

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

March 2, 2016

10 a.m.

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, March 2, 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	Karen Ballentine
Dr. Edward Keith, Vice Chairman	Tom DeLoach
Keith Munson, Secretary/Treasurer	Buck Limehouse
Otis Morris, Jr.	Bo Russell

The Chairman called the meeting to order. He introduced and welcomed Commissioner Russell who was recently appointed by the Speaker of the House of Representatives, Jay Lucas.

Approval of Minutes

On motion of Commissioner DeLoach, seconded by Commissioner Munson, the December 2, 2015 meeting minutes were adopted without objection.

ACTION ITEM

Transfer Projections

The Chair recognized Mrs. Bethea. She and Joseph Boyle, Chief Financial Officer, recently appeared before the Board of Economic Advisors (BEA) to discuss the transfer projections for FY 2017. SCEL recently adjusted the FY 2016 projected transfer upward from \$340M to \$375M due to the impact of the \$1.6B Powerball jackpot in January. Mrs. Bethea informed the BEA that the estimate for FY 2017 should be \$360M, and that such amount was based on the revised estimate of the \$375M less the effect of the recent Powerball jackpot. She explained to the BEA that the 2017 estimate would need Board approval.

Since the BEA transfer projection is part of the 2017 budget, the Board deferred consideration until the May Board meeting.

REPORTS

Marketing Report and Quarterly Advertising Review

The Chairman recognized Jay Johnson, Director of Marketing and Product Development, to review the quarterly advertising material¹ made available to the Board in advance of

¹SCEL'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, Playstation, Point of Sale, Outdoor, Online Advertising, Print Advertising, and Retailer Newsletter. Mr. Johnson reviewed several Powerball TV commercials as well as discussed Point of Sale materials. His presentation included:

- Television - Powerball Minimum Jackpot Ad; Queen of Hearts Back Scratcher ad
- Play Station - Ads on play stations Mega Millions, Number of Powerball draw winners, \$10 game,
- Digital billboard - \$1 and \$2 price-point tickets, Historic Powerball Jackpot; It's All in the Draw;
- Website - Diamond 9s \$250,000 Winner; Gold Millions; Lucky For Life Winner; PC5 2016; Twitter Contests - Clemson Basketball Tickets for December and January; Famously Hot New Year Tickets for December; USC Baseball Twitter Drawing for February;
- Online Advertising - Gold Millions;
- Print Advertising - Heritage Classic Ad, USC Baseball Ad; and Winthrop Baseball Ad.

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.

Mrs. Bethea acknowledged the substantial efforts of SCEL's Marketing Department and our advertising agency, Mad Monkey, evidenced by the recent ADDY Awards received in every category for its beneficiary message.

Financial Update

During the first seven months of FY 2016, Transfers increased from \$198.8 to \$236.1,² an increase of \$37.3. Net Income increased \$46.3 to \$233.3. Overall Game Revenues increased \$132.6 to \$906.4. The increase in Net Income was not only a result of increased Game Revenues, but also due to an improvement in Game Margin³ on Terminal Games. Overall Game Margin on Terminal Games increased 2.49% to 51.39%.

The overall increase in Game Revenues was primarily the result of the increase in Instant Game Revenues of \$80.8. Of the overall increase, \$10 Instant Tickets increased by \$60.4 and \$5 Instant Tickets increased by \$14.4. This volume increase represents revenue growth in these price points of 16.7% and 15.2%, respectively. Revenues associated with the \$1, \$2 and \$3 price points, in aggregate, increased by \$6.0, or 6.7%. The Game Margin % on Instant Game Revenues increased slightly during the period by 0.16%.

Terminal Game Revenues were \$278.9, an increase of \$51.8. The unprecedented Powerball "Jackpot Run" in January 2016 drove the increase in Terminal Game Revenues. During a two-week period in which the Powerball Jackpot reached a record of \$1.6 billion, we recognized revenues of about \$43 million (or, over half of all Powerball Revenues recognized in FY 2015). Pick 3 and Pick 4 continued to perform well and

² Dollar amounts in millions

³ Game margin is defined as game revenue minus prize expense.

revenues were up by \$6.5 (7.0%) and \$2.8 (5.7%), respectively. Mega Millions Revenues were down significantly by \$6.3, or 23.4%. Palmetto Cash 5 Revenues were down \$1.5, or 12.3%. Lucky for Life Revenues were up \$9.9. This Game commenced in mid FY 2015.

To date, actual financial results have exceeded Plan. Game Revenues were \$904.2 compared to Plan of \$762.0. Revenues associated with the \$10 price point were conservatively planned due to the above average sales growth in recent years. The trend has continued into FY 2016 and we continue to be cautious about the sustainability of \$10 Instant Ticket sales levels. After several years of declining sales, the \$5 price point has performed much better in FY 2016.

As a result of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$245.6 compared to the planned amount of \$198.5 for a positive variance of \$47.1 or 23.7%.

Executive Director's Report

The Chairman recognized Mrs. Bethea who reported that the \$1.6B Powerball jackpot run created a record-breaking transfer month for SCEL. During a two-week period in January, this run generated a net transfer of \$20M, which is half of the total that Powerball contributed for all of the last fiscal year. SCEL passed \$1B in sales almost 45 days ahead of last year. The Powerball jackpot run also drove instant games sales. Mrs. Bethea reiterated that SCEL cannot rely upon huge Powerball jackpots in its transfer projections.

Mrs. Bethea updated the Board on SCEL's request for a 10-year performance term for the upcoming Request for Proposals (RFP) that SCEL expects to release in late summer. Mrs. Bethea and Mr. Brown met with State Fiscal Accountability Authority (SFAA) members and their senior staff to explain the reasoning underlying this request. These conversations generated many questions and overall feedback was positive. SFAA will meet on March 8, 2016, and consider SCEL's request. Mrs. Bethea will update the Board after the meeting.

In response to questions from Commissioners Munson and DeLoach at prior meetings, SCEL staff met with staff from the Commission on Higher Education (CHE) and the Department of Education (SDE) to discuss a joint effort to disseminate information about Lottery Scholarships. Because of these meetings, the three groups have proposed two brochures that will go to every high school. Mrs. Bethea reported that CHE and SDE will create the brochures and a single, uniform webpage with a link on their websites and SCEL's that will contain scholarship information. SCEL will fund the brochures while CHE and SDE will ensure the distribution of the brochures. Mrs. Bethea also mentioned that a small team might visit every high school in the state to share scholarship information. SCEL should have brochures to present at the next meeting.

Mrs. Bethea reminded the Board that several months ago an Iowa court convicted former MUSL security director Eddie Tipton of manipulating the random number generator (RNG) involving two MUSL-sponsored games (Hot Lotto or 2 x 2). Some states also use a MUSL RNG for one or more of their state lotto games. SCEL has never offered these

games and has never used the MUSL RNG for its draws. Although the investigation started in Iowa, it has expanded to five states and now includes others beyond Tipton. Although this incident does not directly impact SCEL, she acknowledged that the image of the entire lottery industry is negatively affected. Mrs. Bethea reported that Bethany Parler, Director of Audit Services, serves on an independent MUSL committee examining the circumstances surrounding the Tipton incident. Ms. Parler may be the only person on the committee serving from a jurisdiction that does not sell the two games involved in the investigation and that does not use a MUSL RNG. Mrs. Bethea acknowledged Mrs. Parler's efforts to bring clarity, transparency, and integrity to MUSL's investigation.

Mrs. Bethea announced that Becky Ayer is retiring after the May meeting and that Legal Services will assume her support role for the Board moving forward. Mrs. Bethea also informed the Board that Jorge Bravo, Chief Compliance Officer, is now the Interim Director of SCEL's Information Technology Department and will be working closely with Johnny Genwright and Del Collins, Senior Managers.

The Chairman asked Mrs. Bethea to invite a Marketing Sales Representative and/or a Retailer to the next Board meeting.

Other Business

There being no further business, on motion of Commissioner Munson, seconded by Commissioner DeLoach, the Board adjourned the meeting. The next Board Meeting is scheduled for May 11, 2016.

/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.