

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
August 10, 2011
10 A.M.**

The Board of Commissioners of the South Carolina Education Lottery held a meeting on Wednesday, August 10, 2011, at 10 a.m., in the first-floor conference room located at 1333 Main Street, Columbia, South Carolina, with the following Board of Commissioners participating:

Tim Madden, Chairman
Jimmy Bailey, Vice Chairman
Moffatt Burriss, Treasurer
Sam Litchfield, Secretary
Dr. Edward Keith
Karen Ballentine
Peter Bristow
Nancy Latham
Deedee Vaughters

The Chairman called the meeting to order.

Approval of Minutes

On motion of Commissioner Burriss, seconded by Commissioner Ballentine, the Board unanimously approved the minutes of the May 11, 2011, meeting.

Reports

Advertising and Marketing Strategy

Paula Harper Bethea, Executive Director, provided Board members with an overview of SCCEL's advertising and marketing strategies. Mrs. Bethea highlighted the SCCEL's shift in brand focus over the past two years to more beneficiary messages showcasing recipients of lottery proceeds and Play Responsibly messages. Concurrently, the advertising strategy shifted to maximize SCCEL's radio, television, and billboard audience for efficiency and branding purposes. SCCEL is also exploring other means of organic marketing and advertising such as Twitter and YouTube.

Jay Johnson, Director of Marketing and Product Development, reviewed advertising costs as a percentage of sales for SCEL with the advertising costs of other large South Carolina businesses. On average, those businesses spend approximately 3 percent of gross revenue on advertising while SCEL's advertising expenditures are well below the 1 percent cap.¹ Mr. Johnson also highlighted key marketing expenditures from FY06 through FY12.² He compared the advertising budget and actual expenses and provided details regarding increases or decreases in specific areas such as newspaper, television, billboards, and outdoor advertising from year-to-year. Mr. Johnson presented a selection of SCEL commercials: the Play Responsibly message, jackpot awareness, the 2011 summer campaign, and the "Taking and Giving a Chance" series.

Mr. Johnson introduced Teri Bounasera, President of Bounasera Media Services, LLC, SCEL's media buyer. She highlighted SCEL's advertising placement strategy which focuses on numerous media outlets and frequent rotation among jackpot awareness, instant tickets and beneficiary messages. Television ads are now airing fifty-two weeks a year with the focus on evening placements. Radio spots are shorter in duration and are concentrated in the "drive time" slots when customers often visit convenience stores and are listening to the radio in their cars. Outdoor advertising is shifting from conventional stand-alone billboards with only jackpot awareness to digital signage which allows a daily rotation with various ads when needed. The SCEL webpage is also frequently updated and enhancements to the "Players Club" have increased players' interest in our products. A mobile phone app has been deployed statewide for winning numbers. Co-branding with our television draw partners, special events (Darlington, The Heritage and many local events), and instant tickets with licensed properties increases SCEL's exposure and expands the player base. All advertising is evaluated for exposure, cost-effectiveness and results.

Mrs. Bethea concluded the presentation by stating staff's overall object to gain economies of scale through reducing costs while increasing the exposure of our brand and the beneficiary message. For example, production of more than one commercial at a time is often scheduled to reduce overhead expenses with SCEL personnel performing as much work as possible to reduce costs. Commercials are also designed to "drop-in" new instant ticket products or change jackpot levels with little or no additional production costs.

The Chairman thanked staff for the quality and breadth of the information presented.

Marketing Report and Quarterly Advertising Review

Mr. Johnson reviewed the advertising material presented to the Board in advance of the meeting. One DVD for this quarterly review³ included:

¹ Section 59-150-60(A)(18) " ... the amount spent on advertising must not exceed one percent of the previous year's gross sales."

² The Marketing Budget Chronology is attached as an addendum to the minutes per the request of the Board.

³ 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."

- Television Broadcast: Mega Millions® and Powerball® jackpot awareness; and
- Play Station Poster: June, July, and August Games Writing Surface, Mega Millions® and Add-A-Play Writing Surface, and a Red Hot Cherries Instant Game.

The second DVD included: CleanSweep buckslip, “Have you played today?” window poster and retailer counter mat, Clemson University Athletic Program Advertisement, 2011 Peach Festival Advertisement, and 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.

Executive Committee Report

Vice Chairman Bailey explained the favorable performance evaluation of the Internal Auditor. The Executive Committee also recommended a salary adjustment of 7.68%, retroactive to April 17, 2011, as the Internal Auditor’s compensation is below market rate.

Chairman Madden explained the favorable performance evaluation of the Executive Director.

Motion Adopted

By consensus, the Board approved the reports of the Executive Committee regarding the evaluation of the Executive Director and the Internal Auditor as well as the recommended compensation adjustment for the Internal Auditor.

Financial Update

The chairman recognized Dale M. Rhodes, Director of Finance, to brief the Board. FY11 gross revenue was approximately \$39.9M above FY10. This is the second highest sales revenue year since inception. Instant sales were \$52.1M above and online sales were \$12.2M below FY10.

In FY11, SCEL transferred \$271.1M to the Education Lottery Account (ELA) compared to \$272.4M for FY10. The difference is due primarily to an overall increase in sales of instant games and, in particular, sales of higher price point instant tickets (\$5 and \$10 games) which have a higher prize payout. Although PC5 sales were modestly higher than FY10, the prize payout was \$3.2M higher in FY11, largely due to an increase in the number of top prize winners.

The allocation of total revenue (The Lottery Dollar) in FY11 from July 1 – June 30, 2011, was:

- 63.6% Prizes

- 25.8% Net Proceeds
- 7.0% Retailer and Sales Commissions
- 1.5% Gaming Costs (Vendor)
- 1.3% SCEL Internal Administrative Costs
- 0.8% Advertising

Mr. Rhodes explained SCEL's internal projected net proceeds transfer for FY12 is \$262M, even though the net proceeds estimate of the Budget of Economic Advisors (BEA) for FY12 is \$252.4M. The BEA is aware of SCEL's transfer estimate, but the BEA has historically been very conservative in setting the amount to incorporate into the state budget for appropriation.

Board members asked several questions and made comments regarding the use of percentages in presenting the financial information. After a brief discussion, the Executive Director suggested that staff provide a detailed analysis of revenue and expenses subsequent to the meeting. Staff will also reformat the quarterly information to quantify revenue and expenses with less reliance on percentages.

Executive Director's Report

Mrs. Bethea attended the June Directors Conference conducted by the North American Association of State and Provincial Lotteries (NASPL) in Dallas. The Powerball® Game Group of Multi-State Lottery Association (MUSL) also met during the Conference. The Group voted to change the Powerball® game matrix: to increase the beginning jackpot (\$40M from \$20M) and to increase the ticket price to \$2 from \$1, effective January 15, 2012. Power Play® will remain available for an additional \$1 wager. The odds of winning the jackpot prize will increase from 1 in 195,249,054 to 1 in 175,223,510, more in-line with the Mega Millions® jackpot odds.

Internet gaming legislation pending in Congress remains a challenge for the lottery industry and could change the long-held view that gaming issues are to be determined by state law rather than federal law. Locally, video gaming devices have become increasingly prevalent, particularly in locations licensed to sell SCEL products. Mrs. Bethea and Tom Marsh, Director of Security, met with SLED Chief Keel to learn his view on these devices as SCEL has no enforcement role and cannot advise a retailer as to whether a given device complies with the law. However, SCEL can decide whether to suspend or revoke an SCEL license if a magistrate determines, as provided by law, that a gaming device is illegal. SCEL communicated this position to lottery retailers by letter and via an article in SCEL's monthly publication, *Selling Points* (distributed to every SCEL retail outlet). Effective July 1st, SCEL modified the retailer contract to include a provision whereby the retailer agrees to a voluntarily six-month suspension upon a magistrate's determination that an illegal device was present in a retail outlet. Mrs. Bethea will apprise the Board as developments occur on the state and federal levels regarding gaming.

The Request for Proposals (RFP) for Banking Services has been finalized and will soon be issued by the Materials Management Office (the State Procurement Office). The

Insurance and Brokerage Services RFP, which will include Directors and Officers Liability Insurance, will be issued next.

Per Board policy, Mrs. Bethea reported a transfer of \$65,511.48 from the Fidelity Fund⁴ to the ELA in June. The Fidelity Fund is established by statute and funded by retailer fees 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.

Recognition of Former Board Members

Mrs. Bethea expressed her appreciation for the time, support and dedicated service of the Board members whose terms recently ended. Marvin Quattlebaum (2003-2011), Lisa Stevens (2005-2011), and Edie Rodgers (2009-2010) were present and offered brief remarks. She presented a special star with SCEL's logo as a memento of their service. Boykin Rose (2005-2010) and Nate Spells (2006-2011) were unable to attend.

Other Business

The Chairman distributed a proposed composition for each Standing Committee for review prior to the meeting. Without objection, the Board approved the membership of the Standing Committees as presented.

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.

⁴ Section 59-150-170(A).

ADDENDUM

Marketing Budget Chronology and Milestones

The following is a chronology of the marketing budgets since fiscal year (FY) 06 of the South Carolina Education Lottery (SCEL).

FY 06

SCEL budgets \$8,820,492 for advertising and spends \$8,682,936.

Total gross sales for FY 06 are \$1,144,606,250.

The statutory maximum SCEL could budget for advertising was \$9,569,520 based on FY 05's sales.

Television advertising utilized at thirty-five (35) weeks per year.

FY 07

SCEL budgets \$9,800,000 for advertising and spends \$9,866,628. The increase in the budget is because the North Carolina Education Lottery is scheduled to start sales. The Sales and Marketing Department is divided into the Sales and Retailer Relations Department and the Marketing and Product Development Department.

Total gross sales for FY 07 are \$988,158,152.

The RFP for advertising services ends and is divided into two (2) contracts: one (1) for media placement; and one (1) for television production. The RFP for media placement is awarded to Buonasera Media Services, LLC starting in FY 07 (April 2007).

The statutory maximum SCEL could budget for advertising was \$11,446,062 based on FY 06's sales.

Television advertising utilized at thirty-five (35) weeks per year.

FY 08

SCEL budgets \$8,900,000 for advertising and spends \$8,332,591.

Total gross sales for FY 08 are \$992,492,764.

The RFP for advertising services ended in FY 07 and was divided into two (2) contracts: one (1) for media placement; and one (1) for television production. The RFP for television production is awarded to Mad Monkey starting in FY 08 (September 2008).

The statutory maximum SCEL could budget for advertising was \$9,881,581 based on FY 07's sales.

Television advertising was increased from thirty-five (35) weeks per year to forty-two (42) weeks per year.

FY 09

SCEL budgets \$8,900,000 for advertising and spends \$8,285,021. This is the second year with no increase in the advertising budget.

Total gross sales for FY 09 are \$1,005,106,684. This is a net sales increase from the prior fiscal year of approximately twelve million dollars (\$12,000,000).

The statutory maximum SCEL could budget for advertising was \$9,924,927 based on FY 08's sales.

Began to reduce newspaper advertising and increase web banner advertising.

Television advertising increased from forty-two (42) weeks per year to fifty-two (52) weeks per year.

The draw studio set is remodeled and although this expense is not in the Marketing budget (it is in the General budget under capital improvements) the updating of the studio is a marketing milestone.

FY 10

SCEL budgets \$8,900,000 for advertising and spends \$8,659,566. This is the third year with no increase in the advertising budget. The increase in the amount spent over the previous fiscal year (approximately \$375,000) is due to the start of Mega Millions® sales and an increase in television advertising production for a campaign including three (3) beneficiary message commercials and one (1) Play Responsibly commercial to change public perception of the lottery.

Total gross sales for FY 10 are \$1,007,163,524. This is a net increase from the previous fiscal year of approximately two million dollars (\$2,000,000).

The statutory maximum SCEL could budget for advertising was \$10,051,066 based on FY 09's sales.

FY 11

SCEL budgets \$8,900,000 for advertising and spends \$8,564,276. This is the fourth year with no increase in the advertising budget. Increased direct sales television advertising

production including Powerball® and Mega Millions® lower jackpot ads and a summer jackpot campaign to try to increase ticket sales during the traditionally slow sales period for the fiscal year.

Total gross sales for FY 11 are \$1,046,555,631.* This is a net increase from the previous fiscal year of approximately thirty-nine million dollars (\$39,000,000).

The statutory maximum SCEL could budget for advertising was \$10,071,635 based on FY 10's sales.

Reductions occur in the Marketing and Product Development administrative budget.

This fiscal year included shifts from traditional outdoor advertising on billboards, reducing the number of billboards from thirty-seven (37) to fifteen (15) but advertising both Powerball and Mega Millions on the remaining highest visibility boards. And the shift included increasing outdoor digital boards (from three [3] months to eight [8] months) to increase flexibility in advertising.

FY 12

SCEL budgets \$8,700,000 for advertising.

The statutory maximum SCEL could budget for advertising is \$10,046,556* based on FY 11's sales.

Plans for this fiscal year include a shift in television advertising to higher viewer rating time slots while maintaining fifty-two (52) weeks per year.

Plans also include shifting dollars to a mobile advertising plan to access "all the screens" in a person's life: television; computer; mobile phone; and laptop or iPad. This follows the national trends in advertising.

An incremental approach is also planned for social media-type advertising, recognizing the constraints to be managed while taking advantage of the best attributes of social media.

SCEL assisted in development of a telephone application (app) for lottery information.

Radio advertising, previously utilized at twenty-three (23) weeks per year with sixty (60) second commercials since FY 06, now is planned with a shift to stop sixty (60) seconds and thirty (30) seconds ads and to increase ten (10) second traffic reads during the peak listening hours.

Digital outdoor billboards increased to twelve (12) months.

*Subsequent to the preparation of the addendum, the financial statements were closed and the sales figures should be adjusted: Total gross sales for FY11 are \$1,047,120,052 and the statutory maximum FY12 budget for advertising based on FY11's sales is \$10,471,200.