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To: South Dakota Lottery Commission

From: Norman Lingle
Executive Director

Re: December 3, 2020 Lottery Commission Meeting

Date: November 25, 2020

The December 3, 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.

A couple of highlights on the agenda.

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

A Non-Sufficient Funds (NSF) Policy will be presented for Commission consideration and approval. The proposed NSF policy for Instant and Online Retailers is to establish a process in which every NSF incident is handled in a consistent manner and ensure retailers remain current on obligations owed to the South Dakota Lottery.

The FY 2022 budget requests will be presented for Commission approval. As a reminder, the Lottery operates off of two budgets. A budget for instant/online and a budget for video lottery. We are not seeking any increase in either budget. We'll highlight a few of the line items and answer any questions regarding the proposed budgets.

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 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, Dec 3, 2020 – 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: 917 8546 8992

Password: 645059

- | | |
|---|--|
| 1. Welcome | Chair Shorma |
| 2. Roll Call | Megan Gross |
| 3. Approval of Agenda | Chair Shorma |
| 4. Approval of Minutes – September 10, 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. Non-Sufficient Funds (NSF) Policy | Executive Director Norm Lingle |
| 9. Fiscal Year 2022 Budget Request | Accounting Manager Aric Frost |
| 10. Video Lottery Central System Upgrade Update | Deputy Executive Director Clark Hepper |
| 11. Marketing Report | Director of Advert and PR Wade LaRoche |
| 12. FY21 Video Lottery & Instant/Online Review | Business Analyst Elizabeth Burdick |
| 13. Sales Report | Director of Sales Marla Gruber |
| 14. Video Lottery Report | Director of Sec and VL Jordon Kitts |
| 15. Public Comment | Chair Shorma |
| 16. 2021 Meetings | Executive Director Norm Lingle |
| a. Thursday, March 25, 2021, | |
| b. Thursday, June 10, 2021 | |
| c. Thursday, September 16, 2021 | |
| d. Thursday, December 9, 2021 | |
| 17. 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, September 10, 2020 – 9:30 a.m.

UNAPPROVED

Chair William Shorma called the September 10, 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. Commissioner 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, Jim Terwilliger, David Wiest, Marla Gruber, Elizabeth Burdick, Wade LaRoche, Megan Gross and Jordon Kitts

APPROVAL OF THE AGENDA

Chair Shorma asked that Election of Commission Chair and Vice Chair be added to the agenda as item 5B. Commissioner Huizenga motioned to approve the agenda as amended. Commissioner Kafka seconded. Motion passed with no objection with a voice vote.

APPROVAL OF THE MINUTES FROM THE June 11, 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.

ELECTION OF CHAIR AND VICE CHAIR FOR FY21

Commissioner Huizenga recommended Commissioner Ahrendt for Vice Chair. Motion passed with no objection with a voice vote. Commissioner Wheeler recommended Chair Shorma for the FY21 term. Commissioner Huizenga seconded. Motion passed with no objection with a voice vote.

SECRETARY OF REVENUE'S COMMENTS

Secretary Jim Terwilliger reported on the following:

- The employees across the Department of Revenue and South Dakota Lottery have handled the pandemic very well. Many employees, such as auditors, are well equipped to work remotely.
- Our technology needs have changed during the pandemic, however leveraging the current technology we are able to navigate the circumstances of the pandemic effectively. The choices we are using to equip ourselves during the pandemic are influencing how we proceed in future technological purchases.
- The state revenue closed the FY20 in good shape partly due to the sales tax being over 10% in July and 6% in August. The contractors excise tax was also up over 20%. These are strong numbers given the pandemic. This trend within the last few months is a common trend among other states.
- The Sturgis Rally was well attended. The Department of Revenue was in attendance to make sure the temporary vendors had sales tax licenses. Vendors had the option to file and pay electronically, which aided in reduced traffic. A new feature was the set up in Sturgis City Hall to allow the vendors to pay part way through the week. Vendor's license numbers were down approx. 22%, but collections were up approx. 6%.
- The State Fair, which was attended by both the Lottery and the Department of Revenue, went well.
- The Department of Revenue is working through the internal budget process with the Bureau of Finance and Management. They are working to maximize the efficiency of processes for the FY21 Legislative session right now.
- Constitutional amendments that will be on the ballot in November which may have an impact on the department:
 - Constitutional Amendment B -Authorizes sports wagering in the city limits of Deadwood. This amendment went through the senate joint resolution 501 and was approved by both the house and senate before being placed on the ballot. Regulation, if passes, would go through the South Dakota Commission on Gaming.
 - Constitutional Amendment A -Legalizes the possession, use, transport, and distribution of marijuana and marijuana paraphernalia for people 21 and over. With the Department of Revenue being the sole regulator, it would face a significant change due to issuing licenses, testing facilities, regulation and taxation of marijuana.
- The Lottery has been performing very well and the revenue from the lottery has been very strong. They have been participating with the Department of Revenue in the planning of the next 3-5 years.
- Chair Shorma noted Amendment A is a constitutional amendment proposal to legalize marijuana and marijuana use of all kinds. There was another ballot measure that focuses of legalizing medical marijuana. Secretary Terwilliger answered that Chair Shorma was correct. There are two separate amendments. Amendment A is on the recreational side and IM 26, deals specifically with medical marijuana.
- Commissioner Huizenga commented that he wanted to thank Secretary Terwilliger for coming in, and that with the mentioned sales tax and construction excise tax, we can thank Governor Noem for her leadership during this challenging time. As a state we are doing fine, our sales tax, and general business climate is far better off than many states in our country.
- Commissioner Huizenga asked, "What does a regulatory program cost? What does this look like? Can you touch base on that?" Secretary Terwilliger answered Thanking Commissioner Huizenga for the question and the kind comments, saying Governor Noem has shown great leadership during the pandemic not shutting down businesses and being heavy handed. South Dakota's broad sales tax is showing its true colors and we are fortunate to be in that position right now. Washington, one of the initial states to legalize marijuana, has a staff of 93 full time employees and a 12 million annual operating budget. The approval of the bill was in 2012, but because takes time before you can sell in retail and levy the taxes, start up costs were approx. \$1.25 million. The amount was calculated by a company Washington hired to do a market study. The Department of Revenue is trying to do a great deal of research and be prepared should the amendment pass.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

- David Dahl was introduced as the new Rapid City Sales Manager, and Austin Jundt was introduced as the new Video Lottery Specialist to the South Dakota Lottery.

FY20 Sales

- Instant ticket sales for FY20 were a little more than \$37.1 million. That is a 16.2% increase over FY19. We made a first transfer of \$4.4 million. The second transfer will be done at the completion of the FY20 of the audit. The Lottery will expect the second transfer to be less than last year due to the new IGT project. That contract asked for a percentage of the Lottery's instant ticket sales, however with the way the Lottery sales are progressing, the hope is to overcome that.
- The Lotto sales for FY20 were just shy of \$21 million, which is down 34.7% from FY19. The jackpots were not as high during FY20 as they were in FY19 in the Lottery's top-selling lotto game, Powerball. This affected the overall lotto sales. The first transfer was approx. \$7.1 million, the second will be upon the completion of the FY20 audit.
- Our third product, video lottery NMI (net machine income) was a total of \$234.7 million. The NMI is figured by cash in minus prizes paid out. The state's share of that was \$116.2 million. 2% growth year over year.
- During FY20, Lottery instant ticket sales and video lottery NMI both had record years. That is a huge accomplishment with the onset of COVID.

FY20 Audit

- Compliments to the Lottery team on handling both the sales increase during COVID along with the Video Lottery migration.
- 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 the second set of transfers and finalizing the Lottery's annual report. Lottery is working on the FY22 budget, with intent to present at the December meeting.
- Chair Shorma complimented the Lottery team on their implementation of the new system and working through the audit.
- Commissioner Huizenga complimented Commissioner Lingle on the inconsistency of the year and the ability to remain successful.

Video Lottery Central System Upgrade Update

Deputy Executive Director Clark Hepper reported on the following:

Timeline of Events

- Town Hall meetings are taking place to update our industry partners and the public on the what is happening on the migration. January was the start of the in-person townhall meetings, and we are currently hosting virtual townhall meetings. Three additional town hall meetings are scheduled. The September 12, 2020 town hall meeting, which can be joined by phone or online, will explain the contracts for the communication system and the site controller information equipment and the system pilot project with the site controllers. The December 4 town hall meeting will discuss the roll out.
- The testing of the system software will be completed at the end of September. The primary and backup centers in Las Vegas and Reno, Nevada will be ready by the end the month and ready to go live on the October 13.
- Operators will get Equipment and System training on October 7. The operator portal training is on October 21, which will handle the reports and billing. The SD Lottery staff will be trained to use the system. The new system is very similar to the current system allowing for limited training.

- October 26-November 3 will be the installation of the new site controllers and communication system for the 25 pilot sites. They will be on the new system for two weeks to make sure the back-office system and billing process is working correctly.
- November 4 will begin the transition of installing the new site controllers throughout the state for those who have completed the contract. The completion date is set for April 1, 2021. Operators with unsigned contracts will have their terminals turned off on April 1, 2021.
- Scientific Games has a new site location for a warehouse in Sioux Falls to help service the new system. Staff has been hired in Sioux Falls and Rapid City.
- Scientific Games has reached out to 29 operators of the 50 operators to work on contracts. Two operators have signed the contracts, 22 have the contracts in hand but have not signed them. 540 of 1,243 establishments we work with have not signed the contracts. Steve Angelo can be reached for anyone that has not had contact with IGT yet.

Marketing Report

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

- The Lottery and Lawrence & Schiller finalized the five-year contract with three additional one-year options that may be exercised at the Lottery's discretion in July.
- An updated Good Fun logo has been launched and will be featured in our Point of Sale items.
- We are beginning the process of evaluating our website and mobile app to determine our next steps. This allows us to best communicate with our customers.
- Normal advertising methods convened in August with our Thank you South Dakota campaign and a campaign centered around the new \$5 Tripler scratch ticket. The campaign focused mainly on digital elements with the addition of some standard billboards and point of sale.
- Our latest mobile app update featured the ability to scan lotto tickets. This launched at the end of July to Players Club Members. The mobile app has been downloaded more than 18,200 times and nearly 32,000 lotto tickets have been scanned since the recent update.
- We will offer a one-day lotto promotion on September 30, marking 33 years since the Lottery's first sale. Players will be able to purchase three Dakota Cash Quick picks and get one free.
- We are joining the annual New Year's Rockin' Eve promotion, where the five South Dakota winners of our October 14 drawing will be entered into a national drawing with MUSL for chance to be the First Millionaire of the Year finalists.

FY21 Instant/Online and Video Lottery Review

Business Analyst Elizabeth Burdick reported on the following:

- **Instant Sales (July 2020 only)**
 - The top 15 counties were up in lotto sales comparing July 2020 vs July 2019. Custer was down 2.6% as of the end of July, but up 17.6% as the end of August due to Sturgis Rally. Other state functions not shut down due to COVID include the State Fair and park visits, which were 6% this year compared to last year.
 - The top five counties show more of an impact due to COVID. Minnehaha was up 14.6%, Pennington 31.1%, Brown 26.6%, and Lawrence 20.3%. Lincoln was up 161.6% in part to a new store being in that region and three changes of ownership being in that county.
 - All the top 10 cities were up, with four cities being up more than 30%.
- **Lotto sales (July 2020 only)**
 - Half of the counties were down in lotto sales from last year.
 - Much of the reason for the decrease in lotto sales is the reduction in the starting jackpot amounts and the way the jackpots are calculated. For Powerball and

Mega Millions, the starting jackpots were 40 million, but are now 20 million. The jackpot increases were 10 million but are now based on sales. After this change the average Powerball jackpot increase is an average of \$8 million, and Mega Millions jackpot increase is an average of \$8.4 million for jackpots under \$200 million.

- The top Powerball jackpot for FY20 was \$198 million vs FY21 at \$126 million. The jackpots from the last half of the month this year have been up compared to the last half of the month last year, which has helped sales. We were only 1.65% as of the end of July.
- The top Mega Millions jackpot for FY20 was \$168 million vs FY21 at \$124 million.
- Only two cities saw an increase over last year. Spearfish was up 5.21% and Huron up 4.82%.
- **Video Lottery (July 2020 only)**
 - All counties except four were up from last year.
 - After the establishments that closed due to COVID reopened, the weekly net machine income has rebounded to pre-COVID numbers and has remained about the weekly pre-COVID average. Part of the increase is due to less entertainment choices.
 - Looking at the top five counties, Minnehaha was up 16.6%, Pennington 9.3%, Union 34.9%, Brown 9.5%, and Codington 39%.
 - Looking at the top 15 cities, all the cities were up except Brookings which was down -0.08%.
- Overall, all the products are seeing an impact from COVID. Instant sales are seeing a positive impact as some statewide events continue to be held. Instant products are still being sold in essential businesses. Across the nation, instant sales are up with South Dakota trending just above the nation-wide average. Lotto sales have seen a negative impact due to the lowered jackpot amount and the calculated jackpot increases. South Dakota is trending better than our Lotteries of interest, Colorado, Delaware, Minnesota, Montana, and Nebraska. However, our sales could still use some improvement. Our video product has seen a positive impact as fewer entertainment options are being offered throughout the state.

Sales Report

Director of Sales Marla Gruber reported on the following:

- As of August 31, instant sales are pacing at a 29.3% increase over last year.
- We have had 18 top prizes won across the state including a \$100,000 in Yankton.
- Additional top prize winners include four \$50,000 winners (Huron, Rapid City, Aberdeen, and Parkston), and five \$30,000 winners (Elk Point, Spearfish, Watertown, and two from Sioux Falls). The SD Lottery had more than 70 \$1,000 winner and more than 680 \$500 winners.
- Instant tickets combined paid out \$6,851,000 in the last 3 months.
- The new Holiday tickets will be launching October 5. They will include the \$1 Winter Bucks, the \$2 Candy Cane Tripler, the \$5 Holiday 7's Multiplier, which is printed on a holographic foil stock, The new \$3 price point ticket Holiday Fun features a horizontal design and prizes ranging from \$3 to \$100 so that they may be cashed at retail locations, increasing retail traffic.
- The new \$20 Money will launch in October. This ticket is printed on a special stock paper and includes a horizontal design.

- The monthly game gallery will be printed each month and hand delivered to retailers. It will show the UPC codes, selling points, present new games, games launching soon, and games close to ending.
- The launch schedule has been set out until June 2022. This will help everyone work as a group in an efficient manner.
- Lotto Sales as of August 31 shows a 2.43% decrease. In August, two jackpots were claimed resulting in the small decrease. The claimed jackpots were the \$165 million Powerball and the \$4.2 million Lotto America.
- As of August 31, projection of instant net transfer for FY21 are instant at \$5.60 million and lotto at \$5.08 million net transfer vs FY20 which are instant at \$4.41 million and lotto at \$7.13 million net transfer (unaudited figures).
- Net Machine Income as of August 31 is pacing 14.63% over FY20.
- FY21 state share revenue is projected to be at \$133.19 million vs FY20 \$116.48 million.
- Total FY21 Revenue budget as of August 31 including video lottery, instant games, and lotto games total \$143.87 million vs FY20 at \$128.02 million.
- Commissioner Huizenga noted that he appreciated the freshness on the new scratch tickets. The graph with the Net Machine showed March and April as rough, but it seems to have come back. It looks like from the tourism standpoint out-of-staters coming into South Dakota, hopefully, are participating in the lottery. There is a tremendous amount of money the South Dakota can use as a result of the South Dakota Lottery's revenue. He appreciates the work of everyone at the South Dakota Lottery.

Video Lottery Report

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

- As of August 31, 373 video lottery establishment renewals were mailed out. The Lottery has received completed renewals from 230 establishments.
- There are 8,964 VL terminals for FY20 and 9,128 for FY21. These numbers put SD Lottery at 73% of available terminals in the current market. 50% are Legacy (4,549) and 50% (4,579) are line machines.
- The average Net Machine Income per machine per day is \$51.59 for Legacy and \$96.50 for line machines.
- In order to comply with Multi-State Lottery Association (MUSL) Rule 2 we are required to participate in an annual security certification. The objective is to review compliance and analyze the Lottery's system of controls. The review covered 90 questions with the focus being the Computer Gaming System (CGS) and Internal Control Systems (ICS). The annual security certification was complete and sent to MUSL at the beginning of June.
- There are currently five licensed manufacturers: Ainsworth Game technology, Grover Gaming, Grand Vision Gaming, IGT, and SGI. Ainsworth Game technology (AGT) is the newest member as of July 1 by buying out MDT.
- There are three manufacturers making updates to existing software equipment. These updates will enhance game performance in our current market. Grand Vision has a conversion kit that upgrades a single-monitor cabinet to a dual screen cabinet with upgraded software. IGT and Grover Gaming both have new cabinet and software requests.
- New testing begins on software when a manufacturer submits software to Gaming Laboratories International (GLI) for SD Lottery. At that time GLI will notify the Lottery that a request has been made. GLI will evaluate submissions for compliance to SDL regulatory requirements, conduct interop testing on the SDL central test system, and provide notice to SDL and the manufacturer when testing is complete and ready for certification. At that time, South Dakota Lottery will conduct interop testing which takes 3-5 days. They will issue a letter to the manufacturer indicating BETA testing can begin, grant approval based on BETA testing results, and send a final letter to the manufacturer granting approval for use in production.

- Chair Shorma states that the last meeting was the first meeting where the new machines are taking over the legacy machines in terms of number of machines. It seems like it is continuing in that direction. That is a good thing. It looks like the investment is giving a good return.

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:

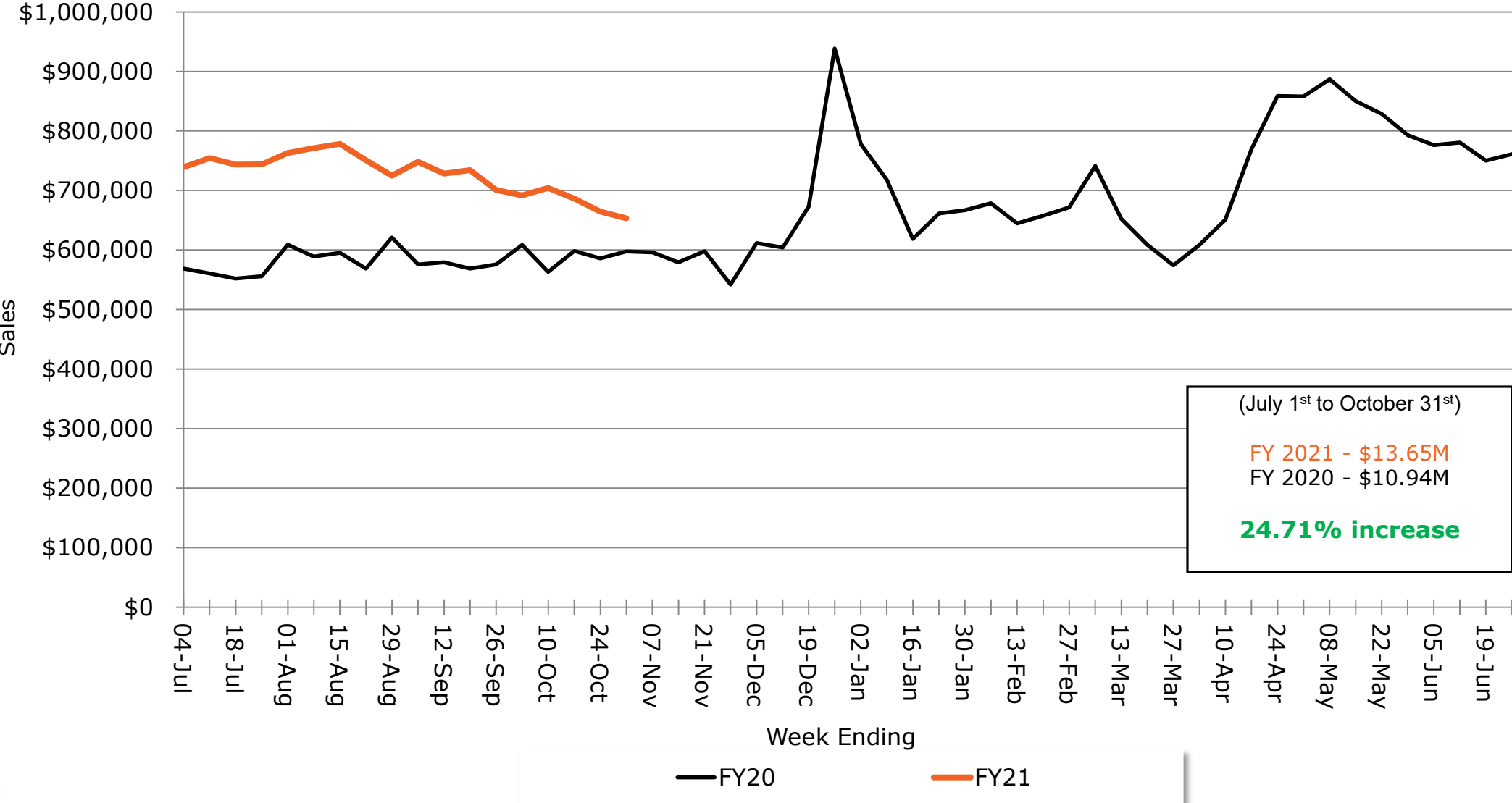
Director Lingle stated Thursday, December 3, 2020 is the next meeting with the location to be determined. We will reach out to schedule a special meeting if needed.

ADJOURNMENT

Commissioner Wheeler motioned. Commissioner Kafka 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.

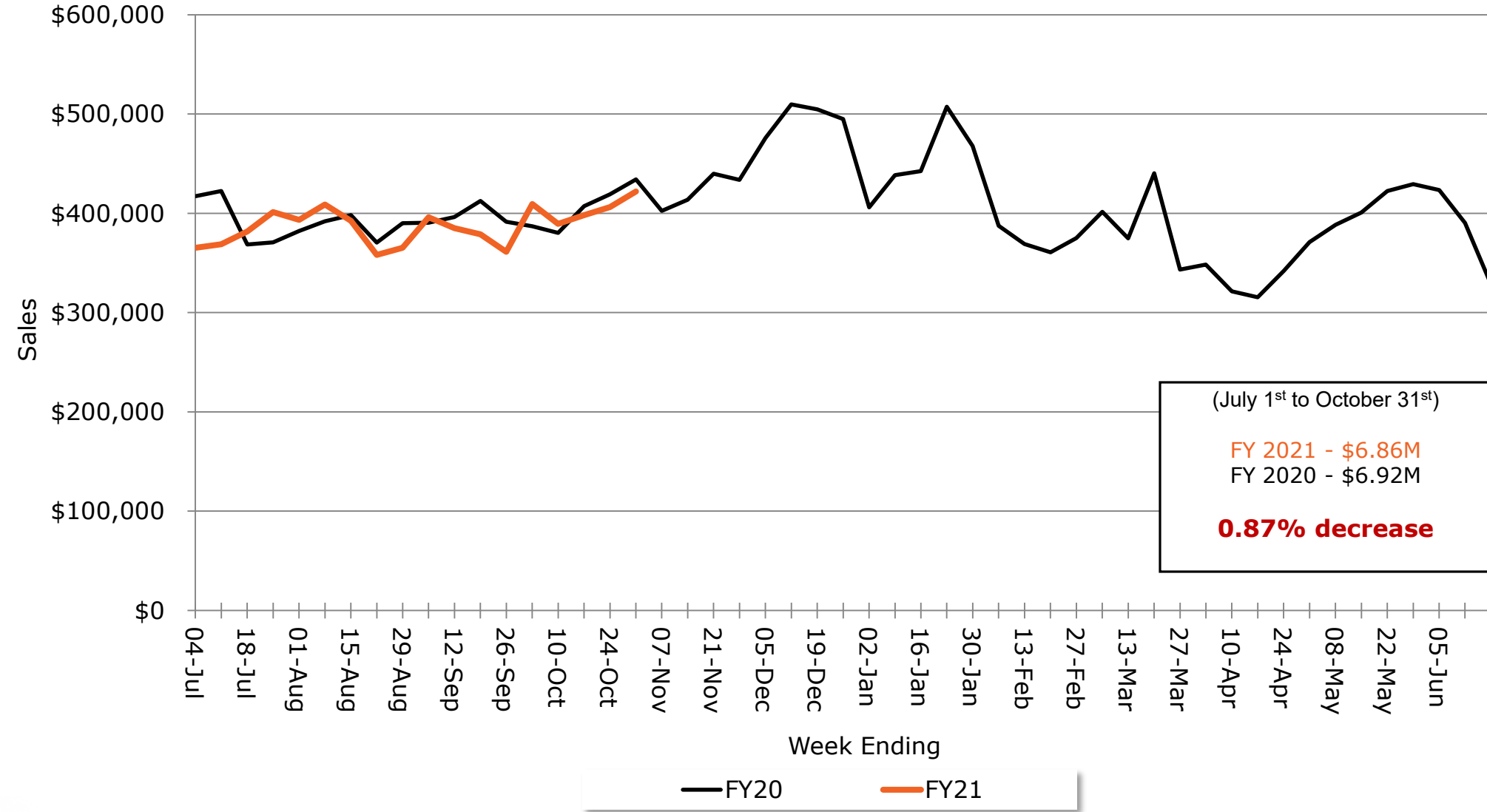
Instant Ticket Sales



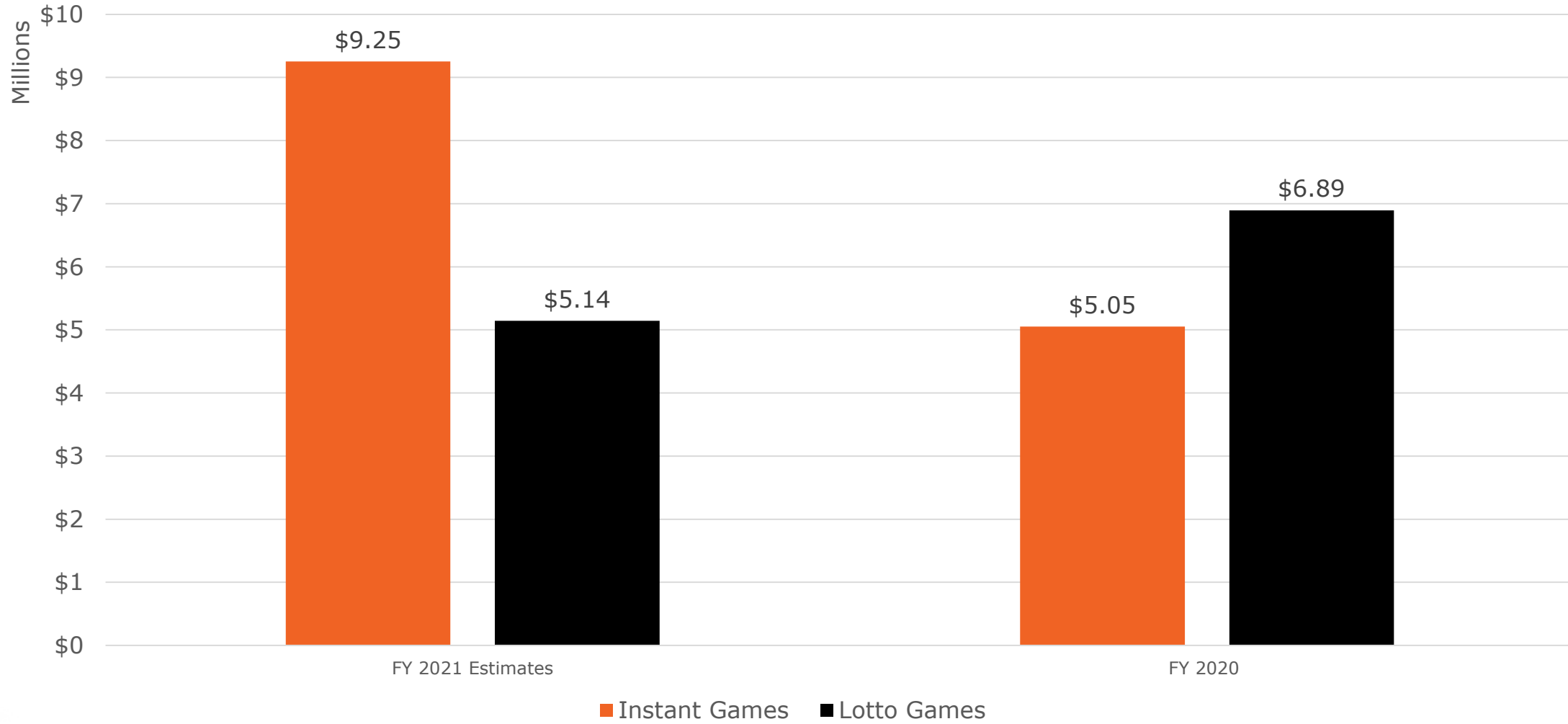
(July 1st to October 31st)
 FY 2021 - \$13.65M
 FY 2020 - \$10.94M
24.71% increase



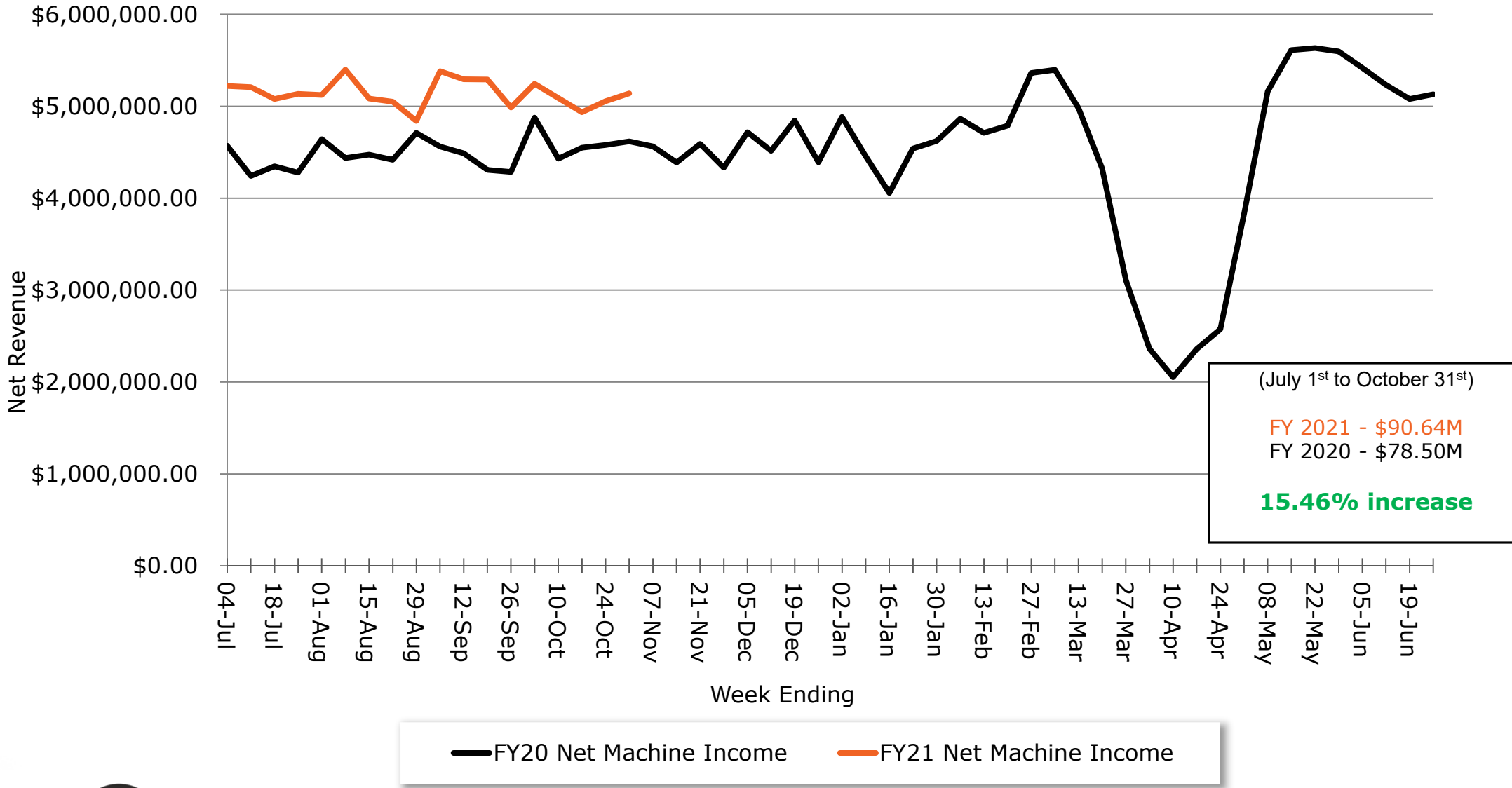
Lotto Sales



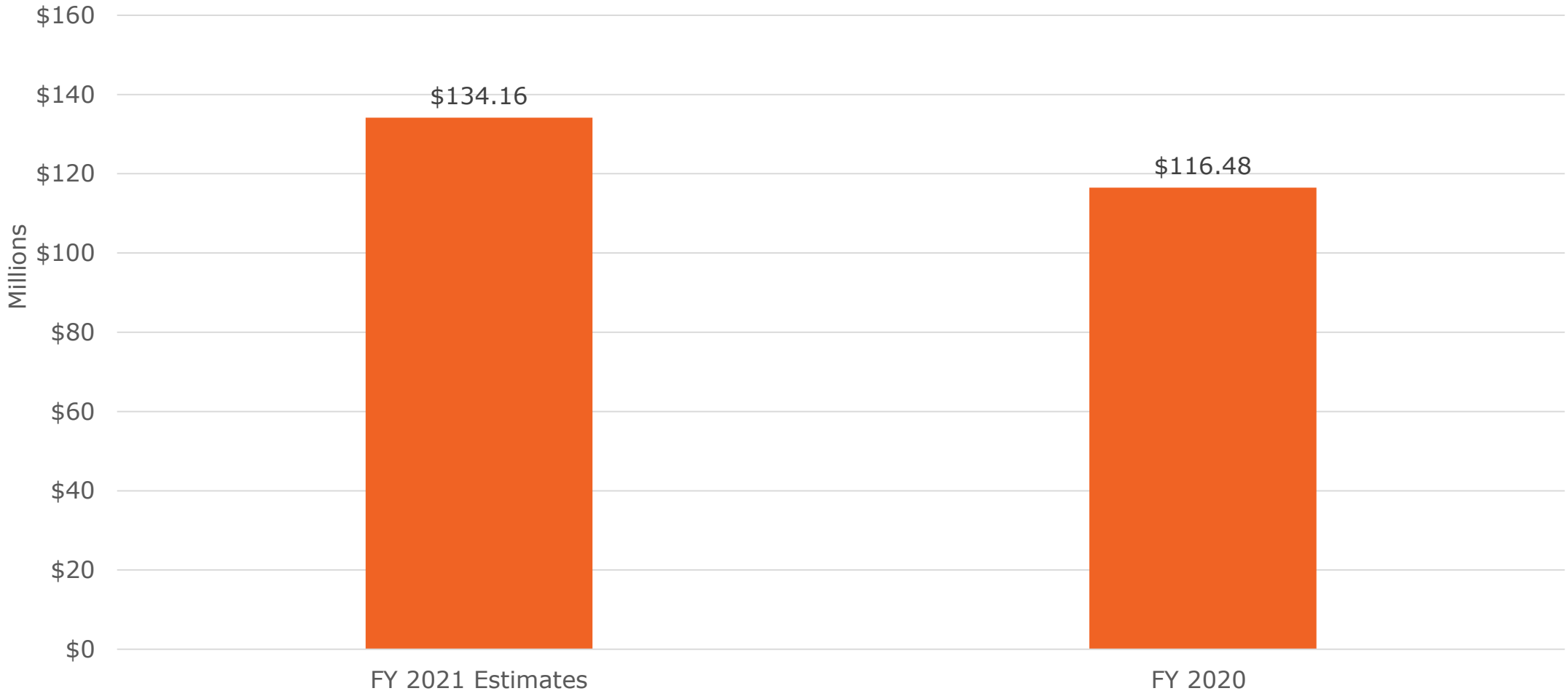
Instant and Online FY21 Revenue Projections as of October 31, 2020



Net Machine Income



Video Lottery FY21 State Share Revenue Projection as of October 31, 2020



Total FY21 Revenue Projections as of October 31, 2020

