

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
August 12, 2009
10 A.M.**

A meeting of the Board of Commissioners of the South Carolina Education Lottery was held on Wednesday, August 12, 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
Jimmy Bailey, Jr., Vice Chairman
Dr. Edward Keith*
Lisa Stevens*
Boykin Rose*
Nathaniel Spells, Sr.*

Commissioners Burriss, Quattlebaum, and Rodgers were unable to participate due to scheduling conflicts.

The Chairman called the meeting to order and welcomed the new Interim Executive Director, Paula Harper Bethea.

Approval of Minutes

On motion of Commissioner Spells, seconded by Commissioner Bailey, the minutes of the May 13, 2009, June 19, 2009, and July 8, 2009 meetings were unanimously approved.

Reports

Audit Committee Report

The Chair of the Audit Committee, Jimmy Bailey, Jr., was recognized and reported the Audit Committee met and discussed two items: an agency self assessment survey and the annual evaluation of the Internal Auditor. Mr. Bailey briefed members of the Board that

*These Commissioners participated via teleconference.

the agency's annual self assessment survey received very positive results. In addition, he reported the Internal Auditor, Bethany Parler, received a very favorable annual performance evaluation. In order to be consistent with all SCEL employees, the recommendation of the Audit Committee is for there to be no compensation adjustment. Mr. Bailey thanked Mrs. Parler for her continued exceptional performance.

Quarterly Advertising Review

Tony Cooper, Chief Operating Officer, presented the quarterly advertising review.¹ Without objection, he asked to defer the Marketing report until after the financial report. Mr. Cooper highlighted the print media items, television broadcast spots, and radio announcements that were contained on the two DVDs included in the meeting materials provided to Commissioners in advance of the meeting. Among some of the items Mr. Cooper highlighted were:

- Radio spots: Harley-Davidson® Summer Promotion and Palmetto Cash 5 – 6 Days a Week
- Television Broadcasts: Harley-Davidson® Summer Promotion and Palmetto Cash 5 – 6 Days a Week
- Video Market Place: Harley-Davidson® Summer Promotion, Golden Tee Golf Instant Ticket, Darlington Raceway and Palmetto Cash 5 – 6 Days a Week
- Play station posters: Harley-Davidson® Summer Promotion, “Have you played today?” and Palmetto Cash 5 – 6 Days a Week

One DVD also included: the Harley-Davidson® Summer Promotion buckslip, ticket dispenser topper, t-shirt, Mystery Shopper flyer, and Mystery Shopper card; play pane draw partners sticker; Big League Baseball – audience drawing poster; Clean\$weep brochure; Palmetto Cash 5 – 6 Days a Week wallet card; and a writing surface pad with the new summer tickets theme.

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.

Interim Executive Director's Report

The Chairman recognized Mrs. Bethea who thanked the Board for the honor and privilege to rejoin SCEL after serving as one of the inaugural Board members. Mrs. Bethea spoke of striving for excellence at every level and stressed the need to review ways to save money, look at the talent from within the organization, and view challenges as hidden opportunities. She committed to visiting each claims center periodically to “listen and learn” about what the players, employees, and retailers are expressing in order

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.”

to consistently be able to review all procedures and performance. She also mentioned the necessity to celebrate the tremendous milestone achieved by the transfer of \$2 billion to the Education Lottery Account (ELA).

Mrs. Bethea recognized Dusty Rhodes, Director of Finance, to highlight certain financial data through FY09 to Commissioners. Mr. Rhodes reported gross revenue in FY09 of more than \$1 billion, the second highest fiscal year sales. Comparing FY09 and FY08 sales data, instant ticket sales increased by approximately \$26M, while online sales decreased by approximately \$15M, resulting in a net increase of about \$11M. The increase in instant ticket sales is reflective of the trend over the last three fiscal years.

SCEL transferred \$260.4M to the Education Lottery Account (ELA) in FY09, which is \$8M in excess of the estimate of the Board of Economic Advisors (BEA). Mr. Rhodes noted there was a slight increase in gross sales of 1 percent with a decrease of 2 percent in transfers in FY09 compared to FY08 (\$266.1M). This difference is attributable to the continued increase in instant ticket sales which have higher prize percentage payouts than online games. In addition, the gaming expense percentage has increased slightly from FY08 due, in part, to offering more licensed property games such as Major League Baseball® theme tickets, Harley-Davidson® theme tickets, and other similar tickets through MDI that give players unique prize opportunities.

The percentage of total revenue breakdown, “The Lottery Dollar,” for FY09, from July 1, 2008 through June 30, 2009, is distributed as follows:

- 62.8% Prizes
- 25.8% Net Proceeds
- 7.1% Retailer Commissions and Selling Bonuses
- 1.9% Gaming Costs (Vendor)
- 1.6% SCEL Internal Administrative Costs
- 0.8% Advertising

Mr. Rhodes also highlighted several items regarding SCEL’s performance during FY08, the most recent information available, based upon *La Fleur’s* rankings. Among U.S. lotteries, SCEL ranks 10th lowest in administrative expenses as a percentage of gross sales, 6th lowest in advertising expense as a percentage of revenue and 12th highest in net income per capita, which takes into account gross sales and expenses.

Extrapolating from claims in excess of \$500, which must be made at SCEL claims centers, it estimated that 15 percent of sales continue to come from North Carolina residents compared to an estimated 30 percent prior to the launch of the North Carolina lottery. This percentage has remained stable over the past three years. It is believed that a certain segment of players are brand loyal and appreciate the higher prize percentage payouts offered by SCEL.

Mr. Rhodes also reviewed lottery appropriations. Through FY10, the General Assembly has appropriated \$2.265 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. \$1,663M (74%) for various programs such as endowed chairs, technology, and scholarships has been appropriated for higher education. Other programs funded by the General Assembly from lottery proceeds total \$52M (2%) and include appropriations to ETV and to each of the 46 county libraries.

Mrs. Bethea reported the Marketing and Product Relations Department is currently reviewing its advertising, special events, and performing costs analysis of every phase of operations. She then asked Mr. Cooper to present a Marketing Department update including recent game changes, potential new games under review, and the FY10 Strategic Business Plan.² Mr. Cooper provided this update to the Board.

At the conclusion of Mr. Cooper's presentation, Mrs. Bethea briefed the Board on several other matters. Staff met with Scientific Games International, Inc. (SGI) to resolve a contractual issue concerning the 2-Dimensional bar code, printed beneath the latex on instant tickets, which is used to validate claims. Staff will keep the Board apprised of this matter. Mrs. Bethea and staff met with representatives of MDI to discuss the "Wheel of Fortune" (a \$2 online game presented at the last Board meeting) game matrix and the population base needed from other lottery jurisdictions to move forward. Mrs. Bethea reported there are too many variables and unresolved questions at this time. She has asked MDI to provide more detailed information regarding costs to SCEL, potential revenue to SCEL, technical implementation issues, and various issues relating to the necessary contractual arrangements. Mrs. Bethea will keep the Board apprised of new developments. Mrs. Bethea noted that thus far MegaMatch 6® has produced approximately \$10M in net profit since its inception in February 2008. The game seems to have developed a consistent player base during the most recent jackpot run. Staff will continue to monitor the game to determine whether a replacement or enhancements to the game are necessary during FY10. Finally, Mrs. Bethea reported SCEL has worked closely with the S.C. Department of Archives & History (SCDAH) since 2004 to create a records retention schedule for SCEL. Legal Services conducted a records inventory and met with SCDAH in January of 2009 to begin formalizing the retention schedules. SCDAH offered to complete SCEL's retention schedules as part of a pilot program and these efforts are underway.

Mrs. Bethea announced the promotion of Mary Margaret Hopkins as the new Director of Internal Operations and Human Resources (Ms. Hopkins was formerly the acting Director of Internal Operations and Human Resources.). Chairman Madden and members of the Board congratulated Ms. Hopkins on her promotion.

Mrs. Bethea concluded her remarks by reiterating to the Board her commitment to excellence. To achieve this goal as an organization, SCEL's focus will be on to the

² Subsequent to the Board meeting, an executive summary of the FY10 Strategic Business Plan for the Marketing and Product Development Department was transmitted to all Board members.

transfer goal of \$252.4M rather than the sales goal for FY10. Members of the Commission expressed their agreement in this philosophic approach now that SCEL is a mature organization.

Leslie Vang, Director of Information Technology, was recognized to introduce Tim Hallet, who was recently promoted to serve as General Manager of Intralot's local operations, replacing Steve Beck. The Chairman and members of the Commission welcomed and congratulated Mr. Hallet.

Other Business

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.