



UNAPPROVED

Minutes of the Commission Meeting
Room 412, Capitol Building
August 24, 2017

Meeting materials and audio of the South Dakota Lottery Commission's August 24, 2017 meeting are available on the South Dakota Lottery's website at <http://lottery.sd.gov>.

Chair Putnam called the August 24, 2017 meeting of the South Dakota Lottery Commission to order at 9:30 a.m.

MEMBERS PRESENT

Cheryl Laurenz-Bogue, Brent Dykstra, Robert Faehn, Joe Kafka, Dave Mickelson, Jim Putnam, William Shorma

SUPPORT STAFF PRESENT

Norm Lingle, Clark Hepper, Sam Stanforth, Robyn Seibel, Andrew Fergel, Julie Pirnat-Schultz

APPROVAL OF AGENDA

Faehn moved, Mickelson seconded that the agenda be approved. Motion carried by voice vote.

APPROVAL OF MINUTES

Mickelson moved, Kafka seconded that the minutes from the June 1, 2017 Commission meeting be approved. Motion carried by voice vote.

CONFLICTS OF INTEREST

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

ELECTION OF CHAIR and VICE CHAIR

Chair Putnam turned over the gavel to Vice Chair Faehn who asked for nominations for Lottery Commission Chair. Kafka moved, Shorma seconded that Jim Putnam be retained as Chair for another term. Kafka moved, Laurenz-Bogue seconded that nominations for Chair be closed and a unanimous ballot be cast for Jim Putnam for Chair. Motions carried. Jim Putnam was elected Chair by roll call vote: aye – Laurenz-Bogue, Faehn, Kafka, Mickelson, Putnam, Shorma.

Chair Putnam asked for nominations for Lottery Commission Vice Chair. Laurenz-Bogue moved, Mickelson seconded the nomination of Bob Faehn as Vice Chair. Shorma moved, Kafka seconded that nominations for Vice Chair be closed and a unanimous ballot be cast for Bob Faehn for Vice Chair. Motions carried. Bob Faehn was elected Vice Chair by roll call vote: aye – Laurenz-Bogue, Faehn, Kafka, Mickelson, Putnam, Shorma

Commissioner Dykstra joined the meeting at 9:45 a.m.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

FY 17 Sales (unaudited)

Instant ticket sales were down .7% from FY 16 at \$26.1M. Lotto sales were down 20.4% from FY 16 at \$23.1M. Lingle pointed out that FY 16 had a \$1.6 billion Powerball jackpot which significantly impacted sales for that fiscal year. Powerball accounts for about 50% of lotto ticket sales. Video lottery revenue is up 2.1% from FY 16 at \$105.1M.

RFIs for Lotto and Video Lottery Central Systems

Lottery received 7 responses to the Requests for Information for both the Lotto and the Video Lottery central systems with both contracts expiring in 2019. Current video lottery contract does have five one-year extensions available if needed. Lottery will hear vendor presentations in September and October. Requests for Proposals will be issued sometime early in 2018 with a vendor recommendation made to the Lottery Commission in late 2018.

Chair Putnam asked if the Lottery had ever utilized a contract extension. Lingle indicated that IGT's base contract (7 years) had three 1-year extensions and the Lottery did utilize all three extensions.

Faehn asked if the new video lottery system would transition the video lottery machines from land phone line connections to DSL, IP cellular, or some other real-time connection. Lingle said this would be discussed at the vendor presentations

Personnel

Interviews are currently being conducted for three vacant Lottery personnel positions.

Hot Lotto

Hot Lotto Game Group voted to end Hot Lotto with the last drawing to be October 28, 2017. This was a business decision in order to keep games fresh and players engaged. Hot Lotto has been active for 15 years and has reached the end of its life cycle.

Faehn asked where the left over dollars from Hot Lotto would go if there is no winner on the last drawing. Lingle indicated Game Group rules state that those dollars are kept in the game group until the final claim date for all participating states expires. One participating state has a 12-month claim period. Chapter 42-7A of the SD Codified Laws states that unclaimed prize money shall be added to the prize pools of subsequent lottery games.

Chair Putnam asked if Lottery had ever dealt with this situation before. Lingle stated that the Wild Card lotto game ended in February 2016 and the unclaimed prize money was rolled into other prizes.

Change to Powerball

Upcoming change to Powerball in 2018 with addition of \$1 'Win it All' feature. Extra \$1 will go into a separate prize pool with drawings on Mondays and Thursdays. All extra prize money will be given away through a prize level roll down until there is a winner. A rules hearing will need to be conducted at next Commission meeting for this game change.

Chair Putnam asked for, and Lingle provided, an explanation of the rules review process.

Shorma asked to speak to an issue not on the agenda that may affect future lottery revenue. Putnam asked to postpone this discussion until after the 10:00 a.m. rules hearing.

MEGA MILLIONS AND LOTTO AMERICA RULES HEARING – 10:00 A.M.

Chair Putnam outlined the public rules hearing process.

Director Lingle presented the proposed rule changes to both Mega Millions and Lotto America.

Mega Millions

Mega Million is being enhanced to include \$40M starting jackpot, increase from \$1 to \$2 per play, jackpot odds of 1 in 302.5M, overall odds of 1 in 24, \$5M minimum roll if the jackpot is not hit, better odds for \$1M second prize, game matrix of 5 of 70 + 1 of 25, and new feature of Just the Jackpot. Just the Jackpot is a 2 plays for \$3 option which applies only to the jackpot, no lower tier prizes.

The proposed rule changes will update rule 48:03:15:04 to reflect the Mega Millions Just the Jackpot special game rules and will update the date of the Mega Millions game group rule changes to June 15, 2017. If adopted the rule changes become effective October 28, 2017. Mega Millions was last updated in October, 2014. If the proposed rule changes are not adopted, the South Dakota Lottery must stop selling Mega Millions.

Lotto America

Lotto America, a new lotto game, will replace Hot Lotto which ends in October. Game features include game matrix of 5 of 52 + 1 of 10, jackpot odds of 1 in 26M, overall odds of 1 in 9, starting jackpot of \$2M with \$50K minimum rolls, eight fixed cash prize levels plus the jackpot, \$1 per play, additional \$1 All Star Bonus multiplier option, and drawings on Wednesdays and Saturdays.

Adoption of rules 48:03:19:01, 48:03:19:02, 48:03:19:03 and 48:03:19:04 will allow South Dakota Lottery to sell Lotto America tickets starting November 12, 2017 with first drawing on November 15.

Kafka asked how many states offer Lotto America and if Lotto America was a game previously offered in South Dakota. Lingle indicated that this is a new Lotto America game with no states currently offering it, but said 15 state lotteries to date are preparing to offer it. A different Lotto America game was offered in the past and was a precursor to Powerball. At the time of that Lotto America game, South Dakota had a winner and two years ago made the final annuitized payment.

Shorma inquired as to who calculates the odds of winning for these games and is the Lottery confident with those calculations and prize structures. Lingle replied that the Multi-State Lottery Association and each lottery vendor have mathematicians on staff who work to confirm those calculations are accurate. Every state lottery that participates in a Multi-State Lottery Association game group has the opportunity to voice concerns and support on matters relating to games.

Chair Putnam asked if anyone in the audience wished to testify regarding the Mega Millions rules. There was no oral testimony. Chief Legal Counsel Andy Fergel stated that no written comments had been received regarding the proposed Mega Millions rules.

Chair Putnam asked if anyone in the audience wished to testify regarding the Lotto America rules. There was no oral testimony. Chief Legal Counsel Fergel stated that no written comments had been received regarding the proposed Lotto America rules.

Dykstra moved, Kafka seconded to adopt the rules for both Mega Millions and Lotto America. Motion carried by roll call vote: ayes – Laurenz-Bogue, Dykstra, Faehn, Kafka, Mickelson, Putnam, Shorma.

DECLARATORY RULING 17-3 LOTTO RETAILER INCENTIVE COMMISSIONS

An overview of new incentive commissions for retailers who sell certain valid winning tickets for on-line games was provided by Lingle. Adjustments to include Mega Millions' Just The Jackpot game and the Lotto America and Lotto America All Star Bonus games. If approved, incentives become effective October 28, 2017 and will supersede Declaratory Ruling 17-2.

Shorma moved, Kafka seconded to approve South Dakota Lottery Commission Declaratory Rule 17-3. Motion carried by voice vote.

Commissioner Shorma voiced concern over an upcoming four- to five-month project in North Sioux City and what the overall impact to the State may be from potential revenue losses, including lottery revenue losses, during this project. In 2018, the resurfacing of the only bridge between North Sioux City and Sioux City will begin. Project bids to be let in November, 2017.

Shorma presented some data regarding the possible video lottery revenue losses. He asked if there would be any action the Commission could take to encourage the Department of Transportation to do everything they can to minimize the impact on revenue losses during the project period. Putnam referred the issue to Lingle to investigate possible actions.

INSTANT TICKET INITIATIVE

Director Lingle provided an overview of the Department of Revenue's strategic plan 'South Dakota Revenue 2020' and the four initiatives within that strategic plan:

1. Engaging & Developing Our Team
2. Managing Resources & Maximizing Return on Investment
3. Leveraging Info through Data Analytics to Support Decision Making
4. Developing & strengthening the Department's Relationships

Lingle spoke specifically to Initiative #2 wherein the Lottery created the '10 for Ten' initiative with the goal of increasing scratch ticket sales by 5% per year up to year 2020, through ten objectives:

1. Warehouse inventory
2. Game testing
3. SGI & Pollard Banknote recommendations
4. Development of partnerships with retailers
5. Complete merchandising study
6. Planning & execution of LottCon '18
7. Weekly check-ins and quarterly marketing plan/Key Performance Indicator reviews with ad agency
8. Roll out of new games on same date each month to build anticipation
9. Identify & recruit retailers in under-served areas
10. Rollout of the SD Lottery app

Putnam asked who would accomplish the four strategic initiatives. Lingle stated the four strategic initiatives apply to the South Dakota Department of Revenue, as a whole, and each of these strategic initiatives have 3 to 4 objectives, each with a leader and a team of department employees.

Department of Revenue tried to involve as many employees as possible with the initiatives. Lingle stated 80% of the Lottery staff is involved in some way with one or more of the strategic initiatives.

Putnam asked if Lawrence & Shiller would be able to accomplish what is being asked of them through the '10 for Ten' initiative within the confines of the Lottery's contract with them. Lingle said that the Lottery is working within the confines of its existing contract with Lawrence & Shiller.

Putnam expressed excitement about the LottCon '18 conference but questioned whether this can be accomplished within the Lottery's budget limits. Lingle replied that the Lottery plans to pursue vendor sponsorships and willing partners to assist in hosting this conference. Progress reports will be provided to the Commission as the '10 for Ten' initiative moves forward.

REVIEW OF CONFLICTS OF INTEREST STATUTES

Department of Revenue Chief Legal Counsel Andrew Fergel presented a review of HB 1170 passed during the 2017 legislative session which added some new provisions to SDCL Chapter 3-23 (Conflicts of Interest) and amended others associated with conflicts of interest for certain state board, commission, and authority members. SDCL Chapter 3-23 applies to current Lottery Commission members and to former Lottery Commission members for one year after the end of a member's term on the Commission. Added was the requirement to disclose annually any interest in a contract with the State of South Dakota or a political subdivision of the State of South Dakota.

Fergel reviewed SDCL 3-23-1 which lists what is prohibited, SDCL 3-23-2 which describes what a direct benefit from a contract is, and SDCL 3-23-2.1 which describes what an interest in a contract is. SDCL Chapter 3-23 does not supplant existing prohibitions applicable to Lottery Commission members, i.e., SDCL 42-7A-27, SDCL 42-7A-28 and SDCL 42-7A-29, which have been part of Chapter 42-7A since the beginning of the Lottery. Fergel communicated that if commissioners follow SDCL 42-7A-27, the provisions of SDCL Chapter 3-23 would not be violated.

Because there are no authorization or waiver provisions for conflicts of interest in Chapter 42-7A, former Commission members may seek waiver or authorization for conflicts under SDCL 3-23-3 and SDCL 3-23-4.

Fergel reviewed the penalties in SDCL 3-23-5 for knowing violation of SDCL 3-23-1 to 3-23-4, inclusive, including Class I misdemeanor, benefit disgorgement, and voiding of contract.

FY 2018 VIDEO LOTTERY PERFORMANCE REVIEW

Business Analyst Sam Stanforth provided a review of FY 17 video lottery data and projections for FY 18.

-At the end of July, 2017, video lottery net machine income (NMI) was up 1.7% from FY 17; projecting \$216M for FY 18.

-FY 17 saw ten months of year-over-year growth in NMI from the prior fiscal year. FY 18 is starting out 1.7% above FY 17.

-NMI from Line/SAS terminals has surpassed the NMI from legacy terminals. Net machine income per SAS terminals per day is at \$92.09 as compared to \$49.68 per terminal per day for legacy terminals. There are 3,310 Line/SAS terminals and 5,806 legacy terminals.

-In FY 17 there were 482 terminal destructions and 492 new terminal purchases. July 2017 saw 52 new terminal purchases.

-Year-over-year comparison of % change in NMI—FY 18 vs. FY 17 by counties indicated July 2017 had more counties over-performing than under-performing.

-Majority of year-over-year NMI growth in July 2017 came from smaller communities. Only four out of the top 15 cities had an increase from July 2016.

Kafka asked what the life span of a legacy terminal is. Director Lingle indicated that most of the legacy terminals have been around since video lottery's inception and that when these terminals are destroyed, some parts are kept for spares.

Stanforth was asked if most of the new machines are concentrated in larger cities and he replied that the majority are in the larger cities but that a fair share is going into the smaller communities.

A question was asked if retailers receive machine performance reports. Stanforth indicated that three manufactures with machines in the South Dakota market have agreed to have their revenue data shared publicly. A month-to-month report is posted on the Lottery website providing data by manufacturer and model and is also included in the bi-weekly video lottery newsletter.

VIDEO LOTTERY REPORT

Director of Video Lottery and Security Robyn Seibel reported on the following:

As of July 31, 2017:

- net machine revenue is \$17.63 million as compared to \$17.33M as of July 31, 2016 – a 1.7% increase.
- number of terminals for FY 18 is 9,116 as compared to 9,067 terminals as of July 31, 2016 – a 0.54% increase.
- number of establishments is 1,337 as compared to 1,343 establishment as of July 31, 2016 – a 0.45% decrease.
- FY 18 State share revenue projection is estimated to be \$106.92M compared to actual FY 17 of \$105.13M.

Electronic inspection program for DPS inspectors

Department of Public Safety inspectors will begin using laptops while conducting video lottery machine and establishment inspections instead of manually completing paper inspection forms. The completed forms will be uploaded to the Lottery's databases, providing immediate notification to all parties involved of any problems.

PUBLIC RELATIONS AND AVERTISING REPORT

Deputy Director Clark Hepper reported on the following:

Big Winners - Lotto games

\$50,000 Powerball winners in Sioux Falls and Rapid City. \$30,000 Hot Lotto winner in Wagner area. \$9,000 Hot Lotto winners in Sioux Falls, Murdo, and Piedmont. \$3,003 Hot Lotto winner in Aberdeen. \$5,605 Mega Millions with Megaplier winner in Sioux Falls. Two \$5,006 Lucky for Life winners.

Big Winners – Instant Games

Since March 24 there were 19 top prize winners ranging from \$5,000 to \$100,000 from 15 different games offered. Retailers typically carry between 23–24 instant games.

Play It Again Monthly Moola Drawings

This is a monthly second chance drawing for \$2 and \$3 non-winning scratch tickets with first prize of \$2,500, second prize of \$100 in scratch tickets, and third prize of \$100 in scratch tickets. Since last Commission meeting drawings were held on June 29 and July 27 with final drawing to be August 25. Monthly Moola was originally a six-month promotion but is being extended through November, as the Public Relations position is currently vacant. Number of entries is running consistent, averaging about 30,000 entries per month. Working on new Play it Again promotion to start November 2017.

30th Anniversary of Lottery Promotion

Promotion kicked off on June 23 and 24 at the 605 Summer Classic in Sioux Falls. Second celebration was held at Baken Park in Rapid City. Final celebration will be at the state fair in Huron. Each promotion event includes a photo booth, tryvesting tickets, Lottery premium items, a second chance drawing of \$1,000 per event, and cake and cupcakes.

Mega Millions Game Changes

Lawrence & Shiller is working on concepts for the Mega Millions game promotion focusing on the newer aspects of the game, i.e. Just the Jackpot feature, price point change. Promotion to run in October and again in April.

Lotto America Game (new game)

Lawrence & Shiller is also working on the Lotto America promotion to run in November and again in April.

Lucky for Life

- sales started June 4.
- first drawing was June 5.
- Average weekly sales of \$45,000.
- drawings on Mondays and Thursdays.
- top prize of \$1,000 per day for life.
- second prize of \$25,000 per year for life.
- \$2 per play.
- pick five numbers from 1 to 48.
- lucky ball from 1 to 18.

South Dakota has had two third-place winners in the \$5,000 range.

Lucky for Life advertising campaign is currently in progress and will run again in May 2018. Commission members had the opportunity to watch the Lucky for Life commercial currently airing.

Shorma stated that North Sioux City is not served by any South Dakota television stations, with the exception of KELO. Hepper indicated that he was not aware of the Lottery using any television stations outside of South Dakota for advertising. This will be discussed with Lawrence & Shiller at the next weekly meeting.

SALES REPORT

Deputy Director Clark Hepper reported on the following:

As of July 31, 2017:

- instant ticket sales are up 13.82% from last fiscal year.
- lotto sales are down 23% from last fiscal year.
- Powerball down 6.9% from FY 17.
- Mega Millions down 25.3% from FY 17.
- Hot Lotto up 13.6% from FY 17.
- Dakota Cash up 204% from FY 17.
- Lucky for Life at \$315K.

Hepper stated that jackpot runs have a positive effect on sales and, with the August Powerball run, the numbers at the next Commission meeting should be up.

Lottery is projecting a \$2M overall increase in total lottery revenue (video lottery, instant tickets, and lotto tickets) for FY 18.

Hepper further addressed the '10 for Ten' initiative aimed at increasing scratch ticket sales which Lingle spoke to earlier.

Faehn asked whether the Lottery was feeling comfortable with how the Lucky for Life game is proceeding. Hepper replied that the Lottery is selling about \$45,000 in tickets weekly but that there is always room for improvement. Lucky for Life is geared more towards younger players.

NEXT MEETING DATE

Director Lingle proposed October 26, 2017 for the next meeting date to include a public hearing for Powerball rule changes.

ADJOURNMENT

Shorma moved, Faehn seconded that the meeting adjourn. Motion carried by voice vote. Meeting adjourned at 12:20 p.m.