

**SOUTH CAROLINA EDUCATION LOTTERY  
BOARD OF COMMISSIONERS MEETING MINUTES  
December 2, 2015  
10 AM**

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, December 2, 2015, at 10 a.m., in the first-floor conference room located at 1333 Main Street, Columbia, South Carolina, with the following members participating:

Tim Madden, Chairman	
Dr. Edward Keith, Vice Chairman	Tom DeLoach
Sam Litchfield, Secretary	Keith Munson
Otis Morris, Jr.	Mickey Renner
Karen Ballentine	Buck Limehouse

The Chairman called the meeting to order and welcomed Buck Limehouse, who was recently appointed to the Board by Speaker of the House of Representatives, Jay Lucas.

The Chairman recognized guests from IGT, Intralot, and Scientific Games. In 2016, a Request For Proposals (RFP) will be issued for the “on-line services” contract (online contract). The Chairman reminded Commissioners that the State Procurement Code governs this process and that is best to limit conversations with vendor representatives. The Chairman suggested that procurement questions be referred to Hogan Brown, Director of Legal Services.

**Approval of Minutes**

On motion of Commissioner Munson, seconded by Commissioner DeLoach, the Board unanimously approved the September 16, 2015 meeting minutes with two minor edits.

**ACTION ITEMS**

**Ten-Year Performance Term for Gaming Services Contract**

The Chairman recognized Paula Harper Bethea. In the summer, SCEL expects to release an RFP soliciting proposals for the on-line contract that covers telecommunication equipment and services supporting the sale of all terminal generated games, software for security and inventory management of instant games, claims processing, licensing, back office accounting, and paper stock. The current contract expires on March 15, 2018. A ten-year performance contract should yield cost savings to SCEL as it allows vendors a longer timeframe to amortize equipment costs. If a new vendor is selected, the conversion process to a new vendor is costly and very disruptive for SCEL operations and our 3,900 retailers, so it is best to extend the intervals between contracts if possible. Conversion can take six months or longer. The industry norm is for a contract of this nature to last at least ten years.

A term beyond seven years requires approval of the five-member Fiscal Accounting Authority (Authority) (formerly the Budget and Control Board). Mrs. Bethea is seeking approval to make a request to the Authority for a ten-year performance term.

#### **Motion Adopted**

After brief discussion, on motion of Commissioner Keith, seconded by Commissioner DeLoach, the Board unanimously authorized the Executive Director to seek approval from the Authority for a ten-year performance term for the next on-line contract.

#### **Proposed Bylaw Revision**

During its discussions, the Nominating Committee deferred action on a suggestion by Commissioner Madden to revise the bylaws to consolidate the offices of Secretary and Treasurer and to eliminate the at-large seat on the Executive Committee. Commissioner Madden presented this proposal to the Board for discussion.

#### **Motion Adopted**

After brief discussion, on motion of Commissioner Litchfield, seconded by Commissioner Munson, the Board unanimously approved the bylaw revisions.

### **REPORTS**

#### **SCEL Licensure**

Chairman Madden introduced Cynthia Brown, Licensing Manager. She provided a detailed presentation of the steps required before SCEL can license a retailer. Six staff members, including Ms. Brown, are responsible for processing over 3,900 new and renewal applications annually and ensuring that quality control and auditing requirements are met. The Lottery Act has numerous substantive licensure requirements including a criminal background review, a compliance review by the Department of Revenue, in addition to many internal reviews, to ensure the financial responsibility and integrity of the retailers. Licensing staff works in coordination with, and seeks input from SCEL Sales, Finance, and Security staff in vetting ownership and compliance issues. Unlike licenses issued by other state entities, when a lottery license is issued, SCEL is entering into a true business relationship with the retailer as they are responsible for tickets and lottery proceeds. Retailer compliance with all contractual and legal requirements relating to lottery sales is essential to maintaining public confidence in SCEL. Consequently, the Executive Director is responsible for the final licensure decision.

Ms. Brown provided an overview of types of outlets seeking licensure such as new locations, change of ownership situations, and renewals. While many entities own only one or two retail outlets, she explained the trend toward mergers and consolidations of medium-sized and particularly large corporate outlets. Since 2013, staff has processed approximately 15 mergers representing more than 500 locations.

#### **Marketing Report and Quarterly Advertising Review**

The Chairman recognized Jay Johnson, Director of Marketing and Product Development, to review the quarterly advertising material<sup>1</sup> made available to the Board in advance of

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<sup>1</sup>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."

the meeting: Television: Play Responsibly Anonymity, Play Responsibly Money, Play Responsibly Signs, and Powerball Lucky Day;

- Point of Sale (Print): Point of Sale advertising includes Window Posters, Ticket Dispenser Toppers and Play Station Posters: Lucky for Life;
- Ticket Topper and Play Station Surface Poster: Holiday tickets, Queen of Hearts;
- Digital Billboards (outdoor): Whole Lotta \$100's, Lucky for Life Winner, Million Dollar Mega Millions Winner, Palmetto Cash 5 Winner; and
- Website Ads: Clemson and USC Twitter Contest, Instant Replay Second-Chance Promotion Winner.

No objections or concerns were expressed regarding the advertising materials submitted to the Board for review. It was therefore the consensus of the Board that SCCEL'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.

### **Financial Update**

The Chairman recognized Joseph Boyle, Chief Financial Officer, to highlight key items from the financial report submitted to the Board. During the first four months of FY 2016, transfers increased from \$111.3 to \$122.6 (all amounts expressed in millions). Net Income increased \$19.6 to \$121.3 as a result of an increase in Game Revenues which increased \$50.7 to \$483 and a significant improvement in Game Margin on Terminal Games.

The overall increase in Game Revenues was primarily the result of the increase in Instant Game Revenues of \$44.9. Of the overall increase, \$10 Instant Tickets increased by \$35.9 and \$5 Instant Tickets increased by \$7.0. This volume increase represents revenue growth in these price points of 18.0% and 13.0%, respectively. Revenues associated with the \$1, \$2, and \$3 price points, in aggregate, increased by \$2.0, or 3.8%. The Game Margin on Instant Game Revenues increased slightly during the period by .6%.

Terminal Game Revenues were \$132.4, an increase of \$5.8, or 4.6%. Pick 3 and Pick 4 Revenues were up modestly by \$3.2 (6.1%) and \$1.2 (4.3%), respectively. Powerball Revenues were essentially flat and Mega Millions Revenues were down significantly by \$3.8, or 25.3%. Palmetto Cash 5 Revenues were down \$1.0, or 14.1%. Lucky for Life Revenues were \$5.9. This Game commenced in mid FY 2015. During the first four months of FY 2016, the Game Margin improved significantly on Terminal Games to 52.25%, an increase of \$4.11. The improvement was primarily the result of the "recovery" of Pick 4 Game Margin from 33.17% to 55.12%. The current levels of Game Margin % are more "normal" compared to the same period last year when they were unusually low.

To date, actual financial results have exceeded the FY 2016 Financial Plan. Game Revenues were \$483.2 compared to Plan Revenues of \$429.9. Net Income for the four months ended October 31, 2015 was \$121.3 compared to Plan of \$103.3. Sales of \$10 and \$5 Instant Tickets have exceeded Plan by \$31.6 (15.5%) and \$9.4 (18.2%), respectively. Revenues associated with the \$10 price point were conservatively planned due to the above average sales growth in recent years, but the upward trend has continued

into FY 2016. Concern remains that this upward trend is not sustainable. After several years of declining sales, the \$5 price point has performed much better in FY 2016. The positive variance in Terminal Game Revenues is primarily attributable to much better than expected sales of Pick 3 and Pick 4 products, which in aggregate, exceeded the Plan by \$11.0, or 14.9%. Both of these Games were conservatively planned due to the significant increase in sales in the previous year (attributable to larger than normal prize payouts); however, the sales momentum has carried over into FY 2016. Conversely, Powerball and Mega Millions Revenues were under Plan, in aggregate by \$3.2, or 8.2%.

Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$128.5 compared to the planned amount of \$111.7 for a positive variance of \$16.7 or 15.0%. In aggregate, Operating Expenses were \$1.2 under Plan. Advertising Expense was under Plan by \$.9 (\$2.9 Actual vs. Plan of \$3.8). Other Operating Expenses (“G&A”) were \$.3 under Plan. Most of these variances are expected to normalize to planned amounts as the year progresses.

### **Executive Director’s Report**

The first South Carolina Lucky for Life top-prize winner recently opted for a lump sum payment of \$5,750,000. The selling retailer received a \$50,000 selling bonus, and the positive publicity should sustain or increase sales.

Mindful of the ever-increasing instances of cyber hacking and security breaches in the public and private sectors, SCEL has purchased cyber insurance through our broker, Arthur J. Gallagher and Co. Three quotes were obtained and Travelers had the broadest coverage and the best price (\$60,000 per year). The policy limit of \$5,000,000 (with a \$50,000 retention) covers the most significant items associated with a breach such as, notifications and credit protection, forensic assessments and remedial actions, and public relations expenses. In addition to the insurance, SCEL will continue to thoroughly review and implement necessary security procedures and infrastructure upgrades.

Mrs. Bethea updated the Board on the Fantasy Sports operations and recent litigation. As for the legality of this type of gaming in South Carolina, that decision rests with the State Law Enforcement Division and the Attorney General. She reported on her conversations with both. While sports gaming has not had a noticeable impact on SCEL’s performance, given the method and ease of play, staff will continue to monitor sales.

To follow up on a question raised at the last Board meeting, Mrs. Bethea spoke with the Superintendent of Education, Molly Spearman, to learn more about how information on Lottery Scholarships is conveyed to high school students. As a result, consistent with beneficiary messaging, SCEL is going to fund a printed and electronic brochure for use by students, guidance counselors, and parents. The Department of Education and the Commission on Higher Education will ensure that the brochure is distributed to every guidance counselor and principal throughout the state. Commissioner DeLoach asked what colleges and universities are doing to promote Lottery Scholarships, and Mrs. Bethea will inquire.

Powerball sales have been disappointing and Mrs. Bethea indicated that there are probably no more matrix changes available. Conversations are beginning toward creating a new game. Two or three big jackpots runs in Powerball or Mega Millions could have a

tremendous impact on transfers. Based upon increased instant game and other terminal game sales, the transfer estimate has been adjusted from \$321,000,000 to \$340,000,000.

Mrs. Bethea concluded her remarks by reflecting upon the service of Chairman Madden and their time together as Commissioners beginning before the first SCEL employee was hired. On behalf of all who have served to enhance educational opportunities and academic excellence in South Carolina, she thanked him for his unflappable leadership, professionalism, and grace in times of great challenge and great triumph. She also expressed her personal gratitude for his mentorship, compassion, and friendship, which will forever be cherished.

### **Election of Officers**

Commissioner Keith was recognized to present the Nominating Committee report. The Committee made no recommendation for Board Chair to allow both Commissioner Litchfield and Commissioner Munson the opportunity to address the Board. Given the demands of his medical practice, Commissioner Keith opted to seek reelection as Vice Chair. The Committee deferred action on Executive Committee positions except Vice Chair so that the Board could consider the bylaw amendments approved earlier.

The Board proceeded to the election of officers. The Nominating Committee's recommendation to elect Commissioner Keith as Vice Chair was unanimously adopted. By virtue of the interest expressed and with consent of the Board, Chairman Madden nominated Commissioners Litchfield and Munson for Chair. With no further nominations, each Commissioner was recognized to make brief remarks. By a show of hands, Commissioner Litchfield was elected by majority vote, with one abstention. Chairman Madden nominated Commissioner Munson for the office of Secretary/Treasury, which was seconded by Commissioner Limehouse. No other nominations were made and Commissioner Munson was unanimously elected.

### **Other Business**

The next Board meeting will be February 17, 2016.

There being no further business, the meeting was adjourned.

\_\_\_\_\_/s/  
Timothy E. Madden, Chairman

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Sam Litchfield, Secretary

As required by § 30-4-80, notification for this meeting was posted at SCEL administrative offices, 1333 Main Street in Columbia. As provided in the Board Bylaws, the meeting notice and agenda were also posted on the SCEL 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.