

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
August 13, 2008
10 A.M.**

A meeting of the Board of Commissioners of the South Carolina Education Lottery was held at 10 a.m. on Wednesday, August 13, 2008, 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
Moffatt Burriss, Treasurer*
Ashley Landess, Secretary*
Lisa Stevens, At-Large*
Dr. Edward Keith
Marvin Quattlebaum
Boykin Rose*
Nathaniel Spells, Sr.*

The Chairman called the meeting to order.

Approval of Minutes

On motion of Commissioner Quattlebaum, seconded by Commissioner Bailey, the minutes of the May 14, 2008, meeting were unanimously approved.

Draw Studio Utilization Plan

The Executive Director gave a brief overview of the opportunity SCEL has to utilize the state-of-the-art draw studio. Allowing outside entities to use the draw studio, during intervals when SCEL is not preparing for or conducting draws, could generate additional annual revenue of \$200,000.00 or more. The additional revenue would off-set operational expenses and create a supplemental funding source to the Education Lottery Account (ELA) for appropriation by the General Assembly.

Commissioner Stevens noted the Executive Committee's recommendation to use a discounted fee schedule for state agencies was not included in the Executive Committee minutes. Without objection, the Chairman informed the Board that he would amend the

*These members participated via teleconference.

June 20, 2008, Executive Committee minutes to include the Committee's intent to implement a discounted fee for state agencies.

The Executive Director will establish a fee schedule which is similar to that presented to the Executive Committee. The fee schedule will be distributed to the Board upon completion.

Motion Adopted

There being no further discussion, the question before the Board was the recommendation of the Executive Committee to move forward with the draw studio utilization plan as presented. The motion was unanimously adopted.

Evaluation of the Executive Director and Internal Auditor

Upon invitation of the Chairman, all Board members participated in the June 20, 2008, Executive Committee meeting. The Committee made a unanimous recommendation on the evaluations of and merit increases for the Executive Director and Internal Auditor. Consequently, the Chairman recommended the Board address these items in a single motion.

Motion Adopted

Without objection, the question before the Board was the merit increases for the Executive Director and Internal Auditor recommended by the Executive Committee (minutes presented in the meeting materials). The motion was unanimously adopted.

Powerball® Matrix Change

Mr. Passailaigue updated the Board on the matrix change approved by the Powerball® Game Group. Extensive focus group testing and research were conducted to determine what current and potential players liked and disliked about the game. Based on this work, the Powerball® Group decided to retain the \$1 price point with the \$1 Power Play™ option which offers a random multiplier of 2x, 3x, 4x, or 5x for all cash prizes won (except the jackpot). The changes to the matrix establishes a guaranteed \$1 million Match 5 prize with the Power Play™ option along with an increase in the starting jackpot from \$15 million to \$20 million. While the overall odds of winning lower-tier prizes are enhanced by adding more than 3 million additional prizes per year, the overall odds of winning the jackpot increases from 1 in 142 million to 1 in 195 million. The value of the average jackpot win during a “run” is increased from \$95.5 million to \$141 million. The number of white balls available to be drawn increases from 55 to 59 whereas the number of red Powerball® balls available to be drawn decreases from 42 to 39. Five white balls and one red ball will continue to be drawn. The addition of Florida (with a population of approximately 18 million) to Powerball® facilitated the matrix change, which will be effective in January 2009.

Mr. Passailaigue explained that with the Powerball® Group's approval of the changes highlighted above, the sole issue before the governing bodies of the respective Powerball® jurisdictions is whether to adopt the new rules.

Motion Adopted

Commissioner Quattlebaum moved to adopt the Powerball® game rule changes, as presented by the Powerball® Group (included in the meeting materials). Commissioner Bailey seconded the motion, which was unanimously adopted.

Reports

Marketing Report and Quarterly Advertising Review

Susan King, Advertising Manager, reported that the Summer EscapeSM 2008 promotion is meeting expectations. Two more Summer EscapeSM 2008 events are scheduled: one at the Charlotte Knights game in Ft. Mill on August 23, 2008, and the other at the Beach Boogie & BBQ event in Myrtle Beach on August 29 and 30, 2008. Ms. King also mentioned that the Marketing and Product Development staff is working with the other departments to wrap up work on the Deal or No DealTM instant game ticket and second-chance promotion. Staff is also working to improve the "Play Responsibly" campaign and the website.

To facilitate the quarterly advertising review¹, 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. Among the other items reviewed were:

- Radio and Print – Summer EscapeSM 2008
- Television – Summer EscapeSM 2008, Summer Promotional Events, \$100,000 Super Cash Holographic Ticket, MegaMatch 6SM, Powerball®, "Play Responsibly"
- Play station posters – \$100,000 Super Cash Holographic Ticket

Additional print advertisements were presented, including: a Carolina Millionaires Club writing surface, Powerball® Sun Fun Festival and beneficiary awareness messages and a Clean\$weep Second-Chance Drawing buckslip.

No objection or concern was expressed regarding 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

Mr. Passailaigue announced that FY08 gross sales of \$992.5 million were the second highest since start up. He provided a breakdown of SCEL's FY08 (July 1, 2007 through

¹ 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."

June 30, 2008), including revenue comparisons for each product for FY07 and for each of the past five fiscal years. Total sales for FY08 were \$4.1 million above FY07 due to an increase in instant ticket sales, which offset an \$800,000 decrease in online sales (most of which was attributable to Powerball®). *La Fleur's* rankings of instant ticket per capita sales for the first quarter of FY08 reported SCEL in the top 5 among all U.S. lotteries.

Mr. Passailaigue emphasized that SCEL staff has not changed its conservative marketing strategy and philosophy guided by socially responsible advertising messages and products. In that vein, it was noted that actual FY08 advertising expenses were \$600,000 less than the budgeted amount approved by Board for FY08. According to recent data presented in the *La Fleur's 2008 World Lottery Almanac*, SCEL's advertising expense, as a percentage of revenue (based on the FY08 budget), ranks 6th lowest for FY08 among North American lotteries. Budgetary authorization does not mean that an expenditure will be made.

The \$266.1 million in transfers to the Education Lottery Account (ELA) exceeded the original Board of Economic Advisors' (BEA) estimate by more than \$13 million. The FY08 transfer reflects a \$7.3 million decrease from FY07 due to the combined effect of an increase in the prize payout percentage for instant tickets, and the Powerball® jackpot run at the end of FY07. Mr. Passailaigue noted that the July FY09 transfer was \$4.7 million above the July FY08 transfer (\$24.9 million compared to \$20.2 million) to the ELA.

Mr. Passailaigue reported on the "The Lottery Dollar" breakdown for FY08 through July 31, 2008. It is distributed as follows:

- 62.2% Prizes
- 26.5% Net Proceeds
- 7.1% Retailer Commissions and Selling Bonuses
- 1.7% Gaming Costs (Vendor)
- 1.7% SCEL Internal Administrative Costs
- 0.8% Advertising

Mr. Passailaigue also reviewed Lottery appropriations. Through FY09, the Legislature has appropriated \$2.010 billion to enhance the educational opportunities for South Carolinians. Of that amount, \$501.0 million has been directed to K-12 including supplementing the Education Accountability Act (EAA), school buses, and K-5 programs. Higher education has been appropriated \$1,470.3 billion for various programs such as endowed chairs, technology, and scholarships. Other programs funded by the General Assembly from lottery proceeds total \$38.7 million and include appropriations to ETV and to each of the 46 county libraries.

Mr. Passailaigue briefed the Board on the recent North American Association of State and Provincial Lotteries (NASPL) Spring Directors' meeting in Napa, California, held in conjunction with the National Conference of Legislatures of Gaming States (NCLGS). Mr. Passailaigue also informed the Board that he was recently elected Chairman of the Powerball® Game Group and Vice President of MUSL. He mentioned that Powerball® and MUSL meetings will be held in Chicago the following week. Implementation of the matrix change will be discussed along with the adoption of the new Powerball® logo. Mr. Passailaigue announced that Mad Monkey, SCEL advertising vendor, was recently chosen

by MUSL to provide a new, refreshed Powerball® logo to be used nation-wide. He also noted that he does not serve on that committee and played no part in the decision to retain Mad Monkey. Mr. Passailaigue will also attend the upcoming annual NASPL conference in Philadelphia, Pennsylvania, on September 24 through September 27, 2008, and invited Board members to attend.

Finally, Mr. Passailaigue directed the Board's attention to PowerPoint slides included in the meeting material packet detailing *The State of The Industry* study. This study was conducted by Independent Lottery Research, to assess attitudes toward lotteries from a sampling of various lottery jurisdictions. The study considered such factors as the psychological breakdown of both people who play and do not play the lottery, the effect of the financial pressures of the current economy, frequency of play, and the perceptions of lotteries. While the study was not conducted specifically for South Carolina, the conclusions appear to be reflective of the attitudes staff has encountered from our player base. Mr. Passailaigue believes South Carolinians are more inclined to play the lottery if they are aware of where the money has been appropriated (the overall beneficiary message) and who makes the decisions on where the money goes.

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.