

NORTH CAROLINA LOTTERY COMMISSION

Meeting Minutes

Members in Attendance: Dr. Charles Sanders, chair
Kevin Geddings
Robert Farris
Robert Appleton
John McArthur
Secretary Bryan Beatty
Linda Carlisle
Gordon Myers

Meeting was Held:

Oct. 26, 2005 at 10:00am, ABC Commission Room, 116 W. Jones St.

I. Introduction and Opening

- Dr. Sanders called the meeting to order and welcomed all those in attendance. He acknowledged Malachi Greene's resignation and noted that the board would not comment. He reminded the commission that they are charged with the implementation of the lottery. He mentioned that with all the interest in the lotteries activities that the deliberations of the commission should be as transparent as possible.

II. Approval of Minutes

- Mr. McArthur moved to approve the minutes; Mr. Farris seconded the motion. The board approved the minutes by unanimous vote.

III. Guest Speakers

- Dr. Sanders asked Prof. Phillip Cook of Duke University and author of the book "Selling Hope" to address the commission. Prof. Cook distributed a briefing that updated information in the book, as well as an outline of the topics he wished to cover. He presented a variety of information relating to the history of lotteries, their implementation here in the United States, the benefits and problems associated with lotteries and up-to-date information about their current status in the U.S.
- Dr. Sanders welcomed David Gale, executive director of the National Association of State and Provincial Lotteries (NASPL) to the meeting. Mr. Gale began with a brief history of NASPL and what the association can offer to state lottery organizations. He shared that, for the vast majority of players, the lottery is a form of entertainment and 99.9% of the people playing use discretionary funds to do so. Mr. Gale

discussed the benefits of a lottery and emphasized that even if a citizen does not buy a lottery ticket, they will benefit from the proceeds. Mr. Gale ended with the suggestion that a lottery will only be successful if it is run as a business. He then offered educational materials and opportunities through NASPL.

Break: 11:55- 12:15

- Dr. Sanders introduced Rebecca Paul, CEO of the Tennessee Lottery. She focused on start-up issues as relates to the lottery. She indicated that there are three things that make the lottery successful: 1.) Realizing that the retailer is your primary customer. 2.) Knowing that you are in business to market a consumer product. 3.) Understanding that the product you are selling is integrity.
- Ms. Paul suggested that how you start a lottery sets the groundwork for the next 20 years. She emphasized the importance of handling the start up rapidly.
- Ms. Paul recognized the fact that there are a number of decisions that cannot be made until the director is hired. She listed several that the commission could begin working on. While the search for a director continues, the commission can obtain temporary office space, establish a line of credit, consider an outside law firm and determine what will be out-sourced. Ms. Paul recommended after the director is in place that there be a daylong meeting with the commission to make major decisions.
- Ms. Paul distributed a handout, from the Tennessee lottery, which included a list of actions that must be completed prior to ticket sales. She also challenged the commission to establish a logo for identification purposes immediately.
- Ms. Paul indicated that most lottery directors balance their staff with technology, marketing and finance people. She chose not to hire consultants during her lottery start-ups because their futures were not invested in the decisions that they made. She shared that she utilized employees from other state lotteries to help with the RFP evaluation process. Ms. Paul also told the commission that she has never seen a board member involved in the RFP evaluation process.
- She noted that the commission should determine how many people with lottery experience they will allow the director to hire. Also, she highlighted the fact that it is a small industry and there will always be insinuations of favoritism. Ms. Paul emphasized the importance of having an appeal process in place along with your procurement policy.
- The length of a vendor's contract was also discussed. Ms. Paul stated that the longer the contract, the longer the vendor has to amortize the cost, resulting in a lower price. She noted that she chose seven-year contracts due to the fact that newer technology should be in place by the end of that time period. Ms. Paul noted that North Carolina would have to search for the lowest vendor prices possible, with a responsible bidder, due to the mandated return amounts. This could possibly be obtained by offering longer contracts.
- Ms. Paul commented on the importance of incorporating minority contractors and the importance of staying nonpartisan.

Lunch break (1/2 hour)

- Ms. Paul invited the commission to Tennessee to see what a lottery looks like when it is operational.
- She closed with the thought, that in the end, establishing and running the lottery will be one of the most rewarding experiences the commissioners will have. "The ability to operate a business that does so much public good is something that you will treasure for all of your lives. You will change young peoples lives."
- A question and answer period followed.

IV. Committee Reports

- Dr. Sanders requested reports from the committees.
- Ms. Carlisle highlighted the topics discussed during the Retail committee meeting held prior to the full commission meeting. She indicated that the committee is determining the critical issues involved in retail applications as well as background checks. She will let Dr. Sanders know the estimated time frame for completion; however, Ms. Carlisle indicated that she was assured that these issues could be handled internally and should take between two days and a couple of weeks to complete. The goals for the committee are to develop draft recommendations for the policy and procedures for the application, the guidelines and the application itself; however, final decisions will have to be made after the director is hired. She also noted that applicants interested in more information can register on line via the lottery's website.
- Mr. Farris commented that the Vendor selection committee has spent several weeks reviewing RFPs from different states. He mentioned that Robert Powell, State Comptroller, spoke to the board Monday, Oct. 24, concerning the RFPs. He indicated that Mike Mangum, State Purchasing Agent, has put together a team to help develop the RFPs. Mr. Farris hopes to be able to present the new director, upon hiring, a draft RFP for consideration.
- Dr. Sanders noted that although the commission is moving quickly most decisions are contingent upon the hiring of a director.
- Dr. Sanders noted that the commission has received over 200 applications for the director position. He indicated that only about 15 seem to have met the criteria necessary to be considered. Dr. Sanders, Mr. Geddings and Sec. Beatty will review these candidates' applications and present to the board their suggestions for interviews. He hopes to be able to interview candidates at the November 9, 2005, meeting.

V. Lottery Website Name

- Dr. Sanders circulated a list of website name recommendations. Mr. Geddings noted the importance of an easy to remember name. Mr. McArthur suggested the need to tie the name to a logo. After a discussion, Dr. Sanders accepted responsibility to develop an RFP for a logo. Mr. Farris suggested they use a little red schoolhouse as part of the logo. Mr. Geddings recommended a separate RFP for advertising

and public relations. Dr. Sanders noted that the current website has had 24,089 hits since its inception.

IV. Ethic Policy

- Dr. Sanders called on Mr. McArthur to discuss the ethics policy. He noted that he worked with Perry Newson's office to draft the policy. He pointed out the first paragraph, which incorporates the statutes on gifts. The gifts and entertainment section goes above what is in the statutes, this includes anything of value.
- Mr. McArthur also indicated that all communication with the commission must be held in commission meetings, not outside of that setting. An additional provision added is that the commissioners will not play the lottery in any state.
- A discussion concerning the "cooling off period" of two years, prohibiting the lottery staff or commission from working for anyone related to a lottery, occurred. Ms. Carlisle felt the intent should be more directly stated. Mr. McArthur suggested that they add another paragraph stating that any commission member is prohibited for working for any contractor or vendor related to the North Carolina Educational Lottery. It was agreed that this addition might cause some unintended consequences and needs to be looked at again.
- Ms. Carlisle moved to adopt the code of ethics subject to future amendments. Mr. Appleton seconded. By unanimous vote the commission adopted the code of ethics. (see attached)

The meeting was adjourned.