

MINUTES
ARKANSAS LOTTERY COMMISSION
Monday, September 19, 2011
9:00 a.m.
ALC Conference Room
Third Floor
124 West Capitol Avenue
Little Rock, Arkansas

Chairman Lamberth called the meeting to order. In attendance also were Commissioners Malone, Pickard, Campbell, Engstrom, Faris, Frazier, and Shipp. Commissioner Hammons joined the meeting by teleconference. The ASL was represented by Director Passailaigue, Internal Auditor Hyde, David Barden, Ernestine Middleton, Bishop Woosley, Julie Baldrige, Patricia Vick, Whitnie Hall, Lance Huey and Jeremy Smith.

Chairman Lamberth began the meeting by thanking everyone for allowing the Commission to change its meeting time to accommodate those who wished to attend the 1:00 p.m. memorial service for Maria Haley. She stated the agenda had been somewhat revised and that the meeting would be abbreviated, foregoing committee reports due to the time constraint.

The first order of business was consideration of the draft minutes of the August 15, 2011, meeting. By a motion of Commissioner Malone to approve and seconded by Commissioner Frazier, the minutes were approved without dissent.

Director Passailaigue presented his monthly report (included in file). He began by comparing the income statements of August FY 2010 and August FY 2011. He noted that in August 2011, revenues were up 9.1% in instant ticket sales and 2.9% in online ticket sales. Costs and expenses increased by 8.9%. Retailer application, fidelity and service fees were down over 53% compared to August FY 2010 because those fees had been reduced from \$10.00 to \$5.00. There was a large decrease in interest income due to a \$60 million transfer to ADHE. He stated that the good news was that Lottery sales were up \$2.76 million over August 2010, but said the bad news was that the increase was in instant tickets.

Comparing costs and expenses, this August (FY 2011) there was an additional \$1.745 million paid out in prizes and an additional \$172,000 in retailer commissions. He added that gaming contract costs were up compared to August FY 2010 because sales were up. Another noted cost was an accrued (monthly) payment of \$109,440 to ADHE, compared to \$20,000 in August 2010. Total costs and expenses were up \$2.5 million. Total net income was up approximately \$265,000 compared to August 2010.

Commissioner Engstrom noted that revenues on instant and online tickets were up \$2.8 million, but that gaming contract expense was up 15% to 20%, and asked if this was correct. Director Passailaigue explained that the online sales contract called for payment of a percentage of *total* sales, and the instant ticket sales contract called for the total percentage of *instant ticket sales*, so that when instant tickets sales were up so much, there would be an anomaly of capturing it at 2.45% on Intralot. If the reverse was true, i.e., if online ticket sales were up, it would not be captured and would not show up on the income statement.

Regarding the Actual versus Budget Comparison Income Statement for August 2011, Director Passailaigue reported that total revenues for August 2011 were \$38 million, up approximately \$3.3 million compared to August 2010. Although these were positive revenues, the bulk was in instant ticket sales. Online ticket sales were budgeted at \$6.3 million and actual sales were \$5.9 million, a percentage variance of -5.7%. Prizes and commissions were up and gaming contract costs were a little more than budgeted. Prizes were 66.3% of total actual revenue compared to 64.6% budgeted.

Commissioner Malone asked if the category, "services provided by other agencies" was similar to advertising in that there would be larger payments on certain months because of one-time [annual] payments. Director Passailaigue said that he would have to look at what had been budgeted, but that the biggest bulk was ADHE [which is now accrued on a monthly basis].

Director Passailaigue addressed the issue of instant ticket sales, which remain at 84% of total sales, by far the highest in the country. He stated that the challenge is to get people to switch their preference from instant to online tickets. He cited as an example Decades of Dollars, currently earning \$5.2 million (annualized), which is off considerably from the budgeted \$9 million. He added that among Arkansas and its sister lotteries Georgia, Kentucky and Virginia, there hasn't been a [Decades of Dollars] jackpot winner, which is statistically very difficult to understand; there should have been at least a couple of grand prize winners, he said. Having no winner has an effect on sales, i.e., if there are no winners, there is no winner awareness. He stated that there is a consistent pattern of sale, but it is not up to expectations. However, he continued, the participating states are focused and considering changes of the matrix, the percentage of pay-out, a change in the odds, etc. He further stressed that with the Powerball matrix change coming January 15, 2012, the issues with Decades of Dollars would need to be addressed soon after the first of 2012.

Director Passailaigue advised that the lottery look at introducing some sort of 5-digit game in Arkansas, adding that the lottery has to first look at what sort of jackpot to offer a state population of 2.9 million. He stated that in order for a game to succeed, it would have to have a niche, adding that Decades of Dollars was an example of a "niche game". He cited the South Carolina Cash 5 game, which has a jackpot of \$100,000, with winnings of up to \$500,000, with the multiplier. He again stressed that some time within the current fiscal year, the lottery would have to look at the performance of Decades of Dollars. He added that Lotto South, which is similar to Decades of Dollars, was another game to consider, but that it would depend on where the lottery felt it could go with its own unique Arkansas game. Director Passailaigue discussed focus group feedback, stating that there is a perception [among Arkansans] that people who win jackpots come from somewhere else, adding that the positive thing about the new 50/50 raffle is that people who play here, win here. He added that the same could be true for Arkansas having its own instant game, the essential question being, "What game do we construct to get a player base that would make it worthwhile?" Another question to ask would be, "Does it cannibalize other lottery games?" Director Passailaigue stated that the lottery could not continue to have instant ticket sales amounting to 84% of the total sales.

Chairman Lamberth asked Director Passailaigue if there were any talks [among the sister lotteries of Arkansas, Georgia, Kentucky and Virginia] of switching from Decades of Dollars to Lotto South. Director Passailaigue replied that this was not a discussion point among the group, but that there was a little rub among all concerned about whether Virginia and Georgia should be offering both games, with the group asking itself whether or not the two games cannibalized each other.

Continuing his report, Director Passailaigue stated that the lottery netted a shade under 20%, with 64.6% budgeted as opposed to the actual payout of 66.3%. Prizes were 66.3% of total actual revenue compared to 64.6% budgeted. Unclaimed prizes were down in July because no instant tickets were closed out in that month, but unclaimed prizes are currently over budget for FY 2011 by more than \$84,000.

Director Passailaigue then presented a two-month summary pie-chart for Total Revenues. Commissioner Frazier asked if next month's pie chart would summarize three months and Director Passailaigue answered in the affirmative. Director Passailaigue summarized that the lottery had netted \$7 million per month in net profit and that the lottery has consistently grossed over \$8 million in weekly sales. Transfers to ADHE were \$7.1M for July and \$7.5M in August.

Moving on to the next item on the agenda, Chairman Lamberth called on Chief Legal Counsel Bishop Woosley, who stated he had nothing new to report.

Chairman Lamberth called on Internal Auditor Hyde. He reported that he and Audit Assistant Whitnie Hall had been spending a majority of their time assisting External Audit to help them cut back on audit hours. Mr. Hyde noted that ALC Controller Terry Williams was working very hard in finalizing the financial statements, and that he was helping Mr. Williams review the statements and work toward completion. Mr. Hyde noted that his department was a little behind on the legislative education trust audit as well as the monthly travel audit because of the assistance being given to External Audit. Ms. Hall had completed her part regarding auditing of travel schedules, but [Mr. Hyde] still needed to review her audit. Mr. Hyde and Ms. Hall were currently working alongside Legislative Audit in reviewing the Licensing department, splitting the work reviewed to ensure no duplication of auditing. He added that he and Whitnie were also doing a little work on the instant ticket contracts, reconciling some accounts.

Commissioner Malone asked for an update on last year's legislative audit. Mr. Hyde stated that in August, he reported to the Legislative Oversight Committee that ALC was down to one open finding, where it remains.

Commissioner Campbell asked Mr. Hyde if Legislative Audit was spending as many hours on the current audit as they had in the previous year's audit. Mr. Hyde replied that, while he was not certain about the number of hours spent on this year's audit, his understanding was that there would be fewer hours this year.

Upon the conclusion of Mr. Hyde's report, approximately 9:10 a.m., Chairman Lamberth temporarily adjourned the meeting to go into executive session to discuss personnel performance.

At 10:50 a.m., the meeting reconvened. Chairman Lamberth announced that during the executive session the Arkansas Lottery Commission had accepted the resignation of Director Passailaigue. She stated that the date of resignation would be effective October 7, and that Director Passailaigue had agreed to stay until that date because of numerous outstanding items and because he wanted to see the lottery through the 50/50 Launch on October 1. Chairman Lamberth thanked Director Passailaigue for the leadership he provided, as well as for the most successful lottery launch in history, which far exceeded the most optimistic expectations. She noted that Director Passailaigue was leaving the lottery in a sound and healthy condition and she thanked him for agreeing to stay long enough for a smooth and seamless transition.

Chairman Lamberth relayed that during the executive session the ALC had voted to appoint an interim director, Julie Baldrige, who would not be a candidate for the permanent position. Chairman Lamberth added that the commission had also decided that the Personnel Committee would meet in the very near future to determine director qualifications.

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