



MINUTES
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION
November 14, 2007
10 A.M.

A meeting of the South Carolina Education Lottery Commission was held at 10:00 a.m. on Wednesday, November 14, 2007, in the first-floor conference room located at 1333 Main Street, Columbia, South Carolina, with the following Commissioners present:

Tim Madden, Chairman
Dr. Edward Keith
Marvin Quattlebaum
Boykin Rose
Nathaniel Spells, Sr.

Commissioners Jimmy Bailey, Jr., Vice Chairman; Moffatt Burriss, Treasurer; and Lisa Stevens participated by teleconference.

The Chairman called the meeting to order.

Approval of Minutes

On a motion of Commissioner Spells, seconded by Commissioner Rose, the minutes of the August 8, 2007, meeting were unanimously approved.

Government Finance Officers Association Award Presentation to SCEL

The Chairman recognized Carol Martin, from the Division of the State Chief Information Officer who presented an award to Dusty Rhodes and Uvette Pope-Rogers on behalf of the Government Finance Officers Association of South Carolina. The award is the highest recognition for governmental financial reporting and signifies SCEL's achievement for the comprehensive annual financial report (CAFR) for fiscal year ending June 30, 2006. This is the second consecutive year that SCEL has received the award.

MegaMatch 6 – New Online Game

David Barden, Director of Marketing and Product Development, provided an updated and detailed presentation of the proposed six-number online game, MegaMatch 6. An overview of the game was first discussed in the Commission meeting of November 15, 2006. The \$5 online game is intended to fill a niche between Palmetto Cash 5® and Powerball® with multiple winning opportunities. Mr. Barden explained that the jackpot prize level will begin at \$550,000, with a minimum increase of \$25,000 per draw when the jackpot is not won. Drawings will be held on Tuesdays and Fridays at 6:59 P.M. On average, the jackpot is expected to be won every 11.2 drawings (6 weeks) with an estimated jackpot amount at that time of \$1.2 million (based upon weekly sales of \$723,350). The prize payout percentage is approximately 65.4%, and overall odds of winning any prize are 1 in 7.20. Market research indicates this new online game should be well received among households with incomes in excess of \$50,000 and should attract new players to our base. Staff would like to launch MegaMatch 6 in February of 2008 with various advertising and marketing support through media outlets and POS.

Motion Adopted

Upon the conclusion of discussion, the question before the Commission was the recommendation of the Executive Committee to adopt the new online game, MegaMatch 6, and to authorize the Executive Director to adopt game rules and to take all other actions as may be necessary to implement the game. The motion was unanimously adopted.

Powerball®- Matrix Change

Ernie Passailaigue briefed Commissioners regarding changes being considered to the Powerball® game. As a member of the Powerball® Development Committee, he attended a Powerball® meeting and explained that the Multi-State Lottery Association (MUSL) Development Committee is in the process of proposing a matrix change to the Powerball® game to make the game more competitive with Mega Millions. By changing the matrix, the odds of winning the jackpot will increase and should produce higher jackpots. A matrix change will also guarantee a \$1 million Match 5 prize for every winner who matches five numbers and who also purchases the Power Play® option. Mr. Passailaigue reported that approximately 40% of South Carolina's player base currently purchase the additional \$1 Power Play® option. SCEL staff believes by setting the multiplier at four and guaranteeing a \$1 million second-tier prize for every winner who matches five numbers and purchases the Power Play® option will generate interest among "infrequent" players and those with higher household incomes.

Mr. Passailaigue informed the Commission that the Powerball® Group voted to conduct research before any matrix change is approved, which may take a month or longer. Although the Powerball® Group has not sanctioned a change, receiving Commission approval at the earliest opportunity will allow staff the necessary time to implement all programming, media, and POS changes. Mr. Passailaigue noted that South Carolina's only option will be to adopt the new matrix or to discontinue offering Powerball®.

Motion Adopted

Upon conclusion of discussion, the question before the Commission was the recommendation of the Executive Committee to authorize the Executive Director to proceed with any Powerball® proposed matrix changes that are adopted by the MUSL group, including any corresponding game rules and, further, to direct the Executive Director to update the Commission on all changes which are subject to further refinement by the Commission. The motion was unanimously adopted.

Printing Equipment Procurement

David Barden explained that staff is seeking authorization to issue an Request for Proposals (RFP) for the leasing of a digital copier as the five-year (5) lease on the existing copier is expiring and the unit needs to be replaced.

Motion Adopted

There being no discussion, the question before the Commission was the recommendation of the Executive Committee to authorize the issuance of an RFP in order to lease a digital copier used for printing promotional material. The motion was unanimously adopted.

Official Lottery Seal

The Chairman explained that the Commission bylaws authorized the adoption of an official lottery seal. The seal is intended to be a permanent emblem for Commission use on official documents and correspondence. Prior to this meeting, the Marketing and Retailer Relations Committee reviewed several prototypes and approved one for recommendation to the Commission. The Committee also asked staff to continue to consider and present other designs to the Chairman. The Chairman asked the Commission to consider the design that was disseminated to the members in the meeting packet materials. There was no objection to the consideration of a new design.

Motion Adopted

Chairman Madden made a motion to adopt the seal provided in the meeting materials packet (presented as Attachment A) as the Official Seal to be a permanent emblem for Commission use on official documents and correspondence. Commissioner Rose seconded the motion, which was unanimously approved.

Reports

Personnel Policies

Commissioner Quattlebaum, Chair of the Legal and Security Committee, was recognized to present the committee report. In 2002, the Commission formally adopted nine personnel policies. The SCEL Human Resources Division, Internal Operations Department, in conjunction with in-house counsel and external employment counsel, has prepared a draft employee handbook. The handbook covers more topics than addressed in the Commission-adopted policies, but in most respects, the handbook is more flexible and less detailed. Any material deviations from state guidelines will be presented to the Commission to

afford an opportunity for discussion and review as was done with the partisan political activities portions of the draft handbook. Hogan Brown, Director of Legal Services, explained that the best time to issue an employee handbook would be in January. He also explained that some confusion may be avoided if the Commission considered repealing the items previously adopted upon the issuance of the employee handbook.

There was no objection to moving forward with issuing an employee handbook.

Motion Adopted

Commissioner Quattlebaum made a motion to rescind all personal policies adopted by the Commission upon the issuance of the employee handbook. The motion was unanimously adopted.

Quarterly Advertising Review

Prior to beginning the advertising review, David Barden mentioned two items. For commercials produced by Mad Monkey (SCEL's advertising vendor) a website link will soon be available to provide Commissioners an opportunity to view major media campaign commercials prior to airing. The 2007 demographic study is expected to be complete at the end of November and will be forwarded to all Commissioners pursuant to the direction of the Chairman. Although the demographic study is no longer required by law, Chairman Madden reiterated the Executive Director's intention to continue annual studies until directed otherwise by the Commission.

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 package provided prior to the meeting. Among the items reviewed were:

- Radio – Deal or No Deal™, Money to Go, Monthly Grand, Cash Bonanza Riches, Palmetto Cash 5®, Powerball®, 20 Year Bonus, Carolina Ghost, and Beneficiary Awareness
- Television – USC, Clemson, The Citadel, and generic sports beneficiary awareness, Deal or No Deal™, Palmetto Cash 5®, Powerball®, 20 Year Bonus, Cash Bonanza Riches, and Play Responsibly
- Video Market Place – Beach Boogie BBQ, Palmetto Cash 5®, and Beneficiary Awareness
- Styrene Piece – Palmetto Cash 5®, and "Give a Little Jingle" Holiday tickets
- CDU – Palmetto Cash 5®
- Buck slip – Palmetto Cash 5®
- Play station posters – Palmetto Cash 5®, "Give a Little Jingle" Holiday tickets, Cruise Away with Palmetto Cash 5®, Carolina Ghost, and Big Cash Blowout

Additional items included the Palmetto Cash 5® triangle pump piece, updated winning numbers calendar for Palmetto Cash 5® five days a week, new design of the back of the play station sign, “Give a Little Jingle” holiday tickets wobbler, Holly Day Bucks Add-a-Play writing surface poster, and Cruise Away with Palmetto Cash 5 starburst.

No objection was expressed to the advertising material submitted in advance of the Commission meeting. It was therefore 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 Report

Mr. Passailaigue gave an overview of SCEL’s sales between July 1, 2007 and October 31, 2007, including product revenue comparisons between FY07 and FY08. He noted that the difference between the fiscal years amounted to \$14.3 million, which primarily is due to a decline in instant ticket sales. Staff is closely monitoring sales as gasoline prices continue to impact lottery sales. Despite the difference between FY07 and FY08 sales, the first four months of FY08 sales (\$310.5 million) puts SCEL on target to meet the internal sales goal of \$935 million.

Mr. Passailaigue called attention to PowerPoint slides that provided an analysis of county sales in FY08, specifically those counties with more than a 10% decline in sales and counties experiencing the greatest percentage increase. Counties located on the borders in addition to poorer rural counties tend to have the highest percentage decrease. The counties that are experiencing the greatest percentage increase in sales, for the most part, tend to be those with higher annual household incomes.

The transfer of net proceeds to the Education Lottery Account (ELA) in July 2007 through October 2007 (FY07) reflects a decrease of \$1.8 million from the previous fiscal year (FY06). Mr. Passailaigue explained that although there is a more distinct difference in revenue between the two fiscal years during this period of time, SCEL is managing the prize structure and monitoring expenses, which contributes to the marginal difference. In FY08 (through October), SCEL transferred \$85.9 million to the ELA. The Board of Economic Advisors’ (BEA) lottery revenue transfer estimate for FY08 is \$252.4 million.

With regard to the North Carolina Lottery’s impact on SCEL, Mr. Passailaigue reminded Commissioners that all claims in excess of \$500 either must be made at one of the four claims centers or be mailed in for validation and payment. Based upon this data, Mr. Rhodes estimated claims presented by North Carolina residents as a percentage of all claims processed. Prior to the launch of the North Carolina lottery, it is estimated that nearly 35% of all claims were made by North Carolina residents. This percentage has diminished to slightly below 20%. All factors considered, the North Carolina Lottery’s impact on sales has been less significant than would be expected given the large percentage of North Carolinians in our player base. Mr. Passailaigue believes the impact has stabilized and was mitigated because players initially attracted to SCEL appreciate and are loyal to the products and prize percentage payouts offered. Mr. Passailaigue also reviewed trend lines of Powerball® per capita sales (including Power Play) by draw from September 2007 through October 2007, which show South Carolina’s per capita sales are greater than North Carolina’s.

Mr. Passailaigue reported on the "The Lottery Dollar" breakdown for FY08 (July 1, 2007 – October 31, 2007). It is distributed as follows:

- 61.1% Prizes
- 27.6% Net Proceeds
- 7.1% Retailer Commissions and Selling Bonuses
- 1.6% Gaming Costs (Vendor)
- 1.9% SCEL Internal Administrative Costs
- 0.7% Advertising

Mr. Passailaigue informed the Board that he recently attended the annual North American State and Provincial Lotteries' (NASPL) annual conference, in conjunction with the World Lottery Association (WLA), in Louisville, Kentucky, and was elected President of NASPL. Vice Chairman Bailey and several staff members also attended the meeting. Cynthia Bellamy, Human Resources Generalist II, was the recipient of the Ott Brown Scholarship award. She will attend the Lottery Leadership Institute next year in Cleveland. In his role as President of NASPL, Mr. Passailaigue distributed a listing of his anticipated travel schedule for various meetings throughout the year. The cost of the travel will be borne by NASPL. Mr. Passailaigue also informed the Commissioners that SCEL will be a co-host with Public Gaming Research Institute International (PGRI) to produce the 2008 SMART-TECH conference. The conference will once again be held in Charleston. (Subsequent to the meeting, the date of the conference was confirmed for April 28th through May 1st.)

Other Business

There being no further business, the meeting was adjourned.



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.

Attachment A

