



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 9, 2021 – 9:30 a.m.

UNAPPROVED

Chair Shorma called the December 9, 2021, meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Vice Chair Ahrendt, Commissioner Huizenga, Commissioner Rozum, and Chair Shorma participated in person; Commissioner Kafka participated online. The public was able to participate in person or by listening on the internet.

SUPPORT STAFF PRESENT

Norm Lingle, Clark Hepper, David Wiest, Marla Gruber, Jordon Kitts, Wade LaRoche, and Nathan Remmich, Michael Houdyshell.

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 SEPTEMBER 16, 2021 MEETING

Chair Shorma asked for a motion to approve the minutes, motioned by Commissioner Rozum, and seconded by Commissioner Kafka. 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.

DEPUTY SECRETARY OF REVENUE'S COMMENTS

Deputy Secretary David Wiest reported on the following:

Department of Revenue Update

- The Department of Revenue is preparing for the 2022 Legislative Session.
- The South Dakota Supreme Court decided that Amendment A was a violation of the constitution because it did not adhere to the single subject requirement.

Chair Shorma asked if Deputy Secretary Wiest knew the 2021 inflation number for South Dakota. Deputy Secretary Wiest answered that although he has heard of a national inflation number around five, he is not aware of one for South Dakota.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

FY21 Audit

- No findings.
- Instant sales were \$47.5 million in FY21 vs \$37.1 million in FY20, a growth of 32.7% (\$10.4 million), net proceeds of \$5,88 million.
- Lotto sales were \$26.1 million in FY21 vs \$21 million in FY20, a growth of 16.7% (\$5.1 million), net proceeds of \$7.97 million.
- The state share of net machine income was \$148.8 million in FY21 vs \$116.2 million in FY20, a growth of \$32.6 million (28.6%).
- Total transfer of \$161.188 million, a growth of 26.04% (\$33.45 million).

The contracts with Pollard Bank Note and Scientific Games for printing instant tickets will expire August 2022. In September, the Lottery met with the print vendors, Pollard Bank Note, Scientific Games and IGT, then began to draft an RFP. The goal is to issue the RFP on January 7, 2022 and provide a recommendation to the South Dakota Lottery Commission during the June 2022 meeting.

Lotto America will add in an additional draw on Mondays effective July 2022. The March 2022 South Dakota Lottery Commission Meeting will include an administrative rules hearing.

As part of the video lottery site equipment contract, each establishment is required to purchase a site controller. Purchases could be made by either a lump sum or through installments. The Lottery has been reaching out to operators to remind them that the last installment of \$1,000 is due January 2022. Once complete, the Lottery will move into the maintenance phase of the video lottery migration project.

Sales Representative Lana Okeson retired December 8, after 33 years with the South Dakota Lottery.

Alec Norwick has joined the Lottery as the new Video Lottery Accountant from the Department of Revenue's Finance Division.

Vice Chair Ahrendt asked if the new video lottery equipment has improved the video lottery terminal's ability to stay online. Executive Director Lingle stated yes that the Lottery has gone from 300 non-reporting terminals a day to less than 100, primarily because the new site controllers have a single communication network instead of the dial-up system.

FISCAL YEAR 2023 BUDGET RECOMMENDATION

Executive Director Norm Lingle reported on the following:

Instant/Online Budget

- Personal Services shows a FY23 increase because of the salary policy recommended by Governor Noem.
- Fleet and Travel expenses are the biggest driver of the travel expense because it is regularly used by sales representatives to travel to the retailers.
- Consulting Computer-IGT represents IGT's fee for the lotto system and services included in the November 5, 2019 agreement. They receive 7.227% of instant and lotto ticket sales.

- Computer Services-BIT will start to decrease because the AS400 is no longer being used and the BIT maintenance costs associated with it will no longer be needed. There is a slight increase to adjust for BIT per-hour increase.
- Central Services are services rendered by the BOA, BHR, BFM, BIT, State Auditor and State Treasurer. The services include personnel services, central payroll, budgetary accounting, purchasing, property management, records management and voucher document processing. There is a slight increase to adjust for the increase in the cost of providing these services.
- Instant Ticket Delivery are the costs associated with delivering instant tickets to retailers. When retailers sell more tickets, shipments increase thereby increasing cost.
- Payments to MUSL, the administration of the four multi-state games in which SD participates. This also includes the fee for conducting the Dakota Cash drawing. The Lotteries allocation to the MUSL budget is based on sales.
- Other Contractual Services includes bank charges, meeting rooms, legal notices for rules, shredding and background fees.
- Retailer Commission and Prize Expense can fluctuate based on sales. When retailers sell more, more commissions and prizes are paid. If sales go down, commissions and prizes also go down. Prize Expense was adjusted to accurately reflect the budget and account for an increase in prizes due to the increased sales.
- Ticket Printing is the cost of printing instant tickets FY21-37 games, FY20-36 games, FY19-28 games and FY18-28 games.
- Escrow to Reservations is where each of the nine participating tribal governments receive 50% of the net proceeds from their instant ticket sales.

Executive Director Lingle asked for approval of the \$62,615,957 fiscal year 2023 instant/online budget.

Commissioner Rozum asked why the Lottery is asking for the same amount as FY22 even though some categories have increased significantly. Executive Director Lingle answered that the lottery can move dollars between Operating Expense if the total of the category is not exceeded. So, although the subcategories of Operating Expense appear short, the Operating Expense category as a whole is within budget. Commissioner Rozum made the statement that the budget accurately shows the overall expenses, but it is not a fair line-by-line representation of expenses. Executive Director Lingle agreed. Chair Shorma asked if the budget should then be adjusted to better reflect what the Lottery believes each subcategories' expenses will be. Executive Director Lingle stated that it would be something the Lottery could adjust. Chair Shorma suggested approving the FY 2023 instant/online and video lottery budget and saving the approval of the FY 2021 actual expenses of \$59,311,994 for the next meeting when the Lottery will present the adjusted budget.

Chair Shorma asked for an approval of the \$65,375,823 total FY 2023 budget. Commissioner Rozum motioned with the understanding that the adjusted budget will better reflect the expenses. Commissioner Huizenga seconded. Roll call vote was taken. All in favor. Motion carried.

Video Lottery Budget

- Personal Services shows salaries and benefits. FY23's increase is because of the salary policy recommended by Governor Noem and approved by Legislature and the periodic evaluation of time allocation.
- Travel is primarily staff travel. A percentage is split between the instant/online budget and video lottery budget.
- Lines 17, 19, 21 and 30 show a minimal increase to adjust for BIT, BFM, BOA, etc. cost increases. Like instant/online budget and video lottery budget.
- Computer Consulting- SGI is the cost of maintaining and supporting the video lottery central system. The rate will decrease from 0.3% to 0.28% of total net machine income as part of the contract. The Lottery did have a total of \$1.3 million in one-time costs for the new video lottery system.

- Telephone is the cost of nightly polling of video lottery terminals. This expense will go away as the Lottery converts to the new system and a real time connection (IP Cellular and DSL) instead of dial-up.
- Inspection services include background checks, ACH costs, GLI testing costs, meeting room costs and fire extinguisher maintenance.
- Transfers Out is the \$214,000 provided to the Department of Social Services for Responsible Gambling Treatment Services. DSS incurs the cost and submits a bill to the Lottery for reimbursement.

Executive Director Lingle asked for approval of the \$2,759,866 fiscal year 2023 video lottery budget.

Chair Shorma asked for the adjust line items of the total \$2,759,866 be presented at the next meeting for approval.

Commissioner Aherndt asked why the rent is budgeted low. Executive Director Lingle states that funds are moved between the subcategories of Operating expense to accommodate rent costs.

Commissioner Huizenga motioned for an approval for of the \$2,759,866 video lottery budget with adjustments made to the line items. Chair Shorma seconded. Roll call vote was taken. All in favor. Motion carried.

Marketing Report

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

Holiday Campaign

- The campaign is centered around four new holiday scratch tickets.
- Advertising includes broadcast, cable and digital TV, traditional and digital radio, web-based display ads and social media platforms.
- Free holiday cards will be available at validation centers.
- The Holiday Hangover second chance will feature cash prizes.
- The Lottery is participating in the annual National Council on Problem Gambling's Responsible Gifting Campaign.

Eric Church second chance drawing for the Cashword Doubler with the partnership with Sanford Premier Center.

Chair Shorma asked if it was a fair statement that the South Dakota Lottery falls in the middle nationwide for individuals with a problem gambling. Director LaRoche agreed that it was a fair statement, and the South Dakota Lottery does track the number of calls made to the Problem Gambling Hotline.

Big Winners

- Damian Mullaney won the 13th largest Dakota Cash jackpot (\$252,392).
- Gas N Goodies in White received a \$5,000 retailer bonus for selling the Dakota Cash ticket.
- Emil Goodteacher and Donna Knodel won \$2 million on Powerball.
- The Hy-Vee in Yankton received a \$25,000 retailer bonus for selling the Powerball ticket.

Sales Report

Director of Sales Marla Gruber reported on the following:

Instant

- As of October 31, instant sales are up 13.43% over FY21.
- Gemini vending machines are showing a combined average sale is about \$2,700 per day.
- Retailers with Geminis are pacing 2% higher in instant and online sales statewide.
- Introduced a new \$10 Cashword in November.
- The 24-game menu boards will be placed in all 47 South Dakota Casey's General Stores.
- The first HD ticket, Rock Your World, will launch in April.
- February will launch a new X Family.
- Over \$7,500,000 in instant prizes have been paid over the last three months.
 - \$100,000-HyVee Gas in Yankton.
 - \$40,000-Gold Dust C Store in Deadwood.
 - \$30,000-Airport Café in Aberdeen
 - Over 3400 \$500 winners.

Lotto

- As of October 31, lotto sales are up 41.85% over the same time last year.
- Over \$3,600,000 in lotto prizes have been paid over the last three months.
 - \$252,392 Dakota Cash Jackpot-The Corner Gas & Goodies in White
 - \$50,000 Powerball-Classic Corner in Madison and Gas N Goodies in Watertown
 - \$50,000 Lucky for Life-Boyd's Drug in Rapid City, Cowboy Country Store in Watertown, Dakotamart in Custer, Casey's General Store in Tyndall and Holiday Stationstore in Rapid City.

Sales (as of October 31)

- Instant - \$7.01 million in net transfers vs. \$6.18 million in FY21
- Lotto - \$8.81 million in net transfers vs. \$8.36 million in FY21
- Net Machine Income - 19.74% over FY21
- State Share Revenue - \$177.96 million vs. \$148.61 million in FY21
- Total projections - \$193.78 million vs. \$163.16 million in FY21

Chair Shorma asked if Director Gruber was seeing a correlation between net machine income and an increase in the new line games for video lottery. Executive Director Lingle said in FY21 the Lottery had around 850 new VLTs purchased, a typical year is around 200. In FY22 so far, the Lottery has around 350 new VLTs purchased. With the retailers receiving 50% of the net machine income, they are investing in the newer video lottery equipment. In the last 18 months new VLTs have seen roughly \$10 more per day because of higher play volumes.

FY22 Instant and Online Review

Business Analyst Nathan Remmich reported on the following:

Instant Review (for the first quarter)

- Projections for FY22 are at \$53,910,799 for instant tickets.
- Todd County showed the largest percentage increase at 160.4% over FY21.
- The counties that show red this year are many of the counties that showed increases last year. Counties like Stanley and Sully show decreases in FY22 but are just reverting to normal after a \$20 ticket and lotto jackpots in FY21 increased sales.
- Pierre showed the largest percentage increase at 18.17%.
- There was an overall increase of 13.43% across the state on instant sales.
- The \$2 price points decreased because people are moving towards the higher price points, like the \$5.

Online Review (for the first quarter)

- FY22 projected online sales are \$27.5 million.
- There was a double-digit increase in every county.

- Sully County saw the largest increase at 82.3%, and Douglas County saw the smallest increase at 11.7%.
- Sioux Falls saw the largest increase at 47.15%, and Aberdeen saw the smallest increase at 23.97%.
- There was an overall increase of 41.85% across the state on lotto sales.
- The largest increase by games was seen in Powerball due to the large jackpot and game change. Lucky for Life also saw an increase because of the July game change.

Video Lottery Report

Director of Video Lottery and Security Jordon Kitts reported on the following:

Establishments

- Active video lottery establishments for FY22 are 1,261 compared to 1,232 in FY21.
- So far, 90% of the second-quarter establishment renewals have been received.
- Video lottery has 9,535 terminals, or 76% of the available terminals in the current market, a 5% increase over FY21.
- Line machines hold 58% of the current market, while Legacy machines are 42% of the current market.
- Licensed operators have purchased a combined total of 289 Line machines, 32% above average for FY22.
- Line machines bring in \$116 per machine per day, compared to Legacy machines at \$64 per machine per day.
- Line machines continue to show a steady growth making up 58% of the total machines in the market and producing over 73% of the overall net machine income statewide.

The Lottery participated in the MUSL biannual review which identifies and eliminates irregularities in the machines. The Lottery is waiting on the final review report from MUSL. Once issued, the Lottery will have 30 days to correct any high-risk items and 90 to correct any medium to low-risk items.

Chair Shorma asked which company is responsible for the portal to the system. Director Kitts said IGT and Scientific Games. Chair Shorma asked if the South Dakota Lottery has heard of any lotteries being shut down because of a hacking attempt. Director Lingle responded that he is not aware of one.

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 is to be determined by the South Dakota Lottery Commission.

ADJOURNMENT

Chair Shorma adjourned the meeting at 11:24 a.m.

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