

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
February 8, 2023
10:00 a.m.**

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, February 8, 2023, 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 (via Phone)

Billy Newsome
Patrick Earle
Dr. Vareva Evans-Harris
Andre Bauer (via phone)

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 Newsome, the Board approved the December 7, 2022, 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:

Gold Rush: Digital Billboard, Online Ad, PID Video, Play Station Poster, Ticket Topper, and Writing Surface.

\$1,000,000 Bonus Multiplier: Online Ad, PID Video.

Lucky Day: Digital Billboard, Online Ad, PID Video, Play Station Poster, Ticket Topper, and Writing Surface.

General: PID Updates: All January and February Instant Games.

Mrs. Smith updated the Board on the \$20 Instant Game noting that SCEL has tested it and the game is in the warehouse. A key goal is effective market penetration without significant cannibalization of the \$10 price point. The initial allocation of packs must ensure there is an optimal number in each outlet without over saturation that could lead to excessive cannibalization. This pack value is \$600 rather than the standard \$300 for all price points except the \$1 games. MSRs are working to evaluate dispensers and facings to assist developing the allocation plan.

Next, Mrs. Smith explained the Living Lucky with Luke Combs ticket (launching in April) with a Second-Chance promotion that offers a chance to win a trip to an exclusive concert experience at the Ryman Auditorium in Nashville. At this event, SCEL participants will have a chance to win \$500,000 along with trip winners from other lotteries, in a drawing. One of the remaining SCEL trip winners will win a \$10,000 cash prize. Mr. Whiteside explained the point of purchase materials and advertising for this promotion, including venues such as the Carolina Country Music Festival, will include use of an Augmented Reality Filter. In response to a question, Mrs. Smith noted that while SCEL has used concerts for promotions before, this is the first promotion tied to a specific artist.

Mr. Whiteside and Mrs. Smith next covered advertising materials for Better U. They discussed how Better U would fold into SCEL's overall goals to educate its staff, players, retailers, and the public about SCEL's mission, responsible gaming and accomplishments. Mr. Whiteside also presented voiceover pieces developed for the campaign.

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 FY24

The Chairman recognized Josh Whiteside to present the media buy plan for FY24, 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 better slots in the available inventory. The request is 10% over last year, mostly due to inflation. SCEL must get into the cable replacement media like Hulu, Netflix, and Sling, and there is a premium to be on those platforms. He also noted an increase in sports sponsorships.

On motion of Commissioner Keith, seconded by Commissioner Newsome, the Board unanimously approved the requested funding for the FY24 media buy plan as presented in the meeting materials. This funding will be incorporated into the FY24 Financial Plan at the May meeting.

c. Delegation of Regulation Revision to the Legal Committee

The Chairman recognized Mr. Brown to discuss regulation revision process. Under the Administrative Procedures Act (APA), state entities are expected to review their regulations every five years to determine if any updating or other revisions are needed. The review and approval process by the General Assembly may take up to 120 days.

SCEL staff began this review in November of 2022. Each department with responsibilities covered by the regulations reviewed the initial edits and provided more specific input to the General Counsel for further revisions. To this point, staff has found no major deficiencies in the regulations but the regulations clearly need updating in several areas. Legal and Executive staff are now reviewing the department suggestions and determining what other changes may be helpful to minimize the need for additional revisions in the near future.

On motion of Commissioner Munson, seconded by Commissioner Newsome, the Board unanimously approved a motion to authorize the Legal Committee to approve revisions to the regulations and submit those to the General Assembly on behalf of the Board with the understanding that if Board input were needed, the Legal Committee would bring that matter to the Board.

d. Clean Sweep Second-Chance Promotion

The Chairman recognized Mr. Brown to discuss Clean Sweep, which is a campaign to encourage players to dispose of non-winning lottery tickets properly. SCEL has conducted this promotion for roughly twenty years based upon a provision in the Lottery Act that states SCEL "must consider instituting an additional lottery game that makes use of the non-winning instant tickets on a monthly or other periodic basis, so as to encourage non-winners to accumulate their tickets instead of disposing of them separately and creating unsightly litter." (SECTION 59-150-70 (F)) The current mail-in process is very labor-intensive and the changes to the Players' Club Rewards in

the fall will allow for a similar game using electronic entries. The current annual renewal cycle for Clean Sweep begins in July.

The Chairman entertained a motion by Commissioner Newsome, seconded by Commissioner Evans-Harris, to allow staff to discontinue the current Clean Sweep Promotion at the end of June. The motion passed unanimously.

Reports

a. Marketing and Sales Representative Presentation

The Chairman recognized Mr. Brown to introduce the presentation by the Sales Department's Regional Sales Managers: John Erby, Jesse Hines, and Suzanne Slacas. In turn, each introduced the Regional Field Coordinators: Kimberly Smith (Midlands), Kevin Tawes (Coastal), and Mike Leonard (Upstate). Mr. Tawes provided an overview of the typical day for a Marketing and Sales Representative (MSR). There are 37 MSRs who service roughly 100 retailers per MSR with a store visit every two weeks for almost all 3,900 retailers. MSRs routinely work with all SCEL departments in one capacity or another, which he briefly explained. Ms. Smith spoke about instant ticket inventory controls, sales review reports, new retailer setup, and terminations. Lastly, Mr. Leonard explained retailer marketing and special events focusing on ways to help retailers maintain and improve sales. Mr. Brown took the opportunity to recognize Ann Scott, Director of Sales and Retailer Relations and to acknowledge the efforts of all of the MSRs. He also explained how MSR input is routinely sought whenever there is an issue with a retail outlet.

b. Financial Update

The Chairman recognized Brian Ford, Chief Financial Officer, who discussed the following:

Actual FY23 Results Compared to Actual FY22 Results

During the first six months of FY23, Transfers increased to \$316.6M from \$292.2M, up \$24.4M (8.4%). Overall, Game Revenues increased \$48.6M to \$1,162.6M (4.4%). As expected, market conditions have continued to normalize and FY23 sales trends are returning to historical patterns. Three record jackpots (the third of which ended in January 2023) have contributed to the strong results observed to this point in FY23. After years of unprecedented growth, Instant Game Revenues, particularly in the \$10 Price Point, as expected, are leveling out.

Instant Games

Instant Game Revenues decreased by \$35.5M to \$762.4M (4.5%). \$1 Instant Ticket Revenue decreased \$2.7M (13.8%) while \$2 Instant Tickets decreased \$3.1M (7.7%). \$3 Instant Tickets were down \$3.5M (10.5%) at \$29.7M. \$5 Instant Tickets were \$128.3, up \$8.6M (7.2%) while \$10 Instant Ticket Revenue was down \$34.7M at \$549.8M (5.9%). Overall Game Margin on Instant Game Revenues decreased \$5.8M (2.7%) while the overall Game Margin Percentage on Instant Games was consistent with last year at 27.9% compared to 27.3%.

Terminal Games

Terminal Game Revenues were \$400.2M, up \$84.1M (26.6%), due primarily to three Powerball and Mega Millions jackpot runs that each exceeded \$1.2B. Pick 3 Revenue was down \$6.1M at \$139.8M (4.2%). Pick 3 Game Margin decreased \$5.3 (7.0%). Pick 3 Game Margin Percentage decreased to 50.8% compared to 52.4% last year due to statistical variation. Pick 4 Revenue was down \$1.3M at \$76.1M (1.7%). Pick 4 Game Margin increased \$3.8M (11.0%). Pick 4 Game Margin Percentage increased 5.8% to 50.6%, up from 44.8% last year. Palmetto Cash 5 Revenue decreased by \$1.1M (7.6%). Palmetto Cash 5 Game Margin was up \$.1M (1.4%). Cash Pop is averaging \$1.2M in weekly Revenue while the Game Margin Percentage was 35.2%, as planned.

Powerball Revenue was up \$28.6M (52.5%) for the first six months of FY23, primarily due to the world record jackpot run ending at \$1.9B. That jackpot run lasted 41 draws or approximately three months. Over that period alone, Powerball generated \$55.7M in Revenue and \$23.9M in Transfer Value. Mega Millions Revenue was up \$32.4M (137.9%), due to two \$1.3 billion jackpots that ended in July 2022 and January 2023. These jackpot runs contributed a combined \$68.3M in Revenue and \$29.4M in Transfer Value; however, not all is attributable to FY23 as some of these sales were prior to June 30, 2022.

Overall Game Margin percentage on Terminal Games was 49.2% compared to 49.8%, a decrease of .6% due to statistical variation, primarily in Pick 3 and Palmetto Cash 5.

Other Revenues and Game Costs

Other Revenues, which consist primarily of license and telephone fees, were \$1.9M. Other Direct Game Costs were \$13.9M compared to \$11.5M in FY22. This increase is attributable to increased drawing and digital engagement services and shipping costs.

Advertising and G&A Expenses

Advertising Expense was \$5.1M up from \$4.7M in FY22, the result of timing from the same period last year. G&A Expenses (the primary component of which is employee compensation) were \$8.0M in FY23 and \$7.8M in FY22.

Net Income

Net Income increased \$27.5M to \$302.5M (10%), due largely to the increase to Total Game Revenue and Total Game Margin Percentage.

Actual FY23 Results Compared to the FY23 Financial Plan

Overall Game Revenues were \$1,162.6M compared to Plan of \$1,049.8M. Total Instant Ticket Revenues were up \$13.2M (1.8%) above Plan, primarily due to the \$5 Tickets (up \$9.1M, 7.7%) and \$10 Price Points (up \$5.3M, 1.0%). The \$3 Games were \$.6M (2.0%) above Plan while the \$1 and \$2 Instant Ticket Games were under Plan by \$1.2M (6.8%) and \$.6M (1.6%), respectively. Terminal Game Revenues significantly exceeded Plan, with Powerball (\$41.3M, 98.7%) and Mega Millions (\$34.5M, 161.0%). Pick 3 performed above Plan, \$10.9M (8.5%) and \$8.8M (13.0%), respectively. Palmetto Cash 5 was \$.7M (5.4%) above Plan. Cash Pop was \$3.5M (12.4%) above Plan.

Because of the higher than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$315.6M compared to Plan of \$260.8M, for a positive variance of \$54.8M (21.0%). Operating Expenses were \$13.1M, down \$.9M (6.3%). Advertising Expense was under Plan at \$5.1M (6.4%). Other Operating Expenses (“G&A”) were \$8.0M or \$.5M (6.3%) under Plan.

Because of the aforementioned factors, Net Income for the six months ended December 31, 2022 was \$302.5M compared to Plan of \$246.7M, a positive variance of \$55.8M (22.6%).

b. Executive Director Report

The Chairman recognized Hogan Brown who reported on the following matters:

S/MBE Report: The 2022 year-end report was presented and several questions were asked regarding staff efforts to reach the 10% goal with Small/Minority Business Enterprises (S/MBEs). SCCEL’s biggest challenge in contracting with S/MBEs vendors is the difficulty in convincing the

SMBEs to seek certification. If only one current S/MBE was certified, SCEL would more than double its goal of 10% of controllable expenditures going to certified S/MBEs.

State Human Affairs Report: SCEL was ranked 14th out of 94 agencies in terms of its hiring and employment demographics.

Instant Ticket Dispensers: Similar to jackpot signage, staff would like to invest in new instant ticket dispensers that will better align with current and future product offerings. He asked if there was objection to moving forward with what would be a seven-figure replacement purchase over the course of FY23 and FY24. There was no objection.

Printer heads/Motherboards: There is an adequate inventory of printer heads and motherboards but supply chain issues for both have not returned to normal. He recognized IGT for its efforts in assisting SCEL.

Ways and Means Constitutional Law Subcommittee: In addition to the traditional financial report, Mr. Brown informed the Subcommittee of the Board’s policy regarding disclosure of winners’ names and the settled litigation. Staff was asked to offer input on a draft bill to protect certain winner information from public disclosure. An Ethics Commission Opinion concerning what is considered permissible interaction with legislators and their staff under the Lottery Act was recently issued. In sum, as long as the Director is not expending more than 19% of his time engaging in lobbying activities, he is in compliance with the law. The annual presentation before the Higher Education subcommittee of the Senate Finance Committee is scheduled for February 15.

Pending Lawsuit: The PlayStation lawsuit has been scheduled for mediation later this month.

NFL Terminal Generated Game: The MUSL NFL game looks as if it is going forward but the next few months are critical to the outcome. An update will be provided in May.

Mega Millions Changes: There is an ongoing dialog on the proposed game changes focusing on the concerns of some Powerball states over the new instate jackpot. The new game matrix launch with a \$5 price point is forecast for mid-2024.

NASCAR: The MUSL NASCAR second-chance promotion is being finalized.

International Powerball: While regulatory approval is pending, sales may start in early 2024.

Pick4 - Liability Cap: Certain combinations are “maxing out” with the new \$7M cap. Mr. Brown asked for discretion to raise the cap to \$10M. Hearing no objection, the Chairman stated that the Director could raise the liability cap at his discretion.

Other Business

There being no further business, the meeting adjourned at approximately 12:39 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.