

MINUTES
ARKANSAS LOTTERY COMMISSION
Wednesday, March 9, 2011
1:00 p.m.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Lamberth called the meeting to order. In attendance also were Commissioners Smith, Pickard, Campbell, Hammons, and White, and Commissioners Malone and Ward-Jones by conference call. The ASL was represented by Director Passailaigue, Internal Auditor Hyde, David Barden, Ernestine Middleton, Bishop Woosley, Julie Baldrige, Patricia Vick, Lance Huey, Whitnie Hall, and Valerie Basham.

Chairman Lamberth requested approval of the minutes of the February 9, 2011, meeting, and after motion of Commissioner White, seconded by Commissioner Pickard, the minutes were approved unanimously.

Chairman Lamberth introduced a special guest, Ms. Linda Saferin, a Mena native and now of Atlanta, co-founder of MDI Entertainment, LLC, with her husband Steve. MDI was acquired by Scientific Games and is now a wholly-owned subsidiary of the ASL's instant ticket vendor. MDI is the world leader in providing game and promotional entertainment for use by the worldwide lottery industry. Established in 1986, MDI began marketing licensed games to lotteries in 1996 and since has built a licensed property portfolio of extraordinarily popular licensed, patented or otherwise copyrighted properties for which MDI holds exclusive lottery licensing rights, including some of the world's best known and most loved symbols of entertainment and pop culture, such as Harley Davidson and Monopoly. Ms. Saferin greeted the Commission and attendees and complimented her home state on the quality and accomplishments of the ASL.

Director Passailaigue presented his report and the budget for Fiscal Year 2012 to the Commission (included in file). He noted that the ASL has grossed about \$3.9 Million in unclaimed prizes this Fiscal Year, and referenced periods of enhanced sales during high multi-state jackpots and introduction of new instant tickets. He outlined future possibilities in lottery products, including a World Game that may be composed of lotteries from Canada, France, the United States, the United Kingdom, and Australia; a premium game in the United States, *Decades of Dollars*, and a \$20 instant game in Arkansas. He said he hoped to see a growth of draw games as a percentage of sales with a possible 80/20 mix. Commissioner Lamberth endorsed the idea of providing a free *Cash 3* or *Cash 4* ticket with the purchase of other tickets as a way to introduce players to these two games. Discussion followed. The Director said the top factor in meeting the staff's sales goals is to increase the number of licensed retailers. He said that management was looking at ways to increase the number, including a reduction of the weekly communication charge to \$5. He also said plans included a monthly 50/50 Raffle and discussed having all Ticket Vending Machines (TVM) deployed by the end of Fiscal Year 2012, noting that recent negative publicity had created some reluctance among potential new retailers to deploy the TVMs. Commissioner Pickard's motion to approve the Director's FY2012 budget was seconded by Commissioner White. Commissioner Smith inquired whether the Commission was required to adopt a budget. It was stated that a budget must be submitted to the Legislative Oversight Committee (LOC) by March 15 and that such budget can be amended later. Commissioner Smith asked that a statement be attached that the budget is based on

current law and an expectation of the adoption of pending LOC-produced legislation. The Commission unanimously adopted Commissioner Pickard's motion to approve.

Director Passailaigue presented to the Commission the policies and responses (included in file) to the Office of Personnel Management letter and said copies would be sent to Commissioners Ward-Jones, Shipp, and Malone. Commissioner Hammons said that he would call a meeting of the Personnel Committee before the next meeting to review the letter.

Mr. Woosley presented the *Decades of Dollars* contract. He acknowledged that it could not be implemented without legislative passage of changes to the current law regarding unclaimed prizes and asked the Commission to approve implementation, contingent upon passage of the bill. It was pointed out that Virginia, Kentucky and Georgia were currently offering the game. The price point of *Decades of Dollars* is \$2 and its prize percentage cost is approximately 54.2%. Commissioner White asked for more time to review the contract, although he said he was likely to support it. Commissioner Smith asked about operational procedures and Mr. Barden said they were in place. He also pointed out that it would take up to two months to print the play slips, therefore Commission approval in advance would be sufficient assurance for the vendor to move forward on printing. Commissioner Ward-Jones asked about the legislative prospects for the bill, and Mr. Woosley pointed out that the change was sponsored by the entire Legislative Oversight Committee. The Commissioners reached consensus to further discuss the contract in a conference call Commission meeting on Friday, March 11, at 10 a.m.

Mr. Woosley presented a legislative report noting that 29 bills had been filed that name or affect the Lottery. He gave a summary of many of those. The Legislature is anticipated to adjourn in April.

The Commission considered changes to the Retailer Rules presented by the staff. The changes were as follows: reduction of the weekly retailer communication fee to \$5, from \$10; the removal of the clause referring to "the first operational year" in Paragraph 4.2; and the issuance of licenses on a two-year basis, previously a one-year basis, for the same licensing fee. Following discussion, and by motion of Commissioner Smith, seconded by Commissioner Hammons, to begin the process to amend the Retailer Rules to reflect the above changes, the Commission voted unanimously to do so.

Next, David Barden introduced Mr. Edgar Kully, a representative of Crestwood Associates, a market research firm, who presented the results of a survey of lottery players in Arkansas (included in file). He reported that 42 percent of Arkansas adults responded that they had participated in the Arkansas lottery since the first tickets were sold in September 2009. He said the most popular games are the instant or "scratch" games. He noted that 77 percent of lottery participants support the idea of lottery proceeds going to a good cause, 89 percent of all players are 25 years or older and 74 percent of players come from households with an income of \$25,000 or greater. He said that only 2 percent of the players had negative opinions about the lottery.

Director Passailaigue discussed the staff recommendation to introduce a \$20 price point instant ticket in May. The Director stated this would broaden the demographic profile of the instant ticket player and raise additional monies to fund scholarships. Discussion followed and there were no objections noted.

Internal Auditor Hyde presented an extensive Audit report (included in file). He said that in following up on the Legislative Audit report, and that five of 13 findings were completely cleared, 19 of 30 objectives had been met, and work was continuing.

The Commission next accepted by motion of Commissioner Campbell, seconded by Commissioner Ward-Jones, the terms of compensatory time repayment offered in writing (included in file) by Mr. Barden and Ms. Middleton.

Commissioner Malone said that he would soon schedule a meeting of the Audit Committee to review the Three-Year Audit Plan.

Commissioner Lamberth announced her intention to appoint three new members of the Retailer Advisory Board—Mallory Nimocks of Forrest City, Nimocks Oil Company, to a term expiring at the end of 2012; Shane Patterson of West Memphis, Flash Markets, to a term expiring at the end of 2012; and Bill Waite of Fayetteville, Dickson Street Liquor, to fill the term of Sarah Diebold, whose term expires at the end of 2011—and to reappoint members Terri Brewer of Plumerville, Kroger, whose second term expires in 2012; Connie Townsley of Batesville, White River Petroleum/T-Mart, whose second term expires in 2012; and Joe Dan Yee, RAB Chairman, of Lake Village, Yee's Foodland, whose second term expires in 2012. These appointments, by motion of Commissioner White, seconded by Commissioner Campbell, were unanimously confirmed by the Commission.

The Chair next asked all Commissioners to submit information for the ineligible player list as it is now outlined under a new Arkansas law. She then convened an Executive Session to continue the evaluation for merit pay. Upon emerging from Executive Session shortly thereafter, the Chair announced that the Commission had discussed merit pay increases for its two direct employees, the Director and the Internal Auditor. She said that Director Passailaigue had asked not to be considered for a merit increase. By motion of Commissioner Malone, seconded by Commissioner Pickard, the Commission authorized the maximum merit pay increase for the Internal Auditor.

The Commission then adjourned, with an emergency meeting planned to discuss the *Decades of Dollars* contract on Friday, March 11, at 10 a.m., and with the next regular meeting scheduled for May 11.