



711 E. Wells Avenue • Pierre, SD 57501 • Phone: 605-773-5770 • Fax: 605-773-5786 • <http://lottery.sd.gov>

To: South Dakota Lottery Commission

From: Norman Lingle  
Executive Director

Re: June 13, 2019 Lottery Commission Meeting

Date: June 7, 2019

The June 13, 2019 meeting of the South Dakota Lottery Commission will begin at 9:30 a.m. The meeting will be held in Room 412 of the Capitol Building in Pierre.

I would like to highlight a few of the key agenda items.

An update on the IGT Online Central System and Related Services project will be provided. The update will include where we are at and what is coming regarding project elements.

Mike Houdyshell, Chief Legal Counsel, will provide an update on open meeting laws that are the result of the passage of SB 91 this past legislative session.

Declaratory Ruling 19-1 will be presented for your approval. The declaratory ruling pertains to Lotto Retailer Incentive bonuses. We will propose adjusting one bonus as well as cleaning up language pertaining to games no longer offered by the Lottery.

The final item I want to mention is an executive session to consult with legal counsel about contractual matters/preparing for contract negotiations.

The agenda also includes the normal sales and public relations/advertising reports.

Please contact Clark or me if you have any questions, comments or if there is anything else you would like addressed during the meeting.

**South Dakota Lottery Commission**  
**Thursday, June 13, 2019 – 9:30 a.m.**  
**Room 412, State Capitol, Pierre, SD**

*\*Please read all materials provided in the packet and print and bring the Agenda and all Exhibits*

Listen live at <http://www.sd.net/room412/>



**SOUTH DAKOTA**  
**LOTTERY™**

## **MEETING AGENDA**

1. Welcome Chair Shorma
2. Roll Call Angela Bieber
3. Approval of Agenda Chair Shorma
4. Approval of Minutes – March 21, 2019 meeting Chair Shorma
5. Conflict of Interest Chair Shorma
6. Executive Director Comments Executive Director Norm Lingle
7. Lotto System Conversion Update Executive Director Norm Lingle
8. Update on Open Meeting Laws and SB91 Chief Legal Counsel Mike Houdyshell
9. Declaratory Ruling 19-1 Deputy Executive Director Clark Hepper
10. FY19 Instant/Draw Game Review Business Analyst Elizabeth Burdick
11. Sales Report Director of Sales Marla Gruber
12. Marketing Report Director of Marketing Tom Helland
13. Video Lottery Report Director of Video Lottery and Security Brandi Hoerner
14. Public Comment Chair Shorma
15. Next Meeting – September 12, 2019 Executive Director Norm Lingle
16. Executive Session per SDCL 1-25-2 (3) and (4) - Consulting with legal counsel about contractual matters and preparing for contract negotiations
17. Adjournment Chair Shorma

### *Expiration Dates of Commissioner Terms*

William Shorma	01/01/2022	Jason Ahrendt	01/01/2022
Joe Kafka	01/01/2020	Jamie Huizenga	01/01/2021
David Wheeler	01/01/2021	Vacant	
Vacant			

**NOTE:** This meeting is being held in a physically accessible location. Individuals needing assistance, pursuant to the Americans with Disabilities Act, should contact the South Dakota Lottery at 605.773.5770 in advance of the meeting to make any necessary arrangements in advance of the meeting to make any necessary arrangements.



### Commission Members

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

### Minutes of the Commission Meeting

Room 413, Capitol Building Pierre, SD  
Thursday, March 21, 2019 - 9:30 a.m.

### UNAPPROVED

Chair William Shorma called the March 21, 2019 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Chair Shorma, Wheeler, Ahrendt and Huizenga participated in person. Commissioners Kafka attended by teleconference.

#### **SUPPORT STAFF PRESENT**

Norm Lingle, Clark Hepper, Tom Helland, Angela Bieber, Elizabeth Burdick, Brandi Hoerner, Marla Gruber, Mike Houdyshell, David Wiest and Secretary Terwilliger

#### **OTHERS**

Bob Mercer, Jess Wright, Deb Mortenson, Brett Koeneke

#### **APPROVAL OF THE AGENDA**

Commissioner Huizenga moved approval of the agenda. Commissioner Wheeler seconded the motion. Motion passed with no objection with a voice vote.

#### **APPROVAL OF THE MINUTES FROM THE NOVEMBER, 29, 2018 MEETING**

Commissioner Ahrendt moved approval the November 29, 2018 minutes. Commissioner Wheeler seconded the motion. Motion passed with no objection with a voice call vote.

#### **CONFLICT OF INTEREST**

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

#### **SECRETARY OF REVENUE COMMENTS**

*Secretary of Revenue Jim Terwilliger reported on the following:*

Thank you for being part of the Lottery Commission on behalf of the Department or Revenue and Governor Noem for serving in this capacity.

Review of the 2019 Legislative session.

Department of Revenue Bills

HB 1014, HB 1015, HB 1016, Hb 1017, HB 1018. A lot of these were clean up type legislation with not a lot of opposition.

FY 2020 Budget

The adopted general fund was \$1.7 billion for FY 2020. This will begin July 1, 2019 and end June 30, 2020.

Core Funding Proposals

- 2.5% for State Employee Salaries with no monthly surcharge for health insurance.
- 2.5% for K-12 per student allocation which includes technical institutes.
- Medicaid service providers such as nursing homes with a 10% increase. A 6.5% increase for community support providers and staggered down for groups depending on how it was appropriated down to a 1.5% increase.

### DOR Budget

- \$75.5 Million & 254.5 FTE. Full time employment is equivalent to 2080 hours of work.
- Budget request for 5 new FTE for the business tax, sales, and used tax audit area. We were awarded through the budget process 4 FTE, (2) Revenue Agents (2) Auditors.

### **EXECUTIVE DIRECTOR'S COMMENTS**

*Executive Director Norm Lingle reported on the following:*

#### Personnel changes at the Lottery

- Marla Gruber was one of our Sales Supervisors and promoted to the Director of Sales. She has been with the Lottery since July 2014 managing the central and northern part of the state.
- Tom Helland was the Director of Sales and Marketing. Due to growth and efficacy, Tom will be able to focus on just marketing with the new title of Director of Marketing.
- Brandi Hoerner joined the lottery in June 2019 as the licensing manager and now has been promoted to Director of Video Lottery and Security.

#### Legislation 2019

- HB 1211, HB 1252, HB 1253 and HR 1006
- Lottery Commission confirmation hearings.
  - Commissioner Shorma, Commissioner Ahrendt, Commissioner Wheeler were reappointed to the Lottery Commission.

### **IGT ONLINE AND RELATED SERVICES PROJECT UPDATE**

*Executive Director Norm Lingle reported on the following:*

- Project started January 15 with requirements gathering for the new system.
- Each Functional Requirements Document (FRD) serves as the scope for each function of the system.
- FRD meetings scheduled through mid may are happening remotely and on site weekly.
- Lottery is meeting internally every Monday to go through an action item list.
- IGT has been doing some job shadowing with finance, validation, and warehouse employees to get a better understanding of our processes.
- Data Conversion; We are converting our state-owned acclaims system, that has been active since the early 1990s. Large number of files and columns that BIT needs to identify and put into a format for IGT.
- Acceptance testing will be done in two phases.
  1. New terminals and peripherals that will be at each of the lottery retailers June 3- July 12, with installation beginning July 22 ending in approximately 8 weeks.
  2. Aurora System is the main system that will occur August 19 – October 11
- Parallel processing will begin October 13. We will be working off our current system with BIT providing data cuts to IGT. Our current system and the Aurora system will be operating with the same transactions so we can match up reports. This is a test to make sure all flaws in the system will be caught before going live November 3, 2019.

### **FY19 VIDEO LOTTERY REVIEW**

*Business Analyst Elizabeth Burdick reported on the following:*

A year to date comparison between FY19 and FY18 of the video lottery revenue was presented. The comparison included both county and city data.

### **FY18 NET MACHINE INCOME BY ESTABLISHMENT SIZE**

*Deputy Executive Director Clark Hepper reported on the following:*

The effects of the Video Lottery numbers and GMMS machines on smaller establishments including a breakdown by establishments, categories, machine type, and net machine income.

- In FY18 there were 96 establishments with 1 to 2 machines.
- 87.91% of the total machines in the establishments with 1 to 2 machines were GMMS machines.
- 3.30% of the machines in these establishments were Line machines.
- 8.79% were SAS machines. These establishments had a total net machine income of \$951,518.94.
- This was 0.43% of the net machine income for FY18. Establishments with 10 machines made up 38.42% of the total establishments in FY18.
- These establishments contributed 74.21% of the total NMI in FY18.

### GMMS - Legacy Machines

- 87.91% of the total machines in the establishments with 1 to 2 machines were GMMS machines.
- The GMMS machines accounted for 84.66% of the total NMI in the establishments with 1 to 2 machines.
- In every establishment size category, the percentage of GMMS machines were the greatest of the 3 different types of models.
- While in every size category there is a large percentage of NMI coming from the GMMS machines based on the percentage of GMMS machines there is opportunity for NMI growth.

### SAS - New Style Machines

- 8.79% of the total machines in the establishments with 1 to 2 machines were SAS machines compared to 38.10% of the total machines in the establishments with 10 machines.
- The SAS machines accounted for 10.87% of the total NMI in the establishments with 1 to 2 machines compared to 49.45% of NMI in establishments with 10 machines.
- SAS machines make up a larger portion of the machines in establishments with 10 machines and are generating a larger portion of the NMI for these establishments than the smaller 1 to 2 machine establishments.
- In every size category the percentage of NMI from the SAS machines was higher than the percentage of SAS machines in the establishments. This suggests an opportunity to increase NMI by replacing old machines with SAS machines.

### Average NMI per Machine per Day.

- GMMS Machines are generating \$49 a day per machine.
- SAS Machines are generating \$92 a day per machine.

### NMI by Model

- SAS machines had the highest total NMI of the 3 model types in FY18.
- Line machines had the least amount of total NMI of the 3 model types, but also had the least number of machines.
- GMMS had 5,927 total machines in FY18 which was 60.06% of the total machines in FY18.
- Line had 723 total machines which was 7.33% of the total machines.
- SAS had 3,218 total machines which was 32.61% of the total machines.
- Audited total NMI for FY18 \$220,625,317.
- Difference of \$734,642.

## **SALES REPORT**

*Director of Sales Marla Gruber reported on the following:*

### Instant ticket sales

- FY 19 is 7.9% over FY18 or \$1.9 million.
- In FY18 during this time frame we saw record sales at about 22%, due to a \$5 Super 10X Cashword, and a \$3 Bingo.
- FY19 did not reach those spikes over the same timeframe due to a few storms which prevented people to get out and purchase the products. We are currently back on a positive upward trend.

To continue sale's growth, new tickets are needed as well as new tickets to attract new players. The new FX Pollard, Diamond 7s, has a holographic foil that makes the ticket pop. With three weeks in sales this ticket as averaged over \$51 thousand a week. The 50x ticket is also generating \$42,000 in sales a week.

The new play style ticket out in the field is a, scratch my back, with a play area on the back of the ticket. \$50,000 bonus play was the first scratch my back ticket and it averaged \$37 thousand a week in sales. With players being more familiar with this playstyle and the opportunity to win on the second bonus play area on the back, we believe a launch of a second ticket, such as Break the Bank, will be a strong ticket that will generate sales.

### Lotto Sales

- FY19 is up 3.91% over FY18.
- During August in FY18 there was a Powerball jackpot that hit \$700 million. In December and January Mega Millions was \$450 million
- FY19 We had the 3<sup>rd</sup> largest Powerball jackpot run \$687 million and a Mega Millions record jackpot run of \$1.5 billion. These two runs help to increase sales.

- Buy 5 Dakota Cash get 1 Powerball free promotion produced a North Sioux City winner that claimed 50,000 on his free Powerball ticket

#### Instant and Online FY19 Revenue Projections

- As of February 28, FY 19 Instant is estimated at \$6.72 million and Lotto is estimated at \$8.65 million in net transfers. FY18 was \$6.4 million and Lotto was \$8.4 million during the same time frame.
- Video Lottery is estimated at \$127.52 million in FY19 and \$124.25 million in FY18 for the same time frame.

### **MARKETING/ADVERTISING REPORT**

*Director of Marketing Tom Helland reported on the following:*

#### Specific Promotions

- March is responsible gaming month. This is a nationwide event that has shared resources. We also divert some of our regular marketing funds into advertising of resources to help with problem gaming.
- New Encore Score 2<sup>nd</sup> Chance Promotion was launched 02/28/2019. Any non-winning #2-\$3 ticket can be entered for a chance to win. The fourth Thursday of every month five names are drawn to win \$300 in scratch tickets each. We had 92,000 entries. We will also have some surprise and delight concert and event tickets to give us something topical to talk about every month.
- Makin' Bacon Launch & 2<sup>nd</sup> Chance Promotion will be kicking off in April. This is a \$5 ticket with a fun theme. It has a \$50,000 top prize. If you have a non-winning Makin' Bacon ticket you have a chance to win free pork for a year. At the end of April, May and June we will be drawing five free pork for a year winners', as well as away Makin' Bacon tickets as a giveaway through the promotion. We partnered with the South Dakota Pork Producers Council, who are coopting the pork certificates and helping to promote the promotion as well. This will help create a stronger presence in the 96 grocery retailers where we sell instant tickets.
- New Year's Rockin' Eve - Powerball 2<sup>nd</sup> Chance Promotion will start April 15 and go through September 15. Joined by other state lotteries. Two South Dakota winners will be drawn on September 20 to have a VIP experience in NYC and a chance to be the first \$1 million winner of 2020.

### **VIDEO LOTTERY REPORT**

*Director of Video Lottery and Security Brandi Hoerner reported on the following:*

We currently have 1333 video lottery establishment in the market today.

The Video Lottery FY19 State Share of Revenue Projection is just over \$112.15 Million. This is a revenue growth of 2.46%.

The Net Machine income for July 2018 to February 28<sup>th</sup> is \$74.22 Million. This is a growth of just over 4%. This is primarily due to the new line game terminals are out performing the legacy games.

### **Public Comment**

*Chair Shorma:*

Vice Chair Shorma invited anyone from the public to come up for comment. There were no comments from the public at this time.

### **NEXT MEETING DATE**

*Executive Director Norm Lingle reported on the following:*

- June 13
- September 12
- December 5

### **ADJOURNMENT**

Chair Shorma requested motion to adjourn, Commissioner Wheeler motioned to adjourn, and Commissioner Huizenga seconded the motion. Adjourned at 11:00 a.m.

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

**IN RE:****DECLARATORY RULING  
BY THE SOUTH DAKOTA  
LOTTERY COMMISSION****RULING 19-1****ARSD 48:03:02:10****Lotto Retailer Incentive Commissions**

**Ruling:** Incentive commissions are authorized for on-line retailers who sell certain valid winning tickets for on-line games. Such incentive commissions are authorized in formula below. Retailers must be actively engaged in the sale of on-line tickets and current in Lottery obligations to qualify for incentive commissions which will be paid only after winning tickets have been claimed and paid. If multiple tickets eligible for incentive commissions to retailers are sold in the same drawing, incentive commissions will be paid, limited and divided equally per the formula below.

The incentives below are effective June 15, 2019 and supersedes Ruling 17-4.

Prize                      Commission      Pay, Limit, and Equal Division of Incentive Commission

**Powerball®**

Jackpot	\$50,000	Pay 1; over 1 divide \$50,000 and pay all equally.
\$1,000,000	\$20,000	Pay 1; over 1 divide \$20,000 and pay all equally.
\$50,000	\$1,000	Pay 2; over 2 divide \$2,000 and pay all equally.

**Powerball Power Play®**

\$2,000,000	\$25,000	Pay 1; over 1 divide \$25,000 and pay all equally.
\$50,000	\$1,000	Pay 2; (\$1,000 x the Power Play number) over 2 divide 2x (\$1,000x the Power Play number) and pay all equally.

~~**Powerball Winner Take All®**~~

<del>Winner</del>	<del>\$1,000</del>	<del>Pay 2; over 2 divide \$2,000 and pay all equally.</del>
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**Mega Millions®**

Jackpot	\$50,000	Pay 1; over 1 divide \$50,000 and pay all equally.
\$1,000,000	\$25,000	Pay 1; over 1 divide \$20,000 and pay all equally.
<del>\$5,000</del> <u>10,000</u>	<del>\$500</del> <u>750</u>	Pay 2; over 2 divide \$1,000 and pay all equally.

**Megaplier®**

\$1,000,000	\$25,000	Pay 1; over 1 divide \$25,000 and pay all equally.
<del>\$5,000</del> <u>10,000</u>	<del>\$500</del> <u>750</u>	Pay 2 (\$500 x the Megaplier number); over 2 divide 2 x (\$500 x the Megaplier) and pay all equally.

**Mega Millions® Just the Jackpot**

Jackpot	\$50,000	Pay 1; over 1 divide \$50,000 and pay all equally.
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**Hot Lotto**

<del>Jackpot</del>	<del>\$10,000</del>	<del>Pay 1; over 1 divide \$10,000 and pay all equally.</del>
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~~\$30,000      \$3,000      Pay 5; over 5 divide \$15,000 and pay all equally.~~  
~~\$3,000      \$300      Pay 5; over 5 divide \$1,500 and pay all equally~~

**Hot Lotto Sizzler**

~~\$90,000      \$9,000      Pay 2; over 2 divide \$18,000 and pay all equally~~  
~~\$9,000      \$900      Pay 2, over 2 divide \$1,800 and pay all equally~~

**Lucky for Life®**

Top Prize      \$5,000      Pay 2; over 2 divide \$10,000 and pay all equally  
Second Prize      \$500      Pay 5; over 5 divide \$2,500 and pay all equally

**Dakota Cash**

Jackpot      5% of prize      Pay 1; over 1 divide commission and pay all equally.  
Capped @ \$5,000.

**Lotto America**

Jackpot      \$10,000      Pay 1: over 1 divide \$10,000 and pay all equally.  
\$20,000      \$2,000      Pay 5; over 5 divide \$10,000 and pay all equally.  
\$1,000      \$250      Pay 5: over 5 divide \$1,250 and pay all equally.

**Lotto America All Star Bonus**

\$20,000      \$2,000      Pay 2 (\$2,000 x the All Star Bonus number); over 2 divide  
2 x (\$2,000 x the All Star Bonus number) and pay all equally.  
\$1,000      \$250      Pay 2 (\$250 x the All Star Bonus number); over 2 divide  
2 x (\$250 x the All Star Bonus number) and pay all equally.

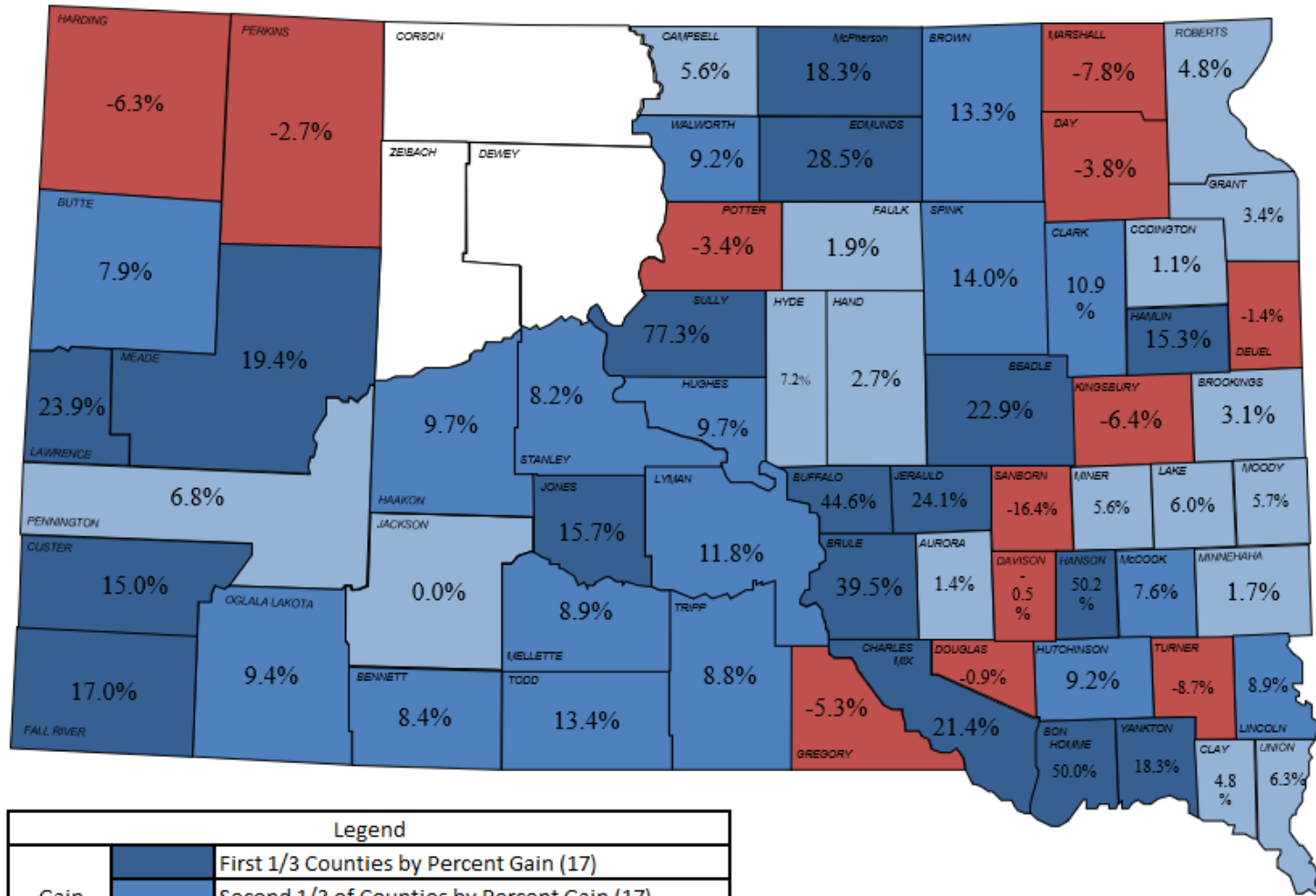
Dated this 13th day of June, 2019.

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William Shorma



# YoY % Change in Instant Sales



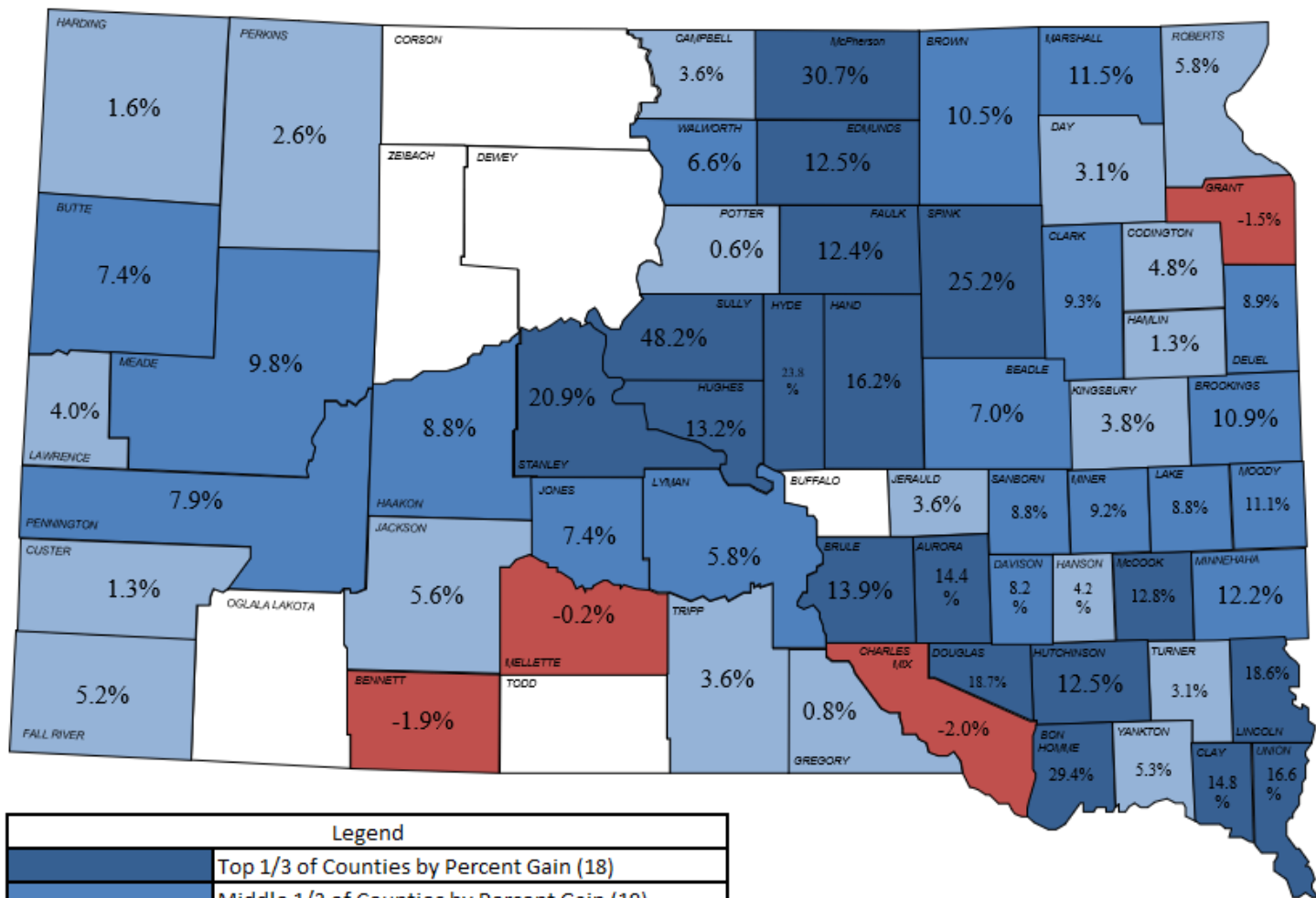
Legend	
Gain	First 1/3 Counties by Percent Gain (17)
	Second 1/3 of Counties by Percent Gain (17)
	Last 1/3 of Counties by Percent Gain (17)
N/A	No Instant Sales
Loss	Counties by Percent Loss (12)



City	FY18	FY19	\$ Change	% Change
Sioux Falls	\$7,416,352	\$7,519,602	\$103,250	1.39%
Rapid City	\$3,638,756	\$3,897,296	\$258,540	7.11%
Aberdeen	\$1,025,190	\$1,163,512	\$138,322	13.49%
Watertown	\$1,083,065	\$1,102,702	\$19,637	1.81%
Brookings	\$776,903	\$801,935	\$25,032	3.22%
Mitchell	\$779,210	\$775,621	-\$3,589	-0.46%
Yankton	\$656,887	\$762,334	\$105,447	16.05%
Pierre	\$632,166	\$689,507	\$57,341	9.07%
Spearfish	\$570,031	\$689,332	\$119,301	20.93%
Huron	\$509,300	\$637,854	\$128,554	25.24%
Rest of the state	\$10,675,151	\$11,763,331	\$1,088,180	10.19%
<b>State Total</b>	<b>\$27,763,011</b>	<b>\$29,803,026</b>	<b>\$2,040,015</b>	<b>7.35%</b>



# YoY % Change in Draw Sales



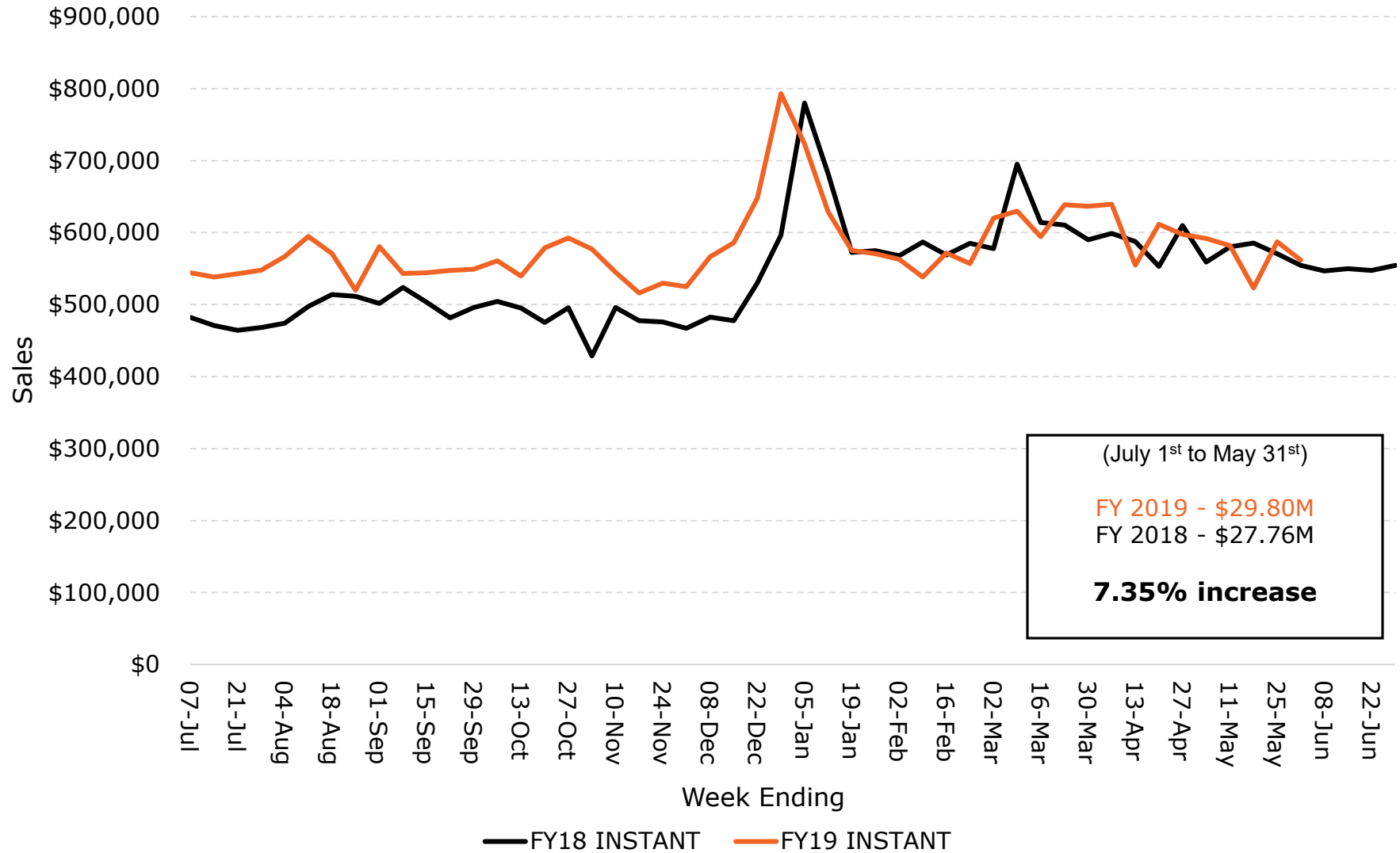
Legend	
	Top 1/3 of Counties by Percent Gain (18)
	Middle 1/3 of Counties by Percent Gain (19)
	Bottom 1/3 of Counties by Percent Gain (19)
	No Online Sales
	County by Percent Loss (4)



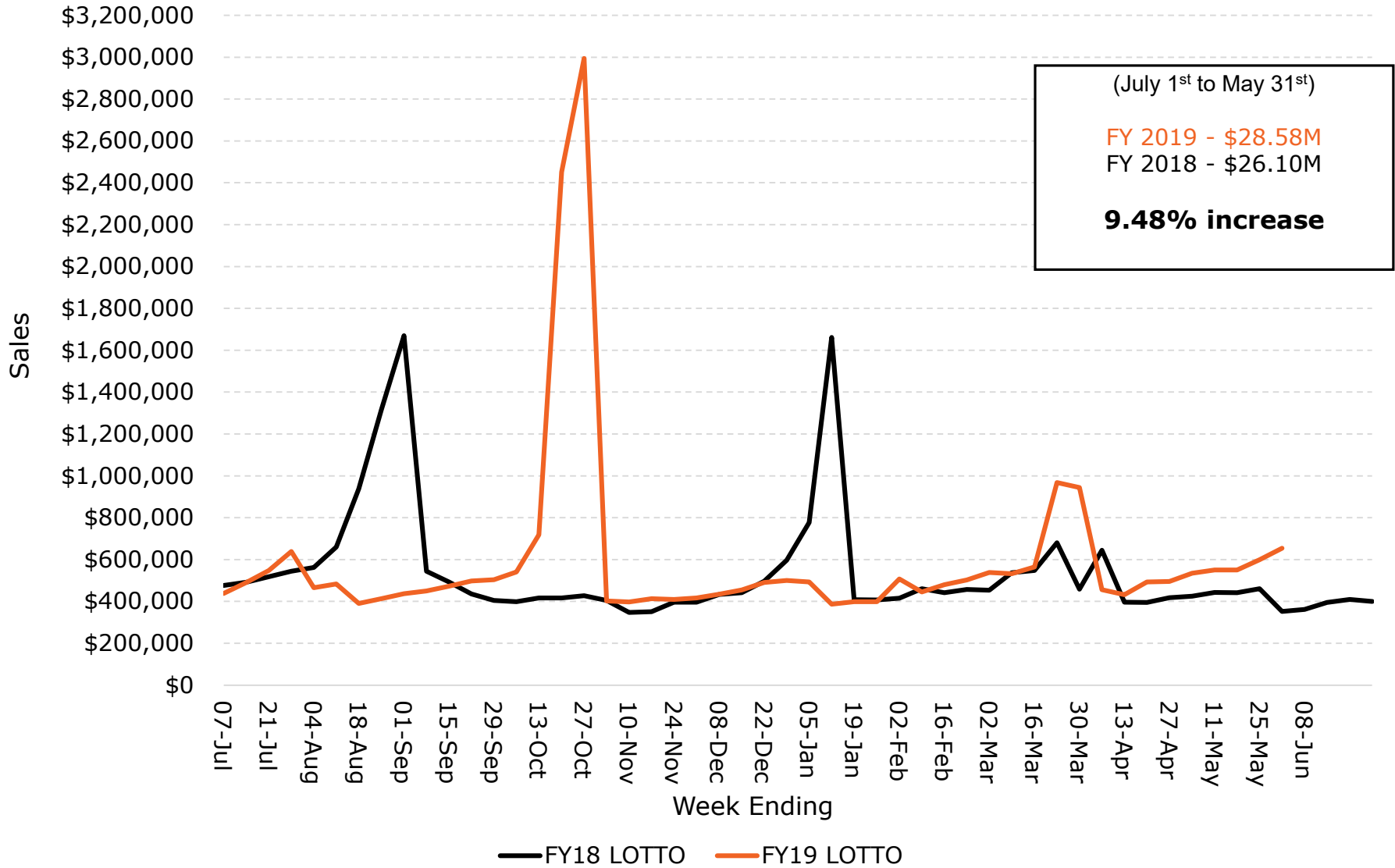
City	FY18	FY19	\$ Change	% Change
Sioux Falls	\$5,699,977	\$6,395,704	\$695,727	12.21%
Rapid City	\$3,484,283	\$3,751,116	\$266,833	7.66%
Aberdeen	\$1,232,887	\$1,365,135	\$132,248	10.73%
Watertown	\$1,256,329	\$1,316,259	\$59,930	4.77%
Yankton	\$881,596	\$905,257	\$23,661	2.68%
Pierre	\$774,826	\$876,600	\$101,774	13.14%
Mitchell	\$789,111	\$853,719	\$64,608	8.19%
Brookings	\$616,731	\$695,461	\$78,730	12.77%
Spearfish	\$639,999	\$684,954	\$44,955	7.02%
Huron	\$499,443	\$535,184	\$35,741	7.16%
Rest of the state	\$10,228,877	\$11,199,452	\$970,575	9.49%
<b>State Total</b>	<b>\$26,104,059</b>	<b>\$28,578,841</b>	<b>\$2,474,782</b>	<b>9.48%</b>



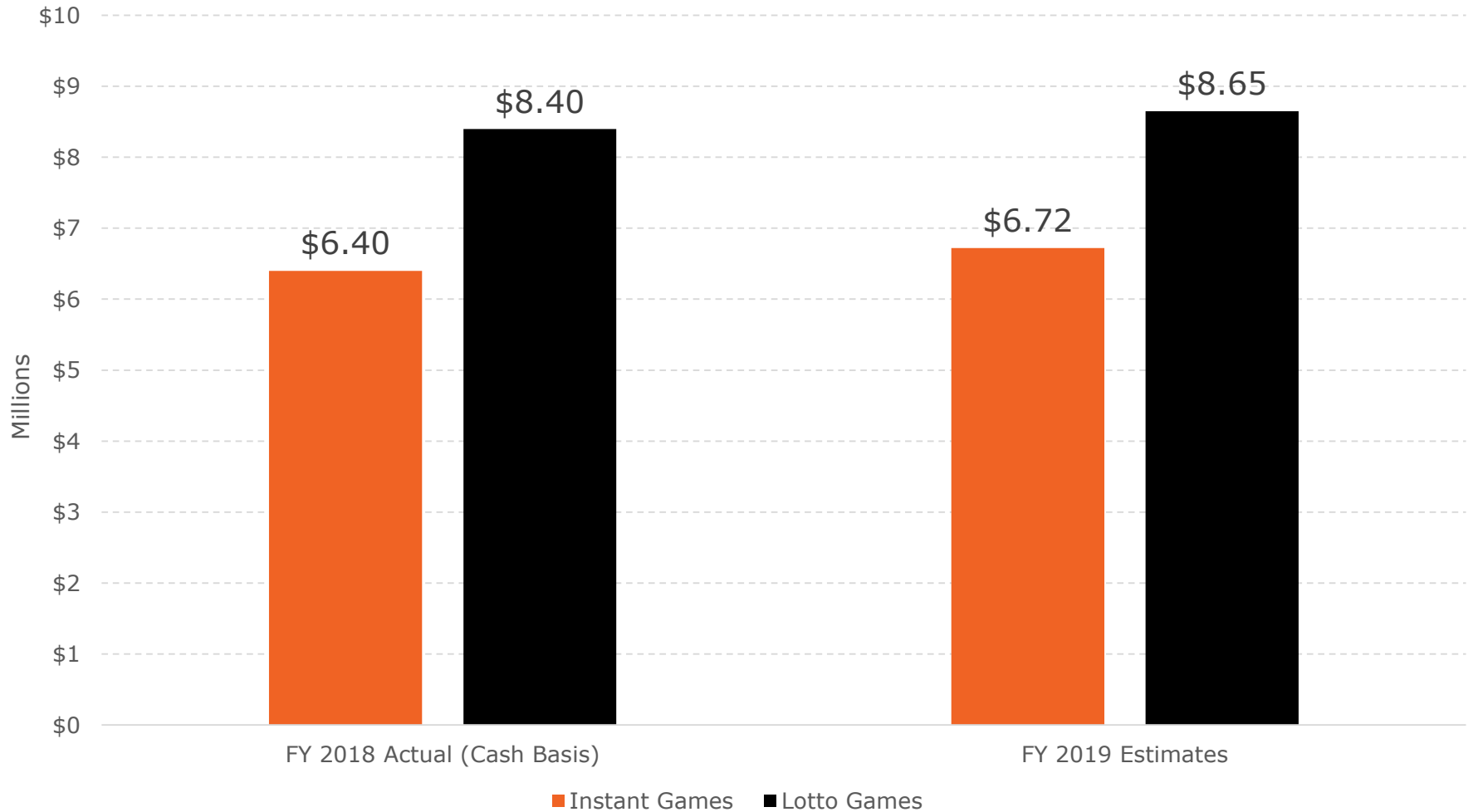
# Instant Ticket Sales



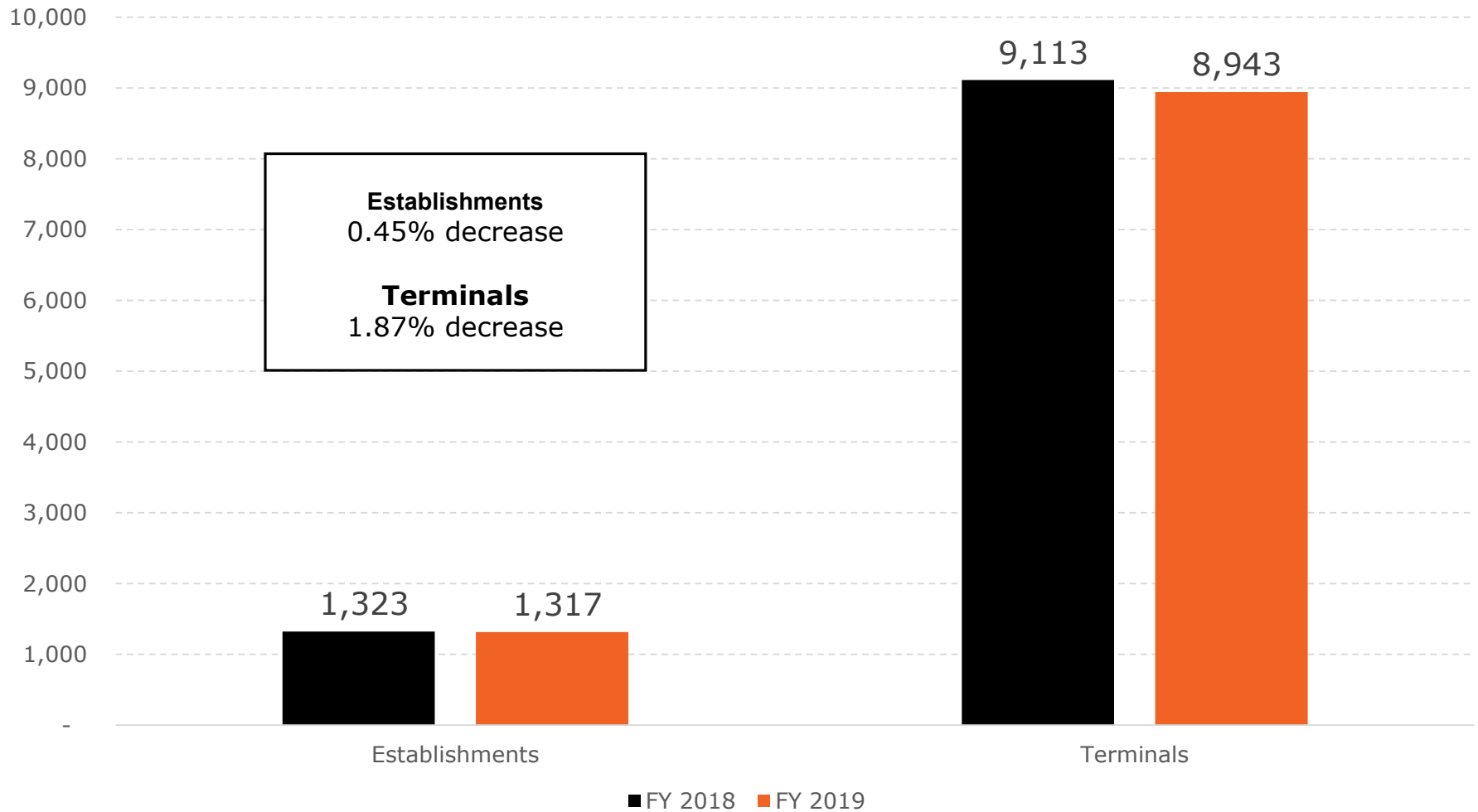
# Lotto Sales



# Instant and Online FY19 Revenue Projections as of May 31, 2019

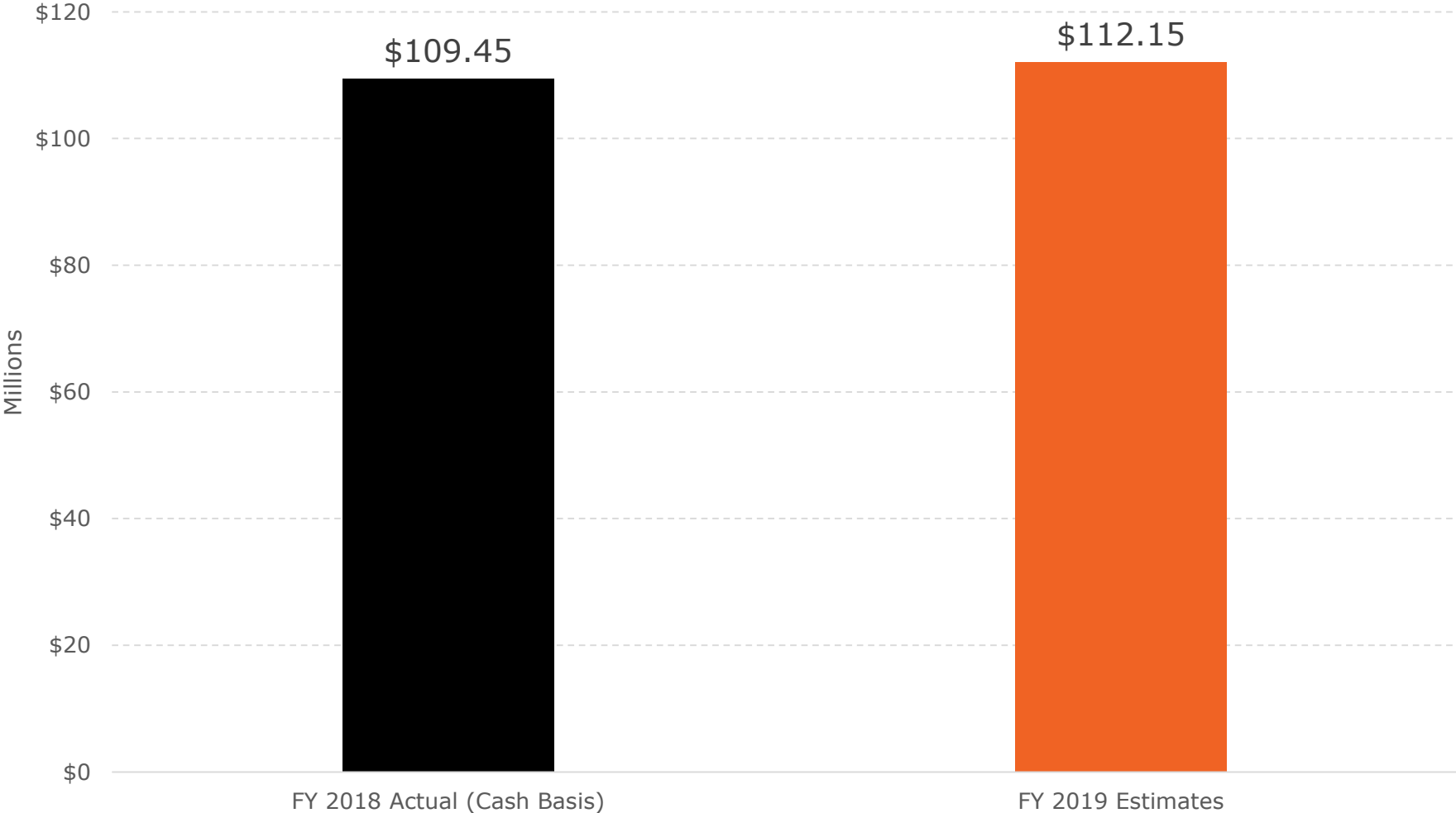


# Number of Terminals and Establishments as of May 2019

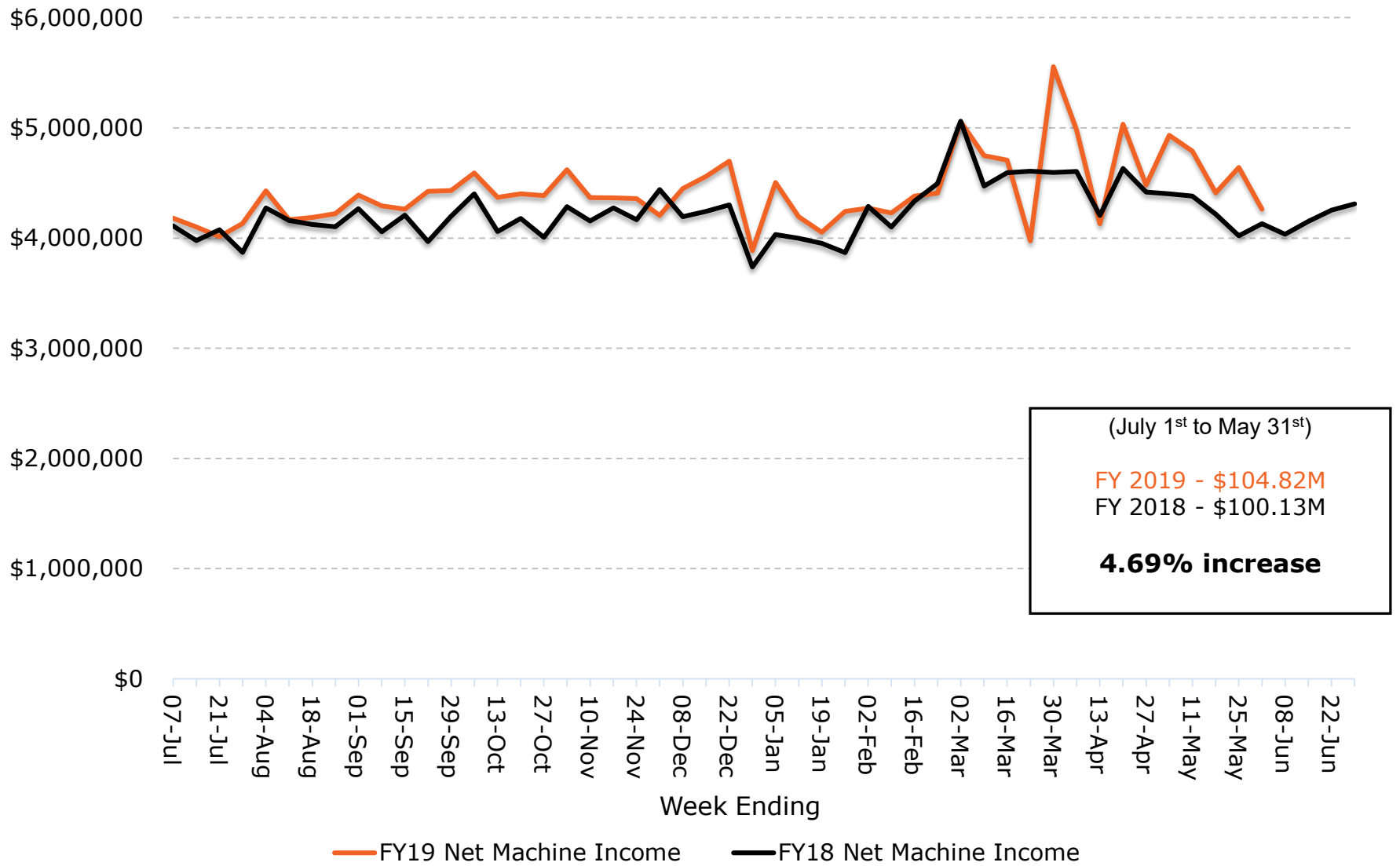




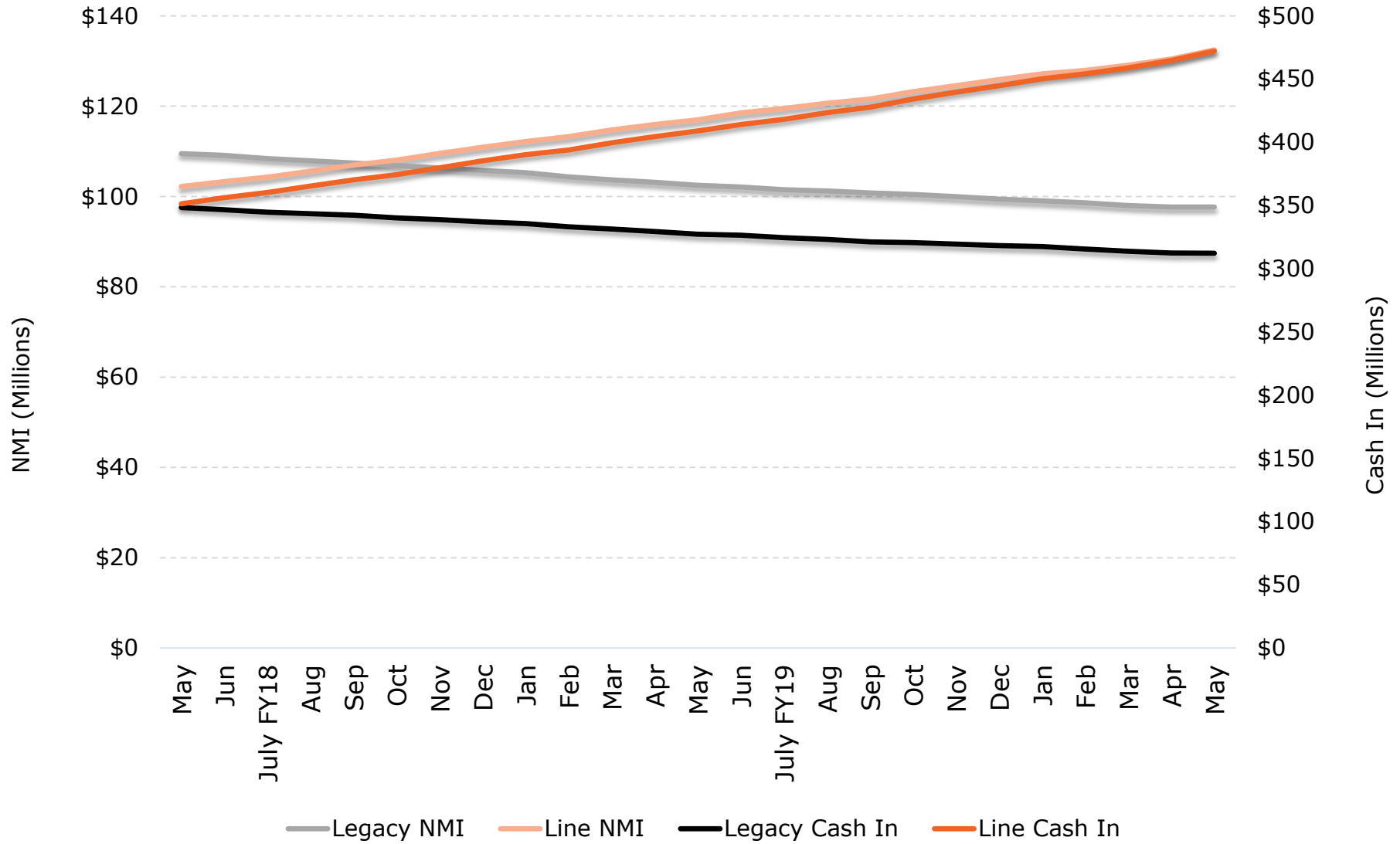
# Video Lottery FY 19 State Share Revenue Projection as of May 31, 2019



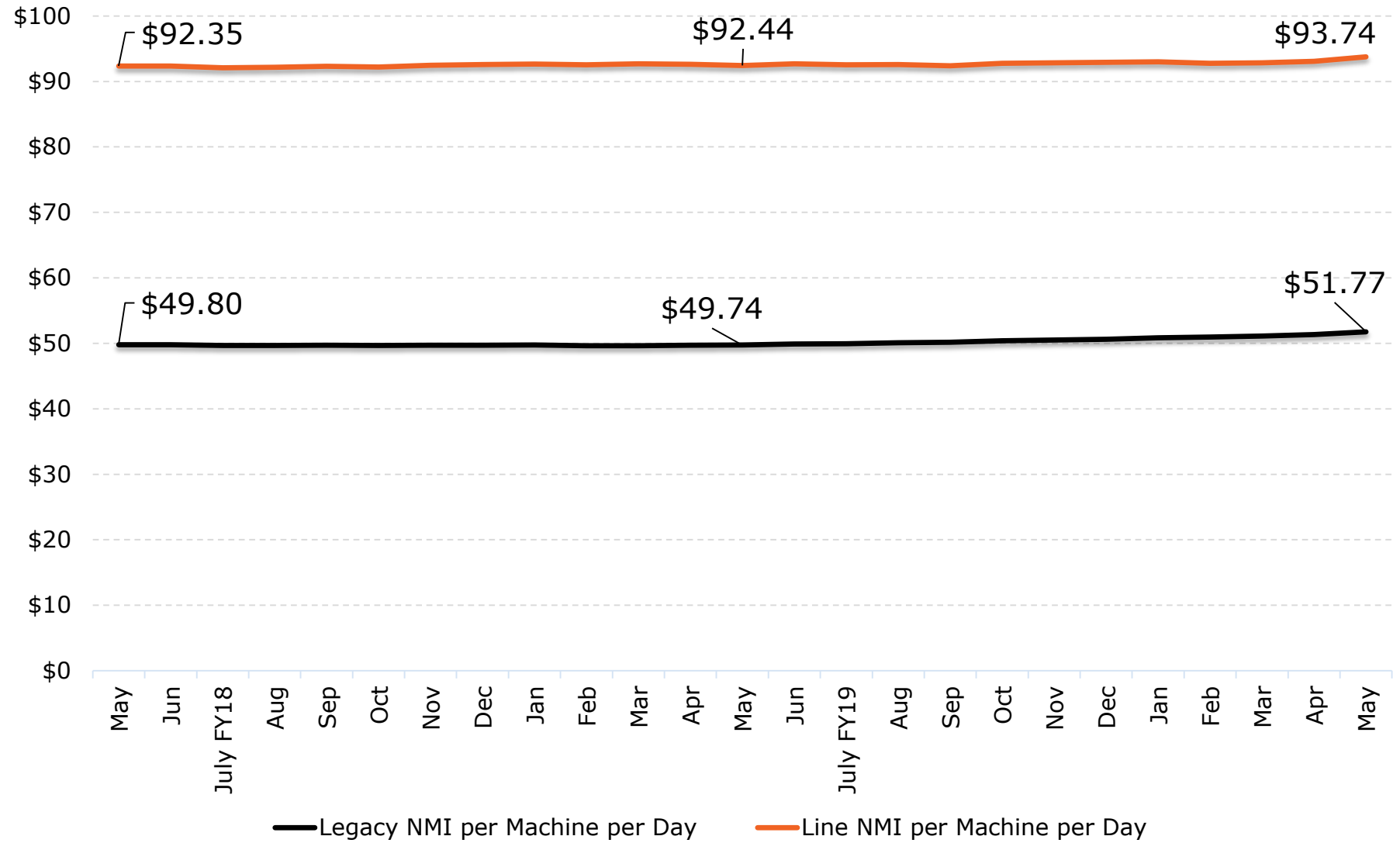
# Video Lottery Net Machine Income



# Cash In & NMI - Legacy vs. Line



# NMI/Terminal/Day - Legacy vs. Line



# Terminal Counts - Legacy vs. Line

