

Video lottery was losing market share before smoking ban took effect in 2010

By Bob Mercer
State Capitol Bureau

Past and current members of the South Dakota Lottery Commission and its administrators, as well as those involved in Deadwood casinos, have consistently held that the smoking ban South Dakota voters placed on alcohol establishments in 2010 would and did cut into gambling revenue at video lottery establishments and Deadwood casinos. But a new report shows that video lottery's difficulties began years earlier.

Video lottery revenue began to stagnate in 2005-2006 and actually dropped in the two years before the ban began. The ban accelerated a trend that was already under way. Video lottery's share of South Dakota's gambling market stood at 60.7 percent in 2002 and by 2012 had fallen to 42.2 percent.

During that same decade, documented play at Deadwood casinos and estimated play at tribal casinos doubled. Their market shares grew: Deadwood from 19.4 percent to 25.6 percent; and tribal casinos from 16.4 percent to 26.5 percent.

Video lottery also lost some market share to other South Dakota Lottery products. Scratch tickets nearly doubled in sales and jackpot lotto sales did double. Their shares likewise went up: scratch tickets from 1.5 percent to 2.4 percent; and lotto tickets from 2.1 percent to 3.3 percent.

The report by Union Gaming Analytics, a Las Vegas-based company, was delivered last week to the South Dakota Lottery Commission. It is the deepest look at video lottery since the electronic poker, blackjack, keno and bingo games became legal in 1989.

Lottery officials wanted the study because they sought a detailed map of the current market, including competition from neighboring states, as well as a blueprint for possible changes that can be made in the next few years to increase video lottery's revenue to the state treasury and to the businesses that own and manage the terminals.

"Every time I read it, I get more information," commissioner Roger Novotny of Fort Pierre said.

The main conclusion reached in the report by

consultant Rich Baldwin calls for concentrating on gaining back more of the South Dakota market. He notes that southeastern South Dakota faces a "formidable" new competitor when the Hard Rock Casino opens in Sioux City, Iowa.

Baldwin said the new "line-up" games, which are similar to casino slot machines, are producing substantially more revenue than the "legacy" terminals, most of them VLC 8700s, which have been around for 20 years or more and were officially declared obsolete long ago by the commission.

Many of the recommendations aim at getting more line-up games into establishments. As of Aug. 31 the terminals statewide stood at 18 percent line-up and 82 percent legacy.

Baldwin suggested the 50-50 split of net machine income – the money lost or left behind by players after winnings are paid – be changed: For legacy machines, state government should increase its take to 60 percent and then 70 percent; while line-up games would be at 30 percent for the first year and 40 percent the second year before settling at 50 percent.

The report made many other recommendations such as allowing establishments to have 15 terminals rather than the standard 10 if the additional five are new line-up games.

"This really is a call to arms. We need to take this report as a call to action," commissioner Doyle Estes of Hill City said. "If the industry doesn't change, we're not going to get the share of income the state of South Dakota has gotten over the last 25 years."

Net machine income from video lottery was \$207.7 million in 2002 and

was down to \$176.4 million in 2012. Deadwood casinos meanwhile rose from \$66.3 million to \$107.4 million and tribal casinos climbed from an estimated \$56 million to \$110.9 million.

Scratch tickets during that period went from \$5.1 million to \$9.9 million. Lotto sales increased from about \$7 million to \$14 million.

Video lottery peaked at \$224.7 million of net machine income in 2008, with state government receiving nearly \$112 million. NMI fell to \$220.1 million in 2009 and \$215.5 million in 2010. Those numbers are for the state fiscal year, which runs July 1 through June 30.

The smoking ban's approval in November 2010 set off a steep decline. NMI fell to \$191.8 million for 2011 and kept dropping in 2012 to \$176.6 million. Fiscal 2013 saw the start of a rebound, for at least one year, to \$184.6 million.

Development of the Hard Rock Casino in Sioux City could affect the pocket of South Dakota that generated the most video lottery revenue, led by Minnehaha County at \$51 million and Union County – North Sioux City – at \$12 million, based on unaudited numbers from the lottery office for the past year.

Union County is the third-largest producer of video lottery revenue.

Other counties in the cluster also contribute a lot: Lincoln \$4.4 million, Clay \$2.2 million and Yankton \$7.5 million.

The No. 2 county for video lottery is Pennington. The fiscal 2013 revenue was \$26.6 million. Meade County was \$3.1 million, Fall River was \$2.5 million and Butte was \$1.9 million.

Statewide, Brown County ranks No. 4 at \$11.5 million. Other centers of video lottery activity are Codington

County at \$6.4 million; Davison County \$6.1 million; Hughes County \$5.8 million; Beadle County \$5.3 million; and Brookings County \$4.5 million.

Not all counties struggled in the wake of the smoking ban, however. Yankton climbed 6.5 percent in 2012 and 7.7 percent in 2013. Davison grew 0.1 percent and 7.8 percent. Beadle increased 3.9 and 3.0 percent.

Some smaller counties also showed two consecutive years of gains, such as Deuel, Turner, Stanley, Bon Homme, Hutchinson and Jones.

The Lottery Commission will meet again in five to six weeks to further discuss the report and recommendations. Chairman Bob Hartford of Pierre asked the commissioners to rank the 19 recommendations as part of developing another strategic plan.

"I think the whole process needs to be done again," said Hartford, who previously was the chief executive for the South Dakota Music and Vending Association, whose members are some of the largest businesses involved in video lottery.

Some of the recommendations can be accomplished by the commission through rule changes, but most need approval by the Legislature.

"We need to prioritize what we want to change, or to accept, and what we need to do that," Hartford said.

State water board has a busy day

By Bob Mercer
State Capitol Bureau

The city of Yankton received approval Friday for a \$12,850,000 loan package from the state Board of Water and Natural Resources for a major upgrade to the municipal water system.

Yankton will receive \$1 million of loan forgiveness, in essence a grant. That reduces the loan amount to \$11,850,000 to be repaid over 20 years at 3 percent interest.

Board members also gave their OK to a \$259,000 loan for Gregory to replace part of the existing sewer system. The loan is for 10 years at 2.25 percent interest.

Freeman and Vermillion received recycling grants from the board. Freeman will get \$195,000 for expanding its recycling center. Vermillion will see \$400,000 to help replace its baler building that burned down.

The Lewis and Clark watershed clean-up project was approved for an additional \$200,000 by the board to be used toward further reducing runoff of feedlot waste and other material into area tributaries of the Missouri River reservoir. This is the third phase of a continuing project that to

date has invested approximately \$7 million from producers and government sources in animal waste-management systems.

Jim Feeney, an administrator for the state Department of Environment and Natural Resources, said he expects an application in the near future for phase-four funding on what is approaching a 10-year project.

At Yankton, city officials plan to renovate an existing water-treatment plant and construct a new collector well 1.5 miles downstream of the current two treatment plants. The city plans to ask the board at a later date for another loan to replace the other existing treatment plant.

The overall timetable calls for the work to be completed by end of 2016.

"Together with the recently completed wells on the Nebraska side of the river, the city will have the capacity to provide an adequate amount of water to its customers through at least the year 2035," city manager Amy Nelson said in her application to the board.

The board also placed 12 new projects on its loan-planning lists for improvements in drinking water, wastewater and storm water systems.

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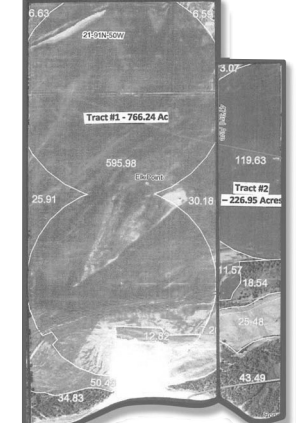
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LEGAL DESCRIPTION: Tract #1 - Lots 1-2-3 & Wyant Tract 1 of Govt. Lot 1 in Sections 21 and 28; and Ray Tract 1 in NE 1/4 SW1/4 & SE1/4 SW1/4 & SE1/4 NE 1/4 & SW1/4 SE1/4 and the SE1/4. Consisting of 766.24 taxed acres. Tract #2 - Lot A W1/2 NW1/4 & W1/2 SW1/4 and Lot 4 of W1/2 SW1/4. Consisting of 226.95 Taxed acres.

LOCATION: Elk Point, SD. 3 miles west of Elk Point on paved 324th Street, then south 1/2 mile on 473rd. avenue, Tract #1 is on the west side of 473rd Ave., Tract #2 is on the east side. Look for the signs.

BROKERS NOTES: The Ray Family has decided to sell this excellent 993.2 acre farm established in 1969 by Faye Ray and the late M.W. (Dick) Ray. This farm has approximately 800 acres irrigated cropland and 1 mile of Missouri River frontage. Nearly 1,000 acres contiguous farmland make this a dream farm for any owner/operator or investor and with endless recreational opportunities, what more could you ask for? This farm has 3 irrigation systems, a modern 2 bedroom cabin, large steel pole building, and 25,000 bu. grain storage. This high yielding farm would make an outstanding investment or turn-key addition to any operation. Don't miss this once-in-a-lifetime opportunity.

TERMS & CONDITIONS: Call or e-mail for bid form. All bidders shall deliver or mail a sealed bid to our office by Thursday October 10th, 2013 at 3:00 P.M. accompanied by a \$25,000 check for earnest money made payable to Herryty and Associates, Inc. Real Estate Trust, 2007 Jack Nicklaus Dr., Suite 101, Elk Point, SD 57025. The highest bidders for each tract will be invited to a private auction conducted by world champion auctioneer Bruce Brock. Successful bidders will enter into a purchase agreement and will be required to provide an additional amount equal to 10% of the purchase price. Closing to be on or before November 25th, 2013 at the offices of Union County Title and Abstract Co., 104 West Main Street, Elk Point, SD. The sellers have the right to accept or reject any and all bids.

SELLERS: Faye Ray, Tom and Marsha Ray, Kevin Ray, Michelle Livermore, Patty Parrish and Jacqueline Stanfield

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