

**North Carolina Education Lottery  
Commission Meeting  
Teleconference Call**

**Meeting Minutes**

Tuesday, December 15, 2020

*Commissioners in Attendance:*

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

*Staff in Attendance:*

Mark Michalko	Bill Jourdain
Mike Suggs	Billy Traurig
Frank Suarez	Randy Spielman
Terri Avery	Marbet Cuthbert
Hayden Bauguess	George Walker
Amanda West	Joe Cosgriff
Tony Chung	Cory Trottier
David Nelms	Stacy Askew
Tammy Wiggs	Walter Ingram
Reggie Barnes	Adem Cengiz
Annette Taylor	Van Denton
Anthony Downey	Daniel Rose
Ira Seamster	Chantal O'Connell
Michelle Lassiter	Erwin Mialkowski

*Other Participants on Call:*

Benjamin T. Spangler, Assistant Attorney General,  
Department of Justice  
Eddie Burke, Cherry Bekaert CPAs & Advisors  
Albert Ong, Cherry Bekaert CPAs & Advisors

*The North Carolina Education Lottery meeting was held on Tuesday, December 15, 2020, at 10:00 a.m. via teleconference call.*

Chairman Brad Adcock opened the meeting and greeted all Commissioners and meeting attendees.

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

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

Chairman Adcock gave his condolences to Commissioner Jody Tyson on the loss of his father.

Commissioner Tyson thanked everyone for their words of encouragement, memorials, thoughts and prayers during this time.

Chairman Adcock acknowledged Commissioner Crowder for his leadership during his tenure with the Commission.

Commissioner Crowder announced this would be his last meeting as an NCEL Commissioner. He thanked everyone for their kindness and hard work during his tenure and wished everyone well.

### **Approval of Minutes**

Chairman Adcock asked Commissioners to review minutes from the September 1, 2020 meeting. A motion was made by Commissioner Jody Tyson to approve the minutes as presented. The motion was seconded by Commissioner Pam Whitaker. The minutes were accepted and approved as presented.

### **Committee Reports**

Finance and Audit Committee

#### *Annual Audit Review*

Eddie Burke, Cherry Bekaert CPAs & Advisors, presented the annual audit wrap-up. Mr Jourdain announced that Mr. Burke's is retiring and this is his last presentation with the lottery. He thanked him for dedication and service to NCEL.

#### *Finance Update*

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

- Statement of Net Position
  - Total Assets of \$196 million includes:
    - \$77 million in Cash
    - \$80 million in Annuity Award Investments
    - Accounts receivables of \$28.6 million
      - \$26.5 million in gaming system receipts to be collected in November via electronic fund transfer
  - Total Liabilities of \$237 Million which includes:
    - \$44 million in outstanding prize awards and vendor accounts payable
    - \$80 million in Annuity prize awards payable
    - \$67 million due to the State of North Carolina for Education
- Statement of Revenues, Expenses and Changes in Net Position
  - Total Revenue of \$1.184 billion
  - Total Gaming Expenses of \$884 million or 74.6% of revenue including:
    - Prizes - \$780 million
    - Retailer Commissions and Incentives - \$82 million
    - Gaming System Services and Licenses - \$22 million
- Administration expenses including salaries & benefits, advertising & marketing and operational overhead totaled \$22.9 million or 1.0% 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 \$45.6 million or 3.8% 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 November 30, 2020 totaled \$295 million.
- The transfers include \$27.7 million in FY 2020 surplus funds that were allocated toward need based school construction.
- As of November 30, 2020, the balance in the Lottery Reserve Fund totaled \$45.6 million and includes \$136,000 in earned interest in fiscal year 2021.
- Total funds transferred to the State, from NCEL = \$7.6 billion (since inception)

#### *Internal Audit Updates*

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

- Audit of Systems Access
- Audit of Records Retention and Functional Schedules
- Expense Reports and Reimbursements
- Risk Assessment and Audit Plan
- Quality Assurance Improvement Program Report
- Update on Performance Audit

#### **Revenue Generating Committee**

##### *Brand Management Update*

Frank Suarez, Deputy Executive Director of Brand Management and Communications gave an update from the Revenue Generating Committee Meeting:

- Advertising Calendar and Budget
  - Reviewed advertising calendar for remainder of the year –highlighted key upcoming campaigns such as First Tuesday refresh and new beneficiary campaign
  - Presented advertising budget update –no changes reported to budget plan at this point
- Community Events and Sports Sponsorships
  - Provided update on status of sponsorships –have received refunds or sponsorship reductions for cancellations as warranted
  - Negotiating on a sport by sport basis for media assets only
  - Year-to-date savings of \$628,054

Mr. Suarez gave an update on the 2<sup>nd</sup> Quarter FY21 (October-December):

- Fast Play Launch
  - New Fast Play category of games launched on September 13, 2020 launches with six new games
    - Lucky Clover (\$2)
    - Jackpot 7's (\$2)
    - Classic Bingo (\$2)
    - Jackpot 7's (\$5)
    - Rockin' Bingo (\$5)
    - Jackpot 7's (\$10)
  - Comprehensive Launch Plan on-air September 14–October 11, 2020
  - New game category required more complex messaging – utilized learnings from positioning and advertising research to create relevant, motivating campaign
- Fast Play Social Promotion

- Facebook Coupon giveaway promotion to reward players for engaging and learning about the game.
- Players prompted to follow NCEL social posts very closely for several weeks
- If commented on a post within 10 minutes they could win a free Fast Play coupon sent directly to them via Facebook
- Reached 740k+ North Carolinians and generated over 20,000 engagements
- 500 coupons could be won and over 72% of them were redeemed!
- October Scratch-Offs
  - Launched 5 new games
    - Lucky Dog (\$1)
    - Fantastic 5's (\$2)
    - Power Shot (\$5)
    - \$50 or \$100 (\$10)
  - TV and radio on-air October 6-25, 2020 – Utilized previous spot for cost savings since this month did not have a feature ticket or overarching theme.
- October Scratch-offs Social Promotion
  - To add interest to the release of our new tickets, the lottery held a unique social giveaway
  - Players had to “get their hands on the new scratch-offs” in an interactive social media game to win forty of the tickets for themselves
  - In total, the social campaign reached 400k+ North Carolinians and generated over 23,000 engagements
- Pick 3 Double Draw: POS, Digital & Social
  - Pick 3 Double Draw promotion October 1-31, 2020
  - Point of sale and Multimedia at Retail
  - Ads on digital and social media channels to raise awareness and let players know how much additional prize money was paid out
- Holiday Scratch-Offs
  - Launched 5 new games
    - Holiday Luck X10 (\$1)
    - Holiday Luck X20 (\$2)
    - Holiday Luck X30 (\$5)
    - Holiday Luck X50 (\$10)
    - Holiday Countdown (\$20)
  - TV and radio on-air November 3-22, 2020 and December 1-20, 2020
  - Utilized creative from prior year for cost savings given its strong performance. Aired in December as well given still relevant gift giving message for the holidays.
- Carolina Keno Campaign
  - Launched new Keno advertising campaign
    - Utilized research to understand most motivating positioning
    - Focus on \$1 million prize and drawings every four minutes
  - New TV and radio on-air November 16-December 6, 2020
  - New digital and social
- December Scratch-Offs
  - Launched 5 new games
    - 2021 (\$2)
    - Loteria (\$3)

- \$250,000 Money Match (\$5)
- \$1,000,000 Bankroll (\$10)
- Supported with point of sale and multimedia
- Responsible gifting digital & social media campaign done annually to remind players that lottery tickets are for adults 18 and older, not to be gifts for children.
- College foundation partnership for FAFSA – Partnered with college foundation for their countdown to college program providing reminders at retail locations of the need to apply for FAFSA to be eligible for a lottery scholarship/grant.

### *Product Development Update*

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

- Digital and eCommerce Strategy
  - Amanda West, Director of eCommerce and Digital Platforms*
  - Evaluation of current state and go forward strategy for NCEL Digital
  - Presentation materials included in Commission packet
- Digital Instant Overview / Update
  - Review of the state of Digital Instants in the US.
  - Update on the Virginia Lottery launch
  - Overview of Digital Instant games and iLottery platform

Mr. Spielman gave a 2<sup>nd</sup> Quarter Scratch-off Game Review:

- October
  - 2019 v 2020: +22.9%
- November
  - 2019 v 2020: +14.8%
- December 17
  - 2019 v 2020: TBD
- Recent Game Trends
  - Scratch-off and Pick 3 / Pick 4 sales slowing but still significantly ahead of last year
  - Scratch-off and Pick 3 / Pick 4 experienced the biggest positive impact this year
  - Current NC trend mirrors national trends at a higher level
  - Recent (post pandemic) migration from lower price point Scratch-offs to higher price points
  - Other games experiencing minimal impact post pandemic
- Online Play Trends
  - Online play has grown significantly over the past 6 months since the beginning of the pandemic
  - Online Play sales 198% ahead of last fiscal year
  - ~15K more people playing online now versus last year
  - Most new Online Players have continued to play online since joining
  - No game specific drivers – uniform growth across all games
- Fast Play
  - New Terminal Game Category
    - Launching on September 13th with 6 games
    - All games contribute to a single progressive jackpot – “On Demand” jackpot games
    - \$2, \$5 and \$10 price points
    - Plan to refresh and add games every 4 months

- Building to 12 games in the market
- Fast Play Results
  - Strong First 8 Weeks of Sales
    - Comprehensive game launch plan that included Advertising, promotions, sampling and jackpot awareness
    - Average weekly sales \$2.3 million
    - 300% ahead of budgeted sales rate
    - 2nd best Fast Play launch for IGT states (MI)
    - Currently our #3 selling terminal game
- Fast Play Results
  - Positive Incremental Revenue Impact
    - Fast Play sales have been highly incremental to date
    - Minor impact on Keno sales through the first 9 weeks (-11%)
    - Keno + Fast Play sales have resulted in a weekly increase of \$1.8M
    - After Fast Play trial period play appears to be settling in for both games
    - Fast Play participation more closely aligned to jackpot levels
- Fast Play Jackpot Winners
  - 20 Fast Play jackpot wins to date
    - 20 Jackpot Winners to date across each of the individual games (Lucky Clover (\$2) – 3; Classic Bingo (\$2) – 3; Rockin’ Bingo (\$5) – 4; Jackpot 7’s (\$2) – 3; Jackpot 7’s (\$5) – 2; Jackpot 7’s (\$10) – 5)
    - 5 Jackpot wins the week of last week
    - Highest jackpot to date: \$691,417
    - “Partial Jackpot” aspect of jackpot unique to Fast Play

Discussion

Mark explained anticipated changes to Powerball. After July 2021 Powerball will move from two draws a week to three draws a week.

Sales Update

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

- Fast Play Promotions
  - Over 2,200 promotions between September 28, 2020 and November 20, 2020 (coupons and premium items)
- Fast Play Jackpot Signs
  - Sales team installed over 4,400 signs in 3 weeks
- December First Tuesday Launched with 97% statewide holiday luck ticket activations
  - 93% - statewide activations (including the Big Ticket)
  - 16% - sales representatives had 100% activation rate
  - 53% - sales representatives had 97+

**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. There were no questions or concerns.

- *Legal Update*  
Billy Traurig, Chief Legal Officer reviewed the structure of the legal department. Mr. Traurig is able to handle the current workload, with the help of Ben Spangler from the Attorney General’s Office under the current contract. He asked that the Commission not take any action on the current legal contract with the Department of Justice.
- *Legislative Update*  
Hayden Bauguess, Director of Government Affairs gave the following update:
  - General Assemble will return on January 13, 2021. All new members will be sworn in during that session.
  - Gaming Study - All obligations have been fulfilled with the General Assembly – NCEL is waiting for further direction (if any)

**Other Business**

Chairman Adcock made the following observation:

- 1) He is concerned with the lack of established documentation for Commission policy and procedures
- 2) He is concerned with the lack of an annual performance review for the executive director – the operations and personnel committee are currently working to rectify this issue
- 3) He suggested using committees for full staff presentations/discussions
- 4) He suggests that the committee chairs give the formal committee reports during the full commission meeting. This will eliminate redundancy in staff presentations
- 5) He suggested that committee and committee chair assignment be done based on the fiscal year.

**Closed Session**

“Pursuant to NCGS 143-318.11, the North Carolina State Lottery Commission is going into closed session to prevent the disclosure of information that is considered confidential pursuant to NC laws.” The purpose of the closed session is for a confidential internal audit discussion.

A motion was made by Commissioner Tyson to enter into closed session. The motion was seconded by Commissioner Roth. Commissioners went into closed session at 11:39am.

The open session reconvened at 12:00pm.

A motion was made by Commissioner Tyson to accept the annual audit planned as present in closed session. The motion was seconded by Commissioner Jones. The motion was approved.

**Adjourn**

With no other business to discuss the meeting was adjourned.

DocuSigned by:  
  
Chairman

4/5/2021  
Date