

**MINUTES
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION
June 1, 2006
10:30 A.M.**

The South Carolina Education Lottery Commission met at 10:30 a.m. on Thursday, June 1, 2006, in the large 1st Floor Conference Room of the headquarters building, 1333 Main Street, Columbia, South Carolina, with the following Commissioners in attendance:

Tim Madden, Vice-Chair
Ashley Landess, Secretary
Jimmy Bailey, Jr., Treasurer
T. Moffatt Burriss
Dr. Edward Keith
Marvin Quattlebaum, Jr.
Nathaniel Spells, Sr.
Lisa Stevens

Commissioner Boykin Rose participated by teleconference.

Before the meeting was called to order, retiring Chairman C. B. Smith spoke briefly to the Commissioners, expressing his appreciation and gratitude for having served with them and wishing them and SCEL continued success.

Vice-Chair Tim Madden called the meeting to order, welcoming incoming Commissioner Nathaniel Spells, Sr. to the board.

Approval of Minutes

On a motion by Commissioner Keith, seconded by Commissioner Bailey, the minutes of the March 16, 2006 meeting were unanimously approved.

Election of Chairman

The floor was opened for nominations for Chairman. Commissioner Burriss nominated Tim Madden, noting his outstanding prior service on the board and his faithful attendance. The nomination was seconded by Commissioner Keith. There were no other nominations.

Motion Adopted

Commissioner Burriss moved to close the nominations and proceed to the election, seconded by Commissioner Bailey. The motion passed. Commissioner Madden was unanimously elected SCEL Chair.

The Chair suggested that the position of Vice-Chairman be filled at the next Commission meeting.

Approval of Fiscal 2007 Budget

A copy of the proposed budget for FY07 and a budget summary with supporting zero-base calculations were distributed to Commission members in the meeting material packet provided prior to the meeting. The Chair opened the floor for discussion and questions.

The Director of Finance, Dale Rhodes, explained that the budget is based on projected total revenue of \$937.8 million and net income of \$242.4 million. Total expenses, including retailer commissions, equal about 12.7% of revenue which is within the statutory limit of 15% of revenue. The FY07 budget reflects a decrease in revenue and an increase in expenses compared with the FY06 budget due to:

- a possible impact from the North Carolina lottery
- two substantial Powerball jackpots in FY 06 may not be repeated in FY 07
- an increase in advertising costs due to higher cost of ads in Charlotte area and higher cost of airtime in a general election year
- higher instant game payouts

It is estimated that twelve percent of SCEL products are sold to the North Carolina market. Placing television and radio ads during times of day where they will be viewed by a greater number of people (increasing the frequency and reach) causes a corresponding increase in the cost of advertising. However, better placement should enhance sales or ameliorate an erosion of sales due to North Carolina's lottery. Staff plans to focus advertising on SCEL products that are distinguishable from North Carolina games.

Budget items, other than advertising, showing a noticeable increase from FY06 include:

- Miscellaneous Revenue – Comprised of telephone line fees collected from retailers by SCEL and the sale of assets that are no longer used.
- Temporary Services – A temporary employee for the Fort Mill Claims Center and transitory vacancies left when key employees have departed.
- Consultants – Compensation and Staffing Study and the services of industry experts to assist in developing the online RFP.
- Legal Services Budget – The costs of trademarking and copyrighting an increasing number of games names and logos; a contingency for outside counsel in case of a protest of the Instant and Online Game RFPs (which is not covered by the prepaid legal defense policy); outside counsel in the defense of a suit filed in December.

It was noted that the cost of directors' and officers' liability insurance should decrease by about \$60,000 within the next year. The procurement process to secure a new policy has been deferred as the State Procurement Office is currently providing substantial assistance on other SCEL RFPs.

Motion Adopted

Commissioner Keith moved to adopt the Fiscal 07 Budget as presented. Commissioner Stevens seconded the motion. Following questions and comments, the motion was unanimously approved.

Carolina Millionaire Raffle

SCEL's Sales and Marketing Department strives to periodically introduce to the product mix a game that will entertain players, expand the player base and is unlike current games. After researching potential new online games and discussions with the Pennsylvania Lottery, in particular, Sales and Marketing proposed a raffle-type game. Pennsylvania introduced a \$20 raffle ticket which was successful in generating \$10 million in new revenue and reaching players who were not regular lottery players.

SCEL's online raffle game, Carolina Millionaire Raffle, is expected to launch in Fall 2006. Staff recommends the first game offer one million \$10 tickets to be sold over a thirteen-week period with 766 prizes. The game will be closed after the sale of the one millionth ticket and the drawing will be on January 8, 2007. The odds of winning the top prize are 1 in 250,000. The prize structure includes:

- Four \$1 million top prizes
- Two \$100,000 prizes
- Sixty \$10,000 prizes
- Seven hundred \$1,000 prizes

Staff anticipates the raffle ticket will generate \$4.5 million in new revenue. Administrative costs of the game will include the seven percent retailer commission, retailer incentives, purchase of the random number generator and other miscellaneous costs. Staff anticipates offering the raffle ticket from two to six times a fiscal year. Should the end of ticket sales take place several weeks before the scheduled draw date and distribution of prizes, SCEL will follow its usual financial investment practices. Point-of-sale materials will clearly state the drawing date.

Motion Adopted

Commissioner Burriss moved to authorize the Executive Director to take all appropriate steps necessary to implement a new online raffle game, including but not limited to rules, prize structure, draw and other procedures, the frequency and timing of game offerings to be conducted per fiscal year. The motion was seconded by Commission Keith and was unanimously adopted.

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 – Powerball with PowerPlay purchase, Junior Jumbo Bucks Add-A-Play, Million Dollar Second Chance Summer Promotion, Peach Cobbler ticket, Carolina Millionaires Club
- Television – Peach Cobbler ticket (featuring SCEL employees)
- Video Market Place – Million Dollar Second Chance Summer Promotion
- Print Ads – Palmetto Cash 5, Carolina Millionaires Club, Congratulations to the Governor’s School String Orchestra, generic games piece
- Playstation Posters – Palmetto Cash 5, Carolina Millionaires Club, Struck by Luck (claim centers)
- Posters – Fort Mill Claim Center announcement, Murphy Oil gas card promotion, Coming Soon to this Location
- Million Dollar Second Chance Summer Promotion – Vinyl banner, poster, playstation poster, instant ticket dispenser POS, styrene POS, shrink-wrapped T-shirt

Additional items included Lucky Horseshoe Cash instant ticket, Mystery Shopper retailer incentive flyer, Wheel of Fortune starburst, Junior Jumbo Bucks CDU piece, shrink-wrapped Palmetto Cash 5 T-shirt, press kit folders with the SCEL logo, and generic games piece for grocery carts.

The Million Dollar Second Chance Summer Promotion merchandise prize pack items displayed at the meeting included a rolling cooler, wool and leather racing jacket, Mustang cap, Mustang T-shirt, Mustang ceramic coffee mug, Mustang throw, Mustang key chain, Mustang sunglasses, and shrink-wrapped SCEL T-shirt.

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.

Executive Director

Mr. Passailaigue called attention to graphs in the meeting material packet that compared April and May instant ticket sales in 2005 and 2006. Ticket sales in 2006 exceed 2005 sales by more than twenty percent. Total of sales to date equals \$972.7 million. The Board of Economic Advisors’ estimate of SCEL’s total transfers to the Education Lottery Account was increased in February to \$290 million. To this point in time, higher gas prices and the launch of the North Carolina Lottery have not had a significant impact on SCEL’s sales.

The RFP for Instant Tickets, Marketing Services, Warehousing and Distribution was issued and three vendors have responded. Evaluation panelists are currently assessing the responses. Once points have been assigned and there is an apparent successful vendor, negotiations will begin. Staff will brief the Chair and the Executive Committee regarding progress and, if needed, as provided in the Commission By-Laws, the Executive Committee may act on behalf of the Commission to address issues that arise prior to the next meeting.

Mr. Passailaigue has been attending various scholarship events around the state. He will be attending the NASPL meeting in Chicago in October and the Spring Director's Meeting in June 19-21, 2006 in St. Andrews, New Brunswick. Mr. Passailaigue is Second Vice President of NASPL. SCEL will host the NASPL Subcommittee Meeting in Myrtle Beach on October 23-26, 2006. Attendees of the meeting will be members of the Legal, Information Technology, Communications, Security and Corporate Development Subcommittees.

Performance Measurement Reviews

SCEL's Executive Director and Internal Auditor report directly to the Commission. A performance evaluation for these two employees is completed annually by each commissioner. In the interest of time, the review of the evaluations will be taken up at a later meeting.

Other Business

A press conference is planned for Friday, June 2, 2006, to acknowledge the Center Ice Charities' donation of \$4,310 to the National Guard Association of South Carolina Scholarship Foundation. The press conference was planned for Friday to enhance media coverage as the General Assembly adjourns on Thursday, June 1.

To facilitate scheduling around Commission meetings, a series of dates will be disseminated to Commissioners. A specific date for the next meeting will be confirmed by staff after adjournment. (Subsequent to the meeting, August 9, 2006, was set for the next Commission meeting.)

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

_____/s/
Timothy E. Madden, Chairman

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.