

Arkansas



Scholarship Lottery

**ALC Director's Report to the Arkansas Lottery
Commission Legislative Oversight Committee
January 8, 2015**



Online Lottery Game Services and Lottery Gaming System and Services – Current Contract



Current contract rate: 2.45% of net sales

Date contract executed: August 15, 2009

Term of contract(excluding renewal options): Seven (7) years

Contract services provided: Full central gaming system and Back Office System (BOS) used for lottery accounting, licensing, claim center, check printers, instant ticket game and inventory management, warehouse management, pick and pack, reporting, etc.

Includes Central system operations, software development and maintenance of gaming systems/databases, network, field service, call center, and dispatch. The primary system is located in Arkansas and a secondary (disaster site) is located out of state.



Online Lottery Game Services and Lottery Gaming System and Services – Current Contract



- Base terminals and peripherals (Microlots): 1,949 currently out in the field; can be expanded to 3,200
- Printing of ticket stock/playslips
- Internal Control System (ICS) and ICS vendor support
- Annual SOC 2 audit (originally SOC 1 audit)
- 600 19-inch Player Advertising Displays (PADS) (1st amendment to contract)
- 100 Ticket Vending Machines (TVMs)
- Ticket checkers - all retailers
- Jackpot signs - all retailers
- Customer Display Units (CDUs) - all retailers
- Starlite/LEDs – all retailers
- Retailer website/portal

Contract expiration date: August 15, 2016. There is an option for renewal up to three (3) additional times in one (1) year increments or a portion thereof.

Online Lottery Game Services and Lottery Gaming System and Services – Proposed Contract Extension

- Terms: All three (3) available 1-year extensions to the Contract, Commencing August 15, 2016, through August 14, 2019.
- Compensation: Intralot will continue to be compensated at the rate of 2.45% of instant and online sales until July 1, 2015. From that point forward, Intralot will be compensated at the rate of 2.165% of instant and online sales.
- Additional items:
1. Intralot will provide a one-time marketing allowance of \$100,000 to be used by ALC during the term of the agreement and its three-year extension. Any funds not used at the expiration of the extension will be forfeited.
 2. Intralot will continue to provide annually, through the extension years, a \$25,000 commitment for System audit fees (SOC 2) and a \$25,000 commitment for charitable contributions supported by ALC.

Online Lottery Game Services and Lottery Gaming System and Services – Proposed Contract Extension

Current rate: 2.45%

Proposed rate: 2.165%

Proposed Rate Effective Date: July 1, 2015

Rate Savings: .285%

Months at new rate: 49.5

Proposed rate savings using \$420,000,000 as estimated annual sales:

- Savings per month: \$99,750
- Annual savings: \$1,197,000
- Savings for life of contract: \$4,937,625

Considerations:

- If contract is not extended, conversion to new system will take up to twelve months.
- Conversion causes interruptions in service and impacts launching of software and new games.
- Retailer inconvenience. Will need to be retrained on a new Point of Sale terminal and system.
- Potential loss of retailers.
- An RFP is a lengthy process which will need to begin in late Spring 2015; once the RFP has been issued, there is no guarantee of who will bid or what the proposals will be.
- Unlikely that ALC will get a better rate in RFP proposals.
- The smaller the lottery, the higher the terms ,e.g., South Dakota, a state with annual lottery sales of \$53 Million, pays a rate of 7.38%.