

Oklahoma Lottery Commission

A G E N D A

Conference Room
1st Floor – Oklahoma Lottery Commission
3817 North Santa Fe
Oklahoma City, OK 73118

December 19, 2006 – 1:30 p.m.

1. Call to Order. Roll Call and Announcement of Quorum
2. Announcement of Filing of Regular Meeting Notice and Posting of the Agenda in Accordance With the Open Meeting Act
3. Approval of Minutes of the November 21, 2006 Regular Meeting
4. Executive Director's Report
5. Discussion and Possible Action Regarding Membership of the Governmental and Citizens Relations Committee and the Audit and Finance Committee
6. Discussion and Possible Action Regarding Election of the 2007 Officers of the Board of Trustees
7. Discussion and Possible Action on Submitting Proposed Permanent Rules Changes to the Legislature and Governor for Approval
8. Discussion and Possible Approval of the Oklahoma Lottery Commission's Budget Request for Submission to the Office of State Finance
9. Report of Audit and Finance Committee (Mr. Paul)
10. New Business
11. Adjournment

Oklahoma Lottery Commission

Minutes of Regular Meeting

December 19, 2006 – 1:30 p.m.

Members Present

Mr. Orbison, Chairman
Dr. Dzialo
Mr. Riley

Ms. Ball
Mr. Charlton
Mr. Paul

Others Present

Jim Scroggins, OLC
Rollo Redburn, OLC
Beverly Hughes, OLC
Penny Nicholson, OLC
Mark Schlachtenhaufen, Capitol News Network
Greg Fields, OLC
Gay Tudor, AG's Office

Mary Wills, SGI
Ron Jenkins, AP
Jeff Packham, Journal Record
Angel Riggs, Tulsa World
Allen Blankinship, SGI
Rich Sanchez, OLC

ITEM 1

Call to Order. Roll Call and Announcement of Quorum

Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and Mr. Paul were present. Mr. Orbison 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 Meetings Act.

ITEM 3

Approval of Minutes of the November 21, 2006 Regular Meeting

Mr. Charlton made a motion to approve the minutes of the November 21, 2006 meeting. Dr. Dzialo seconded the motion.

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

ITEM 4

Executive Director's Report

Mr. Scroggins displayed the Batchy Award won by OLC at the recent NASPL conference and played a video recording of the winning television advertisement.

Mr. Scroggins distributed copies of a Quick Fact sheet and discussed information about sales, game ending dates, retail location figures, etc. Mr. Charlton asked how lottery players know when a game is closing, and Mr. Scroggins replied that the information is available on the OLC website.

Mr. Scroggins reported that the Retailer Advisory Board held its second meeting, which was well attended and generated positive feedback. He stated that the next meeting was scheduled for February 22, 2007, and invited Board members to attend, if they so desired.

Mr. Scroggins commented on the excellent presentation made by Tony Hutchison, Acting Director of the Office of State Finance, at the previous Board meeting. He distributed copies of a condensed version of the presentation for the Trustee's use as a reference tool if they are asked about how the money in the Oklahoma Education Lottery Trust Fund is used.

Mr. Scroggins distributed a copy of a Daily Oklahoman newspaper article about Lottery proceeds being used to fund school consolidation. The article noted that 5% of the money in the Education Trust Fund is available for school districts to use for consolidation.

Mr. Scroggins distributed copies of the information on problem gambling that appears on the OLC website. He added that the recorded telephone message on the main OLC incoming telephone line also contains information about where to call for assistance with gambling problems. He advised the Board that he plans to attend a meeting of the Oklahoma Association for Problem and Compulsive Gambling, Inc. (OAPCG) on February 16, 2007. Mr. Scroggins stated that he has also been appointed to the newly formed NASPL Responsible Gaming Subcommittee, formed to help educate the public about the dangers of problem and compulsive gambling. Mr. Orbison asked whether other Oklahoma gaming enterprises contribute funding to the Department of Mental Health to assist with problem gambling and Mr. Scroggins replied that Tribal casinos contribute \$250,000 per year, while OLC contributes \$500,000 per year, despite the fact that surveys show that Lottery players comprise less than 10% of the telephone hotline requests for assistance with gambling problems. Mr. Scroggins stated that he will suggest that OAPCG review Missouri's problem gambling educational programs for helpful ideas on educating the public about problem and compulsive gambling.

Mr. Scroggins distributed a copy of an article published on the Consumer Affairs website describing the top ten "scams" for 2006. He noted that the number one scam listed is a fake lottery scam. He also gave the Trustees a copy of a fax used in a Hot Lotto lottery scam and observed that the bogus document appeared quite convincing, even containing an accurate (although fraudulent) signature of Arch Gleason, Executive Director of the Kentucky Lottery.

Mr. Scroggins reported that the OLC IT staff has developed a random number generator, saving the expense of leasing (\$18,000) or purchasing (\$100,000) one from an outside vendor. The random number generator was submitted for independent testing to Dr. Lucas, Professor of Mathematics at the University of Central Oklahoma and to Gaming Labs International, which reviews and certifies gambling machines in casinos nationwide. Both Dr. Lucas and Gaming Labs International found the numbers generated to be totally random. Gaming Labs International provided OLC with official certification that the numbers generated are random. Mr. Scroggins added that the random number generator will be used for the Anniversary Raffle drawing, scheduled to take place on January 20, 2007 at the International Finals Rodeo.

Mr. Scroggins reminded the Board that live television drawing coverage had been lost in the Tulsa area and that no replacement drawing station has yet been found. He stated that FOX 25 in Oklahoma City approached OLC to consider moving the Cash 5 and Pick Three drawings to 9:58 p.m., just prior to the Powerball drawing. OLC discovered that moving the drawing time might also enable them to find a station to live-broadcast in the Tulsa area. He added that changing the drawings to just prior to the Powerball drawing could also have the added benefit of exposing Powerball players to Pick 3 and Cash 5 drawings, potentially increasing sales of those products.

ITEM 5

Discussion and Possible Action Regarding Membership of the Governmental and Citizens Relations Committee and the Audit and Finance Committee

Mr. Scroggins distributed copies of the Board of Trustee's By-laws which authorize the Chairman of the Board to appoint members and chairpersons to standing committees prior to the first of the year, subject to approval by the Board.

Mr. Orbison proposed continuation of the two current standing committees, appointing William Paul as Chairman and Tom Riley, and Linda Dzialo as members on the Audit and Finance Committee and George Charlton as the Chairman and Cindy Ball as a member on the Governmental and Citizens Relations Committee.

Ms. Ball made a motion to approve the appointments and Mr. Riley seconded the motion.

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

ITEM 6

Discussion and Possible Action Regarding Election of the 2007 Officers of the Board of Trustees

Mr. Paul reported that the Nomination Committee, consisting of himself, Dr. Dzialo and Ms. Ball, met via telephone conference on December 7, 2006. He reminded the Board that according to the Lottery Commission by-laws, Board officers may serve terms of up to three years, with the first, partial year of Lottery operations considered as a full year. The Nominating Committee recommended the following slate of officers: Mr. Orbison, Chairman; Mr. Paul, Vice-Chairman; Ms. Ball, Secretary; and Mr. Riley, Treasurer.

Mr. Paul made a motion to approve the proposed slate of officers and Mr. Charlton seconded the motion.

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

ITEM 7

Discussion and Possible Action on Submitting Proposed Permanent Rules Changes to the Legislature and Governor for Approval

Mr. Scroggins reported that a public hearing was held on the proposed changes to the permanent Rules on November 17, 2006 and that there had been no attendees or comments. He distributed copies of the revised Rules and briefly described the proposed changes:

1. Rule 1-1-3 (Definitions) adds a definition of "Seasonal Retailer."
2. Rule 10-1-3 is revised to contain language about compensation to Super Retailers for completing paperwork for claims in excess of \$5,000. It states that Super Retailers will be paid a flat \$10 fee for each claim processed and forwarded to OLC for payment.
3. Rule 10-1-4 is revised to reflect the exact language in Senate Bill 1089, which prohibits pawnbrokers, payday lenders, etc. from becoming Lottery retailers.
4. Rule 10-1-6 changes the requirement for use of the confirmation screen for sales transactions from \$20 to \$25 and for multiple draw tickets and multiple tickets for a single draw.
5. A change in Rule 10-1-7 clarifies that a ticket is not termed a "winning ticket" until it has been validated. Prior to that, it is a claim. It also adds language requiring players to both print and sign their name on the back of a winning ticket and adds "authorized claim centers" to the places where players may redeem prizes in excess of \$600.
6. Rule 10-1-8, adds language exempting seasonal retailers from minimum sales requirements.
7. Rule 10-1-10 is changed to clarify the time period of the accounting week and correct the time that the sales terminals become active from 5:00 a.m. to 4:00 a.m. Language was also added to change the timing of invoicing if a retailer simultaneously activates two or more packs but does not have two or more selling locations within the same location.
8. A change in Rule 15-1-11 clarifies the time frame for issuing reports on closed instant games and states that the reports will be posted on the OLC website.
9. Rule 20-1-12 applies the same change as number 8 above to online games.

Mr. Scroggins summarized the process for final approval of the Rules changes and requested that the Board adopt the Rules so they can be forwarded for the next phase, approval by the Governor and Legislature.

Mr. Riley made a motion that the Board of Trustees adopt the revised Rules and submit them to the Legislature and Governor for approval.

Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and Mr. Paul voted to adopt the Rules as revised and send them to the Governor and Legislature. The motion was carried.

ITEM 8

Discussion and Possible Approval of the Oklahoma Lottery Commission's Budget Request for Submission to the Office of State Finance

Mr. Redburn distributed copies of the Lottery Commission's FY-2007-2009 Budget Projection figures. Mr. Orbison inquired how the revenues were estimated. Mr. Scroggins replied that OLC examined revenues to date, estimated the impact of upcoming new games and initiatives, and the statistical probability of a large Powerball jackpot in the near future and subtracted projected expenditures, including prize payouts, to arrive at a net revenue estimate. He noted that OLC strives to keep operating expenses low in order to maximize revenue for Education.

Mr. Charlton asked if OLC was exploring different venues for sales, such as airports and bowling alleys. Mr. Scroggins replied that OLC is actively looking at new venues, but stated that the high overhead costs at airports generally discourages vendors from offering lottery products. He added that sales at bowling alleys in other states were derived largely from pull-tab games, which are prohibited in Oklahoma. He stated that OLC plans to aggressively recruit Lottery vendors as well as work to assist current vendors to increase sales. He stated that OLC is also exploring a compromise on the issue of sovereign immunity in hopes of recruiting Indian casinos as lottery retailers. Mr. Charlton asked if OLC intends to mount an intensive, targeted recruiting plan, and Mr. Scroggins replied that such a plan is being formulated. Ms. Hughes added that other, non-traditional venues were also being examined as possible retail outlets. Mr. Scroggins commented that Remington Park, which he initially thought to be an unlikely venue for significant Lottery sales, has turned out to be very successful. He reiterated OLC's determination to explore every avenue to increase revenue for Oklahoma education.

Dr. Dzialo made a motion that the Lottery Commission FY-2007-2009 Budget Projection be submitted to the State Board of Equalization. Ms. Ball seconded the motion.

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

ITEM 9

Report of Audit and Finance Committee (Mr. Paul)

Mr. Paul reported that the Audit and Finance committee met with Carl Selby, Stan Van Ostran, Rich Sanchez and Rollo Redburn on this date at 11:30. They carefully examined and approved the FY-07 audit plan, which includes risk assessment, etc. They also reviewed and approved, with minor revisions, the charter for the Internal Auditor.

The Committee also reviewed OLC financial reports for the first five months of FY-07. They noted that to date about \$93 million has been raised for Oklahoma education. The Committee also reviewed the quarterly transfers made to the Education Trust Fund, and noted that all transfers have been made in accordance with statutory requirements and OLC's agreement with Higher Education. Committee members also reviewed the budget and revenue projections approved by the Board under Item 8 above.

Mr. Riley noted that as of January 2007, total transfers to Education since the Lottery inception will exceed \$100 million. Mr. Scroggins stressed the importance that this information be conveyed to the public in order to provide reassurance that Lottery funds are being used as promised.

Board members discussed the requirement in the Lottery statute that mandatory percentages of gross revenue be transferred to the Oklahoma Lottery Education Trust Fund. They noted that this requirement places limits on the amount of money available for prizes, which in turn can negatively impact overall sales and revenue. Mr. Orbison asked how Oklahoma compared to other States in terms of prize payouts. Mr. Scroggins replied that after the statutory transfer to education and payment of operating expenses, only about 52.3% of revenue is available for prize payouts, which is very low. The State with the next lowest prize payout is 59% and the national average is around 65%-66%.

ITEM 10

New Business

There were no items of new business, and Mr. Orbison noted that the next Board meeting is scheduled for Tuesday, March 20, 2007 at 1:30 p.m.

Dr. Dzialo commented that she really liked the Lottery's December commercials, and other Board members agreed.

Mr. Paul asked if there had been any information received regarding the appointment of a new Trustee to replace Mr. Norick, who resigned in November of 2006. Mr. Orbison and Mr. Scroggins stated that they had not heard anything about a new appointee as of yet.

ITEM 11

Adjournment

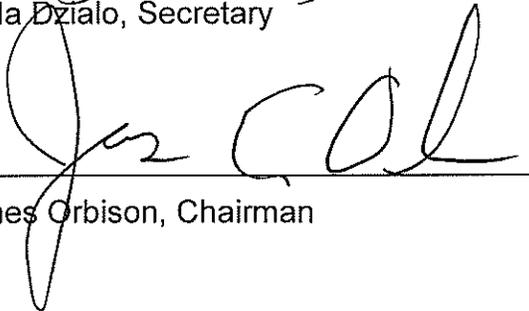
Mr. Riley made a motion to adjourn the meeting, and Dr. Dzialo seconded the motion.

Roll Call: Mr. Orbison, Dr. Dzialo, Mr. Riley, Ms. Ball, Mr. Charlton and Mr. Paul voted to adjourn and the meeting was concluded.

Submitted by:



Linda Dzialo, Secretary



James Orbison, Chairman