

**SOUTH CAROLINA EDUCATION LOTTERY  
BOARD OF COMMISSIONERS MEETING  
MINUTES  
January 7, 2015  
11 AM**

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, January 7, 2015, at 11 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  
Nancy Cannon, Treasurer  
Sam Litchfield, Secretary  
Tom DeLoach  
Keith Munson

The Chairman called the meeting to order.

**Approval of Minutes**

On motion of Commissioner Litchfield, seconded by Commissioner DeLoach, the Board unanimously approved the minutes of the August 13, 2014 meeting.

The Chairman announced the resignation of Commissioner Bristow (effective November 10, 2014), who was appointed by Governor Haley in February of 2011.

**Action Items**

**2015 Board Meeting Dates**

Without objection, the schedule for Board meetings is May 6, 2015, August 5, 2015, and December 2, 2015

**Election of Officers**

The Board by-laws call for the election of officers in the last quarter of the calendar year. Because there is a vacancy on the Board and several terms are expiring in 2015, the Chairman suggested deferring the election until later this year. By consensus, the Board decided to maintain the current slate of officers until the Board determines an election should be held.

The vacancy also necessitates adjustments in the Standing Committees. As provided in the by-laws, Commissioner Keith is now Chair of the Audit Committee and Commissioner DeLoach will join the Marketing and Retailer Relations Committee, replacing Commissioner Keith.

## **Executive Committee Report**

The Executive Committee met at 9:00 a.m. (in attendance were Commissioners Madden, Keith, Litchfield and Cannon), prior to the Board meeting. The primary purpose was a mid-year evaluation of the Executive Director. As in previous reviews, Mrs. Bethea's performance was judged to be exceptional in all respects. The Committee analyzed similarly situated chief executives, such as the heads of Santee Cooper and the Ports Authority, whose compensation far exceeds SCEL's Executive Director. Recognizing her unwillingness to accept any past offer to increase her compensation, the Committee discussed options to incentivize her to remain with SCEL for as long as possible considering that her tenure exceeds five years. The Committee also discussed succession planning relative to existing senior and mid-level SCEL staff.

The Committee's recommendation to the Board was to authorize the Chairman to enter into negotiations on behalf of the Board to execute an appropriate incentive package, not to exceed three hundred thousand (\$300,000) dollars to retain the services of Mrs. Bethea as Executive Director for as long as possible to insure the stability of the organization for the next several years.

After questions and discussion, without objection, the Board approved the recommendation of the Executive Committee.

## **Reports**

### **Lucky for Life Game**

Chairman Madden recognized Mrs. Bethea. As previously authorized by the Board, after eight months of planning and testing, the new terminal game, Lucky for Life, will begin sales on January 27, 2015. The concept of \$1,000 a day for life is expected to be very appealing to our players. Although it is not expected to add significant revenue to the bottom line, it should provide a stable and profitable revenue stream given the game's positive track record in New England for the past several years. Fourteen states will be in the game when we launch with Iowa, Kentucky, and Washington, D.C, expected to join later in 2015.

Monopoly, the game that SCEL chose not to join, is having many problems and will probably have to be changed or discontinued. If Monopoly is discontinued, more states may decide to join Lucky for Life in 2015 or 2016.

### **Marketing Report and Quarterly Advertising Review**

The Chairman recognized Jay Johnson to review the quarterly advertising material<sup>1</sup> made available to the Board in advance of the meeting:

- Television: Domino Card, Fall Leaf, Instant Replay, Seasonal Instant Card presentation
- Player Information Displays (PID): Beneficiary

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<sup>1</sup>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."

- Point of Sale (Print): Instant Replay, Second-Chance. The Instant Replay spots are targeted for a younger demographic with disposable income. This promotion was designed to improve lagging sales for the \$1 and \$2 dollar instant game tickets.
- Digital Billboards (outdoor): Instant Replay – App is available, Six Top Prize Palmetto Cash 5 winners in July, Carolina Panthers
- Online Advertising: Instant Ticket Winners, PC5 – Winner; Instant Replay Twitter Contest Information; Powerball – \$50,000 Winner
- SCEL Twitter Contests: Players who follow SCEL and re-tweet what the Lottery tweets are entered for a chance to win a prize.

Staff continues efforts to collaborate with the Department of Natural Resources and Parks Recreation and Tourism to promote South Carolina travel locations in our advertising.

No objections or concerns were expressed regarding the advertising materials submitted to the Commissioners for review at this meeting. It was therefore the consensus of the Board that SCEL’s past advertising and proposed concepts for major media campaigns, presented today, 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 Joseph Boyle to highlight key items from the financial report previously submitted to the Board. This report, with dollars expressed in millions, covers the first five months of FY 2015 compared to FY 2014.

Transfers decreased from \$137.6 to \$135.0. Net Income decreased \$10.0 to \$126.5 even though overall Game Revenues increased \$35.6 to \$538.9. The primary cause of the decrease in Net Income was a decrease in Game Margin (“profit margin”) of \$7.0 and an increase in retailer commissions of \$2.5. Overall Game Margin decreased 3.74% to 33.28%.

The overall increase in Game Revenues was primarily the result of an increase in Instant Game Revenues of \$39.4 with an increase in the Game Margin of \$6.6. Of the overall increase, \$10 Instant Tickets increased by \$39.0, or 20.7%. Sales for other Instant Ticket price points increased by \$.4, or .3%.

Terminal Game Revenues decreased \$3.9 to \$157.8. The overall decrease was due to the decrease in Powerball Revenues, which were down \$14.9 (32.7%), as there were significant jackpot runs in FY 2014. This decrease was offset by an increase in Mega Millions Revenues of \$3.1 (20%) and increases in Pick 3 Revenues, up \$5.0 (8.2%) and Pick 4 Revenues, up \$5.7 (19.5%). However, because of several draws favorable to the players, Pick 3 prize expense was up \$8.4 (33.7%) and Pick 4 prize expense was up \$9.5 (77.6%). Accordingly, Game Margin on these games decreased, in aggregate, by \$7.3. Overall, Terminal Game Margin decreased by \$13.6 (15.4%). Likewise, Terminal Game Margin decreased by 7.25%. The decreases were attributed to statistical variation and were not necessarily viewed as indicative of a long-term trend. Mrs. Bethea added that SCEL remains on track to meet the BEA estimate of \$298.

**Executive Director’s Report**

Today, January 7, 2015, is the 13th anniversary of SCEL sales: \$3.5 billion transferred to education; the economic impact of the 7% retailer commission; the taxes paid on the lottery winnings; and the debt set-off collections from prizewinners are but a few of the positive impacts of the Lottery. Ms. Bethea thanked the retailers, players, our gaming vendors, Intralot and Scientific Games, and SCEL’s dedicated staff for our success. She also acknowledged SCEL’s extraordinary leadership over the years and thanked the Board for their invaluable contributions, both individually and collectively.

Mrs. Bethea reported that although last year’s transfer of \$325M is not likely to be repeated in FY15, \$300M should be a sustainable number for the next several years. Given the news stories in the fall, Commissioner DeLoach stated that members of the General Assembly asked him questions concerning lottery proceeds not fully funding the cost of lottery scholarships. Chairman Madden responded that SCEL has been successful in providing reliable transfer estimates to those responsible for appropriating the proceeds. Many items other than scholarships are also funded from lottery proceeds each year. As far as what can be controlled, SCEL has the lowest operating expenses (1%) for any lottery with gross annual sales of less than four billion dollars. SCEL sales and transfers have trended upward while the opposite trend is the norm among many lotteries. To try to increase sales beyond the current levels SCEL would need to engage in marketing that would be contrary to the Lottery Act and not in the best interests of our players.

Mrs. Bethea reminded Commissioners that the 2015 Statement of Economic Interests filing is due no later than noon on Monday, March 30, 2015.

At the request of the House Ways and Means Committee, Mrs. Bethea and Mr. Boyle recently met with new staff member, Cara Buck. Mrs. Bethea presents SCEL’s annual report to the Higher Education subcommittee next week.

**Other Business**

The next Board Meeting will be May 6, 2015.

There being no further business, the meeting was adjourned.

\_\_\_\_\_/s/  
Timothy E. Madden, Chairman

\_\_\_\_\_/s/  
Sam Litchfield, Secretary

As required by § 30-4-80, notification for this meeting was posted at SCEL administrative offices, 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.