

**North Carolina Education Lottery
Commission Meeting**

Meeting Minutes
Tuesday, December 3, 2019

Commissioners in Attendance: Courtney Crowder, Chairman
Nick Picerno
Jody Tyson
Jason Roth
Chris Shew
Buddy Bengel
Morgan Beam
Randy Jones

Staff in Attendance:

Mark Michalko	Stacey Askew
Hayden Bauguess	Annette Taylor
Bill Jourdain	Terri Avery
Quan Kirk	Van Denton
Frank Suarez, Jr.	Mike Suggs
Randy Spielman	Tammy Wiggs

The North Carolina Education Lottery meeting was held on Tuesday, December 3, 2019 at 10:00 a.m. at the NCEL headquarters located at 2728 Capital Blvd, Raleigh, NC.

Chairman Courtney Crowder opened the meeting and greeted all Commissioners and meeting attendees.

Chairman Crowder took a moment to inform Commissioners that former Commission Chair Tony Rand has resigned from the Commission as of Monday, December 2, 2019 for personal reasons. Chairman Crowder has been reappointed Commission chair by the Governor.

Commissioners stood and recited the pledge of allegiance.

Commissioner Buddy Bengel made a motion that an amendment be made to the agenda to add NCEL committees and charters for discussion and consideration. The motion was seconded by Commissioner Nick Picerno. Chairman Crowder would like to make sure that any considerations for changes be made a committee level before being brought to the full commission. The item was added to the agenda to be discussed after the closed session (Item VII). The motion was seconded by Commissioner Nick Picerno. The motion passed.

Committee Reports

**Financial Matters Committee*

Commissioner Jason Roth, Committee Chair, asked Bill Jourdain, Deputy Executive Director of Finance, Administration & Security to present financial information for fiscal year to date financial reports for the four months of fiscal year 2020 ended October 31, 2019. In the Statement of Net Position on page 2, October 2019 ended with Total Assets of \$159 million, which included \$57 million in cash and \$79 million in Annuity Award Investments. Accounts

Receivable totaled \$14.5 million of which \$13.9 million represents net receipts from the gaming system to be collected via electronic funds transfer in November.

Total liabilities of \$196 million included \$23 million in outstanding prize awards and vendor accounts payable, \$79 million in long-term annuity prize awards payable and \$51 million due to the State of North Carolina for Education.

Total Revenue for the four months of fiscal year 2020 totaled \$921 million. Ticket sales for the four (4) months of fiscal year 2020 totaled \$919 million a 0.9% increase or \$8 million over the four (4) months of fiscal year 2019.

Total gaming expenses including player prizes (\$595 m) retailer commissions and incentives (\$64 m) and Gaming System Services & Licenses (\$16 m) for the four (4) month of fiscal year 2019 totaled \$675 million or 73.3% of total revenue. Total administrative expenses, including salaries & benefits, advertising & marketing and operational overhead totaled \$20.5 million or 2.3% of total revenue.

As a result of these numbers the NCEL's administrative expenses, as identified in G.S. 18C-162-3.3 which limits expenditures to 8% of total revenue, were \$37 million or 4% of total revenue. Net Revenue earned for the Education Lottery Fund for the four (4) months of fiscal year 2020 totaled \$224 million, 24.3% of total revenue, a decrease of \$10.6 million or 5% from the four (4) months of fiscal year 2019. This decrease is the result of a greater percentage of last year sales coming from Powerball and Mega Millions large jackpot events thus resulting in an overall lower prize expense in FY 2019. The total net revenue in FY 2020 however is running \$10.5 million or 5% ahead of our estimated budget target as approved by the commission in June.

Fiscal 2020 year to date cash transfers, to the Office of State Budget and Management, totaled \$222 million. The transfers include \$3.7 million in FY 2019 surplus funds that were deposited into the Lottery Reserve Fund. As of November 30, 2019, the balance in the Lottery Reserve Fund totaled \$55 million and includes \$390,000 in earned interest in fiscal year 2020.

This brings the total funds transferred to the State, from the North Carolina Education Lottery, to \$6.8 billion since inception.

Eddie Burke, CPA from Cherry Bekaert, LLP presented external audit wrap-up.

**Internal Operations Committee*

Commissioner Shew, Committee Chair, gave a brief explanation of the discussion from the November 2019 committee meeting.

Mike Suggs, Director of Internal Audit, gave Commissioners a brief overview of the committee meeting report and findings for the following audits:

- Audit of Prize Validation
- Audit of Customer Service and Communications
- Update on External Security Audit
- Update on External Quality Assessment of the Internal Audit Activity

Commissioner Morgan Beam made a motion to move audit suggestion items to the internal operations committee for follow-up. The motion was seconded by Commissioner Randy Jones.

Marbet Cuthbert, Director of Human Resources, gave an update on the following:

- Product Development and Digital Gaming DED
 - Commissioner Buddy Bengel made motion to approve the position, effective immediately. The motion was seconded by Commissioner Randy Jones. The motion passed.
- Digital Gaming Proposed Positions
 - Commissioner Morgan Beam made a motion to approve proposed positions, with the exception that the security positions would be hired on an as needed basis. All hiring is contingent upon Commission approval of Digital Instants. The motion was seconded by Commissioner Randy Jones. The motion passed.
- Director of Legal
 - Commissioners asked Marbet to go back to the research firm for at least five (5) more candidates to review for possible interviews. Ms. Cuthbert stated she would commit to providing more candidates, although the additional number might not be 5.

**Games & Marketing Committee*

Brand Management Update

Frank Suarez, Deputy Executive Director of Brand Management & Communications, presented commissioners with the ROI Assessment performed by Genesco Sports Enterprises, Inc. (GSE):

- Purpose – Identify which partnerships are delivering strong return (or underperforming) and update NCEL's ROI values
- GSE Process
 - **The NCEL Sponsorship audit & valuation includes:** – Review of NCEL contracts using proprietary GSE Contract Database – In-state property research – Market valuation of assets focused on identifying ratio between working dollars and sponsorship spend – GSE custom created ROI Assessment Model to determine asset-by-asset performance for NCEL
- General Takeaways
 - All partnerships analyzed are delivering a positive ROI for NCEL
 - Vast majority of partnerships showed strong working dollars based on hard marketing value of assets
 - Lack of competition allows for the acquisition of properties at investment levels below what many other sponsors are paying
 - Some premier pro/college properties show a lower ROI due to a higher relative cost influenced by property status/value of the marks; this is to be expected and is not cause to terminate the deals
 - Focus should be on assets that are impactful regionally vs. nationally
 - Broadcast exposure values were projected based on statewide viewership, where applicable
 - All major college/universities and pro/motorsports properties were updated with Nielsen statewide TV viewership data

Also presented were the 2nd Quarter FY20 (October - November) update. Items discussed included:

- October Scratch-Offs
 - Launched 5 new games
 - Money Bag Multiplier (\$2)

- Bingo Extra (\$3)
- The Big Spin (\$5)
- \$150,000 Cashword (\$5)
- \$10,000 Loaded (\$20)
- October Focus: The Big Spin
 - Launched The Big Spin on October 1st
 - \$500,000 Top Prize – the largest ever on a \$5 scratch-off
 - Engaging ways to play and win
 - Scratch and match
 - Digital prize reveal online
 - Win a live event Big Spin
- Holiday Scratch-Offs
 - Launched five holiday themed games on
 - November 5th
 - White Elephant (\$1)
 - Holiday Cheer (\$2)
 - Holiday Gifts (\$3)
 - Happy Holidays (\$5)
 - \$50 or \$100 Holiday Edition (\$10)
 - Second Chance Promotion
- Keno Everywhere
 - Available at all retail locations beginning November 17
 - View drawings online and mobile
 - New Keno statewide television and radio advertising on-air November 18 – December 15
 - Campaign includes Broadcast TV, OTT, Streaming and Traditional Radio, Digital and Social, Blog and New Influencer Marketing
- December Scratch-Offs
 - Launched 4 new Scratch-off
 - games
 - Triple Cash (\$1)
 - 2020 (\$2)
 - Gold (\$5)
 - Big Money (\$10)
- December Focus: Big Money
 - Big Money – Oversized ticket with 8 games for \$10 (Oversized Dispenser)
 - TV and radio advertising for Big Money on-air December 3 – 22
 - Includes TV teaser ads running the week prior to launch
- 2020 NC School Heroes
 - Recommend new NC School Heroes campaign in FY20
 - Kick-off in February 2020 to provide some additional time for entries and awarding of prizes prior to end of school year
 - Requires additional FY20 funding:
 - Advertising (production/media): \$1,600,000
 - Marketing (prizes/website/video): \$400,000
 - FY19 spend:
 - Advertising (production/media): \$2,056,643
 - Marketing (prizes/website/video): \$380,693

Frank asked for Commission approval to continue with NC School Heroes campaign for 2020 starting around the February timeframe.

Commissioner Nick Picerno made a motion to approve the continuation of the NC School Heroes campaign under the current advertising budget. Commissioner Randy Jones seconded the motion. The motion was approved.

Commissioner Morgan Beam reminded staff that any items that needed to be approved during a full commission meeting should be heard in their respective committee meetings first, to work out any issues or concerns.

Sales Update

Terri Avery, Deputy Executive Director of Sales, presented Commissioners with a sales update:

- 752 Keno Retailers with monitors – Stay & Play locations
- 251 Game Touch Draw Units installed to date
- Week 1 – Keno Sales (November 17 – November 23)
 - Up 40.1% from Previous 8-week average
 - Totals:
 - Stay & Play Sales - \$978,831
 - On the Go Sales - \$453,024
 - Net Sales Total - \$1,431,855

Ms. Avery will present commissioner with a map of all retail locations during the next meeting

Product Development Update

Randy Spielman, Director of Product Development, present on the 2nd Quarter FY20 (October - December) Items discussed included:

- Q2 Instant Game Performances
- Big Spin Overview:
 - Launched October 1, 2019
 - 142 Index (increasing each week)
 - 3 winners (\$350,000 / \$200,000 / \$300,000)
 - Digital Reveal – 67% Engagement
- Lotto Games in the U.S.
 - 23 States have some version of Lotto game currently
 - 11 others participate in a multi-state lotto, Lotto America
 - Only 1 game (GA) has been launched after cross sell of Mega Millions and Powerball began in 2010
 - GA launched Jumbo Bucks Lotto in 2015
- Lotto Game Potential in NC
 - Based on recent launches, current trends and draw game portfolio evolution; Lotto performance not projected to add significant incremental revenue for NCEL
 - Anticipated revenues and recommended game structure not sustainable based on the number of projected winner per year
 - Cash 5 recent success could be further leveraged based on the current value proposition of the game and the number of significant NC jackpot winners in each year

Digital Instants Discussion

Commissioners would like to see the following from NCEL Staff:

- A business plan for digital instants. The plan would include timelines for staffing, potential revenue & expenditures, etc.
- Impact statements from states that currently have digital instants

Commissioner Nick Picerno made a motion to task the executive director to formulate a comprehensive digital instant plan that includes personnel needs, hiring, sales projections, costs and all other applicable time tables and also includes impact statements on retailers from other states where digital instants have been implemented in the past and have the plan ready to present when the executive direct indicates he is ready, no later than the next scheduled quarterly meeting. (March 2020) The motion was seconded by Commissioner Morgan Beam. The motion passed.

Commissioner Morgan Beam made a motion to begin the process to identify and hire an E-Commerce (Digital) director. The motion was seconded by Commissioner Nick Picerno. The motion passed.

**Community Matters Committee*

Hayden Bauguess, Director of Government Affairs, provided the legislative updates:

- General assembly is not in session, will reconvene on January 14, 2020 at noon
- Re-election filing will run through December 12, 2019. Hayden will send candidate information to commission.

Annette Taylor, Minority Business and Community Affairs manager, shared charts with Commissioners that showed increased spending with underutilized minority businesses and major vendors. Usage has increased from 10% to 35% in the past year. This is a reflection of NCEL's contract with The Spurrier Group who has become HUB certified with North Carolina.

Executive Report

Mark Michalko, Executive Director, asked Commissioners to review the Contracts over \$90,000. He also gave an update on the legislative mandated studies for sports betting. The study is ongoing and NCEL should have the final report within the next week for staff and the commission review.

Other Business

Commissioner Buddy Bengel thanked NCEL staff and fellow Commissioners for the opportunity to work with them all. He will be submitting his resignation later this month to pursue personal endeavors and to run for Lt. Governor of N.C. All Commissioners thanked him for his service to the commission and wished him well.

Closed Session

Commissioners entered into closed session at 1:36pm. The following items were discussed:

- Annual Audit Review
- Personnel matters.

Closed Session ended at 2:15pm.

Approval of Minutes

Chairman Crowder presented the minutes from the September 2019 meeting for approval. Commissioner Buddy Bengel made a motion to approve the minutes. The motion was seconded by Commissioner Chris Shew. The minutes were approved.

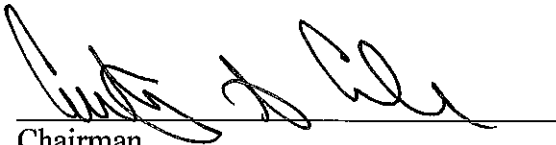
Amended Agenda Item


Commissioner Jody Tyson provided Commissioners with NCEL's current commission committee listing(s) and charters for individual committees. He asked commissioners to review for discussion and updating. It was noted that all Commissioners, except Chairman Crowder, received an email with the committee listing and charter information prior to the Commission meeting on Tuesday.

Quan Kirk, NCEL General Counsel, informed Commissioners that they would not be able to vote on changing committees or updating charters because the item was not on the original agenda and there was no public notice of the possible changes.

After much discussion, it was decided that Chairman Crowder would communicate to Commissioners (within 48 hours) his availability to have a meeting for further discussion and voting on possible changes to be made to committees and charters.

With no other business to discuss the meeting was adjourned at 2:57pm.


Chairman


Date

