

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
September 4, 2024
10:00 a.m.**

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, September 4, 2024, at 1333 Main Street, Columbia, South Carolina, First Floor Conference Room, with the following members, representing a quorum, participating:

Sam Litchfield, Chairman
Billy Newsome
Patrick Earle

Dr. Vareva Evans-Harris
Jay Young (*via Webex*)

Call to Order

The Chairman called the meeting to order at 10:08 a.m. and welcomed guests, Chardonnay Ismail and Fenton Overdyke, of Chernoff Newman.

Approval of Minutes

On motion of Commissioner Newsome, seconded by Commissioner Earle, the Board approved the May 1, 2024, Minutes unanimously.

Action Items

a. Quarterly Advertising and Marketing Review

The Chairman recognized Ms. Ammie Smith, Director of Product Development, to provide information on the updated Palmetto Series games. Ms. Smith, joined by Josh Whiteside, Director of Marketing, discussed the following ad series with selected video and audio materials:

Palmetto Series: Cooler Cling – Carolina Jackpot and Clemson Jackpot; Digital Advertising; – (Video - MP4 File); Digital Billboard; Online Ad – Jackpot Promotion; PID – (15 Second Video - MP4 File); Play Station Poster; Radio – (30 Second Music File - MP3 File) Ticket Topper; and Writing Surface.

Cash Pop Doubler

Cooler Cling –Coastal, Midlands, and Upstate; PID – (15 Second Video - MP4 File); Play Station Poster; Ticket Topper; Online Ad; and Writing Surface

\$2,000,000 Millionaire

Digital Billboard; Online Ad; and PID – (15 Second Video - MP4 File)

Royal Millions

Digital Billboard; Online Ad; and PID – (15 Second Video - MP4 File)

Gold Rush

Digital Billboard; Online Ad; and PID – (12 Second Video - MP4 File)

Better U

Digital Boards: Greenville Drive – Generic, Lottery Myths, Overall Odds, and Problem Gambling

General PID (Player Information Display) Updates:

PID – June Scratch-Off Games (72 Second Video - MP4 File); July Scratch-Off Games (42 Second Video - MP4 File); August Scratch-Off Games (72 Second Video - MP4 File); and September Scratch-Off Games (36 Second Video - MP4 File)

MISC

Digital Ad – USC Outstanding Fan; LED Board – Carolina (30 Second Video - MP4 File); Clemson (30 Second Video - MP4 File); Greenville Triumph (9 Second Video - MP4 File);
Program Ad – Carolina, Charleston Battery, Clemson, Coastal, and Wofford

Lastly, Mr. Whiteside showed a time-lapse video of the construction and up-fit of SCEL’s Claims Center.

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 is not misleading.

b. Mega Millions Game Change

Dolly Garfield, Executive Director, provided an update regarding the Mega Millions game changes coming in April 2025. The changes include an increase from \$2 to \$5 per play with a starting jackpot increase from \$20M to \$50M. Mega Millions will imbed the multiplier in the game. After Ms. Garfield’s presentation, the Chair entertained a motion by Commissioner Billy Newsome, seconded by Commissioner Patrick Earle, that SCEL continue to offer the revised Mega Millions game in South Carolina. The motion passed unanimously.

Reports

a. Branding Study Presentation

The Chairman recognized Ammie Smith, Director of Product Development. Ms. Smith then introduced Fenton Overdyke, Senior Vice President of Research, Chernoff Newman, to present the Brand Survey Results. Chernoff Newman conducted a statewide survey of 500 people. SCEL brand perceptions are strong among players with very few negative perceptions to overcome. State residents recognize that SCEL is broadly associated with education. Opportunities to grow support for the brand exist in informing the public of the benefits SCEL provides beyond the chance to win money. Many residents are aware of the Life, Hope, and Palmetto Fellows Scholarships, but some were not aware that the scholarships are funded by the lottery. Respondents would like to see alternative and contactless forms of payment, such as debit cards and vending machines.

In summary, Mr. Overdyke reported that people are favorable of what SCEL does even if they do not fully understand it. Taking advantage of the opportunities to educate about scholarships and accepting alternative methods of payment will allow SCEL to continue to grow and maintain its strong position.

Ms. Garfield reminded members the debit card bill failed in the last Session and the legislature may reintroduce it in the next Legislative Session.

A brief discussion followed the presentation. Commissioner Harris requested that staff provide an easy “go-to” reference guide of the SCEL Scholarships with their requirements and eligibility to each Commissioner as soon as possible.

b. Financial Update and FY24 Year-end Report

The Chairman recognized Brian Ford, Chief Financial Officer, who provided the FY 2024 financial report compared to FY 2023. Mr. Ford stated that FY 2024 was another excellent year for SCEL. Transfers to Education were \$592.0M compared to \$598.3M last year. This is the third highest Transfer to Education in SCEL’s history, and is a very impressive accomplishment. Had it not been for significant statistical variation on Pick 4, this could have been the highest Transfer to Education ever.

Net Income decreased \$6.3M (1.1%) from \$599.7 to \$593.4M. Total Game Revenues decreased \$18.0 (.7%) from \$2,402.7M to \$2,384.7M. Scratch-Off Game Revenues were \$1,607.2M, a decrease of \$21.4M (1.3%). Terminal Game Revenues were \$777.5M, an increase of \$3.4M (.4%). Game Margin decreased on Scratch-Off Games and increased on Terminal Games. Overall, Game Margin decreased \$7.1M (.9%) relative to last year. Total Game Margin Percentage was 34.0% in FY 2024 and 34.1% in FY 2023.

Scratch-Off Games

Scratch-Off Game Revenues decreased in FY 2024 by \$21.4M (1.3%). Declines across all price points (except for \$20 Scratch-Off Ticket Revenue) attributed to this decrease. As anticipated, \$10 Scratch-Off Ticket Revenue decreased by \$183.8 (16.9%) from \$1,088.2M to \$904.5M. This trend is partially due to pressure after years of strong growth as well as cannibalization from the launch of the \$20 ticket. \$5 Scratch-Off Ticket Game Revenue decreased by \$13.6M (5.3%). \$3 Scratch-Off Game Revenue decreased by \$9.3M (16.3%). Revenues associated with the \$1 and \$2 price points, in aggregate, decreased by \$18.7M (17.1%). The lottery industry has observed decreases in the lower price points nationwide. SCEL plans to decrease game launches in these areas to address the softening demand. The net effect of the decrease in Scratch-Off Game Revenues was that Scratch-Off Game Margin decreased \$12.3M (2.8%). In addition to lower Scratch-Off Game Revenues, a higher prize payout percentage on the \$20 Scratch-Off Games contributed to the decrease in Scratch-Off Game Margin. Had SCEL not launched \$20 Scratch-Off Games in March 2023, results would be less favorable.

Terminal Games

Terminal Game Revenues were \$777.5M in FY 2024, up from \$774.1M, an increase of \$3.4M (.4%). This is quite the achievement given the record number of large jackpot runs observed in FY 2023. Increases in Pick 4, Powerball, and Palmetto Cash 5 relative to FY 2023 attributed to this increase.

Pick 3 Revenue was down \$2.0M (0.7%) and continues to be very consistent. Pick 3 Margin was up \$15.8M (11.6%) due to favorable statistical variation. SCEL drew 13 \$1M+ liability number combinations on Pick 3 in FY 2023 compared to eight in FY 2024. Favorable statistical variation also caused Pick 3 Game Margin Percentage to increase from 47.5% to 53.4%. Pick 4 Revenue was up \$4.1M (2.6%) and continues to benefit from the higher liability limit. Conversely, Pick 4 Game Margin was down \$13.5M (15.8%). In FY 2024, SCEL drew quad 4s (4444) twice, resulting in \$13.1M in prize payouts related to those two draws alone. As a product of unfavorable statistical variation, Pick 4 Game Margin Percentage decreased from 54.6% to 44.8%. While

players reinvested a significant portion of the Pick 4 payouts in the game, without those payouts, Transfers to Education would have been close to a record.

Powerball Revenue increased \$17.1M (12.7%). FY 2024 had three Powerball Jackpot Runs that exceeded \$1B, compared to one in FY 2023. These three Jackpot Runs generated \$93.5M in FY 2024 Revenue and \$40.2M in FY 2024 Transfer Value. Mega Millions Revenue decreased \$14.5M (15.1%). Mega Millions saw three Jackpot Runs that exceeded \$700M in FY 2023 compared to two Jackpot Runs in FY 2024. The frequency and magnitude of the Powerball and Mega Millions Jackpot Runs for the past two fiscal years has been unprecedented, and SCEL does not plan for such Jackpot Runs of this magnitude when forecasting Transfers to Education.

Palmetto Cash 5 Revenue increased \$4.6M (17.0%) and Game Margin increased \$1.1M (8.1%). The positive results observed from Palmetto Cash 5 are a function of the rebrand and addition of a rolling jackpot feature that launched in March of 2024. Since SCEL made these changes, weekly sales have been up 30-40% each week over the prior year, indicating the popularity of these changes with players.

Cash Pop generated \$66.6M in FY 2024 Game Revenue. This is down \$5.9M (8.2%) from \$72.6M in FY 2023, but still very respectable. Consistent with Game Revenue, Cash Pop Game Margin was down \$1.2M (4.8%) at \$24.3M and Game Margin Percentage was 36.5%, as planned. Because of increased revenues primarily due to record Jackpot Runs, Game Margin on Terminal Games increased \$5.2M (1.4%). Overall Terminal Game Margin Percentage was up .5% at 49.6% due to the aforementioned factors.

Other Revenues and Game Costs

Other Revenues, which consist primarily of license and telephone fees and other miscellaneous revenue, were \$4.0M in FY 2024 and \$3.6M in FY 2023. This increase is related largely to a reversion dividend received from MUSL. Other direct game costs were \$26.4M in FY 2024 compared to \$26.9M in FY 2023, a decrease of \$.6M (2.1%). As a percentage of revenues, both of these items were consistent from FY 2024 to FY 2023.

Advertising and G&A Expenses

Advertising Expense was \$11.5M in FY 2024 compared to \$10.5M in FY 2023, an increase of \$1.0M (9.8%). The primary reason for the increase is higher ad production and placement expenses, as anticipated. Advertising Expense was .48% of FY 2024 revenues. G&A Expenses (the primary component of which is employee compensation) were \$17.0M in FY 2024 and \$16.4M in FY 2023, an increase of \$.6M (3.4%). Operating Expenses (Advertising plus G&A) were 1.2% of FY 2024 revenues.

Actual FY 2024 Results Compared to the FY 2024 Financial Plan

Actual financial results (Transfers to Education) were above Plan in FY 2024. SCEL ended FY 2024 by transferring \$592.0M to education compared to an original Plan amount of \$541.5M. However, Game Revenues were \$2,384.7M compared to Plan of \$2,537.4M, a negative variance of \$152.7M (6.0%). This was a result of originally including the launch of an additional \$20 game (\$200 million in revenue) that was not ultimately included in the FY 2024 game launch plan nor included in the projected transfer amount relayed to the Board of Economic Advisors (BEA) shortly after the May 2023 SCEL Board Meeting.

Scratch-Off Game Revenue was \$1,607.2M, a decrease of \$282.2M (14.9%). Again, the \$282.2M negative variance in Scratch-Off Game Revenue is primarily attributable to the inclusion of three \$20 Scratch-Off Games worth of revenue (\$600M) in the original Plan. The Plan SCEL relayed to the BEA only contained two \$20 Scratch-Off Games worth of revenue (\$400M). With this in mind, \$20 Scratch-Off Game Revenue were \$282.0M (46.6%) under Plan. Without the inclusion of a third \$20 Scratch-Off Game, this price point would have been \$82.0M (20.3%) under Plan. It is also worth noting that \$20 Scratch-Off Games are much less profitable than other Scratch-Off Games, so less \$20 Scratch-Off Game Revenue has a smaller impact on Game Margin and ultimately Transfers to Education. \$10 Scratch-Off Game Revenue was \$904.5M, \$15.4M (1.4%) above Plan. More profitable \$10 Scratch-Off Ticket Revenues (25% Game Margin) continue to flatten after years of historic growth, and as previously discussed, SCEL continues to be cautious concerning the sustainability of \$10 Scratch-Off Ticket Revenue levels. \$5 Scratch-Off Ticket Revenue was below Plan by \$15.2M (5.9%). \$3 Scratch-Off Ticket Revenue increased by \$10.8M (29.3%). Lastly, the \$1 and \$2 price points performed under Plan, and, in aggregate, were \$11.1M (10.9%) below Plan. SCEL continues to make adjustments to address the softening demand in the lower Scratch-Off ticket price points and will continue to monitor the performance of each Scratch-Off Game price point in market.

The positive variance in Terminal Game Revenue is attributable to the strong performance of all terminal games. Pick 3 was \$15.2M above plan (5.6%). Pick 4 was \$14.7M above plan (10.1%). Both of these outcomes are the result of better than anticipated organic sales in addition to the continued positive impacts of raising the liability limits on each game. Palmetto Cash 5 Revenue increased \$5.8M (22.4%) compared to Plan due to the addition of new branding and the rolling jackpot feature. Powerball, once again fueled by record Jackpot Runs, performed above plan by \$57.7M (61.5%). Similarly, Mega Millions was also above Plan by \$31.8M (64.3%). This is again due to multiple large Jackpot Runs that occurred in FY 2024 for which SCEL does not plan. Cash Pop continues to perform very well, exceeding plan by \$4.2M (6.8%).

As a result of the better than planned Game Revenues (particularly Terminal Game Revenues), Gross Profit (Revenues less Prize Expense, Commissions, and other game-related costs) was \$622.6M compared to a planned amount of \$576.3M for a positive variance of \$46.3M (8.0%).

Advertising Expense was under Plan by \$.2M (1.4%) (\$11.5 Actual vs. Plan of \$11.6M). Other Operating Expenses (“G&A”) were below Plan by \$1.3 (7.0%) (\$17.0M Actual vs. Plan of \$18.3M).

Because of the aforementioned factors, Net Income for FY 2024 was \$593.4 compared to Plan of \$546.2, a positive variance of \$47.2 (8.6%).

c. Executive Director Report

Next, the Chairman recognized the Executive Director to give her report. Ms. Garfield gave highlights on several topics.

NASCAR

Ms. Garfield reported that staff participated at NASCAR races over Mother's Day weekend and Labor Day weekend. She stated that SCEL had an interesting opportunity to participate in NASCAR over Labor Day weekend because SCEL is currently doing a promotion with Powerball and NASCAR. She described the promotion in which four individuals from participating lotteries across the country will be selected to attend the championship NASCAR race in Phoenix in

November, and one of those individuals will win a million dollars. Ms. Garfield mentioned that at the Darlington race, NASCAR announced the first set of semifinalists, and there is one South Carolinian. She was able to attend the race and give an interview on NASCAR TV.

Ms. Garfield also noted that SCEL staff was present at the BMW Pro-Am Celebrity Golf Tournament in the Upstate, and staff will be present at Darius Rucker's Riverfront Revival Music Festival in North Charleston in October.

Travel

While noting that she remains cautious of SCEL's fiscal position, the agency has begun traveling again. She stated her belief that it is very important for SCEL employees to network among their peers from other states. In addition, she stated it is a great opportunity for SCEL staff to observe what other lotteries are doing that may be implemented here to help SCEL grow. For example, Ammie Smith and SCEL's graphics team attended the LeFleur's Lottery World Conference in North Carolina where they learned about developments from other lotteries.

Ms. Garfield stated she attended the MUSL Directors' Meeting in Puerto Rico where she was able to meet and share information with many of her peers.

Ms. Garfield stated that she, along with several sales department representatives, attended the South Carolina Convenience and Petroleum Marketers Association Meeting in Isle of Palms where SCEL staff was able to meet with retailer partners. In addition, she noted that several lottery team members attended the North American Association of State and Provincial Lotteries (NASPL) Professional Development training in Omaha, Nebraska. Lastly, Ms. Garfield noted that some members of staff would be going to Kansas City, Missouri to attend the NASPL annual meeting. This meeting will offer an opportunity to interact with vendors.

Fun Squad

Ms. Garfield reported that the SCEL Fun Squad has been hard at work. She stated that staff had a fantastic office party at the Columbia Sailing Club on Lake Murray where all had a chance to be together and share some fellowship. Everyone had a great time.

She also noted that the Fun Squad promoted a back-to-school drive and collected many back-to-school items for the South Carolina Youth Advocacy Program (SCYAP), a program that supports children in foster care. SCYAP was very appreciative.

Ms. Garfield further reported that SCEL's Sales Department participated in their first in-office training. All field staff came to Columbia for a two-day training event. They received customer service training as well as training from each department in the office. She relayed the field staff enjoyed great interaction and great camaraderie. She stated her belief that strong camaraderie builds a strong business. Ms. Garfield reported SCEL held a reception for all employees at its new Claims Center and it was a good time for everyone. This was able to take place by using funds from FY 2024. Ms. Garfield shared she hopes this type event can take place again next year.

Compensation Study

Claire Jones, Human Resources Director, is undergoing a compensation study after a competitive procurement. She hopes to have some results to share by the next board meeting.

Draw Studio

Ms. Garfield stated that the same vendor, obtained through the competitive procurement process, has operated SCEL's draw studio since its inception. However, that vendor has elected to retire. It has been determined that SCEL can operate the studio itself and has brought all of its lottery draw studio personnel in-house on a part-time basis. Working in the draw studio for most personnel is a second job for them after working in a television station or similar profession. She gave special thanks to Mark Ritchie, Senior Investigations & Enforcement Manager, and the entire Security department for working hard to make this transition possible.

Dragon's Ascent

Ms. Garfield gave an update on the Dragon's Ascent case pending at the South Carolina Court of Appeals. She informed the Board that Dragon's Ascent was determined to be a "game of skill" by a Circuit Court Judge and that the South Carolina Law Enforcement Division (SLED) had appealed that ruling. Ms. Garfield also told the Board that SCEL and the South Carolina Attorney General's Office filed amicus briefs supporting SLED's position.

Internal Matters

Ms. Garfield recognized Ms. Cynthia Brown, Licensing Director. After a very rigorous program through the Department of Administration, Ms. Brown is now a Certified Public Manager. Next, Dan Beatty, SCEL's Chief Compliance Officer, received the Order of the Palmetto from Governor McMaster for his dedicated work with the South Carolina Military Base Task Force. Finally, SCEL received recognition as one of the Best Places to Work in South Carolina for the second year in a row.

Ms. Garfield closed her report by asking Claire Jones, Human Resources Director, to introduce several new employees, and,

Lastly, Claire Jones along with the Chairman presented Craig Perry, Director of Security, with a milestone pin for 50 Years of Service to South Carolina.

d. Director of Audit Introduction and Report

The Chairman recognized Brittany Davis who briefly discussed the self-assessment survey.

5. Executive Session

The Chairman stated that the next item on the agenda involves *Glassmeyer v. SCEL*, to include a pending litigation update and to receive legal advice. He then moved that the Board go into Executive Session as authorized by the South Carolina Code of Laws Section 30-4-70(a)(2) for the specific purpose of receiving legal advice pertaining to this item. Commissioner Newsome seconded the motion, which the Board passed unanimously. Thereafter, the Chairman restated the Commission would proceed to Executive Session for the sole purpose of receiving legal advice pertaining to the Glassmeyer legal matter. He asked Ms. Garfield, in-house counsel, Carl Stent and David Ross, and outside legal counsel, Sarah Frierson, to remain.

Return to Open Session:

The meeting returned to open session. The Chairman stated that the Board held the Executive Session in accordance with the adopted motion and discussed no other business and took no action. The Chairman asked if there were any motions. Commissioner Newsome, seconded by Commissioner Harris, moved to delegate authority to the Executive Director in consultation with

the Chair of the Legal Committee to make further decisions moving forward concerning the Glassmeyer litigation. The Board adopted the motion unanimously.

6. Other Business

There being no other business, the Chairman declared the meeting adjourned while reminding the Board of its next regularly scheduled meeting on Wednesday, December 4 at 10 A.M.

_____/s/_____
Sam Litchfield, Chairman

_____/s/_____
Billy Newsome, Commissioner

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.