

ARKANSAS LOTTERY COMMISSION
PUBLIC HEARING ON OPERATIONAL RULES

Thursday, August 19, 2010

1:00 p.m.

Wyndham Riverfront Hotel

Silver City V, VI, VII

2 Riverfront Place

North Little Rock, Arkansas

List of persons who commented during the hearing on proposed changes to the ALC Operational Rules:

PRO

David Dinwiddie of Pine Bluff

Loretta Lever of Little Rock

CON

Kenny Wallis of North Little Rock

Michael Parker of Lonoke

Tara Bond of Sherwood

Sarah Bean of North Little Rock

Martha Adcock of Little Rock

Doug Jones of Hot Springs

Susan Jones of Hot Springs

Curtis Rivers , City undisclosed

Buddy Midkaff of Hot Springs

John Burton Moore III of Roe

James Cohen of Clarendon

Pastor Aaron Agnew of Little Rock

Dani Martin of Russellville

Reg Hamman of North Little Rock

Laura Sivewright, City undisclosed

Jerry Cox of Little Rock

David Colbert of Little Rock

Roger Hiatt, Jr., MD, City undisclosed

Vickie Moon of Crossett

unregistered: Carolyn Ann Smith of Little Rock, Keith Lape of North Little Rock

MINUTES
ARKANSAS LOTTERY COMMISSION
Thursday, August 19, 2010
2:45 p.m.
Wyndham Riverfront Hotel
2 Riverfront Place
North Little Rock, Arkansas

The meeting was called to order by ALC Chair Dianne Lamberth. Commissioners Smith, Pickard, Campbell, Malone, Shipp, Ward-Jones and White were present. Director Ernie Passailaigue represented the staff, along with David Barden, Ernestine Middleton, Julie Baldridge, Bishop Woosley, Lance Huey, Joanna Bunten and Patricia Vick. Internal Auditor Michael Hyde and Auditor Whitnie Hall also were present.

The minutes from the July 7, 2010, meeting were reviewed by motion of Commissioner White, second by Commissioner Ward-Jones, unanimously approved.

Prior to the Commission meeting, the Commission held a 90 minute oral hearing pursuant to the Administrative Procedure Act for the purpose of hearing comments from the public concerning the proposed amendments to the ALC Operational Rules, regarding Ticket Vending Machines (TVMs). Twenty-three individuals made comments, as recorded in a list attached to these Minutes.

Commissioner Lamberth recognized Jerry Cox, director of the Arkansas Family Council to make additional remarks regarding the TVMs, and he discussed his position. A letter to the Commission from Mr. Cox was received and is attached to these Minutes.

The Chair opened an informal discussion of the changes to the Operational Rules, considering both the oral comments offered during the hearing and written comments received by the Commission during the public comment period from July 15, 2010 until August 13, 2010. She recognized Commissioner Smith, Chair of the Legal Committee, who presented a summary of the substantive changes. Director Passailaigue was asked about TVM use in other states. He responded that, if the rule changes are approved, Arkansas would become one of 37 American lotteries with TVMs. He said no more than 5 states, probably fewer, had the age verification capability that the Arkansas TVMs would have. Commissioner Shipp questioned the wording in the proposed changes, and the Commission discussed the following: the definition of age validation in Section 7.1(b), the requirement in Section 7.2(c) that the TVM would be in a work area "normally" staffed, the general question of sufficient specificity to encompass differently equipped machines that might be acquired in the future, and the term "continued lottery play" in Section 1.35(d). Director Passailaigue noted that additional machines could not be acquired without action by the Commission. A brief discussion ensued regarding a study of the demographics and habits of the player base, and the Director verified that would be contracted out, as part of the current budget, after the end of the first 12 months of lottery sales. Commissioners Smith and Shipp discussed the possibility of immediate adoption of the proposed amendments, with additional changes brought forth at an upcoming meeting. Commissioner Pickard commented on the need for thorough training of retailers with the TVMs, including intensive training regarding monitoring for age verification. Director Passailaigue commented on the excellence of the Arkansas

business community and retailer base on which to rely. Commissioner Malone addressed the need for the machines to be in a location that is staffed at all times. By motion of Commissioner Smith, seconded by Commissioner Pickard, the language was revised to specify "a government-issued form of identification" in Section 7.1(b) and to remove the word "normally" from the proposed "normally staffed" language in Section 7.2(c), and the motion passed unanimously. By motion of Commissioner Smith and second by Commissioner White, the proposed rules, as amended, were adopted and directed to be forwarded to the Legislative Oversight Committee.

Director Passailaigue then presented his report, focusing on FY2011, prize percentage as is related to unclaimed prizes and to net proceeds. Vice President Barden next introduced Advertising and Marketing Director Bunten for a presentation on the marketing of the ASL: three promotional events weekly; two summer motorcycle events; and direction to the website to learn of other promotional events. There currently are 49 games in play.

Internal Auditor Hyde reported the completion of 16 audits, with three substantially complete.

Commissioner Pickard reported that the Higher Education Committee had met and elected him chairman. He also asked that Dr. Purcell and Ms. Tara Smith be thanked for their efforts regarding the scholarships. He also praised the financial aid professionals at colleges and universities around the state for their performance of the additional workload imposed by the lottery scholarships. Commissioner Malone spoke about the current week, with students beginning or returning to college, and said it had been a proud week for him. Commissioner Campbell reported that he had a name to recommend for the vacancy on the Retailer Advisory Board and directed Ms. Baldrige to convey the information to the Chair. An Audit Committee meeting following adjournment was confirmed.

Vice President Middleton introduced Valerie Basham, the new ALC Human Resources Director, to the Commission, stating that Ms. Basham comes from Odessa and has more than 15 years of HR experience.

The Commission discussed the date for the next meeting and agreed to meet at 1:30 p.m. on September 30.

The meeting was adjourned.

MINUTES
ARKANSAS LOTTERY COMMISSION
Wednesday, September 8, 2010
1:30 p.m.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Lamberth called the meeting to order. In attendance also were Commissioners Pickard, Campbell, and White, in person, and Commissioners Hammons, Ward-Jones, Shipp, and Malone (on Skype), by conference call. The ASL was represented by Director Passailaigue, Internal Auditor Hyde, Ernestine Middleton, David Barden, Bishop Woosley, Julie Baldrige, and Patricia Vick.

Chairman Lamberth announced that the minutes of the August 19 meeting would be reviewed at the September 30 meeting.

She introduced the topic of the Office of Personnel Management response. She noted that she had asked Commissioner Hammons whether he wished to hold a meeting of the Personnel Committee in advance of the Commission meeting, and that he had said he would be present by phone and could make any statements or ask questions to help direct Personnel discussion in the Commission meeting. She then reviewed and read from the letter from Kay Barnhill-Terry and the OPM report. Director Passailaigue distributed a response to the OPM report. Commissioner Pickard thanked Commissioner White for requesting the report and expressed a preference to discuss the response at a later time, to allow time to read and review the document. Ms. Vick was asked to email a scan of the response document to Commissioners not personally present, which she left the room and accomplished. Commissioner Pickard introduced the following motion:

Due to the concerns expressed in the letter from Kay Barnhill-Terry, I would request that either Dr. Hammons or Chairman Lamberth contact Ms. Terry and ask that personnel from that agency work with and guide our Human Resources staff in adjusting our policies and procedures, including the compensation area, to better match other state agencies. I would further request that we provide compensation to reimburse the Office of Personnel Management for their work for us to date and in the future. If OPM is unable to provide this service, the Commission will request that they recommend an individual or firm that could provide this service.

The motion was seconded by Commissioner White. Discussion followed, including clarification that the scope of the motion was finite in time and was not intended to result in a permanent arrangement. The motion carried by voice vote, with no nays.

Commissioner Lamberth brought up the staff response for discussion, and several Commissioners expressed a preference to review it at a later date. Discussion of the OPM report continued. Director Passailaigue noted that the business hours of ALC had been changed from 8 a.m. to 4:30 p.m. He said the ASL would adjust its nepotism policy to comply with Arkansas Code. He said that a progressive discipline requirement would undermine the at-will environment put in place by the Legislature

for the entrepreneurial enterprise that is the Lottery, as a protection from litigation. He said changes to the law could be discussed with the Legislative Oversight Committee in its November meeting. He brought up the issue of compensatory time, noting that the South Carolina Lottery Commission had paid its exempt employees for the extraordinary time worked during the startup. He also said that OPM staff, including Ms. Barnhill-Terry, had informed Lottery staff that other agencies had allowed compensatory time and in at least one case paid bonuses to exempt employees. He said that the statute delegating authority to the Director on the matter was a protection of the Commission.

Commissioner Lamberth stated that she respectfully disagreed with the Director on the events as they occurred. She said that she believed there had been miscommunication, that perhaps the Director had been left out of the loop, and also that there had been an error in judgment. She read from a document the Commission received on November 17 proposing compensatory time and stating, "Clearly it is in the sole discretion of the Commission" to approve the compensatory time. She said it was clear to her that the Director intended for the Commission to decide the matter, that the Commission's intent was that the matter be decided by the Commission, and that the Commission intended for the ASL staff to consult with OPM and other agencies and report findings back to the Commission on the issue of compensatory time in other state agencies, to aid the Commission in making this decision. She then read from a January 4 memorandum from the Director to the Commission that the Commission interpreted to mean the proposal was being withdrawn and that there was to be no compensatory time awarded.

The Director agreed that there was miscommunication. He noted that the Lottery staff had been asked to work extraordinary hours to produce extraordinary results. He stated that prior to the January memorandum, the staff had indeed asked OPM for guidance and had received assurances from OPM that a decision on compensatory time was at the Director's discretion, and that he therefore dealt with it. Commissioner White commended the Lottery Director and staff for its excellent work. He stated that he disagreed with the compensatory time decision and said that he learned of the decision from the newspaper. He said he believed the Lottery was not operating in line with regular state policies and procedures.

The Director pointed to the statute, noting that he had granted compensatory time only from June 29 until November 30, 2009, during the world record launch and the accompanying production of additional scholarships. He noted that one of his reasons for acting was to insulate the Commission from liability. Commissioner Pickard said he agreed that the Director and staff had done a wonderful job starting the Lottery. He said the justification for the high salaries for Lottery employees was to compensate exempt employees for the extraordinary hours they would work. Commissioner Campbell asked Commissioner Pickard whether other agency exempt or "non-classified" employees received compensatory time. Director Passailaigue noted that he began work on June 5, even though his compensation didn't begin until June 29, and that he issued two RFPs on June 15. He said that when he looked at the totality of what employees accomplished and sacrificed, he thought the compensatory time was merited. He noted that one employee had logged extra 501 hours, but that it was unlikely that most of the compensatory time shown on paper would be taken because the management would have to approve it while considering the needs of the agency. Commissioner Pickard asked for a copy of the form staff

would use to request compensatory time off. Commissioner Ward-Jones asked whether the time off was approved in advance, with the Director answering in the affirmative. Commissioner Ward-Jones said that the Commission was grateful for the creation of a world-class lottery by the Director and staff. But, she said, she was concerned that she didn't know about the compensatory time until it appeared in the newspaper, which she said was an issue whether a Commissioner agreed with the decision or not. The Director said he accepted full and complete responsibility for everything that happens at the Lottery.

Commissioner Hammons said that he wanted the Commission to take a further look at whether the compensatory time could legally be granted by the Director. Commissioner Shipp said that it seemed evident that the Legislature intended that the Lottery be a hybrid agency encompassing state government and free enterprise, and she understands that Commissioners with a state government background may see this matter as having huge discrepancies. She said she believes that with the exceptional work and exceptional number of hours, many of the people who work for the ALC need to be rewarded. She also said those with the top salaries may have wanted to look at the matter a little differently, considering the size of their compensation. She said that the matter is in the past now, and that she hoped that the agency would move forward. Commissioner Malone said that he agreed with Commissioner Shipp entirely. Commissioner Campbell asked if any employees were underpaid under state guidelines, and the Director said that he thought that was a possibility. Commissioner Hammons then moved that the Commission go into executive session for the purpose of discussing job performance.

At the resumption of the regular meeting, Commissioner Pickard moved to remove Director Passailaigue from his position, with a second by Commissioner White. With no discussion, the motion was rejected, with aye votes from Commissioners Pickard and White, and nay votes from Commissioners Lamberth, Campbell, Malone, Shipp, and Ward-Jones, with Commissioner Hammons abstaining.

The meeting was adjourned, with the next meeting scheduled for September 30.

DECADES OF DOLLARS New Regional Game

- **Game Concept:** 30-year grand prize payout.
- **Launch States:** Arkansas, Georgia, Kentucky, Virginia
- **States Eligible to Join for Launch or Post-launch:** North Carolina, South Carolina, Tennessee
- **Launch date:** Sunday January 30, 2011. (First draw date Monday January 31, 2011 or Thursday February 3, 2011.)
- **Game Matrix:**

Matrix; 47 balls		Prize	Odds
Prize Tiers	Match 6	\$250,000/year (30 payments)	1 in 10,737,573
	Match 5	\$10,000	1 in 43,649
	Match 4	\$100	1 in 873
	Match 3	\$10	1 in 50
	Match 2	Free Ticket OR \$2	1 in 7.1
Long Run Expected Payout			54.2%
Overall Odds 1 in 6.2			

- **Draw Days:** Monday and Thursday
- **Game Name/Logo:** *Decades of Dollars*
- **Technical requirements:** The following are recommendations that have yet to be discussed with all states:
Selling cut off time - Wager close is 10:45p.m. Eastern Time
Draw time - 11:00p.m.
Draw State - To be determined
Future and Multi-Draw - it is up to each state the number of draws that can be purchased.
- **Playslip:** Each lottery will design a playslip of their chose but have agreed to use a consistent logo.
- **Settlement:** Virginia will coordinate the settlement all prizes tiers except the Match 2 prize.
- **Cash Option:** The Tier 1 (grand prize) for matching 6 is \$250,000 per year paid in equal annual installments, for a total of 30 payments or \$7,500,000. The cost of the Match 6 grand prize is \$4 million; therefore, the cash option value of the top prize is \$4 million. A winner electing an annuity option will receive 30 payments - the first payment upon validation, followed by 29 additional annual installments. If the winner dies before receiving 30 payments, any remaining payments will go to the winner's beneficiaries.
- **Liability Cap:** The participating states will share in the prize liability for the Match 6, Match 5, Match 4, and Match 3 tiers based on each member's percentage of sales. Finance and Operations procedures will be developed to outline the process for sharing liabilities, and for the transferring of cash. The liability cap will be \$10 million for the grand prize. If there are winners in excess of the established cap, all grand prizes shall be calculated on a pari-mutuel basis.