

**North Carolina Education Lottery  
Commission Budget Work Session  
Webex Video Conference**

**Meeting Minutes**  
Wednesday, May 19, 2021

*Commissioners in Attendance:* Brad Adcock, Chairman  
Nigel Long  
Nick Picerno  
Jason Roth  
Chris Shew  
Pamela Whitaker

*Absent:* Morgan Beam  
Randy Jones  
Jody Tyson

*Staff in Attendance:*

Mark Michalko	Daniel Rose
Bill Jourdain	George Walker
Frank Suarez	Joe Cosgriff
Randy Spielman	Joe Norman
Terri Avery	Michelle Lassiter
Tony Chung	Reggie Barnes
Billy Traurig	Stacy Askew
Hayden Bauguess	Susan Singley
Marbet Cuthbert	Tami Wiggs
Mike Suggs	Van Denton

*The NCEL Commission held a WebEx video conference Budget Work Session on Wednesday, May 19, 2021 at 10:00am.*

Commission Chairman Brad Adcock called the meeting to order and Commissioners and attendees.

Roll Call of commission members.

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

Chairman Adcock read the ethics announcement.

Commissioners and meeting attendees recited the Pledge of Allegiance lead by Chairman Adcock.

Chairman Adcock informed Commission members the meeting was to receive information and discuss agenda items.

**NCEL Performance Audit – Information and Discussion Only**

Herb Delehanty, Principal of Delehanty Consulting, LLC presented the Commission with the NCEL 2020 Performance Audit, reporting the NCEL has maintained the distinction of being the only lottery

in the US having increased sales every year it has been in operation. This may be hard to maintain going forth because -

- The NCEL's maturation of current portfolio having done all things on platform.
- Jackpot performance for Powerball and Mega Millions has pushed sales.
- Fiscal year 20-21 will be a great year for lottery sales, it also presents a challenge and set a high bar for NCEL going forth.

The performance report included the following information.

1. *Performance* – NC is 4<sup>th</sup> out of 6 with profit margin increase of 24.9%; with a 5-year trend of 8.8% annual growth in operating revenue and 6.8% annual growth in operating income.
2. *Multi-state Product Study* –
  - Lucky for Life increase draws from 3 to 7 per week should increase income \$8.5mm (40% increase per week), and
  - Powerball draws at 3 per week should increase revenue \$13.3mm-\$14.1mm during standard year without extraordinary jackpot.
3. *Scratch-off Games Financial Performance* –
  - actual payouts did not exceed planned payouts for any of the sample 15 games;
  - actual net profit was 98.93% of planned net profits and actual sales were 91.94% of planned sales;
  - analyzes of prizes over \$1mm and \$100k - \$1mm are appropriately distributed.
4. *Scratch-off Games Financial Performance & Product Mix* – NCEL has had the 3<sup>rd</sup> highest growth rate from 2015 to 2019 among the top performing lotteries with its instant ticket growth.
5. *Advertising Audit* – NCEL advertising is consistent with goals and best practices, whether goods and services were delivered, accuracy of invoices for goods and services delivered, and actual cost versus budgeted cost. Some recommendations were made on billing guidelines for internal audit purposes only.
6. *Retailer Support* – analysis of data gathered from gaming system for one week and formulated the following.
  - data captured and recorded accurately;
  - service and availability metrics for accuracy and quality of reporting;
  - recommendations for performance improvements included quality of data collected and reporting; review high-value metrics and trends on a monthly basis; improve quality of data collected and reported and focus on issue avoidance and increased recovery time.

#### **Financial Accounting System Upgrade – Action Item**

Bill Jourdain, Deputy Executive Director of Finance, Administration and Security presented the Commission information requesting a waiver of competition for upgrade of the current financial system.

Bidder Crowe LLP was awarded the contract to convert the NCEL accounting system from the state ledger system to AX Dynamics in June 2014 and successful conversion completed in May 2015. Crowe has awareness of entire financial system and has provided support since implementation.

Approval of this waiver will allow the NCEL to continue our relationship with Crowe and contract with their firm to provide a fully functional migration of all current software modules and related system interfaces to the new Dynamics 365 platform.

The cost for implementation of Dynamics 365 conversion and support of existing software modules is \$597,000 (a capital investment and will depreciate over seven years with an annual budget impact of \$85,300).

Optional Expense Management module would allow for online filing and reporting of travel expense reimbursements. The cost of implementation is \$60,000 (a capital investment and will depreciate over seven years with an annual budget impact of \$8,600). This portion is currently being evaluated.

Commission approval is requested as cost exceeds the \$300,000 threshold of Executive Director's signing authority.

### *Discussion*

Commissioner Whitaker inquired as to what system is currently being used for expense management. Mr. Jourdain stated the existing process is manual using Excel and producing paper copy.

Commissioner Long inquired as to recommendation of Finance Committee on optional Expense Management system. Chairman Adcock stated and Commissioner Roth concurred that approval was given for system upgrade as requested with understanding that Mr. Jourdain and his team would continue to evaluate Expense Management module and decide later.

Mr. Jourdain informed the Commission that vendor provided the option as part of the proposal package with the understanding that price would increase if not selected as part of the upgrade, but further evaluation is being conducted.

A motion was made by Commissioner Roth for the Commission to approve the request for the waiver and full system upgrade. Commissioner Adcock stated no second was needed on the motion. The motion passed unanimously.

### **Product Development Plan for Fiscal Year 2021-22**

Randy Spielman, Deputy Executive Director of Product Development & Digital Gaming discussed plan for revenue growth.

### **Summary**

- The NCEL has seen strong growth over the past three years with scratch offs and the numbers games, with FY 20-21 has been a great year for the product line.
- During this fiscal year strong growth in sales of scratch off games with price point of \$3 & up as players value the higher priced games for strong payouts. Through the end of April sales was up 25% higher than last year and 8% higher than industry.
- This is due to higher percentages of average selling price and units sold.
- Positive trends because of portfolio diversity; but there will be challenges in FY 21-22 for maintaining the growth and maintaining portfolio because popular games sell quickly.

### **FY 21-22 Initiatives**

- Scratch-offs -
  - maintaining a well-balanced portfolio designed to capitalize on new market trends.
- Draw games
  - growth across entire portfolio is 31%
- Fast Play
  - quarterly launches by building up library with 16 games during the fiscal year

- Promotions
  - CRM activities supporting Retail and OLP initiatives
  - Other efforts include conditional player awareness, online play game cards and advanced promotion package.

### **Digital Scorecard Summary**

- FY 20-21 sales growth up over 200%.
- Added over 160,000 online players, averaging about 25k per month over last year
- Web traffic averaging 750k weekly.
- All online play games have increased.

### *Discussion*

Commissioner Long requested an explanation as to why there is increased popularity of extended play games and how do we know if the trend will continue. Mr. Spielman stated that the extended play portfolio was expanded which impacted sales positively and this strategy will continue into the new fiscal year.

### **Brand Management Plan for Fiscal Year 21-22**

Frank Suarez, Deputy Executive Director of Brand Management discussed plan for Marketing and Advertising for upcoming fiscal year.

### *Key Learning Opportunities – FY 21*

*We found several keys factors that helped to increase lottery sales during FY 21 vs. FY20 YTD.*

- Advertising continuity was strong and highly effective with scratch-off products with sales up 27.6% - we must continue to build with dedicated campaigns with game launches
- Fast Play launch was strong and continued support with advertising campaigns will help to grow.
- Keno awareness was up 28.4% - we will continue to draw awareness as more social establishments reopen.
- Online play was key because of convenience for players along with high jackpot periods - online sales up 209% and player registrations up 200%, therefore must continue to support growth and drive awareness.
- A new beneficiary campaign was created during this year. Campaigns help to build our brand overall, provides players with a deeper understanding of the lottery and the impact it has in the NC community and are a driver of sales.
- Beneficiaries are important, the better players feel about the lottery the better they fell about playing. Our new branding started in 2016 and since inception 52% of North Carolinians believe the lottery is an important part of the community compared to 38% in 2015; and 49% say “the NCEL is an organization I trust, compared to 32% in 2015.
- The impact of branding is critical and important to the perception of the lottery in our state.
- Non-traditional media channels continue to grow being a larger part of player’s entertainment options.
- We must continue to grow video and audio, digital and social media channels as more and more player are streaming.
- Social media has the highest channel awareness with 46% of new players learning of the lottery through this non-traditional media form which plays a role in driving awareness and play in the lottery.

## **FY22 Product Marketing Initiatives**

- Maintain scratch-off support with 12-advertised launches and continuing First Tuesday campaign.
- Continue building Fast Play awareness by advertising 3-new games starting in November.
- Continue increasing Keno awareness and help revitalize social establishments.
- Support draw game changes and promotions with digital advertising.
- Continue to grow online player base and awareness with increased advertising.

## **FY22 Brand Marketing and Media Initiatives**

- Continue new Beneficial campaign and community outreach efforts.
- Grow Play Smart Responsible Gaming Program – not only for prevention of problem gaming but has driven favorable perception of lottery up 59% amongst the general population and 84% among new players.
- Continue increased social media efforts by investing more and creating more content
- Evaluate digital and over-the-top video to extend reach to “cord cutters” as streaming services continue to grow and we try to optimize our weight in the streaming platform.
- Conduct new media mix study to measure ROI and further optimize mix including new services now available.

## **FY22 Advertising Calendar**

- Highlighting broadcast and/or digital advertised initiatives.
- Supporting changes in new games and jackpot awareness.
- Doing two beneficiary campaigns – back to school and April.

## **FY22 Marketing Support Calendar**

- Highlighting all marketing support beyond advertising for year-round events, PR for jackpots, players and key new products

## *Discussion*

Chairman Adcock directed the following questions to Mr. Suarez referencing his report and advertising specifically.

- 1) Is there a departing line on ROI for advertising and at what point do we saturate the market in additional funds spent for Advertising and cannot yield 3.77? Mr. Suarez indicated that product, channel, and creative are a few of the variables that go into measuring the 3.77 and based on the last survey the NCEL had not hit the saturation point because as you get closer to the point your return decreases and even if it decreases the NCEL is making significantly more in revenue compared to the what is spent for advertising. We do know there are limits for us because of what we can buy and how much we can invest in advertising.
- 2) Do we have room to raise more for education if we were to spend more in advertising and maintain a significant ROI? Mr. Suarez stated that the NCEL has the opportunity to do more since currently we do not support all the products we sell and that does make a difference, advertising more could give a better return. The increased Scratch-off sales would be an example of this type of advertising strategy.

### **Fiscal Year 2021-22 Budget Overview**

Mr. Jourdain presented an overview of the NCEL's planned Budget for FY 2021-22. The NCEL spending plan aggregated and compared to Governor's' budget for FY 2021-22.

- Governor is requesting \$766.3 million return to education.
- The NCEL Budget includes proposed net revenue of \$769.56 million.
- Total Operating Expenses are projected at 77.18% of total revenue which includes 74.60% in gaming expenses and 2.58% in administration expenses.
- Comparative analysis of FY 22 vs. FY 21 at 14.26% sales increase and an overall net revenue increase to state education of 9.4%.
- A detailed summary of administrative and operational spending was provided.
- Also detailed in the FY 22 budget was a requested increase of 10 positions. The total cost of the new positions was just under \$850,000 and included salaries, benefits and employee support costs.

#### *Discussion*

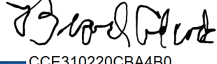
Chairman Adcock called for questions and discussion of budget information; with no discussion, he informed the Commission that the budget would be designated an action item at the June meeting.

#### **Other**

Chairman Adcock noted and referenced Commissioners present at meeting and informed the Commission that in-person meeting currently poses difficulties and guidance regarding in-person meetings will come from DHHS and Office of State Personnel. Once received he will inform Commission of the status of in-person meetings.

#### **Meeting Adjourn**

With no other business to discuss Chairman Adcock called for motion to adjourn. Motion made by Commissioner Picerno and seconded by Commission Long. Roll call was taken and the meeting adjourned at 11:57 am.

DocuSigned by:  
  
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Chairman

8/10/2021

Date