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 Fahen’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.
MEETING AGENDA

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

<table>
<thead>
<tr>
<th>Commissioner</th>
<th>Expiration Date</th>
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<tbody>
<tr>
<td>William Shorma</td>
<td>01/01/2019</td>
</tr>
<tr>
<td>Joe Kafka</td>
<td>01/01/2020</td>
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<td>Vacant</td>
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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.
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 Slaight, 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 Slaight, 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; Block buster, 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.

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

**Net Machine Income**

- **Year to Date as of February 28, 2018**
  - **FY2018** - $144.05M
  - **FY2017** - $138.79M

  - **Increase**
    - 3.79% more than last year

**Terminals**

- **FY2018** - 9,110
- **FY2017** - 9,067
- **Increase**
  - 0.47% more than last year

**Establishments**

- **FY2018** - 1,339
- **FY2017** - 1,343
- **Decrease**
  - 0.30% less than last year
Video Lottery FY18 State Share Revenue Projection
As of February 28, 2018

FY2018 Estimates
FY2017 Actual (cash basis)
Instant Ticket Sales

Year to Date as of February 28th, 2018

FY2018 - $19.70M
FY2017 - $17.13M
15.02% ahead of last year
Exhibit D

Lotto Sales

Year to Date
as of February 28th, 2018

FY2018 - $19.95M
FY2017 - $15.42M
29.36% ahead of last year

Sales

Week Ending

FY 17 Lotto
FY18 Lotto
Instant and Online FY18 Revenue Projections
As of February 28, 2018

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<tr>
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<th>FY2018 Estimates</th>
<th>FY2017 Actual (cash basis)</th>
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<tr>
<td><strong>Instant Games</strong></td>
<td>$6.01</td>
<td>$5.22</td>
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<tr>
<td><strong>Lotto Games</strong></td>
<td>$8.28</td>
<td>$7.04</td>
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Millions
Total FY18 Revenue Projections
As of February 28, 2018

FY2018 Estimates
- Video Lottery: $109.11
- Instant Games: $8.28
- Lotto Games: $6.01

FY2017 Actual (cash basis)
- Video Lottery: $105.13
- Instant Games: $7.04
- Lotto Games: $5.22