

**MINUTES**  
**IOWA LOTTERY BOARD**  
**July 17, 2008**

The meeting was called to order by Vice Chairperson Junge at 10:10 a.m., at Lottery Headquarters in Des Moines. Board members present: Elaine Baxter, Mary Junge, Michael Klappholz, Thomas Rial, Brad Schroeder, Michael Fitzgerald.

Staff present: Kenneth Brickman, Acting CEO; Harry Braafhart, Vice President for Security; Steven King, Chief Financial Officer; Joe Hrdlicka, Vice President for Marketing; Larry Loss, Vice President for Sales; Marci Tooman, Assistant Vice President for Legal Affairs; Evelyn Halterman, On-line Manager; Brenda Loy, Financial Manager; David Van Compennolle, Assistant Attorney General; Barbara DeHeck, secretary.

Others present: Jerry Crawford, Nick Mauro (Crawford Law Firm); Dave Berger, Mark Hoffman (Scientific Games).

**Minutes**

Baxter moved to approve the minutes of the June 13, 2008 meeting. The motion was seconded by Rial and carried unanimously.

**Monthly Reports**

Written reports were included in the agenda package. Staff members reviewed the information and responded to questions from Board members. In addition to the regular monthly reports, Loss presented comprehensive annual retailer sales figures by product for the top 50 stores, the top 10 stores in each region, and the top three corporate chains.

Schroeder moved to accept the monthly reports as presented. The motion was seconded by Klappholz and carried unanimously.

**Changes to Financial Policy**

King requested Board approval for changes to the Lottery's financial procedure 210.130, increasing reimbursement for the use of personal vehicles from 34 cents to 39 cents per mile and decreasing the maximum allowable yearly mileage from 15,000 to 12,000 miles, to conform with changes to the state policy.

Klappholz moved to approve the change to the Lottery vehicle travel policy. The motion was seconded by Baxter and carried unanimously.

**NASPL Membership Dues**

Board approval was requested for payment of annual dues for the North American Association of State and Provincial Lotteries, in the amount of \$16,000. Brickman noted that all North American lotteries were members of NASPL. The organization was a central information source for the lottery industry, and provided valuable training at its conferences as well as the opportunity to share information with other lotteries.

Rial moved to approve payment of the NASPL membership dues. The motion was seconded by Schroeder and carried unanimously.

### **Administrative Rules**

Tooman reported that Notice of Intended Action for the amendment to Administrative Rule 11.6 to specify that tickets submitted by minors must be signed by a parent or legal guardian was published on May 7, 2008. No public comment was received and the legislature had no comments or questions; Board approval was therefore requested for final adoption.

Baxter moved to approve the administrative rule change. The motion was seconded by Schroeder and carried unanimously

### **Vending Machine Maintenance Contract Extension**

Hrdlicka indicated the initial contract with American Games Inc. for pull-tab vending machine (PTVM) and instant ticket vending machine (ITVM) maintenance was for the period of October 1, 2004 through September 30, 2008 with two one-year renewal options. He said the staff recommended executing the first of the renewal options. The cost, on a per-machine basis, would remain unchanged. He added that the Lottery had been very satisfied with American Games' service, and the company had been particularly helpful in the recent flooding situation, removing many machines in time to avoid damage.

Rial moved to extend the PTVM and ITVM maintenance program agreement with American Games. The motion was seconded by Schroeder and carried unanimously.

### **SGI On-line Contract Extension**

Brickman reported that Scientific Games International (SGI) had proposed several alternatives for exercising the final one-year renewal option available under its contract for on-line services. He reviewed the alternatives offered, one of which included a 17 percent fee reduction and the addition of 1000 ticket checkers. However, the ticket checkers would require ten to twelve months' installation and would not interact with the Lottery's existing ticket stock. Since it would be nearly a year before the ticket inventory was exhausted and all tickets would carry the necessary bar coding, the staff believed that option would not be cost effective. Another alternative offered a 17 percent fee reduction and \$100,000 for laptops and related equipment for the Lottery's sales representatives, which the staff did not feel was needed, particularly in the time frame of the proposed contract extension.

Brickman indicated the proposal the staff believed to be the most viable included a 34 percent fee reduction and, at no additional cost, the licensing and printing of SGI's proprietary bar code technology. The licensing fee concession would also be extended to tickets printed for the Iowa Lottery by other vendors during the contract period. That would allow adequate time to purge the existing ticket inventory, thus providing the option to implement ticket checking technology, if desired, when a new request for proposals was issued. He noted that there was no need to rush forward with ticket checking technology at the present time because of the steps already taken to protect the Lottery's retailers and players through the ticket signing requirement and the issuing of ticket receipts.

In addition, the staff had not been entirely satisfied with the performance of the internal control system vendor provided under the contract as a subcontractor to SGI. SGI had identified a suitable alternative source, but at a fairly substantial increase in cost. To compensate for that increase, SGI requested a reduction in liquidated damages for system down time. Brickman said the staff thought the offer was reasonable, and recommended negotiation of the contract extension as discussed, for the period of July 1, 2010 through July 2, 2011. The negotiated contract extension would then be presented to the Board for final approval.

Schroeder moved to adopt the proposed extension through July 2, 2011 with the final contract to be presented for approval at a later date. The motion was seconded by Baxter and carried unanimously.

### **Litigation Update**

Junge announced that the office of the Attorney General was prepared to consult with the Board on the status of pending litigation and that the briefing should be conducted in closed session as provided in Iowa Code chapter 21.5(1)(c) which provided for closed session to discuss strategy with counsel in matters presently in litigation or where litigation was imminent where its disclosure would be likely to prejudice or disadvantage the position of the governmental body in that litigation.

Rial moved to go into closed session pursuant to Iowa Code chapters 21.5(1)(c). The motion was seconded by Schroeder and carried by a unanimous roll-call vote.

The Board convened in closed session at 11:05 a.m. At 11:48 a.m. the Board returned to open session upon a motion by Baxter, seconded by Schroeder, and carried by a unanimous roll-call vote. No action was taken in closed session.

### **Election of Officers**

Junge called for nominations for the positions of Board chairperson and vice chairperson.

Klappholz nominated Junge as Board chairperson. The nomination was seconded by Schroeder and carried. Baxter nominated Klappholz as vice chairperson. The nomination was seconded by Rial and carried.

Adjournment having been moved and carried, the meeting adjourned at 11:52 a.m.