

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES**

May 11, 2016

10 a.m.

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, May 11, 2016, at 10 a.m., in the first-floor conference room located at 1333 Main Street, Columbia, South Carolina, with the following members participating:

Sam Litchfield, Chairman

Tom DeLoach

Dr. Edward Keith, Vice Chairman

Buck Limehouse

Keith Munson, Secretary/Treasurer

Bo Russell

The Chairman called the meeting to order and welcomed guests.

Approval of Minutes

On motion of Commissioner DeLoach, seconded by Commissioner Limehouse, the March 2, 2016 meeting minutes were unanimously approved.

ACTION ITEMS

Review and Approval of Fiscal Year 2017 Budget¹

The Chairman recognized Mr. Joseph Boyle, Chief Financial Officer. Mr. Boyle explained the SCEL FY 2017 Budget (Financial Plan). He referenced the worksheet provided to the Board that shows variances between the FY 2017 Plan and FY 2016 projected results. The 2017 Plan is \$1.3 million above 2016, \$784,000 of which is attributable to salaries and the related employee benefits (61% of the overall increase). The rest is due to providing for legal expense contingencies and for the retailer rallies that will be held in the next fiscal year (they occur every two years).

Mr. Boyle also noted that SCEL's overall planned FY 2017 Operating Expenses have been consistent with Operating Expense levels over the past five years. During that period, revenue growth has exceeded 40%. SCEL's FY 2017 Plan contemplates that, excluding advertising, Operating Expenses will be just .9% of revenues. Including advertising, Operating Expenses will be just 1.46% of revenues. Compared to other lotteries with sales under \$4B, SCEL has the best operating expense ratio in the country.

Revenue projections for next year remain flat because it is simply not prudent to assume a continuation in the double-digit growth in \$10 ticket sales that has been the case for several years. At some point, management believes \$10 ticket sales will plateau. Similarly, SCEL is having a great year in \$5 ticket sales along with Pick 3 and Pick 4, but has budgeted cautiously projecting flat sales revenue in FY 2107. Regarding the 2017

¹ Without objection, the Chairman moved to defer discussion of the budget until later in the meeting. Although the budget discussion occurred after the Regional Sales Managers presentation, for ease of reading, the minutes are presented in the order of the meeting Agenda.

Powerball revenue forecast, SCEL backed out the \$40M in sales from the huge jackpot run. Overall adjusted Powerball revenues are flat because the game is under pressure compared to a few years ago. SCEL is projecting net income of approximately \$385M for FY 2017.

Motion Adopted

At the conclusion of questions and comments, the matter before the Board was the adoption of the FY 2017 budget.² The FY 2017 budget was adopted unanimously.

REPORTS

Marketing Report and Quarterly Advertising Review

The Chairman recognized Aimee Smith, Product Specialist, for Marketing and Product Development, to review the quarterly advertising material³ made available to the Board in advance of the meeting: Television, Playstation, Point of Sale, Outdoor, Website Advertising, Print Advertising, and Retailer Newsletter. Ms. Smith reviewed several Powerball TV commercials as well as discussed Point of Sale materials. Her presentation included:

- Television - Powerball Minimum Jackpot Ad; Queen of Hearts Back Scratcher ad;
- Play Station – Double Jackpot, Feeling Lucky?, Two Lucky Tickets, PC5;
- Digital billboard – “Cherry on Top” advertising the instant games Wild Cherry and Cherry Jackpot; Back Scratch advertising the instant game Double Jackpot (depicting a Bear, Dog, and Horse); and
- Online/Website – Heritage Twitter Drawing, USC Baseball Twitter Drawing, USC/Clemson Baseball Twitter Drawing.

The Board expressed no questions, objections, or concerns regarding the advertising materials submitted for review. It was therefore the consensus of the Board that SCEL’s past advertising and proposed concepts for major media campaigns presented today, did not and do not target, with the intent to exploit, specific ethnic groups or economic classes of people, and that the content is accurate and not misleading.

After the report, Mrs. Bethea acknowledged SCEL’s receipt of the Fleurry Award at the 2016 La Fleur’s Conference in Washington, D.C. for the best beneficiary spot in the industry.

Regional Sales Manager Presentation

The Chairman recognized Mrs. Bethea who introduced Suzanne Slacas, John Irby, and Jesse Hines all of whom started with SCEL as Marketing and Sales Representatives (MSRs) before being promoted to the Regional Sales Manager (RSM) position. She then gave a brief biographical sketch of the main presenter, Jesse Hines, including not only his service to SCEL, but also his service in the U.S. Military.

² Prior to the vote, the Chairman announced that he had the proxies of Commissioners Ballentine, Morris, and Renner who asked him to cast the proxy in favor of adoption of the 2017 Budget. Each proxy was submitted as authorized by Article 2, Section 4.E. (1) (b) of the Commission Bylaws.

³ SCEL’s enabling legislation requires a quarterly review by the Board of “all past lottery advertising and proposed concepts for major media campaigns to ensure that the advertising did not and does not target with the intent to exploit specific ethnic groups or economic classes of people, and that the content is accurate and not misleading”.

Mr. Hines gave a brief overview of SCEL's three regional territories and the approximate retailer count in each region. He then explained some of the RSM's primary duties that include training SCEL's sales staff and retailers, ensuring retailers are properly equipped, ensuring that retailers properly display SCEL products, monitoring MSR routing, timing efficiency when visiting retail locations, resolving player complaints as quickly as possible, and assisting in promotional events staffed by MSRs throughout the state.

At the conclusion of the presentation, Mrs. Bethea noted that the SCEL had met its sales goal and that the sales staff will receive their bonuses.

Financial Update

Overview

During the first nine months of FY 2016, Transfers increased from \$261.0 to \$307.8⁴ an increase of \$46.8 of which approximately \$20M is due to the Powerball jackpot run in January 2016. Instant Game Revenues were \$842.6, up \$110.0, or 15.0% over the same period last year. The positive variance in Instant Game Revenues is primarily attributable to better than expected sales of \$10 and \$5 Instant Tickets that exceeded Plan by \$81.4 (16.7%) and \$22.5 (18.2%), respectively. Revenues associated with the \$10 price point were conservatively planned due to the above average sales growth in recent years. After several years of declining sales, the \$5 price point has performed much better in FY 2016.

Terminal Game Revenues were \$351.4, an increase of \$50.4, or 16.7%. The unprecedented Powerball jackpot run in January 2016 drove the increase in Terminal Game Revenues. During a two-week period as the jackpot reached a record \$1.6B, SCEL recognized revenues of about \$43 (or, over half of all Powerball Revenues recognized in FY 2015). Pick 3 and Pick 4 continued to perform well and revenues were up by \$11.0 (9.1%) and \$4.7 (7.4%), respectively. Mega Millions Revenues were down significantly by \$6.9, or 21.2%. Palmetto Cash 5 Revenues were down \$1.4, or 9.0%. Lucky for Life Revenues were up \$5.3.

To date, actual financial results have exceeded Plan. Game Revenues were \$1,194.0 compared to Plan of \$1,017.6. Net Income for the nine months ended March 31, 2016, was \$301.6 compared to Plan of \$245.9. Mrs. Bethea stated that she believes the Board of Economic Advisors understands the effect of the extraordinary Powerball run as do the House Ways and Means Committee staff and the Senate Finance Committee staff.

Executive Director's Report

Mrs. Bethea announced that Jorge Bravo is now the permanent IT Director. Filling Mr. Bravo's prior position as SCEL's Chief Compliance Officer will be Dan Beatty who brings a wealth of contract and procurement experience from prior military and state service. Mrs. Bethea announced that Becky Ayer's retirement is effective the day following the meeting. Mrs. Bethea noted that she would remain the primary contact for the Board, but also stated that any member may contact Legal Services for assistance.

⁴ Dollar amounts reported in millions unless otherwise noted.

As for recent procurement activity, Mrs. Bethea mentioned that Joe Boyle and Hogan Brown are working on a new Banking Request for Proposals (RFP). Mrs. Bethea then explained the recently completed payroll conversion from ADP to Performance Payroll that resulted from a competitive solicitation. Mrs. Bethea noted that the “Time and Attendance” component of the new system simplifies the entry of information for employees and managers while enhancing the efficiency of completing the payroll process for the Human Resources staff. Mrs. Bethea also discussed the status of the Online RFP process. Michael Dalton, from State Procurement, has been assigned to assist SCEL. Mr. Dalton, along with SCEL staff, recently had a very productive 3½-hour Q&A session with the major vendors to help draft a better RFP, reduce the length of the proposals, and develop a level of trust among all participants.

Mrs. Bethea announced that NASPL has moved the mid-June Directors meeting from Asheville, NC to Cleveland, OH, in response to the passage of HB 2 in North Carolina. Several Lottery Directors are no longer allowed to travel to North Carolina on state business. Mrs. Bethea and Tony Cooper are scheduled to attend.

Mrs. Bethea presented a graph to the Board comparing the \$1.6B Powerball jackpot run and the recent \$415M jackpot run that illustrated jackpot fatigue. Sales did not reflect any meaningful uptick in sales as the jackpot approached a half a billion dollars. Player and media attention were simply not present.

Mrs. Bethea discussed the newly finished brochures designed to assist students and parents in understanding the requirements for the scholarships funded by SCEL proceeds. The brochures grew from a discussion at previous Board meetings. The brochures are the culmination of cooperation between the Commission on Higher Education (CHE), the State Department of Education (SDE), and SCEL and will be paid for by SCEL. Dr. Karen Woodfaulk, Director of Student Services at CHE, was recognized and noted that the scholarship education initiative would begin on May 25, 2016, at Estill High School with students, teachers, and the Superintendent. Mrs. Bethea noted that the same information in the brochures would appear on the CHE, SCEL, and many other websites.

Other Business

There being no further business, the meeting was adjourned. August 10, 2016, is the next scheduled meeting of the Board.

_____/s/
Sam Litchfield, Chairman

_____/s/
Keith Munson, Secretary/Treasurer

As required by *S.C. Code Ann.* § 30-4-80, SCEL posted notification for this meeting at its administrative offices, 1333 Main Street in Columbia. As provided in the Board Bylaws, SCEL also posted the meeting notice and agenda on its website (sceducationlottery.com), and sent via facsimile transmission pursuant to requests made by individuals, media outlets and other organizations. These notifications included the time, date, place, and agenda of the meeting.