

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
May 19, 2021
10:00 a.m.**

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, May 19, 2021, at 1333 Main Street, Columbia, South Carolina, First Floor Conference Room, with the following members, representing a quorum, participating:

Sam Litchfield, Chairman
Dr. Edward Keith, Vice Chairman
Keith Munson, Secretary/Treasurer
Otis Morris

Richard Chapman (video conference)
William Newsome (video conference)
Patrick Earle

The Chairman called the meeting to order at 10:09 a.m. and welcomed guests.

Approval of Minutes

On motion of Commissioner Munson, seconded by Commissioner Keith, the Board approved the February 17, 2021, minutes unanimously.

ACTION ITEMS

a. Audit Committee Report:

The Chairman recognized Commissioner Keith who explained the Audit Committee vote to recommend Board approval of the Audit Committee Charter (ACC) and the Internal Audit Charter (IAC) at its February 17, 2021 meeting. Commissioner Keith then asked Sonja Erickson, Internal Auditor, to provide further details on each document. This ACC updates the Charter adopted in 2012. It defines the Committee's role in providing audit information to the Board and oversight of lottery operations. It also establishes the duties and responsibilities of the Audit Committee, including: meeting regularly; monitoring the implementation of significant audit recommendations; reviewing the work of internal and outside auditors; and, as needed, coordinating with the Board on financial statements and other audits. Next, Ms. Erickson explained that the IAC defines the role and expectations of the Internal Auditor and establishes a blueprint for what the Board and management can expect from an internal audit, consistent with applicable professional standards.

Motion Adopted

After the presentation, the question before the Board was the adoption of the Committee recommendation to adopt both charters which was unanimously approved.

b. Marketing Committee Report:

The Chairman recognized Commissioner Morris who explained the Marketing and Retailer Relations Committee vote to recommend approval of a new game, Cash Pop, at its April 28, 2021 meeting. Ammie Smith, Director of Product Development, and Josh Whiteside, Director of Marketing, were asked to discuss the game details. Cash Pop is part of the plan to refresh SCEL's product offerings after the discontinuance of the Lucky for Life game. Mr. Whiteside discussed

initial branding concepts and presented examples of the approach to attract infrequent players through a 15-second video. Mrs. Smith discussed how Cash Pop is played: one number is selected from 1 to 15 and a player can wager \$1, \$2, \$5, or \$10 per “Pop”. Selecting more Pops enhances the odds of winning a prize and 15 Pops guarantees a win of some level. A play slip was presented to show the simplicity of the game. Mrs. Smith explained the various prize payouts and stated there are two separate experiences; an instant reveal of a prize and anticipation of a draw later. The instant reveal lets a player know how much he/she will win if that number is drawn.

Motion Adopted

After the presentation, the question before the Board was the adoption of the Committee recommendation to offer Cash Pop, with a January 2022 launch, which was approved unanimously.

c. Quarterly Advertising and Marketing Review

The Chairman recognized Mrs. Smith and Mr. Whiteside who reviewed the following items:

FIREBALL - Pick 3/Pick 4 Buckslip; How to Play and Retailer Training (YouTube Videos). Point of Purchase: Oversized Odds, Menu of Games, Odds Flyer, Wallet Card; and PID Video.

Road to Riches – RZR and Slingshot Prizes: Digital Billboard, Online Ad, PID, Play Station Poster, Ticket Topper and, Writing Surface.

Play Responsibly - Radio –Full Tilt (30 Second Audio), TV (30 Second Video).

Tiny Stories - Garden Wars, Dad Hair, Me Shack, and Captain (30 Second Videos).

Beneficiary – PID: Erin, James, and Kristen (10 Second Video).

Jumbo Bucks Games (June 1st Scratch-Off Launch) Ticket Topper.

General PID Updates - Scratch-Offs: April, May, and June.

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.

d. Proposed Financial Plan (Budget) for FY22

The Chairman recognized Hogan Brown, Executive Director, and Brian Ford, Controller, to present the FY22 Financial Plan (“Plan”). Mr. Brown gave an overview of the process used to develop the Plan including the pandemic-related reductions in spending over the past two fiscal years and how that impacted the FY22 Plan. He then asked Mr. Ford, who will be SCCL’s new CFO effective in July (2021), to elaborate on the formulation of the Plan¹. Actual expenses in FY21 through April are combined with anticipated and/or annualized spending through June 30th to establish the baseline for variances between the FY22 Plan requests and FY21 results. This Plan format has been used for years but the operational disruptions due to COVID in FY20 and FY21 caused significant reductions in our normal spending patterns. These reductions in actual FY21 expenses (in certain line items such as travel) make it appear that staff is requesting an unusually high increase for FY22. Consequently, the Plan spreadsheet presented to the Board explains when a line item is a true increase in relation to FY21 and distinguishes those instances where a request is merely a return to pre-COVID level spending in anticipation of more normal operations in FY22. Mr. Ford explained each variance as presented in the Plan.

¹ In addition to the Plan spreadsheet with footnotes explaining variances from FY21 to FY22, a memo was provided in advance of the meeting that explained the impact of COVID on FY22 spending requests and revenue forecasting.

Revenue forecasting for FY22 was more challenging given the initial slump in sales in Q3 of FY21 followed by record sales in Q4. This revenue pattern was present in varying degrees throughout the country. Uncertainties as to how South Carolina emerges from COVID and how spending may change, made reliance upon year-over-year sales growth seem ill-advised. Consequently, staff started with the most recent year (FY19) not impacted by COVID and built in a reasonable and sustainable blended growth rate of 5% compounded for each year leading up to FY22 (comparisons from FY21 to FY22 are provided below). Additional considerations or assumptions were also applied based on planned enhancements and/or new games in FY22. Mr. Ford briefed the Board on the expectations for each terminal game and each instant game price point and those projections were consistent with the blended rate analysis. The result was a conservative FY22 revenue projection in line with the initial projections for FY21.

Taking all of the forecasting into consideration, the sales comparisons from FY21 annualized results to FY22 can be summarized in the following categories. As for Instant Games, the Plan reflects increases of \$5.8M (4.7%) in the \$1 and \$2 Price Points (PPs), \$10.6M (3.2%) for the \$3 and \$5 PPs, and a decrease of \$86.5M (6.6%) in the \$10 PP. For Terminal Games, the Plan anticipates a decrease of \$95.1M (14.5%). Pick 3 is expected to be down \$45.4M (14.6%) and Pick 4 is expected to decrease by \$21.1M (13.8%). Palmetto Cash 5 is projected to be down \$2.3M (7.9%). After being under some pressure from the jackpot changes last year, Powerball and Mega Millions have both returned to their normal run rates of weekly sales of \$1.2M and \$900k, respectively.

In summary, SCEL is expecting a revenue decrease of about \$165M upon the return to normal non-pandemic conditions with net income of about \$522.5M.

Motion Adopted

At the conclusion of questions and comments, Commissioner Keith moved for approval of the FY22 Plan, seconded by Commissioner Munson. The Board unanimously adopted the motion.

Reports

a. Demographic Study Presentation

The Chairman recognized Mr. Scott Morasch, Vice President, Lottery and Gaming with Ipsos to provide an overview of the demographic study. It is intended to provide a market snapshot of the lottery playing population, including: market size; overall and by brand, frequency of play, and spend on lottery games; opinions regarding the Lottery; barriers and motivations to play; and player demographics. He also explained the study methodology that consisted of an entirely online survey approach. Mr. Morasch noted that Ipsos has been deploying internet-based surveys since the early 1990's and is one of the technological leaders in the field globally. The study involved a total sample size of 1,400 South Carolina adults with methods in place to ensure the sample contained demographic subgroups in proportions reflected in the Census/ACS data. Mr. Morasch then proceeded to discuss key findings from the study.

b. Financial Report

The Chairman recognized Joe Boyle, Chief Financial Officer.

Actual FY 2021 Results Compared to Actual FY 2020 Results through April

Overview

During the first ten months of FY21, Transfers increased \$112.1M (27.4%) from \$409M to \$521.1M. Overall Game Revenues increased \$334.8M (20.0%) from \$1,672.7 to \$2,007.4M. Net

Income increased \$110.4M (28.3%) to \$500.4M from \$390.1M due to increases in all Instant PPs and all Terminal Games.

Instant Game Revenue

Instant Games increased \$211.1M (16.8%) to \$1,464.7M from \$1,253.5M. The \$10 PP increased by \$166.0M (18.0%) while the \$5PP is up \$32M (16.9%) and \$3 PP increased by \$8.2M (19.1%). The \$1 and \$2 PPs, in aggregate, increased \$4.9M (5.1%). Game Margin increased \$61M (18.1%) largely due to the growth of the \$10 and \$5 PPs.

Terminal Games Revenue

Terminal Games increased \$123.7M (29.5%) to \$542.8M from \$419.1M, across all games. Pick 3 was up \$57M (28.4%) and Pick 4 increased by \$28.8M (29.5%). Game Margins (discussed further below) increased by \$38.3M (39.2%) for Pick 3 and \$19.5M (41.2%) for Pick 4.

Mega Millions Revenues increased \$19.4M (53.5%) to \$55.8M from \$36.3M. Powerball Revenues increased \$13.4M (24.7%) to \$67.7M from \$54.3M. Unlike last year, both Powerball and Mega Millions had jackpot runs totaling \$730M and \$1,000M, respectively. Game Margins increased by \$18.8M.

Palmetto Cash 5 Revenues increased \$4.3M (21.7%) to \$24.1M from \$19.8M. Lucky for Life Revenues were fairly consistent at \$11.3M, however, Game Margin was down \$2.4M (46.8%) due to statistical variation.

Terminal Game Margin was \$280.5M (51.7%) compared to \$204.9M (48.9%). The \$75.5M (2.8%) increase was primarily a result of higher margins on Pick 3 and Pick 4, and Palmetto Cash 5 resulting from statistical variation. Overall, Game Margin increased to \$679.1M from \$542.5M, an increase of \$136.6M (25.2%) over prior year.

Other Revenues and Game Costs

Other Revenues, which consist primarily of license and telephone fees, were \$3M in the first ten months of FY21 and FY22, respectively. Other Direct Game Costs were \$20.1M in FY21 and \$17.9M in FY20. As a percent of Revenues, as expected, both are consistent from FY21 to FY20.

Advertising and G&A Expenses

Advertising Expense was \$7.8M in FY21, the same as FY20. G&A Expenses (the primary component of which is employee compensation) were \$12.7M in FY21 and \$12.1M in FY20.

Actual FY 2021 Results Compared to the FY 2021 Financial Plan through April

Actual financial results have exceeded Plan. Game Revenues were \$2,007.4M compared to Plan of \$1,656.2M. The variance in Instant Game Revenues is primarily attributable to better than expected sales across all PPs. The \$5 PP exceeded Plan by \$26.3M (11.9%) and \$10 PP was \$177.8M (16.3%) over Plan. The \$3 PP was \$5.6M (11.0%) over Plan and the \$1 and \$2 PPs were above Plan by \$6M (6.3%). Similarly, Terminal Game Revenues were up across all games. Pick 3 exceeded Plan by \$53.6M (26.4%) and Pick 4 was \$26.4M (26.3%) over Plan. Mega Millions exceeded Plan by \$28.0M (101.1%), while Powerball was \$23.1M (52.0%) over Plan. Palmetto Cash 5 exceeded Plan by \$3.7M (18.2%) and Lucky for Life was over by \$.4M (4.0%).

As a result of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$520.9M compared to Plan of \$413.M for a positive variance of \$107.7M (26.1%).

In aggregate, Operating Expenses were \$ 0.6M under Plan. Advertising Expenses were \$0.5M under plan (\$7.8M Actual vs. Plan of \$8.2M). Other Operating Expenses (“G&A”) were within \$.1M of Plan. Most of the variances should normalize to Plan as the year progresses.

In summary, Net Income was \$500.4M compared to Plan of \$392.2M, up \$108.2M (27.6%).

Mr. Boyle took the opportunity, during his last official appearance before the Board, to express his appreciation for his time at SCEL. He shared that after having been at several businesses over his career, SCEL’s integrity tops them all. He expressed his pleasure in concluding his career with a dedicated Board and leadership; they have created an “excellent, high quality organization.” He specifically thanked the Claims Center staff and Marketing Sales Representatives for their hard work as the face of the organization, especially during the pandemic.

c. Legal Committee Report

The Chairman recognized Commissioner Munson for the Legal Committee report. He stated that the Committee held a meeting on April 27, 2021 to receive legal advice from counsel in regard to SCEL v. Glassmeyer. He provided background on the case and summarized the Supreme Court’s reasoning in remanding the case back to trial.

d. Executive Director Report

The Chairman recognized Hogan Brown who discussed the Draw Studio move initially proposed by the landlord. After several attempts to reach an agreement, the landlord has abandoned the idea after discovering the up fit for moving the studio would cost more than the landlord was willing to pay. He stated however, that SCEL would be asking for slightly more studio storage space which should not be an issue. Next, Mr. Brown explained that the projected costs for the print room project and the build out for more offices exceeded \$100k. Staff will make the needed cuts to obtain a price below \$100K as the state approval process is quicker and much simpler. The International Powerball game is progressing slowly and there are no new updates. The RFP for in-store jackpot digital signage was issued on May 18, 2021 and purchases are expected in FY22. Lastly, Mr. Brown stated that, as of this time, the state budget contained no proviso for Dragons Ascent in the House or Senate passed versions. He stated that the budget has been referred to the respective House Ways and Means subcommittees where such a proviso could emerge and he will update the Board as needed.

Other Business

There being no further business, the meeting adjourned at 12:25 p.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.