

**SOUTH CAROLINA EDUCATION LOTTERY  
BOARD OF COMMISSIONERS MEETING MINUTES  
December 6, 2017  
10 a.m.**

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, December 6, 2017, 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	Bo Russell
Dr. Edward Keith, Vice Chairman	Otis Morris
Keith Munson, Secretary/Treasurer (by phone)	Buck Limehouse (by phone)
	Mickey Renner (by phone)

The Chairman called the meeting to order and welcomed guests.

**Approval of Minutes**

On motion of Commissioner Keith, seconded by Commissioner Munson, the Board unanimously approved the August 2, 2017, meeting minutes.

**Election of Officers for 2018**

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 nominations to which there were no new nominations. 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 as provided in the bylaws. The motion passed without objection.

The Chairman then asked whether any member would like to change committee assignments or to serve as chair of a committee. The Chairman indicated that he would finalize committee assignments in January to allow time for input on potential changes.

**Quarterly Advertising Review**

The Chairman recognized Ammie Smith, Senior Marketing Manager, who presented the quarterly advertising review for television, radio, PIDs, POS, Digital Outdoor, and online formats for the following campaigns:

**Royal Jewel Jackpot (Gigantix):** Digital Billboard and Playstation Posters – “Coming Soon”; “Royal Jewel Jackpot Is Here”; and Window Cling – “Royal Jewel Jackpot Is Here.”

**Dragon:** Digital Billboard – Egg: Day 1; Egg: Day 2; Egg: Day 3; Egg: Day 4. Online Ad – Powerball and Mega Millions; Radio – Powerball and Mega Millions. Social Media – Egg: Day 1; Egg: Day 2; Egg: Day 3; Egg: Day 4; How To Train A Dragon. TV – Powerball and Mega Millions.

**The Walking Dead®:** Buckslip, Digital Billboard, Door Cling, Online Ad, Playstation Poster, Writing Surface, Window Cling; Website – The Walking Dead® Second-Chance Promotion Link; and TV – The Walking Dead®: New Episodes.

**Other Outdoor Advertising:** Digital Billboard – Holiday, Mega Millions Jackpot, and Rapid 7 Doubler. **Other Point Of Sale:** Playstation Odds – 2017; Playstation Poster – Holiday; Ticket Topper – Taxes Paid; Wallet Card – Mega Millions; Writing Surface – Taxes Paid. **Other Online Advertising/Promotions:** Website – Clemson / USC Football Tickets; Concert Tickets; Tailgate Tent; and Lucky For Life.

Commissioner Munson asked what “win it all” means for the “Taxes Paid” series. Ms. Smith replied that a player could possibly win in multiple ways, and up to \$250,000. Commissioner Morris asked about the tax-free aspect of the \$250,000 prize and Ms. Smith explained that the prize is set to ensure that the net prize received is \$250,000. Actual tax liability depends on the individual’s other income and available deductions.

#### **Compensation Study – Implementation of Phase Four**

The Chairman recognized Claire Jones, Director of Human Resources, who reviewed the implementation of Phases 1-3. Phase 4, in part, ensures that employees hired on or after August 2017, are brought to the market minimum, regardless of their time in the position. Additionally, Phase 4 is designed to ensure that employees, with 7+ years of service in their current position, achieve a “target percentage” relative to the midpoint for the applicable grade. Target percentages range from 90% of the midpoint for 8 years of service, to 106% of the midpoint for 16 years of service. The funding for Phases 1-3 was approved in the FY18 budget. Staff now requests \$28,000 to fund Phase 4, as all phases had not been finalized when the FY18 budget was approved. The additional funding annualizes to \$168,000 in FY19 as these adjustments will be payable in May of 2018. On motion of Commissioner Keith and seconded by Commissioner Russell, the Board approved funding Phase 4 as presented by staff and directed staff to proceed with implementation.

#### **Executive Session**

The Chairman entertained a motion by Commissioner Russell, seconded by Commissioner Munson, to go into executive session to discuss contractual arrangements and receive legal advice relating to the Intralot Protest and the Intralot and IGT Contracts. The Board approved the motion. After the motion passed, Commissioner Russell announced the specific purpose of the executive session as identified in the motion. The Chairman asked everyone to leave the room except for Board members, Hogan Brown, Dolly Garfield, and SCEL’s outside counsel. The Board returned to open session and the Chairman stated that the executive session was held in accordance with the adopted motion and the Board took no action in executive session.

#### **Executive Committee Report**

The Chairman recognized Commissioner Munson who reported that the Executive Committee of the Board of Commissioners of the South Carolina Education Lottery met on Tuesday, November 14, 2017, at 9 a.m., to evaluate the performance of SCEL’s Interim Executive

Director and the Director of Auditor Services. The Chairman stated his intent to develop a new format to conduct these evaluations in 2018.

## **Financial Update - Actual FY 2018 Results Compared to Actual FY 2017 Results**

### **Overview**

The Chairman recognized Mr. Boyle, Chief Financial Officer, who reported that during the first four months of FY18, Transfers increased from \$128.8M to \$143.9M, an increase of \$15.1M. Overall Game Revenues increased \$55.5M to \$554.0M. Net Income<sup>1</sup> increased \$15.4M to \$142.0M. This increase was the result of both increased Instant and Terminal Game Revenues, as more fully discussed below.

### **Instant Games**

Instant Game Revenues increased by \$33.1M to \$388.3M. Of the overall increase, \$10 Instant Tickets increased by \$19.1M (8.1%) and \$5 Instant Tickets increased by \$11.2M (17.5%). Revenues associated with the \$1, \$2, and \$3 price points, in aggregate, increased by \$2.7M (5.1%). The Game Margin<sup>2</sup> on Instant Game Revenues increased significantly, \$10.4M (10.5%). The overall Game Margin percentage on Instant Games was very consistent, 28.0% compared to 27.7% during the same period last year.

### **Terminal Games**

Terminal Game Revenues were \$165.7M, an increase of \$22.4M (15.7%). Increases in Powerball, Pick 3 and Pick 4 Revenues drove the increase. Powerball Revenues were up \$9.5M (33.2%) fueled by the \$700M Jackpot run in August (\$20.4M, or about \$15.0M more than the previous year). Conversely, Mega Millions Revenues were down \$1.7M (11.8%) due to a substantive Jackpot run in FY17 that did not reoccur in the first months of FY18.

Pick 3 and Pick 4 Revenues increased \$9.9M (16.7%) and \$3.4M (11.4%). Interestingly, the Game Margin on Pick 3 decreased by \$0.1M; however, the Game Margin on Pick 4 increased significantly by \$6.4M. In both cases, the difference resulted from statistical variations that occurred between FY18 and FY17.

Palmetto Cash 5 Revenues increased by \$1.8M (29.7%). The increase was due to the continuation of the positive impact of the "10X" promotion that ended in August. Overall, the increased Palmetto Cash 5 Revenues resulted in an increase in Game Margin of \$0.6M. Lucky for Life Revenues were \$4.4M, a decrease of \$0.5M (9.8%).

The overall Game Margin percentage on Terminal Games was 50.9% compared to 52.4% during the same period last year.

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

Other Revenues, which consist primarily of license and telephone fees, were \$1.2M. Other Direct Game Costs were \$6.1M compared to \$5.5M in FY17. Both of these items, as a percentage of Revenues were, as expected, consistent from FY17 to FY18.

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<sup>1</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.

<sup>2</sup> Game margin is game revenue minus prize expense.

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

Advertising Expense was \$2.8M in FY18 compared to \$3.0M in FY17. G&A Expenses (the primary component of which is employee compensation) were \$4.3M in FY18 compared to \$4.4M in FY17.

### **Actual FY 2018 Results Compared to the FY 2018 Financial Plan**

To date, actual financial results have exceeded Plan. Game Revenues were \$554.0M compared to Plan of \$506.1M. As a result of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$149.2M compared to the Plan amount of \$132.2M for a positive variance of \$17.0M (12.8%).

The positive variance in Instant Game Revenues is primarily attributable to better than expected sales of \$10 and \$5 Instant Tickets. These price points exceeded Plan by \$7.5M (3.0%) and \$11.3M (17.7%). The \$1, \$2 and \$3 price points were over Plan by \$4.4M (8.2%).

The positive variance in Terminal Game Revenues is attributable to better than expected sales of all Terminal Games with the exception of Lucky for Life which was very close to Plan. In aggregate, Pick 3 and Pick 4 exceeded Plan by \$11.6M. Powerball and Mega Millions, both of which were conservatively planned, exceeded Plan by \$9.2M and \$2.0M, respectively. Palmetto Cash 5 exceeded Plan by \$2.1M.

In aggregate, Operating Expenses were \$0.7M under Plan. Advertising Expense was under Plan by \$0.3M (\$2.8M Actual vs. Plan of \$3.1M). Other Operating Expenses (“G&A”) were \$0.4M under Plan. Most of the variances are expected to normalize to the Plan as the year progresses.

As a result of the aforementioned factors, Net Income for the four months ended October 31, 2017, was \$142.0M compared to Plan of \$124.3M, or \$17.7M.

### **Executive Director’s Report**

The Chairman recognized Mr. Brown, Interim Executive Director, who updated the Board on several items. The award of the HR/Payroll contract has been finalized. A media placement RFP, used to buy TV and other media time will be issued in January. Mr. Brown informed the Board that, at the request of the landlord, SCEL is discussing the feasibility of moving the draw studio from its current main street facing to an interior location. As this conversation continues, Mr. Brown will update the Board.

Mr. Brown informed the Board that SCEL met with the Board of Economic Advisors and revised its FY18 transfer goal upward to \$405M. Mr. Brown also noted that in the November 8<sup>th</sup> meeting of the Senate Education Subcommittee on Tuition and Scholarships, he clarified a misapprehension that SCEL could transfer \$40M to \$50M more than the transfer goal to fully fund the additional scholarships that may result from the state’s new ten-point grading scale.

Mr. Brown also reported that subsequent to the Board’s approval, the Powerball Game Group met to address various questions regarding the new Powerball “Winner Take All” game and decided to delay the planned April implementation. The MUSL Product Development Committee and the Marketing Committee will meet before the end of the year to discuss how to proceed with this game. Mr. Brown expects to provide an update at the February Board meeting.

Mr. Brown stated that the Legislative Audit Council (LAC) is currently conducting a management performance audit of SCEL that should be released in the spring of 2018. Mr.

