

## DRAFT MINUTES

### ARKANSAS LOTTERY COMMISSION LEGISLATIVE OVERSIGHT COMMITTEE

Thursday, September 18, 2014

The Arkansas Lottery Commission Legislative Oversight Committee met on Thursday, September 18, 2014, at 9:00 a.m., in Room B of the Multi-Agency Complex, Little Rock, Arkansas.

**Committee members present:** Senators Robert Thompson, Chair; David Burnett, and Jimmy Hickey. Representatives Mark Perry, Chair; Joe Farrer, Joe Jett, and John Vines.

**Other legislators present:** Senator Eddie Joe Williams. Representatives Charles Armstrong, Scott Baltz, David Branscum, Mary Broadaway, Ann Clemmer, David Fielding, Jeremy Gillam, Sheilla Lampkin, Mark Lowery, Walls McCrary, Betty Overbey, and Jeff Wardlaw. Representative Perry called the meeting to order.

#### **Consideration to Approve Meeting Minutes [Exhibit B]**

Senator Thompson made a motion to approve the June 30, 2014, meeting minutes, and without objection, the motion was approved.

#### **Discussion of the Proposed Audit Request for Proposals (“RFP”) [Exhibit C]**

**Senator Jimmy Hickey** introduced **Richard Wheeler** and **Sam DePhillippo** from Camelot Global Services (North America) Inc. (CGSNA).

**Richard Wheeler**, Senior Vice President, Camelot Global Services (North America) Inc. (CGSNA), presented the background of CGSNA and the details of the proposed contract. He mentioned that CGSNA has been an operator of the UK National Lottery for 20 years and has established operations in the United States for five years. The company has undertaken lottery consulting contracts for six lotteries in North America. The scope of work proposed for Arkansas lottery is to assess how the lottery is operating and develop a strategy for future growth.

**Sam DePhillippo**, Senior Consultant, Camelot Global Services (North America) Inc. (CGSNA), stated CGSNA’s approach to lottery is marketing and managing lottery products as consumer goods not as a gambling product. There are three phases to the scope of work they offer. The first phase is the in-depth review of the lottery business drivers. In this phase a situational analysis will be conducted to measure where the Arkansas lottery is compared to other southern lotteries. The second phase is strategy review and business planning to generate recommendations for the lottery business. The third phase involves a review of current organization and governance to develop recommendations for the future. The whole process will take five to six weeks.

#### **Arkansas Lottery Commission’s Proposed 2015 Annual Budget [Exhibit D]**

**Mr. Bishop Woosley**, Director, Arkansas Lottery Commission, presented the Arkansas Lottery Commission’s revised annual budget for FY 2015 with a total of \$338,546,347.00, which is higher compared to the actual unaudited expenditure for FY 2014 at \$331,173,976. He stated the increase can be attributed to several factors including a forecast of increased instant ticket sales resulting to increased prize expense, the approved \$500,000 supplemental budget for marketing and advertizing, budgeted authorized vacant positions, and an increase in administrative costs due to replacement of outdated IT network, equipment, and software. The revised 2015 budget also reflects a decrease in

online gaming expenditures and the Arkansas Department of Higher Education's (ADHE) administrative costs.

Mr. Woosley presented the commission's comparative income statements as of August 2014. He stated instant ticket revenues are up by 0.6%, online ticket revenues are down by 36.2%, and total net proceeds are down by 17.3% compared to the same period last year. Net proceeds are down by 6.6% in actual expenditures compared to budget, and down by 0.6% in August 2014 compared to August 2013. The ADHE transfer analysis shows \$615,936.00 less than the anticipated expense in July 2014 but \$409,936.00 over the budget in August 2014, leaving a cumulative balance of \$206,000.00. He also reported that the Lottery Commission collected \$33,514,611.00 in federal taxes, \$9,235,184 in state taxes, \$296,382.22 in delinquent child support, and \$688,243.84 in delinquent taxes.

Mr. Woosley presented updates on the Arkansas Lottery Operations including the closing of non-earning claim centers in Springdale, Camden, and Jonesboro which will bring an anticipated savings of \$495,000.00 per year. He mentioned there are currently 1,870 active lottery retailers and 75 ticket vending machines operating in Arkansas and there will be Instant Game launches each month until December.

Mr. Woosley stated, in response to a request from the committee, he will provide a breakdown of all conferences and travel corresponding to the \$196,148.00 spent on travel and mileage expense on the audited FY 2013 budget.

**Review of the Renewal of Multi-State Lottery Association ("MUSL") Website Hosting/Caching Service Level Agreement [Exhibit E]**

Mr. Bishop Woosley, Director, Arkansas Lottery Commission, presented the notice of renewal for the MUSL website hosting/caching service level agreement executed on June 30, 2014, with a term agreement from July 1, 2014 to June 30, 2015. The service includes bandwidth use for FY 2014, two databases, three virtual servers, one production IP address (domain), 30 GB hard disk space use, 10 GB RAM and Domain parking charges for seven sites. The terms are renewable annually with a starting annual rate of \$25,000.00, automatically increasing by five percent (5%) every year thereafter.

**Review of the Arkansas Department of Education Expenses for Fiscal 2014 for the Reimbursable Administrative Costs [Exhibit F]**

Mr. Shane Broadway, Director, Arkansas Department of Higher Education, presented the ADHE FY 2014 expenses for the reimbursable administrative costs associated with scholarships awarded as funded with the net proceeds of the Arkansas Lottery. He reported \$413,426.83 in direct costs and \$338,129.20 in indirect costs at a total of \$751,556.03. Mr. Broadway stated administrative expenses for FY 2014 were 5.3% or \$42,459.65 below expenses for FY 2013.

With no further business, the meeting adjourned at 2:50 p.m.