

Oklahoma Lottery Commission

Minutes of Regular Meeting

May 16, 2006 – 1:30 p.m.

Members Present:

Mr. Orbison, Chairman
Dr. Dzialo, Secretary
Mr. Riley, Treasurer

Ms. Ball
Mr. Charlton (arrived at approximately 1:45)
Mr. Paul

Members Absent:

Mr. Norick

Others Present:

Jim Scroggins, OLC
Rollo Redburn, OLC
Beverly Hughes, OLC
Penny Nicholson, OLC
Gay Tudor, AG's Office
Lisa Liebl, Fox 25
Steve Bottkol, Fox 25
Azalia Hoelting, Fox 25
John Rossi, Fox 25
Tony Thornton, The Oklahoman
Pat Hall, SGI
Rhonda Hooper, Jordan Associates
Jeanette Gamba, Jordan Associates

Jason Trout, Jordan Associates
Brian Ervin, Capitol Network News
Angel Riggs, Tulsa World
James Tyler, CNHI
Mary Wills, SGI
Charlie Scannella, SGI
Jim Kennedy, SGI
Mike Chambrello, SGI
Rob McAfee, Wright McAfee, CPA's
Richard Hutzenbiler, Wright McAfee, CPA's
David Douglas, SGI
Allen Blankinship, SGI

ITEM 1 Call to Order. Roll Call and Announcement of Quorum

Roll Call: Mr. Orbison, Mr. Riley, Dr. Dzialo, Ms. Ball and Mr. Paul were present. Mr. Charlton was absent at the Call to Order, but arrived at the meeting at approximately 1:45. Mr. Norick was absent. Mr. Orbison declared a quorum.

ITEM 2 Announcement of Filing of Regular Meeting Notice and Posting of the Agenda in Accordance With the Open Meeting Act

Posting of Regular Meeting Notice and Posting of the agenda were confirmed, in accordance with the Open Meetings Act.

ITEM 3 Approval of Minutes of the May 1, 2006 Special Meeting

Mr. Paul made a motion to approve the minutes of the May 1, 2006 meeting. Dr. Dzialo seconded the motion.

Roll Call: Mr. Orbison, Mr. Riley, Ms. Ball, and Mr. Paul voted to approve. Dr. Dzialo abstained. Mr. Charlton had not yet arrived. The motion was carried.

ITEM 4 Executive Director's Report

Mr. Scroggins informed the Board members that the Lottery Commission had received two "Quality OK Team Day" awards: a Governor's Commendation award and a specialty award for most new revenue produced.

Mr. Scroggins gave the Trustees copies of the most recent combined sales report for the Oklahoma Lottery and discussed some of the figures. He reported that the Lottery expected to meet the FY06 sales projections. He stated that the Lottery was preparing to launch a new instant game called "Trucks and Bucks" and he gave the Trustees some literature on the game.

Mr. Scroggins reported that there are now 2,126 active lottery retailers, as well as several retailers pending installation or approval which would put the total number of retailers over 2,200. He stated that 87 Player Activated Terminals (PATs) have been installed or are ready to be installed. He handed out copies of OLC's policy regarding PATs.

Mr. Scroggins gave the Trustees a copy of the master list of Super Retailers and pointed out a sample of the signage for those locations. He also reported that 825 lighted jackpot signs will soon be deployed to retailers and gave each Trustee a copy of the OLC Powerball Jackpot Sign Policy.

Mr. Scroggins reported that the Lottery's permanent Rules have completed the approval process and will officially become effective on June 26, 2006.

Mr. Scroggins handed out copies of Senate Bill 1089 which restricts certain types of businesses, such as pawn shops and check cashers, from becoming Lottery retailers. The bill passed both the House and Senate and awaits the Governor's signature. He stated that one other bill affecting the Lottery had been assigned to a conference committee.

Mr. Scroggins reported that letters of invitation have been mailed out to potential members of the Retailer Advisory Board, and that the commission is waiting to hear from three retailers who have not yet responded to the invitation.

Mr. Orbison asked Mr. Scroggins about the status of Powerball sales in Oklahoma as compared to other states, and Mr. Scroggins reported that of the thirty states selling Powerball, Oklahoma is consistently in the top five for sales. He stated that Oklahoma is in second place (after the Virgin Islands) in sales of Powerplay. He pointed out that Oklahoma's continued number five ranking verifies that sales have decreased everywhere, and not just in Oklahoma. He cited the high cost of gasoline as a very likely factor in declining lottery sales nationwide.

ITEM 5 Presentation of New Game Proposal

Mr. Scroggins reminded the Board that the Lottery had been given very aggressive sales and profit goals. He stated that, thanks to a very fast start-up, the Lottery Commission expects to achieve its goals for FY06. However, in order to meet FY07 goals, the Lottery needs to introduce new games and promotions. He explained that designing successful games represents a big challenge, and is not so much a science, as an art.

Mr. Scroggins previously mailed each Board member an analysis examining the pros and cons of various game options. He stated that it was his opinion that the best game for Oklahoma at this time is a Cash Game, and he explained how the game would operate. He stated that focus group studies indicated that most people like the idea of a prize structured to be "tax paid." Focus group members also liked the Cash Game concept and thought the game would be easy to play and offered a good chance of winning. Based upon sales in other states with similar populations, Mr. Scroggins estimated sales of nine cents per capita, or approximately \$16 million per year.

Mr. Riley asked Mr. Scroggins for more information on how the game would work, and Mr. Scroggins stated that the odds of winning were 1 in 7.6, with at least one large-prize winner every 1.5 weeks. He suggested two drawing per week with a top prize of \$25,000. Mr. Scroggins described how the game could be structured to limit liability in the event there were a large number of winners for any one drawing. Mr. Scroggins explained that if there were six or more winners, the game would become pari-mutuel, and that this policy would be clearly stated on each ticket sold. He suggested a launch date of August 20, 2006, with a first drawing on August 22nd.

Mr. Riley asked how a Cash Game would be implemented and whether additional drawing machines would have to be purchased. Mr. Scroggins replied that the necessary machines had been purchased as part of the Missouri used equipment buy that had taken place prior to start-up. He stated that the drawings would be held at the same studio that Pick 3 drawings were held. Board members asked how the "tax paid" feature of the game worked, and Mr. Scroggins replied that the game would be set up with prizes of a sufficient amount that the winner would receive \$25,000 after the required tax withholdings. He suggested that the game be described as "tax paid" rather than "tax free", as in some cases a winner might need to pay additional taxes at the end of the year, or might receive a tax refund, depending upon their individual filing status.

Mr. Paul made a motion to authorize Mr. Scroggins to implement an Oklahoma Cash Five game, with a launch date of August 20, 2006. Mr. Charlton seconded the motion.

Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and Mr. Paul voted to approve. The motion was carried.

ITEM 6 Discussion, Consideration and Possible Action on Vendor Contract Renewals:

a) Drawing Auditor, b) Drawing Studio, c) Advertising Agency, d) Instant and On-line Gaming System and Related Services, e) Attorney General Legal Services

Mr. Scroggins told the Board that representatives of the vendors currently holding each of the above-listed contracts were at the meeting to offer presentations in support of one-year contract extensions.

The first vendor contract considered was the Drawing Auditor, Wright McAfee. Mr. Scroggins explained that the drawing auditor was responsible for certifying that the drawing was done using correct procedures and the numbers reported were true and accurate. He introduced Rob McAfee and Rick Hutzenbiler of Wright McAfee and invited them to address the Board. A summary of Wright McAfee's contract is attached to these minutes.

At the conclusion of the presentation Mr. Scroggins recommended that the contract with Wright McAfee be extended for another year. Dr. Dzialo made a motion to extend the contract. Ms. Ball seconded the motion.

Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and Mr. Paul voted to approve. The motion to extend the Wright McAfee's contract for one year was carried.

Mr. Scroggins then introduced Mr. John Rossi of KOKH/KOCB (Fox/WB). Mr. Rossi made a presentation to the Board, a summary of which is attached to these minutes. A summary of the Fox/WB contract is also attached.

Mr. Riley asked if the drawings were being broadcast in Tulsa. Mr. Rossi replied that they were. Mr. Charlton asked Mr. Rossi if broadcasting the drawings had aided their viewer ratings. Mr. Rossi replied that perhaps it did initially, but overall there was probably not much increase in ratings because the drawing information is almost immediately available on other media outlets. He added that the station was very happy to be identified as the official broadcast station for the Oklahoma Lottery and felt it was a mutually advantageous partnership.

Mr. Paul asked what programming was being shown on WB when the drawing was broadcast, and Mr. Rossi replied that right now it is "Fear Factor" but next fall it will be "Scrubs." Mr. Paul asked if they broke into programming to show the drawing, and Mr. Rossi replied that they didn't, but that they had calculated the programming so the drawing could be broadcast during the first commercial break. Mr. Charlton asked how the numbers were disseminated statewide. Mr. Rossi replied there is a fiber optic link to Tulsa and outlying areas could download the information. Ms. Hughes added that the drawing information was available on the OLC website, as well as the Fox 25 website, within minutes of the drawing. Mr. Charlton asked what percentage of lottery players were in the Fox 25/WB viewer audience, and Ms. Hughes replied that those statistics are not yet available, as the lottery is relatively new. She stated that the information would be available at a later time.

Mr. Paul asked if Fox 25 also broadcast the live Powerball drawings, and Mr. Rossi replied that they did, via a live feed from MUSL. Mr. Paul asked where the Powerball drawings took place, and Ms. Hughes replied the drawings were done in Des Moines, Iowa.

Mr. Paul asked whether the award of this and other vendor contracts required the issuance of a new RFP, and Mr. Scroggins and Ms. Tudor explained that because OLC is a State agency, contracts cannot be written to extend beyond the end of a fiscal year, but can be written to include annual renewal clauses allowing an agency to extend contracts year-to-year for a specified period of time. In the case of the Fox 25 contract, the annual renewal clause is for five years.

At the conclusion of the presentation and discussion, Mr. Scroggins recommended that the Board approve a one-year extension on the contract. He stated that the cost of the contract would be \$160,000 to \$200,000 for the next year. Mr. Riley made a motion to extend Fox 25's contract for one year. Dr. Dzialo seconded the motion.

Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and Mr. Paul voted to approve. The motion to extend the contract for one year was carried.

Mr. Scroggins introduced Rhonda Hooper, President and CEO, Jeanette Gamba, Chairman of the Board, and Jason Trout, all from Jordan Associates. Ms. Hooper and

Ms. Gamba made a presentation to the Board with an overview of Jordan's accomplishments working with the Lottery to date. A summary of their presentation is attached to these minutes. A summary of the Jordan contract is also attached.

Mr. Charlton commented that he would like to see a larger number of events take place outside the Oklahoma City metropolitan area. Ms. Hooper agreed and stated that the Oklahoma Centennial Celebration will offer many opportunities for promotions all around the State. Dr. Dzialo asked if Jordan was responsible for supplying the "talent" for their advertisements and whether the actors were from Oklahoma. Ms. Hooper stated that they bought those services through an Oklahoma

City agency, and that many of the actors were from Oklahoma, but some were recruited from other areas.

Ms. Ball asked if organizations such as MUSL put together any kind of promotional packages that the Lottery could use. Mr. Scroggins stated that there might be something sometimes, but generally each State did its own promotions. Dr. Dzialo asked where the large jackpot billboards were located, and Ms. Hooper replied that they were located all around the State. Mr. Scroggins added that there was a billboard being constructed in Lawton that OLC plans to use for a jackpot sign.

Mr. Orbison asked if Jordan had won any advertising awards. Ms. Hughes replied that they had received an "Addy" award for their work with the Oklahoma Lottery Commission Powerball commercial.

Dr. Dzialo asked how many people from Jordan Associates were involved in the creation of advertising for the Lottery Commission, and Ms. Hooper replied that generally 5-12 people were involved during various stages of the process.

Ms. Ball asked if it was possible to market Oklahoma advertising products to other lottery states. Ms. Gamba stated that the Lottery owned the production, but added that they tried to make the ads very "Oklahoma" in nature, and there were certain aspects of the advertising (such as agreements with actors) that prohibited marketing some materials. Mr. Scroggins and Ms. Hughes stated that ideas were often "borrowed" among various lotteries and that some Oklahoma ideas had already been used by other states.

Mr. Scroggins stated that he and other OLC staff members have been very pleased with the performance of Jordan Associates and recommended extension of their contract for one year at an estimated cost of \$630,000. Mr. Charlton made a motion to extend the contract and Mr. Paul seconded the motion.

Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and Mr. Paul voted to approve. The motion was carried.

Mr. Scroggins introduced Mike Chambrello, Charlie Scannella, Jim Kennedy and Allen Blankinship of Scientific Games. Mr. Chambrello made a presentation to the Board regarding Scientific Games and their work for OLC. A summary of their presentation is attached to these minutes. Mr. Chambrello ended his presentation reiterating the company's commitment to Oklahoma and requesting a one year extension on the current contract. A summary of the SGI contract is also attached.

Mr. Orbison asked if he could receive a copy of the vendors' presentations to the Board, and Ms. Hughes stated she would prepare copies for each of the Board members. Mr. Orbison commented that he and other Trustees had toured the Scientific Games Oklahoma facility and had been very impressed by the organization and complexity of their operations.

Mr. Scroggins complimented Scientific Games, and in particular Charlie Scannella and Allen Blankinship, for their work performance and stated he had no hesitation in recommending that the Board extend the contract for one year, at an approximate cost of \$12 million. Mr. Paul asked if Scientific Games' compensation was based on sales, and Mr. Scroggins replied that their compensation was 2.725% of total gross sales.

Dr. Dzialo made a motion to extend the Scientific Games contract for another year at an estimated cost of \$12 million. Ms. Ball seconded the motion.

Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and Mr. Paul voted to approve. The motion was carried.

Mr. Scroggins introduced Gay Tudor of the Oklahoma Attorney General's Office. He stated that he had been very pleased and impressed by the services provided to OLC by

Ms. Tudor and other members of the Attorney General's staff. A summary of the contract for legal services from the Attorney General's Office is attached. Mr. Scroggins invited Ms. Tudor to address the Board regarding contract extension.

Ms. Tudor stated that she was very excited to have been part of the start-up of a brand new State agency and was impressed by the work of the Trustees, Mr. Scroggins, and the OLC staff. She pointed out that the Attorney General's office has extensive knowledge of all the legal aspects of operating a State agency. She stated that if OLC's level of service needs changed, the services contract could be re-negotiated.

Mr. Scroggins recommended that the Board extend the Attorney General's Office contract for one year. Mr. Paul made a motion to renew the contract. Dr. Dzialo seconded the motion.

Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and Mr. Paul voted to approve. The motion was carried.

ITEM 7 Presentation, Discussion and Possible Action on FY07 Proposed Budget

Mr. Orbison deferred discussion of this item until later in the agenda.

ITEM 8 Presentation of Quarterly Financial Report and Status of Internal Controls (Mr. Riley)

Mr. Riley reported that internal controls have been adopted and installed and are now in the hands of the SAS 70 auditors for Scientific Games.

Mr. Riley stated that the Finance and Audit Committee had met and reviewed the OLC quarterly financial reports. He stated that OLC has met or exceeded projected revenue and profit goals to date and was expected to meet all financial goals for FY06.

Mr. Paul made a motion to approve the quarterly financial report. Mr. Riley seconded the motion. Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and

Mr. Paul voted to approve. The motion was carried.

ITEM 9 Report of Audit and Finance Committee (Mr. Paul)

Mr. Paul reported that the Audit and Finance committee, consisting of himself, Tom Riley, and Linda Dzialo, had met at 11:00 that morning and reviewed copies of four written reports on internal controls from Carl Selby, the OLC Internal Auditor. Mr. Paul stated that Mr. Selby indicated that all internal controls had been set up and were working well and there were no concerns that needed to be brought to the attention of the Board.

Mr. Paul stated that Mr. Dan Bledsoe of Cole and Reed (outside audit firm) had met with the committee members that morning for a preliminary discussion regarding the upcoming FY06 audit. Mr. Paul stated that the committee had discussed Cole and Reed's experience and resources, and had also discussed the issue of the SAS 70 audit of Scientific Games.

Mr. Paul stated that the committee would not meet in June, as the June Board meeting had been cancelled. The next scheduled committee meeting is set for September 19, 2006 at 11:00 a.m., at which time the committee will meet with the outside auditors to go over their report for FY06. He stated that the committee will schedule an interim meeting if it becomes necessary.

Mr. Paul stated that the committee had spent most of its time reviewing the proposed FY07 budget. Mr. Redburn handed out copies of the budget, and Mr. Paul pointed out that there are two columns: one for the estimated FY06 partial fiscal year and one for FY07. Mr. Paul explained that the FY07 column is headed "Equalization Board FY07" because several months ago when the revenue projections for FY07 were made, the Lottery Commission was just starting up and actual revenue was very difficult to estimate. Therefore, the number supplied (\$413 million revenue) at that time was not necessarily a reasonable projection, but was a figure the Board had to work with. He stated that the revenue projection was extremely aggressive, and that the Lottery might not be able to achieve the sales goals projected for FY07. However, Mr. Paul stated that because costs have been kept low, it is likely that even if revenue falls below projections, profits will not. In fact, if OLC is able to achieve the sales projections for FY07 there will actually be an additional \$29 million over and above original estimates available for distribution to education by year end. He pointed out that line 53 deals with the OLC debt to the State of \$500,000, which is required to be repaid by June 30, 2007. Mr. Paul stated that the committee recommended that the Board approve the adoption of the FY07 operating budget.

Mr. Riley made a motion to adopt the FY07 budget, as presented. Dr. Dzialo seconded the motion.

In discussion, Mr. Charlton asked why the FY07 budget shows projected sales for the new Pick 5 game that are higher than the amount indicated by Mr. Scroggins. Mr. Redburn explained that the budget was set up to meet the sales goals initially projected by the Legislature, which are not necessarily attainable. Mr. Scroggins reiterated that even if OLC fails to meet revenue goals by as much as \$100 million, the projected transfer to education could still be met due to low costs of operations. Mr. Riley asked if that latitude might allow a greater expenditure for advertising, and Mr. Scroggins replied that it could. Mr. Paul also pointed out that the figure for personal services had factored in an anticipated action by the legislature increasing State employees' salaries by 5% as of January 1, 2007.

Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and Mr. Paul voted to approve. The motion to adopt the FY07 operating budget was carried.

ITEM 10 New Business

Mr. Paul told the Board he wished to discuss the possibility of some or all of the Board members attending the NASPL fall conference in Chicago in October 2006. He asked Mr. Scroggins if he thought it would be beneficial for the Board members to attend, and Mr. Scroggins stated he thought the Board would find it very interesting and educational. Mr. Scroggins described the format of the meeting and what types of information would be presented.

Mr. Paul asked if Board members' travel expenses would be reimbursed, or if they would need to pay their own expenses to attend. Mr. Scroggins replied that he felt it would be entirely

appropriate for the State to pay the Board's travel costs to attend the meeting. He estimated that the total cost per person, including registration, airline, hotel and per diem, would be around \$2,000. Mr. Orbison asked if other state lotteries generally paid travel expenses for the conference, and Mr. Scroggins replied that they did. Mr. Paul asked if funds were available in the travel budget to cover their expenses, and Mr. Redburn stated he had included some Board travel funds in line 32 of the budget (travel) and could include more, if needed. Ms. Tudor stated that expenses could be reimbursed within State guidelines. Ms. Ball suggested that three or four Board members attend this year, and the others the following year.

ITEM 11 Adjournment

The Trustees discussed the fact that the June meeting had been cancelled. Mr. Orbison stated he would be unable to attend the meeting on July 18th and the Trustees discussed whether there was a need to meet in July. Mr. Scroggins stated he could send information by mail to each Board member regarding the start-up of the new game on August 20th. Mr. Redburn stated that OLC will need to send an FY08 budget to State Finance. Mr. Riley suggested canceling the June and July meetings and meeting again on the next regularly scheduled date of August 15th. Mr. Paul stated he would be unable to attend the meeting in August, but would like to arrange to listen to the meeting via teleconference. Ms. Ball stated she was also unable to attend the August meeting.

Mr. Paul made a motion to adjourn the meeting. Mr. Charlton seconded the motion.

Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and Mr. Paul voted to approve. The motion was carried and the meeting adjourned.

Submitted by:

Linda Dzialo, Secretary

James Orbison, Chairman