



**UNAPPROVED**

**Minutes of the Commission Meeting**

Room 412, Capitol Building

**August 4, 2016**

Chairman Turbiville called the Aug. 4, 2016 meeting of the South Dakota Lottery Commission to order at 10:00 a.m.

**MEMBERS PRESENT:** Chuck Turbiville, Bob Hartford, Brent Dykstra, Robert Faehn, and Joe Kafka were present.

**MEMBER ABSENT:** Jim Putnam was absent.

**SUPPORT STAFF PRESENT:** Norm Lingle, Clark Hepper, Sherry Lauseng, Kelly Thompson, Robyn Seibel, and Andrew Fergel.

**APPROVAL OF THE AGENDA**

Commissioner Dykestra moved that the agenda be approved. Commissioner Hartford seconded. Motion carried.

**APPROVAL OF THE MINUTES FROM THE JUNE 2-3, 2016, MEETING**

Commissioner Hartford moved that the minutes be approved. Commissioner Dykstra seconded. Motion carried.

**EXECUTIVE DIRECTOR'S COMMENTS**

*Executive Director Norm Lingle reported on the following:*

Lingle welcomed new commissioners Faehn and Kafka to the Lottery Commission and mentioned that an orientation was held the prior day to get them up to speed before the meeting.

Next, Lingle gave a recap of fiscal year 2016's (FY16) sales and reminded commissioners that the Lottery was in the process of an audit and the numbers he had were prior to the audit. The Lottery had a good year with growth in all products. Instant ticket sales in FY16 were at \$26.29 million, which was an increase of 1.8%, and a new record for instant ticket sales. Lotto sales for FY16 were \$28.99 million, an increase of 14.4% over last year. A big factor in that increase was the \$1.5 billion Powerball jackpot. Video Lottery had a total net machine income (NMI) of \$207.6 million, which was an increase of 4.3% over the previous year. The uptick in NMI was attributed to the continued purchase and deployment of line games, which continue to outperform legacy games by about \$40 per day per machine in NMI. Once the audit is complete, Lottery will report the final numbers.

The FY16 audit should be completed by the end of September. The Department of Legislative Audit is working with Sherry Lauseng and her staff.

The FY18 budgets will be brought to the next meeting, but Lottery doesn't expect any big changes to either budget.

Lingle reported that some personnel changes were happening within the Lottery. Sales Director Joe Willingham submitted his resignation, with July 8 as his last day. Joe's 29 years at the Lottery were greatly appreciated. Applications

closed on Aug. 9, 2016 for the sales director position. The Lottery received 22 applications and will be conducting interviews soon with hopes of having a new director in place by the end of September. June Classen, the Lottery's front desk receptionist and validation clerk, also resigned. Her last day will be Sept. 1, 2016. She is relocating to Texas to be closer to family. The receptionist position was advertised and closed with interviews Aug. 8-10. The plan was to hire someone soon and allow June to train the new employee.

Interviews had been held for the business analyst position and the Lottery was looking to make an offer soon.

Hartford expressed confusion over the topic of conflict of interest, saying that at the previous meeting commissioners were told that the Attorney General's office would issue a document further explaining it. Lingle answered that he did receive a document and would get it sent out as soon as possible.

#### **ELECTION OF CHAIR AND VICE CHAIR**

Chair Turbiville opened the floor up to nominations for Chairman of the Commission. Commissioner Hartford nominated Chuck Turbiville. Commissioner Faehn seconded. No other nominations were made. Vote was taken: Aye – Dykstra, Kafka, Hartford, Faehn, and Turbiville. Motion carried.

Commissioner Hartford nominated Jim Putnam for Vice Chair of the Lottery Commission. Commissioner Kafka seconded. No other nominations were made. Vote was taken: Aye – Dykstra, Kafka, Hartford, Faehn, and Turbiville. Motion carried.

#### **STRATEGIC PLAN UPDATE**

*Executive Director Norm Lingle reported on the following:*

Lingle walked the Commissioners through the FY17 strategic plan and began by reiterating the Lottery's mission statement: "To work in partnership with all stakeholders to promote and ensure the integrity, security and honesty of lottery games, to maximize state revenues and to ensure the Lottery remains a viable and sustainable source of revenue for the South Dakota." Lingle said the mission statement is being used to guide the strategic plan.

The previous Commission meeting held June 2 and 3 for strategic planning primarily focused on the instant and online side of the Lottery. Prior to that meeting, strategic planning meetings had focused on video lottery. Scientific Games (SG), International Gaming Technology (IGT), Novomatic, and Pollard Banknote presented recommendations for the future of Lottery. This was the fifth strategic planning meeting since 2012, when Secretary Gerlach first asked the Lottery to conduct such meetings. Chair Turbiville asked Lottery staff to go over all recommendations and come up with a plan.

#### **SHORT TERM OBJECTIVES (accomplish within a year)**

The Lottery plans to focus on player acquisition and the development of a mobile application (app).

All of the vendors talked about the Lottery's need for a mobile app, so Lottery staff met with Lawrence & Schiller (L&S) and the Bureau of Information and Telecommunications (BIT) to work on developing a mobile app for both Android and iOS devices. A follow up meeting has been set for Sept. 8. The main discussion so far has been about what to include in the app. Based on L&S's experience and looking at other lottery apps, a priority list was developed. There is also a plan to add more functions to the app down the road to keep it fresh, current, and relevant to players.

Vendors also talked about the Lottery's online portfolio, and many felt there was a need to add a "For Life" game. "Lucky for Life" started in the New England states and has grown into a true multi-state game. All states bordering South Dakota with the exception of Nebraska currently offer "Lucky for Life". The top prize is \$1,000 per day for life. The second prize is \$25,000 per year for life. Lingle talked with a North Dakota counterpart who said the game has done better than expected and would be a good fit for the South Dakota Lottery. Drawings would be held on Monday and Thursday, meaning the Lottery would have draws every day of the week except Sunday. "Lucky for Life" would give

another option to loyal players and appeal to new players as well. The Lottery is hoping to launch “Lucky for Life” in late spring of 2017.

#### MID-TERM (2-5 years)

Some of the mid-term goals require completion of a mobile app to implement. One goal is to add a “play for fun” feature where players purchase a scratch ticket at a retailer, get a code, go to the mobile app, and play that game at no cost. This is a way to continue playing the game and even start a competition with friends.

Beacon technology is another function that could be added once a mobile app is developed. It works by setting up a beacon device at the retailer that detects when a player with the mobile app is in range, and then sends a Lottery marketing message to that player’s phone. The message could be about the jackpots available for that night’s draw or alert customers to a store special in conjunction with a Lottery special. Beacon technology is another way of working with retailers to help improve upon already good relationships with players.

Daily draw games such as Pick 3 or Pick 4 with multiple draws per day were a popular recommendation from vendors as were terminal based instant win games, such as EZ Match, which will be available on Dakota Cash tickets in August 2016.

Gift cards were a highly recommended item. Research shows that during holidays, gift cards are the most requested present. Lingle asked commissioners to imagine a Lottery gift card in the racks at Walmart and other big box retailers with all of the other gift cards. Lotteries have been working on a way to get in to the big box stores and gift cards might be the mechanism to accomplish that.

A loyalty program would be a way to earn points for prizes (similar to frequent flyer miles). A customer buys tickets and then goes online to register them, earning points to redeem for prizes. Prizes could be anything from gift cards to televisions. The best time to look into a loyalty program would be in 2019 when a new system vendor contract will need to be established.

#### LONG TERM (5 plus years)

Monitor games such as Keno are more social games and could be put into bars and played while potential players socialize with friends. Over a dozen lotteries are currently doing keno, but this would be something to look into after the Lottery’s next system vendor contract is established.

i-Lottery and MobiPlay involve internet interaction and will need to be looked at further down the line. The next strategic planning meeting will focus on all aspects of the Lottery.

The first two items in the short term objectives can currently be done. Lucky for Life would involve developing administrative rules and going through the rules hearing process. The mobile app can be developed by the Lottery and rolled out by the end of the fiscal year. Interactive games, beacon technology, draw games, terminal games, gift cards, and loyalty programs are all things the commission can accomplish. Other options may require administrative rules or legislation.

Turbiville asked about the Lucky for Life game, wondering how the funds would be generated to pay for prizes. Lingle responded that tickets would be sold for \$2 per play at terminals, with drawings on Mondays and Thursdays. The top prize winner can choose either \$1,000 per day for life or an annuitized prize of \$5.8 million. The same applies to the second level prize. Lucky for Life is a multi-state game, so all states are contributing to the pool, carving off so much for those prizes and creating a reserve to fund prize levels if needed. It’s a game of odds, just like other draw games.

Hartford wondered how many times North Dakota has had a top prize winner in Lucky for Life. Lingle responded that they have not had a top winner, but have had a second prize level winner. Lingle said the game is driven by population, so big states would have more winners.

Kafka wondered if the odds of winning Lucky for Life were better or worse than the odds of winning other lotto games offered. Lingle responded that he didn't have the odds with him, but they were better than Powerball.

Dykstra asked if there was a schedule or a plan to implement the short term items. Lingle stated that the app should be implemented by the end of FY17 and Lucky for Life is expected to be available in late spring or early summer. Lingle expected to bring a rules package for "Lucky for Life" to the Commission for approval during the first meeting of calendar year 2017.

Faehn inquired about the cost of the app and what would draw players to the app to use it. Lingle replied that the Lottery is working with BIT and L&S to develop the app and that BIT has developed apps for other state agencies. Some funding assistance could be acquired through the instant ticket contract, but there is no total cost yet as Lottery is still looking into what will be included in the app. Some basic features that will draw players to the app include winning number notifications, the ability to scan lotto or instant tickets to identify whether or not the ticket is a winner, a number generating feature, and a mobile play slip for players that always play the same numbers. The main focus is to make life easier for players by offering them applications they can use on a daily basis.

## **VIDEO LOTTERY REPORT**

*Director of Video Lottery and Security Robyn Seibel reported on the following:*

Seibel reported on net machine revenue and terminal and establishment averages for FY17 as of July 23, 2016. Net machine income (NMI) for FY17 is \$15.62 million which is a 4.25% increase over FY16. The number of terminals was at 9,002, which is up .73% from the previous year. The number of establishments was at 1,331, which is 1.70% less than in FY16.

Video lottery FY17 revenue projection is \$106.35 million versus \$102.80 million in FY16, projecting an increase of 3.45%.

## **PUBLIC RELATIONS/ADVERTISING REPORT**

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

### **Big Winners Claimed (since 6/2/16)**

#### ***Lotto Games***

There was one \$90,585 Dakota Cash jackpot winner from the July 27 draw sold in Brookings that was still unclaimed.

There were eight non-jackpot high winners:

- **Powerball - \$100,000 (1) – Sioux Falls**
- Powerball - \$50,000 (2) – Alexandria, Aberdeen
- **Mega Millions w/Megaplier - \$10,000 (1) – Custer**
- Hot Lotto w/Sizzler - \$9,000 (1) – Selby
- **Hot Lotto - \$3,000 (3) – Sioux Falls, Watertown, Willow Lake**

#### ***Instant Games***

There have been seven top prize winners of \$2,200 to \$100,000 in six different games since June 2.

### **Play it Again**

There have been five Play It Again Summer Sizzle mini drawings, with the final mini drawing to be held Aug. 19. Mini draw winners get their choice of \$100 in scratch tickets or a \$100 gift card from one of the 200+ participating retailers. The \$30,000 grand prize drawing will be held Aug. 26, and as of July 31 there were about 165,735 entries. The next Play It Again promotion will be \$30,000 Dash for Cash and will begin Aug. 27.

### **Website Redesign**

Lottery is in the process of finalizing the new website design, with phase 1 scheduled to go live in the next few weeks. The new site featuring more graphics, less text, and a more modern look was a joint effort by Lottery, Lawrence &

Schiller, and BIT. Phase 2 of the new site will launch this fall and include a revamped Players Club site as well as winner/retailer maps.

### **State Fair**

The Lottery will be in its usual spot in front of the Women's Building Aug. 31 through Sep. 5 at the State Fair. It is a good chance for staff to interact with players. This year the Lottery will be promoting the new Good Fun brand, \$5 Pure Gold scratch ticket (\$50,000 top prize), and Dakota Cash with EZ match.

Hartford asked if Lottery had a presence at the Sturgis rally. Thompson stated that the Lottery doesn't do the rally and hasn't in the past 7 or 8 years. She said it was not a successful venue because rally goers were not there to buy tickets. The Lottery does digital billboards to advertise in those areas if there are large lotto jackpots.

### **SALES REPORT**

*Assistant Deputy Director Clark Hepper reported on the following:*

Instant ticket sales were down 10.95% behind the previous year. Lottery hopes to see some increases in the fall and during the holiday campaign. Pure Gold is a new \$5 ticket that offers seventeen different ways to win on one ticket. Grand 7's is a new \$2 ticket with a top prize of \$12,777.

Lotto sales are up 53.82% over last year. There were strong sales in Mega Millions and Powerball early in the year. Mega Millions had a \$540 million jackpot that helped drive sales; that was won on July 8. Powerball had a jackpot run that ended on June 30 with a \$487 million jackpot that helped with sales. Mega Millions had a sales increase of 130% year over year. Powerball increased its sales by 100%. Hot Lotto had an increase of 24%. Dakota Cash has had a couple of jackpot winners and is running at a 1% decrease when compared to the previous year.

The revenue projection for instant ticket sales is 11% below the previous year and revenue projections for lotto show a 19.8% decrease. The instant sales decrease is based on the sales trend from last year. Lotto had a record Powerball jackpot run last year and likely will not see that this year. The Lottery is projecting an increase of 1% in overall revenue, with the bulk coming from video lottery.

Faehn asked if the spike in sales was always that large around the holidays or if it was driven by Powerball sales. Hepper stated that there is typically a spike, but Powerball did have an impact.

### **APPROVAL OF INSTANT TICKETS AND RELATED SERVICES CONTRACTS**

*Executive Director Norm Lingle reported on the following:*

Lingle provided some background information regarding the two rounds of questions and answers with vendors for the instant tickets and related services RFP. Lottery was seeking a 3 year contract. Three vendors responded for the printing of scratch games. There are really only three vendors in the business – SG, Pollard Banknote, and IGT. IGT responded that they were not going to bid so there were two proposals. The evaluating team felt both were capable of fulfilling the Lottery's printing needs. The commission granted permission to begin negotiations on these contracts. Lottery met with Pollard on June 17, and the company remained firm in their original offering. If they were the primary printer, they offered one licensed game per year at no cost, as well as attendance at the digital exchange conference and Pollard University. Lottery met with SG who is the current vendor on June 23. They were willing to negotiate and if they were to be the primary vendor, they would reduce the prices they had submitted by 4% - a savings of about \$25,000. They offered a savings of about 25% on some licensed games as well. Typically those games are at 2% of sales, but SG reduced that to 1.5% of sales. SG also offered an every other year review of retailer's merchandising of Lottery products, bi-annual sales training of Lottery staff and retailers, and a cash contribution of \$25,000 toward the cost of developing a mobile app. So the Lottery's recommendation is to enter into a contract with SG as the primary instant ticket vendor and Pollard as the secondary printer. Lingle pointed out a section within the contract – page one – sub one that states that in the event of any inconsistency between the RFP, the answers to proposals, and the contract, the

documents will be interpreted in the following order - the contract, the RFP and the answers to questions, then the vendor's proposals.

Lottery asked for the commission's approval to enter into an agreement with SG to be the primary instant ticket vendor and with Pollard Banknote to be the secondary instant ticket printer for the base 3 year term of the contract.

Hartford asked why SG had an extensive price list included but Pollard did not. Lingle explained that the RFP was incorporated with the questions, answers, and vendor responses. Since Pollard was not willing to negotiate the pricing, it was not listed as changed. SG reduced pricing by 4% so that is what was listed.

Dykstra asked under what conditions Pollard Banknote would become the printer. Lingle responded that this would be the first time Lottery has gone with a primary and a secondary, but it is common in the industry. Although not stated in the contract, the split would likely be 80% with the primary and 20% with the secondary. If SG would cease business, then everything would roll over to Pollard (with legal assistance). Dykstra asked if the Lottery does an annual vendor analysis to include financial stability and intrusion testing. Lingle explained that analysis is done, but more so from the video lottery side. The Lottery receives consolidated financial statements from its vendors on a yearly basis.

Turbiville asked why Lottery would have a primary and secondary printer, if the primary is less expensive and willing to handle the entire print duties. Lingle stated that within the lottery arena, vendors develop different products that they patent and then have proprietary property of, and that both Pollard and SG offer some innovative tickets with the potential to increase sales. This way the Lottery can take advantage of both.

Kafka wondered if Lottery had ever had non-performance issues with their ticket print vendors. Lingle answered that he did not recall any of these types of issues. There had been an occasional game that had latex issues but the vendor rectified the problem.

A motion to approve the contract with SG as the primary ticket vendor was moved by Commissioner Dykstra. Commissioner Hartford seconded. Vote was taken: Aye – Dykstra, Kafka, Hartford, Faehn, and Turbiville. Motion carried.

A motion to approve the contract with Pollard Banknote as the secondary ticket printer was moved by Commissioner Hartford. Commissioner Dykstra seconded. Vote was taken: Aye – Dykstra, Kafka, Hartford, Faehn, and Turbiville. Motion carried.

#### **APPROVAL OF COMPLIANCE TESTING AND CONSULTING SERVICES CONTRACT**

*Assistant Deputy Director Clark Hepper reported on the following:*

Hepper offered some background on the video lottery testing agreement. The contract tests and approves such things as the Lottery's math, odds, payback percentages, terminal security, hardware, and the hardware functions when connected to the Lottery's system. It's a three step process using the independent testing lab to do testing first – then the lab within the Lottery does testing within the system – next BETA testing occurs with a small percentage of machines being tested live within the field. Based on all these tests, the Lottery issues a pass or a fail as to whether or not to introduce the hardware/software into the market. Testing fees are reimbursed by manufacturers.

The current RFP was issued in February. Questions were accepted on March 11. Responses were returned on April 1 and proposals were brought to commissioners at the last meeting. This contract would be for a four year term with 3 one year extensions. Proposals were received from Gaming Labs International (GLI) and BMM. The Lottery was looking at expanding the testing scope to take advantage of the efficiencies and expertise of the provider and no longer administer testing at the Lottery. This provider will have more employees with greater expertise and more testing labs around the country. After negotiations with GLI, nothing changed within the price structure, with the exception of providing 12 hours of training with Lottery staff and the flexibility to raise their price by \$5 per hour with each contract extension. Lottery asked the commission to approve the contract with GLI.

Hartford asked if these prices quoted by GLI are close to previous year's pricing. Hepper responded that yes they were only four or five dollars over the previous contract. Hartford asked if it was correct that the manufacturer picks up the tab for the testing. Hepper responded yes, the only costs to the Lottery would be when testing the Lottery's own equipment.

A motion to approve the contract with GLI for compliance testing and consulting services was moved by Commissioner Kafka. Commissioner Faehn seconded. Vote was taken: Aye – Dykstra, Kafka, Hartford, Faehn, and Turbiville. Motion carried.

#### **APPROVAL OF VIDEO LOTTERY SECURITY STUDY CONTRACT**

*Director of Video Lottery and Security Robyn Seibel reported on the following:*

Seibel offered a refresher on the work that would be done with the security contract. The Lottery was looking at working with a company to conduct an overall physical and procedural review of establishments and lottery offices to develop best practices to improve security throughout. This came about due to concern over the number of robberies and burglaries that had taken place at establishments.

The Lottery developed a contract with GLI and was looking for approval from commissioners for a security study of lottery offices and video lottery establishments. The length of the contract would be for one year, ending in June 2017.

GLI would be evaluating a sample of 50 video lottery establishments that represent all the different business types in South Dakota. Some examples would be bars, restaurants, convenience stores, and locations that only offer video lottery.

GLI would identify security gaps and offer opportunities for improvement. At the site visits, they would look at things such as door locking systems, lighting, safes, doors, roofs, windows, landscaping, and any other structural items that are deemed important. Also, sites would be looked at for their management practices and internal security controls to see if anything could be improved upon in those areas.

#### **COST TO HAVE THIS COMPLETED:**

- The initial assessment preparation, research, and analysis would be \$62,100.00 + travel expenses.
- A follow-up assessment preparation, research and analysis would be \$6,000 + travel expenses.
- The Lottery could request up to 3 follow-up visits to include presentations to lottery staff and/or the Lottery Commission. This would be for a cost of travel expenses only.
- Travel expenses are for a total of \$12,000.
- The total cost would be approximately \$80,000 from start to finish.

The Lottery was looking for approval of the contract with GLI to move forward with the security study.

On a side note, no other lottery has done this so the South Dakota Lottery would be doing ground breaking work.

Commissioner Turbiville stated that he was hesitant to go forward with an \$80,000 study. He felt something needed to be done to provide security. He was with Lottery staff when they met with Rapid City law enforcement officials and while there was concern, he's not sure whether a study that would suggest new cameras or taking down beer signs would deter these individuals. Turbiville didn't feel a one size fits all approach could solve this problem. Small towns and larger cities will need to protect themselves in different ways. He asked if there was something Lottery staff could embark on to bring some general recommendations and wasn't convinced an \$80,000 proposal would solve the problems.

Hartford echoed Turbiville's concerns, saying he had met with representatives from several districts who felt recommendations could not be the same for all establishments. If they were, some smaller establishments would be forced out of business. Hartford pointed out that there are huge differences between establishments in Blunt and establishments in Sioux Falls. He also felt that surveying only 50 establishments out of 1,350 couldn't produce good recommendations for everyone. He suggested looking at where the robberies are taking place and in what types of establishments (three types of casinos – ones, twos, and threes) and then recommending security procedures based on that.

Seibel felt research would be done on a cross-section of establishments. Her plan was to look at all the establishments that had been robbed and figure out what they are doing differently that could make them a target. The ultimate goal is to make all establishments safer.

Lingle offered to table this discussion until the next meeting, allowing the Lottery to go back to GLI to revise the scope and perhaps down size, but still meet the objectives of the study.

Kafka wondered if the Division of Criminal Investigation or the Attorney General's office could look at these locations and make some recommendations.

Dykstra asked if the suggestions from GLI would become recommendations or requirements for establishments after the study. Hepper stated that the RFP talked about best practices because the industry didn't want requirements. Kafka asked if the changes would require administrative rule. Hepper responded in the affirmative.

Chair Turbiville recommended the commission follow the executive director's recommendation to see if there is something that could be done to provide for the security and safety of patrons without making it so expensive that smaller casinos would have to close. He then entertained a motion to table the discussion until the next meeting and have Lottery staff work with GLI and the owners/operators of establishments to see if there is a good solution to this.

Commissioner Hartford moved to table the issue and have further discussion at the next meeting. Commissioner Faehn seconded. Dykstra asked that input be gathered from establishments as they should have suggestions on how to make the businesses safe and secure. A vote was taken: Aye – Dykstra, Kafka, Hartford, Faehn, and Turbiville. Motion carried.

James Maida, president and founder of GLI, addressed the Commission, saying that the discussion on security was enlightening and thoughtful. He stated that GLI has a commitment to the South Dakota Lottery to work with them, and he agreed that one size does not fit all when it comes to security. He then talked about what GLI does. The idea to start the company was created in the St. Charles Hotel when he was in Pierre for a meeting in 1988 and in 1989 South Dakota was their first client. They now service nearly 1,000 clients globally and have served South Dakota for 27 years. Most of South Dakota Lottery's testing is done in New Jersey. They test 95% of slot machines and are also a vendor of MUSL and random number generators. They have a private scratch ticket testing lab and perform security audits and site audits. Their Denver facility is the world center for forensic examinations. He feels South Dakota was way ahead of its time in developing its video lottery system; other states have since followed South Dakota's blueprint. VLC was the only vendor at that time and GLI was proud to be a part of that.

#### **NEXT MEETING DATE – SEPTEMBER 15, 2016**

Lingle pointed out that the next meeting date was one week earlier than what was first discussed, due to the Powerball rules hearing.

#### **ADJOURNMENT**

Commissioner Faehn moved to adjourn the meeting. Commissioner Dykstra seconded. Motion carried. Chairman Turbiville adjourned the meeting at 11:48 a.m.