

**SOUTH CAROLINA EDUCATION LOTTERY  
BOARD OF COMMISSIONERS MEETING MINUTES  
November 30, 2016  
10 a.m.**

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, November 30, 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	Buck Limehouse
Dr. Edward Keith, Vice Chairman	Otis Morris (by conference call)
Keith Munson, Secretary/Treasurer	Bo Russell

The Chairman called the meeting to order and welcomed guests.

**Approval of Minutes**

On motion of Commissioner Munson, seconded by Commissioner Limehouse, the Board unanimously approved the September 7, 2016, meeting minutes.

**ACTION ITEMS**

**Board Meeting Schedule**

Without objection, the schedule for Board meetings in 2017 will be February 8<sup>th</sup>, May 10<sup>th</sup>, August 2<sup>nd</sup>, and December 6<sup>th</sup>. Unless posted otherwise, each meeting will begin at 10 a.m.

**Election of Officers**

Pursuant to the Bylaws, the election of officers occurs annually in the fourth calendar quarter and the terms run from January 1 through December 31. The Chairman opened nominations for Board Officers. Commissioner Keith recommended the re-election of the current slate of officers as a group.

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

There being no other nominations, Commissioner Keith moved to re-elect the current officers to another one-year term. Commissioner Munson seconded the motion, which the Board approved unanimously.

**REPORTS**

**Debit Card Use Update**

The Chairman recognized Mr. Brown who first thanked the staff members who contributed to this project and then proceeded to give an overview of the debit card research. Unlike South Carolina, many states never had a statutory prohibition against the use of debit cards so their use merely grew as the cards became a popular alternative to cash. As for the results of the retailer

survey, corporate retailers (businesses with five or more locations) generally favor the use of debit cards for lottery purchases. Corporate Retailers comprise 44% of SCEL's retailer network and account for 34% of sales. The feedback from the non-corporate retailers, a group that represents many of the highest volume locations, was less uniform. Many of those retailers use a third-party carrier that impose a transactional fee above what is charged by a bank. In turn, the retailer imposes a fee or requires a minimum purchase to waive the retailer-imposed transaction fee. Adding a retailer-imposed transactional fee on a lottery purchase may be problematic because current law prohibits charging more than the face value of the ticket. Even though a retailer can build the card fees into their overall pricing structure, some retailers see the use of debit cards as costing them more than the 7% sales commission SCEL pays, particularly when the sale does not include other higher profit items and is less than \$20. Mr. Brown contacted the Convenience Store Association, and they have no position on this issue at this time. Finally, the unpredictability of amendments that could be adopted during the legislative process relating to lottery operations was discussed.

Mr. Brown explained that the Board has at least three options: 1) keep the status quo; 2) approve a request for a statutory change and allow staff to work with retailers and other stakeholders to determine the timing for making a request for legislation; or 3) delay action to allow more time for staff to discuss stakeholders' concerns prior to a vote by the Board. After questions and discussion, the Board took no action.

### **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 the meeting, including: Television, Playstation, Point of Sale, Outdoor, Website, Print, and Retailer Newsletter. His presentation included:

**Television** - TV – Lucky for Life - Feeling Lucky 2016 - 30 Seconds.

**Point of Sale** (Print) – Playstation Poster – Beneficiary Grandmother, Lucky for Life Top Prize; Up in Lights Holiday; Ticket Topper – Lucky for Life - Top Prize.

**Writing Surface** – Geology - Beneficiary; Writing Surface – Jewel Tickets.

**Digital Billboard** – Jewel Tickets; Lucky for Life - Top Prize; Up in Lights Holiday.

**Online Advertising - Website** – Lucky for Life Winner; Mega Millions - \$4 Million Winner; Mega Millions - \$2 Million Winner; Social Media Contest Clemson Football Tickets; Social Media Contest - USC Football Tickets; Social Media Contest - USC / Clemson Football Tickets; Social Media Contest - Jam Room Music Festival; Social Media Contest - Taste of Charleston.

**Selling Points** (Most recent issue).

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.

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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".

## **Financial Update**

### **Overview (July – October 2016)**

The Chair recognized Mr. Joe Boyle, Chief Financial Officer, who reported that during the first four months of FY 2017, Transfers increased from \$123.4 to \$128.8, an increase of \$5.4. Overall Game Revenues increased \$15.3 to \$498.5. Net Income increased \$5.3<sup>2</sup> to \$126.6. The increase in Net Income was primarily the result of increased Terminal Game Revenues.

### **Instant Games**

Instant Game Revenues increased by \$4.4 to \$355.2. Of the overall increase, \$10 Instant Tickets increased by \$1.6 and \$5 Instant Tickets increased by \$3.3. This volume increase represents revenue growth in these price points of 0.68% and 5.4%, respectively. In both cases, the rate of revenue growth is significantly less than in prior years. Revenues associated with the \$1, \$2, and \$3 price points, in aggregate, decreased by \$0.5, or 0.1%. The Game Margin on Instant Game Revenues increased slightly during the period by \$0.62, or 0.6%.

### **Terminal Games**

Terminal Game Revenues were \$143.3, an increase of \$10.9, or 8.2%. Powerball and Mega Millions Revenues drove the increase in Terminal Game Revenues. Powerball Revenues were up \$4.0, or 16.2%. Mega Millions Revenues increased by \$3.3, or 29.6%. In both cases, revenues were unusually high at the beginning of the fiscal year and have since normalized.

Pick 3 continued to perform well and revenues were up \$3.6, or 6.5%. Pick 4 revenues were up only \$0.9, or 3.2%. Moreover, prizes paid on Pick 4 were up over last year and even with a small increase in revenues, the net margin was down \$1.3 from last year. Lucky for Life Revenues were \$4.8, a decrease of \$1.1, or 18.4%. Palmetto Cash 5 Revenues were essentially flat, but the margin increased by \$1.0. The overall Game Margin percentage on Terminal Games was very consistent and was 52.42% compared to 52.25% during the same period last year.

### **Other Revenues and Game Costs**

Other Revenues, which consist primarily of license and telephone fees, were \$1.2 and \$1.3 in the first four months of FY 2017 and FY 2016, respectively. Other Direct Game Costs were \$5.5 during the period compared to \$5.6 in FY 2016. Both of these items, as expected, were generally consistent from FY 2016 to FY 2017.

### **Advertising and G&A Expenses**

Advertising Expense was \$3.0 in FY 2017 compared to \$2.9 in FY 2016. G&A Expenses (the primary component of which is employee compensation) were \$4.4 in FY 2017 and \$4.3 in FY 2016.

### **Actual Results Compared to the FY 2017 Financial Plan**

To date, actual financial results have exceeded the Plan. Game Revenues were \$498.5 compared to Plan of \$488.9. The positive variance in Instant Game Revenues is primarily attributable to better than expected sales of \$3 and \$5 Instant Tickets. These price points exceeded Plan by \$2.3 (22.7%) and \$3.2 (5.3%), respectively. Revenues associated with the \$10 price point were

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<sup>2</sup> Net income as used herein is means “Change in Net Position” as generally used for governmental agencies. Further, the increase in net income will not necessarily result in the same amount of Transfers. Transfers are “cash basis” and net income is on the accrual basis. The primary difference will be in accounts such as accounts receivable, the growth in which is reflected in net income, but not in Transfers since amounts recognized as income have not been received.

**under** Plan by \$0.9, or 0.4%. The positive variance in Terminal Game Revenues is primarily attributable to much better than expected sales of Pick 3 and Mega Millions. Pick 3 exceeded Plan by \$2.5 (4.3%) and Mega Millions exceeded Plan by \$2.9 (25.2%). Powerball, Pick 4 and Palmetto Cash 5 were very close to Plan and Lucky for Life was under Plan by \$0.8 (14.3%).

Because of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$134.0 compared to the planned amount of \$128.8 for a positive variance of \$5.2 or 4.0%. In aggregate, Operating Expenses were \$0.6 under Plan. Advertising Expense was under Plan by \$0.3 (\$3.0 Actual vs. Plan of \$3.3). Other Operating Expenses (“G&A”) were \$0.3 under Plan. Mr. Boyle stated that he expects most of the variances to normalize to Plan amounts as the year progresses. Because of the aforementioned factors, Net Income for the four months ended October 31, 2016, was \$126.6 compared to Plan of \$120.8.

### **Executive Director’s Report**

The Chairman recognized Mr. Brown who began by explaining the retailer rallies that are designed to be entertaining events demonstrating our sincere appreciation for, and the recognition of, those who are essential to SCEL’s success. Door prizes and contests for prizes are included along with a degree of professional development provided by SCEL staff (Security, Finance, Promotions, Sales, and Licensing) and our two major vendors, Intralot and Scientific Games. SCEL holds the rallies in nine cities throughout the state (Greenville, Anderson, Charleston, Rock Hill, Aiken, Columbia, Beaufort, Florence, and Myrtle Beach) every other year. A brief video, recorded at the events in November, was shown to the Board, and will be uploaded to the website. Mr. Brown thanked all who participated in the events and those who worked on preparing the video for the Board.

As for procurement matters, the banking RFP is complete and the incumbent vendor, Wells Fargo, received the award for another five-year term. SCEL received even more favorable terms than the last contract. SCEL will be issuing a new human resources/payroll RFP, which will be for a five-year term. The Gaming System RFP is still pending. SCEL received 87 questions in the first round, 6 in the second round, none in the third, and none are expected in the fourth and final round. Proposals are due January 12, 2017, and the evaluation panel’s first substantive meeting is expected to be in early February. The award is likely to be in late March or April. The current contract term expires in mid-March 2018, and the conversion process for all data and equipment takes at least six to eight months.

Mr. Brown next reported on SCEL’s Information Technology Department. Jorge Bravo, who became IT Director nine months ago, and his staff are implementing improvements on several fronts. Through our insurance broker, SCEL procured the services of Sylint, a company specializing in cyber risk assessments, both pre and post breach. Sylint examined all aspects of IT security, external and internal, and issued a report with 28 recommendations for improvement. No material issues were found and several recommendations related to the continuation of current practices and/or procedures. Most suggestions were implemented as the report was being drafted and the remaining items will be completed prior to the end of the fiscal year. The executive summary of the report was included in the meeting material but, for security reasons, it would be inappropriate to make the full report public. Staff is available to review the entire report individually with any member of the Board. The IT Department is also reviewing the

replacement cycle of all critical security components, network equipment, and maintenance warranties.

As for gaming, a Lucky For Life winner elected annuity payments rather than a lump sum payout. In fact, it was the first annuity prize option actually taken in any SCEL game. Mr. Brown also informed the Board that, due to a vendor error, the period for accepting electronic entries in the Gold Millions \$1M second-chance prize promotion did not close on the entry deadline as specified in the game rules, November 8, 2016. To be completely transparent, SCEL sent an email to the 87 players affected (1,952 entries, 500 from one player) explaining the mistake and informing them that those entries were not included in the draw pool. One player expressed disappointment but no complaints were received because it seemed to be understood that changing the rules at that stage would be unfair to players who met the published entry deadline.

Regarding upcoming events, Mr. Brown stated that on December 5-8, 2016, he would attend the MUSL Directors' Meeting and the Powerball Game Development meeting in Austin, Texas. On December 13, 2016, at 10 a.m., he will appear before Ways and Means Higher Education and Technical Colleges Subcommittee meeting.

Mr. Brown thanked staff who contributed to the United Way fundraising effort and individually thanked the Committee members: Lynette Crowley, Donna Swygert, Brian Ford, Jaylen Suber, Susan King, Ashlee Langley, Summer Holmes, Holli Armstrong, Latisha Davis, Doug Lunn, and Kevin DeLoach. He explained how the committee organized and executed several creative and successful events for SCEL as well as other employees in our building. Through the committee's efforts, SCEL raised \$3,200, which does not include employee contributions made through payroll withholdings or as a one-time gift.

Mr. Brown thanked the Board for the opportunity to serve in his new role, and he assured the Board that staff will not be complacent by expecting past success to ensure future success. Mr. Brown acknowledged Mrs. Bethea's efforts to break down silos among the departments. He is stressing more collaborative conversations and less email.

**Other Business**

There being no further business, the Board adjourned the meeting. The next Board meeting is scheduled for February 8, 2017.

\_\_\_\_\_/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](http://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.