



Commission Members

William Shorma - Chair
Jason Ahrendt – Vice Chair
Joe Kafka
Jamie Huizenga
Tona Rozum

Minutes of the Commission Meeting

Meeting was conducted in person
Thursday, December 8, 2022 – 9:30 a.m.

Chair Shorma called the December 8, 2022, meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Chair Shorma, Vice Chair Ahrendt, Commissioner Huizenga, and Commissioner Rozum participated in person. Commissioner Kafka participated online. The public was able to participate in person, by dialing in or listening on the internet.

SUPPORT STAFF PRESENT

Norm Lingle, Clark Hepper, Michael Houdyshell, David Wiest, Wade LaRoche, Aric Frost, Nathan Remmich, and Kirsten Jasper.

APPROVAL OF THE AGENDA

Chair Shorma asked if there were any changes to the agenda. There were none. Chair Shorma asked for a motion to approve the agenda, motioned by Commissioner Huizenga, and seconded by Vice Chair Ahrendt. A voice vote was taken. All in favor. Motion carried.

APPROVAL OF THE MINUTES FROM THE OCTOBER 11, 2022, MEETING

Chair Shorma asked for a motion to approve the minutes, motioned by Commissioner Rozum, and seconded by Commissioner Huizenga. A voice vote was taken. All in favor. Motion carried.

CONFLICT OF INTEREST

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

SECRETARY OF REVENUE'S COMMENTS

Secretary Michael Houdyshell reported on the following:

Department of Revenue Update

- Sales and use tax numbers were up 13% over November 2021.
- Contractor excise tax was up 26% over November 2021.
- The Department of Revenue is getting ready for the 2023 Legislative Session by providing testimony, assisting the sponsors with language, or providing education to the legislature.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

- Trevor Wiebe joined the Lottery as the new Director of Security and Video Lottery.
- On November 7, Powerball's \$2.04 billion jackpot was won.
 - After 41 draws, a single ticket was sold in California and matched five numbers plus the Powerball.
 - The ticket holder will have the choice of the annuitized \$2.04 billion or \$997.6 million cash value.
 - In South Dakota, the total Powerball sales including Power Play and Double Play for this jackpot run were \$8.98 million.
 - November 2 sales were \$1.17 million, November 5 sales were \$1.79 million, and November 7 sales were \$1.73 million.
 - \$2.5 million in Powerball prizes were awarded to the 175,000 winning tickets including a \$1 million winner, and five \$50,000 winners.
- Ticket in ticket out which passed during the 2022 Legislative Session and are in effect.
 - The Lottery is working with Scientific Games to update the reporting requirements and have a software update available around June 1.
 - New games provided by Grand Vision gaming will have the ticket in ticket out capabilities.

FY22 BUDGET RECOMMENDATION

Audit Manager Aric Frost reported on the following:

The Lottery is not requesting a budget increase for fiscal year 2024.

Instant/ Online Budget

- Personal Services show an increase of \$86,321 because of the salary policy recommended by Governor Noem.
- Fleet and Travel expenses are the biggest driver of travel expense because it is regularly used by sales representatives to travel to retailers.
- Contractual Services
 - The IGT Contract represents IGT's fee for the Lotto System and Services based on sales.
 - Advertising is primarily the Lottery's contract with Lawrence and Schiller.
 - Instant Ticket Delivery is the cost associated with delivering instant tickets to retailers.
 - Retailer Commissions and Prize Expenses can fluctuate based on sales.
- Supplies and Materials include ticket printing costs for FY21- 39 games and FY22 - 38 games.
- Capital Assets include computer hardware and software. FY22 saw an increase because the Lottery purchased a new Random Number Generator (RNG) machine.
- Other includes payments to the special jurisdiction areas. 50% of net proceeds from instant ticket sales on the reservations go back to that reservation.

Video Lottery Budget

- Personal Services show an increase of \$42,338 because of the salary policy recommended by Governor Noem.
- Travel is primarily staff travel. A percentage is split between the instant/online budget and the video lottery budget.
- Contractual Services-

- The Light and Wonder Contract (formerly Scientific Games) is for .28% of net machine income.
 - Inspection Services for video lottery terminals and establishments provided by MOU from the Department of Public Safety.
- Supplies and Materials are split between instant/online and video lottery budgets.
 - Capital Assets include computer hardware and software.
 - Other includes transfers out such as \$214,000 provided to the Department of Social Services for Responsible Gambling Treatment Services.

Vice Chair Ahrendt asked why the Lottery asks for \$200,500 in video lottery advertising annually, but it doesn't get spent. Manager Frost says it was removed for FY2023.

Commissioner Rozum asked why on Consulting Computer - IGT the Lottery spent more than they were budgeted for in previous years but didn't increase the request for FY2024, and if the Lottery is anticipating the consulting fees going down. Manager Frost says that IGT's fees are based on sales.

Chair Shorma asked if the responsible gambling services are determined by the Department of Social Services. Manager Frost answered that the Department of Social Services are reimbursed quarterly for services they provide. Executive Director Lingle added that the reimbursement is not for advertisement, but rather for the assistance DSS provides to the public regarding gambling issues. Responsible gambling advertising is a combination of what the Lottery adds to its posters and DSS's outreach. The Responsible Gambling Campaign comes out of the Lottery's advertising budget.

Chair Shorma asked for a motion to approve the instant/online of \$62,707,119 and the video lottery budget of 2,805,367 for Fiscal Year 2024. Moved by Commissioner Huizenga, seconded by Vice Chair Ahrendt. A roll call vote was taken. All in favor. Motion carried.

MARKETING REPORT

Director of Advertising and Public Relations Wade LaRoche reported on the following:

Campaigns and Promotions

- The new South Dakota Lottery website launched on November 28.
 - Within a week the site had 21,404 visits.
 - Reception to the site has been mostly positive.
- The new Lottery mobile app will launch soon
 - It has been approved by both Apple and Google.
 - It will improve the user experience.
- The Lottery's largest campaign, holiday, began shortly after Thanksgiving and includes Responsible Gambling messaging.
- New Year's Rockin' Eve winners Gabriella Anane and Connie Duvall will be going to New York. As the grand prize winner, Gabriella Anane will have a chance to become 2023's First Powerball Millionaire. The promotion garnished over 12,000 entries.
- Upcoming campaigns include Beneficiary Awareness, X Family Scratch tickets, and Responsible Gambling.

SALES REPORT

Director of Advertising and Public Relations Wade LaRoche reported on the following:

Instant (as of November 30)

- Instant sales are down 1.4% over FY22 but maintaining growth over FY18 and FY19.

- A new extended play game, Cash Wheel, will launch in January. The new X Family will launch in February.
- Paid over \$12,856,400 in prizes year to date
 - Two \$40,000 – Sioux Falls and Dell Rapids
 - \$35,000 - Brookings
 - \$25,000 – Belle Fourche
 - \$20,000 - Brookings
 - Three \$10,000 and 350 \$500 winners

Lotto (as of November 30)

- Lotto sales are up 67.88% over FY22.
- Paid over \$5,441,600 in lotto prizes year to date
 - \$1 million Powerball – Sioux Falls
 - \$390,000 Lucky for Life – Mitchell
 - \$20,000 Lotto America – White Lake
 - Six \$50,000 Powerball winners

Sales (as of November 30)

- Instant - \$5.90 million in net transfers vs. \$10.35 million in FY22.
- Lotto - \$10.71 million in net transfers vs. \$7.59 million in FY22.
- Net Machine Income – 1.88% over FY22.
- State share revenue - \$164.12 million vs. \$161.31 million in FY22.
- Total FY22 Revenue projections - \$180.73 million vs \$179.25 million in FY22

FY22 INSTANT/ONLINE AND VIDEO LOTTERY REVIEW

Business Analyst Nathan Remmich reported on the following:

Instant Sales

- Counties with the highest growth include Edmunds at 74.1%, Sanborn at 64%, Hand at 38.5%, Turner at 38.4%, and Lake at 29.6%.
- Cities with the highest growth include Aberdeen at 10.84%, Brookings at 8.31%, Huron at 5.58%, and Mitchell at 5.23%. There was an overall decrease of 1.56%.
- The lower price points, the \$1, \$2, \$3, and \$5, are showing decreases, but the \$10 and \$20 are showing increases of 13.53% and 9.08% respectively.

Lotto Sales

- Counties with the largest growth include Hanson at 162.6%, Jerauld at 119.2%, Lincoln at 101.6%, Faulk at 99.6%, and Clark at 98.2%.
- Douglas is the only county showing negative because it lost one of its retailers.
- Cities with the largest increases include Brookings at 77.04%, Sioux Falls at 74.48%, and Mitchell at 73.15%. There was an overall growth of 67.88%
- The \$2.04 billion Powerball jackpot not only increases its sales to 73.89% over FY22, but it increased Mega Millions to 157.80% and Lotto America to 66.33%.
- Mega Millions showed a decrease because it was contending a \$1 billion jackpot in FY21
- Dakota Cash shows a decrease because there wasn't a large jackpot this year, whereas there was one last year.
- Stores with Geminis showed an 11.29% (\$2,314,601) increase in sales vs 1.76% (\$3,528,056) in stores without.

Vice Chair Ahrendt asked how the Lottery chooses where to put the 50 Geminis. Executive Director Lingle stated that stores are chosen based on the stores' sales, ability to maintain the equipment, and their previous experience with similar machines.

Vice Chair Ahrendt asked about the Gemini's safety features. Executive Director Lingle stated that players must scan the barcode on the back of their driver's license to use the machine. Deputy Director Hepper also stated that a kill switch can be used by the cashier should they feel the integrity of the machine is being compromised.

VIDEO LOTTERY REPORT

Deputy Executive Director Clark Hepper reported on the following:

Establishments (As of November 30)

- The number of active video lottery establishments for FY23 is 1,323 compared to 1,265 in FY22.
- Video lottery has 10,202 terminals compared to the 9,607 in FY22.
- There are 6,409 Line machines in the market that bring in \$107.59 per machine per day, compared to the 3,793 Legacy machines in the market that bring in \$64.63 per machine per day.
- FY23 has had 254 new machines, 27 destroyed vs the 930 new machines and 366 destroyed in FY22. Most machines are destroyed toward the end of the fiscal year when it comes time to pay licensing fees.
- South Dakota licensed manufacturers include International Gaming Technology (IGT), Ainsworth Gaming Technology (AGT), Grover Gaming Inc., Accel Entertainment inc. (Grand Vision Gaming), TrestleCo LLC, and JVL Systems, Inc. Each manufacturer offers several different models, software, and games to provide lottery operators with a variety.

Chair Shorma asked if the increase of 800 line machines and decrease of 220 legacy machines are because they are being put into new locations. Deputy Director Hepper stated that new locations adding ten new machines when they open, and the increased number of establishments with only line game terminals contributes to the growth.

Commissioner Rozum asked how the lottery entities get paid. Deputy Director Clark Hepper answered that in South Dakota there are licensed manufacturers who make the machines, licensed distributors who sell them, licensed operators who own them, and licensed establishments where the machines are placed. If an establishment owns its own machine, it will receive 50% of its revenues. Establishments that don't own their machines have to reach an agreement with licensed operators to divide 50% of revenues among themselves. The agreement is something the Lottery doesn't get involved in. Executive Director Lingle stated that retailers selling instant tickets receive a 5% selling commission, a 1% commission for cashing winning tickets for prizes up to \$100, and a 1% selling bonus for tickets with prizes over \$100. Online tickets have a structured bonus based on the winning ticket's prize. Cashing bonuses aren't paid until the winning ticket is validated.

PUBLIC COMMENT

Chair Shorma asked about public comments.

No emails, phone-in questions, or comments from the public.

NEXT MEETING DATE

Executive Director Lingle stated the next meeting will be determined by the South Dakota Lottery Commission.

ADJOURNMENT

Chair Shorma adjourned the meeting at 11:16 a.m.

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