



Commission Members

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

Minutes of the Commission Meeting

Room 412, Capitol Building Pierre, SD
Friday, September 14, 2018

APPROVED

Vice Chair William Shorma started the September 14, 2018 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. Vice Chair Shorma, Commissioners Kafka, Wheeler, Ahrendt and Huizenga participated in person.

SUPPORT STAFF PRESENT

Norm Lingle, Clark Hepper, Tom Helland, Angela Bieber, Elizabeth Burdick, Nick Michels,

OTHERS

Bob Mercer, Jeff Hewitt, Bob Riter, Terry Fisher, Michael Capen, Secretary Gerlach, Brandi Hoerner, Jess Wright

APPROVAL OF THE AGENDA

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

APPROVAL OF THE MINUTES FROM THE JUNE 07, 2018 MEETING

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

CONFLICT OF INTEREST

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

NEW COMMISSIONERS

Vice Chair Shorma welcomed the two new commissioners, Commissioner David Wheeler and Commissioner Jason Ahrendt.

ELECTION OF CHAIR AND VICE CHAIR

Vice Chair Shorma opened the floor up to nominations for Chairman of the Commission. Commissioner Huizenga nominated William Shorma. Commissioner Wheeler seconded. No other nominations were made.

Vice Chair Shorma opened the floor up to nominations for Vice Chairman. Commissioner Huizenga nominated Joe Kafka. Commissioner Wheeler seconded. No other nominations were made.

Vice Chair Shorma moved to vote for both nominations of Chair and Vice Chair. Roll call vote was taken: Aye – Shorma, Kafka, Ahrendt, Huizenga, Wheeler. Motion carried.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

Welcome New Commissioners

- Commissioner Wheeler is an attorney in Huron, South Dakota and also serves on the Huron School Board.
- Commissioner Arnedt is in the insurance industry from Sioux Falls South Dakota.

Thank you both for serving on the Lottery Commission.

Personnel changes to the Lottery

- Elizabeth Burdick joined the lottery in June 2018 and serves as the Business Analyst for the Lottery. She has a Bachelor of Science in Mathematics from South Dakota State University. Masters in Industrial Engineering from the University of Minnesota and has taken classes towards a Masters in Statistics from South Dakota State University.
- Brandi Hoerner joined June 2018 and serves as the Licensing Manager for the Lottery. She has worked with the Walmart Corporation since 1996. This includes managing the Walmarts in Huron and Pierre South Dakota.
- Sonja Campbell joined August 24, 2018 and serves as a Senior Computer Operator. She has experience in customer service and the insurance industry. She has also served on the Long Lake, SD town council.

Fiscal Year 2018 Audit

Fiscal Year 2018 Audit is being conducted by the Department of Legislative Audit. We are not aware of any concerns with the audit at this time and can report on the final outcome of the audit at the next meeting.

RFP Update

- Process has been going on for over a year starting with the RFI then leading to the RFP.
- Proposals have been reviewed by a team made up of lottery staff, DOR administration, and BIT.
- The goal was to have a recommendation at this meeting but that wasn't possible.
- We continue to work through the process.
- May need to schedule a special Commission meeting or use the November meeting to act on the RFP recommendations.

Chair Shorma wanted to recognize Jim Putnam and his recent retirement from the South Dakota Lottery Commission. He served the commission a long time and we appreciate his service.

Fiscal Year 2018 Sales and Transfers Report

Deputy Executive Director Clark Hepper reported on the following:

Fiscal Year 2018 was a good year for the lottery. This was a cumulative effort of the entire lottery. All three products are showing profits year over year.

Instant Ticket Sales

- The yearly spikes in instant sales is consistent year over year. The Lottery saw a 15.78% increase in instant ticket sales from last fiscal year. FY18 sales were the highest since the beginning of instant ticket sales thirty years ago.
- Part of the success is due to DOR 20/20 strategic planning that incorporates the lottery 10 for 10 campaign. The lottery was tasked with increasing sales by 5% each year for two years. The FY18 sales was a good start in achieving this goal.
- Ticket testing, player engagement surveys, new games on a monthly basis, prize structure, and a full warehouse are contributing factors to the Instant ticket success.

Lotto Sales

- \$28 million in sales. 21.68% increase over last year. Lotto sales are typically jackpot driven, and we saw a few jackpot runs last fiscal year that helped drive lotto sales.
- The highest ever Dakota Cash jackpot of \$615,000 also contributed to driving sales.
- New sales started with the introduction of Lucky For Life April 2017. A Fort Pierre resident won the second prize amount of \$25,000 a year for life.
- Lotto draws happen six days a week with a portfolio of lotto games that appeal to a variety of players.
- Lotto America started in FY18. It was a replacement for Hot Lotto in November of 2017.
- Mega Millions had some changes that started a jackpot level at \$40 million whereas before it was \$15 million. Price for the game went from \$1 to \$2. Matrix changed and the over odds went from 1:14 to 1:24. Other features were added, such as \$1 to win just the jackpot.

Net Machine Income

- Net machine income is consistent year over year. Net machine income is cash into the machine verses prizes paid out.
- New line game terminals are still out performing the old legacy games. Line games are bringing in \$92.59 per machine per day with the legacy games bringing in \$50.10 per machine per day.
- 41% of the machines in the market are line game machines. Based on the current rate of machine replacement we anticipate by May 2019 there will be a 50/50 split between the new line game machines and the legacy machines.

Transfers

- \$270 million in sales has been through the entertaining games that the Lottery offers and the Good Fun Brand. FY18 the General Fund received \$6.4 million from Instant ticket sales. Lotto sales generated 1.4 million to the general fund and 5.8 million to capital construction fund. Video Lottery generated 109.8 million to the general fund.
- Total transferred to the General Fund for FY18 was \$123.4 million to support good causes.

Fiscal Year 2018 Product Review

Business Analyst Elizabeth Burdick reported on the following:

Instant Ticket Sales

- Instant sales from 2012-2016 saw a 1-2% increase. 1% decrease in 2017.
- In FY18 Instant sales were 38.18 million which is about a 16% increase from 2017.
- A 5% increase is projected for FY19. As of September 1, 2018 sales were up 13%.
- 39 of our counties had a 5% increase. 26 counties had a 10% increase. The top 4 counties had more than a 30% increase.

Lotto Sales

- In previous years, sales appeared to be cyclical. Sales would increase for one to two years then decrease for one to two years. FY18 was in a period of increasing sales.
- FY18 sales were up 22% from last year.
- A 3% increase is projected for FY19.
- 36 counties had a 20% increase. Only 3 counties had an increase of less than 11%.

Net Machine Income

- 2013-2018 average increased 3.8% each year.
- FY18 NMI was \$220.6 million which was about a 4% increase.
- A 2% increase is projected for NMI in 2019.
- 28 counties had a 5% or more increase in NMI. 16 counties increased more than 10% NMI. 8 counties with a decrease of more than 5% NMI. 4 counties with a decrease of more than 10% NMI.

- Line net machine income continues to increase as game play on new terminals increases. The legacy net machine income is decreasing.
- Average net machine income per terminal per day is remaining relatively constant.
- Every month the number of legacy machines decreases and the number of line machines increases.

Sales and Public Relations/Advertising Report

Director of Sales Tom Helland reported on the following:

- Promotion that was executed in July 2018. Buy 5 Lotto America plays for \$5 and receive a free \$2 Lucky For Life play. Wanted to create awareness of those two new games and not just rely on big jackpots to drive sales. This did increase the sales of Lotto America and Lucky For Life during and after the promotion. May look at another terminal promotion in January or February 2019.
- For the start of the FY19 Instant games are up \$817,127 and online games are down \$2,925,603. Video Lottery has a 3% increase over the 4% from last year. Combined effort of all the games show \$875,270 down in revenue for the start of FY19.

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 to be Thursday, November 29, 2018.

ADJOURNMENT

Chair Shorma requested motion to adjourn, Commissioner Huizenga motioned to adjourn and Commissioner Wheeler seconded the motion. Adjourned at 10:22 a.m