

**MINUTES
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION
December 8, 2005
11:00 A.M.**

The South Carolina Education Lottery Commission met at 11:00 a.m. on Thursday, December 8, 2005, in the large 1st Floor Conference Room of the headquarters building, 1333 Main Street, Columbia, South Carolina, with the following Commissioners in attendance:

John C. B. Smith, Jr., Chair
Tim Madden, Vice-Chair
Ashley Landess, Secretary
T. Moffatt Burriss
Dr. Edward Keith
Marvin Quattlebaum
B. Boykin Rose
Lisa Stevens

Commissioner Jimmy Bailey was unable to attend.

Minutes of Previous Meetings

On a motion by Commissioner Landess, seconded by Commissioner Keith, the minutes of the September 27, 2005 and November 14, 2005, meetings were unanimously approved.

Election of Officers

The Commission By-laws provide that Commission officers will be elected annually in the fourth quarter meeting. Current officers are: John C. B. Smith, Jr., Chair; Tim Madden, Vice-Chair; Ashley Landess, Secretary; and Jimmy Bailey, Treasurer. The Chair asked for nominations.

Motion Adopted

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

RFP for Compensation and Organizational Study

As an entrepreneurial agency, unlike other state agencies, SCEL is, in fact, a business enterprise. SCEL employees who may have lacked experience in lottery operations at SCEL's start-up are now seasoned professionals who may be recruited by other lotteries. In order to maintain a viable workforce, staff recommends that an assessment of SCEL's compensation, work culture, and career opportunities, especially in the areas of sales and marketing, be performed by an independent entity. Such an assessment every two to three years is considered a best practice. A more narrowly focused study limited to compensation and job classification was most recently completed in 2003. It was conducted by SCEL Human Resources professionals with assistance by an outside consultant.

Human Resources staff now recommends that an independent, comprehensive study of staffing, culture and compensation be conducted. Having the work performed by an employment consulting firm will ensure objective results and this approach is preferred by internal and external auditors. If a comprehensive study is too costly, the scope will be limited to compensation issues and staffing and the work culture/employee morale issues may be reviewed separately.

Staff believes that the study should be conducted by a vendor with lottery industry experience, if possible as issues relevant to the study include:

- The impact of North Carolina, Georgia, and Tennessee lottery salaries on recruitment and retention of staff
- A review of staffing needs in light of enhanced competition along our borders
- A request from SCEL's Sales and Marketing management to review the sales incentive plan
- Employee retention in light of an improving economy, where the employee turnover rate has increased and may increase even more as the job market improves

Depending upon the schedule of the Materials Management Office, the RFP could be issued in late January and would include a survey of employees in benchmark groups. The study should be completed within three to six months after an award is made. While the cost is uncertain, staff understands that other states have expended over \$50,000 which meets the previously established threshold for the Commission's approval of RFPs.

Motion Adopted

Commissioner Madden moved to authorize staff to take all necessary actions to issue a Request for Proposals for Compensation and Organizational Study to be conducted in the most independent and efficient method possible. Commissioner Landess seconded the motion. The motion carried unanimously.

RFP for Instant Ticket Production, Warehouse and Distribution Services

SCEL staff and Materials Management staff of the State Procurement Office have been working on a draft RFP for the production of instant game tickets and warehousing and distribution services. All departments were involved in the drafting process and the draft was submitted to the Materials Management Office for review.

Motion Adopted

Commissioner Quattlebaum moved to authorize the Executive Committee to give final approval for the issuance of the instant games RFP. The motion was seconded by Commissioner Keith and adopted unanimously.

Reports

2005 Demographic Study

SCEL is required by its enabling legislation 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 1. The 2005 study was performed by MarketSearch and an overview of the results was presented to the Commission by Fenton Overdyke.

Between September 9 and September 16, 2005, a group of 1,252 people over the age of 18 were contacted and asked questions to determine who SCEL's players are, the types of games played,

frequency of play and other information. The survey group reflected the population of the state. Highlights from the report and presentation are outlined below.

- About half of South Carolina residents have played a SCEL game
- Powerball and instant games are the games played most frequently

Of those that have played a lottery game:

- 75% have played Powerball
- 70% have played a scratch game
- 35% have played 1 game only
- 7% have played all games
- 58% are “active” (play at least 1 game a month)
- 1% play every day
- 13% play more than once a week
- 61% are Caucasian
- 35.5% are African-American
- Men are more likely to play than women
- Play begins to drop with age 55 or older
- A higher incidence of play occurs in moderate to low income levels

In general:

- “Active” Powerball players are more likely to be Caucasian, married and have a higher income level.
- “Active” Pick3 / Pick4 players are more likely to be African-American, have a lower level of income or have blue collar jobs
- Instant game players are evenly balanced between men and women.
- More men than women play Pick 3, Pick4, Palmetto Cash 5 and Powerball
- More women than men play scratch games

At the conclusion of the report, Mr. Overdyke was asked if the results of the study indicate a market for a \$20 instant ticket. He responded by stating that the survey was not designed to collect information on a \$20 ticket but that he did not believe it suggested a new market.

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.”

Commissioners received advertising materials in the meeting packets. Pat Koop explained that many of the items were created in-house by Sales and Marketing employees LeRone Cohen, Carl Jackson and David Young. SCEL’s holiday instant game promotions utilized items that had been collected from the retailer locations by the MSRs each year and reused; the holiday TV spots are also “recycled” by re-editing prior work, thereby greatly reducing production costs. Other marketing items included starbursts created to call attention to new and upcoming games, promotional items for SCEL’s partnership in Palmetto Pride, the Kroger pharmacy bags, a “Cash Only” terminal display and the new Gas Bonanza and Moonlight in Magnolias (subsequently released as Sweethearts and Magnolias) instant tickets. One of SCEL’s radio partners will co-sponsor a promotion to give away weekend vacation packages for the Moonlight in Magnolias ticket. Newspaper wrappers printed with the beneficiary message and ads for daily and weekly

newspapers statewide identifying recent South Carolina Powerball winners were also presented. Several different “Thanks a Billion, South Carolina” pieces such as billboards and stickers have been created to recognize SCEL’s billion dollar milestone and are scheduled to begin appearing later in the month and through the first half of next year.

Ms. Koop presented SCEL’s television and radio ads which advertise the holiday tickets and the South Carolina State University choir’s scholarship recipients singing “Auld Lang Syne”.

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.

Executive Director

Included in Mr. Passailaigue’s report were sales data for the first 24 weeks on FY06. Total gross sales through December 7, 2006, were \$481.5 million. Instant ticket sales have been especially strong: over \$2 million higher than the same period in FY05. Online sales have also been higher for the period. Sales made a pronounced jump with recent high Powerball jackpot levels. The instant ticket sales trend may be attributed, at least in part, to increased sales in SCEL’s \$5 and \$10 games which offer a higher prize payout and, therefore, enhance the likelihood of “a winning experience” for the player.

With an estimated transfer of \$27 million on December 15, SCEL’s transfers to the Education Lottery Account will total \$131,774,839. With this transfer, SCEL will surpass the billion dollar mark for total funds provided for education in South Carolina since the beginning of ticket sales less than four years ago.

Mr. Passailaigue invited the Commissioners to attend a press conference on December 15, 2005, at 11:00 a.m. to announce the billion dollar transfer milestone and to highlight the benefits to education the money has provided. Aside from scholarships, funds have been provided for kindergarten through grade 12 programs, endowed chairs, buses, technology in classrooms, and other areas.

For the first five months of FY06, the lottery dollar was distributed as follows:

- Prizes 60.8%
- Net Proceeds 28.5%
- Retailer Commissions 7.1% (inclusive of selling bonuses)
- Gaming (Contracts) 1.5%
- Administration 1.4%
- Advertising 0.7%

The North Carolina Lottery is scheduled to begin sales on or before April 5, 2006. MUSL and the Powerball Group voted to accept North Carolina into the Powerball game. Mr. Passailaigue abstained from the voting. North Carolina’s online games, including Powerball, are likely to begin in July.

Mr. Passailaigue informed the Commission that Jesse Hines, a marketing sales representative with SCEL’s Sales and Marketing Department, has been deployed to Iraq.

Other Business

John Hall of SCANA was present to solicit input from the Commissioners for the Strategic Planning Process. The comments from discussion that followed will be incorporated into the staff component that was done in the fall to develop a new strategic plan.

There being no further business to come before the Commission, the meeting was adjourned.

The next meeting of the Commission is scheduled for Thursday, March 16, 2006 at 11:00 a.m.

/s/
Mr. John C. B. Smith, Jr., Chairman

Ms. Ashley Landess, Secretary

As required by Section 30-4-80, notification for this meeting was posted at the SCEL headquarters location, the Education Lottery website, and sent via facsimile transmission pursuant to requests made by media outlets and other organizations. The notification included the time, date, place and agenda of the meeting.