

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING
MINUTES
February 11, 2009
10 A.M.**

A meeting of the Board of Commissioners of the South Carolina Education Lottery was held at 10 a.m. on Wednesday, February 11, 2009, 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*
Marvin Quattlebaum, Secretary*
Dr. Edward Keith
Lisa Stevens*
Boykin Rose*
Edie Rodgers

Commissioner Spells was unable to participate due an unforeseen illness of a family member.

The Chairman called the meeting to order and welcomed Speaker Harrell's new appointee, Commissioner Edie Rodgers.

Without objection, the Chairman asked to alter the order of business to take up "Other Business" before the other agenda items to allow the Legal Committee Chairman to participate in the Executive Session during which legal matters were discussed. Commissioner Quattlebaum, who participated via teleconference, needed to drop the call before the conclusion of the meeting to make a flight to Greenville. For the purposes of continuity, the order of business presented in the agenda is followed in compiling these minutes.

Approval of Minutes

On a motion of Commissioner Bailey, seconded by Commissioner Keith, the minutes of the November 12, 2008 meeting were unanimously approved.

*These members participated via teleconference.

Presentation of Resolution

The Chairman recognized former Commissioner Ashley Landess and presented her with a resolution acknowledging her valuable service during her tenure on the Board. Ms. Landess made many significant contributions as a member of the Executive Committee and Chair of the Marketing and Retailer Relations Committee. Ms. Landess expressed her gratitude for the memories and friendships formed during her service.

Elections of Board Secretary and At-Large Member of the Executive Committee

The At-Large seat on the Executive Committee became vacant when Commissioner Stevens decided not to seek re-election due to her recent treatment and recovery from lung cancer. A vacancy for the position of Board Secretary was created due to an expired term of a former Board member. The Chairman opened the floor for nominations.

Motion Adopted

Commissioner Bailey nominated Commissioner Quattlebaum for the position of Board Secretary. Commissioner Stevens seconded the motion. There were no other nominations. Commissioner Quattlebaum was unanimously elected.

Commissioner Bailey nominated Commissioner Keith to fill the position of At-Large Member of the Executive Committee. Commissioner Rodgers seconded the motion. There were no other nominations. Commissioner Keith was unanimously elected.

Palmetto Cash 5 Saturday Draw

David Barden, Director of Marketing and Product Development, was recognized to present the staff recommendation to add a Saturday draw to the current draw schedule of Palmetto Cash 5. The current draw schedule is Monday, Tuesday, Wednesday, Thursday, and Friday at 6:59 p.m. A Saturday draw addition is projected to increase sales between approximately \$766,000 and \$1.6 million in the first fiscal year.

Motion Adopted

Commissioner Bailey moved to adopt the staff recommendation to add a Saturday draw to Palmetto Cash 5 schedule. Commissioner Rodgers seconded the motion, which was unanimously approved.

Reports

State of the State

The Chairman recognized Toben Molica, Regional Director of Scientific Games International, to give a PowerPoint presentation comparing SCEL's instant ticket sales to trends or sales patterns of other U.S. lottery jurisdictions. Mr. Molica also highlighted customer behavior and business adaptations to the current economic climate. Shoppers are shifting from the convenience stores to discount retailers due to the cost of goods, which means they are moving away from the largest segment of lottery retailers. Lottery products are not traditionally sold in discount, "big box" retailers due to the labor needed to execute the transaction. Shoppers appear to be making fewer, more planned shopping occasions and more Internet purchases. Business adaptation based upon research to ascertain customer behavior and desires is crucial to success. Adaption is achieved by adjusting product

offerings to attract new customers and retain existing customers through focused advertising as well as brand awareness.

Mr. Molica presented information comparing industry sales trends over the past year (with a focus on the last twelve weeks) with SCEL's performance during this time period based upon the ticket price points. SCEL tracked the general industry trend of declining sales in the lower price points, but its decrease was not as significant. Most importantly, SCEL's overall instant ticket sales during the last twelve weeks were 1.36 percent above the same period in calendar year '07, while the industry showed a decline of 2.02 percent for the same period. The industry as a whole had a 1.67 percent increase in instant ticket sales over the comparable period of calendar year '07, while SCEL increased by 3.54 percent.

2008 Demographic Study

Although the demographic study is no longer required by law (as noted in previous minutes), staff will have an annual study conducted until directed otherwise by the Board. The 2008 study was performed by Research Inc. and a copy was included in the meeting materials. The Chairman recognized Debbie McNamara, President of Research Inc., to present an overview of the results.

In November and December 2008, a telephone survey of 1,000 people 18 years of age and older was conducted. The participants were asked questions to determine the games purchased, the frequency of play, and other information. The survey sample reflects a random mix of state residents and was stratified to reflect population by region. Age and gender quotas were implemented and data were weighted to reflect the appropriate distribution of ethnicity. Highlights from the report and presentation are outlined below.

Sixty-one percent of all South Carolina residents "have ever played" an SCEL instant or online game. This percentage represents a 13 percent increase from the previous year. Despite this increase, those defined as an "Active Player" (making one purchase a month) is actually lower (50%) in 2008 than in 2007 (56%). An increase in the player base from 2007 is attributable to the "Infrequent Player" (making at least one ticket purchased during the past year, but less than once a month).

The "demographic profile" of lottery players, overall, continues to mirror that of South Carolina. The majority of players are between 25 and 54 years of age, Caucasian, employed outside the home, married, with some college education. However, there are differences among the player base relating to the frequency of their lottery play. The "Frequent Player" is defined as playing more than once a week and is more likely to be: male; African-American; between the ages of 55 and 64; with a household income of less than \$40,000; no high school degree; no employment outside the home; and without Internet access. The "Frequent Player" category was 2 percent higher in 2008 when compared to 2007, up from 12 to 14 percent.

Of the six game options, the average number of tickets purchased at one time increased for Powerball® (3.4 v. 3.0 in 2007), scratch games (3.6 v. 3.2) and Pick 4 (2.2 v. 2.1). The mean expenditure for any SCEL game was \$8.27 in 2008 compared to \$7.21 in 2007. Among the five games offered in 2007 and 2008 (MegaMatch 6SM began in 2008), the monthly mean expenditure per game increased in 2008 for Pick 3 (\$17.31 v. \$16.31), Pick 4 (\$22.11 v. \$13.45), and Palmetto Cash 5 (\$16.81). The monthly mean expenditure for

Powerball® (\$11.96 v. \$12.78) and instant tickets (\$14.11 v. \$16.32) declined from the previous year.

At the conclusion of the report, Ms. McNamara responded to questions from Board members.

Marketing Report and Quarterly Advertising Review

David Barden, Director of Marketing and Product Development, reported on marketing and advertising activities. Mr. Barden announced that the Powerball Group recently negotiated a contract to move the Powerball® drawings to Universal Studios in Orlando, Florida, from Des Moines, Iowa. A substantial price reduction resulted from the Multi-State Lottery Association (MUSL) lotteries agreeing to provide web links to Universal products on their respective web pages. SCEL will only provide a web link when the Universal Studios promotional campaign is consistent with the Commission's advertising philosophy.

Mr. Barden also explained that a secondary instant ticket vendor (one from which up to five games may be purchased in a year) is no longer available under the Request for Proposals (RFP) issued in 2006. Scientific Games International was awarded the primary print contract and subsequently acquired OGT, the company selected as the secondary vendor. Pursuant to the initial grant of authority from the Board, staff is preparing a solicitation for a new secondary vendor.

SCEL will also participate in various events across the state in the upcoming months: the Charleston Food and Wine Festival, the Columbia St. Patrick's Day event, the Verizon Heritage on Hilton Head, and the Darlington race in May. Although no single theme will be the focus for summer, it will be busy time for SCEL as a new baseball-themed ticket will be launched. Players can win a trip to the major league baseball park of their choice to watch a game and receive a special tour of the park. Summer events will come to a conclusion at the Beach Boogie and BBQ event in Myrtle Beach, September 4th and 5th (Labor Day weekend).

March is "Play Responsibly" month. SCEL will be partnering with other state agencies to enhance awareness and promote responsible play.

To facilitate the quarterly advertising review,¹ 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 – Powerball® and The Price is Right®
- Television – Powerball®, The Price is Right®, and MegaMatch 6SM
- Video Market Place – State Fair, Powerball® and Beneficiary Message
- Play station posters – Powerball®

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."

Additional advertising materials were presented, including: Peach Cobbler 2 instant ticket, games odds piece, Palmetto Cash 5 and Add-A-Play® writing surface piece, claims center and Powerball® wallet cards, Powerball® Jackpot window sign (2-sided), Powerball® Cruise Away Ticket Dispenser piece, and The Price is Right® wobbler and large window poster.

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 presented an overview of SCEL's sales by product from July 1, 2008, through January 31, 2009, compared with the corresponding time period in FY08. Total revenue was \$13.1 million above prior year-to-date sales due to an increase in instant ticket sales of \$19.6 million, which offset a \$6.5 million decrease in online sales (mostly attributable to Powerball®). Revenue for the first seven months of FY09 (\$564.4 million) equals 59.8 percent of the budgeted sales goal of \$943 million. Through January, SCEL has transferred \$146.7 million to the Education Lottery Account (ELA), 58 percent of the Board of Economic Advisor's (BEA's) FY09 revenue transfer estimate of \$252.4 million. Assuming these trends continue, SCEL is on track to meet the BEA revenue transfer forecast.

Mr. Passailaigue explained the slight decrease in the net proceeds percentage from the previous year. The decrease is attributable to increased sales in the higher price point instant tickets, which have a higher prize payout (generally above 70%) than the lower price points. As mentioned earlier in the "State of the State," sales of SCEL's \$10 tickets increased by 11.52 percent from calendar year '07 to calendar year '08. As noted above, the decrease in online game sales (which generally payout 50 percent in prizes) also contributed to the transfer decline even though total sales (both online and instant) are up \$13.1 million in FY09. Staff continues to monitor gross sales in relation to the payout percentages and expenses to maximize the net transfer of proceeds to the ELA.

Mr. Passailaigue reported on the "The Lottery Dollar" breakdown for FY09 through January 31, 2009. It is distributed as follows:

- 62.9% Prizes (up 1.1%)
- 25.8% Net Proceeds (down 1.1%)
- 7.1% Retailer Commissions and Selling Bonuses
- 2.0% Gaming Costs (Vendor) (up .03%)
- 1.5% SCEL Internal Administrative Costs (down .03%)
- 0.7% Advertising

Mr. Passailaigue briefed the Board on the recent activities in the lottery industry. As Chairman of the Powerball® Game Group and Vice President of MUSL, Mr. Passailaigue has attended several meetings to negotiate and finalize the recent move of the Powerball® draw studio to Florida. He presented a video tape of the first draw held at the new studio at Universal Studios.

A committee comprised of Executive Directors from MUSL and Mega Millions jurisdictions has been formed to discuss a possible joint venture. It is believed offering both Powerball® and Mega Millions to players in the same jurisdiction could increase revenue without cannibalizing one game to the other due to the different draw dates and potentially higher jackpots. In addition, past demographic research indicates these games appeal to the “infrequent player” which may increase overall participation and broaden the player base. Current discussions focus on an agreement whereby each multi-jurisdictional group would license its game to allow sales in a non-member state, not a merger of the two groups or allowing a state to maintain concurrent membership in both groups. The Board discussed the general concept of selling the Mega Millions, game if MUSL obtained a license to do so, as part of the SCEL product mix. There was general understanding that no change in SCEL’s enabling legislation was needed should the concept come to fruition. Mr. Passailaigue reported that these discussions have caused the conversations regarding southern regional lottery game to be put on hold.

As the most recent past president of NASPL, the leadership of the Arkansas legislature has extended an invitation for Mr. Passailaigue to go to Arkansas, at its expense, to brief it on establishing a lottery and SCEL operations since launch. The voters of Arkansas recently passed a constitutional amendment to allow a lottery with a potential launch date in 2009. He noted the visit is strictly to act as a resource to provide information similar to the assistance provided by Georgia to SCEL in 2001.

As a follow-up to the November 11, 2008 meeting, Mr. Passailaigue briefed the Board on the future developments regarding a world game being discussed by the International Lottery Alliance (ILA). It appears that a 2011 game launch may be possible. A five dollar (\$5) price point is being discussed with a monthly drawing, although nothing has been agreed to as of this time. Mr. Passailaigue, the Chairman, and legal staff have discussed various aspects of SCEL’s enabling legislation that address the question of offering a game in association with, or as part of, a multi-sovereign arrangement. Mr. Passailaigue requested guidance from the Board as to whether staff should brief the three appointing authorities (Speaker of the House, *President Pro Tempore* of the Senate, and Governor) concerning the potential game and the language in the enabling legislation. Given the prohibitions against lobbying by SCEL personnel, the Chairman directed Mr. Passailaigue to simply explain the potential for a world game and the language in the enabling legislation as information to the policy makers so that each could react as they deem appropriate.

Mr. Passailaigue highlighted several items from the 2008 demographic study: (1) the 13 percent increase in the category of those “who have ever played the lottery,” and (2) that 70 percent of those “who have ever played” were Caucasian (an increase of 7 percent from the previous year). Mr. Passailaigue believes these increases reflect SCEL’s efforts to present SCEL’s products in atypical venues and to audiences who may not have routinely purchased lottery products (Verizon Heritage, the Charleston Food and Wine Festival, baseball events, and the Columbia Five Points St. Patrick’s Day celebration). These events

provide avenues to expand SCEL's player base, to market and advertise the lottery in a socially responsible and conservative manner, and to promote the beneficiary message to South Carolinians.

Other Business

Executive Session

Commissioner Bailey moved to go into executive session as authorized in S.C. Code Ann. § 30-4-70(a)(1) and § 30-4-70(a)(2) for the specific purpose of receiving legal advice and other matters covered by attorney-client privilege and to discuss personnel matters. Commissioner Rodgers seconded the motion, which was unanimously adopted.

Executive Session

Upon adoption of the motion, as provided by the South Carolina Freedom of Information Act (S.C. Code Ann. § 30-4-70), the Chair announced that the Board would proceed to executive session for the specific purpose stated in the above motion.

Return to Open Session

Upon the conclusion of the executive session, the Chair announced the return to open session.

Commissioner Quattlebaum made a motion to authorize the Executive Director to negotiate a settlement in Cuming v. SCEL consistent with the briefing presented by counsel in executive session. Commissioner Rose seconded the motion, which was unanimously adopted.

The Chairman called the Board members attention to a costs savings analysis that was provided in the meeting material packet. A further discussion of these and similar items may be more appropriate when the FY10 budget is presented by the Executive Director.

There being no further business, the meeting was adjourned.

/s/
Timothy E. Madden, Chairman

Marvin Quattlebaum, 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.