

North Carolina Education Lottery Commission Meeting

Meeting Minutes

Tuesday, December 5, 2017

Commissioners in Attendance: Courtney Crowder, Chairman
Tony Rand
Morgan Beam
Buddy Bengel
Amy Ellis
Randy Jones
Jody Tyson

Absent: Doug Baker

Staff in Attendance: Alice Garland
Sarah Hardin
Michelle Lassiter
Quan Kirk
Frank Suarez, Jr.
Mike Suggs

The North Carolina Education Lottery meeting was held on Tuesday, December 5, 2017, at 9:00 a.m. at the NCEL headquarters located at 2728 Capital Blvd, Raleigh, NC.

Chairman Crowder opened the meeting and greeted all commissioners and meeting attendees.

Commissioners stood for the pledge of allegiance led by Commissioner Buddy Bengel.

Chairman Crowder presented the minutes from the September 19, 2017 Commission meeting for Commission approval. Commissioner Beam made a motion to approve the minutes. Commissioner Bengel seconded. The minutes were unanimously approved.

Alice Garland, Executive Director, informed the commission that the NCEL has been approved for Level 4 Responsible Gaming Certification by the World Lottery Association. She asked Sarah Hardin, Director of Government Affairs, to name the team members who worked on the Level 4 application. The team members were: Teri Riddle, Frank Suarez, Van Denton, Townley Cheek, Mike Suggs, Liz Bowles, Ben Bauman, Jon McLamb, Quan Kirk, Brandi Hinson, Deshonda Wortham, Ruth Wilson, Kyle Gray, Jigna Patel, Robert Ruiz, Marbet Cuthbert, Juan Ochoa, Erwin Mialkowski, Susan Singley and Chris Bushnell.

Finance and Audit Report

Mr. Eddie Burke from Cherry Bekaert presented the annual financial audit report to the Commissioners.

Michelle Lassiter, Director of Finance, gave an overview of the financial report for the month of October 2017, and the four (4) months of Fiscal Year 2018. October 2017 ended with Total Assets of \$176.6 million which included \$78.7 million in cash and \$76 million in Annuity

Award Investments. Accounts Receivable totaled \$8.7 million of which \$8 million represents net receipts from the gaming system to be collected via electronic funds transfer in November. Total liabilities of \$175.9 million included \$37.6 million in outstanding prize awards and vendor accounts payable, \$76 million in long term annuity prize awards payable and \$48.7 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 October 2017 totaled \$202.5 million. Ticket sales for the month of October 2017 totaled \$202.2 million as compared to \$183.8 million in October 2016, a 10.12% increase or \$18.6 million over last year. Net revenue earned for education in the month of October 2017 totaled \$48.7 million, a 7.74% or a \$3.5 million increase over October 2016. Total Revenue for the four (4) months of Fiscal Year 2018 totaled \$835.3 million. Ticket sales for the four (4) months of Fiscal Year 2018 totaled \$833 million, a 8.5% increase or \$65.8 million over the four (4) months of Fiscal Year 2017. Tickets Sales are running 7.86% or \$60.7 million ahead of FY 2017 budget target after four (4) months of activity.

Total gaming expenses including player prizes (\$527.8 million), retailer commissions and incentives (\$58.4 million) and gaming system services and licenses (\$12.8 million), totaled \$599 million or 71.7% of total revenue for the four (4) months of Fiscal Year 2018. Total administrative expenses, including salaries and fringe benefits, advertising and marketing and operational overhead totaled \$19 million or 2.27% 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(b) which limits expenditures to 8% of total revenue, totaled \$32.1 million or 3.85% of total revenue.

Net Revenue earned for the Education Lottery Fund for the four (4) months of Fiscal Year 2018 totaled \$216.3 million which is 25.9% of total revenue, an increase of \$21 million or 11% over the four (4) months of Fiscal Year 2017. The total net revenue is running \$27.4 million or 14.5% ahead of our estimated budget target for Fiscal Year 2018.

During the first four (4) months of Fiscal Year 2018, the NCEL initiated cash transfers of \$238.8 million to the Office of State Budget and Management. These transfers represented Net Revenue of \$126.2 million from the 1st quarter of FY 2018, 20% of October ticket sales, and Fiscal Year 2017 surplus proceeds of \$30.8 million, all of which were applied to the Education Lottery Fund for Fiscal Year 2018 initiatives as designated by the North Carolina General Assembly. The lottery reserve remains at a balance of \$109 million. The total net revenue transferred to the State of North Carolina since inception is \$5.4 billion.

Facilities Update:

- Wilmington – facility up-fit is ready for occupation. The move to the new facility is scheduled for Friday, December 8, 2017. It is anticipated that the facility will be a fully functioning regional office and claim center on Monday, December 11, 2017.

Mike Suggs presented on the internal audit reports.

- Audit of Continuous Monitoring
- Audit of Physical and Logical Building Security
- Update on Audit of Gaming System and Instant Inventory RFP and Conversion
- Update on External Security Audit

- Commissioner Rand was concerned about procedures concerning the panic button and the response time from the police department and our internal security operations team. Joe Cosgriff, Director of Security, will set up an internal meeting to discuss possible changes to the internal process for response time.

Chairman Crowder asked Mr. Suggs what are the procedures for employees who leave the lottery. Mr. Suggs will send the information to the Operations and Personnel Committee for their review, edits or recommendations.

Operations and Personnel Committee Report

Committee Chairman Jody Tyson gave an overview of the agenda items discussed in the Operations and Personnel Committee meeting held on December 5, 2017.

- FY18 Bonus Plan – The committee members reviewed the proposed plan for FY2018. The committee voted and decided to bring the proposed bonus plan before the full commission for a final vote. A motion was made to accept the FY2018 Bonus Plan by Commissioner Tyson. The motion was seconded by Commissioner Chris Shew. The bonus plan was unanimously approved.
- Responsible Marketing and Advertising Guidelines – The committee discussed the proposed guidelines and requested the NCEL staff to add information about when and how to handle complaints/concerns from the public.

Revenue Generating Committee Report

Committee Chairman Tony Rand gave an overview of the proposed letter that will be sent to the Lottery Oversight Committee concerning advertising spending. After the Commissioners requested some corrections, including adding Commissioner Jones to the letter and adding clarification language regarding the fiscal year term, Commissioner Rand made a motion to approve the letter. The motion was seconded by Commissioner Tyson. The draft letter to the Lottery Oversight Committee was unanimously approved.

Executive Director's Report

Alice Garland, Executive Director, presented the HUB report and Contracts Over \$90,000 to the Commission.

Frank Suarez, Deputy Executive Director of Brand Management & Communications, presented a walkthrough of the new NCEL website/mobile app. Highlights of the new website and mobile app include:

- Websites and mobile app redesign launched in November
- New website and mobile app offer cleaner contemporary look with simpler navigation
- New home page that provides single login and play now navigation
- Play now section highlights online play service with its own page and new logged-in user status bar
- Mobile app offers new functionality and status updates

Other Brand Management news reported included:

- October Scratch-Offs – Launched four (4) new games - Achieved \$144 million in overall October instant sales
- Mega Millions price changed to \$2 with jackpots starting at \$40 million - Four (4) weeks since the change, sales are up +17% compared to similar jackpot levels prior to the change.

- Holiday Scratch-Offs – Launched five (5) new games in November – achieved \$141 million in overall November instant sales
- December – new Big Money ticket launched – 84% of retailers accepted the additional dispenser and are selling the ticket
- December scratch-offs – launched four (4) additional new games

Ms. Hardin, Director of Corporate and Government Affairs, gave the responsible gaming update. Thanked all staff members that were involved with the Level 4 certification project. She also reported that responsible gaming started the holiday campaign which includes no gifting to minors. Ms. Hardin also shared information on the U.S. Supreme Court hearings of the Professional & Amateur Sports Protection Act. The Supreme Court heard arguments on the New Jersey case involving them wanting to legalize sports betting within their jurisdiction. There are three (3) possible outcomes: 1) the entire Act could be struck down; 2) there could be a partial repeal of the law; 3) the courts could take no action. An opinion will be released in June 2018. If the Act is overturned, the state will need to take action to make sports betting legal within its own jurisdiction. In an effort to be prepared, the Commission should think about how they would want to be positioned in a new market place where sports betting could become legal.

Ms. Garland gave an update on Keno. There were 705 retailers that have Keno available, 44 applications were in progress and 27 applications were pending. Average daily sales for October - \$92,515, November - \$107,774 and December (first three days) - \$122,467. Sales staff are going back out to train retail staff on how to make the sale. She also gave an update on MUSL's development committee's work on developing a protocol on how to make international sales on Powerball and Megamillions. She gave an example of how Oregon is using a third party company named 'The Lotter' to make international sales, legally. She will let commissioners know of any updates.

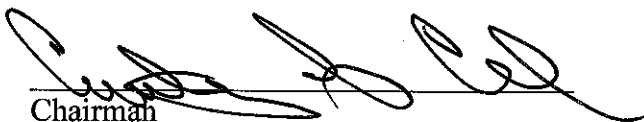
Terri Avery, Deputy Executive Director of Sales, gave an overview of the retailer qualification process for selling Keno. Retailers must have a seated area where food is being served to customers. This will allow players to have a 'stay and play' environment. The sales department is constantly monitoring the sales of games with retailers.

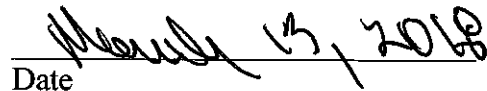
Recognition of Employees / Awards

Ms. Garland recognized Mike Suggs for being a finalist for State Auditor of the year.

Closed Session

Chairman Crowder made a motion for NCEL Commissioners to go into closed session to discuss personnel matter(s). The motion was seconded by Commissioner Ellis. The Commissioner went into closed session from 11:30am to 12:15pm.


Chairman


Date