

Oklahoma Lottery Commission

A G E N D A

Minutes of Regular Meeting

March 20, 2007 – 1:30 p.m.

Members Present:

Jim Orbison, Chairman
Cindy Ball, Secretary
George Charlton

Linda Dzialo
Charlotte Edwards
William Paul

Members Absent:

Tom Riley, Treasurer

Others Present:

Jim Scroggins, OLC
Rollo Redburn, OLC
Gay Tudor, AG's Office
Penny Nicholson, OLC
Charlie Scannella, SGI
Allen Blankinship, SGI

Mary Wills, SGI
Bonnie Presley, OLC
Mary Martha Hall, OLC
Erin Boeckman, Capitol News Network
Angel Riggs, Tulsa World

ITEM 1

Call to Order. Roll Call and Announcement of Quorum

Roll Call: Mr. Orbison, Ms. Ball, Mr. Charlton, Dr. Dzialo, Ms. Edwards and Mr. Paul were present. Mr. Riley was absent. Mr. Orbison declared a quorum. Mr. Orbison welcomed Ms. Edwards to the Board.

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 December 19, Regular Meeting

Mr. Charlton made a motion to approve the minutes of the December 19, 2006 meeting. Mr. Paul seconded the motion.

Roll call: Mr. Orbison, Ms. Ball, Mr. Charlton, Dr. Dzialo, and Mr. Paul voted to approve. Ms. Edwards abstained. The minutes were approved.

ITEM 4

Executive Director's Report

Mr. Scroggins reported strong Powerball sales, particularly in recent weeks when the jackpot prize reached \$183 million. The jackpot was won by a person in Oregon, but Oklahoma did have several significant Powerball prize winners. He noted that Powerball sales near the Texas/Oklahoma border also appear to have been boosted by the \$390 million MegaMillions jackpot in Texas. Changing the draw break time from 7:59 p.m. to 8:59 p.m. also increased sales by approximate 10%. Mr. Scroggins reported an increase in instant ticket (scratcher)

sales. Thanks to these factors and better field management, sales have increased from about \$4.2 million per week to \$4.7 million per week over the last eleven weeks.

Mr. Scroggins stated that he wished to clarify for the Board recent newspaper reports that there was a shortfall in Lottery funds for education. He reminded the Board that initial revenue estimates made prior to start-up of the Lottery had, for various reasons, been too high and that those estimates were revised and new estimates adopted by the Board of Trustees and submitted to the State Board of Equalization in December of 2006. He stated that sales-to-date and projected sales for the remainder of the fiscal year indicate that those revenue estimates will be achieved. The reported "shortfall" referred only to the fact that revenue estimates were reduced.

Mr. Scroggins reported that OLC is planning several initiatives to increase sales, including a Powerball/Powerplay 10X promotion in April, some Cash 5 promotions with retailers, and new scratch games featuring a NASCAR-themed game with prizes including twenty trips-for-two to Texas for the NASCAR races, and a poker-themed game with twenty-five weekend trips-for-two to Las Vegas.

Mr. Scroggins distributed copies of an Associated Press report quoting his opinion on the issue of mandated percentages for prizes and their overall impact on sales. He cited studies of other lottery jurisdictions where an increase in the percentage of revenue awarded as prizes spurred sales and resulted in larger net transfers to the lottery's beneficiary. Likewise, a study in Texas showed that decreasing prize percentages decreased sales and resulted in lower net revenues for the beneficiary. As a result, Texas reversed the decision to decrease prize percentages and sales and profits were restored. Mr. Paul expressed concern that Oklahoma's mandated prize percentage was among the lowest of any lottery jurisdiction and stated that he believed sales were adversely affected as a result. Mr. Paul asked what prize percentage appeared to be optimal in terms of net revenue, and Mr. Scroggins replied that the national average is 65%, with 70% being the point of diminishing benefit. He stated that the top ten lotteries in the U.S. have prizes averaging in excess of 67%. Mr. Orbison noted that the only state with a lower prize percentage than Oklahoma is North Carolina, which is already beginning to notice the adverse effect on sales. Mr. Paul reminded the Board that under the existing law, the percentage of profit going to education will increase from 30% to 35% in July of 2008 and asked Mr. Scroggins how this will impact lottery sales. Mr. Scroggins stated that 35% of revenues to education would mean the lottery would be forced to lower overhead in other areas, such as advertising and prizes, which would probably have a negative impact on sales. Mr. Paul stated that it appeared there was a strong case to be made for changing the law to reduce or eliminate the mandatory percentages to the beneficiary. Mr. Scroggins agreed and urged Board members to call other state lotteries to confirm the information contained in the report.

Mr. Charlton asked Mr. Scroggins if sales figures based on per capita per county were available, and Mr. Scroggins replied that they were, and that he would see to it that Mr. Charlton received a copy of the figures.

Mr. Charlton asked Mr. Scroggins if he thought Arkansas was likely to start a lottery, and Mr. Scroggins replied it certainly seemed to be a possibility. He stated that in the past, horse racing proponents in Arkansas had been opposed to a state-run lottery and had thus far managed to prevent a lottery start-up there. However, the current Lieutenant Governor of Arkansas favors a lottery and has been very involved in efforts to get one started.

Mr. Scroggins reported that the Retailer Advisory Board met recently and had seen a demonstration of the new retailer website which will go into operation soon. The website is set up with password protection to allow each retailer to instantly access sales and accounting data for his or her store location(s). Mr. Scroggins offered to have the system demonstrated to any interested members of the Board of Trustees after the conclusion of the meeting, if they wished to see it.

Mr. Scroggins informed the Board that the new Cole System would be installed and operational by the end of April. The Cole system will allow the lottery to more easily communicate with and oversee the activities of the field representatives and will further enhance sales.

Mr. Scroggins announced that the Rules changes that were submitted to the Legislature and Governor will complete the legislative process on March 27th, unless the Legislature takes some action to the contrary. Mr. Scroggins distributed a Legislative Update document and discussed SB 513, which addresses the issue of trusts. The bill is now in the House committee, and at this point the future of it is uncertain. He added that there were a number of bills pending to change the way the lottery education fund money is allocated, but he did not list them all on the update sheet.

Mr. Scroggins announced that Oklahoma City has been selected to host the 2009 NASPL Convention, which is scheduled for the second week of October 2009. He stated that representatives from NASPL had been extremely impressed with Oklahoma City's facilities, particularly the Colcord and the Skirvin hotels. They also liked the fact that accommodations were located close to the convention center, which is a great convenience to attendees. Mr. Orbison commented that he had stayed at the Skirvin Hotel in Oklahoma City while attending the Big 12 Tournament and was very impressed with the hotel's facilities. He also mentioned that he had seen the Lottery's trailer at the tournament. Mr. Scroggins stated that the trailer is used at many events and provides excellent visibility for the lottery while offering greater safety and security for lottery personnel.

Ms. Ball asked where the Lottery stood in terms of retailers, and Mr. Scroggins replied that the number was holding steady at around 2200. Once the Cole system is in place, the lottery will work on identifying areas where retailers are needed and focus on recruiting new retailers in those areas. He mentioned that Star Mart stores had been purchased by Circle K, and he anticipates a drop in sales at those locations during the transitional period.

ITEM 5

Discussion and Possible Action to appoint a Sub-Committee to Review Vendor Presentations and Make Recommendations on Vendor Contract Renewals

Mr. Scroggins stated that he had discussed the matter of vendor contract renewals with Mr. Orbison and had suggested the possibility of appointing a subcommittee to review vendor presentations and make recommendations to the Board regarding contract extensions. He suggested that a subcommittee could meet with vendors and be prepared to make recommendations to the full Board at the June 26th meeting. He distributed a proposed timeline to be used if the Board decided to appoint a subcommittee.

Mr. Charlton stated that he preferred the process used last year wherein all the vendor presentations were made at one Board meeting and decisions made about extensions by the full Board at that time. Mr. Paul and Mr. Orbison expressed the opinion that a subcommittee could perform a more in-depth investigation of the vendors' performance than could the full Board, which would have to review all the vendor presentations and make their decision during the regular June 26th Board meeting. Ms. Tudor commented on the implications of the Open Meeting Act, emphasizing that it was important to be clear that the subcommittee was only making recommendations and not acting as a de facto decision maker. Mr. Orbison noted that during the initial lottery start-up the Board had utilized subcommittees but had made sure that all members of the Board received copies of the information gathered by the subcommittee. He suggested that the same could be done in this case to ensure that all Board members felt fully informed. Mr. Charlton said he still felt review by the full board was preferable in order to maintain openness. Mr. Paul stated that he felt that if the subcommittee did the preparatory groundwork and their findings were reported to the Board in a regular meeting, openness would be achieved. Mr. Charlton asked if the vendors would be available at the Board meeting in order for Board members to question them, and Mr. Scroggins replied that he could certainly

arrange to have vendor representatives attend the meeting. Dr. Dzialo made a motion to authorize Mr. Orbison to appoint a subcommittee to review vendor renewals. Ms. Ball seconded the motion.

Roll Call: Mr. Orbison, Ms. Ball, Dr. Dzialo, Ms. Edwards, and Mr. Paul voted to approve the motion. Mr. Charlton voted no. The motion was carried.

Mr. Orbison stated that it would probably be most convenient to appoint Board members from the Oklahoma City area to the subcommittee, but stated he would very much like Mr. Charlton to serve as well. Mr. Charlton declined. Dr. Dzialo made a motion to appoint Mr. Paul, Ms. Edwards and Mr. Riley to the subcommittee. Ms. Ball seconded the motion.

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

ITEM 6

Report of Audit and Finance Committee (Mr. Paul)

Mr. Paul reported that the Audit and Finance Committee had met with Carl Selby, Stan Van Ostran and Rollo Redburn at 12:00 that day. At the meeting Mr. Selby reported that the Scientific Games internal audit had been very extensive and had required approximately 160 hours to complete. He reported that Scientific Games had been very cooperative and responsive throughout the course of the audit and he found them to be in compliance with audit standards. A few minor problems and suggestions for improvement were discussed. He also reported on the end-of-game audit on five instant ticket games. A problem was found that excess tickets had not always been turned in on a timely basis. He stated that closer oversight of field representatives by OLC staff and implementation of the Cole system should eliminate this problem. Mr. Paul commended Mr. Selby for networking with other State lotteries and noted that Mr. Selby has also been selected to participate in the Powerball audit this year and to be the lead auditor for Powerball next year. Mr. Paul reminded the Board that Mr. Selby, as internal auditor, reported directly to the Board. Mr. Selby reported full cooperation from OLC staff during all audit processes.

Mr. Paul stated that the Committee also reviewed financial reports for the period of July 1, 2006 to February 28, 2007. He noted that Lottery sales averaged \$4.3 million per week, but had reached \$5 million per week recently when the Powerball jackpot was very large. He complimented Mr. Scroggins and OLC staff for keeping operating expenses low, noting that the original budget allocated \$12 million for operating expenses, but to date the total amount spent for operations was only around \$6 million. He stated that due to diligent control of costs, the Lottery will probably be able to achieve its projected goal of \$83.6 million to education this fiscal year.

In conclusion, Mr. Paul reported that the lottery is currently turning over more than the mandated 30% of revenue to education, but less than the 35% that will be mandated beginning in July of 2008. He expressed strong concern with the ability of the lottery to turn over 35% while maintaining adequate funds for prizes and operations.

Dr. Dzialo commented that \$44.2 million had been turned over to education so far this fiscal year, for a total of approximately \$110 million since the lottery's inception.

Mr. Charlton inquired about the \$3 million per month currently being transferred to cover the obligations of the Regents for Higher Education. He noted that at the time these transfers were approved by the Board, discussions indicated that the Regents would make provision to reimburse the lottery for interest lost due to the early transfers. Mr. Redburn replied that the Regents had shown no interest in doing so. Mr. Scroggins stated that he believed OLC's commitment to the monthly \$3 million dollar transfer expired as of July 1st, and suggested the Board may wish to discuss this issue at the June meeting. Mr. Orbison suggested that the

Board contact the Regents to inquire whether their financial situation would now allow them to operate on quarterly distributions of revenue, per the language of the law. Mr. Paul and Ms. Ball agreed that in the interest of equity among the beneficiaries they would prefer to see all transfers made on a quarterly basis in the future. Mr. Scroggins said that he would explore this issue and report his findings to the Board.

ITEM 7

New Business

There were no items of new business, but Mr. Scroggins announced to the Board that a photograph of the newest board member, Ms. Edwards, would be taken a prior to the start of the Board meeting on June 26, 2007 and a new group picture of the Board would also be taken at that time.

ITEM 8

Adjournment

Mr. Paul made a motion to adjourn the meeting. Dr. Dzialo seconded the motion.

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

Submitted by:



~~James Orbison, Chairman~~
William G. Paul, Vice Chairman



Cindy Ball, Secretary