

**Oklahoma Lottery Commission  
Minutes of Regular Meeting**

December 7, 2010 – 1:30 p.m.

**Members Present:**

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

**Others Present:**

Jim Scroggins, OLC	Jay Finks, OLC
Rollo Redburn, OLC	Gay Tudor, AG's Office
Terri Jackson, OLC	Karl Fortman, Scientific Games
Bonnie Presley, OLC	Allen Blankinship, Scientific Games
Mary Martha Hall, OLC	Rhonda Hooper, Jordan Associates
Dirk Topinka, OLC	Mike Wilkinson, Jordan Associates
Megan Densow, OLC	April Wilkerson, Journal Record
James Reazer, OLC	

**ITEM 1**

**Call to Order. Roll Call and Announcement of Quorum**

Mr. Charlton called the meeting to order at 1:40 p.m.

Roll Call: Ms. Cindy Ball, Mr. George Charlton, Mr. Jerry Eden, Ms. Charlotte Edwards, Mr. James Orbison and Mr. Blake Virgin were present. Mr. Charlton declared a quorum. Mr. William G. Paul is expected shortly.

**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 14, 2010 Regular Meeting**

Ms. Edwards made a motion to approve the minutes of the September 14, 2010 regular meeting. Mr. Orbison seconded the motion.

Roll Call: Ms. Cindy Ball, Mr. George Charlton, Mr. Jerry L. Eden, Ms. Charlotte Edwards, Mr. James Orbison and Mr. Blake Virgin voted to approve the motion. The motion carried.

### **ITEM 4**

#### **Executive Director's Report**

Mr. Scroggins indicated that the usual discussion of sales and profits would be provided under agenda item seven, so at this time he would comment on a recent article appearing in an eastern Oklahoma newspaper which received media coverage.

Mr. Scroggins stated prior to the Lottery initiative being passed, several overly optimistic sales and profit estimates were made. These estimates were not made by Oklahoma Lottery Commission ("OLC") officials, nor were they made by anyone with lottery experience. In addition, once video lottery and pull tabs were removed from possible OLC games, the \$300 million estimate in some, but not all circles, was reduced to \$150 million; even this estimate was overly optimistic. The apparently underestimated speed and growth of Indian Gaming has also had a negative impact on lottery sales and profits.

Mr. Scroggins stated once OLC sales and profit estimates became the basis for measuring Lottery performance we have met or exceeded projections. For example, last year we transferred \$6.6 million more than was appropriated and currently project we will transfer \$4.5 million more this year than was appropriated. The lottery could do even better with the 35% profit restriction removed. This is supported by the various case studies in other states previously provided to the Board and others.

Mr. Scroggins explained that common education claims that now they get a smaller percentage of total state funds. What is overlooked is that common education is getting more real, spendable funds than previously; a smaller percentage, but more real dollars that can be spent by the schools. For individual common schools, it is virtually impossible to know exactly how much they receive because lottery funds are co-mingled with other funds allocated in a lump sum through the funding formula.

Mr. Scroggins stated the Lottery Act provides that lottery funds can not be supplanted; it further provides that the Board of Equalization is to issue a finding and report with respect to whether diversion has occurred. To my knowledge no Board of Equalization report has ever indicated that diversion of lottery funds occurred.

Mr. Scroggins explained on November 2, 2004 when the people approved the Oklahoma Lottery, the Act provided for a joint House and Senate Legislative Oversight Committee to "periodically inquire into and review the operations of the Oklahoma Lottery" and "periodically review and evaluate the success with which the Commission is accomplishing its statutory

duties and functions...” If there are concerns about the Lottery’s performance, this Joint Committee is an existing mechanism to review our performance. This joint committee has never met with the Lottery.

Mr. Scroggins stated the lottery has several case studies of other lottery successes with raising more real, spendable dollars for their beneficiaries through increased prize payouts. While this may reduce the percentage of revenues provided to beneficiaries, the real, spendable dollars are significantly increased in each case. In addition, the Texas case study also shows the impact of reducing prizes. In FY1997 the Texas Lottery was mandated to reduce prizes 4.5% in that year and an additional 5% in the next year. In FY1998 their profits were down 9%; in FY1999 their profit was down an additional 18%. In FY1999 the mandate to decrease prizes was reversed, however, profits in FY2000 dropped an additional 8% in spite of a massive increase in prizes. It took the Texas Lottery eight (8) years to again attain the profit level it had prior to the mandated prize reduction.

## **ITEM 5**

### **Report of Audit and Finance Committee**

Mr. Eden stated the Audit and Finance Committee met before the Board meeting and those in attendance were Megan Densow, OLC Comptroller, Lester LaPorte, OLC Internal Auditor, Mr. Rollo Redburn, OLC Director of Administration and Board members: Mr. Orbison and Mr. Charlton. The committee reviewed the FY2011 budget projections and FY2012 budget estimates. Quarterly audit reports and the FY2011 risk assessment and audit plan were reviewed. The committee received the October year-to-date financial statements which show the lottery is on budget.

## **ITEM 6**

### **Discussion and Possible Action Regarding Proposed Rules Changes**

Mr. Scroggins explained the Lottery Act requires the lottery to pay retailer compensation (429:10-1-3). The existing commissions are 6% of ticket sales and .75% of prizes under \$600 paid to customers. The bonus program, effective May 11, 2008, was put in place as an incentive for retailers to sell Powerball and Hot Lotto tickets and surrounding states had similar programs. If a retailer sold a second level winning Powerball or Hot Lotto ticket, the retailer would receive a bonus. The proposed rule change would delete specific language on the Powerball and Hot Lotto bonus program and provide more flexibility to the Director in creating and ending bonus programs, all as approved by the Board. The proposed change is due to ongoing need for improving sales; the current bonus program is limited in scope and impact; and to allow OLC the ability to react to changing market conditions.

Mr. Scroggins explained that the Lottery Act (429:10-1-10) states that retailers are invoiced for instant game ticket packs activated (a) after 80% winning low-tier prizes in the pack have been validated, or (b) forty-five (45) days from activation date. When the lottery started, the rule encouraged retailers to carry product since they would have ample time to sell before the retailer owed for the product. The proposed rule change would modify the forty-five (45) days to thirty (30) days. The reasons for the proposed rule change: retailers have had five

years selling experience; currently 77% of activated instant game packs settle in 30 days or less; and for cash flow. Effective July 1, 2008 changes in the Lottery Act required monthly transfers for Higher Education & Common Education which has impacted the lottery's interest income. Mr. Scroggins stated in FY2007 the lottery's interest income was \$1,143,557. In FY2008 (first year after law change) interest income totaled \$592,790 and in FY2009 it was \$440,113. The interest income from FY2008 and FY2009 combined does not add up to the interest income for FY2008.

Mr. Orbison made a motion to accept the rule changes for retailer compensation and settlement and retailer invoicing as discussed. Mr. Virgin seconded the motion.

Roll Call: Ms. Cindy Ball, Mr. George Charlton, Mr. Jerry L. Eden, Ms. Charlotte Edwards, Mr. James Orbison and Mr. Blake Virgin voted to approve the motion. The motion carried.

## **ITEM 7**

### **Discussion and Possible Action Regarding the FY2011 and FY2012 Budget and Strategic Plan for the Oklahoma Lottery Commission**

Mr. Scroggins stated FY2010 sales were \$199.7, including other income. The total revenue was \$199.9 million with a profit of \$70 million being contributed to the Oklahoma Education Lottery Trust Fund (OELTF). The contribution to the OELTF was \$6.6 million over the profit estimate provided to the Board of Equalization.

Mr. Scroggins stated the FY2011 budget provided to the Board of Equalization in December 2009 included estimated total revenue of \$185.1 million; current projected revenue is \$188.9 million or \$3.8 million more than budget estimates provided to the Board of Equalization. This exceeds profit projections by \$1.3 million and \$4.5 million more than appropriated.

Mr. Scroggins stated if sales deteriorate from current projections, management has discussed areas where possible budget reductions could be taken: media and a reduction in prize percentages on Scratchers products in February or March. Budget reductions already include several positions recently being vacated that have not been filled; a \$90,000 reduction in salaries for FY2011.

Mr. Scroggins stated if the Board approves the new FY2011 budget projections they will be sent to the Board of Equalization this week with the understanding that numbers will continue to be monitored and reductions will not be implemented unless required to attain the appropriated budget amount.

A motion was made by Mr. Eden to approve the FY2011 budget as modified. The motion was seconded by Ms. Cindy Ball.

Roll Call: Ms. Cindy Ball, Mr. George Charlton, Mr. Jerry L. Eden, Ms. Charlotte Edwards, Mr. James Orbison and Mr. Blake Virgin voted to approve the motion. The motion carried.

Mr. Paul entered the meeting at 2:10 p.m.

Mr. Scroggins stated due to current economic climate, high unemployment, gas prices and the long-term impact of the 35% profit restriction, sales are difficult to predict. An article by the Oklahoma Policy Institute suggests it could be 2014 before the economic climate improves in Oklahoma. Unfortunately, if the Oklahoma Lottery reduces prize percentages in Scratchers games, or reduces media and advertising, these budget reductions will have a negative impact on sales. Taking into consideration the 35% mandated profit percentage, the economy, casinos and the reduction of prizes, it could begin a spiral down.

Mr. Scroggins explained the estimated total sales for FY2012 are \$173 million, \$15.8 million less than projected sales for FY2011, an 8% decrease. Sales estimates for the Scratchers products are \$88.4 million, \$10.5 million less than FY2011 due to prize percentage reductions. Sales projections for on-line games for FY2012 are conservative; Pick 3 \$5.5 million, Cash 5 \$4.6 million, Powerball \$52.0 million, Mega Millions \$13.0 million and Hot Lotto \$9.5 million. Budget estimates for FY2013, FY2014 and FY2015 will be caught in a spiral down. The FY2011 projected profit is \$66.1 million. The budget estimates for the next four fiscal years, FY2012, FY2013, FY2014 and FY2015, show an accumulated profit of \$214.2 million or a \$50 million decrease over the four-year period.

A motion was made by Mr. Virgin to approve the FY2012 budget projections to the Board of Equalization as presented. The motion was seconded by Ms. Ball.

Roll Call: Ms. Cindy Ball, Mr. George Charlton, Mr. Jerry L. Eden, Ms. Charlotte Edwards, Mr. James Orbison and Mr. Blake Virgin voted to approve the motion. The motion carried.

## **ITEM 8**

### **Report of Nominating Committee**

Mr. Paul stated the Board of Trustees By-laws state 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 a majority vote 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. By-laws state officers can continue to serve until a successor is appointed or they are officially re-appointed.

Mr. Paul stated the 2010 Nominating Committee includes Ms. Charlotte Edwards, Chair and Ms. Cindy Ball and Mr. Blake Virgin as members.

Ms. Edwards stated the Nominating Committee would like to recommend Mr. George Charlton as Chair, Mr. Blake Virgin as Vice-Chair, Mr. James Orbison as Secretary, Mr. Jerry L. Eden as Treasurer and Ms. Cindy Ball, Mr. William G. Paul and Ms. Charlotte Edwards as Trustees.

## **ITEM 9**

### **Discussion and Possible Action on the Selection of Board Officers for Calendar Year 2011**

Ms. Edwards made a motion to approve the Nominating Committee's recommendation of officers for calendar year 2011: Mr. George Charlton as Chair, Mr. Blake Virgin as Vice-Chair, Mr. James Orbison as Secretary, Mr. Jerry L. Eden as Treasurer and Ms. Cindy Ball, Mr. William G. Paul and Ms. Charlotte Edwards as Trustees. The motion was seconded by Ms. Ball.

Roll Call: Ms. Cindy Ball, Mr. George Charlton, Mr. Jerry L. Eden, 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 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. After discussion, the committee appointments will be placed on the agenda for the March 8, 2011 meeting.

## **ITEM 11**

### **Discussion and Possible Action Regarding Calendar Year 2011 Board Meeting Dates and Frequency of Meetings for the Lottery Commission Board of Trustees**

After 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 2011 at 1:30 p.m. on March 8, June 21, September 20 and December 6. The motion was seconded by Mr. Virgin.

Roll Call: Ms. Cindy Ball, Mr. George Charlton, Mr. Jerry L. Eden, 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. Orbison thanked Mr. Paul for his contribution and exemplary service to the board. Mr. Paul stated it has been his privilege to serve and work with board members and OLC staff. Mr. Paul stated he regrets no relief of the mandated profit restriction was accomplished, which would enable the Board to better serve and contribute to education. He expressed his hope the Legislature will focus on this issue and take action.

## **ITEM 13**

### **Adjournment**

With no additional business, Mr. Charlton made a motion to adjourn. The motion was seconded by Mr. Orbison.

Roll Call: Ms. Cindy Ball, Mr. George Charlton, Mr. Jerry L. Eden, Ms. Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul voted to approve the motion. The motion carried and the meeting adjourned at 2:36 p.m.

**At the March 8, 2011 regular meeting Ms. Edwards made a motion to approve the December 7, 2010 meeting minutes. The motion was seconded by Mr. Virgin. Ms Charlotte Edwards, Mr. William G. Paul, Mr. Blake Virgin and Mr. George Charlton voted to approve the minutes. The motion carried.**