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To: South Dakota Lottery Commission

From: Norman Lingle
Executive Director

Re: March 21, 2018 Lottery Commission Meeting

Date: March 16, 2018

The March 21, 2018 meeting of the South Dakota Lottery Commission will begin at 11:00 a.m. The meeting will be held telephonically. The public may join and participate in the meeting by attending Room 413 of the Capitol Building in Pierre. The public may also listen to the meeting via the internet at this link: <http://www.sd.net/room413/>

I would like to highlight the agenda items.

Since Commissioner Fahren's term has expired, the Commission will need to elect a Vice Chair. This is one of the first agenda items.

The 2018 Legislative Session was relatively quiet from a South Dakota Lottery perspective. I will report on a couple of bills that either would have impacted the Lottery or will impact the Commission going forward.

As mentioned at previous meetings, the Lottery has issued a RFP for an Online Central System, a Video Lottery Central System and Related Services. I will provide an overview of where we are at in the RFP process and the next steps.

Clark will provide an update of the Protocol (Legacy Terminals) Discussions that have occurred with some of our Licensed Operators. He'll also talk about what some of the next steps will be.

The agenda also includes the normal sales 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
Wed, Mar 21, 2018 – 11:00 a.m.
Room 413, 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/room413/>



MEETING AGENDA

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- | | |
|--|--------------------|
| 1. Welcome | Commissioner Kafka |
| 2. Roll Call | Angela Bieber |
| 3. Approval of Agenda | Commissioner Kafka |
| 4. Election of Vice Chair | Commissioner Kafka |
| 5. Approval of Minutes – December 14, 2017 meeting | Vice Chair |
| 6. Conflict of Interest | Vice Chair |
| 7. 2018 Legislative Report | Norm Lingle |
| 8. Online and Video Lottery RFP Update | Norm Lingle |
| 9. Video Lottery – Protocol Discussion (Legacy Terminals) Update | Clark Hepper |
| 10. Sales Report | Tom Helland |
| 11. Next Meeting | Norm Lingle |
| 12. Adjournment | Vice Chair |

Expiration Dates of Commissioner Terms

William Shorma	01/01/2019	Jim Putnam	01/01/2020
David Mickelson	01/01/2020	Joe Kafka	01/01/2020
Jamie Huizenga	01/01/2021	Vacant	
Vacant			

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.



Commission Members

Jim Putnam - Chair
Robert Faehn - Vice Chair
Joe Kafka
Dave Mickelson
Brent Dykstra
William Shorma

Minutes of the Commission Meeting

Room 412, Capitol Building Pierre, SD
Thursday, December 14, 2017

UNAPPROVED

Chair Putnam called the December 14, 2017 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Chair Putnam, Commissioner Shorma, and Commissioner Mickelson participated in person. Commissioner Dykstra and Commissioner Kafka participated by phone. Commissioner Faehn was absent.

SUPPORT STAFF PRESENT

Norm Lingle, Clark Hepper, Robyn Seibel, Tom Helland, Angela Bieber, Andrew Fergel, Nick Michels, Wade LaRoche, Marla Gruber, Sam Stanforth,

OTHERS

Deb Mortenson, Jess Wright, Tim Van Berkum, Blaine Bowman, Tom Kitts, Doyle Hicks, Larry Wetsch, Cortney Slight, Troy Erickson, Dana Waggener, Bob Riter, Britt Bruner, Steve Schroeder, Randy Vermeulen, Joe Hoffert, Gary Schneibel, Jason Harms, Matt Krogman, Katie Sieverding, Barb & Jerry Freidel

APPROVAL OF THE AGENDA

Commissioner Dykstra moved that the agenda be approved. Commissioner Mickelson seconded. Motion passed unanimously.

APPROVAL OF THE MINUTES FROM THE OCTOBER 24, 2017, MEETING

Chair Putnam stated the subject matter was condensed and the community can go to the website to listen to audio and view the commission packet. <https://lottery.sd.gov/about/commission>

Commissioner Shorma moved that the minutes be approved. Commissioner Mickelson seconded. Motion passed unanimously.

CONFLICT OF INTEREST

Chair Putnam asked if there were any conflicts of interest and there were none.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

Request For Proposals

- RFP – 128 plus pages issued by the end of January. Base period of 5 to 7 years with extensions up to 15 years total.
- Technology will have more changes in the next 10 years than the last 50 combined.

Fiscal Report 2017 Audit

- No audit findings.

Commissioner's Terms Ending

- We would like to Thank Commissioners Dykstra and Commissioner Faehn for serving on the Lottery Commission. Their knowledge and experience helped make the Lottery successful.

2017 BRAND PERCEPTION STUDY

Cortney Slaughter, Lawrence & Schiller reported on the following:

Good Fun Campaign

- Good fun campaign showed the overall perception of the South Dakota Lottery is far more favorable in 2017. 49% remember seeing information about the good fun campaign. 90% are part of the players club, 76% are non-players club members.
- Participants and residents have a better understanding of where the revenue from the lottery goes.
- Frequency of playing has increased which has led to an increase in lottery sales.
- Scratch tickets showed an increase in non player's club players.
- Video Lottery showed an increase in non players club players.
- Online games showed an increase from FY2016- FY2017.

FISCAL YEAR 2019 BUDGET REQUEST

Executive Director Norm Lingle reported on the following:

Instant/Online - Informational Budget

- IGT expenses based on percentage of sales. Separate fee to IGT for communication with terminals. BIT expenses for various programming, development and AS400.
- UPS, Multi-State Lottery Association, Scientific games, fees associated with scratch tickets, and percentage to sales with online games and shipping of tickets. Ticket printing depends on sales of games.
- Other contractual services, bank charges, meeting rooms, and legal services.
- Escrow to the reservations pay retailers 50% of net proceeds of tickets sold within the reservations.
- Central services, fees associated with BHR and BFM.

Video Lottery

- BIT, Advertising, Telephone, Computer consulting SGI is paid 0.3% for their support on the system.
- Inspections services contract with public safety.
- Other expenses for background checks and meeting room costs, etc.
- Computer hardware, software, other assets, the purchase of additional MCDs, and furniture cost.
- \$214,000 set aside for the Department of Social Services for problem gambling treatment.

FY 19 Requests

- No increases requested.

Budget Amounts

- Instant/online -\$38,405,766.
- Video Lottery - \$2,674,153.

Chair Putnam asked if there were any questions or comments. Commissioner Dykstra moved to pass the two budgets. Commissioner Mickelson seconded. Motion passed with no objection.

VIDEO LOTTERY PERFORMANCE REVIEW

Business Analyst Sam Stanforth reported on the following:

- 4.04% ahead of FY17; projecting \$220.96 million in net machine income for FY18. Constant \$45-\$50 for legacy terminals, \$95 for SAS terminals. More terminals and more licensing coming in with 5-10% more growth from smaller communities.
- On course to top 2009 levels for net machine income. Video lottery NMI has almost completely recovered, growing over 25% in six years 3.8% geometric average annual.

VIDEO LOTTERY - PROTOCOL DISCUSSION (LEGACY TERMINALS)

Deputy Executive Director Clark Hepper reported on the following:

Industry, consumer demands, technology and communications change, reacting and embracing change. Without change you will have decline and opportunity for failure. Examples; Blockbuster, Kodak, and Blackberry. Companies/competitors that accepted change examples; Netflix, GoPro, and iPhone.

Video Lottery by the Numbers

- Top 100 performing machines for November.
 - 35 GMMS
 - 62 SAS, 3 Line (Spielos with line games running on legacy protocol)
 - NMI for top 100 GMMS machines: \$1,007,938.60
 - NMI for top 100 SAS machines: \$1,219,173.23
 - 70% of NMI comes from just under 30% of machines
 - 1,423 SAS machines making up \$7,142,494.67
 - 1,106 GMMS machines making up \$5,117,436.28
 - 128 Line machines making up \$531,250.90
- Consider age of current machines in market (30 years) with the lack of availability of approved parts for older machines.
- Request to work with industry to explore end date for Legacy machines.
- RFP contract ends October 2019.

Chair Putnam called a recess at 10:42 a.m. after stating we will work together with video lottery partners. Chair Putnam called back from recess at 10:55am for discussion or if anyone from the public would like to speak.

The following three speakers joined the discussion;

- Bob Riter, representing Music and Vending Association of South Dakota.
- Matt Krogman, representing South Dakota License Beverage Dealers and Gaming Association.
- Troy Erickson, representing M.G. Oil Company.

Operators or any other groups are encouraged to reach out to Norm Lingle or Clark Hepper.

ADVERTISING REPORT

Director of Sales Tom Helland reported on the following:

- Lotto America rolled out 11/12/2017.
- South Dakota had their first second place Lucky For Life Winner awarding them 25,000 a year for life or a lump sum of \$390,000.
- Testing 44 new games in January 2018.

SALES REPORT

Director of Sales Tom Helland reported on the following:

- In the week ending 12/09/2017 Instant 14.19%, Fiscal Year Increases 9.87%.
- Lotto Sales 36.78%, Fiscal Year Increases 22.76%.
- Video Lottery Sales 13.52 %, Fiscal Year Increases 4.35%.

NEXT MEETING DATE

Executive Director Norm Lingle reported on the following:

The next Lottery Commission meeting will be scheduled in March 2018. The exact date and time will be determined later.

ADJOURNMENT

Chair Putnam requested motion to adjourn, Commissioner Shorma motioned to adjourn and Commissioner Mickelson seconded the motion.

Adjourned at 11:25 a.m.

Net Machine Revenue & Terminal and Establishment Averages

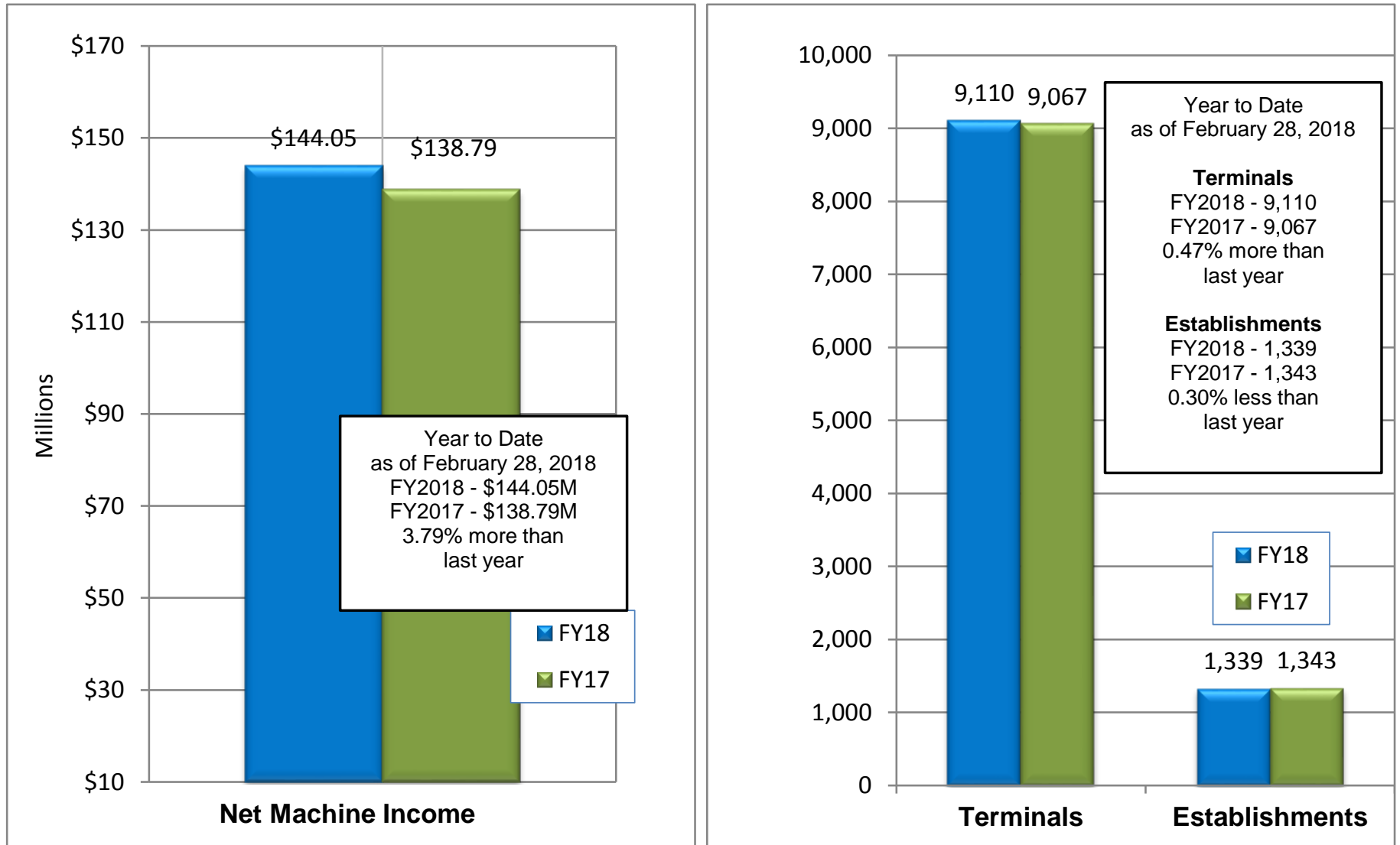
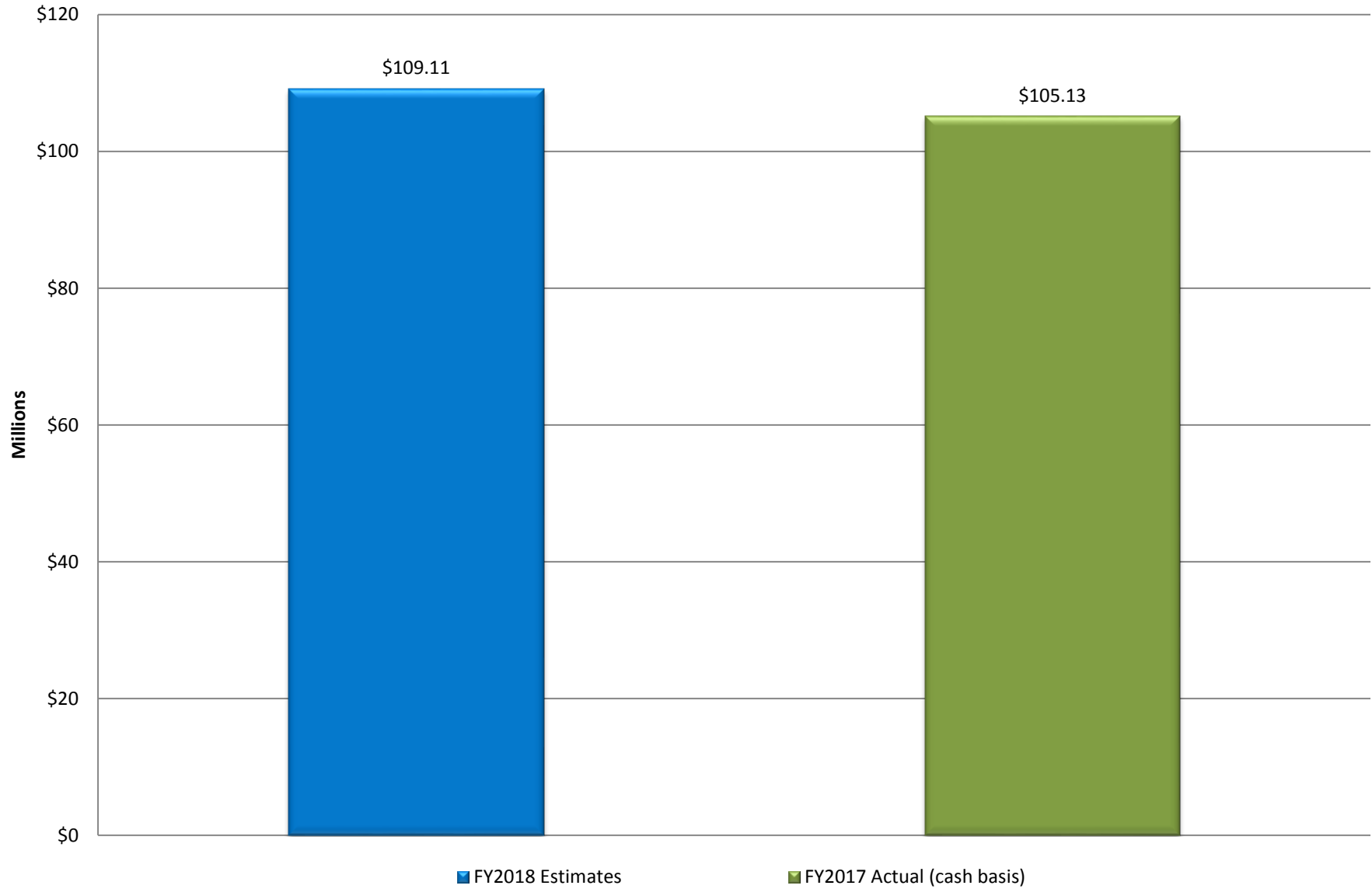
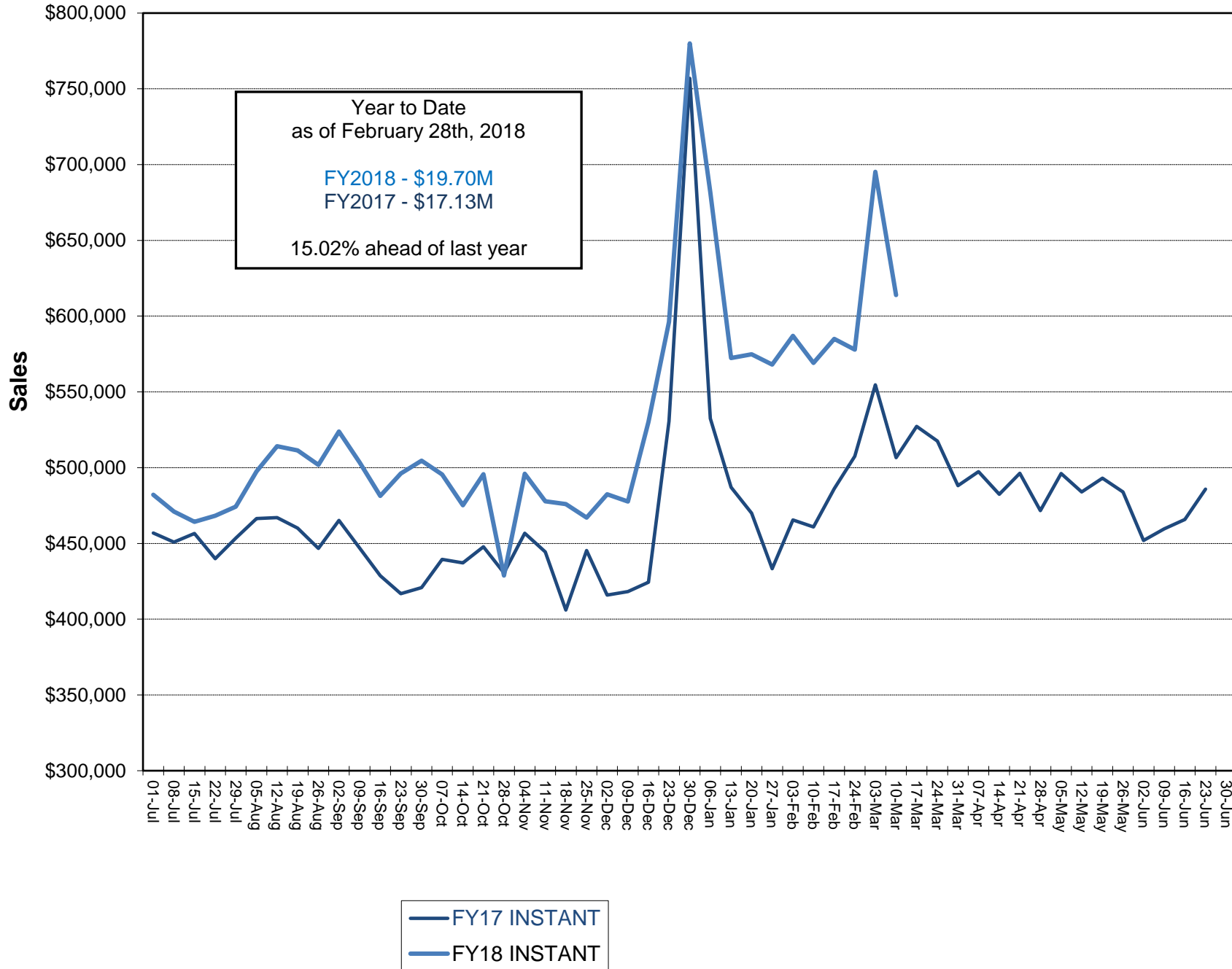


Exhibit B

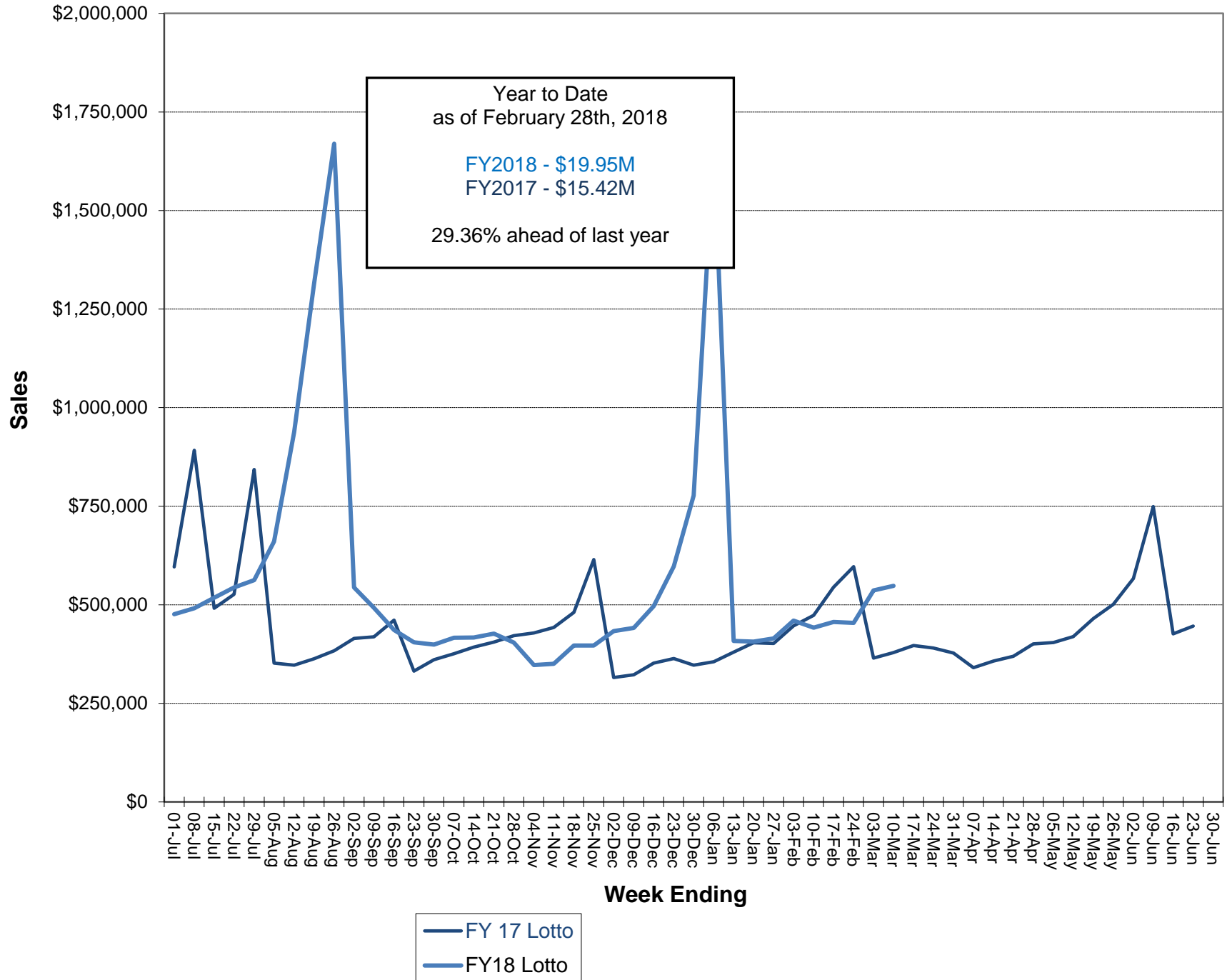
Video Lottery FY18 State Share Revenue Projection As of February 28, 2018



Instant Ticket Sales



Lotto Sales



Instant and Online FY18 Revenue Projections As of February 28, 2018

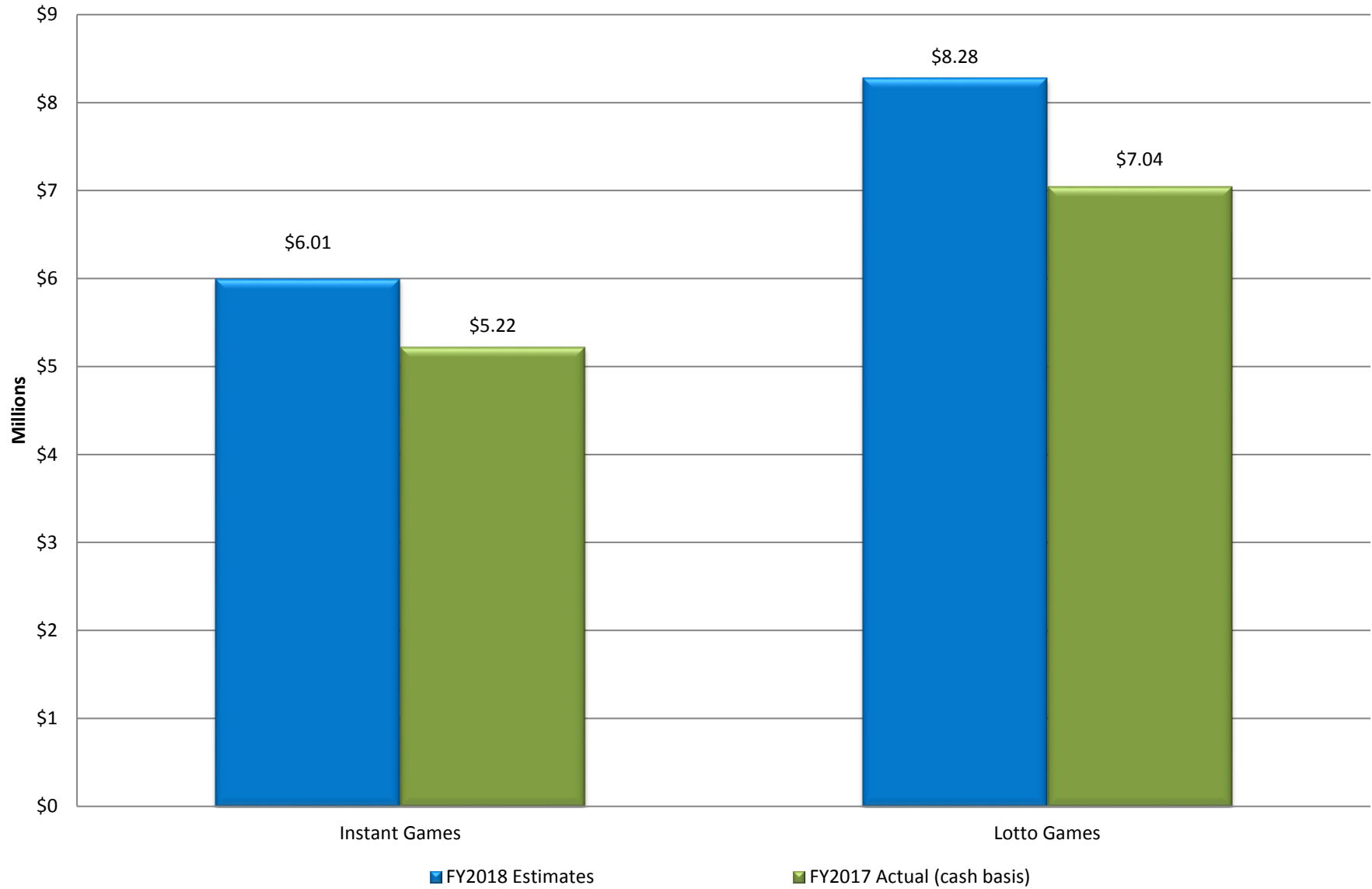


Exhibit F

Total FY18 Revenue Projections As of February 28, 2018

