

MINUTES  
ARKANSAS LOTTERY COMMISSION  
Wednesday, July 13, 2011  
9:30 a.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 Malone, Pickard, Campbell, Engstrom, Faris, Frazier, Hammons and Shipp. The ASL was represented by Director Passailaigue, Internal Auditor Hyde, David Barden, Ernestine Middleton, Bishop Woosley, Julie Baldrige, Patricia Vick, Lance Huey, Philip Miley, Whitnie Hall, Valerie Basham, and Jeremy Smith.

Commissioner Lamberth asked the Commissioners to review the Minutes for the June 6, 2011, meeting. By motion of Commissioner Frazier, seconded by Commissioner Campbell, the Minutes were approved without dissent.

Chairman Lamberth introduced Commissioner Shipp, the new Chair of the Higher Education Committee, who welcomed Arkansas Department of Higher Education Interim Director Shane Broadway. He introduced several ADHE staff members in attendance, including Lawrence Graves, who has attended virtually every ALC meeting and will retire prior to the next meeting. He commended Mr. Graves for his work with the Lottery Commission, and the Commissioners concurred. Director Broadway said the first bits of scholarship data were coming together. He said he and the ADHE staff had each done whatever was required of them to get through the thousands of scholarship applications as well as the renewals. He thanked Commissioner Pickard, who volunteered several times at the ADHE offices to read transcripts and application materials. Director Broadway said ADHE had met its goal of completing this evaluative work by June 22 and making notifications beginning July 5, which he said occurred in 2010 in mid-August. He thanked the ALC and the staff for producing the new advertisements on the Challenge (Lottery) Scholarships, saying they were better targeted to get the word out on the availability of the scholarships to lessen any confusion, saying they provided excellent help to ADHE. He distributed information sheets (included in packet) and said their vastly improved Computer system would produce the most significant financial aid data ever available and would be a tremendous help to policymakers. He explained several kinds of scholarship alternatives and the rules which governed each. Although awards for non-traditional scholarships are capped by law at \$12 million, the new students and current achievers may be eligible for all available new dollars this fall, with only the non-traditional Challenge scholarships (those who received them last year) having funds for 2011-12. Of the 31,000 students receiving scholarships for the 2010-11 school year, 75% graduated, completed their eligibility, or retained their scholarships.

Commissioner Engstrom asked him whether the projected shortfall between the estimated lottery and actual net proceeds would affect scholarships. Director Broadway stated that it would not in the current year, but could do so eventually. He said ADHE

had created projections and models based on a wide range of funding possibilities and thus were prepared for the \$94.2 million result.

Commissioner Campbell asked why there were 28 per cent fewer applicants this year and also the basis for awards. Mr. Broadway said possibly there was a greater understanding that non-traditional students understood there was unlikely to be any additional funding; and he explained the 'pecking order' of scholarship recipients by category, by closeness to graduation, by grade point and by major, with science, technology, engineering, and mathematics weighted.

Director Passailaigue presented his report on lottery sales, products, and scholarships (included in file). He discussed comparative income from FY 2010, noting a rise in income in June 2011, compared to the same month the previous year. He described the introduction of the four new instant tickets in late June, rather than their usual July release, as a means to take advantage of the Independence Day weekend. He analyzed the difference between GAAP basis financial statements accounts and the actual net proceeds available for scholarship funding (a Power Point of his entire presentation is appended to the minutes). Commissioner Engstrom questioned whether the \$1 Million in unclaimed prize reserve fund, if unspent, would be available for scholarships. The Director said that was an inaccurate assessment, because the appropriate utilization of unclaimed prize money would actually increase sales and net scholarship proceeds. The Director pointed out that FY2011 was the first full twelve month period of operations, noting that his projection was within \$8,000 of actually annual revenues of over \$465 million. He noted that Arkansas's Lottery has the most successful loyalty program in the world, featuring the Play It Again/Points for Prizes program. Commissioner Malone pointed to evidence that the balance between instant ticket sales versus online ticket sales are out of proportion to other lotteries and noted that the disparity had been discussed at several meetings. He urged formulating an articulated sales and marketing plan for increasing the proportion of online tickets. The Director said that the staff is planning on using the unclaimed prize money, as the result of a recent legislative change, to address those concerns. The Director said he would present to the Commission a plan for their review. Commissioner Engstrom asked that expenditures from the unclaimed prize money be put into the budget and brought back before the Commission for approval. Mr. Passailaigue stated that it was in the budget.

Commissioner Pickard asked to receive information on promotional activities in other states. He also inquired about TVM deployment and asked for a breakdown of numbers placed in existing retail locations and numbers in new retail locations. The Director stated he believed that all one hundred machines would be fully deployed in the next several months.

Commissioner Campbell discussed the ADHE budget item.

Commissioner Pickard, citing pre-launch projections, asked that the staff look at other states and come up with an aggressive program to produce a 25% scholarship return. Mr. Passailaigue discussed the changes in Powerball, the possible change in Decades of Dollars, a national premium game, and an international game. Commissioner Malone said he understood the concept of getting net revenues up by increasing play of the online games and said he would like to see a comprehensive plan to accomplish this goal. Commissioner Lamberth asked Mr. Barden to prepare a plan for the next ALC

meeting. Commissioner Hammons asked that the elements of the plan include estimated incremental increases in net proceeds.

Commissioner Engstrom said that it was his belief that Arkansas's Lottery has spent \$15 million more annually with the major vendors than did South Carolina. Director Passallaigue addressed the differences in the two states contracts. Further, he said, the Commission, led by Chairman Thornton, stated it was their first priority to launch the Lottery as quickly as possible and that the online and instant ticket RFPs accomplishes that mandate. He noted that both RFPs were reviewed and approved by both the Commission and Legislative Oversight Committee.

Director Passallaigue discussed the changes to the Powerball game effective January 15, 2012. He described the new game and matrix. He said the Powerball Group believes jackpots will be higher and will grow more quickly, with a \$40 Million minimum jackpot, better odds, and a new Power Play feature. He said this game would be potentially the most important new revenue generator in FY2012.

After a short break, the Committee Chairs announced the following:

Commissioner Campbell, Chair of the Retail Committee, said that he had been re-elected Chair and Commissioner Frazier was the new Vice Chair. He said they were looking into ways to increase the interests of the Lottery's retailers.

Commissioner Shipp, the new Chair of the Higher Education Committee, said that Commissioner Frazier had been chosen as Vice Chair. She thanked Commissioner Pickard, the outgoing Chair, for his leadership and vision.

Commissioner Pickard, the new Chair of the Audit and Legal Committee, noted that Commissioner Engstrom was chosen Vice Chair and he and former Chair Commissioner Malone presented a report of the June 30, 2011, Audit and Legal Committee meeting, described below.

Commissioner Hammons, the Chair of the Personnel Committee, noted that Commissioner Shipp was chosen Vice Chair and presented a report of the July 1, 2011, Personnel Committee meeting, described below.

For his report on the June 30, 2011, Audit and Legal Committee Meeting, Commissioner Malone, introduced Internal Auditor Michael Hyde for his Commission Report (included in file). Mr. Hyde said that the Legislative Auditors have arrived to conduct the FY 2011 audit. He anticipates they will complete their field work by October 1 and expects a formal report later that month. Commissioner Engstrom said that, speaking as a CPA with an audit practice, the staff should expedite the work of the Legislative Auditors by offering them full cooperation. Commissioner Malone reported that, during the June 30 meeting, four recommendations had come forward. (1) Commissioners should feel free to discuss any relevant matter with the Internal Auditor but the Commission formally acknowledges that he has the option of informing a Commissioner that his other duties need his attention when that is the case. By motion of Commissioner Engstrom, seconded by Commissioner Pickard, this matter was approved without dissent. (2) Escrow matter: Commissioner Engstrom asked for a full analysis of the options for storage of data. He noted that the Committee had approved Ms. Middleton receiving a copy of the data currently held at DIS, which database should continue to be held and

not depopulated, and that an analysis is made on data storage for retailer licensing. Commissioner Lamberth asked if the current status quo on data storage would be maintained and Commissioner Engstrom said that it would. By motion of Commissioner Malone, seconded by Commissioner Faris, and without dissent it was approved to give Ms. Middleton the authority to get the historical data from the DIS licensing database, not to depopulate the database, and that management would prepare an analysis of the benefits and costs of housing the Lottery retailer information in different places. (3) Options on Payroll Accounting. It was reported that the Committee had explored the options as reviewed in the DF&A report and recommended Peachtree Quantum with enhanced controls. By motion of Commissioner Malone, seconded by Commissioner Engstrom, the Committee approved the Committee recommendation without dissent. (4) Retaining Outside Legal Counsel: Commissioner Pickard praised the work of Mr. Woosley and said that nothing in this proposal related to his abilities. He noted that Arkansas Student Loan Authority, on whose Board he serves, has used outside counsel for years, as an extra set of eyes. Mr. Woosley said that the process would require a letter to the Attorney General for approval of the proposal and also review of the RFQ by the Legislative Oversight Committee. Commissioner Engstrom moved that an RFQ for outside counsel be developed for Committee and Commission consideration, with a second from Commissioner Pickard. Discussion followed. The motion was approved, with dissent from Commissioner Lamberth.

The Committee next brought forward the CAFR RFQ presented by Mr. Woosley (copy in file), who said both BKD and Crowe Horwath submitted proposals and that both firms had worked with lotteries in Arkansas, including with Arkansas state agencies. He explained the process through which the Crowe Horwath proposal was selected. Commissioner Engstrom said that while he would prefer to take the proposal to the Committee, time was of the essence and that he recommended approval by the Commission and also asking the Legislative Oversight Committee to meet prior to their August 24 scheduled meeting to review the proposal, in order to meet the deadline of Act 1057. By motion of Commissioner Pickard, seconded by Commissioner Engstrom, the Crowe Horwath proposal was approved without dissent and forwarded to the LOC.

Mr. Woosley presented an update on litigation, noting an interlocutory appeal at the Arkansas Court of Appeals in the trademark case and a late August ruling by the U.S. District Court anticipated in the Frazier case on the ALC motion to dismiss.

Commissioner Pickard expressed his deep gratitude to Commissioner Malone, who chaired the Audit Committee for two years and to Mr. Hyde and Ms. Hall for their work. He asked that the written record of the June 30 Audit and Legal Committee be appended to the Minutes of this meeting (included in file).

Commissioner Hammons, Chair of the Personnel Committee, acknowledged attendance of Kay Terry, Director of the Arkansas Office of Personnel Management. He then moved as follows: that the Arkansas Lottery Commission, from this point forward, utilizes the Office of Personnel Management (OPM) and the process currently in place for all State Agencies when filling positions for new hires or creating new positions. Further, should there be a rare need to exercise the legislative autonomy ALC enjoys, the Commission can override OPM's recommendation. Further, the ALC Personnel Committee would first act on any such override, before the matter goes before the full Commission for final disposition. The motion was seconded by Commissioner Faris, who praised Director Passailaigue for supporting the proposal. Discussion followed, during which Ms. Terry

said that her agency could guarantee one-week turnaround when all information is submitted, that in case of an emergency situation they could act overnight, and that when salaries are in question OPM relies on market data the agency provides. She said, in answer to Commissioner Engstrom, that OPM does perform assessments of the personnel structure of entire agencies and that she would prepare an estimate of the cost. Commissioner Malone noted the entrepreneurial nature of the lottery and said he wanted the agency to remain nimble and flexible to market conditions in its staffing. The motion was approved, with dissent heard from Commissioners Lamberth and Malone. Commissioner Hammons asked that the record of the July 1 Personnel Committee be appended to the Minutes (included in file).

It was announced that the Audit and Legal Committee will meet the first Friday of each month at 10 a.m., that the Personnel Committee will meet the first Monday of each month, and that while both meetings are scheduled, they can be cancelled if no business is pending.

Under Other Business, Commissioner Pickard proposed that the Commission meet on a regularly scheduled date each month. Commissioner Engstrom restated his desire to explore the cost of a videoconferencing system. Commissioner Campbell said that the Parole Board and DIS had such systems. Further discussion followed, after which the monthly meetings were scheduled for the third Monday of each month, with the next meeting on August 15 at 1 p.m.

There being no further business, the meeting was adjourned.