

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
August 11, 2010
10 A.M.**

A meeting of the Board of Commissioners of the South Carolina Education Lottery was held on Wednesday, August 11, 2010, 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, Vice Chairman
Moffatt Burriss, Treasurer*
Marvin Quattlebaum*
Dr. Edward Keith
Lisa Stevens*

Commissioner Spells was unable to participate due to a scheduling conflict.

The Chairman called the meeting to order.

Approval of Minutes

On motion of Commissioner Keith, seconded by Commissioner Quattlebaum, the Board unanimously approved the minutes of the May 12, 2010 meeting.

Reports

Marketing Report and Quarterly Advertising Review

Jay Johnson, Director of Marketing and Product Development, reviewed the print advertising material provided in the meetings materials packet which was sent in advance of the meeting. One DVD for this quarterly review included:¹

*These Commissioners participated via teleconference.

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."

- Television Broadcast: Palmetto Cash Five and the Camaro® Instant Ticket
- Player Information Display: Camaro®, New Draw Partner, and Cash Bonanza Bonus
- Radio: Camaro® Instant Ticket

The second DVD included: a Beneficiary Advertisement, Camaro® Summer Promotion play station poster, buck slip, ticket topper, window sign, and magnet, Clean\$weep buck slip, Palmetto Cash 5 play station poster, new draw partner play station poster, play station play pane, and two play station writing surfaces. Mr. Johnson also mentioned two commercials that were made available to the Commissioners for review via a secure web portal prior to the meeting.

No objections or concerns were 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

Dale M. Rhodes, Director of Finance was recognized to brief the Board. Although gross revenue grew by \$2M from the last fiscal year, SCEL generated \$12M more for education in FY10 than in FY09. SCEL transferred \$272.4M to the Education Lottery Account (ELA) in FY10, \$20M in excess of the FY10 estimate of the Board of Economic Advisors (BEA).

As to sales, Mr. Rhodes reported gross revenue of \$1.0071B for FY10. Only the year before North Carolina began its lottery (FY06), did the gross revenue exceed the total for FY10. Comparing FY10 and FY09 sales data, instant ticket sales decreased by approximately \$3.9M, while online sales increased by approximately \$5.9M due to several high Powerball® jackpots.

Mr. Rhodes reported total administrative expenses for FY10 equaled approximately 3.9% of gross sales, down from 4.3% in FY09. SCEL's advertising as a percentage of sales (FY10 budget) placed SCEL among the lowest in the nation according to LaFleur's industry survey. In addition, net income per capita for the year ended (FY09) equates to approximately \$60 whereas the median performance for U.S. lotteries is \$40.

The percentage allocation of total revenue, "The Lottery Dollar," for FY10 (July 1, 2009 - June 30, 2010), is distributed as follows:

- 62.2% Prizes
- 26.9% Net Proceeds
- 7.0% Retailer and Sales Commissions

- 1.6% Gaming Costs (Vendor)
- 1.4% SCEL Internal Administrative Costs
- 0.9% Advertising

Demographic Study

Mrs. Bethea introduced Frank Brown, President and CEO of MarketSearch, to present an overview of the results. Although a demographic study is no longer required by law, staff continues to conduct an annual study. MarketSearch performed the 2010 survey of SCEL players (a copy of the executive summary was included in the meeting materials) and copies were made available for the Board.

In July and August 2010, MarketSearch conducted a telephone survey of 1,000 people, 18 years of age and older. The participants were asked questions to determine the games purchased, the frequency of play, and other information. The survey sample reflects a random mix of state residents and was stratified to reflect population by region. Age and gender quotas were implemented and data weighted to reflect the appropriate distribution of ethnicity. Highlights from the report and presentation are outlined below.

Forty-five percent (45.3%) of all South Carolina residents have purchased an instant or online game. The “Active Player” (24.8% of the sample group) is defined as playing at least once a month; the “Infrequent Player” (16.9% of the sample group) is defined as playing within the past year but not necessarily every month; the “Inactive Player” (3.4% of the sample group) is defined as not playing within the past year.

The “demographic profile” of lottery players, overall, continues to mirror that of South Carolina. The majority of players are Caucasians between 25 and 54 years of age, employed, married, with a household income of less than \$50,000 per year. By ethnicity, incidence of play is somewhat higher among African Americans (49.5%) than among Caucasians (43.8%). Instant game players generally match the profile of South Carolina residents, somewhat younger and more likely to be Caucasian. Powerball® and Mega Millions® players are very similar to the profile of South Carolina in general. Pick 3 and Pick 4 players tend to trend toward African Americans more than instant games and other online games. Palmetto Cash 5 appears to be in a weakening position relative to other games, and the penetration has dropped significantly over time.

At the conclusion of the report, Mr. Brown responded to questions from Commissioners.

Executive Director’s Report

Mrs. Bethea presented the steps SCEL is taking in “defining ourselves.” The process is not a redefining; rather it is presenting the story of the lottery coupled with the positive effects of enhancing educational opportunities in South Carolina.

In addition, Mrs. Bethea reiterated the success achieved in FY10 by transferring \$12M more for education, while gross proceeds were only \$2M more than last year. Although a portion of the success is attributable to Powerball®, without diligent efforts to contain cost, enhance productivity, and improve teamwork, the increase in the transfer would not have been possible. Staff will continue to identify ways to reduce administrative expenses.

Staff is closely monitoring sales of the two multi-jurisdictional, jackpot-driven games: Mega Millions® and Powerball®. As discussions progress towards a “National Game,” changes to Powerball® and Mega Millions® may need to be considered. Staff is also reviewing Palmetto Cash 5 and its place in SCEL’s product mix.

Personnel Reviews – Internal Auditor and Executive Director

The Chairman reviewed the methodology used by the Board in evaluating the Executive Director. Vice Chairman Bailey, Chair of the Audit Committee, reviewed the methodology used in evaluating the Internal Auditor.

Executive Session

Commissioner Bailey made a motion to go into executive session as authorized in § 30-4-70(a)(1) for the specific purpose of discussing the performance evaluations of the Internal Auditor and Executive Director. Commissioner Keith seconded the motion, which was unanimously adopted.

Upon adoption of the motion as provided, Chairman Madden announced the specific purpose of the executive session (§ 30-4-70(b)) as referenced in the above motion and asked all those in attendance, except members of the Board, to exit the meeting. Ms. Parler and Mrs. Bethea were separately asked to join the Executive Session.

Return to Open Session

Upon conclusion of the executive session, the Chairman announced that the Board meeting was returning to open session. He confirmed that no action was taken during the executive session and no business other than that which was authorized by the motion was discussed.

The Chairman reported the Executive Director’s personnel review was extremely positive and reflects the good work the Board believes Mrs. Bethea is doing for SCEL and the manner in which she is leading SCEL.

The Chairman recognized the Internal Auditor’s personnel review was also very positive and noted that her position plays a unique and challenging role in the organization and to the Board.

Other Business

The Chairman commented on Edie Rodgers’ resignation from the Board. He noted that her commitment and contributions to SCEL during her tenure were very much appreciated and will be missed.

There being no further business, the meeting was adjourned.

_____/s/
Timothy E. Madden, Chairman

Marvin Quattlebaum, 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.