

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES**

August 18, 2021

10:00 a.m.

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, August 18, 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 (video conference)

Billy Newsome
Patrick Earle
Dr. Vareva Evans-Harris
Andre Bauer (video conference)

The Chairman called the meeting to order at 10:03 a.m. and welcomed guests. Next, he welcomed SCEL's newest commissioners, Dr. Vareva Evans-Harris and Andre Bauer, both of whom were appointed by the Governor.

Approval of Minutes

On motion of Commissioner Munson, seconded by Commissioner Newsome, the Board approved the May 19, 2021, minutes unanimously.

Action Items

a. Marketing and Retailer Relations Report

The Chairman recognized Commissioner Morris who reported the Marketing and Retailer Relations Committee met August 4, 2021. The Committee reviewed advertising concepts for CASH POP and beneficiary spots. Staff was asked to include these items in the quarterly advertising with no suggested changes. The Committee also received updates on Powerball (Monday draws), Double Play, new Jackpot awareness spots (previously approved by the Board), and instant product concepts for SCEL's twentieth year anniversary in 2022. He then asked Ammie Smith, Director of Product Development, and Josh Whiteside, Director of Marketing, to proceed with the quarterly advertising presentation.

Mrs. Smith began the presentation with the following items:

Powerball® Double Play® - Counter Decal; Digital Billboard; Online Ad; PID – Powerball® Jackpot (Text and Second Video); Play Station Poster; Wallet Card; and Window Poster.

Powerball® New Day - Online Ad; PID Video; Play Station Poster; Wallet Card; Window Poster; and Writing Surface.

\$1,000,000 Bonus Match - Digital Billboard and Online Ad and Ticket Topper.

Print Advertising - Carolina Panorama; Clemson Community Partnership; Community Informer; Community Time Magazine; DBS Communications; Diversity Works; El Informador; USC Sport Program Ad; USC Sport Program Play Bill; and Charleston Battery.

Vehicle Wrap - Van Wrap: Photos; Large Trailer; Small Trailer and Small Travel Trailer.

General PID Updates -PID – 7-11-21 Live! (Image); July Instant Games (Video); August Instant Games (Video File); and September Instant Games (Video File).

Jackpot Trigger Campaign -TV – Mega Millions® Jackpot; Powerball® Double Play® - Counter Decal; Digital Billboard; Online Ad, and PID.

Beneficiary Messaging -Mr. Whiteside next discussed beneficiary messaging first presented at the Marketing Committee meeting on August 4, 2021. The “Your Passion is Our Purpose” ad campaign involves three recent graduates and focuses on frontline COVID-19 workers. Ms. Kennedy Glasgow graduated from Francis Marion University and immediately went into the surgical intensive care unit at MUSC Florence. Ms. Katie Stall graduated from Charleston Southern University and started teaching remotely. Mr. Keenan Summers graduated from North Greenville University and entered the National Guard to help administer COVID-19 vaccines.

CASH POP - Mr. Whiteside explained TV ad storyboards. One spot depicts a person in the form of neon tubes in various social settings to include a pool party, a concert setting, and finally a bonfire on a beach. The next spot has friends star gazing in a field, a group of friends running, and finally a casual gathering for dinner. Each ad includes a buzzing sound in the background and the neon person transitioning into a neon CASH POP sign in a convenience store window and a voiceover: “Introducing CASH POP from the South Carolina Education Lottery. It's the light of the party.”

Commissioner Munson referred to the Marketing Committee minutes and expressed a concern that the radio script in one of spots may convey a “party” image not compatible with SCCEL’s conservative approach to advertising. Mr. Whiteside stated that the radio spot referenced is only a concept at this point and that staff will address this concern as the work is finalized. Commissioner Harris provided some positive feedback on the concepts.

Twentieth Anniversary

Mrs. Smith and Mr. Whiteside addressed plans for SCCEL’s 20th anniversary. SCCEL will highlight 20 years of its mission in the Beneficiary Campaign, sport sponsorships, and winner awareness. SCCEL will also have a press tour. Each month in 2022 a popular past instant ticket game or a South Carolina-specific instant ticket game will be introduced. Monthly cash and/or trip prize drawings are planned through the Players’ Club mobile app and the SCCEL website.

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.

Reports

a. Studio Renovation Update

The Chairman recognized Mr. Whiteside who updated the Board on the draw studio renovations. They include a new LED board (approximately 24’x 5’) equipped with full animation capability. Mr. Craig Perry, Director of Security, discussed security aspects of drawings (such as dual-badge and dual key entry to open the ball room for draw machines) during and after the renovation. He explained that the studio will move to a fourth floor conference room during the renovation and that the security measures would be comparable to the current studio security.

b. Industry Trends

The Chairman recognized Mrs. Smith who provided an update on trends in the lottery industry. She noted the difference in draw game sales versus instant ticket sales. While draw games sales have remained consistent, instant ticket sales have experienced growth. She also noted that unlike draw games, instant tickets are controllable (as to prize structure and payout percentage). On a

per capita basis, SCEL is among the top ten lotteries for \$10 instant ticket sales, slightly above the national average. Other lotteries rely on \$20, \$30, and higher price points. SCEL's \$10 game prize payouts rival those of other states on price-points above \$10. The long-term sustainability of SCEL's approach is unknown. SCEL has managed thus far to hold strong in the industry by looking for opportunities to improve and broaden its portfolio.

c. Financial Update

Overview of FY21 Results Compared to FY20

The Chairman recognized Brian Ford, Chief Financial Officer. FY21 was another record year. Transfers were \$607.6M compared to \$492.8M last year, an increase of \$114.8M (23.3%). Net Income increased \$114.9M (23.4%) from \$490.6M to \$605.6M. Total Game revenues increased \$309.4M (14.7%) from \$2,106.4M to \$2,415.8M. Instant Game revenues were \$1,763.0M, an increase of \$180.8M (11.4%). Terminal Game revenues were \$652.8M, up \$128.6M (24.5%). Game Margin increased on both Instant Games and Terminal Games. Overall, Game Margin increased by \$139.9M (20.5%).

Instant Games

Instant Game revenues exceeded last year by \$180.8M (11.4%). \$10 Instant Ticket revenues increased by \$134.0M (11.4%) from \$1,175.8M to \$1,308.8M. In addition, \$3 and \$5 Instant Game revenues increased by \$10.2M (19.3%) and \$33.6M (14.4%), respectively. Revenues associated with the \$1 and \$2 price points, in aggregate, increased by \$3.0M (2.5%). Instant Game margin increased \$54.9M (12.9%).

Terminal Games

Terminal Game revenues were \$652.8M up from \$524.2M, an increase of \$128.6M (24.5%). This increase is attributable to significant increases in Powerball, Mega Millions, Pick 3, and Pick 4 revenues. FY21 had multiple Jackpot Runs compared to FY20, which did not have any Jackpot Runs. Powerball revenues increased \$16.3M (25.8%) and Mega Millions revenues increased \$19.6M (43.2%), resulting in a net margin increase of \$18.2M (32.2%).

Pick 3 and Pick 4 performed very well, strengthened by the Fireball add-on, which was introduced in April 2021. Pick 3 revenue was up \$56.2M (22.0%) and Pick 4 was up \$31.3M (25.4%). The Game Margin percentage on Pick 3 and Pick 4 increased from 49.0% to 53.4%, and 47.5% to 53.1%, respectively, in FY21. The increase contributed \$41.1M (32.9%) and \$23.5M (40.2%), of additional Game Margin. Palmetto Cash 5 revenues increased \$4.4M (17.8%) and prize expense decreased \$.3M (2.0%), attributable to statistical variation. As a result, Game Margin increased \$4.7M (50.1%). Lucky for Life revenues were consistent with a slight increase of \$.8M (6.3%) but prize expense was up \$3.3M (50.9%), leading to a decrease in margin of \$2.5M (38.5%).

As a result of increased Terminal Game revenues and statistical variation, Game Margin on Terminal Games increased \$85.0M (33.3%). Game Margin percentage was up 3.42%. This increase in Game Margin percentage resulted in an additional \$19.3M in Transfer value over FY20.

Other Revenues and Game Costs

Other revenues, which consist primarily of license and telephone fees, were \$3.7M in FY21 and \$3.7M in FY20. Other direct game costs were \$24.1M in FY21 compared to \$22.4M in FY 20. The increase of \$1.7M was primarily attributable to expenses associated with Instant Ticket game printing (\$2.0M), warehousing (\$.3M), and online paper costs (\$.5M). These increases were offset by decreases in Instant Ticket licensing fees (\$1M).

Advertising and G&A Expenses

Advertising Expense was \$9.2M in FY21 and \$9M in FY20. G&A Expenses (the primary component of which is employee compensation) were \$17M in FY21 and \$15.6M in FY20. The \$1.4M increase was related to increases in Salaries and Benefits (\$.9M), supplies (\$.2M), and technology related licenses and warranties (\$.3M).

Actual FY 2021 Results Compared to the FY 2021 Financial Plan

Actual financial results exceeded Plan in FY21. Game Revenues were \$2,415.8M compared to Plan of \$2,002.6M. The positive variance in Instant Game revenues is primarily attributable to better than expected sales of \$10 Instant Tickets of \$206.6M (18.7%). Revenues associated with the \$10 price point were conservatively planned due to the above average sales growth in recent years and we continue to be cautious concerning the sustainability of \$10 Instant Ticket sales. In addition, the \$5 and \$3 Instant Tickets performed well and exceeded Plan by \$30.9M (13.1%) and \$8.0M (14.6%), respectively. The \$1 and \$2 price points performed above Plan, and, in aggregate, were \$7.6M (6.6%) more than Plan.

The positive variance in Terminal Game revenues is attributable to the strong performance of all terminal games. Pick 3 was \$65.3M (26.5%) above Plan. Pick 4 was \$32.9M (27.1%) above Plan. Mega Millions performed above Plan by \$31.6 (94.1%). Powerball exceeded Plan by \$25.7M (47.7%). Palmetto Cash 5 was above Plan by \$4.4M (17.8%). Lucky for Life performed slightly above Plan by \$.3M (2.2%).

As a result of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$631.8M compared to the Plan amount of \$499.8M, a positive variance of \$132.0M (26.4%). Advertising Expense was under Plan by \$.6M (6.2%) (\$9.2M Actual vs. Plan of \$9.8M). Other Operating Expenses (“G&A”) were \$1.7M above Plan (\$17M Actual vs. Plan of \$15.3M). The variance to Plan was primarily attributable to higher salaries and benefits expense, technology related licenses, and office supplies. Based on the aforementioned factors, Net Income for FY21 was \$605.6M compared to Plan of \$474.6M, an increase of \$131.0M (27.6%).

d. Executive Director Report

The Chairman recognized Hogan Brown who began his report by discussing the use of debit cards for ticket purchases. Although the Board has not taken a formal position on debit card use, given prior Board discussions, he continues to engage in conversations with convenience store owners who are members of the SCCPMA (the merged Convenience Store and Petroleum Marketers groups). He noted the longer debits card sales remain prohibited, revenue growth is likely to be impacted. Our border states, and many lotteries across the country, allow debit card sales. Mr. Brown stated that retailers are understandably frustrated by high transaction fees that would reduce their SCEL commissions. However, the fees can also be viewed as an overall cost of doing business spread across all transactions. Importantly, some sales are currently being lost due the prohibition, especially along our interstate highways. If debit card usage were allowed, retailers would not be required to accept debit cards so the market should determine the viability and the acceptance level of debit card use in a given area. Mr. Brown asked if there was any objection to continuing these conversations and were none.

Next Mr. Brown updated that Board on in-store (window) jackpot awareness signage. SCEL is one of the last states to provide automatically updated jackpot awareness signs. A “Request for

Proposals” has been issued and in the following weeks, an implementation plan will be developed for the deployment of the signs in Q3 or Q4.

Mr. Brown informed the Board that he recently met with the Commission on Higher Education (CHE) staff. They are considering an initiative to help parents and college students understand the cost differential of completing college in four versus five or six years, especially given that SCEL scholarships are only available for four years. He will keep the Board apprised if further conversations lead to specific requests for collaboration.

Mr. Brown updated the Board on Dragons Ascent. While there were strong indications that a budget proviso would be inserted in the final stages of General Assembly’s consideration of the budget, no such provision was offered for a vote. He will continue to explain the Board’s statement adopted in December of 2020 to stakeholders as appropriate occasions arise.

Regarding COVID-19, Mr. Brown informed the board that more than 80% of SCEL staff has been vaccinated. SCEL had planned to return to its regular in-office schedule after Labor Day but reconsidered this move given the latest infection rates. Currently, Columbia employees are in the office at least three days and work the remaining time from home. SCEL will keep a sponsorship presence at the Darlington Raceway event but will not sell tickets. Staff will evaluate other events as they arise and will continue to monitor its COVID-19 policy as the Delta variant spreads.

Next, Mr. Brown updated the Board on the Lucky for Life game that SCEL withdrew from on June 23, 2021. When eight lotteries joined the game in January 2015, the cumulative top prize contributions were “refunded” to the legacy lotteries and the prize fund was reset to zero thereby causing an overpayment by the “new lotteries” when the next top prize was paid. SCEL and two other states that recently withdrew from the game are in discussions to learn more facts.

Mr. Brown briefly updated the Board on SCEL’s 20th Anniversary plans. Rather than have a big public celebration, the focus will be on staff accomplishments and our beneficiaries. He invited the commissioners to share any ideas they might have for the celebration.

The next meeting will be on December 8, 2021.

Other Business

There being no further business, the meeting adjourned at 12:36 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.