



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, October 26, 2017

Chair Putnam called the October 26, 2017 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. All members were present.

SUPPORT STAFF PRESENT

Andy Gerlach, Norm Lingle, Clark Hepper, Robyn Seibel, Tom Helland, Angela Bieber, Julie Pirnat-Schultz, Andrew Fergel, Nick Michels, Wade LaRoche

OTHERS

Deb Mortenson, Jess Wright

APPROVAL OF THE AGENDA

Commissioner Faehn moved that the agenda be approved. Commissioner Mickelson seconded. Motion passed with no objection.

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

Commissioner Kafka moved that the minutes be approved. Commissioner Dykstra seconded. Motion passed with no objection.

CONFLICT OF INTEREST

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

SECRETARY OF REVENUE COMMENTS

Secretary of Revenue Andy Gerlach reported on the following:

State Revenues

- State general fund receives a little over 60% of sales and use tax.
- Department of Revenue is up 2.2%.
- The gross domestic product will stay at 2% range of growth in the near future.
- Contractor Excise Tax is 3rd largest revenue producer to the state general fund is down 7.82%.
- Video Lottery increased almost 4% with lottery being the second largest producer to the general fund.
- Deadwood gaming room numbers increased but gaming numbers down 2.5%. Table games play increased but, slots play is down.
- Governor's budget address is December 5 at 1:00 p.m.

Department Initiatives

- TIF, consistency in classification and how it affects state aid to education formula.
- Alcohol laws classifications. Clean up bill to organize Title 35 dealing with alcohol laws. Legislation to clarify trade practices with distributors and wholesalers that work across lines at the retail level and sponsorships. South Dakota wine business practices concerning importing of bulk wine and licensing. There is an increase of craft breweries with a barrel limit of 5,000, so we are looking to increase the barrel limit for the breweries.

Online Market Places

- Online market places.
- Work force housing study as well as online market places causing state loses \$50 million in State General Fund and municipal tax. Reaching out to online market places with success of getting Amazon and Airbnb licensed with the State.
- State of South Dakota vs. Wayfair, Overstock, Newegg.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

New Employee's

- Two new employees join the lottery Tom Helland is new the Director of Sales and Angela Bieber is the new Information Specialist.

Online & Video Control Systems, RFP.

- Current contracts run through August 2019.
- Issue RFP – January 2018.
- Recommendation to Commission Q4 of CY18.

Lotto Games Update

- Mega Millions.
 - Starting jackpot will increase from \$15 million to \$40 million.
 - Price per play \$1 to \$2. Minimum jackpot rolls \$5 million.
 - Introduce the feature just the jackpot where a player can buy two plays for \$3.
- Hot Lotto.
 - End October 28, 2017
 - Jackpot for this game would transfer over to Lotto America November 12. This will make the starting jackpot for that game \$15 Million.
 - Lotto America will start at the \$2 Million if the jackpots hit.

Video Lottery

- Legacy Machines.
 - Ask Commission approval to work with industry on an end date for the Legacy video lottery machines.
 - Andrew Fergel stated that the commissions did declare the Legacy machines are obsolete and he would look into additional requirements.
 - Ask Commission approval to work with industry on an end date.

POWERBALL RULES HEARING 10:00 a.m

Executive Director Norm Lingle reported on the following;

Explain changes to the Powerball game group rules. A new feature called Winner Take All will be added. This is a second chance bonus draw for an additional \$1 to be held on Monday's and Thursdays. Powerball will be four nights a week generating more revenue. Multistate Lottery Association monitors the Powerball game. Game scheduled for April 19, 2018.

Rule 48:03:06:05 Proposal; to amend that existing rule, to allow for the inclusion of the Powerball Winner Take All rules. Also, update the date of the official game group rules for Powerball. South Dakota Lottery adopts the game group rules as our rules for those games.

Revenue estimate is based off of a 5% participation rate based on our base game sales. Anticipate roughly \$670,000 in Winner Take All Sales, net revenue of \$206,000. Legislative rules review will meet November 14, should the commission approves.

Chair Putnam opened it up for testimony.

- No questions by the commission.
- No proponent to testify for the change in rules.
- No opponents to testify on the rules.
- Andy Fergel stated legal did not receive any comments concerning the proposed rules.

Chair Putnam closed the hearing at 10:10 a.m. and asked the commission for requests, comments, or to take action on the rules. None were heard and Commissioner Faehn moved to pass the change of the rules. Commissioner Dykstra seconded the motion. Roll call was given and the rules change passed unanimously.

DECLARATORY RULING 17-4 LOTTO RETAILER INCENTIVES

Powerball Winner Take All incentive commission would be \$1,000 should we have winner at that level. Retailer selling the ticket would receive \$1,000. We would pay up to two of those if there are more than two winners we would then divide \$2,000 by the total number of winners. Executive Director Norm Lingle proposed that this become part of the Powerball Winner Take All.

Chair Putnam Motion to put this in place, Commissioner Shorma moves and Commissioner Kafka seconded with the motion passing unanimously.

INSTANT/ONLINE PERFORMANCE REVIEW

Deputy Executive Director Clark Hepper reported on the following:

Instant ticket sales up 11.54% in the first quarter of the year with good growth across the state. Out of the top ten cities there was double digit growth in six. Introduction of two \$20 tickets at the same time has helped with the increase growth.

Online lotto sales 12% growth rate with three jackpot runs at the end of August. Sales up 42.78%

Highest jackpot on Dakota Cash of \$614,181 was awarded the end of September. Sales start to grow when we have larger jackpots.

VIDEO LOTTERY REPORT

Security Director Robyn Seibel reported on the following:

Exhibit A, net machine revenue and terminal and establishment averages are \$54.02 million. 3.94% more than last year. Terminals in the establishments 9,123, .62% more than last year. 1339 establishments. .30% less than last year.

Exhibit B, State share revenue projections for fiscal year 2018 is \$109.27 million. Fiscal year 2017 was \$105.13 million

PUBLIC RELATIONS/ADVERTISING REPORT

Deputy Executive Director Clark Hepper reported on the following:

Dakota Cash Jackpot of \$614,151 was won by Lynda Blesi of Sioux Falls, \$50,000 Powerball winner from Sioux Falls, \$44,000 Dakota Cash winner from Mitchell, Hot Lotto winner from Wagner, \$9,000 Hot Lotto winners in Murdo, Yankton and Pierre.

Eleven Top prize instant ticket winners \$5,000-\$250,000 given away since August 24.

Monthly Moola second chance drawing will be ending in November and we will be introducing a new one in December. August first place winner was from Aberdeen of \$2,500. Second and Third place winners of \$100 were in Castlewood and Brookings. September first place winner was in Bell Fourche. Second and third place winners were from Elk Point and Sioux Falls. Players club was built up because of the second chance drawings.

10 for 10 Initiative, Introduction of new tickets, formats, play styles by using focus groups. Two focus groups were located in Watertown, Rapid City and Sioux Falls. Participant age ranges were 18-64 with twenty participants at each location.

Tested four new tickets with different play styles.

- Game 1: Big Ticket, recommend not to release, people liked it until they started to play it. It seemed to lose its appeal.
- Game 2: Passbook Playbook, recommend not to release, too cartoonish. They liked the features and playstyle.
- Game 3: Sevens Playbook, possible release, appealed to a larger range of people. Value added product. It would target female and extended play players.
- Game 4: Scratch My Back, possible release, appealed to both types of players and gender groups.

Extended players are Cashword and Bingo type games that the players experience extended playing.

SALES REPORT

Deputy Executive Director Clark Hepper reported on the following:

Holiday Scratch tickets are in the retailers. They started shipping October 1. The ticket themes are seasonal rather than Christmas themed to encourage players throughout the winter season and not just this holiday.

The instant fiscal sales year is up \$5.83 million dollars. The Lotto fiscal year sales up \$7.88 million. Year over year sales continue to show growth. As of October 21, Steady growth of 10% for instant, 35% for lotto, 4.3% for video lottery.

NEXT MEETING DATE

Director Lingle announced the next meeting is Thursday, December 14, 2017.

ADJOURNMENT

Chair Putnam requested motion to adjourn, Commissioner Kafka motioned to adjourn and Commissioner Faehn seconded the motion.

Adjourned at 11:12 a.m.