

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
February 16, 2022
10:00 a.m.**

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, February 16, 2022, 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
Billy Newsome

Patrick Earle
Dr. Vareva Evans-Harris
Andre Bauer (via phone)
Jay Young

The Chairman called the meeting to order at 10:05 a.m. and welcomed guests.

Approval of Minutes

On motion of Commissioner Munson, seconded by Commissioner Keith, the Board approved the December 8, 2021, minutes unanimously.

Action Items

a. Quarterly Advertising Review

The Chairman recognized Ammie Smith, Director of Product, and Josh Whiteside, Director of Marketing, who discussed the following:

CASH POP: Mr. Whiteside showed the build out of the CASH POP Campaign to date, including: Digital Billboard (3 versions); online ad; Player Information Display (PID), CASH POP advertising slides with a video; two Light of the Party TV spots.

Mrs. Smith noted that in December 2021, SCEL projected CASH POP sales of \$461k per week and actual weekly sales through three weeks are \$1.6M per week. The initial sales projections were \$12M per year, but if the early trend holds, sales could exceed \$40M per year. At launch, plays were concentrated in the \$1 to \$2 price point and now 64% of plays are in \$5 to \$10 price point. In response to questions, Mrs. Smith noted that SCEL does not yet have the data to determine who is playing the game. There is no indication of cannibalization of other products. Payouts are hovering around 63%, consistent with projections, making CASH POP SCEL's highest payout terminal-generated game. SCEL is outpacing other jurisdictions that launched CASH POP around the same time and doing so with only two draws per day compared to other states conducting at a minimum five draws per day.

Twentieth Anniversary Promotion: One goal of the 20th Anniversary campaign is to generate interest with the reintroduction of some of SCEL's "classic games" from the last 20 years with an added second-chance component that awards 20 prizes of \$2,000 each month. Thus far, Carolina Riches is the second highest performing \$5 ticket in FY22 and 3 Times Lucky is the highest \$1 performing game. Notably, 70% of the second-chance entries are through the mobile app.

Next, Mr. Whiteside discussed two TV commercial storyboards for the 20th Anniversary Beneficiary Campaign with the theme of “thanks for your support”. He then shared the individual beneficiary stories, highlighting how lottery funds have affected their lives. The focus is more lottery-centric showing SCEL’s impact on the state collectively, with billions of dollars going to education.

General Updates: February and March 20th Anniversary Promotion PID video; February and March Instant Games PID video; Mobile App; and Digital Play Slip.

Beneficiary Messaging: Clemson and University of South Carolina.

At the conclusion of 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 FY23

The Chairman recognized Josh Whiteside to present the media buy plan for FY23, a summary of which was included in the meeting materials. Staff has routinely requested Board approval of the media budget in February because it allows the media placement team at Chernoff Newman more time to negotiate the best rates and secure the best available inventory. An early pre-booking commitment also results in cost savings for media. Over the past several years, in consultation with Chernoff Newman, staff has adjusted the media buy plan to better align ad placement with where consumers are viewing media. Consequently, no major adjustments are needed for the FY23 and this request is simply designed to maintain our presence in the face of increased costs in the marketplace.

On motion of Commissioner Morris, seconded by Commissioner Munson, the Board unanimously approved the requested funding for the FY23 media buy plan (as presented in the meeting materials). While other funding requests will be presented to the Board in May, the media buy plan, as approved, will be incorporated into the FY23 Financial Plan.

c. Adjustment to the FY22 Compensation Plan

The Chairman recognized Hogan Brown, Executive Director, to discuss an adjustment to FY22 Compensation Plan. Within FY22, SCEL realized unexpected cost savings and, to remain competitive in an inflationary labor market, he requests approval to apply those funds to an across-the-board four percent compensation increase (except for himself). Mr. Brown also noted that as part of the FY22 Financial Plan (budget), in May 2021, the Board approved an amount equal to a 3% salary adjustment to be allocated toward Phase 7.0 of the compensation plan, with adjustments based on the result of individual employee performance evaluations. For numerous reasons, implementation of the performance pay plan proved unworkable in the first three quarters of FY22. Moving into Q4 of FY22, staff believes training can begin and employee evaluations should occur on an employee’s anniversary date for the position in which he/she is currently assigned. Compensation adjustments will occur at the end of the quarter in which the employee is evaluated. As such, SCEL would not expend the funding approved in the FY22 budget until FY23.

On motion of Commissioner Munson, seconded by Commissioner Keith, the Board unanimously approved spending the compensation savings in FY22 for a four percent across-the-board pay increase, effective with March 1, 2022 pay date.

Reports

Financial Update

Actual FY 2022 Results Compared to Actual FY 2021 Results

Overview

The Chairman recognized Brian Ford, Chief Financial Officer who reported that during the first seven months of FY22, transfers decreased to \$334.6M from \$355.5M (5.9%), compared to last year. Overall Game Revenues decreased \$43.9M to \$1,289.5M (3.3%). A combination of organic sales growth, influence from the Pandemic, and stimulus funding contributed to the record results in FY21. As expected, market conditions have begun to normalize and FY22 sales trends are returning to historical patterns as noted in the Financial Plan approved in May 2021.

Instant Games

Instant Game Revenues decreased by \$40.6M (4.3%) to \$914.6M. Revenue associated with \$1 tickets decreased \$.4M (1.8%) while \$2 tickets increased \$.6M (1.2%). The \$3 tickets were up \$4.7M (13.9%) at \$38.5M and \$5 tickets revenue was \$138.8M, down \$6.4M (4.4%). Finally, \$10 tickets were down \$39.2M (5.5%) at \$667.8M compared to \$707.0M, which was anticipated given record results from last year. The overall Game Margin on Instant Game Revenues decreased \$9.9M (3.8%), relatively consistent with last year at 27.4%.

Terminal Games

Terminal Game Revenues were \$374.9M, a decrease of \$3.3M (.9%) through the first seven months of FY22 due to significant jackpot runs for Mega Millions last year. Revenue lost from discontinuing Lucky for Life will be more than offset by the launch of CASH POP. It has averaged \$1.7M per week for the first three weeks of activity, far exceeding expectations. Pick 3 Revenue was down \$4.4M (2.6%) at \$168.2M, which was expected. Pick 3 Game Margin decreased \$4.6M (4.8%) while Pick 4 revenue exceeded expectations, up \$3.4M (4.0%) at \$89.7M. Pick 4 Game Margin increased \$2.7M (6.9%) as a function of statistical variation in prize expense. Palmetto Cash 5 (PC5) increased by \$.5M (3.1%). PC5 Game Margin was down \$.7M (8.0%), also a product of statistical variation. Powerball Revenue was up significantly, \$15.9M (30.7%) due to FY22 jackpot runs that reached \$685M and \$630M, respectively. However, as the year progresses it is important to note that there were three significant jackpot runs in FY21 of \$410M, \$1,000M and \$515M. Powerball's new Double Play feature has also bolstered revenue by 8.4%. Adding a third draw has also added some additional revenue as well, though staff remains cautious on revenue generation once the jackpot reaches \$300M. Mega Millions Revenue was down \$14.7M (34.0%).

Overall Terminal Game Margin was 50.6% compared to 51.2% last year. The decrease of .6% was attributable to statistical variation, discussed above.

Other Revenues and Game Costs

Other Revenues, which consist primarily of license and telephone fees, were \$2.2M compared to 2.1M in FY21. Other Direct Game Costs were \$13.5M versus \$12.6M in FY21, attributable to higher game licensing fees of \$.4M and shipping costs of \$.2M for Instant Tickets.

Advertising and G&A Expenses

Advertising Expense was \$5.5M in FY22 and \$5.3M in FY21. G&A Expenses (the primary component of which is employee compensation) were \$9.1M and \$8.8M in FY21. All Operating Expenses are anticipated to normalize by the end of the fiscal year.

Net Income

Net Income decreased \$11.9M (3.6%) to \$324.2M compared to \$336.1M in FY21, primarily due to the decrease in Total Game Revenue. Though results are down compared to the record FY21 results, Net Income is not down as much as projected (13.2%).

Actual FY22 Results Compared to the FY22 Financial Plan

To date, actual financial results are above the Financial Plan (Plan). Game Revenues were \$1,289.5M compared to Plan of \$1,247M. Instant and Terminal Game Revenues are summarized as follows: Actual Instant Game Revenue of \$914.6M compared to Plan of \$941.1M, a variance of \$26.5M. Actual Terminal Game Revenue of \$374.9M above Plan of \$305.9M by \$69.0M.

The negative variance in Instant Game Revenues is a result of all games performing under Plan with the exception of \$3 tickets. The largest variance is attributable to \$5 tickets, which are under Plan by \$19.M (12.0%). The \$1 tickets are \$.1M under Plan (.5%). Additionally, \$2 tickets are under Plan by \$1.4M (2.8%). The \$3 tickets were \$7.7M (25.1%) above Plan and \$10 tickets were down \$13.7M (2.0%). Total Instant Ticket Revenues were down \$26.5M (2.8%).

All Terminal Game Revenues exceeded Plan, with Pick 3 and Powerball having the largest variances. Pick 3 was 4.4% above Plan at \$21.2M and Pick 4 was \$16.6M above Plan (22.7%). Powerball was 60.5% above Plan at \$22.5M and Mega Millions was 6.4% above Plan at \$1.7M. Palmetto Cash 5 was 15.9% above Plan at \$2.4M and CASH POP was 83.4% above Plan at \$1.7. As a result of the higher than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$338.6M compared to Plan of \$298.5M (13.5%).

In aggregate, Operating Expenses were \$14.5M, \$1M (6.7%) under Plan. Advertising Expense was under Plan at \$5.5M, for a positive variance of \$.5M (8.7%). Other Operating Expenses (“G&A”) were \$.5M (5.5%) under Plan, at \$9.1M. Net Income for the seven months of FY22 was \$324.2M compared to Plan of \$283.0M, a positive variance of \$41.2M (14.5%).

Executive Director Report

The Chairman recognized Hogan Brown who began his report by thanking Board members for attending SCEL’s Twentieth Anniversary function and acknowledged Commissioner Keith’s receipt of the Order of the Palmetto for a lifetime of service to his patients and the entire state.

Next, Mr. Brown asked Commissioner Munson, Chairman of the Legal Committee, to update the Board on the SCEL v. Glassmeyer mediation and settlement that occurred the previous day. Commissioner Munson noted that the case had ended by agreement and explained the background of the case noting that public entities often deal with a policy question of transparency versus confidentiality and privacy of high-level winners. Many lotteries emphasize transparency but he noted that SCEL believes privacy of high level winners deserve significant consideration in the balance. After not reaching merits of the case, the S.C. Supreme Court sent the case back to the trial court to develop an evidentiary record. After 8 years of litigation, in order to resolve the dispute, SCEL agreed to reimburse Mr. Glassmeyer’s reasonable attorney’s fees, with both parties maintaining the status quo until the end of the next legislative session on May 30, 2023, to see if the legislature addresses the issue. Mr. Glassmeyer agreed he would not seek new winners’ information until May 30, 2023. This settlement also avoids litigation costs and ends speculation of potential court outcomes.

Mr. Brown next reminded the Board members of the March 30 deadline to file their 2022 Statement of Economic Interest (SEI) report to the S.C. Ethics Commission. He also noted the new online software being used this year and addressed the treatment of per diems. Although these per diems may not be reportable to the Internal Revenue Service or the SC Department of Revenue given the amount paid, they are reportable on the SEI as income received from a S.C. governmental entity.

Pick3/Pick4 Incident: The review of the November Pick3/Pick4 incident has not been completed. An update will be presented at the May Board meeting.

UPS Ticket Shipping Costs: Staff found a cost savings option from the substantial increase resulting from the expiration of the NASPO multi-jurisdiction shipping contract as reported to the Board in December. While the costs are still much higher than the pre-expiration pricing, staff continues to explore other pricing options after new shipping contracts are awarded in late March.

Fourth Floor renovation: Print room renovations have finally begun and construction should be completed by the end of May.

Way and Means Subcommittee: Mr. Brown discussed his appearance before the Ways and Means Constitutional Law Subcommittee about three weeks prior to this Board meeting. Topics included SCEL's projected FY22 transfer, Dragon's Ascent, and the use of debit cards.

Executive Session

After concluding his report, Mr. Brown explained the need to go into Executive Session to discuss contractual matters related to International Sales of Powerball and a report on SCEL's Informational Technology and Cyber Security measures. Thereafter, Commissioner Munson moved that the Board go into Executive Session for the purpose of discussing contractual matters pertaining to Powerball International Sales and Cyber Security measures. Commissioner Morris seconded the motion, which the Board unanimously approved. The Chairman then restated the adopted motion as provided by law and asked all staff to clear the room for the Executive Session, except for Hogan Brown, Dolly Garfield, General Counsel, and Jorge Bravo, Director of Information Technology.

At the conclusion of the Executive Session, the Board returned to open session and affirmed no other matters were discussed beyond those in the adopted motion and that no action was taken while in Executive Session.

Other Business

There being no further business, the meeting adjourned at approximately 1:17 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.