



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: September 16, 2021 Lottery Commission Meeting

Date: September 10, 2021

The September 16, 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 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 Commission will need to elect a Chair and Vice Chair. SDCL 42-7A-17 requires a Chair of the Commission to be chosen annually at the Commission's first meeting of each fiscal year.

The meeting will begin with comments from the 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 review of the Instant and Online performance numbers for the first quarter of FY22, along with the initial impact of the Lucky For Life and Powerball game changes.

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 16, 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 – June 10, 2021 meeting Chair Shorma
5. Conflict of Interest Chair Shorma
6. Election of Chair and Vice Chair Chair Shorma
7. Secretary of Revenue Comments Jim Terwilliger, Secretary
8. Executive Director Comments Executive Director Norm Lingle
9. Marketing Report Director of Advert and PR Wade LaRoche
10. Sales Report Director of Sales Marla Gruber
11. FY22 Instant/Online Review Deputy Exec Director Clark Hepper
12. Video Lottery Report Director of Sec and VL Jordon Kitts
13. Public Comment Chair Shorma
14. Next Meeting – Thursday, December 9, 2021 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 | 01/01/2022 | Jamie Huizenga | 01/01/2024 |
| Joe Kafka | 01/01/2023 | | |

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 in person
Thursday, June 10, 2021 – 9:30 a.m.

UNAPPROVED

Chair Shorma called the June 10, 2021 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Commissioner Kafka, Commissioner Huizenga, Commissioner Rozum, and Chair Shorma participated in person. Commissioner Ahrendt 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, David Wiest, Marla Gruber, Wade LaRoche, Megan Gross and Jordon Kitts

Others

Bob Mercer (Keloland), Deb Mortensan (MVA)

APPROVAL OF THE AGENDA

Chair Shorma asked if there were any changes to the agenda. There were none. Chair Shorma asked for a motion to approve the minutes, motioned by Commissioner Rozum, and seconded by Commissioner Huizenga. A voice vote was taken. All in favor. Motion carried.

APPROVAL OF THE MINUTES FROM THE APRIL 22, 2021 MEETING

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

Department of Revenue Update

- The Department of Revenue is working on implementing the legislation that passed during the 2021 Legislative session by July 1, 2021.

- Cigar Shipper Bill is delayed until January 1st.
- The Department of Revenue and the Department of Health will issue an RFP for computer systems to manage the medical marijuana project approved in IM26.
- Amendment A, the approval of recreational marijuana, is pending a ruling from the South Dakota Supreme Court.
- The Commission on Gaming is working on the administrative rules for Senate Bill 44, the approval of sports wagering within the city limits of Deadwood.
- The South Dakota Cars system is being rewritten and will be online in the fall of 2021.
- The Department of Revenue has been working with the Directors of Equalization to distribute aid for school districts across the state. The Directors of Equalization find the assessed values and the legislature sets the levees for the school's general fund as stated in SDCL 10-12-42.

Deputy Secretary Wiest confirms to Chair Shorma that sales tax revenues have increased from the last fiscal year.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

Scientific Games Video Lottery Project

- The Migration phase was completed in early April, and the South Dakota Lottery is now transitioning into the operation phase.
- A Town Hall was held on May 11 to communicate the next steps with operators.
- Establishments call the South Dakota Lottery for technical support, if the Lottery is unable to help, the call is forwarded to Scientific Games.
- The South Dakota Lottery is out of spare site controllers. Site controllers needed in the future will be requested from Scientific Games.
- The new software downloads for site controllers were downloaded into the background of 1,250 sites in 10 minutes.
- The South Dakota Lottery will issue a new host release around July 1, then another one later in the year.

Lucky for Life and Powerball/Double Play

- The Legislative Rules Review Committee approved the new game rules on May 10.
- The rules were filed with the Secretary of State's Office and became Effective May 31.
- Acceptance testing for Lucky for Life will begin June 21 to finish by Monday, July 19.
- Acceptance Testing for Powerball's Double Play will begin July 26 and finish by Monday, August 23.

Audits

- The Fiscal Year 2021 ends on June 30.
- The South Dakota Lottery and Legislative Audit have begun the process of preparing for the FY21 Audit and the Agreed Upon Procedures Audit of the Lucky for Life game.
- The FY21 audit is usually completed by end of September.

The current Instant Game contract with Scientific Games and Pollard Bank Note will end in August 2022. South Dakota Lottery will begin reaching out to print vendors, develop the Request For Proposal, and return to the commission in June 2022 to make recommendations.

Chair Shorma asked if the process for the Instant Game RFP will be the same as the RFP process for the new video lottery system, which includes putting a list of requirements together, then ranking the RFPs based on the list. Executive Director Lingle answered that Chair Shorma was correct, with an exception to the possibility of entering multiple contracts. Two proposals were received by the South Dakota Lottery

during the last RFP, and agreements were signed with both. This allows the Lottery to use the best products from each vendor.

Executive Director Lingle answered Commissioner Rozum's request to clarify the Gemini by saying the Gemini is the vending machine that offers instant and draw games. It has two locations in Mitchell.

Marketing Report

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

Digital Properties

The South Dakota Lottery and Lawrence and Schiller will update the Lottery's digital properties including the mobile app, website, Players Club, and Customer Relationship Management system with modern technology and content based on player preferences.

- L&S conducted player research
 - Email survey to Player Club members – over 350 respondents
 - 56% satisfied with the website
 - 54% satisfied with the mobile app
 - Individual player surveys key takeaways
 - An updated look to the website and mobile app.
 - Improved functionality of the mobile app.
 - Refreshed Players Club to keep the 20,000 members engaged.
 - Personalized notifications.
- Launch Dates
 - Website and Players Club - Fall 2021
 - Mobile app - Winter 2021

The digital update will include statistics to better measure the Lottery's marketing efforts. Before launching the Lottery will do another set of testing with players to ensure the website and mobile app meet the players' expectations.

The Lottery did a marketing soft launch for the Gemini vending machines including unpaid social posts and a webpage with instructions and locations. Beginning in June, the Lottery will do paid social media posts to create awareness of the machines.

The Winner Awareness Campaign is doing well. The Lottery is communicating the Lucky for Life and Powerball game changes through rack cards, retailer communication, social posts, and a television spot.

Commissioner Rozam asked if the Gemini gives change or if payers would have to go to the service desk to receive money. Marla Gruber answered saying, players can either reinvest their winnings, or they can take their ticket to the cashier for cash. The machine will not dispense cash.

Chair Shorma noted that paid social posts in areas like Dakota Dunes would be beneficial to players who do not get South Dakota television and radio ads. Director LaRoche replied that the Lottery will take the information into considerations and hope the updated technology, which allows for geofencing, will help in cases such as these.

Sales Report

Director of Sales Marla Gruber reported on the following:

Instant

- As of May 31, instant sales are pacing at an increase of 30.37% over FY20.

- The Wallet Family, specifically designed for the South Dakota Lottery, will launch on July 5.
- Over \$7,830,000 in prizes have been paid since March 15.
 - \$200,000 – sold by Casey’s in Sioux Falls.
 - \$100,000 -Robert Meier from Doland.
 - \$50,000 – Dellyn Gross from Aberdeen & Eric Fried from Bath.
 - \$30,000 – Ashley Bordeaux from Rapid City.
 - Over 30 \$1,000 winners and over 380 \$500 winners since March.

Lotto

- As of May 31, lotto sales are showing a 25.78% increase over FY20.
- Over \$1,130,000 in lotto prizes have been paid since March 15.
 - \$168,007 Dakota Cash – Rapid City.
 - \$50,000 Powerball – Hot Springs.
 - Five \$5,000 Lucky for Life winners sold in Brandon, Sioux Falls, Rapid City, Huron, and Watertown.

Sales (as of May 31)

- Instant - \$6.29 million in net transfers vs \$5.05 million in FY20
- Lotto - \$8.24 million in net transfers vs \$6.89 million in FY20
- Net Machine Income - 29.52% over FY20
- State share revenue - \$150.49 million vs \$116.48 million in FY20
- Total projections - \$165.01 million vs \$128.43 million in FY20

Gemini Vending Machines have been installed in 47 locations across the state. They are generating over \$3,000 per day in sales.

Chair Shorma asked if there was a reason explaining the growth. Director Gruber answered that it is due to the Lottery analyzing tickets, more offers going out, more prize structures giving people the winning experience more often, and a good mixture of tickets, the Lottery being a source of entertainment during the pandemic, the implementation of the POS, and the advertising efforts.

Commissioner Kafka asked if the \$165.01 million would be record revenues for the state. Director Gruber answered yes. Executive Director Lingle answered that it was about April that the South Dakota Lottery exceeded its total for FY20. 2021 would be a record year for the video lottery and instant. For lotto, the Lottery is having year over year growth but, has had higher years in the past.

Commissioner Huizenga notes that the growth is because the Lottery and the commission focus on what the customer wants, and then provide it. The Lottery is making the needed upgrades and when it comes together it is entertainment and a huge source of revenue for the state.

FY21 Video Lottery Review

Deputy Executive Director Clark Hepper reported on the following:

Video NMI (FY21 over FY20)

- 61 of the 63 counties have showed an increase over last year.
- Five counties showed an increase of more than 60%, with the largest increase being 123% in Bennett County followed by Clark, Charles Mix, McCook, and Potter counties.
- Two counties showed negative growth. Miner showed -19.6% and Hanson showed -20.7%. While the reason is not exact, some of the smaller establishments can see larger impacts when a machine goes down than a larger populated, larger number of machine establishments.

Cities (top by sales)

- All top ten cities showed an increase, with the top four more than 35%.
- North Sioux City showed the largest percentage increase with 49.82% over FY20.

- Sioux Falls showed the largest amount increase at \$11,285,701.

Line vs Legacy (thru April 2021)

- Line machines have increased 5,090 vs 4,399 since March 2020.
- Legacy machines have decreased 4,171 vs 4,673 since March 2020.
- Although most establishments are transitioning to Line games, the Legacy games still offer value.
- With over 800 new machines, this year has the highest number of machines purchased since video lottery has been established.
- The number of total machines is about the same.
- Line machines are bringing in a net machine income of \$114.81 per machine per day vs Legacy net machine income of \$59.49 per machine per day.
- Three machine manufacturers in South Dakota agreed to share their performance numbers. IGT is showing \$198.58 net machine income per machine per day with Line machines vs \$34.28 with Legacy.
- The average number of machines by location performance
 - Top 1/3- 65% Line and 35% Legacy
 - Middle 1/3 – 52% Line and 48% Legacy
 - Lowest 1/3 - 38% Line and 62% Legacy.
- The machine performance based on net machine income over a 10-year period
 - Top 1/3 in April 2011 - 10% Line machines make up 11% of the NMI.
 - Lowest 1/3 in April 2021 – 3% Line machines make up 2% of the NMI.
 - Top 1/3 in April 2021 - 66% Line machines make up 71% of the NMI.
 - Lowest 1/3 in April 2021 – 39% Line machines make up 56% of the NMI.

Commissioner Kafka asks what the practical life of the old machines is. Deputy Director Hepper answered that seven years ago the Lottery did an RFP for a consultant to do a market study. The average life a machine then was between five and seven years. The Lottery has machines in their market that are from 1989. The old machines are still functional and can be refurbished with old parts, however, new parts cannot be purchased.

Commissioner Huizenga notes that although the Lottery sees an increase in sales eventually there will be a correction. Deputy Director Hepper says that although the Lottery isn't seeing the growth that it saw a couple months ago, it is still seeing good growth.

Commissioner Rozum states that the reason the money generated by the South Dakota Lottery goes into the state's general fund before it is designated to schools is because of the fluctuation in revenue.

Chair Shorma states that operators are purchasing new video lottery machines because they believe it is what is best for their business to increase revenue. The retailers are purchasing the machines when the revenue is available, which may reflect the same when there is a reduction in revenue.

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 1,242 vs 1,238 in FY20.
- 83% of the fourth-quarter establishment renewals have been received.
- Video lottery has 9,370 terminals or 75% of the available terminals in the market today, a 3% increase over FY20.

Security System Project

- Under contract with General Security Service Corporation on January 20, 2021.

- The old equipment is obsolete and no longer supported by the current manufacturer.
- Under the contract, GSSC will replace the existing motion detection and access control systems.
- The new system will provide security solutions utilizing the latest technology in security protection and software.

Site Controller Software Package

The new software package will be downloaded to all site controllers on the network.

- May 20 - 25 original pilot sites download the software for testing
- May 25 – Software updates for the remaining sites will be executed in stages, all occurring at 6 am CST/MST to avoid downtime to establishments.
- June 7 – Full production rollout scheduled.
- June 30 - The software package will be complete.

Spare Site controllers

- South Dakota Lottery negotiated with Scientific Games International to help reduce the price of site controller kits.
- The South Dakota Lottery purchased 1,325 kits at \$2,395 per kit. All preordered kits have been requested by operators.
- Each kit includes a site controller, printer, MCD, and power strip.
- Operators have the option of purchasing kits or spare parts directly from Scientific Games.
- Issues with the kits will first go through the South Dakota Lottery. For issues the Lottery cannot answer, Scientific Games has operators.

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, September 16, 2021, at 9:30 a.m. central time is the next meeting.

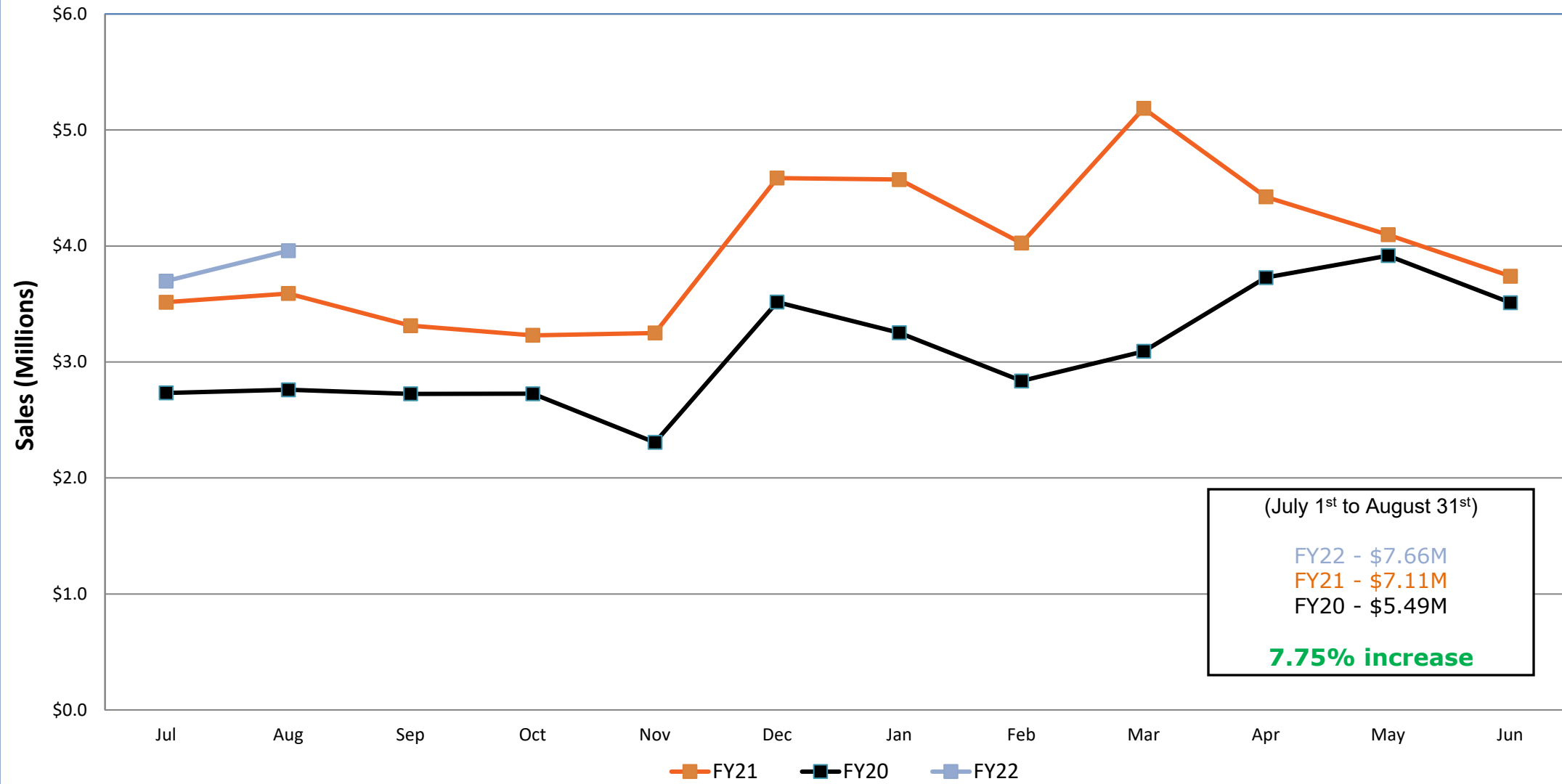
ADJOURNMENT

Chair Shorma adjourned the meeting at 11:02 a.m.

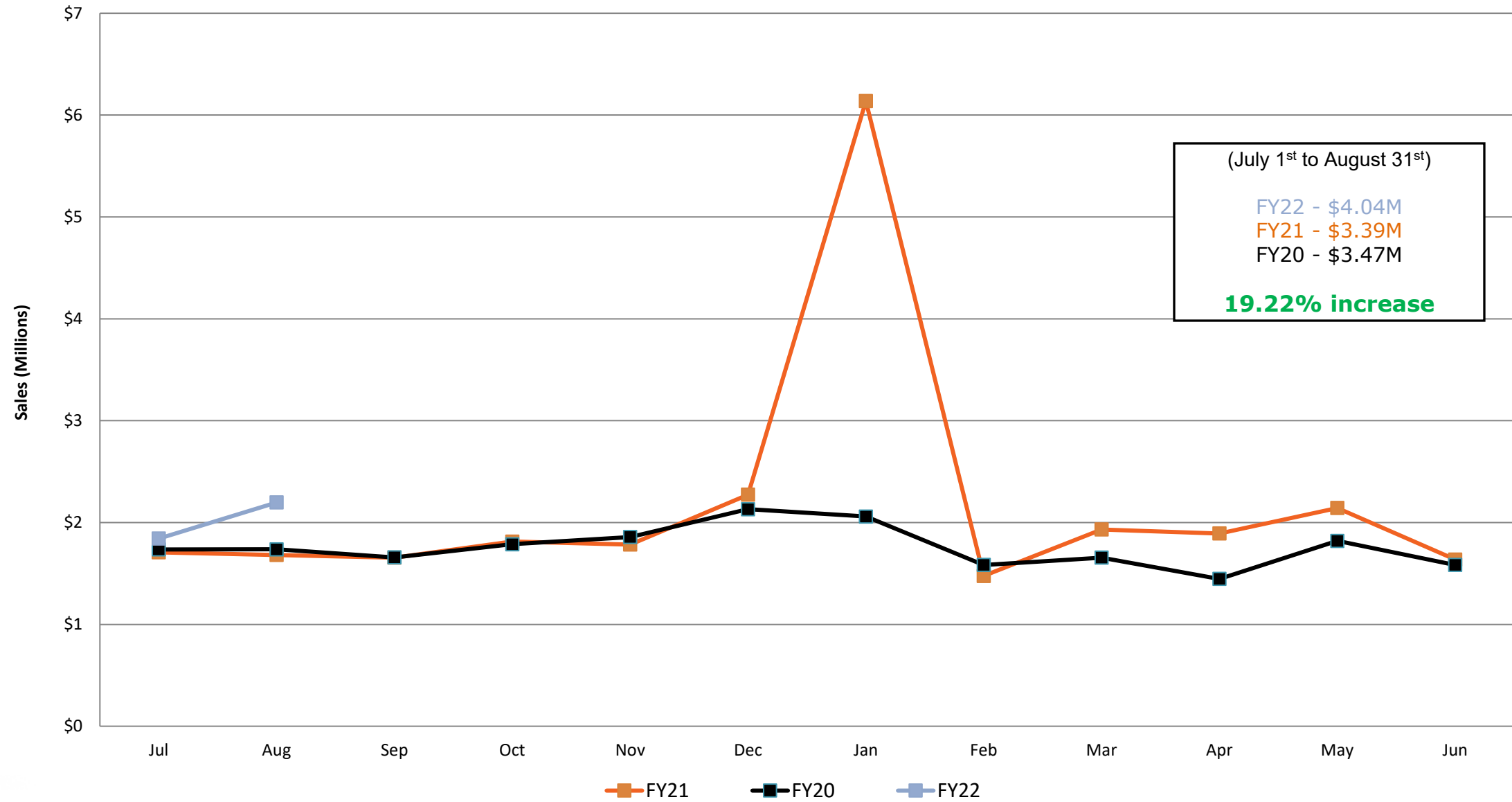
*Please listen to the audio on the South Dakota Lottery Website:

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

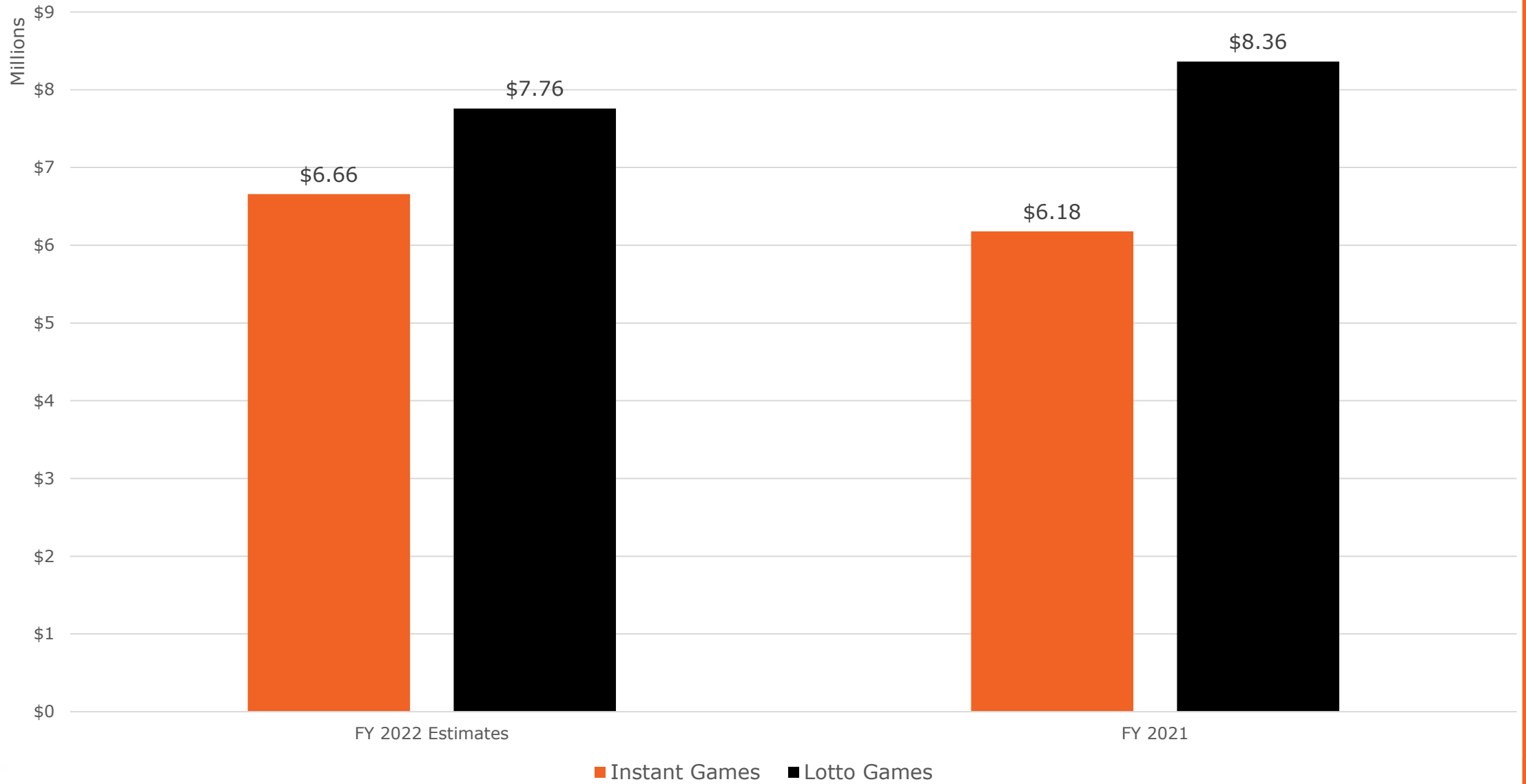
Instant Sales



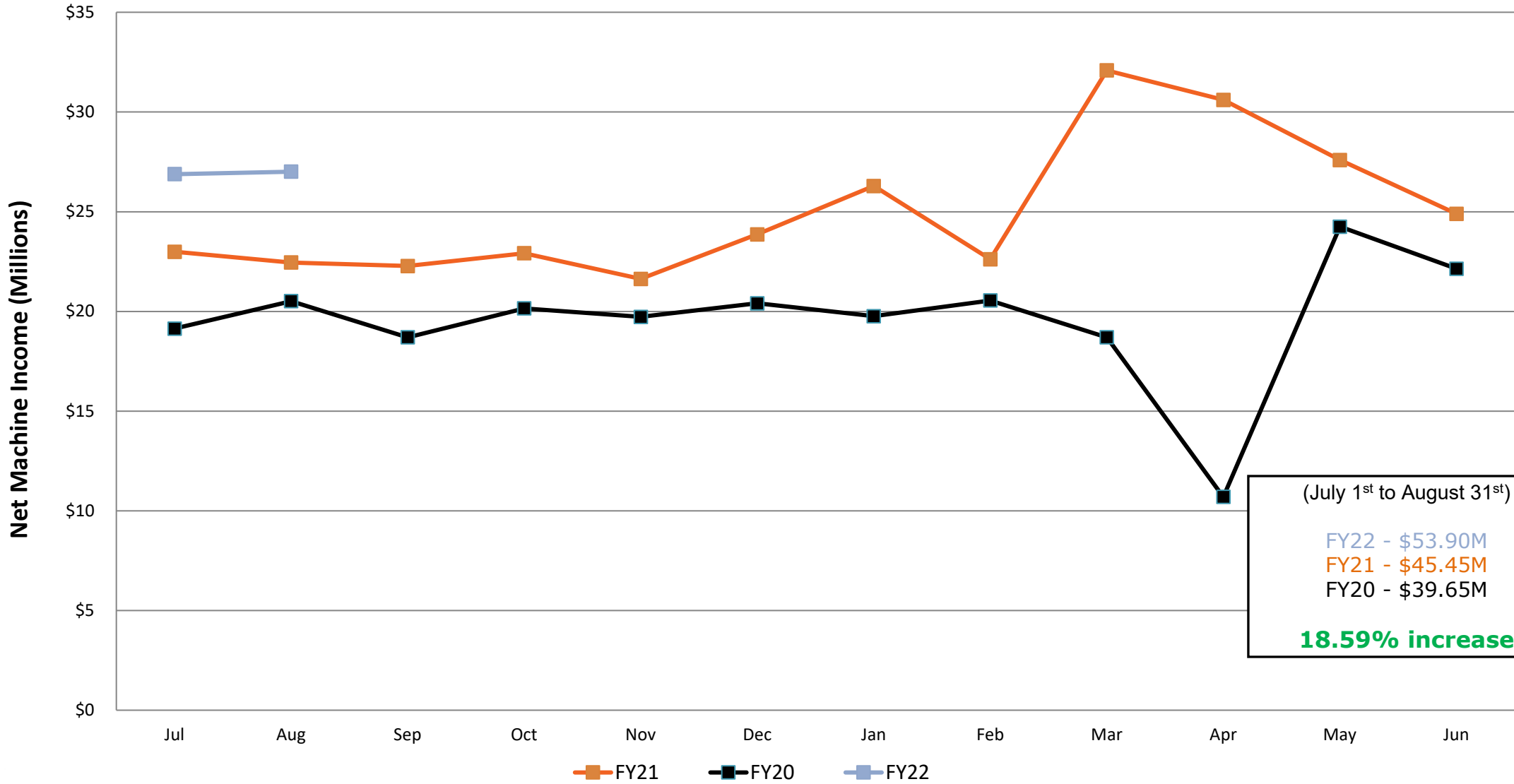
Lotto Sales



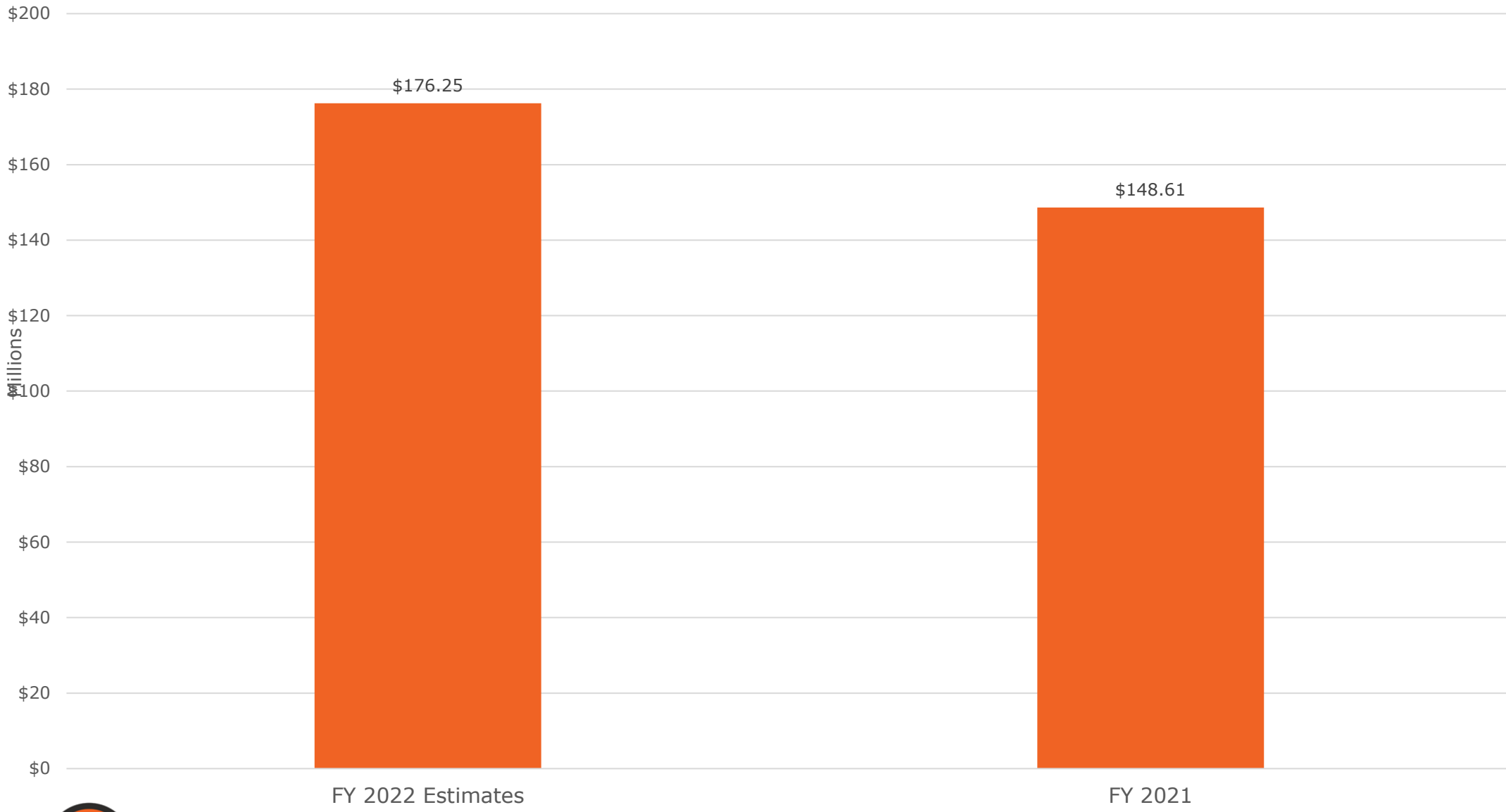
Instant and Online FY21 Revenue Projections as of August 31, 2021



Video Lottery NMI



Video Lottery FY21 State Share Revenue Projection as of August 31, 2021



Total FY21 Revenue Projections as of August 31, 2021

