

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
November 10, 2009
10 A.M.**

A meeting of the Board of Commissioners of the South Carolina Education Lottery was held on Tuesday, November 10, 2009, at 10 a.m., in the first-floor conference room located at 1333 Main Street, Columbia, South Carolina, with the following Commissioners participating:

Tim Madden, Chairman
Moffatt Burriss, Treasurer
Dr. Edward Keith
Lisa Stevens*
Boykin Rose*
Nathaniel Spells, Sr.*
Edie Rodgers

Commissioners Bailey and Quattlebaum were unable to participate due to scheduling conflicts.

The Chairman called the meeting to order.

Approval of Minutes

On motion of Commissioner Rose, seconded by Commissioner Burriss, the minutes of the August 12, 2009, and September 22, 2009 meetings were unanimously approved.

Government Finance Officers Association Award Presentation

The Chairman recognized Karen Wicker, Senior Assistant State Treasurer, S.C. Office of the State Treasurer, to present an award from the Government Finance Officers Association of South Carolina. Dusty Rhodes, Director of Finance, and Uvette Pope-Rogers, Controller, accepted the award on behalf of SCEL. The award is the highest recognition for governmental financial reporting and signifies SCEL's achievement for the comprehensive annual financial report (CAFR) for fiscal year ending June 30, 2008. This is the fourth consecutive year that SCEL has received this award.

*These Commissioners participated via teleconference.

Election of Officers

Board bylaws provide for the election of officers in the fourth quarter of each calendar year. Current officers are: Tim Madden, Chairman; Jimmy Bailey, Jr., Vice Chairman; Moffatt Burriss, Treasurer; Marvin Quattlebaum, Secretary; and Dr. Edward Keith, Executive Committee, Member-At-Large. The floor was opened for nominations.

Motion Adopted

Commissioner Rodgers moved to re-elect the current slate of officers for another term. Commissioner Stevens seconded the motion, which was unanimously adopted.

Cross Selling – Offering Mega Millions® in Powerball® Jurisdictions

The Chairman recognized Paula Harper Bethea for a briefing on the recent developments and efforts to sell both Powerball® and Mega Millions® within in each jurisdiction. The Executive Directors from both game groups formed a committee to move forward with implementing this effort. The committee is co-chaired by Rebecca Paul Hargrave (Powerball®, Tennessee Lottery) and Margaret DeFrancisco (Mega Millions®, Georgia Lottery). While both game groups accomplish the same function, the organizational structure and approach to game management of each are quite different which leads to numerous issues needing resolution prior to the ambitious launch date of January 31, 2010. The various topics and issues under discussion were sent in the meeting materials packet. SCEL is planning to offer a multiplier feature similar to the Power Play® feature of Powerball® called “Megaplier” for an additional one dollar wager. Conservative in-house projections suggest an additional twenty million dollars in net transfers, on a fiscal year basis, to the Education Lottery Account (ELA) from the sale of Mega Millions®.

Mrs. Bethea added that due to the similarity in the names of “MegaMatch 6®” and “Mega Millions®,” there is the potential for confusion among players and retailers. Additionally, Mega Millions is likely to cannibalize other product offerings. Although MegaMatch 6® yields a reasonable return, even moderate cannibalization could significantly impact the profit margin. Therefore, Mrs. Bethea recommended ending MegaMatch 6® at the end of December unless the Board directs otherwise.

Motion Adopted

Commissioner Rodgers moved to authorize the Executive Director to enter into any necessary agreements, adopt game rules and take all appropriate steps needed to facilitate the offering of the Mega Millions® game. Commissioner Keith seconded the motion, which was unanimously adopted.

Commissioner Rodgers moved to authorize the Executive Director to end the MegaMatch 6® game when she deems appropriate. Commissioner Rose seconded the motion, which was unanimously adopted.

Reports

Marketing Report and Quarterly Advertising Review

Susan King, Marketing and Advertising Leader, and Leah Kososki, Deputy Director of Marketing and Product Development, presented the new advertising concepts for Mega Millions® referred to as: “Meet Mega.” Mrs. Kososki and Ms. King reviewed the new logo of Mega Millions® and presented the branding strategy to be used to introduce the game.

The Chairman mentioned DVDs containing all print advertising material, television and radio spots in this quarterly review were provided in the meeting materials packet in advance of the meeting which included:¹

- Television Broadcast: Domino tickets – new games
- PID: Beneficiary, Holiday tickets, Play Responsibly, MegaMatch 6® jackpot awareness, and Powerball® jackpot awareness
- Play station posters: Beneficiary, Cash Bonanza Bonus, Palmetto Cash 5 - Winners, Powerball® – Winners, Holiday Tickets, and Writing Surfaces (new and holiday games)

One DVD also included: a Holiday ticket styrene, Holiday ticket wobbler, and a “Sign It Now” Point of Purchase poster.

No objection or concern was 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

Mr. Rhodes reported gross revenue of \$249M for the first quarter of FY10 is in line with the previous year. Specifically, there is no change in instant ticket sales of approximately \$155.1M, while online sales increased by approximately \$4.3M, primarily attributable to Powerball®.

Through the first quarter of FY10, SCEL transferred \$63.7M to the Education Lottery Account (ELA), which is \$0.4M more than the same period of time in the previous fiscal year. The transfers represent 25.2 percent of the Board of Economic Advisors’ (BEA) estimate for FY10 of \$252.4M. Mrs. Bethea reiterated SCEL’s goal is to focus on exceeding the transfer goal through costs savings where appropriate.

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.”

The percentage of total revenue breakdown, “The Lottery Dollar,” for FY10, from July 1, 2009 through September 30, 2009, is distributed as follows:

- 62.4% Prizes
- 27.0% Net Proceeds
- 7.0% Retailer Commissions and Selling Bonuses
- 1.5% Gaming Costs (Vendor)
- 1.4% SCEL Internal Administrative Costs
- 0.7% Advertising

Extrapolating from claims in excess of \$500 (made at SCEL claims centers), the data confirms a stable percentage of players from North Carolina. In addition, the data indicates a significant percentage of claims from Florida and Georgia.

Mr. Rhodes also reviewed lottery appropriations. From FY02 through FY10, the General Assembly has appropriated \$2.276 billion to enhance the educational opportunities for South Carolinians. Of that amount, \$550M (24%) has been directed to K-12 including supplementing the Education Accountability Act (EAA) programs, school buses, and K-5 programs. \$1,669M (74%) for various programs such as endowed chairs, technology, and scholarships has been appropriated for higher education. Other funded programs total \$56M (2%) including appropriations to ETV and county libraries.

Quarterly Director’s Update

Ann Scott, Director of the Sales and Retailer Relations Department, was recognized to present an overview of the activities within the department. A collaborative effort among departments was initiated by the Executive Director in establishing a Product Development team. This effort has enhanced a more efficient product development by improving game cost analysis, measurement of sales performance, overall return on investment analysis, and cross-training of personnel from the various departments. Contract compliance has also improved by consolidating those responsibilities with the staff member currently overseeing online contract compliance. Staff is in the process of increasing the lead time between instant ticket game planning and development and the actual release date for the game.

Mrs. Scott reviewed the deployment of the new Player Information Display (PID) units and ticket checkers which retailers began receiving this past August (available as part of the new online contract). Approximately 95 percent of retailers will have PIDs and 50 percent will have ticket checkers. Ticket checkers are similar to a price checker at major retailers and allow a player to determine if a ticket is a winner without asking the retailer clerk. The device deters retailer fraud which has unfortunately been reported in some lottery jurisdictions. PIDs will be able to communicate messages without sound to players such as new products, jackpot awareness, beneficiary awareness, play responsibility messages, and AMBER Alerts. Placement of PIDs will most commonly be near the point-of-sale.

Executive Director's Report

Based on prior authorization by the Board, Mrs. Bethea explained her intention to offer another "raffle" in mid-to-late 2010. Although the price point will remain at \$5, revisions to the previous raffle game offered in December 2006 are being developed. The prize structure is likely to be revised and staff is considering offering two draws rather than one.

Mrs. Bethea presented a brief overview of the Legislative Audit Council's (LAC) audit of SCEL which began in January as part of its statutory requirement to review SCEL's operations every three years. (Previous LAC audits were performed of SCEL in 2003 and 2005.) The LAC is nearing the completion of the draft findings and once the draft report is finished, it will be presented to SCEL for review and comment. Based upon the reaction to SCEL's comments, the LAC may or may not make changes. The report is submitted to the LAC governing board for final approval prior to publication. SCEL will have an opportunity to offer comments to each of the findings which will be included in the final report.

Since the Lottery's inception, the Comptroller General's office has provided payroll support services and employee "checks" have been issued from that office. Mrs. Bethea mentioned that during 2010, most state entities will be moving to a state-wide comprehensive integrated Human Resources and Payroll System. In the fall of 2008, SCEL staff determined this system was not an appropriate fit for an enterprise agency. Finance and IT staffs have worked closely to integrate Human Resources and Payroll with existing software and to electronically deposit payroll checks beginning January 2, 2010. Although there have been modest costs for several software components, Mrs. Bethea reported that moving forward SCEL should save approximately \$30,000 per year by bringing all payroll activities in-house.

Subject to final approval by the Materials Management Office (MMO), SCEL and SGI have successfully negotiated a resolution to the 2-D (FailSafe) bar code issue mentioned during the August 12th Board meeting. In exchange for a one-time lump sum payment, SCEL was able to save more than \$500,000 over the remaining term of the contract (expires October, 2013). The FailSafe bar code provides enhanced security, reduces transaction time for claims, and is required on instant tickets to utilize the new ticket checkers.

As of last week, SCEL staff has begun implementing the records retention plan recently approved by the Department of Archives and History. Carl Stent, Deputy Director of Legal Services, and representatives from Archives and History met with senior management and department coordinators to answer questions and discuss the elements necessary for a successful program. IT and Legal staff will work with each department to assist with the transition and to facilitate the appropriate retention and destruction of records according to the schedule. Better document management should enhance the overall efficiency and productivity of SCEL.

Other Business

The Chairman will disseminate meeting dates for calendar year 2010 to all Board members.²

There being no further business, the meeting was adjourned.

_____/s/_____
Timothy E. Madden, Chairman

Marvin Quattlebaum, Secretary

As required by Section 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.

² Subsequent to the meeting, the following meeting schedule was adopted for 2010: February 10th; May 12th; August 11th; and November 3rd. It is anticipated that each meeting will be held at 10:00 a.m. in the first floor conference room at the Headquarters office located at 1333 Main Street, Columbia, South Carolina.