

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

December 5, 2018

10 a.m.

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, December 5, 2018, at 10 a.m., in the first-floor conference room located at 1333 Main Street, Columbia, South Carolina, with the following members, representing a quorum, participating:

Sam Litchfield, Chairman
Dr. Edward Keith, Vice Chairman
Keith Munson, Secretary/Treasurer
Bo Russell

Otis Morris
Richard Chapman
Mickey Renner
Buck Limehouse

The Chairman called the meeting to order and welcomed guests. The Chairman then recognized Mr. Brown to introduce Ms. Seema Shrivastava-Patel, President of the South Carolina Association of Convenience Stores (SCACS). Mr. Brown discussed Ms. Shrivastava-Patel's professional background and praised her energy and efforts on behalf of SCACS. She then addressed the board and expressed her appreciation for SCEL's continuing efforts to foster a collaborative relationship with SCACS.

Approval of Minutes

On motion of Commissioner Munson, seconded by Commissioner Keith, the Board unanimously approved the minutes for meeting held on August 8, 2018.

Election of Officers for 2019

The Chairman reminded Board members of a recent email asking whether any Commissioner was interested in serving as Chair, Vice Chair, or Secretary/Treasurer. The Chairman then asked for new nominations. Hearing none, the Chairman entertained a motion from Commissioner Keith, seconded by Commissioner Russell, to close the nominations and to elect the current slate of officers for another one-year term. The motion passed without objection.

Executive Committee Report

The Executive Committee met on Wednesday, August 8, 2018, and voted to recommend a 5 percent salary increase for the Executive Director, retroactive to date of their meeting. To consider a committee recommendation, no second is needed. The Board unanimously adopted the recommendation. The Chairman noted that the salary for the position has not increased in 10 years.

Quarterly Advertising Review

The Chairman recognized Mr. Brown who introduced Mr. Josh Whiteside, SCEL's new Marketing and Product Development Director. Mr. Whiteside is a South Carolina native and a graduate of the University of South Carolina with an extensive background in marketing. Mr. Whiteside briefly recapped his experience and explained his most recent position with the Charlotte Hornets where he led an in-house marketing team responsible for every aspect for that brand for the last five years.

The Chairman next recognized Ammie Smith, Senior Marketing Manager, to present the following items for the Quarterly Advertising Review.

PID (Player Information Display): Holiday; Lucky Numbers; and Harley-Davidson® video.

Point of Sale: Holiday, PLAY STATION POSTER; "Eric", WRITING SURFACE; and Wild Cherries, WRITING SURFACE.

Outdoor Advertising (Digital Billboards): Holiday, Harley-Davidson®, and Lucky Numbers.

Social Media (Twitter/Instagram): Carolina/Clemson football tickets, Carolina/Clemson Yeti Cup, Maroon 5 Concert tickets, iTunes gift card, Darlington Raceway tickets, and Pizza gift card.

Online Advertising (Online ads): Million Dollar Multiplier; and The Voice®.

Ms. Smith concluded her presentation by announcing that our responsible gambling radio ad, “In the Kitchen”, received a top-place award at the NASPL Annual Convention. Several questions were asked regarding responsible gaming advertising as well as the Harley-Davidson® instant game and its prizes. Upon conclusion, the Chairman stated, without objection, that it was the consensus of the Board that the advertising concepts presented 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.

General Marketing Update

Ms. Smith next mentioned the recent \$1.5B Mega Millions jackpot run ending with a single winning ticket. She presented a video prepared by staff and briefly described the excitement and process involved when there is a big winner. Mr. Brown explained how well staff mobilized after the win and how activities were coordinated locally and in NY, where he was attending a Multi-State Lottery (MUSL) meeting on the night of the draw. The video showed part of the press conference at the winning store featuring Tony Cooper, Chief Operating Officer, and national coverage clips including Mr. Brown appearing on Good Morning America® and CBS This Morning®. Mr. Whiteside explained the impact of the win on social and digital channels in creating awareness for SCEL. Our best estimate is that SCEL received roughly \$350K in free advertising from the publicity. Holli Armstrong, Public Relations Coordinator; Ms. Ann Scott, Director of Sales and Retailer Relations; Ms. Suzanne Slacas, Upstate Regional Sales Manager; Mr. Terry Gist, Marketing & Sales Representative for the selling store; Mr. Craig Perry, Director of Security; and Mr. Tony Cooper, Chief Operating Officer were recognized for their efforts in all facets of this occasion. Mr. Brown introduced and thanked Ms. Pam Wallace, Administrative Support Specialist; and Ms. Donna Swygert, Senior Internal Operations Coordinator for their work in fielding the enormous number of calls on the Wednesday and Thursday following the draw.

Several questions were asked concerning SCEL security protocols associated with a jackpot win and what would happen if the winner(s) does not come forward. Mr. Brown stated that the winning ticket would yield approximately \$61M in state income tax that would go to the general fund. If no claim is made, \$11.2M will be returned to SCEL (our contribution to the jackpot), which would go to the Education Lottery Account as an unclaimed prize.

The Chairman recognized Mr. Whiteside to update the Board on social media. He stated that since July 2018, 4.3 million impressions have hit digitally with a reach of approximately 60,000 people. He also stated there have been 355,000 video views that 9,000 people have “liked.” He stated that the significant benefit of social media is that we can determine what is working which helps SCEL identify the type of content to produce. By comparison, TV advertising cost \$80,000 without clear feedback on what works compared to \$20,000 for social media with its solid feedback. Mr. Whiteside also noted that SCEL is developing concepts for 2019 branding spots that were well received by the Marketing and Retailer Relations Committee. Mr. Brown added that at the February Board meeting, staff would present more information and concrete plans for the next phase of social media implementation. It appears that these plans will not exceed the FY19 budget.

Mr. Brown mentioned a two to three month gap between the expiration of the previous ad creation and production contract and the new award to Chernoff Newman (CN) that was due to a delay in the procurement process beyond the control of SCEL. With the new contract now in place, staff

explained that while CN replaced Mad Monday, it was still a part of the production team as a subcontractor of CN along with Able VFX and Dust of the Ground.

Reports

The Chairman recognized Mr. Boyle to present the Financial Update. He began with more details on the Mega Millions jackpot. Roughly, \$1M per month in interest is accruing to MUSL as the holder of the funds pending disbursement. If the winner chooses an annuity, MUSL will obtain an annuity over 29 years after an initial \$50M payment. If the winner(s) selects a lump sum payment (approximately \$877M), which is typically the case, SCEL would withhold 24% for Federal income tax and 7% in state withholdings. He estimated that after tax value of the prize at \$500M.

Actual FY 2019 Results Compared to Actual FY 2018 Results

Overview

During the first four months of FY19, Transfers went from \$143.9M to \$176.4M, an increase of \$32.5 (22.6%). Overall Game Revenues increased \$79.3M to \$633.3M (14.3%).

Instant Games

The overall Game Margin on Instant Game Revenues increased \$13.0M (12.0%). The overall Instant Game Margin Percentage was 27.5% compared to 28.0% during the same period last year. Instant Game Revenues increased by \$54.6M (14.1%), to \$442.9M, solely attributable to the increase of \$65.7M in \$10 Instant Tickets (25.7%). All other price points decreased, as follows:

Price Point	Decrease	
	\$	%
\$1	0.7	5.2%
\$2	2.8	9.7%
\$3	0.3	2.5%
\$5	6.3	8.3%

Mr. Brown provided an overview of sales patterns of the \$1, \$2, and \$5 Instant Games. He explained the trend lines for each price point. Staff has worked tirelessly to analyze and correct the decline in sales and feels there are several factors at play. As part of the conversion in mid-May retail outlets were over-supplied with instant product in case there were unexpected delays in shipments resulting from post conversion issues. There were none. The new IGT algorithm for predictive ordering system (system) is very sophisticated. As such, there has been a significant adjustment period. It often takes up to 60 days for \$1 and \$2 instant tickets to settle due to the slower pace of sales. As a result, it took SCEL time to fully appreciate the system was not placing adequate orders for the lower price points since it took longer for pre-conversion inventories to sell down. The system worked so well in supplying \$10 tickets, retailers may have actually been de-incentivized to request a manual order for \$1 and \$2 tickets. The great success of \$10 games appears to have crowded out sales dispenser slots for medium volume retailers because they can make 70 cents for the same transaction. As time went by this fall, some of our lower price point games were nearing the end of their life cycle, which made them less attractive for ordering. As is happening in other jurisdictions, our players may also be moving away from lower price points. Lastly, it was discovered that a few aspects of the system were not performing as they should. SCEL and our vendors are working diligently in each of these areas to reverse our trends. Mr. Brown thanked the entire staff for its work. The Inside Sales staff (Ms. Marietta Giddons, Mr. Mike Lawhorn, Ms. Mary Ann Frazee, and Ms. JoAnn Hastie) were introduced and thanked for their significant input in analyzing the problems and their efforts in fulfilling additional orders.

Terminal Games

Terminal Game Revenues were \$190.4M, an increase of \$24.7M (14.9%). The entire increase was due to the Mega Millions jackpot. To put this into perspective, total Mega Millions Revenues for all of FY18 were \$45.5M and in just four months of this year, Mega Millions sales were \$43.1M, an

increase of \$30.3M (236.9%) over the same period last fiscal year. While all other Terminal Game sales were down compared to the previous year, the decrease in Pick 3 and Pick 4 was very slight. The large decrease in Powerball sales is attributable to timing of several significant jackpot runs early in the previous fiscal year relative to FY19. The overall Game Margin percentage on Terminal Games was 51.5% compared to 50.9% last year, which was attributable to statistical variation.

Other Revenues and Game Costs

Other Revenues, which consist primarily of license and telephone fees, were \$1.1M in the first four months of FY19 compared to \$1.2M in FY18. Other Direct Game Costs were \$5.9M during the period compared to \$6.1 in FY 2018.

Advertising and G&A Expenses

Advertising Expense was \$2.8M in both FY19 and FY18. G&A Expenses (the primary component of which is employee compensation) were \$4.7M in FY19 and \$4.3M in FY18.

Actual FY 2019 Results Compared to the FY 2019 Financial Plan

To date, actual financial results have exceeded Plan. Game Revenues were \$633.3M compared to Plan of \$549.1M. The positive variance in Instant Game Revenues is primarily attributable to better than expected sales of \$10 Instant Tickets, which exceeded Plan by \$47.5M (17.4%). In aggregate, the Other Instant Tickets Revenues were under plan by \$1.7M (1.4%).

All Terminal Game Revenues exceeded Plan. The primary component of the increase is Mega Millions Revenues that exceeded Plan by \$32.2M (296.7%) due to the unprecedented jackpot run. Powerball also exceeded Plan by \$4.4M (15.2%). In aggregate, Pick 3, Pick 4, Palmetto Cash 5 and Lucky for Life exceeded Plan by \$1.7M (1.5%).

As a result of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$170.4M compared to the planned amount of \$141.1M for a positive variance of \$29.3M (20.1%).

In aggregate, Operating Expenses were \$ 0.5 under Plan. Advertising Expense was under Plan by \$0.2 (\$2.8M vs. \$3M). Other Operating Expenses (“G&A”) were \$0.3M under Plan. Net Income through October 31st was \$163M compared to Plan of \$133.2M, an increase of \$29.8M (22.4%).

At the conclusion of the report, in response to a question on Powerball versus Mega Millions sales Mr. Boyle’s stated that our players have always preferred Powerball most likely because it was introduced here first since we are a member of MUSL (as opposed to Mega Millions consortium). As a percentage of each sale, SCEL makes essentially the same profit on each product. Mr. Boyle explained his recent analysis of jackpot runs which shows rather consistent sales patterns through \$400M at which point sales begin to start an upward path. Mr. Brown noted the recent phenomenon of both jackpots running in tandem, which may depress the relative sales of Powerball and Mega Millions during the concurrent run.

Executive Director’s Report

The Chairman recognized Mr. Brown. He began with an IGT post conversion update by stating that SCEL is still working through some communication and coordination issues. Mr. Brown thanked IGT for refining its planning and devoting more resources to resolve outstanding issues.

Mr. Brown briefly updated the Board on the activity in South Carolina and beyond regarding debit card use for lottery sales. He expects this issue be discussed again in the General Assembly, and that debit sales have now been going on for several months in Arkansas and Oklahoma. A few other states, Ohio, Virginia and Georgia, have allowed debit card use through vending machines. Mr. Brown will provide more information in the next Board meeting.

Mr. Brown thanked Ann Scott and her entire staff for the extremely successful Retailer Rallies recently held throughout the state from the end of October through November. Ms. Scott was recognized and explained the various activities at the rallies that are designed as events to show SCEL's appreciation for its retailers. She also thanked SCEL's Finance, Security and Licensing Departments and IGT and SGI staff for their role in sharing information and answering questions as part of the educational program at each event.

Mr. Brown also informed the Board of the recent upgrades in SCEL's IT network infrastructure. The project includes re-cabling, changing servers, new cooling and fire suppression systems, and adding a clear dividing wall in the data center to provide a better work environment for both gaming and our internal network staff.

Mr. Brown stated that Craig Perry and Mark Ritchie, Senior Investigations & Enforcement Manager have developed and implemented a plan to enhance SCEL's internal security. This is the most significant equipment upgrade in many years. Mr. Perry was recognized and provided an overview of measures taken in the past and explained the recent changes. Camera coverage has been improved in the outer perimeter and, for the first time, cameras were installed in the interior hallways. The total number expanded from 17 (analog) to 41 new digital cameras, a significant enhancement that gives greater real-time security coverage to assist in emergency response activities. New, high quality entry access readers using fingerprints and cards were purchased and hardened physical security devices are being added on all entry doors. Old servers and software were replaced and the entire system is digital. The Chairman also noted that addition security has been added for Board meetings.

Mr. Brown updated the Board on the Legislative Audit Council's (LAC) audit. He stated that SCEL staff has a very good working relationship with the LAC and added that there is a chance the report will be released before the next Board meeting.

Mr. Brown informed the Board of several meetings. On October 23, 2018, he appeared before the Joint Education/Finance Study Committee. This committee is addressing various higher education issues relating to enrollment and funding for all state institutions. His presentation focused on explaining our revenue streams, products, and past and projected transfers. On December 11, he will attend the annual meeting of the Legislative Oversight Committee. The Ways and Means subcommittee meeting has not been scheduled but is likely occur in early January. That meeting will focus on the FY19 revenue forecast. The current Board of Economic Advisors (BEA) forecast is the same as last year: \$434.8M. Another adjustment will be considered in mid-February.

Mr. Brown updated the board on Holiday Cash AAP and stated that SCEL is still awaiting rulings on motions to dismiss in both class action lawsuits. Commissioner Munson asked the amount of Add-A-Play refunds thus far given as the refund period expires in January. Mr. Brown will pull the current refund amount for Mr. Munson and update the entire Board on the final total at the next meeting.

Mr. Brown briefly explained the New Year's Rocking Eve Powerball national promotion offered by Dick Clark Productions. Although he voted for the promotion during its review by MUSL, the timing of it will not fit well into SCEL's promotion schedule for 2019.

Mr. Brown recognized and thanked the Committee and specifically recognized Ms. Holli Armstrong and Mr. Kevin DeLoach for their efforts with this years United Way Campaign that raised over \$8,000. Ms. Armstrong thought of and organized a private, behind the scenes, guided tour of Williams-Brice stadium through IMG Sports for SCEL staff at \$30/person to raise funds. Mr.

DeLoach personally prepared several elaborate lunch meals for purchase by staff. The committee also designed several other successful projects and many employees gave through payroll deductions.

Mr. Brown introduced two new employees: Ms. Brittany Scott, Licensing Specialist, who is a Francis Marion University graduate and worked most recently for the S.C. Department of Revenue; and Mr. Tommy Brooks, Network Engineer, a University of VA graduate and former US Navy Veteran, who was formerly with the Orangeburg Regional Medical Center.

Mr. Brown informed the board of SCEL's Christmas Party be held on December 11, 2019, at Stone River in West Columbia. Chairman Litchfield encouraged Commissioners who are able to attend to bring their spouses to meet the staff.

Finally, Mr. Brown thanked Ms. Marianne Manning, IGT's local ADM, for her efforts during and after conversion. She will be leaving IGT soon to pursue new challenges and her leadership and devotion to SCEL will be missed.

Lastly, Mr. Brown reminded the Board of the meeting dates for next year (2019).

Other Business

There being no further business, the Board unanimously adjourned the meeting at 12:04 p.m.

/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 email pursuant to requests made by individuals, media outlets and other organizations. These notifications included the time, date, place, and agenda of the meeting.