

**MINUTES  
SOUTH CAROLINA  
EDUCATION LOTTERY COMMISSION  
March 16, 2006  
11:00 A.M.**

The South Carolina Education Lottery Commission met at 11:00 a.m. on Thursday, March 16, 2006, in the large 1<sup>st</sup> 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  
Jimmy Bailey, Jr., Treasurer  
T. Moffatt Burriss  
Dr. Edward Keith  
Marvin Quattlebaum

Commissioners Boykin Rose and Lisa Stevens participated by teleconference.

The Chair called the meeting to order. He explained that, as his initial four-year term on the board had officially ended in July 2005, he had been serving in a “holdover” status capacity until the Governor made a subsequent appointment for the next three-year term. He further explained that a representative for the Governor’s office had informed him that the new appointment was imminent but a definite date for the change had not been given. Having served as chairman of the board since the lottery’s inception in 2001, Mr. Smith expressed his appreciation for the opportunity to help bring the South Carolina Education Lottery to life and to see the aspirations of the board realized in the successful organization SCEL has become. He also expressed his appreciation and respect for each Commissioner and senior staff member.

**Minutes of Previous Meeting**

At the December 8, 2005 Commission meeting, upon the conclusion of the presentation of the 2005 Demographic Study, a comment was made regarding whether the study results indicated a market for a \$20 ticket. The comment was not included in the draft minutes mailed to Commissioners in their meeting materials packets. Secretary Landess requested that the following language be added to the minutes (which were in the meeting materials available at the meeting): 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.

**Motion Adopted**

Commissioner Madden moved to adopt the December 8, 2005 minutes with the addition of the language suggested by Commissioner Landess. The motion was seconded by Commission Burriss and unanimously approved.

**Ratification of Committee Appointments**

The Chair has asked Commissioners Lisa Stevens and Jimmy Bailey to serve as members of the Legal Committee.

**Motion Adopted**

Commissioner Quattlebaum moved to ratify the new committee appointments. Commissioner Landess seconded the motion which was unanimously adopted.

**Banking Services RFP**

SCEL's current banking services contract will expire on November 30, 2006. Staff, in conjunction with the State Procurement Office, has prepared a new solicitation similar to the RFP issued in 2001. The new RFP includes certain changes which should enhance the protections against fraudulent transactions, enable a more accurate comparison of an offeror's proposed costs, and clarify minimum qualifications. Immediate release of the solicitation should result in a selection by June 30, 2006.

**Motion Adopted**

Commissioner Madden moved to authorize the State Procurement Office to publish, subject to the approval of SCEL staff, and release a solicitation for banking services and to authorize the Executive Director to take such action as may be necessary to complete the procurement. The motion was seconded by Commissioner Quattlebaum and was unanimously adopted.

**Directors' and Officers' Liability Insurance**

Under the terms of the current contract which expires at the end of 2008, SCEL has disbursed \$190,000 in each of the preceding three years. According to the contract, the policy is to be renewed annually at the contractor's best rate. Staff believes a more favorable rate could be obtained by soliciting new proposals. A search for a new contract would have no affect on the current contractor's obligations or responsibilities. Staff recommends that SCEL, through the State Procurement Office, issue a Request for Proposals for errors and omissions coverage.

**Motion Adopted**

Commissioner Keith moved to authorize the State Procurement Office, subject to the approval of SCEL staff, to create, publish and release a solicitation for directors' and officers' liability insurance and to authorize the Executive Director to take such action as may be necessary to complete the procurement. Commissioner Burriss seconded the motion which carried unanimously.

**RFP for Instant Tickets, Marketing Services, Warehousing and Distribution**

At the last Commission meeting, the Executive Committee was authorized to oversee the Instant Game RFP process. Although Committee members had received a draft copy of the proposed RFP prior to MMO's revisions, due to scheduling conflicts no meeting has taken place to consider the draft RFP.

Anticipating that the Instant Game RFP would have been released prior to the Commission meeting, the meeting agenda called for the Commission's ratification of the issuance of the RFP. However, due to certain revisions by the Materials Management Office (MMO) relating to format, organization and newly revised standard terms and conditions to conform to recent changes adopted for all state procurements, the release was delayed. These modifications did not result in any substantive changes from the scope and approach submitted by SCEL staff. The RFP has been completed and is ready to be released within the next few days, subject to Commission approval. As provided in the State Procurement Code, the document remains confidential until its release.

### **Motion Adopted**

Commissioner Madden made a motion to move forward with the issuance of the Request for Proposals to provide Instant Tickets, Marketing Services, Warehousing and Distribution and to authorize the Executive Director to designate an evaluation panel. The motion was seconded by Commissioner Keith and adopted unanimously.

### **Two-Minute Game Show**

SCEL's Sales and Marketing Department presented a concept for a two-minute game show. The game show idea evolved from SCEL's previous participation in the Powerball game show and the concept was well received by retailers and players when tested in focus groups. Sales and Marketing produced a pilot that was shown to Commissioners. With a \$10 purchase (five Powerball plays and five Power Plays), players would receive a terminal-generated entry form to mail in for a chance to be a contestant on the game show. Prizes up to \$20,000 will be offered. The show could begin airing in late summer on SCEL's draw stations in conjunction with the Saturday night Powerball drawing. Additionally, SCEL would use a two-minute crawl during the show to highlight new games or display various messages. Staff anticipates that the game show, called Carolina Power Deal, would enhance Powerball sales as well as attracting potential new players.

The estimated cost of the game show is \$750,000 for the first year. The majority, about \$640,000, would cover potential prize payments. Production would take place in SCEL's draw studio and employ the same crew used for SCEL's online game drawings. Additional features could be incorporated: origination from remote sites such as the State Fair, the upstate region or other venues and partnering with co-sponsors for a car, trip or other give-away.

Discussion followed the video presentation of the pilot. Concern was expressed regarding whether the success of the show could be measured in terms of the marginal revenue increase for Powerball, Power Play or other SCEL products. Since there is no direct revenue associated with the game, the prizes would effectively be funded from net proceeds of lottery sales (increases in marginal revenue). Questions were asked regarding the game's funding in light of SCEL's statutes and regulations. Prior to the meeting, Commissioners received a document addressing these issues and analyzing the attributes of this game in relation to previous games and the applicable provisions under SCEL's enabling legislation and subsequent regulations. Since participation is tied to mailing in an entry generated with the \$10 purchase of five Powerball tickets and five PowerPlays, staff explained that a quantitative analysis of player participation can be made based on the number of entry coupons generated and entries received. As a Powerball-related activity, MUSL approval is required for a promotional game lasting longer than 90 days; however, staff expects favorable consideration since promotional games have been approved in other jurisdictions.

### **Motion Adopted**

A motion was made by Commissioner Quattlebaum to authorize staff to proceed with production of the two-minute game show with the understanding that the game will run no more than one year and that staff will provide the Commission with periodic, conservative accountings of incremental revenue generated from the \$10 purchases of Powerball and Power Play when compared to comparable sales patterns, taking into account as many variables as possible. Commissioner Madden seconded the motion which was unanimously adopted.

## **REPORTS**

### **Internal Operations**

#### ***Compensation and Staffing Study RFP Update***

Ernestine Middleton, Director of Internal Operations, updated the Commission on the status of the RFP. At the last Commission meeting, staff was authorized to take the necessary measures to issue the Request for Proposals for the performance of a Compensation and Organizational Study. The RFP was issued on February 22, 2006, and responses must be received by the Materials Management Office by March 30, 2006. An award may be made in May. Ms. Middleton mentioned a few of the specific items requested in the RFP: written assessment of current staffing levels and associated recommendations for any changes, new compensation methodology in accordance with the values and precepts indicated in the RFP, incentive plan based on organization performance and predetermined objectives, and skill- and career-development strategies which promote the upward and lateral mobility of SCEL employees.

#### ***Lease and Office Space Issues Update***

With the assistance of Gus Hoffmeyer of the State Building and Property Management Services within the Budget and Control Board, SCEL's lease on the present headquarters facility has been successfully renegotiated for a ten-year period based on the terms and conditions and rates provided to the Commission last fall. The only remaining step is the submission of the lease to the Joint Bond Review Committee and then the five-member Budget and Control Board for review and approval. Included in the lease is 4,000 sq.ft. of additional space on the third floor which will house most of Internal Operations including the Licensing Division, allowing an increase in the area available for Sales and Marketing and Security staff. SCEL will benefit from substantial savings with the ten-year lease. [Subsequent to the Commission meeting, the lease received the required approvals and is now final.]

#### ***Warehouse Cost and Feasibility Study***

Internal Operations is conducting a feasibility study of whether it may be cost effective and a prudent business option to perform warehousing and distribution services using SCEL personnel rather than the instant ticket vendor. With this information, SCEL will be able to properly evaluate our options once the responses to the Instant Ticket RFP have been evaluated. Costs for such an operation include leasing a warehouse facility, up-fitting the building for both instant tickets and POS and promotional items, additional employees, and the equipment necessary to package tickets for shipment and various other items such as office space for the Midlands Regional Sales Manager.

#### ***Fort Mill Claims Office***

A 1,325 sq. ft. location has been secured for SCEL's Fort Mill Claims Office at a cost of \$15,000 per year. A quarter of a mile from the South Carolina-North Carolina border, the office should be operational in early to mid-April.

### ***Charleston Claims Office***

SCEL's lease on the current claims office location in Mt. Pleasant will expire in November 2006. Through the services of MMO, SCEL will release a Request for Proposals for office space in the Charleston area on March 14, 2006. Upon award of the contract, SCEL will have the space suitably up-fitted in a timely manner to coincide with the expiration of the current property lease.

### ***Greenville Claims Office***

A more noticeable sign is being installed at the Greenville office. Also, IT is up-fitting the office to meet the requirements called for in SCEL's Disaster Recovery Plan.

## **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."

A presentation was made by David Barden, Deputy Director of Marketing, who summarized the material included in the meeting packets. Included were Powerball Times 10 promotional material; \$2 Million and Counting playstation posters and CDU pieces; Sweethearts and Magnolias playstation piece; newspaper ads for "Thanks a Billion, South Carolina" and the new Wheel of Fortune instant game; oversized poster created for a retailer who sold a winning Powerball ticket; a change mat advertising SCEL's online games for placement on a retailer's counter; playstation game odds and top prize pieces; and SCEL logo entrance and exit door signs for retail outlets.

Commissioners viewed television spots for "Winners Popping Up All Over" featuring past lottery winners, instant game ticket information and "Power Up with Palmetto Cash 5". Radio ads included Powerball Times 10, "Winners Popping Up All Over" and "March is Play Responsibly Month".

In keeping with the "March is Play Responsibly Month" theme, a four-minute infomercial was developed for the Video Market Place (featuring lottery products and messages aired statewide by cable channels) regarding resources available for those with gambling problems. Also shown was a television spot featuring Tara Robertson with SCEL's "Have Fun. Play Smart. Play Responsibly." message.

Promotional items included SCEL bucket hats, Lucky Lotto pens and sunglass clips which will be distributed during wheel spin games at summer promotional events and retailer promotions.

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.

### ***Advertising RFP***

Pat Koop, Director of Sales and Marketing, reported that staff is in the early stages of drafting an advertising RFP. Staff requested the Commission give direction as to the appropriate committee to facilitate the RFP process.

### **Motion Adopted**

Commissioner Madden moved to authorize the Executive Committee to oversee the procurement process for the advertising RFP. Commissioner Landess seconded the motion which carried unanimously.

### **Executive Director**

Mr. Passailaigue gave an overview of SCEL's sales to date. SCEL ranks fifth, worldwide, in per capita sales of instant game tickets. Two Powerball jackpots of over \$300 million account for a rise in the sale of online tickets.

Total sales through March 15, 2006, were approximately \$820 million. With 16 weeks remaining in the fiscal year, SCEL is well ahead of schedule in meeting its sales goal of over \$938 million. The estimated March transfer to the Education Lottery Fund is \$35 million which represents February's net proceeds. Lottery Fund transfers to date total \$219.7 million with 4 months remaining in which to reach the Board of Economic Advisors' revised estimate of \$290 million in net proceeds.

Due to an increase in prize amounts, SCEL's net proceeds have decreased by about one-quarter of one percent. The Lottery Dollar is distributed as follows:

- Advertising 0.6%
- Administration 1.4%
- Gaming 1.6%
- Commissions 7.1%
- Net Proceeds 28.7%
- Prizes 60.6%

Recent presentations made by the Executive Director on behalf of SCEL include the South Carolina Lottery Oversight Committee meeting co-chaired by Senator John Courson and Representative Ronald Townsend on March 2, 2006; the "Play Responsibly" press conference on March 6, 2006; and attendance at a Senate Finance Committee meeting wherein he was asked to address questions regarding the impact of applying a sales tax to the purchase of lottery tickets.

Mr. Passailaigue plans to attend the NASPL Spring Directors and MUSL Board Meetings in St. Johns, New Brunswick, Canada, June 19-22, 2006.

At the close of his report, Mr. Passailaigue and Chairman Smith announced to the Commission that Pat Koop had been named the recipient of the "Outstanding Lifetime Achievement Award" by Public Gaming Research Institute, Inc. (PGRI). Ms. Koop accepted the award with compliments to SCEL's Sales and Marketing Department. Also recognized by PGRI with an "Outstanding Achievement Award" was Mr. Passailaigue, who credited staff with SCEL's success. Both winners received engraved glass trophies.

Mr. Passailaigue invited Commissioners to attend the annual NASPL meeting in Chicago, October 11-13, 2006, with the understanding that SCEL's FY07 budget provides travel funds for those who would like to participate.

In conclusion, Mr. Passailaigue handed each Commissioner a copy of SCEL's annual report for FY05, noting that the professional publication had been prepared in-house.

**Other Business**

Commissioners received a mid-year update of the Sales and Marketing Strategic Plan in their materials packet prior to the meeting. It was the consensus of the Commissioner that the mid-year assessment was satisfactory and they would contact staff with any questions that might arise regarding the report.

Prior to adjournment, Dr. Keith called the Commission’s attention to the recent accomplishment of the South Carolina Governor’s School for the Arts and Humanities. Their Concerto String Orchestra was recognized for their excellence by the American String Teachers’ Association. It was suggested that the orchestra be featured by SCEL in a “congratulatory” promotional message.

A specific date for the June Commission meeting will be confirmed by staff after adjournment.

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

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/s/  
Timothy E. Madden

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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.