

**North Carolina Education Lottery  
Commission Meeting**

**Meeting Minutes**

Tuesday, December 4, 2018

*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

*The North Carolina Education Lottery meeting was held on Tuesday, December 4, 2018, 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 pledge of allegiance.

Chairman Rand asked for a moment of silence in remembrance of President Bush.

**Approval of September 11, 2018 Minutes**

Chairman Rand presented the minutes from the September 11, 2018 Commission meeting for Commission approval. Commissioner Bengel made a motion to approve the minutes. Commissioner Crowder seconded. The minutes were unanimously approved.

**New Employee Introduction**

Mark Michalko, Executive Director, introduced two new NCEL employees.

- Annette Taylor, Minority Business and Community Affairs Manager
- Hayden Bauguess, Director of Government Affairs

## **Problem Gambling Helpline report**

Smith Worth, Allison Drain, Dr. Tracey Poe presented statics and research findings to commissioners from the Problem Gambling Helpline.

- From July 2017-June 2018 there were a total of 6,133 intake/clinical calls. Of those calls 667 were intake/clinical calls.

## **Committee Reports**

### *\*Financial Matters Committee*

Fiscal Year to Date Financial Reports for the four months of fiscal year 2019 ended October 31, 2018:

- In the Statement of Net Position, October 2018 ended with Total Assets of \$205 million which included \$111 million in cash and \$77.7 million in Annuity Award Investments.
- Accounts Receivable totaled \$11.6 million of which \$9.5 million represents net receipts from the gaming system to be collected via electronic funds transfer in November.
- Total liabilities of \$245 million included \$50 million in outstanding prize awards and vendor accounts payable, \$77.7 million in long term annuity prize awards payable and \$78 million due to the State of North Carolina for Education.
- Total Revenue for the four months of fiscal year 2019 totaled \$913 million. Ticket sales for the four (4) months of fiscal year 2019 totaled \$911.2 million, a 9.4% increase or \$78.2 million over the four (4) months of fiscal year 2018.
- Total gaming expenses including player prizes (\$579 m) retailer commissions and incentives (\$63.3 m) and Gaming System Services & Licenses (\$13.8 m) for the four (4) month of fiscal year 2019 totaled \$657 million or 71.9% of total revenue.
- Total administrative expenses, including salaries & benefits, advertising & marketing and operational overhead totaled \$20.6 million or 2.25% 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 \$34.8 million or 3.8% of total revenue.
- Net Revenue earned for the Education Lottery Fund for the four (4) months of fiscal year 2019 totaled \$234.8 million or 25.7% of total revenue an increase of \$18.4 million or 8.5% over the four (4) months of fiscal year 2018. The total net revenue is running \$19.4 million or 9% ahead of our estimated budget target as approved by the commission in June.
- Fiscal 2019 year to date cash transfers to OSBM total \$211.9 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 \$6.1 billion since inception.
- Governor Cooper 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 Fund totals \$87.7 million. It is anticipated that the Lottery Reserve Fund will be reimbursed once the State receives the Hurricane Relief FEMA dollars from the Federal Government.

April Adams, Cherry Bekaert CPAs & Advisors, gave a brief overview of the external audit report completed in October of 2018.

Summary:

- NCEL was issued a clean opinion
- There were no adjusted journal entries
- There were no past adjusted journal entries
- GASB 75 was successfully implemented

- There were no internal control findings
- NCEL management cooperated fully with auditors

*\*Internal Operations Committee*

Commissioner Shew gave a brief explanation of the discussion from the November committee meeting.

Mike Suggs, Director of Internal Audit, gave commissioners a brief overview of the committee meeting report and findings for the Recruitment, Salary Administration, Benefits, Payroll and Leave Audit and the Audit of Draw Games. He reviewed successes and also areas of improvement for both areas that were audited.

*\*Games & Marketing Committee*

Commissioner Bengel gave commissioners a brief overview of what was discussed during the committee meeting on November 19<sup>th</sup>.

Brand Management Update

- October Scratch-Offs
  - Launched 4 new games:
    - Winner Winner Chicken Dinner (\$1)
    - Double Match (\$2)
    - Powerball / Mega Millions Scratch-off (\$5)
    - \$150 Million Cash Explosion (\$20)
    - Achieved \$156.9 million in instant ticket activations for October
- Jackpot Game Advertising
  - Started a new Jackpot Game advertising campaign
  - TV and radio on-air October 1 - 20
  - Scheduled to air again in January
- Powerball Mega Millions Promo
  - Promotion ran the month of October
  - Buy \$10+ of Powerball or Mega Millions and enter to win a pack of MM/PB Scratch-off tickets
  - 100 packs per week were awarded for a total of 5 weeks
  - First time running a Promo that combined Draw and Scratch-off games
  - Received 442,779 total entries into the drawings
- October Jackpots
  - Peak Sales Rate - \$28,700 per minute
  - Winning Tickets - 407,312 (Oct. 23)
  - Tickets Printed - 2,692,419 (Oct. 23)
  - New Members Lucke-Rewards - 91,000
  - Total PB and MM Sales (Oct) - \$82 million
- Holiday Scratch-Offs
  - Launched five holiday themed games in November
    - Happy Holidays (\$1)
    - 'Tis the Season (\$2)
    - Holiday Cheer (\$3)
    - Holiday Cash (\$5)
    - Merry & Bright (\$10)
    - TV and Radio on-air November 5 - 24

- Achieved \$150.4 million in instant ticket activations
- Keno Advertising / Promo
  - New Keno statewide television and radio advertising on air November 5 – 24
  - November promotion to award 5,000 free Keno tickets per day when other draw games are played
  - Keno sales up 11% over previous weeks
    - Sales up \$74,000 per week or \$260,000 during promotion/advertising period
- Cash 5 Game Change
  - Starting jackpot doubled to \$100,000
  - All prizes now set amount (shared/pari-mutual prior)
  - Generate excitement earlier and produce higher jackpots
  - Digital advertising campaign running November 5 – December 22 (7 weeks)
  - Since game change, sales are +17%
- December Scratch-Offs
  - Launching 4 new Scratch-off games
    - 2019 (\$1)
    - Neon 7's (\$2)
    - Loteria (\$3)
    - Win It All (\$5)
  - TV and radio advertising on air December 3 –22
  - Big Money Playbook – 6 games for \$20 (Oversized Dispenser)

There was one correction to be made to the committee meeting minutes from Commissioner Bengel with Commissioner Jason Roth in attendance rather than Commissioner Picerno

*\*Community Matters Committee*

Commissioner Crowder gave a brief overview of the committee discussion from November's meeting.

Hayden Bauguess explained to commissioners his key focus will be educating the general assembly on the NCEL and its operations. The General Assembly was back in session on November 27, 2018.

Items being discussed:

- \*Technical corrections bills
- \*Sports betting possibility
- \*Possible bill in 2019 for anonymous winners

The committee will create blurbs on positions of what the NCEL supports and why. The statements will be presented to the commission for approval.

**Draw Auditing and Related Services RFP Report and Recommendation for Contract Award**

Tim Rink, Information Security Manager, provided a summary of the RFP process and recommendation report to the commission. The review committee consisted of team members Joe Cosgriff, George Alfonso and Tim Rink.

The RFP was issued on Sept. 5, 2018. The current contract expires at the end of the calendar year (2018). The review committee received one proposal from NCEL's current vendor Thomas and Gibbs. The Committee recommended the award of the draw auditing contract to Thomas Gibbs. A motion was made by Commissioner Tyson to accept the recommendation by the review

committee. The motion was seconded by Commissioner Picerno. The motion was unanimously passed.

**Executive Report**

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

**Closed session**

A motion to go into closed session was made by Commissioner Tyson. Motion seconded by Commissioner Roth. By unanimous decision, the commission went into closed session for the annual audit discussion.

The Commission meeting reconvened in open session at 12:13pm.

With no other business to discuss the meeting was adjourned at 12:14pm

Tony Romo  
Chairman

3/5/19  
Date