

**Oklahoma Lottery Commission
Minutes of Regular Meeting**

June 26, 2007 – 1:30 p.m.

Members Present:

Mr. William Paul, Vice-Chairman
Ms. Cindy Ball, Secretary
Mr. Thomas Riley, Treasurer

Mr. George Charlton
Ms. Charlotte Edwards

Members Absent:

Mr. James Orbison, Chairman

Dr. Linda Dzialo

Others Present:

Jim Scroggins, OLC
Rollo Redburn, OLC
Allen Blankinship, SGI
Gay Tudor, AG's Office
Mary Wills, SGI
Terri Jackson, OLC
Sande Stewart, Stewart Television
Susan Christian, OLC
Rhonda Hooper, Jordan & Associates

Angel Riggs, Tulsa World
Houston Hunt, Jordan & Associates
Erin Boeckman, Capitol Network News
Mary Martha Hall, OLC
Jeff Packham, The Journal Record
Pat Hall, Scientific Games
Ron Jenkins, AP
Peter J. Rudy, KTOK Radio
Greg Sawyer, Regents for Higher Education
Amanda Paliotta, Regents for Higher Education

ITEM 1

Call to Order. Roll Call and Announcement of Quorum

The meeting was called to order at 1:35 p.m.

Roll Call: Mr. Riley, Mr. Charlton, Mr. Paul and Ms. Edwards were present. Mr. Paul declared a quorum. Ms. Ball was delayed due to inclement weather and it was decided to continue the meeting with the understanding Ms. Ball could ask questions if she desired.

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 March 20, 2007 Regular Meeting

Mr. Riley made a motion to approve the minutes of the March 20, 2007 meeting. Mr. Charlton seconded the motion.

Roll Call: Mr. Charlton, Ms. Edwards, Mr. Paul and Mr. Riley voted to approve the minutes. Ms. Ball was not yet present. The minutes were approved.

ITEM 4

Executive Director's Report

Mr. Scroggins discussed legislation impacting the Oklahoma Lottery Commission during the last legislative session. SB513 accomplishes two things; it allows a trust to file a prize claim, but it requires the trust to divulge to the OLC who the individual members of the trust are. The OLC can then check each individual as it relates to child support. The lottery can also verify that the winners are not Board Members, employees or other individuals that are unable to collect prizes from the lottery. This information would not be subject to the Open Records Act. The second issue the bill addresses is tax debt to the State. In addition to child support, the OLC will now check for back taxes for any prize in excess of \$600. The Oklahoma Tax Commission is working with the OLC to set up a website that will enable the OLC to recognize any taxes owed. The system will probably not be in place by July 1, 2007, as stated in the bill, since it is still in the development stage. If a winner owes child support and back taxes, the child support will be recognized first, then state taxes.

Another Bill that may affect the OLC is SB69 and it relates to holding meetings via video conference. The OLC will be doing some testing to see if this could be a possibility. The technology could be extremely helpful during inclement weather, or for meetings with a very limited agenda. However, costs may be prohibitive.

The Rules changes became effective May 12, 2007 and are posted on the OLC website if anyone should wish to review them.

Annual financial statements are being prepared for FY-2007. More detailed discussion to follow during the Finance and Audit Committee portion of the meeting.

Mr. Scroggins said he met with Jennifer Glover, Department of Mental Health, about the possibility of the lottery assisting them in dealing with problem gambling issues. Although the lottery provides \$500,000 of unclaimed prizes yearly and couldn't provide additional monetary support, assisting with an advertising program or something along those lines could be a possibility.

Mr. Scroggins said he would like to thank Carl Selby, Bonnie Presley, Travis Percival and others, who have successfully completed the OLC Disaster Recovery Plan. Copies are available if members would like to view the plan.

October 3-6, 2007, NASPL/WLA annual conference will be held in Louisville, KY. If any member is interested in attending, please let us know as rooms are filling fast. There will be approximately 100-120 lotteries represented at the meeting, with the majority of them World Lotteries. Mr. Paul and Mr. Charlton have attended one of these conferences and said they are extremely informative.

At 1:41 p.m. Cindy Ball arrived at the meeting and was briefly updated on the information discussed thus far.

ITEM 5

Report from Subcommittee and Possible Action on Vendor Contract Renewals

Mr. Scroggins reminded the group that the subcommittee was formed at the Board Meeting on March 20, 2007, consisting of Mr. Riley, Mr. Paul and Ms. Edwards to assist in reviewing each vendor's contract. On May 2, 2007 the subcommittee met with each vendor. A

summary document was compiled that reflects each vendors' contract date, renewal date, etc., and the subcommittee and the staff's recommendation for renewals.

Wright McAfee & Company currently performs the observation of the nightly drawings. Mr. Rob McAfee and Mr. Rick Hutzenbiler met with the subcommittee and staff to discuss current procedures and any difficulties they have observed or foresee with the lottery, Sinclair Broadcasting or their own staff. Wright McAfee & Company has asked for a 4% increase in their current fees, which would constitute an \$1,800 increase a year. The drawing time has changed from 8:59 p.m. to 9:59 p.m., which is tough on staff members, which the OLC feels is partly the reason for the increase. The subcommittee recommends that we renew their contract and the lottery staff concurs.

Mr. Charlton asked Mr. Scroggins to define a fouled drawing. Mr. Scroggins explained that any error that occurs during the live drawing would be fouled, i.e., the balls don't fall in the machine, etc. The drawing would be halted, and the drawing would be taken off camera and completed. The off-camera drawing would be taped so that the public, security and auditors would be assured the drawing was carried out properly. Wright McAfee & Company observes these actions and insures that all individuals follow the written procedures properly.

A motion was made by Ms. Edwards to renew the contract with Wright McAfee & Company with a 4% increase. The motion was seconded by Ms. Ball.

Roll Call: Ms. Ball, Mr. Charlton, Ms. Edwards, Mr. Paul and Mr. Riley voted to approve. The motion carried.

Gay Tudor joined the meeting.

Mr. Scroggins said that Sinclair Broadcasting has aired our live drawing since inception. Stephanie Sims and Steve Bottkol from Sinclair were available at the May 2, 2007 meeting and reviewed any problems, staff concerns, and training issues with the subcommittee. The OLC feels like they have a good relationship with Sinclair and they have been a very good partner. The subcommittee recommends we renew the contract and the staff concurs.

A motion was made to extend the contract with Sinclair Broadcast Group for another year by Mr. Charlton. The motion was seconded by Ms. Ball.

Roll Call: Mr. Charlton, Ms. Ball, Ms. Edwards, Mr. Paul and Mr. Riley voted to approve. The motion carried.

Mr. Scroggins said the next renewal is for Jordan Associates, the advertising agency of record for the OLC. Rhonda Hooper, President and Houston Hunt, Vice President, were at the vendor review meeting. Jordan Associates has been a good partner from day one and has been very responsive to the needs of the OLC. The subcommittee recommends that the contract be extended for an additional year and the staff agrees. Mr. Paul added that Jordan Associates voluntarily attended several conventions and meetings, at their own expense, to learn more about our business and he feels this shows a high degree of commitment. Jordan Associates is in the process of compiling information that compares population, retailers, sales and media expenditures to aide in spending media dollars as wisely as possible. Jordan Associates anticipate the analysis to be completed within the next 30 days and the data will cover the last 12 months.

A motion was made by Mr. Riley to renew the contract with Jordan Associates for another year at the same terms. The motion was seconded by Ms. Edwards.

Roll Call: Ms. Ball, Mr. Charlton, Ms. Edwards, Mr. Paul and Mr. Riley voted to approve. The motion carried.

Mr. Paul announced that the next contract up for renewal will be Andrews Davis for legal services. To date we have been fortunate in that the OLC has not been involved in any litigation, so the services of Andrews Davis have not been utilized. Mr. Scroggins stated that Mr. Joe Rockett asked for a 15% increase in their hourly rate. These rates are consistent with other legal firms. The subcommittee recommends renewal and the staff does as well.

A motion was made by Mr. Riley to extend the contract with Andrews Davis at a 15% increase for another year. The motion was seconded by Ms. Ball.

Roll Call: Ms. Ball, Mr. Charlton, Ms. Edwards, Mr. Paul and Mr. Riley voted to approve. The motion carried.

The next renewal is for the Attorney General's office. Mr. Scroggins commented that Gay Tudor, from the Attorney General's office, has attended every meeting since the inception. The AG's office is asking for a \$1,905 increase a year in fees. The subcommittee and the staff recommend to extend their contract another year.

A motion was made by Ms. Ball to extend the contract with the Attorney General's Office for another year with an increase of \$1,905. The motion was seconded by Mr. Charlton.

Roll Call: Ms. Ball, Ms. Edwards, Mr. Charlton, Mr. Riley and Mr. Paul voted to approve. The motion carried.

Mr. Scroggins stated that Cole & Reed, our outside auditors, worked with us last year on our financial audit. Cole & Reed continues to be extremely helpful and cooperative. The subcommittee and staff recommended the contract be extended for another year. Mr. Riley stated that Cole & Reed has done a great job for the Lottery Commission.

A motion was made by Mr. Riley to renew the contract with Cole & Reed for another year. The motion was seconded by Mr. Charlton.

Roll Call: Ms. Ball, Mr. Charlton, Ms. Edwards, Mr. Paul and Mr. Riley voted to approve. The motion carried.

Mr. Scroggins stated the next renewal is for OSF, Office of State Finance. They currently handle all of our Human Resources needs to eliminate the need of hiring two additional staff members. The current contract is for \$6,000 a month, or \$72,000 a year, which we feel is less than the cost of the OLC handling these matters in-house.

A motion was made by Mr. Riley to extend the contract with the Office of State Finance for another year. The motion was seconded by Ms. Ball.

Roll Call: Ms. Ball, Mr. Charlton, Ms. Edwards, Mr. Paul and Mr. Riley voted to approve. The motion carried.

The last contract up for renewal is Scientific Games International. Mr. Scroggins said that Steve Beeson, Chief Information Technology Officer, Charlie Scannella, Corporate Account Representative, Gillis Hill, Regional Manager and Allen Blankinship, Site Manager in Oklahoma City were all present at the meeting on May 2, 2007. The subcommittee discussed staffing,

sales force, training, the measurement of performance for both companies, recruitment of new retailers, IT software support, RFA's, software related to the interactive terminals, and day to day operational issues. The subcommittee and the staff recommend that the contract be extended for another year. Mr. Charlton asked if the Lottery Commission or SGI would be responsible for converting the Albertson's that have changed hands. Mr. Scroggins stated that the OLC and SGI have already contacted the individuals involved and expect that several of the stores will be converted quickly.

A motion was made by Mr. Charlton to renew the contract with Scientific Games International, Inc. for another year. The motion was seconded by Ms. Edwards.

Roll Call: Ms. Ball, Mr. Charlton, Ms. Edwards, Mr. Paul and Mr. Riley voted to approve. The motion carried.

ITEM 6

Presentation, Discussion and Possible Action on FY-2008 Budget and Transfers of Lottery Proceeds to the State

Mr. Paul announced that the Finance and Audit Committee meeting was held today prior to the Board Meeting. The Committee reviewed the budget that is being presented at the Board Meeting today and the Committee is recommending approval.

Mr. Scroggins projected sales for FY-2007 to be at \$214.7 million. With the recent elevated Powerball jackpot, it may be slightly higher. Based on preliminary calculations, the projected amount to be transferred to the Oklahoma Education Lottery Trust Fund is \$74.1 million. The projected sales figure constitutes actual sales through week 49. Scratch ticket sales YTD have averaged \$1.9 million a week, although the last 10 weeks the average has been about \$1.6 million per week. Powerball sales have averaged a little less than \$2.0 million a week YTD, for the last 8 weeks the average has been \$1.6 million, but since the jackpot has escalated, the sales have as well. Pick 3 will never be a big game, it has a loyal player base and the YTD average is about \$156,000 a week, in the last 8 weeks it has averaged \$131,000 a week. Cash 5 YTD average weekly sales were \$132,000, the last 8 weeks sales have averaged \$106,000.

Mr. Scroggins discussed some of the issues that the OLC is currently dealing with. The OLC's current payment of prizes on scratch off tickets averages 53%, the national average is 66%, Oklahoma is the only state under 60%, and that will continue to limit our ability to increase Scratch sales. With the requirement for profit margin in the Act increasing from 30% to 35% July 1, 2008, we will not be able to bring our payout up to the national average. Some limited discussions were held in the legislature this session and it is an issue that the OLC would like to see explored. Not only do our current sales reflect the normal summer slump, but the increased gasoline prices were an additional strain on Scratch sales. Information has been provided that clearly shows that as the gas prices increase, sales decline on Scratchers. Powerball doesn't seem to show the same trend, as it is basically a jackpot driven game. Scratch off tickets are an impulse item. Another issue is the number of Indian Gaming casinos in the state. Currently there are 87 Indian Gaming establishments, and it is estimated that there will be 100 by the first of the year. One Indian Gaming casino is actually doing a game show. One of the race tracks has implemented a scratch off ticket promotion. Casinos are now emulating our business, which affects our sales. Convenience store locations now have slot-type gaming machines that we believe to be illegal. These issues were not recognized when the Lottery Act was established, which impact the original estimates for sales in Oklahoma.

In trying to find some basis for early revenue estimates, Mr. Scroggins indicated it appeared that initial estimates were also based on the fact that video-type games and other games would be a consideration. Although he is not advocating Oklahoma do these types of games they would have a positive impact on sales. Keno, pull-tab and video games were taken off the agenda during the early structuring of the Act. For discussion purposes Mr. Scroggins looked at sales for all the state lotteries that sell Keno, pull-tab and video lottery games. The information suggests that potential sales in Oklahoma could be an additional \$388 million for video, \$83 million for Keno and \$10 million for pull-tabs, and that is conservative. The reality is when those items were taken out of the Act, it impacted the sales potential.

The most important issues facing the OLC today are the Scratcher prize percentage, the illegal machines and how we are going to compete with the casinos.

For FY-2008 the projected sales are \$227.2 million. The estimated transfer to the Oklahoma Education Lottery Trust Fund is \$75.2 million. Powerball sales are projected at \$1.9 to \$2.0 million a week, dependant on jackpot amount, for a total of \$100 million for the year. Pick 3 sales are projected to stay the same at \$8 million. Cash 5 is projected to be \$8.2 million which shows an increase over FY-2007 of \$2.6 million due to the fact that a Saturday night draw will be added in July 2007 and we will have a full year of sales. The Raffle will not be repeated in FY-2008.

Projected FY-2008 budget also has a line item for other games. Mr. Scroggins said the OLC has had discussions from the beginning on implementing an in-state lotto game. It has been recognized that if the starting prize is not at least \$1 million, the game will never be successful. Based on the current per capita sales, the analysis showed that Oklahoma would be able to do a lotto-type game, but with only a \$250,000 prize. An alternative is a multi-state game run by MUSL called Hot Lotto, where the minimum jackpot is \$1 million. This is a 10 state game and plays just like Powerball with the drawings on Wednesday and Saturday evening. In the last year, the states running the Hot Lotto game showed sales that equal approximately 17% of their Powerball sales. In Oklahoma, with a conservative estimate of 10% of our Powerball sales, the sales estimate would be \$5 million in FY-2008 with a start date of January 2008. If the projected FY-2008 budget is approved, a January start-up would be realistic.

The Scratcher ticket marketing strategy is to include more games with smaller ticket quantities and a different distribution of prizes in the games. The Lottery is allowed under the Act to use unclaimed prizes, after the first \$500,000 is given to the Department of Mental Health for problem gambling to augment prizes paid on Scratchers. Projected sales of Scratcher tickets for FY-2008 are \$106 million, which is \$7.5 million over last year, taking into consideration our new programs.

In the same spirit of increasing sales, the OLC has determined that a 30 minute game show is the next step to reach our players. Sande Stewart, Stewart Television, who produced a similar game show in Missouri, will produce the project. Sande Stewart Television goes back to 1964 when Sande's father worked for the Goodson-Todman Company. Sande's father created the Price is Right and To Tell the Truth. Sande Stewart joined the company in 1973 and worked on the \$25,000 Pyramid, which won 20 Emmy Awards and 9 wins for Best of Show. Mr. Stewart is the company's president and an Emmy Award winning Executive Producer, with over 25 years experience. He has produced over 15 game shows for the lottery industry, as well. Mr. Stewart presented video from the Missouri Game Show and discussed the rationale for a lottery doing a game show, which is basically to increase sales. An additional benefit for the viewer and player is that it is fun and entertaining. Oklahomans have never seen the winners of lottery prizes win. Now for the first time the public can see every-day people win while playing the lottery. The prize sums are typically smaller than a Powerball jackpot, ranging from

\$500 to \$50,000. Security, auditors and accounting staff will be on hand to write checks and pay the winners immediately. The prize money awarded during the game show will be allocated from the general prize fund. "What's News at the Oklahoma Lottery" is a portion of the show that can be used to discuss beneficiaries, winnings, stories of winners, events that the Lottery supports, upcoming events, etc. The contestants are chosen from the Oklahoma Game Show Scratcher game ticket. Some of the winning tickets in the Scratcher game are an entry form. The player fills out the entry and if they are selected they get to be a contestant on the game show. The host and/or hostess of the Oklahoma Lottery Game Show will be local talent. If the budget is approved today, the Oklahoma Lottery Game Show can be launched in October and the new Hot Lotto game in January, which will both contribute to the continued success of the Oklahoma Lottery.

Items listed in the FY-2008 budget that have increased are vehicle leases, travel, IT and game equipment. The vehicles and travel budget was increased to cover the two additional Sales Coordinators that will be brought on board and our increased efforts in assisting and training the field staff. The additional staff will also be focused on recruiting additional retailers. IT's budget was increased to cover costs associated with software/equipment for back up systems. The game equipment increase is to allow the OLC to look at animated drawings. The used drawing equipment we purchased at the inception of the lottery is deteriorating, and the replacement cost would total \$180,000 to \$200,000; the animated drawings would eliminate the need for purchasing new machines.

A motion was made by Mr. Charlton to approve the FY-2008 Budget as reviewed. The motion was seconded by Mr. Riley.

Roll Call: Ms. Ball, Mr. Charlton, Ms. Edwards, Mr. Paul and Mr. Riley voted to approve. The motion carried.

Mr. Scroggins informed the group that the Oklahoma State Regents for Higher Education has again requested that \$3 million a month be transferred to the Oklahoma Education Lottery Trust Fund to help with their debt service requirements as opposed to waiting for the statutorily required quarterly transfers. Mr. Paul explained that the law requires the Lottery to distribute funds to the Oklahoma Education Lottery Trust Fund quarterly; it does not prohibit from distributing more often. Last year, the Board preferred the quarterly payments, so that the funds and related interest earnings would remain in our account until the time the law required they be distributed. However, the funding of payments on bonds which had to be paid by the OSRHE, posed an issue as their cash flow was such that the Lottery funds were needed sooner than quarterly, stating there was a possibility of a default if that did not happen. Last year, after much discussion, the Board of Trustees voted to distribute the \$3 million monthly versus quarterly; the OSF then distributes to the beneficiaries. Mr. Paul also stated that the Finance and Audit Committee that met this morning has reviewed and discussed the matter at length, and recommends that the Board approve this request and continue the procedure of sending \$3 million monthly for deposit to the Oklahoma Education Lottery Trust Fund. Amanda Paliotta, Vice Chancellor for Finance at the Oklahoma State Regents for Higher Education, was asked to address the Board. Ms. Paliotta stated that the OSRHE is limited to the use of lottery funds appropriated by the legislature. Lottery proceeds are the only fund identified in their budget that can be used for debt service. All other funds are to be used for scholarships and/or operations, hence the reason the OSRHE has approached the lottery again for monthly transfers. Ms. Ball asked if Common Education was somehow being shorted by this process and Mr. Charlton pointed out that it was apparent this problem of debt service funding for the Regents was not addressed this last year.

A motion was made by Ms. Edwards to make monthly transfers of \$3 million dollars to the Oklahoma Education Lottery Trust Fund. The motion was seconded by Mr. Riley.

Roll Call: Ms. Edwards, Mr. Paul and Mr. Riley voted to approve. Ms. Ball and Mr. Charlton opposed. The motion carried.

At 3:15 p.m. a short recess was taken.
Meeting called back to order at 3:25.

ITEM 7

Demonstration of OrderPad System

Mary Martha Hall, Sales Manager for the Oklahoma Lottery Commission, was introduced. Ms. Hall conducted a demonstration of the new OrderPad System that the Oklahoma Lottery has implemented in the last two months. It is a system developed by Cole Systems, which has been tailored to the needs of the OLC. The process began in August of 2006 with the field and sales staff outlining what they wished the system could accomplish to aid in their store visits. Each field representative has approximately 100 retail stores to track and visit. The system allows them access to information for each of their designated stores, and each Sales Coordinator can view and add information as well. The system provides the sales and field staff with up to date information on each and every retailer; retailers' address and contact information, retailer's sales information which can be charted and analyzed immediately, inventory at each retail location, what tickets are currently in the retailer's store and if they are activated, weekly retailer invoices. General information is also available; all information for current games, winners of \$1,000 or more, current Jackpot amount, etc. Information from each visit can be logged, as well as a list of information that needs to be addressed at a future visit. Management is able to send out surveys that the representative has access to when they arrive at the store and can immediately be filled out and sent back to the office. Pertinent information on a certain store can be entered by the Sales Coordinator and viewed by the rep when they arrive at the store, i.e., the retailer's license is up for renewal, upcoming promotional information and any other information the store may need. The information is available 24/7 via an internet connection. The tool allows the staff to use their time in the field more efficiently.

ITEM 8

Report of Audit and Finance Committee (Mr. Paul)

Mr. Paul discussed the Audit and Finance Committee meeting that was held this morning. Ms. Edwards sat in for Dr. Dzialo. Mr. Riley, Mr. Paul, Mr. Carl Selby, the OLC Internal Auditor, Mr. Stan Van Ostran, the OLC Controller, Mr. Rich Sanchez, the OLC Budget Financial Reporting Analyst and Mr. Rollo Redburn were present. Audit reports for the fourth quarter of 2007 were reviewed. All information was positive. The May 2007 financial reports were reviewed. The status of transfers made to the Oklahoma Education Lottery Trust Fund and the FY-2007 proposed budget were also reviewed. The \$500,000 start up funds the OLC received from the State of Oklahoma has now been repaid, the OLC has no debt. The \$500,000 payment that is required to be made to the Department of Mental Health for treatment of gambling problems has been remitted out of the unclaimed prize fund. Ms. Edwards stated the audits were extremely thorough.

ITEM 9

New Business

As a reminder, the Statutes state that we must report to the Secretary of State all upcoming 2008 meetings by December 15th. Setting the 2008 meetings will need to appear on

the next agenda since the December meeting is scheduled for the 18th, three days after the deadline. The Audit and Finance Committee will meet on September 18th, regular Board meeting date, at 11:00 a.m.

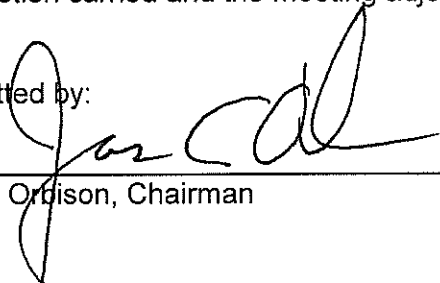
ITEM 10

Adjournment

Mr. Paul asked if there was any additional business, with none, Mr. Charlton made a motion to adjourn. The motion was seconded by Ms. Ball.

Roll Call: Ms. Ball, Mr. Charlton, Ms. Edwards, Mr. Paul and Mr. Riley vote to approve. The motion carried and the meeting adjourned at 3:50 p.m.

Submitted by:



James Orbison, Chairman