

**MINUTES
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION
September 27, 2005
11:00 A.M.**

The South Carolina Education Lottery Commission met at 11:00 a.m. on Tuesday, September 27, 2005, in the large 1st Floor Conference Room of the headquarters building, 1333 Main Street, Columbia, South Carolina, with the following Commissioners in attendance:

John C. B. Smith, Jr., Chair
Tim Madden, Vice-Chair
Jimmy Bailey, Jr., Treasurer
Ashley Landess, Secretary
T. Moffatt Burriss
Dr. Edward Keith
Marvin Quattlebaum

Commissioner Boykin Rose participated by telephone as he was out of the state.

Minutes of Previous Meetings

On a motion by Commissioner Keith, seconded by Commissioner Burriss, the minutes of the June 8, 2005 Commission meeting were unanimously approved.

SCEL Facilities Leases

The Chair recognized the Executive Director who explained that SCEL's lease for the headquarters facility will expire in November 2006. A committee headed by Ernestine Middleton and made up of employees representing each SCEL department has studied SCEL's needs in terms of space, security, employee parking, cost of up-fitting a data center and other areas. The findings were then reviewed to determine whether the best available option was to remain in the current building, move to another location either in town or along an interstate corridor, or move to a new building that SCEL would own. After analyzing all factors, it appears that the most advantageous, cost effective solution is to maintain headquarters at the present location. Gus Hoffmeyer with the Materials Management Office of the Budget & Control Board has assisted in negotiating a proposal which was included in the meeting materials package. Two options are available: five years with a right to renew at the then-prevailing market rate or ten years at a locked-in rate.

A limited amount of space that is now available in the headquarters building is under review to ensure SCEL's long-term needs are met as this space is not likely to remain vacant.

Motion Adopted

Upon conclusion of the discussion, Commissioner Madden moved to authorize staff to continue negotiations consistent with the proposal and to authorize staff to enter a contract for renewal at

the rate and terms at least as favorable as those presented in the meeting materials. Commissioner Keith seconded the motion. The motion carried unanimously.

Staff also requested Commission approval to terminate the lease for the Charleston Claim/Regional Sales Office located on Long Point Road in Mt. Pleasant. Leased in November 2001, the property is in a strip mall and does not meet SCEL's current needs for many reasons. On an industrial corridor unfamiliar to the general public, the claim center is difficult for SCEL's players and visitors to locate. Compounding the obscure location is Mt. Pleasant's sign ordinance which prohibits SCEL from erecting adequate signage. Additionally, and most significant, parking is no longer adequate for employees or players redeeming winning tickets.

Motion Adopted

Commissioner Keith moved to authorize staff to proceed with steps needed to terminate the lease on the Long Point Road property and begin the process of securing a new location through the Materials Management Office. When appropriate, staff will bring a cost proposal to the Commission for approval. The motion was seconded by Commissioner Quattlebaum and was unanimously approved.

Co-Promotions with Nonprofit Organizations

The Chair recognized the Executive Director who explained that, from time to time, SCEL is asked by licensed lottery retailers to partner with third-party nonprofit organizations in cooperative promotions. SCEL and Bi-Lo retailers had recently considered joining together to promote Boys and Girls Clubs in a back-to-school campaign. SCEL would help by providing point-of-sale advertising for the non-profit cause that includes the SCEL logo. The benefit to SCEL would be exposure in areas of the store not normally available for lottery advertising.

Staff asked the Commission for guidance in considering these retailer requests as all cannot be acted upon favorably. The main concerns were SCEL's brand protection and that any such activities remain consistent with SCEL's general advertising approach. The Executive Director responded to several questions and concerns expressed by Commissioners regarding the need for flexibility, the need to move quickly in some instances and the recognition that all requests may not be beneficial to SCEL.

Upon further discussion, it was the consensus of the Commission that the Executive Director would, in his discretion, evaluate and approve SCEL's participation in special promotional activities on a case-by-case basis taking into account whether the promotion is financially advantageous to SCEL and is consistent with our overall advertising efforts or themes. The Commission asked the Executive Director to include these joint promotions in the quarterly advertising review that is presented to the Commission.

Reports

Scientific Games – State of the State – Performance Levels in FY05

The Chair recognized Toben Molica, Regional Director of Scientific Games International, who gave a Power Point presentation using instant ticket sales which showed trends in the lottery industry through the close of FY05. These statistics showed that SCEL's sales continue to increase from year to year and that SCEL's sales are not as reliant on Powerball jackpots as other states. While the summer months usually reflect a slow-down in sales, SCEL showed a positive summer sales trend. SCEL is 5th in per capita sales among forty U.S. lotteries. Other trends include a decline in \$1 price points and an increase in sales of higher price points.

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."

Commissioners received advertising materials in the meeting packets which included promotional components for the Drive Away with Power Play and Cruise Away with Power Play Promotions, Cool Cash instant ticket, \$100 Million Cash Bonanza, and the Lizard Man instant ticket. Pat Koop, Director of Sales and Marketing, introduced David Barden, Deputy Director for Marketing, who presented a video of the current television spots including Lizard Man sightings and ticket, SCEL's presence at the 2005 State Fair, and the SCEL instant ticket ad.

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.

Review of Plans and Timelines for Major Procurements

Staff is beginning to develop RFPs for the major gaming contracts and, after its last available one-year renewal, the advertising contract. The instant ticket RFP should be available for release by the Materials Management Office in mid- to late December. The online game RFP expires in November 2008 and will be issued in late 2006 or beginning of 2007 to allow time for vendors to respond and prepare for a conversion, if needed.

Executive Director

Mr. Passailaigue reported that he had attended the NASPL conference in Minneapolis earlier this month. SCEL had nominated four employees – Del Collins, Laura Collins, Ann Scott and Mildred Taylor - and Toben Molica, of Scientific Games, for a Powers Award. Laura Collins was chosen to receive a Powers Award and was congratulated by the Commissioners.

While in Minneapolis, Mr. Passailaigue participated in Governor Sanford's annual budget meeting by teleconference. He reported that some items of concern were advertising costs, the 7% retailer commission and employee salaries. Follow-up information, as requested by the governor's office, will be prepared and sent to his staff.

The Legislative Audit Council (LAC) has delivered its draft report which has been provided to Commissioners desiring a copy. The next step in the process is for SCEL to prepare information that may be helpful to the LAC in finalizing the draft. Bethany Parler is coordinating SCEL's response team made up of representatives from the various departments covered in the report. Staff's response will be provided to Commissioners before it is sent to the LAC. After the LAC board has reviewed these documents, LAC staff will finalize the report for release.

Mr. Passailaigue then gave a Power Point presentation comparing FY05 and FY06 sales data. Through September 26, 2005, gross sales were \$241 million. Over \$47 million has been transferred to the Education Lottery Account in the first two months of FY06.

Oklahoma is set to join the Powerball Group which will help to make the Powerball game more competitive with the higher population base of the Mega Millions game.

Other Business

Retailer Ticket Cashing Limits

Staff believes SCEL would benefit if a limited number of retailers in certain areas of the state were authorized to validate and pay prizes in excess of \$500. SCEL’s regulations authorize licensed lottery retailers to cash winning tickets only up to \$500. SCEL’s enabling legislation allows the Commission to designate a limited number of lottery retailers that are authorized to validate and pay claims in excess of \$500 but less than \$5,000. However, under Section 59-150-70, even if the \$500 cap was not in the regulations, the statutory authorization is not self-executing and requires the promulgation of a regulation. Staff would like to amend the regulations to allow the Commission to take action if, and when, it deems appropriate to allow certain retailers to cash tickets with prizes up to \$5,000. These retailers would designate the appropriate withholding for state and federal taxes and account for those funds as well as prize payout funds in their weekly lottery account settlements. By statute, debt set off (debts owed to other state agencies) for winnings begins with prizes of \$5,000 and would only be handled by SCEL claim centers.

To facilitate amending the regulations, a Notice of Drafting must be filed by the second Friday in October for publication in the *State Register* on the fourth Friday in October. The proposed regulations could then be submitted and published in the November edition of the *State Register*. A hearing is not required unless requested by twenty-five or more people or by a group representing more than 25 people. The hearing, if needed, would occur in late December or early January and the regulation would be available for submission to the General Assembly in January 2006. The Legal Committee met prior to the Commission meeting and discussed this matter.

Motion Adopted

On behalf of the Legal Committee, Commissioner Madden recommended that the Commission authorize staff to take all necessary actions to draft and file regulations to allow the Commission, at a future date, to designate a limited number of retailers to redeem and pay claims up to \$5,000. Commissioner Landess seconded the motion which was adopted unanimously.

Executive Session

Commissioner Madden moved to go into executive session as authorized in §30-4-70(a)(1) for the specific purpose of discussing personnel matters. Commissioner Bailey seconded the motion which was adopted. Upon adoption of the motion, as provided in 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.

Return to Open Session

Upon conclusion of the executive session, Chairman Smith announced that the Commission was back in open session. No action was taken during the executive session and no other business, other than personnel matters, were discussed.

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

The next meeting of the Commission is scheduled for Thursday, December 8, 2005, at 11:00 a.m.

/s/
Mr. John C. B. Smith, Jr., 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.