

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
May 14, 2014
10 A.M.**

The Board of Commissioners of the South Carolina Education Lottery held a meeting on Wednesday, May 14, 2014, at 10 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
Sam Litchfield, Secretary
Nancy Cannon, Treasurer
Keith Munson
Otis Morris, Jr.
Peter Bristow
Tom DeLoach

The Chairman called the meeting to order.

The Chairman introduced and welcomed Tom DeLoach to the Board. Commissioner DeLoach was appointed by the President Pro Tempore of the Senate.

Approval of Minutes and Update to the Board

On motion of Commissioner Morris, seconded by Commissioner Munson, the Board unanimously approved the minutes of the March 12, 2014 meeting.

The Chairman presented the Legislative Audit Council (LAC) response to the SCEL letter sent on behalf of the Board on March 26, 2014. The LAC Chairman responded that the Council would decide at a later date if two reports will be issued: one on SCEL performance and another on the management of lottery proceeds after SCEL transfers the funds. The LAC intends to invoice SCEL for both components of the review.

Fiscal 2015 Budget Proposal

The Chairman recognized Paula Harper Bethea to present the proposed budget for FY15 which was included in the meeting materials distributed prior to the meeting. In sum, the proposal is realistic and conservative in both revenue and expenditures. FY14 stands to be the most successful year in SCEL history. However, the enhanced transfers resulting from recent large jackpot runs cannot be relied upon in FY15. The revenue projection is derived from extensive research and analysis of what is reasonable to assume may occur in FY15. As for expenses, the proposal contains a modest overall increase as SCEL continues to look for better utilization of existing talent and resources by not filling positions as vacancies arise.

Mrs. Bethea asked Joe Boyle, Chief Financial Officer, to present a detailed review of the proposal. Since the FY14 results are based on the actual expenditures through March, certain assumptions are built into the FY15 projections. To evaluate recent trends, the spreadsheet in the meeting material represents FY12 results and compares FY13 results with annualized FY14 projections and the FY15 proposal. FY15 varies from FY13 and annualized FY14 by about \$1.3M and \$900,000, respectively.

FY15 sales are projected to be \$1.223M with instant ticket sales of \$18.7M less than FY14 sales and \$48.6M above FY13. SCEL has followed the national downward trend in \$1, \$2, and \$3 ticket sales and staff expects this trend to continue based on the five-year average. The \$10 price point has experienced strong growth over the past several years and concerns about sustainability were expressed. For the first time in five years, \$5 ticket sales are projected to decrease slightly (1.78%) in FY14. Consequently, the budget proposal contemplates a 2% decrease in both the \$5 and \$10 price points.

A decrease in terminal game sales of \$29M is planned for FY15 primarily from an anticipated decrease in Powerball (PB) sales of \$4.2M and a decrease in Mega Millions (MM) sales of \$19.5M. This reduction effectively discounts the effect of jackpots runs in FY14 to reflect baseline trends. Excluding PB and MM, terminal game sales are projected to be relatively flat (with a 1% reduction in Pick 3 sales). Finally, ending the marginally profitable Carolina Cash 6 game accounted for \$3.8M of the projected decrease in terminal game sales.

Instant Game costs are projected to increase as staff is planning to purchase two new instant games from secondary vendors and other costs will be incurred in a planned promotion of \$1 and \$2 tickets. Finally, the advertising budget is consistent with the past several years.

Motion Adopted

After a brief discussion and comments, on a motion of Commissioner Bristow, seconded by Commissioner DeLoach, the Board unanimously approved the FY15 Budget as presented.

BEA Transfer Estimate

Mrs. Bethea asked for authority to inform the Board of Economic Advisors (BEA) that SCEL believes a transfer estimate of \$298M in FY15 (approximately \$38M above FY14) is reasonable and obtainable. Although this revenue projection was included in the adopted budget, Mrs. Bethea asked for specific permission because a more conservative projection has been used in past years. Given the recent in-depth analysis of trends over the last three years, Mrs. Bethea indicated that she is now comfortable using the budget projection incorporated in the Board-approved budget.

Motion Adopted

After a brief discussion and comments, on motion of Commissioner Bristow, seconded by Commissioner DeLoach, the Board unanimously approved submitting the adopted budget transfer projection of \$298M to the BEA for FY15.

Reports

Executive Committee

The Executive Committee met on April 11, 2014. The minutes, reflecting three adopted motions, were included in the meeting materials.

Motion Adopted

On motion of Commissioner Cannon, seconded by Commissioner Litchfield, the Board unanimously ratified the action of the Executive Committee on April 11, 2014 and adopted the three motions as the policy of the Board.

Marketing Report and Quarterly Advertising Review

Jay Johnson, Director of Marketing and Product Development, reviewed the quarterly advertising material¹ made available to the Board in advance of the meeting:

- POS Brochure: (Heritage Classic Foundation, Pick 3, Pick 4), Play Station Posters: (Heritage Classic Foundation, Hit Games), Ticket Topper: (Hit Games), Window Cling: (Heritage Classic Foundation)
- Outdoor: Digital Billboard (Heritage Classic Foundation, Honda, and the “Follow us on Twitter”)
- Outdoor Banners: (Beneficiary, Heritage Classic Foundation Event, Jimmy's Mart – Number 1 Retailer)
- Online Ads: (Millionaire Madness and Follow us on Twitter”)
- Website: Darlington Winner, Heritage Classic Foundation, Honda Second-Chance Winners, Lucky Shamrock Winners, Millionaire Madness, Money Money Millionaire Second-Chance Winner
- Print Advertising Beneficiary – Black Expo, Black Pages and Beneficiary – SCACS

No objections or concerns were expressed regarding the advertising materials submitted to the Commissioners for review at this meeting.

Due to the lack of a quorum at the conclusion of the advertising presentation during the March 12, 2014 meeting, the Chairman asked if there were any objections or concerns regarding the advertising materials presented in March. That review included material from the second and third quarters of FY14 since the November Board meeting was canceled and the January meeting was postponed to March. No objections or concerns were expressed.

It was therefore the consensus of the Board that SCEL’s past advertising and proposed concepts for major media campaigns, presented today and in March, 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.

¹SCEL’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.”

Financial Update

The Chairman recognized Joe Boyle. He highlighted various items in the Financial Report presented in the meeting materials. Most importantly, year-to-date transfers in FY14 increased from \$220.8M to \$250.3M compared to FY13.

Game revenue increased by \$66.7M to \$945M in FY14 compared to the first nine months of FY13. Overall game margin increased \$32.9M with instant game margin improving slightly (28.27% versus 28.11%). Instant game revenue increased by \$55.7M. Terminal game revenue increased \$8.9M to \$298.5M. Powerball revenue in FY14 is down \$12M (13.9%) due to more significant jackpot runs in FY13. Conversely, Mega Millions revenue was up \$18.9M (79.7%) due to significant FY14 jackpot runs. The game margin on terminal games increased significantly in FY14 (54.24% versus 50.53% in FY13). The difference is due to statistical variation, more fully addressed in a handout to the Board as requested in the previous meeting. The increase in terminal game margin of 3.71% coupled with the increase in terminal game revenue resulted in an increase in terminal game margin of \$15.6M.

Executive Director's Report

Lease

As authorized by the Board, Ms. Bethea signed a new lease for 1333 Main Street after the Joint Bond Review Committee and the Budget and Control Board approved the lease. SCEL will consolidate offices from the third to the fourth floor. Construction will begin soon and should be completed in a few months.

New Marketing Campaigns

Staff has been considering new strategies for Pick 3, Pick 4, and Palmetto Cash 5 to reach new players and to enhance sales which have been flat. The theme presented to the Board is "To heck with changing your life, just change your weekend". There was no objection to moving forward and funding was included in the FY15 budget.

Since sales of \$1 and \$2 instant games are declining, a new "second-chance" promotion for these price points is being considered to reach non-players and infrequent players in their twenties and thirties. The promotion is designed to boost participation in our web-based "Players' Club" which allows SCEL to learn more about players and their preferences. A smart phone/tablet app is being developed to allow a player to enter the draws by scanning the barcode on a ticket rather than entering the numbers manually online. MDI (a subsidiary of our primary instant ticket vendor, Scientific Games International, SGI) will perform most of the services needed, including the phone app development, draw services, and some of the prizes. Although a meeting could not be scheduled prior to the Board meeting, the members of the Marketing and Retailer Relations Committee are familiar with the proposed promotion. There was no objection to moving forward and funding was included in the FY15 budget.

BEA Transfer Adjustment for FY14

Mrs. Bethea and Mr. Boyle will attend a BEA meeting next Wednesday at the request of Mr. Frank Rainwater. SCEL, in coordination with the BEA, will recommend a second transfer adjustment for FY14 to bring the total anticipated transfer to \$320.5M.

Demographic Study

While SCEL is no longer statutorily required to conduct a demographic study, one is performed every fifteen months to learn more about our players and non-players.

Mrs. Bethea introduced Ms. Graceanne Cole, Vice President of Research, MarketSearch, to explain the methodology used and to highlight the findings in the Executive Summary which was included in the meeting materials. Approximately 1,000 people, 18 years of age and older, were surveyed via landline phones, mobile phones (this segment was larger than the last study) and, for the first time, web-based data collection. The major findings in the new study are consistent with prior studies and show that our players closely mirror the demographic profile of the adult population of South Carolina.

At the conclusion of the report, Ms. Cole responded to questions from Commissioners.

Graham Bill

Mrs. Bethea reported that Senator Lindsey Graham has introduced a bill that would return the Wire Act to the prevailing interpretation prior to an opinion issued by the United States Department of Justice in September of 2011. The bill will have a significant impact on several lotteries that conduct or are planning to conduct intrastate gambling on the Internet, as the bill would prohibit this activity. The bill will have no direct effect on South Carolina and it protects traditional lotteries from encroachment by certain casino and other gaming interests. Mrs. Bethea has had several conversations with Senator Graham's office in her role as a member of NASPL's Legal Committee.

National Premium Game

There is a national premium game called Monopoly that the MUSL development team has been working on for quite some time. Based on the SCEL's in-house analysis, Mrs. Bethea will not recommend Board approval to join the game at this time.

NASPL Directors Conference

Mrs. Bethea will attend the NASPL Directors Conference in New Hampshire in June. She will update the Board at the next meeting.

\$20 Ticket

At the last meeting, the Board gave the SCEL staff permission to reconsider the feasibility of a \$20 instant ticket. Other lotteries with a \$20 ticket experienced cannibalization of \$10 games. The prize payout for an SCEL \$10 ticket currently mirrors \$20 game payout in other states. A higher payout for an SCEL \$20 ticket would further erode the profitability of the high-end price point. Mrs. Bethea will not seek Board approval of a \$20 ticket at this time, as it is not in the best interest of SCEL.

Other Business

The next Board meeting will be on August 13, 2014.

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 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.