet of \$1,000; this statute and accompanying administrative rules would have to be changed to allow for the higher progressive jackpot amounts.

2. Increase the maximum number of VLT's per establishment from 10 to 15.

State law currently caps the number of VLT's per licensed establishment at no more than 10. This proposal would increase that number to 15, stipulating that machines 11 to 15 be new technology. This would allow establishments that have the available space to maximize their earning potential. Both statutory and administrative rule changes are necessary for the increase to be implemented.

3. Slot Tournaments

While additional research is needed to fully understand the intricacies of slot tournaments, it appears there are two ways they can be conducted: (1) by setting time and start money parameters or (2) by allowing resettable meters in video lottery machines. The first option can be implemented without statutory change. The second requires changes to 42-7A-36 which does not allow machines to have a circuit, meter or switch capable of removing and recording the removal of credits when the award of credits is dependent upon chance; 42-7A-37 would also need to be changed as it states that a player must obtain credits by cash or coin and that a terminal cannot have resettable meters. Administrative rule changes are necessary to reflect the statutory updates; rules would also need to be developed to address the administration of slot tournaments.

4. Granting Commission more authority.

The Lottery Commission feels it should have more latitude in dealing with Lottery operations and policies. This would allow the Commission to be more proactive in enacting changes to ensure that video lottery remains a viable and sustainable source of revenue to the Property Tax Reduction Fund. Any changes in the authority currently granted to the Lottery Commission would need to be made legislatively.

Long Term Objectives

1. State-owned terminals.

This objective would allow the State to manage the video lottery program without the influence of operators by owning and placing the terminals, a practice that has proved effective in other jurisdictions for maintaining revenues for state-funded programs. This option should be strongly considered in South Dakota if operators want the State to contribute more than 50% of the purchase price for machine reimbursement. It would entail a large upfront cost and added maintenance expenses but it would make it easier for the State to manage and stay current on machine technology by having the ability to upgrade machines on a regular basis. Implementation of state-owned terminals requires both statutory and administrative rule changes.

2. G2S Communication Protocol.

The G2S communication protocol is a non-proprietary protocol that will become standard in the industry going forward. The current video lottery system contract with SGI ends in 2019; adoption of the G2S protocol should be a component of the new contract that goes into effect at that time.

3. Multiple licenses in a single room.

When video lottery was first implemented, areas containing the machines could be open with no stipulations as to partitions or walls. Policies were later changed, resulting in the closed-off feel of current establishments. Such obstructions have a negative impact on game promotion, especially to potential players who do not congregate in areas where the machines are placed. Allowing multiple licenses in a single room will create better exposure to the video lottery machines and promote increased play. Such a change requires legislative action.

Deadline undetermined

1. Hold percentage.

Hold percentage is defined as net income as a percentage of cash in. This is one option that some video lottery operators use to gauge terminal performance. Many factors influence the hold percentage. Research will be conducted by the Lottery as to the differences in hold percentage and how to equalize the hold amongst the terminal manufacturers.