

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
February 13, 2013
10:00 A.M.**

The Board of Commissioners of the South Carolina Education Lottery held a meeting on Wednesday, February 13, 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:¹

Tim Madden, Chairman
Dr. Edward Keith, Vice Chairman
Nancy Latham, Treasurer
Sam Litchfield, Secretary
Otis Morris, Jr.
Lee Edwards

The Chairman called the meeting to order and welcomed new Board member Otis Morris, Jr., appointed by the President *Pro Tempore* of the Senate. He also announced the retirement of the Honorable T. Moffatt Burriss, who has served with distinction since his appointment by the Speaker of the House of Representatives in July 2001.

The Chairman acknowledged appointment of Dr. Edward Keith by the Speaker of the House of Representatives to begin a new term on the Board following the retirement of Mr. Burriss. By consensus, the Board unanimously ratified Dr. Edward Keith's continued service as Vice-Chairman.

Approval of Minutes

On motion of Commissioner Latham, seconded by Commissioner Litchfield, the Board unanimously approved the minutes of the December 13, 2012 meeting.

Executive Committee Report

The Chairman explained the Executive Committee's mid-year review of the Executive Director which was scheduled at a prior meeting. The Executive Committee recognized Mrs. Bethea's outstanding performance: expenses are decreasing, transfers are increasing, and overall, SCEL is flourishing. Although the consensus of the Committee was to recognize her performance with a merit adjustment, at Mrs. Bethea's request, the Committee took no action

¹ Due to scheduling conflicts, Commissioners Peter Bristow and Karen Ballentine were unable to attend.

to change her compensation. However, the Committee requests Board authorization to allow Mrs. Bethea to work remotely one to three days per month and to keep the Executive Committee apprised of the progress in working in this manner.

Motion Adopted

On motion of Commissioner Edwards, seconded by Commissioner Latham, the Board unanimously approved the recommendation of the Executive Committee.

Reports

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. A DVD for this review included:

- Television Broadcast: Money Money Millionaire;
- Play Station Posters: January Games, Daily Online Games, Money Money Millionaire, Money Money Millionaire Second-Chance Drawing;
- Writing Surface Posters: Crazy 8's Add-A-Play/February Games;
- Ticket Topper: Money Money Millionaire;
- Outdoor Digital Billboard: Money Money Millionaire; and
- Community News Print Advertisement: Beneficiary Message (\$2.9 Billion to the Education Lottery Account).

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 referred to the Financial Report presented in the meeting materials. He reported SCEL is on track to meet the transfer budget of \$252.4M established in conjunction with the Board of Economic Advisors' (BEA) at the beginning of the Fiscal Year. Through the month of December, SCEL transferred \$138.3M to the Education Lottery Account (ELA), 54.8% of the BEA budgeted goal. With the January transfer of \$26.5M, SCEL will reach 65% of the budgeted amount with five months remaining in the fiscal year.

Mr. Boyle reported sales of \$570.6M were up by \$40M in the first six months of FY13 compared to the same period in the previous year. Particular emphasis was placed on the breakdown of sales between instant and terminal games and the margins achieved by both types of games on both a dollar and percentage basis.

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."

Mr. Boyle then reported on the overall financial operations of SCEL for the first six months of FY13 compared with the same period in the previous year. Sales are up \$40 million and the operating margin has increased by \$3.3 million. He also reported that prize expense and commissions were up due to increased sales, but game costs, advertising expense and G&A expenses were flat or down compared to the previous year.

Mr. Boyle also informed the Board he had recently benchmarked SCEL's operating expenses (advertising and G&A expenses) to other U.S. lotteries. He stated he had excluded states engaged in video operations and lotteries with sales of over \$4 billion in the analysis. Of the remaining 33 state lotteries, he reported SCEL had the lowest ratio of operating expenses to revenue.

A discussion ensued regarding the recognition of lower game margins in FY 2013 compared to the previous year. Mr. Boyle reported that the margins realized on instant games decreased .81% and that the margin on terminal games had decreased 3.59%. The decrease in the terminal game margin appears to be the result of an "actuarial aberration" and he expects the margin to normalize over time.

A summary of the allocation of total revenue from July 1 – December 31, 2012 was reported to the Board as follows:

- 64.68% Prizes
- 25.15% Net Proceeds
- 7.03% Retailer and Sales Commissions
- 1.34% Gaming Costs (Vendor Costs and Supplies)
- 1.12% SCEL Internal Administrative Costs
- 0.68% Advertising

Executive Director's Report

Mrs. Bethea reported staff is making the final preparations to launch Carolina Cash 6 on April 2, 2013. With the launch of this six-number, terminal generated game, staff will monitor any cannibalization of Palmetto Cash 5 which has shown signs of aging for some time.

Mrs. Bethea gave a brief overview of recent meetings. The North American Association of State and Provincial Lotteries (NASPL) Executive Committee met last week in Washington, D.C. Discussions there included various topics relating to the evolving industry, pending legislation, and technology advancements. A meeting of the Powerball® Marketing Committee was held in Charlotte to discuss potential new Powerball® promotions. The anticipated launch of Powerball® by the California Lottery, sometime in the near future, was discussed as well. More details may be available at the next Board meeting in May. Finally, Ms. Bethea explained her presentation before a subcommittee of House Ways and Means Committee. At the Committee's request, SCEL provided revenue projections for FY13 and discussed SCEL operations.

Mrs. Bethea explained that staff has continued to work on drafting the instant ticket production, warehousing, and distribution Request for Proposals (RFP). Staff anticipates the

RFP will be ready to forward to the Materials Management Office (MMO) in the near future. The current contract expires at the end of September. Without objection, staff will proceed with issuing the RFP through MMO. The Chairman reminded Board members that as with other procurements, the RFP process is governed by the state procurement code and Board members do not participate in the selection process or actively engage with potential offerors.

Bethany Parler, Director of Audit Services, introduced Frances Cook, Senior Auditor, to the Commissioners. Ms. Cook joined SCEL January 2013 to fill the position vacated in June 2012.

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.