

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
December 6, 2023
10:00 a.m.**

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, December 6, 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
Patrick Earle

Jay Young
Dr. Vareva Evans-Harris
Andre Bauer
Billy Newsome

The Chairman called the meeting to order at 10:04 a.m. and welcomed guests.

Approval of Minutes

On motion of Commissioner Munson, seconded by Commissioner Morris, the Board approved the August 16, 2023, Minutes unanimously.

Action Items

a. Nomination and Election of Board Officers for 2024

The Chairman asked for nominations of officers other than those currently serving, and after receiving none, Commissioner Newsome moved to close the nominations and elect the current slate of officers for another one-year term in accordance with SC Annotated Code Section 59-150-40(G) and the by-laws. Commissioner Munson seconded the motion, which passed unanimously.

b. Audit Committee Meeting Report - October 11, 2023 - Adoption of the 2024 Audit Plan

The Chairman spoke on behalf of Commissioner Keith, and after brief remarks, he recognized Sonja Erickson, Internal Auditor who began with an overview of the October 11, 2023, Audit Committee meeting. She updated the Board on the annual financial statements audit, conducted by Mauldin & Jenkins, CPAs & Advisors, citing that there were no identified deficiencies or weaknesses. Next, Ms. Erickson updated the committee on the Service Organization Control Type 2, (SOC 2) audit that Mauldin & Jenkins, CPAs & Advisors is conducting. Ms. Erickson briefed the Board on the results of the annual self-assessment survey, noting that the survey indicated some opportunities for improvement regarding technology and performance reviews. She explained that she would assist staff in finding a document management system and identifying ways to improve workflows in the contract management process. As this moves forward toward a procurement, management will take the lead acquiring the product and implementation. Lastly, Ms. Erickson updated the Board on the 2024 Internal Audit Plan, including areas such as IT inventory processes; bank account wire, sweep and deposit procedures; and gaming ticket security.

At the end of the report and on the recommendation of the Audit Committee and in accordance with SC Annotated Code Section 59-150-320(2), the question before the Board was adoption of the 2024 Audit Plan as approved by the Audit Committee. The motion passed unanimously.

c. Quarterly Advertising and Marketing Review

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

Logo

Mr. Whiteside updated the Board regarding work on a new logo design. Mr. Brown mentioned that the Board adopted the current logo and any revision would require Board action.

Rewards

Ms. Smith discussed the new Players' Club Rewards and Mr. Whiteside reviewed the following advertisements:

PID: Announcement (12 Second Video) and Informational (15 Second Video).

Print: Counter Mat, Floor Vinyl, Play Station Writing Surface, Window Poster, and Ticket Topper.

Better U

Video/Audio: Online Ad (Version 1 and 2); Generic Beneficiary (30 Second Video); PID Beneficiary (10 Second Video); Play Better (10 Second Video); TV, Computers (30 Second Video); Radio, School Bus (30 Second Music File); and Billboard.

Print: Ticket Topper, Play Station Poster, Writing Surface, and Brochure.

Holiday

Video/Audio: Online Ad, Holiday Games; PID, Holiday Tickets (15 Second Video); Billboard; Carolina Jackpot; Clemson Jackpot; Festive 5s; and Happy Pawlidays.

Print: Play Station Poster and Ticket Topper, and Holiday Campaign.

The Rolling Jackpot

Video/Audio: Online Ad, Billboard, and PID (7 Second Video).

General PID, Upcoming Rotation

October: All Instant Games (154 Second Video); November: All Instant Games (39 Second Video); December: All Instant Games (45 Second Video).

Before concluding her presentation, Ms. Smith provided an update on instant game trends across the industry. During FY21 (significantly impacted by the pandemic), aggregate revenue reached a high \$64.9 Billion and decreased to \$63.5 Billion in FY23. While the industry is currently trending toward \$60 Billion in sales, the revenue is still significant. Every lottery is taking its own approach to how to handle these downward trends. Ms. Smith then reviewed SCEL's sales including the new \$20 price point, compared to sales in higher price points of other lotteries of interest (Georgia, Florida, North Carolina, and Virginia) including data from their \$30 and \$50 ticket sales. In short, other states that have not introduced a higher price point within the last year are down in their instant ticket sales while SCEL sales have grown by 4.2%.

At the conclusion of the presentation and questions, 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. Financial Update - FY24 Financial Results, July – October 2023

Actual FY24 Results Compared to Actual FY 2023 Results

Overview

During the first four months of FY24, Transfers increased from \$212.1M to \$219.0M (3.2%). Overall Game Revenues increased by \$61.2M (8.1%) to \$814.9M. As noted, Instant Game Sales trends continue to be under some pressure across the industry, but Terminal Game Sales continue to be strong. As projected, \$10 Instant Ticket Revenues have decreased, but FY24 jackpot runs have kept Total Game Revenues above FY23.

Instant Games

Instant Game Revenues increased by \$31.4M, (6.3%) to \$529.2M. Revenues associated with \$1 and \$2 Instant Tickets decreased \$.05M (.5%) and \$5.2M (20.1%), respectively. \$3 Instant Ticket Revenues decreased \$2.2M (11.6%) to \$17.1M. Revenues associated with \$5 Instant Tickets were \$75.0M, a decrease of \$10.9M (12.7%). \$10 Instant Ticket Revenues were down \$70.8M (19.9%) to \$285.9M compared to \$356.7M last year. \$20 Instant Ticket Revenues have averaged approximately \$30.1M per month since the launch in March 2023. The downward \$10 trend over the past couple of years, in conjunction with the anticipated cannibalization by the \$20 Instant Ticket, explains the \$10 Instant Ticket Revenue decline. The increase in \$20 Instant Ticket Revenue has exceeded the \$10 Instant Ticket Revenue decline, for a net positive impact to Total Instant Ticket Revenue. The overall Game Margin on Instant Game Revenues increased \$.8M (.6%). The overall Game Margin percentage on Instant Games decreased to 27.0% compared to 28.5% during the same period last year. This decline is largely attributable to the \$20 Instant Ticket, which has an 80% prize payout percentage compared to 75% on \$10 Instant Tickets.

Terminal Games

Terminal Game Revenues were \$285.6M, an increase of \$29.9M (11.7%), due to large jackpot runs for Powerball and Mega Millions. The overall Game Margin Percentage on Terminal Games was 49.3% compared to 48.5% during the same period last year.

Powerball Revenue was up significantly through the first four months of FY24. Powerball Revenue was \$70.2M, up \$27.9M (66.0%), primarily due to two large jackpot runs of \$1.0 billion and \$1.7 billion, respectively. These runs lasted 39 and 35 draws and generated \$58.2M in FY24 Revenue. Mega Millions was down \$3.0M (7.2%) due to large jackpot runs early in FY23.

Pick 3 Revenues were up \$1.8M (1.9%) to \$95.0M through the first four months of FY24, bolstered by the increased wager liability limit. Pick 3 Game Margin increased \$3.3M (7.1%) due to increased sales and favorable statistical variation. Pick 3 Game Margin Percentage increased from 49.8% to 52.3%. Pick 4 Revenues were up \$2.2M (4.4%) to \$51.9M from \$49.7M. Pick 4 Game Margin decreased by \$1.7M (6.8%) due to statistical variation, with Prize Expense of 55.9% compared to 50.6%. In FY24, four number combinations were drawn with over a \$500 thousand liability compared to two at this point in FY23. Palmetto Cash 5 Revenues decreased by \$.2M (2.0%) while Game Margin was up \$.2M (5.9%) as a product of statistical variation. Cash Pop generated \$1.2M in Revenue per week, up \$1.1M (5.5%), while Game Margin increased \$1.6M (22.9%). Game Margin Percentage increased 5.6% from 33.7% to 39.3%.

Other Revenues and Game Costs

Other Revenues, which consist primarily of license and telephone fees, were \$1.3M, up .2M from last year. Other Direct Game Costs were \$8.5M compared to \$9.4M in FY23. Other Direct Game Costs are expected to be consistent with last year.

Advertising and G&A Expenses

Advertising Expense was \$3.1M in both FY24 and FY23. G&A Expenses (the primary component of which is employee compensation) were \$5.7M in FY24 and \$5.3M in FY23. The \$.4 (9%) increase is related to timing and is expected to normalize.

Net Income

Net Income increased \$13.6M (6.9%) to \$209.9M compared to \$196.3M. The increase to Net Income is largely attributed to increases in both Instant and Terminal Game Revenues as well as favorable Terminal Game Margin Percentage.

Actual FY24 Results Compared to the FY24 Financial Plan

To date, actual Game Revenues were \$814.8M compared to Plan of \$856.3M.

\$1 and \$2 Instant Tickets Revenues were \$3.8M (11.1%) under Plan while \$3 and \$5 Instant Ticket Revenues were under by \$4.8M (4.9%). Across the industry, lower price points have been under pressure. \$10 Instant Ticket Revenue was below Plan by \$14.2M (4.47%). Lastly, \$20 Instant Ticket Revenue was \$83.5M (40.9%) under Plan. Another \$20 ticket is scheduled to launch soon, which should bolster Total Instant Game Revenue. The overall decrement to Instant Ticket Revenues of \$108.4M (4%) is not unique to SCEL. It is further exacerbated by the fact that we included three \$20 ticket launches in the Plan presented to the Board in May 2023. In an abundance of caution, SCEL only included two \$20 ticket launches in the revenue forecast presented to the Board of Economic Advisors (BEA) earlier this fall.

All Terminal Game Revenues exceeded Plan, with Powerball and Mega Millions having the largest increases due to large jackpot runs. Powerball was \$38.6M (121.8%) above Plan while Mega Millions increased \$21.6M (129.4%) over Plan. Pick 3 was \$3.9M (4.2%) above Plan, and Pick 4 was \$2.5M (5.0%) above Plan. Palmetto Cash 5 generated \$.2M (2.3%) above Plan and Cash Pop was \$.2M (1.1%) above Plan. Total Terminal Game Revenue was \$66.9M (30.6%) above Plan.

Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$218.9M compared to Plan of \$194.8M, a positive variance of \$24.2M (12.4%) resulting from higher than planned Game Revenues. In aggregate, Operating Expenses were \$1.3M (12.9%) under Plan. Advertising Expense was \$3.1M compared to planned amount of \$4.0M, a positive variance of \$.9M (23.1%). Other Operating Expenses (“G&A”) were \$.4M (6.2%) under Plan. Staff expects most of the variances to normalize to Plan as the year progresses. Because of the aforementioned factors, Net Income for the four months ending October 31, 2023 was \$209.9M compared to Plan of \$184.7M, a positive variance of \$25.2M (13.7%).

c. Executive Director Report

The Chairman recognized Hogan Brown, Executive Director, who began with an update on the Claims Center lease that SCEL recently signed. The next step involves the up-fit and SCEL hopes to move in before the August 1, 2024 expiration date of the current lease. The new Claims Center would be double the size of the current space.

Mega Millions has extended the implementation date of its proposed games changes, and has abandoned the proposal to create an in-state jackpot component to the game revisions.

The NFL game is getting more traction and is using funds from MUSL's marketing account to assist with game development. Mr. Brown reiterated that population base would determine the viability of this game. It is likely to be a year before final decisions will be made on this game.

Finally, Mr. Brown asked the Board members to mark their calendars for SCEL's Anniversary celebration on January 11, 2024¹. This concluded the Executive Director's report.

Executive Session

The Chairman stated that as previously reported to the Board, the Legislative Audit Council (LAC) has been performing its statutorily required Audit for the past year or so. The review is at a stage where the Executive Director would like to make a report that, by law, cannot be done in open session. The Chairman also noted that there is a need to discuss personnel matters in Executive Session.

The Chairman entertained a motion by Commissioner Newsome, seconded by Commissioner Munson, to go into Executive Session for purpose of receiving a report on the LAC Audit which by law must remain confidential at this time, and for the purpose of discussing personnel matters as allowed by the Freedom of Information Act (See SC Annotated Code Section 30-4-70(a)(1) & (b)). The motion passed unanimously.

As required by law, the Chairman restated that the Board has voted to go into Executive Session to receive a report on the current LAC Audit and to discuss personnel matters as allowed by the Freedom of Information Act.

The Chairman requested that Hogan Brown, Dolly Garfield, Claire Jones, Craig Perry, and Sonja Erickson to join the Board in the Executive Session and excused other staff and guests.

Open Session

The Board returned to open session and the Chairman stated that the Board went into Executive Session for the matters referenced above and that no other business was discussed. He also affirmed that the Board took no action while in Executive Session.

The Chairman noted that the Executive Director, Hogan Brown, has decided to retire soon after the New Year at a time that ensures a proper transition to a new Director. The Chairman then entertained a motion by Commissioner Keith, seconded by Commissioner Newsome, to (1) authorize the Chairman to act on behalf of the Board to work with Hogan to settle on a departure date; (2) to appoint Dolly Garfield as Interim Executive Director pursuant to SC Annotated Code Section 59-150-80(A); and (3) to ask the Executive Committee to meet prior to January 9, 2024 to make recommendations to the full Board regarding the process for selecting a new Director. The motion passed unanimously.

Mr. Brown was then recognized. He expressed his gratitude for the opportunity to lead such a dedicated and hard-working staff. He offered his thanks to the Board for its leadership and support, both professionally and personally. He added that helping to start and working for an organization that has contributed more than \$8 billion for education has been a tremendously rewarding experience. He explained that after 22 years and with a 66th birthday around the corner, the timing

¹ The event was subsequently moved to January 18th.

feels right to turn a page for him and allow an opportunity for new leadership for the best lottery staff in the country.

Other Business

Chairman Litchfield recognized Commissioner Morris who announced that he is leaving the Board as his career path had led him to relocate to Georgia. Chairman Litchfield thanked him for his dedicated service on the Board.

There being no further business, the meeting adjourned at approximately 12:01 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 a link providing the time, date, place, and agenda of the meeting.