

**MINUTES
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION
June 8, 2005
3:00 P.M.**

The South Carolina Education Lottery Commission met at 3:00 p.m. on Wednesday, June 8, 2005, in the Nexsen Pruet Board Room at 205 King Street, Charleston, South Carolina, with the following Commissioners in attendance:

John C. B. Smith, Jr., Chair
Tim Madden, Vice-Chair
Jimmy Bailey, Jr., Treasurer
T. Moffatt Burriss
Dr. Edward Keith
Angela Mulholland

Commissioners Ashley Landess and Marvin Quattlebaum, Jr., participated by telephone. Commissioner Boykin Rose was unable to participate as he was out of state and staff was unable to reach him via his cell phone.

A telephone link was also established with the fourth floor conference room of SCEL headquarters to accommodate discussion with SCEL staff and to provide access to the media and public and eliminate the need to travel to Charleston.

The Chair called the meeting to order.

Presentation

The Chair recognized recently retired Commissioner Angela Mulholland and presented her with a resolution and several mementos acknowledging her invaluable service on the Commission since its inception. Ms. Mulholland made many significant contributions as a member of the Executive and Legal Committees. She expressed her gratitude for the memories and friendships formed during her service with SCEL.

Minutes of Previous Meetings

On a motion by Commissioner Madden, seconded by Commissioner Keith, the minutes of the March 31, 2005 and April 5, 2005 Commission meetings were unanimously approved.

FY06 Budget

A copy of the proposed budget for FY06 and a budget summary were distributed to Commission members in the meeting materials provided prior to the meeting. The Chair opened the floor for discussion and questions.

The biggest factors affecting FY06 revenue are the possibility of North Carolina becoming a lottery state and an expanded population base of the Mega Millions game which could impact border sales with Georgia. Mr. Passailaigue explained the most recent activities in North Carolina. The North Carolina House and Senate have until September 2005 to pass a lottery bill. If the bill passes at that time, it is expected that the launch of instant ticket games could begin within six months followed soon with online games. With the addition of California in June, the Mega Millions jackpots will begin at a higher level and grow faster than Powerball. South Carolina residents living on the Georgia border may drive a few miles to buy Mega Millions tickets rather than Powerball. After brief discussion, it was suggested that, before the budget is sent to the Office of State Budget, a caveat should be included to acknowledge that SCCEL's revenue may be affected by the start-up of a North Carolina lottery.

Staff explained that, taking into consideration the variables that may affect SCCEL's gross revenue, every attempt was made to present a conservative budget both as to revenue and expenses. However, staff included a \$1.093 million increase in the advertising budget for FY06 budget. Total budgeted advertising expenditures for the next fiscal year is approximately half a million dollars below the statutory cap of 1% of the previous year's gross sales. Numerous questions were posed regarding whether the increase was needed and the specific advertising activities associated with the proposed increase. In part, this recommendation is intended to focus advertising on enhancing the sale of products other than Powerball, given the experience of FY05 regarding a drop in the number of jackpot runs. Additionally, the staff plan is to target advertising to meet specific challenges that have been identified for FY06. Those items include: the potential impact of a North Carolina lottery; the Mega Millions game in Georgia; the need to increase the reach and frequency of media placement (which will cost more along the North Carolina border); the need to set aside advertising funds for the potential launch of new online games being developed by SCCEL and MUSL; and, as a more mature lottery, the need to focus advertising on attracting new players, rather than encouraging existing players to spend more.

Other budget items discussed include amounts for: consultants that may be used to assist in constructing the new online gaming services RFP; maintenance and repairs associated with purchasing desktop computers as SCCEL phases out leased equipment (up-front costs are slightly higher but long run costs make the change advantageous as it was noted that leasing costs have dropped \$100,000); increases in fees paid by SCCEL's Security department to the Department of Public Safety for Bureau of Protective Services and to SLED (first increase since initial agreements in 2001); and the expense write-off account established for former retailers who have delinquent debts that may be uncollectible.

Motion Adopted

Upon conclusion of the discussion, the FY06 budget was adopted as presented with Commissioner Quattlebaum, although comfortable with the overall budget, asking to be recorded as voting "no" due to the budget increase in advertising expenditures. The Chairman cast Commissioner Rose's proxy in favor of adoption.

Reports

Quarterly Advertising Review

SCCEL'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 their meeting packets which included promotional components for the Ultimate Harley-Davidson Second Chance promotion, joint POS advertising with Bi-Lo and SCEL logos promoting donations to purchase back-to-school for the Boys and Girls Club, the Powerball newspaper ad and the Palmetto Cash 5 newspaper ad. Pat Koop, Director of Sales and Marketing, presented a video of the current television spots. Staff is editing some of the old spots to be reused with a “doughnut” for Powerball jackpot awareness.

Concern was expressed that, while SCEL was not providing direct assistance to the Boys and Girls Clubs in its corporate partnership with Bi-Lo, it may appear that is the case. Staff was not asked to stop this promotion but the consensus was to curtail further partnerships of this nature pending a review by the Commission. After discussion, Legal staff was asked to research the issue and prepare a draft policy to facilitate discussion at the next Commission meeting.

Other than the concerns expressed above, 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.

Executive Director and Internal Auditor Evaluations

SCEL's Executive Director and Internal Auditor report directly to the Commission. Each Commissioner completed a performance evaluation for these two employees.

Executive Session

Commissioner Burriss 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 discussing 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 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 and to disable the telephone link to Columbia.

Return to Open Session

Chairman Smith announced that the Commission was back in open session. No action was taken during the executive session and no other business was discussed.

Motions Adopted

Commissioner Keith moved to increase the Executive Director’s annual salary by six percent. Commissioner Madden seconded the motion which carried unanimously.

Commissioner Madden moved to increase the Internal Auditor’s salary by five percent. The motion was seconded by Commissioner Bailey and was unanimously approved.

Reports

Executive Director

According to sales data compiled for the first eleven months of FY05, despite lower Powerball jackpots, gross sales are only about \$4 million below sales for the same period in FY04. With the transfer of \$24 million in May, transfers to the Education Lottery Account total \$258.5 million for the fiscal year. To date, \$1.141 billion in lottery proceeds have been appropriated for scholarships and other educational programs.

Mr. Passailaigue recognized the Director of Internal Operations and her staff for their assistance in organizing the NASPL Directors' Conference.

Other Business

The Internal Auditor summarized audits performed during FY05 in accordance with the Annual Audit Plan and those activities performed at the request of SCEL management or the Commission.

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

The next meeting of the Commission is planned for Tuesday, September 27, 2005.

_____/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.