

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
May 27, 2020
2:00 p.m.**

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, May 27, 2020, at 2:09 p.m., via teleconference conducted from 1333 Main Street, Columbia, South Carolina, Room 428, with the following members, representing a quorum, participating:

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

The Chairman called the meeting to order.

Approval of Minutes

The Chairman entertained a motion on the approval of the March 11, 2020, minutes. On motion of Commissioner Munson, seconded by Commissioner Keith, the Board approved the March 11, 2020, minutes unanimously.

Quarterly Advertising Review

The Chairman recognized Mrs. Ammie Smith, Director of Product, who reviewed the following advertising:

WONDER WOMAN™ Instant Game – which will launch Tuesday, July 28, 2020, as a \$2 price point. SCCEL will be the first state to launch this licensed property offered by Scientific Games. Ticket Art – WONDER WOMAN™ and Ticket Topper – WONDER WOMAN™

\$500,000 Jackpot - Oversized ticket that launched Tuesday, April 21, 2020. This is the first time SCCEL has offered a \$500,000 top prize instant game, and the game is loaded with \$300 prizes. Online Ad – \$500,000 Jackpot and PID – \$500,000 Jackpot

Palmetto Cash 5 - Permanent change to Palmetto Cash 5 offering players a chance to win \$1M 7 nights a week started on Sunday, April 5, 2020. Digital Billboard – Palmetto Cash 5 and Online Ad – Palmetto Cash 5

General PID Updates

Claims: \$500 or less; Claims: \$100,000 or less; Claims: More than \$100,000; Instant Game: 5X, 10X, 20X, 50X; Instant Game: All Star Cash, Triple Cash, Extreme Green and \$250,000 Cash In

Beneficiary – Cierra, Daniel, and Sarah are stories of lottery scholarship recipients who followed their passion and turned that passion into a career thanks to the help they received from their lottery scholarship. TV – Beneficiary, PID – Beneficiary; Digital Billboard – K-12, Higher Education and \$6 Billion.

The Chairman then recognized Mr. Josh Whiteside, Director of Marketing, who provided a Social Media update on beneficiary messages and Tiny Stories.

Upon conclusion of the Advertising and Social Media Report, the Chairman stated, without objection, 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.

Review and Approval of FY 21 Budget

The Chairman recognized Mr. Joseph Boyle, Chief Financial Officer, to discuss the FY21 Budget. Mr. Boyle explained the process used to develop SCEL's FY21 Budget and Financial Plan ("Plan") including revenue forecasts built into the Plan, the involvement of each department, and the Executive Director in arriving at the requested spending.

The FY20 annualized revenues are based on the projection of actual results through February 2020 (the last month of "normal" revenue before the COVID-19 disruption). Expenses are projected on the 10 months ending April 30, 2020, of the current fiscal year. Mr. Boyle stated that SCEL is planning revenues with a great deal of caution and pointed out that since the COVID-19 outbreak SCEL has seen a high level of volatility in its revenue patterns. Accordingly, overall Instant Ticket revenues are planned at a modest increase of .13% over FY20 sales levels. Due to the continued pressure on the \$1 and \$2 price points, SCEL is planning a decrease based on the average decrease over the past two years. The effect of this assumption is minimal and only decreases Instant Ticket sales for these price points by \$630 thousand. SCEL is planning an increase in the \$3 price point of 5% due to recent robust sales and a positive 5-year trend (about \$2.6 million). He stated that SCEL is also planning for no increase in the \$5 and \$10 price points and that the FY 2021 sales plan (i.e. timing of ticket releases by price point into the market) for Instant Tickets is generally consistent with FY20 (i.e. games delivered into the market).

Mr. Boyle stated overall Terminal Game sales are planned to decrease by \$18.9M, or 3.7% which is driven by a planned decrease in Mega Million sales of \$10.2M and a decrease in Powerball sales of \$12.4M. In both cases, the decrease is a result of reductions in beginning jackpot amounts and a corresponding expectation that jackpots will grow much slower. Staff believes that revenues will decrease substantially as a result of the jackpot policy changes. A modest increase is planned for Pick 3 and Pick 4 (1%) based on the resilience both of these games have shown recently. No sales increases are planned for Palmetto Cash 5 and Lucky for Life.

The net increase in Instant Game Costs is a result of a few different increases and decreases in several areas. Warehousing operations and instant distribution charges increased \$335 thousand under the new Contract with SGI beginning in October. Anticipated instant ticket printing enhancements (new printing features) are expected to be \$1.7M. Shipping costs are expected to decrease \$300 thousand and license fees are expected to decrease \$585 thousand.

Online Game Costs are projected to remain stable in FY21. They consist mainly of the gaming vendor fee, which will be consistent with FY20. There will be an additional annual fee for the sales wizard add-on from IGT. Mr. Boyle then reviewed the remaining footnotes in the Plan worksheet explaining the variances between the Plan and FY21 projected expenditures through June 30, 2020, based upon the actual expenditures through April (ten months of FY20).

Motion Adopted

At the conclusion of questions and comments, Commissioner Munson moved for approval of the FY21 Plan, seconded by Commissioner Keith, and the Board unanimously adopted the motion.

Reports

Financial Report

The Chairman continued with Mr. Boyle, Chief Financial Officer, who provided a high-level overview. The overview and details of his presentation, submitted to the Board in the meeting materials prior to the meeting, are summarized below.

Actual FY20 Results Compared to Actual FY19 Results

Overview

During the first 10 months of FY20, Transfers decreased from \$416.3M to \$409M, a decrease of \$7.3M (1.8%). Overall Game Revenues increased \$29.5M to \$1,672.7M (1.8%). Net Income decreased \$17.2M to \$390.1M. The decrease in Net Income was the result of decreased Terminal Game Revenues, specifically Powerball and Mega Millions, as more fully discussed below.

Instant Games

Instant Game Revenues increased by \$51.2M to \$1,253.5M. Of the overall increase, \$10 Instant Tickets increased by \$34.9M (3.9%). Revenues associated with \$5 Instant Tickets increased \$10.9M (6.1%). Revenues associated with the \$1, \$2 and \$3 price points, in aggregate, increased \$5.5M (4.1%). The Game Margin on Instant Game Revenues increased during the period by \$15.1M (4.7%) on the strength of increased \$5 and \$10 Instant Ticket Revenues.

Terminal Games

Terminal Game Revenues were \$419.1M, a decrease of \$21.7M (4.9%). The decrease in Terminal Game Revenues was driven by decreases in Mega Millions and Powerball Revenues, offset by increases in Pick 3 and Pick 4 Revenues. Game Margin decreased \$29.3M from the previous year. Mega Millions Revenues decreased \$33M (47.6%). Powerball Revenues decreased \$24.9M (31.5%). During the 10-month period ending April 30, 2019, there were several significant jackpot runs, the most significant of which was the \$1.5B Mega Millions jackpot run in October 2018. Additionally, there were two \$750M Powerball jackpot runs in October 2018 and March 2019. There were no comparable jackpot runs in the current period. As a result of the decreased Revenues, Game Margins were negatively impacted by \$29.6M. Pick 3 and Pick 4 performed well and, in aggregate, Revenues increased by \$35.9M (13.7%); however, Game Margins on Pick 3 and Pick 4, in aggregate, increased only \$1.6M due to statistical variation.

Lucky for Life Revenues were consistent at \$10.5M. Palmetto Cash 5 Revenues were also fairly consistent at \$19.8M; however, Game Margin was down \$2.1M due to statistical variation. The overall Game Margin Percentage on Terminal Games was 48.9% compared to 53.1% during the same period last year. The 4.2% 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 \$3M in the first ten months of FY 2020 and FY 2019, respectively. Other Direct Game Costs were \$17.9M compared

to \$17.5M in 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 \$7.8M compared to \$7.2M in FY19. G&A Expenses (the primary component of which is employee compensation) were \$12.1M in both FY20 and FY19.

Actual FY 2020 Results Compared to the FY 2020 Financial Plan

To date, actual financial results have exceeded Plan. Game Revenues were \$1,672.6M compared to Plan of \$1,607.8M. Instant and Terminal Game Revenues are summarized as follows:

The positive variance in Instant Game Revenues is primarily attributable to better than expected sales of \$5 and \$10 Games. The \$5 and \$10 price points exceeded Plan by \$12.1M (6.8%) and \$24.3M (2.7%). The \$3 price point also performed well and was \$5.2M (14.2% over Plan). Aggregate revenues associated with the \$1, \$2 Instant Tickets were under Plan by \$2M (2.1%).

The positive variance in Terminal Game Revenues is attributable to better than expected sales of all Terminal games, except Powerball. Pick 3 exceeded Plan by \$22M (12.3%) and Pick 4 was \$13.7M (16.2%) above Plan. Mega Millions exceeded Plan by \$5.3 (16.8%). Palmetto Cash 5 exceeded Plan by \$.3M (1.4%) and Lucky for Life slightly above Plan, \$.003M (.03%). Powerball performed under Plan by \$16.M (22.7%).

As a result of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$409.9M compared to the planned amount of \$391.4M for a positive variance of \$18.5M (4.7%).

In aggregate, Operating Expenses were \$ 0.8M under Plan. Advertising Expense was \$0.3M under Plan (\$7.8M vs. \$8.1M). Other Operating Expenses (“G&A”) were \$0.5M under Plan. Most of the variances will normalize to planned annual amounts as the year progresses. As a result of the aforementioned factors, Net Income, ending April 30, 2020, was \$390.1M compared to Plan of \$370.7M, a positive variance of \$19.3M (5.2%). Consequently, Mr. Boyle was confident SCEL would meet its FY20 transfer goal of \$467M.

Executive Director’s Report

The Chairman recognized Mr. Hogan Brown who began by explaining that the Instant Ticket Contract for printing, warehousing and distribution has been finalized with Scientific Games, the incumbent, and will begin in October. The RFP for new draw machines is moving forward and the proposals are being reviewed by the evaluation panel. Although Mr. Brown hoped to ask for board approval to move forward with the purchase of in-store jackpot signs in this meeting, given the uncertainties of the COVID-19 pandemic, this project is on hold until later in FY21.

Mr. Brown next updated the board on the progress of staff working from home during the COVID-19 shutdown. Working remotely far exceeded any expectation for success as the IT department quickly ensured all employees were equipped and all departments executed business continuity plans. SCEL’s migration from desktop to laptop computers over the past two years proved very helpful to this effort and it will be completed in FY21.

A reintegration plan will start June 1st with approximately a third of the 4th floor employees slated to return to the office in Phase 1. The Marketing Sales Representatives, who have “run” their routes and ordered tickets from home, will return to the field on June 1st. Their first priority will be collecting instant tickets for games that have closed since March 17th to allow retailers to obtain credit for partial pack returns. Maintaining our instant ticket settlement policy for charging retailers and the collection of partial packs before June 30th will allow SCEL to limit the financial impact of the shutdown to FY20 and not carry it forward into FY21. Implementing phases 2, 3, and 4 of the reintegration plan will depend upon the circumstances as we move forward.

Mr. Brown then addressed the closing of the claims center during the shutdown. On a rotating basis, the claims staff continued to work very expeditiously in processing mail-in claims. Although a record number of mail-ins have been submitted, many players were not comfortable with the mail creating an estimated backlog of 2000 to 3000 claims; well beyond what can be safely presented in person once the claims center is reopened. Consequently, staff devised a plan lead by Claire Jones to conduct a drive though drop-off process at the state fairgrounds where players will submit claims without leaving their cars. No checks will be issued at the fairgrounds. This opportunity will run from June 1 through June 5, 2020. If the backlog is significantly reduced, it is hoped that SCEL will establish a drop-off process at the claims center before it is fully reopened. The drop-off process is a very elaborate, controlled procedure whereby claimants receive a pre-assigned drop-off number/receipt and SCEL photographs the identification card presented and the drop off number associated with the claim.

Mr. Brown explained the Powerball and Mega Millions refund process for players who purchased advanced plays expecting a minimum \$10M jackpot rollover per draw for Powerball and a higher starting jackpot, which was reduced for both games. The refund is an act of good faith for our loyal players. The refund period closes July 30, 2020, and to date, SCEL had received requests totaling a few thousand dollars, far fewer than the amount originally anticipated.

Lastly, Mr. Brown stated that SCEL extended the 180-day claim period for online tickets (from the draw date) and the 90-day claim period for instant tickets (from the end of game date). This extension applied to all claim expirations beginning on the closure date for the claims center, March 17. Currently, July 15, 2020, is the revised expiration date, but it may be extended depending upon when the claims center reopens for full operations.

Commissioner Russell asked Mr. Brown whether SCEL’s extension of the claims period was in response to the Governor’s executive order involving the shutdown. Mr. Brown stated that while SCEL is not an Executive or Cabinet Agency subject to the Governor’s executive order, his decision to extend the claim period was consistent with that Executive Order. He asked the board to ratify the staff action as well as any further extension.

Motion Adopted

Commissioner Russell moved “that in response to the novel coronavirus, COVID-19, and in conjunction with the authority granted to this Board by the South Carolina Education Lottery Act, and consistent with Governor McMaster’s Executive Order 2020-10, to ratify all actions previously taken, as well as move to approve all necessary actions to be taken, to continue conducting state business and to cope with the state of emergency, in the discretion of the

Executive Director. Commissioner Newsome seconded the motion, which the board unanimously approved.

Other Business

The Chairman thanked staff for their hard work in organizing the conference call.

There being no further business, the meeting adjourned at 2:44 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.