

MINUTES
ARKANSAS LOTTERY COMMISSION
Monday, May 21, 2012
1:00 P.M.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Dianne Lamberth called the meeting to order. Commissioners Ben Pickard, Mike Malone, George Hammons, Smokey Campbell, Bruce Engstrom, Steve Faris, Raymond Frazier and Patty Shipp were also present. Staff members present included Director Bishop Woosley, Julie Baldrige, Jerry Fetzer, Patti Vick, Whitnie Hall, Valerie Basham, Robert Stebbins, Terry Williams and Joanna Bunten. Derrick Smith, of Mitchell Williams law firm, was also in attendance.

The first order of business was consideration of the draft minutes of the April 11, 2012, meeting. Commissioner Campbell made a motion to approve the minutes, seconded by Commissioner Faris, and they were approved without dissent.

Next, the Commission opened the discussion of the Internal Auditor position. Chairman Lamberth stated that Internal Auditor Michael Hyde had submitted his resignation, to become effective at 5:00 p.m. on June 22, 2012. Commissioner Engstrom made a motion to accept Mr. Hyde's resignation and this was seconded by Commissioner Frazier. The motion passed unanimously. Commissioner Lamberth asked the Commissioners to review their copies of the Internal Auditor job description that each had been provided. She stated that this copy had been used as the job announcement the last time the position was advertised, and asked that the Commissioners discuss suggestions or changes, if any. Commissioner Hammons stated that there was a line under "minimum experience" which read that the applicant must have "gaming or lottery management experience or relevant substitute." He suggested removing the words "relevant substitute" and changing it to read, "Preferred gaming or lottery management experience." Commissioners agreed by consensus with this change and had no other recommendations. Commissioner Engstrom asked if the Internal Auditor hired his staff. Commissioner Lamberth stated that Whitnie Hall had been hired by Mr. Hyde. Commissioner Malone added that during a time in which Mr. Hyde had been given additional responsibilities due to the Legislative Audit, the ALC Audit and Legal Committee had given him the authority to hire additional help, either a full-time staff member or contractor.

Chairman Lamberth stated that, with all Commissioners agreed on the job announcement, the next decision to be made was whether the job posting should be an internal search and then an open search, or open search only. She suggested that, due to time constraints, the Commission forego the internal search, post the position as an open search, and encourage ALC employees to apply in the open search. She said that, with the Commissioners' permission, she would like to authorize the HR department to immediately advertise the position. There was a consensus to do so. The Chairman broached a side issue regarding Whitnie Hall's leave requests. Director Woosley said he had visited with the Chair and the Chair of the Audit/Legal Committee and it was agreed that during the period of the Internal Auditor's absence, he would approve her leave requests and other administrative documents, without any

supervisory input, to avoid external audit issues. Commissioner Engstrom asked that Director Woosley keep the Commission informed so they could keep track of her leave time, etc.

The next item on the agenda was the report from the ALC Director.

Director Woosley began by saying that he had received notice from DFA that the Governor had authorized merit increases, to be in lump sum payments. He asked the Commission to approve the payments and allow him to proceed with the merit increases for ALC staff, under the same guidelines as set forth in the DFA memorandum. He added that the staff had performed ably through quite a lot during the past year, and he could not think of a more deserving group in light of all the transitions and upheaval. Commissioner Frazier moved to allow the merit pay increases and Commissioner Faris seconded the motion. The motion passed unanimously.

In beginning his report (included in file), Director Woosley pointed out that in comparing April 2012 with April 2011, instant ticket sales were up around 7.1% and online ticket sales were down. He said with Terry Williams, ALC Controller, they determined that the Million Dollar Raffle ended in April 2011, with heavy sales during the last few weeks; most of the variation was based on that. Referring to the Comparative Income Statement Year-to-Date slide, Commissioner Engstrom asked what the increase of General and Administrative Expense could be attributed to. The Director said that it was actually a decrease. Referring to the same slide, Commissioner Hammons asked why the Gaming Contract Costs had increased. The Director explained that with the increase in ticket sales, contract costs rise because they are a percentage of sales.

Commissioner Malone asked if the increase in budgeted versus actual spending in advertising was related to something seasonal, and if there was a conscious decision to do a little less. The Director said the advertising comparison reflected the invoices that come in and are paid during the month as opposed to advertising actually produced during the month. Jerry Fetzer added that to come up with the figure for advertising, the previous director added up the total amount spent during the year and divided it by 12. Next year, he said, the budget will reflect what is actually expected to be spent each month.

Commissioner Malone stated that his concern was that he wanted to ensure the lottery was spending enough in advertising. Director Woosley assured the Commission that he and Joanna Buntin have met several times during the last few months and have started focusing on how the lottery is targeting its media purchases.

Commissioner Engstrom asked if there was still consideration of employing a financial analyst. The Director stated that the Chief Fiscal Officer was using an accountant at this point to begin putting together databases. Commissioner Engstrom asked if there was a law that prevented an agency from spending more on than was annually budgeted. Director Woosley said that was true for appropriated agencies and that the ALC doesn't fall into that category. Commissioner Engstrom asked what controls the Commission had over the budget. The Director responded that the Commission approves the budget and the agency can present the Commissioners whatever type of reporting they desire. He added that the agency does not intend to exceed the budgetary line items.

Director Woosley gave an update on the April Decades of Dollars (DoD) promotion. He said there was a 10.6% increase in DoD sales, and that games without a rolling jackpot were down on average 9.6% for the month; he estimated that the running of the promotion increased DoD sales by nearly \$45,000 for the month.

Director Woosley introduced to the Commission an idea for a “Power Package Promotion” Designed to promote the online games, as well as a way to introduce a new game, the Natural State Jackpot. The concept, as he explained, would be to bundle lottery products and offer a value deal to lottery players. The retailers would press one key and tickets for each of a set of pre-defined games would print. The games would include Powerball, Mega Millions, Decades of Dollars and Natural State Jackpot. The Natural State Jackpot would be considered a “free” ticket; the price would be a \$6.00 value for the cost of \$5.00. He said there were two different thoughts on ways to pay for the advertising of the promotion: (1) use the unclaimed prize fund, or (2) budget the promotion expense as a line item. He asked the Commission how it would like him to proceed.

Commissioner Engstrom stated his concern was whether the money was better spent by giving it to an advertising agency or on scholarships. He added that someone would have to prove to him that spending money on advertising would produce more scholarships. Director Woosley stated that it would not be considered an advertising expense, but rather, putting more money back into the prize pool. He further explained that it would be considered an unclaimed prize, and that money would be given back to a player. Commissioner Malone stated that he considered it a marketing expense, whether it came out of the unclaimed prizes, or whether it was budgeted. He said he was more interested in the concept as an innovative idea to try and raise online sales, and he was glad it was being considered. He said he was comfortable with the approach, no matter how it was funded. Commissioner Hammons asked if there was a mechanism to see what evidence there was that the sales were increased. Director Woosley said there probably was, but that it would be reflected at the end of the year through an increase in the net proceeds. He added that most states have some sort of promotional expense, no matter how it is funded. Commissioner Malone asked if would affect the proposed 2013 budget and Director Woosley replied that it would. Commissioner Malone said that he would be willing to make a motion to approve, at the appropriate time, because [the lottery] needs to improve the online ticket sales. Commissioner Shipp stated that the lottery needed to “move the needle” on the online sales.

Director Woosley, by request of CFO Fetzer, called to the Commissioners’ attention Fetzer’s desire to point out financial details regarding Decades of Dollars. He said that for the first nine months there had been no grand prize winner, but that since March, there have been six grand prize winners. ALC’s share of the liability has been approximately \$1.5 million. ALC had been withholding \$100,000 each month in reserve for DoD, and as of February, ALC had approximately \$900,000, but those funds were depleted. He stated that ALC net proceeds for April were approximately \$400,000 lower than they should have been because of that game.

Director Woosley also presented a comparative annual budget, FY 2013 to FY 2012. Commissioner Shipp proposed that the Commission accept the 2013 budget, amended to include an item change of \$250,000 for promotional expenses, and this was seconded by Commissioner Malone and passed unanimously.

Director Woosley said there were two other issues he wanted to discuss briefly: On the \$20 ticket lawsuit, he stated that the ALC answer was due June 1. He also said he had been advised by Patrick Ralston that the LOC was going to begin preliminary discussion of possible items from the Lottery Commission for proposed legislative changes. He added that in the past, police powers and debit cards had been discussed, and he asked the Commission’s advice on items they might want him to bring forward to the LOC for consideration of legislative changes. Discussion followed, and Director Woosley reminded the Commissioners that his bringing the

subject of police powers before the Commission was just to be given the authority to discuss the subject should it be brought up by the LOC. Commissioner Campbell made a motion to grant authority to discuss the subject before the LOC, seconded by Commissioner Pickard, and the motion passed. There was a discussion about the feasibility of debit cards and whether or not to discuss the topic with the LOC. It was decided to bring it up at a later time.

Director Woosley introduced several ALC marketing and sales representatives in the audience: ASL Regional Sales Managers Mark Hearn and Lisa Tater, and ASL Marketing Sales Representatives Linda Chambers, Ali Mustafa, Fred Dunavant, Sam Tatom, Molly Harris, Rhonda Harris, Charles Freeman, Dean Heard and Robert Smith.

Director Woosley introduced the next agenda item by stating that the ASL Sales Director had put out a report recently which the Director felt was very informative. Mr. Stebbins presented his report to the Commission (report in file).

The next item on the agenda was the report on the proposed ALC Minority Business Certification Program, presented by Ivan Hudson. Director Woosley stated that Commissioner Hammons and Commissioner Frazier had asked that the agency create an agency program to supplement the Arkansas Economic Development Commission (ADEC) certification program. Mr. Hudson was tasked with developing and implementing the program (report in file). Commissioner Engstrom asked that the CFO audit the ALC certification program. Commissioner Engstrom moved to implement the program as proposed, seconded by Commissioner Shipp. The motion carried with no dissent.

Next on the agenda were the reports from ALC committees. ALC Personnel Committee Chairman George Hammons said that in a meeting May 7, the Committee approved a request from the Director to announce the open positions of Chief Legal Counsel and Licensing Manager. Commissioner Shipp said that there was a meeting of the Line of Succession subcommittee on May 4 and recommended that an official position on the matter of line of succession be put in place at such time as all Commissioners hold a six-year term, with all Commissioners having the same level of seniority. The subcommittee agreed there was no need for a formal motion.

Commissioner Lamberth stated that prior to moving on to the final agenda items, she wanted to close her term as ALC Chair with a few thoughts and observations. She said that as the ALC continued to grow and evolve, it was evident that it continued to make great strides. It exceeded all predictions or expectations, she noted, and said that this could not have been accomplished without the wonderful employees. She added that without the governance of the Commissioners, those sitting around the table and past Commissioners, such accomplishments could not have been achieved. She also thanked the lottery vendors and retailer partners, as well as the LOC and ADHE. She added that she was continually energized by the loyalty and dedication of staff members, especially Bishop Woosley and Julie Baldrige, who fortified her many times and gave her continual support. She said she was inspired by the expressions of gratitude that the Commission and lottery employees have received from the students and she again thanked the Commission for the honor of serving for two years. She then opened the floor for nomination of Commission Chair.

Commissioner Faris congratulated Chairman Lamberth for the outstanding job she had done during her tenure. He nominated Ben Pickard to serve as ALC Chairman. The nomination was seconded by Commissioner Malone and was approved unanimously. Commissioner Pickard

thanked Ms. Lamberth for her work and also thanked the Honorable Ray Thornton for his guidance and work at the beginning. .

Commissioner Campbell nominated Steve Faris for Vice Chairman and this was seconded by Commissioner Pickard. Commissioner Engstrom nominated George Hammons. Commissioner Faris stepped aside in deference to Dr. Hammons and asked that his nomination be withdrawn, adding that he would like to second Commissioner Hammons' nomination. The motion to elect Commissioner Hammons as Vice Chair passed unanimously. Commissioner Malone nominated Steve Faris to serve as Commission Secretary-Treasurer. The motion was seconded by Commissioner Frazier and passed unanimously.

Commissioner Lamberth turned the meeting over to Chairman Pickard. He asked that prior to the next Commission meeting the Commissioners provide Ms. Baldrige with their top two choices of committees to serve on. He asked that if anyone had suggestions regarding adding or combining committees, to please provide those suggestions to Ms. Baldrige as well. He asked Ms. Baldrige to provide the Commissioners with a list of the committees.

Under Other Business, Commissioner Malone reminded Commission members of his suggestion to take Commission meetings "on the road" and reiterated his invitation for the Commission to visit the western part of the state. Chairman Pickard assured him that Ms. Baldrige was actively working on that to make it happen.

Chairman Pickard announced that Monday, June 18, at 10:30 a.m. was the next scheduled meeting, adding that he would like to continue setting the meetings for the third Monday of each month, and for all Commissioners to try and stick with that schedule.

In closing, Director Woosley, on behalf of the ALC staff, thanked Commissioner Lamberth for her service.

There being no further business on the agenda, the meeting was adjourned.