

MINUTES

ARKANSAS LOTTERY COMMISSION

Wednesday, August 20, 2014

10:00 a.m.

124 West Capitol Avenue, Third Floor
Little Rock, Arkansas

Call to Order

Chairman Campbell called the meeting to order. Commissioners Baldrige, Hammons, Frazier, Engstrom, Streett and Scott were also present. Staff members present included Director Bishop Woosley, Matt Brown, Jean Block, Jerry Fetzer, Robert Stebbins, Joanna Buntin, Angela Meredith, Patti Vick, Maria Craig, Terry Williams, Valerie Basham, and Jeremy Smith.

Approval of Minutes

The first order of business was the approval of the minutes of the meetings held on June 25 and June 27, 2014. Commissioner Scott made a motion to accept the minutes of the meeting held on June 25, 2014, Commissioner Frazier seconded the motion and the motion passed unanimously. Commissioner Baldrige made a motion to accept the minutes of the meeting held on June 27, 2014, Commissioner Hammons seconded the motion, and the motion passed unanimously.

Arkansas Academic Challenge Scholarship Update

Arkansas Department of Higher Education Director Shane Broadway reported that there are approximately 34,700 Arkansas Academic Challenge Scholarship awardees for this coming academic year, and that ADHE projects that \$103 Million will be spent this year to fund the scholarships. He provided a preliminary FY2015 report (in file) which outlined Academic Challenge traditional student (public school) applications by county.

Chairman Campbell asked Mr. Broadway if there was some way for their administrative expenses to be cut, especially since the Lottery funds that expense. Mr. Broadway said that the General Assembly had been asked to take the money out of General Revenue, but it was not funded. He added that the costs are trending lower, with the current fiscal year expenses going down from \$794,000 to \$751,000. Commissioner Scott asked Mr. Broadway if he was very concerned about the Lottery's lower projected revenues for FY 2015. Mr. Broadway said that net proceeds would have to dip below \$75 Million. He said that all scholarships, including those for nontraditional students, are fully funded.

Chairman Campbell thanked Mr. Broadway for his report and he **asked that ADHE get together with the ALC Education Committee to brainstorm about ways to lower the [scholarship] administrative expenses.**

Report from the Internal Auditor

Mr. Brown was recognized to give his monthly Internal Audit Update (in file). Mr. Brown said that five audits had been completed and final reports issued (in file). Observations were noted for each, with follow-up audit procedures necessary for the Online Games and Gaming System Audit and for the Payroll and Leave Audit. The FY 2015 Audit Plan includes follow-up audit procedures for the Human Resources Processes Follow-Up Procedures Audit.

Report from the Director

Director Woosley was recognized to give his report (in file). Online ticket sales for July 2014 were down considerably from July 2013, mostly because there had been a large Powerball jackpot at about this time last year. In reviewing July 2014 Actual vs. Budget, the promising news was that instant ticket sales were just .5% less than anticipated. Online ticket sales were 18.9% less than budgeted, mostly because there was a steady run of smaller jackpots for the online games, negatively impacting sales. However, net proceeds were \$390,572 more than expected, and the ADHE transfer analysis showed net proceeds \$615,936 more than budgeted for the month.

Director Woosley gave a brief breakdown of product sales. He pointed out that the sales of \$20 instant tickets were 10.21% lower this year, adding that the Lottery was slowly reducing ticket inventory for that price range. He said that there was a corresponding rise in the sales of \$5 and \$10 instant tickets, 3.83% and 12.95% respectively. He said that was good news because the \$5 and \$10 tickets were more profitable to the Lottery.

He reported that Powerball is in close to crisis mode and the MUSL Marketing and Development Committee plans on meeting in early September to consider changes. They will bring ideas to the NASPL 2014 Conference, which will be held in late September. He said that there is great discontent with the game and a great deal of concern because the lower sales are directly affecting lotteries throughout the U.S. ALC was down about \$12 Million in Powerball sales this year, which translated to lowered net proceeds of about \$5.5 Million.

Director Woosley reminded the Commission that there was a clause in the (amended) contract with SGI which gave ALC the right to obtain printing services from any third party for a game if SGI did not have the printing capacity or they did not have the ability to obtain the rights to the third party's intellectual property. He recently asked two other instant ticket vendors, Pollard Banknote and GTech, to meet with ALC to pitch new games under the provisions of the contract. He said his reasoning to extend the invitations was because (a) competition is good and (b) ALC would have access to three different catalogs with a greater selection of games from which to choose. He said that they were determining pricing and ALC is considering the feasibility [of choosing to use the instant ticket printing services of third party vendors]. There would be further negotiation, and if the terms were favorable, he would bring proposals before the Commission for consideration.

Consideration of FY 2015 Revised Budget

Director Woosley stated that after the budget had been reviewed by the LOC on June 30, a Special Legislative Session was called. During the Special Session, the State Legislature temporarily barred the Lottery from deploying monitor games until March 2015 at the earliest. The Director said that the other budgetary concern was that there have been several changes to the games ALC will be joining this fiscal year [Lucky for Life and Monopoly Millionaires' Club], which makes it difficult to predict how the games will affect revenue. ALC Management made the decision to remove from the budget anything related to monitor games, including revenue, sales and commissions. The result was that online revenues were decreased by \$12.5 Million, expenses decreased by \$8.1 Million, Retailer Commissions decreased by around \$700,000, gaming contract costs decreased by about \$600,000, total expenses reduced by \$9.4 Million, unclaimed prizes decreased by \$45,000, and income before transfers decreased by about \$3 Million. The revised FY2015 budget is now \$78.2 Million, down from \$81.2 Million. He added that he hoped that the Lottery would perform better [than \$78.2 Million], but that management wanted to be very conservative because of the uncertainty [regarding the new games and how they affect revenue]. **Commissioner Frazier made a motion to accept the revised FY 2015 budget and to forward it to the LOC for review. Commissioner Engstrom seconded the motion and the motion passed unanimously.**

Advertising Presentation

Joanna Buntin, ALC Advertising and Marketing Director, welcomed staff members from Mangan Holcomb Partners and The Mitchell Communications Group, the two advertising agencies recently awarded Supplemental Advertising, Marketing and Media contracts. She said they had been selected to work with ALC on the development of a new branding campaign, to help create a campaign for ALC's 5th anniversary, and to execute strategies for underperforming markets, with emphasis on NW and NE Arkansas. She introduced Chip Culpepper, Chief Creative Officer for Mangan Holcomb and Brett Carrey, General Manager/Senior Vice President of the Mitchell Communications Group. Mr. Culpepper gave a presentation (in file) and overview on creative and media strategy for September and October gaming and beneficiary ads. Mr. Carrey gave an overview of the new University program.

Reports from ALC Committees

Audit and Legal Committee: Commissioner Streett stated that this morning (August 20) the Audit and Legal Committee approved a motion that ALC consider the possibility of closing the three regional claim centers and develop a plan for withdrawing from them. Commissioner Scott made a **substitute motion that the ALC close the three regional claim centers when their leases expire.** Commissioner Baldrige seconded the substitute motion. Commissioners Scott, Engstrom, Baldrige, Streett, and Campbell voted in favor of the substitute motion, and Commissioners Frazier and Hammons voted against the motion. **The substitute motion that ALC close the three regional claim centers when their leases expire passed by a vote of five to two.**

Commissioner Streett said that the Committee had also voted to research the feasibility of a prize and marketing delivery platform/promotional vehicle, which he now brought before the Commission for consideration. Commissioner Scott seconded the motion. **The motion that ALC research the feasibility of a prize and marketing delivery platform/promotional vehicle passed without dissent.**

Commissioner Streett reported that on July 16, the Audit & Legal Committee voted to approve in-house draw game audits, which would be performed by the ALC Internal Audit Division. He made a motion on behalf of the committee for ALC to adopt the committee's recommendation and Commissioner Hammons seconded the motion. **The motion to approve in-house draw game audits passed unanimously.** Internal Auditor Brown advised the Commission that details of how to proceed with the audits were still being worked out and some items might have to go through the Personnel and/or the Audit & Legal Committees once the particulars were known.

Personnel Committee: Commissioner Scott made a motion on behalf of the Personnel Committee that ALC management notify the Committee prior to filling any vacant position, including a time frame for filling the position. Commissioner Hammons asked if the intent of the motion was that ALC management consult with the Personnel Committee, or to consult with individual members of the Personnel Committee, and if any further action was required after the notification. It was clarified that the intent was that all Personnel Committee members should be *notified* of any vacant positions, but that there was no further action required, unless a committee member had a concern. Commissioner Engstrom seconded the motion. **The motion that ALC management notify members of the Personnel Committee prior to filling any vacant position, including a time frame for filling the position, passed unanimously.**

Vendor Committee: Nothing to report.

Retail and Marketing Committee: Nothing to report.

Higher Education Committee: Commissioner Frazier reported that the annual donations from ALC vendors Intralot and Scientific Games to Upward Bound recipients would be presented during the TRIO Achievers Banquet being held at the Little Rock Marriott Hotel on October 5.

Other Business

Commissioner Frazier stated that Director Woosley had proposed that Commission meetings be held every other month, and he asked that the subject be discussed at the next meeting. He added that the subject had come up before but had not yet been resolved.

Meeting Date

Chairman Campbell announced the Commission meeting dates for the next three months: September 17, October 15, and November 19. He added that because the LOC was meeting in September and possibly October, with those meeting dates not yet known, the ALC meeting dates were subject to change.

There being no further business, the meeting was adjourned.