

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
May 1, 2013
10:00 A.M.**

The Board of Commissioners of the South Carolina Education Lottery held a meeting on Wednesday, May 1, 2013, at 10:00 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
Sam Litchfield, Secretary
Nancy Latham, Treasurer¹
Peter Bristow
Karen Ballentine
Otis Morris, Jr.
Keith Munson
Lee Edwards

The Chairman called the meeting to order and welcomed new Board member Keith Munson, appointed by Governor Haley.

Chairman Madden acknowledged the dedicated service of the Honorable T. Moffatt Burriss. Appointed in July 2001 by the Speaker of the House, he retired in January. The Chairman presented Mr. Burriss with a framed picture with well wishes from current Commissioners and colleagues who served as initial Board appointees. The Chairman thanked Mr. Burriss not only for his devotion to SCEL, but also to South Carolina in the General Assembly and in numerous other capacities, as well as his heroic service to the nation in World War II.

Approval of Minutes

On motion of Commissioner Litchfield, seconded by Commissioner Ballentine, the Board approved the minutes of the February 13, 2013 meeting.

¹ Commissioner Nancy Latham participated via teleconference.

Election of Standing Committees

Chairman Madden reviewed the proposed membership for the Standing Committees presented to the Board in advance of the meeting. Those needing approval are the Audit and the Legal/Security committees.

Motion Adopted

By consensus, the Board approved the slate of Standing Committee members as presented.

The Chairman asked Mrs. Bethea to report on the passing of SCEL Security Director, Tom Marsh, who had been with SCEL since the fall of 2001. Mrs. Bethea remembered Tom's life, his illness, his strength, his courage, and his dedication to SCEL and his colleagues. She then introduced the Acting Director of Security, Captain Craig Perry, who has been working with SCEL as the primary State Law Enforcement Division (SLED) liaison for a number of years. Consequently, Captain Perry is familiar with our staff, retailers, and the security practices and procedures currently in place.

Fiscal Year 2014 Budget

The budget for fiscal year 2014 (FY14), as proposed by the Executive Director, was included in the meeting packet in advance of the meeting. The Chairman recognized Joe Boyle, Interim Finance Director, to review the proposal and respond to questions.

This Budget/Financial Plan was formulated at the departmental level and focused on actual expenditures in FY12, projected FY13 expenditures (PFY13) through the close of the fiscal year, and the variances between those and projected expenditures for FY14. This approach is intended to serve as a management tool and internal control consistent with SCEL operations, not as a budget that would be prepared for a state agency that depends upon appropriations.

The revenue and profit projections are realistic, but conservative. "Planned Game Margin" (Revenue minus Prize Expense) for FY14 is \$16.9M lower than FY12 and \$14.4M lower than PFY13. FY14 sales are projected to be \$11M higher than FY12 and \$20M less than PFY13 primarily because Powerball sales and \$10 instant tickets are projected to be lower. Prior jackpot runs are discounted from future sales and the increased \$10 instant ticket sales as seen over the past few years may not be sustainable in FY14.

FY14 operating expenses are \$492,000 higher than FY12 and \$982,000 higher than PFY13. Relative to PFY13, three variances (salaries, auditing, and legal expenses total \$533,000) constitute over half of the overall difference. Other direct costs are up due to: an increase in planned game introductions; the licensing of three new Intellectual Property games; potential cost increases associated with a new instant game contract; ticket and collateral costs associated with the Carolina Cash 6 game; and an upcoming matrix change in Mega Millions®. Advertising expense is generally consistent with the past several years, and well below the statutory cap.

SCEL anticipates reporting to the Board of Economic Advisors (BEA) an increase in estimated transfers for FY14 of approximately \$7.6M to total \$260M for FY14.

Motion Adopted

After a brief discussion and comments, on a motion of Commissioner Litchfield, seconded by Commissioner Edwards, the Board unanimously approved the FY14 Budget as presented.

Reports

Marketing and Retailer Relations Committee Report

Chairman Madden recognized Sam Litchfield, Chair of the Marketing and Retailer Relations Committee, for a report on the April 10, 2013 meeting. Mr. Litchfield reported that Kevin Tawes, a Marketing and Sales Representative (MSR) in the North Charleston area, presented an overview of his daily responsibilities and duties from preparing for a retailer visit to a description of a typical in-store visit. Mad Monkey, SCEL's advertising production vendor, presented an overview of the process used to create a television commercial. Mad Monkey also reviewed the series of ads that recently won three Addy Awards and the Best of Show Award. SCEL recently licensed these ads to other lotteries, which substantially reduced the production costs.

There were no action items for the Committee to consider.

Marketing Report and Quarterly Advertising Review

Jay Johnson, Director of Marketing and Product Development, reviewed the quarterly advertising material² presented to the Board in advance of the meeting. DVDs for this review included:

- Television Broadcast: Carolina Cash 6, FAN-tastic!, Know Your Numbers, and Play Responsibly;
- Player Information Display: FAN-tastic! and Carolina Cash 6;
- Play Station Posters: Carolina Cash 6 and FAN-tastic!;
- Writing Surface Posters: Crazy 8's Add-A-Play/March Games and April Games;
- Ticket Topper: Carolina Cash 6; and
- Outdoor Digital Billboard: Carolina Cash 6 and FAN-tastic!, Lucky 3/Money Craze, Fast Money/Quick Cash, and Back Nine instant tickets.

The DVDs also contained Carolina Cash 6 window cling, wallet card, buckslip, T-shirt; FAN-tastic! window cling, buckslip, T-shirt; Palmetto Sportsman Classic advertisement (Carolina Cash 6); Riverdogs advertisement (Carolina Cash 6); Monday After the Masters advertisement (Carolina Cash 6); and a Heritage advertisement (Carolina Cash 6).

Mr. Johnson also presented a preliminary version of the newest "Play Responsibly" television commercial featuring Marcus Lattimore and Paula Harper Bethea.

²SCEL'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."

No objections or concerns were expressed regarding the advertising materials submitted to the Commissioners for review. It was therefore the consensus of the Board that SCEL's past advertising and proposed concepts for major media campaigns 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 Interim Director of Finance Joseph Boyle to provide a financial update. Mr. Boyle highlighted various items in the Financial Report presented in the meeting materials. Sales are broken down between instant and terminal games to show the margins achieved by each in total dollars and on a percentage basis. Instant game margin was slightly lower due to sales growth in the lower margin \$10 ticket category; however, terminal game margin was down as well. Mr. Boyle stated that he believed the continued decrease in terminal game margin appears to be the result of an "actuarial anomaly" and the margin should normalize over time.

SCEL is on track to meet the transfer of \$252.4M established in conjunction with the BEA at the beginning of the Fiscal Year. Through the month of March, SCEL transferred \$220.8M to the Education Lottery Account (ELA), 87.8% of the budgeted goal.

Mr. Boyle then reported on the overall financial operations of SCEL for the first nine months of FY13 compared with the same period in the previous fiscal year:

- Revenue is up \$23.7 million;
- Prize expense is up \$24.5 million;
- Commissions are up \$1.7 million;
- Other expense categories are down marginally as advertising and G&A expenses are well controlled; and
- Operating income is down \$1.8 million as a result of overall lower game margin and higher retailer commissions from increased sales.

Executive Director's Report

Mrs. Bethea reported SCEL is on track to reach SCEL's sales goal of \$981M by close of business May 1, 2013. She thanked staff and reiterated SCEL's focus is on the transfer of proceeds to the ELA, not higher sales. Carolina Cash 6 is performing well in the first few weeks since the launch on April 2, 2013. She also updated Board members on the instant ticket production, warehousing, and distribution Request for Proposals (RFP).

Mrs. Bethea reported recent activity on the multi-jurisdictional games. California will begin selling Powerball® on May 15, 2013. Florida will begin selling Mega Millions® in May as well. The price of a ticket will remain a dollar, but the Mega Millions® group has decided to increase the number of white balls, from 5 in 56 to 5 in 75, and decrease the number of red balls, from 1 in 46 to 1 in 15. The theme for the new change is "Five of Many and One of Few." The matrix change will increase the odds of winning the jackpot (from 1 in 176

million to 1 in 259 million) and decrease the overall odds of winning (from 1 in 40 to 1 in 15). Powerball® is also contemplating a matrix change in early 2014. Mrs. Bethea explained that any matrix change to a game requires Board approval.

Motion Adopted

Commissioner Bristow moved to adopt the Mega Millions® game rules changes, as presented. Commissioner Ballentine seconded the motion, which was unanimously approved by the Board.

There being no further business, the meeting was adjourned.

/s/
Timothy E. Madden, Chairman

Sam Litchfield, Secretary

As required by § 30-4-80, notification for this meeting was posted at SCEL headquarters, 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 media outlets and other organizations. These notifications included the time, date, place, and agenda of the meeting.