



Commission Members

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

Minutes of the Commission Meeting

Meeting was conducted via Zoom
Thursday, March 25, 2021 – 9:30 a.m.

UNAPPROVED

Chair Shorma called the March 25, 2021 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Commissioner Ahrendt, Commissioner Rozum, and Chair Shorma participated by Zoom. Commissioner Huizenga participated in person. Commissioner Kafka participated by phone. The public was able to participate by dialing in or listening on the internet.

SUPPORT STAFF PRESENT

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

APPROVAL OF THE AGENDA

Chair Shorma asked if there were any changes to the agenda. Chair Shorma noted a change on number six on the agenda. He noted that Deputy Secretary Wiest is filling in for Secretary Terwilliger.

APPROVAL OF THE MINUTES FROM THE DECEMBER 3, 2020 MEETING

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

Deputy Secretary David Wiest reported on the following:

478 bills were presented during the 2021 Legislative Session: 48% failed and 52% passed.

- Department of Revenue tracked 78 bills (16%)
- All 10 DOR bills passed.
- DOR helped pass 6 other bills.
- DOR helped with amendments on 5 bills that passed.
- DOR opposed 17 bills and helped oppose 2 other bills (all failed).

- Bills included: statute cleanup, implementation of sports wagering (passing SB 44 and opposing HB 1211 and HB 1231), and marijuana bills.

Commissioner Ahrendt asked if the sales tax revenue was still positively trending in January and February. Deputy Secretary Wiest replied that sales tax has remained strong.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

2021 Legislative Session

- The Senate confirmed the appointment of Commissioner Rozum and the reappointment of Commissioner Huizenga.
- HB 1201 was an act to authorize a local vote to prohibit the placement of video lottery machines in a municipality or county. The Bureau of Finance and Management and the lottery industry along with help from Lottery staff lobbied against the bill. The bill was deferred to the 41st day.
- HB 1127, an act to revise provisions during teleconference meetings, will begin July 1, 2021. The Lottery Commission will need to be aware of the provisions of this bill starting on July 1, 2021.

Draw Game Changes

- Lucky for Life will be a daily draw beginning Monday, July 19, 2021.
- Lucky for Life's sister Cash for Life saw a positive impact in daily draws.
- The Lottery Commission meeting on April 22 will have an administrative rule hearing to accommodate the changes.
- Powerball is currently drawn on Wednesday's and Saturday's. Beginning Monday, August 23, 2021 a Monday drawing will begin.
- Powerball will add Double Play, an add-on feature to give players another chance to match their numbers and win.
- Rules for Double Play will be conducted at the April 22 meeting.

South Dakota Lottery validation centers installed debit card machines with a \$600 purchase limit. Checks are no longer accepted.

Executive Director Lingle confirmed to Commissioner Rozum that no checks will be accepted, only debit cards and cash.

Chair Shorma asked for a summary of problem gambling information provided to the public to be presented at the April 22 meeting.

Video Lottery Central System Upgrade Update

Deputy Executive Director Clark Hepper reported on the following:

The Video Lottery Migration has completed Connexus Go Live, Pilot Project II, and Field Conversions. On April 1, all sites under contract will be on Connexus, and Aegis system sites will be decommissioned.

Contracts

- All 1,241 establishments are under contract.
- All sites under contract are on the IP cellular system.
- 53% of operators chose to pay for the SDL system equipment upfront rather than pay \$1,395 after installation and \$1,000 in January 2022.
- By the end of the process, approximately 10-15 sites will no longer offer video lottery.

Chair Shorma asked if the orphan establishments decided that the video lottery upgrade was not viable due to the lack of play. Deputy Executive Director Hepper confirmed and stated that two of the sites made up over half of the lost revenue but the lottery thinks they will be on board eventually.

95% of establishments, totaling 8,979 machines, have new site controllers. Benefits of the new system include updated site controller equipment, real-time communication, Operator Portal, and the option of the Voucher Redemption System. In February, 50% of converted sites used the Voucher Redemption System to minimize counterfeit tickets, redeeming a total of 360,280 vouchers worth \$28,846,011.51.

Chair Shorma asked approximately how many fraudulent tickets the South Dakota Lottery has caught through the Voucher Redemption System. Deputy Executive Director Hepper answered that he is unaware of the number, just that they were found.

After April 1, the South Dakota Lottery will work with Scientific Games to get operators spare parts. So far, they have had ten operators reach out for spare site controller equipment.

Commissioner Ahrendt asked if the non-reporting range has continued to decrease with the new site controllers. Deputy Executive Director Hepper answered that originally there was around 600 to 700 non-reporting terminals in a day. Since the conversion, non-reporting terminals are around 100. The number is expected to decrease further when external antennas are installed to the IP cellular communication.

Marketing Report

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

Campaigns

- The Winner Awareness Campaign - March - Summer
 - Highlights that South Dakota Lottery players win \$1.6 million per day combined.
 - Marketing platforms include tv, radio, web-based display ads, social media, and billboards.
 - More than 50 gas stations across the state will feature the new gas pump nozzle and video board point of sale.
- The Beneficiary Awareness Campaign – January 1 - February 15
 - Highlights that \$354 per day is given back to South Dakota.
 - Marketing platforms included radio, web-based display ads, social media, and ESPN platforms.
- The Responsible Gambling Campaign – February 15 - April 5
 - Highlighted that too much of a good thing is not a good thing.
 - Launched in conjunction with National Problem Gambling Awareness Month.
 - Marketing efforts include paid advertisements and year-round responsible gambling messaging on emails, social media, and website.
- Upcoming campaigns include general instant and lotto, Gemini vending machines, and Powerball and Lucky for Life game changes.

Second Chance Drawings

- Engages players through the Players Club.
- Keys-N-Cash- 16,911 non-winning ticket entries, Fely Goodface of Lower Brule won a 2020 Ford Shelby GT350.
- 007 – 11,853 non-winning ticket entries, Shannon Keeble of Sioux Falls won a trip to Las Vegas and a chance to win up to \$1 million in the James Bond Lottery Challenge.
- Holiday Hangover - 44,374 non-winning ticket entries, 22,944 from new Players Club members. The drawing featured cash prizes and a top prize of \$2,500.

The South Dakota Lottery will be updating its website and mobile app in 2021. They will work with L&S on stakeholder surveys and interviews about the current website and mobile app.

Sales Report

Director of Sales Marla Gruber reported on the following:

Instant and Lotto

- As of February 28, instant sales are pacing at an increase of 31.6% over FY20.
- Wild X games, a top seller in the last seven weeks, launched on February 1. It is the first family to show five price points.
- Over \$10,258,000 in instant prizes have been paid in the last three months.
- As of February 28, lotto sales are pacing at a 27.34% increase over FY20 due to the high jackpots.
- Over \$2,078,000 in lotto prizes have been paid in the last three months.

Revenue Projections (as of February 28)

- Instant - \$6.35 million in net transfers
- Lotto - \$7.55 million in net transfers
- Net Machine Income - 16.43% over FY20
- State share revenue - \$135.28 million vs \$116.48 million in FY20
- Total projections - \$148.17 million vs \$128.43 million in FY20

Two Gemini Vending Machines will be installed the week of April 5 at Lynn's Dakotamart in Pierre and the South Dakota Lottery validation center in Sioux Falls. The Gemini includes extensive reporting features such as shift sales reports, bin inventory reports, and a security log. The lottery's goal is to have 49 Gemini machines placed across the state by the middle of May.

Chair Shorma asked what form of payments the Gemini accepted. Director Gruber answered that it is cash only and a driver's license must be verified before the money is accepted.

Commissioner Rozum asked if Director Gruber had the comparison between FY21 and FY19 because 2019 looked like a good year. Director Gruber stated that the large spike on the graph for FY19 was when Powerball hit \$678 million at the same time Mega Millions hit \$1.5 billion.

FY21 Instant/Online and Video Lottery Review

Business Analyst Elizabeth Burdick reported on the following:

Instant Sales (thru February 28)

- 59 of the 63 counties showed an increase over the last year.
- All central counties showed an increase.
 - 12 of the 14 central counties showed the largest percentage increases 73% overall
 - 11% of the total state's sales.
 - 7% of the population over 18
 - The increase is due to the 100X the Money top prize hunt
- Jerald, Minor, and Hanson showed a smaller decrease than the December meeting.
- Faulk showed approximately the same decrease as it did in the December meeting.

Cities (top by sales)

- All top ten cities showed an increase, with seven increasing more than 25%.
- Pierre is up by 68.11% due to the 100X the Money top prize hunt.
- Sioux Falls showed the largest dollar amount increase followed by Rapid City.

- Sioux Falls accounted for 23% of the state's total instant sales, Rapid City 13%, and Pierre 3%.

Scratch games

- Players are migrating to higher price points. Nationwide lotteries are seeing similar trends.
 - \$5 tickets up 41%
 - \$10 tickets up 33%
 - \$20 tickets up 75%
- \$20 increases are due to the 100X the Money ticket, which generated \$46,500 per week more than the average \$20 ticket.
- \$1 tickets down 15%, a similar decreasing trend nationwide.
- \$2 tickets up 23%. Nationwide lotteries are seeing a decrease.
- Nationwide lotteries have been seeing a slight increase in their \$3 and \$5 games. The South Dakota Lottery \$3 tickets are down by 2% as \$3 players have migrated to the \$5 extended games.

Lotto Sales (thru February 28)

- Miner was down by 1.4% and was the only county with a decrease.
- Large jackpots had a positive impact on lotto sales.
- Central counties
 - 8 of the 13 had the largest percentage increases
 - 33% increase overall
 - 9% of total sales in the state
 - 6% of the population over 18
- All the top ten cities were up.
 - Sioux Falls, Pierre, and Huron were up more than 25%
 - Huron had the largest percentage increase at 29.5%
 - Sioux Falls had the largest dollar amount increase followed by Rapid City
 - Sioux Falls had 22% of the state's total lotto sales, Rapid City 13%, and Huron 2%.
- Sales by Game
 - Dakota Cash was down \$146,000.
 - Largest jackpot this year was \$357,000 vs \$454,000 last year.
 - Lucky for Life was up \$84,000.
 - Lucky for Life is not jackpot dependent.
 - Lotto America was down \$151,000.
 - The largest jackpot this year was \$4.28 million vs \$21.6 million last year.
 - Mega Millions was up \$2.38 million
 - The third largest jackpot in U.S. history at \$1 billion.
 - Longest Mega Million jackpot roll at 37 draws.
 - Sales were 26% lower in 2021 billion-dollar jackpot than the 2018 billion-dollar jackpot.
 - Powerball was up \$1.8 million.
 - The sixth largest jackpot in U.S. history at \$730 million.
 - Sales were higher in the 2021 Powerball jackpot than the second-highest Powerball jackpot in 2019.
 - In the last seven draws of each year, 2021 sales were 36% higher than in 2019.
 - Due to a lower starting jackpot, it took 46 rolls to reach \$730 million vs 26 rolls in 2019 to reach \$768 million.

Video Lottery (thru February 28)

- All counties except four saw an increase due to new machines and limited entertainment options during COVID.
- Central region
 - 8 of 13 counties had some of the largest percentage increases in the state.
 - 30% increase overall.
 - 7% of total net machine income in the state vs 6% last year.

- All top five counties have similar percentage increases to the December meeting.
 - Minnehaha up 11.8% (\$5.3 million)
 - Pennington up 14.2% (\$3.0 million)
 - Union up 31.2% (\$3.1 million)
 - Brown up 12.4% (\$1.3 million)
 - Codington up 20.6% (\$1.2 million)
- All top 15 cities saw an increase. 13 were up more than 10% and five were up more than 20%. Sioux Falls had the largest dollar amount increase and accounted for 25% of the state's total net machine income. North Sioux City was up by more than 30% and accounted for 7% of the state's total net machine income.

Chair Shorma noted that 2020 had the highest ag revenue in history, and it may have had an impact on the rest of the state, specifically in rural areas.

Video Lottery Report

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

Establishments (As of early March)

- The number of video lottery establishments has remained steady.
- 1,232 video lottery establishments in the market.
- 288 of the 299 third-quarter establishment renewals have been received.
- Video lottery has 9,221 terminals or 75% of the available terminals in the market today, an increase of 161 from FY20.

Line Terminals

- Offers cutting edge technology and a wide array of games.
- Increased engagement from our current players while also reaching new players.
- Represents 54% of the video lottery terminals in the current market.
- Increased 25% over the last two years while Legacy machines have decreased 15%.
- Brings in \$103 per machine per day compared to the \$53 per machine per day of the Legacy machines.

Chair Shorma asked if the higher per-day revenue was because the Line machines were in higher volume and higher revenue locations than the Legacy machines. Director Kitts confirmed. Executive Director Lingle answered that establishments originally distributed the Line machines to the larger locations then migrated them to smaller locations as the larger ones upgrade. Currently, more establishments have a combination of Legacy machines and new equipment than just new equipment.

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, April 22, 2021, at 9:30 a.m. central time is the next meeting.

ADJOURNMENT

Chair Shorma adjourned the meeting at 11:25 a.m.

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