

North Carolina Education Lottery Commission Meeting

Meeting Minutes

Tuesday, March 11, 2014

Commissioners in Attendance:

Keith Ballentine, Chairman
Alice Underhill
David Kirby
Amy B. Ellis
Courtney Crowder
Chris Shew
A.J. Daoud

Commissioners not in Attendance:

Doug Baker
Jody Tyson

Staff in Attendance:

Alice Garland
Bill Jourdain
Caryl James

The North Carolina Education Lottery Commission meeting was held Tuesday, March 11, 2014 at 9:00am, at NCEL headquarters located at 2100 Yonkers Road, Raleigh, NC.

Chairman Ballentine called the meeting to order and reminded the Commission 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.

Chairman Ballentine welcomed the newest Commissioner, Amy B. Ellis to her first meeting. Ms. Ellis was appointed by President Pro Tem, Phil Berger.

Chairman Ballentine presented the minutes from the January 22, 2014 Commission meeting. Hearing no suggested changes, Commissioner Daoud made a motion to approve the minutes as written and Commissioner Kirby seconded. The minutes were approved.

Finance and Audit Report

Bill Jourdain, Deputy Executive Director of Finance, Administration and Security presented the financial report for the month of January 2014 and the seven (7) months of FY 2014. January 2014 ended with total assets of \$141.8 million, which included \$57.2 million in cash, and \$57 million in annuity award investments. Accounts receivable totaled \$19.6 million; \$16 million represents net receipts from the gaming system to be collected by electronic funds transferred in February; and \$3.3 million is from the multi-state prize funds owed to the NCEL by MUSL for NC prizes won in Mega Millions and Powerball. Total liability of \$141.8 million included \$38 million in outstanding prize awards and vendor accounts payable; \$57 million in long-term annuity prize awards payable and \$39.8 million due to the Education Lottery fund.

In the statement of revenues and expenses, total operating revenue for the month of January 2014 totaled \$148.3 million. Tickets sales for the month of January 2014 totaled \$147.8 million. This is a 7.7% increase over the same time last year. Net revenue earned for education in the month of January 2014 totaled \$39.8 million, a 5.6% increase over the same time last year.

Total revenue for the first seven (7) months of FY2014 totaled \$1.053 billion. Tickets sales for the first seven (7) months of FY2014 were \$1.05 billion, a 13.1% increase over the same period from last year. FY2014 sales are about 13% ahead of the budget target. Instant ticket sales as well as draw games have all shown growth over the past year.

Total gaming expenses including player prizes, retailer commission and incentives, and gaming system services and licenses through January 2014 totaled \$737.6 million. NCEL operational expenses including salaries and fringe benefits, advertising and marketing, and operational overhead totaled \$24.8 million, which is 2.4% of total revenue. The NCEL's administrative expenses total \$43.2 million, or 4.1% of total revenue.

Net revenue earned for the education lottery fund for the seven (7) months of FY2014 totaled \$291.3 million, which is an increase of \$25.1 million over FY2013. During the month of January 2014, the NCEL transferred \$124.9 million to the education lottery fund. Total net proceeds transferred to the State of North Carolina since the Lottery's inception is \$3.2 billion.

There were several questions and comments regarding the financial report. Commissioner Daoud requested information about jackpot sales and when the media begins to report jackpot amounts.

Alice Garland presented the Internal Audit report. She noted that the NCEL is without a Director of Internal Audit but a number of applications have been received for the position and interviews will begin very soon.

Operations and Personnel Report

In the absence of Commissioner Tyson, Caryl James, Director of Human Resources presented the Operations and Personnel report. Mrs. James reported that a change to HR policy 4.15, "Attendance and Leave" was made to clarify the term "Compensatory Time" or "Comp Time."

Mrs. James provided information to the Commission regarding changes to the inclement weather policy. The NCEL's inclement weather policy requires staff to use PTO when the office closes or delays opening due to inclement weather. Commissioner Daoud made a motion to accept the policy changes as presented and he proposed that the partial day closing include inclement weather leave, rather than requiring employees to use PTO. Commissioner Kirby seconded. The motion carried. An addition to policy 4.15 – "Attendance and Leave" will be made to include language stating that when the Executive Director closes the NCEL for either an entire day or a partial day, staff will be provided inclement weather leave.

Mrs. James presented information regarding HR policy 4.17, "Recruitment and Selection." The proposed change to the policy clarifies that the NCEL may initiate an extensive background check when an employee advances within the organization either through higher level of access to sensitive information, a pay grade change, new supervisory responsibilities or the handling of cash or live tickets. Commissioner Daoud requested that NCEL staff research ways in which insurance companies conduct and evaluate the information and use those processes as a guide for conducting background checks at the NCEL. Chairman Ballentine requested the NCEL staff to develop draft policy changes for review at the June NCEL Commission meeting based upon this research.

At the request of the NCEL Commission during the January 2014 meeting, Human Resources researched information regarding the implementation of an organizational structure study. Mrs. James presented the findings to the Commission regarding goals, expectations and costs. There was much discussion regarding the potential study. Commissioner Underhill, Commissioner Crowder and Commissioner Kirby expressed support for the study. Commissioner Daoud disagreed and feels that the NCEL's mission should be to maximize the amount of funds that are provided to the state for education in North Carolina. He felt that spending \$30,000 to \$50,000 is too expensive and that the research could be done in-house by comparing the NCEL to other lotteries across the country. Chairman Ballentine expressed the need for "outside eyes" to look at the organization – as an impartial group. The proposed expenditure is a one-time expenditure that will help the NCEL maximize the return to education. Commissioner Crowder asked for clarity as to the amount of money the legislature allows the NCEL to spend on administrative costs. Commissioner Kirby reminded him that NC general statute allots the NCEL to spend 8% of revenue on administrative expenses. Commissioner Crowder pointed out that because the NCEL currently spends 4% of revenue on administrative expenses, it is already conducting in a very fiscally responsible manner. Commissioner Daoud stated he does not see the need to spend money on outside services, especially when teachers are seeking pay raises. Commissioner Kirby pointed out that the entire Commission agrees that the NCEL's goal is to provide as much money as possible for education in North Carolina and that this study would further that objective. Being no further discussion, Commissioner Kirby made a motion to proceed with the

organizational study and Commissioner Crowder seconded. All commissioners were in favor except Commission Daoud. The motion carried.

Executive Director's Report

Executive Director Alice Garland notified Commissioners that Frank Suarez has been named as the Deputy Executive Director of Marketing, Advertising, Communications and Product Development.

Executive Director Garland also presented the key performance indicators.

Executive Director Garland presented information on contracts above \$90,000. Tami Wiggs, Director of Marketing, provided Commissioners information regarding college sponsorships and the various sponsorship costs based upon the schools.

Susan Singley, Director of Advertising, presented the marketing and advertising update.

- January suite of tickets launch presented the creative challenge of creating awareness of the games without talking about money. The solution was talking about the action of playing/scratching. (Presented *Fast Fingers* TV commercial)
- Powerball update – Power Play prize structure changed in January. The random multiplier prize structure replaced the set prize structure. Prizes can be multiplied 2X, 3X, 4X, or 5X with the exception of the jackpot and Match 5+0 prizes.
- Powerball Hall of Fame promotion was a success - more than 100,000 entries during the promotional period of 10/6/13 through 2/3/14. The promotion required a \$10 purchase to enter for the chance to win a trip to the Pro Football Hall of Fame event.
- The February monthly launch included the (\$5) *Green & Gold* scratch-off ticket. This instant game is the first NCEL launch of a ticket with the “Back Scratch” feature. Lottery players can scratch the front of the ticket and then turn it over and scratch the back for another chance to win. *Green & Gold* with Back Scratch has been extremely successful indexing as high as 441 in its third week. It continues to index high at 237 in the fifth week. (Presented *The Glory of the Back Scratch* TV commercial)
- March featured the launch of a new \$20.00 ticket, *Multiplier Spectacular* – which was best launch since inception. Game offers a top prize of \$4 million and a chance to win up to 100X your prize. In the first week of sales, there were \$33.1 million in activations.
- Carolina Cash Five with EZ Match will launch March 30, 2014 with advertising of the new add on feature beginning March 31.
- Lucke Zone update
 - 36,896 new accounts in the last 3 months
 - Sweetheart Cash second chance drawing performed very well in February
 - Springtime Tech package is the promotional drawing for March
 - A Caesar's /Vegas package is the promotional drawing for April
 - NCEL 200 Grand Marshall/ Honorary Starter entry period is underway
- Media update
 - NCEL Annual Report was distributed in February to state and local leaders
 - News clips of winners' stories were shared. Most media coverage is a result of winners' stories.

Executive Director Garland provided a subscription service update. Subscription service began on December on 5, 2013 and has steadily grown since that time. Ways to purchase subscription is expanding with Visa debit.

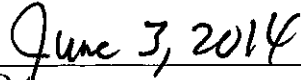
Play at the Pump program is in the contract negotiation stage. This alternative purchasing method will be aimed at the occasional player. Games offered through Play at the Pump will include Powerball, Mega Millions, and Cash 5. Players will only have quick pick option and only for the next available draw. Retailer will earn three (3%) of sales based upon its agreement with the Play at the Pump service provider. Pilot program will include ten (10) retailers and will last just a few months. Commissioner Crowder expressed concerns regarding underage players. Executive Director Garland reminded the Commission that the NCEL is requesting more stringent processes to prevent underage sales than currently required in other states. Executive Director Garland will have information to present to the Commission at a later date on the safeguards that will be put into place.

March is National Problem Gambling Awareness month. NCEL staff has participated in training on recognizing players with potential gambling problems. Jaime King Fuquay, Director of Government Affairs presented the responsible gaming video. The video showed North Carolina's commitment to promote responsible play.

There being no other business, Chairman Ballentine adjourned the meeting.



W. Keith Ballentine, Commission Chairman



Date