

**MINUTES
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION
August 9, 2006
10:00 A.M.**

A meeting of the South Carolina Education Lottery Commission was held at 10:00 a.m. on Wednesday, August 9, 2006, in the large first floor conference room of the Vista Investments Building, 1333 Main Street, Columbia, South Carolina, with the following Commissioners participating:

Tim Madden, Chairman
Ashley Landess, Secretary
Jimmy Bailey, Jr., Treasurer
T. Moffatt Burriss
Dr. Edward Keith
Nathaniel Spells, Sr.
Lisa Stevens

Commissioners Marvin Quattlebaum and Boykin Rose participated by teleconference.

The Chairman called the meeting to order.

Approval of Minutes

On a motion of Commissioner Landess, seconded by Commissioner Burriss, the minutes of the June 1, 2006 and June 23, 2006 meetings were unanimously approved.

Election of Officers

The position of Vice Chair became vacant upon the election of Tim Madden as Chairman at the June 1, 2006 meeting. The floor was opened for nominations for Vice Chairman.

Motion Adopted

Commissioner Landess nominated Jimmy Bailey, Jr. and moved to close the nominations and elect the nominee by acclamation. The motion was seconded by Commissioner Burriss, resulting in the unanimous election of Commissioner Bailey as Vice Chair.

With the election of Jimmy Bailey, Jr. as Vice Chairman, the office of Treasurer became vacant. Commissioner Quattlebaum moved to nominate Moffatt Burriss. Commissioner Landess seconded the motion and moved to proceed with the election. The motion was seconded by Commissioner Bailey and Commissioner Burriss was elected by acclamation.

The election of Commissioner Burriss to serve as Treasurer created a vacancy in the At-Large seat on the Executive Committee. Commissioner Quattlebaum moved to nominate Lisa Stevens. Commissioner Burriss seconded the nomination and moved to proceed with the election. Commissioner Stevens was elected by acclamation.

Online RFP

Leslie Vang, Information Technology Director, was recognized to give a give a brief overview of the procurement process by which SCEL will solicit responses to the Request for Proposals (RFP) to select an online vendor for the next contract period. The online gaming system encompasses all facets of lottery operations: equipment at the retail outlets; around-the-clock operation and maintenance of online systems; communications network infrastructure; primary and back-up site equipment and software; telecommunications infrastructure from the retail sites to the central computer system, claims centers, headquarters and gaming system data centers; online sales and validation of online and instant tickets; licensing operations and generation of reports for retailers and SCEL staff.

The current contract expires in November 2008. Staff anticipates the release of the new RFP in November 2006. The proposed RFP will solicit a gaming system and associated services. The award of the new contract is expected to be in mid 2007, but the contract will not go into effect until the expiration of the existing agreement. The lead time is needed to adequately implement a conversion to new or improved hardware and software that will occur irrespective of which vendor may be selected.

Motion Adopted

Commissioner Landess moved to authorize staff to move forward with drafting a Request for Proposals for an online vendor for the contract scheduled to expire November 2008 and to report to the Executive Committee, as needed, prior to the release of the proposal. Commissioner Spells seconded the motion, which was unanimously adopted.

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 – Carolina Power Deal
- Television – \$1 Million Second-Chance Summer Promotion, Carolina Power Deal, Palmetto Cash 5, lottery winners
- Video Market Place – Carolina Power Deal
- Print Ads – \$250,000 Taxes Paid, Carolina Power Deal
- Play station posters – Junior Jumbo Bucks Add-A-Play, \$100,000 Club, Carolina Power Deal
- CDU piece - Junior Jumbo Bucks Add-A-Play, Carolina Power Deal
- Buckslip – Clean\$weep Second-Chance Drawings, Carolina Power Deal

Additional items included the Strike It Witch instant ticket, “Clean\$weep starburst,” a Carolina Power Deal styrene piece for play stations and the Carolina Power Deal mini-game.

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.

Additionally, Mr. Passailaigue reported that staff had recently produced television spots featuring the presidents of the University of South Carolina and Clemson University. President Sorenson and President Barker appear together observing that South Carolina’s brightest students are remaining in state to attend college, due in part to the scholarship funds provided by the Education Lottery. Ads are also planned to highlight the Endowed Chairs program, which is funded by lottery proceeds and matched equally with private monies. The ads will appear on the coaches’ TV programs for USC and Clemson.

While the advertising budget is capped by law at 1% of the previous year’s gross sales, SCEL’s advertising expenditures for FY06 were 0.8%.

Executive Director

The Commission, by prior action, authorized the Executive Director to make non-substantive online game rule changes without formal approval of the Commission and to report those changes at the meeting following the amendment. In that regard, Mr. Passailaigue reported that he effectuated a modification to the Powerball rules based upon an amendment adopted by the Powerball Game Group. The word “party lottery” has been changed to “member lottery.”

Mr. Passailaigue reported that SCEL was ranked by La Fleur’s Magazine (September 2006 edition) as 12th in US lotteries in instant ticket sales in FY06, 5th in instant ticket per capita sales, and 8th in overall per capita sales. According to SCEL’s year end report, SCEL’s gross sales for FY06 were \$1.143 billion. Instant tickets account for more than 60% of all sales. Two Powerball runs occurred, one in October 2005 and the other in February 2006, which help boost online sales in FY06 to almost \$70 million more than the previous fiscal year. Instant sales for FY06 were \$119 million more than FY05. Transfers to the Education Lottery Account were \$280.3 million in FY05 and \$322.2 million in FY06, far surpassing the original BEA estimate for FY06 of \$277 million.

In FY06 the Lottery Dollar was distributed as follows:

- 61.1% Prizes
- 27.8% Net Proceeds
- 7.0% Retailer Commissions
- 1.8% Gaming
- 1.5% Administrative
- 0.8% Advertising

When comparing sales for the April-July period of FY05 to FY06, instant sales were slightly lower in July 06 and Powerball sales showed a 20% decline in July. North Carolina residents who were typically infrequent SCEL Powerball players, have most likely been lost to the North Carolina Lottery.

SCEL will transfer \$22.8 million to the Education Lottery Account for the month of June, while the transfer for June 2005 was \$22.3 million. Considering all factors, staff is confident sales will meet and consistently exceed, SCEL's budgetary goals for FY07.

Mr. Passailaigue reported that he had attended the NASPL Directors' Conference in June and a meeting of the Powerball Group Development Committee in July. The South Carolina Association of Convenience Stores' annual convention took place on Hilton Head Island in July and was attended by SCEL staff. Scientific Games also conducted a symposium for representatives from many lottery jurisdictions that was attended by Mr. Passailaigue and other SCEL staff.

SCEL is hosting the NASPL subcommittee conference in Myrtle Beach in October. The meeting, coordinated with NASPL and its subcommittee chairs, will be attended by one to two hundred mid-management lottery professionals in the Legal, Information Technology, Communications, Security and Corporate Development areas.

Sales and Marketing staff will be conducting focus groups in Rock Hill, Charleston and Greenville over September 11-13, 2006.

Mr. Passailaigue responded to questions posed by Commissioners regarding potential legislative changes to the retailer commission. He explained that there is a direct correlation between the percent of commission and sales. North Carolina's rate of commission is 7% and Georgia's base rate is 6% plus other incentive compensation that makes their effective rate at least 7%. SCEL retailers authorized to sell online products pay a weekly line charge of \$15, which is higher than some lottery states and serves to reduce the real return to the retailer.

The recently established Fort Mill Claim Center is receiving claims "traffic" equivalent to the Greenville Claims Center.

SCEL was recently named one of the "Best Places to Work in South Carolina." Implemented by the South Carolina Chamber of Commerce and its partners within the human resource community, the selection process was based on an assessment of a company's employee policies and procedures and the results of an employee survey.

The Commissioners commended Mr. Passailaigue and SCEL staff for their hard work and motivation during the past fiscal year.

Executive Session

Commissioner Landess moved to go into executive session as authorized in § 30-4-70(a)(1) for the specific purpose of discussing the personnel evaluations submitted by individual Commissioners for the employees who report directly to the Commission and any other personnel matters relating to those employees including, but not limited to, compensation. Commissioner Bailey seconded the motion, which was adopted. Upon adoption of the motion, as provided by the Freedom of Information Act, the Chair announced the specific purpose of the executive session as referenced in the above motion and asked staff to leave and to disable the telephone link to Columbia for a staff member who participated via that link.

Return to Open Session

Upon conclusion of the executive session, Chairman Madden announced that the Commission was returning back in open session. He confirmed that no action was taken during the executive session and no business other than that which was authorized by the motion was discussed.

Motion Adopted

Commissioner Bailey moved to increase the Executive Director’s compensation by four percent from the previous fiscal year and to award the Executive Director a one time bonus in the gross amount of \$7,500. Commissioner Keith seconded the motion, which carried unanimously.

Commissioner Bailey moved to increase the Internal Auditor’s compensation by five percent over the previous fiscal year. The motion was seconded by Commissioner Landess and was unanimously approved.

Adjournment

There being no further business, on a motion by Commissioner Bailey, seconded by Commissioner Burriss, 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.