

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
February 17, 2021
10:00 a.m.**

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, February 17, 2021, at 10:04 a.m., at 1333 Main Street, Columbia, South Carolina, First Floor Conference Room, with the following members, representing a quorum, participating:

Sam Litchfield, Chairman (in person)	Ryan Langlely (in person)
Dr. Edward Keith, Vice Chairman (in person)	Richard Chapman (video)
Keith Munson, Secretary/Treasurer (in person)	William Newsome (video)
Otis Morris (in person)	Patrick Earle (in person)

The Chairman called the meeting to order and welcomed guests.

Approval of Minutes

On motion of Commissioner Munson, seconded by Commissioner Keith, the Board approved the December 9, 2020, minutes unanimously.

SCEL Brand Survey Presentation

The Chairman recognized Fenton Overdyke, Director of Research, Chernoff Newman who presented highlights of the brand survey.

Action items

a. Quarterly Advertising Review

Committee Report

The Chairman recognized Commissioner Morris to report on the Marketing and Retailer Relations Committee meeting held on January 14, 2021. Staff presented a new promotion concept associated with a \$2 instant game: 7-11-21® Live! Staff presented three new beneficiary commercials that first aired during the Super Bowl. The Committee reacted favorably to both presentations and asked staff to include those items in today's advertising review rather than presenting them as a Committee Report. Commissioner Morris then asked Ammie Smith to begin the quarterly advertising presentation with this promotion.

Ms. Smith explained that the 7-11-21® Live! instant game will launch on May 4, 2021. It includes enhanced HD printing under the latex and includes a ticket callout to tune into a live Facebook event on 7-11-21 for a chance to win up to \$7,777. The game draws attention to the \$2 instant ticket price point and is intended to attract a new segment of players to the promotional event by capitalizing on the once-in-a-lifetime date of 7-11-21. Josh Whiteside explained that, unlike traditional second-chance promotions, the live event affords SCEL the opportunity to interact with players and receive their direct feedback that is not possible in a traditional second-chance promotion where tickets are mailed in or entered online. It also positions SCEL for future growth in attracting new players through the first-ever SCEL Facebook live event. While the ticket callout will encourage a purchase, a purchase is not required to participate in the Facebook broadcast.

Ms. Smith then explained the Facebook broadcast and the winner selection process. Players will tune in via SCEL's Facebook page for the live broadcast which begins at 7:11pm ET on Sunday, July 11, 2021 and ends 21 minutes later. Other lotteries will view the event on their respective Facebook pages but there is no interaction among players from another jurisdiction. At the beginning of the broadcast the host appears on camera next to a (very) oversized 7-11-21® LIVE! instant ticket featuring four games. Next to the oversized instant ticket is a mixing cage containing 50 sealed envelopes: thirty-five with a \$77 prize, ten with a \$777 prize, and five with a \$7,777 prize. During the first stage of the cash prize value selection process, the host draws four envelopes from the drum and attaches one envelope to each of the four games on the oversized instant ticket. The viewers will then participate in an interactive poll in which they are asked to vote for one of the four Games/Envelopes. Upon conclusion of the polling period, the results are displayed on screen. The host then removes the envelope that received the most votes and opens it to reveal the value of the cash prize. SCEL/SG will select 10 winners from the list of viewers that entered their lucky number in the chat box during the broadcast.

Ms. Smith and Mr. Whiteside continued the quarterly advertising review, discussing the following items:

Beneficiary: TV - Erin, James, Kristin: (30 and 60 Second Video - WMV File); Radio - Erin, James, Kristin: (30 Second Audio - MP3 File); and Spotify Banner - Erin, James, and Kristen.

FIREBALL Pick 3 / Pick 4 (add-on game): Pick 3, Cooler Cling and PID; Pick 4, Pick 4, Play Station Poster (Left and Right), Ticket Topper, Window Poster, Writing Surface, and PID.

\$2,000,000 Colossal Cash: Play Station Poster (Left and Right), Ticket Topper, Writing Surface, and PID.

General Player Information Display (PID) Updates: January Instant Games (28 Second PID Video - WMV File), All February Instant Games (63 Second PID Video - WMV File), and March Instant Games (56 Second PID Video - WMV File)

After the presentations, the Chairman stated, without objection, that it is the consensus of the Board that the advertising presented 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.

b. Media Buy Plan for FY22

The Chairman recognized Mr. Brown and Mr. Whiteside to discuss the proposed FY22 Media Buy Plan request. Mr. Brown stated that as in past years, the request is being made now rather than the annual May budget meeting to allow staff and our vendor to develop the media buy plan well in advance of July 1st and seek better rates. Mr. Whiteside noted that a slight increase is being requested to cover any potential jackpot run(s) and an increase for streaming networks that are growing in viewership.

Motion Adopted

At the end of the presentation, the Chairman entertained a motion by Commissioner Morris, seconded by Commissioner Munson to approve the requested funds for inclusion in the FY22 budget.

c. Budget Adjustment Requests for FY21

i. **Compensation.** The Chairman recognized Mr. Brown who presented a request for a 3% across the board salary increase for all SCEL employees, except for his position. Had the pandemic not occurred, the FY21 budget request would have included a merit-based compensation plan

based upon performance evaluations. Given how well everyone adapted to working remotely and how hard they worked to achieve the results to date, he believed it was appropriate to request an across-the-board increase. This request also ensures adherence with the compensation plan put in place several years ago.

Motion Adopted

On motion of Commissioner Morris, seconded by Commissioner Langley, the Board unanimously approved the motion.

Mr. Brown continued by stating that, absent an objection, staff would present a funding request in the FY22 budget proposal for merit increases beginning in the first quarter of FY22 based upon the employee's anniversary date. The request would be based on a percentage of the total compensation budget and then divided and applied based upon the results of the evaluations.

ii. **Fireball Testing.** Subsequent to the last Board meeting, staff determined that Gaming Laboratories International (GLI), a widely respected testing company, was needed to conduct Fireball testing. Although SCEL has a very capable testing group, it is a small team with several concurrent obligations. The commitment to retain GLI was necessary before this meeting so that the testing plan could start at the end of January. The cost is between \$125,000 and \$130,000, which is consistent with prior work performed by GLI. Mr. Brown asked the Board to ratify the contract with GLI, which was granted without objection.

iii. **Additional SLED Agent.** SCEL has had three SLED agents assigned to it since inception. Over the last 10 years, the caseload has doubled. The annual cost for a SLED agent is approximately \$100k per year when all expenses are considered, including a vehicle. Mr. Brown and Craig Perry, Director of Security, explained the activities the SLED agents perform for SCEL and the territory they cover. They also offered examples of their assistance to local law enforcement as tracing stolen tickets can play a critical role in solving store robberies, burglaries, and murders.

Motion Adopted

The Chairman entertained a motion by Commissioner Munson, seconded by Commissioner Keith, to approve adding an additional SLED agent to assist SCEL in investigations. The Board unanimously approved the motion.

Reports

Internal Auditor Update

The Chairman recognized Ms. Sonja Erickson, Internal Auditor. The Internal Audit Charter and the Audit Committee Charter both of which were approved by the Audit Committee at its meeting earlier today. Ms. Erickson stated that she is currently conducting a review with each department head to audit compliance with the Lottery Act, which has also helped in becoming fully familiar with all aspects of SCEL operations. She stated that SCEL is currently undergoing the second part of a Service Organization Controls Audit (SOC 2) and she is assisting SCEL's outside auditors, Elliot Davis, as they work toward completion. She is wrapping up two audits started by her predecessor. Lastly, Ms. Erickson stated that the next task would be to develop the FY22 internal audit plan with input from the Board and management.

Financial Report

The Chairman recognized Mr. Boyle, Chief Financial Officer, who provided a high-level overview of his written presentation, submitted to the Board in the meeting materials prior to the meeting. He began by acknowledging the extraordinary year that SCEL is experiencing and noted the recently updated BEA FY21 transfer estimate of \$559.5M; however, SCEL is expecting FY22 to return to a number more in line with the original FY21 estimate of \$520M.

Actual FY 2021 Results Compared to Actual FY 2020 Results

Overview

During the first seven months of FY21, Transfers increased from \$281.3M to \$355.5M, an increase of \$74.2M (26.4%). Overall Game Revenues increased \$202.8M to \$1,333.4M (17.9%). Net Income increased \$65.8M to \$336.1M (24.4%).

Instant Games

Instant Game Revenues increased by \$117.2M to \$955.3M (14%). Of the overall increase, \$10 Instant Tickets increased by \$96M (15.7%). Revenues associated with \$5 Instant Tickets increased \$14.4M (11.0%). The revenues associated with the \$1, \$2, and \$3 price points, in aggregate, increased \$6.8M (7.1%). Instant Game Margin Revenues increased by \$33.3M (14.6%).

Terminal Games

Terminal Game Revenues were \$378.1M, an increase of \$85.7M (29.3%), driven by increases in all games. Game Margin increased by \$47.1M (51.21% compared to 50.12% last year) primarily from Pick 3 and Palmetto Cash 5, offset by lower margins in Pick4 and Lucky For Life. Powerball and Mega Millions Revenues increased \$11.6M (28.9%) and \$16.1M (59.4%), respectively, due to significant parallel jackpot runs ending in January. There were no comparable jackpot runs in the prior year. Game Margins on these games increased by \$13.0M. Pick 3 and Pick 4 performed well and, in aggregate, Revenues increased by \$54.9M (26.9%).

Advertising and G&A Expenses

Advertising Expense was \$5.3M compared to \$5.5M at this point in FY20. G&A Expenses (the primary component of which is employee compensation) were \$8.8M versus \$8.6M in FY20.

Actual FY 2021 Results Compared to the FY 2021 Financial Plan

To date, actual financial results have exceeded Plan. Game Revenues were \$1,333.4M compared to Plan of \$1,108.1M. 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 \$14.4M (11.0%) and \$96.6M (15.8%), respectively. The \$3 price point also performed well and was \$3.3M (10.8%) over Plan. Aggregate revenues associated with the \$1, \$2 Instant Tickets were above Plan by \$5.6M (8.8%). The positive variance in Terminal Game Revenues is attributable to better than expected sales of all Terminal games. Pick 3 and Pick 4 exceeded Plan by \$36.4M (26.7%) and \$19.2M (28.6%), respectively. Powerball and Mega Millions exceeded Plan by \$21.9M (73.5%) and \$24.5M (131.7%). Palmetto Cash 5 and Lucky for Life exceeded Plan by \$3.0M (22.3%) and \$.5M (6.2%), respectively.

As a result of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$350.2M compared to Plan of \$276.0 for a positive variance of \$74.2M (26.9%). Net Income through January 31, 2021 was \$336.1M compared to Plan of \$261.4M, a positive variance of \$74.7M (28.6%).

Executive Director's Report

The Chairman recognized Mr. Brown who began by explaining that SCEL would not participate in the Powerball New Year's Rockin' Eve promotion this winter because it does not fit with our marketing plan and the time and effort devoted to the promotion outweighs any measurable benefits.

Mr. Brown commended staff for the work performed remotely during the pandemic especially the Product Development team for their efforts on Fireball and the interactive training they provided to all SCEL employees on this new game. He also thanked the Marketing Sales Representatives (MSRs) who effectively managed their routes via telephone and ensured appropriate instant game inventory was maintained. MSRs expected to begin returning to in-stores visits on or about March 1, 2021.

Other Business

There being no further business, the meeting adjourned at 11:49 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.