

North Carolina Education Lottery Commission Meeting

Meeting Minutes

Tuesday, March 8, 2016

Commissioners in Attendance:

Kim Griffin, Jr., Chairman
Keith Ballentine
Alice Underhill
Amy Ellis
Chris Shew
Jody Tyson
Courtney Crowder
David Kirby
Doug Baker

Staff in Attendance:

Alice Garland
Bill Jourdain
Quan Kirk

The North Carolina Education Lottery Commission meeting was held Tuesday, March 8, 2016 at 9:30am, at NCEL headquarters, located at 2100 Yonkers Road, Raleigh, NC.

Chairman Griffin called the meeting to order and Commissioners stood for the pledge of allegiance. The Chairman 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 Griffin asked Ms. Garland to provide the Commission with an update on the status of the Commission's required ethics training refresh. She reported that almost all Commissioners have either begun or completed the state mandated requirement.

Chairman Griffin requested a roll call to ensure a quorum. Teri Riddle, Executive Assistant, called the roll. All Commissioners were present for the meeting.

Chairman Griffin announced Alice Garland, Executive Director, has been named a recipient of the Triangle Business Journal's Business Women of the Year award.

Chairman Griffin presented the minutes from the December 8, 2015 and January 6, 2016 Commission meetings. Hearing no suggested changes, Commissioner Kirby made a motion to approve the minutes from the December meeting and Commissioner Underhill seconded. Commissioner Tyson made a motion to approve the minutes from the January meeting and Commissioner Crowder seconded. The minutes were approved.

Quan Kirk, General Counsel, provided information to the Commission about North Carolina's open meetings law, which also cover situations outside of formal meetings, such as e-mails between the Commissioners. She provided Commissioners with information on various methods of communication between the Commissioners and the requirements for the communication to remain in compliance with the NC General Statute.

Finance and Audit Report

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the financial update for January 2016. In the statement of net position, January 2016 ended with total assets of \$237.1 million which included \$134.2 million in cash and \$65 million in annuity award investments. Accounts receivable totaled \$30.2 million - \$27.2 million represents net receipts from the gaming system to be collected via electronic funds transfer in February. Total liabilities of \$233.9 million included \$81 million in outstanding prize awards and vendor accounts payable, \$65 million in long term annuity prize awards payable and \$77.4 million due to the Education Lottery Fund.

Operating revenue for the month of January 2016 totaled \$276.3 million. Ticket sales for the month of January 2016 totaled \$275.8 million and included sales from the record Powerball run totaling \$86.4 million. This is a 62% increase over January 2015. Net revenue earned for education in the month of January 2016 totaled \$77.4 million, a 68.3% increase or \$31.4 million over January 2015.

Net revenue earned for the Education Lottery fund for the seven (7) months of fiscal year 2016 totaled \$341.3 million, 24.8% of total revenue – an increase of \$50.3 million or 17% over the seven (7) months of fiscal year 2015. During the month of January, the NCEL initiated a transfer of \$133 million to the Education Lottery Fund. Total net proceeds to the State of North Carolina since the lottery's inception is \$4.2 billion.

Mr. Jourdain provided an update on property leases to the Commissioners. The NCEL has six (6) properties occupied across the state. The Office of State Property (OSP) is the leasing agent for property leases for State Agencies. He reported that three (3) of the six (6) office leases will expire in 2016. The Raleigh, Wilmington and Greenville office leases will all expire by the end of March 2016. Negotiations on new leases are in progress for the Raleigh and Wilmington offices. The OSP has mandated that the location of the Greenville office go through another bidding process regardless of whether the current location is suitable to meet the NCEL's needs. The NCEL is continuing to work with OSP to make the lease process as smooth as possible while adhering to OSP guidelines. Mr. Jourdain reported that delays in the finalization of the Raleigh and Wilmington leases have resulted in changes to the anticipated move dates. He also reported that the NCEL will now coordinate moving multiple offices during the Gaming and Instant Systems conversions.

Mr. Mike Suggs, Director of Internal Audit, provided the Commission an update on the internal audit reports. The audits of Accounts Payable, Purchasing and Fixed Assets have been completed as well as the audit of regional office payment processing. Internal Audit put together a "wish list" of controls for payment processing.

There were also a list of closed action items reported. Current items underway are MIS continuous monitoring and Customer Services and Communications audit. The Marketing department has completed all recommendations from their previous audit. An end of games audit is expected to be completed by end of the fiscal year.

The DHHS audit of the Problem Gambling help line should be complete by the end of March.

Operations and Personnel Report

Committee Chairman, Jody Tyson reported that the Operations and Personnel Committee met prior to the Commission meeting. During that meeting, there were discussions about outsourcing the functions of Retail Sales unit to the new instant ticket services vendor, Scientific Games International (SGI), beginning April 1, 2017. Thirteen (13) positions would be outsourced and SGI has agreed to interview current NCEL Retail Sales employees for similar positions with SGI. Terri Avery, Deputy Executive Director of Sales, presented information about the structure and functionality of the unit as well as the NCEL's retention plan to ensure a smooth transition. The retention plan would begin July 1, 2016 and run through March 31, 2017. Committee

Chairman Tyson reported that the Committee members voted unanimously to approve the outsourcing of Retail Sales effective April 1, 2017 and the retention plan for the Retail Sales unit.

This information is now being presented to Commissioners about the recommended change in the Retail Sales unit. Commissioners had questions about tracking and analyzing information, accountability and visibility. After Commission questions and concerns were answered and addressed, Committee Chairman Tyson called for a motion to accept the outsourcing. Commissioner Kirby seconded. The motion passed unanimously.

Executive Director's Report

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

- Five games launched in January
 - \$142 million in instant ticket sales; 32.5% higher than same time in 2015
- Multiplier Series returned in February
 - TV/Radio ads for three (3) weeks
 - \$133 million in instant sales; 31.6% increase from February 2015
- Lucky For Life launched on February 7
 - TV/Radio ads for five (5) weeks
 - Additional media in April for promotion – buy 2 get 1 free
 - Social Media campaign
 - Lucke Rewards 2nd Chance promotion
 - On-site Retailer promotions
 - Digital advertising
- New scratch-offs launch in March
 - No advertising
- Pick 3 Promotion – Double Draw
- Lucke Zone
 - Nearly 700,000 members
 - 102 million ticket entries to date
 - Mobile app downloads at 93,320
- March 30, 2016 – NCEL 10th Anniversary
 - New logo developed will be used throughout the year
 - 10th anniversary scratch offs – will launch in April
 - Proud Moments campaign will celebrate parents' proud moments with chance to win \$20,000
 - Proud Moments TV and radio advertising will run for 3 weeks

Ms. Jaime King Fuquay, Director of Government Affairs, presented the Legislative update:

The Joint Legislative Oversight Committee on the NC State Lottery met for the first time in February and Alice Garland presented to the committee members. The presentation focused on NCEL history, the operations of the NCEL, financial specifics and games offered. A second meeting will take place in the coming days and the committee has made specific requests on the presentation topics:

- What other states are doing to generate additional funds
 - Keno
 - iLottery
 - Video Lottery

- Advertising – Dollar Projections and NCEL Restrictions
 - Advertising – legal language and children in advertising
 - Advertising dollars
- Lottery Security

Commissioners were given an overview of how the legislative funding formula for lottery dollars has changed over the years. This was a follow-up to an in-depth conversation amongst NCEL Commissioners at the December meeting. Ms. Fuquay reported that the NCEL is working on a beneficiary research project. The Paragraph Project, a company located in Durham, North Carolina, has been procured pursuant to a competitive selection process to conduct consumer research on how knowledgeable the public is about where lottery dollars go. Research begins on March 15 and a report will be ready by May 15. A presentation will be made to the full Commission at a later date.

Ms. Quan Kirk, General Counsel, provided the Commissioners with an update on the negotiations for the instant ticket and gaming system contracts. She reported that the Attorney General’s office has approved the Gaming System Services Contract with IGT.

Ms. Alice Garland presented the contracts over \$90,000 and the HUB report. She also provided an update on a player complaint. The complaint has been resolved to the satisfaction of the player.

Ms. Garland discussed the possibility of moving a position from Brand Management and Communications to create a position in the Wilmington office. The goal is to make the Wilmington office a regional office, thus there will be a need for a Regional Manager. She notified the Commission that there will be funds allocated for the Regional Manager position in the upcoming FY17 budget that will be reviewed at the May meeting. She noted that the number of FTE’s at the NCEL will not change.

Open Discussion

Chairman Griffin expressed his desire to hold commission meetings outside of the Raleigh area. This would give the NCEL an opportunity to educate local school systems and county government leaders about the lottery and how monies raised are allocated to them. Commissioners discussed holding the June meeting in New Bern and the September meeting in Wilkesboro. Commissioner Underhill commented that after much consideration, hosting a meeting in New Bern in June will not work for her. She is supportive of meetings being held across the state. There was much discussion among commissioners about where and when to hold meetings across the state and exactly what type of meetings to conduct. Questions about the cost of conducting a meeting at an off-site location were raised.

Chairman Griffin recommended the creation of a new sub-committee: Revenue Generating Committee. Committee members are Keith Ballentine, Courtney Crowder and Doug Baker.

Being no additional business, the meeting was adjourned.



 Kim Griffin, Jr., Chairman

6-30-16

 Date