

DRAFT MINUTES

ARKANSAS LOTTERY COMMISSION
LEGISLATIVE OVERSIGHT COMMITTEE

Friday, December 05, 2014

The Arkansas Lottery Commission Legislative Oversight Committee met on Friday, December 05, 2014, at 10:30 a.m., in Room B of the Multi-Agency Complex, Little Rock, Arkansas.

Committee members present: Senators Robert Thompson, Chair; Jimmy Hickey, and Missy Irvin. Representatives Mark Perry, Chair; Joe Farrer, Joe Jett, Mathew Shepherd, and John Vines.

Other legislators present: Senators Linda Chesterfield and Bill Sample. Representatives Eddie Armstrong, John Burris, Ann Clemmer, and Andy Davis. Members-elect Representatives Charles Blake and Michael Gray.

Representative Perry called the meeting to order.

Consideration to Approve Meeting Minutes [Exhibit B]

Representative Perry made a motion to approve the September 18, 2014, meeting minutes, and without objection, the motion was approved.

Academic Challenge Annual Report: 2013-2014 Student Year-End Status and Final 2014-2015 Awards [Exhibit C]

Mr. Shane Broadway, Director, Arkansas Department of Higher Education, presented the Annual report on the Academic Scholarship Program. Mr. Broadway stated there were 160 new awards for academic year 2013-2014. The average parent income was added as a new component to the report in compliance with a bill passed during the last session requiring the Department of Higher Education to keep track of this information. Mr. Broadway mentioned the Academic Challenge Scholarship Program had 14,541 awards and \$28,097,098 total amount paid for fiscal year 2014. Preliminary unaudited records show there are 12,454 awards and \$12,420,941 amount paid for fiscal year 2015.

Lottery Update [Exhibits D-1, D-2, and D-3]

Mr. Bishop Woosley, Director, Arkansas Lottery Commission, presented the Arkansas Lottery Comparative income statements and update. The \$5,939,626 actual net proceeds for October 2014 is lower by \$834,211 compared to last year and lower by \$1,350 compared to the budget. The October 30, 2014, year to date net proceeds is lower by \$2,608,637 compared to the same period last year and November 2014 revenue is lower by \$630,956 compared to November of 2013. Powerball sales for the 3rd quarter of 2014 are down by 53.2% in Arkansas compared to the same period last year. This downward trend can be seen nationwide with a 51.12% average decline in sales. Mr. Woosley stated the Lottery Commission have instituted cost-saving measures since 2012 resulting in a total savings of \$4,205,410.80. He also stated the commission conducts focus groups to address the issue of public trust.

Mr. Woosley presented the Second Amendment to the Agreement for Contractual Services for Instant Lottery Game Services. Scientific Games International has agreed to reduce the Properties Plus Loyalty Program percentage allocation from the instant ticket prize structures to 1.35% from the current 1.5%. The amendment will bring approximately \$340,000 per year in cost-savings.

Representative Perry stated, without objection, the amendment stands reviewed.

Mr. Woosley presented the request for amendments to the Arkansas Scholarship Lottery Act. The commission requests changes to A.C.A. § 23-115-60 (c) (1) on bonding requirements for lottery retailers and A.C.A. § 23-115-207(a) (2) (B) to allow the purchase of lottery tickets using debit cards.

Representative Perry stated, without objection, the request for amendments stands reviewed.

Lottery Consultant Contract Report

Mr. Sam DePhillippo, Senior Consultant; **Mr. Richard Bateson**, Senior Vice President of Sales and Marketing; and **Mr. John Skrimshire**, Project Manager Camelot Global Services, presented the results of their review of the Arkansas Scholarship Lottery as follows:

- the Arkansas Scholarship Lottery under performs versus neighboring and peer states in terms of per capita sales and profit and player participation;
- there is a perception of mistrust and general negative publicity towards the lottery;
- the launch of the lottery did not follow best practices and issues such as inflated management salaries and early mistakes still taint the lottery's image;
- there are too many games in the market;
- marketing communications lack purpose, brand truth, and consistency;
- vendor costs are significantly higher than industry and peer averages;
- retail execution is inconsistent and in certain instances does not follow best practices;
- greater focus is required on chain retailers; and
- the organization requires political support and a focus on sales & marketing.

The Camelot team stated they prepared a counterfactual "status quo" scenario to assess the impact of a potential upside scenario. The counterfactual scenario assumes sales remain at 2014 levels, approximately \$400 million per annum and net income at \$76 million annually. In the potential upside scenario, sales grow to \$565 million by 2019, with net income rising to \$122 million and delivering \$469 million in sales and a net income of \$136 million over the five-year period.

The Camelot team's recommendations are to develop a detailed 5-year strategic plan and associated activity plan for execution; review lottery governance and organizational structure, with legislature and governor's office working with the lottery commission to set foundations for a protected Lottery institution; overhaul the lottery's sales and marketing approach and setup tracking and measurement of marketing return on investment and media planning; ensure vendor and third-party alignment to 5-year strategic plan and net revenue forecast; and demonstrate the worth of the lottery to the press and all stakeholders.

Mr. Bishop Woosley stated he will present his written comments regarding the report on a future date.

Discussion of Proposed Changes to the Arkansas Academic Challenge Scholarship

Senator Jimmy Hickey presented a draft Bill to modify the eligibility requirements for the Academic Challenge Scholarship Program and to clarify funding amounts and provisions. Senator Hickey mentioned 76% of students with 2.5 to 2.74 GPA and 68% of students with 2.75 to 2.99 GPA are not retaining scholarships. The draft Bill proposes that students with 2.5 to 3.24 GPA and at least 19 on the ACT/ACT equivalent will not receive their award until they successfully complete their freshman year and have enrolled for the second year. The draft Bill also sets a \$750 award amount for students enrolled in certificate of proficiency programs or technical certificate programs. Senator Hickey stated the Scholarship Program will save \$2,000 for each student who has not completed the qualifications of the program in the first year. If a student takes the \$750 scholarship, there will still be a \$1,250 savings. The Bill also contains legislative language which says that the intent is to provide stability and to begin increasing scholarship amounts beginning in the second year of enrollment for successful students.

With no further business, the meeting adjourned at 1:30 p.m.