

TENNESSEE LOTTERY

The question of whether to have a lottery in Tennessee had been debated for nearly 20 years. Finally, a statewide referendum in 2002 answered the question.

Last summer, Denny Bottorff picked up a new mantra. Whether he's meeting with lawmakers or community groups, the chairman of the new Tennessee Education Lottery Corporation always starts off repeating the same words. It's become a sort of mission statement: "Everything we do is about maximizing net revenues for scholarships."

The new Tennessee Lottery was charged with raising \$88 million in profits by July 1 in order to fund the first round of scholarships for 65,000 students expected to attend Tennessee colleges and universities this fall. Long-term, the financial hurdles get higher as more and more students pour into the state's higher education system.

Raising money for college scholarships is a mission that Bottorff and the other five members of the board of directors take seriously.

"There's no business in recent memory that will have as profound an impact on students and families as the Tennessee Lottery," says Bottorff, a Nashville venture capitalist and former chairman of AmSouth Bancorporation. "The bottom line is, we're committed to doing it right."

And right they have been: in its first transfer to the Tennessee Lottery for Education Fund, the Tennessee Lottery handed over nearly \$64 million after just two months and 10 days of ticket sales. Overall ticket sales after just over three months reached \$300 million.

Over the past several months, the lottery board—and its management team—went through a whirlwind startup process. This is the story of the Tennessee Lottery.



Collage after a photo by MTSU Photographic Services

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From the Beginning

The question of whether to have a lottery in Tennessee had been debated for nearly 20 years. Finally, a statewide referendum in 2002 answered the question. Fifty-eight percent of Tennesseans voted in favor of creating a lottery if the proceeds were used for college scholarships.

The Tennessee General Assembly spent much of the following spring writing and approving legislation to set up the games and policies to administer the scholarships. Then, on June 30, Governor Phil Bredesen appointed the first seven members to the board of directors of the Lottery Corporation. (Board member Morris Fair died on April 7 of this year.)

For two months beginning in late July 2003, the volunteer board operated virtually full-time, making both policy and operational decisions. Board members took a crash course on the lottery business, traveling to other states to inspect lotteries and learn about the games. They talked to experts and conducted the due diligence necessary for a billion-dollar startup enterprise.

They also conducted a nationwide CEO search to find the right person to build a billion-dollar enterprise from scratch. "In terms of the top manager, we wanted someone who understood the unique demands of the lottery business," Bottorff says. "Just as important, we wanted someone who had mastered the complex art of the startup."

That someone turned out to be lottery veteran Rebecca Paul.

Paul, then-president and CEO of the Georgia Lottery, weeks earlier had discussed a possible joint venture with the Tennessee Lottery that would have allowed the new startup to leverage Georgia's low vendor rates while driving down overhead costs for both organizations.

But when the revolutionary idea met resistance from a handful of competing vendors and other lotteries, the Tennessee Lottery board turned its sights directly on Paul.

In making the September 8, 2003, announcement that Paul had been hired as the Tennessee Lottery's first CEO, board members noted her "unparalleled experience."

She headed up the Illinois Lottery in 1985, launched the Florida Lottery in 1988, and started up the Georgia Lottery in 1993. During Paul's 10 years in the Peach State, the Georgia Lottery generated \$6 billion for education programs, including college scholarships for more than 700,000 students and pre-kindergarten learning for 400,000 four-year-olds.

The Tennessee board members made it clear they expected similar success in the Volunteer State. "Under state law, college scholar-

ships are the top priority for lottery proceeds," Bottorff says. "But if there's any money left over, we can help fund initiatives like early childhood learning, which is a priority for both the governor and the legislature."

He adds, "We thought Rebecca would give us the best opportunity to meet and exceed our goals."

As part of the oft-repeated mission to maximize net revenue, the board structured an incentive program that would provide Paul with unprecedented compensation in exchange for unprecedented performance.

And she has delivered: the Tennessee Lottery launched its first instant ticket sales three weeks ahead of schedule, generating nearly \$30 million in additional funds for education programs and breaking industry records for its rapid startup.

Paul arrived in Nashville to work full-time on September 22. Her first task was to work with attorneys to draft the lottery's vital requests for proposals (RFPs) for both instant and online contracts.

She brought with her to Tennessee three of her top lieutenants in Georgia—Wanda Young Wilson, Andy Davis, and Sidney Chambers—to handle legal, finance, and information technology and sales, respectively. Combined, the four-person management team brought more than 50 years of lottery experience to their tasks. Two Tennesseans were chosen to round out the senior team: Steve Adams, who served as state treasurer of Tennessee since 1987, and Will Pinkston, who served as special projects director for Governor Phil Bredesen.

Within weeks, RFPs were released and proposals were received at the lottery's temporary headquarters in a state office building in downtown Nashville. In late October, a six-person evaluation team began working day and night to review the thousands of pages of technical documents submitted by global vendors.

As the critical evaluation process moved ahead, so also the lottery's management proceeded rapidly on other fronts to procure office space, furniture, computers, and the infrastructure necessary to support the fast-growing corporation.

On November 21, the Tennessee Lottery hit its first milestone. Paul recommended to the board that GTECH Corp. be awarded the online gaming system contract and that Scientific Games International Inc. be awarded the instant ticket and related services contract. Both contracts would carry seven-year terms. The board concurred with the recommendation unanimously.

"GTECH and Scientific Games each offered the most comprehensive proposals at



WKRN drawing host John Dwyer and Tennessee Education Lottery Corporation CEO and President Rebecca Paul on the CASH 3 television set in Nashville

the best overall value,” Bottorff says. “Both companies are industry leaders with strong track records in the U.S. and around the world.”

Tennessee Lottery officials were especially pleased with the competitive rates that each vendor brought to the table. “At the end of the day,” Paul says, “this will translate to more scholarship dollars for the students of Tennessee.”

In addition to the gaming contracts, a third major contract was awarded for advertising services to Nashville’s Gish, Sherwood & Friends on December 22, securing a third vital component to ensure a successful launch. From that point forward, the Tennessee Lottery’s expansion moved at a breakneck pace.

The first retailers were approved on December 5, after clearing criminal background, credit, and tax checks. GTECH immediately dispatched nearly 100 two-person teams to begin equipment installation. Scientific Games secured a warehouse just south of Nashville for statewide ticket distribution. Paul unveiled the first four colorful instant games on December 29.

Working straight through the holidays helped. By early January, enough work had been completed to move the launch date up from February 10 to January 20—a full three weeks earlier than originally anticipated. By that point, the Tennessee Lottery also was well on its way to launching with a much larger than expected retailer base—nearly 3,500 outlets statewide, or 17 percent higher than the initial goal. Again, Paul noted, “more dollars for scholarships.”

Another priority of the Tennessee Lottery is its commitment to minority participation, not only by meeting—and surpassing—its goal of at least 15 percent business participation but also in its staffing. At press time, the lottery’s

employee base was made up of roughly 57 percent minorities.

By the time the games went on sale at 12:01 a.m. January 20, the Tennessee Lottery had shipped 47 million tickets to retail outlets spanning 500 miles from Memphis to Mountain City.

The first “instant win” ticket was cashed for \$2 at 12:03 a.m. EST at Tellico Pride, an independent retailer in Tellico Plains. Lottery retailer-service representatives manned phone

lines throughout the night, fielding calls with last-minute questions about lottery games and equipment.

At 10 a.m. that day, Governor Phil Bredesen and sponsors of the lottery legislation, State Senator Steve Cohen and State Representative Chris Newton, joined Lottery President and CEO Rebecca Paul for an up-close look at first-day sales at Florence Station, an independent retail outlet in Murfreesboro.

During the visit, Bredesen commended the lottery’s board of directors and employees for a successful and early startup. “Short-term, this early startup will generate millions of extra dollars for college scholarships,” Bredesen said. “Long-term, the lottery should be a stable source of scholarship funding for years to come.”

Cohen, who is considered the “Father of the Tennessee Lottery” after pushing for legislation for 20 years, says “the lottery’s board and management should feel proud of how much they’ve accomplished. We’ve got the best lottery in the world.”

The next morning, on January 21, Paul announced that first-day ticket sales hit \$10.8 million, or \$1.87 per capita. At the very least, it officially confirmed the Tennessee Lottery as one of the fastest and most effective startups in U.S. history. Since that historic day, the lottery has gone on to launch two online games: Cash 3 on March 1 and Powerball on April 19.

“We’re excited to provide a lasting source of fun and entertainment for Tennesseans,” she says. “Most importantly, we’re excited about generating millions of dollars for education programs in the Volunteer State.” ■

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