

# North Carolina Education Lottery Commission Meeting

Meeting Minutes  
Tuesday, June 6, 2017

*Commissioners in Attendance:*

Courtney Crowder, Chairman  
Doug Baker  
Keith Ballentine  
Morgan Beam  
Buddy Bengel  
Amy Ellis  
Kim Griffin, Jr.  
Chris Shew  
Jody Tyson

*Staff in Attendance:*

Alice Garland  
Sarah Hardin  
Michelle Lassiter  
Quan Kirk  
Frank Suarez, Jr.  
Mike Suggs

The North Carolina Education Lottery meeting was held on Tuesday, June 6, 2017, at 9:00 a.m. at the NCEL headquarters located at 2728 Capital Blvd, Suite 144, Raleigh, NC.

Chairman Crowder called the meeting to order and Commissioners stood for the pledge of allegiance. Commissioner Buddy Bengel led the Commission in the pledge of allegiance. The Chairman reminded the Commissioners that they operate under the State's code of ethics. He also informed commissioners that funds raised by the North Carolina Education Lottery (NCEL) should be used to supplement, not supplant, education dollars in North Carolina and that such expenditure is controlled by the North Carolina Legislature.

Alice Garland, Executive Director, welcomed the commissioners to the new headquarters and gave a quick overview of the building layout including the Caucus Room, kitchenette and restrooms.

Chairman Crowder presented the minutes from the March 14, 2017 Commission meeting. Commissioner Bengel made a motion to approve the minutes. Commissioner Tyson seconded. The minutes were unanimously approved.

## **Finance and Audit Report**

Mike Suggs presented on the internal audit reports, including the audit of advertising and marketing.

Internal Audits – Recommendations were made to only retain former employee files for only 6 months instead of 5 years, to reduce the space needed for records retention.

Audit of Advertising (January 1, 2014 – March 31, 2017) – Assessed internal controls, compliance with policy and procedure(s), timeliness and effectiveness of practices;

review of expenditures. Recommended finding easier designs for reporting and training to staff that will be pulling and using the reports.

Marketing Audit – Assessed policy and procedure(s), internal controls and payout timeliness. Recommended changes will be monitored and updated in the December commission meeting.

### **Executive Director's Report**

Frank Suarez, Deputy Executive Director of Brand Management and Communications, gave an overview of the fiscal year 2018 branding plan.

#### **\$30 Tickets, Draw Promotions and Advertising Drive Continued Growth**

- Overall FY17 sales up 1.8% vs. FY16 YTD
- 3<sup>rd</sup> highest calendar year overall sales growth in the U.S. for CY16 (+15% vs. PY)
- 5.5% growth in instant game sales in FY17 YTD –3<sup>rd</sup> highest Instant game sales growth in CY16 (15% vs. PY)
- We launched 53 new ISO games with 8 televised launches.
  - Successfully launched a second \$30 game, *Extreme Millions*
  - Launched first ever *Carolina Panther's* ISO with strong sales
- Minus Powerball, draw game sales have grown +5.2% in FY17 YTD (-5.2% with Powerball).
- Successful draw game promotions led to strong Pick 3 (+7% FYTD), Pick 4 (+7% FYTD) and Cash 5 (+9% FYTD) sales.
- Cash 5 "\$100k Days" promotion helped reverse declining sales trends achieving +35% sales vs. last year since the promotion.
- New Powerball "Life Changing Jackpots" branding campaign drove +17% increase in sales versus previous similar jackpot levels.
- Successfully launched new branding and "Dream a Little" ad campaign.

#### **Opportunities Still Exist for FY18**

- \$2 instant games have declined -13% YTD vs. FY16.
- Powerball per cap sales remain slightly below the MUSL average.
- Lucky for Life per cap sales are down to \$0.04/cap.
- Mega Millions is increasing its price to \$2 per ticket.
- Need to continue improving brand perceptions and building brand advocacy.

#### **Fiscal year 2018 advertising plan**

- Achieved +25% Increase in Views vs. FY16 with +10% Increase in FY17 Ad Spend.
- Attained 635 million views/impressions vs. 507 million in FY16 with additional \$2 million in advertising dollars (\$22 million total budget).
- Strategically added 4 weeks of additional broadcast media (45 weeks vs. 41 in FY16).
- Allowed for new Powerball and brand advertising campaign launches.
- Resulted in a 17% lift for Powerball sales during on-air period.

#### **College Basketball Sponsorships Provided More Than 32 Million Views in FY16**

- Achieved more than 32 million impressions from both media exposure and on-site attendance at all colleges and universities.
- Overall lottery sales (excluding Powerball) during the season increased +19.4% vs. PY
- When converting 2016 Duke/UNC game's signage TV time to :30s spots, NCEL received 50.9 household rating points or 1.98 million impressions.
- This game performs better than any other live sports except for NFL.

year 2016. The total net revenue number through April is running 9.8% or \$44.9 million ahead of our FY 2017 budget target.

During the third quarter of Fiscal Year 2017, the NCEL initiated cash transfers of \$156.4 million to the Office of State Budget and Management and deposited in the Education Lottery Fund. These transfers represented the net revenue earned by the NCEL during the months of January through March, 2017.

The total net revenue transferred to the State of North Carolina since inception is **\$5.06 billion**.

**Fiscal Year 2018 Budget:**

The FY 2018 budget document was submitted to the Commission for review and approval is based on the most recent version proposed by the North Carolina House of Representatives. The previous version, which was presented at the May budget workshop was based on Governor Cooper's initial budget which authorized an increase in advertising. The differences in the budgets are detailed in the Commission's budget handout. The NCEL will continue to monitor the budget process to appropriately assess the authorized spending levels once an agreement is reached between the House and the Senate.

This budget includes the following highlights:

**Total anticipated revenue of \$2.51 billion.**

**Total gaming expenses of \$1.86 billion or 72.77%.**

- Prizes consisting of \$1.61 billion or 63.90%.
- Retailer Commissions & Incentives consisting of \$176.6 million or 6.98%.
- Gaming Systems & Licenses consisting of \$42 million or 1.68%.

**Total Administrative expenses of \$64.5 million or 2.6%.**

- Salaries & fringe benefits consisting of \$21.2 million or 0.84%.
- Advertising consisting of \$24.0 million or 0.96%.
- Marketing consisting of \$6.7 million or 0.27%.
- Other Administrative expenses consisting of \$12.6 million or 0.50%.

- Transfer to DHHS to fund Compulsive Gambling Treatment and Resources in the amount of \$1.0 million.
- Transfer to ALE in the amount of \$2.1 million.
- Net proceeds to Education will equal \$616.1 million or 24.54%.

**Salaries and Fringe Benefits:**

- We have reassigned six vacant positions, one to Brand Management and five to Sales.
- We have included a salary reserve in the amount of \$257,000 to allow for legislated salary increases of \$1,000 per employee. The NCEL will follow the directive of the final approved state budget on how the salary increases will be distributed. The NCEL does not receive a salary appropriation from the State for these initiatives and therefore must be budgeted for the anticipated expenditure out of the proceeds from Lottery Sales.
- The NCEL's fixed administrative expenses will experience a \$4.2 million increase (6.9%). The total increase includes a \$2 million increase in advertising and a \$2.2 million increase in administrative operations. Increases in administrative operations include Keno marketing initiatives.

### **Differences Noted since the May 9 presentation:**

- An overall reduction in ticket sales of \$183 million due to a reduced advertising budget.
- A slight increase in the Keno prize expense allocation to 65.3%.
- Minor reduction to salaries and fringe benefits of \$192,000. Reduction of \$11 million in the advertising budget to comply with 1% spending mandate.
- Increase in the NCEL commission travel budget of \$16,000.
- A reduction in the net revenue projection of \$30.5 million due to a reduced advertising budget.

The House Budget released on May 30 identified a State appropriation of \$706.7 million of NCEL funds for educational programs. The House Budget also did not authorize any increase in the NCEL's advertising spending limit over 1% of gross revenue. In an amendment to the legislation, the House approved an additional \$19.9 million in education spending. The total FY 2017- 2018 house appropriation to education now stands at \$726.6 million. The balance of the budget appropriation, over and above the NCEL revenue projection would be funded from the Lottery Reserve Fund. The current balance of the fund is \$109.4 million.

As a result of this initiative, the entire Lottery Reserve Fund will be utilized toward educational programs in FY 2017 - 2018.

### **Facilities Update:**

Raleigh – Yonkers Road – The NCEL is committed to the College foundation through the end of August. The NCEL is currently clearing the facility of all remaining infrastructure for transfer back to the landlord.

Wilmington – Currently on schedule to receive a certificate of occupancy the middle of July. We are anticipating a move in date of September 1, 2017.

### **Operations and Personnel Committee Report**

Commissioner Jody Tyson reported that the committee had not met and had nothing to report.

### **Revenue Generating Committee Report**

Commissioner Keith Ballentine gave an overview of iLottery. iLottery will be an effort to reach millennials, which will be accessible via mobile phones, tablets and other electronic devices. There will be a full presentation before the Revenue Generating Committee at a later date.

Mr. Suarez showed the Commissioners a visual demo using the state of Michigan's website.

- All games are based on geo-location to ensure that all players are within the state to play.
- The system will verify age through a third-party service provider using personal identifiable information such as name, address, birthdate.

### **Executive Director's Report**

Legislative Update - Sarah Hardin gave an overview of the legislative updates and budget.

- Advertising - The Senate budget increases advertising from 1% to 2% of sales; the House budget keeps the advertising as is.
- Lottery Reserve Fund – The Senate budget removes \$50 million cap on the lottery reserve and changes it to a \$50 million minimum balance; uses \$34 million of reserve money to fund its programs. The House budget removes \$50 million cap on the lottery reserve; uses the entire lottery reserve to fund its programs.

- State Employees – The senate budget provide raises for state employees of either 1.5% of salaries or \$750, whichever is greater; the House budget gives a flat \$1,000 raise for state employees in each year of the biennium and 5 days of bonus leave for state employees.

**Recognition of Employees/Awards**

Alice Garland, Executive Director recognized Michelle Lassiter and the finance team for an outstanding job and presented them the Excellence in Financial Reporting Award and the Outstanding Achievement in Popular Annual Financial Reporting Award.

Ms. Garland recognized Bobby Dawson for his leadership with the State Employees Combined Campaign and presented two awards received for growth in giving and increasing donors.

Ms. Garland also recognized staff that were involved with the planning and execution of the building move (Stacey Askew, Randall Keen, Ericka Jenkins, George Walker, Tony Chung and MIS staff).

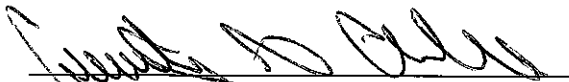
**Open Discussion**

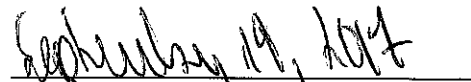
In lieu of possible budget changes from the Legislature, Ms. Garland asked the Commissioners whether they would like to meet in person or via a conference call. Commissioner Tyson proposed a standard meeting, if one is needed. Commissioner Tyson made a motion to adopted budget as proposed/presented today. Commissioner Baker seconded the motion. Motion unanimously approved.

**Closed Session**

143-318.11 (a)(1) – Discuss a confidential personnel matter or prevent disclosure of privileged or confidential information

Being no further business, the meeting was adjourned.

  
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Chairman

  
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Date