

**SOUTH CAROLINA EDUCATION LOTTERY  
BOARD OF COMMISSIONERS MEETING MINUTES  
September 16, 2015  
10 AM**

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, September 16, 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
Nancy Cannon, Treasurer	Otis Morris, Jr.
Sam Litchfield, Secretary	Keith Munson
Karen Ballentine	Mickey Renner

The Chairman called the meeting to order.

**Approval of Minutes**

On motion of Commissioner Munson, seconded by Commissioner Renner, the Board unanimously approved the May 6, 2015 meeting minutes.

**ACTION ITEMS**

**Approval of Powerball Matrix Changes**

The Chairman recognized Executive Director Paula Harper Bethea to review the Powerball (PB) matrix changes and the activity of the Multi-State Lottery Association (MUSL) since the last Board meeting. The following matrix changes were approved by MUSL to take effect October 7, 2015: white balls increased from 59 to 69; red balls decreased from 35 to 26; the prize for four of five white balls (with the Powerball) increased from \$10,000 to \$50,000; and the jackpot odds were increased.

Mrs. Bethea will be in Chicago next week for a one-day PB meeting to discuss various jackpot reserves management proposals. She will also chair the PB Advertising Committee, which is working St. John and Partners, to develop a new advertising campaign to be used by all PB jurisdictions to correspond with the matrix changes.

**Motion Adopted**

After brief discussion, on motion of Commissioner DeLoach, seconded by Commissioner Litchfield, the Board unanimously approved the PB Matrix Change.

**REPORTS**

**Play Station and Instant Ticket Dispenser Presentation**

Chairman Madden introduced Ann Scott, Director of Sales, to make a presentation on how a Play Station is used in retail outlets to convey information to players and enhance

sales. It contains all play slips, promotions, claim forms, play responsibly brochures, wallet cards, end of game sheets, etc. SCEL also places signage to advertise new games and/or promotions. It has a handicap accessible work area to fill out a play slip or to scratch tickets. There is a storage area for lottery supplies so SCEL material is not commingled with a retailer's other inventory. Both the MSRs and the store personnel are responsible for stocking the Play Station. While SCEL tries to locate it near the front of the store, we have to work with each retailer as no compensation is paid for this floor space. The Play Station is a small but integral part of SCEL's marketing and sales program.

Ms. Scott also explained how the acrylic display case is used to safeguard, dispense, and properly display instant tickets for view and purchase. Tickets are front facing in individually locked slots with a small opening for the clerk to pull a ticket. Numbering the slots avoids confusion over game names and reduces the transaction time. The case is also used to display statutorily required and other information adjacent to the point of sale such as game odds, top prizes remaining report (printed daily), play responsibly, "must be 18", "and "up to \$500 payout" signage.

### **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:

- Television: Double Sided Dollars / Scratch My Back
- Point of Sale (Print): CleanSweep, Powerball
- Ticket Topper and Play Station Surface Poster: Lucky for Life, \$200,000 Taxes Paid, Scratch my Back, Are you Game Day Ready?, Hot Millions/Cool Millions, Red White & Blue, X Series Instant Games, Mighty Jumbo Bucks and The Improved 3 Times Lucky, Instant Replay Final Drawing, PB Changes, Scratch Some Cash!
- Digital Billboards (outdoor): Whole Lotta \$100's, New \$1 Game!, Lucky for Life Winner, Million Dollar Mega Millions Winner, Palmetto Cash 5 Winner
- Website Ads: Twitter Contest, Hot Millions/Cool Millions, Lucky for Life Winner

Mrs. Bethea introduced Tim Gardner, a Principal with Mad Monkey, to present a new series of ads entitled, "The Impact of Education is Beyond Words." More than four years ago, SCEL began a fresh branding campaign with "Take a Chance, Give a Chance" that focuses the advertising messages on the lottery beneficiaries rather than exclusively presenting tickets and product messages. The underlying premise is to show in a very personal way, the value SCEL adds to a beneficiary's educational advancement. These ads seek to evoke SCEL's purpose of encouraging our best and brightest students to obtain an education and begin a career in South Carolina.

Mad Monkey listened to hundreds of stories from students and, while there are several more that may be used in the future, three resonated above all the others. A geology student and professor from USC, shot in Utah while performing field research. A student

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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."

from Midlands Tech, the first in her family to attend college, is shown with her grandmother and other relatives. A Clemson graduate, who is a cancer survivor, is shown doing cancer research in a Greenville lab. These are genuine, emotionally moving stories, shot with quick, fast-paced camera work to make them enjoyable to watch and to connect with a wide audience. Chairman Madden added a significant challenge to these spots by suggesting the use of actual students, their families, and faculty rather than actors.

Several questions were asked with the overall feedback being positive. Commissioner DeLoach asked if the media placement of these ads would cannibalize available dollars that could be used for product advertising. Mrs. Bethea stated that the use of these ads are not intended to replace product or jackpot advertising. The new ratio of beneficiary ad placement to product ad placement occurred roughly four years ago and is expected to remain the same moving forward. The focus toward the placement of more beneficiary messages corresponds with a substantial increase in instant ticket sales over this time period (over 20%).

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, Director of Finance, to highlight key items from the financial report previously submitted to the Board. This report, with dollars expressed in millions, covers FY 2015 compared to FY 2014.

Transfers increased from \$323.4 to \$348.9. Net Income increased \$12.8 to \$343.5. Game Revenues increased \$137.2 to \$1401.7. The primary driver of the increase in Game Revenues and Net Income was the increase in Instant Ticket sales.

Instant Game Revenues increased \$126.9. Of the overall increase, \$10 Ticket sales increased \$122.8 or 22.2%. Sales for other Instant Ticket price points increased by \$4.1. The overall increase in Instant Ticket sales resulted in an increase of \$28.9 in Game Margin.

Terminal Game Revenues increased \$10.3 to \$399.2. The overall increase was due to increases in Pick 3 Revenues, up \$14.7 (9.9%) and Pick 4 Revenues, up \$13.2 (18.4%). However, because of several draws favorable to the players, in aggregate, Pick 3 and Pick 4 Game Margin was up only \$2.0 and the Game Margin % was lower on Pick 3 and Pick 4, in aggregate, by 7%.

Powerball Revenues were down \$13.5 (14.4%). Mega Millions Revenues were also down by \$9.4 (18.2%) (Slide #7). Primarily as a result of the lower Powerball and Mega Millions Revenues and the reduced margins on Pick 3 and Pick 4, Terminal Game Margin decreased by \$5.7 (2.7%) compared to the previous period in FY 2014. Likewise, Terminal Game Margin % ("profit margin") decreased by 2.8%. Overall, Terminal Game Margin decreased by \$5.7 (2.7%).

Mr. Boyle also summarized the other components of profit and loss and reported that the financial plan (budget) for the year had been surpassed.

### **Executive Director's Report**

Mrs. Bethea reported that, as expected, the addition of Lucky for Life has marginally cannibalized Palmetto Cash 5 sales, but the overall net effect has been positive to our bottom line. Among the Lucky for Life states, South Carolina ranks fourth in sales.

Representatives of SAS, a large North Carolina software company, contacted several commissioners. Mrs. Bethea and several senior SCEL staff members met with SAS in Columbia to discuss monitoring tools SAS is developing to help detect excessive retailer play/claims which may indicate retailer fraud. SCEL Security staff currently scrutinizes suspicious activity using in-house resources in conjunction with our online vendor, Intralot. As a follow-up to the initial meeting, Bethany Parler, Director of Audit Services; Craig Perry, Director of Security; Alan Wilson, Database Administrator; and Jorge Bravo; Contract Compliance Officer, went to SAS headquarters in Cary, NC.

Ms. Parler was asked to brief Board. There are two main components to the SAS product: One is the continuous monitoring with intuitive data analysis and the other is a visual component that helps to pull the information together. Elliott Davis Decosimo, our external auditor, has recommended monitoring software and acquisition funding has been approved in the budget. However, software has not been purchased because other products are tailored toward other businesses. The SAS product and related services are available under a broad-scope statewide procurement contract. One potential near-term drawback is that there is little more than two years remaining on our current contract with Intralot. If Intralot does not retain the contract, much of SAS's work would need to be redone to conform to design specifications of the next online vendor.

Mrs. Bethea explained that SCEL has worked with other agencies and the Department of Revenue after their data breach incident, reviewing cyber security. In addition to firewalls and sophisticated scanning for malware and viruses, SCEL has obtained a license from Wombat, a company that provides online training tutorials to sensitize employees to various methods hackers use, particularly social engineering, to penetrate network security. A new training component is presented for all employees about once a month followed by a series of questions. While staff believes SCEL computer security compares very favorably with both the public and private sectors, staff has been working through our insurance broker (acquired through a RFP several years ago), to obtain cyber security insurance. Staff expects to receive quotes in the next few weeks and Mrs. Bethea will provide an update at the next meeting.

SCEL recently underwent a security compliance audit by MUSL staff evaluating adherence to the security standards applicable to Powerball in South Carolina. After the criminal conviction of the former MUSL Security Director, all MUSL Security personnel were replaced. SCEL was selected as the first state for an audit by the new team. Although the report is still in draft form, no material deviations were found. Of the recommendations suggested, SCEL or Intralot has already implemented the necessary changes save one that is awaiting MUSL approval. When the final audit is available, Mrs. Bethea will distribute copies to the Board.

Mrs. Bethea has asked staff to review Daily Fantasy Football and to consult with the Attorney General and SLED to determine if these games are legal in South Carolina. A report will be made to the Board as more information is compiled

Mrs. Bethea is scheduled to attend the annual Legislative Oversight Committee on October 7, 2015. The NASPL Annual Conference will be held in Dallas, TX, from October 12, 2015 through October 15, 2015. Mrs. Bethea will attend the first two days for the Executive Committee meeting and the NASPL Board meeting while Tony Cooper will represent SCEL for the entire week.

Mrs. Bethea briefly mentioned that the contract currently held by Intralot, which provides the infrastructure and software for our terminal generated games, all ticket validation and claims activity, instant ticket and paper stock management, accounting, billing and back office services will expire in March of 2018. At the next meeting, staff will ask the Board to approve a request for SCEL to seek a ten-year term for a new contract. If approved, the request will then be considered by the five-member South Carolina Fiscal Accountability Authority (formerly the Budget and Control Board). As many Commissioners were not serving during the last major procurement, Chairman Madden cautioned Board members concerning communicating with representatives of potential vendors. Given the strict requirements of the state procurement code and the litigious nature of the vendors, even innocuous conversations can be misconstrued. It may be best to refrain from talking to vendor representatives. Knowing that this RFP is on the horizon, if contacted, the Chairman suggested calling Hogan Brown, Director of Legal Services, to assist you in understanding all applicable rules.

**Other Business**

Chairman Madden reminded Board members that the December meeting is when Officers are elected. The Chairman appointed a Nominating Committee: Ed Keith Chair, Sam Litchfield, Tom DeLoach, Keith Munson, and Tim Madden, ex officio, as the Board Chair serves on all committees.

**Motion Adopted**

Commissioner Munson moved to authorize the establishment of a nominating committee. Commissioner Morris seconded the motion, which was unanimously approved.

There being no further business, the meeting was adjourned. The next Board Meeting will be December 2, 2015.

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

\_\_\_\_\_/s/  
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.