

North Carolina Education Lottery Commission Meeting

Meeting Minutes

Tuesday, December 8, 2015

Commissioners in Attendance:

Keith Ballentine, Chairman
Alice Underhill
Amy Ellis
Chris Shew
Jody Tyson
Courtney Crowder (participated via conference call)
David Kirby
Doug Baker

Staff in Attendance:

Alice Garland
Jaime King Fuquay
Bill Jourdain
Frank Suarez, Jr.
Mike Suggs

The North Carolina Education Lottery Commission meeting was held Tuesday, December 8, 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 requested roll call to ensure a quorum. Teri Riddle, Executive Assistant, called the roll. All Commissioners answered roll call except Commissioners Kirby and Crowder. Commissioner Kirby arrived a short time later and Commissioner Crowder participated via conference call.

Chairman Ballentine recognized Representative Pat Hurley who was in attendance.

Chairman Ballentine presented the minutes from the September 22, 2015 Commission meeting. Hearing no suggested changes, Commissioner Underhill made a motion to approve the minutes as written and Commissioner Tyson seconded. The minutes were approved.

Finance and Audit Report

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the financial update for October 2015. In the statement of net position, October 2015 ended with total assets of \$180.4 million, which included \$83.3 million in cash and \$64 million in annuity award investments. Accounts receivable totaled \$24 million - \$21.3 million represents net receipts from the gaming system to be collected via electronic funds transfer in November.

Total liabilities of \$176.9 million included \$58.9 million in outstanding prize awards and vendor accounts payable, \$64 million in long term annuity prize awards payable and \$44.2 million due to the Education Lottery Fund.

Operating revenue for the month of October 2015 totaled \$193.5 million. Ticket sales for the month of October 2015 totaled \$193 million, a 20% over the same time last year. Net revenue earned for education in October 2015 totaled \$44.2 million; a 7.54% increase over the same period in 2014.

Net revenue earned for the education lottery fund for the four (4) months of FY2015 totaled \$175 million; an increase of \$13.8 million over the four (4) months of FY2015. During the month of October, the NCEL initiated a transfer of \$135.9 million to the education lottery fund. The total net proceeds transferred to the state of North Carolina since inception is \$4.1 billion.

An update on NCEL property leases was also provided by Mr. Jourdain. Office relocations have been completed in Asheville, Greensboro and Greenville. Negotiations are underway for the Wilmington location. NCEL headquarters will be moving to 2728 Capital Blvd. in July 2016. This will include NCEL headquarters staff as well as the warehouse, which is currently located approximately 20 minutes away. The Charlotte office will remain in their current location until 2019.

Chairman Ballentine recognized Michelle Lassiter, Director of Finance, for being nominated for the annual Fiscal Integrity Award given by the Office of State Controller.

Collin Hill, Engagement Partner with Cherry Bekaert presented the annual independent audit (year ending June 2015) of the NCEL finances. Mr. Hill reported that the NCEL's financial audit was a clean, smooth audit and received the highest rating – "unmodified."

Mr. Mike Suggs, Director of Internal Audit, presented the audit reports:

- External Security Audit
 - Security Audit
- Internal Audits
 - Promotions and Promotional Events
 - Subscription
 - Contract Compliance
 - ES Privileges Administration and Sales
- Upcoming Engagements
 - Audit of Retailer Services
 - Audit of Purchasing and Accounts Payable
 - Audit of Fixed Assets
 - Audit of Telecommunications-Voice

Operations and Personnel Report

Committee Chairman Jody Tyson noted there is nothing to report from his committee but several action items are coming soon and will be presented to the full Commission at a future meeting.

Executive Director's Report

Executive Director Alice Garland reported that the document known as "KPI" (Key Performance Indicators) has been replaced as "FYI" which will be sent to Commissioners in their monthly e-mail report.

Smith Worth, Program Administrator at the NCDHHS, Division of Mental Health, Developmental Disabilities & Substance Abuse Services, provided the Commission with an annual report on the NC Problem Gambling Program.

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

- The 7's line of tickets launched October 6, 2015 helping achieve \$139.9 million in instant ticket sales
- In November, holiday tickets were launched. Sales are up 19% over 2014 holiday tickets.
- Social media campaign was launched to support tickets: Gifter Quiz
- Powerball/Power Play promotion increased Power Play sales by 13%
- Warehouse Dash Lucke-Zone promotion launched November 1, 2015. Focused on \$1 and \$2 tickets
- December Instant Scratch-Offs launched:
 - \$500 Cash (with Back Scratch)
 - Ruby Red Crossword
 - Lucky Dog
 - 2016
- Ultimate Millions ticket holiday ad airs for two weeks in December with a gift giving message
- Lucky for Life (new draw game)
 - Multistate game
 - North Carolina will join game on February 7
 - Two drawings per week: Monday, Thursday
 - Top prize is \$1000 per day for life
- Brand Tracking Study
 - Quantitative survey conducted online
 - ✓ Non players
 - ✓ Players
 - ✓ Lucke-Rewards participants
 - Brand Scorecard will be developed as a way to measure change over time

Jaime King Fuquay, Director of Government Affairs provided information about beneficiary dollars:

- NCGA amended Lottery statute, Chapter 18-C in 2015, changing how Lottery dollars are distributed for FY16 and FY17.
 - 58% allocated to non-instructional support personnel
 - 15 % allocated to Pre-K programs
 - 19% allocated to school construction
 - 8% allocated to college scholarships / UNC need based financial aid
- Funds allocation is part of NCEL branding
- Citizens question actual allocation

Jaime presented information to commissioners about how Georgia, Tennessee and Colorado spend their lottery dollars. She reported that those states have set priorities for lottery dollars, which are transparent and easy for the general population to identify.

Chairman Ballentine noted that the NCEL Commission does not have the power to direct the NCGA how to spend lottery dollars but they do have a responsibility to encourage decision makers to spend the money for its intended purpose.

Executive Director Alice Garland suggested there are areas that need focus: Legislators need a basic understanding of how lottery dollars are allocated, and the data from the tracking study would be very beneficial to legislators.

Commissioners were in agreement that they are stewards of the NCEL and will continue further discussion about ways to better communicate with the NCGA about the best way to determine a clear focus for lottery dollars.

Alice Garland, Executive Director, presented the Executive update:

- Revenue generating discussion
 - E-Instants – Internet based instant game
 - could bring an additional \$18 million in return to education each year
 - Video Lottery Terminals (VLT)
 - Return to education is estimated at \$395 million per year
 - Club Keno
 - Quick draw game offered in age controlled social establishments
 - Two southern states currently offer Keno: Georgia and Kentucky
 - Return to education is estimated at \$27 million per year
 - Increased advertising spending as a percentage of revenue
 - Increase advertising spending to 1.5 to 2.0%
 - Potential return to education would be 31.5 to \$44.7 million
 - Lottery sales at ABC stores
 - Potential return of \$3.6 million to education per year

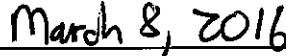
Commissioners weighed in on the effects of the options. Consensus was that advertising dollars would be the quickest way to increase the return to education.

Chairman Ballentine called the board into closed session to discuss the annual confidential audit review as well as a litigation update.

Open session resumed a short time later and, being no additional business, the meeting was adjourned.



W. Keith Ballentine, Chairman



Date