

# North Carolina Education Lottery Commission Meeting

## Meeting Minutes

Tuesday, March 14, 2017

### *Commissioners in Attendance:*

Courtney Crowder, Chairman  
Doug Baker (via conference call)  
Keith Ballentine  
Morgan Beam  
Buddy Bengel  
Amy Ellis  
Kim Griffin, Jr.  
Chris Shew  
Jody Tyson

### *Staff in Attendance:*

Alice Garland  
Sarah Hardin  
Bill Jourdain  
Quan Kirk  
Frank Suarez, Jr.  
Mike Suggs

*The North Carolina Education Lottery meeting was held on Tuesday, March 14, 2017, at 9:00 a.m. at the NCEL headquarters located at 2100 Yonkers Road, Raleigh, NC.*

Chairman Crowder called the meeting to order and Commissioners stood for the pledge of allegiance. Commissioner Chris Shew led the Commission in the pledge of allegiance. The Chairman reminded Commissioners 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 Crowder requested a roll call to ensure a quorum. Teri Riddle, Corporate and Government Affairs Specialist, called the roll. All Commissioners were present for the meeting. Commissioner Baker participated via conference call.

Chairman Crowder presented the minutes from the December 6, 2016 Commission meeting. Commissioner Griffin made a motion to approve the minutes. Commissioner Ballentine seconded. The minutes were unanimously approved.

Chairman Crowder asked Ms. Riddle to introduce Felicia Adams-Vinson, the new Executive Assistant. Commissioner Crowder welcomed Ms. Adams-Vinson to the NCEL Team.

**Retailer Dispute Resolution Appeal** Per the Retailer Dispute Resolution procedures, the Commissioners heard the appeal filed by Attorney Robert Farris on behalf of his client, Mr. Iqbal Majeed and Haroon Food Mart. Mr. Farris appealed the NCEL Executive Director's decision to deny reinstatement of Haroon Food Mart's Lottery retailer sales license and contract. Ms. Quan

Kirk, General Counsel, represented the NCEL's position. The Commission provided both parties equal time to present their case and entertained questions posed by the Commissioners. Mr. Majeed was also provided an opportunity to speak before the Commission and answered questions.

Commissioner Griffin made a motion to uphold the Executive Director's decision to deny reinstatement of Haroon Food Mart's Lottery retailer sales license and contract. The motion was seconded by Commissioner Ballentine. After a brief discussion, the vote passed unanimously.

### **Finance and Audit Report**

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the financial update for January 2017. In the Statement of Net Position on page 3, January 2017 ended with Total Assets of \$189 million which included \$104.7 million in cash and \$70.6 million in Annuity Award Investments. Accounts Receivable totaled \$6.5 million of which \$5.6 million represents net receipts from the gaming system to be collected via electronic funds transfer in February.

Total liabilities of \$189.4 million included \$40 million in outstanding prize awards and vendor accounts payable, \$70.6 million in long term annuity prize awards payable and \$51.1 million due to the Education Lottery Fund.

In the Statement of Revenues, Expenses and Changes In Net Position on page 4, operating revenue for the month of January 2017 totaled \$205.8 million. Ticket Sales for the month of January 2017 totaled \$205.4 million. This compared to \$275.8 million in total sales in January 2016 which included sales from our record Powerball run. The total sales comparison resulted in a 25.5% decrease or \$70.4 million from last January. In January 2017, Instant ticket sales continued on their positive trend generating a \$4 million increase or 2.7% over January 2016. Net revenue earned for Education in the month of January 2017 totaled \$51.1 million, a 33.9% or \$26.3 million decrease from January 2016.

Total Revenue for the seven (7) months of fiscal year 2016 totaled \$1.374 billion. Ticket sales for the seven (7) months of fiscal year 2016 totaled \$1.371 billion and has equaled the cumulative sales number for the seven (7) months of fiscal year 2016. Tickets Sales are running 9% or \$112.9 million ahead of our FY 2017 budget target after seven (7) months of activity as a result of increased instant ticket sales activity.

Total gaming expenses including player prizes (\$878.6 million) retailer commissions and incentives (\$96.2 million) and Gaming System Services & Licenses (\$23 million) totaled \$997.8 million or 72.6 % of total revenue for the seven (7) months of fiscal year 2017. Total administrative expenses, including salaries & fringe benefits, advertising & marketing and operational overhead totaled \$28.3 million or 2.06% of total revenue.

As a result of these numbers, the NCEL's administrative expenses and gaming system services and licenses, as identified in G.S. 18C-162-3.3 which limits expenditures to 8% of total revenue, totaled \$53.3 million or 3.8% of total revenue.

Net Revenue earned for the Education Lottery Fund for the seven (7) months of fiscal year 2016 totaled \$346.7 million, 25.2% of total revenue an increase of \$5.4 million or 1.58% over the seven (7) months of fiscal year 2016. Through the Month of January 2017, total net revenue is

running \$35 million or 11.2% ahead of our estimated January year to date budget target for fiscal year 2017.

During the first seven (7) months of Fiscal Year 2017, the NCEL initiated cash transfers of \$363.4 million to the Office of State Budget and Management. These transfers represented Net Revenue of \$295.7 million from the first six (6) months of FY 2017 which were applied to the Education Lottery Fund, and \$67.7 million in surplus net revenue from fiscal year 2016 which were deposited into the Lottery Reserve fund. This amount added to the previous \$41 million transferred at the end of June brings the Lottery Reserve fund balance to \$109 million. The total net revenue transferred to the State of North Carolina since inception is \$4.87 billion.

**Facilities Update:**

- Raleigh HQ –Certificate of occupancy was received on February 28, 2017. Anticipated move date is June 2, 2017. We have started to build out the technical infrastructure throughout the facility. This will take a few months to schedule and install all the services needed to support the facility in day to day operations.
- We are currently on a Lease extension for Yonkers Road.
- Wilmington – Contractor has started construction. Estimated completion date for a certificate of occupancy for regional office is June 30, 2017. We are planning for an August 2017 move into the new facility
- Lease extension for current Wilmington location has been completed by State Property Office

Mike Suggs presented on the internal audit reports.

**Operations and Personnel Committee Report**

Committee Chairman Chris Shew presented the Operations and Personnel Committee report. He reported that the committee voted to approve transferring approval for certain policies to the Executive Director. Commissioner Buddy Bengel made a motion to approve the committee's vote. The motion was seconded by Commissioner Jody Tyson. The motion passed unanimously.

**Revenue Generating Committee Report**

Alice Garland presented an update on Keno to the Commission. The legislature and Governor are looking for additional revenue that Keno can generate. Ms. Garland explained how the game works. The goal is to have 500 retailers to start at launch and quickly move to 750 and 900 by the end of the first year. Terri Avery-Fowler answered questions from the Commissioners about the Keno game. Commissioner Buddy Bengel made a motion to accept Keno as recommended by the staff. The motion was seconded by Kim Griffin Jr. The motion passed unanimously.

**Executive Director's Report**

Smith Worth introduced Ashley Trantham, Matt McCreary and Nicole Misura (Morneau Shepell) for a presentation on problem gambling efforts in North Carolina.

Frank Suarez, Deputy Executive Director of Brand Management and Communications, presented the brand management quarterly report.

- New \$30 Scratch-off game launched in December. Mr. Suarez explained that the new launch resulted in more than \$79 million in sales to date and helped instant sales achieve

7% increase in December, making December the second best month for overall instant ticket sales in NCEL history.

- We launched 5 new scratch-off games on January 3<sup>rd</sup>, achieving \$146 million in overall January instant sales (an increase of 3% as compared to January 2016).
- January also included the launch of a new Pick 4 promotion, "More Money Mondays." The promotion increased prizes by 40% for winning Pick 4 tickets purchased on Mondays in January. It achieved 2% increase in sales over trend for Pick 4.
- The February launch, as has been the case in years past, included our very popular "X The Cash" multiplier instant tickets. This launch resulted in \$137 million in overall February instant sales (an increase of 4% as compared to the previous year).
- New Powerball branding campaign developed to promote playing Powerball during lower jackpot levels (under \$150 Million). This has proven to be successful with the NCEL experiencing an 18% lift in sales as compared to similar jackpot levels.
- The Powerball PowerCruise second chance promotion was launched in February. Players who purchase Powerplay with their Powerball ticket can enter to win an exclusive Royal Caribbean cruise for two people.
- The instant ticket launch for March included three 7's themed tickets. March also included the return of the popular Pick 3 Double Draw promotion.

Tony Chung, Deputy Executive Director of MIS and Gaming Systems presented the conversion project status update. The main issue is that the systems will go live on March 26, 2017.

#### **Legislative Update:**

Sarah Hardin, Director of Government Affairs, presented the legislative update. She provided information on the Governor's \$23.5 billion budget, which is a 5% increase from last year. The budget includes raises to state employees of 2% or \$800, whichever is greater and a one-time \$500 bonus to state employees.

The Governor budgeted \$654 million that the lottery would provide to the state in Fiscal Year 2018 and \$682 million in Fiscal Year 2019. These figures include \$19.7 million from the lottery reserve in FY 2018 and \$30.2 million from the lottery reserve in 2019. The Governor's revenue projections from the NCEL also include a projected \$29.4 million in additional revenue raised from an increase in advertising spend to 1.5% of sales. The Governor's proposed allocation of lottery proceeds are as follows:

- \$605 million to non-instructional support personnel in FY 2018 and \$622.7 million in non-instructional support personnel in FY 2019
- \$78.2 million to prekindergarten in both years of the biennium
- \$100 million to school construction in both years of the biennium
- \$30.4 million to scholarships in both years of the biennium
- \$30.9 million to UNC need-based financial aid for both years of the biennium, which represents an increase of \$20 million from the current fiscal year
- \$19.4 million in FY 2019 to fully fund the proposed NC GROW program, which is a community college scholarship program based on the Tennessee Promise program
- \$11 million in FY 2019 to fund NC Promise, which is the low cost tuition plan at certain UNC System Institutions
- \$5 million in FY 2019 to fund NC Best and Brightest, which is a forgivable loan program for would-be teachers similar to the old Teaching Fellows program
- \$2.5 million in FY 2018 and \$5 million in FY 2019 to fund financial assistance for students in workforce training programs

- \$10 million in both years of the biennium for textbooks and digital materials
- \$9.8 million in FY 2018 to a pilot program for performance based teacher salary increases in 10 school districts
  - \$20 million in both years of the biennium for additional support personnel

Sarah Hardin also gave an update on the Daily Fantasy Sports – HB 279

- Requires registration of fantasy sports contest operators with the Secretary of State
- Requires operators to pay the Department a fee equal to 10% of gross revenues. The fee will be \$2500 at a minimum and will be capped at \$10,000. After 5 years, operators will be required to re-register and pay a fee of either 10% or \$5,000, whichever is less.
- Provides for the revocation of licenses by the Department
  - Fantasy operators must submit to reasonable procedures for the following:
    1. Operators and their employees and immediate family members in the same household may not compete in any public fantasy contest offered by the operator in which a cash prize is offered.
    2. Operators may not share information that is obtained by virtue of their employment that has the potential to affect the contest.
    3. Must verify that a player is at least 18 years of age.
    4. Must ensure that players are restricted from entering any contest when the outcome is determined by the results of the players themselves.
    5. Must allow individuals to restrict themselves from entering contests and take reasonable steps to prevent those individuals from entering contests (voluntary self-exclusion).
    6. Disclose the maximum number of entries a single player may submit to each contest and take reasonable steps to prevent any player from submitting more than the maximum.
  - Gives Alcohol Law Enforcement (ALE) the authority to enforce the provisions of this new chapter of the General Statutes.

Sarah Hardin also discussed the Lottery Integrity Act with Commissioners.

- Bill draft based on retailer best practices.
- Places three (3) restrictions on retailers:
  1. Retailers and employees may only make purchases through another employee.
  2. Retailers and employees may only validate prizes or pay prizes through another employee.
  3. Retailers and their employees may not play when they are on the clock.
- Does not apply to purchases at a different store.

Commissioner Keith Ballentine made a motion that the draft legislation be pursued into law. The motion was seconded by Commissioner Jody Tyson. Commissioner Kim Griffin Jr. said he would vote against it because he believes it does not need to be made into law. Commissioner Chris Shew agreed. Commissioners Keith Ballentine, Jody Tyson, Amy Ellis, Buddy Bengal voted in favor, and Commissioners Kim Griffin Jr., Chris Shew voted against. The motion was passed by majority vote.


**Contracts over 90K:**

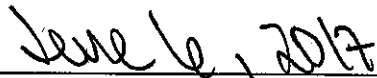
Commissioner Kim Griffin Jr. asked if the NCEL was locked into the bigger sports sponsorship contracts. Ms. Kirk explained there is a provision in every contract that allows us to get out of the contract if needed.

**Open Discussion**

Chairman Crowder announced that the May budget meeting will take place in Raleigh at NCEL headquarters.

Being no further business, the meeting was adjourned.

  
Chairman

  
Date