

**North Carolina Education Lottery
Commission Meeting
WebEx / Conference Call-In**

Meeting Minutes
Tuesday, April 7, 2020

Commissioners in Attendance: Courtney Crowder, Chairman
Nick Picerno
Jody Tyson
Chris Shew
Morgan Beam
Randy Jones
Morgan Beam
Pam Whitaker
Jason Roth
Brad Adcock

Staff in Attendance: Mark Michalko Randy Spielman
Hayden Bauguess Mike Suggs
Bill Jourdain Tony Chung
Quan Kirk Joe Cosgriff
Frank Suarez Joe Norman
Terri Avery Marbet Cuthbert
David Nelms Annette Taylor
George Walker
Reggie Barnes

Participant on Call: Benjamin T. Spangler, Assistant Attorney General

The North Carolina Education Lottery meeting was held on Tuesday, April 7, 2020 at 10:00 a.m. via a conference call in number with staff presentations through WebEx.

Chairman Courtney Crowder opened the meeting and greeted all Commissioners and meeting attendees. He thanked everyone for their flexibility in attending the meeting remotely.

The pledge of Allegiance was led by Commissioner Jody Tyson.

Approval of Minutes

Chairman Crowder asked Commissioners to review minutes from the January 28, 2020 meeting. A motion was made by Commissioner Chris Shew to approve the minutes. The motion was seconded by Commissioner Randy Jones. The minutes were accepted and approved as presented.

Mark Michalko, Executive Director, gave Commissioners a brief update:

- NCEL operations under Governor Cooper's Stay-at-Home Executive Order:
 - Majority of NCEL staff are working remotely with the exception of customer services, claims and finance staff). Staff who are unable to work remotely are working on a rotating schedule.
 - Mega Millions/Powerball games have made changes to their jackpots.

Finance Report

Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented a financial update to Commissioners:

Fiscal Year to Date Certified Financial Reports for the seven months of fiscal year 2020 ended January 31, 2020: In the Statement of Net Position on page 2 of the financial report, January 2020 ended with Total Assets of \$175.9 million, which included \$61 million in cash and \$78.2 million in Annuity Award Investments. Accounts Receivable totaled \$25.8 million of which \$25.6 million represents net receipts from the gaming system to be collected via electronic funds transfer in February.

Total liabilities of \$213.6 million included \$31.1 million in outstanding prize awards and vendor accounts payable, \$78.2 million in long-term annuity prize awards payable and \$62 million due to the State of North Carolina for Education.

Total Revenue for the seven months of fiscal year 2020 totaled \$1.65 billion. Ticket sales for the seven months of fiscal year 2019 totaled \$1.647 billion a 3% increase or \$47.8 million over the seven months of fiscal year 2019.

Total gaming expenses including player prizes (\$1.07 b) retailer commissions and incentives (\$115 m) and Gaming System Services & Licenses (\$31 m) for the seven months of fiscal year 2019 totaled \$1.21 billion or 72.9% of total revenue. Total administrative expenses, including salaries & benefits, advertising & marketing and operational overhead totaled \$35.2 million or 2.31% 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 \$70 million or 4.2% of total revenue. Net Revenue earned for the Education Lottery Fund for the seven months of fiscal year 2020 totaled \$400 million or 24.2% of total revenue a decrease of \$2 million or 0.5% from the seven months of fiscal year 2019. The total net revenue is running \$14.5 million or 3.7% ahead of our estimated budget target as approved by the commission in June.

Fiscal 2020 year to date cash transfers to OSBM total \$435 million.

This brings the total funds transferred to the State to \$7 billion since inception.

As of February 29, 2020, the balance in the Lottery Reserve Fund totals \$55.3 million and includes \$656,000 in earned interest.

Chairman Crowder inquired whether OSBM or the Governor's Office has contacted the Lottery regarding the Lottery's reserved fund. Mr. Jourdain stated that both offices have not reached out to the Lottery yet.

Commissioner Jones asked about how the Lottery's reserved fund work. Mr. Jourdain answered that \$55.3 million was built from surpluses from previous years when we overachieved our budget.

Commissioner Jones asked what is the anticipated projection for May and June? Mr. Jourdain stated he would send those projections to the Commission.

Commissioner Whitaker asked how fast will the sales representative will be out in the field once the ban is lifted. Ms. Terri Avery Fowler, Deputy Executive Director of Sales stated that the field team will likely do retailer visits based upon a 2-week cycle versus 3-week cycle.

Commissioner Tyson requested the Lottery to look into cost savings, including any internal expenses that can be cut. Mr. Jourdain stated that we will be looking at cost savings.

Internal Audit Updates

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

- Audit of Regional Claims Centers
- Audit of Agency Policies
- Audit of Mail Procedures
- Follow up audit of Customer Services and Communications
- Update on External Security Audit

There were no questions or concerns from Commissioners.

Brand Management Update

Frank Suarez, Deputy Executive Director of Brand Management and Communications gave an update on 3rd quarter FY20 (January – March):

- January Scratch-Offs
 - Launched 5 new games
 - Achieved \$173.8 million in instant ticket sales for January
- Play Smart
 - New branded responsible gaming program
 - Helps players make more informed decisions
 - New Assets (TV – January 13 – February 2; March 23 – 29)
 - POS
 - Website content
 - Budget Calculator & Rack Card – Spring 2020
- February Scratch-Offs
 - Launched 5 new games
 - 5X the Cash (\$1)
 - 10X the Cash (\$2)
 - 15X Crossword (\$3)
 - 20X the Cash (\$5)
 - 50X the Cash (\$10)
 - Achieved \$156.5 million in instant ticket sales for February
- Multiply the cards | Facebook Live
 - Using Multiply The Cash scratch-offs, we built a lighthouse-themed tower over a four-hour period during a Facebook Live event. Viewers could enjoy watching, answering trivia-questions, and commenting to win scratch-off prizes.
 - Reached more than 70,300 (7x the previous year's reach)
 - Over 189,000 engagements (8x the previous year's engagements)
- Pick 3 Double Draw Promotion
 - Added 3 weeks of radio advertising with a new 30 second spot.
- NC School Heroes
 - At ncschoolheros.com, adults can nominate the School Hero who made a difference in their life or the life of their student.
 - Nominations and Voting – February 3 – March 15
 - 10 Winners selected

- Winner receives \$10,000 for themselves and \$10,000 for their school. Nominator receives \$1,000
- Awareness
 - TV and Radio Advertising
 - Digital Advertising
 - Social Media
 - Email to 2019 nominators and Lucke-Rewards members
 - Direct mail to PTA presidents/principals along with features on social media and website
 - Email to NC Association of School administrators and weekly newsletter to superintendents, principals and other administration
 - NCEL direct mail to superintendents and school board chairs
 - Governor proclamation for NC School Heroes Month
- Results from Nomination Phase
 - Well over 35 million impressions across digital, pre-roll, YouTube and social (12.5 million in 2019)
 - 4,945 nominations (6,750 in 2019)
 - 3.3 million votes (up 50% vs. 2019)
 - Unique visitors up 98% YOY (2 million)
 - Visits to the beneficiary page up 569% YOY
- Winner selection and announcement postponed until schools reopen for in-person classes
- March Scratch-Offs
 - Launching 5 new games
 - \$50 in a Flash (\$1)
 - Lots of \$100's (\$2)
 - Extra Play Cashword (\$5)
 - Emerald Green 8's (\$25)
 - Achieved \$188.7 million in instant ticket sales for February
- Keno Multiplier
 - First Keno add-on launched on March 15th
 - Players have a chance to multiply winnings 1 to 10 times – cost doubles
 - All prize tiers are included
 - Keno draw will be preceded by the selection of Multiplier

Product Development Update

Randy Spielman, Deputy Executive Director of Product Development & Digital Gaming, gave an update on 3rd quarter FY20 (January – March):

- Q3 instant game performance for January through March
- FY20 Initiatives
 - Diversify the game portfolio at the higher price points
- March Games – First \$25 Game
 - Launch date: March 3, 2020
 - First \$25 scratch-off launched
 - Prizes start at \$40 / No breakeven prizes / Loaded with \$75 - \$1,000
 - Highest week ever in activations - \$56.8M
- Pick 3 Double Draw Impact

- Completed the 5th Pick 3 Double Draw promotion in February
- 7 Double Draws in February
- Double Draw months up 12% over non-Double Draw months
- Plan to include one promo per year in combination with another Pick 3/Pick 4 promo
- Online Play Growth
 - Average sales have doubled since the first half of the year
 - Higher percentage of sales coming from Powerball – (Jackpot response in January)
 - 30% increase in sales since March 14th
 - Mid-March to current represents 13.2% of game sales

Sales Update

Terri Avery, Deputy Executive Director of Sales, gave updates from the Sales department:

- Carolina Keno Update
 - 3rd quarter sales total \$18.1 million (average of \$198K daily average)
 - Keno Multiplier
 - Launched on March 15, 2020
 - Generated \$\$1,054 million in first 22 days
 - 26% of Keno sales since launch
- Retailer Update – Since the executive order was put into place on March 17, 2020:
 - 290 retailers have been placed into inactive status (as of April 6, 2020)
 - Keno sales down more than \$50k daily
- Sales Team Update
 - Sales reps are conducting weekly calls to retailers
 - Scientific Games - predictive ordering is being used for retailers
 - IGT – Created a Virtual Retailer Training

Committee Reports

Operations and Personnel Committee

Commissioner Chris Shew gave a brief overview of the committee meeting. Because there were only two committee members present for the meeting, there was only a discussion of the agenda items with no voting. All items were brought before the full Commission for voting.

Items of discussion included:

NCEL Policy updates:

4.28 – Longevity Policy – Marbet Cuthbert, Director of Human Resources explained changes. A Motion was made by Commissioner Shew to accept the policy changes as presented. The motion was seconded by Commissioner Randy Jones. With no objections, the motion passed.

6.01 – Minority Outreach Policy – Annette Taylor, Minority Business and Community Outreach Affairs Manager, explained changes. Commissioners did not receive the tracked changes version of the document and were unable to see what specific changes had been made. A motion was made by Commissioner Shew to table voting until the May 7, 2020 commission meeting. The motion was seconded by Commissioner Jones. With no objections, the motion passed.

9.03 – No Purchase, No Play and No Win Policy – Joseph Cosgriff, Director of Security, explained changes. A Motion was made by Commissioner Shew to accept the policy changes as presented. The motion was seconded by Commissioner Randy Jones. With no objections, the motion passed.

10.3 - Management of the NCEL in Absence of the Executive Director – Mark Michalko, Executive Director, explained changes. A Motion was made by Commissioner Shew to accept the policy changes as presented. The motion was seconded by Commissioner Jody Tyson. With no objections, the motion passed.

10.1 – Ethics Procedures - Mark Michalko, Executive Director, explained changes. A Motion was made by Commissioner Shew to accept the policy changes as presented. The motion was seconded by Commissioner Jason Roth. With no objections, the motion passed.

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.
- **Legislative Update** – Hayden Bauguess, Director of Government Affairs, gave an update of legislative activities:
 - The scheduled April 16th meeting with the Legislative Oversight Committee will be rescheduled. Hayden is working with staff on digitally submitting the Spectrum Studies by the April 15th deadline.
- **HUB Report** – Annette Taylor, Minority Business and Community Outreach Affairs Manager asked Commissioners to review the document provided in their packets. There were no questions or concerns.

Other Business

Commissioner Jody Tyson wanted to note that all Commissioners should be notified of all committee meetings.

Closed Session

Chairman Crowder informed Commissioners that they would need to enter into closed session Pursuant to USGS 143-318.11(b), to prevent the disclosure of information that is considered confidential pursuant to NC laws. The purpose of the closed session is to review information resulting from Senate Bill 574. A motion was made by Commissioner Nick Picerno to enter into closed session. The motion was seconded by Commissioner Jason Roth. Commissioners entered into closed session at 12:34 PM.

Chairman Crowder reconvened the open session of the Commission meeting at 1:44 PM.

With no other business to discuss, the meeting was adjourned.



Chairman

July 1, 2020

Date