

**North Carolina Education Lottery  
Commission Meeting**

**Meeting Minutes**  
Tuesday, March 5, 2019

*Commissioners in Attendance:*

- Tony Rand, Chairman
- Nick Picerno
- Morgan Beam
- Randy Jones
- Jody Tyson
- Jason Roth
- Courtney Crowder
- Chris Shew
- Buddy Bengel

*Staff in Attendance:*

- Mark Michalko
- Hayden Bauguess
- Bill Jourdain
- Quan Kirk
- Frank Suarez, Jr.
- Mike Suggs
- Annette Taylor
- Terri Avery
- Van Denton
- Tamara Wiggs

*The North Carolina Education Lottery meeting was held on Tuesday, March 05, 2019, at 10:00 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 the pledge of allegiance.

**Approval of December 4, 2018 Minutes**

Chairman Rand presented the minutes from the December 4, 2018 Commission meeting for Commission approval. Commissioner Bengel made a motion to approve the minutes. Commissioner Beam seconded. The minutes were unanimously approved.

**Committee Reports**

*\*Financial Matters Committee*

Commissioner Jason Roth, Committee Chair, asked Bill Jourdain to present the materials from February 18, 2019 committee meeting.

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:

In the Statement of Net Position on page 2 of the financial report, January 2019 ended with Total Assets of \$163.1 million, which included \$65 million in cash and \$77.5 million in Annuity Award Investments. Accounts Receivable totaled \$15.8 million of which \$15.3 million represents net receipts from the gaming system to be collected via electronic funds transfer in February.

Total liabilities of \$203 million included \$38.3 million in outstanding prize awards and vendor accounts payable, \$77.5 million in long-term annuity prize awards payable and \$59 million due to the State of North Carolina for Education.

Total Revenue for the seven months of fiscal year 2019 totaled \$1.603 billion. Ticket sales for the seven months of fiscal year 2019 totaled \$1.6 billion, a 6.55% increase or \$98.3 million over the seven months of fiscal year 2018.

Total gaming expenses including player prizes (\$1.02b) retailer commissions and incentives (\$111.9m) and Gaming System Services & Licenses (\$27.1m) for the seven months of fiscal year 2019 totaled \$1.16 billion or 72.6% of total revenue. Total administrative expenses, including salaries & benefits, advertising & marketing and operational overhead totaled \$35.2 million or 2.19% 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 \$63 million or 3.9% of total revenue.

Net Revenue earned for the Education Lottery Fund for the seven months of fiscal year 2019 totaled \$402 million or 25.1% of total revenue, an increase of \$14.2 million or 3.66% over the seven months of fiscal year 2018. The total net revenue is running \$20.5 million or 5.4% ahead of our estimated budget target as approved by the commission in June.

Fiscal 2019 year to date cash transfers to OSBM total \$415.7 million and include \$24.4 million in FY 2018 surplus funds dedicated toward Needs Based School Construction.

This brings the total funds transferred to the State to \$6.3 billion since inception.

Governor Cooper's Office advised the NCEL in October that \$25 million in Lottery Reserve Funds would be utilized to assist in School Repair Hurricane Relief. As a result of this transfer, the balance in the Lottery Reserve Fund totals \$88.1 million as of January 31, 2019.

*\*Internal Operations Committee*

Commissioner Shew, Committee Chair, gave a brief explanation of the discussion from the February 18, 2019 committee meeting.

Mike Suggs, Director of Internal Audit, gave commissioners a brief overview of the committee meeting report and findings for the Audit Report for Audit of Purchasing, Accounts Payable, and Fixed Assets, Audit of Promotions and Promotional Events, Audit of Travel and Motor Fleet and the Performance Audit. The Audit of Contracts and the Audit of Continuous Monitoring were not complete and will be presented at the next committee and Commission meeting.

- Audit of Promotions and Events – It was determined during the audit that NCEL was due a reimbursement from BeSpoke because of services not rendered. Commissioners are concerned with the 90 day timeframe it has taken to resolve the reimbursement owed.

- It was recommended that Mark and NCEL staff either create or revise current processes and procedures and present those to the Commission for approval.
- There was also a concern with background checks on third party vendors
  - Commissioner Beam suggested that the discussion to review and improve background checks for vendors be added to the next Internal Operations committee meeting agenda.

Marbet Cuthbert, Director of Human Resources, presented the fiscal 2019 bonus plan to Commissioners. Commissioner Tyson wanted to make it clear that employees should not be expect bonuses every year, and that bonuses are only for extraordinary achievements in sales. A motion was made by Commissioner Shew to accept the 2019 bonus plan for NCEL employees. The motion was seconded by Commissioner Roth. The motion was unanimously passed.

*\*Games & Marketing Committee*

Commissioner Buddy Bengel, Committee Chair, gave commissioners a brief overview of what was discussed during the committee meeting on February 18, 2019.

**Brand Management Update**

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

- January Scratch-Offs
  - Launched 4 new games
    - Silver Dollar (\$1) - 97
    - Quick Cash (\$2) - 92
    - Money Ball Bingo (\$3) - 99
    - Monopoly Frenzy (\$5) - 91
    - \$50 or \$100 (\$10) - 119
  - Achieved \$167.27 million in instant ticket sales
- Jackpot Game Advertising
  - Continues Jackpot Game advertising campaign
- February Scratch-Offs
  - Launched five multiplier themed games in February
    - 5X The Cash (\$1) – 122
    - 10X The Cash (\$2) - 127
    - 15X The Cash Crossword (\$3) - 166
    - 20X The Cash (\$5) - 161
    - 50X The Cash (\$10) - 136
  - Second Chance Promotion with 4 drawings
  - Achieved \$149 million in instant ticket sales for January (+11% vs. PY)
- February – Pick 3 Double Draw
  - Promotion ran from Feb. 1 – Feb. 28
  - 11 Red Balls drawn
  - \$2,673,767 million in Double Draw prizes awarded
  - February sales were +20% compared to last year
  - Positive player response to increased payout
- NC School Heroes

- At ncschoolheroes.com, adults can nominate the School Hero who made a difference in their life or the life of their student.
- Nominations and Voting (February 18 – March 31)
- 10 Winners selected
- Winner receives \$10,000 for themselves and \$10,000 for their school. Nominator receives \$1,000
- Marketing efforts designed to drive nominations across the state
- March Scratch-Offs
  - Carolina Black (\$5)
    - One of the most popular games in NCEL history
    - Launched 3 times previously
    - Last launched in May 2016
    - 100X the Cash (\$20)
    - \$20 addition to the X the Cash family
    - Qualifies for 2nd Chance promo
    - Keep X the Cash top of mind
    - Lucky You (\$1)
    - Lady Luck Doubler (\$2)
- Keno Recruiting
  - Keno Retail Count (Active/Selling Keno Retailers)
  - Jan 1, 2019 – 612
  - Feb. 28, 2019 - 645
  - Pending Applications - 65
- Keno Sales
  - Keno Sales thru February 28, 2019 - \$27,121,618
  - Average weekly sales - \$890,000
- Recruitment
  - Streamlined the application process
  - Updated the Recruitment Brochure to include Carolina Keno retailers' testimonials
  - Tailored classroom Training for Keno Retailers
  - Assembled direct mail campaigns
  - Increase frequency of visits to Keno retailers
  - Full-time recruitment campaign with ten (10) of our top sales recruiters.
  - Well received Partner Play and/or Bonus Hour promotions
  - Accelerate efforts to overcome wait staff resistance to the labor-intensive nature of the game, especially with 5-minute drawings
  - Recommend purchasing 500 self-service kiosks with strict adherence to Social criteria

Commissioner Tyson asked if anyone has done any research concerning the integration timeline with Carolina Keno (Keno on Demand). The research will be completed once they have approval from the Commission to move forward.

#### Sales Update

Terri Avery, Deputy Executive Director of Sales, presented Commissioners information from the revised Keno recruitment plan:

- 10 dedicated Keno recruiting sales representatives
- 34 new retailers have been added
- 50 pending applications
- Keno has had its first one million dollar week (February 2019)
- Working with IGT to install self-service terminals – All installations should be complete by 12/31/2019.

Ms. Avery will send a copy of the revised recruitment plan to all commissioners.

*\*Community Matters Committee*

Hayden Bauguess, Director of Government Affairs – reported on ongoing legislative happenings:

- The Governor is expected to release the budget on March 6, 2018
- Senate Bill 165 – Paramutuel betting – will allow the commission to license off track horse betting
- Senate Bill 154 – Enable wagering on sporting events on tribal territory

Mr. Bauguess has been receiving inquiries about the commission’s position on sports betting. Commissioner Tyson suggested that their response be “If it be the will of the General Assembly, we feel the NCEL will be the best agency to facilitate”.

The committee will reschedule its missed committee meeting for presentation and discussion(s) on sports betting and digital instants.

Annette Taylor, Minority Business and Community Affairs Manager, shared information and handouts with commissioners about the NCEL’s involvement with the CIAA Business Leadership Symposium. Staff spoke with approximately 400 attendees and shared information about internships and future employment opportunities with NCEL. Mark thank Annette for her long hours and hard work in her new position.

**Executive Report**

Mark Michalko, Executive Director, asked Commissioners to review the Contracts over \$90,000 and the HUB reports provided in their packets. He informed the Commissioners that moving forward, Annette would be presenting the HUB report in her section. There were no questions or additional comments.

Mr. Michalko gave an update on the Department of Justice’s latest opinion on the Wire Act. NCEL has been in communications with our Attorney General’s Office. Chairman Rand suggested that the Commission send a resolution to the Attorney General’s Office to join in as an amicus party with New Hampshire to support the position that this interpretation of the Wire Act would destroy the lottery industry.

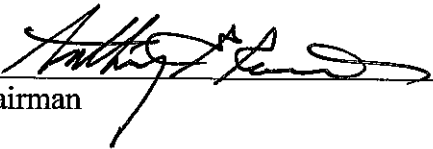
Commissioner Tyson made a motion to draft a resolution to be sent to the Attorney General’s Office. The motion was seconded by Commissioner Crowder. The motion was unanimously passed. A draft of the resolution would be provided to Commissioners for review before the Commission meeting is adjourned.

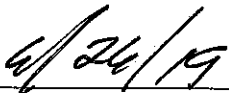
**Closed session**

A motion to go into closed session was made by Commissioner Crowder. Motion seconded by Commissioner Tyson. By unanimous decision, the commission went into closed "Pursuant to North Carolina General Statutes Section 143-318.11 (a)(1) – Discuss a confidential personnel matter or prevent disclosure of privileged or confidential information". Closed session began at 11:45am

The Commission meeting reconvened in open session at 1:07pm.

With no other business to discuss the meeting was adjourned at 1:08pm.

  
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Chairman

  
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Date