

Oklahoma Lottery Commission

Minutes of Regular Meeting

September 19, 2006 – 1:30 p.m.

Members Present:

Mr. Orbison, Chairman
Mr. Norick, Vice-Chairman
Mr. Riley, Treasurer
Dr. Dzialo, Secretary

Ms. Ball
Mr. Charlton
Mr. Paul

Members Absent:

None

Others Present:

Jim Scroggins, OLC
Beverly Hughes, OLC
Rollo Redburn, OLC
Gay Tudor, AG's Office
Mary Wills, SGI
Penny Nicholson, OLC

Angel Riggs, Tulsa World
Brian Ervin, Capitol Network News
Allen Blankinship, SGI
Sean Murphy, Associated Press
Janice Smith, The Journal Record
Bill Bateman, KTOK

ITEM 1

Call to Order. Roll Call and Announcement of Quorum

Roll Call: Mr. Orbison, Mr. Norick, Mr. Riley, Dr. Dzialo, 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 August 15, 2006 Regular Meeting

Mr. Norick made a motion to approve the minutes of the August 15, 2006 meeting. Mr. Charlton seconded the motion.

Roll Call: Mr. Orbison, Mr. Norick, Mr. Riley, and Mr. Charlton, voted to approve the minutes. Dr. Dzialo, Ms. Ball, and Mr. Paul abstained. The minutes were approved.

ITEM 4

Executive Director's Report

Mr. Scroggins reported Instant Games sales of \$20.6 million, Powerball sales of \$25 million (with a current jackpot of \$179 million), Pick 3 sales of \$2 million, and Cash 5 sales of \$426,000 (for the first nineteen days of ticket sales), for a grand total sales figure of \$48 million, or an average of \$4.4 million per week. He reported that one Cash 5 top prize of \$25,000 had already been won. Mr. Scroggins explained that sales were currently running below projected goals, but that it is typical for sales to be sluggish during the summer months.

Mr. Scroggins reported that there are currently 2,215 active retail locations, with 4 others pending. He reported that 48% of Oklahoma lottery retailers have placed Play Stations in their stores, 25% are utilizing the new jackpot signs, and 80% have accepted installation of ticket checkers.

Mr. Scroggins distributed a copy of a spreadsheet breaking out Powerball winners by date and amount won. He noted that since the Oklahoma Powerball launch, \$111,757,142 in prizes have been awarded to players. He added that Oklahoma continues to rank 5th or 6th in total Powerball/Powerplay sales compared with other Powerball jurisdictions.

Mr. Scroggins distributed a packet of materials on the "Trucks and Bucks" promotion along with a list of winners from the State Fair drawings. He noted that of 91,200 instant entry tickets potential, approximately 53,700 (or 58%) were mailed in as entries for the drawing. For the Powerball/Powerplay entry promotion approximately 310,000 entries had been purchased, with 150,000 (or 48%) mailed in for the drawing. Mr. Scroggins noted that Powerball/Powerplay sales had increased by about 6% during the "Trucks and Bucks" promotion. He added that no instant winner trucks had been claimed to date, but hoped that some might be redeemed during the extension of the "Trucks and Bucks" promotion through October 31st.

Mr. Scroggins reported that completed financials for the last quarter of FY06 indicate an additional \$3.7 million for transfer to the Oklahoma Lottery Education Trust Fund. Because these funds were transferred after June 30, 2006 (the conclusion of FY06), they will appear on the FY07 financial reports.

Mr. Scroggins informed the Trustees that all the proposed members of the Retailer Advisory Board had accepted the invitation to serve on the Board and are currently being polled to determine a convenient date for their first meeting sometime in October. He reminded the Board that State law does not provide for the reimbursement of expenses for the Retailer Board members, and he and other Trustees agreed this should be addressed during the next session of the Oklahoma Legislature.

Mr. Scroggins informed the Board that he, Mr. Redburn, and Ms. Hughes plan to attend the NASPL conference in Chicago in October. In their absence, Jay Finks, Stan Van Ostren and Travis Percival will be in charge at the OLC office. He added that he, Ms. Hughes or Mr. Redburn could fly back to Oklahoma in the event of an emergency or unusual situation that could not be handled by these designees.

Mr. Scroggins concluded his report and asked if any Board members had questions or comments. Mr. Paul inquired about the amount of the current Powerball jackpot, and Mr. Scroggins replied that it was \$179 million. Mr. Charlton commented that he had attended the Cash 5 Retailer Rally in Tulsa and had been pleased by the number of attendees and the presentation given by Lottery staff. He stated that he is frequently asked how much he is paid to be a member of the Board of Trustees. He suggested that efforts be made to clarify to the public that Board members serve without compensation. Mr. Scroggins said that OLC will make special efforts to let the public know, and Ms. Hughes stated she would have the information added to the FAQ's on the OLC website. Board members suggested that information should also be added explaining that they and OLC employees are prohibited from playing the Oklahoma Lottery, as this is another question that is frequently asked of them.

Ms. Ball commented that now that the first year of operations is complete, she would like to hear how the money generated by the Lottery was being spent. She suggested that representatives from Common Education and Higher Education be invited to give presentations at the November Board meeting detailing how lottery funds were used. Ms. Hughes commented that the OLC sales and marketing department is looking into concrete examples of how lottery revenue was used to put in OLC literature. Ms. Ball added that many people in the field of education are confused concerning where the lottery money goes. She stated that many educators hoped these funds would be a "cure all" for their financial problems and have been disappointed not to see more immediate and tangible relief from lottery revenue. Mr. Scroggins stated that he would try to arrange to have speakers at the next Board meeting to address these questions, and Ms. Ball suggested that representatives of different branches of education also be invited to help "get the word out" on how lottery funds are being spent. Ms. Ball and other Trustees noted that many members of the public believe that the Lottery Commission determines the distribution and use of lottery funds, which is not the case. The funds are

deposited with the State Treasurer and apportioned by the Legislature in accordance with the Oklahoma Education Lottery Act. Mr. Riley commented that school district financial officers he spoke with did not know how or when the lottery revenue was received or how it was spent. Mr. Paul added that he has heard several people express concern that the funds were not, in fact, used as “over and above” regular education funding, as required by the Act. Mr. Scroggins and Mr. Redburn suggested that Claudia San Pedro, the Director of State Finance, be invited to address the Board and explain how the monies are allocated and spent and how they could be assured that they were being handled in accordance with the Act. Dr. Dzialo suggested that a member of the Board of Equalization, which is responsible for oversight on the funds, also be asked to address the Board and provide a formal determination of non-supplanting. Mr. Orbison agreed, adding that the negative experiences of other lottery states have caused many people to doubt that lottery funding is being used as promised to supplement education funding. Additional discussion was held regarding how the funds are allocated and who makes the final decisions on how lottery revenue is used within each school district. Mr. Riley noted that part of the confusion might lie with the fact that the funds were actually apportioned by the Legislature prior to the lottery start-up. Mr. Orbison added that he felt it was entirely proper and reasonable for the Board of Trustees to request information and assurance about the distribution and use of lottery revenue.

ITEM 5

Discussion and Possible Action on Submitting Proposed Permanent Rules Changes for Public Review

Mr. Scroggins distributed copies of some additional proposed changes to the Rules (previously mailed to Board members). He briefly described each proposed change and the reasoning behind it. Mr. Norick asked if these changes would be adopted as Emergency Rules pending the Legislative approval process, and Ms. Tudor replied that they would not, as only changes that were genuinely critical to the Lottery Commission’s ability to conduct business would be considered emergencies. She stated that OLC would continue to operate under the current Rules until the suggested changes had passed through the public review and Legislative process.

Mr. Norick made a motion to authorize Mr. Scroggins to submit the proposed permanent Rules changes for public review, and Dr. Dzialo seconded the motion. Roll call: Mr. Orbison, Mr. Norick, Mr. Riley, Mr. Charlton, Dr. Dzialo, Ms. Ball, and Mr. Paul voted to approve and the motion was carried.

ITEM 6

Report and Possible Action on Minority Business Outreach

Mr. Scroggins distributed copies of correspondence from Scott Dean, State Coordinator for Small Business Development Services at CareerTech, and Justin Smedley, Economic Development Director at CareerTech, outlining the minority outreach services they propose to provide for the Lottery Commission. Mr. Scroggins explained that CareerTech can provide both training services for minority business owners who wish to become lottery retailers, and information and education outreach for minority-owned companies desiring to compete for contracts with OLC and/or SGI. Mr. Charlton inquired what kind of minority business database CareerTech had in place, and Mr. Scroggins replied that he did not know the specifics, but would find out and report to the Board. Ms. Ball asked if CareerTech would conduct retailer training classes on their own, or if OLC personnel would be involved. Mr. Scroggins replied that CareerTech would probably eventually handle them on their own, but initially lottery and/or SGI personnel would be involved in the classes. Mr. Riley commented that many minority-owned small businesses have trouble competing with the large chains, which have better internal training resources available for their employees. Mr. Scroggins agreed, and stated that oftentimes the most basic but crucial aspects of being a lottery retailer, such as daily balancing, inventory control, timely deposit of lottery revenue, etc., need to be taught in order for small businesses to be successful lottery retailers. Mr. Paul asked if OLC or SGI had any business

relationships with suppliers that ought to be looked at in terms of minority outreach. Mr. Scroggins replied that OLC's primary contractor, SGI, is a large company with many internal resources for products and distribution and does not often require the services of outside vendors. Mr. Charlton commented that since the last meeting, Mr. Scroggins had reported to him that employment ads are being placed specifically in newspapers with large minority circulation. Mr. Scroggins added that there is very little turnover of personnel at OLC, so there have not been many opportunities to advertise positions recently. Mr. Paul asked if lottery literature is available in Spanish, and Ms. Hughes replied that all lottery pamphlets and public literature are provided in English and Spanish language versions. She added that OLC is currently working to convert the website to a bilingual format. In addition, she reported that both OLC and SGI have bilingual employees. Mr. Scroggins added that one of SGI's field representatives is Vietnamese, which has been helpful in working with Asian-owned businesses.

Mr. Riley made a motion that the Board authorize Mr. Scroggins to proceed with implementing the minority outreach services offered by CareerTech, according to the requirement contained in Section 714 of the Oklahoma Education Lottery Act, which directs the Board to "...adopt a plan which achieves to the greatest extent possible a level of participation by minority businesses..." both as lottery retailers and vendors. Mr. Charlton seconded the motion. Roll call: Mr. Orbison, Mr. Norick, Mr. Riley, Mr. Charlton, Dr. Dzialo, Ms. Ball, and Mr. Paul voted to approve and the motion was carried.

ITEM 7

Report of Audit and Finance Committee (Mr. Paul)

Mr. Paul reported that the Audit and Finance Committee (Tom Riley, Linda Dzialo, and himself) had met at 11:00 that day with Mike Gibson and Dan Bledsoe of the outside audit firm of Cole and Reed. He stated that the audit process is generally completed, although the official reports are not finished. Mr. Paul stated that the auditors indicated to the members of the committee that they would most probably issue a "clean opinion," indicating they did not uncover any notable problems. They also reported receiving very good cooperation from lottery staff while conducting the audit. Because this is the first audit conducted for the Oklahoma Lottery, the process was more lengthy and difficult than future audits will be. Mr. Paul told the Board that Cole and Reed had contacted other lottery States to confer about proper procedures and methods for auditing lottery records. Mr. Paul stated that the committee and auditors had gone over the audit findings and found no areas of concern about which he needed to inform the Board. Mr. Paul offered special thanks to Mr. Riley, whose financial expertise has been invaluable to the committee and the Board.

Mr. Paul reminded the Board that monthly deposits of \$3,000,000 to the Trust Fund had been instituted at the request of The Board of Regents for Higher Education. These monthly payments are credited against the regular quarterly distribution to the Trust Fund. Mr. Paul also noted that preliminary figures for July and August indicated average sales of \$6 million per month, which he hoped to see strengthening as the slow summer sales season draws to a close.

Mr. Paul's final comment was to remind the members of the press and other persons in the audience that the FY06 figures represent only a partial year of sales.

Mr. Riley and Dr. Dzialo stated they had nothing further to add to Mr. Paul's comments, and Mr. Orbison thanked the committee for their services and report.

ITEM 8

New Business

There were no items to be discussed under new business.

ITEM 9

Adjournment

Trustees and OLC officials discussed the fact that the October Board meeting has been cancelled and confirmed that the meeting set for November 21st and December 19th would be workable for everyone.

Mr. Riley made a motion to adjourn the meeting. Ms. Ball seconded the motion. Roll call: Mr. Orbison, Mr. Norick, Mr. Riley, Mr. Charlton, Dr. Dzialo, Ms. Ball, and Mr. Paul voted to approve and the meeting adjourned.

James Orbison, Chairman

Linda Dzialo, Secretary