

MINUTES

ARKANSAS LOTTERY COMMISSION

Friday, June 12, 2009

1:00 p.m.

University of Arkansas System - Board Room

2404 North University

Little Rock, Arkansas

The Arkansas Lottery Commission met June 12, 2009, at 1:00 p.m., at the University of Arkansas System's Board Room in Little Rock, Arkansas. Arkansas Lottery Commissioners present were: Ray Thornton, Chairman; Dianne Lamberth, Vice Chair; Derrick Smith, Secretary/Treasurer (via teleconference); George Hammons, Susan Jones, Mike Malone, Ben Pickard, Patty Shipp, and Joe White. Bureau of Legislative Research (BLR) staff: Marty Garrity, Assistant Director for Legal Services; Jill Thayer, Attorney; Estella Smith, Legislative Analyst; Kendra Drone, Secretary; Patrick Ralston, Legislative Analyst; James Schratz, Chief Information Officer; Nell Smith, Research Analyst. Also attending: Bill Stovall, Administrative Assistant to the Speaker of the House of Representatives.

Chairman Ray Thornton called the meeting to order and noted that Commissioner Derrick Smith was present via teleconference.

Approval of Minutes

A motion was made by Commissioner White, and seconded by Commissioner Pickard, to approve the minutes of the June 1, 4, and 5, 2009, meetings. The motion was approved by the Commission.

Reports - Legal Committee

Commissioner Derrick Smith stated that in a previous meeting, the Legal Committee decided that prior to the Commission entering into major procurement contracts, it should adopt, by reference, the State's existing procurement rules. However, upon review of the existing rules, it was determined they were not a good fit for the Commission's needs. After researching other state's major procurement rules, an entire set of procurement rules were drafted for major procurement contracts and for lottery specific contracts valued at \$75,000 or more. A draft copy of the proposed *Major Procurement Rules* was sent to each commissioner. Commissioner Smith stated it is not necessary to take action on the proposed rules today, but would like to act on them next week and also review draft RFP's.

Mr. Ernie Passailaigue, Director, thanked state government officials for their assistance and said as fiduciaries of public trust it is their, and the Commission's, responsibility to move along as expeditiously as possible for the young people of Arkansas. He said the procurement rules are in place to expedite the process and any delay can cost the state \$1.5 million per day. He is working to bring two documents ready for bid -- instant ticket and online gaming system RFP's and would like to publish both together. Timelines could then be put in place to expedite vendor proposals. The nature of the contracts are different due to specifics of goods and services to be delivered. Mr. Passailaigue stated the draft Procurement Rules is a good working document and suggested the Commissioners review the proposed rules and submit any changes/suggestions.

Chairman Thornton thanked Commissioner Smith and the Legal Committee for their work. Commissioner Smith stated the Legal Committee will continue to work on drafting the Rules of Practice and Procedure, which will be forthcoming as well.

Temporary Office Space

Commissioner Lamberth thanked Anne Laidlaw and Catherine Mulkey, Arkansas Building Authority (ABA), for their assistance in searching for suitable temporary (30-90 days) office space. ABA has prepared a spreadsheet listing the criterion for the space (square footage, availability, lease terms, IT connectivity, security issues, computers, phones, furniture, maintenance, etc.). Commissioner Lamberth advised they have toured thirteen properties and some were not adequate for the lottery's needs. ABA has scheduled tours of three properties for Mr. Passailaigue and Commission members following today's meeting.

Mr. Passailaigue said it is important to consider a turnkey temporary space at a good price. A space that is fully furnished would allow the Commission to turn its attention to long-term properties that are in the best interest of the people of Arkansas. It would provide time to negotiate for additional items such as cubicles and modular furniture that would enhance the bottom line and save money for scholarships. Other considerations include a broadcast facility for drawings and a bank/claims center.

Ms. Laidlaw said the properties to be toured are located in the Bank of America, Capitol and Center Streets; Union Plaza (one block over); and the Comcast building on 3rd Street.

Retail Committee

Commissioner Lamberth introduced Mr. Schratz for a report on lottery retail submissions. He said in the past 3-½ weeks, the Arkansas Lottery website has received 123 submissions from retailers in 55 cities/towns and 36 counties; 507 locations-82 single locations; with 58 locations from one person. Mr. Schratz will continue to monitor the submissions and prepare a report for the Commission.

Discussion with Mr. Ernie Passailaigue

Chairman Thornton recognized Mr. Passailaigue to present a power point entitled *South Carolina Education Lottery Relevant Facts* (Attachment 1). Mr. Passailaigue stated South Carolina has a population of \$4.4 million people and ranks #7 worldwide in instant per capita lottery sales. He is very careful when spending tax payer dollars and feels his track record proves he is very conservative. He added his track record will be replicated or improved upon in Arkansas. He said the lottery is about spending discretionary dollars for fun and entertainment, not money meant for rent and food. Advertising should reflect this and include information on how to play responsibly and help for those with gambling problems. Mr. Passailaigue added that the lottery net proceeds is what matters. He also noted that the lottery has a downside and it is not his style to promise something to the people of Arkansas that is not there. He advised the Commission to avoid illusionary ads. Lottery tickets are usually sold through convenience stores and/or gas stations. New technology may allow large stores such as Wal-Mart to sell lottery tickets if a stand-alone piece of equipment is available to minimize labor and costs.

Mr. Passailaigue discussed the South Carolina Education Lottery (SCEL), net proceeds, gaming cost, commission, prizes, administrative, advertising and other costs. About 15% percent of South Carolina's lottery play comes from North Carolinians. This year the SCEL will generate over \$1 billion dollars in sales and ranks #10 worldwide with the lowest administrative expenses as a percentage of gross sales. The Massachusetts Lottery has the highest per capita instant ticket sales worldwide; however, their administrative cost is a percentage of this amount. Mr. Passailaigue stated that the SCEL ranked #12 worldwide in net income per capita for 2008. The net income per capita involves three factors: sales; the cost of doing business, including the prizes; and the population.

Mr. Passailaigue discussed the SCEL demographic profile. He stated that the demographic profile of lottery players is similar to the SCEL population.

Mr. Passailaigue encouraged the Commissioners to know their stakeholders. He stated that the lottery customers are retailers. He noted that the lottery does not sell tickets, retailers do. Mr. Passailaigue reminded the Commission to keep politics out of the state lottery. He added that the Commission would need to get the major procurement contacts out before the lottery could be launched. The instant ticket proposal would be done first followed by the online proposal. The Commission would have to create proposals and timelines so vendors can respond. Mr. Passailaigue stated that the lottery could start selling tickets sometime in November. He also discussed items that would need to be included in the Instant RFP and Online RFP.

Mr. Passailaigue spoke about hiring employees for the Arkansas Lottery. He stated that they would be the best people and 90% of the employees will be Arkansans. There will be a search process and, hopefully, job descriptions can be published on the website and advertised in the newspaper very soon. Mr. Passailaigue stated that the individuals would have to commit to him, and the people of Arkansas, a certain amount of time of their life to the lottery organization. He noted that 75 to 90 individuals would be hired and they would have to be individuals that "think outside of the box" and be willing to take risks. He added that 90% percent of the hired individuals would be non-lottery.

Mr. Passailaigue discussed the lottery personnel infrastructure. He recommended creating two tracts for the lottery (vice-president of gaming and vice-president of administration) at a salary of \$200,000 for each vice-president. He stated that if you collapse all of the levels into the two positions, you would save money and would have two very confident multi-talented individuals who have skills set that could be taught to the people under them. The majority of the individuals under the two vice-presidents would be Arkansans. He pointed out that sometimes you pay people a little bit more and they can do a number of different jobs. He also stated that if the Commission accepts his recommendation, he would try to bring in two individuals that fit the bill and in a range that he thinks is appropriate for their level of expertise and compensation. It is an advantage to employ someone with the expertise, skills set and experience. Mr. Passailaigue said he can acquire the talent for the lottery; however, the Commission would have to decide what they want to acquire. Mr. Passailaigue stated that in the past, his hiring decisions had been scrutinized. He added that South Carolina had faced a class action lawsuit in 2005 in which they won.

Chairman Thornton stated that he had cast his vote for Mr. Passailaigue because he has confidence in his ability. He added that he supports Mr. Passailaigue in whatever decision he thinks is best for Arkansas. Commissioner Lamberth felt that the Commission had made a collective decision in hiring Mr. Passailaigue. She stated that the Commission wanted the lottery money spent on the children in the state and not on lawsuits.

Commissioner Malone asked Mr. Passailaigue if there are successful models in other states. Mr. Passailaigue stated that Georgia and Tennessee have successful models. Commissioner Malone stated that a big piece of the job description discussion at Petit Jean Mountain dealt with the individual(s) knowledge of Arkansas. He stated that if the president and vice-presidents are brought in from out of state and have to keep up with all of the other activities, in addition to taking care of the long list of items, how would they gain that experience and build in an understanding of Arkansas. Mr. Passailaigue stated that it is a trade off the Commission would have to make. He is sure that he can assemble a team that will train all of the other individuals. He noted that some of the positions require lottery experience and assured the Commission that the management individuals would gain knowledge of Arkansas. Commissioner White stated that none of the Commissioners had lottery launch experience. He added that he will support Mr. Passailaigue's recommendations.

Mr. Passailaigue stated that he had to hire professional consultants to review the SCEL compensation structure because their compensations levels had been criticized. The report showed that their compensation levels were about 6% percent below the market medium skills sets at that level (Handout #1).

Commissioner Shipp stated there may be some cost savings having a team with the expertise that Mr. Passailaigue has described because the Commission might forego some consultant expenses. Commissioner Pickard stated that the Commission was glad to have Mr. Passailaigue on board as an Arkansan. He asked for comparisons of Vice-President level salaries in other states and requested that the organizational chart referred to by Mr. Passailaigue be provided to the Commission. Mr. Passailaigue stated that the Tennessee model was probably the closest to what he envisions for Arkansas. He stated that he would get a copy of their model to the Commission.

Mr. Passailaigue stated that Mr. David Gale, Executive Director, North American Association of State and Provincial Lotteries (NASPL) has invited the Commission to attend the Annual Directors meeting in Nashville, Tennessee. Ms. Rebecca Hargrove, President and CEO, Tennessee Education Lottery, has invited the Commissioners to tour the Tennessee Lottery while in Nashville.

Commissioner Jones stated that the Commissioners had confidence in Mr. Passailaigue and would defer to his management style. Chairman Thornton stated the Commission wanted some details as to how this will flesh out so that the Commission can see the savings and comparisons that have been discussed. He noted that the signal that he was receiving from the Commissioners was to "go for it".

Next meeting

Chairman Thornton stated that the next Commission meeting will be held Friday, June 19, 2009, 1:30 p.m., at the same location. The Commission went into recess at 2:45 p.m. for a press conference with Mr. Passailaigue, after which the meeting adjourned.

There being no further business the meeting adjourned at 3:15 p.m.