

North Carolina Education Lottery Commission Meeting

Meeting Minutes

Tuesday, March 10, 2015

Commissioners in Attendance:

Keith Ballentine, Chairman
Amy Ellis
Chris Shew
Jody Tyson
Courtney Crowder
AJ Daoud
Alice Underhill (*via conference call*)
Doug Baker (*via conference call*)

Staff in Attendance:

Alice Garland
Caryl James
Bill Jourdain
Mike Suggs

The North Carolina Education Lottery Commission meeting was held Tuesday, March 10, 2015 at 9:00am, at NCEL headquarters, located at 2100 Yonkers Road, Raleigh, NC.

Chairman Ballentine called the meeting to order and reminded the Commission that they operate under the State's code of ethics. He also informed commissioners that funds raised by the North Carolina Education Lottery (NCEL) should be used to supplement, not supplant education dollars in North Carolina and that such expenditure is controlled by the North Carolina Legislature.

Chairman Ballentine recognized guests in the audience from Intralot, GTECH and Scientific Games.

Chairman Ballentine presented the minutes from the December 2, 2014 Commission meeting. Hearing no suggested changes, Commissioner Daoud made a motion to approve the minutes as written and Commissioner Kirby seconded. The minutes were approved.

Finance and Audit Report

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the financial report for the month of January 2015. In the statement of net position, January 2015 ended with total assets of \$156.8 million which included \$69.3 million in cash and \$58.1 million in annuity award investments. Accounts receivables totaled \$23.3 million, of which \$20 million in net receipts from the gaming system to be collected via electronic funds transfer in February.

Total liabilities of \$156.8 million included \$42.8 million in outstanding prize awards and vendor accounts payable, \$58.1 million in long term annuity prize awards payable and \$46 million due to the Education Lottery Fund.

In the statement of revenues, expenses and changes in net position, operating revenue for the month of January 2015 totaled \$170.8 million. Tickets sales for the month of January totaled \$170.3 million, a 15.2% increase over the same time last year. New revenue earned for education in January 2015 totaled \$46 million, a 15.58% increase over the same time last year.

Total operating revenue for the first seven (7) months of FY2015 totaled \$1.112 billion. Tickets sales for the first seven (7) months of FY2015 totaled \$1.109 billion, a 5.32% increase over the first seven (7) months of FY2014.

Net revenue earned for the NC Education Lottery fund for the seven (7) months of fiscal year 2015 totaled \$291 million, or 26.2% of total revenue, a slight decrease of \$300,000 or 0.1% from the seven (7) months of fiscal year 2014. Total net revenue is running \$1.3 million or 0.45% ahead of our estimated budget target.

On January 28, 2015 the NCEL transferred \$129.4 million to the state of North Carolina. So far in FY15, the NCEL has transferred \$249.5 million to the state of North Carolina. Since inception, \$3.67 billion has been transferred.

Mr. Jourdain presented an update on the status of NCEL office leases. The Greensboro, Raleigh, Wilmington and Greenville offices will expire in 2016. The Asheville regional office lease will expire in August 2021, and Charlotte expires in January 2019. The NCEL is currently working with staff at the State Property office to secure new locations that are more conducive to the needs of the NCEL.

Mr. Mike Suggs, Director of Internal Audit, presented the internal audit reports. Two external audits have been completed. The first was the performance audit, completed by Delehanty Consulting, LLC. The NCEL received a favorable audit. The second was a quality assurance review, which is an audit of the Internal Audit (IA) department. The NCEL IA received the rating of "generally conform" which is the highest ranking available. The NCEL achieved 49 out of 50 standards.

Mr. Suggs provided an update on completed audits. They include the draw game audit (Powerball, Mega Millions, Cash 5, etc.) that resulted in minor changes in procedures. The next audit was Cash, EFT and Accounts Receivable. This resulted in eight (8) recommendations including best practices and better notations.

Mr. Suggs provided Internal Audit statement of Objectivity and Independence. This will be provided to Commissioners on an annual basis.

Operations and Personnel Report

Commissioner Jody Tyson provided information to commissioners regarding IT salaries. Filling IT positions continues to be a challenge based on current salary restrictions. The NCEL is under market on IT compensation. Commissioner Tyson stated that a financial plan will be presented to the full commission at the May 2015 budget session.

Commissioner Tyson also announced that Mrs. Caryl James, Director of Human Resources, will be retiring effective July 1, 2015. The NCEL Commission thanked Mrs. James for her service.

Executive Director's Report

Jaime King Fuquay, Director of Government Affairs provided a Legislative update:

- Two bills are currently being debated in the NC House
 - HB30 – Keeping Lottery Winners' Identity Confidential
 - HB109 – Lottery Act Clarified
 - Several major points were removed from HB 156 “Honest Lottery Act” from the 2013-14 legislative session
 - Many concerns remain – Rep. Stam working with Lottery staff
- Federal Legislation – HR707 The Restoration of America's Wire Act
 - Introduced in House, expecting similar legislation in Senate
 - Many ideas being circulated surrounding this legislation

Frank Suarez, Deputy Executive Director of Brand Management and Communications presented the Brand Management quarterly report:

- Holiday Bucks launched in November 2014 with strong success
- Three additional tickets launched in December 2014 helping drive a +13% increase in December versus prior year
- Strong instant ticket performance continued in January 2015, up +10% versus prior year
- First Tuesday campaign is still running and continues to produce positive results
- All or Nothing promotion resulted in increased base sales by 25%
- Strong ticket series for February – “multiplier” tickets are successful with February instant ticket sales up +18% versus prior year
- Monopoly Millionaires Club scratch-off ticket launches March 17, 2015
- MMC Game show airs March 28, 2015
- Powerball jackpot advertising on radio was successful, helping raise sales to industry per capita averages
- New 1-Off play type for Pick 3/Pick 4 is performing very well
- 1-OFF Nth ticket promotion has launched: every 100th Pick 3/Pick 4 ticket sold statewide receives free ticket
- Lucke-Zone app: 4008 downloads in first week of operation
- Lucke-Zone Players Club now has 550,000 members
- RFP for advertising – recommendations will be presented during budget work session

Alice Garland, Executive Director, presented the Executive update:

- Pending changes to Powerball were suspended – further discussion by the MUSL Development Committee on March 30
- Monopoly Millionaires Club – game was suspended in December due to lagging sales Staff strategized on ways to compensate for lost MMC sales by implementing the following promotions/games:
 - All or Nothing two month promotion
 - Week for Life promotion is highly successful
 - 1-Off paired with Pick 3, Pick 4
 - Trucks and Bucks instant ticket has been added, has back-scratch feature
 - June launch will showcase “From Frank” scratch off game
- \$520 Million Challenge
 - Staff challenged to find creative ways to generate sales
 - Internal expenses have been cut resulting in a \$1.135 million in savings

- Play at the Pump has been launched with nine retail outlets and more retailers have applied
- Visa debit has been added to the subscription program
- Lefleur's sales data by lottery was announced

Alice Garland presented the Key Performance Indicators and contracts over \$90,000. She also announced the annual report is being printed and will be distributed very soon. Chairman Ballentine commented that the NCEL is the only lottery to increase sales each year of existence.

Chairman Ballentine asked for a motion for the Commission to move into closed session. Commissioner Daoud made a motion and Commissioner Kirby seconded. The Commission went into closed session.

After the closed session concluded, open session resumed and there being no further business, the meeting was adjourned.

W. Keith Ballentine
W. Keith Ballentine, Chairman

June 2, 2015
Date