



MINUTES
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION
August 8, 2007
10 A.M.

A meeting of the South Carolina Education Lottery Commission was held at 10:00 a.m. on Wednesday, August 8, 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
Ashley Landess
Lisa Stevens

Commissioners Moffatt Burriss, Treasurer; Marvin Quattlebaum; Boykin Rose; and Nathaniel Spells, Sr. participated by teleconference.

The Chairman called the meeting to order.

Approval of Minutes

On a motion of Commissioner Landess, seconded by Commissioner Stevens, the minutes of the May 9, 2007, meeting were unanimously approved.

Personnel Matters – Performance Evaluation

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. The Vice Chairman was recognized and presented the report of the Executive Committee discussion of July 23, 2007, which was to bring the Executive Director's salary to the market 50th percentile¹ of \$218,105 (6.59% increase) in accordance with SCEL's pay philosophy and to increase the base salary of the Internal Auditor by \$2,998 (3.35%) to bring her salary to the minimum of the new pay grade in accordance with the pay philosophy. In addition, Commissioner Bailey recommended a 4% merit increase to the adjusted Internal Auditor salary.

¹ The market 50th percentile is not the same as the midpoint of the range for the position of Executive Director in the Compensation Study. The range in the Study is \$173,000 to \$227,000 with a midpoint of \$225,000.

Motion Adopted

Commissioner Bailey, on behalf of the Executive Committee, moved to adopt a (3.35)% increase to the base salary of the Internal Auditor, and further moved that a merit increase of 4% based upon the adjusted base salary. Commissioner Landess seconded the motion, which was unanimously approved.

Commissioner Landess, on behalf of the Executive Committee, moved to adopt the Executive Committee's recommendation to bring the Executive Director's salary to the market 50th percentile of \$218,105 (6.59% increase). The motion passed unanimously.

Commissioner Bailey asked to amend the motions to include that the salary adjustments for the Executive Director and the Internal Auditor be retroactive to the pay date of July 1, 2007. After discussion, without objection, Commissioner Landess seconded the motion as amended. The motion was approved unanimously.

Reports

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 – \$25 Fiesta, Palmetto Pirates, Carolina Crab Cakes, Cash Bonanza Riches, That's the Ticket, Cash Fireworks, and Palmetto Cash 5
- Television – Palmetto Pirates Mechanica
- Video Market Place – Palmetto Pirates, Cash Bonanza Riches, That's the Ticket, Palmetto Cash 5, Cash Fireworks, Winner Awareness, Powerball® winner, 20 Year Bonus, and Carolina Crab Cakes
- Play station posters – 20 Year Bonus, That's the Ticket, and Carolina Power Deal
- Newspaper ad – That's the Ticket and Winner Awareness

Additional items included the new design of the Powerball® billboard, summer promotion (That's the Ticket) t-shirt back design, Claims Center information wallet card, logo sticker for the top of the play station, Clean\$weep buck slip, Carolina Power Deal starburst, and That's the Ticket and Winner Awareness newspaper ads.

Tony Cooper, Chief Operating Office, reported that the summer promotion, "That's the Ticket," was held in Charleston on July 3rd at the RiverDogs game and more than 8,000 attendees were at the game. Mr. Cooper noted that this event is among the most successful and best executed promotions ever done. The summer promotion will conclude in September in Myrtle Beach at the "Beach Boogie & BBQ" event. Four more grand prize trips to either New York, Las Vegas or Hollywood 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's Report²

Mr. Passailaigue gave an overview of SCEL's sales through July 31, 2007, including product revenue comparisons between FY06 and FY07. The \$155 million difference results from a decrease in Powerball® and instant ticket sales. Mr. Passailaigue noted that FY07 revenue was the second highest in the past five fiscal years. The 14% decrease in sales between FY06 and FY07 corresponds roughly with a decrease in N.C. players claiming prizes at SCEL claims centers and may approximate the percentage of N.C. players lost as a result of the start-up of the North Carolina Lottery.

The transfer of net proceeds to the Education Lottery Account (ELA) in FY06 versus FY07 reflects a decrease of \$49 million from the previous fiscal year. Mr. Passailaigue also reviewed the original and revised Board of Economic Advisors' (BEA) estimates of lottery transfers to the ELA. The initial FY07 BEA estimate was \$252.4 million and was revised to \$267 million. SCEL transferred \$21 million above the original estimate, resulting in \$273.4 million in total transfers to the ELA in FY07.

The percentage distribution of instant ticket profit by price point was presented to the Board members for the period of FY03 through FY07. A higher price point instant ticket tends to require a higher prize percentage payout thereby contributing to an increase in the overall prize percentage payout (both online and instant games). Thus, the product mix can affect the transfer rate (percentage transfer) even if total gross revenue and expenses were relatively the same from year to year. Lower prize payout percentages can negatively impact revenue and lead to lower gross transfers to education.

North Carolina originally had a provision in the law that mandated a net transfer rate of 35%. This limits the price points and prize payout percentages offered to players. Recently, an amendment to the North Carolina law was made to allow the North Carolina Education Lottery (NCEL) to increase their prize payout percentage and decrease their net return percentage. The change will result in more instant ticket competition. NCEL is also authorized to offer other forms of gambling such as higher price point tickets and Keno. Staff will continue to monitor market conditions, but Mr. Passailaigue indicated the impact was mitigated because players initially attracted to SCEL appreciate and are loyal to the products and prize percentage payouts offered. He believes the 'core' player will continue to play both S.C. and N.C. lottery games.

Staff did a sampling of 24 non-border lottery retailers: 12 with gas and 12 without gas. As mentioned in the past, there appears to be a direct correlation between high gas prices and lottery sales. Mr. Passailaigue explained that in the past year, the effect appears to have leveled off, possibly due to players becoming accustomed to the gas prices, introducing new corporate chains such as drug chains, working more effectively and efficiently with

² Although not mentioned in the meeting, as required by action of the Legal Committee on September 27, 2005, the Executive Director provided a report that explained the money which was transferred from the Fidelity Fund to offset delinquent retailer accounts to the Education Lottery Account.

the larger grocery chains, and a more effective marketing strategy. Staff is attempting to introduce new and innovative ways for a customer of a grocery store to be able to purchase lottery tickets while checking-out.

Mr. Passailaigue reported on the “The Lottery Dollar” breakdown for FY07 (July 1, 2006 – June 30, 2007). It is distributed as follows:

- 60.4% Prizes
- 28.0% Net Proceeds
- 7.0% Retailer Commissions and Selling Bonuses
- 1.8% Gaming Costs (Vendor)
- 1.8% SCEL Internal Administrative Costs
- 1.0% Advertising

Mr. Passailaigue reported SCEL’s rankings among U.S. lotteries for FY06: 7th lowest in administrative expenses as a percentage of gross revenue, 9th lowest in advertising expenses as a percentage of gross revenue, and number 10 in net income per capita. He also explained that the rankings must be viewed in the context of variables such as \$20 and \$30 price point instant tickets offered by some lotteries, gaming contracts based on a percentage of sales, differences in overhead, and other types of gambling not offered by SCEL.

Mr. Passailaigue also reviewed Lottery appropriations. Through FY08, the Legislature has appropriated \$1.735 billion dollars to enhance the educational opportunities of South Carolinians. Of that amount, \$450.3 million has been directed to K-12 to include the Education Accountability Act, school buses, and K-5 programs. Higher education has been appropriated \$1.248 billion for various programs such as: Endowed Chairs, technology, and scholarships. Commissioners also received an updated spreadsheet that contained the breakdown of scholarship awards, K-12, appropriations to county libraries for each of the 46 counties, ETV, and other programs funded by the General Assembly.

Mr. Passailaigue reported that he attended Multi-State Lottery Association (MUSL) Powerball® meetings and the North American State and Provincial Lotteries’ (NASPL) Spring Directors meeting. Mr. Barden, Director of Marketing and Product Relations, and Mr. Passailaigue also attended the Lottery Research Conference. This meeting was focused on various lottery topics such as player demographics and the effects of bringing awareness of “Where the Profits Go.” The Executive Director directed attention to articles included in the meeting material packet that further detailed the psychological breakdown of players ‘who play’ and ‘who do not play’ the lottery and the effect of communicating where the net proceeds go and how the legislature appropriates lottery funding. Mr. Passailaigue believes South Carolinians are more inclined to play the lottery if they are aware of “Where the Money Goes” and the overall beneficiary message.

Commissioners were reminded that the upcoming annual NASPL conference, in conjunction with the World Lottery Association (WLA), will be held in Louisville, Kentucky, on October 2 through October 6, 2007.

Other Business

Legal Matters - Update

The Chairman recognized Commissioner Quattlebaum, Chairman of the Legal Committee. He mentioned pending legal matters that have been resolved. Each Commissioner was provided with an attorney-client privileged briefing prior to the meeting and no formal action of the Commission was necessary. He and Chairman Madden thanked Mr. Brown, Director of Legal Services, and the legal department staff for their diligence in bringing these matters to successful conclusions.

Mamie Jackson

Pursuant to Ms. Jackson’s written request on May 9, 2007, she was extended a five-minute opportunity to brief the Commissioners. Ms. Jackson did not attend the meeting.

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.