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To: South Dakota Lottery Commission  
From: Norman Lingle  
Executive Director  
Re: September 12, 2019 Lottery Commission Meeting  
Date: September 6, 2019

The September 12, 2019 meeting of the South Dakota Lottery Commission will begin at 9:30 a.m. The meeting will be held in Room 412 of the Capitol Building in Pierre.

I would like to highlight a few of the key agenda items.

Since this meeting is the Lottery Commission's first meeting of the fiscal year, SDCL 42-7A-17 requires the annual election of a chair and vice chair.

An administrative rules hearing will be held to consider a modification to the rules regarding software requirements for line-up games. In short, the rule allows for another method in which a video lottery game may determine the outcome. This change was brought to the Lottery by a video lottery terminal manufacturer.

An update on the IGT Online Central System and Related Services project will be provided. The update will include where we are at and what is coming regarding project elements.

We will present an extension to current video lottery central monitoring and control system contract for the Commission's consideration and approval. In addition, we will present a recommendation for a new central monitoring and control system contract for Commission consideration and approval.

Contract extensions for our current instant ticket print contracts will be presented to the Commission for consideration and approval. The agreements will be with Scientific Games and Pollard Banknote

The agenda also includes the normal sales and public relations/advertising 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  
Thursday, Sept 12, 2019 – 9:30 a.m.  
Room 412, 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/room412/>



## MEETING AGENDA

- |  |  |
|--|--|
| 1. Welcome                                     | Chair Shorma                           |
| 2. Roll Call                                   | Angela Bieber                          |
| 3. Approval of Agenda                          | Chair Shorma                           |
| 4. Approval of Minutes – June 13, 2019 meeting | Chair Shorma                           |
| 5. Conflict of Interest                        | Chair Shorma                           |
| 6. Election of Commission Chair and Vice Chair | Chair Shorma                           |
| 7. Secretary of Revenue Comments               | Secretary Jim Terwilliger              |
| 8. Video Lottery Rules Hearing – 9:45 a.m.     | Dep Exec Director Clark Hepper         |
| 9. Executive Director Comments                 | Executive Director Norm Lingle         |
| 10. Lotto System Conversion Update             | Executive Director Norm Lingle         |
| 11. Video Lottery Contracts                    | Executive Director Norm Lingle         |
| A. Extension                                   |  |
| B. New Contract                                |  |
| 12. Instant Ticket Contract Extensions         | Deputy Executive Director Clark Hepper |
| A. Scientific Games                            |  |
| B. Pollard Bank Note                           |  |
| 13. FY19 Video Lottery Review                  | Business Analyst Elizabeth Burdick     |
| 14. Sales Report                               | Director of Sales Marla Gruber         |
| 15. Marketing Report                           | Director of Marketing Tom Helland      |
| 16. Public Comment                             | Chair                                  |
| 17. Next Meeting – December 5, 2019            | Executive Director Norm Lingle         |
| 18. Adjournment                                | Chair                                  |

### *Expiration Dates of Commissioner Terms*

William Shorma	01/01/2022	Jason Ahrendt	01/01/2022
Joe Kafka	01/01/2020	Jamie Huizenga	01/01/2021
David Wheeler	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 in advance of the meeting to make any necessary arrangements.



### **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, June 13, 2019 - 9:30 a.m.

### **UNAPPROVED**

Chair William Shorma called the June 13, 2019 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Chair Shorma, Kafka, Wheeler, Ahrendt and Huizenga participated in person.

#### **SUPPORT STAFF PRESENT**

Norm Lingle, Clark Hepper, Tom Helland, Angela Bieber, Elizabeth Burdick, Brandi Hoerner, Marla Gruber, Mike Houdyshell, David Wiest and Secretary Terwilliger

#### **OTHERS**

Bob Mercer, Jess Wright, Deb Mortenson, Dale Zavesky, Jason Harms, Randy Vermeulen, Nathan Ryks, Britt Bruner, Steve Schroeder, Joe Hoffert, and Corey Resaler.

#### **APPROVAL OF THE AGENDA**

Chair Shorma asked for a motion to approve the agenda. Commissioner Wheeler motioned to approve the agenda. Commissioner Kafka seconded the motion. Motion passed with no objection with a voice vote.

#### **APPROVAL OF THE MINUTES FROM THE MARCH 21, 2019 MEETING**

Chair Shorma asked for a motion to approve the minutes. Commissioner Ahrendt motioned to approve the minutes. Commissioner Huizenga seconded the motion. Motion passed with no objection with a voice vote.

#### **CONFLICT OF INTEREST**

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

#### **EXECUTIVE DIRECTOR'S COMMENTS**

*Executive Director Norm Lingle reported on the following:*

##### Wire Act - DOJ Opinion

- 1961 Law interpreted to outlaw all forms of gambling across state lines. The purpose was to stop the use of wire communications for sports betting.
- 2011 in an Opinion the Department of Justice issued from selling Lottery via mobile devices and out of state data centers. Interstate transmissions of wire communications that do not relate to a sporting event or contest fall outside the reach of the Wire Act.
- January 2019 the DOJ reversed their 2011 Opinion. The new Opinion states the prohibitions in the Wire Act applies to all forms of gambling. New Hampshire Lottery Commission challenged the Opinion and took it to Federal Court on June 3, 2019. The judge ruled in favor of the New Hampshire's Lottery Commission and says the rule only applies to sports betting.

##### FY 19 Audits

- End of the fiscal year is June 30, 2019. Annual entity wide and it will begin soon thereafter.
- An agreed upon procedures audit will take place for the Lucky For Life game and be completed by September 2019.

## **LOTTO SYSTEM CONVERSION UPDATE**

*Executive Director Norm Lingle reported on the following:*

Project started January 15 with gathering requirements for the new system.

Lottery is following a Functional Requirement Documents. (FRD).

- Completing requirements gathering with weekly reviews and FRD's have been approved
- Continue to work on data conversion as we go from the State-owned Acclaims system to the vendor's system. BIT has been doing a great job trying to get the data converted.
- A full data cut was provided of the Acclaims system to IGT.
- ITOP - Instant ticket process will require finance and BIT effort. Transferring-daily ticket information to IGT three weeks prior to conversion when parallel processing will take place.
- TTOP - Online process which IGT knows the data and will convert to new system.
- Acceptance Testing - Gaming Labs International (GLI)
- New terminals will begin rolling out to thirty retailers in South Dakota July 22. Locations will be in IGT service areas, Watertown, Pierre, Rapid City, and Sioux Falls.
- Parallel processing will be October 13 -November 3.
- Conversion Date is Sunday, November 3, 2019.

### Video Lottery System

Still negotiating with Scientific Games and hope to be back in front of the Lottery Commission soon for approval. A special meeting may be a possibility.

## **UPDATE ON OPEN MEETING LAWS AND SB91**

*Chief Legal Counsel Mike Houdyshell reported on the following:*

- Brief overview of State open meeting laws can be found in SDCL ch. 1-25.
- Changes to SB 91 will go in effect by July 1, 2019 include minor substantive changes and reorganization/form and style changes
- Open meetings are for transparency and official business should not be conducted in secret and allow public input.
- Public Notice must provide notice of official meeting with proposed agenda including the date, time and location of meeting at least 72 hours before meeting is scheduled to start.

## **DECLARATORY RULING 19-1**

*Deputy Executive Director Clark Hepper reported on the following:*

This is an update to the 2017 Declaratory ruling to address the incentives and commission paid to retailers on top or second tier prizes on Lotto style games. It also is to eliminate the Powerball winner take all option, Hot Lotto, and Hot Lotto Sizzler, since they are no longer offered.

Chair Shorma asked for a motion to approve the Declaratory Ruling 19-1 as proposed. Commissioner Kafka motioned to approve Ruling 19-1. Commissioner Huizenga seconded the motion. Roll was called: Shorma - yea, Kafka - yea, Ahrendt - yea, Huizenga - yea, Wheeler - yea. Motion passed.

## **FY19 INSTANT/DRAW GAME REVIEW**

*Business Analyst Elizabeth Burdick reported on the following:*

A year to date comparison between FY 19 and FY 18 of the instant and draw games was presented. The comparison included both county and city data.

## **SALES REPORT**

*Director of Sales Marla Gruber reported on the following:*

### Instant Sales

- FY 19 is 7.35% over FY 18 or \$2 million.
- Important to find unique games or various playstyles, like Trucks and Bucks, that appeals to the players to grow our database.
- Instant top prize winners were presented.
- The following future games and playstyles were presented:

- Hit Family will launch in July. It does not offer a top prize but is loaded with \$50, \$100 and \$500 prizes. Price points are \$1, \$2 and \$5.
- Polaris Dollars 'N' Dirt will be the fair special. Players and win (5) Polaris Rangers 570. Three will be instant wins from the tickets. Two will be a given away through a second chance drawing.
- Silver and Gold \$20 ticket is a non-break even ticket. With over 22,000 prizes ranging from \$50 - \$500. The lowest prize they can win is \$30.
- Projecting Instant ticket sales to finish FY 19 \$6.72 million in net transfers verses FY 18 at \$6.4 million.

#### Lotto Sales

- FY 19 is 9.48% over FY 18 or \$2.48 million.
- Large Lotto winners and the retailers where they purchased their tickets was presented.
- Projecting Lotto sales to finish FY 19 \$8.65 in net transfers verses FY 18 at \$8.4 million.

### **MARKETING/ADVERTISING REPORT**

*Director of Marketing Tom Helland reported on the following:*

- Reported current and future promotions.
  - Makin'Bacon second chance promotion.
  - New Year's Rockin' Eve Powerball promotion. June 15 - September 15. Players have a chance to win a New Year's trip to New York City.
  - "Dollars N' Dirt" Polaris, launching in August, this State Fair special will also give players a chance to win (2) Polaris 570 in second chance drawings.

### **VIDEO LOTTERY REPORT**

*Director of Video Lottery and Security Brandi Hoerner reported on the following:*

#### Video Lottery Net Machine Income

- FY 19 is 4.69% over FY 18.
- State share projection is \$112.15 million. Growth of 2.46% over FY 18.

#### Terminals and Establishments

- Current number of establishments is 1,317.
- Current number of terminals is 8,943. Reduction of 170 from last year. 301 Machines were Destroyed. 351 machines were purchased.
- Change of ownerships happen frequently.

#### Legacy verses Line machines

- Line machines are out performing Legacy machines. \$93.74 per machine per day verses Legacy machines \$51.77 per machine per day.

#### Multi-State Lottery Association

- Lottery is required to participate in an annual security certification, which is due the end of June.
- MUSL members will arrive in September to complete the MUSL review. This audit is completed every two years.

### **Public Comment**

*Chair Shorma:*

Chair Shorma invited anyone from the public to come up for comment.

Britt Bruner - Video Lottery Operator from Mitchell, SD and President of the South Dakota Music and Vending Association. Britt shared his concerns about the upcoming bid for the central system and financial impact it will have on operators and establishments. Monthly communication costs and new sight controllers were mentioned. He hopes a reasonable solution can be reached in the upcoming months.

Chair Shorma thanked the group for coming and their comments did not fall on deaf ears. He stated that they are working to address some of their concerns.

## **NEXT MEETING DATE**

*Executive Director Norm Lingle reported on the following:*

Director Lingle stated that the next scheduled Lottery Commission meeting date is September 12, 2019. There maybe a need to have a special meeting between meetings.

## **EXECUTIVE SESSION PER SDCL 1-25-2 (3) AND (4)**

Consulting with legal counsel about contractual matters and preparing for contract negotiations.

Chair Shorma asked for a motion to move into Executive Session. Commissioner Huizenga motioned to enter into Executive Session per SDCL 1-25-2 (3) and (4) to consult with legal counsel about contractual matters and preparing for contract negotiations. Commissioner Kafka seconded the motion. Roll was called:

Shorma - yea, Kafka - yea, Ahrendt - yea, Huizenga - yea, Wheeler - yea. Motion passed.

Lottery Commission went into Executive Session at 10:59 a.m.

Chair Shorma asked for a motion to move out of Executive Session. Commissioner Wheeler motioned to move out of Executive Session per SDCL 1-25-2 (3) and (4) Commissioner Huizenga seconded the motion. Roll was called:

Shorma - yea, Kafka - yea, Ahrendt - yea, Huizenga - yea, Wheeler - yea. Motion passed.

Lottery Commission came out of Executive Session at 11:42 a.m.

## **ADJOURNMENT**

Chair Shorma requested motion to adjourn, Commissioner Wheeler motioned to adjourn, and Commissioner Huizenga seconded the motion. Adjourned at 11:45 a.m

\*Please listen to the audio on the South Dakota Lottery Website: <https://lottery.sd.gov/about/commission/> for additional details.

**48:02:08:09. Software requirements for line-up games.** Video lottery machines offering line-up games must meet the following requirements:

(1) The game must select numbers, prize values, or symbols that satisfy the randomness tests in § 48:02:08:02;

(2) The logic of the hardware or software may not interfere with the approved random number generator software;

(3) A game may allow a player to select numbers or symbols from a fixed grid of numbers or symbols displayed on the screen. Each number or symbol selected by a player must be indicated on the screen;

(4) The machine must draw a minimum of three numbers or symbols. Each number or symbol drawn shall be indicated on the screen. When more than one line is played during a game, each individual line that is brought into play by wagering additional credits must be clearly identified on the screen;

(5) At the conclusion of the game, the screen must display all the numbers or symbols randomly drawn and those selected, if any, by the player. ~~‡~~ The screen must also display the winning combinations from those numbers or symbols randomly drawn and those selected, if any, by the player. Winning combinations may include matching numbers or symbols that form a vertical, horizontal, or diagonal line or other specified shape. ~~‡~~ Winning combinations may also include matching numbers or symbols that appear in any sequence or position for which credits are awarded according to game rules as required in subdivision 48:02:08:01(12);

(6) The game may ~~also~~ randomly draw numbers or symbols and award credits for like numbers or symbols appearing in a vertical, horizontal, or diagonal line or other specified shape. ~~‡~~ The game may also include like numbers or symbols that appear in any sequence or position for which credits are awarded according to game rules as required in subdivision 48:02:08:01(12). At the conclusion of the game, the screen shall display all winning combinations, if any, and the credits awarded.

(7) Notwithstanding any other requirement of this section, the game may determine the outcome by randomly drawing from a predetermined pool of prize values to determine win or loss and displaying all wins as a winning combination on the screen. Each outcome contained in the predetermined pool of prize values must be available to be drawn on each play of the game.

**Source:** 16 SDR 27, effective August 18, 1989; 37 SDR 215, effective May 31, 2011.

**General Authority:** SDCL 42-7A-21(10).

**Law Implemented:** SDCL 42-7A-1(13), 42-7A-21, 42-7A-37.

South Dakota Lottery Commission  
Notice of Public Hearing to Adopt Rules

A public hearing will be held in Room 412, 4<sup>th</sup> floor of the State Capitol on September 12 at 9:45am Central Time, to consider the adoption and amendment of proposed rule numbered

§§ 48:02:08:09

The effect of the proposed rule will be to permit an additional method of a video lottery machine determining video lottery game winners.

The reason for adopting the proposed rule is to permit an additional method of determining video lottery game winners.

Persons interested in presenting data, opinions, and arguments for or against the proposed rules may appear in-person at the hearing or mail them to the Department of Revenue Legal Division at 445 E Capitol Ave in Pierre. Material sent by mail to the Department of Revenue must be received by the close of business on September 6th.

At the public hearing, the Lottery Commission will consider all written and oral comments it receives on the proposed rules. The Lottery Commission may modify or amend a proposed rule at that time to include or exclude matters that are described in this notice.

For Persons with Disabilities: This hearing will be located at a physically accessible place. Please contact the Department of Revenue Legal Division at least 48 hours before the public hearing if you have special needs for which special arrangements can be made by calling (605) 773-3311.

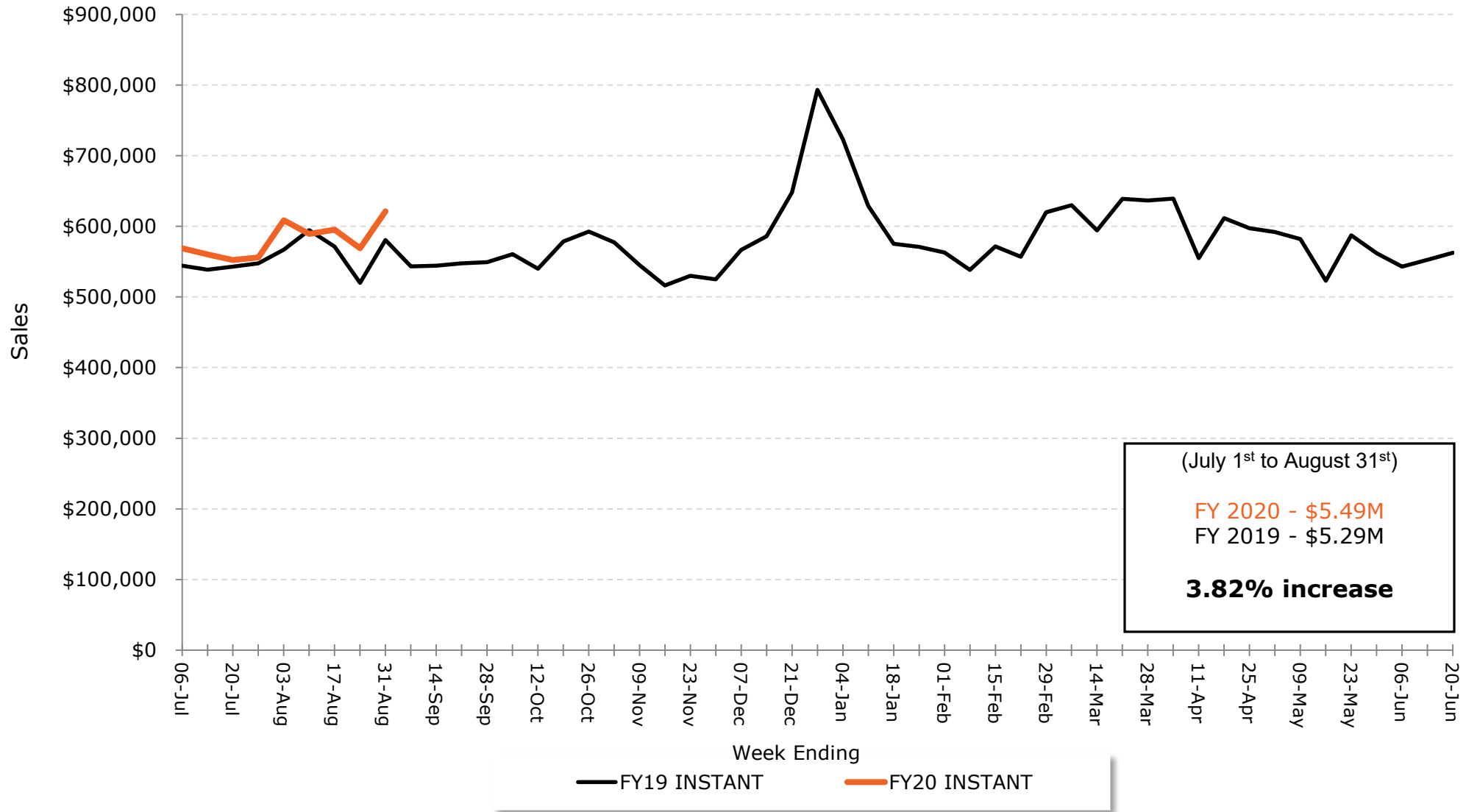
Copies of the proposed rules may be obtained online at [rules.sd.gov](http://rules.sd.gov) or without charge from:

Department of Revenue  
Attn: Legal Division  
445 E Capitol Ave  
Pierre, SD 57501

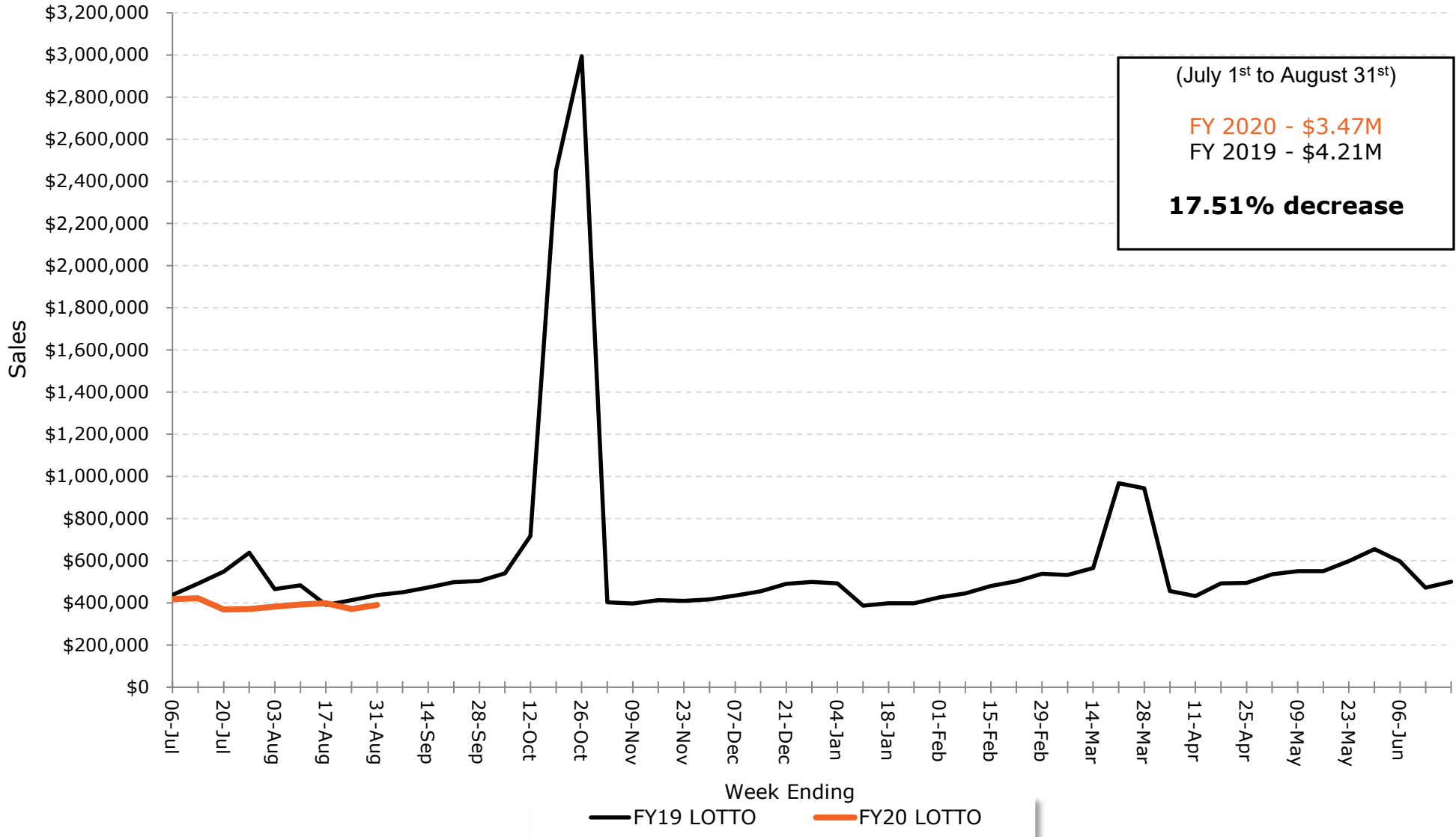
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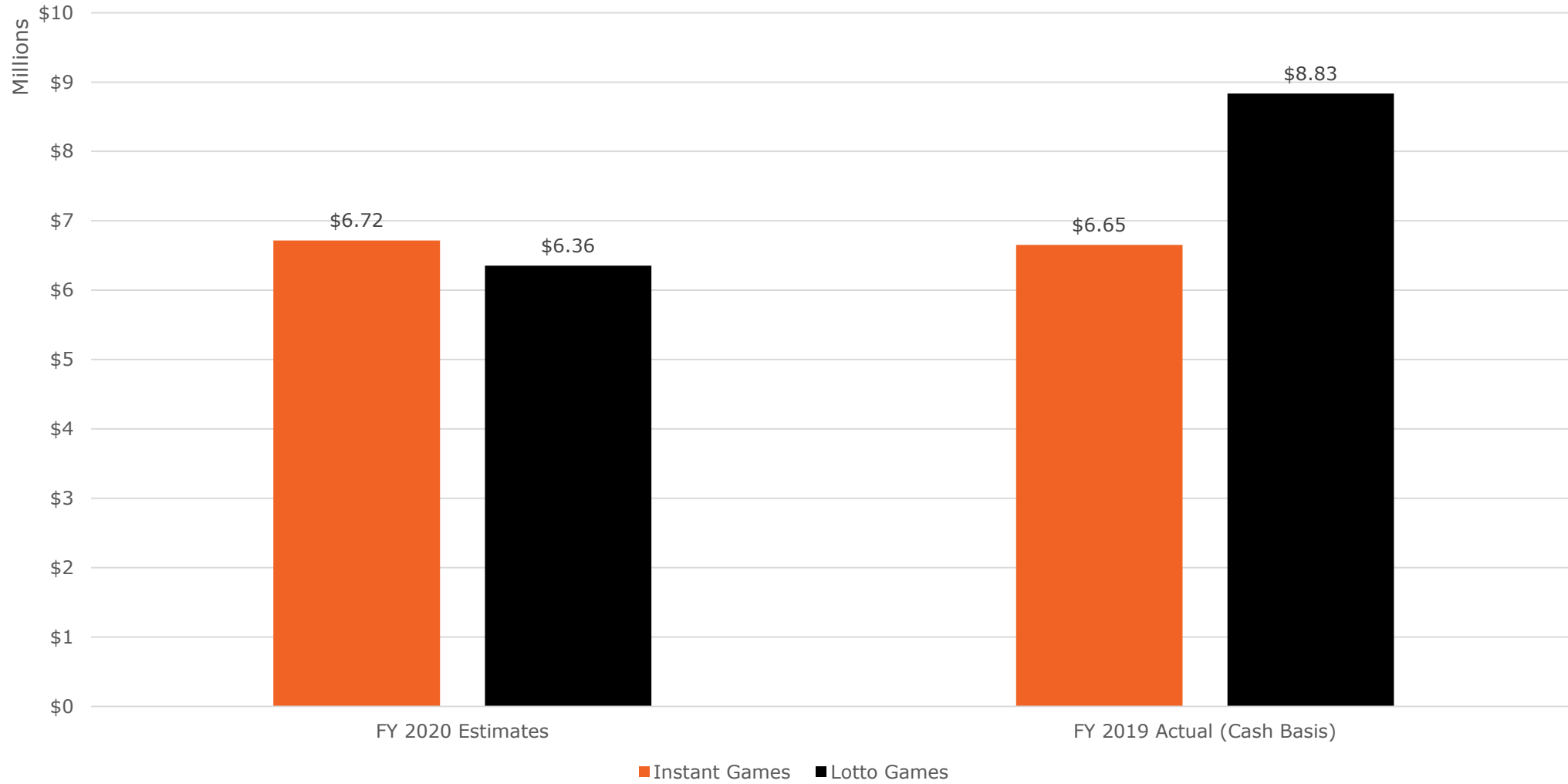
# Instant Ticket Sales



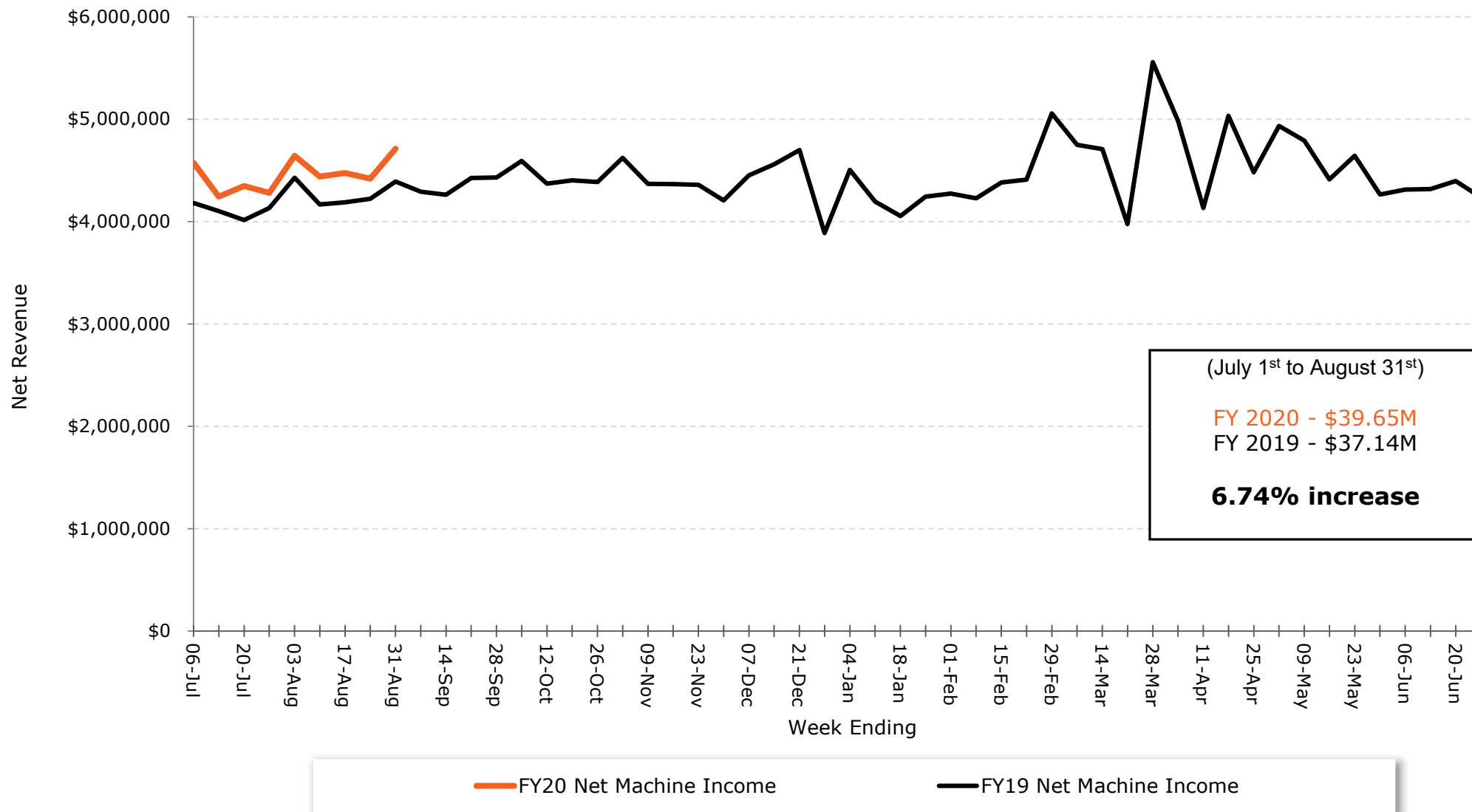
# Lotto Sales



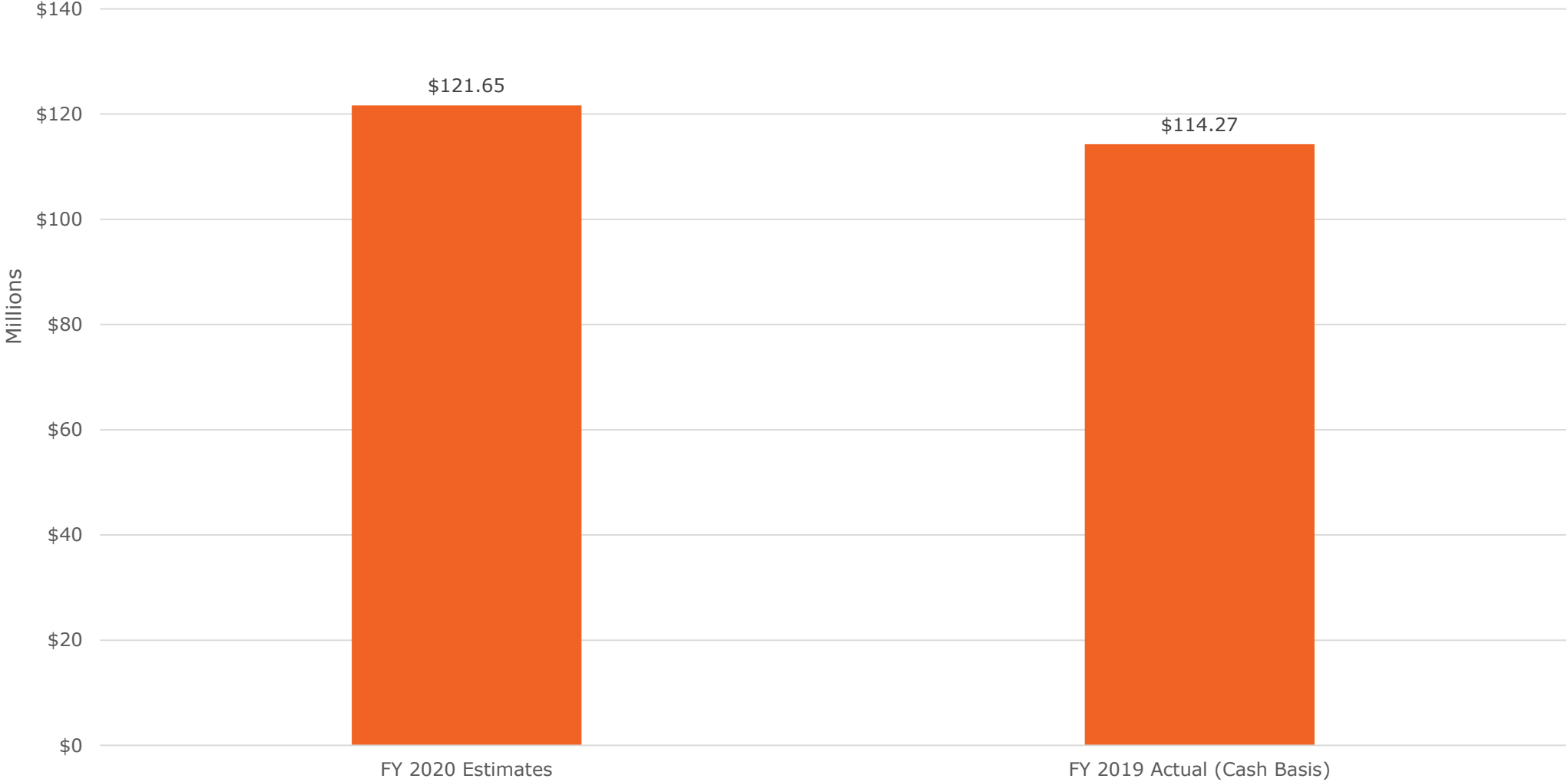
# Instant and Online FY 20 Revenue Projections as of August 31, 2019



# Net Machine Income



# Video Lottery FY 20 State Share Revenue Projection as of August 31, 2019



# Total FY 20 Revenue Projections as of August 31, 2019

