

North Carolina Education Lottery Commission Meeting

Meeting Minutes
Tuesday, September 19, 2017

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

Absent: Chris Shew

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, September 19, 2017, at 9:00 a.m. at the NCEL headquarters located at 2728 Capital Blvd, Raleigh, NC.

Chairman Crowder called the meeting to order and recognized new commission members Commissioner Tony Rand and Commissioner Randy Jones. Chairman Crowder congratulated Alice Garland on being inducted into the Lottery Hall of Fame. Ms. Garland was presented with flowers from the Commission and staff. Commissioner Baker also thanked Ms. Garland for her invitation and guidance to all commissioners that attended the NASPL Annual Meeting in Portland, Oregon.

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

Chairman Crowder presented the minutes from the June 6, 2017 Commission meeting. Commissioner Tyson made a motion to approve the minutes. Commissioner Baker seconded. The minutes were unanimously approved.

Finance and Audit Report

Financial Summary Fiscal Year 2017.

- Fiscal 2017 Review
- Year to Date Performance Charts

Financial Reports for the month of July 2017 and the one month of fiscal year 2018:
In the Statement of Net Position on page 3, July 2017 ended with Total Assets of \$236 million which included \$145 million in cash and \$71.1 million in Annuity Award Investments. Accounts

Receivable totaled \$5.7 million of which \$5.6 million represents net receipts from the gaming system to be collected via electronic funds transfer in August.

Total liabilities of \$235.5 million included \$51 million in outstanding prize awards and vendor accounts payable, \$71.1 million in long term annuity prize awards payable and \$83.6 million due to the State of North Carolina for Education.

Total Revenue for the one month of fiscal year 2018 totaled \$202.6 million. Ticket sales for the one (1) month of fiscal year 2018 totaled \$202 million, a 4.9% decrease or \$10.4 million from the one (1) month of fiscal year 2017.

Total gaming expenses including player prizes (\$128.5 million), retailer commissions and incentives (\$14.1 million) and Gaming System Services and Licenses (\$2.8 million) for the one (1) month of fiscal year 2018 totaled \$145.3 million or 71% of total revenue. Total administrative expenses, including salaries & fringe benefits, advertising and marketing and operational overhead totaled \$4.3 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, were \$7 million or 3.47% of total revenue.

Net Revenue earned for the Education Lottery Fund for the one (1) month of fiscal year 2018 totaled \$52.8 million or 26% of total revenue, a decrease of \$4.2 million or 7.8% from the one (1) month of fiscal year 2017. The total net revenue is running \$5.9 million or 12.6% ahead of our estimated budget target as approved by the commission in June.

Facilities Update:

Wilmington:

- NCEL received the Certificate of Occupancy on August 31, 2017
- Final up fit is currently in progress
- Spectrum Communications has advised the NCEL that due to the recent hurricane, they have committed resources to rebuilding infrastructure in the affected areas. As a result, our installation has been delayed until mid-October.
- Estimated move in date mid-November 2017.

Mike Suggs presented on the internal audit reports.

- Audit of Retailer Contracts
- Audit of Purchasing and Accounts Payable (emailed prior to meeting)
- SGI Independent audit on Instant Ticket Development and Production (no document, report distributed by request)
- SGI and IGT SOC I Type 2 report (no document, report distributed by request)
- Keno Risk Assessment

Operations and Personnel Committee Report

Commissioner Jody Tyson gave an overview of the agenda items discussed in the Operations and Personnel Committee meeting held on September 19, 2017.

- FY18 Bonus Plan – committee members have the proposed plan for employee bonus. The committee will meet again in December, before the commission meeting, and decide

which bonus structure will be used. This will be brought before the commission for a final vote.

- Volunteer Shared Leave Act – it was discussed that the Office of Human Resources would not allow regular state employees to share leave with NCEL employees because the NCEL has its own personnel system.
- Corporate Social Responsibility Policy – A draft of the Corporate Social Responsibility Policy was presented to the Commission for discussion and voting. Commissioner Beam proposed that a 12th item be added to the policy requiring vendors of NCEL be held responsible as well. A motion was made by Commissioner Beam to adopt the policy as drafted and amend with 12th item subsequently passed and added to the policy.

Closed Session

Commissioner Tyson made a motion for NCEL Commissioners to go into closed session to discuss personnel matter(s). The motion was seconded by Commissioner Ellis.

Revenue Generating Committee Report

Frank Suarez, Deputy Executive Director of Brand Management and Communications, gave an iLottery update.

Executive Director's Report

Alice Garland, Executive Director, gave an update on the HUB report, contracts over \$90,000, and Instant Ticket Facing sales.

Terri Avery-Fowler, Deputy Executive Director Sales gave a Keno update

- 492 Stay and play environments have been identified
- Sales staff are still in the recruiting stages
- NCEL Sales staff received 800 responses to inquiries they sent out for vendors interested in having Keno at their locations
- Retailers training will start on October 6, 2017
- 553 locations will go live on October 29, 2017

Sarah Hardin, Director of Government Affairs, gave an update on the Responsible Gaming Framework Level 4: Continuous Improvement application to the World Lottery Association. The application will be submitted on October 1, 2017. There is a six-week response time from application reviewers.

Frank Suarez, Deputy Executive Director of Brand Management and Communications, presented Brand Management quarterly update.

Cash Frenzy Scratch-Offs

- Launched 5 new games on July 4th
- TV and Radio on-air July 4 – 23 (3 weeks)
- Achieved \$141 million in overall July instant sales (+3% vs. July 2016)

August Scratch-Offs

- Launched 5 new games on August 1st
- TV and Radio on-air August 1 – 20 (3 weeks)
- Achieved \$141 million in overall August instant sales (+6% vs. July 2016)

Diamond Dazzler Scratch-Offs

- Launched 4 new games on September 5th
- TV and Radio on-air September 5 – 24 (3 weeks)
- Estimate instant sales to end up at \$141 million overall (+6% vs. September 2016)

Pick 3 Prize Doubler Promotion

- Popular Pick 3 Prize Doubler promotion returns
- Promotional Period: September 1 - 30
- Pick 3 sales are outperforming both month-to-date the previous year (+12%) and the same promotion in October 2016 (+16%)

North Carolina Keno Marketing Plan

- Attract new players and grow the NCEL player base in a meaningful way
- Educate players on how to play the game
- Introduce Keno to North Carolinians in an efficient and effective way


New website and mobile app re-designs will debut in October 2017


Recognition of Employees / Awards

Alice Garland, Executive Director, presented Joseph Norman, Director of Gaming Systems and David Nelms, Project Manager the Governors' Award of Excellence.

Ms. Garland presented Devin Barton the NASPL Powers Award

Being no further business, the meeting was adjourned.


Chairman


Date