

**MINUTES
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION
March 31, 2005
11:00 A.M.**

The South Carolina Education Lottery Commission met at 11:00 a.m. on Thursday, March 31, 2005, in the first floor conference room of SCEL's 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
Angela Mulholland
Marvin Quattlebaum, Jr.

The Chair called the meeting to order.

Minutes of Previous Meeting

On a motion by Commissioner Burriss, seconded by Commissioner Madden, the minutes of the December 16, 2004, Commission meeting were unanimously approved.

Election of At-Large Member of Executive Committee

The At-Large seat of the Executive Committee became vacant when Commissioner Landess was elected Secretary.

Motion Adopted

Commissioner Quattlebaum nominated Commissioner Burriss for the position of At-Large member of the Executive Committee. Commissioner Bailey seconded the motion. There were no other nominations. Commissioner Burriss was unanimously elected.

Ticket Complaint Procedure

The Commission received a report from Commissioner Madden, chair of the Legal Committee, regarding procedures for handling complaints from lottery players. The procedures are modeled after the appeal procedures established for retailers. Staff was asked to draft procedures that are simple but thorough which would enable players to present complaints without assistance and would allow SCEL staff to respond to a wide range of issues in a timely manner.

Motion Adopted

The Ticket Complaint Procedure was approved by the Legal Committee, as authorized in the Commission By-laws, and became effective on December 29, 2004. On behalf of the Legal

Committee, Commissioner Madden asked the Commission to ratify the action of the Committee and adopt the Procedure as presented. The motion was seconded by Commissioner Landess and the Ticket Complaint Procedure was unanimously adopted.

SGI On-line Contract Extension

The Chair recognized Leslie Vang, Director of Information Technology, to explain the status of SCEL's on-line contract with Scientific Games International (SGI) which began on November 15, 2001, with an initial term of six years and one 1-year extension. The contract is in year three and a half of the six-year period. A complete contract compliance audit is performed annually and a supplemental contract compliance audit was recently performed to assess SGI's field service and maintenance to retailers. Copies of these audits were included in the meeting materials packets. Overall, staff is pleased with the efforts and services provided by SGI.

As specified in our current agreement, SCEL will pay \$450,000 per month for the twelve-month period beginning November 15, 2007. Staff noted that SCEL is the only lottery jurisdiction that pays a fixed rate to its vendor for on-line services; most lotteries operate on a percentage of sales basis.

Staff requested that the Commission consider the one-year extension of the on-line contract with SGI at this time to provide a certain end for the contract from which staff could establish a timeline for a new Request for Proposals (RFP). In exchange for an extension, SGI, at no cost to SCEL, will implement the necessary changes to bring SCEL into compliance with Multi-State Lottery Association Security Rule II and install the Computer Automated Reporting System (CARS). In addition to the savings relating to SGI, CARS, upon full implementation, will eliminate the need for an on-site MUSL auditor thereby saving \$45,000 to \$50,000 a year.

Motion Adopted

Commissioner Keith moved to extend the SGI On-line Contract to the full term of seven years at \$450,000 per month conditioned upon Scientific Games International's agreement to implement compliance with revised MUSL security and operating standards at no charge. Commissioner Burriss seconded the motion which passed unanimously.

\$20 Instant Ticket

SCEL is continually seeking innovative ideas to increase ticket sales and to attract players who do not presently play lottery games. As part of this process, Sales and Marketing staff asked the Commission, at its August 17, 2004 meeting, to consider authorizing the offering of a \$20 instant ticket. Although four states offer a \$20 ticket – Connecticut, Pennsylvania, Florida and Massachusetts – no demographic information was available concerning whether this price point would be appealing to new or infrequent players.

Pursuant to the Commission's instructions at its December 16, 2004, meeting, Kopel Research Group, Inc., was retained to perform a market research study to evaluate the feasibility of SCEL offering a \$20 instant ticket and to attempt to more clearly define the probable player demographics. A telephone survey was conducted February 8-26, 2005, among 1,000 target respondents who were South Carolina residents in the five categories of frequent, regular, infrequent and lapsed players and non-players with corresponding information related to age, sex, ethnicity and income level. Survey results were included in the Commissioners' meeting materials packets.

The Chair recognized Mr. Phil Kopel to review and summarize the key findings of the study. The Chair then opened the floor for discussion. Concern was expressed that certain aspects of the report indicated that players with lower incomes would be disproportionately inclined to be the purchasers of the \$20 ticket. Thus, implementing this price point would not be consistent with the goals of expanding the player base rather than having current players spend a higher percentage of their income on lottery products. It was noted that this research was performed without a product that is available and that media placement could be geared toward players with high incomes and to infrequent players. It was recognized that SCEL must continue to seek innovations to ensure the success of its games and enhance revenue while offering games that are in the best interest of all South Carolinians. Given that Powerball jackpots are unpredictable making the associated income from Powerball erratic, SCEL strives to offer appealing instant games which have a more stable revenue stream in order to generate sales revenue to meet our goals and those established by the Board of Economic Advisers. After a full discussion, it was the consensus of the Commission not to authorize the ticket at this time.

Reports

Sales and Marketing

In conjunction with the launch of the NASCAR ticket, numerous promotions are planned. An event is planned during May and June in which Love Chevrolet will partner with SCEL to provide a Chevrolet Cobalt SS as a prize for the "Drive Away With Power Play" Promotion. SCEL is working with SGI on a Harley-Davidson summer theme ticket wherein "Fat Boy" series motorcycles will be given away in the instant game and in second chance drawings. A special Ford-250 truck will also be awarded as part of the second chance draw at the State Fair in October.

Participation in the new Palmetto Cash 5 on-line game is approximately 140% higher than the old Carolina 5 on-line game. Palmetto Cash 5 also has a 67% participation in the Power Up feature, in essence, creating a \$2 online ticket price point. The new Carolina 5 instant game, launched along with Palmetto Cash 5, has had \$1 million in sales per week since its introduction.

It was noted that SCEL will receive two awards from the Public Relations Society of America in April for the Beneficiary Slide Rule and the Carolina Millionaire Summer Promotion.

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."

Brian Rish, SCEL's Advertising Manager, presented current advertising placement for the third quarter of FY05 and future concepts including a video of a beneficiary message that featured an SCEL retailer's granddaughter who is a LIFE scholarship recipient and Palmetto Cash 5 spots featuring SCEL employees. The presentation also highlighted Add-A-Play and Lucky Bucks items including buck slips, CDU frame pieces, tee-shirts and posters. Palmetto Cash 5 items included a Playstation poster, wallet card and a roof ad for the Lottery Express. Items created to promote the Shrimp and Grits and Sweet Tea sequel tickets were presented. Staff also produced a newspaper ad to publicize the use of lottery proceeds, a brochure for retailer rallies, newspaper spot for the \$200,000 Palmetto Cash 5 winner, a spot for SCEL's first \$500,000 winner, and the NASCAR terminal topper, Playstation poster and buck slip.

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

Internet Second Chance Registration

SCEL would like to give players the option to register non-winning tickets over the Internet. Implementation of this option is expected to increase the number of entrants in second chance drawings. The experience of other states has been that players are more likely to enter when they do not have the added expense of postage. To register on-line, a player would enter the barcode information from his or her non-winning ticket into the second chance Internet entry site. Winners would be required to present the actual ticket that was registered for that particular drawing in order to claim the prize, thereby ensuring the tickets are held until they may be properly discarded.

Motion Adopted

Commissioner Keith moved to authorize staff to move forward with the implementation of an on-line registration mechanism for second chance drawings as may be deemed appropriate by the Executive Director. Commissioner Burriss seconded the motion which was unanimously approved.

Executive Director

According to sales data compiled for the first eight months of FY05, total sales are about \$20 million below projections due largely to lower Powerball jackpots. Nevertheless, SCEL is positioned to meet or exceed revenue transfer expectations established for FY05. Mr. Passailaigue also reported that SCEL is operating at its optimum level, with few options for significantly increasing sales. Higher gas prices have had an impact on ticket sales and the expected passage of North Carolina's lottery bill may further inhibit increased sales. Once fully implemented, a North Carolina lottery may have a negative impact on transfers for education by at least \$30 million. To date, \$852 million in lottery proceeds has been appropriated for scholarships and other education programs.

Rounded to the nearest tenth, the lottery dollar is distributed as follows:

- 58.0% Prizes to winners
- 30.2% Education Lottery Account transfers
- 7.0% Retailer commissions
- 1.9% Gaming contracts
- 1.8% Operating expenses
- 0.8% Advertising

Representatives of the Multi-State Lottery Association (MUSL) jurisdictions will meet later today to discuss changes in the Powerball matrix. The modifications under consideration would add two balls to the white ball pool, increase the size of the minimum jackpot from \$10 million to \$15 million, change the annuity payment option, increase match-5 prizes from \$100,000 to \$200,000 and add a 10-times multiplier as a promotional feature of Power Play that would be offered periodically.

These changes have been recommended by MUSL's Development Committee to answer the requests of Powerball players for higher jackpots, a faster rate of jackpot growth and higher low-tier prizes. Mr. Passailaigue indicated that a special meeting of the Commission may be

necessary after the Executive Directors of MUSL consider the Development Committee's proposal.

The Spring NASPL Directors' Meeting will be held in Charleston, South Carolina, June 7-9, 2005. SCEL Commissioners were invited to attend the NASPL dinner on June 8. It was subsequently agreed to conduct the next scheduled Commission meeting to coincide with the Directors' Meeting. The meeting will convene on Wednesday, June 8, 2005, at 3 o'clock in Charleston.

Other Business

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

/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 meeting location, the Education Lottery web site, 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.