

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

**December 8, 2021**

**10:00 a.m.**

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, December 8, 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  
Billy Newsome

Patrick Earle  
Dr. Vareva Evans-Harris (via phone)  
Andre Bauer  
Jay Young

The Chairman called the meeting to order at 10:11 a.m. and welcomed guests. Next, he welcomed SCEL's newest Commissioner, Jay H. Young appointed by Senate President Harvey Peeler.

**Approval of Minutes**

On motion of Commissioner Munson, seconded by Commissioner Earle, the Board approved the August 18, 2021, Minutes unanimously.

**Election of Board Officers**

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 the by-laws. Commissioner Keith seconded the motion, which passed 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:

**CASH POP**

Ms. Smith began by noting that CASH POP is designed to attract new and infrequent players because the play style is easy to understand. The ads are designed to create a sense of "being a part of something" by focusing on visual content. Mr. Whiteside discussed various aspects of CASH POP including the app that has an animated reveal for the draw results. Social media filters using augmented reality (AR) were created for Instagram and Facebook. The app will include a random number generator for the digital play slip that will select a random number from 1 through 15 that the player may use to select a number. Players will then present their phone to the retailer to scan the bar code that is essentially the same as presenting a paper play slip, which is also available. The app allows SCEL to glean player-profile data to understand who is playing.

Ms. Smith and Mr. Whiteside then proceeded to present the following CASH POP materials:

**CASH POP:** Buck Slip; Cooler Cling Version 1, 2, and 3; Play Station Posters; Ticket Topper; Wallet Card; Window Poster; Writing Surface; PID – Advertising and Midday and Evening Draw Results; and TV Advertising Versions 1 through 4.

Ms. Smith and Mr. Whiteside continued the quarterly advertising review, discussing the following items:

**The Big Spin®:** Digital Ad; Digital Billboard; Draw Studio Screen; PID – Instructional Video and Player Information Display; Play Station Poster; Ticket Topper; and Writing Surface.

**Holiday 2021:** Happy Pawlidays! Ticket (5,700 dogs were entered, 30 finalists were selected, and winners were chosen by an online vote) and White Elephant Ticket; PIDs and Digital Billboards.

**20th Anniversary Promotion:** 20th Anniversary PID Promotional Video (SCEL will bring back new versions of popular instant games throughout 2022).

**Beneficiary:** PID – Katie, Keenan, Kennedy; and TV – Thank You spot.

**General:** PID Updates; all October, November, December and January Instant Games Video Files; Jackpot Awareness – Mega Millions and Powerball Jackpot Awareness Video Files; and Game Odds Flyer.

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**

### **Studio Renovation Update**

The Chairman recognized Mr. Whiteside and Mr. Craig Perry, Director of Security, who updated the Board on the draw studio renovations. They presented slides of before and after pictures and compared old and new pictures of the LED panel. The new LED panel (approximately 24'x 5') is equipped with full animation capability and color changing features. Many departments came together to keep the draws going during the renovation and to accomplish the goal of a new vibrant studio that should last for the next 10 years.

### **Instant Game Development Strategy**

The Chairman recognized Ms. Smith who discussed various aspects of game development strategy. A great deal of time and effort goes into bringing the ticket to market. While game appearance is very important, there are much bigger components to game development such as research regarding similar game performance in other jurisdictions. She explained how value is created for each price point, prize structure, prize percent payout, product positioning and the life cycle of a game. In addition, SCEL must consider the player-based value by price point. A meaningful win to a \$10 player is different from one for a \$1 player. Prize expectations naturally increase the greater the price point. Within the game mix, which is refreshed throughout the year (more than eighty games a year), SCEL must consider top prizes for each price point. The top prize for a \$5 ticket cannot be the same as a \$2 ticket as a player's expectations change with the price of the ticket.

In addition, the odds vary depending on the price point, and the prize structure is the second most important part of the game. Prize structure addresses things such as how the prizes spread across the game and the value of each prize level. Ms. Smith stated that five to ten times the investment is a reasonable prize expectation, which differs depending on game price point. Five to ten times the investment in a \$1 ticket is going to be different from five to ten times the investment on a \$10 ticket. Finance and Product work together to establish the best return for SCEL and the player. The payout for a \$10 game averages 75.5%. This price point accounts for 72.9% of SCEL revenue.

### **New Product Revenue Update**

Ms. Smith provided an update on Fireball play for Pick 3 and Pick 4, Double Play performance for Powerball, and CASH POP performance projections.

## **Internal Auditor Report**

The Chairman recognized Ms. Sonja Erickson, Internal Auditor, at the Audit Committee's request she provided the Board with an update of internal audit activities as requested by the Audit Committee Chairman at its October 6, 2021 meeting. Ms. Erickson reported the results of two audits. First, she reported on the Systems and Organization Controls II (SOC II), Type 2, audit that is designed to ensure that SCEL's information systems are operating in conformance with industry standards. This audit was delayed by the coincidental departures of the previous internal auditor, SCEL's Information Systems Security Manager, and the lead project manager at Elliot Davis during the audit. Ms. Erickson worked with Jorge Bravo, Director of Information Technology, to ensure that what Elliot Davis reported reflected SCEL's current procedures. There were no findings in the SOC II, Type 2, audit. Ms. Erickson stated that she anticipates the next SOC II audit will be in FY 2023.

Second, Ms. Erickson provided results of her audit of SCEL's compliance under the Lottery Act. This audit was a management request. She found that management is complying with the letter and spirit of the Act. Specifically, Ms. Erickson found that senior management is very experienced and well versed in the requirements of the Act and was able to explain and demonstrate how their operations supported compliance. She found that effective collaboration across departments promotes compliance with the Act and current practices show management's commitment to operate the lottery in a responsible and dignified manner. Ms. Erickson noted opportunities for improvement, namely regarding reporting of Small and Minority Owned Business participation. While SCEL reports such data to the state, it does not report the data annually to the Board. In addition, she found that management did not maintain and file Board members' political contributions acknowledgment forms. She also noted that not every department has written policies and procedures. She stated these are all low-risk findings and management has agreed to address them.

Finally, Ms. Erickson addressed the results of the annual self-assessment survey. She explained the top areas of strengths and the two areas for improvement. She also stated that her next plan is to audit system access procedures and help IT implement some of the suggestions in the SOC II, Type 2 Audit.

## **Financial Update**

### **Actual FY22 Results Compared to Actual FY21 Results**

#### **Overview**

The Chairman recognized Brian Ford, Chief Financial Officer. During the first four months of FY22, Transfers decreased from \$205M to \$198.6M, a decrease of \$6.4M, or 3.1%. Overall Game Revenues decreased \$7.8M to \$751.7M, or 1.0%. As stated in previous communications, FY 2021 results were a record for SCEL. A combination of organic sales growth, influence from the Pandemic, and stimulus funding contributed to the record results. As expected, market conditions have begun to normalize and our FY22 sales trends are returning to historical patterns, consistent with the Financial Plan (Plan) approved in May 2021.

#### **Instant Games**

Instant Game Revenues decreased by \$25.4M, or 4.5% to \$541.1M. Revenues associated with \$1 and \$2 Instant Tickets increased \$.2M (1.5%) and \$1.3M (5.1%). \$3 Instant Ticket Revenues performed well and were up \$2.5M (13.6%) at \$21.3M while \$5 Instant Tickets were flat compared to last year at \$78.5M. \$10 Instant Ticket Revenues were down \$29.3M (6.8%) at \$401.2M compared to \$430.5M last year. The Plan anticipated a decrease in \$10 instant games after the record results from last year. The overall Game Margin on Instant Game Revenues decreased \$3.3M (2.2%). The overall Game Margin percentage on Instant Games was relatively consistent and was 27.7% compared to 27.1% during the same period last year.

## **Terminal Games**

Terminal Game Revenues were \$210.6M (9.1%), an increase of \$17.6M. The increase was due to significant jackpot runs for both Powerball and Mega Millions. All Terminal Game Revenues were up with the exception of Pick 3 and Lucky for Life (discontinued).

Pick 3 Revenues were down \$2.3M (2.3%) at \$97.2M through the first four months of FY 2022. This decrease was in the Plan given the record results in FY21. Pick 3 Game Margin decreased \$12.1M (20.1%). This result is a product of lower Game Revenues and higher Prize Expense (50.5% versus 39.5%). Pick 4 Revenues exceeded expectations, up \$2.7M (5.7%) at \$50.5M. Pick 4 Game Margin increased \$11M (54.6%). This result is a product of higher Game Revenue and lower Prize Expense (38.8% versus 58.2%). Palmetto Cash 5 Revenues performed well and increased by \$.3M (3.1%). Palmetto Cash 5 Game Margin was down \$1.8M (32.3%). Fluctuations in Terminal Game Prize Expense are a product of statistical variation.

Powerball and Mega Millions Revenues were up significantly. Powerball Revenue was up \$17M (87.1%) and Mega Millions was up \$4.1M (33.3%). The primary reason for these increases were jackpot runs, which reached \$685M and \$432M, respectively. The addition of Powerball's Double Play feature has bolstered Revenue 9.6%. Adding a third draw has added some additional Revenue as well, though staff remains cautious of the impact this will have on Revenue and jackpot build once the jackpot reaches \$300M. These games have historically been very dependent on jackpot runs to achieve increased Revenue performance. It is important to note that SCEL is about to begin a period when current year sales will be compared to significant jackpot runs on both games in FY21.

The overall Game Margin percentage on Terminal Games was 52.2% compared to 54.0% during the same period last year. The decrease of 1.8% was attributable to statistical variation, especially in Pick 3 and Palmetto Cash 5.

## **Other Revenues and Game Costs**

Other Revenues, which consist primarily of license and telephone fees, were \$1.3M versus \$1.2M in FY21. Other Direct Game Costs were \$7.4M compared to \$7.2M in FY21.

## **Advertising and G&A Expenses**

Advertising Expense was \$3.4M compared to \$2.9M in FY21. G&A Expenses (the primary component of which is employee compensation) is the same as last year, \$5.2M.

## **Net Income**

Net Income increased \$2.2M (1.2%) to \$192.3M compared to \$190.1M. Net Income increased relative to Game Revenues compared to prior year because Prize Expense decreased more than Game Revenues. That is, a larger percentage of Game Revenues came from Terminal Games, which have higher margins. Instant Ticket Revenues accounted for 72.0% of Total Game Revenues in FY 2022 compared to 74.6% in FY21. If the Revenue blend in FY 2022 had been the same as last year, Net Income would be \$187.5M, a decrease of or \$4.8M (2.6%).

## **Actual FY22 Results Compared to the FY22 Financial Plan**

To date, actual financial results are above Plan. Game Revenues were \$751.7M compared to Plan of \$701.1M. Instant and Terminal Game Revenues are summarized as follows:

The positive variance in Instant Game Revenues is a result of all Instant Games performing above Plan with the exception of \$5 Instant Tickets. The largest variance is attributable to \$10 Instant Tickets, which are above Plan by \$19.4M (5.1%). The \$1 Instant Tickets performed \$.3M above Plan (2.2%). Additionally, \$2 and \$3 Instants Tickets are above Plan by \$4.1M (9.2%). \$5 Instant Tickets were down \$9.9M (5.1%).

All Terminal Game Revenues exceeded Plan, with Pick 3 and Powerball having the largest variances. Pick 3 is \$14.9M above Plan (18.1%) and Pick 4 is \$9.5M above Plan (23.3%). Powerball and Mega Millions are \$10.5M (44.4%) and \$1.6M (10.4%) above Plan. Palmetto Cash 5 is \$1.5M (17.6%) above Plan.

As a result of the higher than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) is \$198.4M compared to Plan of \$169.6M for a positive variance of \$28.8M (17.0%). In aggregate, Operating Expenses were \$ 0.3M (3.1%) under Plan. Advertising Expense is in line with Plan at \$3.4M. Other Operating Expenses (“G&A”) were .2M (4.5%) under Plan. Because of the aforementioned factors, Net Income is \$192.3M compared to Plan of \$160.7, a positive variance of \$31.6M (19.6%).

### **Executive Director Report**

The Chairman recognized Hogan Brown who began his report by asking Ms. Dolly Garfield, General Counsel, to update the Board on several legal matters. She updated the Board on the procedural background of the pending Glassmeyer case and stated that a mediation meeting was set for February 15, 2022. Next, she explained that oral arguments would be heard by the SC Court of Appeals in the Holiday Cash Add-A-Play and Mega Millions class action lawsuits on a date to be set for March. Lastly, Ms. Garfield informed the Board of a lawsuit by a player who alleges an SCEL play station fell on him causing damages while in a grocery store in Summerville, SC. Litigation counsel for SCEL has been retained by the SC Insurance Reserve Fund.

### **Motion Adopted**

After Ms. Garfield’s presentation, Commissioner Munson noted that parties to mediation must appear with full authority to resolve the matter. He then moved that the Board delegate authority to the Executive Director to make decisions in consultation with the Chair of the Legal Committee. The motion, seconded by Commissioner Keith, was approved unanimously.

Next, Mr. Brown summarized his appearance before the Lottery Oversight Committee (LOC) in October of 2021. The meeting went well and, in addition to the discussion of revenue trends, the members raised several topics, including debit cards. Although a formal request to allow lottery sales with debit cards has not been requested to the LOC or the General Assembly, in the long run lottery sales will be impacted without a change in the law. He also explained the concerns of a segment of the retailer community over the processing fees associated with debit use. Mr. Brown told the LOC that if approved, SCEL would not mandate retailer acceptance of debit cards. The LOC members asked about iLottery, where people play by purchasing tickets online. He explained that while retailers are concerned about loss of sales through potential iLottery purchases, there are ways to generate commissions for retailers through internet sales. Nevertheless, he stated that SCEL has no current plans to seek a statutory change to allow iLottery sales. Finally, the Dragons Ascent game was discussed with the LOC. He explained the game as some members were unaware of this video game and that the video poker statutes would need to be suspended to offer this game. He summarized the Board’s position on Dragons Ascent, adopted December 9, 2020.

Pick 3 and Pick 4 sales were recently suspended several times over a two-day period after a software update. Staff is reviewing the incident report and will provide an update in February.

Mr. Brown then addressed several operation matters. He addressed the Small and Minority Business (SMB) Report as mentioned by Ms. Erickson in her report. Staff efforts to grow SMB participation have proven difficult and the overall percentage was hurt when a significant vendor became ineligible for the program due to growth. A current female-owned business is working toward certification. Staff will review our efforts and update the Board as progress is made. For various reasons, many retailers are not part of SCEL’s predictive instant ticket ordering algorithm: “auto-ordering”. Staff is currently (late November through January) restricting manual orders and

moving to auto-ordering for the entire retailer network. The data and experience will be reviewed throughout this time-period to determine what ordering factors and other adjustments are advisable to permanently move as many retailers as possible to auto-ordering. The hope is to increase productivity and allow more time for MSRs to address the other needs of retailers. The in-store digital Jackpot signs for Mega Millions and Powerball have been ordered and the sign vendor will deploy them over several weeks near the end of the fiscal year. Regarding renovations for the fourth floor print room, SCEL now has a contract in place and the work is expected to begin in January. Staff is working toward beginning written employee evaluations later in FY22.

Mr. Brown stated that staff intends to provide a Spanish version of SCEL's claim form consistent with how other state entities provide essential information. SCEL currently places beneficiary ads in Spanish-language publications. He requested feedback before a final staff decision was made. Concern was expressed that SCEL not appear to target a specific group but it was noted that the approach was to assist claimants and thereby creating access to receive what the player is due. The state's changing demographic makeup supported this change. Based on these comments, staff will move forward but will not extend translations to any other items without additional Board input.

For the benefit of the new members, Mr. Brown gave a brief overview of the issues surrounding the prospect of international Powerball sales (currently Australia). No foreign country would join MUSL but would sell under a licensing agreement similar to the joint sales provisions for Powerball and Mega Millions. Although conversations have gone on for years, it appears that an agreement may be presented for a vote of the MUSL directors as soon as February 2022.

Lastly, Mr. Brown recognized Mr. Tony Cooper who announced his retirement from SCEL effective December 31, 2021, after 20 years of service. Mr. Cooper thanked the Board for the opportunity and thanked staff for their hard work in providing education funding.

### **Executive Session**

The Chairman recognized Hogan Brown to explain the need for an executive session to discuss contractual arrangements for shipping instant game tickets and other materials. The Chairman entertained a motion (moved by Commissioner Morris and seconded by Commissioner Munson) to go into executive session for the sole purpose of addressing contractual matters under SC Code §30-4-70(a)(2). The Board unanimously approved the motion and the Chairman restated the motion as required by law. Thereafter, the Board returned to open session and affirmed no other matter was discussed and that no action was taken while in executive session.

### **Other Business**

Mr. Brown announced the upcoming Meeting Schedule for Calendar Year 2022.

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

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/s/  
Sam Litchfield, Chairman

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/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](http://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.