

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
March 12, 2014
10 A.M.**

The Board of Commissioners of the South Carolina Education Lottery held a meeting on Wednesday, March 12, 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
Sam Litchfield, Secretary
Nancy Cannon, Treasurer
Keith Munson
Karen Ballantine (by phone)
Otis Morris, Jr. (by phone)

The Chairman called the meeting to order. The Chairman stated that, without objection, he would adjust the order of business to begin with the action items.

Approval of Minutes

On motion of Commissioner Munson, seconded by Commissioner Litchfield, the Board unanimously approved the minutes of the August 7, 2013 meeting.

Election of Officers

The Chairman announced the resignation of the Commissioner Edwards (effective March 11, 2014), who was appointed by President Pro Tempore in October 2011.

The Chairman opened nominations for Board Officers. Commissioner Litchfield recommended the reelection of the current slate of officers as a group.

Tim Madden, Chairman
Dr. Edward Keith, Vice Chair
Nancy Cannon, Treasurer
Sam Litchfield, Secretary
Peter Bristow, At-Large

Motion Adopted

Commissioner Cannon moved to elect the current officers to a new one-year term. Commissioner Litchfield seconded the motion, which was unanimously approved.

Executive Committee Report

The Chairman briefed the Board on the meeting of the Executive Committee held on January 21, 2014. Even though Mrs. Bethea has received outstanding annual performance evaluations with an offer of a compensation increase, she has politely declined. In lieu of a mileage or fuel reimbursement, a car allowance has been provided for this position since 2001. However, the current monthly car allowance has not adequately covered the business use of Ms. Bethea's vehicle for quite a while. Mileage to and from her permanent residence in Bluffton was excluded from this review. The Committee recommended an increase in the car allowance to \$1,250 from \$700, retroactive to July 1, 2013.

Motion Adopted

The motion before the Board is the adoption of the Executive Committee recommendation to increase the Executive Director's monthly car allowance to \$1,250 from \$700, retroactive to July 1, 2013. The motion was unanimously approved.

Audit Committee Report

On behalf of Commissioner Bristow, the Chairman presented the following. The Committee deferred action on the annual performance review of the Director of Internal Audit Services, Bethany Parlor, until information was compiled regarding compensation for comparable positions. Based upon this review, a salary increase from \$111,480 to \$122,400 per year retroactive to July 1, 2013 is appropriate.

Motion Adopted

Commissioner Morris moved to increase the annual salary to \$122,400 from \$111,480 for the Director of Internal Audit Services, retroactive to July 1, 2013 (future across the board adjustments applicable to all SCEL employees will be applied to the new salary). Commissioner Cannon seconded the motion, which was unanimously approved.

Lease for 1333 Main Street

After the agenda was finalized, SCEL staff and the landlord reached a point in the conversations regarding consolidating all third floor operations to the fourth floor that warranted a Board briefing.

SCEL has downsized from 145 employees in July of 2009 to less than 115 today without reducing the number of Marketing and Sales Representatives. Except for the closure of the regional claim centers, the reductions are the result of attrition and greater efficiencies through realigning and/or consolidating responsibilities.

If approved by the Joint Bond Review Committee and the Budget and Control Board, SCEL will see an immediate and substantial savings by relinquishing the third floor space. In exchange for extension in the current lease term from March of 2016 to 2023, the rental rate per square foot will be reduced. Retrofitting to accommodate the personnel from the third floor and a modest "refresh" to the common areas will be included in the new rental rate.

Motion Adopted

Commissioner Cannon moved to authorize the Executive Director to seek the necessary approvals to consolidate third floor operations to the fourth floor and to execute a new

lease. Commissioner Ballentine seconded the motion, which was unanimously approved. Commissioner Munson noted his abstention because his law firm represents the property manager, CBRE, on other matters.

\$20 Ticket

In August of 2004 staff was granted permission to compile research on a \$20 instant game as Board approval for this price point is required by SCEL regulations. In March of 2005, the Board reviewed the study and the consensus was not to move forward. Without objection, the Chairman asked staff to review this option and make a presentation to the Board.

Reports

Marketing Report and Quarterly Advertising Review

Jay Johnson, Director of Marketing and Product Development, reviewed the quarterly advertising material¹ presented to the Board in advance of the meeting. The DVD for this review included:

- Advertising campaigns: Carolina Panthers, Honda, Holiday, and Heritage instant tickets; Powerball® Multiplier; PC5; and online content on the SCEL web page.
- PIDs (monitors) in retailer outlets: Honda, Holiday, and Heritage tickets. These run on a rotation that SCEL sets up. The PID advertising emphasizes \$1 and \$2 price point tickets as those sales have declined as more \$5 and \$10 tickets are being purchased.
- Outdoor Digital Billboard: While eight or ten static boards are used for Powerball® and Mega Million® jackpot information, SCEL is focusing on digital billboards for jackpot awareness and the promotion of other games.
- Play Station Posters and Point of Sale Material (print): Powerball® winners, Instant Games (Holiday, Honda, Panthers, and Powerball® Multiplier); Buckslips (Carolina Panthers and Honda); Ticket Toppers (Carolina Panthers, Holiday, Honda); and Window Clings (Carolina Panthers and Honda).

Although no objections or concerns were expressed regarding the advertising materials submitted for review, action was deferred until the next meeting as the lack of a quorum was noted by the Chairman prior to the completion of the presentation.

Financial Update

The Chairman recognized the Director of Finance, Joe Boyle, to provide a financial update. Mr. Boyle highlighted various items in the Financial Report presented in the meeting materials.

Through February, FY14 transfers are \$221.2M compared to \$193.3M last year, an increase of \$27.9 million. Consequently, the Board of Economic Advisors increased the FY14 projected transfer to \$310M from the original estimate of \$260M.

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."

Total game revenue is up \$58.7M. Instant game revenue is up \$47.3M (9.3% increase), primarily due to increased \$5 and \$10 ticket sales. The overall instant game margin is consistent with last year, up a modest .15%. Terminal game revenue is up \$11.4M (4.15% increase), primarily due to Mega Millions® sales associated with jackpot runs. The margin on terminal games is greater than last year due to unclaimed prizes and other statistical variations. A memo explaining the variance will be prepared for the board.

Executive Director's Report

Even though the transfer estimate was increased for FY14, Mrs. Bethea emphasized that the revised estimate is not the base on which the FY15 transfer estimate is built. A significant jackpot run can increase a quarterly transfer as much as \$11M. Anticipating jackpots runs in forecasting sales or transfers would be irresponsible. Additionally, jackpot fatigue and the level at which infrequent players begin purchasing tickets continues to rise. A \$100M jackpot no longer generates any media coverage or a significant increase in sales.

SCEL's growth in instant ticket sales is counter to the experience in other jurisdictions. Ms. Bethea thanked the entire Marketing and Product Development team, the Sales team (internal and external), and Scientific Games, our instant ticket vender. She highlighted the positive public relations impact of the Honda and Carolina Panthers tickets for these "local" organizations as well as SCEL. The Heritage Foundation ticket is another unique South Carolina offering. The Foundation, a 501(c)(3) charity, is the governing board for the tournament which raises funds for scholarships. The tournament, its sponsors, or the Foundation received nothing except the advertising exposure associated with the ticket.

Mrs. Bethea explained efforts are underway in Washington to return the application of the Wire Act to what it was prior to September 18, 2011, when the Justice Department determined it did not apply to state-sanctioned Internet gaming within the borders of a state. By statute, SCEL may not sell tickets via the Internet. Other bills seek to expand Internet gaming. Any legislation may have unintended consequences for traditional lottery sales.

Unless there is an objection, staff is working to eliminate the bound meeting materials that are sent prior to each Board meeting. Materials can be made available online prior to and during meetings. There was no objection.

Mrs. Bethea expressed a special thanks to Intralot for its hard work in supporting SCEL and our retailers during recent ice storms throughout the state. Craig Perry and the security staff along with the draw auditors made extraordinary efforts to ensure the draw schedule was not delayed or interrupted.

Ms. Bethea asked Bethany Parlor to brief the Board on the progress of the LAC Audit. She explained that a draft should be sent to SCEL for review by the end of May. Thus far, LAC staff has noted that SCEL is a well-run organization and no material findings are expected. SCEL will be given an opportunity make a written response to the draft audit after which the LAC will meet to approve the issuance of the audit. The audit should be released this summer.

The Chairman expressed concern over the scope of the audit as explained by the LAC staff in the Audit Committee meeting held on October 31, 2013. The audit of SCEL is to

include a review of how other entities manage or expend lottery funds after SCEL transfers the proceeds to the Education Lottery Account. While this review can be beneficial, its inclusion in a performance audit of SCEL may blur the clear distinction between SCEL's role in raising revenue and the part played by other entities in expending those funds. Concern was also expressed as to whether it was appropriate for SCEL to pay the cost of an audit for any entity other than SCEL. After discussion, the Chairman suggested that he author a letter to the Chairman of the LAC expressing the concerns raised in the meeting with a copy going to each member of the LAC, the Governor, the Speaker of the House, and the President Pro Tempore of the Senate. The consensus was that such a letter was needed.

Mrs. Bethea reported that the Farm Bill as updated for 2014 includes a provision requiring lotteries to report major winners to Supplemental Nutrition Assistance Program (SNAP) to determine whether benefits are affected. Ms. Parlor has done a review of the bill that has been provided to other lottery across the country.

Finally, Ms. Bethea informed the Board that SCEL is working with the Department of Employment and Workforce (DEW) to allow them to seek an offset against a lottery winner's prize in the same manner as child support arrearages are collected for the Department of Social Services.

2014 Statement of Economic Interest

The Chairman reminded Commissioners that the 2014 Statement of Economic Interests filing is due no later than noon March 30, 2014. Failure to file the will result in a minimum late filing penalty of \$100.

On May 14, 2014, the Board will consider the FY15 budget. The two remaining Board meetings for 2014 are August 13, 2014, and November 14, 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.