

**North Carolina Education Lottery
Commission Meeting
Webex Video Conference**

Meeting Minutes

Tuesday, March 16, 2021

Commissioners in Attendance:

Brad Adcock, Chairman
Nick Picerno
Jody Tyson
Chris Shew
Morgan Beam
Randy Jones
Pam Whitaker
Jason Roth
Nigel Long

Staff in Attendance:

Mark Michalko	Bill Jourdain
Mike Suggs	Billy Traurig
Frank Suarez	Randy Spielman
Terri Avery	Marbet Cuthbert
Hayden Bauguess	George Walker
Joe Cosgriff	Michelle Lassiter
Tony Chung	Daniel Rose
David Nelms	Stacy Askew
Tammy Wiggs	Walter Ingram
Reggie Barnes	
Van Denton	

Other Participants on Call:

Benjamin T. Spangler, Assistant Attorney General,
Department of Justice

The North Carolina Education Lottery meeting was held on Tuesday, March 16, 2021, at 10:00 a.m. via Webex video conference call.

Chairman Brad Adcock opened the meeting and greeted all Commissioners and meeting attendees. He also recognized NCEL Commissioner Nigel Long as a fully appointed voting member of the Commission.

Felicia McCullough, Executive Assistant, read the roll call for attending Commissioners. All were present.

Chairman led the pledge of allegiance.

Billy Traurig, Chief Legal Officer, read remote meeting announcements.

Approval of Minutes

Chairman Adcock asked Commissioners to review minutes from the December 15, 2020 meeting. Commissioner Long asked if the concerns listed in the business section of the minutes are being addressed. Chairman Adcock assured him that all issues are being addressed during this meeting or are in transition. A motion was made by Commissioner Picerno to approve the minutes as presented. The motion was seconded by Commissioner Long. With a unanimous vote the minutes were accepted and approved as presented.

Committee Reports

Finance and Audit Committee

Finance Update

Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the financial update:

Statement of Net Position

- Total Assets of \$223 Million Includes:
 - \$99 Million in Cash
 - \$79 Million In Annuity Award Investments
- Accounts Receivable of \$37 Million
 - \$36.3 Million in gaming system receipts to be collected in February via electronic funds transfer

Statement of Net Position

- Total Liabilities of \$265 Million which includes:
 - \$35 Million in outstanding prize awards and vendor accounts payable
 - \$79 Million in Annuity prize awards payable
 - \$99 Million due to the State of North Carolina for Education

Statement of Revenues, Expenses and Changes in Net Position

- Total Revenue of \$2.120 Billion
- Total Gaming Expenses of \$1.553 Billion or 73.3% of revenue including:
 - Prizes \$1.37 Billion
 - Retailer Commissions and Incentives \$145 Million
 - Gaming System Services and Licenses \$ 40 Million
- Administration Expenses Including Salaries & Benefits, Advertising & Marketing and operational overhead totaled \$41 Million or 1.9% of revenue.
- As a result of these numbers the NCEL's administrative expenses, as identified in G.S. 18C-162(a)(3) which limits expenditures to 8% of total revenue, were \$82 Million or 3.87% of total revenue.

Cash Transfers to Office of State Budget and Management

- Fiscal 2021 year to date cash transfers, to the Office of State Budget and Management, through March 8, 2021 totaled \$584.6 Million.
- The transfers include \$27.7 Million in FY 2020 surplus funds that were allocated toward need based school construction.
- As of March 15, 2021, the balance in the Lottery Reserve Fund totaled \$45.66 Million and includes \$190,000 in earned interest in fiscal year 2021.

This brings the total funds transferred to the State, from the North Carolina Education Lottery, to \$7.9 Billion since inception.

Discussion:

Commissioner Long – What drove the reduction in the marketing line item. Frank Suarez, Deputy Executive Director of Brand Management and Communications, explained that in addition to the Commission reducing the budget, sports sponsorships were lower and the media is billed later by several months which creates a lag.

Commissioner Long – Since we are roughly \$25 Million ahead in earnings will the budget target increase by that much? Mr. Jourdain explained that the budget target will remain at the target of \$703.3 Million as required by the statute. NCEL is assigned a continuing budget of \$701 Million. Any surplus will go to need based school construction.

Internal Audit Updates

Mike Suggs, Director of Internal Audit, gave Commissioners an update on completed internal audits:

- Audit of Recruitment, Benefits, Payroll, and Leave
- Audit of Continuous Monitoring
- Update on Performance Audit

Revenue Generating Committee

Brand Management Update

Frank Suarez, Deputy Executive Director of Brand Management and Communications gave an update on the following:

Revenue Generating Committee Meeting Summary

Advertising Calendar and Budget

- Reviewed advertising calendar for remainder of the year – highlighted key changes including swapping of Keno and Beneficiary advertising flights
- Presented advertising budget update – slight movement of funds from radio to TV

WLA Level 4 Recertification Update

- Recertification process is moving as planned
- Received strong, positive feedback from reviewing vendor

15th Anniversary

- Presented marketing and communications for 15th anniversary

Brand Management 3rd Quarter FY21 Update:

- Jackpot Awareness
 - Powerball and Mega Millions jackpots were both above \$300 Million
 - Broadcast and streaming radio on-air January 4, 2021 – January 18, 2021
 - Also included digital online play advertising January 15, 2021 – January 22, 2021 to remind players that the jackpot games could be purchased online
- January Scratch-Offs
 - Launched 4 new games
 - Blackjack (\$1)
 - Quick \$100s (\$2)
 - Mega Bucks (\$5)
 - \$100X the Cash (\$20)
 - TV, radio and social on-air January 5, 2021 – January 24, 2021
- January Scratch-Off TV
- January Scratch-offs Social Promotion
- Fast Play New Games
 - Launched four new Fast Play games
 - Frosty \$50's (\$2)

- Bingo Buck's (\$2)
 - Blizzard Bingo (\$5)
 - Red Hot Numbers (\$5)
 - Promoted via TV, radio, digital and social January 18, 2021 – February 7, 2021
- Fast Play TV
- Fast Play Digital and Social
 - Social Media Promotion & Posts
 - Digital Video Pre-Roll Adds
 - Digital Display Ads
- Fast Play Promotion
 - Buy One Get One Free promotion
 - Buy any Fast Play ticket and get a free \$2 ticket
 - Every Friday in February
- First Tuesday Refresh
 - Developed new TV and radio ads to refresh First Tuesday
 - Last First Tuesday refresh launched in 2018
 - New spots aired January 28, 2021 – February 1, 2021
- February Multiplier Scratch-Offs
 - Launched 5 new games in February
 - 5X the Cash (\$1)
 - 10X the Cash (\$2)
 - 15X the Cash (\$3)
 - 20X the Cash (\$5)
 - 50X the Cash (\$10)
- TV and radio on-air February 2, 2021 – February 21, 2021
- Leverage prior year creative for cost efficiencies
- Multiplier Scratch-Offs TV
- Multiplier Scratch-Offs Social Media
 - Social Media Promotion
 - Social Media Video Posts
- Pick 3 Double Draw: POS, Digital & Social
 - Pick 3 Double Draw promotion March 1, 2021 – March 31, 2021
 - Point-of-Sale and Multimedia at Retail
 - Ad units on digital and social media channels
- March Scratch-Offs
 - Launched new \$30 ticket along with three additional new games
 - Lucke Bonus Cash (\$2)
 - VIP Cashword (\$5)
 - Ca\$h Plu\$ (\$5)
 - Millionaire Maker (\$30)
 - Millionaire Maker featured in TV, radio and social March 2, 2021 – March 21, 2021
- Millionaire Maker TV
- Millionaire Maker Social Media
 - Social Media Posts
 - Winner Posts
- Millionaire Maker Social Media
 - Keno advertising re-hit airing March 1, 2021 – March 21, 2021

- Utilized advertising and marketing assets from campaign launched in November 2020
- Carolina Keno TV
- Carolina Keno Re-Hit Digital and Social
 - Digital Display
 - Social Media Posts
- Problem Gambling Awareness Month
 - March is Problem Gambling Awareness Month
 - Raise awareness of problem gambling and available resources
- Updated Play Smart Campaign
 - Play Smart marketing updated with more compelling message
 - Raise awareness of problem gambling prevention resources – going beyond treatment
 - TV, radio, and social
- Play Smart TV
 - 2020 NC School Heroes
 - 10 new 2020 NC School Heroes awarded
 - Press release, email, blog and social video posts released to drive awareness
- 15th Anniversary
 - 15th anniversary on March 30, 2021
 - The 15th anniversary plan will acknowledge and celebrate the beneficiary and business contributions the NCEL has made in the last 15 years.
 - The plan is to celebrate the 15th anniversary March through June 2021, with the majority of the activities occurring in mid-March and April.
- 15th Anniversary Elements Across Platforms and Channels
 - Lucke-Rewards Drawing
 - Multi-Media POS
 - Social Media
 - NCLottery.com
 - Lottery Link Newsletter and Retailer Promotion
 - Email and Blog

Product Development Update

Randy Spielman, Deputy Executive Director of Product Development & Digital Gaming, gave an update from the Revenue Generating Committee Meeting:

REVENUE GENERATING COMMITTEE OVERVIEW

- Multi-State Jackpot Impact on Online Play
 - New trends emerging among Jackpot game players
 - Key metrics
 - Future implications
 - Digital Instant Performance
 - Update on Virginia's recent program launch
 - Projection comparison based on recent trends/data

3rd Quarter Scratch-off Game Review

Q3 Scratch-Off Game Launches – January, February and March Games

Performance Update

Recent Game Trends

- Scratch-off and Pick 3 / Pick 4 Sales Picked Up in January and February

- Scratch-off and Pick 3 / Pick 4 experienced the biggest positive impact this year –
 - Scratch-off: +24.8%
 - Pick 3: +26.6%
 - Pick 4: +23.0%
- Current NC trend mirrors national trends at a higher level
- Recent (post pandemic) migration from lower price point Scratch-offs to higher price points
- Jackpot run in January resulted in a significant increase in PB and MM sales

Online Play Trends – Post Jackpot

- Online Play growth accelerated with the recent multi-state jackpot runs in January

Fast Play Updates

- FY21 Fast Play - Fast Play Game Plan
 - September (Games Available)
 - \$2 – 3
 - \$5 – 2
 - \$10 – 1
 - January (7 Games Available)
 - \$2 – 2
 - \$5 – 2
 - April (9 Games Available)
 - \$2 – 2
 - \$5 – 2
 - \$1- - 1
- Promotion – Buy \$10 Draw Game, Get a Free FP Promotion – \$2 Game BOGO Feb. Fridays

Fast Play Results - Strong Performance Continues thru 24 Weeks

- New Draw Game Performance
 - Continuous support via promotions, new game launches and Advertising in the first year has led to sustained performance
 - \$44 Million in sales through February
 - 245% ahead of budgeted sales to date
 - 2nd best Fast Play launch for IGT states (MI)
 - Sales settling in post promotion and advertising activity; anticipate more dependency on the jackpot level

Sales Update

Terri Avery, Deputy Executive Director of Sales, gave the following update:

3rd Quarter FY21 January – March

Keno Update

- Over \$52 Million in sales for FY21
- Up 30% over LY actual sales
- Up 1.65% over Budget
- 33 Keno Retailers inactive due to Covid-19

Retailer Commission Growth

- Start up with 5,763 retailers an average yearly commission of \$2,742
- Currently there are 7,145 retailers with an average yearly commission of \$29,436

15 Year Anniversary Retailer Promotion

- 5 Week entry period
- One entry for every 15 packs of activated to sell

- \$15,000 & \$1,500 prizes to be awarded
- \$315,000 in total prizes
- Drive retailer sales, engagement & show appreciation

Operations and Personnel Committee

Human Resources Update

Marbet Cuthbert, Director of Human Resources presented on the following:

- Annual Review Process for Executive Director – The process will establish an annual evaluation for the Executive Director. It will also make the Executive Director eligible for the bonus program.
 - Chairman Adcock took the opportunity to acknowledge a miscommunication on the agenda during the Operations and Personnel Committee meeting. This item was not properly identified as ‘Action Item’. Even though the topic was reviewed, discussed, and unanimously passed during the committee meeting, it will need to go back to the committee in June with the appropriate label of ‘action item’. The committee will vote again on the item and report during the June Commission meeting.
- 4.17A – Pay Administration Policy Revision - An internal audit discovered that NCEL was not enforcing the policy of redlining. Human Resources is proposing to remove redlining from the policy in order to bring the policy in line with practice. There would be minimal impact to staff and the budget. After discussion a motion was made by Commissioner Shew to accept the policy revision. A second to the motion was not required. With a unanimous vote the revision was approved.

Executive Director’s Report

- *Contracts over \$90,000*
Mark Michalko asked Commissioners to review the document provided in their packets. There were no questions or concerns.
- *HUB Report*
Commissioners were asked to review the document provided in their packets. Commissioner Long would like the following breakdowns: (1) breakdown by spend category, (2) breakdown by historically underutilized business group, (3) trending in those spend categories. Mr. Jourdain will send the requested information for future meetings.
- *Legislative Update*
Hayden Bauguess, Director of Government Affairs gave the following update:
 - General Assembly currently focused on the Covid Relief package
 - Moving into the budget talks/process with OSBM and fiscal research
 - There have been no legislative filings that affect NCEL

Other Business

Commissioner Tyson – Expressed concerns about the legal department and that what the Commission sought in restructuring it has not come to fruition.

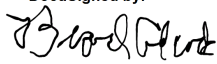
Chairman Adcock – the Statement of Economic Interest email notifications have been sent. Please complete statement and return. Also notify Mr. Traurig that it has been sent in.

Chairman Adcock also requested the Commission to remember to be mindful of how in communications with each other and staff. There needs to be respect, decorum, and everyone should treat each other justly.

Commissioner Picerno wanted to congratulate Frank Suarez, Terri Avery and Randy Spielman on the performance numbers and sales.

Adjourn

With no other business to discuss the meeting was adjourned at 11:50am.

DocuSigned by:

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Chairman

8/10/2021
Date