



Commission Members

William Shorma - Chair
Joe Kafka - Vice Chair
David Wheeler
Jason Ahrendt
Jamie Huizenga

Minutes of the Commission Meeting

Room 412, Capitol Building Pierre, SD
Thursday, September 12, 2019 - 9:30 a.m.

Chair William Shorma called the September 12, 2019 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Chair Shorma, Kafka, Wheeler, and Huizenga participated in person. Commissioner Ahrendt participated by teleconference.

SUPPORT STAFF PRESENT

Norm Lingle, Clark Hepper, Tom Helland, Angela Bieber, Elizabeth Burdick, Marla Gruber, Chief Legal Counsel Mike Houdyshell, Deputy Secretary David Wiest and Secretary Jim Terwilliger.

OTHERS

Bob Mercer, Jess Wright, Deb Mortenson, Jason Harms, Randy Vermeulen, Britt Bruner, Troy Erickson, Scott Henneman, Steve Angelo, Barry Greenberg, Bob Riter, Bryce Harms, Justin Bell, and Corey Reszler.

APPROVAL OF THE AGENDA

Chair Shorma asked for a motion to approve the agenda. Commissioner Wheeler motioned to approve the agenda. Commissioner Huizenga seconded the motion. Motion passed with no objection with a voice vote.

APPROVAL OF THE MINUTES FROM THE JUNE 13, 2019 MEETING

Chair Shorma asked for a motion to approve the minutes. Commissioner Kafka motioned to approve the minutes. Commissioner Huizenga seconded the motion. Motion passed with no objection with a voice vote.

CONFLICT OF INTEREST

Chair Shorma asked if there were any conflicts of interest and there were none.

ELECTION OF COMMISSION CHAIR AND VICE CHAIR

Vice Chair Shorma opened the floor to nominations for Chairman and Vice Chairman of the Commission.

Commissioner Kafka motioned to have William Shorma as Chairman and Commissioner Ahrendt as Vice Chairman. Commissioner Wheeler seconded. No other nominations were made. Chairman Shorma moved to vote for both nominations of Chair and Vice Chair. Roll call vote was taken: Aye - Shorma, Aye - Kafka, Aye - Ahrendt, Aye - Huizenga, Aye - Wheeler. Motion carried.

SECRETARY OF REVENUE COMMENTS

Secretary Jim Terwilliger reported on the following:

Secretary Terwilliger thanked the commissioners for serving on the Lottery Commission board.

Fiscal Year 2019 closed on June 30th with Lottery generating over \$123 million to the state general fund. The general fund closed with a 19.4 million surplus.

He thanked the Lottery staff, BIT, IGT, and DOR Legal for working hard on the Instant and Lotto Conversion System. Video Lottery System is next and stated how important it is to stay current with technology, especially for security purposes, need systems that are up to date.

VIDEO LOTTERY RULES HEARING - 9:45 a.m.

Deputy Executive Director Clark Hepper reported on the following:

A licensed manufacturer requested the rule change. The change will not replace the current method but will include another way of determining winning outcomes. It is still required to adhere to the SDCL 42-7A and ARSD 48:02.

The proposed Rule Changes on line 26 is to add paragraph number” (7) Notwithstanding any other requirement of this section, the game may determine the outcome by randomly drawing from predetermined pool of prize values to determine win or loss and displaying all wins as a winning combination on the screen. Each outcome contained in the predetermined pool of prize values must be available to be drawn on each play of the game.”

The example presented showed the difference between the current methodology and the new methodology.

- Rule change will not replace the current method. It is another way of determining winning outcomes.
- Still required to adhere to SDCL 42-7A and ARSD 48:02.
- Uses a Random Number Generator to select prize value to determine a win or non-win.
- All wins will then be displayed as winning combinations on the terminal screen.
- Lists of values in determining outcome could range between 40,000 to 100,000 different outcomes depending on the game theme and denomination.
- Selected value for each spin is added back to the pool after each spin.

Chair Shorma opened the meeting to public testimony starting with proponents.

Scott Henneman, Vice President of New Business Development and Governmental Relations for Grover Gaming testified. Henneman stated Grover Gaming is a licensed video lottery manufacturer in South Dakota.. He testified in favor of the rule being modified for lineup games. The proposed rule change will allow for another method for determining out comes of the lineup games. The updated rule will be in-line with other states that allow these types of games. The software functions like a mechanical reel machine. This is another method to randomly determine outcomes. He urged the Commission to adopt this rule modification.

Chair Shorma asked if there were any questions, there were none. He then proceeded to ask if there were more proponents or opponents, there were none.

Chair Shorma asked Chief Legal Counsel Mike Houdyshell if there were any written comments submitted, there were none.

Chair Shorma closed the hearing to public testimony and opened it up to commission discussion and or action.

Commissioner Wheeler – Asked questions to get a better understanding of how the number generator works and if the payout percentage would be affected.

Deputy Executive Director Clark Hepper – Explained how the number generator works and stated that the player will not experience anything different. Games are still required to pay out 80-95%.

Chair Shorma – Gave an example of a \$6 win. There are lots of combinations that could be displayed for the \$6 win. It is determining it will be a \$6 win, then it will display one of the combinations.

Chair Shorma asked for a motion to approve the proposed rule as presented. Motion by Commissioner Kafka to approve the rule. Seconded by Commissioner Huizenga. Roll call vote was taken: Aye – Shorma, Aye – Kafka, Aye – Ahrendt, Aye – Huizenga, Aye – Wheeler. Motion carried.

EXECUTIVE DIRECTOR COMMENTS

Executive Director Norm Lingle reported on the following:

Sioux Falls Lottery office was impacted by the storm with debris, water, an office window was blown out, roof damage, and no phone or internet connection. Closed to the public for two days for cleanup.

FY 19 Sales (Unaudited)

- Instant – A record year showing \$32.29 million which is an 8.1% increase over FY 18. Transfers of \$6.65 million is an increase of 4.8% over FY 18. All net proceeds go to the general fund.
- Lotto - \$30.71 million which is an 11.8% increase over FY 18. Transfers of \$8.83 million is an increase of 6.2% over FY 18. In FY 19 the proceeds from lotto funds changed to 25% going to the general fund with the remainder going to the capital construction fund. Next year will be increased to 35% to the general fund.
- Video Lottery - A record year showing \$113.97 million which is an increase of 4.5% over FY 18. All the state share of net machine income is transferred into the general fund.

Audits

- Annual Audit is through Legislative Audit and should be done by the end of September.
- MUSL - Rule 2 Audit deals with IT protections in the online network systems. This review is completed every two years. They are doing a look back and providing some guidance for the upcoming new system.

Personnel

Security Director, Brandi Hoerner, resigned. The position is currently being advertised.

LOTTO SYSTEM CONVERSION UPDATE

Executive Director Norm Lingle reported on the following:

To recap, the project started January 15 with requirements gathering. New terminals and peripherals installation began July 22. It is 70% completed.

Customer Acceptance Testing (CAT) has started to identify items through the testing process. We have a weekly call to review identified items to see if changes are needed. Gaming Labs International/Bulletproof is testing on our behalf. Their report comes in daily. The testing is running from August 19 – September 11. Additional testing will occur October 11 to the conversion date.

Parallel Processing will begin October 15 and go up to November 5. IGT will be receiving a data cut of our current system from BIT daily. The system will remain in balance going forward. IGT will continue without any issues and the current Acclaims system will stop at that time.

Training will happen for both retailers and Lottery staff between now and November 5, 2019.

The original conversion date was scheduled for Sunday, November 3, 2019. It is now scheduled for Tuesday, November 5, 2019 to accommodate the lottery's billing period.

VIDEO LOTTERY CONTRACTS

Executive Director Norm Lingle reported on the following:

Current Contract is with Scientific Games, expires November 2019 and has five 1-year extensions available.

Objectives of the RFP is to have updated technology, efficiencies, and enhanced analytical tools.

The RFP was published January 31, 2018. Vendors submitted questions February 23, 2018 and Lottery responded to questions March 9, 2018. Vendors submitted 2nd round of questions March 16, 2018 with

Lottery responding to 2nd round of questions March 30, 2018. Proposals submission deadline was April 20, 2018. Evaluation of proposals, demonstrations, and site visits were May - August 2018.

Proposals were received from Intralot, IGT, Pollard Bank Note (Loyalty Program Only), and Scientific Games. The contract would be a 7-year base contract with eight 1-year extensions available. Scoring was completed by Lottery staff, BIT, and DOR team members. Scientific Games ranked the highest. Their use of Microsoft SQL, ease of reporting, and pricing made them the appropriate choice.

Additional comments explaining site controllers, new system benefits, location of system and price negotiations were also mentioned. Scientific Games negotiations produced a lower system cost, the site controllers were reduced \$1,000 and the monthly communication cost was also reduced from \$70 per month to \$45 per month.

New System Benefits

- Handles multiple communication protocols and ticket validations by site controller.
- One user interface - single point of entry, one-click configuration.
- Monitors both VLT's and Site controllers.
- Real Time Communications - software upgrades, remote configuration of site controllers.
- Robust reporting, business intelligence tools, one system conversion.
- Duplex primary and Duplex backup systems.
- Scientific Games Support.

1 Year Extension

- Extend current agreement for one year.
- Extension will include validation software and ability to use new site controller.
- Payment of \$1.3 million (payment for validation software).
 - \$800K upon execution of amendment
 - \$500K upon 30 days successful performance of site controller in 25 establishments.
- New site controllers will work with current system.

Recommendation is for the 1-year extension to the current agreement and 7-year agreement for SG Connexus Central Monitoring and Control System.

Chair Shorma opened the floor to public comment, there were no comments made by the public.

Chair Shorma asked for a motion to seek the video lottery extension and new contract. Motion by Commissioner Huizenga moved to approval of the first extensions to the agreement dated May 14, 2009 for the supply of Video Lottery Central Monitoring and Control System between Scientific Games and the South Dakota Lottery. Seconded by Commissioner Kafka. Roll call vote was taken: Aye - Shorma, Aye - Kafka, Aye - Ahrendt, Aye - Huizenga, Aye - Wheeler. Motion carried.

Chair Shorma asked for a motion to a new contract as proposed. Motion by Commissioner Huizenga moved for the approval of the Video Lottery Gaming System and Related Services Agreement between Scientific Games and the South Dakota Lottery as presented. Seconded by Commissioner Wheeler.

Chair Shorma asked for a discussion.

Commissioner Huizenga wanted to express his thanks to the Lottery staff and industry on this two-year journey to get to this point. There was a lot of back and forth, not everyone got everything they wanted, but it's an agreement that we can all live with. We are at the point we need to move forward. We have an agreement before us that should work as we move into the future.

Chair Shorma added he is a business man. The commissioners challenged the stakeholders, Lottery leadership, and vendors to find a good compromised product that had as low of a cost as possible and was acceptable to all the stakeholders. He thought it is a workable agreement and will be voting in favor of it.

Commissioner Wheeler felt confident that the contract is the best thing we can get for all the different stakeholders including the lottery, vendors, retailers, and tax payers. A lot of work has gone into the contract. Congratulations to the Lottery staff for getting the best deal they could for the State.

Roll call vote was taken: Aye - Shorma, Aye - Kafka, Aye - Ahrendt, Aye - Huizenga, Aye - Wheeler. Motion carried.

INSTANT TICKET CONTRACT EXTENSIONS

Deputy Executive Director Clark Hepper reported on the following:

Original contract terms are three years with the possibility of three 1-year extensions with Scientific Games International and Pollard Banknote.

Recommend extending the Instant ticket print contract with both companies with an additional three years at the same price structure.

Scientific Games

- Credit of \$12,000 per contract year for the Lottery to utilize at the Lottery's sole discretion. This is an annual credit and does not carry over.

Pollard Bank Note

- Credit of 5% off entire print costs of next Scratch FX game when Lottery prints three instant ticket games of 180,000 tickets within a calendar year.

Chair Shorma opened the floor to public comment. There were no comments.

Chair Shorma asked for a motion on the contract extension. Commissioner Huizenga moved for the approval of the three 1-year extension for the Instant Ticket Print contract for Scientific Game International and Pollard Bank Note as presented. Seconded by Commissioner Kafka.

Chair Shorma asked for further discussion, there was none.

Roll call vote was taken: Aye - Shorma, Aye - Kafka, Aye - Ahrendt, Aye - Huizenga, Aye - Wheeler. Motion carried.

FY19 VIDEO LOTTERY REVIEW

Business Analyst Elizabeth Burdick reported on the following:

A year to date comparison in Net Machine Income from FY 19 compared to FY 18. The comparison included both county and city data.

SALES REPORT

Director of Sales Marla Gruber reported on the following:

Instant Sales

- FY 20 is 3.82% increase over FY 19.
- Since the last commission meeting, 18 top prizes were hit, including the last truck sold in Mobridge, SD and one Polaris ranger was sold in Custer, SD.
- Instant top prize winners were presented with payouts totaling \$5,700,000 since June 13, 2019.
- The following new games were presented:
 - Hit \$500 and Silver & Gold offers different prize payouts with no top prizes.
 - Polaris Dollars 'N' Dirt was the state fair special and one top prize has been redeemed.
 - The new christmas tickets for 2019 were displayed.
- Projecting Instant sales to finish FY 20 \$6.72 million in net transfers verses FY 19 at \$6.65 million.

Lotto Sales

- FY 20 is 17.51% decrease compared to FY 19. The lotto sales are strongly dependent upon jackpot runs. We are up against a double jackpot run from last year.
- Lotto winners were displayed. Dakota Cash had a second highest jackpot winner from Sisseton of \$594,260.
- Projecting Lotto sales to finish FY 20 \$6.36 in net transfers verses FY 19 at \$8.83 million.

Video Lottery

- FY 20 net machine income is 6.74% increase compared to FY 19.
- FY 20 number of establishments are down 2.8% compared to FY 19.
- FY 20 number of terminals are down 1.8% compared to FY 19.

- Video Lottery FY20 state share revenue projection as of August 31, 2019 show an increase of \$7.4 million or 6.5% over FY 19.

Total FY 20 revenue projections show an increase of 3.8% at \$134.72 million compared to FY 19 at \$129.75 million.

MARKETING REPORT

Director of Marketing Tom Helland reported on the following:

- Players Club offers second chance drawings, notifications, and informs players of upcoming promotions.
- A second chance Powerball promotion going on now will give two winners a chance for a New Year's Eve trip to Time's Square in New York.
- Polaris second chance currently has 3,000 entries to draw for two additional Rangers. We currently have had an instant top prize win on the ticket.
- Jolly Good Fun campaign will be in November displaying In-Store Cling, Dangler, Poster, TV, Radio, Digital, and Outdoor displays.
- Christmas Story Game will provide another second chance opportunity for players winning items displayed in the movie by entering their non-winning ticket. We will have 12 different draws.

PUBLIC COMMENT

Chair Shorma invited anyone from the public to come up for comment.

Hank Harms, West Central Games – Expressed his concerns with the connect ability of the VLC machines. He also wanted to know who owns and maintains the connection, site controllers, and who will be paying for the connection.

Steve Angelo, Scientific Games – Answered questions about the connections and site controllers, as well as expressed his gratitude for the opportunity for Scientific Games to work within the state of South Dakota. Scientific Games is excited about the upcoming contract and what they can do for retailers, operators and the State of South Dakota.

Commissioner Ahrendt – Wished he could attend in person, but due to the storm in Sioux falls he attended through teleconference. He thanked commissioners, vendors, and operators for working so hard to come to an agreement that will work for everyone involved.

NEXT MEETING DATE

Chair Shorma

Next Lottery Commission meeting date is December 5, 2019. 9:30 a.m. In room #412.

ADJOURNMENT

Chair Shorma requested motion to adjourn, Commissioner Kafka motioned to adjourn, and Commissioner Wheeler seconded the motion. Adjourned at 11:45 a.m.

*Please listen to the audio on the South Dakota Lottery Website: <https://lottery.sd.gov/about/commission/> for additional details.