

## MINUTES

### **ARKANSAS LOTTERY COMMISSION**

**Wednesday, November 19, 2014**

**11:00 a.m.**

**Taylor Room**

**William F. Rogers Conference Center**

**University of the Ozarks**

**Clarksville, Arkansas**

#### **Call to Order**

Chairman Campbell called the meeting to order. Commissioners Baldrige, Lamberth, Frazier, Scott and Streett were also present. Commissioners Hammons, Engstrom and Pierce were present via conference call. ALC employees Director Woosley and Internal Auditor Brown were present, as were staff members Block, M. Smith, Ralston, Bunten, Backes, Vick, Fetzer, Stebbins, Basham, Craig, J. Smith, and others.

#### **Opening Remarks**

University of the Ozarks President Richard Dunsworth welcomed the Arkansas Lottery Commissioners to the campus and introduced them to two UO students. Ryan Smith, a senior majoring in Business Management and Marketing and Rob Elder, a senior majoring in Mathematics and Secondary Education, discussed their academic goals and how the Arkansas Academic Challenge Scholarship has made it easier to achieve them.

#### **Approval of Minutes**

The first order of business was the approval of the minutes of the meeting held on October 15, 2014. Commissioner Baldrige made a motion to accept the minutes, Commissioner Scott seconded the motion, and the motion passed unanimously.

#### **Report from the Internal Auditor**

Mr. Brown was recognized to give his monthly Internal Audit Update (in file). Mr. Brown reported that Project No. 5, an audit of ALC's Records Retention, was in progress. Audit Project No. 12, Lottery Facilities Security and Controls, was complete and a report was issued on October 27, 2014. One finding was reported: keys issued to ALC employees have never been inventoried, including the number of keys and the areas within ALC to which the keys provide access. Additional follow-up is necessary to consider the observation cleared. Field work began for Audit Project No. 24, Cash Management & Receipts, during the week of November 10 and is ongoing. Project No. 31, an audit of the Unclaimed Prize Fund, was complete and a report issued on October 24, 2014. No observations or recommendations were reported. Audit Project No. 42, Building and Facility Maintenance, was substantially complete, with the report issuance expected within 10 business days.

#### **Report from the Director**

Director Woosley was recognized to give his report (in file). He noted that online ticket sales were down and instant ticket sales were up compared to October 2013, a continuation

of the trend he reported last month. Online ticket sales for October 2014 were down \$348,171 compared to October 2013, and instant tickets were up \$38,199 compared to the same period last year. In reviewing the October 2014 Actual vs. Budget, sales in both instant and online ticket sales were a little less than anticipated. Overall ticket sales were down \$1.3 Million from the budgeted amount. On the Year-to-Date Comparative Income Statement, total revenues were down \$6.5 Million compared to last year, which he attributed to the continuing decline in Powerball ticket sales. Director Woosley said that transfers to ADHE were currently \$1.34 Million under budget.

Director Woosley presented a GTech offer for the instant ticket property, Bejeweled™. He reminded Commissioners of the clause in the (amended) contract with SGI which gives ALC the right to obtain printing services from any third party for a game if SGI does not have the printing capacity or they do not have the ability to obtain the rights to the third party's intellectual property. He stated that the Bejeweled™ ticket, which has a price point of \$3, would launch in April, 2015. The original licensing fee offer was 2% of potential sales; GTech recently updated the offer to 1% of potential sales. Commissioner Engstrom asked that ALC track the performance of any games that are sourced outside of the normal contract, stating that the data would be useful as part of the scoring process during ALC's consideration of a new instant ticket vendor contract. Commissioner Engstrom further requested that the Internal Auditor incorporate tracking of external vendor performance into his audit plan. **Commissioner Baldrige made a motion to approve the GTech Bejeweled™ licensing fee agreement and the motion was seconded by Commissioner Campbell. The motion passed unanimously.**

Director Woosley asked that the Commission consider a proposal recently offered by MDI (a Scientific Games company). MDI offered, as a goodwill gesture, to reduce the rate the Lottery pays for funding its Properties Plus loyalty program from 1.5% of instant ticket prize structures to 1.35% of instant ticket prize structures. This rate reduction will result in an increase of approximately \$340,000 which will be prizes which can be won by players in the game as opposed to funding points for prizes redeemed in the Players Club. Additionally, there will be no reduction in services related to the proposed change. **Commissioner Lamberth made a motion to accept MDI's proposal to reduce the rate ALC pays for funding its Properties Plus loyalty program from 1.5% of instant ticket prize structures to 1.35% of instant prize structures. Commissioner Baldrige seconded the motion, and the motion passed unanimously. The proposal would be presented to the Arkansas Lottery Commission Legislative Oversight Committee for review at the next ALCLOC meeting.**

Director Woosley presented to the Commission a proposal by Intralot for an extension of the online gaming contract, which is due to expire in August 2016. He said that the Intralot proposal of November 13, 2014 (in file) was presented to him as the company's "best/firm" offer. The proposed terms included a rate reduction to 2.17% of instant and online ticket sales, which would be a reduction of .28% from the current rate of 2.45% that ALC pays for instant and online ticket sales. The reduction in costs would be approximately 11.3%, which would translate to \$1.1 to \$1.2 Million savings each year of the contract extension. In addition to the rate reduction, Intralot is offering a \$100,000 marketing allowance on a one-time basis.

Commissioner Engstrom said that when ALC proposed a rate of 1.95%, he considered the 2.17% rate a step toward closing a gap, rather than the final offer. He added that he was not in favor of accepting 2.17%; he would prefer to wait and see if Intralot was willing to reconsider. He reminded the Commission that the original [online contract] rate of 2.45% was based on high risk and start-up costs.

Director Woosley asked that the Commission take into consideration the timing involved if ALC decided to issue an RFP for online gaming services. December would be the drop-dead period for decision making: The RFP would have to be issued in April of 2015 because conversion of services [from one vendor to another] takes about a year. Conversion would not only take a long time, but it could impact ALC financially due to interruptions in service and because of the potential loss of retailers.

After discussion, Commissioner Lamberth asked the Commission whether or not it, as a body, was comfortable enough with the belief that Intralot's offer of 2.17% was in fact its final offer to be able to vote [on the contract extension].

Chairman Campbell recognized Intralot representative Steve Beck to address the Commission. He stated that although he could not speak for Intralot CEO Tom Little, he believed the door remained open for continued negotiations. He said that ALC requested a best and final offer; at that point in the discussion, Intralot's understanding was that ALC's proposed rate was 2.15%. Consequently, Intralot countered with 2.17%. Commissioner Engstrom stated there was never a 2.15% offer from ALC. After it was determined that there was probably some miscommunication, Mr. Beck repeated that Intralot most likely would be willing to continue negotiating the contract extension. Chairman Campbell asked Mr. Beck to contact Mr. Little to see if negotiations could continue and Mr. Beck responded in the affirmative.

Commissioner Lamberth requested that, if both parties were able to clarify the terms of the proposal and a tentative agreement was reached, the Chairman call an ALC meeting via conference call to try and reach a decision prior to the December 5 ALCLOC meeting. The Chairman polled the Commission and it was determined that all would be available for a conference call, possibly on this coming Monday.

Director Woosley stated that he had one remaining item for business, which was to request the Commission's approval to withdraw the amount of \$218,164.93 from Unclaimed Prizes to pay a MUSL assessment. He explained that the Monopoly Millionaires' Club top prize was won in the 3<sup>rd</sup> draw; the total amount of prizes had not yet been funded and each state participating in the game was assessed by MUSL to cover the costs of the prize payout. **Commissioner Lamberth made a motion to approve the withdrawal of \$218,164.93 out of the Unclaimed Prizes account for payment of the MUSL assessment. Commissioner Baldrige seconded the motion, and the motion passed without dissent.**

### **Reports from ALC Committees**

**Personnel Committee:** Commissioner Scott reported that the Committee met for consideration of two issues. The first was a request from the Director to use a vacant Claims Assistant position as a trainee slot for a Licensing Specialist position. The Licensing Manager will be retiring in early 2015 and another Licensing Specialist will be relocating to NE Arkansas as soon as he can find employment in the area. Since those two employees constitute two-thirds of the Licensing Department, it is imperative that ALC have a replacement trained and ready to go as soon as a vacant position becomes available. The request was unanimously approved by the Committee. He asked that the Commission accept the Committee report in the form of a motion. **Commissioner Lamberth seconded the motion to use a vacant Claims Assistant position as a trainee slot for a Licensing Specialist position and the motion was approved unanimously.**

Commissioner Scott also reported that the Committee unanimously approved a change to the ALC Employee Handbook. The change to the *Employment Status* section of the handbook better defines how a part-time employee accrues holiday, annual and sick leave. He asked that the Commission accept his report in the form of a motion. **Commissioner Frazier seconded the motion to accept a change to the *Employment Status* section of the Employee Handbook, and the motion passed unanimously.**

**Vendor Committee:** Nothing to report.

**Retail and Marketing Committee:** Nothing to report.

**Higher Education Committee:** Nothing to report.

**Audit and Legal Committee:** Nothing to report.

### **Other Business/Next Meeting Date**

Chairman Campbell stated that the next Commission meeting would be held on **January 21, 2015.**

There being no further business, the meeting was adjourned.