

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

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, August 10, 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 10:06 a.m. and welcomed guests.

Approval of Minutes

On motion of Commissioner Munson seconded by Commissioner Newsome, the Board unanimously approved the May 11, 2022, Minutes.

Action Items

a. Marketing and Retailer Relations Meeting Report – June 8, 2022

The Chairman recognized Commissioner Morris who reported that the Committee met on June 8, 2022, and reviewed concepts for ads promoting the University of South Carolina and Clemson instant tickets. There were no suggested changes. Staff was asked to continue developing the concepts for the campaigns and to present them in the Quarterly Advertising review at this meeting. The Committee also received an update on the discussions for sponsoring the Palmetto Series, a competition across all sports throughout the academic year between both schools. The Committee asked staff to continue conversations with both schools.

b. Quarterly Advertising Review

The Chairman recognized Ammie Smith, Director of Product Development, and Sam Bond, Marketing Manager, who discussed the following:

Carolina Gold: Digital Billboards, Play Station Posters, and Ticket Topper.

20th Anniversary Promotion: June, July, and August PID Videos and Online Ads.

Print Advertising: Carolina Panorama, Community Informer, Community Time Magazine, DBS Communications: Vertical, DBS Communications: Horizontal, Diversity Works, El Informador, Lowcountry Panorama, and Miss SC Pageant.

Beneficiary: PID – Billions and Elevate video.

General PID Updates: June, July, August Instant Games videos.

MISC: Digital Billboard – \$300K Fun Fortune, Mega Millions Jackpot, and Powerball Jackpot.

Rival Play (Carolina/Clemson): TV – “Moving Day” and “Breakdown;” **Digital Billboard** – Carolina Jackpot, Clemson Jackpot; **Rival Play:** Choose Your Side, Spurs Up or All In?; **PID** – Rival Play: Choose Your Side and Spurs Up or All In? videos, Second Chance Promotion video;

Play Station Poster – Rival Play: Spurs Up or All In? and Choose Your Side; **Window Cling** – Carolina Jackpot, Clemson Jackpot; **Window Poster** – Rival Play: Choose Your Side; **Writing Surface** – Rival Play: Carolina/Clemson; **Ticket Topper** – Rival Play: Carolina/Clemson.

Mrs. Smith and Mr. Bond explained the Palmetto Series (Series), which SCEL has agreed to become a Presenting Sponsor. Whenever the two schools compete against each other in athletic events such as baseball, football, soccer and others, points are awarded to the winner. The Series winner will be the school that accumulates the most points over the course of the academic year. An additional Palmetto Series point will go to the school that receives the most entries into the second-chance promotion; the school with the most Palmetto Fellow recipients; and the school with the most Life Scholarship recipients.

At the conclusion of the presentation, 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.

c. Potential Positions on Disclosure of Winner Information

The Chairman recognized Mrs. Dolly Garfield, General Counsel, to frame discussion points on a potential Board policy recommendation to the General Assembly. She explained the history and evolution of SCEL's disclosure policy from 2001 through the 2014 changes. As part of the *Glassmeyer* case settlement, SCEL will maintain its policy of releasing winners' claim date, game played, prize won, and hometown until May 30, 2023. After that time, if the General Assembly has not enacted a specific provision regarding the disclosure of winner information, the general provisions of the Freedom of Information Act would apply and the name and address would be subject to disclosure upon a request.

The purpose of this agenda item is to determine what, if any, position the Board may take regarding the appropriate level of disclosure after May, 2023. Given the lobbying restrictions on SCEL, a formal position would assist the Executive Director in the various presentations he is routinely invited to make before legislative bodies before the upcoming session. Staff understands the line between explaining a position, responding to requests to assist in developing legislation, and lobbying. Adopting a recommendation is not lobbying and it is reasonable for members of the General Assembly to expect a Board position on this issue. Mrs. Garfield also reviewed what other states' laws do to protect or not protect the identity of certain winners.

After her presentation and discussion, Commissioner Munson moved, seconded by Commissioner Newsome, that the Board adopt the following position:

Prohibit the disclosure of a winner's name, without the winner's consent, and in response to a request, only allow the release of the date of the claim and draw, game played, amount of prize won, retailer location where the winning ticket was sold, and the hometown of the winner. The name, address, telephone numbers, date of birth, social security, and any copy of the form(s) of identification provided to SCEL should be specifically exempt from disclosure. The current policy of the Commission from 2014 should remain in place until May 30, 2023, or until the General Assembly establishes a state policy regarding the disclosure of winner information.

The Board unanimously adopted the motion.

During discussion, staff noted that participants in some second chance-promotions will impliedly consent to disclosure of names and or likeness depending on the promotion rules.

d. Performance Evaluations to be performed by the Audit and Executive Committees for the Internal Auditor and Executive Director

The Chairman stated that several unsuccessful attempts were made to schedule Committee meetings to conduct performance evaluations for the two positions that report directly to the Board so reports could be made today. The Executive Director's last review was in late February of 2020 but it was not presented to the Executive Committee or the Board in March due to Covid. The Internal Auditor has not had a formal review since her hiring in November of 2020.

The Chairman explained that under the Lottery Act and Board bylaws, any Board power may be delegated to a committee or even a single Board member. Consequently, he recommended that the Board delegate the evaluations to the Executive Committee for the Executive Director and to the Audit Committee for the Internal Auditor, and vest each committee with the authority to make a compensation adjustment, if deemed appropriate, without further action of the Board.

On motion of Commissioner Munson, seconded by Commissioner Newsome, the Board unanimously approved delegating the evaluation of the Executive Director to the Executive Committee, and that of the Internal Auditor to Audit Committee, and vest each committee with the authority to make a compensation adjustment, if deemed appropriate, without Board action.

Reports

a. Financial Update

Actual FY 2022 Results Compared to Actual FY 2021 Results

The Chairman recognized Brian Ford, Chief Financial Officer, to report on FY22 results, another excellent year. Transfers were \$564.0M compared to \$607.6M last year. Although this is a decrease of \$43.6M (7.2%), the result in FY21 was a record by more than \$100M and the FY22 transfer is reflective of a return to a more normalized trend line in sales.

Net Income decreased \$46.0 (8.2%) from \$605.6M to \$559.6M. Total Game Revenues decreased \$162.2M (7.2%) from \$2,415.8M to \$2,253.6M. Instant Game Revenues were \$1,599.0M, a decrease of \$164.0M (10.3%). Terminal Game Revenues were \$654.6M, an increase of \$1.8M (0.3%). Game Margin decreased on both Instant Games and Terminal Games. Overall, Game Margin decreased \$55.4M (6.7%). Total Game Margin percentage was 34.0% in both years.

Instant Games

Instant Game Revenues decreased \$164.0M (10.3%). \$10 Instant Ticket Revenues decreased by \$145.7M (11.1%) from \$1,309.8M to \$1,164.1M. \$5 Instant Game Revenues decreased by \$17.7M (6.6%). \$3 Instant Game Revenues increased by \$4.6M (7.3%) due to more game launches while Revenues associated with the \$1 and \$2 price points decreased by \$5.2M (4.3%). Instant Game Margin decreased \$44.8M (9.3%).

Terminal Games

Terminal Game Revenues were \$654.6M up from \$652.8M, an increase of \$1.8M (0.3%), attributable to increases in Powerball and the addition of Cash Pop. These increases were offset by expected decreases in Pick 3, Pick 4, and Palmetto Cash 5. FY22 had four Powerball Jackpot Runs that exceeded \$300M, compared to two in FY21. Jackpot Runs and the addition of Double Play and a third draw contributed to Powerball's strong results. Powerball Revenue increased \$25.6M (32.2%) while Mega Millions Revenue decreased \$20.8M (31.9%). Mega Millions had three Jackpot Runs over \$300M in FY21 (one over \$1 billion), with two in FY22.

Pick 3 Revenue was down \$22.4M (7.2%) and Pick 4 was down \$.9M (0.6%) due largely to record results from FY 21. The Game Margin percentage on Pick 3 and Pick 4 decreased from 53.4% to 51.1%, and 53.1% to 52.1%, respectively. The Revenue decrease combined with unfavorable statistical variation contributed to Game Margin decreases of \$18.5M (11.1%) and \$2.1M (2.5%), respectively. Palmetto Cash 5 Revenue decreased \$.6M (1.9%) and Prize Expense increased \$.2 (1.5%) due to statistical variation with a Game Margin decrease of \$.8M (5.5%). Cash Pop had a phenomenal year, Revenues were \$34.2M and Game Margin was \$11.9M.

As a result of statistical variation, Game Margin on Terminal Games decreased \$10.6M (3.1%) while Game Margin percentage was down 1.8%.

Other Revenues and Game Costs

Other Revenues, consisting primarily of license and telephone fees, were \$3.6M in FY22 and \$3.7M in FY21. Other direct game costs were \$24.3M compared to \$24.1M in FY21.

Advertising and G&A Expenses

Advertising Expense was \$11.3M in FY22 compared to \$9.2M in FY21, attributable to the purchase and installation of digital jackpot signs in FY22. Otherwise, Advertising Expense was consistent with prior years. G&A Expenses (primarily employee compensation) were \$16.5M in FY22 compared to \$17.0M in FY21.

Actual FY 2022 Results Compared to the FY 2022 Financial Plan

Total Game Revenues were below Plan by \$8.4M or .4% at \$2,253.6M compared to Plan of \$2,262.0M. Though Total Game Revenues were below plan, Net Income exceeded plan by \$37.2 or 7.1%, due to favorable statistical variation. The negative variance in Instant Game Revenues is primarily attributable to lower than expected sales of \$10 Instant Tickets of \$67.6M (-5.5%). \$5 Instant Ticket Revenue was down by \$35.7M (-12.5%), a trend similar to \$10 Games. \$3 Instant Ticket Revenue increased by \$12.2M (21.9%). Lastly, the \$1 and \$2 price points Revenue were \$10.7M (8.3%) below Plan.

The positive variance in Terminal Game Revenues is attributable to the strong performance of all terminal games with the exception of Mega Millions. Pick 3 was \$23.5M (8.8%) above Plan while Pick 4 was \$21.2M (16.1%) above Plan. Mega Millions was under Plan by \$4.1M (8.5%) due to less favorable Jackpot Run activity in FY22. Powerball performed above Plan by \$28.9M (38.0%) fueled by strong Jackpot Run activity and new game features. Palmetto Cash 5 also performed above Plan by \$1.6M (6.1%). Cash Pop exceeded Plan by \$22.2M (184.8%).

Due to better than Plan Game Revenues, Gross Profit (Revenues less Prize Expense and other game-related costs) was \$587.4M compared to Plan of \$549.1M, a positive variance of \$38.4M (7.0%). Net Income was \$559.7M compared to Plan of \$522.5M, an increase of \$37.2M (7.1%).

b. Update on Offering a \$20 Instant Ticket

The Chairman recognized Mr. Brown, Mrs. Smith and Mr. Ford. Mr. Brown referenced the motion passed by the Board in May of 2015 authorizing the Executive Director to issue a \$20 ticket. While a final decision has not been made on a \$20 ticket, he wanted the current board to have an opportunity to address the issue given the Board turnover since 2015. \$10 tickets have gone from double digit year over year growth to trending downward since FY21.

Next, Mrs. Smith explained that 95% of US lotteries offer a \$20 price point and 66% offered a \$30 ticket. She provided more details on SCEL sales trends and efforts to keep the product fresh, all

of which have been exhausted. She also explained the potential cannibalization of the \$10 price point, the roll out plans, prize payouts, and other aspects of this price point.

Mr. Ford then reviewed the Revenue implications of a Q4 launch in FY23. A \$20 Instant Ticket will pay out approximately 80% of sales compared to 75% on a \$10 Game. Several scenarios regarding the impact of cannibalization were discussed and, based on SCEL's research of lotteries comparable to SCEL, a cannibalization rate of 16.9% is conservative and reasonable. This assumption would result in a decrease in \$10 Instant Ticket Revenue of \$69.5M in Q4. \$20 Instant Ticket Revenue is projected to be \$149.4M, for a net increase of \$79.9M or 7% assuming sell through rate of 75% in FY23 on an order of 10M tickets. The net Transfer value to FY23 would be \$13.3M.

Assuming a Q4 launch, staff has considered the implications for FY24 and beyond. Depending on the response to the new price point, cannibalization, and other factors, a conservative approach for FY24 would be to offer one \$20 game at any given time, one each quarter. Sales projections for FY24, less a 16.9% cannibalization rate, could result in a Net Revenue increase of \$602.8M (53%) and a net \$111.4M (43%) increase in Transfer Value. Staff will be in a better position to set a course for FY24 next May when the Financial Plan is presented for Board review.

Staff will continue to monitor the \$10 Instant Ticket Sales trend line through October 2022. If sales are flat or declining, staff is prepared to order one \$20 game in mid-November and launch in mid to late March, 2023. If the sell through rate exceeds 75% before the end of FY23, a second \$20 Game could be launched in FY23.

c. Executive Director Report

The Chairman recognized Hogan Brown, who discussed the following items:

Motherboards Update: SCEL is in a much better position than it was in May, now with about 100 motherboards for routine terminal maintenance. He thanked IGT for its efforts to increase this number. Mr. Brown also indicated that staff is refining internal policies in licensing to consider potential and actual sales (new and renewals) in the allocation of terminals.

Jackpot Signs: Installs are largely completed in the upstate and midlands. Coastal region deployments will begin soon.

NATIONAL ITEMS

NFL/MUSL: Negotiations are ongoing with the NFL to offer a draw game using team logos on the draw balls instead of numbers. Developmental costs would be about \$250k with SCEL's contribution projected to be around \$15K. The current concept contemplates a three-year trial period for the game. If MUSL is able to reach a deal, Board approval is required.

NASCAR: MUSL is working with NASCAR for a second-chance promotion associated with the purchase of Powerball. As a second-chance promotion, it would not require Board approval.

Mega Millions: Mega Millions appears to be moving toward a \$5 price point to distinguish its game from Powerball and to generate higher jackpots more quickly. Mr. Brown reminded the Board that SCEL does not have a vote in Mega Millions game changes as we are not members of that group. There may be a vote in the fall but implementation would likely be in calendar year 2024.

NASPL: A significant contingent of SCEL staff was sent to the NASPL Professional Development Seminar (PDS) as this was the first in-person PDS conference since 2019. Mrs. Smith and Mr. Bond lead a panel discussion on how SCEL approached the Cash Pop game and its

launch. Similarly, another panel lead by our staff explained how the Big Spin series of games were structured and how staff approached the actual spin from a marketing and security standpoint.

Mr. Brown also noted that Jeremy Kyzer of Scientific Games and Jo Ann Hastie, SCEL's Senior Operations Manager, Internal Operations & Sales were presented with a NASPL 2022 Powers Award on behalf of SCEL. This award is given to lottery professionals across the country in honor of the late Edward J. Powers, the 'Father of U.S. Lotteries', for their contributions to their respective lotteries and the industry. Mr. Brown also noted that the 2022 Ott Brown Award, presented to only one person per year, industry-wide, went to Caroline Hinson, SCEL's Product Manager.

There being no further business, the meeting adjourned at approximately 12:49 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.