

South Dakota Lottery Commission
April 7, 2016 – 10:00 a.m.
Room 412, State Capitol, Pierre, SD

**Please read all materials provided in the packet
and print and bring the Agenda and all Exhibits*

Listen live at <http://sdpb.sd.gov/player/412.html>



MEETING AGENDA

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| 1. Welcome | Chair Turbiville |
| 2. Approval of Agenda | Chair Turbiville |
| 3. Approval of Minutes – January 7, 2016 meeting | Chair Turbiville |
| 4. Executive Director Comments | Norm Lingle |
| 5. 2016 Legislative Report | Norm Lingle |
| 6. Information Technology Security – State Network | Jim Edman
<i>(BIT Chief Security Officer)</i> |
| 7. Video Lottery Security Request for Proposal | Clark Hepper |
| 8. City of Sioux Falls | Keith Allenstein
<i>(City Attorney)</i> |
| 9. Video Lottery Performance Review | John Keyes |
| 10. Compliance Testing & Consulting Services Request for Proposal | Robyn Seibel |
| 11. Video Lottery Report [Exhibit A-B] | Robyn Seibel |
| 12. Public Relations/Advertising Report | Kelly Thompson |
| 13. Instant Game Tickets & Related Services Request for Proposal | Joe Willingham |
| 14. Sales Report [Exhibits C-D-E-F] | Joe Willingham |
| 15. Next Meeting Date – June 9, 2016 | Norm Lingle |
| 16. Adjournment | Chair Turbiville |

Expiration Dates of Commissioner Terms

Bob Hartford	01/01/2017	Chuck Turbiville	01/01/2019
Doyle Estes	01/01/2017	Brent Dykstra	01/01/2018
Jim Putnam	01/01/2017	Roger Novotny	01/01/2018
Vacant	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.



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 lotto 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 or 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.

**SOUTH DAKOTA LOTTERY
711 EAST WELLS AVENUE
PIERRE, SOUTH DAKOTA 57501**

VIDEO LOTTERY SECURITY STUDY
PROPOSALS ARE DUE NO LATER THAN MAY 13, 2016 4:00 PM CDT

RFP #: 543

READ CAREFULLY

FIRM NAME: _____ AUTHORIZED SIGNATURE: _____

ADDRESS: _____ TYPE OR PRINT NAME: _____

CITY/STATE: _____ TELEPHONE NO: _____

ZIP (9 DIGIT): _____ FAX NO: _____

FEDERAL TAX ID#: _____ E-MAIL: _____

PRIMARY CONTACT INFORMATION

CONTACT NAME: _____ TELEPHONE NO: _____

FAX NO: _____ E-MAIL: _____

1.0 GENERAL INFORMATION

1.1 PURPOSE OF REQUEST FOR PROPOSAL (RFP)

The South Dakota Lottery is soliciting proposals for the completion of a comprehensive security study and evaluation of video lottery establishments and South Dakota Lottery facilities. The vendor should have relevant work experience and background in the performance of security assessments and evaluations.

1.2 ISSUING OFFICE AND RFP REFERENCE NUMBER

The South Dakota Lottery is the issuing office for this document and all subsequent addenda relating to it, on behalf of the State of South Dakota, Lottery. The reference number for the transaction is RFP #543. This number must be referred to on all proposals, correspondence, and documentation relating to the RFP.

Copies of this RFP will be posted on the Office of Procurement Management web site at http://www.state.sd.us/boa/opm/RFPS_Bids.htm. Also, find RFP and other related items on the South Dakota Lottery web page at <http://lottery.sd.gov/about/rfp/security/>

1.3 SCHEDULE OF ACTIVITIES (SUBJECT TO CHANGE) Dates for further discussion. TBD

RFP Publication	April 8, 2016
Deadline for Submission of Written Inquiries	April 22, 2016
Responses to Vendor Questions	May 6, 2016
Proposal Submission	May 13, 2016 4:00 PM CDT
Oral Presentations/discussions (if required)	Optional at the discretion of the Lottery.
Proposal Revisions (if required)	Optional at the discretion of the Lottery.
Anticipated Award Decision/Contract Negotiation	June 2016

1.4 SUBMITTING YOUR PROPOSAL

All proposals must be completed and received in the South Dakota Lottery by **May 13, 2016 4:00 PM CDT** as indicated in the Schedule of Activities.

Proposals received after the deadline will be late and ineligible for consideration.

Vendors must submit the proposal in the following format and any electronic USB proposal must be in PDF format:

Please submit:

- One (1) original hard copy of the complete proposal (minus pricing).
- Three (3) hard copies of the complete proposal (minus pricing).
- One (1) copy of the complete proposal on a USB flash drive (minus pricing).
- One (1) copy of the complete proposal on a separate USB flash drive with confidential and proprietary information removed (minus pricing).
- One (1) original hard copy of the pricing offer.
- Three (3) hard copies of the pricing offer.
- One (1) copy of the pricing offer on a USB flash drive.

The cost proposal must be in a separate sealed envelope and labeled "Cost Proposal".

All proposals must be signed, in ink, by an officer of the responder, legally authorized to bind the responder to the proposal, and sealed in the form intended by the respondent. Proposals that are not properly signed may be rejected. The sealed envelope must be marked with the appropriate RFP Number and Title. The words "Sealed Proposal Enclosed" must be prominently denoted on the outside of the shipping container. **Proposals must be addressed and labeled as follows:**

**ADDRESS: South Dakota Lottery
Attention Robyn Seibel AND John Keyes
711 East Wells Avenue
Pierre, SD 57501**

REQUEST FOR PROPOSAL: #543 Video Lottery Security Study

No proposal shall be accepted from, or no contract or purchase order shall be awarded to any person, firm or corporation that is in arrears upon any obligations to the State of South Dakota, or that otherwise may be deemed irresponsible or unreliable by the State of South Dakota.

1.5 CONTRACT ADMINISTRATOR

The contract administrator for any contract resulting from this RFP shall be:

Norman Lingle
Executive Director
South Dakota Lottery
711 East Wells Avenue
Pierre, SD 57501

The contract administrator, or his successor or designee, shall be the sole point of contact with respect to all contractual matters resulting from this RFP.

1.6 CERTIFICATION REGARDING DEBARMENT, SUSPENSION, INELIGIBILITY AND VOLUNTARY EXCLUSION – LOWER TIER COVERED TRANSACTIONS

By signing and submitting this proposal, the vendor certifies that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation, by any Federal department or agency, from transactions involving the use of Federal funds. Where the vendor is unable to certify to any of the statements in this certification, the bidder shall attach an explanation to their offer.

1.7 NON-DISCRIMINATION STATEMENT

The State of South Dakota requires that all contractors, vendors, and suppliers doing business with any State agency, department, or institution, provide a statement of non-discrimination. By signing and submitting their proposal, the vendor certifies they do not discriminate in their employment practices with regard to race, color, creed, religion, age, sex, ancestry, national origin or disability.

1.8 MODIFICATION OR WITHDRAWAL OF PROPOSALS

Proposals may be modified or withdrawn by the vendor by written email notice prior to the established due date and time. A proposal may also be withdrawn or modified in person by the vendor before 12:00 NOON Central Time on the date the proposal is due.

No oral, telephonic, telegraphic or facsimile responses or modifications to informal, formal bids, or Request for Proposals will be considered. After the time and date that the proposal is due to be submitted, a proposal may not be modified.

1.9 VENDOR INQUIRIES

Vendors may make written or email inquiries concerning this RFP to obtain clarification of requirements. No inquiries will be accepted after the date and time indicated in the Schedule of Activities. Email inquiries must be sent to Robyn Seibel at Robyn.Seibel@state.sd.us **AND** John Keyes at John.Keyes@state.sd.us with the subject line "RFP #543". Inquires may also be faxed to 605-773-5786. If inquiries are submitted by mail the envelope should be addressed to: South Dakota Lottery, Attention: Robyn Seibel **AND** John Keyes, 711 East Wells Avenue, Pierre, SD 57501. Be sure to reference the RFP number in your letter.

The South Dakota Lottery prefers to respond to vendor's inquiries (if required) via e-mail. If a vendor does not indicate an email address, the State's response will be sent via fax. If no fax number is provided, the State will mail the response to the vendor. All vendors will be informed of any inquiries and the State's response. Vendors may not rely on any other statements, either of a written or oral nature, that alter any specification or other term or condition of this RFP. Vendors will be notified in the same manner as indicated above regarding any modifications to this RFP.

1.10 PROPRIETARY INFORMATION

The proposal of the successful vendor(s) becomes public information. Proprietary information can be protected under limited circumstances such as client lists and non-public financial statements. Pricing and service elements are not considered proprietary. An entire proposal may not be marked as proprietary. Vendors must clearly identify in the Executive Summary and mark in the body of the proposal any specific proprietary information they are requesting to be protected. The Executive Summary must contain specific justification explaining why the information is to be protected. Proposals may be reviewed and evaluated by any person at the discretion of the State. All materials submitted become the property of the State of South Dakota and may be returned only at the State's option.

1.11 LENGTH OF CONTRACT

The length of the contract is dependent on award approval which is made by the South Dakota Lottery Commission. The contract may be extended at the Lottery's discretion at rates negotiated with vendor.

The contract will commence on or about July 1, 2016 and conclude on or about June 2017. The final report will be presented to the South Dakota Lottery Commission at a meeting of the commission in December 2016.

The Lottery may request up to three (3) follow-up visits that may include presentations to Lottery stakeholders or meeting with the Lottery and/or Lottery Commission. Bidders should bid the follow-up visits separately and at a single per visit price. These follow-up visits may be held after the December 2016 presentation to the South Dakota Lottery Commission.

1.12 GOVERNING LAW

Venue for any and all legal action regarding or arising out of the transaction covered herein shall be solely in the State of South Dakota. The laws of South Dakota shall govern this transaction.

1.13 DISCUSSIONS WITH VENDORS (ORAL PRESENTATION/NEGOTIATIONS)

An oral presentation by a vendor to clarify a proposal may be required at the sole discretion of the State. However, the State may award a contract based on the initial proposals received without discussion with the Vendor. If oral presentations are required, they will be scheduled after the submission of proposals. Oral presentations will be made at the vendor's expense.

This process is a Request for Proposal/Competitive Negotiation process. Each Proposal shall be evaluated, and each respondent shall be available for negotiation meetings at the State's request. The State reserves the right to negotiate on any and/or all components of every proposal submitted. From the time the proposals are submitted until the formal award of a contract, each proposal is considered a working document and as such, will be kept confidential. The negotiation discussions will also be held as confidential until such time as the award is completed.

1.14 BACKGROUND CHECKS

A background check of all principals of the apparent successful Vendor or Vendors and each individual assigned to their respective project will be conducted pursuant to SDCL § 42-7A-6.

2.0 STANDARD CONTRACT TERMS AND CONDITIONS

Any contract or agreement resulting from this RFP will include the State's standard terms and conditions as listed below, along with any additional terms and conditions as negotiated by the parties:

- 2.1 Performance Security Deposit:** The successful vendor at the discretion of the South Dakota Lottery may be required to furnish a performance security deposit in the amount of \$50,000.00 United States currency, made payable to the State of South Dakota. Said deposit must be in the form of an original bond issued by a surety company authorized to do business in the State of South Dakota (copies or facsimiles shall not be acceptable), check, cash, bank draft, or irrevocable letter of credit and be furnished to the South Dakota Lottery within thirty (30) days after award of the contract and prior to performance of service under the contract or any installation of equipment. The contract number and contract period must be specified on the performance security deposit. In the event the South Dakota Lottery exercises an option to renew the contract for an additional period, the vendor shall maintain the validity and enforcement of the security deposit for the said period, pursuant to the provisions of this paragraph.
- 2.2** The Contractor will perform those services described in the Scope of Work, attached hereto as Section 3 of the RFP and by this reference incorporated herein.
- 2.3** The Contractor's services under this Agreement shall commence on and end on mutually agreed upon dates, unless sooner terminated pursuant to the terms hereof.
- 2.4** The Contractor will not use State equipment, supplies or facilities. The Contractor will provide the State with its Employer Identification Number, Federal Tax Identification Number or Social Security Number upon execution of this Agreement.
- 2.5** Unless otherwise negotiated and agreed upon by the parties, the State will make payment in compliance with the Prompt Payment Act, SDCL 5-26 for services provided under the contract.
- 2.6** The Contractor agrees to indemnify and hold the State of South Dakota, its officers, agents and employees, harmless from and against any and all actions, suits, damages, liability or other proceedings that may arise as the result of performing services hereunder. This section does not require the Contractor to be responsible for or defend against claims or damages arising solely from errors or omissions of the State, its officers, agents or employees.
- 2.7** The Contractor, at all times during the term of this Agreement, shall obtain and maintain in force insurance coverage of the types and with the limits as follows:

A. Commercial General Liability Insurance:

The Contractor shall maintain occurrence based commercial general liability insurance or equivalent form with a limit of not less than \$1,000,000.00 for each occurrence. If such insurance contains a general aggregate limit it shall apply separately to this Agreement or be no less than two times the occurrence limit.

B. Professional Liability Insurance or Miscellaneous Professional Liability Insurance:

The Contractor agrees to procure and maintain professional liability insurance or miscellaneous professional liability insurance with a limit not less than \$1,000,000.00.

C. Business Automobile Liability Insurance:

The Contractor shall maintain business automobile liability insurance or equivalent form with a limit of not less than \$1,000,000.00 for each accident. Such insurance shall include coverage for owned, hired and non-owned vehicles.

D. Worker's Compensation Insurance:

The Contractor shall procure and maintain workers' compensation and employers' liability insurance as required by South Dakota law.

Before beginning work under this Agreement, Contractor shall furnish the State with properly executed Certificates of Insurance which shall clearly evidence all insurance required in this Agreement. In the event a substantial change in insurance, issuance of a new policy, cancellation or nonrenewal of the policy, the Contractor agrees to provide immediate notice to the State and provide a new certificate of insurance showing continuous coverage in the amounts required. Contractor shall furnish copies of insurance policies if requested by the State.

2.8 While performing services hereunder, the Contractor is an independent contractor and not an officer, agent, or employee of the State of South Dakota.

2.9 Contractor agrees to report to the State any event encountered in the course of performance of this Agreement which results in injury to the person or property of third parties, or which may otherwise subject Contractor or the State to liability. Contractor shall report any such event to the State immediately upon discovery.

Contractor's obligation under this section shall only be to report the occurrence of any event to the State and to make any other report provided for by their duties or applicable law. Contractor's obligation to report shall not require disclosure of any information subject to privilege or confidentiality under law (e.g., attorney-client communications). Reporting to the State under this section shall not excuse or satisfy any obligation of Contractor to report any event to law enforcement or other entities under the requirements of any applicable law.

2.10 This Agreement may be terminated in partial or in full by either party hereto upon forty-five (45) days written notice. In the event the Contractor breaches any of the terms or conditions hereof, this Agreement may be terminated by the State at any time with or without notice. If termination for such a default is effected by the State, any payments due to Contractor at the time of termination may be adjusted to cover any additional costs to the State because of Contractor's default. Upon termination the State may take over the work and may award another party an agreement to complete the work under this Agreement. If after the State terminates for a default by Contractor it is determined that Contractor was not at fault, then the Contractor shall be paid for eligible services rendered and expenses incurred up to the date of termination.

- 2.11** This Agreement depends upon the continued availability of appropriated funds and expenditure authority from the Legislature for this purpose. If for any reason the Legislature fails to appropriate funds or grant expenditure authority, or funds become unavailable by operation of law or federal funds reductions, this Agreement will be terminated by the State. Termination for any of these reasons is not a default by the State nor does it give rise to a claim against the State.
- 2.12** This Agreement may not be assigned without the express prior written consent of the State. This Agreement may not be amended except in writing, which writing shall be expressly identified as a part hereof, and be signed by an authorized representative of each of the parties hereto.
- 2.13** This Agreement shall be governed by and construed in accordance with the laws of the State of South Dakota. Any lawsuit pertaining to or affecting this Agreement shall be venued in Circuit Court, Sixth Judicial Circuit, Hughes County, South Dakota.
- 2.14** The Contractor will comply with all federal, state and local laws, regulations, ordinances, guidelines, permits and requirements applicable to providing services pursuant to this Agreement, and will be solely responsible for obtaining current information on such requirements.
- 2.15** The Contractor may not use subcontractors to perform the services described herein without the express prior written consent of the State. The Contractor will include provisions in its subcontracts requiring its subcontractors to comply with the applicable provisions of this Agreement, to indemnify the State, and to provide insurance coverage for the benefit of the State in a manner consistent with this Agreement. The Contractor will cause its subcontractors, agents, and employees to comply, with applicable federal, state and local laws, regulations, ordinances, guidelines, permits and requirements and will adopt such review and inspection procedures as are necessary to assure such compliance.
- 2.16** Contractor hereby acknowledges and agrees that all reports, plans, specifications, technical data, miscellaneous drawings, software system programs and documentation, procedures, or files, operating instructions and procedures, source code(s) and documentation, including those necessary to upgrade and maintain the software program, and all information contained therein provided to the State by the Contractor in connection with its performance of services under this Agreement shall belong to and is the property of the State and will not be used in any way by the Contractor without the written consent of the State. Papers, reports, forms, software programs, source code(s) and other material which are a part of the work under this Agreement will not be copyrighted without written approval of the State.
- 2.17** The Contractor certifies that neither Contractor nor its principals are presently debarred, suspended, proposed for debarment or suspension, or declared ineligible from participating in transactions by the federal government or any state or local government department or agency. Contractor further agrees that it will immediately notify the State if during the term of this Agreement Contractor or its principals become subject to debarment, suspension or ineligibility from participating in transactions by the federal government, or by any state or local government department or agency.
- 2.18** Any notice or other communication required under the Agreement shall be in writing and sent to the appropriate address and individuals indicated in the Agreement, or such authorized designees as either party may from time to time designate in writing. Notices or communications to or between the parties shall be deemed to have been delivered when mailed by first class mail, provided that notice of default or termination shall be sent by registered or certified mail, or, if personally delivered, when received by such party.
- 2.19** In the event that any court of competent jurisdiction shall hold any provision of this Agreement unenforceable or invalid, such holding shall not invalidate or render unenforceable any other provision hereof.
- 2.20** All other prior discussions, communications and representations concerning the subject matter of this Agreement are superseded by the terms of this Agreement, and except as specifically provided herein, this Agreement constitutes the entire agreement with respect to the subject matter hereof.

2.21 Proposal as Contract: Unless otherwise stated in the contract, the Vendor's proposal in response to the RFP shall be considered the Contract as executed by the parties.

3.0 SCOPE OF WORK

The vendor must examine, evaluate, and assess the areas of security vulnerability for video lottery establishments and South Dakota Lottery facilities. South Dakota video lottery establishments exist in a variety of businesses such as c-stores, bars, restaurants, and video lottery establishment only locations. South Dakota Lottery facilities are located in Pierre (main office and a validation center), Sioux Falls (validation center and warehouse storage for instant tickets), and Rapid City (validation center).

The vendor will assess the operating environments to identify security needs for the following: a variety of fifty (50) video lottery establishments chosen by the South Dakota Lottery and the three (3) Lottery facilities identified.

The vendor will assess the security risks and evaluate for the following, at a minimum:

- (1) Establishment premises.** Conduct site visits to assess the physical security risks of video lottery establishment buildings to include the interior and exterior of the building which encompasses the alarm system, door locking security, lighting, safes, doors, roofs, windows, landscaping, etc. The establishments only need to be reviewed one time, but the time of day reviewed should represent varying operational hours.
- (2) Establishment procedures.** Conduct procedure reviews of management practices and internal security controls of video lottery establishments and recommend best practices for internal security controls for the following: employee training, video lottery machine key handling, money management procedures of video lottery machines, employee interaction with the general public, and any practice identified that could be improved for security purposes.
- (3) SD Lottery facilities.** Review and examine services, products, and security practices in the warehouse, redemption centers, and offices in Pierre, Sioux Falls, and Rapid City. Activities to be reviewed at minimum are: shipping, receiving, storage, distribution, and delivery methods of instant and online tickets and draw room security practices.
- (4) Other security aspects.** Identify security exposures, threats, and response procedures associated with other areas of Lottery.

Additional services requested from the vendor are to: analyze data gathered and prepare a comprehensive written risk assessment based on findings, develop best practices and procedures to improve security measures, create a self-assessment for video lottery establishments that identifies security gaps and ways of mitigating areas of risk to all evaluated areas.

Final reports to be drafted by the vendor for SD Lottery are the following: risk assessment for identified areas, best practices, self-assessment report for video lottery establishments, and follow-up visit report. These are to be discussed with SD Lottery for thorough understanding.

4.0 PROPOSAL REQUIREMENTS AND COMPANY QUALIFICATIONS

- 4.1** The vendor is cautioned that it is the vendor's sole responsibility to submit information related to the evaluation categories and that the State of South Dakota is under no obligation to solicit such information if it is not included with the proposal. The vendor's failure to submit such information may cause an adverse impact on the evaluation of the proposal.
- 4.2 Vendor's Contacts:** Vendors and their agents (including subcontractors, employees, consultants, or anyone else acting on their behalf) must direct all of their questions or comments regarding the RFP, the

evaluation, etc. to Robyn Seibel and John Keyes as indicated on the first page of this RFP. Vendors and their agents may not contact any state employee other than Robyn Seibel or John Keyes regarding any of these matters during the solicitation and evaluation process. Inappropriate contacts are grounds for suspension and/or exclusion from specific procurements. Vendors and their agents who have questions regarding this matter should contact Robyn Seibel or John Keyes at the phone number or email address indicated on the front page of this RFP.

- 4.3 The vendor may be required to submit a copy of their most recent audited financial statements upon the State's request.
- 4.4 Provide the following information related to at least three previous and current service/contracts, performed by the vendor's organization, which are similar to the requirements of this RFP. Provide this information for any service/contract that has been terminated, expired or not renewed in the past three years.
 - a. Name, address and telephone number of client/contracting agency and a representative of that agency who may be contacted for verification of all information submitted;
 - b. Dates of the service/contract; and
 - c. A brief, written description of the specific prior services performed and requirements thereof.
- 4.5 Proposal must include a list of personnel (including name, title and job description) to be assigned to the South Dakota Lottery project and include resumes for all project personnel. Resumes must include, at a minimum, information regarding length of time spent doing present duties or related duties; a description of duties; projects accomplished, including scope and name of client's company; education; and any relevant professional certifications. If duties were performed for an employer other than the vendor, the proposal must include the information above and indicate that employer's name.
- 4.6 Each vendor shall explain its approach to providing services. A detailed work plan must be included in the proposal. If modification to the work plan is needed it must be submitted for approval to the Executive Director listed in section 1.7. It may also be emailed to Norm Lingle at Norman.Lingle@state.sd.us. Lottery may request clarification of modified work plan.

5.0 PROPOSAL RESPONSE FORMAT

- 5.1 Vendors must submit responses according to section 1.4.
 - 5.1.1 Vendors may not send the electronically formatted copy of their proposal via email.
 - 5.1.2 The proposal should be page numbered and should have an index and/or a table of contents referencing the appropriate page number.
- 5.2 All proposals must be organized and tabbed with labels for the following headings:
 - 5.2.1 **RFP Form.** The State's Request for Proposal form completed and signed.
 - 5.2.2 **Executive Summary.** The one or two page executive summary is to briefly describe the vendor's proposal. This summary should highlight the major features of the proposal. It must indicate any requirements that cannot be met by the vendor. The reader should be able to determine the essence of the proposal by reading the executive summary. Proprietary information requests should be identified in this section.
 - 5.2.3 **Detailed Response.** This section should constitute the major portion of the proposal and must contain at least the following information:

5.2.3.1 A complete narrative of the vendor's assessment of the work to be performed, the vendor's ability and approach, and the resources necessary to fulfill the requirements. This should demonstrate the vendor's understanding of the desired overall performance expectations.

5.2.3.2 A specific point-by-point response, in the order listed, to each requirement in the RFP. The response should identify each requirement being addressed as enumerated in the RFP.

5.2.3.3 A clear description of any options or alternatives proposed.

5.2.4 **Cost Proposal.** Cost will be evaluated independently from the technical proposal. Vendors may submit multiple cost proposals. All costs related to the provision of the required services must be included in each cost proposal offered.

The cost proposal must be submitted in a separate sealed envelope labeled "Cost Proposal" as outlined in section 1.4 of this RFP.

See section 7.0 for more information related to the cost proposal.

6.0 PROPOSAL EVALUATION AND AWARD PROCESS

6.1 After determining that a proposal satisfies the mandatory requirements stated in the Request for Proposal, the evaluator(s) shall use subjective judgment in conducting a comparative assessment of the proposal by considering each of the following criteria:

- 6.1.1 Specialized expertise, capabilities, and technical competence as demonstrated by the proposed approach and methodology to meet the project requirements (30%);
- 6.1.2 Record of past performance, including price and cost data from previous projects, quality of work, ability to meet schedules, cost control, and contract administration (20%);
- 6.1.3 Resources available to perform the work, including any specialized services, within the specified time limits for the project (15%);
- 6.1.4 Proposed project management techniques (10%);
- 6.1.5 Ability and proven history in handling special project constraints (10%);
- 6.1.6 Availability to the project locale (5%); and
- 6.1.7 Familiarity with the project locale (5%);

6.2 Experience and reliability of the vendor's organization are considered subjectively in the evaluation process. Therefore, the vendor is advised to submit any information which documents successful and reliable experience in past performances, especially those performances related to the requirements of this RFP.

6.3 The qualifications of the personnel proposed by the vendor to perform the requirements of this RFP, whether from the vendor's organization or from a proposed subcontractor, will be subjectively evaluated. Therefore,

the vendor should submit detailed information related to the experience and qualifications, including education and training, of proposed personnel.

6.4 The State reserves the right to reject any or all proposals, waive technicalities, and make award(s) as deemed to be in the best interest of the State of South Dakota.

6.5 Award: The requesting agency and the highest ranked vendor shall mutually discuss and refine the scope of services for the project and shall negotiate terms, including compensation and performance schedule.

6.5.1 If the agency and the highest ranked vendor are unable for any reason to negotiate a contract at a compensation level that is reasonable and fair to the agency, the agency shall, either orally or in writing, terminate negotiations with the contractor. The agency may then negotiate with the next highest ranked contractor.

6.5.2 The negotiation process may continue through successive vendors, according to agency ranking, until an agreement is reached or the agency terminates the contracting process.

7.0 COST PROPOSAL

The vendor should provide at minimum the price for the following services:

1. Initial assessment preparation, research and analysis report time at a dollar amount.
2. Follow-up assessment preparation, research and analysis report time at a dollar amount.
3. Per Section 1.11, three (3) follow-up visits at cost per visit.

Net Machine Revenue & Terminal and Establishment Averages

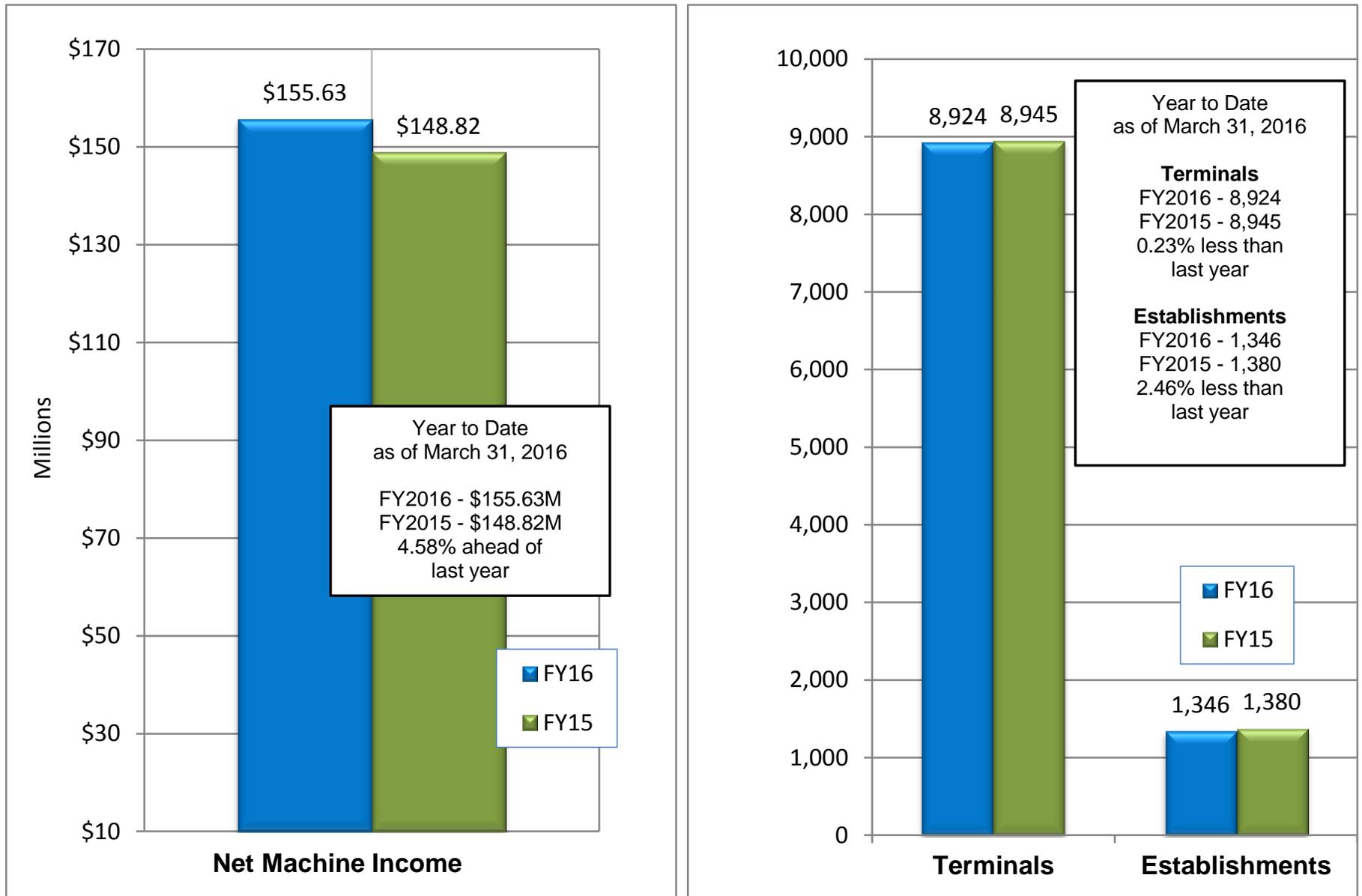
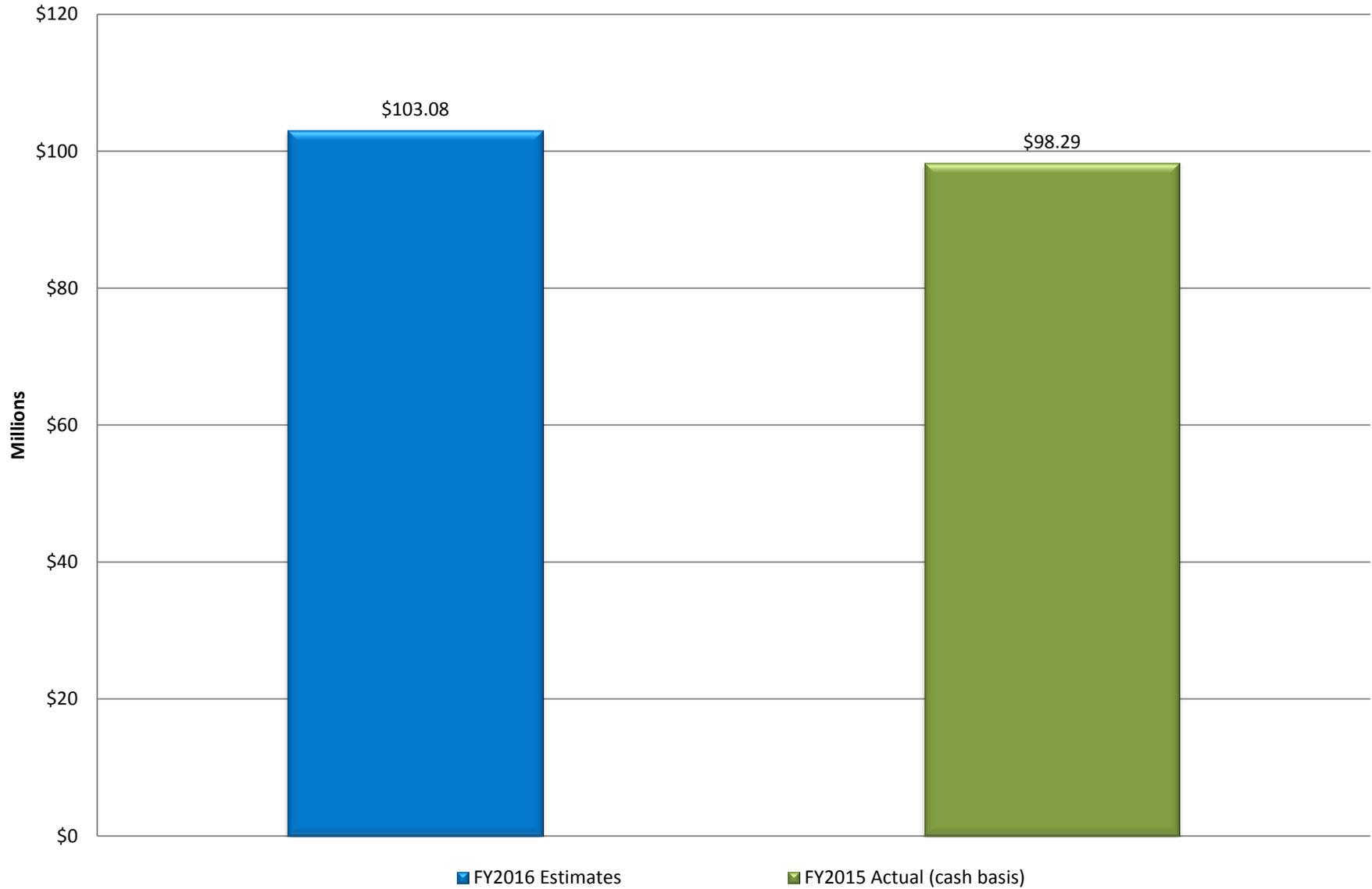
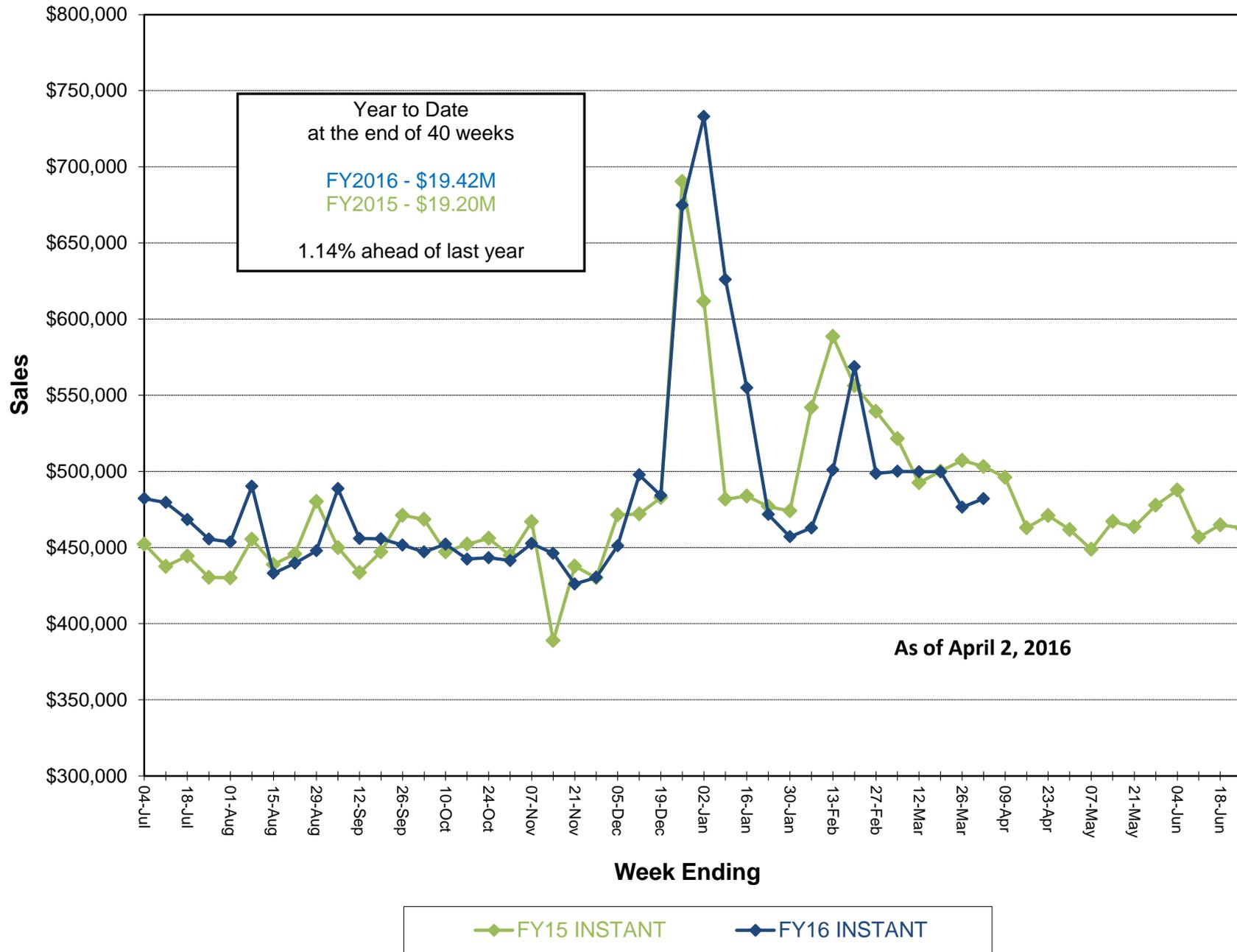


Exhibit B

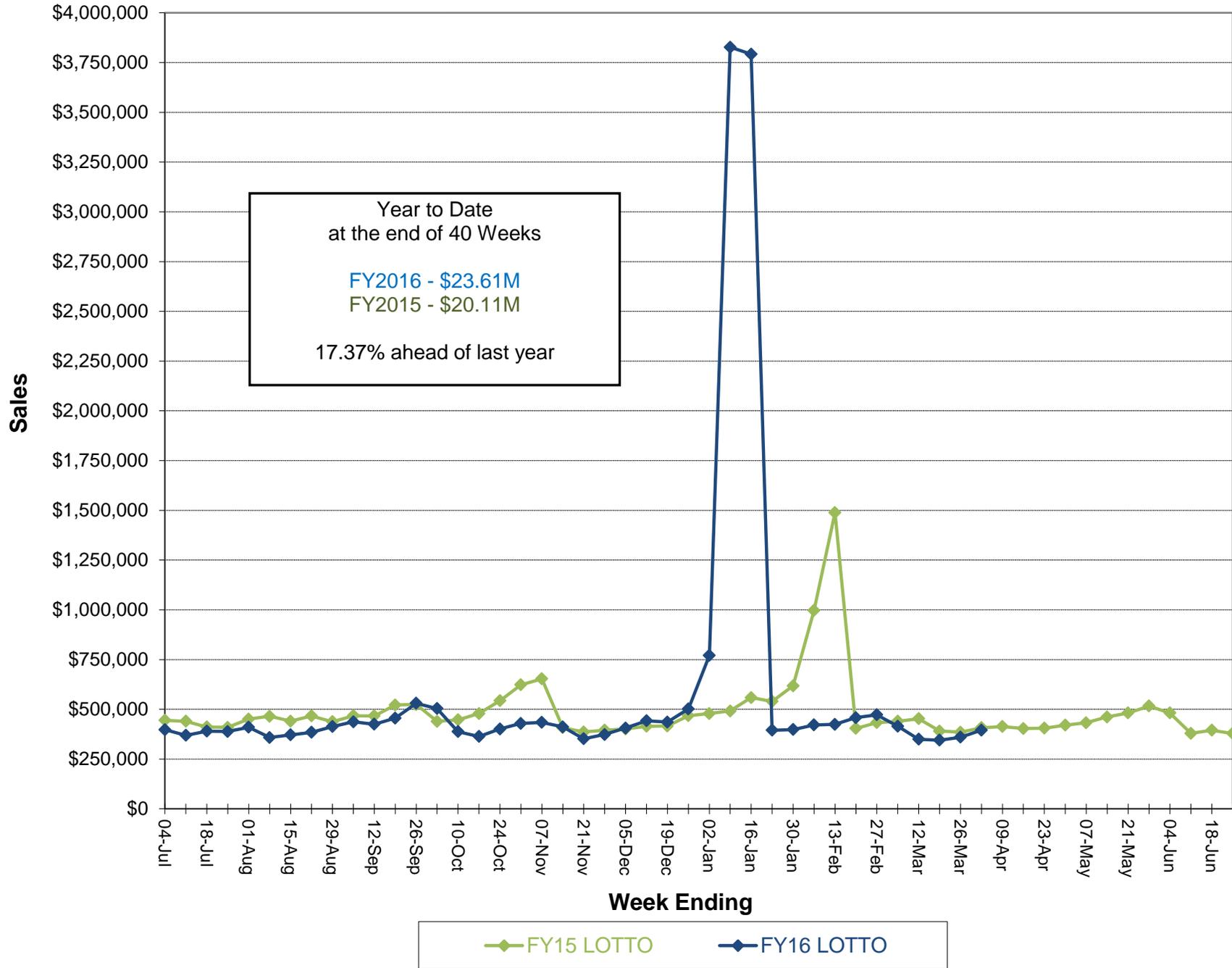
Video Lottery FY16 State Share Revenue Projection As of March 31, 2016



Instant Ticket Sales



Lotto Sales



Instant and Online FY16 Revenue Projections As of March 31, 2016

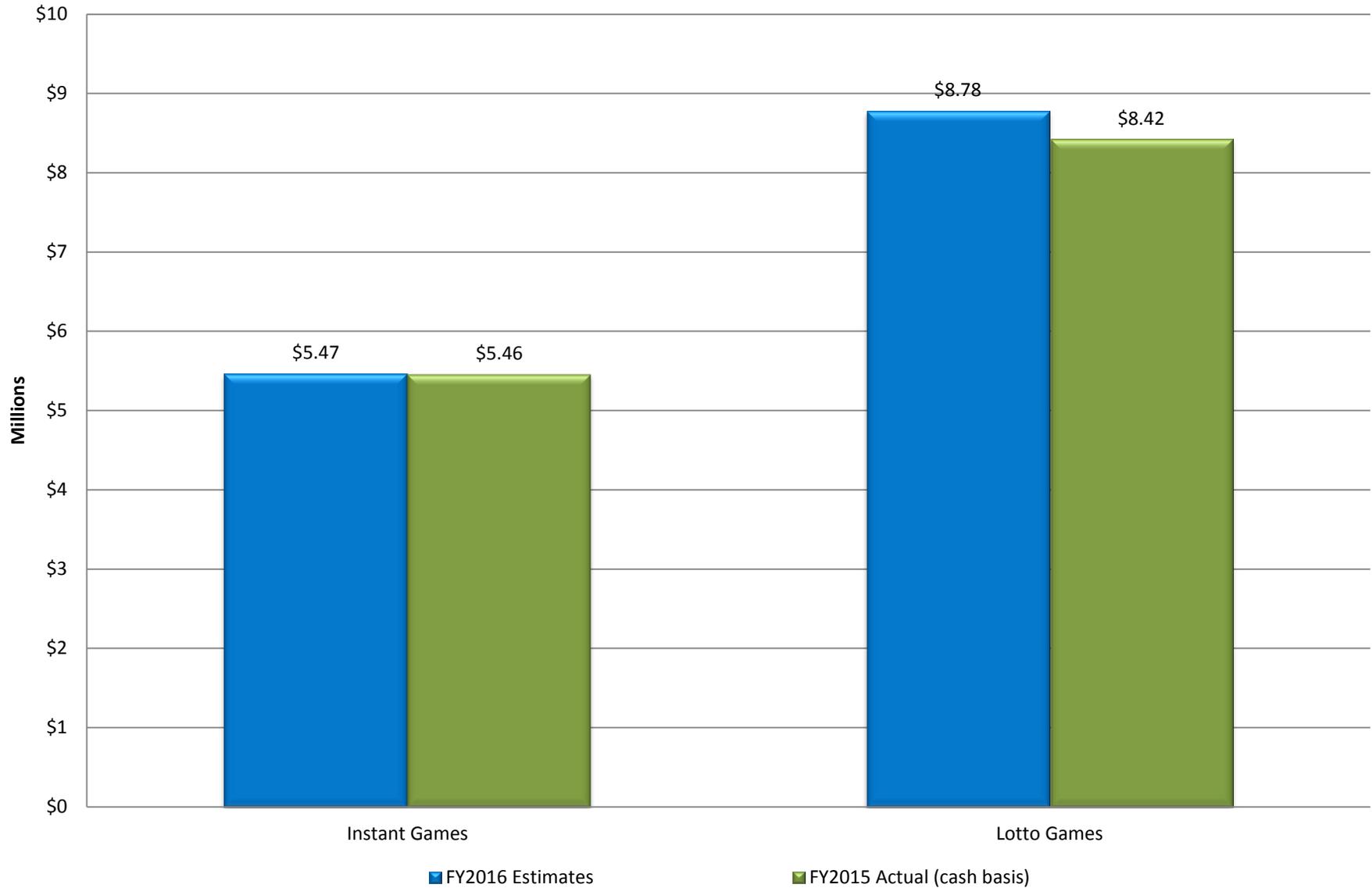


Exhibit F

Total FY16 Revenue Projections As of March 31, 2016

