

**MINUTES
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION
November 15, 2006
10:00 A.M.**

A meeting of the South Carolina Education Lottery Commission was held at 10:00 a.m. on Wednesday, November 15, 2006, in the large, 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
Ashley Landess, Secretary
Lisa Stevens
Dr. Edward Keith
Marvin Quattlebaum
B. Boykin Rose
Nathaniel Spells, Sr.

Commissioner T. Moffatt Burriss, Treasurer, participated by teleconference.

The Chairman called the meeting to order.

Approval of Minutes

On a motion of Commissioner Spells, seconded by Commissioner Landess, the minutes of the August 9, 2006 meeting were unanimously approved.

Due to scheduling considerations, Chairman Madden suggested that the Commission proceed to receive the following reports before moving to the action items on the agenda.

Government Finance Officers Association Presentation

The Chairman recognized Scott Ludlam, from the South Carolina Arts Commission on behalf of the South Carolina Government Finance Officers Association, to present an achievement award to Dusty Rhodes and Uvette Pope-Rogers on behalf of SCEL. The award signifies excellence in financial reporting to government units and public employee government financial reporting for fiscal year ending June 30, 2005.

Scientific Games – State of the State

The Chairman recognized Toben Molica, Regional Director of Scientific Games International, to give a PowerPoint presentation comparing SCEL's instant and online ticket sales to trends or sales patterns of other U.S. lottery jurisdictions for FY06. SCEL ranked 5th in per capita instant

sales with a growth rate of 20.30%, a rate second only to Pennsylvania. Sales trends among various SCEL instant ticket price points were also presented in relation to other jurisdictions. Many states are deemphasizing the \$1 and \$2 price points as other price points account for an increasing share of overall instant sales. Consistent with this trend, SCEL's \$10 instant ticket price point showed a 95% growth rate. SCEL ranked 12th in per capita online sales and had an 18.50% growth rate, most of which occurred in Pick 3 and Pick 4 sales. Powerball accounts for approximately 50% of SCEL's online sales, and the impact of North Carolina's Powerball sales is not reflected as North Carolina's sales began in the summer of 2006.

2006 Demographic Study

SCEL is required by statute to conduct a demographic study each year for the first five years the lottery is operational and submit the results to the Lottery Oversight Committee for review by December 1st of each year. The 2006 study was performed by MarketSearch. The Chairman recognized Mr. Frank Brown, President of MarketSearch, to present an overview of the results.

Between October 1 and October 8, 2006, a telephone survey of 1,000 people over the age of 18 was conducted. The participants were asked questions to determine the types of games that are 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 were weighted to reflect the appropriate distribution of ethnicity. Highlights from the report and presentation are outlined below.

Profiling indicates that there are some demographic differences among players based on the games they play and the frequency of play. For example, "Active" (playing a given game once a month) Powerball, Scratch Off, and Palmetto Cash 5 players are more likely to be Caucasian, married, employed in professional/managerial positions, and be from upper income households. Active Pick 3 and Pick 4 players, on the other hand, are significantly more likely to be African-American, from lower income households, and to be less well-educated. "Frequent" and "Regular" players (those playing an SCEL game at least once a week) are more likely than those who play less frequently to be male, over 45 years of age, have no children in the household, have a high school education or less, and be employed in manufacturing and/or as a laborer/fabricator/operator.

Overall, Powerball and instant games have the highest penetration of the five game options. Players are also likely to buy more instant games (average of 3.5) and Powerball tickets (3.4) per purchase than for other games. In terms of average spending, however, players tend to spend slightly more per month (per game) on Pick 3 (\$16.79), Pick 4 (\$16.43), and Palmetto Cash 5 (\$16.23) than on instant tickets (\$15.42) and/or Powerball (\$14.85).

At the conclusion of the report, Mr. Brown was asked if the number of people playing Powerball had increased over instant sales from the previous year. He responded by stating that to his recollection, there was no significant data to determine a conclusion. He also stated that the data results in this study were very consistent with the findings from past years.

As required by S.C. Code § 59-150-325(C), SCEL will transmit the 2006 demographic study along with the Small and Minority Procurements report to the Lottery Oversight Committee at the conclusion of this meeting. Under this statutory provision, the Chairman reported that SCEL is no longer required to conduct an annual demographic study. However, he stated that the Executive Director intends to budget for and conduct another demographic study in the fall of 2007 and each year thereafter until directed otherwise by the Commission. The results will be provided to the Commission in the same manner as previous years.

The Chairman returned to order of the items presented on the meeting agenda.

Election of Officers

The Commission bylaws provide that Commission officers will be elected annually at the fourth quarter meeting. Current officers are: Tim Madden, Chairman; Jimmy Bailey, Jr., Vice Chairman; Ashley Landess, Secretary; Moffatt Burriss, Treasurer, and Lisa Stevens, At-Large. The Chairman asked for nominations.

Motion Adopted

Commissioner Quattlebaum moved to re-elect the current slate of officers for another term. Commissioner Rose seconded the motion, which was unanimously adopted.

Online RFP

Hogan Brown, Director of Legal Services, was recognized to give a brief overview of the procurement process focusing on the role SCEL staff, the State Procurement staff (MMO), and the Commission have in the drafting the Request for Proposals (RFP) for online services. He also explained the evaluation, negotiation stages, and the process for the contract award. The Chairman stated that it would be advisable for Commissioners, if contacted, to direct representatives of potential vendors to either Hogan Brown or Leslie Vang to ensure that all vendors are provided the same information and assistance.

Leslie Vang, Information Technology Director, was recognized to address the potential term of the new online contract and the options available to the Commission (as discussed in the memorandum provided in the meeting materials). SCEL staff has requested and received approval for a seven-year term contract for the online gaming system by the Budget and Control Board staff as authorized by law. Approval of a contract term in excess of seven years must be considered and acted upon favorably by the Budget and Control Board (not the staff).

Motion Adopted

Commissioner Bailey moved to authorize the Executive Director, in coordination with the Chairman, to prepare the necessary materials for presentation to the Budget and Control Board to request approval of a ten-year contract term for the online gaming system and related services. Commissioner Landess seconded the motion, which was unanimously approved.

Palmetto Cash 5 – Additional Draw Dates

Sales and Marketing staff is continuing to evaluate actual performance and review the strategic plan to meet the goals set forth in the current fiscal year. Staff is requesting the addition of two Palmetto Cash 5 (PC5) draws per week (Tuesday and Thursday) to the current schedule of Monday, Wednesday, and Friday. This option was identified as a potential change in the FY07 strategic business plan. Staff believes these draws may generate approximately \$200,000 in new revenue per week without significant effect on other products as PC5 is a niche game positioned between Pick 3 or Pick 4 and Powerball.

These changes could be implemented before the end of this fiscal year and yield approximately \$2,400,000 in additional revenue for the last quarter of FY07. Numerous questions were asked regarding the player demographics of PC5 and what, if any, impact North Carolina has had on sales. The demographic of PC5 play is weighed more toward Caucasian players than the demographic for Pick 3 and Pick 4. Ms. Koop and Mr. Passailaigue also stated that no erosion in sales has been observed to this point, but the change is recommended to maintain player interest in anticipation of new products that may become available in North Carolina. Georgia currently has five draws per week for its five-number game.

Motion Adopted

A motion was made by Commissioner Landess to authorize staff to offer an additional Tuesday and Thursday draws for the Palmetto Cash 5 game at a time deemed appropriate by the Executive Director. Commissioner Keith seconded the motion, which was unanimously approved.

New Game Concept – Carolina Plus 6

Pat Koop, Sales and Marketing Director, presented the new game concept to the Commissioners. Carolina Plus 6 is a six-number match, jackpot driven game, with multiple winning experiences. The jackpot prize level is pari-mutuel and starts at \$550,000 with a minimum increase of \$25,000 when the jackpot is not won. Prize payout is approximately 65.4% and overall odds are 1 in 7.20. Drawings would be held on Tuesdays and Fridays at 10:59 p.m. (EST), thereby not competing with Powerball.

A quantitative study conducted this past summer indicated an online game with a \$5 price point would be well received, as most players want a game with better odds than Powerball and an average jackpot of \$1.2 million (which should take 11.5 draws to reach). Staff does not anticipate significant cannibalization of other online games as the draw dates do not conflict with Powerball and the demographic of likely players is expected to attract those with higher household incomes than Pick 3 and Pick 4 players.

It is estimated that \$700,000 in additional revenue will be generated per week from the new game in fiscal year 2008. Staff would like to introduce the game into the product mix next fiscal year. The staff request is for approval to move forward with further game development, which will be at no cost to SCEL as game development is part of the current online contract.

Motion Adopted

A motion was made by Commissioner Rose to authorize staff to move forward with game development and report more specific information to the Commission regarding final game specifications, game rules, and marketing plans before a final decision is made by the Commission as to whether or when to launch the game. Commissioner Bailey seconded the motion, which was unanimously approved.

Reports

Sales and Marketing

Quarterly Advertising Review

SCEL's enabling legislation requires a quarterly review by the Commission 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."

Print media items and a DVD containing broadcast spots were distributed to Commission members in the meeting materials provided prior to the meeting. Among the items reviewed were:

- Radio – Taxes Paid, Carolina Millionaire Raffle, Palmetto Cash 5, Millionaires Club, Power Deal, S.C. State Fair, Holiday Season
- Television – Power Deal Show, Lottery Break (featuring Harley Promotion Winner, Power Deal Kick-Off, and the S.C. State Fair), Carolina Millionaire Raffle, Clemson and USC Presidents

- Video Market Place – Carolina Power Deal, S.C. State Fair, Winner Awareness, Summer Mustang Promotion, Lottery Day at the S.C. State Fair, Lottery Appropriations, Carolina Millionaire Raffle, Holiday Season
- Print Ads – Carolina Millionaire Raffle
- Play station posters – Carolina Millionaire Raffle, Carolina Power Deal, Redemption Value Increase Notification
- CDU piece – Carolina Millionaire Raffle

Additional items included the Hoppin' John & Collard Greens 2 instant ticket, Carolina Millionaires Club starburst, a Carolina Millionaire Raffle styrene piece, grocery cart insert, and wobbler for play stations, a Carolina Power Deal postcard mailed to contestants, and the cover of the meeting packet for the North American Association of State and Provincial Lotteries (NASPL) Sub-Committee meetings hosted by SCEL in Myrtle Beach, South Carolina.

No member of the Commission expressed a concern or objection; therefore, it was the consensus of the Commission that SCEL's advertising portrayed its games and promotions accurately and did not target a specific audience.

David Barden, Marketing Deputy Director, reported that although the Million Dollar Second-Change Summer draw at South Carolina State Fair was a success, Sales and Marketing staff is reviewing other venue options for next summer in an effort to enhance our statewide exposure.

Finally, it was reported that SCEL's advertising expenditures for FY07 are expected to be 0.9% of last year's gross sales, well within the statutory advertising cap of 1% of the previous year's gross sales.

Internal Operations Update

Ernestine Middleton, Director of Internal Operations, informed the Commission that the Governor's Office, the Legislative Black Caucus, and other legislators (as requested) are sent a quarterly report on Small and Minority Businesses Enterprises (SMBEs) from which SCEL purchases goods and services. Expenditures of controllable dollars with SMBEs are reviewed to ensure that a fair opportunity is afforded by SCEL, either directly or through our major vendors. Cynthia Bellamy, Human Resources Generalist II, also works proactively to identify SMBEs and to assist them with the state certification process administered by the Governor's Office.

In the first quarter of FY07, SCEL's total SMBE expenditures (excluding the controllable expenditures of our major vendors¹) were \$221,010. This amount represents 10.45% of controllable dollars. 8.87% of controllable dollars is conducted with businesses certified as being SMBEs by the Governor's Office. Commissioner Spells asked several questions regarding certified businesses. Ms. Middleton explained that some businesses choose not to submit the required information and offered to provide more detailed data and information following the meeting. Ms. Middleton also reported that SCEL was one of six businesses nominated for a workplace diversity award under a program sponsored by the S.C. Chamber of Commerce.

¹In the first quarter of FY07, SCEL's total SMBE expenditures (including the controllable expenditures of our major vendors) amounted to \$709,035. This amount represents 14.66% of SCEL controllable dollars. 13.41% of controllable dollars is conducted with businesses certified to be SMBEs by the Governor's Office.

Additionally, Ms. Middleton updated the Commission on the progress of the Compensation Study being conducted by Milliman, an independent consulting firm specializing in compensation, management, and human resources. Milliman is currently compiling salary survey information from nine other lotteries and comparable private companies and public enterprise agencies in South Carolina. The staff advisory committee comprised of Ernie Passailaigue, Bethany Parler, Hogan Brown, Tony Cooper, Mary Margaret Hopkins, Ernestine Middleton, and Anthony Greene will meet with the vendor in December. Staff expects the study to be completed in late January.

Internal Operations has been involved in a lengthy process to procure new office space for the Coastal Regional Office. The Commission was briefed in August of 2005 concerning efforts to terminate the current lease for the Long Pointe Road office in Mt. Pleasant. For numerous reasons, including delays by the state procurement office in deciding whether to approve the termination of the existing lease, the difficulty and time required to find acceptable alternates, up-fitting the new space, and the time required to move, a business decision was made to complete the full term of the existing lease with a short-term, month-to-month extension for those same reasons. Staff reviewed forty-four potential locations before selecting one with adequate parking, appropriate basic security, and separate exterior access for service deliveries of POS and other material needed for redistribution to Marketing and Sales Representatives. A location was found in the 300 block of West Coleman Blvd. in the "Shops of Mt. Pleasant" strip mall. The price per square foot is \$23.25 (inclusive of maintenance fee of \$4.25 per square foot) for 2,553 square feet, including the common area. These costs do not include up-fitting, data connections, and enhanced security necessary for a claims center.

Executive Director

Mr. Passailaigue called attention to PowerPoint slides included in the meeting material packet. Total sales 2006 from July through October compared to 2005 figures show a \$42 million decline. The drop is attributed to several factors: the June Powerball launch in North Carolina, lower Powerball jackpots, and higher gasoline prices. North Carolina players coming here to purchase Powerball are gone, and those sales will not return. Less foot traffic for Powerball also negatively impacts instant ticket sales. Despite the challenges mentioned above, Mr. Passailaigue expressed confidence that SCEL will meet or exceed the internal sales goal of \$938 million.

Mr. Passailaigue responded to questions posed by Commissioners regarding future sales trends. He explained that the impact of sales lost to North Carolina is being stabilized with a slight increase in the advertising budget as approved by the Commission. Longer term, staff is focusing on product enhancements to ensure a fresh product mix to maintain player interest as was considered by the Commission at this meeting. North Carolina recently launched a \$10 price point instant ticket which may have some impact, but the most significant concern is an erosion of South Carolina players going north, if and when North Carolina offers products not available in South Carolina such as a \$20 price point, Keno, or sports betting.

The Lottery Dollar for FY07 (July 1 – October 31) is distributed as follows:

- 60.9% Prizes
- 27.7% Net Proceeds
- 7.1% Retailer Commissions
- 1.7% Gaming Costs (Vendor)
- 1.7% SCEL Internal Administrative Costs
- 0.9% Advertising

The Board of Economic Advisors (BEA) recently increased the lottery revenue transfer estimate for FY07 from \$252.4 to \$276 million. Mr. Passailaigue expressed concern that this revision is likely too large based on SCEL's sales forecasts and the uncertainties of the marketplace. Chairman Madden explained that he would write a letter to John Rainey, Chairman of the BEA, requesting the BEA staff work further with SCEL staff to examine the revenue projections. Irrespective of revenue projections, Commissioners stressed that SCEL staff should maintain the Commission's business philosophy to market SCEL's products in a socially responsible manner.

Mr. Passailaigue reported that he and several other staff members attended the NASPL annual conference in Chicago this past month. SCEL nominated five employees – Pat Koop, Johnny Genwright, Tom Marsh, Ernestine Middleton, and Leslie Vang for a Powers Award. The Powers Award is the most significant award for professionalism in various disciplines within the lottery industry, and SCEL has three past winners. Remmele Mazyck was nominated for the Brown Scholarship.

Finally, Mr. Passailaigue commended the staff for their efforts and the recognition SCEL received in being selected as one of the fifteen best places to work in South Carolina by the State Chamber of Commerce.

It was noted that the quarterly Commission meeting schedule for 2007 will be available soon.

Other Business

There being no further business, the meeting was adjourned.

_____/s/
Timothy E. Madden, Chairman

Ms. Ashley Landess, Secretary

As required by Section 30-4-80, the notification of this meeting was posted at SCEL headquarters, 1333 Main Street in Columbia. As provided in the Commission 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.