

**MINUTES  
SOUTH CAROLINA  
EDUCATION LOTTERY COMMISSION  
May 14, 2008  
10 A.M.**

A meeting of the South Carolina Education Lottery Commission was held at 10 a.m. on Wednesday, May 14, 2008, in the first-floor conference room located at 1333 Main Street, Columbia, South Carolina, with the following Commissioners present:

Tim Madden, Chairman  
Jimmy Bailey, Jr., Vice Chairman  
Moffat Burriss, Treasurer  
Lisa Stevens, At-Large  
Dr. Edward Keith  
Boykin Rose

Commissioner Nathaniel Spells, Sr. participated by teleconference and Secretary Ashley Landess was unable to attend due to the unforeseen illness of a family member.

The Chairman called the meeting to order.

**Approval of Minutes**

On a motion of Commissioner Burriss, seconded by Commissioner Stevens, the minutes of the November 14, 2007 meeting were unanimously approved.

**Fiscal Year 2009 Budget**

Dusty Rhodes, Director of Finance, presented an overview of the Executive Director's budget recommendations for FY09 and noted the budget summary which contained supporting information. Mr. Rhodes advised that the budget was prepared based upon a detailed analysis of each department.

The FY09 budget is based on projected total revenue of \$946 million and net income of \$252.4 million to be transferred to the Education Lottery Account (ELA). The amount of net earnings generated for education is budgeted at roughly \$57 per capita, about 40% in

excess of the median for all U.S. lotteries, placing SCEL among the ten most profitable lotteries according to FY07 data. Advertising concept development and media placement expenditures are budgeted at \$8.9 million, the same as the current year's budget. This amount equates about 0.94% of FY09 projected revenue and is below the statutory cap of 1% of previous year's gross sales. Operating expenses, not including retailer commissions, are budgeted at approximately 5.4% of total revenue. This percentage is in the 80th percentile of cost effectiveness among U.S. lotteries. Total expenses, including retailer commissions, equal about 12.5% of revenue which is within the statutory limit of 15% of revenue.

Chairman Madden thanked Mr. Rhodes and his staff for the level of detail and the format of the information presented on behalf of the Executive Director to the Executive Committee and the Board.

### **Motion Adopted**

There being no further discussion, the question before the Board was the recommendation of the Executive Committee to approve the budget for FY09, as presented. The motion was unanimously adopted.

### **Reports**

#### **Marketing Report and Quarterly Advertising Review**

Prior to the advertising review, David Barden, Director of Marketing and Product Development, mentioned several items. Mr. Barden explained the Marketing and Product Development Department internal review process for advertising copy performed prior to its dissemination to the Board. He also mentioned that SCEL had a successful event at the Darlington Race where fourteen employees conducted more than a hundred wheel spins an hour. Gross sales were approximately \$24,000. Staff is in the process of finalizing the promotional events scheduled for the "Summer Escape 2008" promotion in Greenville, Fort Mill, and Myrtle Beach. Events will be held around the state to broaden the demographic base and to highlight a summer promotion that, for the first time, will include airline miles, Carnival® cruises, and Ford F-150® trucks.

Mr. Barden informed the Board that staff is working on creative concepts to link the "Play Responsibly" and "Beneficiary" messages to enhance the overall impact of the campaign. Additional information should be available for the dissemination to the Board prior to the next meeting.

To facilitate the quarterly advertising review,<sup>1</sup> print media items and a DVD containing broadcast spots were included in the meeting materials provided to Commissioners in advance of the meeting. A website link is also available for Commissioners to view, prior to airing, all major media campaign commercials produced by Mad Monkey, SCEL's advertising vendor. Among the items reviewed were:

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<sup>1</sup> SCEL's enabling legislation requires a quarterly review by the Board 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."

- Radio – Palmetto Cash 5, Powerball®, Powerball® 10X®, and MegaMatch 6<sup>SM</sup>
- Television – MegaMatch 6<sup>SM</sup>, Palmetto Tree (Double Time & Giant Cash Bonanza), and Powerball® 10X®
- Styrene Pieces – Palmetto Cash 5 and “Give a Little Jingle” Holiday tickets
- CDU – Summer Escape<sup>SM</sup> 2008
- Play station posters – Summer Escape<sup>SM</sup> 2008, MegaMatch 6<sup>SM</sup>

Additional items submitted to the Commissioners for review included Summer Escape<sup>SM</sup> 2008 point-of-sale (POS) and the following promotional items: brochure front and inside, play station ticket piece, ticket frame, window cling, and t-shirt; MegaMatch 6<sup>SM</sup> Riverdogs Advertisement, MegaMatch 6<sup>SM</sup> winners play station poster, Cash Bonanza family writing surface, beneficiary large banner, and a “Play Responsibly” writing surface.

No objection was expressed concerning the advertising material submitted to the Commissioners for review. It was therefore the consensus of the Board that SCEL’s past advertising and proposed concepts for major media campaigns did not and do not target with the intent to exploit specific ethnic groups or economic classes of people, and that the content is accurate and not misleading.

**Executive Director’s Report**

An overview of SCEL’s FY08 sales from July 1, 2007 through April 30, 2008, including revenue comparisons for each type of product offering for the same time frame in FY07, was presented. Revenue was \$0.1 million above prior year-to-date sales due to an increase in instant ticket sales. Mr. Passailaigue noted this fiscal year’s sales performance remains guided by the principle of a socially conservative advertising messages and products, as well as being fiscally responsible in all expenditures. Challenges still exist such as high gas prices, the economy in general, and the more aggressive posture of the North Carolina Lottery (with respect to marketing products and the statutory change allowing a greater share of sales to go toward enriching the prize structure).

The revenue for the first ten months of FY08 (\$828.3 million) puts SCEL on target to exceed the budgeted sales goal of \$935 million. In consultation with Chairman Madden, Mr. Passailaigue explained that the Board of Economic Advisors (BEA) has recently been advised to expect a transfer of approximately \$10 million more than the original FY08 forecast. Through April, SCEL has transferred \$225.8 million to the ELA which is 89.5% of the BEA’s FY08 revenue transfer estimate of \$252.4 million.

Mr. Passailaigue reported on the “The Lottery Dollar” breakdown for FY08 through April 30, 2008. It is distributed as follows:

- 62.0% Prizes
- 27.1% Net Proceeds
- 7.1% Retailer Commissions and Selling Bonuses
- 1.5% Gaming Costs (Vendor)
- 1.6% SCEL Internal Administrative Costs
- 0.7% Advertising

Mr. Passailaigue reviewed lottery rankings according to recent data collected by [LaFleur's 2008 World Lottery Almanac.] SCEL ranked the 11<sup>th</sup> lowest lottery in administrative expenses as a percentage of gross sales in FY07. He explained that the top 10 lotteries in this ranking had other dynamics in play to drive higher gross sales which are not available in South Carolina. These factors include \$30 instant ticket prize points, more aggressive advertising and, most significantly, Keno, video lottery terminals and other similar products. When comparing advertising expense as a percentage of revenue (FY08 budget), SCEL rank the 6<sup>th</sup> lowest and number 11 in net income per capita for FY07 among other lotteries.

Mr. Passailaigue, who is a member of the Powerball® Development Committee of the Multi-State Lottery Association (MUSL), explained that the Committee will be meeting twice in Chicago to decide on the final matrix change to be forwarded to the Powerball® Group. The Powerball® Group is composed of all member lotteries offering Powerball®. Implementation of any Powerball® matrix change will most likely be in January, well after conversion of our online system to Intralot. Mr. Passailaigue will also be attending the NASPL Spring Directors' meeting in Napa, California, in June in conjunction with the National Conference of Legislatures of Gaming States (NCLGS). The Powerball® matrix is likely to be discussed at that meeting.

Commissioners were invited to attend the Scientific Games Ticket Symposium in Atlanta, Georgia, during the week of May 19<sup>th</sup> and the annual NASPL conference in September which will be held in Philadelphia.

Finally, Mr. Passailaigue presented a PowerPoint slideshow of the Public Gaming Research Institute International (PGRI) SMART-TECH conference which SCEL hosted in Charleston from April 28<sup>th</sup> through May 1<sup>st</sup>. The conference was an opportunity, once again, to showcase SCEL and its staff, who served as panelists on virtually every program. It was the most attended PGRI conference and, based upon feedback from the attendees, a huge success. Mr. Passailaigue acknowledged the substantial efforts of the staff who participated as panelists and those who also worked tirelessly to organize and serve as conference hosts.

## **Other Business**

The Chairman recognized Hogan Brown, Director of Legal Services, to provide a brief update on Cuming v. SCEL. Mr. Brown reported that in March, Judge Seymour denied the plaintiffs' motion for class certification and ruled in favor of SCEL on virtually all points. The plaintiffs then filed an interlocutory appeal to the Fourth Circuit requesting permission to submit an appeal of Judge Seymour's rulings. Mr. Brown will inform the Board upon the decision of the Court of Appeals.<sup>2</sup> Commissioner Quattlebaum and Ernie Passailaigue commended the work of outside counsel, Betsy Gray and Cal Watson, as well as Mr. Brown and the Legal Department for the continuous hard work and dedication put forth on the lawsuit.

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<sup>2</sup> Subsequent to this meeting, on May 27<sup>th</sup> the Fourth Circuit denied the plaintiffs' request for permission to appeal Judge Seymour's order denying plaintiff class certification. The case will remain active with the plaintiffs who are currently named.

