

**MINUTES
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION
May 9, 2007
10 A.M.**

A meeting of the South Carolina Education Lottery Commission was held at 10:00 a.m. on Wednesday, May 9, 2007, in the 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
Dr. Edward Keith
Nathaniel Spells, Sr.

Commissioners Moffatt Burriss, Treasurer; Ashley Landess, Secretary; and Lisa Stevens participated by teleconference.

The Chairman called the meeting to order.

Approval of Minutes

On a motion of Commissioner Spells, seconded by Commissioner Keith, the minutes of the February 14, 2007 meeting were unanimously approved.

Fiscal Year 2008 Budget

A copy of the proposed budget for FY08 and a budget summary with supporting documentation were distributed to the Commissioners in the meeting materials prior to the meeting. The Vice Chairman opened the discussion and presented the report of the Executive Committee, which was to approve the budget as prepared by the Executive Director.

The Director of Finance, Dale Rhodes, was recognized to highlight the key elements of the proposed budget which is based on projected total revenue of \$938.2 million and net income of \$252.4 million. Total expenses, including retailer commissions, equal approximately 12.6% of projected revenue, which is within the statutory limit of 15% of revenue.

Notable items include: advertising, \$8.9 million for FY08, a decrease of about 9% from FY07; a merit increase of up to 4% for eligible employees; and a 1% allowance for potential salary adjustments recommended in the compensation study.

The ratio of net lottery earnings to Gross Domestic Product by State (GDP) has been recognized by *LaFleur's* as the principal measure of state lottery efficiency. The budget presented reflects an estimated net lottery income/GDP ratio of about 0.2%, approximately twice the median for all US lotteries.

In response to questions regarding the conservative nature of the revenue projection, Mr. Rhodes explained that a reasonable and prudent estimate was prepared because the North Carolina Lottery may expand and enhance its product offerings. In addition, Powerball® runs that could impact gross revenue are not factored into the revenue forecast as the number or frequency cannot be relied upon.

Motion Adopted

There being no further discussion, the question before the Commission was the recommendation of the Executive Committee which was to approve the budget for FY08 as presented. The motion was unanimously adopted.

Advertising RFP

David Barden, Director of Marketing and Product Development, was recognized to present the staff recommendation regarding the Advertising Services Request for Proposals (RFP), which was discussed and reported favorably by the Executive Committee on April 18, 2007. He reported that staff is in the process of preparing a draft of the Advertising RFP to request proposals that quote hourly rates for certain services, up to a “not to exceed” amount. The department is requesting a cap of \$180,000 as the maximum yearly expenditure for the base services under the new RFP, which is consistent with what is currently being paid. Staff believes that ending the retainer arrangement will result in obtaining the requested services below the budgeted amount.

Motion Adopted

Commissioner Bailey, on behalf of the Executive Committee, moved to adopt the Committee recommendation to authorize staff to move forward with the issuance of the Advertising RFP based on the approach presented and, further moved, to authorize the Executive Director to take all necessary actions to bring the procurement process to a successful conclusion. The motion was seconded by Commissioner Keith and was unanimously adopted.¹

Bylaws Revisions

The Vice Chairman explained that the only substantive change to the bylaws contained in the draft presented to the Commission relates to the meeting schedule (from every other month to quarterly). The remaining changes were merely editing revisions. The Executive Committee met on Wednesday, April 18, 2007, and recommended approval of the bylaw bylaw changes as presented.

¹ Unlike a motion or report from a Committee of the Commission, this motion required a second as Commissioner Bailey expanded upon the motion approved by the Executive Committee on April 18, 2007.

Motion Adopted

There being no discussion, the question before the Commission was the recommendation of the Executive Committee which was to approve the bylaw amendment as presented. The motion was unanimously adopted.

Reports

Compensation Study

The Vice Chairman was recognized to present the Executive Committee discussion of April 18, 2007, relating to the Compensation Study. Commissioner Bailey reminded members that at the December 8, 2005 Commission meeting, the Board directed staff to hire an independent company to conduct a compensation study, which decision was based, in part, on a recommendation by the Legislative Audit Council. Milliman was retained pursuant to the Procurement Code to conduct a comprehensive compensation and classification study and to recommend an agency-wide pay plan. The Executive Committee deferred any action on the study. The Committee asked the Executive Director to report any specific items related to the study that would need formal action of the Commission at the Wednesday, May 9, 2007 meeting.

Mr. Hankerson, lead author of the Milliman report, was recognized to brief the Commission on the structure and findings of the study. The goal of the report was to develop recommendations to align SCEL's compensation structure with: 1) its business strategy, 2) its organizational philosophy and values, and 3) competitive "best practices." All SCEL positions were reviewed in a custom survey from information compiled from nine other state lotteries, regional organizations, and ten published salary surveys. This information was used to ensure a comprehensive analysis was made. Milliman's recommendation was to establish salary ranges for the various positions at the 50th percentile of the market in which SCEL operates (adjusting for regional considerations and cost-of-living factors) and to incorporate performance-oriented compensation concepts. Milliman concluded SCEL's current salary structure is "constructed under sound methodologies and utilizes sound administrative procedures and policies...."

The Executive Director indicated that the only item that may require Commission action would be the pay philosophy. Milliman made four other recommendations in its study that were not presented to the Board for action. All five recommendations are presented in Attachment 1 (included in the meeting materials) and incorporated in these minutes by reference. The attachment also contains the Executive Director's response and comments as to whether to implement Milliman's suggestions. A draft substantially similar to the pay philosophy recommendation presented by Milliman was distributed for consideration by the Commission and is incorporated to these minutes as Attachment 2.

Chairman Madden asked why it is important for a pay philosophy to be approved by the Commission rather than the Executive Director. Mr. Hankerson explained that adopting a pay philosophy creates a policy guideline for management to implement. The philosophy is designed to be supportive of SCEL's mission, business strategy, goals, organizational philosophy, and values. Mr. Hankerson suggested it was more appropriate for the Commission to adopt the pay philosophy rather than management because the pay philosophy is a "what" and not a "how."

As to the content of the pay philosophy, Milliman essentially incorporated the core of SCEL's current philosophy which up until this time was not reduced to a single document. Articulating a formal written policy which would be available to staff facilitates a better understanding and clarity as to performance expectations and how they may succeed within the organization. Mr. Hankerson advised SCEL to monitor the implementation, consider adjusting the salary range every two to three years to account for inflation, and to link performance evaluations with the appropriate compensation levels. Chairman Madden asked why the market 50% percentile was the recommended target for the salary ranges. Mr. Hankerson picked this range as it allows for a 25% spread for each position to allow management to account for variables such as experience, education, and performance of the individual occupying the position. It is also the level most commonly adopted in the private sector.

The Chairman recognized the Executive Director who acknowledged the efforts of Milliman in providing a professional comprehensive study as well as the SCEL management team who worked with them on this project (Tony Cooper, Ernestine Middleton, Mary Margaret Hopkins, Hogan Brown, and Bethany Parler). Mr. Passailaigue proceeded to address Milliman's recommendations (see Attachment 1). He then asked the Commission to adopt the formal pay philosophy (see Attachment 2) and to allow staff to implement the second and third recommendations (noted in Attachment 1).

Chairman Madden noted that the adoption of a formal pay philosophy, available to all SCEL stakeholders, would serve as a framework within which the Executive Director may operate to effectuate a compensation structure.

Motion Adopted

Commissioner Bailey moved to adopt the pay philosophy presented in Attachment 2 and to authorize staff to offer non-substantive changes, subject to the approval of the Chairman, subsequent to this meeting,² and to further authorize the Executive Director to implement the recommendations as he deemed appropriate, consistent with Attachment 2, until otherwise directed by the Board. Commissioner Keith seconded the motion, which was unanimously adopted.

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 – American Idol™, Palmetto Cash 5, Sweethearts & Magnolias, Hit 200, Play Responsibly, Power Deal Winners, Shamrock Ticket, Bingo, and Powerball®

² Pursuant to this motion, minor edits were made to the pay philosophy presented in Attachment 2. The final pay philosophy document as approved by the Chairman is presented as Attachment 3.

- Television – Power Deal, Shamrock Ticket, Play Responsibly, Winner Awareness, and Lottery Break (Winner Awareness, Power Deal, Powerball®, Shamrock Ticket, and Play Responsibly)
- Video Market Place – 5th Anniversary, Carolina Power Deal, Carolina Millionaire, Play Responsibly, Sweethearts & Magnolias, American Idol™, Powerball®, Shamrock Ticket
- Dispenser Piece – “That’s the Ticket”
- Play station posters – “That’s the Ticket,” Summer Promotion Cityscape, Power Deal, Powerball x10 Promotion, American Idol™, Crazy 8’s, Junior Jumbo Bucks, and Carolina Millionaires Club
- CDU piece – Palmetto Cash 5
- Styrene Piece – “That’s the Ticket”

Additional items included the “That’s the Ticket” brochure and starburst, a Charleston RiverDogs program advertisement on SCEL’s product mix, and a Carolina Millionaires Club and Palmetto Pirates newspaper ad.

David Barden reported that the summer promotion, “That’s the Ticket,” will kick-off in Charleston on May 19th at the RiverDogs game with a supporting event on July 3rd when four second-chance grand prize winners will be selected. The promotion is associated with the Cash Bonanza Riches ticket. The summer promotion will wind down in September in Myrtle Beach at the “Beach Boogie BBQ” event. Four more grand prize trips will be given away at that time. The final trip will be awarded 30 days after the last day to sell Cash Bonanza Riches tickets.

No member of the Commission expressed an objection to the advertising material submitted in advance of the Commission meeting; 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 showing a sales decline of \$144.5 million (\$72.3 million in instant sales and \$72.2 million in online sales) in total sales FY07 from July through April compared to FY06 figures. A combination of factors account for the difference between the two fiscal years: 1) Powerball® sales are down \$82.7 million (two Powerball® jackpot runs in excess of \$300 million occurred in FY06 whereas none have occurred in FY07); 2) North Carolina Powerball® players no longer need to drive to South Carolina; and 3) North Carolina Powerball® players often purchased other SCEL products with visiting our retailers; and 4) high gasoline prices impacts sales for items purchased with discretionary income. Mr. Passailaigue also noted that other online sales have increased over \$10.5 million from the previous fiscal year. He reported that to-date, gross sales equal \$851 million. Gross sales are expected to be nearly a \$1 billion dollars this, making FY07 the second highest fiscal year in sales.

In relation to the North Carolina lottery’s impact on SCEL, Mr. Passailaigue reviewed sales trend information, comparing revenue generated between April 1, 2005 – April 30, 2006 and April 1, 2006 – April 30, 2007. The two spikes in October 2005 and February 2006 reflect the two Powerball® jackpot runs in excess of \$300 million. Mr. Passailaigue reminded Commissioners that all claims in excess of \$500 must be made at one of the four

claims centers. As a result of this requirement, Mr. Rhodes was able to estimate claims by North Carolina residents as a percentage of all claims processed. Prior to the launch of the North Carolina lottery, it is estimated that nearly 35% of all claims were made by North Carolina residents. This percentage has diminished to slightly below 20%. All factors considered, the North Carolina impact is not nearly as significant as originally anticipated. Mr. Passailaigue believes the impact was mitigated because players initially attracted to SCEL appreciate and are loyal to the products and prize percentage payouts offered.

In FY07 through April, SCEL transferred \$231.6 million to the ELA. The Board of Economic Advisors' (BEA) original estimate of net proceeds transfers for FY07 has been from \$252.4 million to \$267 million. Mr. Passailaigue expressed confidence that SCEL will meet the revised BEA goal within the two months remaining in the fiscal year and anticipates exceeding that estimate by the close of the fiscal year.

The Lottery Dollar for FY07 (July 1, 2006 – April 30, 2007) is distributed as follows:

- 60.2% Prizes
- 28.4% Net Proceeds
- 7.1% Retailer Commissions and Selling Bonuses
- 1.7% Gaming Costs (Vendor)
- 1.9% SCEL Internal Administrative Costs
- 0.7% Advertising

Mr. Passailaigue reported that he attended meetings recently with the Multi-State Lottery Association (MUSL) and the Powerball® group. He also informed the Commission that the Florida Lottery has expressed interest in joining a multi-jurisdictional game and was, at one point of time, looking at the Powerball® group. The Powerball® group will report if any developments occur. Mr. Passailaigue reminded Commissioners that he chairs a special MUSL committee formed to explore the possibility of a joint multi-jurisdictional game between MUSL and Mega Millions®. While recognizing the multi-jurisdictional game is worthy of consideration, several Mega Millions® states believe there are statutory constraints, with the concept of a joint multi-jurisdictional raffle game. Mr. Passailaigue also reported that the annual NASPL meeting is to be held October 3 – 6, 2007, in Louisville, Kentucky, in conjunction with the World Lottery Association. He encouraged Commissioners to attend if their schedules permit.

Mr. Passailaigue congratulated Bethany Parler, Internal Auditor, for her recent certification as an Information Technology Professional and for her unique ability to bridge the gap between business and technology applications.

The Chairman and Commissioners recognized Mr. Passailaigue for his involvement in various national and international groups and the standing his service brings to the entire organization. Commissioner Landess also highlighted that SCEL's success is measured beyond revenue or numbers, but by the extraordinary balance Mr. Passailaigue strikes in marketing and managing SCEL to enhance the profile of SCEL within South Carolina.

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.

ATTACHMENT 1

Below are Milliman's recommendations followed in italics by the Executive Director's comments concerning the extent to which or whether he intends to implement the Millman suggestions.

1. Adopt and formalize a total compensation philosophy emphasizing competitive market-driven pay at the 50th percentile and performance driven awards.

The Executive Director agrees with this recommendation to formalize the compensation philosophy as revised below:

The South Carolina Lottery's core mission is to provide new resources to enhance the educational opportunities for the people of South Carolina. Realizing our mission requires that we attract highly qualified and talented employees. We believe that our employees are our most important asset and consequently we strive to create an environment that fosters teamwork, achievement, integrity, creativity, responsibility, and recognition. We understand that employees at all levels must be strong performers if we are to realize our goals. We are committed to creating a high performance environment that encourages and rewards excellence. Our pay program is based on a "pay for performance" philosophy, meaning, the greater the performance or contribution to the Lottery's success, the greater the total compensation opportunity.

In general, we seek to provide a compensation program which is competitive (driven by market levels) and rewards high performance in order to attract, retain, and motivate our employees. Our program is designed to:

- ◆ *Provide compensation that is aligned with our labor market(s).*
- ◆ *Provide flexibility within pay grades to allow recognition of performance, experience, knowledge, and contribution.*
- ◆ *Reward performance with above market average compensation when individual and organization performance is good.*
- ◆ *Treat each of our valued employees fairly and consistently.*

The Lottery invests in employees through three total compensation components:

- ◆ *Base Salary*

The Lottery maintains salary ranges near the middle of the market (local and regional public-sector and for-profit organizations). We are committed to providing base salary within the minimum and maximum of the salary range based on an individual's performance, experience, knowledge, and contribution. We want our employees to be rewarded for their efforts and results. To ensure that contributions are recognized and communicated, performance reviews will occur every year and may be accompanied by merit awards, as earned.

- ◆ *Short-term Incentives*

The Lottery provides, for eligible employees in designated sales positions, short-term team incentives that focus on the achievement of annual objectives.

- ◆ *Benefits*

Broad-based organizational benefits will be available to employees through insurance and retirement programs.

In return for the above compensation components, the Lottery wants employees to bring their ingenuity and intellectual capabilities to create new opportunities in every area of the business, while maintaining a culture that promotes a healthy balance between work and home.

We will regularly assess changes in our labor markets to ensure that our program remains competitive. We will also openly communicate with employees regarding the structure and philosophy of the elements that make up our total compensation program.

2. Manage base salaries toward the Lottery's targeted level in the market (i.e. 50th percentile). This is not to say that all salaries should be at the median or that any salaries should be decreased; rather, base salary levels should emphasize performance and contribution.

The Executive Director agrees with this recommendation and will follow best practices to correct the positions and align the salaries within the new structure as outlined below.

The findings indicate that overall, SCEL positions are approximately 6% below market compensation levels. Based upon the proposed salary range structure that Milliman has provided, nine (9) of our positions fall below the minimum pay for the associated pay grade assignment. Compensation best practices would call for adjustments to bring the positions to the minimum of the pay grade. The anticipated cost of compensation adjustments to the minimum is not expected to exceed \$31,000.

Positions which fall below the midpoint and the dollar amount to bring each position to the 50% market level;

1. Accountant Fiscal Analyst II	\$1,300
2. Broadcast Producer I	\$4,135
3. Marketing Coordinator	\$1,330
4. Network Services Specialist	\$ 221
5. Product Specialist	\$1,905
6. Copywriter	\$4,448
7. Marketing Sales Rep	\$9,420 (Combined total for each position)
8. Graphic Web Manager	\$5,280
9. Internal Auditor	\$2,998

Positions which will exceed the maximum under the new grade system if adopted are as follows;

1. Project Manager	\$1,924
2. Administrative Assistant	\$4,241
3. Administrative Support Specialist	\$1,058

3. Adopt the recommended salary structure, using one structure for all employees of the Lottery.

The Executive Director agrees with this recommendation to revise our salary structure as outlined below.

The difference in pay from the minimum of pay grades 1 through 5 to the maximum should be 40%. Grades 6 through 10 should be 50% and grades 11 through 15 should be 60%. This is consistent with the level of duties, span of control and responsibilities. In addition, career ladders should be created to address the difference between an entry level position and a senior level position. The following are the new position levels which were created to form career ladders:

1. *Accountant- Fiscal Analyst II*
2. *Broadcast Producer I*
3. *Network Services Specialist III*
4. *Regional Office Manager II*

4. Implement the following job title schematic for management level positions to better align with the current labor market.

The Executive Director does not agree with this recommendation and prefers to retain the traditional titles of a State agency. The following chart describes the current and proposed title changes.

<i>NAME</i>	<i>CURRENT TITLE</i>	<i>PROPOSED TITLE</i>
<i>Ernie Passailaigue</i>	<i>Executive Director</i>	<i>President & Chief Executive Officer</i>
<i>Tony Cooper</i>	<i>Chief Operating Officer</i>	<i>Executive Vice President & COO</i>
<i>Hogan Brown</i>	<i>General Counsel & Director of Legal Services</i>	<i>General Counsel & Senior Vice President, Legal Services</i>
<i>Ernestine Middleton</i>	<i>Director of Internal Operations</i>	<i>Sr. VP, Administration & Human Resources</i>
<i>Leslie Vang</i>	<i>Director of IT</i>	<i>Sr. VP, Information Technology</i>
<i>Tom Marsh</i>	<i>Director of Security</i>	<i>Sr. VP, Security</i>
<i>Ann Scott</i>	<i>Director of Sales & Retailer Relations</i>	<i>Sr. VP, Sales & Retailer Relations</i>
<i>David Barden</i>	<i>Director of Marketing & Product Development</i>	<i>Sr. VP, Marketing & Product Dev.</i>
<i>Dusty Rhodes</i>	<i>Director of Finance</i>	<i>Sr. VP, Finance</i>
<i>Bethany Parler</i>	<i>Internal Auditor</i>	<i>SVP, Audit Services</i>
<i>Uvette Pope-Rogers</i>	<i>Controller</i>	<i>Vice President, Controller</i>
<i>Melvin Gladney</i>	<i>Treasurer</i>	<i>VP, Treasury & Claims</i>
<i>Mary Margaret Hopkins</i>	<i>Director of Human Resources</i>	<i>VP, Administration & Human Resources</i>
<i>Carl Stent</i>	<i>Deputy Director of Legal Services</i>	<i>VP, Legal Services</i>
<i>Johnny Genwright</i>	<i>Deputy Director of Gaming</i>	<i>VP, Gaming</i>
<i>Del Collins</i>	<i>Deputy Director of Infrastructure</i>	<i>VP, Infrastructure</i>
<i>Leroy Bailey</i>	<i>Deputy Director of Security</i>	<i>VP, Security</i>
<i>Kevin McCarthy</i>	<i>Deputy Director of Sales and Retailer Relations</i>	<i>VP, Sales & Retailer Relations</i>
<i>Steve Beck</i>	<i>Deputy Director of Marketing and Product Development</i>	<i>VP, Marketing & Product Dev.</i>
<i>John J. Johnson</i>	<i>Deputy Director of Legal Services</i>	<i>VP, Legal Services</i>

5. Based on the wide-spread prevalence of incentives in the market, the Lottery should adopt an incentive plan, designed to reward, reinforce, and recognize certain critical success drivers for the organization and its departments.

The Executive Director believes that our current performance evaluation and merit pay programs are adequate and would therefore recommend that the Commission decline to adopt this recommendation as outlined below:

SCEL would need at least a year to eighteen months to prepare the organization for the necessary cultural changes needed to implement an annual incentive plan for all employees. The plan would be conservatively implemented and the success drivers would include measurable cost control initiatives for the corporate goal. The unit and individual performance goals would be determined based on the agency's strategic plan and success criteria as already aligned in the performance evaluation process for each employee. We would also study how this has worked in other organizations.

The estimated cost to fund the annual incentive plan is approximately \$439,000 at the target level. The incentive plan is in addition to the merit pay plan. This amount excludes positions that are currently participating in the agency's annual incentive plan. The former director of Sales & Marketing and the new Sales Director do not support changing the current incentive plan to the proposed incentive plan. Positions not included in the proposed incentive plan are:

- 1. Marketing Sales Representatives (36)*
- 2. Telephone Sales Representatives (6)*
- 3. Telephone Sales Supervisor*
- 4. Regional Sales Manager (3)*
- 5. Corporate Sales Manager*
- 6. Corporate Sales Representative*
- 7. Field Operations Director*

Unlike the merit pay plan, the incentive pay plan is not applied to the base salary. Therefore, it provides no long-term benefit to the employee under the State's retirement system. Likewise to initiate the incentive plan in lieu of the merit pay plan would have a negative impact on morale and productivity.

The incentives will be perceived as reducing the net transfer available to the State. SCEL and many other lotteries do offer incentives. If offered, incentives are primarily for either staff directly involved in sales or are awarded during start-up for achieving time and financial goals.

The incentive plan as designed will have to pay for its self to be implemented. In other words, in order to receive the incentive, productivity has to measurably increase. We believe an analysis of existing benchmarks, which measure productivity and accountability, clearly demonstrates that SCEL employees are performing well in excess of industry norms. Existing statutory law makes it clear that incentives of any kind, tied to increasing sales, is an inappropriate method of rewarding both SCEL employees and vendors.

ATTACHMENT 2

The Executive Director of the Lottery shall be responsible for establishing the compensation of lottery employees other than the Executive Director and Internal Auditor, which whose compensation is determined by the Commission. To assist the Executive Director, the Commission adopts the following philosophy regarding compensation:

The South Carolina Education Lottery's core mission is to provide new resources to enhance the educational opportunities for the people of South Carolina. To accomplish this mission, it is important to attract highly qualified and talented employees. Our employees are our most important asset. Our employment environment should foster teamwork, achievement, integrity, creativity, responsibility and recognition. We are committed to creating a high performance environment encouraging and rewarding excellence. Our pay program is based on a "pay for performance" philosophy, meaning, the greater the performance or contribution to the Lottery's overall and organizational success, the greater the total compensation opportunity.

Generally, we seek to provide a compensation program which is competitive (driven by market levels) and rewards high performance in order to attract, retain, and motivate our employees. Our program is designed to:

- ◆ Provide compensation that is aligned with our labor market(s).
- ◆ Provide flexibility within pay grades to allow recognition of performance, experience, knowledge, and contribution.
- ◆ Reward performance with above market average compensation when individual and organization performance is good.
- ◆ Treat each of our valued employees fairly and consistently.

The Lottery invests in employees through three total compensation components which are:

1. **Base Salary**

Generally, salary ranges are near the middle of the market (with market defined to include local and regional public-sector and for-profit organizations). Base salary should fall within the salary range based on an individual's performance, experience, knowledge and contribution. Performance reviews should occur every year and may be accompanied by merit awards.

2. **Short-term Incentives**

The Lottery provides, for eligible employees in designated sales positions, short-term team incentives focused on the achievement of annual budget objectives, including budgets adopted by the Commission.

3. **Benefits**

Broad-based organizational benefits will be available to employees through insurance and retirement programs.

The Lottery expects employees to bring their ingenuity and intellectual capabilities to create new opportunities in every area of the business. Our culture should promote a healthy balance between work and home.

We will maintain awareness of changes in our labor markets to ensure our program remains competitive.

We will also openly communicate with employees regarding the structure and philosophy of our total compensation program.

ATTACHMENT 3

The Executive Director of the Lottery is responsible for establishing the compensation of lottery employees, except for his salary and the Internal Auditor, whose compensation is determined by the Commission. To assist the Executive Director, on May 9, 2007, the Commission adopted the following philosophy regarding compensation:

The South Carolina Education Lottery's core mission is to provide new resources to enhance the educational opportunities for the people of South Carolina. To accomplish this mission, it is important to attract highly qualified and talented employees. Our employees are our most important asset. Our employment environment should foster teamwork, achievement, integrity, creativity, responsibility, and recognition. We are committed to creating a high performance environment encouraging and rewarding excellence. Our pay program is based on a "pay for performance" philosophy, meaning, the greater the performance or contribution to the Lottery's overall and organizational success, the greater the total compensation opportunity.

Generally, we seek to provide a compensation program which is competitive (driven by market levels) and rewards high performance in order to attract, retain, and motivate our employees. Our program is designed to:

- ◆ Provide compensation that is aligned with our labor market(s).
- ◆ Provide flexibility within pay grades to allow recognition of performance, experience, knowledge, and contribution.
- ◆ Reward performance with above market average compensation when warranted.
- ◆ Treat each of our valued employees fairly and consistently.

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