

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
August 8, 2012
10 A.M.**

The Board of Commissioners of the South Carolina Education Lottery held a meeting on Wednesday, August 8, 2012, 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
Moffatt Burriss, Treasurer
Sam Litchfield, Secretary
Nancy Latham
Peter Bristow
Lee Edwards

Dr. Edward Keith participated via teleconference. Commissioner Karen Ballentine was unable to attend.

The Chairman called the meeting to order.

Approval of Minutes

On motion of Commissioner Burriss, seconded by Commissioner Latham, the May 9, 2012, Board minutes were unanimously approved.

Reports

Demographic Study

Mrs. Bethea was recognized to introduce Ms. Graceanne Cole, Vice President of Research, MarketSearch, who led the 2012 demographic survey¹ for SCEL. Ms. Cole highlighted the methodology used and results (a copy of the executive summary was included in the meeting materials) as noted below.

¹ Although a demographic study is no longer statutorily required, staff has and will continue to conduct an annual study until directed otherwise.

During February and March (before the record-setting Mega Millions jackpot), MarketSearch surveyed approximately 1,000 people, 18 years of age and older, via landline phone and, to a limited extent, mobile phone and online/web-based data collection. Previously, only landline phone interviews were conducted. The survey sample reflected a random mix of state residents, stratified to reflect population by region. Age and gender quotas were employed with data weighted to reflect the appropriate distribution of ethnicity of the state. Among other information, the survey sought data on the frequency of play and the games purchased.

55.6% of the respondents indicated they have “ever played” an SCEL game (up from 45.3% in 2010), while 43.9% indicate they have played at least one game in the past year. Of the sample group, 30.6% are defined as an “Active Player” (plays at least once a month), 13.3% are labeled as a “Recent Player” (within the past year) and 11.7% are considered a “Past Player” (did not play within the past year). On average, active players and recent players report spending \$15.67 per month on SCEL games.

Overall, the demographic profile of SCEL players continues to mirror the demographic profile of the adult population of South Carolina. The majority of “Players” are Caucasians between 25 and 54 years of age, employed, and married. Notable variations between players and non-players are that players are more likely to be between the ages of 25 and 44 (45% versus 33.8%), African American (34.2% versus 23.6%), employed full-time (46.1% versus 40.5%), and have household income of under \$50,000 (43.3% versus 35.2%).

At the conclusion of the report, Ms. Cole responded to questions from Commissioners.

Marketing and Retailer Relations Committee Report

Chairman Madden recognized Sam Litchfield, Chair of the Marketing and Retailer Relations Committee, for a report on the June 26, 2012 meeting. Mr. Litchfield reported that staff is continuing to evaluate social media options and potential benefits before moving into this arena. Mr. Litchfield explained the In-Lane pilot program developed with BI-LO, which may be expanded to include other interested grocery store chains. There appears to be potential for lottery sales growth among grocery store retailers. Staff also provided a National Game update. In sum, the game remains in the development stage and it may, or may not, be a good fit for South Carolina.

Marketing Report and Quarterly Advertising Review

Jay Johnson, Director of Marketing and Product Development, presented broadcast and media advertising material for the quarterly review,² which was provided on a DVD in the meeting materials in advance of the meeting. The presentation included:

- Documentary – Technical Colleges
- Television Broadcast: Branding Beneficiary (New Surroundings and Technical College); and

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.”

- Product Information Display: Darlington Event and Carolina Cash Add-A-Play.

Mrs. Bethea introduced Dr. Shelley Fortin, Vice-President for Enrollment Management and Student Services, Florence-Darlington Technical College. Dr. Fortin thanked all those involved in producing this documentary: SCEL, Mad Monkey (SCEL’s Advertising Production vendor), and the technical college staff and students. The brief film will be displayed on SCEL’s website. It will also be used by the technical college system as a recruiting tool and informational piece for prospective students. Dr. Fortin also thanked SCEL for generating the funds to provide financial support for 75% of technical college students who reside in South Carolina.

The print advertising CD (also part of the meeting materials) included the following: play station posters (June and July games) and writing surface posters (Big Winners – June and July), Clean\$weep buckslip, Powerball® and Mega Millions® Triangular Pole Sign, and a SCACS Membership Directory advertisement.

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 Dale Rhodes, Director of Finance. In FY12, SCEL transferred approximately \$297.7M to the ELA; more than 118% of the total Board of Economic Advisors’ (BEA) estimate for FY12. Total revenue in FY12 was \$1.139B.

Expenditures from July 1, 2011 – June 30, 2012, were:

- 63.3% Prizes
- 26.4% Net Proceeds
- 7.0% Retailer and Sales Commissions
- 1.4% Gaming Costs (Vendor Costs and Supplies)
- 1.2% SCEL Internal Administrative Costs
- 0.7% Advertising

Executive Director’s Report

Several SCEL staff members attended the North American Association of State and Provincial Lotteries (NASPL) annual meeting in Orlando, Florida. SCEL’s three nominees received the Powers Award: Tim Gardner of Mad Monkey, Teri Buonasera of Buonasera Media Services, and Martha Hernandez of Scientific Games International. This award is given annually by NASPL to recognize outstanding achievement within several different sectors of the lottery industry. Their selection exemplifies the contributions our private sector vendors make toward the success of SCEL.

The National Game was discussed at the NASPL Directors Meeting in June. Since much work remains to be done before the game is ready for presentation to the states, SCEL staff is working diligently to explore other options such as a regional game, enhancements to a current game(s), and/or a new game. Staff will present its recommendations to the Board and if approved, the implementation goal would be at or near the end of this fiscal year.

Moving from Secretary, Mrs. Bethea recently became 2nd Vice President of NASPL as the result of a vacancy due to resignation. She is eligible for reelection at the next meeting in September.

Recently the Illinois Lottery began offering internet gaming and the Georgia Lottery anticipates launching internet gaming by the end of the calendar year. By law, sales of SCEL products must be a face-to-face transaction using only cash.³ In response to a question, Mrs. Bethea stated that, given the changing marketplace, it would be helpful if the Board of Commissioners had the authority to decide when, or whether, it may be beneficial to offer games via the Internet. Sustainability remains a concern for SCEL, which sells through traditional channels.

Finally, Mrs. Bethea reported, pursuant to Board policy,⁴ a transfer of \$65,511.48 from the Fidelity Fund to the ELA occurred in June. The Fidelity Fund, established by statute,⁵ from fees paid by retailers, is used to offset uncollectable accounts of former retailers. SCEL's collection efforts include the use of a private debt collection agency, the Government Entities Accounts Receivable (GEAR) program (which can establish tax lien and/or garnishment), and filing lawsuits using in-house resources. These efforts yielded collections of \$123,897.54 in FY12 while SCEL incurred new debt of \$180,861.53 in FY12.

Audit Committee Report – Evaluation of the Internal Auditor

Peter Bristow, Audit Committee Chair, was recognized to brief the Board on the Audit Committee meeting held earlier today at 9 a.m. to evaluate the performance of the Internal Auditor, Bethany Parler. The Committee considered: 1) job performance in relation to the stated criteria for the position; 2) a self-evaluation and the audit plan presented for upcoming fiscal year; and 3) input from the Executive Director and the Internal Operations and Human Resources Director on comparable positions within SCEL's overall compensation plan. The Committee also reviewed competitive market ranges for this position from data compiled by Milliman, Inc. (the consultants who developed SCEL's compensation plan). The Committee determined that Mrs. Parler is a valuable employee and is "on target" with her job performance thereby earning a very favorable evaluation. The Committee recommended a salary adjustment of 8.35%,⁶ to \$116,480, representing an adjustment of 4.19%, with a 4% cost of living adjustment to bring her salary within the market range for the position.

³ Section 59-150-20(7) and Section 59-150-70(D)(2).

⁴ Legal and Security Committee – September 27, 2005.

⁵ Established in Section 59-150-170(A).

⁶ The Internal Auditor did not receive a salary increase in FY09 or FY10.

Lee Edwards asked that all Board members receive advance notice when there is a recommendation for a salary adjustment for the positions that report directly to the Board, the Executive Director and the Internal Auditor.

Motion Adopted

By consensus, the Board approved the recommended compensation adjustment.

Executive Committee Report – Evaluation of the Executive Director

The Executive Committee met on Monday, August 6, 2012, to evaluate the performance of the Executive Director. Chairman Madden explained the Committee’s methodology. In addition to the direct observations of Committee members, and a self-evaluation, the Committee considered information from the Internal Operations and Human Resources Director concerning compensation and benefits. The Committee also asked Mrs. Bethea various questions about her role as Executive Director. The Committee concluded with a very favorable performance evaluation of Mrs. Bethea. The Committee also determined that an adjustment to the Executive Director’s compensation is appropriate. The amount and/or structure (either as base compensation adjustment, a bonus, or both), consistent with the statutory⁷ guidelines for this position is to be established in approximately six months in another meeting.

Motion Adopted

By consensus, the Board approved the recommendation of the Executive Committee.

Other Business

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.

⁷ Section 59-150-80(A): “The board shall appoint and provide for the compensation of an executive director which must not be based upon or a function of profitability or percentage of sales.”