

MINUTES
ARKANSAS LOTTERY COMMISSION
Wednesday, August 19, 2009
1:30 p.m.
Friday Courtroom
UALR William H. Bowen School of Law
Little Rock, Arkansas

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

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 Patricia Vick. The meeting was called to order by Chairman Thornton, By motion made, seconded, and unanimously carried, the minutes of August 12 were approved.

Chairman Thornton presented an overview of the August 13 meeting of the Legislative Oversight Committee, where he said that the committee completed its review of all three major vendor contracts—for online gaming, instant tickets, and advertising. He thanked Commissioner White for his participation at the meeting, as well as Commissioners Lamberth, Pickard, and Smith for their participation at the August 11 meeting. Commissioner White complimented Director Passailaigue for making it clear to the LOC and those in attendance that the Arkansas Lottery Commission and the Arkansas Scholarship Lottery does not hold the view that any town in Arkansas is unimportant.

Director Passailaigue asked ALC Attorney Ms. Frazier to present information to the Commission on the Retailer Surety Bond Program RFP. Ms. Frazier said that the RFP would request bonding companies to bid on a blanket bond for all retailers in order to protect the Lottery from loss. Chairman Thornton moved for approval of the issuance of an RFP, which was seconded by Commissioner Shipp. Discussion followed regarding the need to further qualify prospective vendors and for a higher bond than \$10,000. Director Passailaigue said he would look at these issues closely. With Commissioner Smith recusing, the Commission voted unanimously to approve the issuance of a Retailer Surety Bond RFP.

Director Passailaigue introduced discussion of the response to the Banking RFP in anticipation of Commission Execution with Anticipation to Award. Commissioners Thornton, Smith, and Malone recused, and the Chair was taken by Vice Chair Lamberth. Mr. Passailaigue said that eight banks had asked questions prior to the bidding, and that six banks had bid. It was noted that the bidders were Bancorp South, Bank of America, Bank of the Ozarks, Centennial Bank, Regions Bank, and US Bank. He asked Mr. Woosley to elaborate on the process. Mr. Woosley began with a disclosure that it had been learned that an ALC employee is the spouse of a member of the Board of Directors of the bank given the highest rating by evaluators. He said that she was working as a licensing specialist, a position completely unrelated to the banking process; that she was not in a position to know about or influence the issue, nor was she in any way involved. He also noted that, should the top-ranked bank be chosen—since that bank had proposed zero cost for their services—the bank would not be classified as a major vendor and therefore an LOC review appeared not to be required of the Commission

decision should they decide for the top-ranked bank. He added that, under normal procurement rules, the posting of an Anticipation of Award would be posted to the ALC website, followed by a 14-day protest period. Vice Chair Lamberth asked Mr. Woosley if he and Director Passailaigue were prepared to come forth with a winning bid. Mr. Woosley responded that it had been determined that Bank of the Ozarks had scored higher than the other banks, with a total score of 92.33, and that based on the total score, along with costs, it was the staff's recommendation that the Commission approve an Anticipation of Award to Bank of the Ozarks. A motion was made by Commissioner White, seconded by Commissioner Pickard, and the Commission voted unanimously to approve an Anticipation of Award to Bank of the Ozarks for Comprehensive Banking Services.

Director Passailaigue recognized Procurement Director Mr. Woosley to bring forward information for the review of the Quality Assurance Testing RFQ Response leading to Execution with Intent to Award. Mr. Woosley said that this testing is a very specialized area and that very few vendors can offer the services. He said that there were three responses to the RFP and that all three met the criteria. He said that after the traditional evaluation process and based on the highest number of points being awarded to Batelle, the staff was recommending that Batelle be awarded the contract. Since the testing process is accomplished in phases, the contract will not meet the \$75,000 threshold for status as a Major Vendor and appears not to require LOC review, he said. Upon a motion by Commissioner Malone, seconded by Commissioner White, the Commission voted unanimously in favor of Execution with Intent to Award the QAT contract to Batelle.

Director Passailaigue then recognized Ms. Frazier to bring forward the Permanent Promulgation of ALC Practice and Procedure. She noted that in early July, the Commission approved emergency rules of practice and procedure, and that these emergency rules would be in effect only 120 days. At this time, she said, she recommended adoption of permanent rules. By motion of Commissioner Hammons, seconded by Commissioner Smith, the Permanent Promulgation of the ALC Rules of Practice and Procedure was approved unanimously.

Chairman Thornton remarked on the fact that no bids were received for the RFPs for Banking Redemption Centers and complimented the Lottery staff on creatively seeking ways to save public dollars. Director Passailaigue said that the goal was to provide Claims Center services at a lower public cost and also provide the private sector with a measure of profit. He said that the reasons the banks did not bid are not known, but anecdotally it appears that they were wary of facing a process that—since it is not fully in place in other states—amounted to a trial run. He said it was worth a try and that he believed the staff acquitted itself in trying to do the best job for the people of Arkansas. He said the ASL was ready with Plan B, having already found prospective Claims Center sites in Jonesboro and Springdale and planning a site search within 10 days in the Camden/El Dorado/Warren area, where a decision on a site would take into consideration rental cost, convenience to claimants, and the cost of retrofitting.

Commissioner Smith, Chairman of the Legal Committee, reported that the Committee met immediately before the Commission meeting. He said that the Committee moved forward with a discussion of additional director's insurance needs of the Commission beyond that provided by the state, and that Ms. Frazier was to draft a solicitation of coverage. He said they had begun the discussion of whether there is the need for the

assistance of private counsel. He also said that they looked at the permanent promulgation of the several sets of rules, noting that when the public comment period ends for each of them, they will be brought to the full Commission. The Legal Committee report was received by the Commission and approved with no objection.

Chairman Thornton announced that the Administrative, Finance and Audit Committee would begin meeting immediately following adjournment and that the report from that Committee would be appended to the minutes, which report follows:

The ALC Administrative, Finance, and Audit Committee met on August 19, 2009, immediately following adjournment of the meeting of the full Commission at the UA System headquarters. Committee members discussed the process to be followed to review the applicants and the method whereby those emerging from the review would be presented to the Commission. Commissioner Smith then moved to go into Executive Session, seconded by Commissioner White, and unanimously approved. The Committee members ended the executive session at 4:40 p.m. They reported that the Committee, having reviewed all applications received to date, recommends seven of the candidates to the full Commission to be interviewed. Chairman Malone stated that any Commissioner may add other names to be considered and/or interviewed. The names of the seven persons recommended for interview are Adam Motherwell, Monica Reap, Ricky Lee Quattlebaum, Terry Todd, Michael Hyde, Alan Minor, and Patrick Patton.

Director Passailaigue said that he wanted to bring to the attention of the Commission that the ASL will be licensing its first 200 retailers, probably by the end of this week or early the following week. He said the retailers will receive contracts absent the bonding requirements, which will be settled at a later date. He said that an additional 600 retail applications were in process, and that an additional 1100 have requested and been sent information. He said that the hiring of 20 Marketing and Sales Representatives is being completed quickly, and that Intralot has three staff members in Arkansas who will also be recruiting retailers, noting that databases of prospective retailers and the status of each—licensed, licensing underway, application requested but not submitted, or no application requested—had been developed and were being utilized in the targeted retailer recruitment programs. He remarked on the great relationship the ASL has with the Arkansas Oil Marketers Association, noting that the group has scheduled presentations on two dates in the next two weeks to dozens of prospective retailers. He said that he expects ASL to meet its goal for having at least 1500 licensed retailers by launch date September 28. He recognized the representatives from Intralot and Scientific Games who were present.

In other business, the Problem Gaming Program was discussed. Mr. Barden noted that meetings have been set up with the Department of Health and the Department of Human Services. He said that the national problem gambling hotline would be utilized until the DOH implements an Arkansas hotline. Ms. Frazier said that the Department of Health, the agency specified in the Arkansas Scholarship Lottery Act to develop the program, does not administer behavioral addiction programs, but that the Department of Human Services does so. She said that her understanding was that DOH will issue a memorandum of understanding to DHS, and DHS will take on the responsibility. She said that her research indicated that Bingo, Oaklawn, and Southland are not required by law to have a problem gambling system in place under law, and therefore the lottery will be funding this program for all such programs in Arkansas. Mr. Barden noted that several lottery states have no program. Director Passailaigue said that, in addition to the program, the ASL can control its advertising and the presentation of the lottery in

order to minimize the the possibility that players will perceive the lottery as a means of changing their financial status. He said that the way the law was set up, the \$200,000 for problem gambling was to come from the unclaimed prize fund, and that the fund is will have no proceeds until six months after the lottery is launched. Therefore, he said, budget authority to use the existing loan for the program would need to be sought from the Legislative Oversight Committee. Commissioner Malone suggested that the UAMS psychiatric program of behavioral addiction as well as Surgeon General Joe Thompson would be great resources for discussions of innovative and effective ways to approach the issue. Ms. Frazier added that Tim Taylor from the Office of Addiction Services might also be included, and Commissioner Malone agreed.

Mr. Passailaigue announced that preliminary launch plans were being developed. He said that on September 28, four scratchoff tickets would be introduced, one \$1 ticket, two \$2 tickets, and one \$5 ticket. He said work was underway on the creative side for these tickets. He added that the Powerball launch was planned for October 31.

He thanked the Commissioners who have visited the ASL offices and declared that the lottery staff was filling out with a great group of people, with 20 new marketing and sales representatives coming aboard soon. He said that he had promised that the Arkansas Lottery would look like the face of Arkansas and that he hoped the Commissioners would come and see their great employees. Ms. Middleton said that preliminary moving had already begun to relocate into the permanent headquarters at Union Plaza on the first, third, and fourteenth floors. She said that IT and Security staff would be located on the third floor, with the Claims Center on the first floor, and the other offices on the 14th floor. She said some furniture had already been purchased from state M&R and from Office Depot, and furniture had also been ordered from a minority-owned office furniture supplier. Commissioner Thornton complimented Commissioner Lamberth on taking responsibility and achieving great success in the search for temporary and permanent headquarters. Commissioner Malone noted that the first Commission meeting was held on May 5 and thus the first hundred days had just passed, with much accomplished. Commissioner Malone asked that a resolution be prepared to thank the Bureau of Legislative Research for their support and assistance. Mr. Passailaigue added that there were many who richly deserved to be recognized for their work and help, including Jill Thayer, Marty Garrity, Estella Smith, and Kendra Drone, the Legislative Oversight Committee and Patrick Ralston of their staff, the State Police, Paul Louthian and the Department of Finance and Administration, Bill Stovall of the House of Representatives, and many others. Commissioner Lamberth said recognition also should be given to the University of Arkansas System, UALR, Philander Smith, and ASU-Beebe for providing space during the first 100 days.

It was noted that the UA System was holding their Boardroom for all Wednesdays through September 23, except for September 16. The date for the next meeting was discussed, but no final plans were made.

There being no further business, the meeting was adjourned.