

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
March 11, 2020
10 a.m.**

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, March 11, 2020, at 10:05 a.m., in the first-floor conference room located at 1333 Main Street, Columbia, South Carolina, with the following members, representing a quorum, participating:

Sam Litchfield, Chairman	Otis Morris
Dr. Edward Keith, Vice Chairman	William Crosby
Keith Munson, Secretary/Treasurer	William Newsome
Richard Chapman	Ryan Langley
Bo Russell	

The Chairman called the meeting to order and welcomed guests.

Approval of Minutes

The Chairman entertained a motion on the approval of the December 11, 2019, minutes. On motion of Commissioner Munson, seconded by Commissioner Crosby, the Board approved the December 11, 2019, minutes unanimously.

Quarterly Advertising Review

The Chairman recognized Ammie Smith, Director of Product, and Josh Whiteside, Director of Marketing, to present the Quarterly Advertising and Social Media Review. Ms. Smith presented the following items:

- \$250,000 Spectacular Extra Play: Digital Billboard, Online Ad and PID
- Million Dollar Mega Multiplier: Ticket Topper, Digital Billboard, Online Ad, PID
- Palmetto Cash 5 10X®: Play Station Poster, Combined Digital Billboard, Wallet Card, PID, and TV

Other

- Mega Millions® and Powerball® - Digital Billboard
- Ticket Topper – Generic App

Ms. Smith then asked Mr. Whiteside to present the Tiny Stories campaign. He showed the TV ad that ran during the Super Bowl in SC major markets and then went through the series of Tina Tiny TV ads: *Fritz and Junebug* (filmed in the Lowcountry), *Kathmandu* (filmed in the Lowcountry), *Bart* (filmed in Greenville), and *Chaz* (filmed in Greenville). Next, Mr. Whiteside mentioned that the SCEL Claims Center had a cutout of Tina Tiny so winners can take their picture and share their story with SCEL. He also addressed how the Tiny Stories campaign has affected Social Media. Over the past month, more than 400 “Tiny Stories” have been emailed to SCEL for use in this campaign. By posting the stories on social media, SCEL has reached over 600k people and over 25k people have either “liked”, commented on, or shared posts.

Mr. Whiteside updated the Board on the advertising concepts for beneficiary stories that will be completed soon. The theme of these commercials is to show the beneficiaries’ passion. He discussed Sarah, a violinist; Daniel, a muralist; and Ciara, a reading teacher.

Next Mr. Whiteside addressed SCEL's new state-of-the art large format printer and high-performance cutter. He showed examples of large, graphic banners SCEL plans to use at the claims center, noting that such items would cost double to outsource. SCEL should recoup its costs in three years or less.

At the conclusion of the Advertising and Social Media Report, hearing no concerns or objections, the Chairman stated that it was the consensus of the Board that the advertising concepts presented 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.

Lastly, Mr. Whiteside mentioned that SCEL had received several American Advertising Federation of the Midlands ADDY awards. SCEL received a gold ADDY award for "Porches of Time" and a silver ADDY award for "Spaceship". SCEL also received a gold ADDY award for "Porches of Time" and "Spaceship" combined, and a gold ADDY award for its Responsible Play ad. Lastly, SCEL received Best of Show for Broadcast and Best of Show Overall for its Responsible Play campaign. He then introduced several members of SCEL's creative and production team: Ms. Lorie Gardener, CEO, and Jeff Rodgers, Producer, both of Mad Monkey, Inc. and David Johnson of Able VFX, Inc., who does all of SCEL's animation. Mr. Whiteside recognized SCEL's ad agency, Chernoff Newman, and introduced Hannah Aslesen, the actress who plays Tina Tiny.

Reports

Financial Report

The Chairman recognized Mr. Boyle, Chief Financial Officer, who began his presentation addressing the proposed media buy request for FY21 as referenced in the two handouts contained in the meeting materials. He stated that even though the budget is approved in May historically, SCEL needs to make some media related decisions before May amounting to a \$340k increase over last year (an approximate 6% increase), mostly to reserve radio and digital billboards spots and increase media purchases with USC and Clemson focusing on beneficiaries. He asked Mr. Whiteside to explain further the increase and timing of the request.

Commissioner Newsome asked for clarification as to the request before the Board. Mr. Boyle explained that \$340k is being requested for FY21, which is to be added to the funding level approved for FY20 (\$7.8M). Thus, the Board is being asked to approve \$8.2M for FY21. Mr. Boyle and Ms. Smith confirmed that the request is essentially pulling a line item from the proposed FY21 budget, which will be presented in May for immediate approval.

Motion Adopted

On motion of Commissioner Keith, seconded by Commissioner Morris, the Board unanimously approved \$8.2M for the "media buy" component of the FY21 advertising budget.

Actual FY 2020 Results Compared to Actual FY 2019 Results

Overview

During the first seven months of FY20, Transfers decreased from \$292.7M to \$281.3M, a decrease of \$11.4M (3.9%). Overall Game Revenue increased \$23M to \$1,130.6B (2.1%). Net Income decreased \$10.5M¹ to \$270.3M. The decrease in Net Income was the result of decreased Terminal Game Revenues, specifically Powerball and Mega Millions, as more fully discussed below.

¹ Net income as used herein means "Change in Net Position" as generally used for governmental agencies. Further, the increase in net income will not necessarily result in the same amount of Transfers. Transfers are "cash basis" and net income is on the accrual basis. The primary difference will be in accounts such as accounts receivable, the growth in which is reflected in net income, but not in Transfers since amounts recognized as income have not been received.

Instant Games

Instant Game Revenues increased by \$41.7M to \$838.1M. Of the overall increase, \$10 Instant Tickets increased by \$29.2M (5.0%). Revenues associated with \$5 Instant Tickets increased \$9.9M (8.2%). Revenues associated with the \$1, \$2 and \$3 price points, in aggregate, increased \$2.7M (2.9%). The Game Margin on Instant Game Revenues increased during the period by \$11.2M (5.2%).

Terminal Games

Terminal Game Revenues were \$292.4M, a decrease of \$18.7M (6.0%) due to decreases in Mega Millions and Powerball Revenues. However, increases in Pick 3 and Pick 4 Revenues offset decreases in Terminal Game Revenues. Game Margin, as more fully discussed below, decreased \$19.4M from the previous year. Mega Millions Revenues decreased \$30.0M (52.6%). Powerball Revenues decreased \$10.5M (20.8%). During the seven-month period ending January 31, 2019, there were several significant jackpot runs, the most significant of which was the \$1.5B Mega Millions jackpot run in October 2018. There were no comparable jackpot runs in the current period. As a result of the decreased Revenues, Game Margins were negatively impacted by \$20M. Pick 3 and Pick 4 performed well and, in aggregate, Revenues increased by \$21.5M (11.8%); however, Game Margins on Pick 3 and Pick 4, in aggregate, increased only \$2.2M due to statistical variation. Lucky for Life Revenues were consistent at \$7.4M. Palmetto Cash 5 Revenues were also consistent at \$13.8M; however, Game Margin was down \$2.1M due to statistical variation. The overall Game Margin Percentage on Terminal Games was 50.1% compared to 53.4% during the same period last year. The 3.3% decrease was primarily a result of lower margins on Pick 3, Pick 4, and Palmetto Cash 5 and resulted from statistical variation.

Other Revenues and Game Costs

Other Revenues, which consist primarily of license and telephone fees, were \$2.1M. Other Direct Game Costs were \$12.3M, up slightly from FY19. As a percentage of Revenues, both of these items, as expected, were consistent from FY19 to FY20.

Advertising and G&A Expenses

Advertising Expense was \$5.5M in FY20 compared to \$5.4M in FY19. G&A Expenses (the primary component of which is employee compensation) were \$8.6M in FY20 and \$8.4M in FY19.

Actual FY 2020 Results Compared to the FY 2020 Financial Plan

Overview

To date, actual financial results have exceeded Plan. Higher than planned Game Revenues resulted in higher Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) of \$284.4M compared to the planned amount of \$259.6M, a \$24.5M (9.6%) increase. Game Revenues were \$1,130.6M compared to Plan of \$1,078.8M. The positive variance in Instant Game Revenues is primarily attributable to better than expected sales of \$5 and \$10 Instant Tickets. The \$5 and \$10 price points exceeded Plan by \$11.9M and \$8.9M, 10.0% and 1.5%, respectively. The \$3 price point also performed well and was \$4.3M (17.0%) over Plan. Aggregate revenues associated with the \$1, \$2 Instant Tickets were above Plan by \$9M (1.4%). The positive variance in Terminal Game Revenues is attributable to better than expected sales of all Terminal games, except Powerball. Pick 3 and Pick 4 exceeded Plan by \$17.3M (14.5%) and \$11.1M (19.6%), respectively. Mega Millions exceeded Plan by \$5.3M (24.4%). Palmetto Cash 5 and Lucky for Life exceeded Plan by \$7M (5.6%), and \$4M (5.8%), respectively. Powerball performed under plan by \$9.1M, or 18.5%.

Operating Expenses were \$0.5M under Plan. Advertising Expense was \$0.3M under plan (\$5.5M Actual vs. Plan of \$5.8M). Other Operating Expenses (“G&A”) were \$0.3M under Plan. Most of the variances should normalize to planned annual amounts as the year progresses. Net Income for the seven months ending January 31, 2020, was \$270.3M compared to Plan of \$245M, a positive variance of \$25.4M (10.4%).

Executive Director’s Report

The Chairman recognized Ms. Dolly Garfield, General Counsel, to provide the Executive Director’s report on behalf of Hogan Brown, Executive Director, who was recovering from an illness.

Ms. Garfield began by stating that SCEL is in the process of obtaining electronic jackpot signage for all of its retailer outlets. South Carolina is one of the last state lotteries to have the signs. Currently SCEL relies on its retailers to update the jackpot signs manually and therefore is not always accurate. She stated that there should be more information for the Board on signage at the May Board Meeting.

Next, Ms. Garfield stated that SCEL will launch a player protection program spearheaded by Ms. Elizabeth Leber, Senior Security Operations Manager, and Mr. Whiteside, designed to alert winning players to dangers of posting their winning tickets online using social media broadcasts. Perpetrators are attempting to cash digital tickets at retail locations. Mr. Craig Perry, Director of Security, stated that SCEL asks the retailer who cashed a digital ticket to pay those funds back to SCEL and anyone who attempts to cash a digital ticket is charged with lottery fraud.

Ms. Garfield stated that thanks to the efforts of Mark Ritchie, all SCEL employees have received online active shooter training and half of those employees have attended the first of two classroom training sessions from the State Law Enforcement Division (SLED).

Next, Ms. Garfield stated that SCEL is in the midst of the procurement for the instant ticket distribution, printing and warehousing services. She stated that a diverse employee evaluation panel was selected to review the materials and an award is expected in early April. Staff is also drafting an RFP for new draw machines to replace the existing draw machines that have been in place since 2002.

Ms. Garfield next stated that in late January 2020, Hogan Brown appeared before the SC House of Representatives Ways & Means Subcommittee and the subcommittee was pleased about SCEL’s transfers. She also reminded the Board that their Statements of Economic Interests are due by March 30, 2020. Ms. Garfield also updated the Board on the Glassmeyer case stating that the S.C. Court of Appeals denied his request for a rehearing and that he has since filed a petition for an appeal to be heard in the S.C. Supreme Court. She stated that she would keep the Board updated.

Ms. Garfield stated that Claire Jones, Director of Human Resources, has been working very diligently in posting SCEL’s Contagious Illness Policy, given illnesses such as the flu and Covid-19 and instructing employees to stay at home and use sick leave rather than come into work sick. In this vein, she mentioned that Mr. Brown, who was ill and leading by example, decided to stay at home rather than risk making others sick. Ms. Garfield also stated that Petrina Marsh, Procurement Manager, made sure that SCEL has plenty of supplies on hand in anticipation of the virus.

Other Business

There being no further business, the meeting adjourned at 11:25 a.m.

_____/s/
Sam Litchfield, Chairman

_____/s/
Keith Munson, Secretary/Treasurer

As required by *S.C. Code Ann.* § 30-4-80, SCEL posted notification for this meeting at its administrative offices, 1333 Main Street in Columbia. As provided in the Board Bylaws, SCEL also posted the meeting notice and agenda on its website (sceducationlottery.com), and sent emails pursuant to requests made by individuals, media outlets and other organizations. These notifications included the time, date, place, and agenda of the meeting.