

North Carolina Education Lottery Commission Meeting
WebEx
Meeting Minutes
Wednesday, March 30, 2022

Commissioners in Attendance: Brad Adcock, Chairperson
Nigel Long
Joshua Malcolm
Ripley Rand
Jason Roth
Jody Tyson
Pamela Whitaker

Commissioners Absent: Randy Jones

Staff in Attendance:

Mark Michalko	Bill Jourdain
Billy Traurig	Randy Spielman
Terri Avery	Susan Singley
Tony Chung	Amanda West
Annette Taylor	Hayden Bauguess
Joe Cosgriff	Joe Norman
Marbet Cuthbert	Michelle Freeman
Mike Suggs	Reggie Barnes
Stacy Askew	Tami Wiggs
Van Denton	George Walker
Molly McClure	

Participants: Benjamin T. Spangler,
Assistant Attorney General, Department of Justice

The North Carolina Education Lottery meeting was held on Wednesday, March 30, at 10:00 a.m. via Webex.

Chairperson Brad Adcock opened the meeting, and greeted all Commissioners and meeting attendees.

Roll call of the Commissioners was taken. Commissioner Randy Jones was absent; all other Commissioners present.

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

Chairperson Adcock read the state ethics announcement.

Attendees recited the Pledge of Allegiance.

Approval of Minutes

Chairperson Adcock asked Commissioners to review minutes of the December 14, 2021 meeting and make a motion to accept the minutes. A motion was made by Commissioner Pamela Whitaker to approve the minutes. Commissioner Nigel Long seconded the motion. The motion passed unanimously.

Finance & Audit Committee Report

Internal Audit Report

Mike Suggs, Director of Internal Audit, presented an update to the Commission.

Audit of Instant Tickets Inventory Controls

This audit's scope included a review of NCEL's inventory and distribution controls over instant tickets. The period covered was July 1, 2020 through February 28, 2022. The audit's intent was to assess compliance, timeliness, reasonable and effective fiscal management practices, and related internal controls.

The audit found that our procedures are generally adequate and have been sufficiently designed to mitigate potential risk. The sales organization was shown to be proactive in identifying problems and establishing controls to monitor inventory at retail locations.

Audit of Promotions & Promotional Events

This audit's scope included a review of processes, policies and procedures, and fiscal records related to promotions & promotional events. The time period was January 2020 to present. Marketing, product development, sales, and digital communications all involved in this area.

The audit found that our procedures are generally adequate and have been sufficiently designed to mitigate potential risk.

Audit of IT Production and General Controls

This audit is 90% complete and will be presented at a future meeting.

External Security Audit is currently underway; the external vendor will be on site next week to complete testing. A report for this audit will be available in June 2022.

Finance Update

Bill Jourdain, Deputy Executive Director of Finance, Administration, and Security presented an updated to the Commission.

For the fiscal year through February 28:

- Total assets of \$197M, including \$80M cash and \$87M in annuity award investments
- Accounts receivable of \$7.7M, \$6.2M to be collected this month
- Liabilities \$239M, including \$24M outstanding prizes, \$87M in annuity awards, and \$79M due to the State
- Ticket sales are up 4.79% (\$115.1M) over last year, 11.21% (\$253.7M) over budget
- Total YTD Revenue is \$2.52B
- Total YTD Expenses are \$1.864B (73.4% of revenue), of which prizes are \$1.6B, retailer commissions \$173M, gaming system services and license \$49M
- Administrative expenses as a percentage of revenue are 3.86% (\$97.4M), well below the statute mandated 5%
- Net return to education YTD is \$606M, 2.16% ahead of last year and 17.1% ahead of budget
- Cash transfers to state budget are \$582.4M through March 23; lottery reserve fund totals \$46.8M
- Since inception, NCEL has contributed \$8.879B toward education.

Purchasing Policy Update

Mr. Jourdain asked the Commission to consider and approve one change to the NCEL's Purchasing Policy, which clarifies the process for completing background checks on tentatively selected new vendors. Under this change, background checks will be completed before finalizing contract

negotiations, providing NCEL more flexibility to move to another option if a background check turns up problems with a potential vendor. This policy update was approved in the Finance & Audit Committee meeting of March 23, 2022.

Commissioner Jason Roth made a motion to approve this change.

Commissioner Joshua Malcolm asked if the Fair Credit Reporting Act guidelines are followed in this process, allowing potential vendors to review adverse findings before a decision is made.

Mr. Traurig responded that we do follow this procedure. We had this situation recently and verified with the potential vendor to clear up what appeared to be an adverse finding in the background check.

The motion passed unanimously.

Revenue Generating Committee Report

Brand Management Update

Susan Singley, Director of Advertising and Interim Deputy Executive Director of Brand Management and Communications, presented an update to the Commission.

Ms. Singley shared with the Commission an update of marketing and advertising activities during the third quarter:

- January
 - December/January Keno Campaign (TV/Radio)
 - January Scratch-Offs: four new games introduced, with the Leprecashier campaign to support with TV, radio & social media
 - January New Fast Play support campaign (TV, radio, social)
 - December/January Powerball and Mega Millions High Jackpots - Jackpot Genie campaign
 - January - third Bigger Spin winner in the studio
- February
 - Multiply the Cash scratch-off launch with TV/radio/social support. We are now also creating 15 second versions of the ads for use on for digital/social media.
- March
 - Updated Harvest spot for TV/radio/digital including “Catch the Cash Cow” promotion
 - Bonus Cash promotion for Pick 3 and Pick 4, supported with POS and digital/social media
 - Keno Bonus Hours
 - Problem Gambling Awareness Month - Important and robust PlaySmart campaign across all media. This year we included a message on our tickets for the first time, and also rewarded extra Lucke Rewards points to players for engaging with blog posts.

Noteworthy Wins

A Charlotte man played the numbers from his fortune cookie and won \$4M, which became a national news story.

Marketing Sponsorships

We added several new partnerships in the quarter, including:

- HBCU All-Star game (held April in Greensboro)
- Charlotte Football Club soccer team

Minority Spend Update

We are doing well with the dollar amount of minority spend; however, our key aim is to increase incremental spend with an aggressive goal of \$1M this year, representing a 25% increase. We have achieved roughly 50% of this to date, primarily with Cactus, NCEL's new advertising agency. We are seeing the most success in the African American category, with room still to grow with regard to women and Hispanics. Most importantly, the trend is positive and we are confident it will continue to grow.

Product Development Update

Randy Spielman, Deputy Executive Director of Product Development & Digital Gaming, presented an update to the Commission.

Q3 Scratch Off Review

- January
 - \$5 Spotlight Game featuring a higher top prize, second best \$5 game of the year
 - \$20 Diamond Dazzler has also been a pleasant surprise, second best \$20 game in the last 5 years
 - YoY +2.7%
- February
 - Multiply the Cash is our marquee launch of the year. This year we implemented a second chance promotion for tickets entered in our reward programs.
 - YoY -4.7% - due primarily to weather (three major winter storms)
- March
 - \$30 - 200x the Cash and \$10 Cashword expansion. First expansion of X the Cash to \$30 price point.
 - YoY TBD

Price Point Migration Continues Shift Upward

- Sales growth is being driven by \$10+ price points, accounting for 65% of sales. \$30 is fastest growing price point. \$5 is still the most popular category, but we anticipate \$20 will overtake that by the end of the year.
- \$1 and \$2 have been trending downward for years and this trend is still accelerating.
- National Trends (2014 vs 2021) clearly show this shift as well.
- We are shifting our portfolio to accommodate for these market conditions.

Fast Play Update

We are focusing on higher price points here as well:

- \$20 launches in November & January
- \$10 Bingo Expansion introduced in January, sales +67%.
- \$20 now accounts for 39% of sales.
- \$10+ price points were 44% before introduction of the \$20 price point, now 62%.

Pick 3 and Pick 4 Bonus Cash Promotion is going on right now. This promotion is aimed at driving engagement; we know that these players are highly receptive to promotions. This is a raffle style promo featuring weekly drawings for 1,000 prizes between \$200 and \$500.

Digital Scorecard

- Q3 Revenue is \$17M, -\$3.3M, or -16%. This is heavily influenced by high jackpots, which we had two of last year during the same period. Lucky for Life is up 74%, but the others are down.
- We are still seeing digital growth but it is starting to taper off. 24,000 new online players, for a total of 333,000. On average we had 107,500 players online in Q3.

Sales Update

Terri Avery, Deputy Executive Director of Sales, presented an update to the Commission.

- Walmart Update
 - With 188 locations, this was a big recruitment and education effort that has paid off: last year we reached \$40M in sales, with \$27M paid in cash to players.
 - NC has the #2 location in the nation (\$1.5M, in Fayetteville)
- Performance Wizard Tool
 - With this software, for the first time we are able to see real time sales reporting (previously our data was 1 day behind). We are now able to see real time out of stocks, which empowers our team to resolve issues ASAP.
 - Allows for everything from overview of trends (daily, weekly, monthly) to ability to drill down to the store/terminal level.
- Vendors
 - IGT - Satellite dish realignment project is ongoing this year. 4200 need to be done before November in order to maintain connectivity. IGT is doing a great job with this so far.
 - SGI - over 4.3M packs ordered and shipped YTD, 6.83% (\$107M) increase over last year.

Operations and Personnel Committee Update

Commissioner Whitaker presented two action items to be voted upon by the Commission.

Policy 4.15, concerning compensation for non-exempt employees, has been edited for clarity and accuracy. This policy revision was approved in the Operations & Personnel Committee meeting on March 23, 2022. Commissioner Whitaker made a motion to approve this change. No second is required; the motion passed unanimously.

Corporate Incentive Plan, making a small update to revise our employee rating system from a 4-point to a 5-point scale. Commissioner Whitaker reminded the Commission that the Corporate Incentive Plan is not triggered until we achieve revenue of 6% over the budget target; this revision does not affect this point and will not have any financial impact to the organization. It is being undertaken because NCEL leaders requested more flexibility in rating employees, especially in order to recognize those who exceed expectations, Most private sector companies use a 5 point system for this reason

Commissioner Whitaker made a motion to approve this change. No second is required; the motion passed unanimously.

NCEL Demographics Report

Commissioner Whitaker has asked Human Resources to begin providing this report at each Commission meeting. This report shows that annual turnover at the NCEL is under 6%, well below the private sector average of 12-20%. Our team is doing an outstanding job in this area.

Commissioner Malcolm asked why there is no American Indian category on the report; Marbet Cuthbert, Director of Human Resources, responded that we do not currently have any American Indian employees. Commissioner Malcolm requested that the category be included regardless; Ms. Cuthbert said she will include it going forward.

Commissioner Whitaker asked Commissioner Malcolm if he had any suggestions for how to increase recruitment efforts toward the American Indian community. Commissioner Malcom replied that the state of North Carolina has a good program in place to recruit young people from minority serving institutions, which could be a good option for the NCEL. Commissioner Malcolm also complimented the organization on its diversity.

Executive Director's Report

Executive Director Mark Michalko presented an update to the Commission.

Contracts over \$90,000. The usual report has been distributed to Commissioners; there were no questions.

Legal Update

Mr. Traurig provided an update to the Commission.

- Mr. Traurig advised the Commissioners that Statements of Economic Interest are due on April 15. Mr. Traurig will send a reminder and links to all Commissioners shortly.
- Scientific Games, NCEL's main provider of instant tickets, is selling their ticket division to Brookfield Business Partners. The transaction will close in the second quarter of 2022. Brookfield brings significant financial strength and their intention is to stay in the business for the long term. Although we anticipate a seamless transition, we will be working to do due diligence and background checks in the coming weeks.
- **Gift Surplus LLC & Sandhill Amusements v. North Carolina.** This recent NC Supreme Court decision is the latest lawsuit whose ruling confirms that sweepstakes parlors are games of chance and are therefore illegal under state law. This ruling empowers law enforcement to shut these businesses down. We are already getting reports from the field that machines have disappeared from several retail locations.

HUB Report and Minority Spend Update

Annette Taylor, Minority Business and Community Affairs Manager, presented an update to the Commission about the NCEL's efforts with regard to minority spending and outreach.

HUB Report: 25.5% of our vendor spend, or \$35.6M, is NC HUB Certified.

External Engagement

- NCEL has committed to a \$60K investment in FY22 sponsoring small businesses.
- Business of Diversity Series: Ms. Taylor conducts seminars for external partners on how to do business with the NCEL in conjunction with minority business organizations
- We have hired an intern from an HBCU and are looking at creating access to national business directories and marketplaces.

Internal Engagement

- Supplier Diversity Best Practice Planning seminars were held with NCEL leaders to help each department set specific goals with regard to minority spending.
- The NCEL also has a Comprehensive Supplier Diversity Plan with an inclusive procurement strategy and metrics in place to measure continuous improvement

Commissioner Tyson asked for a list of the specific companies and organization we are sponsoring. Ms. Taylor will provide this information.

Commissioner Tyson also asked whether Veteran Owned Businesses are included in our diversity efforts. Ms. Taylor responded that we do work closely with several, including a large organization called NC Vet Biz, which is the top organization in the state supporting veteran-owned contractors and vendors. We send our RFPs to this organization as well.

Commissioner Long stated that this is an encouraging report that shows NCEL is moving in a positive direction with regard to this issue.

Commissioner Malcolm suggested that we also make focused efforts to target disabled veterans, especially given the high proportion of veterans in North Carolina. There are federal certification guidelines already in place for disabled veteran owned businesses.

Legislative Update

Hayden Bauguess, Director of Governmental Affairs, presented an update to the Commission.


Mr. Bauguess stated that the General Assembly has adjourned after their longest session in history. They will come back for 3-day session April 4-6 and another on May 4-6. These two short sessions will not include any legislative action. The official short session will begin May 18, the day after the primary election.

Commissioner Tyson asked whether sports betting will be addressed in the short session. Mr. Bauguess stated that he does anticipate the issue will come up in the House, but that we are unsure of the bill’s final version or whether it will pass. The NCEL’s position is one of neutrality; any requests we make regarding the legislation will be small tweaks to make the procedural aspects easier for us to manage on a day-to-day basis. Commissioner Tyson requested that Mr. Bauguess send more detail on this topic.

Other Business

Chairperson Adcock congratulated Mr. Michalko and the entire team at the NCEL for their remarkable dedication and professionalism, with which he has been routinely impressed over his two and a half years as Chairman. Commissioner Long seconded the above.

With no other business to discuss, a motion was made by Commissioner Long to adjourn, seconded by Commissioner Ripley Rand. The motion passed unanimously and the meeting was adjourned at 12:01 p.m.

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Chairperson Brad Adcock

6/22/2022
Date