

AGENDA
ARKANSAS LOTTERY COMMISSION
Wednesday, April 7, 2010
1:30 p.m.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

- I. Call to Order**
- II. Approval of minutes of meeting March 17, 2010**
- III. Report from the Director**
- IV. Report from Standing Committees**
- V. Other business**

Adjourn

MINUTES
ARKANSAS LOTTERY COMMISSION
Wednesday, March 17, 2010
8:30 a.m.

Arkansas Lottery Commission Conference Room
124 West Capitol Avenue, Little Rock, AR

The meeting was called to order by Chairman Thornton. Commissioners Thornton, Lamberth, Smith, Hammons, Malone, Pickard, Shipp, Ward-Jones and White were present. Director Ernie Passailaigue represented the staff, along with David Barden, Ernestine Middleton, Julie Baldrige, Bishop Woosley, Robin Ussery and Philip Miley. Internal Auditor Michael Hyde and Auditor Whitnie Hall also were present.

Chairman Thornton called the meeting to order. The minutes from the January 20, 2010, meeting were reviewed and unanimously approved.

Director Passailaigue presented a budget for Fiscal Year 2011 and a report on past financial activity. He presented a revised projection for net proceeds for FY 2011, sales by ticket category, projected prizes, retail commissions and vendor costs, administrative costs, and other income and expenses. Discussion followed. Mr. Passailaigue asked the Commissioners to approve the budget, and by motion of Commissioner White, seconded by Commissioner Lamberth, the approval was unanimous.

Director Passailaigue then opened a discussion of the concept of a raffle ticket, proposing to introduce this product by the end of the year. He explained that the game would have a set, limited number of tickets and would have a price point of \$10 to \$20. He said that the product development would take several months and would begin upon approval by the Commission. He asked for approval to add the raffle ticket to the ASL portfolio and by motion of Commissioner Pickard, seconded by Commissioner Ward-Jones, the development and sale of raffle tickets received unanimous approval.

Commissioner Malone briefed the Commission on a March 10 meeting of the Audit Committee, chaired by Commissioner Malone and attended by Commissioners Smith, White, and Lamberth and Internal Auditor Hyde. Also present were representatives from Arkansas Legislative Audit.

Internal Auditor Hyde said that six audits had been completed since the previous Commission meeting. Four audits of the Education Trust Account had been completed for the months of November 2009 through February 2010. He indicated that all deposits and disbursements of the Education Trust account would be reviewed every month. An audit of the retailer sweeps had also been completed and he commended the work of ASL Controller Philip Miley and ASL Treasurer Tim Parrish. The Scientific Games Warehouse audit was also completed, also producing a good audit. He said that Legislative Audit is currently working on documenting internal controls and that the formal audit would be conducted on the financial statements as of June 30. Director Passailaigue pointed out that at the request of the Legislative Audit, the Lottery will arrange for an annual external audit of Intralot's gaming system. He said two audits were already built into the contract. Internal Auditor Hyde indicated that he will review the external audit report of the gaming system.

Commissioner Lamberth was recognized to give a report for the Personnel Committee, which she chairs. She presented information on the March 10 formal meeting on the Employee Manual, with work by Commissioners and staff going on for months preceding this date. In addition, Commissioners Pickard, Smith, Ward-Jones, and Malone were in attendance. She said employment policies had been worked and reworked, and had been reviewed by the Attorney General's office, the ASL legal team, Commissioner Smith, staff members, and the Administrative Team. Ms. Middleton said it was important employees have knowledge of the policies and what is expected of them and be familiar with the document containing such policies. She said that information gleaned in new employee orientation, while helpful, is difficult to retain in total. The final draft Employee Manual document, attempts to comply with requisite regulations and statutes. A three-employee focus group reviewed the 117-page document and found it easy to understand. She said that, although the ethical requirements of the Lottery imposed additional safeguards, the Manual was patterned after policies of other state agencies—leave time, drug testing, Title VII, etc. Commissioners discussed the Manual and congratulated Ms. Middleton and everyone who participated in its creation for their good work. By motion of Commissioner Pickard, seconded by Commissioner White and Commissioner Ward-Jones, the Manual was unanimously approved to go into effect following review by the Legislative Oversight Committee at its next meeting, set tentatively for May 13.

The Commission discussed plans for its next meeting and set a May 18 evening dinner and planning session and a May 19 formal meeting at 8:30 a.m. at the ASL offices.

The Commissioners discussed the Retailer Advisory Board and directed Ms. Baldrige to extend an invitation for that Board to attend the May 19 meeting, gathering in advance in late April or early May.

Chairman Thornton stated that elections for Chair, Vice Chair, and Secretary-Treasurer of the Commission will be held at the May 19 meeting and asked any Commissioners willing to fill one of these positions to notify either Secretary-Treasurer Smith or Internal Auditor Hyde.

There being no further business, the Commission adjourned.

Arkansas



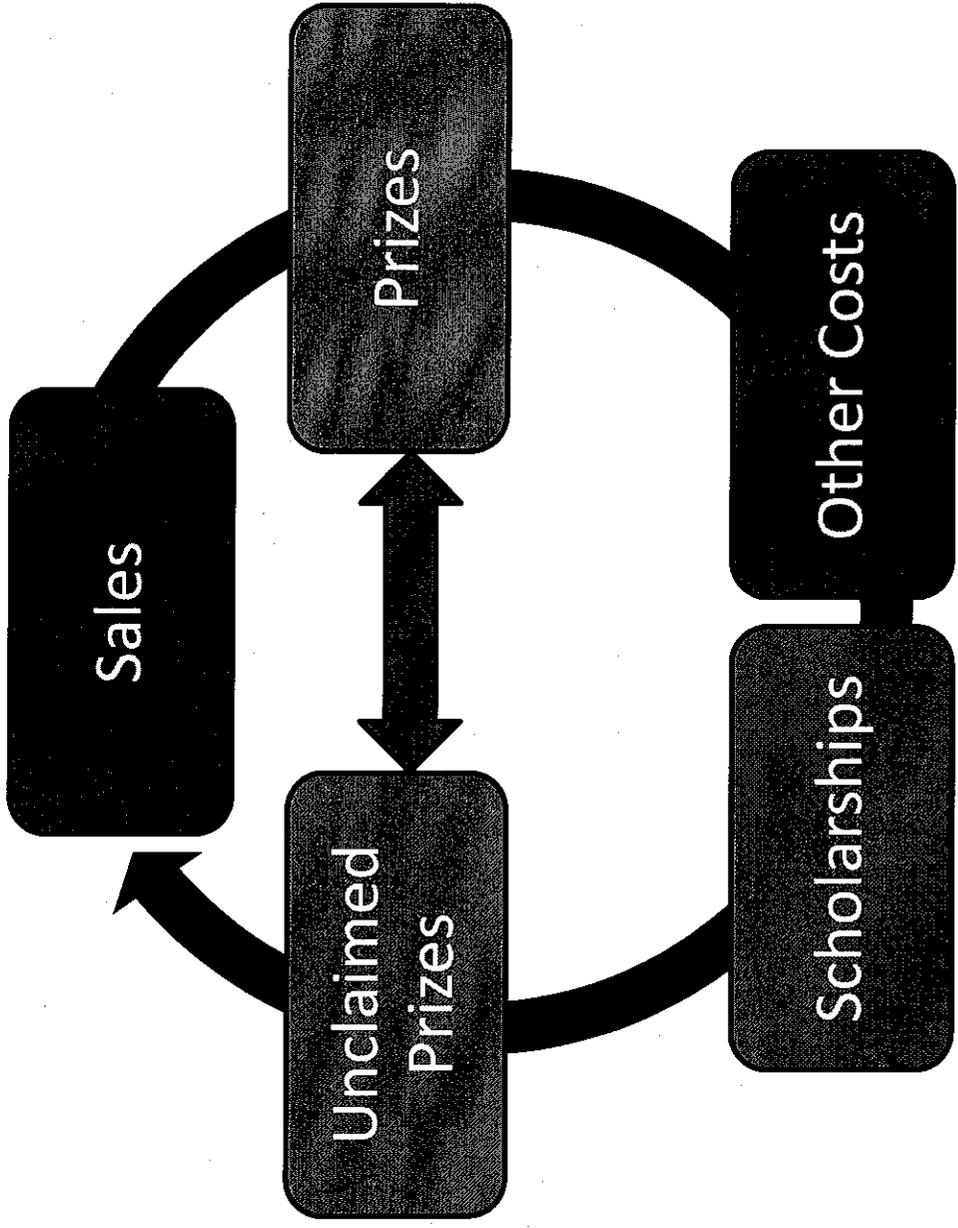
Scholarship Lottery

Arkansas Lottery Commission

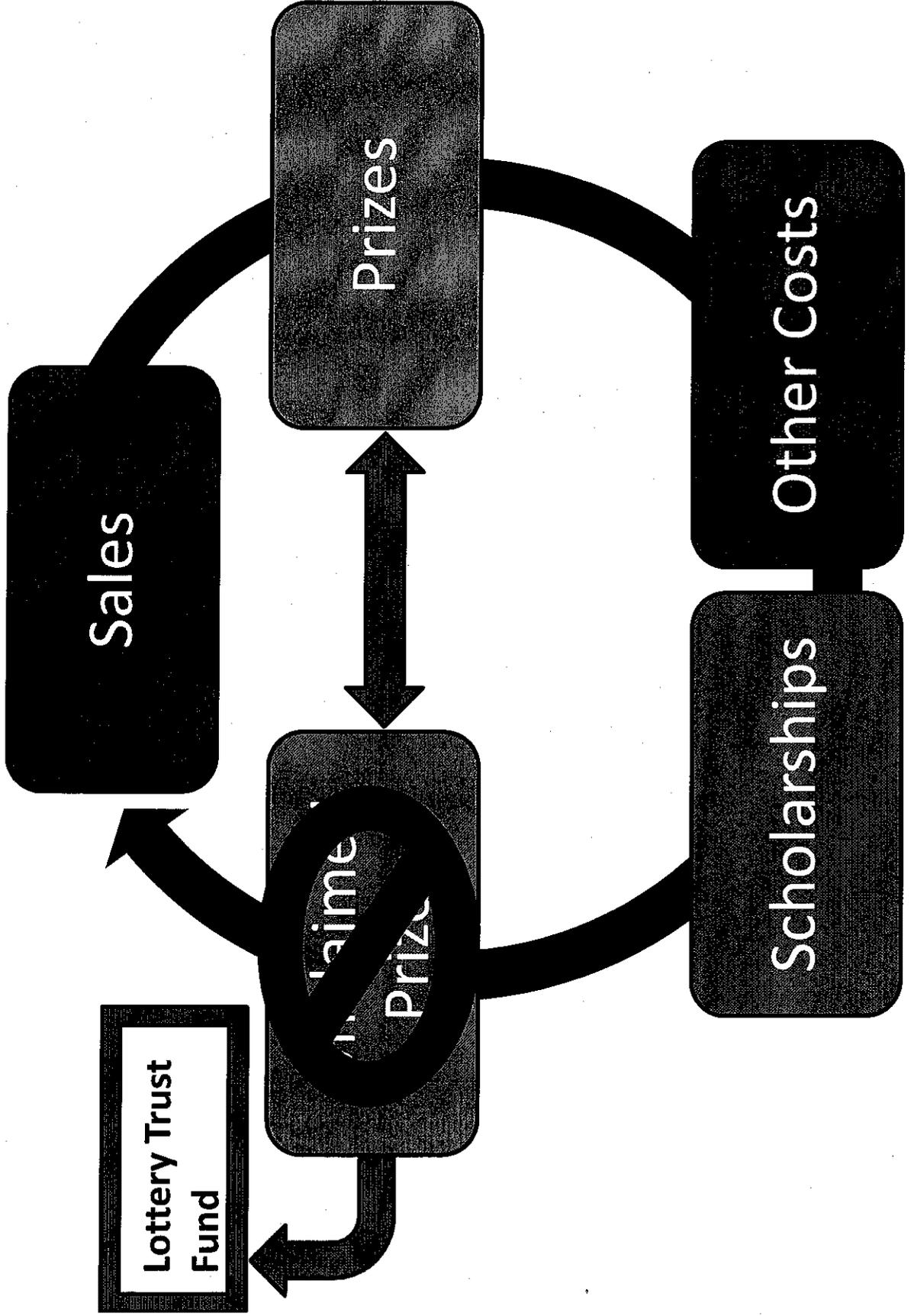
Meeting April 7, 2010

Revised FY '11 Budget

Lottery Prize Cycle



Lottery Prize Cycle

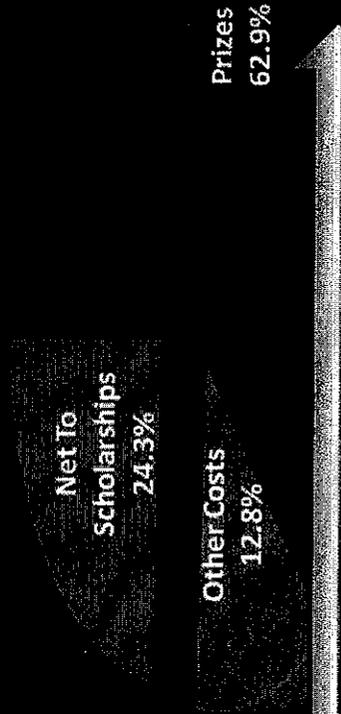


Budget As Revised



Financial Statement Prize Percentage 66%
Actual Prize Percentage Payout 61%
Difference Of 5% Due To Unclaimed Prizes And Other Accruals

Original Budget



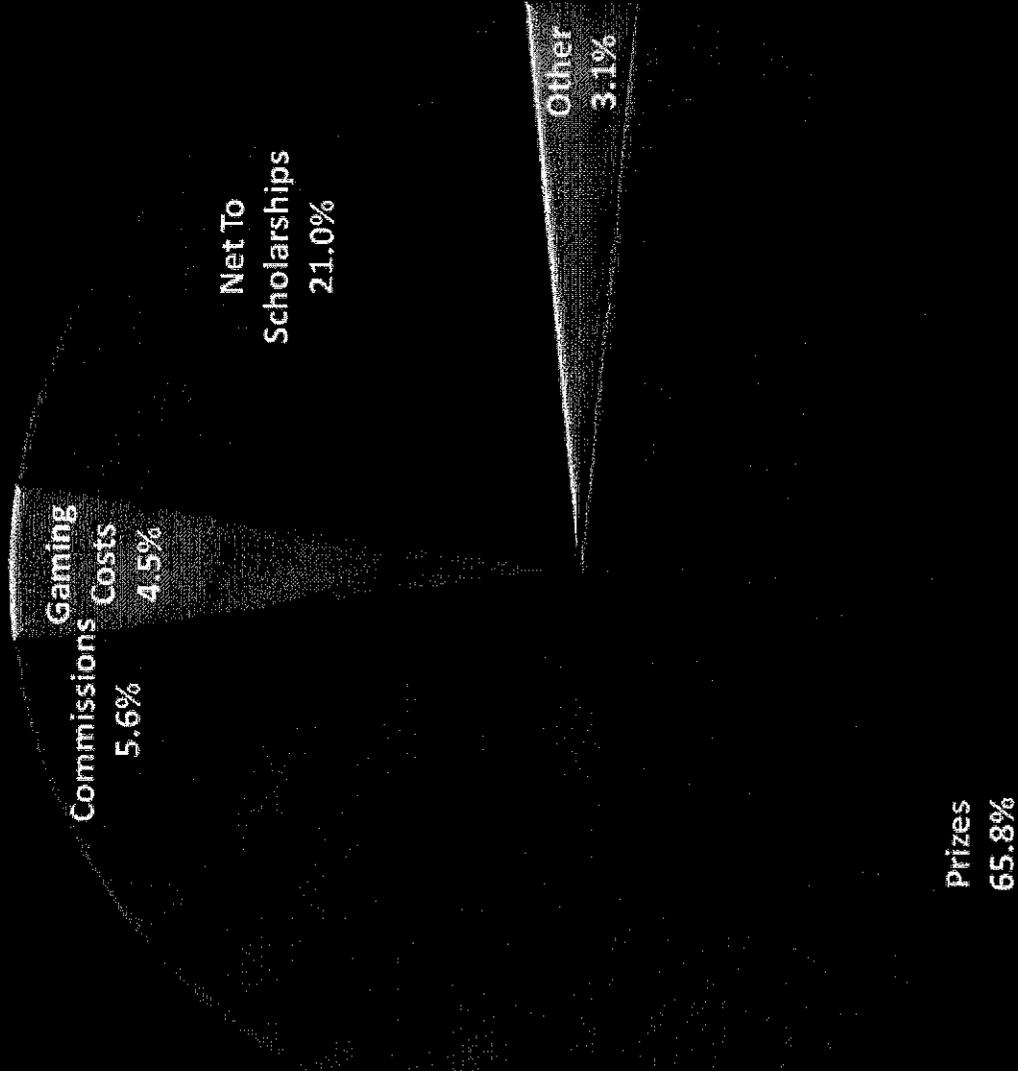
Comparison Of Fiscal Year 2011 Original Budget To Revised Budget

Revenues, Costs and Expenses	Original Budget	Percentage	Revised Budget	Percentage	Difference
Sales	\$478,530,000	100.0%	\$464,231,000	100.0%	\$ (14,299,000)
Prizes	\$301,682,200	63.0%	\$299,517,311	64.5%	2,164,889
Retailer Commissions	\$ 26,917,313	5.6%	\$ 26,112,994	5.6%	804,319
Instant & Online Costs	\$ 20,155,485	4.2%	\$ 19,604,410	4.2%	551,075
Administrative & Advertising Costs	\$ 14,800,000	3.1%	\$ 14,600,000	3.1%	200,000
Other Income / Expenses	\$ 1,305,200	.3%	\$ 580,200	.1%	____(725,000)
Net Proceeds	\$116,280,202	24.3%	\$104,976,485	22.6%	\$ (11,303,717)

Comparison Of Fiscal Year 2011 Original Budget To Revised Budget For Prizes

Prizes	Original Budget	Budget As Revised
Instant tickets	\$ 252,945,000	\$ 261,887,500
Cash 3	\$ 5,200,000	\$ 5,070,000
Cash 4	\$ 2,340,000	\$ 2,028,000
Powerball	\$ 26,000,000	\$ 25,350,000
Mega Millions	\$ 9,100,000	\$ 7,605,000
Other Online	\$ 6,000,000	\$ 6,000,000
Draw Audits	\$ 97,200	\$ 197,200
Unclaimed Prizes	\$ (200,000)	\$ (8,820,389)
Dept. of Health Problem Gambling	\$ 200,000	\$ 200,000
Total Prizes	\$ 301,682,200	\$ 299,517,311

Lottery Revenues
9/28/09-3/31/10
\$270.7 Million



Monthly Revenue Trend
\$270.7 Million

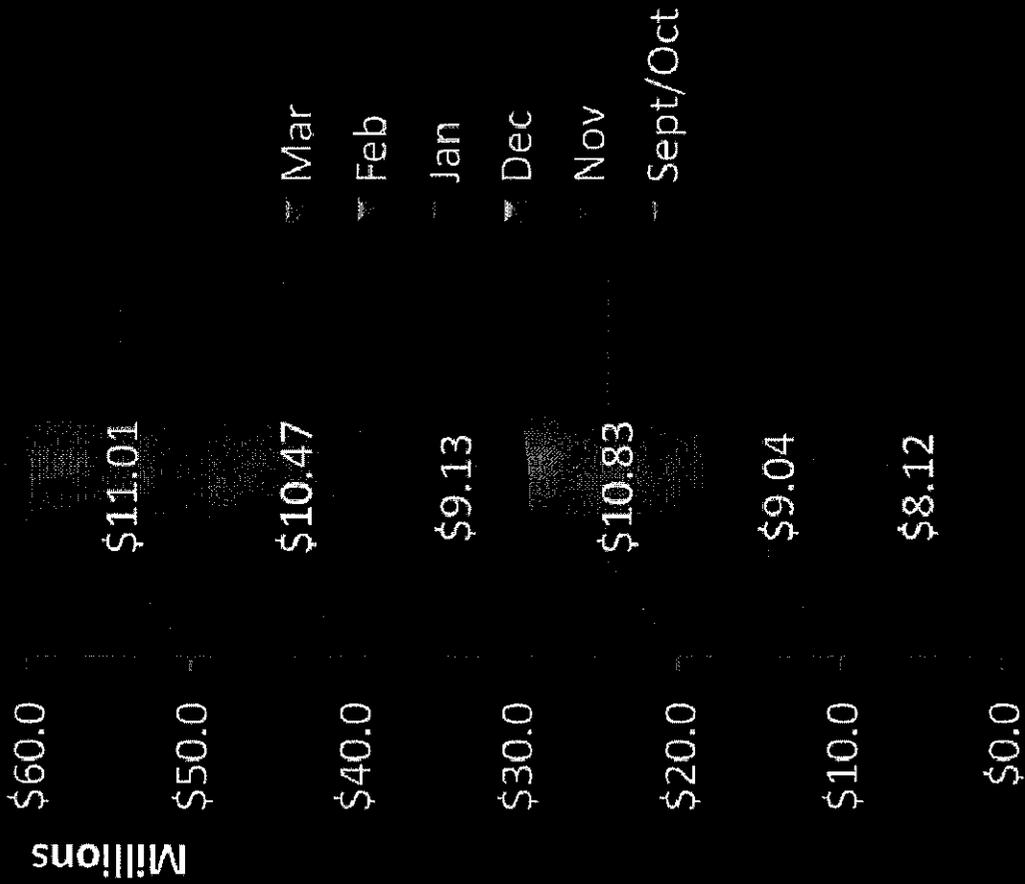


FY '10 Budgeted Revenues
Versus Actual Revenues

Remainder
of FY'10
\$85.1
24%

Actual Thru
3/31/10
\$270.7
76%

Monthly Scholarship Transfers
\$58.6 Million

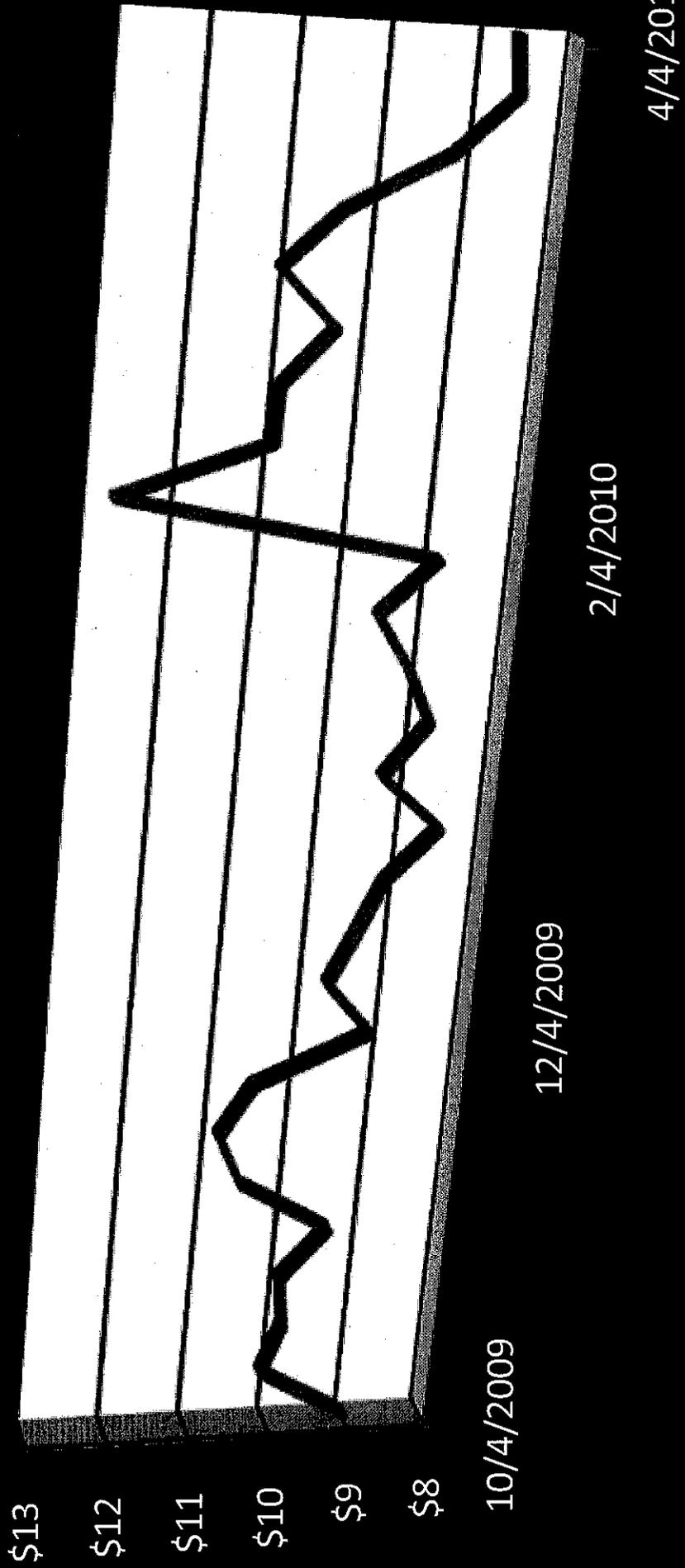


FY'10 Budgeted Transfers
Versus Actual Transfers

Remainder
 Of FY'10
 \$24.5

Transfers
 Thru
 3/31/10
 \$58.6

Weekly Sales Trend Total Sales Through April 4, 2010



Daily Instant Ticket Sales Thru 4/5/10

\$1,244,440

Budgeted Daily Instant Ticket Sales

\$1,062,055

\$2,000,000	9/28/2009
\$1,750,000	10/28/2009
\$1,500,000	11/28/2009
\$1,250,000	12/28/2009
\$1,000,000	1/28/2010
\$750,000	2/28/2010
\$500,000	3/31/2010
\$250,000	
-\$	

Fiscal Year 2011 Budget

Revenues, Costs and Expenses	Reference	Dollars	Percentage
Sales	Schedule 1	\$464,231,000	100.0%
Prizes	Schedule 2	\$299,517,311	64.5%
Retailer Commissions	Schedule 3	\$ 26,112,994	5.6%
Instant & Online Costs	Schedule 3	\$ 19,604,410	4.2%
Administrative & Advertising Costs	Schedule 4	\$ 14,600,000	3.1%
Other Income/Expenses	Schedule 4	\$ 580,200	.1%
Net Proceeds		\$104,976,485	22.6%

Based Upon The Lottery Act, As Amended On February 26, 2010

Fiscal Year 2011 Budget

Sales

Schedule 1

Sales	
Instant tickets	\$ 374,125,000
Cash 3	\$ 10,140,000
Cash 4	\$ 4,056,000
Powerball	\$ 50,700,000
Mega Millions	\$ 15,210,000
Other Online	\$ 10,000,000
Total Sales	\$ 464,231,000

Based Upon The Lottery Act, As Amended On February 26, 2010

Fiscal Year 2011 Budget

Prizes

Schedule 2

Prizes	
Instant tickets	\$ 261,887,500
Cash 3	\$ 5,070,000
Cash 4	\$ 2,028,000
Powerball	\$ 25,350,000
Mega Millions	\$ 7,605,000
Other Online	\$ 6,000,000
Draw Audits	\$ 197,200
Unclaimed Prizes	\$ (8,820,389)
Dept. of Health Problem Gambling	\$ 200,000
Total Prizes	\$ 299,517,311

Based Upon The Lottery Act, As Amended On February 26, 2010

Fiscal Year 2011 Budget Retailer Commissions & On-line Costs

Schedule 3

Commissions & Gaming Costs	
Commissions	
Base	\$ 23,211,550
Cashing	\$ 2,321,155
Selling	\$ 464,231
Other	\$ 116,058
Total Commissions	\$ 26,112,994
Instant & On-line Costs	
Online	\$ 11,373,660
Instant	\$ 8,230,750
Total Instant & Online Costs	\$ 19,604,410

Based Upon The Lottery Act, As Amended On February 26, 2010

Fiscal Year 2011 Budget Administrative & Other Income

Schedule 4

Administrative & Other Income	Reference
Administrative Costs	
Administrative Costs	Schedule 5
Advertising	
Total Administrative Costs	
Other Income/Expenses	
System Fees	
Retailer License Fees	
Interest Income	
ADHE Administrative Costs	
Total Other Income/Expenses	
	\$ 9,600,000
	\$ 5,000,000
	\$ 14,600,000
	\$ 1,092,000
	\$ 75,700
	\$ 137,500
	\$ (725,000)
	\$ 580,200

Based Upon The Lottery Act, As Amended On February 26, 2010

Fiscal Year 2011 Budget

Administrative Expenses

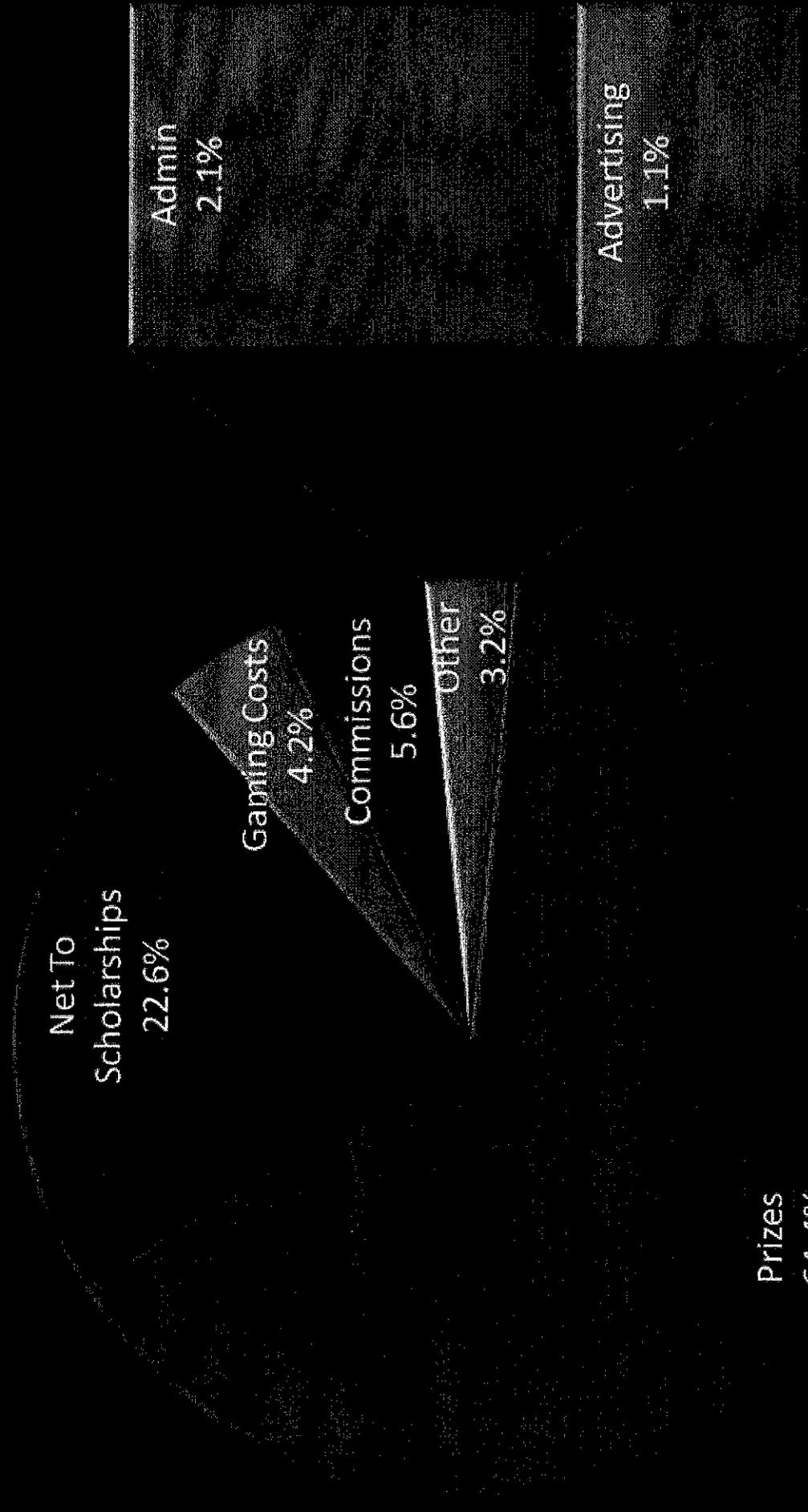
Schedule 5

Administrative Expenses	
Staff Compensation & Benefits	\$ 6,500,000
Audit, Legal and Professional Fees	\$ 316,000
Office Lease and Improvements	\$ 652,000
Depreciation and Equipment Cos	\$ 579,000
Office Administrative Expenses	\$ 712,000
MSR/Staff Travel & Mileage	\$ 390,000
Commission & Executive Travel	\$ 24,000
Dues/Memberships	\$ 90,000
Training/Education	\$ 90,000
Property & Liability Insurance	\$ 105,000
Other Administrative Costs	\$ 142,000
Total Operating Expenses	\$ 9,600,000

Based Upon The Lottery Act, As Amended On February 26, 2010

Fiscal Year 2011 Budget As A Percentage Of Revenues

\$464.8 Million



Arkansas

Scholarship Lottery

**Direct Sales Tax Imposed On Lottery Products
Survey Results And Estimated Budget Considerations**

Sales Tax On Lottery Tickets

Staff surveyed all North American lotteries

- **No state responding imposed a direct sales tax on lottery products.**
- **According to the North American Society of State and Provincial Lotteries (NASPL), none of the 44 member lotteries in North America impose a direct sales tax on lottery products.**

Sales Tax On Lottery Tickets

Real World Experiences

- The only known attempt to add a direct sales tax occurred in July 1989, when the Canadian Province of Saskatchewan imposed a 10% sales tax on lottery products. The tax was repealed in November of the same year when sales decreased by 13.7%.
- The State of Louisiana's Legislative Fiscal Office estimated a 50% decline in sales when they developed the fiscal impact of HB64, a bill to impose a 25% sales tax on lottery products in 1993.

Multi State Lottery Association (MUSL)

Rules

- MUSL policies and procedures require all tickets to be sold at the price set by the Group (PB Rule 11.1).
- The ticket price set by the Group shall include all applicable taxes (PB Rule 11.2).
- The Group rule is “tickets can be purchased for one dollar, including sales tax where mandated” (PB Rule 11.1, 11.2 and 27.1).
- Arkansas’s options:
 - 1-Ask for a Group waiver;
 - 2-Lower the ticket price;
 - 3-Withdraw from MUSL.

Estimated Impact On Scholarships Of Sales Tax

	<u>Fiscal</u> '11 \$	<u>Fiscal</u> '11 %	<u>Tax '11</u> \$	<u>Tax'11</u> %
Sales	\$ 464.2	100%	\$ 345.1	100%
Costs	359.2	77%	277.6	80%
Net Income	\$ 105.0	23%	\$ 67.5	20%
Reduction In Scholarship Funding			\$ 37.5	

4/7/12

"Amounts in \$Millions"

Estimated Net Financial Changes Of Sales Tax

	<u>Fiscal'11</u>	<u>Tax'11</u>	<u>Net Change</u>
Gross Sales	\$ 464.2	\$ 345.1	\$ (119.1)
Prizes	\$ 299.5	\$ 231.9	\$ 67.6
Commissions	26.1	19.4	6.7
Game Cost	19.6	15.6	4.0
Advertising	5.0	3.5	1.5
Payroll & Benefits	6.5	5.5	1.0
Other Admin	3.1	2.0	1.1
Other Income	<u>(.6)</u>	<u>(.3)</u>	<u>(.3)</u>
Total Costs	<u>\$ 359.2</u>	<u>\$ 277.6</u>	<u>\$ 81.6</u>
Net Income	\$ 105.0	\$ 67.5	\$ 37.5

Estimated Impact On Sales Of Sales Tax

<u>Product</u>	<u>Fiscal '11</u>	<u>Tax Effect '11</u>
Instant Tickets	\$ 374.1	\$ 322.9
Cash 3	10.1	8.7
Cash 4	4.1	3.5
Powerball/ Mega Millions	65.9	0
Other Online	10.0	10.0
Total	\$ 464.2	\$ 345.1

4/7/2010

"Amounts in \$Millions"

Estimated Impact On Costs Of Sales Tax

Prizes	\$ 299.5	\$ 231.9
Commissions	26.1	19.4
Game Cont Cost	19.6	15.6
Advertising	5.0	3.5
Payroll & Bene	6.5	5.5
Other Admin	3.1	2.0
Other Income/ Expenses	(.6)	(.3)
Total Costs	\$ 359.2	\$ 277.6