

North Carolina Education Lottery Commission Meeting

Meeting Minutes
Wednesday, January 6, 2016

Commissioners in Attendance:

Kim Griffin, Jr., Chairman
Keith Ballentine
Alice Underhill
Amy Ellis
Chris Shew
Jody Tyson
Courtney Crowder
David Kirby
Doug Baker

Staff in Attendance:

Alice Garland
Bill Jourdain
Randy Spielman
Quan Kirk

The North Carolina Education Lottery Commission meeting was held Wednesday, January 6, 2016 at 10:30am, at NCEL headquarters, located at 2100 Yonkers Road, Raleigh, NC.

Chairman Griffin called the meeting to order and reminded the Commission that they operate under the State's code of ethics. He also informed commissioners that funds raised by the North Carolina Education Lottery (NCEL) should be used to supplement, not supplant, education dollars in North Carolina and that such expenditure is controlled by the North Carolina Legislature.

Chairman Griffin requested a roll call to ensure a quorum. Teri Riddle, Executive Assistant, called the roll. All Commissioners were present for the meeting.

Chairman Griffin welcomed Representative Mike Hager, NC House Majority Leader, who was in the audience. Representative Hager thanked the NCEL for their valuable financial contributions to the state of North Carolina.

The meeting was turned over to Alice Garland, Executive Director. Ms. Garland explained that the purpose of the meeting is for the NCEL Commission to vote on a new instant ticket services vendor and gaming system vendor for the NCEL. She provided background on how the competitive selection process began to choose the new vendors.

Instant Ticket Services Contract

Evaluation Team Members: Tami Wiggs, Director of Marketing; Walter Ingram, Director of Sales Development; Tim Rink, Gaming Integrity Manager; David Nelms, Project Manager; and Randy Spielman, Director of Product Development.

Randy Spielman presented information to Commissioners about the instant ticket services request for proposal (RFP) process. Prior to issuing the RFP, scoring criteria were established based on a 1,000 point scale with criteria being broken down into two different categories: Technical and Pricing/Other. The NCEL issued a RFP

on June 5, 2015 inviting qualified companies to bid for the NCEL instant ticket program to serve as the primary contractor for the instant ticket program. Within the same RFP, the NCEL was also seeking a secondary print vendor(s). The secondary vendor(s) may be requested to print up to five (5) instant scratch-off games per year. The secondary vendor(s) would also serve as the primary ticket vendor if the primary vendor was unable to fulfill the terms of the primary contract. The Proposals were due on August 31, 2015.

Two (2) proposals were submitted to serve as primary ticket vendor for the instant ticket services RFP: (1) Scientific Games International, Inc. (SGI); and (2) IGT International, Inc. (IGT) in partnership with Pollard Banknote LLC (Pollard). SGI, IGT and Pollard also submitted proposals to serve as secondary print vendors. Mr. Spielman explained that the evaluation committee met weekly to discuss individual assessments and answer any questions any of the assessment team may have. They also made site visits to each potential vendor's printing facility and warehouse and distribution center. The scoring for Pricing was conducted separately after all the scores had been submitted for the Technical criteria to the Purchasing Administrator.

Mr. Spielman reported that once the proposals were evaluated, the committee determined that SGI had the highest score of 971 and recommended that SGI be designated as the apparent successful contractor to serve as primary ticket vendor. IGT, in partnership with Pollard Banknote, received a score of 758. The committee also recommended that both IGT and Pollard be awarded contracts to serve as second printing vendors.

After discussions, Commissioner Underhill made a motion to accept the evaluation team's recommendation to award the primary contract to SGI and award the secondary contracts to both IGT and Pollard. Commissioner Kirby moved to accept the staff recommendation Commissioner Tyson seconded the motion that passed unanimously.

Gaming System Contract

Evaluation team members: Tony Chung, Deputy Executive Director of MIS and Gaming Systems; Joe Norman, Director of Gaming Systems; Terry Avery-Fowler, Deputy Executive Director of Sales; Frank Suarez, Deputy Executive Director of Brand Management and Corporate Communications; and Bill Jourdain, Deputy Executive Director of Finance, Administration and Security.

Mr. Jourdain presented information to the Commission about the gaming system RFP process. Prior to issuance of the RFP, scoring criteria were developed that would be the basis of the evaluation of the vendors' proposals. The 1000 point scale was divided into two (2) categories: Technical and Price/Other Factors. The NCEL issued a RFP on March 31, 2015 inviting qualified companies to bid for the NCEL gaming system contract. The NCEL provided a question and answer period from March 31 until September 4, 2015 to provide any potential vendors the opportunity to seek clarification on any area of the RFP.

Three (3) companies responded to the RFP: (1) International Game Technology (IGT); (2) Intralot; and (3) Scientific Games (SGI).

Mr. Jourdain explained the scoring process for each category to the Commissioners. Commissioner Tyson inquired as to whether there was a way to test the endurance of the technology and equipment at each retail location. Mr. Jourdain explained that life expectancy of equipment is about 5 years, depending on the amount of "moving" parts. Quan Kirk, General Counsel explained that under the terms of the existing and future contracts, vendors are required to replace equipment as needed. After reviewing the remaining categories, Mr. Jourdain stated that upon completing the evaluation of the three (3) proposals, the evaluation committee recommends IGT as the apparent successful contractor. The evaluation committee selected IGT based on scoring the highest cumulative total points as presented in the evaluation report. IGT scored a total of 971 out of 1,000 points. SGI scored 967, and Intralot scored 877 out of 1,000 points.

Mr. Jourdain further stated this was an extremely close competition in which all responding contractors demonstrated the ability to provide the technical systems and related services needed to support the NCEL's operation over the next contract term. However, upon inclusion of the scores for Pricing, which was scored after all the Technical scores had been submitted to the Purchasing Administrator, IGT achieved the highest overall score.

Commissioner Baker inquired about the scoring methodology. Mr. Jourdain explained that prior to reviewing the proposals, the evaluation team determined a point value for each category and decided which category should carry more weight. He also explained that they used an aggregated scoring process to determine an average point value.

Commissioner Kirby noted that SGI scored higher than IGT by eleven (11) points in the category of marketing. He inquired whether SGI may be the better vendor when looking at a long-term service due to the higher marketing score. Mr. Jourdain explained that marketing was only one segment of the gaming system services requirements, and SGI did have a slight advantage in this category. However, when looking at the big picture whereby the requirements are technology driven, the slightly higher scoring in this area is only a partial factor in selecting the best and most reliable gaming system.

Executive Director Garland explained the gaming system contract is very different from the instant ticket contract. The points for each contract are set very differently. The technical aspect is more critical for the gaming system contract.

Commissioner Tyson agreed that marketing carries more weight on the instant ticket side versus the gaming system side. However, if that is the case, he questioned why it was the largest of the subcategories in that area. Commissioner Crowder agreed that a value has been placed on this subcategory and it clearly carries weight.

NCEL staff explained the scoring process and categories and different components that go into writing an RFP and determining proper scoring for each category and subcategory. The criteria for evaluation and the associated scores were detailed in the RFP. Therefore, all the responding contractors were aware that the highest total score will likely be awarded the contract.

Chairman Griffin polled each commissioner to ensure that any questions or comments about the gaming system vendor selection process had been satisfied.

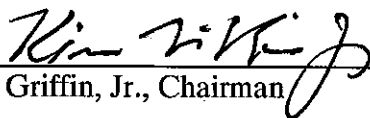
- Commissioner Baker: Commissioner sought further clarifications on the scoring process of the categories and subcategories. After discussion and answered questions from NCEL staff, Commissioner Baker said his questions have been answered in a satisfactory manner.
- Commissioner Ballentine: Commissioner noted that there were eight (8) scoring categories total. SGI scored higher in three (3) of them and IGT scored higher in five (5) of the categories.
- Commissioner Crowder: Commissioner recognized this is a very competitive process with two (2) highly capable companies. He stated he's comfortable that the important issues that were raised earlier in the meeting have been adequately explored and considered.
- Commissioner Ellis: Commissioner had initial questions regarding the allocation of scores to certain categories, but she now understands that she needs to view the "big picture."
- Commissioner Tyson: Commissioner expressed concerns about the possibility of "comfort bias" in the process of choosing a new gaming system vendor. He asked General Counsel, Quan Kirk, if there was any possibility of such bias factoring into the committee's recommendation. Ms. Kirk, explained in detail how the RFP was written and that the process is transparent and fair, and information is relayed

equally amongst all the responding vendors. She also stated she is willing to stand by the process that is in place – one of integrity and transparency. Ms. Kirk reiterated that the scores between the three (3) responding contractors were very close, and that when Pricing was factored into the scores, IGT achieved the highest total score.

Chairman Griffin requested a motion concerning the recommendation to award the gaming system contract to IGT. Commissioner Kirby made a motion to accept and approve the recommendation of the staff to award the gaming contract to IGT and Commissioner Shew seconded. The commission passed the motion unanimously.

Commissioner Kirby thanked Commissioner Ballentine for his hard work, dedication and leadership as Chairman of the NCEL Commission for the last two years.

Being no additional business, the meeting was adjourned.



Kim Griffin, Jr., Chairman

3-8-16

Date