

**North Carolina Education Lottery
Commission Meeting**

Meeting Minutes

Wednesday, June 26, 2019

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

Absent: Morgan Beam

Staff in Attendance: Mark Michalko
Hayden Bauguess
Bill Jourdain
Quan Kirk
Frank Suarez, Jr.
Mike Suggs
Annette Taylor
Terri Avery
Susan Singley
Van Denton

The North Carolina Education Lottery meeting was held on Wednesday, June 26, 2019, at 9:00 a.m. at the NCEL headquarters located at 2728 Capital Blvd, Raleigh, NC.

On Chairman Tony Rand's behalf, Commissioner Courtney Crowder opened the meeting and greeted all Commissioners and meeting attendees.

Commissioners stood and recited the pledge of allegiance.

Approval of Minutes

Commissioner Crowder presented the minutes from the March 5, 2019 and May 15, 2019 Commission meetings for approval. Commissioner Nick Picerno made a motion to approve the minutes. Commissioner Jody Tyson seconded. The minutes were approved.

Committee Reports

**Financial Matters Committee*

Commissioner Jason Roth, Committee Chair, asked Bill Jourdain to present the FY 2019 Year to date financial reports and the FY 2020 Budget.

Bill Jourdain, Deputy Executive Director of Finance, Administration & Security presented commissioners with the fiscal year to date certified financial reports for the seven months of fiscal year 2019, which ended January 31, 2019:

Financial Report April 2019:

In the Statement of Net Position April 2019 ended with Total Assets of \$159 million which included \$59.4 million in cash and \$78.1 million in Annuity Award Investments. Accounts Receivable totaled \$10.6 million of which \$10 million represents net receipts from the gaming system to be collected via electronic funds transfer in May.

Total liabilities of \$199 million included \$24 million in outstanding prize awards and vendor accounts payable, \$78.1 million in long term annuity prize awards payable and \$63 million due to the Education Lottery Fund.

In the Statement of Revenues, Expenses and changes in net position, operating revenue for the ten (10) months of fiscal year 2019 totaled \$2.37 billion. Ticket sales for the ten (10) months of fiscal year 2019 totaled \$2.36 billion, an 8.4% increase or \$183.8 million over the ten (10) months of fiscal year 2018. As a result of these numbers, fiscal year 2019 sales are running 5.9% or \$130.4 million ahead of our original budget target.

Total gaming expenses including player prizes (\$1.5 B) retailer commissions and incentives (\$164.9 M) and Gaming System Services & Licenses \$38.7 mill) through April 2019 totaled \$1.719 billion or 72.7% of total revenue. Total NCEL operational-expenses, including salaries & benefits, advertising & marketing and operational overhead totaled \$49.9 million or 2.1% 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, totaled \$89.6 million or 3.8% of total revenue.

Net Revenue earned for the Education Lottery Fund for the ten (10) months of fiscal year 2019 totaled \$593.3 million or 25.1% of total revenue, an increase of \$35.6 million or 6.4% over fiscal year 2018. The total net revenue number through April is running 7% or \$38.7 million ahead of our FY 2019 budget target.

During the third quarter of Fiscal Year 2019, the NCEL initiated cash transfers of \$187 million to the Office of State Budget and Management and were deposited in the Education Lottery Fund. These transfers represented the net revenue earned by the NCEL during the months of January through March, 2019.

During the fourth quarter of fiscal year 2019 the NCEL initiated \$230.2 million in transfers representing the remaining net earnings from fiscal year 2019 due to the Education Lottery Fund. This now brings the total earnings transferred to the State of North Carolina since inception to \$6.56 billion.

Fiscal Year 2020 Budget:

The enclosed FY 2020 budget document is submitted for Commission review and approval. This budget includes the following highlights:

○ Total anticipated revenue	\$2.92 billion	
○ Total gaming expenses	\$2.15 billion	73.53%
○ Prizes	\$1.89 billion	64.70%
○ Retailer Comm. & Incent.	\$206.0 million	7.04%
○ Gaming Systems & Licenses	\$52.5 million	1.79%
○ Total Administrative expenses	\$78.2 million	2.67%
○ Salaries & Benefits	\$25.9 million	0.88%

○ Advertising	\$27.0 million	0.92%
○ Marketing	\$7.3 million	0.25%
○ Other Admin.	\$18.1 million	0.62%
○ Transfer to DHHS — Compulsive Gambling	\$1.0 million	
○ Transfer to ALE — Comp'. & Backgrnd.	\$2.1 million	
○ Net proceeds to Education	\$694.1 million	23.7%
○ Salaries and Benefits:		

-We are proposing to reassign 4 vacant positions, and add 5 new positions to support our increased gaming initiatives and retail network expansion. The total net cost is \$864,000 including salaries, benefits and administrative expenses.

-This initiative was discussed at last month's Internal Operations committee meeting.

-We have included a salary reserve for \$406,000 to allow for the proposed legislated salary Cost of Living increase of 2.5% per employee as recommended in Senate Subcommittee Substitute for HB 966. The NCEL does not receive a salary appropriation from the state for any salary initiatives and therefore must budget for the anticipated expenditure out of the proceeds from Ticket Sales.

Commissioner Tyson made a motion to adopt the budget with additional proposed positions (4 vacant positions and 5 additional positions). The motion was seconded by Commissioner Jones. The motion was approved.

Commissioners were provided the Commission Resolution regarding the Executive Director's purchasing authority. Upon discussion by the Commissioners, the Commissioners desire to adjust the Executive Director's purchasing authority to \$300,000 across the board, regardless of the type of agreement. A motion was made by Commissioner Crowder to amend the Commission Resolution regarding the Executive Director's purchasing authority to reflect the change. The motion was seconded by Commissioner Tyson. The motion was approved.

**Internal Operations Committee*

Commissioner Shew, Committee Chair, gave a brief explanation of the discussion from the May 22, 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 Continuous Monitoring
- Audit of Legal and Contract Compliance
- Audit of Retailer Recruitment, Retailer Incentives, and Sales Incentives
- Compliance Review: Promotional High Payout Operation Plan
- Update on Performance Audit

Herb Delehanty and Danny Bogis presented the biennial performance audit report to Commissioners.

**Games & Marketing Committee*

Commissioner Buddy Bengel, Committee Chair, gave commissioners a brief overview of what was discussed during the committee meeting on May 22, 2019.

Brand Management Update

Frank Suarez, Deputy Executive Director of Brand Management & Communications presented Commissioners with the quarterly update. Items discussed were:

- April Scratch-Offs
 - Launched 5 new games
 - Blackjack(\$1) - 94
 - 24K(\$2) - 114
 - Lucky 7's Bonus(\$5) - 177
 - Bonus Crossword Cash(\$5) - 60
 - \$300,000,000 Supreme Riches(\$30) - 101
 - Supreme Riches TV and Radio on-air April 1-21
 - Achieved \$184.07 million in instant ticket sales for April (+14% vs. PY)
- May Scratch-Offs
 - Launched four *Loaded* themed games in May
 - \$50 Loaded (\$1) - 123
 - \$100 Loaded (\$2) - 131
 - \$500 Loaded (\$5) - 177
 - \$5,000 Loaded (\$10) - 134
 - TV and Radio on-air May 6-26
 - Also launched Wheel of Fortune (\$5) on May 14th
 - Second Chance Drawing for a trip to LA to Spin the Wheel and win cash prizes
 - Vanna White appearance at the NCEL 200
 - Achieved \$180.26 million in instant ticket sales for May (+15.5% vs.PY)
- June Scratch-Offs
 - \$25M Casino Cash (\$10)
 - MGM Licensed game
 - 2nd Chance drawing for “Vegas Your Way” trips to las Vegas
 - Oversized ticket with 4 Vegas themed games
 - TV and Radio on-air June 3-23
 - All About the Bens (\$5)
 - Twisted (\$3)
 - Triple Play (\$2)
 - Payout (\$1)
- NC School Heroes
 - At ncschoolheros.com, adults could nominate the School Hero who made a difference in their life or the life of their student.
 - Nominations & Voting February 18 – March 31
 - 10 Winners selected
 - 6750 nominations from all 100 NC counties
 - 2 Million votes
 - 9.7 million digital impressions
- NC School Heroes Winners Coverage
 - Winner presentations generated widespread media coverage in each of the 10 counties.
 - 127 stories from newspaper and TV stations including three of the state’s largest newspapers – The News and Observer, the Charlotte Observer and The Winston Salem Journal
 - Earned \$197,464 in earned media value

- 8.9 million people reached

Susan Singley, gave Commissioners an update on the Advertising contract. Post award negotiations have been completed and NCEL will be moving forward.

Ms. Singley also gave an update of the Draw Station RFP. The NCEL received one proposal from WRAL. It was recommended that WRAL (Capital Broadcasting) proposal be approved and the NCEL staff will negotiate the terms of the new contract with the vendor. Ms. Singley will send a summary of the negotiated terms to Commissioners. A motion was made by Commissioner Tyson to accept the recommendation. It was seconded by Commissioner Shew. The motion was approved.

Sales Update

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

- Retailer base has increased to 7,032
- Wegman's Grocery will be coming on board
- NCEL now has a licensed retailer location in the Charlotte airport

Keno Update

- Since January 1, 2019, Keno sales reps have added approximately 100 retailers which totals 714 as of June 30, 2019.

**Community Matters Committee*

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

- H.B. 929 (Gaming Commission Bill) – passed in the Finance Committee
- State Budget has been released. Highlights include:
 - \$694 million lottery target for this year
 - \$708 million lottery target for next year
 - 2.5% raise for state employees over the next 2 years (to total 5%)
- S.B. 154 (Tribal Gaming Bill) – continuing to watch

Annette Taylor, Minority Business and Community Affairs Manager and Robert Denton, Director of Corporate Communications presented information and handouts with Commissioners with FY19 Highlights and the FY20 Plans for NCEL's community relations program. The objective of the program is to use community relations to share positive story to North Carolinians on the Lottery's mission and to foster greater awareness of its benefits to education in our state.

- FY19 Highlights include:
 - Joined FAST NC (Florence Aid to Students and Teachers of North Carolina) partnership, providing relief to public schools in counties devastated by Hurricane Florence.
 - For the first time, sponsored three statewide education conferences:
 - N.C. School Board Association, Professional Educators of North Carolina, and N.C. PTA
 - Continued participation with Teacher-of-the-Week programs with lottery draw stations. WLOS, Asheville; WGHP, High Point; WRAL, Raleigh; WITN, Greenville.
 - Conducted five civic club talks:

- Retired School Personnel of Stanley County, Garner Civitan Club, Greensboro Kiwanis Club, Alamance Advocacy Council, Alamance Education Council
- FY19 Education Sponsorships
 - N.C. School Board Association - \$6,000
 - Professional Educators of NC - \$1,500
 - N.C. PTA - \$2,500
- Fast NC Partnership
 - Education Lottery joined Florence Aid to Students and Teachers (FAST NC) partnership to help public schools in Eastern North Carolina recover from Hurricane Florence.
 - Over \$1 million raised so far by partnership.
 - Education Lottery recognized for its support at April 4th meeting of State Board of Education.
 - Initiatives included: Marketing/media channels, school supply drive, produced PSAs

FY20 Goal - Build a robust community relations program to strengthen the Lottery's relationship with educators and to raise awareness of how the Lottery benefits the state.

- Strategy includes:
 - Expand number of education conferences and sponsorships.
 - Dedicate additional resources to support community relations program and track and measure benefits of the investments.
 - Leverage sponsorships to strengthen Lottery's relationship with leaders of education groups and influencers in North Carolina's education community.
 - Ensure sponsorships have multiple touchpoints with audiences and produce meaningful and impactful engagement.
 - Ensure openness to all potential partners, evaluating opportunities, proposals, and solicitations even-handedly. Lottery should be able to clearly explain when it can participate and when it cannot.

Executive Report

Mark Michalko, Executive Director, asked Commissioners to review the Contracts over \$90,000. There were no questions or additional comments.

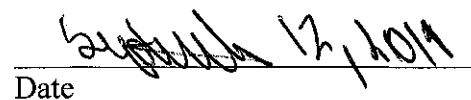
Other Business

Commissioner Buddy Bengel asked Commissioners to move forward with any questions concerning digital instants. He asked that there also be deadlines set to ensure that all questions are answered in a timely manner.

With no other business to discuss the meeting was adjourned at 11:18pm.



 Chairman



 Date