

RECORD

RETAIL & MARKETING COMMITTEE

2.19.2014, 9:30 a.m., Little Rock Headquarters

The meeting was called to order by Commissioner Pierce, who noted the presence of members Commissioners Scott, Campbell, and Frazier. Also present were ALC Chairman Hammons, and Commissioners Lamberth, Engstrom, and Baldrige. Staff members present included Director Woosley, Internal Auditor Brown, Chief Fiscal Officer Fetzer, Gaming Director Smith, Block, Stebbins, Bunten, Huey, Craig, Vick, and others.

The first item on the agenda was approval of the record of the committee meeting held on December 2, 2013. Commissioner Frazier made a motion to approve the record and Commissioner Campbell seconded the motion. The motion passed unanimously.

The next item on the agenda was to determine whether it was appropriate and prudent to seek legislative approval for lottery tickets to be purchased by use of debit cards. Commissioner Pierce reminded the committee that the subject had been discussed several months previously and the committee had provided to Director Woosley a list of questions for the staff to research based on those discussions. He noted that Chief Legal Counsel Block had provided an Executive Summary (in file).

Commissioner Pierce recognized Director Woosley to lead the discussion of debit cards. Director Woosley gave a brief history of the debit card debate, stating that at Lottery start-up, the suggestion of debit cards was not well received. He said that several retailer groups had been opposed to it. The subject was brought before the Legislative Oversight Committee and discussed in that arena very briefly. There appeared to be some confusion about credit card versus debit card transactional fees, and the discussion just went away. During that period, ALC asked NASPL (North American Association of State and Provincial Lotteries) to perform an association-wide debit card survey, which ALC recently updated (in file) due to the renewed interest in the subject. Director Woosley reported that when the survey was originally performed, 33 state lotteries allowed debit cards, but that now 37 states allowed them. Only nine state lotteries still did not accept the use of debit card purchases, and some of those were currently working to change that rule. The reason for the renewed interest in debit cards was that many state lotteries were moving toward the selling of tickets online. Director Woosley gave as examples Missouri and Minnesota lotteries, both of which were now selling lottery tickets via ATMs at the gas pump, and he cited Illinois and Georgia lotteries, which were now selling tickets over the internet. He added that ten of the states selling tickets through debit card allowed the retailer to determine whether or not it wanted to accept the card. He stated that, from the Directorial standpoint and from a sales division standpoint, if ALC allowed debit card purchases, it needed to be expressly stated that [ALC] was requesting that the Commission allow lottery retailers to accept debit cards, but that it would not be mandatory. The retailers could set a limit or mandatory purchase, or they could choose whether or not they wanted to participate. Director Woosley said that one of

the NASPL survey questions was whether any of the state lotteries had seen an increase in revenue. The vast majority responded that they could not tell whether or not it affected sales. He said he had discussed that issue with Gaming Director Smith, who told him that it was not possible to track individual debit card ticket sale purchases. He noted that in one response on the survey it was observed that men and women over the age of 55 tended to carry cash and that people under that age tended to use debit cards.

Director Woosley stated that he was not opposed to the idea of increasing the retailer commission, adding that there had been an in-house discussion regarding raising the commission as a way of motivating lottery retailers. Director Woosley reiterated that ALC was not attempting credit card approval.

Commissioner Lamberth asked if it would be possible for the commission to authorize higher retailer commissions and if it is possible, had any research been done regarding how much the commission would have to be raised to make up any losses they might incur due to accepting debit cards.

Commissioner Pierce stated that the rule of thumb regarding retailer commissions was that for every 10% in debit card lottery ticket purchases, the retailer would need to increase his lottery ticket sales by 6% to make the same commission.

Commissioner Frazier asked if the “Mom and Pop” stores which didn’t allow lottery ticket debit card purchases would start losing business to the larger chain stores which *did* allow debit card purchases. Director Woosley stated that it was a concern to retailers, but it could also be considered competition.

Commissioner Pierce said that he took comfort in the fact that 75% of lotteries already allowed debit card purchasing of lottery tickets. He added that he saw it as an opportunity to add a lottery ticket purchase on top of a purchase of a bag of Doritos and a bottle of Mountain Dew. He stated that he did believe there were some concerns that needed to be thought through. He gave as an example a person buying a cash winning ticket on Friday afternoon using a debit card, then returning to the store that evening to cash in the winning ticket, which would suddenly become a transaction in which the retailer had given the player cash from his drawer for a purchase that would take several days to clear the bank. He added that ALC needed to be careful to consider what cash flow impacts the decision might have on lottery retailers. He said that ALC would need to be thoughtful in finding answers to these concerns, and would have to consider if it could impact whether or not retailers decided to sell lottery tickets.

Commissioner Frazier asked Sales Director Stebbins what the retailers were telling him regarding debit cards. Mr. Stebbins responded that when that question was posed, the chains were receptive due to familiarity with the process in other states, and that the most objections were heard from the smaller stores because they didn’t realize the volume discounts that the chains did. He added that letters received from lottery

retailers and responses from focus groups have all indicated retailer concerns. Mr. Stebbins suggested perhaps increasing retailer commissions to offset the added expense because ALC was continually striving to grow the retailer network. He said that the Oil Marketers Association had been very vocal in their opposition, and that anything ALC did would need to be thoroughly researched and needed to be done in a collaborative manner with the constituents who would most be affected by the decision.

Director Woosley said retailers were our customers and needed to be satisfied, but that he had never seen a player focus group that didn't comment that debit cards needed to be initiated immediately.

Commissioner Frazier asked if staff could compile a reasonable plan of how [raising the] commission would run, so that ALC could offer the Mom and Pop stores enough to make debit cards work for them.

Commissioner Campbell asked if the debit card question had yet been posed to lottery retailers. Mr. Stebbins responded that staff was currently working on a research study. He said that the retailer commission minimum by statute was 5% and that ALC could conceivably increase that to 6%, 7%, or 8%.

Chairman Hammons asked Mr. Stebbins if, in the research study, ALC asked more detailed questions than just whether or not they would accept debit cards and Mr. Stebbins said that yes, there were follow-up questions. He said he would supply the committee with the study once it was completed.

Director Woosley said that he had one last point to make, from a personal standpoint, that whenever he went to a conference or seminar, he was always the one lottery representative who said, "We can't do that." He said he knew there were objections and philosophical issues, but that [technology] was not going to wait on [ALC]. He said that there had been discussion for the last year and a half about a new national game, which would most probably have an online element, and ALC might not be able to participate. He added that he was trying to keep [ALC] relevant.

Commissioner Pierce stated that the committee needed to continue the conversation regarding debit cards into the March meeting and have Mr. Stebbins come with a little more information.

Commissioner Baldrige asked Director Woosley about the timeline of debit card approval. Director Woosley responded that the issue would have to be addressed during the next full legislative session, assuming that the definition of cash, which was not currently in the [lottery] statute, did not include debit cards. Commissioner Baldrige then asked when ALC would need to begin initial conversations with legislators. Director Woosley recommended that they begin by October.

Director Woosley said that the intent was to sit down with groups such as the Oil Markets Association and Kum and Go, and have a discussion that [ALC] needed to get [the use of debit card purchases] done , but that[ALC] wanted to retain all its retailers and make everyone happy. Director Woosley said that he would get everyone's opinion and bring it to the Commission.

Commissioner Pierce asked Mr. Stebbins if information would be provided by next month and Mr. Stebbins responded that he would definitely be providing some data regarding reaction to debit cards under varying scenarios.

Director Woosley said he would be bringing the bonding issue, which would also require a statutory change, to the committee for the March meeting.

There being no further business, the meeting was adjourned.