

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

Meeting Minutes

Tuesday, September 8, 2020

Commissioners in Attendance:

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

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
Sara Bradshaw	Michelle Lassiter
Erwin Mialkowski	

Other Participants on Call:

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

The North Carolina Education Lottery meeting was held on Tuesday, September 08, 2020, at 10:00 a.m. via teleconference call.

Chairman Courtney Crowder 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 Commissioner Jody Tyson.

Approval of Minutes

Chairman Crowder asked Commissioners to review minutes from the June 23, 2020 meeting. A motion was made by Commissioner Nick Picerno 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

Committee Chair Jason Roth turned the presentations over to staff.

Finance Update

Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the fiscal year to date financial reports for the one month of fiscal year 2021 ended July 31, 2020:

Fiscal Year to Date Financial Reports for the one month of fiscal year 2021 ended July 31, 2020:

In the Statement of Net Position on page 3, July 2020 ended with Total Assets of \$209 million which included \$95.5 million in cash and \$80.7 million in Annuity Award Investments.

Accounts Receivable totaled \$23.6 million of which \$22.3 million represents net receipts from the gaming system to be collected via electronic funds transfer in August.

Total liabilities of \$250.1 million included \$23.5 million in outstanding prize awards and vendor accounts payable, \$80.7 million in long term annuity prize awards payable and \$100.9 million due to the State of North Carolina for Education.

Total Operating Revenue for the one month of fiscal year 2021 totaled \$311.3 million. Ticket sales for the one (1) month of fiscal year 2021 totaled \$310.9 million a 30.1% increase or \$72 million over the one (1) month of fiscal year 2020.

Total gaming expenses including player prizes (\$205 m) retailer commissions and incentives (\$21.6 m) and Gaming System Services & Licenses (\$6.2 m) for the one (1) month of fiscal year 2021 totaled \$232.7 million or 74.7% of total revenue. Total administrative expenses, including salaries & benefits, advertising & marketing and operational overhead totaled \$5 million or 1.6% 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 \$11.3 million or 3.7% of total revenue.

Net Revenue earned for the Education Lottery Fund for the one (1) month of fiscal year 2021 totaled \$73.3 million or 23.6% of total revenue an increase of \$14 million or 23.7% over the one (1) month of fiscal year 2020. The total net revenue is running \$21.1 million or 40% ahead of our estimated budget target as approved by the commission in June.

Internal Audit Updates

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

- *QA Final Report*
- *Internal Audit Activity Charter 2020*
- *Audit of Cash, EFT and AR*
- *Audit of Telecommunications*

Attorney General Cooperative Agreement

Billy Traurig, Chief Legal Office, presented an update on the revisions that had been made to the Assistant Attorney General Agreement.

Discussion

- Commissioner Tyson would like an explanation on the \$5300 discrepancy with total numbers for the contract. Mr. Traurig explained that the difference is based on his projections and direct billing invoices from the attorney general's office.
- What will happen with the vacant attorney position? Currently, the position is being reviewed and options are being considered on how to proceed.
- It was noted by Mr. Traurig that he has sufficient assistance with the current attorney general's agreement, should he need it.

A motion was made by Commissioner Tyson to postpone approval of the substituted attorney general agreement until the December Commission meeting at which time Mr. Traurig and Mr. Michalko should present on how NCEL will proceed with the newly vacant position. The motion was seconded by Commissioner Morgan Beam. The motion failed with a vote of 4 (yes) to 5 (no).

A motion to accept the substituted contract was made by Commissioner Chris Shew. The motion was seconded by Commissioner Brad Adcock. The motion passed with a 5 (yes) to 4 (no) vote.

Revenue Generating Committee

Committee Chairman Brad Adcock turned presentations over to staff.

Brand Management Update

Frank Suarez, Deputy Executive Director of Brand Management and Communications gave a summary of his presentation given during the revenue generation committee meeting on September 1, 2020.

- **Advertising Budget** - 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. No community events scheduled for the fall –monitoring status of sports and universities to determine any potential opportunities in FY21
- **Fast Play Launch Plan** - Reviewed Brand Management launch plan for new Fast Play category of games

Mr. Suarez gave update on the 1th Quarter FY21 (July - September):

- July Scratch-Offs
 - \$5 Carolina Panthers featured game
 - 2nd Chance Prizes include Fifty One Club Membership and 2021 Season Tickets
 - Launched 4 additional new games
 - Double Deuces (\$2)
 - Cherry Tripler Cashword(\$3)
 - Super 7's (\$5)
 - Power 10's (\$10)
 - TV and radio July 7 –26

- Panther's Super Fan Social Promotion
 - To add interest in the new ticket, the NCEL held a unique social giveaway
 - Players had to share their game day traditions to win scratch-offs
 - To help inspire players, we enlisted the help of Panthers Super Fan, Mad Cattah
 - In total, the social campaign reached 1.4M+ North Carolinians and generated thousands of memorable engagements
- August Scratch-Offs
 - Launched 4 new games \$10,000 Gold Rush (\$1)
 - \$50,000 Gold Rush (\$2)
 - \$250,000 Gold Rush (\$5)
 - \$4,000,000 Gold Rush (\$20)
 - TV and radio August 4 -23
- Guess the Gold Social Promotion
 - To increase interest in the Gold Rush suite of scratch-offs, the NCEL used Facebook Live to deliver an engaging social promotion
 - Players were asked to guess how many gold coins were in a bank tube
 - We livestreamed as we counted the coins and players won prizes throughout the show
 - The campaign reached over 500,000 people and over 17,000 guesses were made on the live show
- September Scratch-Offs
 - \$10 Carolina Black Millionaire Edition is the featured game
 - Previous Carolina Black tickets were \$5 games
 - Launched 3 additional new games
 - Hit \$50 (\$1)
 - \$500 Stacked (\$5)
 - Extreme Cashword (\$5)
 - TV and radio September 1 -20
- Fast Play Launch
 - New Fast Play category of games launches on September 13
 - Launches with six new games:
 - Lucky Clover (\$2)
 - Jackpot 7's (\$2)
 - Classic Bingo (\$2)
 - Jackpot 7's (\$5)
 - Rock n' Roll Bingo (\$5)
 - Jackpot 7's (\$10)
- Comprehensive Launch Plan
 - TV and radio on-air September 14 –October 11
- NC School Heroes
 - Award of FY20 winners postponed due to pandemic
 - Will begin awarding FY20 winners in September
 - Hope to have virtual celebrations with schools and winners –will be contingent on school participation
 - Recommend not moving forward with NC School Heroes promotion in FY21
 - Promotion relies heavily on school support and onsite activation
 - Beneficiary advertising only

Product Development Update

Randy Spielman, Deputy Executive Director of Product Development & Digital Gaming, gave an update for the 1st Quarter FY21 (July - September):

- Scratch-Off Sales Continued Growth
 - Sales continue very positive trend year over year
 - Past 3 months – top 3 historically
 - August currently +34%
 - Currently on track to become a Top 10 US Lottery in per capita scratch-off sales
- Pick 3 and Pick 4 Sales
 - Beginning in May set new sales records each month
 - July sales of \$63.1M – current record
 - May – July were highest months ever
 - August currently +27.7%
- Fast Play
 - New Game 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
- iLottery
 - Virginia the latest Lottery to offer digital instants
 - Significant impact on KPI’s
 - Increased number of players using the channel
 - Positive impact on draw game sales due to increased traffic
 - Best digital instant launch in US

Sales Update

Terri Avery, Director of Sales, presented sales updates:

- Launch of First Tuesday Game
 - Carolina Black – 98% of retailer participation and activation
- Fast Play – Currently conducting training sessions for retailers
- Sci Q – Will add more machines to retailers and continue to monitor the ongoing pilot

Operations and Personnel Committee

Committee Chairman Shew turned presentations over to staff.

Proposed FY2021 Bonus Plan (Action Required)

Marbet Cuthbert, Director of Human Resources, presented the proposed FY2021 bonus plan.

Discussion

- It was clarified that staff were eligible for the bonus based on their annual evaluation
- It was noted, the executive director has not been evaluated in two years. The executive director’s evaluation and eligibility for bonus will be discussed during the next operations and personnel committee meeting.

A motion was made to accept and approve the proposed FY2021 bonus plan as presented to include the executive director. (Note: if the executive director has not been evaluated during the time of bonus, he will not be eligible for the bonus). 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.
- **HUB Report** – Commissioners were asked 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 bi-annual session is officially closed as of Friday, September 4, 2020.
 - Senator Dean Proctor was appointed to the Joint Legislative Oversight Committee
 - Senator Rick Horner was appointed as co-chair as the Joint Legislative Oversight Committee

Other Business

Committee Charter Update Discussion

- Each committee should review their charter(s) before the next full commission meeting (December). Any revisions will be discussed during this time.
- Chairman Crowder suggested the Mr. Traurig conduct research as to how the Commission should proceed with who and how the Commission charter should be reviewed and updated. Will bring opinion to the commission.
- Felicia Adams, Executive Assistant will send the charters to the commission.

With no other business to discuss, the meeting was adjourned at 12:55pm.

DocuSigned by:

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Chairman

4/5/2021
Date