

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
September 7, 2016
10 a.m.**

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, September 7, 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
Keith Munson, Secretary/Treasurer	Mickey Renner
Tom DeLoach	Bo Russell

The Chairman called the meeting to order and welcomed guests.

Approval of Minutes

On motion of Commissioner Munson, seconded by Commissioner Keith, the Board unanimously approved the May 11, 2016, meeting minutes.

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

Television - TV – Powerball - That Guy; Powerball - Valet; and
Playstation - \$125,000 Big Money; Black Ice Millions; Frenzy Games; Instagram; Gambling Helpline; Lucky for Life Horseshoe; and
Digital Billboard - \$125,000 Big Money; Instagram; Powerball - That Guy; and
Online/Website - Black Ice Millions; Lucky For Life Winner; Twitter Contest for Golf Fan Prize Pack - May 2016; Twitter Contest for Yeti July 2016; Twitter Contest for Lilly Pulitzer - August 2016; Black Ice Millions.

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.

¹ 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”.

Demographic Study Presentation

The Chairman recognized Mr. Rex Repass, founder & CEO of REPASS® along with Mr. Will Krieger, Sr. VP of Client Engagement. The Board was provided with a copy of the Executive Summary, 2016 Demographic Study, and Detailed Findings, Player Demographics. Mr. Repass discussed the following findings:

- The majority of current players (70%), past players (69%), and eligible non-players (71%) remember seeing or hearing advertising about SCEL within the past 6 months. Among those, TV advertisements have the highest recall at 78-83%. Store displays are second at 33%. Internet advertisements have the lowest recall rate at 13%. Past players are more likely to recall radio advertisements (43%) and store displays (47%) than current players and eligible non-players.
- Just over half (56%) of current players are aware of the problem gambling hotline. Most (63%) heard about it on television. Past players and eligible non-players are less aware of the group (39% and 35% respectively).
- Nearly a third of instant game players are *somewhat* or *very likely to buy* a \$20 instant ticket.² This game option appeals more to the current base of scratch-off players: those who are playing more frequently and spending more. However, it does not appear that a \$20 instant ticket would cause a substantial portion of past players to make a future purchase.
- The ability to use debit cards³ for lottery ticket purchases would have a somewhat positive impact on the frequency and amount of purchase among Current Players and Past Players. The vast majority (83%) of Eligible Non-Players claim that using a debit card to purchase would have no impact on their play amount or play frequency.

Mr. Repass explained that, in his experience, of the roughly 10% of players claiming they would play if they could use debit cards; it is more likely to actually be about 5%. A general discussion on the potential impact of debit card usage followed. SCEL is one of a few remaining cash-only lotteries. When asked by the House Ways and Means Higher Education subcommittee whether SCEL is ready to move forward with debit card use, Mrs. Bethea has answered “no” and added that the Board had not addressed the policy question of requesting a legislative change to the statutory prohibition. Given the widespread use of debit cards today, the Commissioners discussed retailer preferences and consumer behavior given that the Lottery Act incorporated this prohibition in 2001.

Chairman Litchfield noted the clear interest in discussing the debit card issue and asked Mrs. Bethea to compile additional information for Board review and discussion at the November meeting. Mrs. Bethea stated that a full report will be sent prior to the next meeting.

Financial Update

Overview (FY 2016 v. FY 2015)

The Chair recognized Mr. Joe Boyle, Chief Financial Officer, who reported that FY 2016 was another record year for the SCEL. Transfers increased from \$348.9⁴ to \$405.0, an increase of

² SCEL does not currently offer a \$20 instant game ticket.

³ Use of debit or credit cards is prohibited by South Carolina Code §59-150-70(D)(2).

⁴ All dollar amounts expressed in millions

\$56.1, or 16.1%. Net Income⁵ increased \$61.1 to \$404.6. Game Revenues increased \$198.7 to \$1,600.4. Game Margin⁶ increased \$75.7. The overall Game Margin percentage increased 0.50% relative to the same period last year. Game margins improved on both Instant and Terminal Games.

Instant Game Revenues were \$1,137.8, up \$135.4, or 13.5% over the same period last year. Of the overall increase, \$10 Instant Tickets increased by \$93.5 and \$5 Instant Tickets increased by \$34.7. This volume increase represents revenue growth in these price points of 13.8% and 21.2%, respectively. This is by far the best performance of \$5 Instant Tickets over the past several years. Revenues associated with the \$1, \$2, and \$3 price points, in aggregate, increased by \$7.1, or 4.4%. The Game Margin percentage on Instant Game Revenues increased slightly (by 0.20%) during the period.

Terminal Game Revenues were \$462.5, an increase of \$63.4, or 15.9%. The unprecedented Powerball “Jackpot Run” in January 2016 primarily drove the increase in Terminal Game Revenues. During a two-week period in which the Powerball Jackpot reached a record \$1.6 billion, SCEL 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 revenues were up by \$16.2 (9.9%) and \$5.8 (6.8%), respectively. Mega Millions Revenues were down significantly by \$5.2, or 12.3%. Palmetto Cash 5 Revenues were down \$1.0, or 5.0%. Lucky for Life Revenues were up \$8.2.

Year-To-Date

Mr. Boyle stated that SCEL may be reaching the sales growth ceiling that has been a concern for the last two years. Sales trend lines for the first two months of this fiscal year mirror the trend in FY 2016 with a few minor exceptions. Pick 3 and Pick 4 sales have improved. Although instant game sales are up marginally, the year-to-date growth rate is well below past years. While SCEL is 6% ahead of overall year-to-date sales compared to FY 2016, the annual growth rate of instant game sales was well above 10% for the past two years. Approximately 5% of the overall growth for FY 2017 is attributable to modest Powerball and Mega Millions jackpot runs at the beginning of this fiscal year. With the exception of significant jackpot runs, Mega Millions and Powerball sales have been essentially flat for the last few years. Mrs. Bethea emphasized that SCEL’s sales are not trending downward and two months may not establish a trend for the entire year. The decline in the percentage rate growth, however, particularly in instant games sales, is a significant concern and staff is working tirelessly to ensure the transfer goal is met.

Executive Director’s Report

Mrs. Bethea mentioned several items. MUSL, NASPL, and the Mega Millions Group issued an RFP about four weeks ago seeking proposals to conduct a study of ways to control administrative costs by coordinating efforts of the groups. She will attend a meeting in Ann Arbor, Michigan, next month to review the proposals. She will appear before the Education Lottery Legislative Oversight Committee on October 26, 2016. The State Chamber of Commerce recognized SCEL as one of South Carolina’s Best Places to Work and Kevin

⁵ Net income as used herein means “Change in Net Position” as generally used for governmental entities. 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.

⁶ Game margin is defined as game revenue minus prize expense.

DeLoach accepted the award on behalf of SCEL. Lastly, Mrs. Bethea offered an example of the lottery business: On Tuesday, September 6, 2016, “0000” was drawn as the Pick 4 mid-day numbers which resulted in payout of \$1.6M with wagers of less than \$120,000.

Executive Committee Report

Chairman Litchfield stated that the Executive Committee met on Tuesday, September 6, 2016, to discuss the evaluations of the Mrs. Bethea, Executive Director, and Mrs. Parler, Director of Audit Services. The Chairman then recognized Commissioner Keith who reported that Mrs. Parler received an excellent review.

Chairman Litchfield then stated that some issues arose at the Executive Committee meeting that most likely required an executive session. Chairman Litchfield entertained a motion by Commissioner DeLoach, seconded by Commissioner Munson, that the Board go into executive session as authorized in § 30-4-70(a)(1) for the specific purpose of discussing personnel matters. The Board unanimously adopted the motion and the Chairman proceeded to executive session as specified by law.

After returning to open session, Chairman Litchfield stated the Board went into executive session for the specific purpose of discussing personnel matters, the Board conducted no other business and took no action in executive session. The Chairman then announced that Mrs. Bethea had decided to step down as Executive Director of SCEL effective October 31, 2016.

Commissioner Munson moved, that for continuity of leadership, if the Executive Director position becomes vacant between now and the execution of a new games administration services contract, the Board appoint an interim director until at least the execution of the new games administration services contract and that Hogan Brown, the current Director of Legal Services, be that interim director. Commissioner DeLoach seconded the motion. The Board approved the motion unanimously.

Commissioner DeLoach asked Mr. Brown about the new changes to the Ethics Act. Mr. Brown explained that the Statement of Economic Interests must now include disclosure of the source of all outside income for any person who is required to file. This requirement applies to income received in 2017 and it must be reported on the filing due in the spring of 2018.

Other Business

There being no further business, the Board adjourned the meeting. November 30, 2016, is the next scheduled Board meeting.

_____/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.