

**North Carolina Education Lottery Commission Meeting
Meeting Minutes**

Wednesday, September 28, 2022

Commissioners in Attendance:

Brad Adcock, Chairperson
Lindsey Griffin
Chris Hayes
Randy Jones
Joshua Malcolm
Ripley Rand
Jason Roth

Commissioners Absent:

Nigel Long
Pamela Whitaker

Staff in Attendance:

Mark Michalko	Bill Jourdain
William Traurig	Randy Spielman
Terri Avery	Terri Rose
George Walker	Susan Singley
Hayden Bauguess	Van Denton
Joe Cosgriff	Joe Norman
Marbet Cuthbert	Michelle Freeman
Mike Suggs	Reggie Barnes
Cheryl Sutton	Eric Snider
Stacy Askew	Tami Wiggs
Amanda West	Daniel Rose
Damen Harris	Molly McClure

Other Participants:

Benjamin T. Spangler, *Assistant Attorney General,
Department of Justice*
Amanda Winters, *Program Administrator, NC Problem
Gambling Program*

The North Carolina Education Lottery meeting was held on Wednesday, September 28, 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.

William Traurig, Chief Legal Officer, read the remote meeting announcements. Mr. Traurig also read Ethics Announcements regarding Commissioners who have recently filed Statements of Economic Interest for review by the state Ethics Commission. New Commissioners Chris Hayes and Lindsey Griffin have both received positive findings from the state Ethics Commissions for their Statements of Economic Interest. Commissioners Joshua Malcolm, Ripley Rand, Pamela Whitaker, and Nigel Long were found to have potential conflicts as a result of their non-NCEL employment, but the Ethics Commission will rely on said Commissioners to identify any potential issues and recuse themselves as appropriate.

Chairperson Adcock asked the Commissioners whether anyone has a known conflict of interest in any matter before the Commission; there were no conflicts identified.

Attendees recited the Pledge of Allegiance.

Approval of Minutes

Commissioner Rand made a motion to approve the minutes for the June 15, 2022 Commission Meeting. Commissioner Malcolm seconded the motion, which passed unanimously.

Annual Problem Gambling Program Update

Amanda Winters, Program Administrator of the NC Problem Gambling Program, presented an update to the Commission.

The NC Problem Gambling Program, solely funded by the NCEL, offers treatment, education, and prevention services across the state at no cost to the public, including a 24/7 helpline via which concerned callers can speak with master's level clinicians.

Problem Gambling Statistics:

- 5.5% of adults may be experiencing problem gambling, with 20% of all people at risk for developing a problem.
- 10% of youth may be experiencing a problem, with 15-20% at risk.

The hotline received 2891 total calls in 2022, with 765 being clinical calls. This is a 70% increase over last year.

Demographics of the calls: 47% Black, 30% Caucasian, 4% Hispanic, 19% other (includes Asian-American, Native American, and those who declined to answer).

Most people (36%) called about the Lottery, followed by casino (20%), sweepstakes (16%), and Internet (15%).

The majority of callers indicated that they found out about the helpline via the internet (41%). 18% indicated they learned of the helpline from the back of their Lottery ticket; 60% of people calling specifically about the Lottery learned of it via their ticket.

80% of clinical callers were offered treatment, with 42% accepting treatment, and 37% attending in person.

100% found treatment helpful and would recommend it to others. 96% felt understood and 93% would recommend the helpline to others.

13,700,000 people were reached in 2022 via training (2908), grants (109,500), and media (13,640,030).

Commissioner Randy Jones asked how many of the calls coming from the back of a Lottery ticket are actually for problem gambling vs. other questions about the Lottery. Ms. Winters responded that the number is about 1 in 4. Commissioner Jones asked if the wording could be changed to emphasize that the phone number is only intended to be used for problem gambling. Ms. Winters responded that she is certainly open to ideas, but emphasized this is not an uncommon problem for all problem gambling hotlines. Executive Director Mark Michalko thanked Commissioner Jones for his question, and stated that the NCEL leadership team will review this off line to see if the language could be clarified.

Finance/Audit Committee Report

Financial Update

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

Unaudited Fiscal Year 2022 Results from Operations

External auditor Cherry Bekaert is reviewing these results now. Mr. Jourdain will provide full audited results at the Commission's next meeting in December.

FY 2022 Revenue

- FY2022 was another record year for NCEL, with \$3.887B in ticket sales. The largest portion, \$2.659B, was scratch off sales (68%), followed by Pick 3 and Pick 4 with 12.42% and 5.7% respectively. Total revenue was \$3.892B.

Distribution of Revenue

- Lottery prizes are the largest expenditure, at \$2.543B or 65.34% of revenue
- Retailer commissions account for \$268M of spending, or just under 7% of revenue
- Administrative expenses (gaming services and licenses, salaries, wages, benefits, advertising, other admin) total 3.81% of revenue, well under the 5% cap set by the state legislature
- Responsible gaming & ALE legislative mandates were \$3.1M
- **Earnings for Education:** \$929.8M or 23.89% of revenue

Admin Budget Savings in FY 2022

- Although we budgeted \$87.7M for Administrative Expense, we spent only \$73.5M. The excess (\$14.2M) goes to education, specifically needs-based school construction.

Comparatives to FY 2021

- Sales +2.15% above last year, +10.37% above budget
- Net earnings were at -0.75%, although still 15.94% above budget. This is due largely to players moving toward higher price points with higher prize payouts.

Since Startup: Ticket sales have increased every year since 2006.

Prizes and Return to Education as a Percentage of Revenue

- The percentage of revenue going toward prizes has slowly increased as we move toward more attractive games, resulting in the return to education as a percentage of sales going down slightly; however, but the total dollar amount going to education continues to sharply increase as total sales continue to rise.

Administration as a Percentage of Revenue

- As revenue increases year over year, administrative expenses have stayed flat or even gone down as a percentage of revenue.

Net proceeds to education since inception: \$9,247,831,119.

Financial Results: One Month (July) of Fiscal Year 2023

- Total Assets of \$348M: \$202M in cash, \$81M in annuity award investments, accounts receivable of \$55M.
- Total Liabilities of \$391M: \$45M in outstanding prize awards, \$81M in annuity awards to be paid, and \$219M to be paid to the state for education, most of which will be settled in August.

- Admin expenses are around 4% of total revenue, below the legislative cap of 5%.
- \$391,914,000 in ticket sales, with a highlight being \$50M from Mega Millions' \$1B jackpot run
- \$91M in earnings to education.
- Sales up 23.36% over last July, 36.96% above budget.
- Net earnings up 22.06% vs last year, 39.82% above budget.
- Cash transfers to the State Office of Management & Budget are \$147M as of September 21.
- Lottery reserve fund totaled \$47M, and remains above the 5% reserve fund target.
- Net proceeds to education since inception are now above \$9.3 billion.

Internal Audit Update

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

External Security Audit

- NCEL contracted with Bulletproof, the industry leader in lottery and gaming audits, to perform this external audit. Mr. Suggs presented a summary of the findings to the Commission.
- The Executive Summary states that the overall security of NCEL is very good. Our controls protecting confidentiality and data are working as intended, and IT security controls are above average compared with other lotteries.
- 12 low risk issues and 10 medium risk issues were identified. These risks will be taken to a committee made up of audit, security, and IT employees to assess. The committee will put together a plan to mitigate these risks, or justify the continued risk if an efficient and cost-effective solution cannot be determined. 5 of the 10 medium risk issues have already been mitigated.

Internal Audits

Three internal audits were completed during the quarter:

- Audit of Travel & Motor Fleet
- Audit of Expense Reporting and Reimbursements
- Audit of Tax Reporting and Compliance

For all three audits, controls and compliance of appropriate policies appear to be adequate and have been sufficiently designed to mitigate risk. The Internal Audit department identified a few minor recommendations to improve internal controls, policies and procedures in each area.

Annual Internal Audit Self-Assessment and Maturity Model

Completion of this assessment is required by the state every year. Mr. Suggs presented NCEL's results, which exceed the minimum acceptability requirements in all areas, improving on our performance last year. No action plan is required.

Revenue Generating Committee Report

Brand Management & Communications

Terri Rose, Deputy Executive Director of Brand Management & Communications, presented an update to the Commission.

Advertising Activities

- July
 - Jackpot Awareness for \$1.2B Mega Millions jackpot
 - July Scratch-Off advertising focused on new Fabulous Fortune \$30 game, with TV and radio on air July 3-24. Also supported with interactive social media campaign.
- August
 - 4 new games
 - Winners Club Campaign included Instagram & Facebook filters, with players submitting photos for an opportunity to win scratch-off tickets
 - Beneficiary message campaign all month
 - Bigger Spin Live Event - \$2M winner
 - Pick 3 Double Draw: POS, Digital & social media
- September
 - 4 new scratch games, supported by TV, radio, interactive social media, POS
 - 2 new Fast Play games
 - Keno Bonus Hours - players can win 50% more on Fridays
 - Bigger Spin Live Event - \$500k winner
 - Fireball Launch - add-on for Pick 3 and Pick 4 which gives players an extra number for more combinations to match and win. Usual media campaign also includes how-to-play videos and POS to educate players.

Marketing Sponsorships

- Professional Sports (Panthers/Hurricanes)
- Community Events (festivals, fairs, local sports events)

Communications with Stakeholders

- Feature at annual conference of NC Association of County Commissioners
- Feature in Leadership Link newsletter, NC Association of School Administrators
- NCPTA newsletter article about how NCEL money funds education in the state

Big Winners

- \$2M Bigger Spin winner

- Double Draw occurred 10x during August
- Mega Millions: two NC players won \$1M

Advertising Calendar

No changes to the FY2023 plan. Highlights include 12 months of scratch-off advertising, several draw & Fast Play game campaigns, an ongoing support for online play.

FY2022 Minority Spend Update

We set an expanded goal last year of \$1.091M in incremental diversity spending and came in just under goal at \$1.034M. The leadership team is going to revisit the goal for next year and will share an updated target at next quarter's meeting.

Product Development & Digital Gaming Update

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

Scratch Off Update

- July
 - \$30 Fabulous Fortune Launch in July. First with “non-breakeven” value proposition.
 - YoY +12.9%.
- August
 - Mega Bucks Limited Edition - new \$5 Game.
 - YoY +11.5%.
- September
 - “Cash” family of games was introduced. September is traditionally a slower launch month but this new family is performing slightly better than average.
 - For the month to date sales are up about +14% YoY.

NCEL Leading the Country in Growth

Our 3.5% scratch-off growth for the rolling 12-month period is #1 in the United States. We are one of only three lotteries whose sales have not decreased (NC and FL are up, MD is flat).

FY23 Fast Play Game Plan

- September - Football + Bingo
- November - Holiday Games
- January - Game Rotation
- April - New \$20 game + Luke Combs

Fireball: New Add-On for Pick 3 and Pick 4 launched September 18

- Pick 3 and Pick 4 are our most important draw games, representing about 60% of draw games sales.
- An extra ball (Fireball) is drawn following the base game drawing to create new winning combinations for players to match with their numbers. This has a unique prize structure separate from the base game with the ability to win multiple times depending on the numbers selected.
- 8 other state lotteries are currently running Fireball. Their results typically show a sales increase of 3.4% to 10.1% (average 3.8%-5.3%). Performs slightly better with Pick 4 than Pick 3. Our target is 5% for both Pick 3 and Pick 4, which would be an additional \$35M if goal is reached.

Digital Scorecard

- Q1 Revenue of \$27.9M to date, or +67% or \$11.2M. This was impacted by Mega Millions, which was up 98% but is only 20% of the total.
- 69K players added through September
- An average of ~133K monthly players.

Commissioner Jones asked Mr. Spielman about NCEL's plan to review our price points with interest rates rising and the national economy worsening. Is there a plan in place to continue supporting lower price points? Mr. Spielman thanked Commissioner Jones for the insightful question and said that we are continuously monitoring our sales at all price points to support the entire portfolio. Although the highest sales increases are coming for the higher value tickets, our average ticket price is around \$7-8.

Digital Support and Related Services RFP Overview

NCEL Executive Director Mark Michalko informed the Commission that the RFP process has been completed for a new contract for Digital Support and Related Services, and asked Mr. Spielman to present the process and results to the Commission.

Mr. Spielman stated that our goal with this process was to identify and partner with a digital agency to support the growth and optimization of our digital platforms through the consultation and buildout of our digital analytics capabilities with emphasis on improving the User Experience.

The RFP Evaluation Committee undertook a two phased approach lasting from May 20 through September 9, 2022. Evaluation was based on specific scoring categories including technical capabilities, financial review, minority participation, and cost.

NCEL received 5 proposals, with 4 finalists advancing to Phase II. All technical scores were within 12%. The contract was ultimately awarded to Pollard Banknote with 3057 out of 3760 points. Their cost was 60% lower than other proposals, well within the budget approved by the NCEL Commission in June.

Commissioner Jones asked if this is the same company we already use as a vendor, and Mr. Spielman responded that this is the case. They are a secondary resource for scratch-off print services (2-3 games a year), and are also 50% of NeoPollard Interactive, providing our loyalty platform and mobile app. Under this new contract they will provide more strategic evaluation and services, as well as user experience design to help supplement our in-house development.

Commissioner Malcolm commented that during the September 20 Revenue Generating Committee, Mr. Spielman had presented information about Pollard's efforts toward diversity and inclusion, and assured the Committee that they share our goal toward continuous improvement in this area.

Commissioner Malcolm made a motion to accept the recommendation of the Executive Director and RPF Committee to select Pollard Banknote as the Successful Contractor, and direct the staff to negotiate a contract with Pollard Banknote on the best possible terms including cost which shall not exceed the pricing contained on the cost proposal Pollard submitted in response to the RFP. No second was required, and the motion passed unanimously.

Sales Update

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

FY2022 Facts and Figures

- 6.8M packs shipped
- Over 103,000 sales rep service calls
- 38,559 checks processed in claim centers
- Over 1.35M miles driven by sales team

Retailer Commission Growth

Average yearly commission has increased steadily since inception. Now at \$37,783 with 7081 active retailers.

We did lose several non-traditional retailers to financial difficulties stemming from the COVID pandemic. Non-traditional retailers tend to have lower sales; thus, the overall average for remaining retailers increased. We do have new retailer applications pending and expect to see the total number of retailers begin to increase again this year.

FY2022 Average Dispenser Count

Highest ever at 35.35 per retailer. Goal for FY2023 is to reach 36.

New Game Penetration

99% for 2022, and we are continuing to hit 99% in early FY 2023.

Fireball Introduction

The new add-on has been extremely well received so far. Currently running in-store promotions to educate players (spend \$10+ on Fireball, receive a free prize).

Operations and Personnel Committee Report

Amendments to Policies 4.10 and 4.11

Director of Human Resources Marbet Cuthbert presented amendments to two NCEL policies for Commission approval regarding:

- The amount of PTO directors and above can opt to cash out, increasing to 120 hours per year (putting them on par with other employees), and eliminating the one year of service requirement before employees can request a PTO payout.
- The addition of a Personal Observance Day, supporting an executive order by the Governor. This is one 8-hour day per calendar year that can be used at the employee's discretion for cultural, religious, or personal reasons. These days do not carry over; they must be used each year or the time will be lost.

Commissioner Malcolm asked how many other state agencies offer similar PTO Cash Out programs. Ms. Cuthbert stated that she is not privy to that information, and explained that in addition to being a very popular benefit, this change is being proposed to reduce the NCEL PTO liability, which increased as a result of the COVID pandemic, increasing NCEL's potential financial burden. Ms. Cuthbert also confirmed that employees are currently allowed to carry over 240 hours of PTO from one year to the next.

Commissioner Malcolm stated he has concerns with burnout: should NCEL be encouraging employees to take more time off, rather than paying it out? Mr. Michalko stated that the policy has been in place for many years and is very popular, but he would be happy to have an internal discussion and come back to the Commission if there is a feeling it should be modified.

Mr. Jourdain stated that the usual time for paying out PTO is early November. If a decision on this policy change is delayed, it could affect whether or not we are able to implement this year. He also reminded the Commission that because our salary funding comes from the proceeds of our operations, we have more flexible options than most other state agencies which must make decisions based upon state appropriations. Commissioner Malcolm confirmed that his questions do not affect the current policy, which allows for PTO payouts.

Commissioner Rand made a motion to accept the Operations & Personnel Committee's recommendation and approve the adoption of these proposals.

Commissioner Jones made a motion to postpone the vote on the PTO payout portion of the policy change until NCEL staff can investigate and report back to the Committee on what other state agencies are doing. Commissioner Malcolm seconded the motion, which passed unanimously.

Commissioner Rand made a motion on behalf of the Operations & Personnel Committee to approve the addition of the Personal Observance Day. No second was required, and the motion passed unanimously.

Amendment to Executive Director Review Process

Commissioner Rand informed the committee that the Executive Director's Review Process has been amended to match the timeline to the rest of NCEL's employee reviews.

FY23 Corporate Incentive Program

Mr. Jourdain presented the proposed FY2023 Corporate Incentive Plan. This is a performance-based bonus that is triggered when the NCEL has achieved certain revenue thresholds for education that are tied to the legislatively budgeted number. There are three potential incentive tiers:

- 2.5% bonus if \$886M target is reached
- 5.0% if \$940M target is reached

- 7.5% if \$1B target is reached

Commissioner Rand made a motion on behalf of the Operations & Personnel Committee to approve the FY2023 Corporate Incentive Program. No second was required, and the motion passed unanimously.

Annual Policy Review of Commission and Executive Department Policies

Mr. Traurig provided the Commission with a brief overview of the changes to these policies, which must be approved by the Commission every year:

- 10.1 Ethics Procedure: This policy had specified the Chief Legal Officer as the approver for any changes; however, as this policy concerns the Commission, Mr. Traurig felt it was more appropriate for the Commission to have final approval. The policy also adds a small clarification specifying that members are responsible for filing Statements of Economic Interest with the State Ethics Commission by April 15 “of each year”, and gives the NCEL Chairperson sole responsibility for seating new Commissioners.
- 10.2 Corporate Social Responsibility: No changes.
- 10.3 Process for Management of the NCEL in Absence of Executive Director: The policy has been amended to add “and unable to transact business electronically” to reflect the current situation in which NCEL staff is often working from home.

Commissioner Rand made a motion on behalf of the Operations & Personnel Committee to approve policies 10.1, 10.2, and 10.3.

Commissioner Hayes asked about the current definition of “out of office” since most are working remote. Mr. Traurig explained that “unable to transact business electronically” has been added to clarify that the ED is not always working from the office.

The motion passed unanimously.

Executive Director Reports

Contracts of \$90,000

Mr. Michalko shared the standard report with the Commission, with nothing of particular significance to note.

New Director Level Hires

Mr. Traurig introduced two new members of his team to the Commission.

- **Eric Snider** - Legal Counsel. Mr. Snider worked most recently for the NC Department of Information Technology. He also has experience with the State Board of Education and spent years in private practice at top tier law firms in Raleigh and Kansas City, Missouri.
- **Cheryl Sutton** – Director of Supplier Diversity & Outreach. Dr. Sutton holds a doctorate in organizational leadership, and most recently served as Program Manager of the City of Raleigh’s Minority and Women Owned Business Program. She was also at UNC Wilmington for 15 years administering their HUB program, acting as Diversity and Inclusion Partnership Liaison, and teaching as an adjunct professor.

HUB Report

Mr. Michalko presented the standard HUB Report to the Commission, which states that 24.4%, or \$37M, of YTD expenditures were with minority owned businesses.

Dr. Sutton will take over presenting this information at future meetings in a much more granular manner, utilizing her expertise to improve the way we track and share these metrics.

Legislative Update

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

The General Assembly is out of session, preparing for the upcoming November election. There are potentially 42 seats that will change hands. After the election, Mr. Bauguess will put together a briefing of new legislators for the Commission.

Other Business

Mr. Michalko recognized the great work of the NCEL team in leading us to the #1 position in the country for scratch-off sales, which is even more significant considering the population of North Carolina compared to other much larger states. We are the envy of the industry and are getting a lot of attention from other lotteries, all thanks to our great people. Commissioner Adcock agreed and shared that we are very fortunate to have such experienced team.

With no other business to discuss, a motion was made by Commissioner Jason Roth to adjourn. The motion was seconded by Commissioner Malcolm and passed unanimously. The meeting adjourned at 12:11pm.



Chairperson Ripley Rand

2-7-2023

Date