



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, September 16, 2021 – 9:30 a.m.

UNAPPROVED

Chair Shorma called the September 16, 2021, meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Vice Chair Ahrendt, Commissioner Kafka, Commissioner Huizenga, Commissioner Rozum, and Chair Shorma participated in person. 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, Marla Gruber, Jordon Kitts, Wade LaRoche, Nathan Remmich, and Megan Gross.

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 JUNE 10, 2021 MEETING

Commissioner Rozum had a correction on page three, the incorrect spelling of her name. Chair Shorma asked for a motion to approve the minutes with the change, motioned by Vice Chair Ahrendt, and seconded by Commissioner Huizenga. 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.

NOMINATIONS FOR CHAIR AND VICE CHAIR

Chair Shorma asked for Chair nominations. Commissioner Huizenga nominated Chair Shorma, seconded by Commissioner Kafka. No other nominations. A roll call vote was taken. All in favor. Motion carried.

Chair Shorma asked for Vice Chair nominations. Commissioner Huizenga nominated Vice Chair Ahrendt, seconded by Commissioner Kafka. No other nominations. A roll call vote was taken. All in favor. Motion carried.

SECRETARY OF REVENUE'S COMMENTS

Secretary Jim Terwilliger reported on the following:

Department of Revenue Update

- June 30, 2021, closed FY21 leading into the comprehensive annual financial report season.
- More than 1,000 vendors were present at the Sturgis Rally, vendors yielding \$1.8 million in tax collections.
- Ten Department of Motor Vehicle kiosks, with new features, were purchased using COVID relief funds.
- Staff has been working with the Department of Health on implementing the Medical Cannabis Program, which went into effect July 1.
- Amendment A is still awaiting a decision from the South Dakota Supreme Court.
- Sports wagering is now available at three entities within Deadwood city limits.
- Staff has been implementing new Strategic Plan initiatives.
- A new version of the SD CARS system is expected to go live by the end of 2021.
- The Property Tax Division is streamlining the data exchange between themselves and their county partners.
- The Department of Revenue began planning for the replacement of the CEDAR system and preparing for the 2022 Legislative Session.
- FY21 tax revenues are continuing strong.
 - Sales tax is up 13% and holding steady (historically, the 20-year average is 5%).
 - Contractor excise tax is up 17%.
 - General fund is up a little less than 10%.

Vice Chair Ahrendt asked for an average on the contractor's excise tax. Secretary Terwilliger answered that the average over the last 20 years would be in the range of 5-7%.

Vice Chair Ahrendt also asked if the Department of Revenue had seen a lot of action from the three sports wagering entities in Deadwood. Secretary Terwilliger answered that it's too early to tell.

Vice Chair Ahrendt asked if there were any plans for the remaining relief funds. Secretary Terwilliger answered that the COVID-19 relief funds have already been allocated and plans for the remaining half of the American Relief Funding Act funds have not been decided.

Commissioner Kafka asked what the state's take is on sports betting in terms of revenue. Secretary Terwilliger answered that it will be taxed like the gaming in Deadwood. It would include an eight percent gaming tax, a portion of which goes to fund the Department of Tourism, \$6.8 million to the city of Deadwood, then it would be distributed to other areas.

Chair Shorma asked if it is true that there is no expectation sports wagering will bring in significant revenue. Secretary Terwilliger answered, correct, it will not be a game-changer.

Chair Shorma asked if Secretary Terwilliger had any sense of how the infrastructure bill would impact South Dakota. Secretary Terwilliger answered that because it is a multi-year bill, he is unsure of the impact it would have at this point.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

FY21 Sales (unaudited)

- Instant \$47.5 million in FY21 vs \$37.1 million in FY20, a growth of 32.7% (\$10.4 million).
- Lotto \$26.1 million in FY21 vs \$21 million in FY20, a growth of 16.7% (\$5.1 million).
- The state share of video lottery \$148.8 million in FY21 vs \$116.2 million in FY20, a growth of \$32.6 million (28.6%).

In August 2022, the contracts with Pollard Bank Note and Scientific Games for the printing of instant games will expire. A Request for Information was sent in June and will be used to issue the Request for Proposal around the first of 2022. At the June 2022 commission meeting, the South Dakota Lottery aims to have recommendations.

The Legislative Audit is expected to wrap up at the end of September.

Nathan Remmich joined the Lottery at the end of July as the new Business Analyst.

Commissioner Rozum asked if the South Dakota Lottery can evaluate if retailers have increased sales with Gemini vending machines. Executive Director Lingle answered that it's too early to give a definitive answer, but he hopes to have more information in December.

Marketing Report

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

The Lottery, in partnership with Lawrence & Schiller, produced a series of videos to communicate the Lucky for Life game change and general lotto and instant awareness. Montana, Iowa, and Kansas have shown interest in using the videos with the stipulation of the licensing fees.

While on her prize-winning trip to Las Vegas, James Bond Second Chance winner Shannon Keeble won an additional \$13,100 in the James Bond Lottery Challenge.

The South Dakota Lottery is participating in their third consecutive Powerball First Millionaire of the New Year promotion. South Dakota Lottery players can enter their non-winning Double Play tickets into a second chance drawing to choose three finalists. The finalists will be entered into the nationwide Powerball First Millionaire of the New Year drawing.

Sales Report

Director of Sales Marla Gruber reported on the following:

Instant

- As of August 31, instant sales are up 7.75% over FY21.
- Gemini vending machines are showing combined sales of about \$3,000 a day.
- Holiday tickets will launch on October 4.
- Over \$7,400,000 in instant prizes have been paid over the last three months.
 - \$50,000 – Cenex in Parkston.
 - \$40,000 -Gold Dust C Store in Deadwood and Flying J in Rapid City.
 - Over 440 \$500 winners.
- The new 24-game menu boards with lighting will be placed in 31 of the 47 Casey's General Stores across the state.

Lotto

- As of August 31, lotto sales are up 19.22% over the same time last year.
- A \$2 million Powerball ticket was sold at Hy-Vee in Yankton on August 28.
- Over \$1,160,000 in lotto prizes have been paid over the last three months.
 - \$100,000 Powerball – Sioux Falls

- \$78,667 Dakota Cash – Rapid City
- \$10,000 Mega Millions – Rapid City
- \$5,000 Lucky for Life – Mobridge, Hot Spring, Sioux Falls

Sales (as of August 31)

- Instant - \$6.66 million in net transfers vs. \$6.18 million in FY21
- Lotto - \$7.76 million in net transfers vs. \$8.36 million in FY21
- Net Machine Income - 18.59% over FY21
- State share revenue - \$176.25 million vs. \$148.61 million in FY21
- Total projections - \$190.66 million vs. \$163.16 million in FY21

FY21 Instant and Online Review

Deputy Executive Director Clark Hepper reported on the following:

Instant Review (for the first quarter)

- Instant ticket sales have more than doubled since 2011, peaking in 2021 at \$47.53 million.
- Projections for FY22 have a 3.34% decrease in instant ticket sales based on first-quarter sales trends.
- All top ten cities showed an increase, with the top four more than 35%.
- Todd County showed the largest percentage increase at 92.7% over FY21.
- County decreases were due to the pandemic, where stores experienced low sales and closures.
- Three of the top ten cities showed growth of over 10%. The highest was Spearfish at 19.77%. Yankton was the lowest at a decrease of 12.71%.
- There was an overall increase of 7.75% on instant sales in the first quarter of FY22.

Online Review (for the first quarter)

- FY22 projected online sales are \$24.2 million, a decrease from FY21 of 7.25%.
- Large jackpot runs for both Mega Millions and Powerball in FY21 helped boost sales.
- Forty-five of the 60 counties have shown double-digit increases year over year for the first quarter due to the new game changes and large lotto jackpots.
- Harding County saw the highest growth with 46.1%, and Campbell County saw the largest decrease with 7.2%.
- The top ten cities saw an overall growth rate of 19.22%. The highest growth was Huron at 29.07%.
- Lucky for Life game change occurred on July 19, 2021. It went from two days a week to a daily draw and has brought a 60% increase in sales.
- Powerball had a game change on August 23, 2021, sales have increased by 42% since the Double Play feature and Monday draw was implemented.
- There has been no indication of a loss in sales from the other lotto games because of the change.

Chair Shorma asked if there were any game changes expected in 2022. Deputy Executive Director Hepper answered no, the Lottery is only monitoring the effects of this year's changes.

Video Lottery Report

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

Establishments

- The number of active video lottery establishments for FY22 is 1,257 compared to 1,243 in FY21.
- Eighty-five percent of the first-quarter establishment renewals have been received.
- Video lottery has 9,492 terminals, or 76% of the available terminals in the current market, a 3.99% increase over FY21.

- Line machines have steadily increased 30.89% over the last two years, while Legacy machines have decreased 15.53%.
- Line machines bring in \$115.68 per machine per day, compared to Legacy machines at \$62.72 per machine per day.
- For August, line machines continued to show a steady growth making up 58% of the total machines in our market and producing over 70% of the overall net machine income statewide.

GLI provides independent testing for video lottery manufacturers and is under contract with the South Dakota Lottery to provide testing services. GLI conducts interop testing to ensure new or upgraded software is compatible with the central system. Once approved by GLI, the South Dakota Lottery will perform its interop testing. Finally, BETA testing is performed. When all three stages are complete the software is approved for use in the Lottery's market.

Before the two lotto game changes and the release of the vending machine, IGT was required to make software changes to accommodate new enhancements. IGT performed QA testing, which identified and fixed problems in the software, then turned it over to the Lottery for User Acceptance Testing. Once finished, IGT staged and released the software on the go-live date.

Instant games have the same testing process as vending machines. Lottery staff performs CAT testing on a pack of each instant ticket game to ensure tickets are read correctly. The Lottery will work with the print vendor and IGT to address issues.

The Lottery is using its media and resources to participate in statewide Amber Alerts. Once the Lottery has been notified of an Amber Alert from DCI, a burst of critical information will be provided by the Lottery and its partnering agencies to increase the chances the child is returned home safely.

Chair Shorma asked for updated information on the new video lottery system catching false lottery tickets. Director Kitts stated that the burglary reports have not shown false lottery tickets attempting to be validated but have shown an increase in attempts to break into the machine causing physical damages.

Chair Shorma asked what happens when the machine is no longer used. Director Kitts states that the operators keep the machine to take it apart for parts or reach out to the manufacturer. Director Lingle states that machines are stripped of usable parts which the operator will keep for future use, then take the machine to the landfill. If there are no usable parts the operator can purchase from another operator or reach out to the manufacturer.

Director LaRoche confirms to Chair Shorma that the Lottery will be participating in the annual Gift Responsibly campaign this holiday season.

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, December 9, 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.