

MINUTES

ARKANSAS LOTTERY COMMISSION

Wednesday, July 1, 2009

1:30 p.m.

**University of Arkansas System – Board Room
2404 North University
Little Rock, Arkansas**

The Arkansas Lottery Commission met July 1, 2009, at 1:30 p.m., in the University of Arkansas System Board Room, 2404 North University Avenue, Little Rock, Arkansas. Arkansas Lottery Commissioners present were: Ray Thornton, Chairman; Dianne Lamberth, Vice Chairman; George Hammons; Susan Jones (via teleconference); Mike Malone; Ben Pickard; Patty Shipp; and Joe White. Lottery Commission staff in attendance: Ernie Passailaigue, Director, and Julie Baldrige. Commissioner Derrick Smith called in to advise the Commission that he would not be attending the meeting.

Bureau of Legislative Research (BLR) staff present: Jill Thayer and Laura Gilson Attorneys; Marty Garrity, Assistant Director, Legal Division; Jim Schratz, Administrator, Chief Information Officer, Information Systems; Kendra Drone, Secretary; Estella Smith, Legislative Analyst; and Patrick Ralston. Also attending: Bill Stovall, Administrative Assistant to the Speaker of the House of Representatives.

Attorney General's office staff present: Bishop Woosley (via teleconference)

Chairman Thornton called the meeting to order:

Approval of June 19, 2009, meeting minutes

Commissioner White made a motion to approve the June 19, 2009, minutes. The motion was seconded by Commissioner Hammons and approved as amended by the Commission.

Vendor Report (Attachment 1)

Commissioner Lamberth reported the Commission has received 348 inquiries with a potential of 1,092 retailer locations. She added that this number will probably increase drastically toward the goal of 2,500 retailer locations after packets are mailed out.

North American Association of State and Provincial Lotteries (NASPL)

Commissioners Lamberth and White and Director Passailaigue attended the recent NASPL meeting for executive directors of state lotteries in Nashville, Tennessee. Commissioner Lamberth noted that the Arkansas Commissioners were graciously invited to this meeting. The Tennessee lottery director, Rebecca Hargrove, gave the Arkansas Commissioners a brief tour of her facility and extended an invitation for the other Commissioners to visit Nashville at their convenience. The tour provided a big picture of what the Arkansas Lottery Commission is looking for, striving to do, and the expertise needed for this startup. Ms. Hargrove's background includes lottery start-ups in Illinois, Florida, Georgia and Tennessee.

Commissioner White echoed Commissioner Lamberth's remarks, adding that the trip was an educational experience. He urged other Commissioners to visit the Tennessee headquarters and see the operation as it is an excellent lottery. He also encouraged those that can to attend the fall conference that will be held in Oklahoma.

Director's Report

Director Passailaigue reported the lottery office has telephones as of yesterday and may have computers tomorrow. He will begin interviewing individuals tomorrow and will also conduct interviews July 4.

Mr. Passailaigue addressed the considerable amount of press coverage regarding the issue of a housing allowance. He advised that appropriate housing has been secured and it is not necessary for the State to subsidize housing for he and his wife. He has signed a lease on an apartment and no payment was made by the Commission.

Mr. Passailaigue also addressed media reports concerning some of the games that may be offered, referred to as monitor games. He stated that in most lotteries, these games are legal. For a monitor game called Keno, which is lawful in Arkansas and many other states, no skill is involved and "the die is cast" before the game begins. Prior to offering any games in the online business, the following will be considered: 1) is it lawful; 2) is it something that respects the interests of the people of Arkansas; 3) does it warrant further review prior to a staff recommendation to the Commission; and 4) all of the facts will then be brought to the Commission. The Commission, representing the people of Arkansas, will determine whether or not to undertake such games. If considered, it would be 12 to 24 months before monitor games could be offered as all criteria must be met.

Mr. Passailaigue also discussed scratch-off games, noting they are "licensed property" games for which there are many types. For example, in some cases, the prize is not only cash but also a chance to go to Los Angeles and try out to appear on the "Deal or No Deal" game show or go to the "World Poker Tour" at a venue, such as Las Vegas, and get a buy-in at a table.

Invitation to join the Multi State Lottery Association (MUSL) and Powerball

Mr. Passailaigue advised that MUSL voted to invite Arkansas to join Powerball. He noted there are two multistate games: Powerball, under the umbrella of MUSL, and Mega Millions. Both are great games that appeal to a certain niche audience. Mr. Passailaigue added that during its June 5 meeting, the Commission unanimously voted to permit him to start discussions with Powerball and Mega Millions. These are two jackpot driven games that appeal to a certain audience.

Mr. Passailaigue stated that large population states (i.e., New York, California, Texas and New Jersey) participate in Mega Millions but it is not a good fit for Arkansas as a smaller population state. Larger states differ from those of smaller population states because game philosophies and viewpoints of those managing and operating the games differ.

Powerball consists of smaller population states and is played in 30 U.S. states, the District of Columbia and the U.S. Virgin Islands. There is no cost to join but each state is required to help finance the MUSL staff, located in Urbandale, Iowa. Under a settlement procedure, each state sends money to the MUSL headquarters, which is then invested. There is a \$20,000 administrative MUSL overhead fee. The minimum and maximum jackpot amounts for Powerball are \$20 million and \$365 million, respectively.

The price of a Powerball ticket is \$1.00; 50% of the money goes toward the prizes and the remainder stays in the state. Powerball has nine (9) tiers of prizes including a top prize. Mr. Passailaigue would like to offer the first online game on December 14, 2009.

Commissioner Lamberth made a motion to accept the invitation to join Powerball. The motion was seconded by Commissioner White and, without objection, the motion carried. Chairman Thornton stated the Commission will advise MUSL that their invitation has been accepted.

Online and Instant Tickets Request for Proposal (RFP) Addendums (Attachments 2, 3 & 4)

Mr. Woosley explained the corrections to the Online and Instant Tickets RFP Addendums.

Commissioner Hammons made a motion to adopt Resolution No. 1 and authorize the immediate publication of the Instant Ticket Lottery Game Services RFP Addendum and the Online Lottery Game Services and Lottery Gaming System and Services RFP Addendum, including the Official Proposal Price Sheet form (Attachments 5 & 6). Commissioner Pickard seconded the motion and, without objection, the motion carried.

Proposed Start-Up Budget (Attachments 7 & 8)

Mr. Passailaigue discussed his goals of providing the best possible lottery in the world to the citizens of Arkansas and hastening the timeline set upon publication of the RFPs on June 19, 2009. He stated vendors will respond with a great group of proposals. Mr. Passailaigue's goal is a timeline that gets the games up and running on or before October 29. He noted that Ms. Hargrove brought three (3) vice presidents with her from Florida and started the Tennessee lottery in four months. He explained that the budget documents propose the same type of program. A lottery is a "niche" business in itself with a subgroup of people with start-up experience in what it takes to get the job done. At least 90% of those hired will be Arkansans. Prospective employees must answer four things: 1) do you love Arkansas; 2) are you willing to commit approximately 6 months of your life and give it to the people of Arkansas; 3) are you technically qualified; 4) are you willing to do whatever it takes to insure start up by October 29. An individual that cannot pass these four hurdles need not apply.

Mr. Passailaigue discussed the proposed budget (Attachments 7 & 8), noting that he will be frugal and that the nearing of a fiscal year will not cause him to go out and spend every dime budgeted. His concept of budgeting is every dollar generated from the Arkansas lottery belongs to the people of Arkansas. He apologized for getting this information to the Commission at the last minute. Mr. Passailaigue stated he received assistance from Paul Louthian, Administrator, Office of Accounting, Department of Finance and Administration; Bill Stovall, Administrative Assistant to the Speaker and Director, House Constituency Services, and Andrew Bass, Administrator, Personnel Review, BLR; in attempting to mesh the budget items into the proper sequence for the statutory law and the appropriation process. The budget and list of salaries are a guess and, as he goes through the hiring process, he will make sure the salary is commensurate with the responsibilities. A number of positions were merged into one position. Persons in these positions will be paid well but will also be more productive and invested in the enterprise. A budget was developed for between now and start-up. Mr. Passailaigue projects that approximately \$6 million is needed to cover expenses until revenue is generated from the lottery. The cost may be more or less but will be whatever it takes to get the job done. Included in the budget is \$200,000 for a consultant to give advice for online games, etc. He added that South Carolina had a start-up budget of \$10 million.

Mr. Louthian addressed the budget classification transfer request (Attachment 9). Act 1237 of 2009 appropriates \$9.5 million to the Commission and the anticipated budget requirement is \$7,370,600. The Director has estimated that \$2,645,600 is needed to get the lottery through start-up (October 29, 2009). Once the Commission has repaid the \$6 million loan, the appropriation process goes away.

Mr. Passailaigue added that Commissioners will be informed in advance of expenses and any key decisions to be made and apologized for not getting the requests to the Commission in advance. He added that he would like to publish lottery expenses online for immediate public access.

Mr. Stovall, discussing the lottery's budget and the appropriation process, stated the \$6 million was front money with the anticipation that the Commission would need the money 90 to 150 days, depending on when the lottery would start selling tickets. Once the lottery is generating revenue and the loan is repaid, the Commission will be independent. He added that the Commission and Director are responsible for presenting a budget to the Legislative Oversight Committee (LOC) each year by April 30.

Commissioner Malone stated that, although the commissioners were being asked to approve an overall budget structure for review by the LOC, he wanted to be sure that some of the individual items included in the budget would be brought to the Commission as policy decision items at later points in the process. Mr. Passailaigue confirmed that certain policy items in the budget were his best cost projections at this time and that he certainly would be bringing back to the Commission many of the individual policy items for review and consideration at a later date.

Commissioner Malone made a motion to approve the Budget Classification Transfer. Commissioner Shipp seconded the motion. The Commission unanimously approved the motion.

Arkansas Scholarship Lottery Position Request (Attachments 10 & 11)

Mr. Passailaigue presented a request for 88 staff positions and an organizational structure (Attachments 10 & 11). Mr. Passailaigue would like to hire two (2) individuals from South Carolina for the positions of Vice Presidents of Gaming and Administration at a salary of \$225,000 each. The woman who is his choice for Vice President of Administration is one of the premier experts in rating talent. She would conduct a search casting a wide net so that the lottery is representative of the people of Arkansas in terms of race and gender. He noted that the South Carolina lottery ranked 15th as the best place to work in South Carolina.

His choice for Vice President for Gaming has a \$148,000 buyout for his retirement. He explained the scratch-off is the portion of the lottery that can usually be controlled. The on-line games, such as Powerball, are the type of games based on the law of probability over a long period of time based on a matrix. This is why South Carolina is 7th in the world in per capita instant ticket sales and the person he is seeking to fill this position can be credited with these record successes..

Mr. Passailaigue discussed what these two individuals will bring to Arkansas and the resulting reduction in the cost structure if they are hired. The Vice President of Administration would alleviate the need to hire a licensing manager as she performs this function in South Carolina and can do so in Arkansas. The Vice President for Gaming candidate is an attorney which would eliminate one attorney slot.

Mr. Passailaigue stressed that persons hired without lottery experience will have to be trained in lottery launch. Those individuals will then have to go out and train approximately 5,000 people during the month of October. He expressed confidence that the two persons mentioned would get the job done. A major responsibility is generating the requisite revenue for the policymakers of this state. Approximately a week ago, advertisements ran in eight (8) Arkansas newspapers listing approximately 15 different types of jobs for people in Arkansas.

Mr. Stovall stated that work has continued over the last 10 days to make the organizational structure congruent with the Act. However, some personnel steps are yet to be finalized. Mr. Passailaigue concurred, stating the position request document is a work in progress. Mr. Stovall noted that today starts a new classification and compensation schedule for state employees. He discussed the expansion pool and positions available to the Commission without any activity by the LOC and the breakdown on those in career positions of C130 or below and professional positions of N922 and below. He noted that the LOC will meet tomorrow to review a request based on today's actions. He added that the full 88-position request is not necessary for tomorrow's meeting.

Commissioner Hammons asked the difference between the positions of IT Director and IT Gaming Director. Mr. Passailaigue stated IT Gaming is a special niche requiring lottery experience to set up and manage the massive gaming technology, while the other IT position will manage the technology used by lottery personnel in their daily work.

Commissioner White made a motion to approve the personnel organizational structure as presented by Director Passailaigue. Commissioner Lamberth seconded the motion and the Commission unanimously approved the motion.

Commissioner Hammons asked if the Commission was only approving the list of positions and not the direct salaries. Mr. Passailaigue replied the listed salaries does not mean individuals would be paid those amounts. Commissioner Pickard inquired about the Commission's responsibility in addressing salaries. Mr. Woosley stated the Director is responsible for hiring personnel and setting the salaries within the assigned grade, which are the guidelines for the salaries.

Mr. Woosley stated that the Director is responsible for hiring personnel and setting the salaries within the assigned grade, which are the guidelines for salaries.

Mr. Passailaigue stated that the lottery will have an employee manual. The lottery staff will be non-partisan and non-political. He reminded the Commission of the following hiring criteria stated earlier during the meeting.

Mr. Passailaigue thanked the Commission for placing their confidence in him, adding he is staking his professional future on delivering the lottery in the manner envisioned by the Commission.

Other Business

Commissioner Lamberth advised she has received two folders of applications for the position of Internal Auditor and requested that BLR staff assemble and forward the applications to the Commissioners in PDF format.

Chairman Thornton stated that Commissioner Smith has provided a draft copy of the *Rules of Practice and Procedure* for the Commissioners to review and discuss at a future meeting (Attachment #12).

Mr. Passailaigue said that he would like to present the Banking RFP on the next agenda. He added that the Commission also has to develop Retailer Rules and Guidelines.

Future meetings

Mr. Passailaigue recommended that the Commission consider meeting next Wednesday, July 8. He added that he anticipates the Commission will need to meet weekly for the next month. Chairman Thornton advised that the Commission will meet Wednesday, July 8, 2009, at the same location.

Commissioner Pickard stated he will make an offer to Arkansas State University-Beebe to hold the July 15 Commission meeting on the ASU-Beebe campus.

There being no further business, the meeting adjourned at 3:17 p.m.