

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

May 17, 2023

10:00 a.m.

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, May 17, 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 (via phone)
Patrick Earle
Dr. Vareva Evans-Harris
Andre Bauer

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 February 8, 2023, Minutes unanimously.

Action Items

a. Proposed Financial Plan (Budget) for FY24 Preceded by the FY23 Financial Report

Actual FY23 Results Compared to FY22 Results through March

The Chairman recognized Mr. Brian Ford, Chief Financial Officer, who began with the Financial Report for the first nine months of FY23. Transfers increased to \$462.9M from \$435.6M, up \$27.3M (6.3%). Overall Game Revenues increased \$91.8M to \$1,777.0M (5.5%). Net Income increased \$33.9M¹ to \$454.7M. This increase resulted from increased Game Revenues on Powerball, Mega Millions and Cash Pop. FY23 began with a transfer projection of \$517.6M, which was revised to \$567.2M in February.

Instant Games

Instant Game Revenues decreased by \$18.4M (1.5%) to \$1,180.0M. \$10 Instant Tickets were down \$25.8M (3.0%). \$5 Instant Tickets increased by \$7.1M (3.8%). Revenues associated with the \$3 and \$2 price points decreased by \$10.1M (9.0%), while \$1 games decreased by \$2.5M (8.6%). The Game Margin on Instant Game Revenues decreased by \$6.6M (2.0%), largely due to the decrease in \$10 Instant Ticket Sales.

Terminal Games

Terminal Game Revenues were \$597.0M, an increase of \$110.3M (22.7%). Increases in Powerball, Mega Millions and Cash Pop drove the increase. Specifically, Powerball and Mega Millions performed very well, driven by record jackpot runs. Terminal Game Margin increased by \$50.4M (20.7%) to \$294.1M. Overall Game Margin Percentage was 49.3% compared to 50.1% during the same period last year, primarily a result of lower margins on Pick 3.

¹ Net income as used herein means "Change in Net Position" as generally used for governmental agencies. Further, the increase in net income will not necessarily result in the same amount of Transfers. Transfers are "cash basis" and net income is determined on the accrual basis. The primary difference will be in accounts such as accounts receivable, the growth in which is reflected in net income, but not in Transfers since account receivable amounts are recognized as income under the accrual basis, but not under the cash basis.

Pick 3 Revenue decreased by \$5.0M (2.3%) while Game Margin decreased by \$7.1M (6.3%) due to lower sales and statistical variation. Pick 4 Revenue increased \$0.9M (8%) while Game Margin increased \$4.3M (7.6%). Mega Millions Revenues increased by \$48.7M (141.2%) (four runs in excess of \$450M generated \$92.4M in Revenue and \$39.7M in Transfer Value whereas \$19.4M in Transfer Value was forecast for all of FY23). Powerball Revenues increased by \$31.6M (39.1%) due to a jackpot run in excess of \$600M and a world record jackpot run of \$1.9B. Powerball generated \$32.3M in Transfer Value in nine months whereas \$37.9M was planned for all of FY23. Palmetto Cash 5 Revenues decreased to \$20.5M (5.8%) and game margin was up \$0.4M (4.0%) due to statistical variation. Cash Pop added \$53.4M in Revenue and \$18.3M in Game Margin.

Other Revenues and Game Costs

Other Revenues, consisting primarily of license and telephone fees, were \$2.8M while other Direct Game Costs were \$21.1M, an increase of \$3.3M (18.9%). This variance is due to higher instant ticket printing, shipping and consumables costs as well as new digital engagement costs. As a percentage of Revenues, both of these items, as expected, are consistent with last year.

Advertising and G&A Expenses

Advertising Expense was \$7.5M in both FY23 and FY22 while G&A Expenses (the primary component of which is employee compensation) were \$12.0M, \$0.3M above FY22 while Total Operating Expenses were up \$0.2M at \$19.5M.

Actual FY 2023 Results Compared to the FY 2023 Financial Plan through March

To date, actual financial results have exceeded Plan. Game Revenues were \$1,777.0M compared to Plan of \$1,636.2M.

There was a positive variance in Instant Game Revenues primarily attributable to higher than anticipated sales in the \$5 price point and one week of \$20 ticket sales of \$12.8M. \$10 Instant Game Revenue was in line with FY23 Plan. The \$3 price point was \$0.9M (2.1%) under Plan while aggregate revenues associated with the \$2 and \$1 Instant Tickets were off by \$4.3M (4.9%).

The positive variance in Terminal Game Revenues is attributable to Pick 3 and Pick 4 which exceeded Plan by \$10.8M (5.4%) and \$10.9M (10.4%), respectively. The performance of both of these games have been bolstered by the higher liability limits. Powerball performed above Plan by \$47.1M (72.2%), while Mega Millions performed above Plan by \$49.8M (149.2%). Palmetto Cash 5 exceeded Plan by \$0.3M (1.5%), while Cash Pop exceeded Plan by \$9.6M (21.8%).

Because of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$474.1M compared to Plan amount of \$407.2M, a positive variance of \$66.9M (16.4%). Operating Expenses were \$1.8M (8.3%) under Plan. Advertising Expense was \$0.8M (9.5%) under Plan (\$7.5M vs. \$8.3M). Other Operating Expenses (“G&A”) were under Plan by \$1.0M (7.5%). Most of the variances will normalize to Plan as the year concludes. Net Income through March was \$454.7M and \$68.7M (17.8%) above Plan.

Proposed FY24 Financial Plan

Mr. Ford presented the FY24 Financial/Budget Plan (the Plan). As explained in the meeting packet, for the first time since the pandemic in 2020, the Plan for all Instant and in-state games incorporates the first nine months of actual FY23 results and the final three months of actual FY22 results to establish the Base Plan. Staff further adjusted the Base by reducing the \$1, \$2 and \$3 Instant Game Revenues by 5%, 10% and 40%, respectively, to account for recent trends and planned reductions in game launches in FY24. \$5 Instant Game Revenue, although up 6% YTD

in FY23, are projected as flat for FY24. \$10 Instant Game Revenues were reduced by 17% to account for potential cannibalization with the launch of the \$20 price point. It was reduced by another 5% to account for recent sales trends irrespective of \$20 game, resulting in a \$185M total reduction. Similarly, Pick 3, Pick 4 and Palmetto Cash 5 were reduced by 5%, consistent with recent trends. The Plan includes the launch of three \$20 Instant Games, adding roughly \$600M in revenue.

Powerball and Mega Millions average weekly base sales are \$1.6M (including Double Play) and \$.9M, respectively, when the Jackpots were below \$300M. Premiums are added to these base sales for Jackpots between \$300M and \$400M or 12% and 10%, respectively. Cash Pop is forecast using average weekly sales of \$1.2M since launch.

To summarize revenue, the FY24 Plan forecast shifts from the highly profitable jackpot driven national games (50% margin) with unusually high sales in FY23, to much less profitable \$20 Instant Ticket Revenue (20% margin), with sales expected to be \$600M. This equation explains why a projected 5% increase in Total Game Revenue results in a 7% decrease in Net Income. Consistent with prior years, the FY24 Revenue projection is conservative.

Mr. Ford then reviewed FY24 planned Operating Expenses, which compares annualized FY23 results to projected FY24 results, and has a projected increase of \$2.78M (10%) over FY23. Some of these variances may appear to be new or additional funding requests, when in reality the variances are a reflection of amounts approved for, but not spent in FY23. \$.8M (29%) of the variance was approved in the February Board Meeting for increased Media Buy Expenses. \$.5M (18%) of the variance was mandated by the state for increased Employer Retirement Contributions as well as increased salaries for DPS and SLED. Consistent with prior years, SCEL's Operating Expenses are planned at 1.1% of sales for FY24.

After the presentation and questions, the Chairman entertained a motion by Commissioner Keith, seconded by Commissioner Evans-Harris, to approve the FY24 Financial Plan/Budget. The Board unanimously approved the motion.

b. Quarterly Advertising and Marketing Review

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

Living Lucky With Luke Combs: Cooler Cling; Digital Billboard, Living Lucky With Luke Combs A, B, and C; Online Ad; PID; Play Station Poster (Left and Right); Retractable Banner; Ticket Topper, and Writing Surface.

X Series: PID, 10X, 20X 50X and 100X (March); Play Station Poster, and Writing Surface.

Fastest Road to \$2,000,000 (\$20 Ticket): PID, Online Ad, and Ticket Topper.

Happy Pawlidays: Digital Billboard, Entry process and selection.

NASCAR POWERBALL PLAYOFF™: PLAYOFF™ 1 and PLAYOFF™ 2.

General PID (Player Information Display) Updates: Super Wild Cherries, Blue Diamond Dollars, King's Ransom (March); Win It All, Cash Club, Win Big Money (April); Electric 8s, Super 7-11-21, Plu\$ the Ca\$h, and Multiplier Surge (May); \$5,000 Bonus Scratch, \$30,000 Bonus Scratch, \$200,000 Bonus Scratch, \$300,000 Bonus Scratch, Multiplier Rush, Bingo X20, 5 Spot, and Carolina Cash (June).

Better U: Responsible play message video.

It Matters That Much: Date Night, Birth Plan videos.

MISC Digital Billboard: \$1,000,000 Bonus Multiplier.

Mr. Whiteside took the opportunity to thank the Board for allowing staff to explore its creativity in the Cash POP advertising campaign and noted that Cash POP has won several awards on a regional level, and also won a national level gold award against major national ad firms and national brands.

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.

c. Matrix Change for Palmetto Cash 5

The Chairman recognized Ms. Smith to discuss the proposed matrix change to Palmetto Cash 5 as presented in the meeting materials. Although the game margin is performing to Plan, revenue is underperforming. The change is intended to refresh the game and the marketing campaign. The base game price would increase to \$2.00 (from \$1) with a matrix change to 5 out of 42 (up from 5/38) to allow for an increase in the prize payout. It would go from 53% to 59% with an embedded 2X, 3X, 5X, and 10X multiplier. The Jackpot would start at \$100k with a \$10k rollover at a minimum every day until fully funded and/or until it is won. The average Jackpot should be \$350K.

After Ms. Smith's presentation, the Chairman, noted that this proposal would change the game matrix and thus required Board action. He entertained a motion by Commissioner Keith, seconded by Commissioner Munson, to approve the staff recommendation for Palmetto Cash 5 matrix change with an implementation date in the third quarter of FY24. The motion passed unanimously.

Reports

a. Audit Committee Report – Meeting of April 12, 2023

The Chairman recognized Commissioner Keith who reported that the Committee received a report from Ms. Sonja Erickson, Internal Auditor, regarding the Internal Audit's activities since its last meeting (October 2022). Ms. Erickson presented the results of the claims center audit, noting that there were no findings. Management has good controls around this process, and claims center staff are well-versed on all requirements for claims processing.

SCEL is due for another SOC 2 audit. The purpose of this audit is to assess adherence to internal controls for safeguarding data and information systems performance over time, including assessing whether they operate effectively and function as intended. The next step is obtaining audit services. Audit services are not subject to the requirements of the South Carolina Procurement Code, and SCEL must contract all audit services through the Office of the State Auditor (OSA). She has been working with OSA on this, and it has identified a firm that has submitted a proposal. She has convened an informal stakeholder group to review the proposal and decide whether to move forward with contracting.

Commissioner Keith concluded by recognizing Ms. Erickson's hard work.

b. Executive Director Report

House Bill 3872. The Chairman recognized Mr. Brown who began with an updated on the bill that would codify SCEL's current restrictions on release of winners' information. He explained the legislative history of the bill to date and noted it passed the House of Representatives within a few days of Committee consideration and was placed on the Senate calendar without a committee

hearing. One senator has objected to consideration which is not uncommon, particularly as the legislative session nears the end of the year. If the Senate does not pass H3872, there is an FY23-24 budget proviso that also prohibits the release of certain winner information.

Solicitation for the Columbia Office, Studio and Claims Center. The 1333 Main Street lease and the Claims Center lease expire at the end of July 2024. Mr. Brown shared a copy of the proposal sent on SCEL’s behalf by Real Property Services, a division of the Department of Administration. He also explained the review and approval process as well as the timeline that could extend into 2024.

FedEx Conversion. The conversion from UPS delivery to FedEx is now complete. FedEx has been very responsive and has been delivering SCEL instant games for about 7 to 8 weeks. He stated that SCEL expects to save well over \$500k annually.

Mega Millions. The proposed changes in the Mega Millions game matrix originally planned for launch next April is very unlikely to happen. The Mega Millions group had not completely worked through certain important details regarding the proposed game changes. He hopes to have more updates by the Board’s August 2023 meeting.

International Sales. The regulatory review in Australia is nearing the final steps. Although the final approval may be granted by the end of the year, it may not occur until the first quarter of calendar 2024.

SCEL Fiscal Year-end Celebration. Mr. Brown distributed an invitation to this event and encouraged Board members to attend, if possible.

Other Business

There being no further business, the meeting adjourned at approximately 12:16 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.