



Commission Members

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

Minutes of the Commission Meeting

Room 412, Capitol Building Pierre, SD
Thursday, December 5, 2019 – 9:30 a.m.

UNAPPROVED

Chair William Shorma called the December 5, 2019 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Chair Shorma, Commissioners Wheeler, Ahrendt and Huizenga participated in person. Commissioner Kafka participated via phone.

SUPPORT STAFF PRESENT

Norm Lingle, Clark Hepper Julie Pirnat-Schultz, Elizabeth Burdick, Jordon Kitts, Marla Gruber, Wade LaRoche, Mike Houdyshell, and David Wiest.

OTHERS

Bryce Harms, Deb Mortenson, Joe Hoffert Corey Reszler, Barb Freidel, Jerry Freidel, Brit Bruner, Jason Harms, Scott Henneman

APPROVAL OF THE MINUTES FROM THE September 12, 2019 MEETING

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

APPROVAL OF THE AGENDA

Chair Shorma asked for a motion to approve the agenda. Commissioner Wheeler motioned to approve the agenda. 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.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

FY 2019 Audit

- The Lottery completed the audit of FY19 and have final numbers
- For instant tickets, sales of 32.34 million which is an increase of almost \$4 million or an 8 percent increase year-over-year
- This was a record year and led to a transfer of \$6.9 million. As a reminder, all instant ticket proceeds go to the state general fund.
- He noted that a little more than \$2 million in lotto ticket revenue went to the general fund, while more than \$6 million in lotto sales went to the Capital Construction Fund.
- He noted that all of the state's share of video lottery net machine income goes to the general fund. He noted that this was a record year in video lottery with more than \$113 million going to the state's general fund.
- There were no findings during the FY19 audit.

Other General Updates

- Lingle noted that the current advertising contract with Lawrence & Schiller expires June 30, 2020 and that an RFP for the next advertising contract will be posted on December 20.
- He introduced Jordon Kitts, who will serve at the Lottery's new Director of Security and Video Lottery Operations.

- He mentioned that the Lottery will introduce a bill that reduces the number of Lottery commissioners from seven to five. He noted that the bill would still leave in place the law that all commissioners may not be from the same political party.

Fiscal Year 2021 Budget

Executive Director Norm Lingle reported on the following:

- The Lottery runs off of two different budgets. The instant and online budget is approved by the Lottery Commission, while the video lottery budget is a part of the Department of Revenue's budget and approved by the state legislature.
- He discussed various items in the budget, including personal services, communications fees, technology costs and more.
- Executive Director Lingle also discussed specific line items on the video lottery budget.
- Commissioner Wheeler asked why there isn't a prize expense in the video lottery budget. Executive Director Lingle noted that all video lottery prizes are paid at the establishment level.
- Both FY21 budgets were unanimously approved by the commission.

Lotto System Conversion Update

Executive Director Norm Lingle reported on the following:

- The conversion went live around 6 a.m. on Tuesday, November 5.
- The South Dakota Bureau of Information and Telecommunications had a significant role in this and Lingle thanked them.
- He noted that some lottery staff began testing at 5:30 a.m. that morning and that everything worked well from both a player and retailer standpoint.
- He said that there were some bugs, but many of those will be corrected in the next batch released.
- He noted that they used Gaming Labs International for a lot of the testing.
- There will be business intelligence training in the near future, which will help the Lottery team take a look at data and analyze how things are working.
- Commissioner Ahrendt commended the Lottery on the transition and noted that it was a long time coming.

Video Lottery System Conversion Update

Deputy Executive Director Clark Hepper reported on the following:

- He noted that the commission approved the contract for the new video lottery system at its September meeting, but the Lottery continued the negotiating process to lower costs for operators.
- He discussed the new site controllers that will be owned by operators. He noted that the benefits of the site controllers include real-time communications as well as a ticket validation process to combat fraudulent tickets.
- There will be a one-system conversion, so Lottery staff won't have to communicate with both the old and the new system at one time.
- There has been a 25-site pilot project in South Dakota. He noted that many sites are using the new validation process.
- The next phase of the pilot project is to use the IP cell service at these locations.
- Hepper went through some important dates in the near future concerning the timeline, which included townhall meetings and the roll out of the new site controllers.
- He noted that the new site controllers may include some kind of a payment plan for operators.

MARKETING/ADVERTISING REPORT

Deputy Executive Director Clark Hepper reported on the following:

- He discussed the New Year's Rockin Eve promotion, which was a national campaign that will select someone as the first Powerball millionaire of 2020.
- South Dakota had roughly 17,000 entries into the drawing, Julie Plunkett of Kranzburg and Kelly Engen of Brookings were the winners.
- The number of winners per state is determined based on the Powerball sales.
- He also discussed the Lottery's upcoming holiday scratch ticket campaign, which includes a second chance opportunity for our players.
- Hepper also noted that the South Dakota Lottery is partnering with the Rapid City Rush. This includes the second goal of the night and SD Lottery promotions.
- Second chance drawing opportunities also include a chance to win a new Polaris vehicle as well as a life-sized A Christmas Story leg lamp.
- He also discussed the upcoming James Bond ticket campaign and its corresponding second chance drawing. He noted that there will be geofencing, digital radio, radio and billboards as elements of the campaign.

- The new year will also feature a brand beneficiary campaign in which we thank our players for the money raised for important causes throughout the state. He said there will be TV, radio, POS and social media components of this.

FY20 INSTANT/DRAW GAME REVIEW

Business Analyst Elizabeth Burdick reported on the following:

- She reviewed data from the top-10 counties in South Dakota throughout the state. She said that 8 of these 10 counties have increased sales.
- She noted that Davison County had an 18 percent increase, which was due to more retailers in Mitchell.
- Codington and Brookings were the two large counties that were down.
- Aberdeen featured a 28 percent scratch ticket increase, which may be due to winner awareness of top prize winners.
- She noted that all of the top counties have decreased lotto sales due to last year's large jackpot runs.
- Commissioner Huizenga asked if lotto jackpots are consistent with prior years prior. Burdick noted that she didn't have the numbers with her, but she could check on them.

SALES REPORT

Director of Sales Marla Gruber reported on the following:

Instant Sales

- She noted that instant ticket sales are pacing at about 5 percent over the previous fiscal year.
- She said that holiday sales are up 4 percent compared to the previous year, and that the Snowflake 7s ticket is at 29 percent above the previous year.
- She discussed the top prize winners, including 11 that were paid out since the previous meeting.
- She noted that these top prizes have been spread throughout the state.
- Lotto sales are short of what they were last year, but that is due to the large jackpots runs in the previous year.
- Video Lottery Net Machine Income is about 4.4 percent above of where it was in the previous fiscal year.
- She noted that total revenues are up and projected to remain the same throughout the rest of the fiscal year.
- She also showcased some of the new systems that the new online system provides. This includes the sales wizard, which assists both Lottery staff and retailers.
- Commissioner Wheeler noted that he notices many tax revenues are decreasing, but lottery is projected up. He commended the Lottery on the work they do to offset some of that revenue loss.
- Commissioner Huizenga noted that the Lottery and retailers should be proud of the work they do. He said that the employees and retailers are directly involved in how important the Lottery is to the economy.

Public Comment

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

Britt Bruner – Video Lottery Operator from Mitchell, SD and President of the South Dakota Music and Vending Association. He said that the payment plan option for site controllers is welcome news for his organization. He noted appreciation for this.

He also discussed the Lottery's office hours on holidays and weekends. He said that this doesn't coincide with busy hours on their side, and he was wondering if the schedules could be meshed a bit better. He said that these office hours can also be challenging for technicians who are on route.

Bruner also discussed the installation fees associated with the new site controllers. He was hoping that there would be some questions answered about the \$125 installation fee in the near future.

Executive Director Lingle noted that these are items the Lottery and Scientific Games will do research on.

Commissioner Shorma noted that we should have answers to many of these questions at the March commission meeting. He noted that the new site controllers would solve a lot of the problems that cause video lottery machines to go down.

Chair Shorma thanked the group for coming and their comments did not fall on deaf ears. He stated that they are working to address some of their concerns.

Bruner noted that while his group has pushed back on the new site controllers, they understand that the new technology will help. He said that a payment structure would really help avoid consequences that would affect revenue throughout the state.

Bryce Harms, West Central Games.

Harms asked what the primary function of the new site controllers are and if they do the same thing that the current site controllers do.

Executive Director Lingle noted that the site controllers will allow for better communication with video lottery terminals and that they have redemption capabilities and reporting tools that the current ones do not have.

Harms asked if they will have the ability to have a redemption center installed on it.

Executive Director Lingle noted that it currently does not exist, but that is something the Lottery and Scientific Games could look into.

Chair Shorma noted that the instant pay machines are good for the players. He noted that the Lottery should discuss with Scientific Games.

Harms also discussed the Lottery office hours of operations. He said that there are times when they can't get through to staff. He also said this can be difficult on holidays and weekends.

Chair Shorma said that they will follow up on these issues.

Chair Shorma thanked everyone for coming forward and that they will take their thoughts into consideration. He also encouraged everyone to attend the town hall meetings with Scientific Games.

NEXT MEETING DATE

Executive Director Norm Lingle reported on the following:

Director Lingle stated that they are looking at the end of March for the next meeting. He noted that he will poll the commissioners in the near future to see what works best.

ADJOURNMENT

Chair Shorma requested motion to adjourn, Commissioner Wheeler motioned to adjourn, and Commissioner Huizenga 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.