

**MINUTES**

**AGENDA**

**ARKANSAS LOTTERY COMMISSION**

**Wednesday, July 29, 2009**

**1:30 p.m.**

**Nugent Conference Room**

**Harry L. Kendall Mission Center**

**Philander Smith College**

**Trudie Kibbe Reed Drive**

**Little Rock, Arkansas**

Arkansas Lottery Commissioners present were Commissioners Ray Thornton, Chairman; Dianne Lamberth, Vice Chairman; Derrick Smith, Secretary-Treasurer; George Hammons; Ben Pickard; Patty Shipp; Susan Ward-Jones; and Joe White, with Commissioner Mike Malone present by telephone.

Arkansas Scholarship Lottery staff in attendance: Director Ernie Passailaigue; David Barden, Vice President Gaming Operations; Ernestine Middleton, Vice President Administration; Julie Baldrige, Bridgette Frazier, Bishop Woosley, and Sarah Thomas.

Bureau of Legislative Research staff present: Marty Garrity, Assistant Director, Legal Division; Jillian Thayer, BLR Attorney; Kendra Drone, Secretary; and Patrick Ralston, Legislative Oversight Committee staff.

The meeting was called to order by Chairman Thornton, who asked who owns the major lottery vendors and which ones have primary owners out of the United States. He was told that Intralot is owned by a firm in Greece, GTech is owned by a firm in Italy, and Scientific Games is publicly traded.

Minutes, July 22, 2009

The minutes of the July 22, 2009, meeting were reviewed and approved after a motion by Commissioner White and a second by Commissioner Pickard. Chairman Thornton praised the teaching profession and recognized Commissioner Hammons, a professor at Philander Smith College, where the meeting was being held. He then recognized Philander Smith President Walter Kimbrough, who spoke of the importance of scholarships to Philander students and mentioned they had a very high number of students with Pell Grants. He thanked Dr. Hammons as well as Michael Hutchinson with Philander Smith, who worked to set up the meeting for the ALC.

#### RFQ for Quality Assurance Testing

Director Passailaigue recognized Ms. Frazier, who explained the necessity Quality Assurance Testing on the new online system. This testing is to assure the integrity of the gaming system and is in keeping with industry standards for startup operations. This Request for Qualifications sets forth the necessary standards that must be met before a provider can be retained to perform this testing. The Commission inquired how many vendors were capable of this testing, and Ms. Frazier said there was one used by all other lotteries. With a motion by Commissioner Hammons, a second by Commissioner Jones, the Commission approved the RFQ unanimously.

#### Banking RFP Second Addendum

Mr. Woosley explained that the changes were in response to questions by vendors, and although answers had been posted on the web, it would be helpful to attach the addendum. He said the questions were relating to the number of institutions, performance security, and reduction in time so as to get before the Legislative Oversight Committee. By motion of Commissioner Shipp, seconded by Commissioner Thornton, the Banking RFP Second Addendum was approved unanimously, with abstentions by Commissioners White and Lamberth.

Commission Considers and Approves some Cost-Saving Measures Proposed by the Director. Director Passailaigue said that staff was reviewing possible cost savings opportunities that would not impact the lottery's ability to be a world class lottery, but would provide areas of significant savings. He stated that each \$5000 saved would result in additional scholarships being awarded to aid a deserving student. Three of the cost-savings measures outlined at the July 22, 2009 ALC meeting were discussed in greater detail. First, he proposed eliminating certain promotional functions such as sponsorships, related media buys, festivals and other special events from the budget: Projected savings of

approximately \$115,000 would be realized in salaries and benefits annually by leaving the two promotions positions unfilled; \$6,000 annually for overhead such as warehousing and administration; \$175,000 annually by reducing the promotional items budget; \$500,000 annually by declining sponsorships and related media buys, festivals, etc.; and \$10,000 annually and \$50,000 one-time cost for eliminating the purchase of two promotional vehicles.

Commissioner Malone proposed that the question be bifurcated into two separate parts for Commission consideration. The first question was the issue of sponsorships and related activities and the second question was whether to make a determination at a later date on the merits of eliminating the promotional positions and related expenses. The Commission discussed the two issues and the Director informed the Commission that the Advertising RFP included the staffing of promotional events and that the Commission could hold the positions open pending further deliberation. Susan Ward-Jones asked the timetable on the Ad RFP and was told that the bids would be opened Friday. Responding to a question about office space if the promotional staff were hired at later time, Ms. Middleton addressed the issue and said that there would be adequate space available. Commissioner Pickard suggested that the Commission eliminate the sponsorships and \$175,000 of the funding for promotional items and hold off on the other question. Commissioners Malone, White, Ward-Jones, and Lamberth opined that it would be good to continue a discussion in the future about the impact of eliminating the promotions personnel. Upon a motion by Commissioner Pickard, seconded by Commissioner White, the Commission approved eliminating the sponsorship program and reducing \$175,000 from the promotional budget. The Commission delayed action on the whether to eliminate the promotional staff, pending further discussions.

Second, the Director explained the possible cost saving benefits of outsourcing regional claim centers. He acknowledged that the proposal was an out-of-the-box solution to meeting the needs of players in the First, Third, and Fourth Congressional Districts while maximizing funds that could be used to provide additional scholarships. The Director explained all the embedded costs of operating a claims center, including: personnel (six positions at about \$272,000), up fitting (\$289,000 one-time cost in each center which includes bulletproof glass and sheetrock to protect the employees), and administrative and physical overhead (\$170,000 annually). He advised that claim centers would pay claims up to \$200,000, but would keep no cash on hand. He said that Mondays were generally the busiest claim day of the week and that some days there would be fewer than five claimants served. He said

contracting with banks would provide numerous benefits, especially if several branches in different cities were to bid. A local bank would provide both security and convenience and provide the winner with an opportunity to form an affiliation with the bank in which they cashed their winnings. Each participating bank would receive a cashing bonus and the necessary equipment and training to process a winning ticket. It was estimated that the total cashing fee would be \$112,500 per year. This would leave an estimated net savings of \$330,055 annually and \$288,750 one-time savings. Commissioner Lamberth said that bankers with whom she had spoken were not overly enthusiastic about the proposal, but in light of the cost savings, the Commission should explore the possibility that other banks would find it attractive. Commissioner White said that Conway bankers he spoke to were not enthusiastic about the idea but the potential cost savings compel the ALC to see if any banks would be interested in providing the service. Commissioner Thornton said the ALC could always go back to the idea of centers, if necessary. The Director said that he would continue on a dual track, in case the RFP was not acted upon favorably by banks, by looking at possible claim center sites in Springdale, Camden, and Jonesboro. Derrick Smith asked that the language be changed to "not more than 5" banking centers in each district, and a suggestion was made to change the period of bank service to three years. Commissioner Smith moved to amend the three RFPs to meet the above two suggestions, Commissioner Thornton seconded, and the perfecting language was adopted.

At this time, a motion was made by Ben Pickard and seconded by Joe White for the issuance of the three Regional Banking Claims Redemption RFPs, with the addendum. The Commissioners asked that the staff move forward looking at space for claims centers as well. The vote was unanimous to approve the issuance.

Commissioner Lamberth and Commissioner White asked that the record reflect that they had abstained from taking any vote on matters pertaining to the banking RFP.

Third, the Director proposed the use of a Random Number Generator to conduct daily draws to eliminate the costly overhead of building out a studio. He estimated that it may cost up to two million dollars (\$2,000,000) to fully equip and build out a studio. He further advised that animated drawings could be published through a number of media such as web casting or providing live feeds to stations for broadcast. He said because of the nature of the business that, once a studio is built out, it is too cost prohibitive to move to animated drawings. He also stated that live draws are very costly to set up,

support, and maintain. He mentioned the cost of a draw managers as well as the contract cost of television production people and drawing talent. He noted that in several states, including Minnesota and Tennessee, RNG systems were saving states a lot of money and were very well received by the citizens. The Director said that most lotteries were begun before the RNG with animation was available, and that once they had gone down the road to live broadcasts, there was no going back. He recommended that the Commission choose RNG with animation because of the substantial cost savings.

Commissioner Lamberth said she was conflicted by the expectations of lottery players for a live lottery draw and the expectations of our students for scholarships. She asked if the live draw were approved whether the current permanent office space would accommodate a studio. Ms. Middleton said that there would be no space on site for a studio. Commissioner White said that his visit to the Tennessee Lottery offices revealed that the staff and the players liked the RNG system and that he supported the staff recommendation. Commissioner Hammons asked if there was any research to show how this might affect sales. There was discussion relating to the number of individuals who would watch the live broadcasts. Mr. Barden stated the number of actual viewers would not be a large number. The Director said that players only want the winning numbers and are only concerned if they cannot get them. He also said that choosing the RNG system would measurably reduce the agencies administrative cost percentage and was a fiscally prudent action to take. Commissioner Malone asked if the RFQ for Quality Assurance Testing includes testing of the RNG system, and Ms. Frazier said that it does. Commissioner Ward-Jones made and Commissioner Shipp seconded a motion to adopt a RNG with Animation system, which was unanimously approved by the Commission.

#### Instant Ticket Bids Announced

Mr. Woosley announced that the instant ticket bids in response to the RFP had just been opened, and that there were three vendors bidding: Pollard Banknote, Scientific Games, and GTech.

#### Online RFP Intent to Award

Mr. Passailaigue recognized Procurement Director Mr. Woosley, who said that only one bid for the Online RFP had been submitted. The bid was from Intralot and it was opened on July 23rd. Mr. Woosley stated he had reviewed the RFP and found it to meet the necessary thresholds for compliance.

He also stated that the evaluators had determined that the RFP complied with the RFP and that all directions had been followed. He said the Evaluation Team then went through the entire response to determine if the bid met all the applicable requirements. The bid, which filled two very large loose-leaf notebooks, was presented in total and by Executive Summary to the Commissioners. Mr. Passailaigue commented that the percentage of sales in the bid was 2.45% and that he was stunned when he saw the projected startup date of September 28, 2009—in light of the very early goal of October 29, 2009. The Director remarked that this has been a Herculean effort by the vendor and the staff, and that the new launch date would be achievable if the Legislative Oversight Committee is available and meets to review the RFP as quickly as possible.

Commissioner Smith said that he thought some details were missing from the contract, with liquidated damages not yet enumerated and asked whether the Commission would see the final contract. Mr. Woosley reiterated that the RFP was the contract and that liquidated damages were provided in the RFP. Commissioner Thornton said that Commission approval of Intent to Award would set into motion the LOC review. Director Passailaigue commended the Commission for its steadfastness in putting the early startup date in the RFP, thus prompting the response of September 28. He explained that it was difficult for vendors to estimate sales for a new lottery thus vendors are very conservative in their sales projections. He said that in smaller states, the fixed cost percentage for vendors can be much higher. He also said the Arkansas contract has many costs added such as color monitors, TVMs, thermal branding, number of retailers, paper stock, focus groups, and research which are not included in some contracts. He stated that, by law, this response met all the terms and conditions required in the RFP and was a proper bid and the lowest cost proposal. He also commented that the earlier start date of September 28 would have real tangible benefits, since it would result in more scholarship funds for children to attend college.

Commissioner Lamberth commented that receiving just one bid should not give the Commission pause in awarding the contract. She pointed out that the bid was within the estimate and that getting one bid does not mean it was not the best bid. She then moved to approve the Online RFP Intent to Award, with a second from Commissioner Ward-Jones. The motion was adopted. Commissioner Smith also inquired about the call center and was told that would serve as a help-line for retailers. Commissioner Shipp said that she had thoroughly reviewed the LeFleur's table provided and that the bid appears to be equitable. Director Passailaigue reminded the Commission that under current projections, the State

would be losing at least one million (1,000,000) dollars for each day that the lottery start up process is delayed. With that in mind, Commissioner Thornton asked that the Legislative Oversight Committee be notified immediately of the approval action.

#### Audit Committee Report

Commissioner Malone, Chairman of the ALC Audit Committee, reported that the Committee had developed a simple and straightforward position description for the Internal Auditor position. The description was in the packet for the Commissioners' inspection. He asked that the Position Description be posted on the ALC website and that the Bureau of Legislative Research contact the 75 previous applicants to notify them of the new description to allow them to renew, amend, withdraw, or otherwise act to change their previous submission. Commissioner Lamberth moved to accept and publish the Internal Auditor description from the Audit Committee, with a second from Commissioner Hammons. The vote to approve was unanimous.

#### Other Business

Commissioner Pickard said that the Higher Education Committee would like to go forward with a workshop to learn more about the scholarship process. He also stated that the Department of Higher Education agreed to make a presentation at 10 a.m. on the morning of August 12. He estimated that the session would last about 1.5 hours, to be followed by a meal, and then the afternoon Commission meeting.

#### Next Commission Meeting

The time and date of the next Commission meeting was discussed. The Director said that the Instant Ticket evaluation period would start immediately and would last approximately seven days. He pointed out that there was no way to guarantee when the evaluation would be completed, and therefore no way to be sure when staff could present recommendations to the Commission. It was discussed that the Legislative Oversight Committee might be meeting on August 6<sup>th</sup>. Possible meeting dates were discussed without resolution and the Chairman suggested that a meeting time and date be placed on the calendar on Monday or Tuesday, with a likely but not definite meeting on Wednesday or Thursday.

Director Passailaigue commended the Commission for a productive meeting and the successes realized and congratulated them.

There being no further business, the meeting was adjourned.