

**Oklahoma Lottery Commission**  
**Minutes of Regular Meeting**  
March 8, 2011 – 1:30 p.m.

**Members Present:**

Mr. George Charlton, Chairman  
Mr. Blake Virgin, Vice-Chair  
Ms. Charlotte Edwards, Trustee  
Mr. William G. Paul, Trustee

**Members Absent:**

Mr. James Orbison, Secretary  
Mr. Jerry L. Eden, Treasurer  
Ms. Cindy Ball, Trustee

**Others Present:**

Jim Scroggins, OLC	Allen Blankinship, Scientific Games
Rollo Redburn, OLC	Rhonda Hooper, Jordan Associates
Terri Jackson, OLC	Greg Newby, eCapitol
Gay Tudor, AG's Office	

**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. Charlotte Edwards, Mr. William G. Paul, Mr. Blake Virgin and Mr. George Charlton were present. Ms. Cindy Ball, Mr. Jerry L. Eden and Mr. James Orbison were absent. Mr. Charlton 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**

**Remembrance of Tom Riley**

Mr. Charlton asked members to take a moment to remember Mr. Thomas Riley, a charter member of the Oklahoma Lottery Commission. Mr. Riley made a huge contribution to the birth of the lottery and worked tirelessly creating financial stability and hiring accounting staff.

Mr. Paul spoke of Mr. Riley's dedication and contribution to the start-up of the lottery and recognized some of Mr. Riley's accomplishments, one being a star Varsity Football player at the University of Tulsa.

#### **ITEM 4**

##### **Approval of Minutes of the December 7, 2010 Regular Meeting**

Ms. Edwards made a motion to approve the minutes of the December 17, 2010 regular meeting. Mr. Virgin seconded the motion.

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

Due to time constraints the agenda items requiring a vote were discussed first.

#### **ITEM 8**

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

Mr. Scroggins stated the Board of Trustees approved proposed rule changes for Retailer Compensation and Settlement and Retailer Invoicing at the December 7, 2010 regular meeting. On February 16, 2011 a public hearing was held. No members of the public attended. After further internal discussions regarding input received from the House Rules Committee Chair it was determined the more appropriate language would be to replace the word "will" to "may" and insert the text "not more than" before the dollar amount. The proposed rule change also adds the Mega Millions on-line game to the rule. This keeps flexibility to modify or eliminate bonus programs to address legislative concerns. The staff has no further recommendations on the originally approved change to the Settlement and Retailer Invoicing rule.

Mr. Paul made a motion to approve Rule 429:10-1-3 as revised and Rule 429:10-1-10 as originally approved. The motion was seconded by Ms. Edwards.

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

#### **ITEM 9a**

##### **Discussion and Possible Action Regarding Contracts Advertising Services Contract Renewal (Jordan Associates)**

Mr. Scroggins explained Jordan Associates provides media, production, public relations and strategic planning for the lottery. Jordan Associates continues to be an excellent partner. Jordan Associates earns income based on media placed, so the reduction in the lottery's advertising and marketing budget directly affects Jordan Associates' income. The financial impact has not changed their dedication and attention to detail. The staff recommends the Board extend the contract through December 31, 2011.

Mr. Virgin made a motion to extend the contract with Jordan Associates through December 31, 2011 at an annual cost not to exceed \$4.1 million. Mr. Paul seconded the motion.

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

### **ITEM 9b**

#### **Discussion and Possible Action Regarding Contracts Legal Services Contract Renewal (Attorney General)**

Mr. Scroggins stated the contract with the Attorney General is currently up for renewal. Gay Tudor, from the Attorney General's office, continues to provide excellent service. Annual contract cost for FY2012 should not exceed \$30,000. The staff recommends extending the contract for another year beginning July 1, 2011.

Mr. Paul made a motion to extend the contract with the Attorney General through June 30, 2012 at an annual cost not to exceed \$30,000. Mr. Virgin seconded the motion.

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

Ms. Gay Tudor joined the meeting at 1:50 p.m.

### **ITEM 9c**

#### **Discussion and Possible Action Regarding Contracts Legal Services Contract Renewal (Andrews Davis)**

Mr. Scroggins stated the Andrews Davis contract is currently up for renewal. The contract is for legal services in the event the Attorney General's office is unable to assist. Mr. D. Joe Rocket with Andrews Davis indicated their firm would be pleased to extend the contract with no indication of a rate increase. The staff recommends the contract be renewed for another year.

A motion was made by Mr. Paul to extend the contract with Andrews Davis through April 26, 2012 at an annual cost not to exceed \$10,000 provided that any legal work by Andrews Davis will be subject to prior approval by the Attorney General and the contract, if necessary, will be amended pursuant to any legislatively mandated requirements, or new requirements by the Attorney General. Mr. Virgin seconded the motion.

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

## **ITEM 9d**

### **Discussion and Possible Action Regarding Contracts Office Lease Renewal (38<sup>th</sup> & Santa Fe, LLC)**

Mr. Scroggins explained the contract for office space for the Oklahoma Lottery was negotiated through the Department of Central Services. The contract is for one year with multiple year option renewals. The annual contract cost is \$155,016 - \$160,000. The lottery staff recommends extension of the contract for an additional year beginning June 1, 2011.

A motion was made by Mr. Virgin to extend the contract with 38<sup>th</sup> & Santa Fe, LLC through May 31, 2012, at an annual cost not to exceed \$160,000 per year. The motion was seconded by Mr. Paul.

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

## **ITEM 9e**

### **Discussion and Possible Action Regarding Contracts Instant Ticket Contract Renewal (MDI Entertainment LLC)**

Mr. Scroggins stated the lottery currently pays MDI Entertainment, a division of Scientific Games Corporation, for various licensed properties. Some of the licensed lottery brands the Oklahoma Lottery has had success with include: World Poker Tour®, Harley Davidson®, Monopoly® and Lotteria®. The lottery staff recommends a one year extension of the multi-year contract beginning April 9, 2011 at an annual cost not to exceed \$400,000.

Mr. Paul made a motion to extend the multi-year agreement with MDI Entertainment, LLC for the next one year renewal period, through April 8, 2012, at an annual cost not to exceed \$400,000. Mr. Virgin seconded the motion.

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

## **ITEM 9f**

### **Discussion and Possible Action Regarding Contracts Instant Ticket Contract Renewal (Alchemy<sub>3</sub> LLC)**

Mr. Scroggins stated Alchemy<sub>3</sub>, LLC, is the authorized owner or Licensor for various product names, logos, designs and visual representations. The Oklahoma Lottery has used several of Alchemy<sub>3</sub> properties: Bass Pro Shops®, Box Office Bucks® and Caribbean Cash®. The staff recommends the Board extend the multi-year agreement with Alchemy<sub>3</sub>, LLC to begin March 25, 2011 at an annual cost not to exceed \$200,000.

Ms. Edwards made a motion to extend the multi-year agreement with Alchemy<sub>3</sub> LLC for the next one year period, through March 24, 2012, at an annual cost not to exceed \$200,000. The motion was seconded by Mr. Paul.

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

## **ITEM 9g**

### **Discussion and Possible Action Regarding Contracts Gaming Services Contract Renewal (Scientific Games International)**

Mr. Scroggins stated Scientific Games International (SGI) 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, 2011. The contract cost is based on 2.84% of gross sales. The contract expires on August 8, 2013. A request for proposal process will begin this fall to ensure a contract is completed prior to the expiration of the existing contract.

A motion was made by Mr. Paul to extend the contract with Scientific Games International for the next one year renewal period, through August 8, 2012, according to the provisions of the contract. The motion was seconded by Mr. Virgin.

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

## **ITEM 9h**

### **Discussion and Possible Action Regarding Contracts External Auditor New Contract (Cole + Reed)**

Mr. Scroggins stated the contract for Cole + Reed P.C., the lottery's external financial auditors, expires on May 31, 2011. Cole + Reed continue to be professional and advise the lottery on reporting related to the industry norms. Cole + Reed recognize the fiscal issues facing Oklahoma government and have offered a 10% fee reduction, based on the last audit they performed. The reduction will be for the first year of the new contract and will increase slightly each of the subsequent four years until the rate reaches the FY2010 rate. The staff recommends a new multi-year contract at an annual cost not to exceed \$40,000.

A motion was made by Mr. Paul to award a new multi-year contract to Cole + Reed for June 1, 2011 through May 31, 2015, subject to annual renewals, at an annual cost not to exceed \$40,000. The motion was seconded by Mr. Virgin.

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

## **ITEM 10**

### **Discussion and Possible Action Regarding Pick 4 Lottery Game**

Mr. Scroggins explained in an effort to increase sales the staff is recommending the addition of a Pick 4 game. The Pick 4 game is similar to Pick 3. The odds of winning straight numbers in Pick 3 are one in 1,000, in the Pick 4 game the odds of winning straight numbers

are one in 10,000. For player convenience, a daily multi-pick ticket will be available allowing two Pick 3 games, two Pick 4 games and one Cash 5 game on one ticket. The prize liability limit will be set at \$1 million (same as for Pick 3).

Mr. Scroggins shared historical sales information of the Pick 4 game for states with a comparable population to Oklahoma that currently offer a Pick 3, Pick 4 and Pick 5 game. The sales information reveals Pick 4 average sales are approximately 63% of Pick 3 sales and 32% of combined total sales for Pick 3, Pick 4 and Pick 5. Using the sales history above, the estimated annual Pick 4 sales for Oklahoma should be approximately \$3 million, which equates to an additional \$1 million for education.

Ms. Edwards made a motion to approve the Pick 4 game to begin July 1, 2011. Mr. Virgin seconded the motion.

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

## **ITEM 11**

### **Discussion and Possible Action Regarding the FY2011 and FY2012 Budgets for the Oklahoma Lottery Commission**

Mr. Scroggins stated the budget was presented to the Board at the December regular meeting and the revisions have been sent to the Board of Equalization. Current sales and profits are on target.

## **ITEM 12**

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

Mr. Charlton recommended the appointment of Mr. Jerry L. Eden to serve as Chair of the Audit and Finance Committee, and Mr. James Orbison and Mr. William G. Paul as members.

Ms. Edwards made a motion to approve the appointment of Mr. Jerry L. Eden to serve as Chair of the Audit and Finance Committee, and Mr. James Orbison and Mr. William G. Paul as members to serve for calendar year 2011. The motion was seconded by Mr. Virgin.

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

Mr. Charlton recommended the appointment of Ms. Charlotte Edwards as Chair of the Government and Citizen Relations Committee, with Ms. Cindy Ball and Mr. Blake Virgin as members.

Mr. Paul made a motion to approve the appointment of 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 2011. The motion was seconded by Mr. Virgin.

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

## **ITEM 5**

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

Mr. Scroggins stated there is no change in sales projections. Sales and profit projections are on target. Transfers to the Oklahoma Education Lottery Trust Fund (OELTF) since inception total \$389.4 million.

Mr. Scroggins shared an article that appeared in the Oklahoman dated February 5, 2011 which states "state agencies to face cuts of at least 3%, Fallin says." The article states the cuts could be as much as 5% for some agencies. In FY2009 the lottery made a \$1.6 million budget cut to meet the mandated 35% profit contribution. In FY2010 another \$114,000 was cut and in FY2011 the lottery could be looking at another \$1.1 million in reductions to meet the mandated 35% profit contribution. The total budget reduction for FY2009, FY2010 and FY2011 will be approximately \$2.9 million, or 29.5% in reductions. The reductions equate to an average of 10% for each of the last three years, well above the 5% reported in the article.

Mr. Scroggins stated that although the advertising and marketing budget reductions are counterproductive, lottery vendors are paid based on a percentage of sales and those rates can't be reduced. The reduction in advertising, the slow economy, rising gas prices, no large jackpots, etc. all have a negative impact on sales. At the previous meeting it was indicated that with no relief on the mandated 35% restriction, it's projected that up to \$40 million in profit could be lost over the next four years. If the restriction were lifted, an estimated increase of as much as \$20 million over and above the \$40 million could be realized or an increase of \$60 million over a four year period.

Mr. Paul stated the theme of the new administration is "let's run like government more like a business." If the lottery was allowed to be run more like a business, profits would increase. He implored the legislature and the Governor to treat the lottery the way everybody else is being treated in the pursuit of running it more like a business.

Mr. Scroggins stated in FY2009 the lottery employed 36 full time employees. Currently the lottery has 33 full time employees on staff. If feasible, when a position is vacated, duties are re-distributed and the position is not filled. Salary costs have been reduced, but employer contributions to retirement, FICA, health insurance, unemployment, etc. have increased.

## **ITEM 6**

### **Legislative Update**

Mr. Scroggins stated no changes have occurred since the December meeting. Ms. Edwards stated the Government and Citizens Relations Committee is very frustrated with the current lottery legislation and lack of support in improving the situation.

## **ITEM 7**

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

Mr. Charlton stated the Audit and Finance Committee met before the Board meeting and those in attendance were Megan Densow, OLC Controller, Lester LaPorte, OLC Internal Auditor and Mr. Rollo Redburn, OLC Director of Administration. Quarterly audit reports were reviewed. All budget numbers are on target.

## **ITEM 13**

### **New Business**

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

## **ITEM 14**

### **Adjournment**

With no additional business, a motion was made by Ms. Edwards to adjourn. The motion was seconded by Mr. Virgin.

Roll Call: Ms. Charlotte Edwards, Mr. William G. Paul, Mr. Blake Virgin and Mr. George Charlton voted to approve the motion. The motion carried and the meeting adjourned at 2:25 p.m.

**At the June 21, 2011 regular meeting Ms. Charlotte Edwards made a motion to approve the March 8, 2011 meeting minutes. The motion was seconded by Mr. William Paul. Ms. Cindy Ball, Mr. Jerry Eden, Ms Charlotte Edwards, Mr. James Orbison, Mr. William G. Paul and Mr. Blake Virgin voted to approve the minutes.**