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To: South Dakota Lottery Commission

From: Norman Lingle
Executive Director

Re: March 25, 2021 Lottery Commission Meeting

Date: March 19, 2021

The March 25, 2021, 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.

A couple of highlights on the agenda.

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 project is getting close to completion. The report will include an update on the progress of the project since the last meeting and a look forward at the remaining items to be completed.

We will report on FY21 Instant/Online and Video Lottery sales. The report will look at how FY21 is comparing to FY20.

The agenda also includes the normal sales, marketing 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, March 25, 2021 – 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/>



MEETING AGENDA

Dial In Number for Public: 1-312-626-6799

Meeting ID: 830 299 7902

Password: 849353

- | | |
|---|--|
| 1. Welcome | Chair Shorma |
| 2. Roll Call | Megan Gross |
| 3. Approval of Agenda | Chair Shorma |
| 4. Approval of Minutes – December 3, 2020 meeting | Chair Shorma |
| 5. Conflict of Interest | Chair Shorma |
| 6. Secretary of Revenue Comments | Jim Terwilliger, Secretary |
| 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. Sales Report | Director of Sales Marla Gruber |
| 11. FY21 Video Lottery & Instant/Online Review | Business Analyst Elizabeth Burdick |
| 12. Video Lottery Report | Director of Sec and VL Jordon Kitts |
| 13. Public Comment | Chair Shorma |
| 14. Next Meeting – Thursday, April 22 | Executive Director Norm Lingle |
| 15. Adjournment | Chair Shorma |

Expiration Dates of Commissioner Terms

William Shorma	01/01/2022	Tona Rozum	01/01/2024
Jason Ahrendt	01/01/2023	Jamie Huizenga	01/01/2024
Joe Kafka	01/01/2022		

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, December 3, 2020 – 9:30 a.m.

UNAPPROVED

Vice Chair Jason Ahrendt called the December 3, 2020 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Commissioners Wheeler, and Kafka participated via Zoom. Vice Chair Ahrendt and Commissioner Huizenga participated in person. Chair Shorma was not present. The public was able to participate by dialing in or listening via the internet.

SUPPORT STAFF PRESENT

Norm Lingle, Clark Hepper, Jim Terwilliger, Marla Gruber, Elizabeth Burdick, Wade LaRoche, Aric Frost, Megan Gross and Jordon Kitts

APPROVAL OF THE AGENDA

Vice Chair Ahrendt asked for a motion to approve the agenda. Commissioner Kafka motioned to approve the agenda. Commissioner Huizenga seconded. Roll call vote was taken. All in favor. Motion carried.

APPROVAL OF THE MINUTES FROM THE SEPTEMBER 10, 2020 MEETING

Commissioner Kafka motioned to approve the minutes. Commissioner Huizenga seconded. Roll call vote was taken. All in favor. Motion carried.

CONFLICT OF INTEREST

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

SECRETARY OF REVENUE'S COMMENTS

Secretary Jim Terwilliger reported on the following:

Secretary Terwilliger expressed his well wishes for Chair Shorma, who could not be present, and congratulations to Commissioner Wheeler on his election to the South Dakota State Senate.

Since the November election, the employees of the Department of Revenue have been working several items.

- Drafting legislation for amendments that passed in the November election including Constitutional Amendment A, Measure 26, and Constitutional Amendment B.

- Refining and updating current departmental legislation.
- Updating the Strategic Plan for the next three years, to be completed at the end of December.

Secretary Terwilliger recognized the Lottery team for their efforts over the last few years in implementing the Video Lottery Central System and technology upgrades.

Vice Chair Ahrendt asked if the sales tax revenue is still trending in a positive direction. Secretary Terwilliger replied that the sales tax has held up.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

FY20 Audit

The FY20 audit resulted in no findings. The clean audit is attributed to the efforts of Aric Frost and his team of Julie Pirnat-Schultz and Patty Kirby, Marla Gruber, Jordan Kitts, and Lonnie Moody. This achievement continues the 20+ years of clean audits.

- Instant Ticket sales were \$37,086,885, a 16.1% increase over FY19. Net revenue transferred was \$5,049,579. The transfer is down while sales are up due to the fee the lottery is paying based on instant ticket sales for the new system.
- Lotto ticket sales were \$20,995,433, a 34.7% decrease over FY19. Net revenue transferred was \$6,897,958. The biggest factor for the decrease was Lottery's two largest games, Powerball and Mega Millions, didn't have the big jackpots to create excitement and sales.
- Video Lottery Net Machine Income was \$234,736,011 (cash in less prize paid out). The state's share of Net Machine Income is 49.5% or \$116,483,325. A 2% increase over FY19 primarily due to new Video Lottery Terminal equipment.

Lucky for Life Daily Draws

- Lucky for Life, currently a Monday and Thursday draw, will increase to seven days a week beginning Monday, July 19, 2021.
- Since Lucky for Life, being a multi-state game, South Dakota will have to make the change or drop the game.
- Lucky for Life's sister Cash for Life saw a positive impact by changing the draw frequency from two days a week to seven days a week.
- At the Lottery Commission meeting in March an administrative rule hearing will be needed to accommodate the new game change.

Gemini Ultra Player Activated Terminal

IGT offered 50 Gemini Ultra Player Activated Terminals as part of their proposal.

Benefits

- Modern vending machine that offers up to 24 instant ticket games and six draw games.
- Promotes responsible gaming with a driver's license 2D bar code reader to activate the otherwise inactive terminal and a FOB to disable the terminal if retailers notice something suspicious.
- The terminals will be used as a supplement to existing lotto terminals and instant tickets at existing retailers.
- Based on experience in other Lotteries, IGT estimates a potential for 7% growth in instant ticket sales.

Next Steps

- The lottery will work with IGT on acceptance Testing of the Gemini Ultra.
- The goal is to have the first placements of the Gemini Ultra ready for use by April 1, 2021.

Executive Director Lingle thanked the Lottery team for stepping up their efforts in making remote work successful because of COVID.

Executive Director Lingle said thank you to Commissioner Wheeler for his service to the South Dakota Lottery Commission. The lottery appreciates his guidance and support as a commissioner and looks forward to working with him as he becomes Senator.

Commissioner Wheeler asked about the locations of the Gemini Ultra terminals. Executive Director Lingle answered that the machines will be inside the retail locations and the lottery will work with the retailers to find the best location in eyesight of the retail staff. In the process of vetting underage players, the 2D barcode scanner is critical. If someone were to use someone else's ID it would be a criminal offense.

Commissioner Kafka asked about payment of the Gemini terminals. Executive Director Lingle answered that the terminals are at no cost to the lottery. Retailers would still earn their 5% commission for selling tickets and their winning cashing bonuses. IGT would receive their current rate of 7.227% of sales.

Non-Sufficient Funds (NSF) Policy

The goal is to establish a policy for instant and online retailers in which every NSF occurrence is handled in a consistent and fair manner.

Current Billing Process

- Lottery tickets are sold by the retailer on a consignment basis
- Bill Instant/Online on a weekly basis
- Billing period is Tuesday to Monday
- Sweep occurs on Wednesday
- Accounting is notified of NSF's on Friday

The policy will only apply to instant and online retailers that meet the following criteria:

- Section 1
 - First NSF occurs
 - The sweeps occur.
 - If unsuccessful, accounting will notify the lottery Sales Rep assigned to that retailer, Regional Manager, and Sales Director.
 - The Sales Rep will contact the retailer about a re-sweep plus \$40 NSF fee, and 1.5% interest being added to billing.
 - All incentives and auto ordering of tickets will remain on.
 - Second consecutive NSF occurs
 - A \$40 NSF fee and 1.5% interest will be charged again to billing.
 - Auto orders will be turned off until the remaining balance, including NSF fees are paid by cash, cashier's check, or money order. No personal checks or business checks will be accepted.
 - Retailers can pay their remaining balance at any lottery redemption center.
 - Third consecutive NSF occurs
 - All full packs of instant tickets will be picked up by Sales Rep.
 - Retailers will be required to purchase a security of \$10,000. (surety bond cost approx. \$100/\$10 per \$1,000)

- Surety bond, deposit in cash, irrevocable letter of credit, certificate of deposit, options as allowed for video lottery.
 - Retailer must settle all outstanding NSF amounts plus provide security within three weeks of receiving notification of the third NSF.
 - If not received, the lottery will proceed with the license revocation options as allowed in SDCL 42-7A and ARSD 48:01 and 48:03.
 - Security will be required on annual basis. After five years, at the lottery's discretion, may remove the security requirement.
- Section 2 – For instant/online retailers with five or more NSF's within a licensing year (Nov-Oct)
 - All full packs of instant tickets will be picked up by the Sales Rep.
 - Security of \$10,000 on annual basis will be required. After five years, at the lottery's discretion, the security requirement may be removed.
 - Surety bond, deposit in cash, irrevocable letter of credit, certificate of deposit
 - Retailer must settle all outstanding NSF amounts plus and provide security within three weeks of receiving notification of third NSF.
 - If not received, the lottery will proceed with the license revocation options as allowed in SDCL 42-7A and ARSD 48:01 and 48:03.
 - Section 3
 - License Revocation.
 - Policy does not prevent the lottery from revoking an instant/online license pursuant to SDCL 42-7A, ARSD 48:01 or 48:03 regardless of the number of NSF's.

Commissioner Huizenga asked if the lottery currently has a policy. Executive Director Lingle answered that the lottery currently handles the NSFs on a case by case basis.

Commissioner Wheeler asked if the sweeps occur on general business accounts. Executive Director Lingle answered that the lottery encourages its retailers to set up a separate account strictly for sweeps, but most are still out of general business accounts.

Vice Chair Ahrendt asked for a motion to approve the NSF policy. Commissioner Wheeler motioned to approve the NSF policy. Commissioner Kafka seconded. Roll call vote was taken. All in favor. Motion carried.

Fiscal Year 2022 Budget Request

Accounting Manager Aric Frost reported on the following:

The South Dakota Lottery is not recommending any increases for the FY22 Instant/Online Program budget or the Video Lottery Program budget.

Instant/Online Budget Highlights

- Increase in Personal Services, due to the salary policy recommended by Governor Noem and approved by Legislature.
- Fleet and Travel expenses for Sales Reps. went down due to COVID travel restrictions.
- Consulting Computer increased due to IGT's new agreement which began on November 5, 2019. 7.227% of instant and online sales vs the previous rate of 7.38% of just online sales.
- Computer Services, BIT development costs and maintaining the AS400. These costs should start decreasing.
- Central Services, services rendered by BOA, BHR, BFM, BIT, State Auditor, and State Treasurer etc.
- IGT-Com Fee has no expenditures for FY21 because the monthly fee ended with the old IGT contract.

- Instant Ticket Delivery costs increase due to shipment increases as retailers sell more tickets.
- Payments to MUSL, administration of the four multi-state games in which SD participates. Also includes fee for conducting the Dakota Cash drawing. The lottery's allocation to the MUSL budget is based off sales.
- Other Contractual Services included in FY20 testing conducted for the new Instant/Online System by Global Labs. The lottery invoiced IGT to recover the costs.
- Retailer Commissions and Prize Expenses, more commissions are paid out as prizes are paid; prizes paid decrease as sales decrease.
- Ticket Printing, FY20 – 36 games, FY19 – 28 games, FY18 – 28 games.
- Escrow to Reservations, 50% of net proceeds from sale of instant tickets go to ten participating tribal governments.
- Total instant/online budget request for FY22 is \$38,574,037.

FY22 Video Lottery Budget Highlights

- Personal Services, FY21 increase is from salary policy recommended by the Governor and approved by the Legislature. It includes an accountant paid fully out of the video lottery budget and 24 positions partially funded out of both the instant/online budget and video lottery budget.
- Travel, primarily staff travel split between the instant/online budget and video lottery budget.
- Computer Consulting – SGI, cost for the maintenance and support of the Video Lottery Central System. Rate decreased as part of the new contract (from 0.3% to 0.28% of total net machine income) for FY20, where there was a total of \$1.3 million in one-time costs for the new video lottery system.
- Telephone expense will cease with the new system as it changes to Real Time Connection (IP Cellular & DSL) from dial-up for nightly polling of video lottery terminals.
- Inspection Services, inspections of video lottery terminals and establishments by the Department of Public Safety.
- Other Contractual Services includes background checks, ACH costs, GLI testing costs, meeting room costs, and fire extinguisher maintenance.
- Transfers Out, \$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.
- Total video lottery budget request for FY22 is \$2,743,591.

Vice Chair Ahrendt asked for a motion to approve the FY22 budget. Commissioner Huizenga motioned to approve the FY22 budget. Commissioner Wheeler seconded. Roll call vote was taken. All in favor. Motion carried.

Video Lottery Central System Upgrade Update

Deputy Executive Director Clark Hepper reported on the following:

Completed Events

- Rollout of the new site controllers began November 4.
- Over 300 sites were converted to the new system as of this week– ahead of schedule.

Next Steps

- Townhall meeting on December 4. The lottery continues to update Operators through email, newsletters and hard copy letters throughout the project.
- All sites installed with the Aegis System by April 1, 2021.

Contracts

- 38 of the 90 (40%) licensed operators have signed contracts. These 38 operators service 70.98% (873) of licensed video lottery establishments, which represent roughly 72.85% (6,639) of the 9,118 licensed machines in South Dakota.
- SGI is handling the solicitation of the contracts for both SGI & SDL.

- There are two contracts. One for the SDL System equipment including a site controller, printer, and MCD. Another for the SGI IP cellular equipment and communication fee.
- As of December 2, there are 1,063 establishments (85%) under contract.
- 115 additional establishments that have the paperwork in hand for signature. Leaving roughly 47 establishments short of completing the contracts.

Equipment Installation

- As of November 27, 286 establishments have been converted over to the new player tech site controller and the new IP cellular communication method, which represents about 27% (2,459) machines operating off the new system.
- The total of SC Migrated Sites is 301. There are 931 active sites still running Legacy Site Controller.
- The average conversion up to the Thanksgiving break was around 20 establishments per day.
- Installs will continue through December 18, with a three-week break for the holidays. Commencing installs on January 4, 2021.

New Site Controller

- Converted sites are experiencing NRT's at less than 1% compared to more than 5% of sites still operating off the Legacy equipment and dial-up system.
- Majority of the NRT's are relating to individual VLT's and not entire establishments. Indicates that new system and communication method and new site controllers are working well.
- A feature of the new site controllers is the Voucher Redemption System which helps to minimize counterfeiting tickets.
- As of November 27, 207 establishments have redeemed total of 102,329 vouchers.
- If operators are interested in purchasing site equipment, please contact the South Dakota Lottery. The cost per package of the spare site equipment is \$2,395.

Marketing Report

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

The holiday campaign is the largest campaign of the year and includes:

- Paid media which began November 9.
- A well performing second chance drawing featuring cash prizes
- Increased responsible gambling messaging
- Participation with the National Council on Problem Gambling's holiday campaign

Upcoming Campaigns

- Beneficiary Awareness - January 1
- Responsible Gambling - February 8
- Winner Awareness - Spring 2021

Carol Callahan of Hartford was chosen out of more than 24,000 entries in the in the Polaris second chance draw. She won a new Polaris Ranger 570.

Commissioner Huizenga notes that the beneficiary awareness in January is a great resource to show South Dakota that the money the Lottery brings in goes to good sources.

FY21 Instant/Online and Video Lottery Review

Business Analyst Elizabeth Burdick reported on the following:

Instant Sales (thru October 31)

- 54 of the 63 counties, including the top 15, showed an increase over last year.
- All west river counties showed an increase. West river includes 34% of total sales in the state and 29% of the state's population over 18.

- East river shows some smaller counties with large decreases from last year in part because of shorter store hours due to COVID.

Cities (top by sales)

- All top ten cities showed an increase, with five increasing more than 20%.
- Sioux Falls shows the largest amount increase at \$523,271 and accounted for 23% of the state's total instant sales.
- Yankton showed the largest percentage increase, of the top cities, but the amount was only \$108,166. Yankton accounted for about 3% of the states total instant sales.

Scratch games

- Players are migrating to higher price points. Nationwide lotteries are seeing similar trends.
 - \$5 tickets up 39%
 - \$10 tickets up 21%
 - \$20 tickets up 62%
- \$1 tickets down 19%, similar decreasing trend nationwide.
- \$2 tickets up 30%. 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 14% as \$3 players have migrated to the \$5 extended games.

Lotto Sales (thru October 31)

- Half of the counties were down in lotto sales from last year.
- Only two cities saw an increase over last year. Spearfish was up 0.89% and Huron up 2.49%.
- Sioux Falls saw the largest amount decrease at \$41,390, but only a 2.72% decrease. Huron had the largest percentage increase, but the dollar amount was only \$3,188.
- Dakota Cash was up by 19.41% due to the large jackpot amounts and the birthday promotion which generated over \$45,000 in one day.
- Mega Millions, Powerball, and Lotto America saw a decrease due to lower jackpot amounts. Mega Millions – down 6.93%, Powerball - down 4.25%, Lotto America - down 8.74%.

Video Lottery (thru October 31)

- All counties, except four, saw an increase. Six saw an increase of more than 50% in part due to COVID restrictions.
 - Minnehaha up 11.3% (\$2.5 million)
 - Pennington up 11.3% (\$1.2 million)
 - Union up 30.9% (\$1.5 million)
 - Brown up 10.5% (\$522,000)
 - Codington up 23.2% (\$681,000)
- All top 15 cities saw an increase. Nine were up more than 10% and four were up more than 20%.

Sales Report

Director of Sales Marla Gruber reported on the following:

Instant

- As of October 31, instant sales are pacing at an increase of 24.71% over FY20.
- Five new games launched November 2.
- New games include
 - Money - highest 1st week sales of any \$20 game
 - Flamingo Bingo - best-selling bingo ticket
 - Black Ice - generating record sales
- Over \$6,181,000 in prizes have been paid in the last three months.
 - \$250,00 - Aberdeen
 - \$100,000 -Madison, Rapid City

- Ford Explorer - Howard
- \$50,000 - Rapid City
- \$30,000 - Rapid City, Mission, Winner, Sioux Falls, and Brookings.
- Over 50 \$1,000 winners and 450 \$500 winners.

Lotto

- As of Oct 31, lotto sales are under 1% vs the same time FY20
- Over \$1,248,000 in lotto prizes have been paid in the last three months
 - Fifth largest Dakota Cash winner in history
 - \$30,000 Mega Million - Winfred
 - \$10,000 Mega Million - Hermosa

Sales (as of October 31)

- Instant - \$6.02 million in net transfers
- Lotto - \$6.58 million in net transfers
- Net Machine Income - 15.46% over FY20
- State share revenue - \$134.16 million vs \$116.48 million in FY20
- Total projections - \$146.76 million vs \$128.43 million in FY20

Video Lottery Report

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

New personnel additions include Video Lottery Specialists John Waggoner and Tim Gross.

Congratulations to Mason Propst on his recent promotion to Licensing Manager.

Terminals and Establishments

- As of October, FY21 numbers of establishments have remained steady despite retail ownership changes happening on a regular basis.
- The South Dakota Lottery currently has 1,232 Video Lottery establishments in the market.
- 303 establishment renewals for the fourth quarter were mailed and 235 have been received.
- 9,112 terminals in the market today, an increase of 132 terminals from FY20.
- Video Lottery has 74% of available terminals in our current market today.

Benefits of Line Terminals

- Updated technology
- A wider array of games than Legacy machines
- Increased engagement from our current players while also reaching new players
- Currently represent 51% of the market
- Outperforms Legacy in net machine income
- More popular among lottery players than Legacy machines
- Brings in \$98.77 per machine per day compared to the \$51.23 per machine per day of legacy machines.

Manufacturer Training

- No Video Lottery terminal may be placed in market until the manufacturers provides face to face training seminars in the service and maintenance of their Video Lottery terminals.
- Each manufacturer is responsible for conducting their own training. Training seminars are held in multiple locations around the state.
- South Dakota Lottery will work with manufacturers and announce training opportunities as sessions are finalized.
- Once the training seminars are completed, the South Dakota Lottery will administer an examination.

- Each licensed operator and their technicians must demonstrate knowledge in the service and repair of video lottery terminals. They must successfully complete the training seminar while passing the examination for each machine model purchased for placement.
- Grover gaming and IGT has recently provided several statewide training opportunities and both anticipate providing more after the first of the year.

Public Comment

Vice Chair Ahrendt 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:

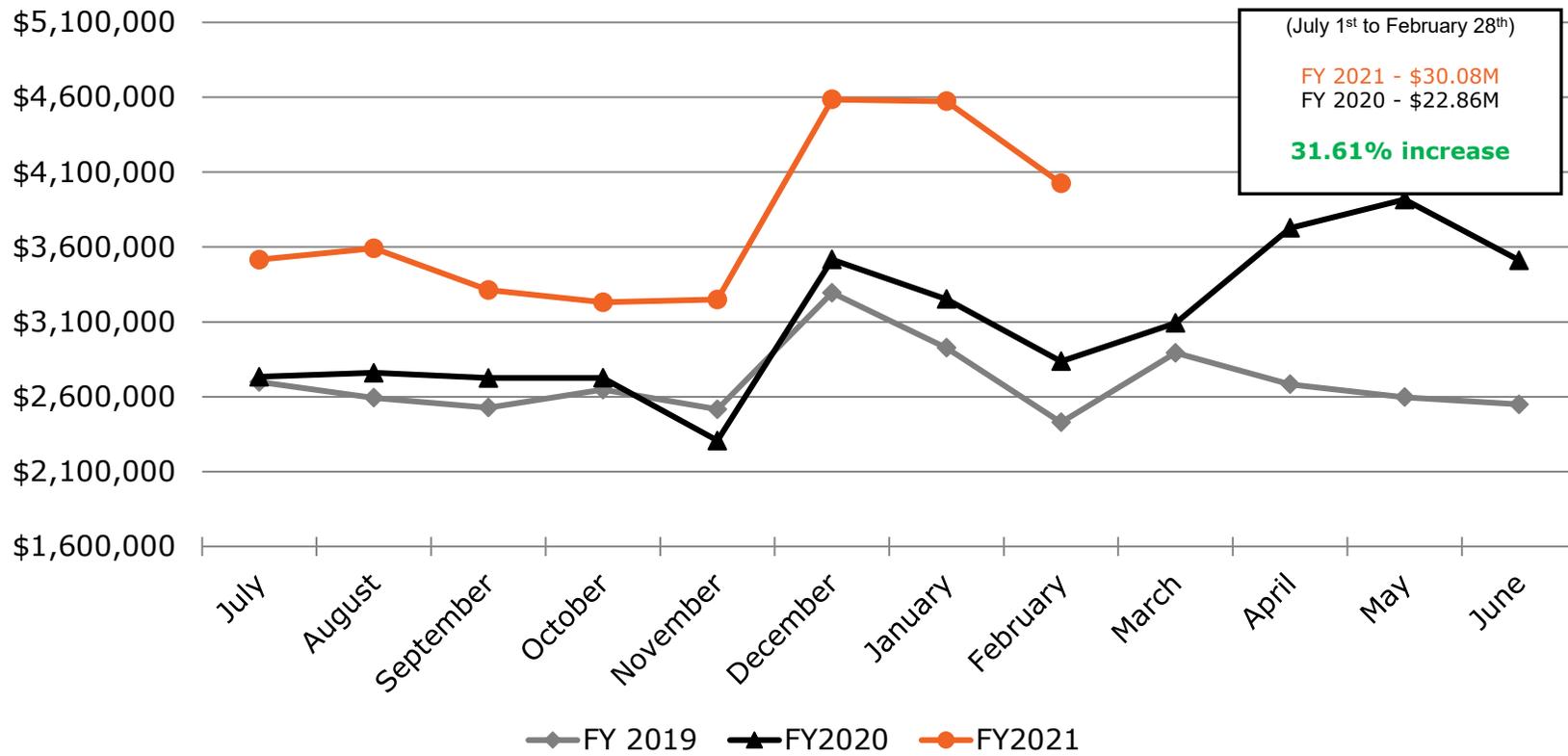
Director Lingle stated Thursday, March 25, 2021 is the next meeting with the location to be determined. We will reach out to schedule a special meeting if needed.

ADJOURNMENT

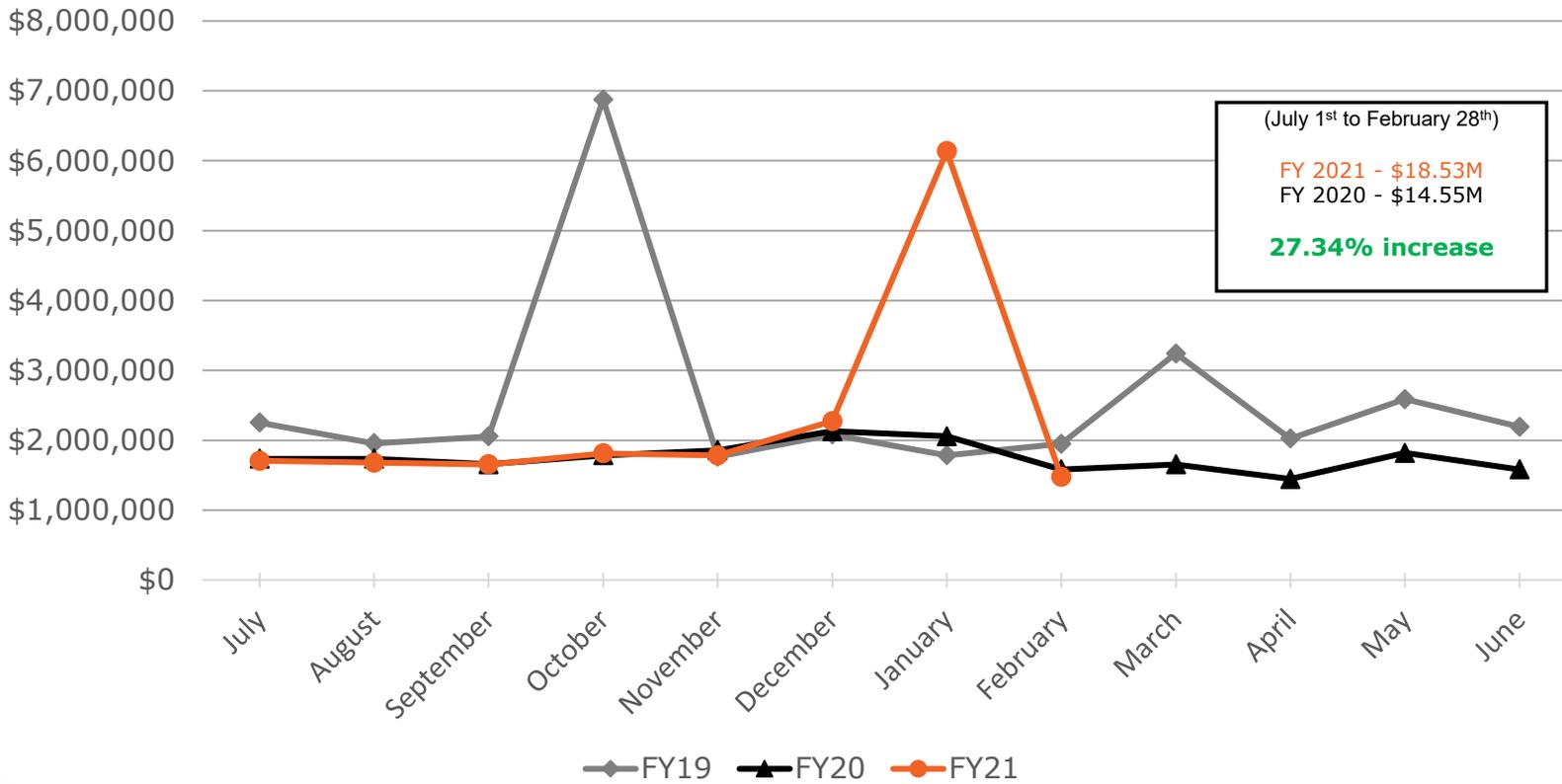
Commissioner Huizenga motioned. Commissioner Wheeler seconded. Motion passed with no objection with a voice vote adjourned the meeting. Adjourned at 11:25 a.m.

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

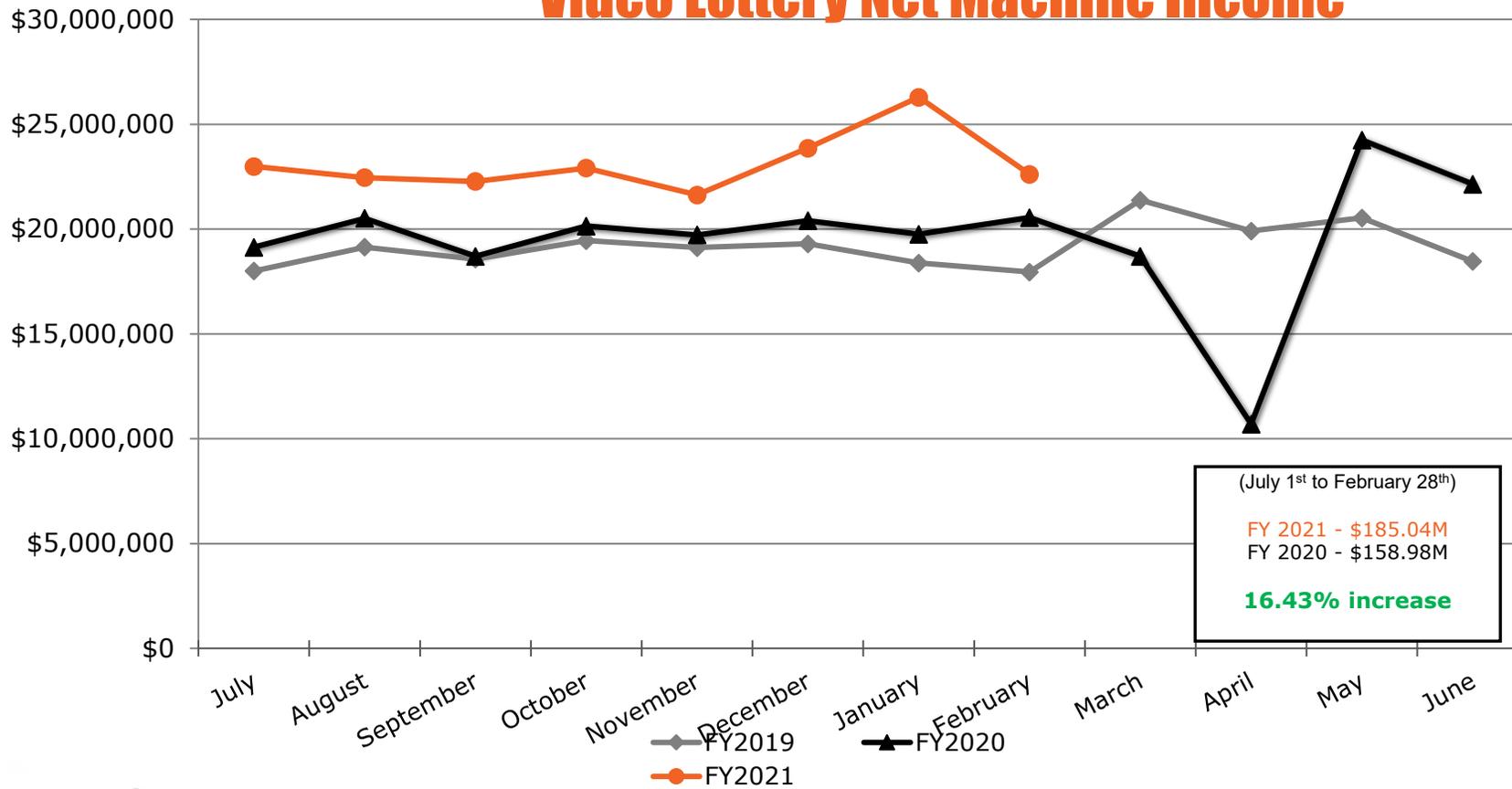
Instant Sales



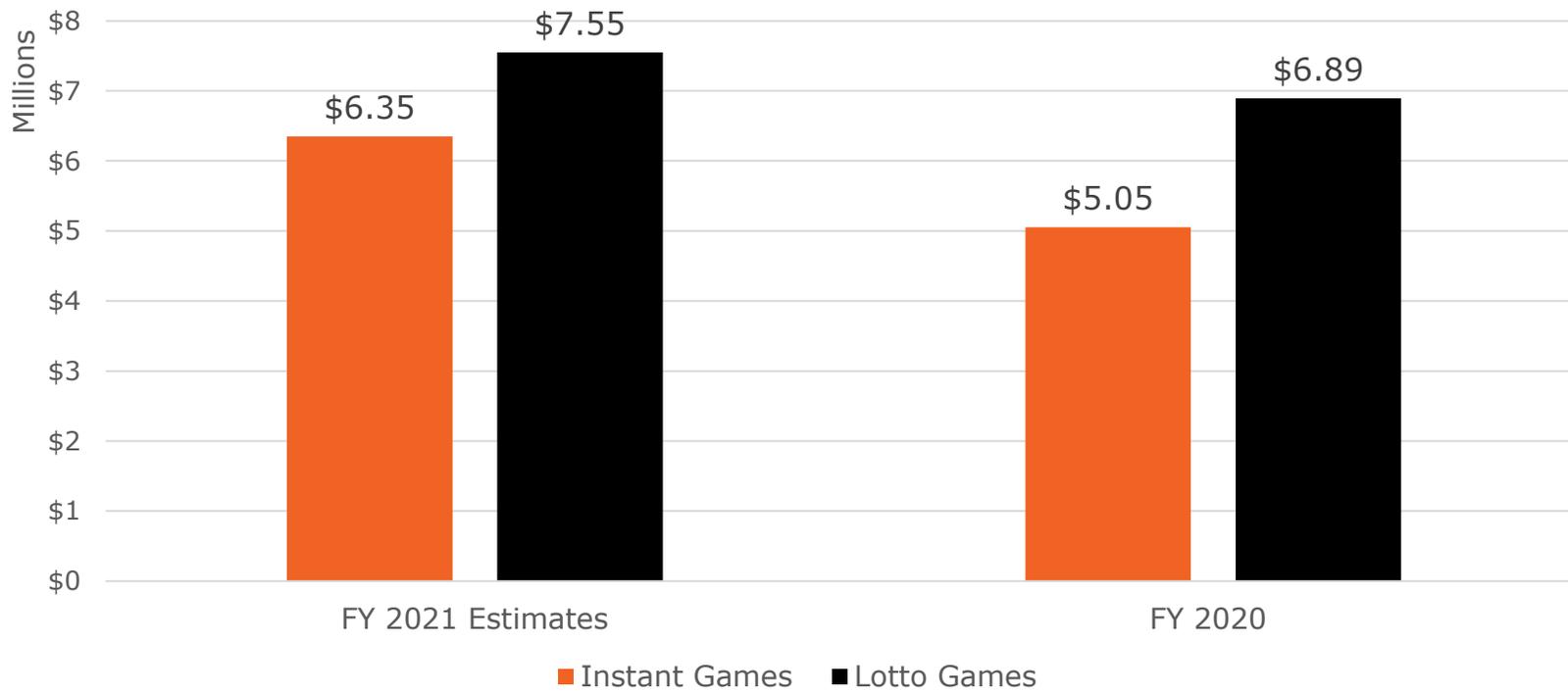
Lotto Sales



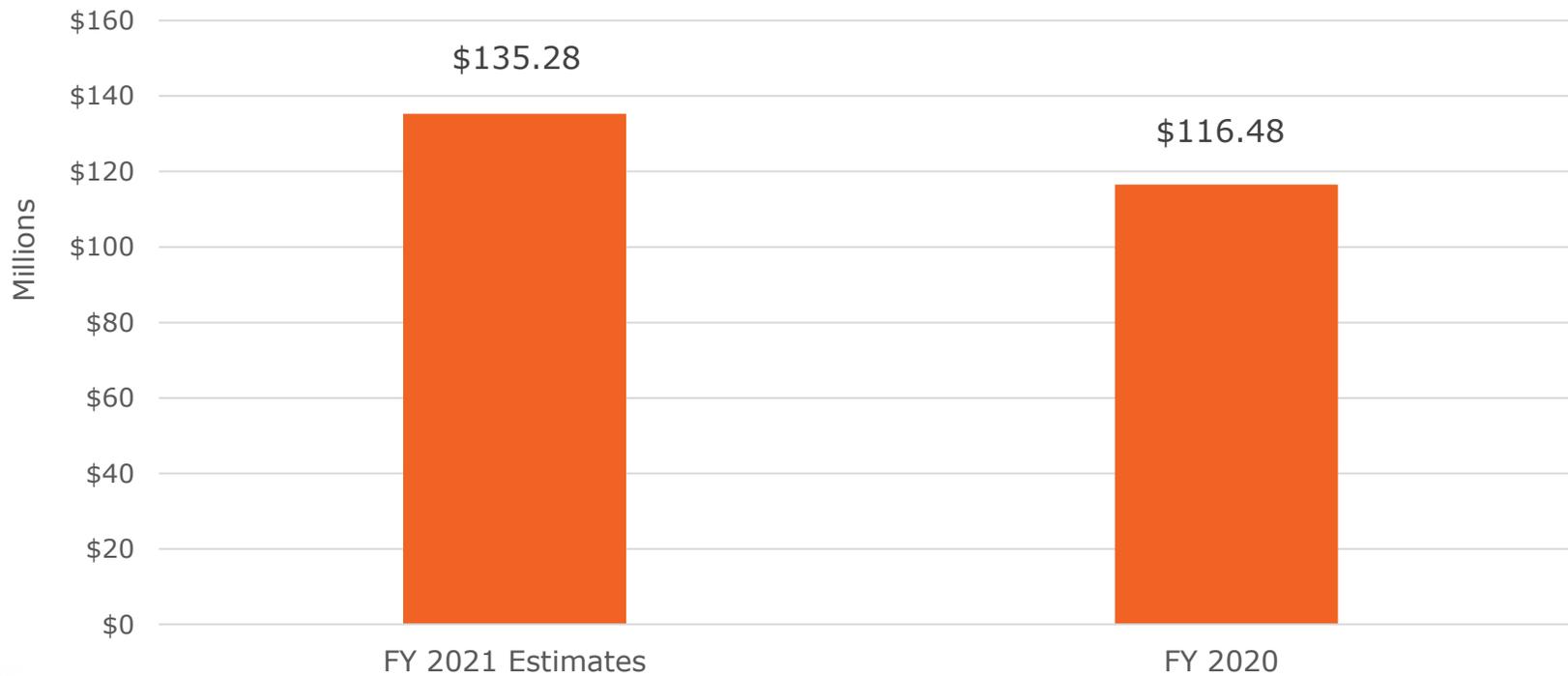
Video Lottery Net Machine Income



Instant and Online FY21 Revenue Projections as of February 28, 2021



Video Lottery FY21 State Share Revenue Projection as of February 28, 2021



Total FY21 Revenue Projections as of February 28, 2021

