

North Carolina Education Lottery Commission Meeting

Meeting Minutes

Tuesday, September 13, 2016

Commissioners in Attendance:

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

Staff in Attendance:

Alice Garland
Bill Jourdain
Jaime Fuquay
Frank Suarez, Jr.
Mike Suggs
Quan Kirk
Moe McKnight
Colyn Bacon

The North Carolina Education Lottery meeting was held on Tuesday, September 13, 2016, at 9:30 a.m. at the North Carolina Zoo located at 4401 Zoo Parkway, Asheboro, NC.

Chairman Griffin called the meeting to order and Commissioners stood for the pledge of allegiance. The Chairman reminded 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.

The Chairman introduced Ms. Pat Simmons, Executive Director of the NC Zoo, and thanked her for allowing the Commission to use the Zoo's facilities to hold its quarterly and town hall meetings. Ms. Simmons welcomed Commissioners and thanked them for choosing the Zoo as the location of the meetings.

Chairman Griffin recognized and introduced the two (2) newly appointed commissioners: Mr. Morgan Beam and Mr. Buddy Bengel. They replaced David Kirby and Alice Underhill.

Chairman Griffin requested a roll call to ensure a quorum. Teri Riddle, Executive Assistant, called the roll. All Commissioners were present for the meeting. Commissioner Ellis participated via conference call.

Chairman Griffin recognized Representative Pat Hurley for being in the audience and thanked her for attending the meeting.

Commissioner Baker thanked the NCEL staff for their hard work organizing the off-site meeting. Chairman Griffin presented the minutes from the June 7, 2016 Commission meeting. Hearing no suggested changes, Commissioner Baker made a motion to approve the minutes and Commissioner Tyson seconded. The minutes were approved unanimously.

Retailer Dispute Resolution Commission Appeal

Sam's Food Mart, retailer #109886, had their retailer sales license terminated for violating NCEL policy. Per the Retailer Dispute Resolution Process, the retailer appealed the Executive Director's decision to the Commission. Quan Kirk, Legal Counsel, explained the Retailer Dispute Resolution process to Commissioners. Moe McKnight, Director of Security, explained the role of the NCEL Retailer Review Committee (RCC) that recommended the termination of licensure.

The Commission Retailer Appeal began with the NCEL presenting its evidence to support the termination of the retailer's sales license. Mr. Colyn Bacon, NCEL Investigations Manager, provided case details to the Commission, in particular, investigative findings by an NCEL Security Investigator. Mr. David Courie, from the Beaver Courie Law Firm, represented Sam's Food Mart and made a presentation to the Commission. After a lengthy discussion with several questions posed by Commissioners that were answered by the NCEL staff and Mr. Courie, Commissioner Tyson made a motion to uphold the Executive Director's decision to terminate the retailer's lottery license and Commissioner Baker seconded. The motion was approved with one Commissioner abstaining, Commissioner Ellis. She participated via conference call and did not have direct access to all materials.

Finance and Audit Report

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented a brief FY2016 wrap up. He also presented briefly on the July 2016 financials, reporting that net revenue earned for the one month of FY16 totaled \$57 million, which is an increase of \$13.9 million over the same time last year. Total net revenue is running \$13.8 million or 31.9% ahead of the estimated budget target as approved by the Commission in June.

Mr. Jourdain presented information about the commitment the NCEL has made to the state of NC for the amount of funds that will be transferred during FY17. Based on a consensus agreement with legislative Fiscal Research staff and the Office of State Budget and Management (OSBM), the NCEL agreed to transfer \$551 million. That amount was voted on and approved by Commissioners at the June 2016 meeting. When the state's budget was signed into law by the Governor, the NCEL's commitment as written in the budget was shown as \$591 million, which includes a surplus of \$40 million. Just as it has been in years past, it was the NCEL's understanding that the transfer of \$40 million would be added to the budgeted \$551 million to reach the state budgeted amount of \$591 million. However, OSBM interpreted the state budget differently and deposited the \$40 million into the Lottery Reserve Fund. The Commissioners decided to leave the NCEL budget at the amount voted on in June, \$551 million. OSBM can withdraw funds from the lottery reserve fund to provide the full amount of \$591 million for education programs.

Mike Suggs, Director of Internal Audit, presented the Internal Audit report. Completed Audits include:

- Customer Service and Corporate Communications
- Product Development and End of Game Process

- Controls were adequate and only minor recommendations for changes were made.
- Assessment of headquarters relocation and potential risks
- IGT SOC I and SOC II
 - Both are very good audits

Current audits and upcoming audits:

- Continuous monitoring
- Corporate and Social Responsibility, including Responsible Gaming
- Retailer Recruitment, sales and retailer incentives
- Update on performance audit coming in December
- DHHS audit executive summary is available if needed

Revenue Generating Committee Report

Committee Chairman Ballentine tabled the committee report until the December 2016 meeting at the request of the Chairman due to time constraints.

Operations and Personnel Committee Report

Committee Chairman Tyson presented information about a change in the FLSA salary threshold for exempt and non-exempt employees. The NCEL Human Resources department recommends that, based on Federal laws, the following changes will occur:

- Eleven (11) employees will change from exempt to non-exempt status.
- One position will remain exempt and three (3) employees out of six (6) in the same job classification will receive a salary adjustment to meet the new threshold of \$47,476.
- Changes would be effective November 1, 2016.

Commissioner Crowder made a motion to accept the changes and Commissioner Ballentine seconded. The motion passed unanimously.

Committee Chairman Tyson presented information to the commission about a contribution accelerator plan amendment to the 401k/457 plan. Employees who elect the contribution accelerator will automatically have their total contribution rate increase each year by one percentage point. These annual contribution rate increases will stop once the employee reaches an 8% total contribution rate. This is a voluntary election for the employee. Commissioner Crowder made a motion to allow the voluntary employee election and Commissioner Beam seconded. The motion passed unanimously.

Executive Director's Report

Frank Suarez, Deputy Executive Director of Brand Management and Communications, introduced a new employee, Mr. Ben Bauman. Mr. Bauman was recently named Director of Product Development, replacing Randy Spielman. Mr. Suarez explained that due to limited time, the standard Brand Management update would be emailed to the commission to allow time for the new NCEL brand and logo discussion.

Mr. Suarez presented the recommendation for the new NCEL logo and branding efforts. He explained the brand purpose and growing the NCEL brand. He also provided the branding roll out time line.

Commissioner Beam asked where the NCEL is in the process of introducing the new logo and inquired about how much money the NCEL has spent in this process. Commissioner Bengel asked about the font and color of the logo and the all-inclusive price. Commissioner Baker made a motion to accept the new branding and Commissioner Bengel seconded. Commissioner Tyson spoke on the motion and explained that he would have liked for the commission to have been more involved in the process from the beginning. The motion passed with Commissioner Tyson voting no.

Mr. Tony Chung, Deputy Executive Director of MIS and Gaming Systems presented the gaming conversion project status update. Commissioner Baker asked that Commissioners be kept informed while the process is ongoing. Alice Garland told Commissioners that a conversion status update can be provided in the monthly email report.

Jaime Fuquay, Director of Government Affairs, presented information about the NCEL beneficiary message. She reminded Commissioners about the conversations during the June 2016 meeting regarding the NCEL beneficiary message and how that is affected by legislative designation of lottery dollars. She discussed the survey results from polling the Commissioners about how best to share the results of the beneficiary research that was conducted with members of the Joint Legislative Oversight Committee (JLOC) on the North Carolina State Lottery. Some key points raised and discussed were:

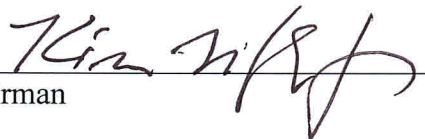
- Because JLOC is not scheduled to meet until after session begins in January 2017, Ms. Fuquay suggested that one-on-one or small group meetings may be best.
- Commissioners Tyson and Baker think it would be best for Mrs. Fuquay to meet with members of the Lottery Oversight Committee prior to the start of the 2017 session.
- Ms. Fuquay promised to keep Commissioners apprised of upcoming meetings and invited any Commissioner who was willing and able to attend the meetings with her.
- Commissioners agree that a unified message presented to legislators is very important.

Alice Garland, Executive Director, presented the contracts over \$90,000 and the HUB report.

Open Discussion

Commissioner Ballentine reiterated that based on a consensus agreement with legislative Fiscal Research staff and OSBM, the NCEL agreed to transfer \$551 million to the state of NC during FY17. Commissioner Baker made a motion to affirm the \$551 million transfer to the state of North Carolina that was a part of the budget that was adopted at the June 7, 2016 Commission meeting. Commissioner Ballentine seconded. The motion passed unanimously.

Being no further business, the meeting was adjourned.


Chairman

1-25-17
Date