

MINUTES

ARKANSAS LOTTERY COMMISSION

Thursday, May 14, 2009

1:00 p.m.

Winthrop Rockefeller Institute

1 Rockefeller Drive

Morrilton, Arkansas

The Arkansas Lottery Commission met at 1:00 p.m., May 14, 2009, at the Winthrop Rockefeller Institute in Morrilton, Arkansas. Arkansas Lottery Commissioners present were: Ray Thornton, Chairman; Dianne Lamberth, Vice Chairman; Derrick Smith, Secretary/Treasurer; George Hammons, Mike Malone, Ben Pickard, Patty Shipp, Susan Ward-Jones, and Joe White. Also present were Bureau of Legislative Research (BLR) staff: Laura Gilson, Attorney; Nell Smith, Research Analyst; Estella Smith, Legislative Analyst; Kendra Drone, Secretary; and Patrick Ralston.

Commissioner Thornton called the meeting to order.

Laura Gilson, Attorney, Bureau of Legislative Research, was recognized and explained that, due to back to back meetings of the Commission, the minutes from the May 12, 2009, meeting were not available at this time.

Commissioner Thornton suggested it would be appropriate to clear up the question of Chair and Vice Chair designations. A motion was made by Commissioner Smith, and seconded by Commissioner Hammonds, citing Commissioner Thornton as Chairperson and Commissioner Lamberth as Vice Chairperson. Without objection, the motion carried unanimously. A motion was made by Commissioner Smith, and seconded by Commissioner White, to remove the interim designation for chairperson and vice chairperson. Without objection, the motion carried unanimously.

Commissioner Thornton stressed the importance of the Commission moving forward, noting the Commission is on the threshold of building an enormous structure involving a large amount of money. He further noted that, as they advertise for positions, the Commission needs to show it is stable and operating with one voice.

Commissioner Thornton introduced Mr. Ernie Passailaigue, Executive Director, South Carolina (SC) Education Lottery Organization, and Ms. Margaret DeFrancisco, President/CEO, Georgia (GA) Lottery Corporation. Commissioner Thornton thanked them for accepting the Commission's invitation and their willingness to come to Arkansas at a moment's notice to share information with the Commission. Mr. Passailaigue thanked the members for the invitation to speak before the Commission. Ms. DeFrancisco voiced her appreciation for the invitation to speak before the Commission and attributed their presence to a commitment to the lottery industry; a small and very sharing industry. She added that lotteries have been raising money for good causes since the very beginning of this country.

Commissioner Thornton explained that the Commission will resolve into a Committee of the Whole for dialogue, presentations, and individual questions to fully explore the subject matter after which, at approximately 3:00 p.m., the Commission will report progress as a Committee of the Whole. If there is any action for the Commission to take, it will be considered at that time. This procedure will be repeated as the Commission goes through the activities of these two days. Commissioner Thornton asked and encouraged everyone to participate in these discussions.

Mr. Passailaigue provided a power point presentation (Attachment #1) and noted that when South Carolina (SC) began the lottery in 2002, the important thing was the support of the lottery industry in assisting the South Carolina Lottery (Attachment #2 & #3).

Mr. Passailaigue said you need to think "outside the box". Staff should have the mind set to achieve success. It is not necessary to hire a lottery professional to lead the lottery as director, but you do need to have proper skill sets around the director with lottery experience.

Ms. DeFrancisco noted that the Commission will have to craft the state's lottery according to what Arkansas needs. Arkansas is the 44th lottery in the nation since 1966. She stated that a number of the early lottery directors were former Federal Bureau of Investigation and former federal intelligence individuals. More lottery directors are now from sales and marketing organizations. Most state lotteries have accountants, lawyers, and individuals with sales and marketing experience. The key is making sure the director has the skill sets around him/her. If the Commission hires a director with a sales and marketing background, it should make sure the director has someone with a great finance background. A cadre of individuals is needed as the executive group. These individuals should have great experience in law, sales, marketing, and finance. Having someone with great lottery experience would be helpful.

Commissioner Thornton asked that if the director does not have lottery experience, should it not be assumed he would want individuals with a great deal of experience in those support positions. Ms. DeFrancisco responded that it would be very helpful for a non-lottery individual coming into the "start-up" to have someone with lottery experience come in as immediate and executive support to that person.

Mr. Passailaigue noted that the person selected to run the lottery should be a good solid person and have certain types of skills. He/she needs to be aware that this is a 24-hour/7-day a week/365 day job and come into this position with eyes wide open. Ms. DeFrancisco added that the director needs to be committed.

Mr. Passailaigue stated that the best way to ensure success is to hire the very best people. You will have a failure if you have people in the organization that consider certain work is "not their job". You must know your stakeholders, i.e., retailers, banking institutions, and vendors. When you draft your proposals for services, you will have a number of interested parties present. Make sure your vendors are "top shelf" people. Envision where you want to go and develop a timeline. Know what your endgame is and back up from there. Be willing to take risks. Vendors should also be willing to take risks.

Ms. DeFrancisco noted that you can't "stay stuck"; if one idea doesn't work, try another one. You must try new things. Do not come down on someone if it doesn't work.

Mr. Passailaigue stated that you should keep politics out of the lottery business. In SC, the executive director and staff are not allowed to make political contributions.

Commissioner Thornton noted that the House Speaker, President Pro Tempore, and the Governor have all told the Commission members they will step back and allow the Commission to go forward. The Commission has been informed by all parties that they will not be making decisions for it. They really want the Commission to go to work.

Ms. DeFrancisco noted that it would be great for the Commission to serve as a buffer to the actual operation and running of the lottery and to any outside political influence, and be the ambassador to anyone from the public or political sector who might want to try and influence what happens in the lottery. It is very critical because when outside influence begins to creep into the operations of the lottery, usually by people who do not know the lottery, it can be very problematic and it can actually impact the results.

Mr. Passailaigue addressed political considerations. Arkansas's Commission is drafted like SC's Commission. As director, you receive calls from House and Senate members and the Governor's Office

suggesting an individual for a certain position. If the individual does not meet the criteria, do not hire him/her. Diffusion of power between the reporting authority and the buffer which you provide is important. Therefore, you can allow an umbrella to exist over your staff which allows them to do the work they are paid to do. He noted that SC's lottery staff consists of 57% women and 43% African Americans.

Ms. DeFrancisco noted that she was a small business owner elected to a county seat before becoming a lottery director. You can learn the lottery from square one as long as you learn from others. She noted that she still learns something new every day. The Lottery Trade Association, headquartered in Cleveland, Ohio, could be a very helpful tool to Arkansas.

Mr. Passailaigue stated that before hiring him as a director, SC Lottery Commissioners hired a consultant because they believed the consultant was important in designing games, and in other areas, critical to the start-up of the lottery. However, after Mr. Passailaigue became director, he had to fire the consultant, which cost the SC Lottery Commission \$600,000.

Ms. DeFrancisco noted that the Battelle Memorial Institute has been in business for decades and has a broad knowledge of the industry and does a marvelous job. It is very helpful with RFPs, printing of different games and many other areas associated with the lottery industry. GA has recently extended their two main contracts with them. One contract is for printing different games, the other is for their online computer system which also tracks the different games. GA also hired Battelle Memorial Institute to oversee and represent some extensions which had been done. The Memorial Institute could be very helpful with contracts.

Commissioner Smith confirmed Commissioner Thornton's observation that the Commission is not confined to using state provided attorneys. The Commission can hire outside attorneys to assist with contracts and writing RFPs. Commissioner Lamberth noted that the attorneys would need to be hired fairly quickly because on September 1, 2009, staffing by the Bureau of Legislative Research will cease.

Ms. DeFrancisco further noted that the GA Lottery Corporation included a public relations firm to handle advertising, RFPs and contracts. They were wonderful and knew what to do in terms of advertising and getting the word out about the product, but they did not know the lottery business and had to be educated about the business. She added there are several trade magazines in which to place an ad for positions.

Mr. Passailaigue noted there is an order to start-up considerations. It is of utmost importance to select a director. The process is important and should be done expeditiously. It is of utmost importance to select the right person for the position.

Ms. DeFrancisco explained that everything needs to be up and running as quickly as possible and you need to have a Retailer Licensing Package.

Mr. Passailaigue stated that the Commission should consider establishing a reasonable timeline for procuring vendor services. It would be beneficial to get the RFP process started immediately as it will have a certain legal timeframe. Once these contracts are out there, they will have to be bid, evaluated, and require time to be awarded or protested. This is a critical piece of the puzzle because of the amount of time it will take to go through the process. Procuring major multi-million dollar contracts without hiring a consultant is a risky endeavor. A common industry practice is to retain consultant services to assist in the drafting of specifications for online and instant ticket contracts. These specifications are highly complex and must be tailored to the state's individual requirements.

Commissioner Thornton asked if he is suggesting the RFP process begin before the search and hiring of a director. Mr. Passailaigue suggested looking at consultants or law firms before selecting a director because, if you wait until the director is hired, there may not be enough time for the RFP process to run its course in

the timeframe for launching the lottery. Ms. DeFrancisco added this is what needs to happen to keep you on track.

Mr. Passailaigue suggested that the Commission integrate the RFPs, noting some lotteries combine telephone sales and operations. Ms. DeFrancisco noted GA has an internal sales group that call the retailers.

Mr. Passailaigue noted that there are a number of innovations that will require specifications in the document. Most RFPs will come back in a format that will help the evaluating committee, which will score various parts of the proposal and send them out for bids. It would help to ask that bids come back with specifics outlined and a fixed price cost.

Ms. DeFrancisco explained many lotteries have best practice RFPs. North American Association of State and Provincial Lotteries (NASPL) has a best practice RFP. Based on NASPL's knowledge of all lotteries, they will be able to advise on what would work best for Arkansas.

Mr. Passailaigue noted another issue for the Commission to consider is selecting a bank.

Mr. Passailaigue stated the most critical senior level positions are the chief financial officer (CFO), marketing director, general counsel, and information technology director. Other crucial functions that need to be addressed are human resources, internal audits, security, administration and licensing. All hiring decisions should be delegated to the CEO. While it is desirable to have managers with prior lottery experience undertake certain tasks, it is just as vital to fill the majority of senior management positions with Arkansans. The timeline is critical because you will need to look at what components need to be implemented and when. You want to build a foundation for the Arkansas Lottery.

Commissioner Thornton noted that he is very encouraged because the Commission has already begun considering things such as director, officers, insurance, and effective recruitment. He does not see a problem with beginning the search for an auditor and director now while continuing to work on the RFPs and contracts while going through the search process.

Mr. Passailaigue explained Arkansas is on the clock. Every day that goes by is a loss of approximately \$2 million/day in gross sales. He commended the Commission for taking on this tremendous responsibility.

Ms. DeFrancisco noted that one of the points she heard over and over again in discussions with her executive team and in talks with the Lottery Leadership Institute was the need to establish why you exist from the very first moment. When the going gets tough, keep reminding yourself this is about the children. This will help keep people focused on why you have the lottery.

Commissioner Thornton referenced Commissioner Shipp's suggestion to incorporate the name "Arkansas Scholarship Lottery" in the Commission's activities. He stated that, although it was pointed out that the Commission does not have the power to change the name of the Commission, he believes the legislation gives the Commission power to designate the names of the games. The Commission could have a designation on every game that this is a part of the Arkansas Scholarship and Arkansas Scholarship lottery.

Ms. DeFrancisco noted the GA Lottery Corporation sends out a press release announcing winners. There is usually a paragraph advising how many children have benefited from the GA Lottery and how much money has been transferred to different programs since the beginning of the lottery.

Ms. DeFrancisco also explained the importance of senior management fully understanding the Lottery Commission's overall business philosophy and revenue expectations. The CEO should be in an immediate position to assist the Commission in establishing realistic timeframes, goals and objectives based on reasonable performance standards and benchmarks. The Commission should also have a preliminary budget and business plan, including proposed organizational structure. The preliminary budget should include

projected start-up costs, salaries, and loan payback schedules. The business plan should outline the lottery's goals and objectives, timetables, products, gaming strategies, and business philosophy.

Another suggestion is to meet now with corporate accounts or corporate retailers who will be lottery retailers. If they are from other states, they will be able to help you. In the current economic times, corporations that did not want to sell lottery tickets are now reconsidering their position.

Ms. DeFrancisco advised that 12 states have mega millions, 30 have power ball and that MUSL is a multi-state lottery association. The states participating in the Mega Millions are Washington, California, Texas, Illinois, Michigan, Ohio, New York, Massachusetts, New Jersey, Maryland, Virginia, and Georgia.

Commissioner Thornton stated that the Commission will rise and report progress and pursue Commissioner Shipp's idea and appoint a delegation to draft a suitable resolution on how we might name the scholarship lottery. Commissioner Shipp suggested the Commission get a legal opinion so as not to negate the legislation spelled out in the original legislation and ascertain if there can be an alternate name.

Commissioner Thornton suggested a group work on this issue during the recess and come back with suggestions as to what the possibilities are when the Commission reconvenes for further consideration. He also asked that BLR staff update the Commission on the progress of collecting model RFPs.

The Commission reconvened at 3:00 p.m., following a 30 minute recess.

Commissioner Malone requested information from Laura Gilson, Attorney, BLR, on model RFPs. Ms. Gilson stated that there are any number of resources available for RFPs on different websites.

Commissioner Thornton asked that the job description for the positions of director and auditor be distributed for discussion and contemplation (Attachment #4 & #5). He noted that the Commission has the exclusive responsibility of filling these two positions. He asked for input from Ms. DeFrancisco and Mr. Passailaigue as to the merits of these job descriptions.

The Commission was resolved into a Committee of the Whole.

Mr. Passailaigue stated the director's position will be the most important decision the Commission makes. This individual must have the faith and confidence of the people of Arkansas. Being very respectful to the people of Arkansas is of utmost importance to this enterprise.

Commissioner Smith noted, as to the process for engaging a director, the Commission has a lot of information right now. He feels overwhelmed with the amount of work to be completed and the timeframe for accomplishing these tasks. He suggested figuring out individual responsibilities so that each Commissioner does not feel responsible for each and every decision coming through the Commission. He asked how the Commission felt about having a smaller group responsible for narrowing down the number of applicants. Commissioner Lamberth suggested forming a personnel committee for this purpose and to also work on committee structure and deal with any other concerns. Commissioner Lamberth also suggested forming a committee to focus on vendors, RFPs, retailers and possibly a finance committee as the Commission moves forward. Commissioner Pickard agreed this would speed up the process.

Commissioner Thornton stated every member of the Commission should be involved in the selection of the director. He suggested a two prong approach: 1) Have an understanding that any Commission member may nominate (with approval of nominee) someone for consideration for the position to be placed into the pool of applicants; and 2) Advertise for the director position.

Commissioner Smith clarified that his intent was not to exclude the entire Commission in the interview process but that a smaller group of Commissioners could review all the applications and make an initial cut of resumes that should be considered by the entire Commission. Commissioner Pickard reiterated he felt this would speed up the process considerably. Commissioner Thornton stated he feels that any Commissioner

desiring to have input in the selection of the director should be allowed to do so. Everyone who applies should have their application considered very carefully. The Commission must be sure to get the very best applicants in the applicant pool. He suggested that Commission members ponder this and bring it back before the Commission tomorrow for further discussion.

Commissioner Pickard asked, regarding the multi-state lottery, how long it would take for Arkansas to be able to participate. Mr. Passailaigue responded that you need to set up an orderly game then educate and develop your player base but recommended that Arkansas not participate in the multi-state lottery or power ball to begin with. Ms. DeFrancisco noted it is very important to do one thing at a time and do it very well and then see what works for Arkansas.

Commissioner Smith asked what is to be considered when selecting the games. Ms. DeFrancisco replied the instant games are easier. Depending on how difficult you make it, the "pick three" is popular. GA has live drawings broadcast around the state. Mr. Passailaigue suggested starting with core type games. The contract for online gaming would be done later than the contract for instant games. The drawing situation is important. You will have to build a network of your media. Ms. DeFrancisco noted some states have a network within their facilities, others use a television studio. Mr. Passailaigue explained that it takes an hour to do a drawing.

Ms. DeFrancisco explained you will be looking for zero error because the public wants to feel they have an equal opportunity to win; lottery organizations sell integrity every day. The process is incredibly important and you have to keep making sure that the people involved in the drawings are on their toes all the time. She suggested having a still camera to make sure the people watching the show actually see all the numbers.

Commissioner Thornton thanked Mr. Passailaigue and Ms DeFrancisco for their presentations.

In response to a question from Commissioner Thornton, Mr. Passailaigue stated most adjudication issues could be handled through senior staff and the director. Another area open for dispute and controlled by statute is the Americans with Disabilities Act. You must make sure your retailers in the private sector have access available to all individuals. He emphasized the budget is critical because of ongoing cost, start-up cost and monthly expense. It is important how you hire your staff. You will need an executive team which includes a sales person, game designer, marketing person, and legal counsel.

Ms. DeFrancisco asked if Arkansas had any restrictions on hiring. Mr. Readnour, Attorney General's Office, responded that the director and internal auditor positions have no advertising requirements but state policy must be followed for the other Commission positions. He further noted that most state agencies will advertise on the state web page. Ms. Gilson stated that the Commission has lots of latitude but, if it does advertise for these positions, it must follow state requirements.

Mr. Passailaigue stated that the human resource component is very important and will consist of the executive director, chief of staff, human resources manager, chief financial officer, sales and marketing director, administrations manager, internal auditor and information and technology director. There are any number of procedures you can use to make sure you are utilizing the industry's best practices in the game. Make sure a prize is available for a second chance drawing.

Bishop Woosley, AG's Office, asked if there had been any discussions about the legal issues surrounding an online game. Ms. DeFrancisco explained that an online game is a game that has a drawing, whether computerized or a live drawing. Mega Millions, Power Ball, etc., are all online games. Online games began long before the internet. At one time, there were actually computer terminals sitting out in the public. Internet gaming in the United States is illegal. The Department of Justice and the prior administration passed the Federal Lottery Act. She thinks that at some point in time it will be resolved. She further explained that you will have to answer questions about what prizes remain after the top prize is gone. The fairest to the players is to post the remaining prizes on your website.

Commissioner Thornton suggested adopting advertising guidelines and bylaws. Ms. DeFrancisco suggested contacting David Gale, Executive Director, Lottery Industry Associates, for help with a list of documents such as bylaws. He has the perspective of all the lotteries around the country and he has a sense of how each lottery is structured.

Commissioner Thornton noted that he is hearing that there is an enormous responsibility for each Commissioner to become educated on issues discussed today. He asked what makes a good executive director to which Ms. DeFrancisco replied the individual must first be knowledgeable about the industry. You, as a commissioner, will become an ambassador and buffer around the State and you will also become an expert and will be able to help educate others about the lottery industry. She recommended the following publications/movies as educational resources: Lottery Wars, The Battle Over An American Institution; Lottery Wars II, the movie; Waking Ned Devine with Nicholas Cage; Retail Selection; and Lottery Insight. She suggested visiting as many websites as possible and attending conferences as a great way to become acquainted with the industry. Mr. Passailaigue noted the Spring Directors' Meeting will be held in Nashville in June and David Gale would love to have someone from the Arkansas Lottery Commission attend. Participants will receive a wealth of information.

In response to a question from Commissioner Thornton regarding after the director is hired and RFPs have been sent out, Ms. DeFrancisco stated one full service agency can handle every aspect such as direct mail, etc., to reach out to customers. The agency should be efficient, effective and creative. She suggested not only utilizing radio and television but mailings as well. Use someone that can do great advertising productions; advertising is approximately 1% of your gross sales. You should have a singular consistent message out there for the consumer. Mr. Passailaigue concurred stating that you need to have one full-service agency with a logo and theme. Because of all the demands and limited resources in SC, they do a lot of their services in-house which saves approximately \$500,000/year. He suggested that the first contract should be for a full-service agency because of all the start-up demands required in launching the lottery.

Commissioner Thornton asked if there were two ways of contracting (over-all costs and per job cost). Ms. DeFrancisco responded GA had them do two campaigns; a combination of capability and creativity and then cost is needed.

Commissioner Lamberth asked for more clarification on the role of the retailers. Ms. DeFrancisco responded that their own people are the best retailers in GA. There are two lottery stores in airports. The best retailers are individuals who own their own businesses because they have a vested interest in who they employ and they know their customers by name. Supermarket chains are also reliable retailers for selling lottery tickets. Non-traditional retailers are places such as box stores. You need quality retailers. Mr. Passailaigue noted that the lottery is a cost and labor intensive business. If you use vending machines, you have the entire transaction done by the machine. One of the main concerns with using vending machines is the age requirement. A way around that is to require an identification such as driver's license. He suggested including vending machines in the RFP for online services.

Commissioner Malone asked for specific issues to consider in hiring retailers. Ms DeFrancisco suggested doing some research on which corporate chains are willing to participate and start reaching out to them. Also, ask for input from other states on how it is done in those states. Explore retail licensing and look at the applications. Investigate retailers to see if they are reliable. Develop a packet of information and forms for perspective retailers.

Commissioner Malone suggested having a page on the Commission website for potential retailers to apply. Commissioner Lamberth asked if it would be possible to fill out the retailer applications on the Commission's website and then transfer them to the Lottery website once it is developed.

Mr. Passailaigue mentioned that he was aware of a legal problem with lotteries asking for background checks and fingerprinting but could not remember the specific problem.

Commissioner White asked what is the commission fee to the retailers. Ms. DeFrancisco responded in GA it is 5% and on the three digit game the fee is 7%. This is a 2% cashing fee and GA allows cashing up to a \$600 dollar limit in-house. The more the retailer sells, the more he/she makes. Mr. Passailaigue stated in SC the fee is 7.06%. SC is #7 in the world and GA is #2 in instant sales.

Commissioner Thornton asked the committee to rise and report to the Commission for discussion or action.

The meeting resumed at 7:15 following a 15-minute break.

Commissioner Thornton addressed bylaws and suggested getting an appropriate resolution by inquiring of other states what their bylaws are in order to help with drafting our own bylaws. Ms. DeFrancisco offered to contact David Gale and ask him to provide this information to the Commission.

The Commission resolved into a Committee of the Whole to discuss other items.

Commissioner Thornton asked where the Commission might find an empty room with a telephone or desk for the director to walk into and start up the actions of the lottery. He asked how Ms. DeFrancisco and Mr. Passailaigue accomplished this. Mr. Passailaigue stated that SC had to put in a request for retail office space for the executive director. Overall costs for the office space is also important. Commissioner Thornton asked if SC built or rented a facility. Mr. Passailaigue responded that they rented the facility. Ms. DeFrancisco stated that GA's lottery actually began in a board member's office.

Regarding available rental space, Commissioner Thornton noted that Anne Laidlaw is the Director of Arkansas Building Authority. Ms. Gilson stated she would be happy to call her and find out what office space is available. Mr. Passailaigue advised when you do acquire this space, probably your online vendor will need to share that space with you. You should find out what you need to do logistically to own this space. A lot of issues will need to be considered, such as security and cooling issues. Whether you buy or rent, you will have to make a lot of improvements.

Commissioner Thornton asked for a volunteer from the Commission to contact Anne Laidlaw and ask her to begin working on what is available and to recruit anyone willing to drive to Little Rock to look at spaces which may be available. He advised that this should be done quickly and asked that members motivated to help in the search for space let him know.

Commissioner Thornton noted that the Commission needs to have a post office box.

Commissioner Lamberth asked if it would be possible for Ms. Laidlaw to quickly locate a space that could be toured by any member(s) arriving the morning of the next meeting or the following meeting. Commissioner Thornton agreed with this suggestion and noted that the press would have to be notified of the meeting to look at office space. It was also suggested that Wednesdays would be a better time for Commission meetings.

Commissioner Lamberth suggested looking at office space on either May 20th or May 27th, prior to the meeting. Commissioner Thornton stated that there should be an understanding with Ms. Laidlaw that this is a temporary lease to start out with while the Commission moves forward. Commissioner Lamberth asked for Ms. DeFrancisco and Mr. Passailaigue to express their thoughts on an interim versus semi-permanent lease. Ms. DeFrancisco stated that it would be ideal to find a space with adequate square footage and a portion that can be obtained as temporary space as well, or obtain permanent space in close proximity. Mr. Passailaigue suggested considering what you want incorporated in your office space, such as a claims center, which you would want to be in close proximity to the administrative area. Other things to consider are the ease of access and parking for the handicapped. You will need generators in case of power failure. You will also

need an IT section, gaming section, vendor section, maximum security, adequate heating and cooling, and management will also want to make sure there is a conference room. He offered to survey various lotteries regarding their real estate operations. Ms. DeFrancisco added that you should look at what is convenient for your customers to get to a claims center in close proximity to where they live. The claims center and the sales center should be located in the central office. Because the director will be pulled in so many directions, you may want one member of the senior staff to monitor the whole office project.

Commissioner Thornton asked for suggestions from Ms. DeFrancisco and Mr. Passailaigue on the purchase of equipment. Mr. Passailaigue explained that gaming system and internet service requires that everyone has a computer. You will need the standard office equipment such as desks, chairs, file cabinets, etc.

Commissioner Thornton asked for ideas on what type of security system to install. Mr. Passailaigue stated that SC does not have cash in the office. They installed bullet-proof glass for employee safety and have a 24-hour employee at the claims center. He addressed the issue of persons not being able to collect if they are behind on their child support.

Commissioner Thornton asked if there are any guidelines regarding a dense concentration of retailers and what is the criteria for determining how many retailers to have. Ms. DeFrancisco stated that you want retailers that can bring in commercial revenue. Often times the sales rep or sales manager can help with this because they will know the retail locations and retail establishments in a particular area. Traffic patterns for different times of the day are also a consideration. You have the option of eliminating retailers if you have more than one in a particular area. Mr. Passailaigue stated that at start-up, everyone wants to sell lottery tickets. SC installed a communications system and charged a communication line fee of \$15.00/week per retailer to eliminate retailers. Setting fees is a way to cull out the marginal players. He also gave an example of keeping politics out of the lottery. Ms. DeFrancisco suggested doing a break-even analysis of the cost to have a retailer up and running. You can then figure out what their sales should be, which will vary regionally because you cannot expect people to sell at the same level in a rural area as in a metropolitan area. A break-even analysis will show why a location should be shut down and that this was not an arbitrary decision.

Commissioner Lamberth asked if there was an agreement up front with your retailers that said at a certain point in time you are going to check the data and make sure it breaks even and, if it doesn't, they would not be selling your product. Ms. DeFrancisco stated that they established a sales threshold of where they thought the retailers should be. Again, you have to watch regionally; it is not fair to have the same standards for rural and metropolitan areas.

Commissioner White asked if retailers had to be closed for not generating revenue. Ms. DeFrancisco replied yes. While in New York, Ms. DeFrancisco did a break-even analysis and was able to show the retailers the expectations for their establishment. She added that they will help Arkansas do this and if, after assistance, sales do not pick up, then this operation has to be eliminated. Retail trade styles can vary by different regions of the state. Ms. DeFrancisco noted that they do not have lottery operations in chains such as McDonalds.

Mr. Passailaigue noted SC law prohibits selling lottery tickets on college campuses. Pawn shops sold lottery tickets in SC but were not successful.

Mr. Woosley stated that he is not aware of any bans in Arkansas; the statute gives the Commission some latitude.

Ms. DeFrancisco cautioned -- you need to anticipate anything and everything.

Commissioner Thornton noted that one area that has not been covered is the utilization of broadcasting services. Arkansas is fortunate that AETN will make studios and equipment available to the Commission

upon request. He asked for observations from Ms. DeFrancisco and Mr. Passailaigue as to the type of backup needed. He suggested this be in writing before they rely on AETN exclusively. Commissioner White stated that AETN is eager to be involved. Commissioner Thornton suggested exploring which broadcast stations would like to be involved in this endeavor by broadcasting the drawings. Commissioner Thornton did not know whether he wanted to see someone drawing the balls live or trust a computer to select the numbers. Ms. DeFrancisco noted broadcasting incorporates live drawings. Mr. Passailaigue suggested looking at Minnesota and Delaware. He stated live drawings could be a venue. He noted a lot of security goes into live drawings and there should be a designated area for security. Ms. DeFrancisco stated the balls used for the lottery drawings cost \$60.00 each. Mr. Passailaigue further explained that the ad vendor would negotiate a contract with broadcasting stations around the state. Commissioner Thornton asked if there would be competition between the commercial stations and public television. Ms. DeFrancisco stated New Jersey uses public television to advertise their drawings. Commissioner Lamberth asked if the drawings are broadcast across the nation simultaneously. Ms. DeFrancisco explained that it varies from state to state. She added that there should be some competition; see who would give the best deal, television or broadcasting stations.

Commissioner Thornton asked if there seems to be a lessening of the lottery since the deep recession. Ms. DeFrancisco noted 35 lotteries were flat or down during the first fiscal quarter of 2008 and this has progressively declined from there. People think lotteries are recession proof. GA's lottery is a tiny bit ahead since last year. Mr. Passailaigue noted that SC's lottery is ahead a little bit. Eighty percent of their retailers are structured around gas so SC is very sensitive to gas. SC pays for a demographics survey every year. The 2008 survey reflected a 10% increase in Caucasian play. Ms. DeFrancisco noted that the lottery business can be a little seasonal, with summer being a slow time. For GA, the peak quarter is January, February and March. The slow quarter is usually July, August, and September. Commissioner Thornton asked if there is a seasonal variation in buying lottery tickets. Ms. DeFrancisco responded that there is a seasonal variation because of how the lottery is marketed during the holiday season.

Commissioner Thornton asked the reason for the recommendation that the Commission do the instant ticketing first, then by drawings later. Mr. Passailaigue responded that you have to build out of the system. You can build a part of a structure and accommodate selling instant tickets. It takes time to build the entire system to accommodate online games. Instant ticketing and online games must be tested differently. Focus testing can be used for scratch-off games. Ms. DeFrancisco noted that you want to know what your customers are thinking, what they are looking for and what they would like to see. In GA, retailers are included in these surveys. She further explained that you need to have a team in place to handle marketing themes. There are only three vendors in the world who print instant tickets. Mr. Passailaigue noted these tickets are like DNA and can be traced back to the company who produced it. Commissioner Thornton asked how a vendor is chosen. Mr. Passailaigue responded that the vendors will knock on your door because they will want your business. He suggested gathering as much information as possible from the vendors.

Commissioner Thornton noted that the lottery will need a strong leader in the financial field. He asked if he was correct in thinking the Commission would send out RFPs with regard to financial services, legal services, auditing services, and computing services. Mr. Passailaigue responded that with regard to financial services, you not only send out RFPs for your lottery staff, but also for your banker. The life of the lottery is dedicated to the banks. The Commission will have to decide how people are paid and how the compensation is broken down. SC's chief financial officer comes in at 6:00 a.m. every Sunday morning to make sure the "sweep" is done properly. Important for Arkansas is the "float" you give your retailers. When these tickets go out to the retailers, they are not live and cannot be sold until a designated time. The important part is when the lottery is reimbursed for the packets sold to the retailer. It is either a number of days or a triggering mechanism. Ms. DeFrancisco noted the good thing in Arkansas's legislation is it has a dedicated account where this money is deposited. If a vendor does not meet their "sweep", shut them off. Mr. Passailaigue

noted slow pay has an impact on cash flow and some retailers do not pay their account. In SC, they require vendors to post a security bond.

Commissioner Malone called attention to a memo in the packets outlining various questions with regard to the Lottery Commission's temporary website and asked for feedback from Commissioners. Commissioner Lamberth noted that she would like a page where retailers can type in information on the application page versus downloading it, filling it out, and mailing it in. Commissioner Malone noted that there are five pages that could be put up. He suggested that the fifth page be substituted for retailer information. He asked if there are any suggestions for the URL, which can be pretty much anything the Commission wants followed by Arkansas.gov. Commissioner Malone asked where the e-mails would go. Ms. Gilson said she would find out.

Commissioner Thornton said he would look into post office boxes and also contact the head of AT&T to get a list of telephone numbers. Ms. DeFrancisco noted that GA is moving away from "mail entry" and moving to "web entry". She stated that because lottery tickets are so secure, there are no instances of people trying to forge them. Mr. Passailaigue noted that people do try to scam the lottery and there are also instances of retailer theft. Ms. DeFrancisco noted there are many "best practices" available for training retailers. Educating consumers is one of the best things you can do. Make certain to investigate any complaints. Some retailers defraud consumers. Tickets cannot be negotiated if they are stolen. Retailers should report break-ins and theft immediately.

Commissioner Thornton asked that the Commission rise and report progress.

Commissioner Malone suggested that direct e-mail addresses are not needed for individual Commissioners. He asked Commissioners who wished to change their bio information on the website, to edit the information on the handout and give the information to Ms. Gilson. He also suggested that the amendments adopted later in the session on HB1405 should be added to the enabling legislation page. Another suggestion was to add a place to announce committee dates on the Commission's papers page.

Commissioner Thornton declared that the Committee of the Whole is now ended and the Committee is resolved into the regular Commission.

A motion was made by Commissioner Malone, and seconded by Commissioner White, that the items discussed in the Committee of the Whole regarding the initial webpage be shared with the appropriate staff. Without objection, the motion carried.

Without further business, the meeting adjourned at 8:45 p.m.