

Oklahoma Lottery Commission
Minutes of Regular Meeting
March 16, 2010 – 1:30 p.m.

Members Present:

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

Members Absent:

Mr. George Charlton, Vice-Chairman

Others Present:

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| Jim Scroggins, OLC | Ron Miguel, Scientific Games |
| Rollo Redburn, OLC | Allen Blankinship, Scientific Games |
| Terri Jackson, OLC | Doug Parker, Scientific Games |
| Bonnie Presley, OLC | Rhonda Hooper, Jordan Associates |
| Mary Martha Hall, OLC | Amy Hindman, Jordan Associates |
| James Reazer, OLC | Nancy Burger, Jordan Associates |
| Katy Smith, OLC | Robert McAfee, Wright, McAfee & Co., C.P.A.'s |
| Brandie Reisman, OLC | Richard Hutzenbiler, Wright, McAfee & Co., C.P.A.'s |
| Gay Tudor, AG's Office | Michael McNutt, The Oklahoman |
| | Erin Boeckman, eCapitol |

ITEM 1

Call to Order. Roll Call and Announcement of Quorum

Mr. Paul called the meeting to order at 1:41 p.m.

Roll Call: Ms. Cindy Ball, Mr. Jerry Eden, Ms. Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul were present. Mr. George R. Charlton 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 December 8, 2009 Regular Meeting

Mr. Orbison made a motion to approve the minutes of the December 8, 2009 regular meeting. Mr. Virgin seconded the motion.

Roll Call: Ms. Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul voted to approve the motion. Ms. Cindy Ball and Mr. Jerry Eden abstained. The motion carried.

Mr. Paul introduced Mr. Jerry L. Eden, the newest member of the Board of Trustees. Mr. Eden is a shareholder in the Certified Public Accounting firm Eden, Sprowls and Company, P.C. in Elk City, Oklahoma and holds an Oklahoma and Texas license to practice Public Accounting.

ITEM 4

Executive Director's Report

Mr. Scroggins stated profit figures are on track to meet the projected \$66.7 million in transfers to the Oklahoma Education Lottery Trust Fund (OELTF) for FY2010.

Mr. Scroggins reported current sales of instant tickets are up \$4.8 million from FY2009 week 36 sales and up \$11.1 million from FY10 budgeted sales projections. The increase is due to the introduction of several strong games and the positive impact of beneficiary ads on player and retailer perception of the lottery. A growth in \$3 and \$5 price point games has also made a positive impact on sales. Anticipate finishing the year approximately \$8.0 million above sales projections.

Mr Scroggins reported FY2010 budgeted sales projections for Pick 3 are \$6.4 million and sales year-to-date are \$4.4 million, which is down \$265,000 from the same period last year. Sales for Pick 3 are up \$2,000 per week since the Mega Millions introduction. Sales projections for FY2010 should be met.

Mr. Scroggins reported Powerball sales year-to-date are \$55.4 million, \$7.0 million less than same period last year. Powerball revised sales projections for FY2010 are \$80.0 million versus the budgeted amount of \$93 million, a \$13.0 million decrease, or 14%. Powerball and Mega Millions are jackpot driven games; when the jackpot amount is up, sales are up, when the jackpot amount goes down sales decline. The long-term impact of Arkansas and Texas selling Powerball is an unknown. The five counties that border Arkansas are down 50% in Powerball sales. We anticipate finishing the year \$13.0 million down from projected sales.

Mr. Scroggins stated FY2010 projected sales for Cash 5 are \$6.1 million. Year-to-date sales are \$3.7 million, up \$1.0 million from the same period last year. Sales are down \$6,000 per week since Mega Millions introduction. FY2010 sales will most likely be down \$700,000 from projection. The staff is considering a game revision for Cash 5 in FY2011.

Mr. Scroggins stated Hot Lotto budgeted sales projections are \$13 million for FY2010 and the revised projection is \$13.1 million. Sales are up \$152,000 over same period last year. Sales are down approximately \$20,000 per week since Mega Millions introduction. Oklahoma ranks number 3 of 15 jurisdictions in Hot Lotto sales.

Mr. Scroggins explained that prior to January 31, 2010, Mega Millions was played in 12 states. Jackpots start at \$12 million with other prize categories ranging from \$2 to \$250,000. January 31, 2010, twenty three additional states began a cross-selling agreement between Powerball and Mega Millions. Because the Mega Millions game had been experiencing the same declining sales trend as the Powerball game, an agreement was reached 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 began selling Mega Millions tickets to partially eliminate the risk of customers crossing the border to purchase online tickets, since bordering states will be offering both games. Mr. Scroggins stated sales projections were difficult since it is unknown whether Mega Millions sales will be positive or merely off-set sales declines in the other online games.

Mr. Scroggins reported Mega Million sales through week 36 are \$1.7 million. Sales have averaged \$350,000 per week. Current FY2010 budget projections are \$5.7 million, based on an estimate of \$250,000 weekly sales through fiscal year end. The Mega Millions game has had an impact on other online game sales. Pick 3 is up \$2,000 per week, Cash 5 is down \$6,000 per week, Hot Lotto is down \$20,000 a week and Powerball is down \$25,000 per week, partly due to the introduction of Mega Millions in Oklahoma. Mega Millions sales will offset approximately \$5.7 million of currently projected Powerball sales decline.

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. Eden. Quarterly audit reports were reviewed. Internal Auditors from the Oregon and Kentucky lottery performed a Quality Assurance Review at the Oklahoma Lottery. The review committee made a few suggestions that have been addressed. The committee received the fiscal year-to-date financial statements from Carl Selby. The committee reviewed the transfers made to the Oklahoma Education Lottery Trust Fund, which total \$322.2 million since inception. Year-to-date transfers to OELTF are \$43.1 million and FY2010 projected transfers to the OELTF are on target to meet the mandated transfer requirements.

ITEM 6

Legislative Update

Mr. Redburn stated there are currently four bills in the Legislature that impact the Oklahoma Lottery, three of which originated in the House and one in the Senate. HB2956 amends Title 3A, Section 709 to add the following language to our authority to advertise: "None of the advertisement and promotion allowed by this paragraph shall involve children in any manner." The bill includes an emergency clause and would be effective on passage. If passed, we estimate the bill will reduce sales \$5.8 million, resulting in a \$2 million loss to education.

Mr. Redburn explained HB3161 which amends Title 3A, Section 709 to say that lottery advertisement and promotion cannot include "any beneficiary advertisement or promotion" defined as "any advertisement or promotion that illustrates the benefits or potential benefits to schools resulting from lottery proceeds." If passed, we estimate this bill will reduce sales \$11.6

million in each of the 1st two years after passage. This is a \$4 million loss to education. Sales will be reduced \$17.8 million each year after the first two, for an annual \$6.2 million loss to education.

Ms. Ball stated the beneficiary ads are helpful in educating the public regarding the lottery's purpose. Mr. Scroggins stated the ads were intended to let the public know where the funds are being spent and who is benefitting - the children. The Oklahoma Lottery Statutes state that "lottery games shall be operated and managed in a manner which provides full and complete public disclosure of lottery operations" which is exactly what the ads provide. Both of the bills will limit the lottery's ability to fulfill this mandated obligation.

Mr. Redburn stated HB3025 creates a Task Force to study lottery and gaming revenues. The Task Force would have nine members that would conduct an organizational meeting no later than September 1, 2010. The bill requires a study to be conducted to review and evaluate lottery and gaming policies in the state. The Task Force would also examine lottery and gaming revenues accruing to the state and their impact on the state budget. The Task Force is to produce a final report of its findings and recommendations regarding lottery and gaming laws by December 31, 2010.

Mr. Redburn stated SB2088 was introduced in the Crimes and Punishments statutes and changed over to Title 3A by Senator Coffee. The bill currently mirrors HB3025.

ITEM 7a

Discussion and Possible Action Regarding Contract Renewals or Extensions Legal Services (Attorney General)

Mr. Scroggins stated the Attorney General's contract is currently up for renewal. Gay Tudor, from the Attorney General's office, continues to provide excellent service. Annual contract cost for FY2011 will range between \$25,500 and \$30,000. The OLC staff recommends renewing the contract for another year beginning July 1, 2010.

A motion was made by Mr. Virgin to renew the contract with the Attorney General's office for another year, not to exceed an annual cost of \$30,000. The motion was seconded by Ms. Ball.

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

Mr. Virgin excused himself from the meeting.

ITEM 7b

Discussion and Possible Action Regarding Contract Renewals or Extensions External Auditor (Cole and Reed)

Mr. Scroggins stated the contract for Cole & Reed, the lottery's external financial auditors, is due for renewal. Cole & Reed continues to be extremely helpful and cooperative in

preparing annual financial statements. Annual contract amount range is \$32,500-\$40,000. The staff recommends the contract be renewed for another year beginning June 1, 2010.

A motion was made by Ms. Edwards to renew the contract with Cole & Reed for another year, not to exceed an annual cost of \$40,000. The motion was seconded by Mr. Orbison.

Roll Call: Ms. Cindy Ball, Mr. Jerry Eden, Ms. Charlotte Edwards, Mr. James Orbison and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 7c

Discussion and Possible Action Regarding Contract Renewals or Extensions Payroll & HR Services (Office of State Finance)

Mr. Scroggins stated the contract for Office of State Finance (OSF) is up for renewal to provide payroll processing. The FY2011 contract amount will range from \$14,500 - \$16,000 annually. The OLC staff recommends a one year renewal for the OSF contract beginning July 1, 2010.

A motion was made by Mr. Orbison to renew the contract with OSF for another year, not to exceed \$16,000. The motion was seconded by Ms. Ball.

Roll Call: Ms. Cindy Ball, Mr. Jerry Eden, Ms. Charlotte Edwards, Mr. James Orbison and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 7d

Discussion and Possible Action Regarding Contract Renewals or Extensions Gaming Services (Scientific Games International)

Mr. Scroggins stated that Scientific Games International is the game system vendor for the Oklahoma Lottery and the lottery staff would like to recommend the contract be renewed for an additional year to begin August 9, 2010. Contract rate is 2.84% of sales.

A motion was made by Mr. Orbison to renew the contract with Scientific Games for another year, contract amount not to exceed 2.84% of sales. The motion was seconded by Ms. Edwards.

Roll Call: Ms. Cindy Ball, Mr. Jerry Eden, Ms. Charlotte Edwards, Mr. James Orbison and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 7e

Discussion and Possible Action Regarding Contract Renewals or Extensions Office Lease (38th & Santa Fe, LLC)

Mr. Scroggins explained that the office space contract for the Oklahoma Lottery was negotiated through the Department of Central Services. The contract is for one year with

multiple year options for renewal. The annual contract cost is \$155,016 - \$160,000. The OLC staff recommends extension of the contract for an additional year beginning June 1, 2010.

A motion was made by Ms. Ball to renew the contract with 38th & Santa Fe, LLC for another year. The motion was seconded by Mr. Orbison.

Roll Call: Ms. Cindy Ball, Mr. Jerry Eden, Ms. Charlotte Edwards, Mr. James Orbison and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 8

Discussion and Possible Action Regarding Contract for Draw Auditing Services

Mr. Scroggins stated that Wright McAfee audits our online drawings for Pick 3 and Cash 5. The purpose for the auditor is to ensure the written procedures for executing each drawing are followed exactly. They are required to be at the studio seven evenings a week, 365 days a year. Wright McAfee received audio and video acknowledgement of their services at the end of each drawing when the drawings were televised. When the drawings were moved to lottery headquarters and no longer televised, the firm lost their broadcast recognition. In addition, the lottery has added multi-state drawings to the schedule. The current contract expires June 30, 2010. The annual contract amount is \$48,180 - \$48,910. Mr. Scroggins and the lottery staff would like to recommend that a new contract be approved effective July 1, 2010 with options to renew for three additional years.

A motion was made by Mr. Eden to approve a new contract with Wright, McAfee and Company with additional three year option. The motion was seconded by Ms. Ball.

Roll Call: Ms. Cindy Ball, Mr. Jerry Eden, Ms. Charlotte Edwards, Mr. James Orbison and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 9

Discussion and Possible Action Regarding Contract for Licensed Properties

Mr. Scroggins stated the Lottery Act requires any contract entered into that is defined as a major procurement (related to the lottery industry and costing more than \$25,000 annually) must be approved by the Board. Alchemy₃, LLC, is the authorized owner or Licensor for various product names, logos, designs and visual representations. Based on the Board's approval at the December meeting, the Oklahoma Lottery just launched one of the Alchemy₃ properties, Bass Pro Shops®, and the ticket has been very successful. In order to enter into additional licensed property agreements the staff recommends Board approval of a multi-game license agreement which would be for one year at a time, renewable for three years if the partnership continues to be productive. It is the recommendation of OLC staff that the proposed multi-year agreement with Alchemy₃, LLC be approved to begin March 16, 2010.

A motion was made by Mr. Orbison to authorize staff to enter into a contract with Alchemy₃, LLC for licensed property games through March 15, 2014 subject to one year renewal. The motion was seconded by Ms. Edwards.

Roll Call: Ms. Cindy Ball, Mr. Jerry Eden, Ms. Charlotte Edwards, Mr. James Orbison 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, an Audit and Finance Committee and a Government and Citizen Relations Committee. Other committees, task forces, special committees may be appointed by the Chair as deemed necessary with the approval of the Board. Mr. Paul stated that the current members of the Audit and Finance Committee include Mr. James Orbison as Chair and Mr. George Charlton as member, and Mr. Paul serving as interim third member until such time a CPA member is appointed. Now that Mr. Jerry Eden has been appointed, Mr. Paul recommended that Mr. Jerry Eden be appointed as a member of the Audit and Finance Committee.

A motion was made by Ms. Cindy Ball to accept Mr. Paul's recommendation to appoint Mr. Jerry L. Eden as a member of the Audit and Finance Committee. The motion was seconded by Ms. Edwards.

Roll Call: Ms. Cindy Ball, Mr. Jerry Eden, Ms. Charlotte Edwards, Mr. James Orbison and Mr. William G. Paul voted to approve the motion. The motion carried.

ITEM 11

New Business

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

ITEM 12

Adjournment

With no additional business, a motion was made by Ms. Edwards to adjourn. The motion was seconded by Ms. Ball. Mr. Paul adjourned the meeting at 3:00 p.m.

At the June 15, 2010 regular meeting Ms. Cindy Ball made a motion to approve the March 16, 2010 meeting minutes. The motion was seconded by Ms. Charlotte Edwards. Ms. Cindy Ball, Mr. George Charlton, Mr. Jerry Eden, Ms Charlotte Edwards, Mr. James Orbison, Mr. Blake Virgin and Mr. William G. Paul voted to approve the minutes.