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To: South Dakota Lottery Commission

From: Norman Lingle
Executive Director

Re: June 10, 2021 Lottery Commission Meeting

Date: June 4, 2021

The June 10, 2021, meeting of the South Dakota Lottery Commission will begin at 9:30 a.m. in room 412 of the State Capitol. This will be an in-person meeting. The meeting audio will be streamed on the South Dakota Public Broadcasting's website. A link to the audio stream is included on the agenda.

A couple of highlights on the agenda.

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

The agenda also includes the normal sales, marketing and video lottery reports.

We also plan to provide a deeper look at the FY21 video lottery performance including a comparison between legacy video lottery terminals and SAS video lottery terminals.

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 10, 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

1. Welcome Chair Shorma
2. Roll Call Megan Gross
3. Approval of Agenda Chair Shorma
4. Approval of Minutes – April 22, 2021 meeting Chair Shorma
5. Conflict of Interest Chair Shorma
6. Deputy Secretary of Revenue Comments David Wiest, Deputy Secretary
7. Executive Director Comments Executive Director Norm Lingle
8. Marketing Report Director of Advert and PR Wade LaRoche
9. Sales Report Director of Sales Marla Gruber
10. FY21 Video Lottery Review Deputy ED, Clark Hepper
11. Video Lottery Report Director of Sec and VL Jordon Kitts
12. Public Comment Chair Shorma
13. Next Meeting – Thursday, September 16, 2021 Executive Director Norm Lingle
14. 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
Joe Kafka
Jamie Huizenga
Tona Rozum

Minutes of the Commission Meeting

Meeting was conducted via Zoom
Thursday, April 22, 2021 – 9:30 a.m.

UNAPPROVED

Chair Shorma called the April 22, 2021 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Commissioner Rozum participated by Zoom. Commissioner Ahrendt, Commissioner Huizenga, and Chair Shorma participated in person. Commissioner Kafka participated by phone. The public was able to participate in person, by dialing in, or listening on the internet.

SUPPORT STAFF PRESENT

Norm Lingle, Clark Hepper, Jim Terwilliger, David Wiest, Michael Houdyshell, Morgan Nelson, Marla Gruber, Elizabeth Burdick, Wade LaRoche, Megan Gross and Jordon Kitts

Others

Bob Mercer (Keloland)

APPROVAL OF THE AGENDA

Chair Shorma asked if there were any changes to the agenda. Hearing none, the agenda was approved.

APPROVAL OF THE MINUTES FROM THE MARCH 25, 2021 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

Secretary Jim Terwilliger reported on the following:

Department of Revenue Update

- Amendment A was ruled as unconstitutional by the Circuit Court and is being appealed to the South Dakota Supreme Court.
- Negotiations will begin on six tribal tax collection agreements.

- The Commission on Gaming is working rules regarding sports betting in two stages. The first will be sports wagering licensing and the second will be the details of how sports wagering will work.
- The South Dakota Cars system is getting a system rewrite.
- Property tax is streamlining and standardizing the information exchange between the themselves and the counties.

Secretary Terwilliger confirms to Commissioner Huizenga that the state's budget is good due to lottery revenues, stimulus packages, tax receipts, and business being able to stay open a year ago. Governor Noem included increases in state employee salaries this year, showing that the state is in a good position in the budget.

Secretary Terwilliger tells Chair Shorma that although ag and housing markets are seeing an increase in revenue, the Department of Revenue is looking at the possibility of short-term inflation. Chair Shorma notes that with wage increases it is a good idea to keep an eye of the possibility of inflation.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

Online and Video Lottery Central System Upgrade Review

- April 2017 - Request for Information issued
- September 2017 - RFI presentations with vendors
- January 31, 2018 - RFP issued
- April 20, 2018 - RFP due
- November 2018 – request to enter into a contract with IGT
- September 2019 – request to enter into a contract with Scientific Games
- South Dakota Lottery performed the system functionality requirements, data conversions, and user acceptance testing needed to transfer to a more modern system.
- November 5, 2019 – Conversion Go Live
- September 2020 - 25 pilot sites launched across the state
- October 2020 - migrated from Aegis system to the Connexus system
- November 2020 - statewide rollout at the new establishments
- April 9, 2021 - converted over all video lottery establishments

Executive Director Lingle said this was a 4.5 year long process and thanks the Lottery Team for their hard work in accomplishing these important projects.

ADMINISTRATIVE RULES HEARING- POWERBALL AND LUCKY FOR LIFE

Chair Shorma Opened the Public Hearing at 10:00 AM

Public Comments

Chair Shorma asked about public comments.

No written comments from the public.

GAME CHANGES COMMENTS

Executive Director Norm Lingle reported on the following:

The South Dakota Lottery adopts the rules of multi-state games as its rules. Under administrative rule 48:03:06:05, Powerball will add a drawing on Monday in addition to the current Wednesday and Saturday draws and an add-on feature called Double Play will be added. The proposed changes will start on August 23, 2021.

Double Play Rules

- The cost of the Double Play add-on feature is one dollar.
- Only one set of numbers will be issued for both Powerball and Double Play, but the ticket will state the Double Play feature was chosen.
- Double Play drawings will be conducted immediately after the Powerball drawing.
- Players will match their base numbers against the numbers drawn in the Double Play drawing to determine if they won a prize.

Double Play Prizes

- Nine prize levels.
- Top prize of \$10 million is pari-mutual meaning it will be split equally among winners.
- Eight low or mid-tier prizes.
- Overall odds are 1 in 24.871, and the top prize odds are 1 in 292,201,338. The odds are the same as Powerball because both draw the same number of balls.
- The game is designed to pay back approximately 50.2% of the sales.

Under administrative rule 48:03:18:04, Lucky for Life will draw seven days a week starting July 19, 2021.

The South Dakota Lottery expects the change in the games to bring in additional revenue for both the state and lottery retailers. Net Transfers are projected to increase by \$420,000 on yearly basis and retailer commissions are projected to increase by \$89,000 yearly.

Executive Director confirmed to commissioner Huizenga that if the lottery commission votes against the game change, the South Dakota Lottery would not be able to sell that game.

OPPONENTS AND PROPONENTS

Chair Shorma asked about opponents.

No opponents.

Chair Shorma asked about proponents.

No proponents.

APPROVAL OF ARSD 48:03:06:05 AND ARSD 48:03:18:04

Chair Shorma asked for a motion to accept 48:03:06:05 and 48:03:18:04 changes. Motioned by Commissioner Huizenga and seconded by Commissioner Ahrendt. A 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:

Contracts

- All 1,226 establishments and 87 operators are under contract.
- Operators had the choice to pay for the SDL system equipment either upfront or partial payment after the installation then the remainder in January 2022.

- 1,243 video lottery sites on September 15 vs 1,226 current video lottery sites.
 - 56 sites didn't migrate – potential loss of 2 million in net machine income.
 - 39 new sites – gain of 6.5 million in net machine income.
 - Overall gain of 4.5 million in net machine income.
- Of the 13,025 site controllers purchased, 100 are available to operators to use as spare parts; 40 have already been requested by operators.
- 523 of the 9,000 video lottery terminals were non-reporting terminals on the Mondays between January and March 2020 versus the 214 non-reporting terminals video lottery currently sees.

Debit Card Machines

- Sioux Falls, Rapid City, and Pierre redemptions centers installed debit card machines in March.
- The credit card machine aids in accounting with its ability to break down transactions into daily and monthly reports.
- Credit cards and checks are not accepted.
- Maximum purchase of \$600; equates to two full packs of tickets.
- Since the first transaction on March 17
 - 21 transactions totaling \$1,800
 - The largest transaction was \$300
 - The average was \$86
 - 62% of the transactions occurred at the Sioux Falls redemption center

Commissioner Ahrendt asked if the video lottery establishments lost between September and now were small operators or establishments that shifted from one establishment to another. Deputy Executive Director Hepper replied that the South Dakota Lottery doesn't have much data in this area. They have seen many establishments close because they were not generating the desired income. Closings may include smaller establishments in larger communities, one establishment moving multiple licenses under one roof, or relocating the establishment to a better area.

Huizenga mentions that the number of video lottery establishments is constantly fluctuating. He asked if the current fluctuation was related to the number of legacy machines in the market. Deputy Director Hepper replied that the older machines are transitioning out of the market. Operators are putting more machines in establishments resulting in establishment numbers going down, but the machines per establishment going up. The maximum number of machines an establishment can have is 10.

Marketing Report

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

Responsible Gambling Campaign

- Paid efforts
 - Ran from February 15 – April 5.
 - Included broadcast and digital TV, digital radio, billboards, and social media.
 - Digital and broadcast TV - 500,000 impressions.
 - Digital radio - 130,160 impressions.
 - Paid social posts - 170,000 impressions.
 - Videos - watched in their entirety 99.2% of the time.
- Year-round efforts
 - Responsible gambling webpage on the South Dakota Lottery website.
 - Messaging in Players Club emails, social media posts, POS, and lottery tickets.
 - Partner with National Council on Problem Gambling.

- A member of the SD Council on Responsible Gaming which supports the problem gambling hotline.
- \$214,000 is given annually to the SD Department of Social Services.

Sales Report

Director of Sales Marla Gruber reported on the following:

Instant and Lotto

- As of March 31, instant sales are pacing at an increase of 35.91% over FY20; a 4% increase over last month.
- As of March 31, lotto sales are pacing at an increase of 26.26% over FY20; a 1% decrease over last month.

Revenue Projections (as of March 31)

- Instant - \$6.56 million in net transfers
- Lotto - \$7.83 million in net transfers
- Net Machine Income - 22.23% over FY20; a 5.5% increase over last month
- State share revenue - \$142.2 million vs \$116.48 million in FY20
- Total revenue projections - \$142.2 million vs \$116.48 million in FY20
- Total combined revenue – \$156.54 million vs \$128.43 million in FY20; approximately \$8 million increase over last month

Gemini Vending Machine

- There are currently 14 machines in the market.
- Locations include Rapid City, Sturgis, Yankton, Dakota Dunes, Winner, Oacoma, Brookings, and Aberdeen.
- All 49 Gemini machines will be set up by the end of May.

Executive Director confirmed to Chair Shorma that the Gemini vending machines were part of IGT's proposal in the RFP and their cost is built into the contract.

Video Lottery Report

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

Establishments

- The number of active video lottery establishments for FY21 is 1,227.
- As of July 1, there are 48 new establishments under contract and 12 with pending applications.
- 284 or half of the fourth-quarter establishment renewals have been received.
- Video lottery has 9,263 terminals or 75% of the available terminals in the market today, an increase of 159 from FY20.

Line Terminals

- Represents 54% of the video lottery terminals in the current market.
- Produces 68% of the overall net machine income statewide.
- Increased 27% over the last two years while Legacy machines have decreased 14%.
- Brings in \$108 per machine per day compared to the \$55 per machine per day of the Legacy machines.

Annual Security Certification

- The certification is an assessment of compliance with MUSL Rule 2.
- The certification analyzes the lottery's systems to ensure their ability to safeguard the integrity of the gaming systems and protect information.

- Video lottery has begun preparations for the biannual onsite review with MUSL which will occur between August and September.

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, June 10, 2021, at 9:30 a.m. central time is the next meeting.

ADJOURNMENT

Chair Shorma adjourned the meeting at 10:55 a.m.

*Please listen to the audio on the South Dakota Lottery Website:

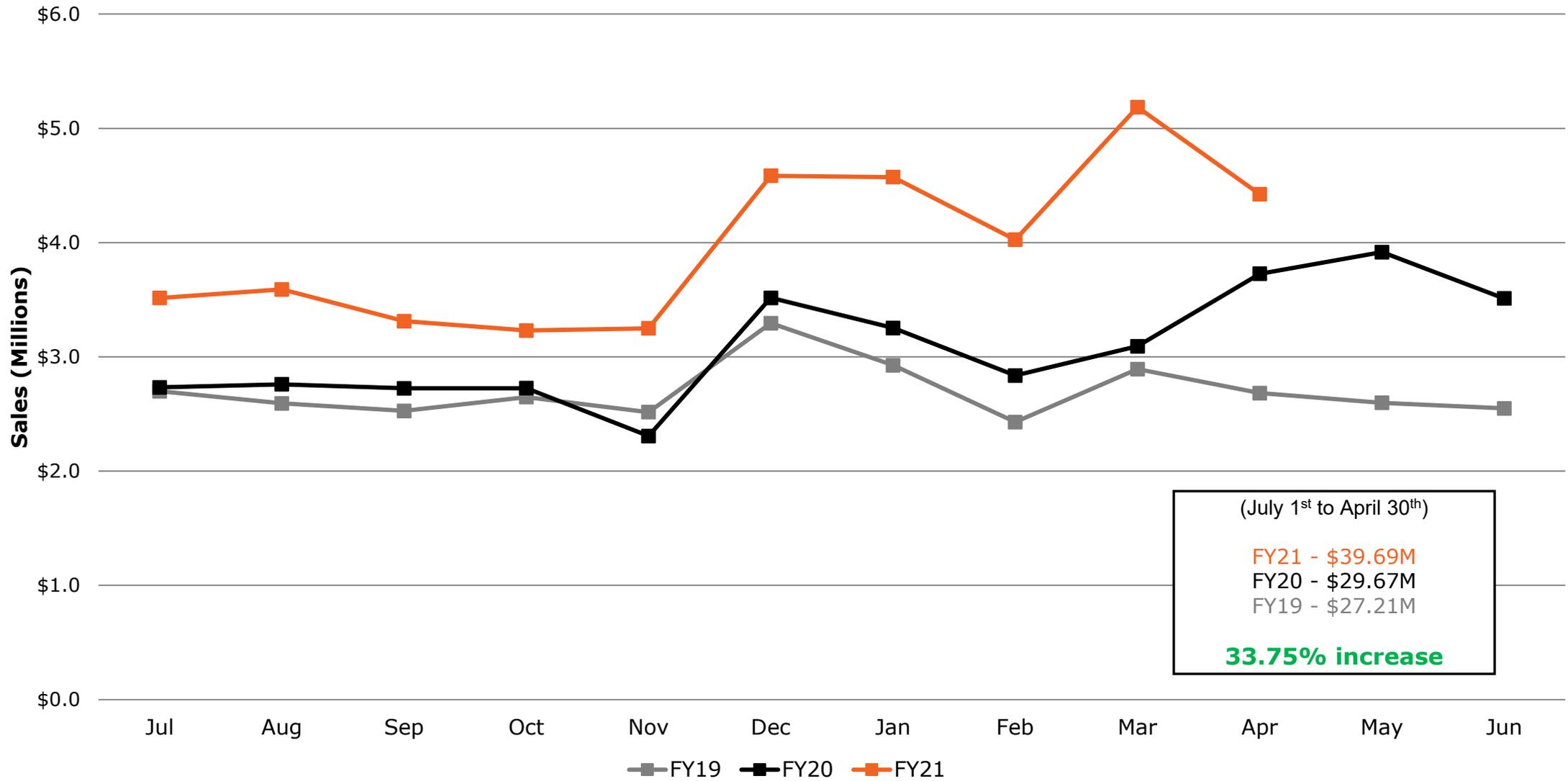
<https://lottery.sd.gov/about/commission/> for additional details.

Sales Report

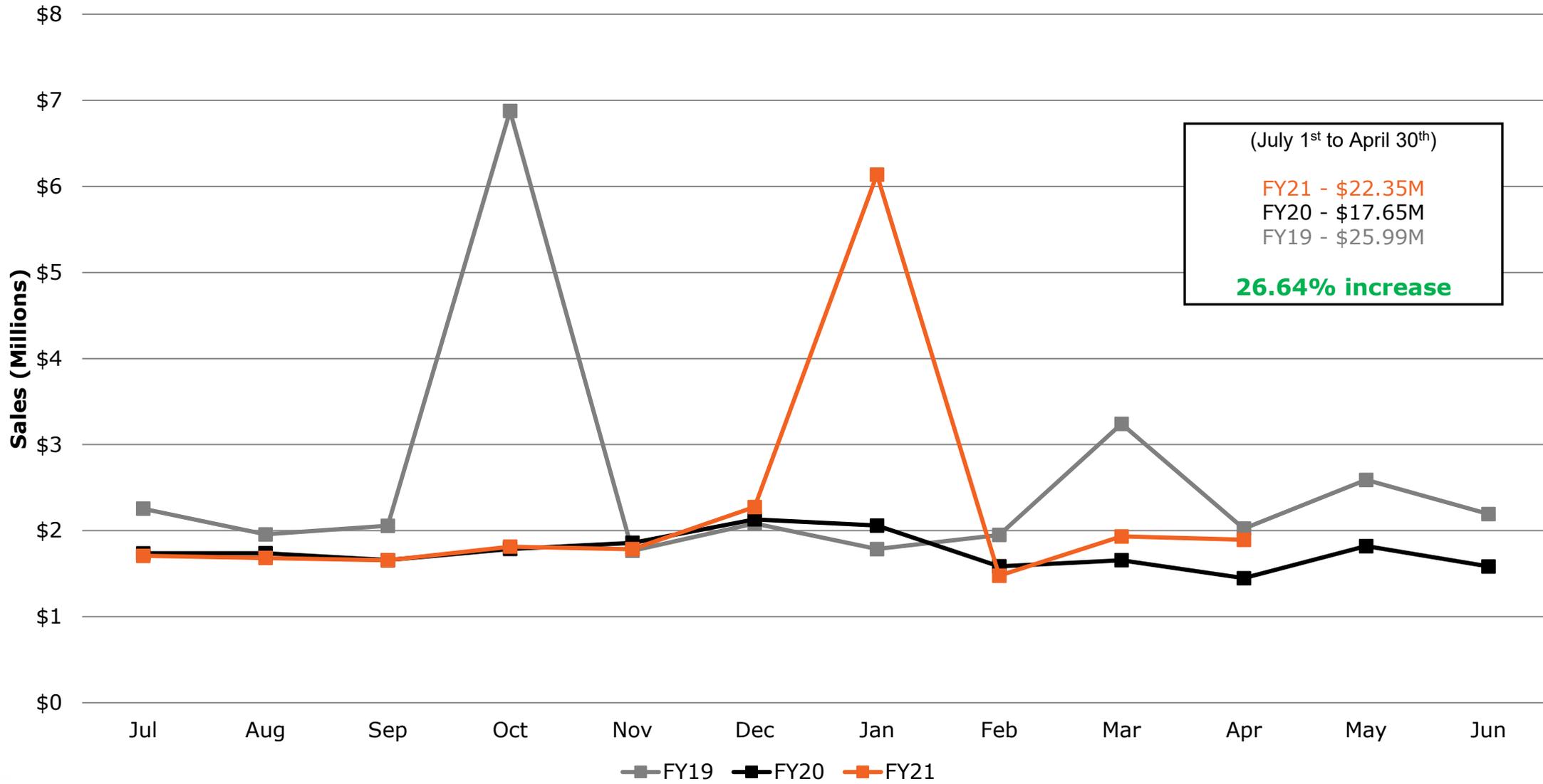


A DIVISION OF THE SOUTH DAKOTA DEPARTMENT OF REVENUE

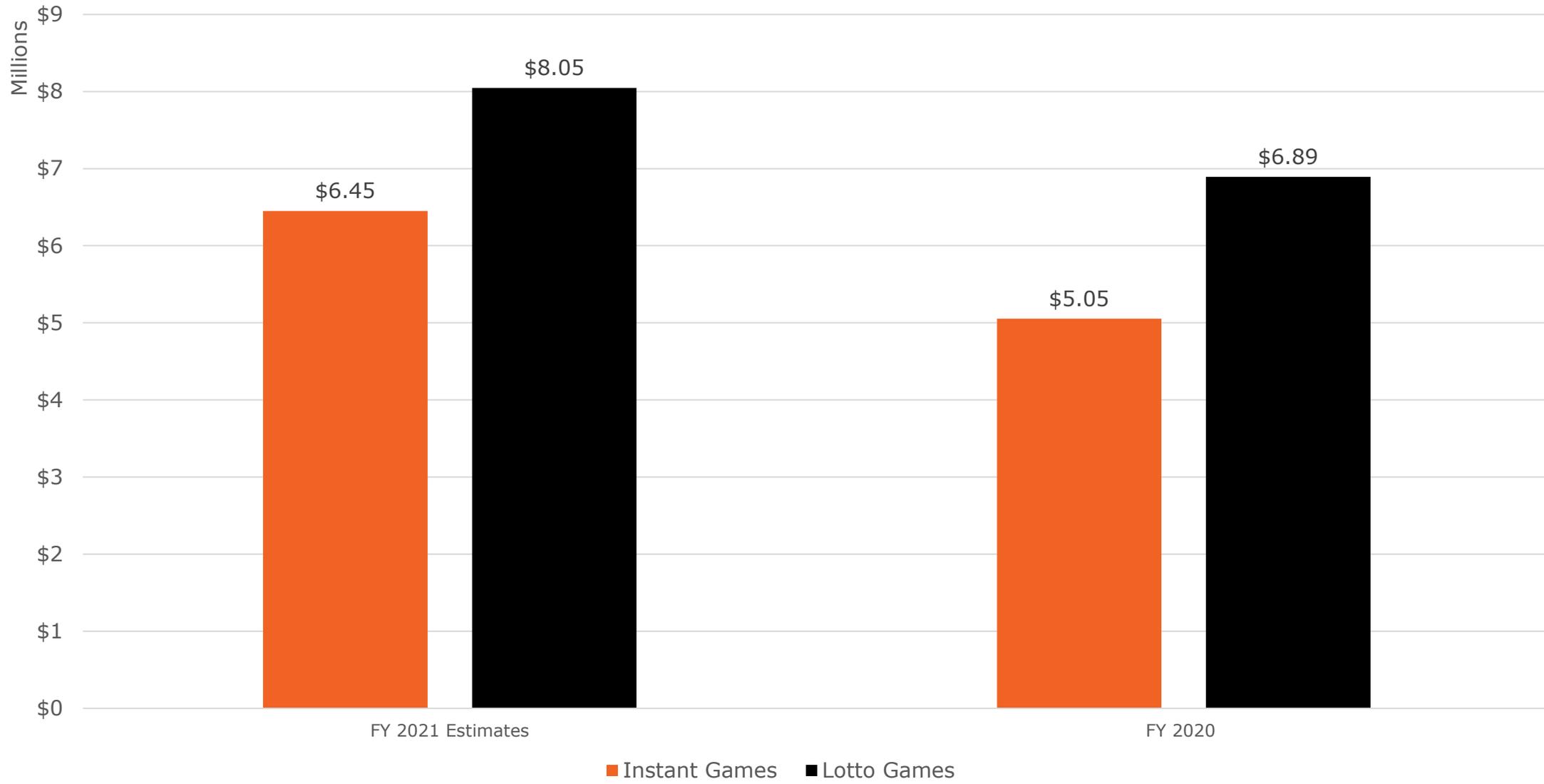
Instant Sales



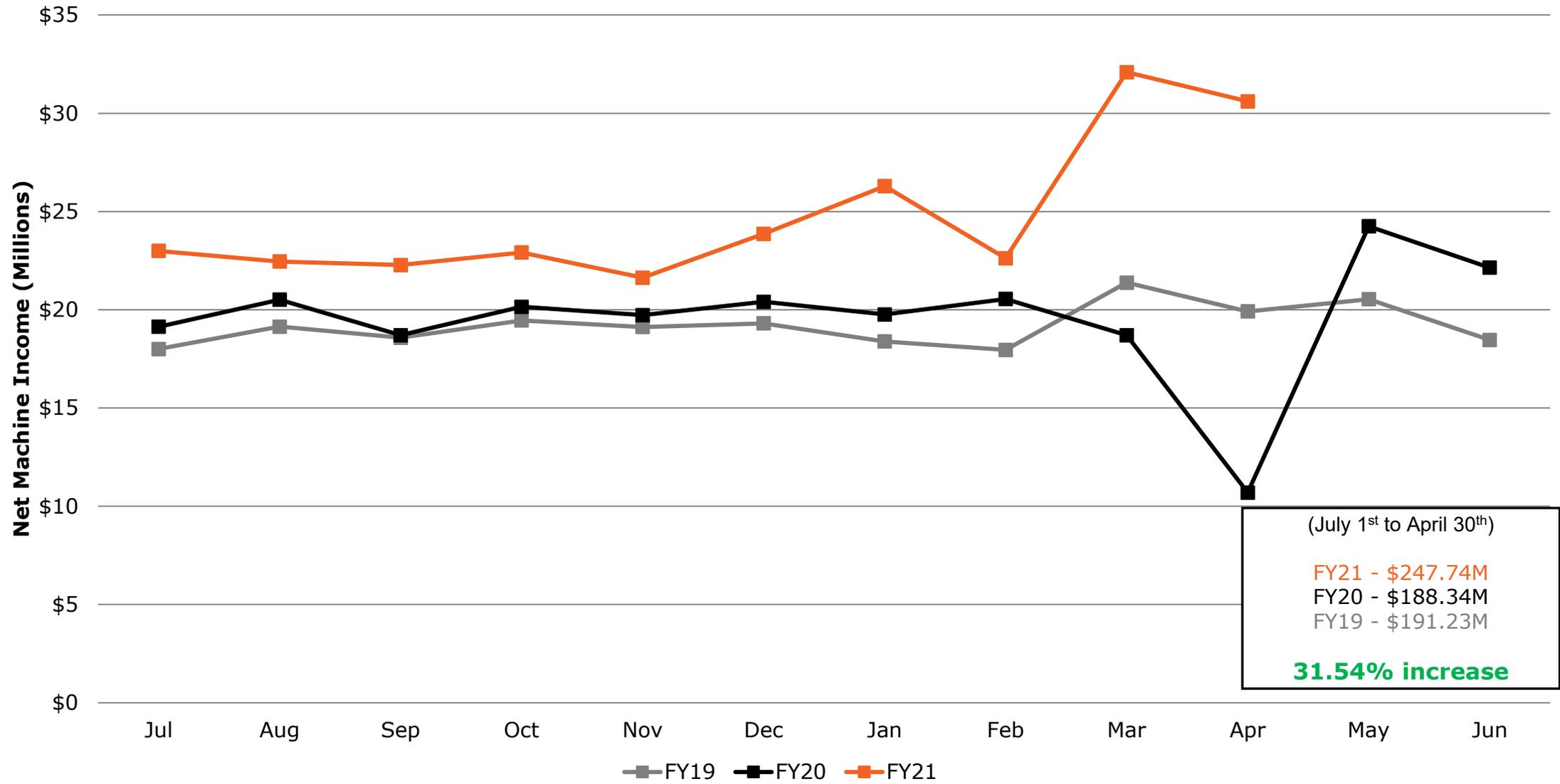
Lotto Sales



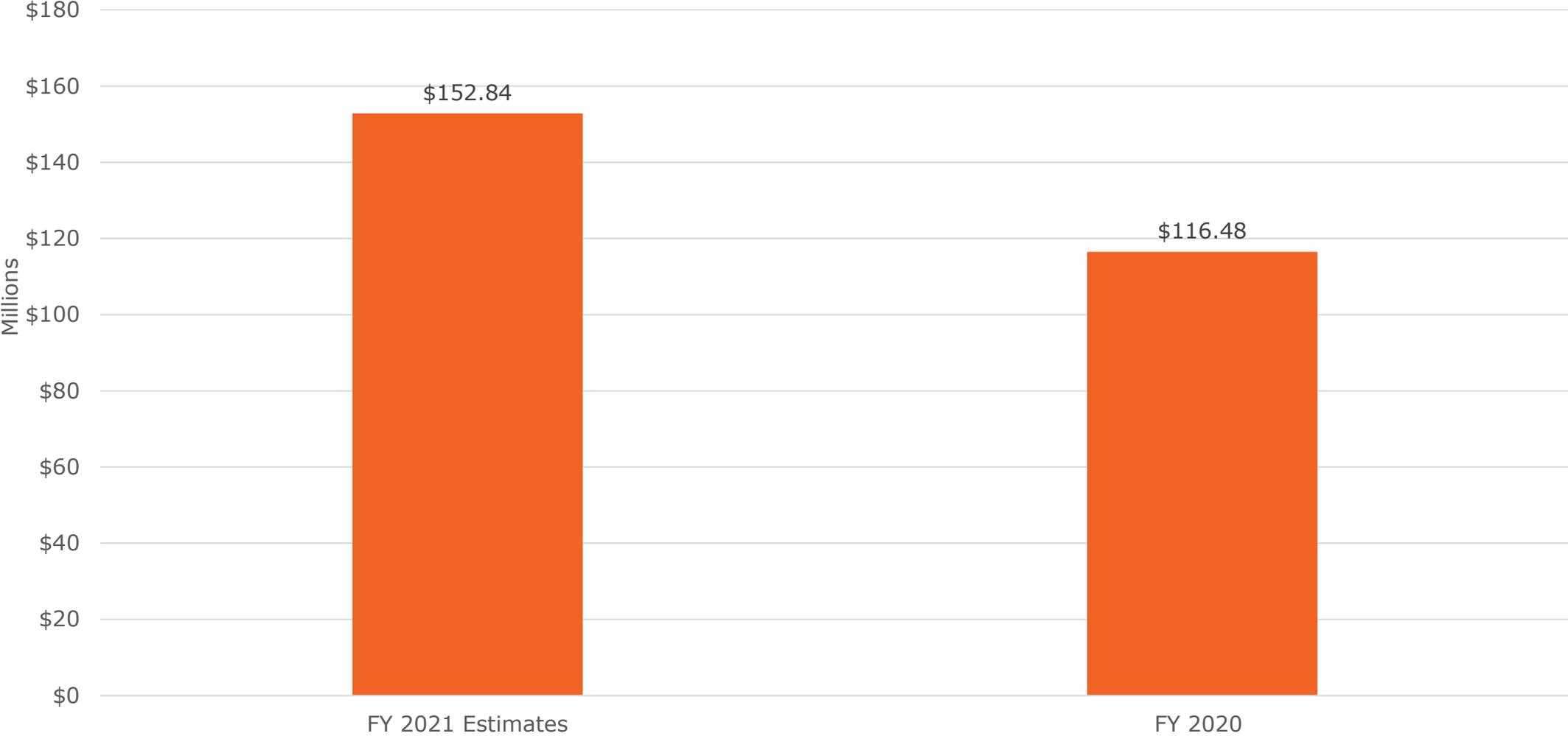
Instant and Online FY21 Revenue Projections as of April 30, 2021



Video Lottery NMI



Video Lottery FY21 State Share Revenue Projection as of April 30, 2021



Total FY21 Revenue Projections as of April 30, 2021

