Lottery Oversight Presentation

February 15, 2018

Courtney Crowder, Chairman
NC Education Lottery Commission

Alice Garland, Executive Director
NC Education Lottery
In 11 Years, The Lottery Has Raised:

$5,602,980,682

March 30, 2006 – February 7, 2018
Lottery Sales are Strong

• FY 2018 sales through January 31: $1,501,748,632.50

• FY 2018 earnings for education through January 31: $386,751,090.85

FY 2018 Ticket Sales (in thousands)

- Instant: $1,022,258 (68%)
- Powerball: $111,485 (7%)
- Mega Millions: $42,911 (3%)
- Pick 4: $83,429 (6%)
- Pick 3: $181,648 (12%)
- Cash 5: $34,006 (2%)
- EZ Match: $5,281 (0%)
- Lucky for Life: $10,125 (1%)
- Keno: $10,606 (1%)
## Keno by the Numbers

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Keno Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asheville</td>
<td>77</td>
</tr>
<tr>
<td>Charlotte</td>
<td>142</td>
</tr>
<tr>
<td>Greensboro</td>
<td>117</td>
</tr>
<tr>
<td>Greenville</td>
<td>111</td>
</tr>
<tr>
<td>Raleigh</td>
<td>170</td>
</tr>
<tr>
<td>Wilmington</td>
<td>96</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>713</strong></td>
</tr>
</tbody>
</table>

We estimate that Keno will return $6.7 million to education by June 30, 2018
Keno Benefits Local Economies

• Since its late October launch, Keno has raised $1,669,044 for education

• Keno retailers across the state are seeing the benefits
  • Sales have increased 25% at Beantown Tavern in Matthews since installation
  • Buffalo Brothers has seen sales increase 23% across their four locations in Wake County
  • R Lo’s Pub in Thomasville has sales increased by 15-20% since offering Keno
Our Partnership With Retailers Is Essential For Growth
Over $169.4 Million in Retail Commissions Statewide in FY 17

The average retailer made $24,586 in commissions in FY 17
Lottery Makes Significant Investments in Retailers

Cost for Lottery
- Terminals
- Printers
- Jackpot signs
- Ticket checkers
- Vending Machines
- Training
- Point of Sale
- Maintenance

Cost for Retailers
Continuous Investments
- Weekly fee: $15, $780 per year

One-time Investments
- Background Check: $75
- In Trust For (ITF) Bank Account

Retailers Receive **7%** Commission
Average Retailer Commission is over **$24,000** a year
Keeping Retailer Administrative Costs Low
- Providing flexibility and convenience -

The Lottery Provides:
- Flex Terminal and Media Monitor
- Ticket Checker and Play Center
- Jackpot Signs*
- Vending Machine*
- Maintenance costs for equipment
- Consumables, including:
  - Thermal Paper
  - Play Slips
  - Pencils
- Point of Sale Marketing
  - Marketing Materials
  - How to Play Brochures
  - Beneficiary Brochures
- Continual Training for Retail Staff
- Responsible Gaming Materials

* For locations that meet criteria
How We Can Increase Revenue To Education…
Evolution of iLottery Gaming
- Internet Options Began About 12 Years Ago -

Mail-in Jackpot Game Subscriptions

Internet Jackpot Game Subscriptions

Internet Single Ticket Jackpot Game Purchases

Internet Instant and Quick Draw Purchases

DOJ Letter 2011

Over 36 years ago

Present
Evolution of NCEL Web-Based Offerings
- Incremental additions to ensure success -
## Ten Jurisdictions Currently Offer Web-Based Games

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Game Category</th>
<th>Single Ticket Launch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>Jackpot</td>
<td>March 2012</td>
</tr>
<tr>
<td>Georgia</td>
<td>Jackpot, Instant, Quick Draw</td>
<td>November 2013</td>
</tr>
<tr>
<td>Minnesota*</td>
<td>Jackpot, Instant</td>
<td>February 2014</td>
</tr>
<tr>
<td>Michigan</td>
<td>Jackpot, Instant, Quick Draw</td>
<td>August 2014</td>
</tr>
<tr>
<td>Kentucky</td>
<td>Jackpot, Instant</td>
<td>April 2016</td>
</tr>
<tr>
<td>North Carolina</td>
<td>Jackpot</td>
<td>May 2016</td>
</tr>
<tr>
<td>New York</td>
<td>Jackpot Subscriptions</td>
<td>n/a</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>Jackpot Subscriptions</td>
<td>n/a</td>
</tr>
<tr>
<td>North Dakota</td>
<td>Jackpot Subscriptions</td>
<td>n/a</td>
</tr>
<tr>
<td>Virginia</td>
<td>Jackpot Subscriptions</td>
<td>n/a</td>
</tr>
</tbody>
</table>

North Carolina Education Lottery Performance Audit, Prepared by Delehanty Consulting

*Minnesota’s digital program was terminated in August of 2015.*
Millennial Players Are Engaged At A Higher Rate Through Digital Channels

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Michigan Retail Players</th>
<th>Michigan Digital Instants Players</th>
<th>Kentucky Digital Instants Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 to 25</td>
<td>2%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>26 to 35</td>
<td>14%</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>36 to 45</td>
<td>16%</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>46 to 55</td>
<td>22%</td>
<td>24%</td>
<td>24%</td>
</tr>
<tr>
<td>56 to 65</td>
<td>28%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Over 65</td>
<td>18%</td>
<td>9%</td>
<td>7%</td>
</tr>
</tbody>
</table>

North Carolina Education Lottery Performance Audit, Prepared by Delehanty Consulting

*Retail players are measured as those who have submitted a retail game ticket online but have never bet on a digital lottery game.
## 18-35 Year-Olds Prefer Instant And Quick Draw Games

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Jackpot Game Player</th>
<th>Scratch/Quick Draw Player</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 to 25</td>
<td>4%</td>
<td>9%</td>
</tr>
<tr>
<td>26 to 35</td>
<td>18%</td>
<td>27%</td>
</tr>
<tr>
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</tr>
<tr>
<td>46 to 55</td>
<td>27%</td>
<td>21%</td>
</tr>
<tr>
<td>56 to 65</td>
<td>19%</td>
<td>14%</td>
</tr>
<tr>
<td>Over 65</td>
<td>8%</td>
<td>6%</td>
</tr>
</tbody>
</table>

*Jackpot Game Players are determined as betting 50 percent or more of their wagers on draw games. Scratch and Quick Draw Players are determined as betting 80 percent of more on those games. Players falling in the middle (the gaps between above formulas) are considered mix players and are not depicted.*
Adding Digital Instants Could Increase Revenue To Education By $130 Million Over The First Five Years

North Carolina Education Lottery Performance Audit, Prepared by Delehanty Consulting
## Projected Digital Instants Gaming Revenues for Education

North Carolina Education Lottery Performance Audit, Prepared by Delehanty Consulting

<table>
<thead>
<tr>
<th>Year</th>
<th>Low</th>
<th>Probable</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$4,604,969</td>
<td>$6,405,297</td>
<td>$9,984,438</td>
</tr>
<tr>
<td>Year 2</td>
<td>$8,477,718</td>
<td>$16,460,065</td>
<td>$43,396,414</td>
</tr>
<tr>
<td>Year 3</td>
<td>$13,166,793</td>
<td>$26,967,079</td>
<td>$80,312,328</td>
</tr>
<tr>
<td>Year 4</td>
<td>$18,643,407</td>
<td>$34,970,294</td>
<td>$98,183,394</td>
</tr>
<tr>
<td>Year 5</td>
<td>$26,333,430</td>
<td>$45,237,804</td>
<td>$119,737,647</td>
</tr>
</tbody>
</table>

**TOTAL** | **$71,226,316** | **$130,040,539** | **$351,524,221**
States Are Already Adding Digital Instants To Web-Based Offerings

- States with Digital Instants
- States Preparing to Implement Digital Instants
- States Actively Considering Digital Instants
- States Without Lotteries
All Lotteries Experienced Positive Retail Sales Growth After Digital Instants Launch

North Carolina Education Lottery Performance Audit, Prepared by Delehanty Consulting

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North Carolina Education Lottery Performance Audit, Prepared by Delehanty Consulting
Detroit Casino Sales Before and After Digital Instants Launch
- No negative impact on sales, sales remain constant -
Overwhelming evidence indicates that iLottery [Digital Instants] does not harm retail, however each lottery seems to have taken very deliberate steps to differentiate and integrate the two channels. NCEL should consider a similar approach by exclusively retaining certain games for retail sale while also implementing prepaid mechanisms.

- Digital Instants Benchmarking Study, Prepared by Delehanty Consulting
We Protect The Interests Of Those Who Play Our Games
Our Commitment to Responsible Gaming

• Provides $1 million a year as the only sponsor of the N.C. Problem Gambling Program.

• Includes the phone number for the North Carolina Problem Gambling Helpline and a Play Responsibly message on all lottery tickets and advertising.

• Supports National Campaigns with advertising to raise awareness about the signs of problem gambling and available treatment options.

• Trains and educates all employees and retailers to recognize the signs of problem gambling and to empower them with knowledge of how to refer anyone to where they can get help.
N.C. Is The Youngest U.S. Lottery To Obtain Top Certification For Responsible Gaming From The World Lottery Association

<table>
<thead>
<tr>
<th>State</th>
<th>Inception Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Jersey</td>
<td>1969</td>
</tr>
<tr>
<td>Indiana</td>
<td>1989</td>
</tr>
<tr>
<td>California</td>
<td>1984</td>
</tr>
<tr>
<td>North Carolina</td>
<td>2006</td>
</tr>
</tbody>
</table>

Inception 2006
Level 4: December 2017
Online Play Provides Significantly More Responsible Gaming Measures Than Retail
Current Online Play Responsible Gaming Controls
- Verifying player is legally able to purchase tickets -

• **Membership Requirement**
  • Must upgrade account with additional information to purchase online.
  • Verify identity by:
    • Providing documentation of name
    • Providing documentation of address
    • Providing telephone number
    • Providing last four digits of social security number
Current Online Play Responsible Gaming Controls
- Verifying player is over 18 years of age -

• Age and Identity Verification
  • Uses ID verification service IDology
    • Validates the identity of online players
    • Identifies potential risks

• Geo-fencing for Online Play Purchases
  • In compliance with the Interstate Wire Act (1961)
  • Verifies player location utilizing two location validation services:
    • LocationSmart for mobile transactions
    • Digital Element for desktop transactions
Current Online Play Responsible Gaming Controls
- Setting limits helps control for potential issues -

• **Wallet Funding/Balance Limits and Winnings Disbursement Controls** (including Anti-Money Laundering Safeguards)
  • Establishes thresholds for:
    • Player wallets, $500/day and $2,000 total
    • Winnings Wallet, $1,000 per withdrawal
    • Claiming prizes, greater than $599.99

• **Play Limits**
  • Maximum $70 weekly spend on a rolling basis
Current Online Play Responsible Gaming Controls
- Allowing players to be in control of their play -

- **Player-Enabled Limits and Change Waiting Period**
  - Players can set their own play limits
    - Limits from $10 to $70 per week
    - Includes a 24-hour waiting period before any increase in the spending limit takes effect

- **Self-Exclusion**
  - Voluntary self exclude for time-period
    - Locks account so player cannot purchase games
Current Online Play Responsible Gaming Controls
- Players cannot purchase games with a credit card -

- **PIN Transaction Requirement**
  - Required to enter a PIN for every purchase in Online Play

- **Limited Funding Types**
  - Players may only fund their wallet using:
    - ACH bank transfer from a checking account
    - MasterCard debit card, or VISA debit card
New Digital Instants Responsible Gaming Controls
- Increasing responsible play options for players -

- More Options to Set Purchase Limits
  - Choose daily, weekly, and/or monthly deposit limits
  - Included option to set loss limits

- Play Breaks
  - More options for:
    - Short-term play breaks
    - Long-term exclusions
How Sweepstakes Differ from Digital Instants...
Sweepstakes Example

https://www.youtube.com/watch?v=SNkG4Ma53aw
Digital Instants Example

https://www.michiganlottery.com/instant_online_games?LotSrc=ilotteryGlobalTopNav_InstantGamesOnlineLink
Digital Instants Are Similar To Lottery Scratch-Offs

North Carolina Education Lottery
Peppermint 7’s Dazzler Scratch-off

Michigan Lottery
Triple 7’s Digital Instant Game
Digital Instants Are Similar To Lottery Scratch-Offs

North Carolina Education Lottery
$250,000 Diamond Dazzler Scratch-off

Kentucky Lottery
Dazzling Diamonds Digital Instant Game
Digital Instants are Similar To Lottery Scratch-Offs

North Carolina Education Lottery
Blackjack Tripler Scratch-off

Michigan Lottery
Blackjack Doubler Digital Instant Game
Digital Instants RFP Potential Timeline
- Incremental change is necessary for successful implementation -

Revenue Generating Committee Approval

Digital Instants RFP Released

Bid Evaluation Complete
3 Months

Commission Approval/Award Contract
One Week

Contract Negotiations Complete
One Month

Implementation Begins
12 Months

Digital Instants Launch
Questions?