

MINUTES
ARKANSAS LOTTERY COMMISSION
Monday, June 18, 2012
10:00 P.M.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Ben Pickard called the meeting to order. Commissioners Dianne Lamberth, Steve Faris, Bruce Engstrom, Raymond Frazier, Mike Malone, and Patty Shipp were present with Commissioners George Hammons, Smokey Campbell and Bruce Engstrom on conference call. A number of staff members were present including Director Bishop Woosley, Julie Baldrige, Jerry Fetzer, Mike Smith, Patti Vick, Valerie Basham, Robert Stebbins, Lance Huey, Jeremy Smith and Joanna Buntten. Derrick Smith, of Mitchell Williams law firm, was also in attendance as outside legal counsel.

The first order of business was consideration of the draft minutes of the May 21, 2012, meeting. Commissioner Frazier made a motion to approve the minutes, seconded by Commissioner Shipp, and they were approved without dissent.

Next, Chairman Pickard paid tribute to Immediate Past Chair Dianne Lamberth, commending her for coordinating the search for the permanent offices and serving two terms as Chairman during start up, praising her leadership. He said that while all Commissioners had served diligently, Commissioner Lamberth had been the hardest worker in the entire group. He presented her with a framed commemorative gift for her service.

Commissioner Pickard said that during his tenure as Chairman, he will do his best to follow parliamentary procedure and that he will not, as a matter of personal preference, make or second motions and will not vote unless to break a tie. He then presented each Commissioner with a copy of a Board Members Handbook provided by the Office of the Attorney General, for their review. Several Commissioners discussed their desire to have an attorney from the AG's office present a brief overview of their role and responsibilities. By motion of Steve Faris, seconded by Patty Shipp, and approved without dissent, the Commission formalized a request that the Director set up such a briefing.

The Director followed with his monthly presentation (included in file). He noted slower sales and a slightly lower transfer in May 2012 compared to the preceding May and explained that May 2011 saw the launch of the first \$20 ticket, with brisk sales prompted by the novelty. He pointed out, however, that in the first 11 months of FY 2012, sales were at \$460 Million, compared to \$464 Million for the entire 12 months of FY 2011. He said he was hopeful that the fiscal year transfer would surpass the FY 2011 gross sales by \$10 Million as well as surpassing the \$94.2 Million transferred in FY 2011.

He presented the proposal of Intralot to swap out the 400 monitors called for in the current contract, trading them for 600 Product Advertising Displays (PADs), enough to stock about one-third of the current retailers. The PADs are 17-inch monitors that sit on the counter and flash messages about different lottery products and jackpots. He used as an example the current promotion with the prize of a pontoon boat. He said the monitors would also be used for

reminders of scholarship deadlines as well as Amber and Silver Alerts. He asked the Commissioners for permission to make the exchange and implement these monitors. He said decisions on the sale of external advertising on the monitors were premature and said he would return to ask the Commission about selling ads should it appear prudent at a later date. He said implementation would be in or shortly after December 2012. By motion of Commissioner Lamberth, seconded by Commissioner Faris, the implementation of the PADs was approved without dissent. Commissioner Malone recalled discussions in the past about point-of-sale advertising and said that this was a positive move.

The Director next brought forth a proposal related to the Scientific Games contract, noting there was an agreement on the table to add definitions of the Cooperative Services Program, the Properties Plus Program, Linked Games, In Game and Out of Game merchandise, and a \$2 Million cash payment from SGI to the ALC, which would go directly to scholarships and be paid prior to June 30. In addition, the exclusivity clause would be relaxed somewhat, and there would be changes to the pricing proposal in areas such as Properties Plus and Licensed Games along with a \$200,000 merchandise credit. He said that he had sent the proposal to Derrick Smith, outside legal counsel, for review. Fees for linked games were also clarified, he said. Further, the Director said that he had worked with SGI to achieve a reduction in their percentage of gross sales fee of 1.92% to 1.81%, which he said he expected to net \$430,000 to \$440,000 in savings to the Lottery each year for the life of the contract. The Director expressed his appreciation of SGI officials for coming to the table and negotiating for many weeks to achieve this proposal. Discussion followed regarding whether the Commission could delegate the power to the Director to enter into contracts. Outside legal counsel, Derrick Smith, noted that the Commission had the authority to delegate its authority to the Director to enter into contracts. He recommended that the Commission take an actual vote on the terms. Mr. Smith further advised that the terms proposed were sufficiently definite that the Commission could vote to approve the contract at the meeting and that the terms that were cited as not being finalized were merely a language change that was not substantial nor would prevent a vote on the terms as set forth in the packet. Commissioner Faris made a motion, seconded by Commissioner Malone, that the amendment to the SGI instant ticket contract be approved. Commissioner Hammons asked that minutes reflect his position that a Commissioner should not be asked to vote on an actual document unless the Commissioner has a copy of that document to review. Discussion followed about whether procurement should be delegated. A vote was called on Commissioner Faris' motion, which was approved with dissent from Commissioners Hammons and Engstrom.

Commissioner Malone thanked Director Woosley for his work in initiating and completing these complicated and successful negotiations. Commissioner Pickard noted that a Legislative Oversight Committee review the next day would allow the changes to move forward.

Chairman Pickard announced the membership for each of the four ALC Committees: Audit and Legal; Personnel; Higher Education; and Retail, and asked that each group meet soon to elect officers for the next year. He noted that discussions were underway on whether to form a fifth Committee on policy and process, a likely agenda item at the next meeting, and encouraged any interested Commissioner to add service on that Committee to their existing commitments.

The Chairman called the Commission into Executive Session for the purpose of discussing the position of Internal Auditor. At the end of the Session, the Commission reconvened and by motion of Commissioner Lamberth, seconded by Commissioner Engstrom, approved without dissent a plan to interview applicants Donald Matthew Brown, Carol Snay and Jerry Fetzer on Friday, June 22, beginning at 1:30 p.m.

By motion of Commissioner Engstrom, seconded by Commissioner Frazier, the Commission approved without dissent accepting the most recent evaluation of Internal Auditor Michael Hyde to entitle him to a 3 per cent merit bonus; and a 3 per cent merit bonus to Director Woosley based on a just-completed evaluation.

Chairman Pickard announced tentative dates for upcoming meetings as follows:

Monday, July 30, in Little Rock, at 10:30 a.m., with a presentation by ADHE Director Shane Broadway;

Monday, August 20, in Little Rock;

Monday, September 17 at 1:30 p.m. in Fayetteville on the University of Arkansas campus.

He said there would be no other meetings in 2012 away from headquarters but that there is an invitation for a meeting at Arkansas State University in Jonesboro after the new year.

Commissioner Pickard said that he had had an opportunity to visit with members of the staff and commended them for the ongoing excellence of their work. Director Woosley reported that the Lottery had received an award for its CAFR completed in November. It was announced that Director Bishop Woosley has been chosen by Arkansas Business magazine as one of its annual "40 Under 40" honorees.

There being no further business, the meeting was adjourned.