



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, June 16, 2022 – 9:30 a.m.

Chair Shorma called the June 16, 2022, meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Chair Shorma, Vice Chair Ahrendt, Commissioner Huizenga, and Commissioner Kafka participated in person. Commissioner Rozum participated online. The public was able to participate in person or listening on the internet.

SUPPORT STAFF PRESENT

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

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 Ahrendt, and seconded by Commissioner Huizenga. A voice vote was taken. All in favor. Motion carried.

APPROVAL OF THE MINUTES FROM THE MARCH 24, 2022, MEETING

Chair Shorma asked if there were any changes to the minutes. Commissioner Kafka noted a misspelling of Ahrendt on page two. Chair Shorma asked for a motion to approve the minutes as amended, motioned by Commissioner Huizenga, and seconded by Commissioner Ahrendt. A voice vote was taken. All in favor. Motion carried.

CONFLICT OF INTEREST

A gaming operation may contribute to Chair Shorma's House of Representatives election campaign.

SECRETARY OF REVENUE'S COMMENTS

Secretary Michael Houdyshell reported on the following:

Department of Revenue Update

- There will be a summer study on property tax because of increased housing assessments.
- DOR is evaluating how to replace CEDAR and SDCARS with modern systems.
- 2022 State Employee Engagement Study showed positive results for the South Dakota Lottery

Chair Shroma asked if Secretary Houdyshell could give a forecast on how inflation will impact sales tax revenue. Secretary Houdyshell answered that May numbers are 2.5% over FY22 projections, but consumer purchases took a 3.5% downturn. At the federal level, interest rates increased by .75% to rein in inflation. South Dakota expects to see cutbacks on discretionary spending for things like lottery tickets, which will subsequently affect sales tax revenue.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

Sales

- Instant sales are up 2% year-over-year, which is better than most lotteries.
- Lotto sales are up 1% year over year with the help of Powerball's Monday draw and Double Play.
- Powerball, Mega Millions, and Lotto America are having good jackpot runs.
- Video Lottery is trending 8% up year-over-year with the help of Line games. Video lottery retailers are continuing to reinvest in lottery terminals.
- Instant tickets and video lottery will have record years if they finish FY22 with growth.

2022 Legislative Session

- Senate bill 152 provides for ticket-in ticket-out (TITO) video lottery and was signed by the Governor on March 24.
- Video lottery is currently cash-in ticket-out, but this bill will allow cash-out tickets on newer terminals to be inserted into other terminals at the same establishment.
- Next steps
 - Work with Light and Wonder to get the TITO functionality working and an Interoperability Document.
 - Provide VLT manufacturers with the Interoperability Document.
 - Meet with Gaming Labs International for testing.

Legislative Audit has begun with the goal to finish both the audit and the annual report by August 1.

South Dakota Lottery leadership met to establish strategic goals: employee investment, strengthening our products, security and integrity, and marketing and stakeholder investments,

Commissioner Kafka asked if establishments would need to do something to get the ticket-in ticket-out capabilities. Executive Director Lingle answered that they will have upgrade the software within their existing SAS communication protocol to allow TITO to work on existing machines. Any new software will come with TITO.

Chair Shorma asked if Executive Director Lingle knew when the majority of Line machines would be TITO. Executive Director Lingle said that by January 1, the Lottery will have the first TITO machines in the market, but it would be largely dependent on associated costs.

REQUEST FOR PROPOSAL #2600

Director of Sales Marla Gruber reported on the following:

The current contract, which expires August 2022, is the first time the Lottery has gone with two vendors. Scientific Games is the primary printer, and Pollard Games is the secondary. Each contract was for three years with three one-year extensions. All of the extensions have been exercised.

New Contract

- A six-year base contract with four one-year extensions
- Ensure a product that will lead to high retailer and player satisfaction and maximize instant ticket sales
- Maintain the integrity and security of products specifically and the Lottery in general
- Annual Marketing allowance of \$50k to be used at the Lottery's discretion
- One licensed property annually at no charge
- Proposals were received by Scientific Games International, Pollard Banknote Limited, and IGT Global Solutions Corporation.
- Scientific Games International scored the highest, largely because of price.

Chair Shorma asked for a motion to allow the Lottery staff to begin negotiations and enter into an agreement with Scientific Games International for RFP #2600 for instant tickets and related services. Motioned by Commissioner Kafka and seconded by Commissioner Ahrendt. A roll call vote was taken. All in favor. Motion carried.

SALES REPORT

Director of Sales Marla Gruber reported on the following:

Instant

- Instant sales are up 2.01% over FY21.
- Casino Family will launch in July
- Over \$29,875,000 in prizes were paid in FY22
 - 2 \$300,000 prizes sold by Gas-N-Goodies in Gettysburg and Yesway #1180 in Rapid City
 - \$100,000- Louise Desera from Pine Ridge
 - \$40,000 - Casta Myers from Kimball
 - 11 top prize winners from \$10,000 - \$65,000, and over 390 \$500 winners

Lotto

- Lotto sales are up 1.32% over FY21.
- Over \$7,330,000 in lotto prizes were paid in FY22
 - Four Dakota Cash Jackpots
 - Six large prize amounts ranging from \$4,000 - \$100,000 in Powerball, Lucky for Life, and Lotto America

Sales (as of May 31)

- Instant - \$6 million in net transfers vs. \$5.06 million in FY21
- Lotto - \$8.57 million in net transfers vs. \$7.97 million in FY21
- Net Machine Income – 8.74% over FY21
- Video Lottery state share revenue - \$161.61 million vs. \$148.85 million in FY21
- Total FY22 Revenue projections - \$176.18 vs. \$161.88 in FY21

MARKETING REPORT

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

- Players Club conducted a survey
 - 79% of players buy scratch tickets more or the same as the year prior, and 27% of them increase play for entertainment.
 - 73% of players said they play Powerball most, and 48% play because they are dreaming big.

- Younger players, ages 21-44, are more likely to be affected by large jackpots and unique prizes.
- A brand perception study is on the horizon.
- 605 Day promotion was June 5-8 and drew strong sales throughout the week.
- On July 18, Lotto America will add a Monday draw.
- The December 11, \$100,000 Powerball prize won in Canistota was unclaimed.
- As a collaboration with another state agency, the State Fair scratch ticket offers unique second chance prizes and \$1 off adult admission to the South Dakota State Fair.

Chair Shorma asked if the Lottery has ever done a Sturgis Rally ticket. Executive Director answered yes, and the results were mixed.

FY22 INSTANT/ONLINE AND VIDEO LOTTERY REVIEW

Business Analyst Nathan Remmich reported on the following:

Instant Sales

- Counties with the highest growth include Todd at 43.3%, McPherson at 41.3%, Buffalo at 26.4%, Bennett at 25.1%, and Spink at 24.7%.
- The center of the state shows negative county numbers because in FY21 a top prize hunt produced very high revenues.
- Cities with the highest growth include Mitchell at 10.05%, Yankton 6.67%, and Rapid City at 5.17%. There was an overall 2.01% growth.
- Pierre showed a negative 12.94% because of the FY21 100X the Money top prize hunt.
- All price points, except the \$2, show increases.
- The \$5 shows the highest sales increase, and the \$10 shows the highest percentage increase.
- The higher priced games are growing faster than the lower priced games, meaning customers are transitioning from the lower to the higher prices.

Lotto Sales

- Counties with the largest growth include Sanborn at 19.2%, Bon Homme at 18.0%, Gregory at 14.6%, Lyman at 12.7%, and Brule at 12.2%.
- FY22 is contesting FY21's more and larger jackpots.
- Cities with the largest increases include Huron at 5.82%, Yankton at 5.22%, and Rapid City at 4.55%. There was an overall growth of 1.32%
- Powerball showed growth because of its jackpots
- Mega Millions showed a decrease because it was contending a \$1 billion jackpot in FY21
- Lucky for Life showed an increase because of its move to daily draws
- Dakota Cash showed a decrease because it had one big jackpot this year compared to two last year
- Lotto America showed a .68% increase because it had similar jackpot levels to FY21

VIDEO LOTTERY REPORT

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

Establishments (As of May 31)

- The number of active video lottery establishments for FY22 is 1,289 compared to 1,242 in FY21, an overall increase of 4% from last May.
- Video lottery has 9,845 terminals, or 76% of the available terminals in the current market, a 5% increase over FY21.
- Line machines have steadily increased by 36%, while Legacy machines have decreased by 17% year-over-year.

- Line machines bring in \$111.69 per machine per day, compared to Legacy machines at \$65.27 per machine per day.
- Line machines have continued to show steady growth, making up 61% of the total machines in our market and producing over 72% of the overall net machine income statewide.

New and Destroyed Terminals

- During the last two years, operators have hit an all-time high by purchasing a combined 1,695 new machines.
- As of June 10, operators purchased 902 machines and destroyed 297.

RFP Video Lottery Testing

- 2016 an RFP was issued to seek consulting and compliance testing services.
- GLI was awarded the Video Lottery Testing contract in July 2016 with a four-year term plus three one-year extensions. The contract will end July 2023.
- Under contract, GLI provides independent testing for VL Manufacturers and tests for VLT game odds, payback percentages, terminal security, hardware, and hardware functionality.
- The Lottery will provide an RFP recommendation to the Commission by the end of 2022.

Chair Shorma asked for a visual description of how establishments destroy machines. Director Kitts said anything related to the South Dakota Lottery is taken off the machine and permits are submitted back to the Lottery. Then, at the dump, they line up several machines and crush them. Executive Director Lingle stated that critical components are removed before destruction and reused.

Commissioner Kafka asked if odds and payout percentages are public information. Executive Director Lingle noted that video lottery manufacturers report video lottery game odds to the Lottery, who then publish them on the South Dakota Lottery website.

PUBLIC COMMENT

Chair Shorma asked about public comments.

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

NEXT MEETING DATE

Chair Shorma stated Thursday, September 22, 2022, at 9:30 a.m. central time is the next meeting.

ADJOURNMENT

Chair Shorma adjourned the meeting at 11:01 a.m.

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