

North Carolina Education Lottery Commission Meeting

Meeting Minutes

Tuesday, September 11, 2018

Commissioners in Attendance: Tony Rand, Chairman
Courtney Crowder
Morgan Beam
Buddy Bengel
Nicholas Picerno
Jody Tyson
Chris Shew
Jason Roth

Absent: Randy Jones

Staff in Attendance: Mark Michalko
Michelle Lassiter
Quan Kirk
Frank Suarez, Jr.
Mike Suggs
Terri Avery-Fowler

The North Carolina Education Lottery meeting was held on Tuesday, September 11, 2018, at 9:00 a.m. at the NCEL headquarters located at 2728 Capital Blvd, Raleigh, NC.

Chairman Tony Rand opened the meeting and greeted all Commissioners and meeting attendees.

Commissioners stood and recited pledge of allegiance.

Former Chairman Courtney Crowder gave his thanks to Commissioners and the NCEL for allowing him to lead the Commission in the past fiscal year. Chairman Rand thanked Commissioner Crowder for his service.

Approval of June 5, 2018 Minutes

Chairman Rand presented the minutes from the June 5, 2018 Commission meeting for Commission approval. Commissioner Jody Tyson made a motion to approve the minutes. Commissioner Buddy Bengel seconded. The minutes were unanimously approved.

Audit Report

Mike Suggs, Director of Internal Audit gave an overview of the following audit reports:

- Audit of Continuous Monitoring
- Audit of Corporate Social Responsible Gaming
- Audit Summary of Pollard and SGI Instant Ticket Security Controls
- Report on the “South Carolina Education Lottery’s Holiday Add-A-Play Game”
- Update on ongoing audits and open action items

Finance Committee Report

Michelle Lassiter, Director of Finance, gave an overview of the Financial Reports from the August 23, 2018 committee meeting.

Financial Summary Fiscal Year 2018

- Fiscal 2018 Review (PPT Presentation in Packet – Slide information below) Year end Audit
 - Cherry Bekaert currently conducting field work
 - Due date for CAFR to OSBM was August 20, 2018
 - Final Audit Due Date to State Controller is mid-September
- GASB 68 & GASB 75
 - The NCEL has applied the effect of the GASB directives regarding the adjustment to prior year earnings due to Pension / Retirement valuation.
 - As per the direction for OSBM, the re-evaluation has resulted in a negative net position of \$39.5 million on the NCEL's statement of Net Position as of June 30, 2018

Fiscal Year to Date Financial Reports for the one month of fiscal year 2019 ended July 31, 2018:

In the Statement of Net Position on page 3, July 2018 ended with Total Assets of \$205 million which included \$113 million in cash and \$78.9 million in Annuity Award Investments.

Accounts Receivable totaled \$10.6 million of which \$7.9 million represents net receipts from the gaming system to be collected via electronic funds transfer in August.

Total liabilities of \$239.8 million included \$45 million in outstanding prize awards and vendor accounts payable, \$78.9 million in long term annuity prize awards payable and \$79.5 million due to the State of North Carolina for Education.

Total Revenue for the one month of fiscal year 2019 totaled \$217 million. Ticket sales for the one (1) month of fiscal year 2019 totaled \$216.6 million a 7.2% increase or \$14.5 million over the one (1) month of fiscal year 2018.

Total gaming expenses including player prizes (\$139 m) retailer commissions and incentives (\$15.1 m) and Gaming System Services & Licenses (\$3.4 m) for the one (1) month of fiscal year 2019 totaled \$157.6 million or 72.6% of total revenue. Total administrative expenses, including salaries & benefits, advertising & marketing and operational overhead totaled \$4.1 million or 1.9% 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 \$7.6 million or 3.5% of total revenue.

Net Revenue earned for the Education Lottery Fund for the one (1) month of fiscal year 2019 totaled \$55 million or 25.4% of total revenue an increase of \$2.2 million or 4.2% from the one (1) month of fiscal year 2018. The total net revenue is running \$2.6 million or 5% ahead of our estimated budget target as approved by the commission in June.

Facilities Update:

Charlotte:

- 5 year lease extension finalized through February 2024
- Landlord provided renovations currently in progress

Operations and Personnel Committee Report

Commissioner Jody Tyson, Committee Chair, provided an update on the status of the compensation study that was presented to the committee on August 21, 2018. The following findings were reported to the Commission:

- North Carolina Education Lottery (NCEL) issued a request for proposal and contracted with MGT Consulting Group to conduct a Classification and Compensation study of its positions and benefits relative to total compensation. MGT submitted a final report to NCEL that provided the following:
 - Reviewed 125 unique job classifications and created corresponding job descriptions for each.
 - Revised Salary Schedule containing 28 pay grades
 - Implementation costs to move employees towards more competitive salaries.
 - Implementation strategies tailored to NCEL needs that can be used to bring employees up to these new salaries

The total implementation cost would be \$1,483,148.47. This would bring NCEL total payroll from \$14,024,718.55 up to \$15,507,867.02. In addition to being brought to the market minimum, the total cost of adjustments includes moving employees along the pay line based on years of service.

A motion was made to accept the study and implement over a two (2) year period by Commissioner Tyson. The motion was seconded by Commissioner Buddy Bengel. The vote was unanimously approved.

Commissioner Tyson also gave an overview of the 2016-2018 Undercover “Retailer Compliance Campaign” that was presented to the Operations and Personnel Committee. In November 2016, the NCEL Security Department began a Retailer Compliance Check (RCC) campaign. The primary purpose of this campaign was to verify the integrity of retailer ticket cashing operations and compliance with NCEL guidelines. An internal review process was used to identify retailers that would be included in the RCC. NCEL Investigators completed these operations with the assistance of local law enforcement officers or fellow NCEL investigators participating as undercover agents. NC Alcohol Law Enforcement (ALE) was the primary agency assisting NCEL Investigators with processing cases that resulted in actual criminal violations. The NCEL Security Department selected retailers for compliance checks using data from claims, complaints, case histories, and some randomly selected. This was to ensure different types of stores and geographical locations were included in the campaign. There were 247 Retailer Compliance Checks (RCC) conducted in 47 counties and 108 cities. Findings showed that 99% of checked retailers were in compliance. There were only 2 violations statewide. All violations are presented to the Retailer Review Committee for recommendations. The next Retailer Compliance Campaign will take place in during April and May 2019.

Revenue Generating Committee Report

Frank Suarez, Deputy Executive Director of Brand Management and Communications presented commissioners with the Brand Management Update.

- Hit Scratch-Offs
 - Launched 5 new games
 - Achieved \$145.6 million in instant ticket sales for July (+3.2% vs. PY)
- New \$30 Colossal Cash
 - Launched third \$30 scratch-off

- TV and radio on-air August 7 - 26
- Activations have totaled \$36.8 million since launch
- \$30 Activations +19% year over year
- August Scratch-Offs
 - Launch 4 additional games
 - Carolina Panthers scratch-off supported with digital advertising August 7 – 26
 - \$18.8 Million in Activations in August
- Cash 5 100k Days
 - \$100k Days promotion returns for one final time before game change
 - Jackpots start at \$100,000 August 1 - 31
 - Impact was lower than past promotions due to inability of jackpots to roll to higher levels
 - Jackpot won 8 times in August compared to monthly average of less than 6
- Keno Advertising Test
 - New Keno television and radio advertising
 - On-air test in Greensboro media market August 6 - 26
 - Achieved a growth of 2% in Keno sales vs. prior four week trend
 - Seasonality minimized impact
 - Strong retailer recruiting results
 - Plan to launch statewide advertising in November
- Back Scratch Scratch-Offs
 - Launching 4 new Back Scratch games
 - TV and radio advertising September 4 – 23
 - First lottery to create and launch a Back Scratch family of games
 - \$13 Million in Activations in the first week
- Pick 3 Prize Doubler Returns
 - Pick 3 Prize Doubler promotion returns September 1 - 30
 - Prizes double for winners when the green ball is drawn
 - 3 Green Ball Prize Doublers drawn to date
- Beneficiary Advertising and Brochures
 - Proud Moments campaign on-air August 27 – September 16 for back-to-school timeframe
 - New, simpler and updated beneficiary brochures will be provided at all play centers
 - Focus on impact to education in your county
 - Explains how dollars are utilized

Frank also gave an overview of the NCEL Player Demographic Study. Key takeaways were:

- Nearly half of North Carolina adults (46%) are lottery players.
- A few minor differences observed between lottery players and the overall population:
 - A higher percentage of lottery players are middle-aged (less young & old)
 - *42% are 35-54 y/o (lottery players) VS. 35% (gen-pop)*
 - A slightly higher percentage of lottery players are male
 - *52% are males (lottery players) VS. 49% (gen-pop)*
 - A slightly higher percentage of lottery players are African American
 - *23% are AA (lottery players) VS. 20% (gen-pop)*
 - A lower percentage of lottery players have completed university education
 - *25% have university (lottery players) VS. 29% (gen-pop)*

Sales Force Update

Terri Avery, Deputy Executive Director of Sales, gave a brief sales force update.

- Keno Update
 - 49 applications pending
 - Advertising to target Charlotte/Raleigh area
- Mark gave kudos to Terri and the sales team for conducting a great sales conference in Charlotte.

Executive Director’s Report

Mark Michalko, Executive Director, asked Commissioners to review the HUB Report and Contracts over \$90,000 that were provided in their packets. There were no questions.

The new Minority Business and Community Affairs Manager, Annette Taylor, will begin in September.

Chairman Rand introduced and welcomed the two new commissioners, Jason Roth and Nick Picerno.

Chairman Rand also gave an overview of the new committee structure for FY18-19:

Executive Committee

Tony Rand – Chair
Courtney Crowder
Jody Tyson
Chris Shew

Financial Matters

Jason Roth – Chair
Nick Picerno
Randy Jones
Morgan Beam

Internal Operations

Chris Shew - Chair
Jody Tyson
Morgan Beam
Buddy Bengel

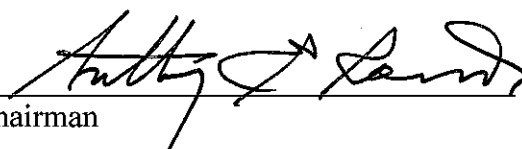
Games & Marketing

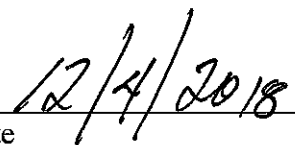
Buddy Bengel – Chair
Jason Roth
Courtney Crowder
Randy Jones

Community Affairs

Courtney Crowder - Chair
Jody Tyson
Nick Picerno

With no other business to discuss, Commissioner Crowder made a motion to adjourn the meeting. The motion was seconded by Commissioner Chris Shew. The meeting was adjourned at 11:00am.


Chairman


Date