

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
February 7, 2024
10:00 a.m.**

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, February 7, 2024, 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
Patrick Earle

Jay Young
Dr. Vareva Evans-Harris
Andre Bauer, *via phone*
Billy Newsome

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 Earle, the Board approved the December 6, 2023, Minutes unanimously.

Action Items

a. Quarterly Advertising and Marketing Review

The Chairman recognized the Marketing Committee Chair, Patrick Earle, to provide an update from the February 6, 2024, Marketing and Retailer Relations Committee meeting. Commissioner Earle reported on the relaunch and rebranding of the Palmetto Cash 5 draw game. Last year, the Board approved a change to the matrix where the game will now have a rolling jackpot, as opposed to a fixed jackpot with multipliers. The multipliers are still available but embedded in the game. Players will be awarded a multiplier attached to their play that is automatically generated by the central gaming system. Winnings may be multiplied by 2x, 3x, 5x, or 10x, depending on the multiplier awarded. The game does not provide an option for the jackpot to be multiplied. If there is no jackpot winner, the jackpot will roll to the next drawing. The expected average jackpots are approximately \$350K to \$400K when it hits. SCEL hopes to get some jackpots over \$1M. The changes will take effect March 3, 2024.

Next, Chairman Litchfield recognized Ammie Smith, Director of Product Development, and Sam Bond, Marketing Manager, to give the Advertising and Marketing Review. Mr. Bond discussed the quarterly advertising and marketing review campaign for Josh Whiteside, Director of Marketing, who is in Nashville for the Living Lucky with Luke Combs Second-Chance Promotion. The following was discussed:

Rewards

Mr. Bond discussed the Rewards program that launched in October of 2023. He reviewed: Billboard; Buckslip – (Front and Back); Radio – Lunch Order (30 Second Music File - MP3 File); TV – Cow Beats (30 Second Video - MP4 File); and Writing Surface.

Better U

TV – Beneficiary: Buses (30 Second Video - MP4 File); and Beneficiary: Smart Board (30 Second Video - MP4 File). Ms. Smith also noted that SCEL has submitted its proposal to NASPL and the National Problem Gambling Association for the Responsible Gaming certification. She also thanked Sam Bond, Josh Whiteside, Director of Marketing, Claire Jones, Director of Human Resources, Ann Scott, Director of Sales and Retailer Relations, and Cynthia Brown, Director of Licensing, who collectively comprised a panel to review SCEL’s proposal before submission to NASPL.

\$1,000,000 Money Maker Ticket and Second-Chance Promotion

Billboard; Online Ad; Play Station Poster; and Ticket Topper

Palmetto Cash 5

Ms. Smith discussed substantial changes to Palmetto Cash 5, including a rolling jackpot and embedded multiplier. She also discussed SCEL’s purchase of new ball machines and updated point of sale materials to address the game changes and odds.

Mr. Bond discussed the PID (Player Information Display) materials, writing surface, online ad, ticket topper, and wallet card.

In response to an inquiry from Commissioner Keith, Ms. Smith noted that a random number generator (RNG) would draw the multiplier. She also stated that the jackpot starts at \$100K. In response to an inquiry from Commissioner Munson, Ms. Smith explained that if there were multiple winners, the jackpot would split evenly between the multiple winners. She stated that the average jackpot should be around \$350K with a minimum daily roll of \$10K. She stated that SCEL expects the jackpot to get hit statistically about 30-35 times a year.

Mr. Bond explained the Palmetto Cash 5 broadcast campaign. He stated that Palmetto Cash 5 is the only draw game branded specifically to South Carolina. South Carolina is unique in demonstrating its state pride and the campaign needs to capture that state pride. Visuals will set the mood and tone of the campaign through use of the state’s official Palmetto Tree. Rolling jackpots will generate larger publicity. The Palmetto Cash 5 jackpot will roll nightly and eventually will reach a size that will increase conversation. Staff worked with Chernoff Newman and created a campaign, “Too Big to Ignore”. They developed a television spot and a radio spot. Mr. Bond shared the storyboard and mock up images of the TV spot for the Board’s consideration. The TV Concept: “Too Big to Ignore” is a 30-second Television spot which includes various scenarios with a growing Palmetto Tree. In each successive scenario, the Palmetto Tree grows so large that it becomes too big to ignore.

Mr. Bond also covered the Radio Concept: “Bigger Than That.” In the radio spot, the announcer mentions that the jackpot has grown big. Successive scenarios involve a golfer, a fisherman, and the infamous Gaffney Peach.

Thereafter, he reviewed the following: Draw Sticker; Game Odds Flyer – Blue (Horizontal and vertical), Green (Horizontal and Vertical); Menu of Games – Blue, Green; Online Ad; PID – Palmetto Cash 5 Jackpot: Over \$1 Million, Under \$1 Million (With Example Text), Draw Results (With Example Text); and Play Station Poster – Palmetto Cash 5 (Left And Right); Ticket Topper; Wallet Card; and Writing Surface – Palmetto Cash 5.

General PID Updates

The PID (Player Information Display) is the monitor inside retailers that promote SCEL product, display winning numbers, winner awareness, beneficiary messages, and other similar messaging.

PID – January, February, March: All Instant Games (Videos - MP4 File)

MISCELLANEOUS

Billboard – Cherry Twist, Gemstones; Online Ad – Gemstones

Basketball Scorer's Table (30 Second Video - MP4 File)

At the conclusion of the presentation and questions, the Chairman stated, without objection, that the Board's consensus is 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 FY25

The Chairman recognized Mr. Bond to present the media buy plan for FY25, 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 placement team at Chernoff Newman more time to negotiate the best rates and secure better slots in the available inventory. In addition, by securing inventory earlier, there is an increased cost savings to SCEL for pre-booking this media.

While noting a 4% increase over the previous year's budget, Mr. Bond proceeded to explain that over the past several years, viewership has continued drastically to shift from linear, traditional viewing and listening platforms like cable television, and linear radio to more digital platforms like ad supported streaming television and ad supported streaming audio platforms. The proposed plan reflects that shift in consumer habits, moving large portions of the budget to reach audiences better than we are currently reaching them. He specifically explained the budget category-by-category. Mr. Bond concluded his discussion.

The Chairman then entertained a motion moved by Commissioner Newsome, seconded by Commissioner Keith, to approve staff's funding request, noting that the Board would recognize such approval in the FY 25 Financial Plan when the Board reviews all other parts of next year's Plan. The motion passed unanimously.

c. Commission Logo

The Chairman recognized Ms. Dolly Garfield, Interim Executive Director, who indicated that a discussion of the logo might seem redundant since SCEL staff presented the new proposed logo in the previous meeting. However, staff failed to convey that the Board adopted the current logo on November 27, 2001, and therefore to go forward with the use of the proposed logo will need a motion from the Board.

The Chairman entertained a motion by Commissioner Earle, seconded by Commissioner Newsome, to approve the new proposed Commission Logo. The motion passed unanimously.

d. Executive Committee Report (Personnel Matter) (January 8, 2024)

The Chairman recognized Commissioner Keith to give the Executive Committee Report. Commissioner Keith stated that the Executive Committee did meet on January 8, 2024, and that a draft of those committee meeting minutes was included in the members' packets. He stated that at that meeting, the Executive Committee adopted a motion to recommend to the full Commission that the Commission reappoint Interim Executive Director, Dolly Garfield, as Executive Director at the February 7, 2024, meeting. Thereafter, Commissioner Keith immediately moved, seconded by Commissioner Newsome, to reappoint Interim Director, Dolly Garfield, as Executive Director. The motion passed unanimously.

Reports

a. Financial Update

Overview

The Chairman next recognized Brian Ford, Chief Financial Officer, to give his financial update and thanked him and his staff on a job well done in processing 830 winners' claims in one day in the recent unprecedented Pick 4 drawing.

Mr. Ford reported that during the first six months of FY 2024, Transfers decreased to \$308.6M from \$316.6M, a decrease of \$8.0M (2.5%). Overall Game Revenues increased \$33.4M to \$1,195.9M (2.9%). The decrease to Transfers amid increased Game Revenues is a product of the addition of two \$20 Instant Tickets to the SCEL portfolio. The Game Margin on these games is lower than the historical Instant Ticket Game Margin. SCEL is in a good position to exceed the current Board of Economic Advisors' Estimate of \$540.2M.

Instant Games

Instant Game Revenues increased by \$25.6M (3.4%) to \$787.9M. Revenue associated with \$1 Instant Tickets decreased \$4M (2.4%). Revenue associated with \$2 Instant Tickets decreased \$7.9M (21.0%). \$3 Instant Tickets were down \$4.4M (14.7%) at \$25.4M. Revenues associated with \$5 Instant Tickets were \$114.4M, down \$13.9M (10.8%) compared to last year. Additionally, \$10 Instant Ticket Revenues were down \$118.7M (21.6%) at \$431.1M compared to \$549.8M last year. Across the industry, Instant Game Revenues are under pressure. Most jurisdictions across the country have observed a shift in player preference to the larger prize structures associated with higher price points. After many years of success in the \$10 price point, SCEL determined it was the appropriate time to launch a \$20 Instant Ticket in March 2023. While the \$20 Instant Ticket has cannibalized the \$10 price point some and is less profitable, these new games have added \$170.8M in new Instant Game Revenue and have exceeded the decline in \$10 Instant Game Revenue.

The overall Game Margin on Instant Game Revenues decreased \$4M (.2%). The overall Game Margin Percentage on Instant Games decreased to 26.9% (1.0%) compared to 27.9% during the same period last year.

Terminal Games

Terminal Game Revenues were \$408.0M, an increase of \$7.8M (1.9%). The increase was due to large jackpot runs and better than anticipated performance of all Terminal Games with the

exception of Palmetto Cash 5 and Mega Millions compared to the prior year. Pick 3 Revenue was up \$3.3M (2.4%) at \$143.1M through the first six months of FY 2024. Pick 3 Game Margin increased \$1.8M (2.6%) compared to the previous year. Pick 3 Game Margin Percentage increased to 50.9% compared to 50.8% last year. Pick 4 Revenue was up \$5.0M (6.6%) at \$81.2M. Pick 4 Game Margin decreased \$2.1 (5.3%). Pick 4 Game Margin Percentage decreased 5.7% to 44.9%, down from 50.6% last year. The decrease to both Game Margin and Game Margin Percentage is a product of statistical variation.

Palmetto Cash 5 Revenue decreased by \$.3M (2.0%). Palmetto Cash 5 Game Margin was up \$.1M (1.1%). The scheduled rebrand and matrix change, including the addition of the rolling jackpot, is an effort to increase interest in this game. Powerball Revenue increased through the first six months of FY 2024. Powerball Revenue was up \$8.9M (10.7%). The primary reason for this increase was three large jackpot runs that exceeded \$800.0M. These three jackpot runs generated \$83.9M in Powerball Revenue and \$36.1 in Transfer Value. Mega Millions Revenue was down \$9.7M (17.4%). This decrease is due to competing with two \$1.3 billion jackpots from FY 2023. Mega Millions had a \$1.3 billion jackpot run in FY 2024 and continues to perform above Plan.

Cash Pop continues to do well, averaging \$1.2M in weekly revenue for FY 2024. Cash Pop Revenue increased \$.5M (1.6%) over the prior year. Cash Pop Game Margin Percentage was 36.8%, slightly better than planned.

The overall Game Margin Percentage on Terminal Games was 48.6% compared to 49.3% during the same period last year. The decrease of .7% was attributable to statistical variation, especially on Pick 4.

Other Revenues and Game Costs

Other Revenues, which consist primarily of license and telephone fees, were \$2.0M in the first six months of FY 2024 compared to \$1.9M in FY 2023. Other Direct Game Costs were \$12.6M during the period compared to \$13.9M in FY 2023.

Advertising and G&A Expenses

Advertising Expense was \$5.4M in FY 2024 and \$5.1M in FY 2023. The \$.3M increase is the result of timing. G&A Expenses (the primary component of which is employee compensation) were \$8.6M and \$8.0M in FY 2024 and FY 2023, respectively. SCEL anticipates all Operating Expenses to normalize by the end of fiscal year.

Net Income

Net Income decreased \$1.9M or .6% to \$300.6M compared to \$302.5M. The primary factor for the decrease to Net Income was the decrease to Instant Game Margin.

Actual FY 2024 Results Compared to the FY 2024 Financial Plan

To date, actual Total Game Revenues are below Plan. Total Game Revenues were \$1,195.9M compared to Plan of \$1,269.9M.

The negative variance in Instant Game Revenue results from all Instant Ticket price points performing under Plan, with the exception of \$3 Instant Games. \$1 Instant Games were \$.7M (4.1%) under Plan. \$2 Instant Games performed under Plan by \$4.2M (12.4%). The \$3 Instant Games were \$6.9M (37.5%) above Plan, and \$5 Instant Games were down \$14.0M (10.9%) from

Plan. \$10 Instant Games were \$13.8M (3.1%) below Plan. The largest driver of the negative variance to Instant Game Revenue relates to the \$20 price point which was \$131.9M (43.6%) under Plan. When SCEL presented the Plan in May 2023, three \$20 Instant Games were included. In an abundance of caution, SCEL only included two \$20 Instant Games in the Plan presented to the BEA. Excluding a third \$20 Instant Game from the Plan has Instant Game Revenues very consistent with Plan.

Total Instant Ticket Revenues were down \$157.7M (16.7%) from Plan as originally presented. All Terminal Game Revenues exceeded Plan, with Powerball and Mega Millions having the largest increases as a result of significant jackpot runs through the first six months of FY 2024. Pick 3 performed \$8.0M (5.9%) above Plan and Pick 4 performed \$7.8M (10.7%) above Plan. Powerball and Mega Millions performed \$45.2M (96.2%) and \$21.4M (86.3%) above Plan, respectively. Palmetto Cash 5 also performed \$.4M (3.4%) above Plan. Cash Pop was \$.9M (2.8%) above Plan. Total Terminal Game Revenue was above Plan by \$83.7M (25.8%) because of the aforementioned factors.

Gross Profit (Revenues less Prize Expense, Commissions, and other game-related costs) was \$315.1M compared to the planned amount of \$288.6M for a positive variance of \$26.5M (9.2%). While Instant Game Revenues are down, Terminal Game Revenues, which are much more profitable, are up.

In aggregate, Operating Expenses were \$14.1M, down \$1.0M (6.7%), from Plan. Advertising Expense was under Plan at \$5.4M, a positive variance of \$.5M (8.0%). Other Operating Expenses (“G&A”) were \$8.6M, down \$.5M (5.9%) from a planned amount of \$9.1M. SCEL expects most of these variances will normalize to planned annual amounts as the year progresses.

Because of the aforementioned factors, Net Income for the six months ending December 31, 2023 was \$300.7M compared to Plan of \$273.6M, a positive variance of \$27.1M (9.9%).

Mr. Ford noted that SCEL is approaching a plateau in revenue growth. Mr. Ford notes that SCEL is using every tool at its disposal to keep revenue growing.

Commissioner Keith noted that while SCEL may be nearing a plateau, it took SCEL over 20 years to reach that point whereas it took other lotteries way less time to do so. Commissioner Keith also stated that SCEL has a core set of players who play \$1, \$2, and \$3 and he hopes SCEL does not totally abandon those price points because it would stand to lose some core players.

b. Executive Director Report

The Chairman recognized Dolly Garfield, Executive Director, for her report.

Ms. Garfield started by addressing Mr. Ford’s prior discussion about the sales plateau, noting that he gave an excellent presentation to the House Ways and Means Committee. She stated that Mr. Ford’s presentation gave her the opportunity to address the use of debit cards to appeal to a younger adult demographic because younger players do not tend to carry cash. In response to Commissioner Keith, Ms. Garfield stated that in a recent meeting with retailers, they seemed more receptive to the use of debit cards than in the past. She noted that she would be discussing the use of debit cards as a way to increase sales before the Senate Finance subcommittee hearing next

week. Ammie Smith added that as they build technology for the App and Rewards Program, they are building infrastructure to support the use of debit cards in the future.

Operations relating to the new Claims Center was expected to be underway by now, but disagreements between SCEL's architect and the building's contractor have caused some delays. Those issues have been resolved. She hopes to have a much better report on the Claims Center at the May meeting.

Next, Ms. Garfield updated the Board about the Lottery holiday party in January. She shared some of the photos from the event, and noted that it gave staff the opportunity to see each other and reconnect.

Next Ms. Garfield recognized new employees: Scott Warner (Product Development), Kevia Coleman (Claims Center), Stephen Horton (MSR-Lancaster, SC), and Rich Wandover, (part-time Draw Manager, replacing the former retired Draw Manager).

Ms. Garfield noted that the Legislative Audit Council (LAC) met on January 25, 2024, regarding SCEL and she expects the LAC to release its report soon.

Ms. Garfield thanked the SCEL Claims Center staff for handling 830 claims in one day, surpassing SCEL's previous record of 500+ claims in a single day. The last claim was processed at 4:49 p.m., relieving any concern of having to turn winners away.

Dragon's Ascent

Ms. Garfield informed the Board that a bar in Berkeley County installed a Dragon's Ascent machine game, which SLED confiscated and deemed illegal. In subsequent procedures, a magistrate determined the game was illegal but was later reversed and found to be a legal game of skill by a circuit judge. That ruling is now on appeal before the SC Court of Appeals. Ms. Garfield stated that the Dragon's Ascent developer has since repackaged the game and is advertising it as a game of skill. She stated that SCEL has updated its retailer contract to address these devices.

Upcoming Events

Ms. Garfield noted that several employees would be traveling to Alpharetta, Georgia to tour the Scientific Games instant ticket printing plant. She stated that she would be attending PGRI/MUSL meeting in Fort Lauderdale, Florida and would provide an update in May for current and upcoming issues.

Ms. Garfield stated that several Marketing and Sales Representatives would be attending the Southeast Petro Show in Myrtle Beach, SC. She also noted that Craig Perry, Director of Security and Mark Ritchie, Senior Investigations & Enforcement Manager, would attend the North Carolina Education Lottery Security Symposium in Raleigh, NC. In addition, SCEL Sales Staff will once again support the Heritage Golf Tournament in April. Lastly, SCEL's Marketing and Product Development staff will attend the LaFleur's Conference in Raleigh, NC on May 8, hence the Board meeting date change from May 8 to May 1, 2024.

Legal Update

SCEL expects a ruling soon in the *Glassmeyer* case motion for summary judgment.

Ms. Garfield also informed the Board of a suggested copyright violation involving font software in the Happy Pawladays instant ticket that she forwarded to SCEL's vendor, Scientific Games. She stated that many US lotteries have received the same notice.

Lastly, Ms. Garfield stated that legislation has been enacted to protect players' identity and personal information.

At the end of her report, the Chairman noted that SCEL will miss Hogan Brown, former Executive Director, and he welcomed Ms. Garfield to the position.

Other Business

The Chairman noted that the next Board meeting will be on May 1, 2024, rescheduled from May 8, 2024. There being no further business, the meeting adjourned at approximately 11:30 a.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.