

**Oklahoma Lottery Commission
Minutes of Regular Meeting**

December 8, 2009 – 1:30 p.m.

Members Present:

Mr. William G. Paul, Chairman
Mr. George Charlton, Vice-Chairman
Ms. Charlotte Edwards, Treasurer
Mr. Blake Virgin, Secretary
Mr. James Orbison, Trustee

Members Absent:

Ms. Cindy Ball, Trustee

Others Present:

Jim Scroggins, OLC	Gay Tudor, AG's Office
Rollo Redburn, OLC	Allen Blankinship, Scientific Games
Terri Jackson, OLC	Rochelle Hines, Associated Press
Bonnie Presley, OLC	Randy Ellis, The Oklahoman
Mary Martha Hall, OLC	
James Reazer, OLC	

ITEM 1

Call to Order. Roll Call and Announcement of Quorum

Mr. Paul called the meeting to order at 1:32 p.m.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul were present. Ms. Cindy Ball was absent. Mr. Paul 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 Meeting Act.

ITEM 3

Approval of Minutes of the September 22, 2009 Regular Meeting

Ms. Edwards made a motion to approve the minutes of the September 22, 2009 regular meeting. Mr. Orbison seconded the motion.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 4

Executive Director's Report

Mr. Scroggins stated FY2009 sales dropped \$11.3 million over FY2008, or 5½%. The lottery is projecting FY2010 will have a \$2.6 million decrease in total sales over FY2009, or 1.3%. Profit figures are on track with the figures provided to the Board of Equalization for transfers to the Oklahoma Education Lottery Trust Fund (OELTF).

Mr. Scroggins reported instant ticket sales year-to-date is approximately \$4 million more than same period last year. Revised sales projections for FY2010 are \$76.4 million versus the budgeted amount of \$72 million, a \$4.4 million increase. The introduction of several strong games accounts for the increase.

Mr. Scroggins reported Powerball sales year-to-date are \$7.6 million less than same period last year. Powerball revised sales projections for FY2010 are \$88.7 million versus the budgeted amount of \$93 million, a \$4.3 million decrease, or 2 ½%. Powerball and Mega Millions are jackpot driven games, when the jackpot amount is up the sales are up, when the jackpot amount goes down sales decline. Unfortunately the jackpot has not reached significant amounts. The long-term impact of Arkansas and Texas selling Powerball is an unknown.

Mr. Scroggins stated Hot Lotto budgeted sales are \$13 million for FY2010 and revised projection is \$13.3 million, an increase of \$300,000. Pick 3 and Cash 5 year to date and budgeted sales are on target.

Mr. Scroggins stated the Oklahoma Lottery is continually investigating product development. Staff is currently reviewing the possibility of a multi-state online game that would be regionalized in New Mexico, Arizona, Colorado and other southwest states.

Mr. Scroggins explained that currently thirty one states, District of Columbia and the Virgin Islands participate in the Powerball game. Mega Millions is played in 12 states and jackpots start at \$12 million with other prize categories ranging from \$2 to \$250,000. In January 2010, twenty three additional states will begin a cross-selling agreement between Powerball and Mega Millions. The Mega Millions game is experiencing the same declining sales trend as the Powerball game and discussions ensued between the two groups for options to generate sales for both games. The decision was made to allow Powerball states to sell Mega Millions and vice versa. Kansas, Texas, Missouri and Arkansas have elected to cross-sell Mega Millions and Powerball. Beginning January 31, 2010 the Oklahoma Lottery will begin selling Mega Millions tickets to eliminate the risk of customers crossing the border to purchase online tickets, since bordering states will be offering both games. Sales projections are difficult since it is unknown whether Mega Millions sales will be positive or merely off-set sales of the other online games.

Mr. Scroggins stated a sales comparison was compiled of retailers in five counties in Oklahoma that border Arkansas. A minor negative impact was seen on Scratcher sales, but when Arkansas began selling Powerball on November 1, 2009, sales in those five counties experienced a 40-50% decline.

Mr. Scroggins stated Oklahoma is ranked fourth out of thirty-three jurisdictions for frequency of Powerball jackpot winners, one per year. Indiana ranks number one, but their lottery is 17+ years old. Oklahoma is rated number one in frequency of Hot Lotto jackpot winners, 1.6 per year.

Mr. Scroggins stated Oklahoma Lottery special events, new ticket launches, winner announcements and promotions can now be followed on facebook and Twitter. The facebook fans are welcomed to post comments, but must be 18 years or older to log on to the Oklahoma Lottery page. Based on 400 current facebook fans, 35% are males and 63% are females, 30% are in the 25-35 age group and there are 8 fans from other countries - seven from Canada and one from Denmark. On Twitter, followers are increasing each day, but are not able to post comments.

Mr. Scroggins reported that the Beneficiary commercial has been receiving positive feedback. The commercial informs Oklahomans of the amount contributed to education and where the funds are being spent and fulfills the requirements of section 702 of the Lottery Act.

ITEM 5

Report of Audit and Finance Committee

Mr. Orbison stated the Audit and Finance Committee met before the Board meeting and those in attendance were Carl Selby, OLC Comptroller, Lester LaPorte, OLC Internal Auditor, Mr. Rollo Redburn, OLC Director of Administration and Board members: Mr. Orbison and Mr. Paul. Quarterly audit reports and the FY2011 audit plan were reviewed. The committee received the fiscal year-to-date financial statements from Carl Selby. Year-to-date transfers to OELTF total \$26.8 million and FY2010 projected transfers to the Oklahoma Education Lottery Trust Fund are on target to meet the mandated transfer requirements.

ITEM 6

Discussion and Possible Action Regarding Approval of Gaming Services Contract for Printing of Licensed Property Games and Use of Backup Instant Ticket Printing Vendor

Mr. Scroggins stated the Lottery Act requires any contract entered into that is determined to be a major procurement, or costs more than \$25,000 annually, must be approved by the Board.

Mr. Scroggins explained that the lottery currently pays MDI Entertainment, a division of Scientific Games Corporation, for various licensed properties. MDI has the right to provide lotteries with access to consumer brands as part of their instant ticket offering. Some of the licensed lottery brands the Oklahoma Lottery has had success with are World Poker Tour®, Harley Davidson®, Monopoly® and Ford Mustang®. Alchemy3 also provides licensed products to lotteries and they have a game the Oklahoma Lottery feels would do well - Bass Pro Shops®. Fishing is a popular sport and past time in Oklahoma and Bass Pro Shops® is one of the most recognizable names in the sporting industry. Scientific Games currently prints all instant tickets for the Oklahoma Lottery in their Alpharetta, GA plant and if they should experience a major

disaster, currently there is no back up printing company in place. Alchemy3 has a working relationship with GTECH, a major printing corporation. This would give the lottery an opportunity to have the Bass Pro Shops® licensed product and provide the opportunity to conduct testing with GTECH printed products to insure compatibility with the current instant ticket gaming vendor, SGI and their system. If SGI ever encounters problems with their printing facility, all system and testing procedures would be completed to use GTECH as a backup printer. The current contract with SGI allows up to four games a year to be purchased from another vendor. The cost to use Alchemy3 for the Bass Pro Shops® instant ticket game, utilizing GTECH for printing, is comparable to existing contract costs with SGI. Typical cost is 2.84% of sales plus additional \$60,000 for licensing fee. Mr. Scroggins asked for the Board's approval for entering into a contract with Alchemy3.

A motion was made by Mr. Virgin to authorize staff to enter into a contract with recommended company, Alchemy3, for licensed property games and use of backup instant ticket printing vendor. The motion was seconded by Mr. Charlton.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 7

Discussion and Possible Action Regarding the FY2010, FY2011 and FY2012 Budgets and Strategic Plans for the Oklahoma Lottery Commission

Mr. Scroggins stated the FY 2010 budgeted sales were \$190.5 million with \$69.7 million being contributed to the OELTF. The projected total product sales and contribution to the OELTF given to the Board of Equalization remains the same, but predicted projected sales figures for the individual games has changed slightly.

Mr. Scroggins stated, as discussed earlier, the projected sales for Scratchers to be up \$4.4 million from FY2010 budgeted sales due to the introduction of several strong games. Powerball projected sales are down \$4.3 million from FY2010 budgeted sales due to the jackpot level remaining low. Hot Lotto projected sales are up \$300,000, Pick 3 remains the same from the estimated FY2010 budgeted sales. Cash 5 projected sales have been decreased \$400,000 from the estimated FY2010 budgeted sales due to anticipation of some loss from introduction of Mega Millions.

Mr. Scroggins stated that FY2011 projected sales are \$185 million which is \$5.5 million less than projected FY2010 sales, a 2.8% decrease. The current economic climate, the unknown impact of Arkansas and the long-term impact of the 35% profit restriction contribute to the decline. No changes have been made in the individual products previously approved by the Board. Scratch ticket proposed sales are \$76.4 million for FY2011. Combined proposed sales for Powerball and Mega Millions are \$88 million for FY2011. Hot Lotto proposed sales for FY2011 are \$11.5 million, \$1.8 million less than projected FY2010 sales. Pick 3 proposed FY2011 sales are \$5.1 million, down \$1.3 million from FY2010. Cash 5 proposed FY2011 sales are \$4 million, down \$1.7 from projected FY2010 sales. Projections for proposed FY2011 total revenue is \$185.1 million, \$5.5 million less than FY2010, about 2.8% decrease. Projections for FY2011 profit is \$64.8 million, \$1.9 million less than FY2010. In June of 2010 we will revisit the FY2011 projections can be gauged better. It was agreed to review FY2012 at a later date.

A motion was made by Mr. Orbison to approve the FY2010 budget as modified and the FY2011 budget projections. The motion was seconded by Ms. Charlotte Edwards.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 8

Report of Nominating Committee

Mr. Paul stated that the Oklahoma Lottery Commission hosted the 2010 Annual NASPL meeting and he wished to take a few moments for those that attended to comment on their experience. Mr. Paul said he was able to attend several functions and thoroughly enjoyed the awards banquet. Ms. Edwards stated she was extremely impressed with the quality of the program and commended lottery staff for a superb job. Ms. Edwards shared comments heard from other guests revealing their surprise at how nice the Oklahoma City downtown area was and the entertainment it provided. Mr. Virgin complimented the staff on the agenda and the educational content of the meetings. Mr. Scroggins stated over 600 individuals from around the U.S. were registered to attend the event. Mr. Charlton stated this is the third Annual NASPL meeting he has attended and by far the most informative.

Mr. Paul stated the by-laws of the Board of Trustees state the officers shall include a Chair, Vice Chair, Secretary and Treasurer and no member shall hold more than any one office at the same time and the term will be for one calendar year following the election and an affirmative vote of a majority shall be required for the election of each officer. The by-laws set out term limits of no more than three consecutive years in the same office. The board is intended to be a seven member Board, with one being a CPA, but Mr. Riley's seat has not been filled. By-laws state officers can continue to serve until a successor is appointed or they are officially re-appointed. Mr. Paul stated four of the current members are charter members and the Oklahoma Lottery is coming up on its 5th anniversary. Net contributions to OELTF since inception are \$306 million.

Mr. Paul stated the Nominating Committee was Mr. George Charlton, Chair and members were Ms. Charlotte Edwards and Mr. Blake Virgin.

Mr. Charlton stated the Nominating Committee would like to recommend current officers continue their service for calendar year 2010.

ITEM 9

Discussion and Possible Action on the Selection of Board Officers for Calendar Year 2010

Mr. Charlton made a motion to approve the Nominating Committee's recommendation for current sitting officers Mr. William G. Paul, Chair, Mr. George Charlton, Vice Chair, Ms. Charlotte Edwards, Treasurer and Mr. Blake Virgin, Secretary remain for calendar year 2010. The motion was seconded by Mr. Orbison.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 10

Discussion and Possible Action on Appointment by Chair of Committees and Chairs of Committees and Approval by Board of Trustees

Mr. Paul stated that the by-laws provide that there shall be two standing committees, "Audit and Finance" and "Government and Citizen Relations" and other committees, task forces, special committees may be appointed by the Chair as deemed necessary with the approval of the Board.

Ms. Edwards made a motion to approve Mr. Paul's appointment of Mr. James Orbison to serve as Chair of the Audit and Finance Committee, and Mr. George Charlton as member, and Mr. Paul to serve as interim third member until such time a CPA member is appointed. The motion was seconded by Mr. Virgin.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul voted to approve the motion. The motion carried.

Mr. Orbison made a motion to accept Mr. Paul's recommendation to appoint Ms. Charlotte Edwards as Chair of the Government and Citizen Relations Committee, with Ms. Cindy Ball and Mr. Blake Virgin as members to serve for calendar year 2010. The motion was seconded by Mr. Charlton.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 11

Discussion and Possible Action Regarding Calendar Year 2010 Board Meeting Dates and Frequency of Meetings for the Lottery Commission Board of Trustees

After much discussion the board agreed to continue to schedule regular board meetings on a quarterly basis.

Mr. Orbison made a motion to schedule the regular Board Meetings quarterly for calendar year 2010 at 1:30 p.m. on March 16, June 15, September 14 and December 7. The motion was seconded by Ms. Edwards.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 12

New Business

Mr. Paul stated the Board has no new business at this time.

ITEM 13

Adjournment

With no additional business, Mr. Paul adjourned the meeting at 2:52 p.m.

At the March 16, 2010 regular meeting Mr. Orbison made a motion to approve the December 8, 2009 meeting minutes. The motion was seconded by Mr. Virgin. Ms Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul voted to approve the minutes. Ms. Cindy Ball and Mr. Jerry Eden abstained.