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To: South Dakota Lottery Commission

From: Norman Lingle
Executive Director

Re: September 10, 2020 Lottery Commission Meeting

Date: September 4, 2020

The September 4, 2020 meeting of the South Dakota Lottery Commission will begin at 9:30 a.m.

A zoom link will be provided to the Commissioners and Lottery staff. A call in number will be provided for the public to participate and the meeting will be streamed on South Dakota Public Broadcasting's website.

The agenda is straightforward.

The meeting will begin with comments from the Secretary of Revenue as well as comments from me.

We plan to provide an update on the Scientific Games Video Lottery System project. The report will include an update on the progress of the project since the last meeting and a look forward at what's to come.

We will report on FY21 Instant/Online and Video Lottery sales. The report will look at how we are starting out FY21 when compared to FY20.

The agenda also includes the normal sales, public relations/advertising and video lottery 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, Sept 10, 2020 – 9:30 a.m.

**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/>



MEETING AGENDA

Dial In Number for Public: 1-312 626 6799

Meeting ID: 944 6185 1536

Password: 041618

Link to Listen Live: <http://www.sd.net/room412/>

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|--|---|
| 1. Welcome | Chair Shorma |
| 2. Roll Call | Megan Gross |
| 3. Approval of Agenda | Chair Shorma |
| 4. Approval of Minutes – June 11, 2020 meeting | Chair Shorma |
| 5. Conflict of Interest | Chair Shorma |
| 6. Secretary of Revenue Comments | Secretary Jim Terwilliger |
| 7. Executive Director Comments | Executive Director Norm Lingle |
| 8. Video Lottery Central System Upgrade Update | Deputy Executive Director Clark Hepper |
| 9. Marketing Report | Director of Advert and PR Wade LaRoche |
| 10. FY21 Instant/Online and Video Lottery Review | Business Analyst Elizabeth Burdick |
| 11. Sales Report | Director of Sales Marla Gruber |
| 12. Video Lottery Report | Director of Video Lottery and Security Jordon Kitts |
| 13. Public Comment | Chair Shorma |
| 14. Next Meeting – Thursday, December 3, 2020 | Executive Director Norm Lingle |
| 15. Adjournment | Chair Shorma |

Expiration Dates of Commissioner Terms

William Shorma	01/01/2022	Jason Ahrendt	01/01/2022
Joe Kafka	01/01/2023	Jamie Huizenga	01/01/2021
David Wheeler	01/01/2021		

Individuals wanting to testify before the Lottery Commission must sign the attendance sheet and in prefacing their remarks, state their name and the entity they represent.

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
Jason Ahrendt – Vice Chair
David Wheeler
Joe Kafka
Jamie Huizenga

Minutes of the Commission Meeting

Meeting was conducted via Zoom
Thursday, June 11, 2020 – 9:30 a.m.

UNAPPROVED

Chair William Shorma called the June 11, 2020 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Chair Shorma, Commissioners Wheeler, Ahrendt, and Kafka participated via Zoom. Chair Huizenga participated in person. The public was able to participate by dialing in or listening via the internet.

SUPPORT STAFF PRESENT

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

APPROVAL OF THE AGENDA

Commissioner Wheeler motioned to approve the agenda. Commissioner Huizenga seconded. Motion passed with no objection with a voice vote.

APPROVAL OF THE MINUTES FROM THE March 26, 2020 MEETING

Commissioner Ahrendt motioned to approve the minutes. Commissioner Kafka seconded. Motion passed with no objection with a voice vote.

CONFLICT OF INTEREST

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

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

- Megan Gross introduced as new Information Officer to the South Dakota Lottery.
- Starla Volk, the Rapid City area manager of 31 years retired June 8, 2020.

Audits

- Lucky for Life agreed upon procedure audit for the time period April 1, 2019-March 31, 2020 went well.
- Annual audit, conducted by Legislative Audit, is underway with a goal to complete the audit by the end of September 2020. This will lead to compiling and finalizing the Lottery's annual report.

COVID-19 update

- Starting Friday, March 13, employees were in the office on a limited basis depending upon the need.
- The majority of Lottery Retailers and Video Lottery Establishments stayed open.
- Video lottery daily operations were being serviced through remote desktop access. Staff was coming into the office at 8 p.m. to do the nightly lottery drawings.
- Video lottery staff managed the VL system through laptops, as well as manage the incoming voice mails. Roughly 600 establishments and 3,000 video lottery terminals were disabled.
- The Lottery offered mail-in capabilities for instant and lotto claims along with appointments for prizes more than \$5,000.
- Sales reps did not visit retailers, but rather called retailers via phone.
- Sales Reps used iPads provided through the IGT project to stay current on tickets.
- Our Sioux Falls warehouse person was in every day to pick and ship ticket orders.
- All paid advertising was suspended, we focused on unpaid social media.
- The finance team kept up on invoices and deposits by rotating in and out of the office.
- Staff assisted at the State call center and one helped at the Dept of Health for four weeks.
- All staff returned to office on a full-time basis on June 1, 2020. New self-check stations have been implemented to test for fever, cough, and difficulty breathing. Employees are maintaining social distancing and keeping up on the use and acquisition of hand sanitizer and wipes.

Chair Shorma thanked the staff in making their jobs work, assisting with our player and owner base and wish Starla the best on her retirement.

Advertising and related services RFP recommendation

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

- The current contract with Lawrence & Schiller expires on June 30, 2020.
- The Request for Proposal was published on December 20, 2019 and received nine responses from five states: South Dakota, Nebraska, Colorado, Ohio, and Florida.
- The new contract will be for a period of five years with the option for three additional one-year extensions. The budget for the contract is typically near \$1 million. It was \$950,000 last fiscal year.
- An evaluation committee scored all nine proposals, advancing the top five with an invitation to conduct presentations in May.
- After the presentations, the evaluation committee determined three finalists. Lawrence & Schiller first with a score of 83, and Smith Kroeger second with a score of 82.
- The South Dakota Lottery is excited about the prospects Lawrence & Schiller could bring, with potential focuses on the evolution of the Good Fun Brand, updated website and mobile app, data-driven marketing, market research, beneficiary awareness, and problem gambling messaging.
- A new agreement is set to be official in the coming weeks and become effective July 1, 2020.
- Chair Shorma asked for a motion to approve a new agreement with Lawrence & Schiller. Commissioner Ahrendt motioned. Commissioner Huizenga seconded. Motion passed with no objection with a voice vote.
- Chair Shorma asked the total value of the agreement. Executive Director Lingle answered roughly a million dollars per year, five million dollars over the five years.
- Chair Shorma noted that he is familiar with Lawrence and Shiller and their research is well known and that they have a good reputation.
- Commissioner Ahrendt commended Wade and his team on their attempt to keep the momentum going and using a South Dakota Company. Commissioner Wheeler agreed with Commissioner Ahrendt and likes the continuing with the problem gambling awareness. Chair Shorma believes Lawrence and Schiller will continue to do a good job for South Dakota Lottery.

Marketing Report

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

- Due to COVID-19 most paid advertising elements were suspended throughout April and May to be sensitive to the situations of players. The advertisements will phase back in beginning with the Thanks South Dakota television and radio spots.
- We maintained an open dialogue with our players in attempt to keep them updated the claims process and validation center status.
- Fe Miller of Hayes won the Lucky for Life second prize after the April 16th drawing. She is our 5th second prize winner since 2017, and the second Lucky for Life winner for the Ft. Pierre Lynn's Dakotamart.
- On St. Patrick's Day, players could buy one Lucky for Life ticket and get another free as part of a promotion that generated more than \$90,000 in sales. \$83,000 above the average Tuesday Lucky for Life sales.
- 605 Day, another one-day promotion, allowed players to buy five Dakota Cash and get one free. The promotion generated more than \$14, 000 in Dakota Cash sales.
- The next phase of the mobile app will launch this summer and will feature the ability to scan lotto tickets.
- We are beginning a new monthly second chance drawing, where nearly all non-winning scratch tickets are eligible, and the top prize is \$300 in scratch tickets.
- The upcoming second chance drawings are October 20 -Polaris, and November 20- Keys N Cash.
- Commissioner Huizenga advised that it sounds like the SD Lottery is moving forward and ready to get back up to speed.

Video Lottery Migration

Deputy Executive Director Clark Hepper reported on the following:

- The request for proposal (RFP) was requested January 2018 and submitted on April 18, 2018 for the online and video lottery system. A vender was settled on in the September 2019 meeting. The process is being implemented using a step method due to staffing and size of the project.
- The COVID-19 pandemic has moved the project dates roughly 8-10 weeks.
- The Business Requirements Documents (BRD) were finalized in Jan 2020. The Functional Requirements Documents (FRD) were completed in March.
- The Switch Primary Data Centers (PDC) & Backup Data Centers (BDC) Equipment has been moved to August 2020 due to travel restrictions. This occurrence also pushed back the following:
 - Operator Training was pushed back to October 2020
 - GLI UAT Testing pushed to September 2020
 - SDL Staff Training pushed to September 2020
 - Operator Portal Training pushed to October 2020
 - Connexus Go Live moved to October 13, 2020 based on the COVID-19 limitations.
 - Field Trial moved to October 2020. This will take the new site controllers with the new communication method and merge them with the new system in the 25 sites used during the Phase one pilot testing.
- Site Equipment Installs will start upon successful completion of the phase two pilot testing. With completion of the installation slated for March 2021.
- SDL Transition has a completion set date of April 30, 2021, including being fully operational.
- Scientific Games is starting to reach out to retailers for contracts and two different payment options of the site controllers.
- Commissioner Kafka asked about how long it takes to install a site controller. Deputy Director Hepper answered Scientific games does most of the work upfront and can get into the establishment, set up the equipment, and train the retailer in 30-45 minutes.
- Chair Shorma asked, "do we have the northeast South Dakota training date set up?" Deputy Director Hepper answered, "We do not have that date at this time. We are in contact with

Scientific Games, they are still under a travel ban with their company. As soon as we get movement on that, we will let the commissioners know”.

FY20 Instant/Online and Video Lottery Review

Business Analyst Elizabeth Burdick reported on the following:

- **Instant Sales**

- All 15 of the largest counties were up from last year. One thing to note when looking at this data, during COVID-19, our instant retailers were able to remain open. While many other forms of entertainment such as movie theaters, bars, restaurants, and bowling alleys closed, reducing the number of entertainment options available throughout the state our instant products continued to be offered in essential businesses that remained open.
- Minnehaha county was up 0.6% at the end of February before COVID and 0.2% at the end of April. Pennington was up 6% at the end of February prior to COVID and 10.3% at the end of April. Lincoln, saw the greatest change between February and April. It was up by about 50% at the end of February and up by about 60% by the end of April.
- All but 2 of the top cities are up from last year. Looking at the top 3 cities all 3 are up with Aberdeen being up by about 32%.

- **Lotto sales**

- The only county with an increase from last year was Lincoln. Taking a closer look at our top three counties while our lotto product availability didn't change due to COVID like mentioned earlier with our instant product availability remaining consistent, our lotto sales decreased between February and April. Part of this decrease can be attributed to the large Powerball jackpot run in March last year. The final jackpot level reached 768.4 million on March 27 last year. As we all know our lotto sales are heavily dependent on large jackpot runs. While we saw high jackpots in both fiscal years 2018 and 2019, we have not seen the same jackpot levels this year. The percentages that we are looking at on this map are the result of this year's lower jackpot levels.
- Currently, it is also taking longer for jackpots to reach those higher levels we have seen in past years. The starting jackpot amount was lowered for both Powerball and Mega Millions in response to the lower lotto sales some of the larger states were seeing due to the pandemic. Some larger states implemented shelter in place orders which impacted the overall lotto sales for these games.
- Minnehaha saw the largest decrease of the top 3 counties as it was about 33% down at the end of February and 37% down by the end of April. Pennington was about 30% down as of the end of February and about 32% down by the end of April. Lincoln was up about 1.0% at the end of February and about 0.4% up by the end of April.
- The top cities paint a similar picture as the county map in that all the top cities are down. All the top cities except for Vermillion are down by more than 28% with Mitchell is down more than 34%. Vermillion has seen the least impact from the lower jackpot levels as it is only down by 10.3%.

- **Video Lottery**

- In the previous meeting it, was reported we were trending 6% ahead of last year. Looking back at the counties at the end of February prior to COVID only 16 counties were down. Now if we look at our net machine income, over half our counties are down from last year with the statewide net machine income down 1.5%. Unlike our instant and online retailers about 38% or 475 of our establishments closed due to COVID.
 - There was a total of 3,552 machines in these establishments. The remaining establishments were able to stay open since each establishment is only allowed to have 10 machines and the CDC recommends groups of less than 10 people. Throughout this pandemic we have been encouraging all our establishments to follow the CDC guidelines and city ordinances in our communication with the operators, establishment owners, and technicians. When an establishment did close on average, they were closed for 4.6 weeks.
 - When we look at the largest 3 counties, Pennington was affected the most from COVID with 56% of the establishments in the county closing. By the end of February, Pennington was up 3% and by the end of April it was down 6%. Lincoln was up 12% at the end of February and up 6% by the end of April. Minnehaha was impacted the least as it was up 6% at the end of February and up 3% at the end of April. Only about 28% of the establishments in Minnehaha closed with the remaining establishments implementing additional cleaning procedures and some establishments turning off every other machine in order to maintain social distancing. By taking these additional precautions instead of closing locations Minnehaha was able mitigate the impact to the county's net machine income.
 - Now that our establishments have opened back up our net machine income has been increasing as we were down by 1.5% at the end of April and we are up 0.4% at the end of May. We are continuing to see net machine income above the day of the week pre-COVID averages.
 - Looking at our top 3 cities Sioux Falls was the only one up. It was up about 4% and had the smallest percentage of establishment closures of the 3. Only 23% of the Sioux Falls establishments closed during the pandemic.
- Overall our 3 products were impacted differently from this pandemic. Our Instant product saw an increase in sales. Our retailers were able to remain open and continue selling our instant products while many other forms of entertainment closed. Our lotto sales saw more of an indirect impact from COVID as starting jackpot amounts and the way jackpot increases are calculated were changed. The lower jackpot amounts have resulted in decreased sales. Of our 3 products, video was the most negatively impacted by this pandemic. We saw our sales decrease as 38% of our establishments closed and the remaining establishments implemented more restrictive procedures to ensure player safety. Now we are seeing net machine income increase as establishments start to reopen and go back to normal. As of June 6, net machine income was up 1.00% from last year.

Sales Report

Director of Sales Marla Gruber reported on the following:

- As of May 31, instant sales are pacing 12.71% increase over last year. There was a dip in sales due to COVID-19, but it did bounce back up.
- We are currently seeing 40-50% sales increases in instant sales each week.
- Thank you to the sales team for help the sales to keep going.
- The last four months we have four \$50,000 winners in Yankton, Rapid City, Aberdeen, and Watertown. There have been six \$30,000 winners in Yankton, Bison, Clear Lake, Rapid City, and Pierre.
- Total paid out in the last three months is \$6,700,000 for instant tickets.
- Lotto sales are pacing at a 31.8% decrease, partly due to overcoming large jackpots in 2019.
- FY20 projections of Instant Games at \$7.29 million in net transfers, and Lotto Games at \$5.80 million in net transfers vs FY19 which has Instant Games at \$6.90 million in net transfers and Lotto Games at \$8.26 million in net transfers.
- Commissioner Kafka said he found it interesting that the Instant ticket sales went up despite not advertising. Director Gruber said it surprised SD Lottery as well, but may be due to other entertainment being unavailable. Executive Director Lingle noted that this situation was not unique to South Dakota.
- As of May 31, Video Lottery is at a .39% increase over FY19. There was a negative impact due to Video Lottery establishments closing. That was about 38% of the establishments.
- The levels in May were higher than the pre-COVID levels. This is despite the new COVID guidelines regarding fewer or more spaced out machines.
- Video Lottery FY20 state share revenue is projected to be at \$114.41 million vs \$114.27 million in FY19. We see it as a growth due to the year we have had with COVID.
- As of May 31. the total FY20 projection is at \$127.50 million vs 129.42 million in FY19.
- Chair Shorma and Commissioner Huizenga both agree that they are good numbers in relation to what could have been, given the situations.
- Chair Shorma asked about the portion of revenue in relation to tourism and what impact may be to come. Director Gruber said that although it is difficult to track, there are some spikes that can be seen around events such as Sturgis. With the Instant sales performing the way it did in the past months we are hopeful. Executive Director Lingle notes that summer is difficult for lotteries across the US.

Instant Ticket Game Closing Procedures Proposal

Director of Sales Marla Gruber reported on the following:

- The current Game Closing procedures begin when the last top prize has been claimed, at which time the sell through is 80%. Local Sales reps then begin the 3-4-week process of picking up all packs and a 180-day Claim Window is announced once all the packs are back at the warehouse.
- The new procedure will be a more structured approach to analyzing games regardless of the price point. This would be though the evaluation of performance by the number of weeks it has been on the market and the rate of sales compared to other games in the same price point.
- If a game with a top prize remaining has not hit 70% sell though but the analysis of game cost (printing costs & current prize payouts) versus revenue costs, or games sales versus average weekly sales for the same price point (averaging the prior three weeks), a summary report will be produced.
- With the finishing of the summary report a game analyst team (Director of sales, regional managers, and business analyst) could recommend the closing of the game with the final approval of the Executive Director, or not to close the game and review it again next time.
- If the Executive Director chooses to end the game, it will go into a game ending soon status. At which point, the public will be notified with a ticket ending soon notification on the website, game ending icon on the ticket art, the top prize remaining will be publicized. It will stay in this status for 30 days.

- At day 31, it will move into the game ending status where the tickets will be picked up (45-day pick up). The games stay active until they are picked up. At 45 days, no more tickets will be for sale. 180-day claim period is publicized.
- In attempt to be transparent players will be notified through the website, mobile app, retailer locations, and a closing statement on the back of the tickets.
- Chair Shorma noted the closing statement is already on the tickets. Director Gruber stated that the "These games may have prizes unclaimed, including top prizes." Is the main one added.
- Chair Shorma asked for a motion to approve the new Instant Ticket Game Closing Procedures. Commissioner Kafka motioned. Commissioner Wheeler seconded. Motion passed with no objection with a voice vote

Video Lottery Report

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

- An overview of the Lock Down Alternative was provided.
- In order to comply with Multi-State Lottery Association MUSL Rule 2 Addendum, subsection 2.6 (c) the following controls shall be implemented.
- Should the Lottery be unable to report balanced sales 30 minutes prior to the schedule drawing, the lottery security division shall lockdown the vendor Computer Gaming System (CGS) and Internal Control System (ICS) sites.
- On May 1, 2020, MUSL approved SD Lottery's Lockdown Alternative (LDA) which allows SD Lottery to have all transactions in its control by receiving pre-draw data from both the CGS and ICS systems prior to draw close.
- Although the risk of CGS or ICS transaction files not successfully transferring is very low, additional procedures to ensure manual safeguards are in place.
- ICS performs checkpoint verifications throughout the daily sales.
- Copies of all transition reports from CGS and ICS are automatically generated and emailed to SD Lottery staff.
- All CGS and ICS transaction files are downloaded to a USB thumb drive and secured until the imbalance is resolved.
- In order to compile with MUSL Association Rule 2.4(c) motion-activated or full-time video surveillance of all computer operator console areas, data center entry doors and the Computer Gaming systems shall be implemented.
- SD Lottery received notification by the Bureau of Information and Telecommunications that our current camera and software system will no longer be supported as of June 6, 2020.
- BIT is standardizing systems through the State and selected Milestone Software as the approved State standard.
- BIT supplied a list of approved integrators who have acquired the Milestone Advanced Certification: Convergent, Integrated Technology and Security, and GSSC Safety & Security Solutions. The start date was scheduled for March 23, 2020, however, due to COVID-19 the project has been pushed back due to health and safety concerns.

Public Comment

Chair Shorma asked about public comment.

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

NEXT MEETING DATE

Executive Director Norm Lingle reported on the following:

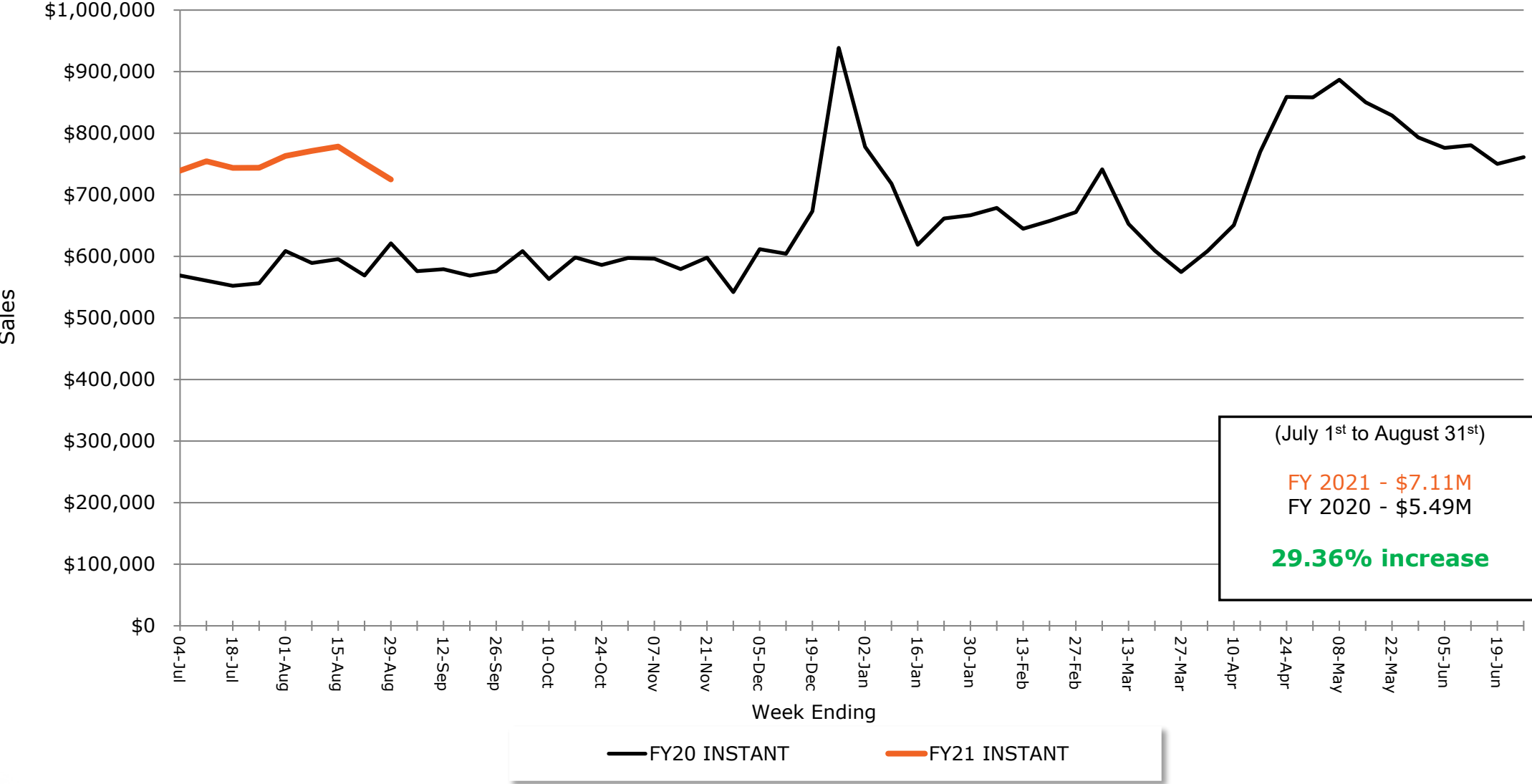
Director Lingle stated Thursday, September 10, 2020 is the next meeting with the location to be determined. We will reach out to schedule a special meeting if needed.

ADJOURNMENT

Commissioner Huizenga motioned. Commissioner Wheeler seconded. Motion passed with no objection with a voice vote adjourned the meeting. Adjourned at 11:15 a.m.

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

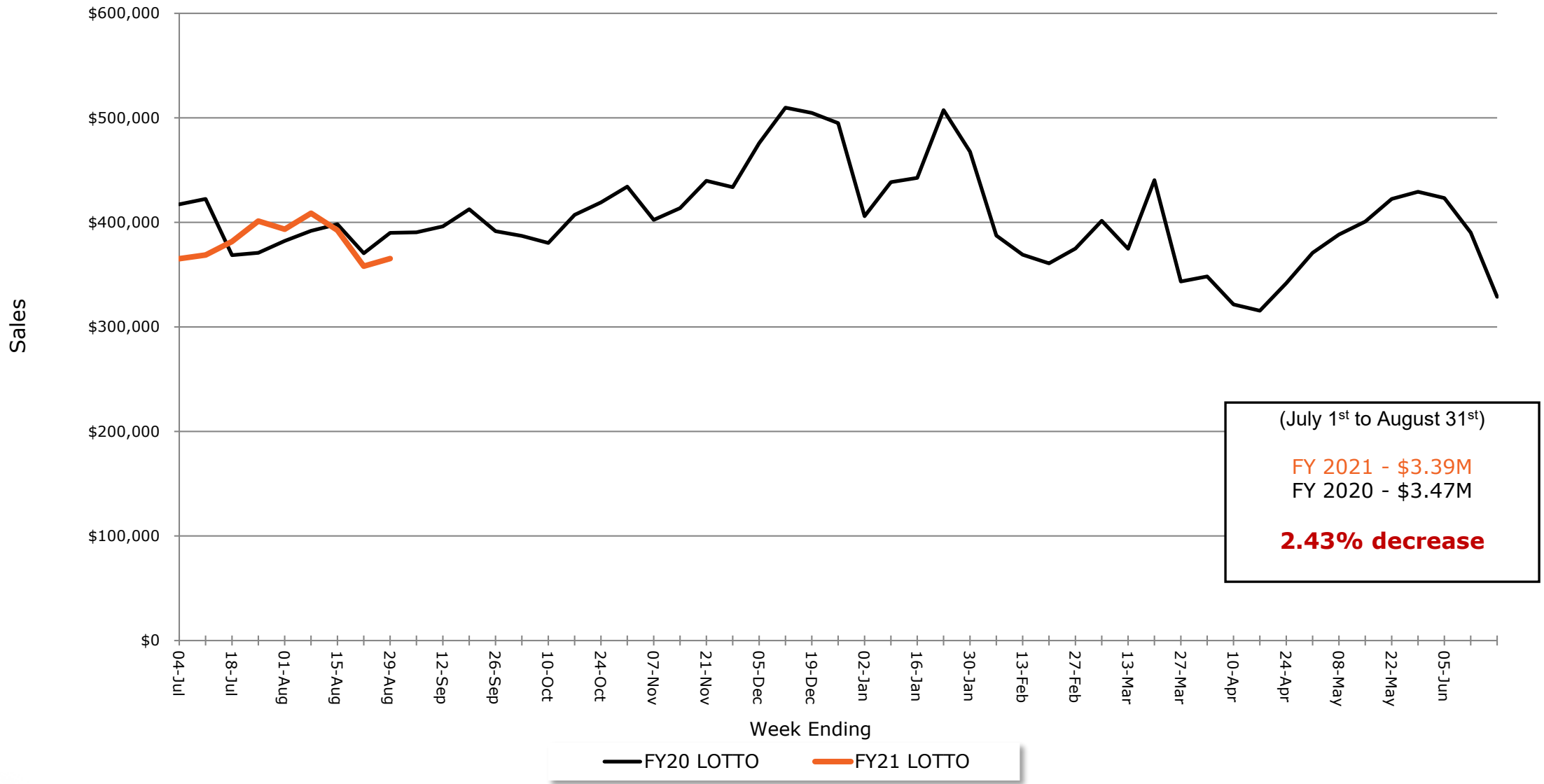
Instant Ticket Sales



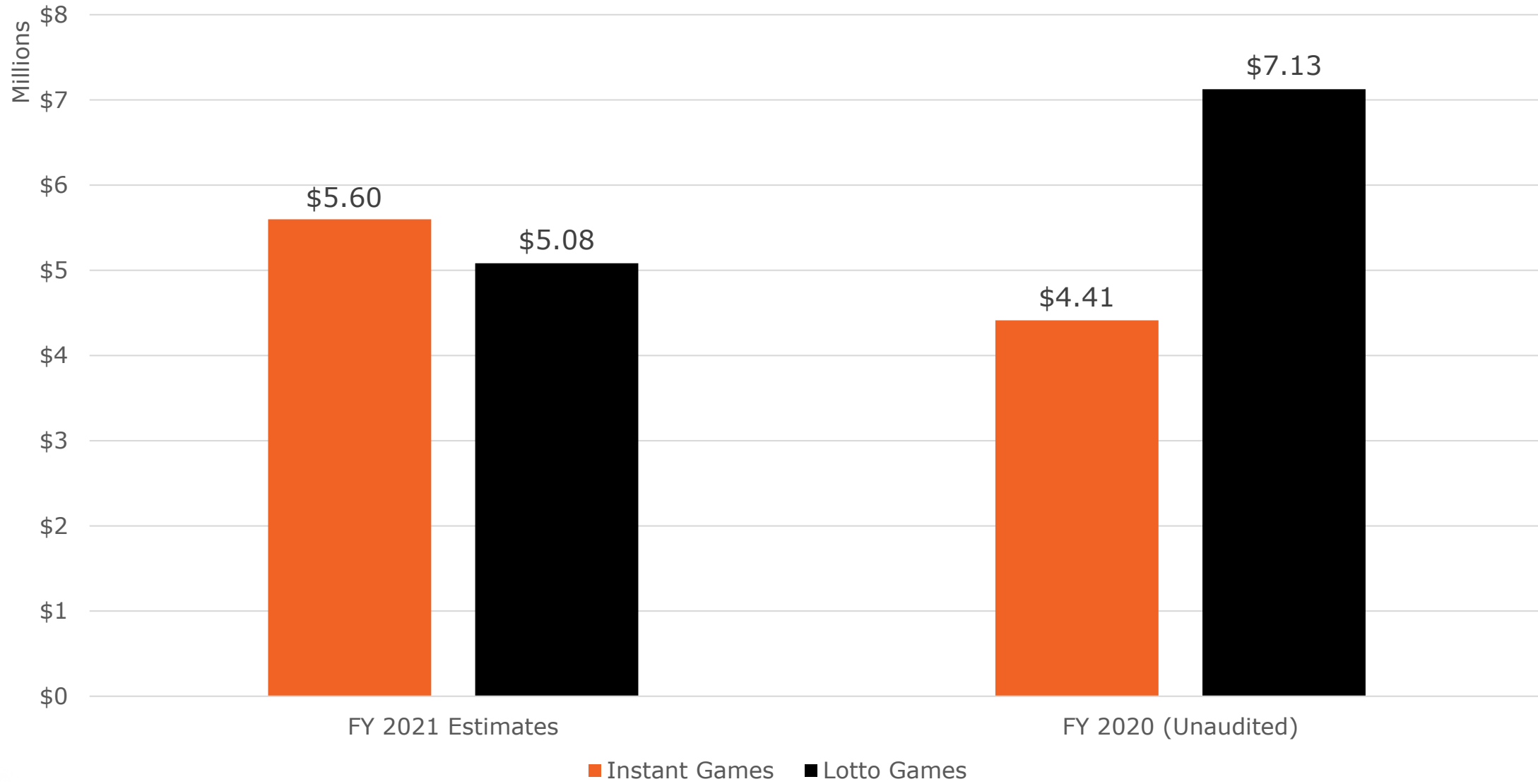
(July 1st to August 31st)
 FY 2021 - \$7.11M
 FY 2020 - \$5.49M
29.36% increase



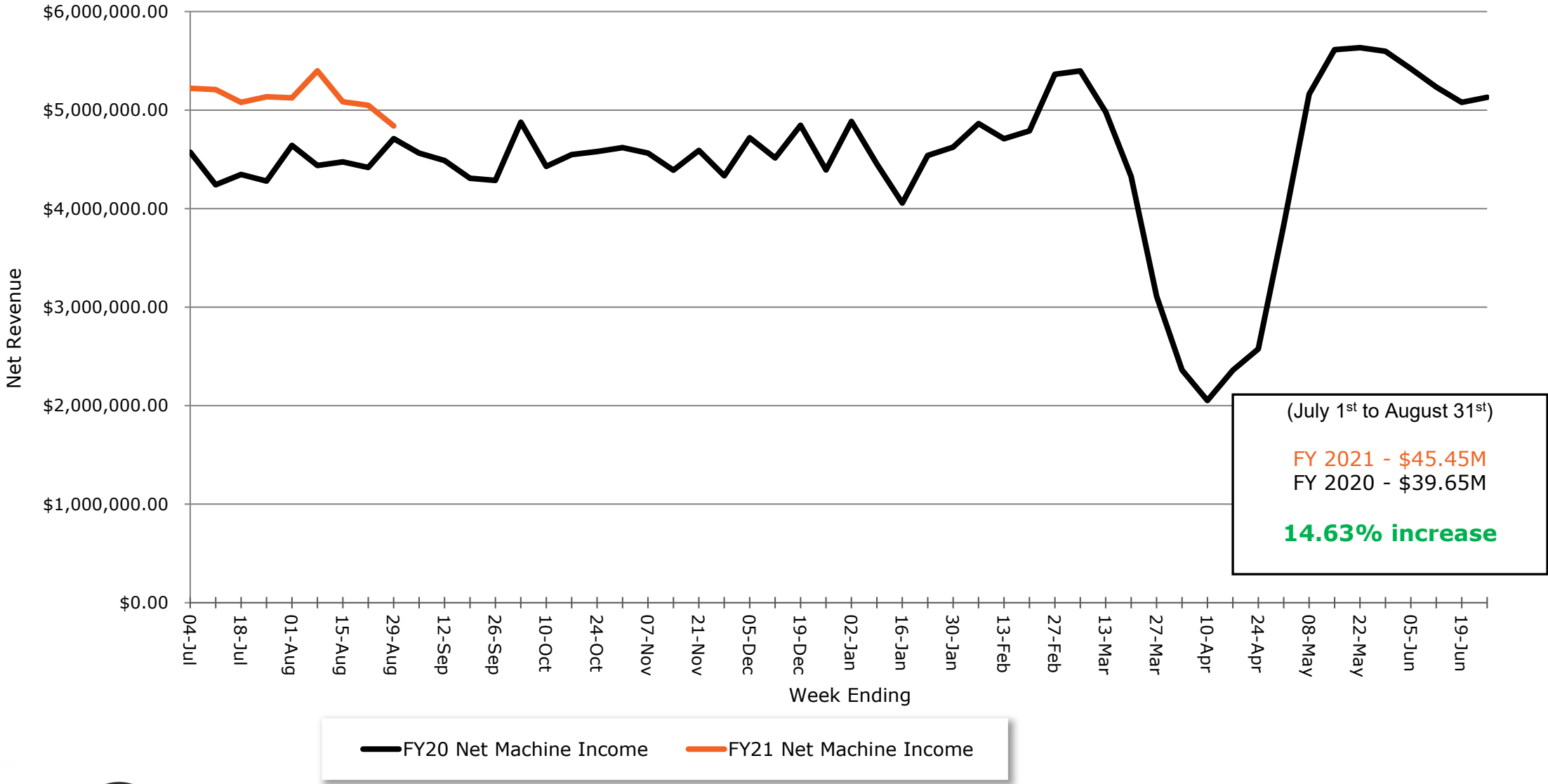
Lotto Sales



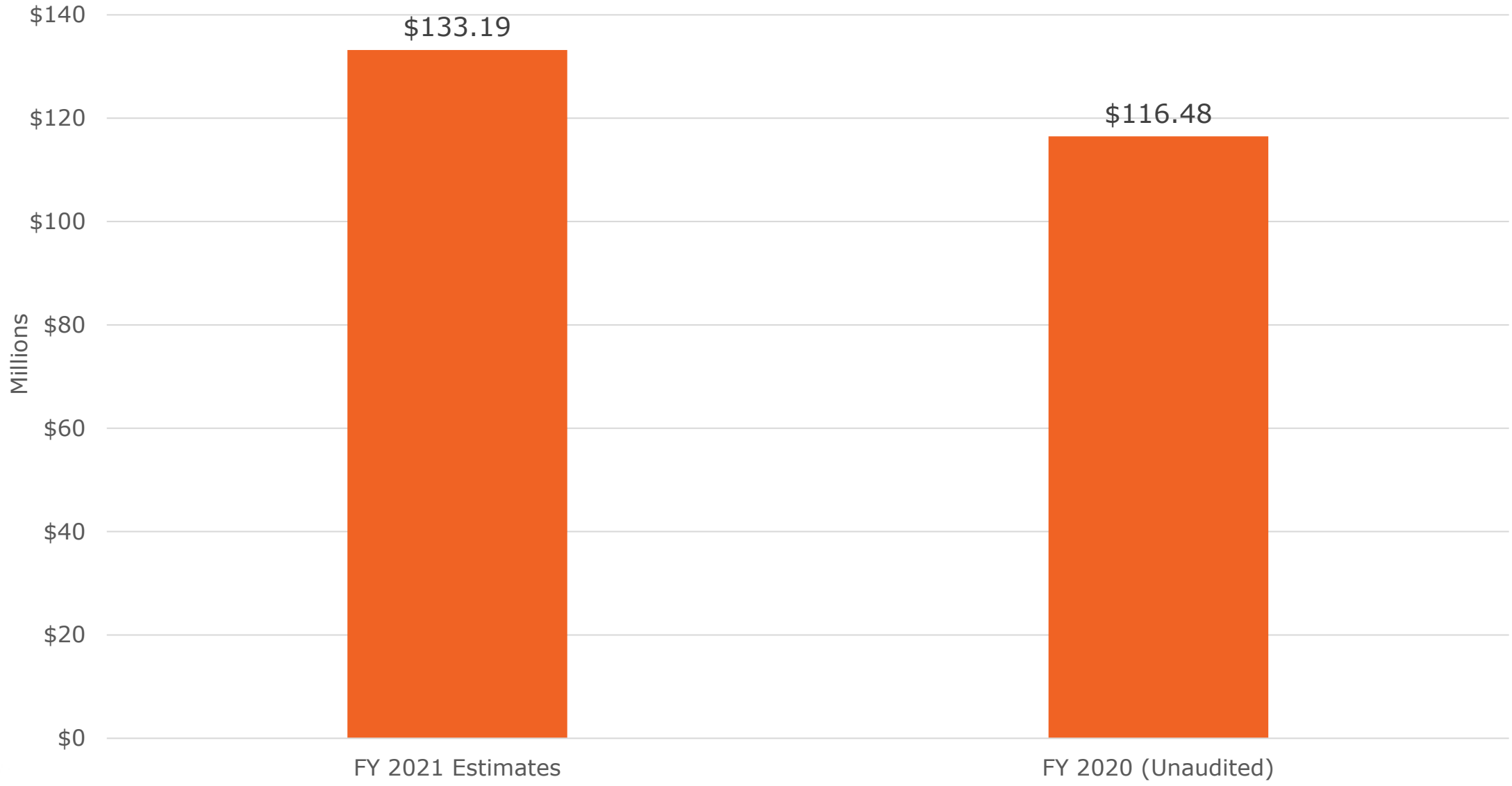
Instant and Online FY20 Revenue Projections as of August 31, 2020



Net Machine Income



Video Lottery FY20 State Share Revenue Projection as of August 31, 2020



Total FY20 Revenue Projections as of August 31, 2020

