



STATE OF ARKANSAS
**Department of Finance
and Administration**

OFFICE OF THE ARKANSAS LOTTERY
Post Office Box 3238
Little Rock, Arkansas 72203-3238
Phone: (501) 683-2000
Fax: (501) 683-1878
<http://myarkansaslottery.com>

March 6, 2017

The Honorable Gary Stubblefield, Co-Chair
The Honorable Monte Hodges, Co-Chair
Joint Budget Committee – Peer Review
One Capitol Mall, 5th Floor
Little Rock, AR 72201

RE: Request Authorization to Pay Outstanding Invoices of Expired Contract

Gentlemen:

The Department of Finance and Administration Office of the Arkansas Lottery (OAL) requests that the Joint Budget Committee - Peer Review authorize payment from OAL to Mangan Holcomb Partners (Mangan Holcomb) for in excess of the total dollar amount specified in AASIS Term Contract 4600037815. I respectfully request that this matter be included on the agenda of the March, 2017, JBC Peer Review meeting. The following information provides background on this matter:

1. On July 8, 2016, OAL and Mangan Holcomb entered into a Second Amendment to the Agreement for Contractual Services for Supplemental Advertising, Marketing, and Media Services. (Exhibit A)
2. Term of Contract: The Second Amendment term of the Agreement was for a period of six (6) months, commencing on July 8, 2016, and expiring on January 8, 2017.
3. Terms of Compensation: The terms of compensation were set forth in the Mangan Holcomb Cost Schedule and Supplemental Pricing Information. (Exhibit B).
4. Term Contract # 4600037815 and AASIS Purchase Order # 4501634190 (Exhibits C and D, respectively) were created in AASIS to allow payment to Mangan Holcomb in accordance with the Cost Schedule and Supplemental Pricing Information.
5. OAL FY 2017 Budget Detail Schedules for FY 2017 (Exhibit E)

The dollar amounts in both the referenced Term Contract and Purchase Order represent invoices which are due for services provided under the previous Advertising and Marketing contract between the OAL and Mangan Holcomb Partners. The contract and the original purchase order have expired. As such, payment of these invoices would be considered a new contract which must be reviewed. Accordingly, we request that the invoices submitted with this letter be reviewed and the OAL be allowed to render payment to Mangan Holcomb for services rendered.

The Honorable Gary Stubblefield
The Honorable Monte Hodges
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March 6, 2017

Please call me if you have any questions or need additional information.



Bishop Woosley
Director

Enclosures

cc: The Honorable Asa Hutchinson, Governor of Arkansas
Mr. Larry Walther, Director, Arkansas Department of Finance and Administration

SECOND AMENDMENT TO THE AGREEMENT FOR CONTRACTUAL SERVICES FOR SUPPLEMENTAL ADVERTISING, MARKETING AND MEDIA SERVICES

THIS SECOND AMENDMENT ("Second Amendment") TO THE AGREEMENT, effective as of July 8, 2016, by and between the Arkansas Department of Finance and Administration Office of the Arkansas Lottery ("OAL"), P.O. Box 3238, Little Rock, AR 72203 and Mangan Holcomb Partners ("Mangan Holcomb"), 2300 Cottondale Lane, Suite 300, Little Rock, Arkansas 72202, witnesses that the parties have made the agreements set forth below:

RECITALS

WHEREAS, the State of Arkansas has, pursuant to Arkansas law, established OAL and authorized the Director of OAL ("Director") to enter into contracts for advertising, marketing and media services; and

WHEREAS, OAL issued a Request for Qualifications for Proposals for Supplemental Advertising, Marketing, and Media Services ("RFQ") and whereas, upon evaluation of the proposals submitted in response to the RFQ, OAL determined that the Mangan Holcomb proposal dated June 5, 2014, ("Proposal") met or exceeded each of the requirements of the RFQ and was a Successful Vendor pursuant to OAL's competitive proposal process; and

WHEREAS, based on in-depth evaluations of Mangan Holcomb, OAL entered into a contractual services agreement with Mangan Holcomb for Supplemental Advertising, Marketing and Media Services on July 8, 2014;

WHEREAS, OAL and Mangan Holcomb entered into a First Amendment to the Agreement for Contractual Services for Supplemental Advertising, Marketing, and Media Services on July 8, 2015 ("First Amendment"), and

WHEREAS, the parties now desire to amend the agreement; then

NOW, THEREFORE, in consideration of the above premises, and the mutual promises set forth below, and subject to compliance with Arkansas Law, OAL and Mangan Holcomb, with this agreement (the "Agreement"), hereby amend the Agreement as follows:

AGREEMENTS

1. Contract Elements and Incorporations by Reference and Order of Priority

The contract elements ("Contract Elements"), which are incorporated by reference and the order of priority, shall be as follows;

- a. The RFQ (Exhibit A);
- b. Mangan Holcomb Partners RFQ response (Exhibit B);
- c. Mangan Holcomb Partners Negotiated Cost Schedule and Supplemental Pricing Information (Exhibit C); and
- d. OAL Rules for Claims in Contract or Tort (Exhibit D).

2. Term of Contract: The term of this agreement is for a period of six (6) months, commencing on July 8, 2016, and expiring on January 8, 2017.

3. Terms of Compensation: The terms of compensation are set forth in the Mangan Holcomb Partners Cost Schedule and Supplemental Pricing Information (Exhibit C).

4. Additional Covenants

a. It shall be a breach of ethical standards for a person to be retained, or to retain a person, to solicit or secure a state contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, except for retention of bona fide employees or bona fide established commercial selling agencies maintained by the contractor for the purpose of securing business. Mangan Holcomb hereby covenants and agrees that no person shall:

(i) be excluded from participation in, or be denied benefits of, this Agreement, or

(ii) be excluded from employment, denied any of the benefits of employment or otherwise be subjected to discrimination on the grounds of handicap or disability, age, race, color, religion, sex, national origin or ancestry, or any other classification protected by federal, Arkansas state constitutional, or statutory law. Mangan agrees to, upon request, show proof of such nondiscrimination and shall post in conspicuous places, available to all employees and applicants, notices of nondiscrimination.

b. Mangan Holcomb further agrees to maintain documentation for all charges against OAL under this Agreement or any modifications or amendments thereto. The books, documents, papers, accounting records, and other evidence pertaining to products and/or services to be provided or performed or money received under this Agreement shall be:

(i) maintained for a period of five (5) full years from the date of the final payment; and

(ii) subject to audit or inspection at any reasonable time and upon reasonable notice by OAL or its duly appointed representatives. Mangan Holcomb agrees to make such materials available at its offices, and copies thereof shall be furnished to OAL or its duly appointed representative by Mangan Holcomb, at no cost to OAL or its duly appointed representative, if requested by OAL or its duly appointed representative. Such records shall be maintained in accordance with any applicable provisions of generally

accepted accounting principles (or other applicable accounting principles or policies) and any other applicable procedures established by OAL from time to time.

c. Mangan Holcomb and OAL shall be bound to confidentiality of any information that its employees may become aware of during the course of performance of contracted services. Consistent and/or uncorrected breaches of confidentiality may constitute grounds for cancellation of the Contract.

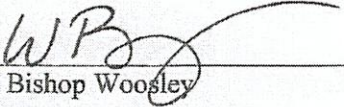
d. Mangan Holcomb represents and warrants that its performance under the Contract will not knowingly infringe any patent, copyright, trademark, service mark, or other intellectual property rights of any other person or entity and that it will not constitute the unauthorized use or disclosure of any trade secret of any other person or entity.

e. The parties further agree that any and all disputes which may arise from this Contract shall be governed and resolved under the OAL Rules for Claims in Contracts or Torts.

f. Except as amended by this Second Amendment, all other terms and conditions of the Agreement, including but not limited to the Recital, shall remain in effect as set forth therein.

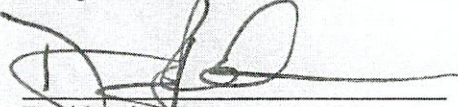
IN WITNESS WHEREOF, the parties have executed this Second Amendment to the Agreement for Contractual Services for Supplemental Advertising, Marketing, and Media Services on this 8th day of July, 2016.

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery



W. Bishop Woosley
Director

Mangan Holcomb Partners



David Rainwater
Principal/CEO

NEGOTIATED COST SCHEDULE
Mangan Holcomb Partners

Service	Original Cost Schedule	Negotiated Cost Schedule
Media Placement	5% of net media cost	5% of net media Cost
Advertising & Marketing Services	Vendor's Hourly Charge	Vendor's Hourly Charge
Creative Director	\$220.00 hourly charge	\$185.00 hourly charge
Art Director	\$170.00 hourly charge	\$170.00 hourly charge
Copy Writer	\$100.00 hourly charge	\$100.00 hourly charge
Account Supervisor	\$120.00 hourly charge	\$120.00 hourly charge
Account Manager	\$70.00 hourly charge	\$70.00 hourly charge
Staff Accountant	\$50.00 hourly charge	\$50.00 hourly charge
Promotional Specialist	\$100.00 hourly charge	\$100.00 hourly charge
Promotional Staff	\$25.00 hourly charge	\$25.00 hourly charge
Graphic Designer	\$105.00 hourly charge	\$105.00 hourly charge
Public Relations Director	\$195.00 hourly charge	\$185.00 hourly charge
Public Relations Coordinator	\$150.00 hourly charge	\$135.00 hourly charge
Production Director	\$195.00 hourly charge	\$185.00 hourly charge

ATTACHMENT C
Supplemental Pricing Information
(Additional Vendor Categories)

DO NOT modify this format.

Vendor's information provided on this page will NOT BE USED FOR SCORING and NO EVALUATION POINTS will be awarded for ATTACHMENT C. The additional pricing information will be used to set a cap for any supplemental services offered, if the vendor is ultimately selected as the contractor. ALC will negotiate all supplemental pricing prior to the RFP being awarded to the successful contractor.

Type of Advertising & Marketing Services (Job Title)	Hourly Charge	Description of Service Offered (You may attach additional page if needed for explanation.)
Strategic Planning	\$ <u>185</u> hourly charge	Planning, consultation
Creative Concept	\$ <u>185</u> hourly charge	Development of overall campaign concepts
Copywriting	\$ <u>100</u> hourly charge	Development of advertising copy
Art Direction	\$ <u>170</u> hourly charge	Development of campaign design
Television/Radio Direction	\$ <u>170</u> hourly charge	Oversight of television and radio creative
Print production	\$ <u>195</u> hourly charge	Oversight of printing and other materials
Broadcast Production	\$ <u>195</u> hourly charge	Oversight or television/radio production details
Creative Layout/Design	\$ <u>170</u> hourly charge	Creation of design work and layouts
Account Supervision	\$ <u>120</u> hourly charge	Senior-level account oversight
Account Service	\$ <u>70</u> hourly charge	Day-to-day account management
Public Relations Planning	\$ <u>185</u> hourly charge	Development of public relations plans



STATE OF ARKANSAS
Term Contract

Vendor No. 100029522
Contact
Your reference 4600035383

MANGAN HOLCOMB PARTNERS
2300 COTTONDALE LN STE 300
LITTLE ROCK AR 72202

Contract No. 4600037815
Date 06/30/2016

Contact Jacob A Saugey
Telephone 501-371-6182
Fax 501-324-9212

Our ref. ST
Incoterms FOB
DESTINATION

Send Invoice To:
DFA-Office of the Arkansas Lottery
PO Box 3238
Little Rock, AR 72203

Ship To:
DEPARTMENT OF FINANCE AND ADMINISTRAT
OFFICE OF THE ARKANSAS LOTTERY
124 W CAPITOL STE 1400
LITTLE ROCK AR 72201

Valid from: 07/08/2016
Valid to: 01/08/2017

Target value 3,000,000.00 USD
Purchase Requisition No: 1000749577
State Contract: 4600035383
Business Area: 0613
Cost Center: 390502
Internal Order: None
TO INSURE PROMPT PAYMENT USE THE CONTRACT NUMBER NOTED ABOVE ON ALL INVOICES AND INQUIRES.
PLEASE SEND INVOICES TO THE BILL TO ADDRESS ABOVE.

Item	Material/Description	Target Qty	UM	Unit Price	Amount
0001	10132695 PRO SERVICE, ADVERTISING/MARKETING PROFESSIONAL SERVICES, ADVERTISING/MARKETING Second Amendment to the Agreement for Contractual Services for Supplemental Advertising, Marketing, and Media Services (2ND AMENDMENT AGREEMENT ATTACHED) Term of Contract: The term of this agreement is for a period of six (6) months, commencing on July 8, 2016, and expiring on January 8, 2017. Terms of Compensation: The terms of compensation are set forth in the Mangan Holcomb Partners Cost Schedule and Supplemental Pricing Information.	3,000,000.00	Lump Sum	1.00	\$ 3,000,000.00

GENERAL CONDITIONS AND INSTRUCTIONS TO VENDOR:
All purchasing rules and regulations defined by the State of Arkansas apply to this document.

Marnie Davidson

Purchasing Official/Fiscal Officer

EXHIBIT C

06/30/2016

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STATE OF ARKANSAS
Term Contract

Vendor No. 100029522
 Contact
 Your reference 4600035383

Contract No. 4600037815
 Date 06/30/2016
 Our reference ST

Item	Material/Description	Target QtyUM	Unit Price	Amount
				Estimated Net Value
				3,000,000.00
<p>If you have questions regarding this Term Contract; contact Alan Saugey at 501-371-6182 or Marnie Davidson at 501-324-9068.</p>				

GENERAL CONDITIONS AND INSTRUCTIONS TO VENDOR:

All purchasing rules and regulations defined by the State of Arkansas apply to this document.



STATE OF ARKANSAS
Purchase Order

Vendor No. 100029522
Contact
Your reference 4600035383

MANGAN HOLCOMB PARTNERS
2300 COTTONDALE LN STE 300
LITTLE ROCK AR 72202

PO No. 4501634190
Date 07/05/2016

Contact Jacob A Saugey
Telephone 501-371-6182
Fax 501-324-9212

Our ref. ST
Incoterms FOB
DESTINATION

Send Invoice To:
DFA-Office of the Arkansas Lottery
PO Box 3238
Little Rock, AR 72203

Ship To:
DEPARTMENT OF FINANCE AND ADMINISTRAT
OFFICE OF THE ARKANSAS LOTTERY
124 W CAPITOL STE 1400
LITTLE ROCK AR 72201

Valid from: 07/01/2016
Valid to: 01/08/2017
Delivery Date: 07/05/2016

Outline Agreement: 4600037815
State Contract: 4600035383
Business Area: 0613
Cost Center: 390502
Fund Center: 7006130
Internal Order: None
TO INSURE PROMPT PAYMENT USE THE PURCHASE ORDER NUMBER NOTED ABOVE ON ALL INVOICES AND INQUIRES.
PLEASE SEND INVOICES TO THE BILL TO ADDRESS ABOVE.

Item	Material/Description	Quantity	UM	Net Price	Net Amount
0001	10132695 PRO SERVICE, ADVERTISING/MARKETING PROFESSIONAL SERVICES, ADVERTISING/MARKETING Second Amendment to the Agreement for Contractual Services for Supplemental Advertising, Marketing, and Media Services (2ND AMENDMENT AGREEMENT ATTACHED) Term of Contract: The term of this agreement is for a period of six (6) months, commencing on July 8, 2016, and expiring on January 8, 2017. Terms of Compensation: The terms of compensation are set forth in the Mangan Holcomb Partners Cost Schedule and Supplemental Pricing Information.	3,000,000.00	ZLS	1.00	\$ 3,000,000.00
				Net Value	\$ 3,000,000.00

GENERAL CONDITIONS AND INSTRUCTIONS TO VENDOR:
All purchasing rules and regulations defined by the State of Arkansas apply to this document.

Marnie Davidson

Purchasing Official/Fiscal Officer

EXHIBIT D
13
07/05/2016



STATE OF ARKANSAS
Purchase Order

Vendor No. 100029522
Contact
Your reference 4600035383

PO No. 4501634190
Date 07/05/2016
Our reference ST

Item	Material/Description	QuantityUM	Net Price	Net Amount
	Payment Terms:	Payable immediately Due net	Total net item value USD including tax	\$ 3,000,000.00

GENERAL CONDITIONS AND INSTRUCTIONS TO VENDOR:

All purchasing rules and regulations defined by the State of Arkansas apply to this document.

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DFA Office of the Arkansas Lottery
Budget Detail Schedules
For the Fiscal Year Ending June 30, 2017

	FY2015 Audited		FY 2016 Budget		FY 2017 Budget		Explanation for Change in Budget Amounts
		% of Revenue		% of Revenue		% of Revenue	
Operating Revenues:							
Instant Games	\$ 335,051,448	81.873%	\$ 333,500,000	81.132%	\$ 383,380,000	82.729%	Instant Games sales are forecast to increase per the Camelot Global business plan.
Online Games	74,042,899	18.093%	77,240,000	18.790%	79,488,000	17.153%	Online Games sales increase is forecast per the Camelot Global business plan.
Less: Promotions Discount	(430,967)	-0.105%	(250,000)	-0.061%	(250,000)	-0.054%	Promotional discounts remain at the same level as FY2016.
Retailer application, fidelity and bonding fees	550,932	0.135%	560,000	0.136%	788,000	0.170%	Increase is due to anticipated revenues from retailer bonding fees
Non-Gaming Revenue	20,346	0.005%	10,000	0.002%	12,000	0.003%	Other miscellaneous revenues are consistent with estimated FY2016.
Total Operating Revenues	409,234,678	100.000%	411,060,000	100.000%	463,418,000	100.000%	
Operating Expenses:							
Instant Games Prizes	241,758,220	59.076%	236,405,820	57.511%	275,471,000	59.443%	Instant Games prizes are forecast to increase in line with the increase in sales per the Camelot Global business plan.
OnLine Games Prizes	38,708,574	9.459%	39,492,760	9.608%	42,229,000	9.113%	Online Games prizes are forecast to increase in line with the increase in sales per the Camelot Global business plan.
Retailer Commissions	23,253,196	5.682%	23,102,541	5.620%	26,400,000	5.697%	No significant change in the percentage paid to retailers. Forecast increase is consistent with increase in revenues.
Gaming Contract Costs	20,622,707	5.039%	19,249,234	4.683%	22,000,000	4.747%	No significant change in the percentage paid to lottery systems and tickets vendors. Increase is consistent with increase in revenues.
Staff Compensation & Benefits	5,382,544	1.315%	5,730,000	1.394%	5,400,000	1.165%	No significant change in the compensation budget for FY 2017. The OAL is at a minimum staffing level and additional staff increases may be needed to support revenue growth per the Camelot Global business plan.
Marketing, Advertising & Promotions	5,032,317	1.230%	5,000,000	1.216%	6,000,000	1.295%	Increased the FY2017 amount per the Camelot Global business plan.
General and Administrative Expenses	1,274,003	0.311%	1,513,000	0.368%	4,420,000	0.954%	Increase for FY 2016 is primarily related to the Camelot Global business plan and fees. Camelot Global fees are estimated at \$750,000 plus incentive fees of \$1,550,000. Additional costs for the FY2017 business plan include \$555,000 for research and \$375,000 for retailer support.
Services Provided by Other Agencies:	668,447	0.163%	630,000	0.153%	550,000	0.119%	The ADHE administrative fees are forecast to decrease due to a change in the statute. Legislative Audit fees for the annual audit are forecast at the same level as for FY2016.
Legal and Professional Services	12,528	0.003%	10,000	0.002%	20,000	0.004%	Estimated approximately the amount for FY2016
Capital Asset Depreciation	158,363	0.039%	237,000	0.058%	120,000	0.026%	Decrease reflects that most of the OAL's fixed assets exceed their estimated useful lives and are fully depreciated.
Total Operating Expenses	336,870,899	82.317%	331,370,355	80.614%	382,610,000	82.563%	
Operating Income	72,363,779	17.683%	79,689,645	19.386%	80,808,000	17.437%	
Non-Operating Revenue (Expense):							
Interest Income	224,546	0.055%	140,000	0.034%	120,000	0.026%	Based upon an anticipated average monthly balance of approximately \$18 million at 55 basis points
Other Non-Operating Income	-	0.000%	-	0.000%	-	0.000%	No non-operating income for FY2017 is anticipated
Income before Transfers	\$ 72,588,325	17.738%	\$ 79,829,645	19.420%	\$ 80,928,000	17.463%	
Transfers To:							
Arkansas Department of Human Services	(200,000)	-0.049%	-	0.000%	\$ -	0.000%	This amount is no longer required due to a change in the statutes.
ADHE Education Trust Account (Regular)	(67,378,254)	-16.464%	(74,700,000)	-18.173%	(75,468,000)	-16.285%	This is the amount of the expected transfer of monthly Net Proceeds to ADHE for FY2017
Unclaimed Prizes Reserve-transferred at June 30 by statute	(5,241,115)	-1.281%	(5,086,000)	-1.237%	(5,432,000)	-1.172%	This amount is for the unclaimed prizes accumulated during FY2017 which, by statute, will transfer as of the last day of the fiscal year.
Total Transfers to ADHE Education Trust Account	(72,619,369)	-17.745%	(79,786,000)	-19.410%	(80,900,000)	-17.457%	
Change in Net Assets	(\$ 231,044)	-0.056%	\$ 43,645	0.011%	\$ 28,000	0.006%	

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Mangan Holcomb Partners
Unpaid Invoices

12/31/2016:

INV-8713	41,751.50
INV-8717	62,265.26
INV-8718	46,340.13
INV-8719	36,375.61
INV-8720	31,317.83
INV-8721	17,501.02
INV-8722	32,275.48
INV-8723	<u>24,964.43</u>
	292,791.26

1/31/2017:

INV-8762	11,035.00
INV-8763	130.00
INV-8764	3,820.00
INV-8765	880.00
INV-8766	2,231.25
INV-8767	1,190.28
INV-8768	4,069.80
INV-8769	1,071.00
INV-8770	24,271.54
INV-8771	17,470.20
INV-8772	20,011.18
INV-8773	18,292.68
INV-8774	1,606.50
INV-8775	2,100.00
INV-8776	11,543.89
INV-8778	<u>1,169.98</u>
	120,893.30

TOTAL 413,684.56