

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
February 6, 2019
10 a.m.**

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, February 6, 2019, at 10:07 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

Richard Chapman
Bo Russell
Otis Morris (by phone)

The Chairman called the meeting to order and welcomed guests. Mr. Brown was recognized to introduce Mr. Tim Hallet, recently hired to lead IGT's local office. He was formerly with Intralot and Mr. Brown stated that we are delighted to continue working with Mr. Hallet.

Approval of Minutes

On motion of Commissioner Munson, seconded by Commissioner Chapman, the Board unanimously approved the minutes for meeting held on December 5, 2018.

Quarterly Advertising Review

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

PID (Public Information Display): The Voice: Drawing;

Point of Sale: Play Station Posters \$100 Loaded (\$2 instant game) and Neon 1s (\$1 instant game);

Outdoor Advertising: Digital Billboards for Break the Bank and The Voice: Drawing.

Commissioner Munson asked Ms. Smith about the meaning or context of the word "loaded" in the Play Station Poster advertising "\$100 Loaded". Ms. Smith stated that SCEL uses that term because there are a significantly higher number of \$100 wins in this game than any other SCEL \$2 game.

Ms. Smith next discussed three new commercials: two "Exciting Enough" spots and a Play Responsibly spot, set to air in March 2019, which were presented to the Board.

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

Although the final promotional materials are not available for review, Ms. Smith next discussed the four-game Monopoly™ Jackpot Game Series Promotion since it will begin in June, soon after the next Board meeting. The promotion will utilize a mobile app similar to "Instant Replay" allowing players to enter tickets in the second-chance draws. It has been many years since SCEL has offered

this licensed property. This promotion will be SCEL's first use of an interactive app with an extended play feature: a wheel-spin game to potentially award the player bonus entries and a multiplier for five progressive jackpot draws and a final draw of \$250,000. The multiplier is predetermined and is revealed when the non-winning ticket is entered in the Promotion. If the winning entry has a multiplier, the jackpot could be increased by 2, 5 or 10 times making the final draw prize from \$250,000 to \$2.5 million.

The mobile app will run for a year starting June 25, 2019, during which time SCEL will be able to offer more things on the app: draw number, promotions, push notifications, and jackpot games. Although it may be possible to maintain the app after a year, the instant game contract will be up for solicitation in 2020.

Executive Session

The Chairman entertained a motion by Commissioner Russell to go into executive session:

- (1) to discuss the LAC Preliminary Audit Report because discussion in open session is prohibited by *S.C. Code Ann.* § 2-15-120;
- (2) to discuss matters related to the attorney-client privilege in accordance with *S.C. Code Ann.* § 30-4-70(a)(2); and,
- (3) to discuss a personnel matter in accordance with *S.C. Code Ann.* § 30-4-70(a)(1) unrelated to the preliminary report.

Commissioner Keith seconded the motion, which the Board approved unanimously. After adoption, as required by law, the Chairman restated each of the three items approved for executive session.

Return to Open Session

Upon the return to open session, the Chairman stated that the Board met in executive session in accordance with the motion and that the Board took no action while in executive session.

Reports

Financial Report

Overview

The Chairman recognized Mr. Boyle to present the Financial Update. During the first six months of FY 2019, Transfers increased from \$215.9M to \$248.9M, an increase of \$33M (15.3%). Overall Game Revenues increased \$115.8M to \$957.6M (13.8%). Net Income increased \$29.7M¹ to \$242.8M.

Instant Games

Instant Game Revenues increased by \$91.2M to \$686.4M. Of the overall increase, \$10 Instant Tickets increased by \$105.7M (26.6%), significantly higher than the prior year. Revenues associated with the \$1, \$2, \$3, and \$5 price points, in aggregate, decreased by \$13.0M, or 6.6%. The Game Margin on Instant Game Revenues increased during the period by \$19.9M (12.0%).

Terminal Games

Terminal Game Revenues were \$271.2M, an increase of \$24.5M (9.9%). The increase in Terminal Game Revenues was driven by the historic \$1.5B Mega Millions jackpot run in October 2018. Mega Millions Revenues increased by \$32.3M (161.7%). As a result, Game Margin increased \$16.3M

¹ Net income as used herein 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.

over the previous year. Conversely, Powerball Revenues were down \$7.4M, or 14.2%. The reduction was due to the timing of jackpot runs, which occurred with greater magnitude in the first six months of FY18. Pick 3 and Pick 4 revenues were essentially flat: up \$0.1M (.01%) for Pick 3 and down \$0.2M (.03%) for Pick 4. Even though Pick 3 Revenues were up only slightly, the Game Margin increased \$6.2M because of statistical variation. Lucky for Life Revenues were consistent at \$6.3M. Palmetto Cash 5 Revenues were also consistent at \$11.8M. The overall Game Margin Percentage on Terminal Games was 53.0% compared to 50.7% during the same period last year. The 2.4% increase was primarily a result of better margins on Pick 3 and Palmetto Cash 5.

Other Revenues and Game Costs

Other Revenues, which consist primarily of license and telephone fees, were \$1.8M and \$1.9M, respectively. Other Direct Game Costs were \$9.5M and as a percentage of Revenues, are consistent with expectations.

Advertising and G&A Expenses

Advertising Expense was \$4.6M compared to \$4.2M in FY18. G&A Expenses (the primary component of which is employee compensation) were \$7.1M in FY 2019 and \$6.8M in FY 2018.

Actual FY 2019 Results Compared to the FY 2019 Financial Plan

Mr. Boyle reported that to date, actual financial results have exceeded Plan. Game Revenues were \$957.6M compared to Plan of \$839.2M. Instant and Terminal Game Revenues are summarized as follows:

The positive variance in Instant Game Revenues is primarily attributable to better than expected sales of \$10 Instant Tickets. This price point exceeded Plan by \$85.1M (20%). The \$1 price point also performed well and was \$1M, or 5.4% over Plan. Aggregate revenues associated with the \$2, \$3, and \$5 price points were below Plan by \$7.4M (4.4%). The positive variance in Terminal Game Revenues is attributable to better than expected sales of all Terminal games, specifically Mega Millions. Pick 3 and Pick 4 exceeded Plan by \$0.8M (.8%) and \$0.8M (1.7%), respectively. Mega Millions and Powerball exceeded Plan by \$35.9M (220.3%) and \$1.4M (3.2%), respectively. Palmetto Cash 5 and Lucky for Life exceeded Plan by \$0.2M (1.9%) and \$0.5M (9.1%), respectively. As a result of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$254.5M compared to the planned amount of \$215.7M for a positive variance of \$38.8M (18%). In aggregate, Operating Expenses were \$0.2M under Plan. Advertising Expense was just \$0.1M above plan (\$4.6M Actual vs. Plan of \$4.5M). Other Operating Expenses (“G&A”) were \$0.3M under Plan. We expect most of the variances will normalize to planned annual amounts as the year progresses. As a result of the aforementioned factors, Net Income for the six months ended December 31, 2018, was \$242.8M compared to Plan of \$203.7M, a positive variance of \$39M (19.2%).

Mr. Brown interjected to point out a graph showing that the sales for \$10 price points are 28% higher to date over last year’s performance. Mr. Brown also noted that the \$1 and \$2 price points are now beginning to trend up slightly which may be an indication that players are moving from the \$10 games back to the \$1 and \$2 price points. Mr. Boyle stated that, in consultation with the Board of Economic Advisors (BEA), SCEL will adjust its transfer estimate to \$461.7M for FY19.

Executive Director's Report

The Chairman recognized Mr. Brown. He began with an IGT post conversion update by stating that SCEL and IGT are now implementing plans for post-conversion matters rather than discussing and formulating plans. As expected in any project of this scope, there are a number of items, both large and small, to be resolved but we both are committed to completing the list before September.

Mr. Brown briefly updated the Board on the activity in South Carolina and beyond regarding debit card use for lottery sales. SCEL has reviewed Arkansas and Oklahoma as states that have recently lifted the ban on debit card sales. He noted that neither state had hard data on how sales may have been impacted, 36% of Arkansas retailers are accepting debit cards and 50% of the retailers in Oklahoma now accept debit cards. Mr. Brown noted the attempt to allow debit card use through a budget proviso in South Carolina last year might be preferable since a proviso could allow SCEL to try debit cards and determine if their use would be successful. Mr. Brown requested feedback from Board on the position taken previously not request a change but simply allow the General Assembly to make that decision. The Board declined to take any further action at this time but there was an acknowledgement that fewer people were carrying cash; and in particular, twenty and thirty year-olds rely almost exclusively on debit cards.

Mr. Brown reminded the Board that their Statement of Economic Interests are due by noon on March 30, 2019, and briefly explained the relatively new addition of requiring filers to report "other sources" of income and provided examples of the type of income to be report as well as the exemptions.

Other Business

There being no further business, the Board unanimously adjourned the meeting at 12:37 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.