



Commission Members

William Shorma - Chair
Joe Kafka – Vice Chair
David Wheeler
Jason Ahrendt
Jamie Huizenga

Minutes of the Commission Meeting

Room 412, Capitol Building Pierre, SD
Thursday, November 29, 2018

APPROVED

Chair William Shorma called the November 29, 2018 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Chair Shorma, Commissioners Wheeler, Ahrendt and Huizenga participated in person. Commissioner Kafka attended by teleconference.

SUPPORT STAFF PRESENT

Norm Lingle, Clark Hepper, Tom Helland, Angela Bieber, Elizabeth Burdick, Brandi Hoerner, Mike Houdyshell, John Hanson, David Wiest and Secretary Gerlach.

APPROVAL OF THE AGENDA

Chair Shorma asked for a motion to approve the agenda. Commissioner Ahrendt motioned to approve the agenda. Commissioner Wheeler seconded the motion. Roll was called: Shorma -Aye, Kafka - Aye, Ahrendt - Aye, Huizenga - Aye, Wheeler - Aye. Motion passed with no objection.

APPROVAL OF THE MINUTES FROM THE SEPTEMBER 14, 2018 MEETING

Chair Shorma asked for a motion to approve the agenda. Commissioner Ahrendt motioned to approve the agenda. Commissioner Wheeler seconded the motion. Roll was called: Shorma -Aye, Kafka - Aye, Ahrendt - Aye, Huizenga - Aye, Wheeler - Aye. Motion passed with no objection.

CONFLICT OF INTEREST

Chair Shorma asked if there were any conflicts of interest. There were none.

SECRETARY OF REVENUE COMMENTS

Secretary Andy Gerlach reported on the following:

Remote Seller Implementation

- South Dakota's remote seller law went into effect on November 1.
- Educating and licensing remote sellers is a primary focus.
- Passage of 2016's Senate Bill 106 (as of 11/27/18):
 - 1,023 remote sellers licensed
 - \$4.73 million total tax remitted (state and municipal)
- DOR and BFM are working to develop a system to track and report new revenues as a result of the remote seller law.

Internal Control Efforts

- DOR has partnered with BFM and Price Waterhouse Coopers (PwC) to evaluate our internal control process.
- Each DOR division has worked through risk identification, risk prioritization, and controls identification.

Governor Transition

- The Daugaard Administration is working with Governor-elect Noem's team to ensure a smooth transition.
- Each state agency submitted a transition document to assist the incoming administration.
- Next steps include each agency providing a brief to Governor-elect Noem's team.
- Governor Daugaard will provide budget recommendations in December.

Chair Shorma commented that the Partridge Amendment shows if we raise \$20 million in sales tax, the sales tax will reduce from 4.5% to point 4%. Secretary Gerlach agreed.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

Personnel changes to the Lottery

- Joanne Brandlee, our Sales Representative based out of Aberdeen. Joanne will be retiring from the South Dakota Lottery on January 4, 2019 after 28 years of service. Scott Howard will join the Lottery on December 10, 2018 as Joanne's replacement.
- Michael Houdyshell is Chief Legal Counsel for the Department of Revenue. He will be working with the Lottery.

Fiscal Year 2018 Audit

Fiscal Year 2018 Audit was conducted by the Department of Legislative Audit. Audit was completed in September with no findings. The clean audit is attributed to the efforts of the finance staff; John Hanson, Tonya Johnson, Aric Frost, Patty Kirby, and Julie Pirnat-Schultz. This would be 20+ years of clean audits.

Fiscal Year 2018 Transfers

- Instant ticket sales \$30.18 million. This is year over year increase of 15.8%. Net revenue transferred was \$6.4 million. This was an increase of 22.1% compared to fiscal year 2017. All the net proceeds from instant ticket sales go to the state general fund.
- Lotto ticket sales \$28 million. This is a year over year increase of 21.7%. Net revenue transferred was \$8.39 million. This was an increase of 23.9%. First \$1.4 million lotto net revenue proceeds go to the state general fund with the remainder going to the capital construction fund.
- Video Lottery sales state share of net machine income was \$109.2 Million. This was an increase of 3.4% compared to fiscal year 2017. Proceeds go to the state general fund.

ONLINE CENTRAL SYSTEM AND RELATED SERVICES RFP RECOMMENDATION

Executive Director Norm Lingle reported on the following:

Current contract is with IGT that expires August 2019. A 180 day extension is available. To allow ample opportunity for the vendor to build, prepare, and install the new system, we will be asking to extend the current contract from August 2019 to November 2, 2019.

Objectives of RFP

- Updated technology. The current system is 10 years old.
- Installing new technologies will help gain efficiencies.
- Enhanced analytical tools will help grow and continue the revenue stream to the state of South Dakota by making data driven decisions. The Lottery will receive a new back office system. The current back office system was purchased in 1992 with one update during Y2K. The graduates coming out of school are not main frame programmers which is what the current system is. The back office system tracks inventory, activates the instant tickets, validates tickets and is a key component to the lottery operations.

RFP Timeline

- Published RFP January 31, 2018.
- Vendors submitted questions February 23, 2018.
- Lottery responds to questions March 9, 2018.
- Vendors submitted 2nd round of questions March 16, 2018.
- Lottery responded to 2nd round of questions March 20, 2018.
- Proposals submission deadline April 20, 2018.
- Evaluate proposals – including demonstrations and site visits May-August 2018.

- IGT meeting October 30, 2018.
- South Dakota Lottery Commission meeting November 29, 2018.
- Proposals received from Intralot, IGT, Pollard Bank Note – Loyalty Program Only, and Scientific Games.
- Scoring for rating of RFP. A perfect score would be 100%. IGT scored the highest at 80.33.

Recommendation for RFP

Lottery recommends continuing doing business with IGT due to the following;

- Service Quality – IGT has been a good stable partner in the past. Good field service staff. Excellent working relationship with Lottery staff.
- Data Security – They test their backup data on a monthly basis. Vendor owned data centers. Primary system will be housed in the IGT owned center in Austin, TX. Backup system will be in West Greenwich, RI.
- Implementation and Price
- Enhanced system – Sales reps will be able to view data in real time. Advanced analytical capabilities and future proofing will also be available.
- Pricing comparison between Scientific Games and IGT. Bulk of their pricing is a percentage of Lotto and Instant sales.
- The wizard analytic tools offered by IGT will be key to helping the lottery grow.

IGT Sales Force Tools

- Performance wizard – Data visualization, reporting, and analysis tool.
- Order wizard – Predictive ordering tool.
- Sales wizard – Sales force automation tool that includes real time data reporting and visualizations for the Lottery sales reps.
- Retailer wizard – Retailer portal that includes location-specific data.

Negotiated System

- \$500,000 payment in fiscal year 2019.
- 7.227% Lotto and Instant sales yearly fee.
- Total cost during the past 5 fiscal years is estimated at \$12,260,667. (7.38% of Lotto sales plus \$56 per month per retailer/communication fee)
- The vendor has a vested interest in growing the Lottery since they will be paid on a percentage of sales.

New System components

- New back office, New primary, backup and test central gaming system, New primary, backup, and test internal control system.
- New terminals at retailers and new ticket checkers at retailers.
- New ESMM screen capable of animation at retailers.
- Marketing support.
- New retailer recruitment support.
- 50 Gemini ultra vending machines (Lotto/Instant).
- Performance Wizard, Retail Wizard, Sales Wizard, Order Wizard.
- \$25,000 annual allowance (may be carried over to following years) for research and development.
- \$25,000 annual allowance (may be carried over to following years) for marketing.
- Ispeak Professional Development.

Chair Shorma asked for a motion to approve the South Dakota Lottery agreement with IGT. Commissioner Huizenga moved for approval for the South Dakota Lottery to enter into an agreement with IGT for an Online Gaming system and Related Services pursuant to Request for Proposal #1160 Online Central System, Video Lottery Central System, and Related Services. Motion seconded by Commissioner Ahrendt.

Comment by Chair Shorma highlighted that the revenue incentive puts pressure on IGT and the South Dakota Lottery Commission to pursue a joint grow of growth. This benefits the vendors, citizens of South Dakota to create additional dollars of revenue to the state general fund. The cost will be higher to upgrade in technology, but in return grow revenue. Commissioner Wheeler agrees with the upgrade in technology is needed.

Roll was called: Shorma -Aye, Kafka - Aye, Ahrendt - Aye, Huizenga - Aye, Wheeler - Aye.
Motion passed with no objection.

Chair Shorma asked for a motion to extend the current agreement with IGT. Commissioner Huizenga moved to extend the current agreement with IGT for Online Gaming System and Related Services from August 2, 2019 to November 2, 2019. Motion seconded by Commissioner Ahrendt.

Roll was called: Shorma -Aye, Kafka - Aye, Ahrendt - Aye, Huizenga - Aye, Wheeler - Aye.
Motion passed with no objection.

* The motion passed does not include the Video Lottery System. What the commission passed was an online gaming system and back office.

FY20 BUDGET REQUEST

Executive Director Norm Lingle reported on the following:

Instant/Online – Informational Budget

Instant and Online Budget are status quo budgets and not asking for an increase. A few highlighted items below:

- Fleet and Travel expenses for Lottery Sales Reps vans, which is the primary travel expense for the travel budget.
- Computer consulting includes 7.38% of Lotto sales that IGT receives.
- Computer services expenses include BIT development costs that maintain the acclaims system.
- Central services, fees associated with BHR and BFM.
- Instant ticket delivery expenses are through UPS, which is used to ship tickets from warehouse to retailers.
- Payment to the Multi-State Lottery Association, which is the central point for the online games and fees associated.
- Retailer commission and prize expenses. As sales increase these expenses increase as sales decrease the expenses decrease.
- Escrows to Reservations include 11 retailers within the boundaries of the reservations that receive 50% of the net proceeds from instant sales.

Video Lottery Budget

This budget is controlled by the legislature and is reported through the Department of Revenue's budget. A few highlighted items below:

- Computer services, fees for BIT, electronic forms, electronic application.
- Scientific games fees are for support for the Video Lottery central system. .3% of net machine income. This is also based on sales. Increase in sales will show an increase in expense. A decrease in sales will have a decrease in expense.
- Telephone, nightly polling of video lottery terminals. Poll data nightly from 1300 establishments.
- Inspection services include an agreement with the department of public safety to do a machine inspections and establishment inspections.
- Department of Social Services, \$214,000 is set aside for gambling treatment every year.

Chair Shorma asked for a motion to approve the FY2020 budget. Motion moved by Commissioner Wheeler and seconded by Commissioner Huizenga.

Roll was called: Shorma -Aye, Kafka - Aye, Ahrendt - Aye, Huizenga - Aye, Wheeler - Aye.
Motion passed with no objection.

MEGA MILLIONS AND POWERBALL JACKPOT RUN REPORT

Deputy Executive Director Clark Hepper reported on the following:

Two jackpot runs happened simultaneously that impacted sales.

- Mega Millions jackpot run started July 27 and went through October 23. It reached a height of \$1.5 billion. The winning ticket was sold in South Carolina. This was the second highest jackpot in the history of the lottery. The run was 26 draws before a winner was produced.

- Powerball had a jackpot run from August 15 to October 27. It reached a height of \$678 million that produced two winning tickets, one in New York and one in Iowa. The run was 22 draws before a winner was produced.

Fiscal Year 2019 Online Sales

- Lotto sales on average generate about \$2 million a month. There was a significant sales increase during the jackpot run.
- Went from a 20% decrease year over year at the end of September on the lotto sales to a 20% increase at the end of October.
- Fiscal year 2018 Powerball sales made up 52% of total lotto sales while Mega Millions was 17%.
- Fiscal year 2019 Mega millions accounts for about 40% while Powerball has account for 38% of lotto sales. Creates further evidence of the impact jackpot runs have on sales.
- Online sales were down in all counties as of September 30 year over year. Significant change happened in sales after the jackpot runs by October 31. One county alone went from a 44% decrease to only a 0.1% decrease.
- Started to see a significant increase in sales when Mega Millions hit the \$336 Million range. There was a steady increase in sales until it hit \$667 million then another increase took off again.
- Powerball had a significant increase in sales around the \$320 million range until the Mega Millions jackpot hit the week prior causing a decrease in the Powerball sales before the jackpot hit at \$687 million.
- Ipsos did a study to show that the average spent on the Mega Millions jackpot run was around \$40 per person which was down from a 2016 Powerball run of \$65 per person. The jackpot run players are not your typical lotto style players, but play when jackpots are high which helps boost sales.
- The billion is the new million. It takes a billion to boost player interest.

Fiscal Year 2019 INSTANT TICKET REVIEW

Business Analyst Elizabeth Burdick reported on the following:

Fiscal Year 2019 Instant Ticket Review

- 41 counties had a 10% or greater increase in sales from last year as of the end of October. 5 counties had more than 50%.
- 9 of the top 10 cities had a 10% or greater increase in sales from last year as of the end of October.
- Top selling instant tickets for July 1 - November 10 cover a range of playstyles and price points.
- The top four tickets are the \$10 and \$20 tickets, however the \$5, \$50,000 Bonus Play ticket, has a unique feature of another game on the back of the ticket and it ranked above the \$10 game \$50 or \$100, which ranks 6th in sales and only 11th in revenue. This is due to the payout % being tweaked to accommodate the \$50 and \$100 prizes.
- Revenue ranks for the games are different than the sales ranks.
- Payout percentage, ticket art, odds, theme, playstyle, and top prize amounts can create differences in both sales and revenue.
- The Trucks and Bucks game launched on April 2, 2018 and is a good example of how sales start off strong and steadily decreases the longer the ticket remains for sale and top prizes go out.
- The games will last depending on price point, as you go up in price point fewer tickets get printed. A \$20 ticket could be for sale for up to two years and a \$1 ticket could be six months. When the last top prize is claimed on a ticket the game gets pulled. Typical sell through is between the 82-83% of inventory.

Sales and Public Relations/Advertising Report

Director of Sales Tom Helland reported on the following:

Instant ticket sales, rely on the holiday period to perform. Lotto sales had to follow two jackpot runs from last year and the two recent jackpot runs help catch us up from fiscal year 2018. Video lottery is on the same trend as last year with a 3-4% increase this year. More sales create more winners.

Roquel Moffer from Fort Thompson was the winner of our second chance Trucks & Bucks truck giveaway. The non-winning ticket was purchased at Fuel Mart in Spencer, SD. It was chosen from over 90,000 entries of non-winning tickets. Drawing was on October 12, 2018. She custom ordered a Ford F150 from Vern Eide Ford in Mitchell, SD. There is still an instant win truck out there.

Since September we have had 10 winners of \$50,000 or more. Six winners were from lotto games and four from instant tickets. Winners reside all over the state.

Christopher Whitley from Redfield was a Lucky For Life winner. He is the second one in South Dakota that won a second place prize of \$25,000 a year for life or the lump sum of \$390,000. He chose the lump sum. This drawing was held on October 10, 2018.

When Luck Calls, Scratch It campaigns are being implemented on radio, tv, and print. Plus other paid media and social post are being used.

The holiday campaign, Jolly Good Fun, has started off the holiday season. Four new holiday themed scratch games are now in stores. \$1, \$2, \$3, and \$5 games. The POS in retailers consists of posters, window clings, and ceiling danglers. We are using Holiday magazine ads, tv, and mall spots to help reach shoppers.

A handful of states are selling tickets through mobile devices and scratch tickets. Lawrence & Schiller from Sioux Falls, SD has been handling ad campaigns for the Lottery for over two years.

Public Comment

Chair Shorma:

Vice Chair Shorma invited anyone from the public to come up for comment. There were no comments from the public at this time.

NEXT MEETING DATE

Executive Director Norm Lingle reported on the following:

Director Lingle stated the next meeting date is to be determined.

ADJOURNMENT

Adjourned at 11:22 a.m.