

**MINUTES
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION
February 14, 2007
10:00 A.M.**

A meeting of the South Carolina Education Lottery Commission was held at 10:00 a.m. on Wednesday, February 14, 2007, 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
T. Moffatt Burriss, Treasurer
Lisa Stevens
Dr. Edward Keith
Marvin Quattlebaum
B. Boykin Rose

Commissioners Ashley Landess, Secretary, and Nathaniel Spells, Sr. participated by teleconference.

The Chairman called the meeting to order.

Leave Policy

Without objection, the Chairman requested deferral of consideration of this agenda item as further information is being compiled.

Approval of Minutes

On a motion of Commissioner Burriss, seconded by Commissioner Keith, the minutes of the November 15, 2006 meeting were unanimously approved.

Consideration of Bylaws Amendment

The Chairman forwarded proposed changes to Section 3(A) of the bylaws, as required by Article 3, via email 10 days prior to the Commission meeting. The intent of proposed changes is to allow a more active, efficient, and effective committee structure whereby staff can vet matters through Committees prior to presentment to the Commission. This process should also enhance Commission deliberations. The Chairman proposed the standing committees of the Commission to be the following: the Executive Committee, the Audit Committee, the Legal and Security Committee, and the Marketing and Retailer Relations Committee.

Motion Adopted

Commissioner Bailey moved to approve the bylaws amendment as presented. Commissioner Quattlebaum seconded the motion, which was unanimously adopted.

Election of Committee Members

The election of members to serve on each of the standing committees was discussed and the Commissioners agreed to serve on the respective committees:

Legal and Security - Jimmy Bailey, Jr., Marvin Quattlebaum, Boykin Rose, and Lisa Stevens;
Marketing and

Retailer Relations - Moffatt Burriss, Dr. Edward Keith, Ashley Landess, and Nathaniel Spells, Sr.;

Audit Committee - Jimmy Bailey, Jr., Dr. Edward Keith, Boykin Rose, and Nathaniel Spells, Sr.

The Chairman appointed the following Commissioners as committee Chairs: Marvin Quattlebaum, Legal and Security Committee; Jimmy Bailey, Jr., Audit Committee; and Ashley Landess, Marketing and Retailer Relations Committee.

Motion Adopted

As specified in the bylaws, Commissioner Quattlebaum moved to elect the slate of committee members. Commissioner Keith seconded the motion, which was unanimously approved.

Modification to Headquarters Lease

Ernie Passailaigue, Executive Director, was recognized to address the modification of SCEL's headquarters lease. SCEL signed a ten-year lease for third and fourth floor space at 1333 Main Street in March of 2006. However, given that a portion of the last available space in the building is adjacent to the current offices, staff reassessed SCEL's needs and determined that it was advisable to obtain additional office and storage space in the headquarters' building to ensure SCEL's long-term needs. Information Technology, Security, and Internal Audit staff will utilize the new space or expand to areas provided on the fourth floor if other staff is reassigned to the third floor. Mr. Passailaigue also reported that the current ratio of square feet per employee is less than what is called for in state guidelines.

The Chairman reported that the Executive Committee considered the staff request on Tuesday, February 13, 2007. The Committee agreed to request favorable action by the Commission to authorize the Executive Director to negotiate modifications to the current lease terms as he deems acceptable and to execute the agreement for the additional space if the negotiations are successful.

Motion Adopted

The Commission unanimously agreed to adopt the recommendation of the Executive Committee.

Media Placement RFP

David Barden, Deputy Director of Sales and Marketing, and Hogan Brown, Director of Legal Services, were recognized to address the issuance of a Media Services Placement Request for Proposals (RFP). Mr. Barden explained that media placement services relate only to media evaluation, planning, and purchasing strategies and the actual purchasing of print ads, radio and television air time. The issuance and award of this RFP is timed to coincide with the annual television and radio air time purchases, which are done in May. The media placement services are provided within the scope of the current advertising services contract, which includes production of television commercials, purchasing of promotional items and limited creative

services. Sales and Marketing staff believes issuing two RFPs, one for media placement services and one for advertising, will be more cost efficient and will further enhance the services SCEL receives in return. Mr. Brown discussed the application of the State Procurement Code on the media services RFP. He also explained how the application of the Code is different regarding the subsequent RFP staff intends to request permission to issue for creative and other advertising services in the summer.

The Chairman reported that the Executive Committee considered the staff request and agreed to request favorable action by Commission to authorize issuance of the Media Placement Services RFP and to authorize the Executive Director to take the steps necessary to ensure the award is made as early in April as possible.

Motion Adopted

A motion was made by Commissioner Bailey to accept the recommendation of the Executive Committee and to further authorize the Executive Director to select an evaluation panel and to proceed with the award as he deems appropriate. Commissioner Keith 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 – Carolina Millionaire Raffle, Palmetto Cash 5, Carolina Riches, American Idol, and Holiday Tickets
- Television – Carolina Millionaire Raffle, Holiday Tickets, Beneficiary Jingle (Auld Lang Syne), Carolina Riches, 5th Anniversary, Winner Awareness, Carolina Millionaire Raffle Reveal, Lottery Break (Power Deal, Carolina Millionaire, Palmetto Cash 5, Winner Awareness, 5th Anniversary, Beneficiary)
- Video Market Place – Carolina Power Deal, Winner Awareness, Carolina Millionaire Raffle, Holiday Season, Palmetto Cash 5, 5th Anniversary
- Dispenser Piece – Power Deal, American Idol, Carolina Millionaire Raffle
- Play station posters – Carolina Millionaire Raffle, Carolina Riches, American Idol, Power Deal,
- CDU piece – Carolina Millionaire Raffle, Winner Awareness

Additional items included the American Idol starburst and buck slip and a Carolina Millionaire Raffle postcard and sticker for retailers.

David Barden reported that the Carolina Millionaire Raffle advertising campaign was adjusted to inform the public of the timeline of the raffle game at the recommendation of SCEL's advertising vendor. He also mentioned the Power Deal show was taped on the past weekend and

approximately 120,000 entries have been received. As requested by prior action of the Commission, Sales and Marketing staff is preparing a report regarding Power Deal. In general, sales figures suggest a minimal positive impact on Powerball sales, but not as much as anticipated given the time and resources devoted to this promotional game.

Mr. Barden informed the Board that the next major media campaign has not been planned for the upcoming quarter; however, this year's summer event campaign will promote and highlight a \$10 Cash Bonanza ticket. This ticket will be one of three \$10 price points offered to players over the next four months. Another \$10 price point will be SCEL's first instant annuity game, "Cash for Twenty Years," with an option for a lump sum payout. He reported that it is anticipated that this year's summer campaign will focus on several smaller events throughout the state rather than one big event at the State Fair as has been the case for the last three years.

Commissioners expressed concern that the advertising materials presented often contained more past campaign than future or proposed advertising concepts. Several Commissioners asked how they could be afforded the opportunity to offer opinions or suggestions before a great deal of time, effort, and expense has been incurred regarding various advertising campaigns. After a brief discussion, the consensus of the Commission was for staff to continue its internal review processes and to enhance the lines of communication with the Chair of the Marketing and Retailer Relations Committee. Meetings of that committee will be called at the discretion of the chair to address any matters that may arise prior to presenting the advertising materials and concepts to the Commission.

As far as the advertising material submitted in advance of the Commission meeting, no member of the Commission expressed an objection to the material; 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

Mr. Passailaigue called attention to PowerPoint slides included in the meeting material packet. Total sales FY07 from July through January compared to FY06 figures show a \$70 million decline. \$42 million in instant sales and \$28 million in online sales account for the difference between the two fiscal years' sales. As mentioned in the November 2006 Commission meeting, North Carolina players coming to South Carolina to purchase Powerball are gone, and those sales will not return. Less foot traffic for Powerball also negatively impacts instant ticket sales. However, the most recent months' figures show a positive sales growth for SCEL as gasoline prices dropped slightly in December and January and North Carolina's impact has stabilized. Online sales for Pick 3, Pick 4, and Palmetto Cash 5 are up and have offset declining Powerball sales. Mr. Passailaigue expressed continued confidence that SCEL will once again meet or exceed the internal sales goal of \$938 million.

Mr. Passailaigue reviewed information on Powerball sales provided by MUSL. Two relatively similar jackpot runs were compared and, although there was a short-term downward trend in sales, overall Powerball sales indicate a reduction in "jackpot fatigue."

Although the Board of Economic Advisors (BEA) returned the lottery revenue forecast for FY07 to the original estimate of \$254 million, Mr. Passailaigue explained that with the experience of the past three months, it would be prudent to advise the BEA that our internal forecast now projects FY07 gross revenue in the range of \$265 - \$267 million. The change is a result of the Carolina Millionaire Raffle game and the recent Powerball jackpot run. Mr. Passailaigue informed the Commission that he will write a letter to the BEA at the conclusion of the meeting.

The Lottery Dollar for FY07 (July 1, 2006 – January 31, 2007) is distributed as follows:

- 60.1% Prizes
- 28.4% Net Proceeds
- 7.1% Retailer Commissions and Selling Bonuses
- 1.7% Gaming Costs (Vendor)
- 1.7% SCEL Internal Administrative Costs
- 1.0% Advertising

Mr. Passailaigue presented an evaluation of the Carolina Millionaire Raffle game. A month into the raffle game, it was determined the ten dollar price point coupled with time from launch (end of October) to the draw date (January 8, 2007) caused many players to defer a purchase. The new play style caused some degree of confusion among both retailers and players. As sales failed to meet initial projections, staff quickly reevaluated the approach to marketing the game and certain incentives were established for retailers, a portion of which was contingent upon selling all of the available tickets. Sales and Marketing staff as well as other SCEL staff initiated an intense education campaign for store clerks. Sales in the last weeks of the game increased significantly and approximately 91% of the available tickets were sold. Given that this game had no prior track record in South Carolina, the overall game results were not disappointing, particularly given that the game may have attracted new and non-traditional players. However, Mr. Passailaigue reported that further information is being compiled on the game's performance, the price point and whether offering one million tickets is prudent given the ticket purchasing population of our state. Should SCEL market this type of game in the future, a higher price point may be worth considering given what is being offered in bordering states. If in-depth analysis suggests that game changes are worth considering, staff will make specific recommendations for Commission review and approval.

Mr. Passailaigue reported that he attended several meetings recently with the Multi-State Lottery Association (MUSL) and the Mega Millions group. A joint committee between MUSL and Mega Millions has been formed to explore the possibility of a joint multi-jurisdictional raffle game. As a member of the MUSL Development Committee, Mr. Passailaigue will be serving on the committee to determine whether a joint product could be offered that is compatible with both game groups. He will continue to update the Commission as developments occur. If an agreement is reached between the two groups, Commission approval will be necessary for South Carolina to participate in any new game. Mr. Passailaigue and other SCEL staff also attended a meeting focusing on the NASPL Standards Initiatives to encourage all lotteries to maintain certain standards throughout the United States. The NASPL objectives are to maintain a higher level of quality of service and consistency for all retailers and to attract new retailers such as Wal-Mart.

The Chairman reminded Commissioners that the 2006 Statement of Economic Interest Forms were distributed at the meeting and mailed to those absent. The deadline is April 16, 2007; otherwise a \$100 per day penalty will be assessed by the State Ethics Commission.

Commissioner Keith inquired about a WLTX, Channel 19, Columbia, news story regarding lottery retailer delinquent debt. Mr. Passailaigue responded that SCEL is a credit and consignment business. Of the approximate \$4.7 billion in gross sales since start-up, 99.9% of retailers have paid in full. SCEL's total delinquent debt is approximately \$2,000,000 (the aggregate total of balances not settled within 30 days after a final invoice). Of this amount, approximately \$750,000 has been collected to date and \$188,000 has proven to be uncollectible.

due to bankruptcy filings. The aggregate net delinquent debt since inception-to-date is approximately \$1,062,000. The Lottery Act established the Fidelity Fund to offset uncollectible debt. Over the past five years, the fund has grown in excess of \$500,000. It is expected that some funds will be drawn from the Fidelity Fund this fiscal year. As provided by law, these funds will go directly to the Education Lottery Account from which the General Assembly appropriates SCEL's net proceeds. Mr. Passailaigue reported that management of all collection efforts had been recently transferred to the Legal Department.

Other Business

There being no further business, the meeting was adjourned.

/s/
Timothy E. Madden, Chairman

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.