

**Oklahoma Lottery Commission
Minutes of Regular Meeting**

December 18, 2007 – 1:30 p.m.

Members Present:

Mr. James Orbison, Chairman
Mr. William Paul, Vice-Chairman
Ms. Cindy Ball, Secretary
Mr. George Charlton, Trustee
Ms. Charlotte Edwards, Trustee
Mr. Pete Wilson, Trustee

Members Absent:

Mr. Thomas Riley, Treasurer

Others Present:

Jim Scroggins, OLC	Rhonda Hooper, Jordan Associates
Rollo Redburn, OLC	Houston Hunt, Jordan Associates
Allen Blankinship, SGI	Erin Boeckman, Capitol Network News
Gay Tudor, AG's Office	Rob Crissinger, Jordan Associates
Mary Wills, SGI	Jeff Packham, The Journal Record
Terri Jackson, OLC	Ron Miguel, SGI
Bonnie Presley, OLC	Pat Hall, SGI
Mary Martha Hall, OLC	Bill Fox, SGI
Ricardo Sanchez, OLC	Shawn Hime, State Department of Education
Jay Finks, OLC	

ITEM 1

Call to Order. Roll Call and Announcement of Quorum

The meeting was called to order at 1:40 p.m.

Roll Call: Ms. Cindy Ball, Mr. George Charlton, Ms. Charlotte Edwards, Mr. William Paul, Mr. Pete Wilson and Mr. Jim Orbison 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 Meeting Act.

ITEM 3

Approval of Minutes of the September 18, 2007 Regular Meeting

Mr. Charlton made a motion to approve the minutes of the September 18, 2007 meeting. Mr. Paul seconded the motion.

Roll Call: Mr. Charlton, Ms. Edwards, Mr. Paul, Mr. Wilson and Mr. Orbison voted to approve the minutes. Ms. Ball abstained. The minutes were approved.

Mr. Orbison introduced the newest member of the Board of Trustees, Mr. Pete Wilson. Mr. Wilson was appointed to the Board of Trustees on November 15, 2007 by the Governor to fill the Trustee seat vacated by Dr. Linda Dzialo. Mr. Wilson's appointment will expire January 1, 2011.

ITEM 4

Executive Director's Report

Mr. Scroggins stated that sales are currently on target to make the FY2008 projections of \$208.2 million. The ice storm and the fact that the Powerball jackpot was hit had rendered sales flat for last week, however, sales this week are equal to those from two weeks ago. To date, the lottery has transferred \$160.7 million dollars to education.

At midnight on Christmas Eve two winning Powerball tickets will expire. One of the tickets, sold in Tulsa is worth \$10,000 and the other winning ticket was sold in Bartlesville, OK and is worth \$200,000. The lottery has issued a press release containing this information in hopes of a winner coming forward. If the money is not claimed, the funds will be added to the unclaimed prize fund, of which the first \$500,000 goes to the Oklahoma Department of Mental Health and Substance Abuse Services for compulsive gambling programs. Money accumulated in the fund over and above the \$500,000 will be used for prizes in other games and promotions. This fiscal year the fund has already surpassed \$500,000 in unclaimed prizes.

Mr. Scroggins stated that the report from the Oklahoma Department of Mental Health and Substance Abuse Services for last month has been compiled and 371 calls were received. Of the 371 calls, 65 (or 18%) were related to the lottery, of those 65 phone calls 100% were inquiring as to the current winning lottery numbers.

Mr. Scroggins provided members with a FY2007 Media and Sales Analysis for the Oklahoma Lottery. The report analyzes the various DMA's and number of locations in each, along with individual game sales by DMA, and media by DMA. Members are encouraged to call with any questions after they have had an opportunity to review the report.

Mr. Scroggins said in an attempt to initiate cost savings the lottery is currently renovating the 3rd floor to accommodate personnel on the 1st floor. The renovations are progressing as scheduled and after the preliminary build out costs the move will save \$27,000 a year in annual rent.

Mr. Scroggins invited all members to join the lottery employees for their annual Christmas luncheon which will be held on Thursday at 11:30.

ITEM 5

Discussion and Possible Action on Input Received in Public Hearing on Proposed Rules Changes

Mr. Scroggins stated the board gave its initial approval to two rules changes at the September 18, 2007 meeting: provide a bonus to retailer owners who sell a winning Powerball or Hot Lotto jackpot ticket and the second proposed rule change relates to the time frames for

returning inactive and partial packs from three (3) weeks to six (6) weeks. In reality the process takes about six (6) weeks so it would make the rules consistent with current practices. Inadvertently the wording in the rule change identified the orange ball for Hot Lotto as the "Sizzler Ball", and in actuality it is the "Hot Ball". The amendment to the rules change is the modification of "Sizzler Ball" to "Hot Ball".

A motion was made by Mr. Paul to adopt the proposed rules changes as amended. The motion was seconded by Ms. Ball.

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

ITEM 6

Discussion and Possible Action to Adopt Proposed Rule Changes

Vote was combined with Item 5.

ITEM 7

Discussion and Possible Action on Budget and Strategic Plan for FY2008 through FY2010

Mr. Scroggins stated that if any changes in our FY2008 budget and work program need to be made, it would need to occur at this meeting so that the Board of Equalization could be notified of any changes. The lottery is on track for FY2008 in accordance with the revised budget the Board approved in September 2007. As for FY2009 and FY2010, the budget estimates were compiled in two ways for comparison: 1) under the current law; 2) showing what the lottery believes would occur if the mandated minimum profit percentage of 35% of gross proceeds is removed.

Mr. Scroggins explained that under the current law FY2009 shows a slight decrease in sales. Instant sales will continue to decline due to the low prize percentage payouts. Mandating a minimum profit percentage inhibits the lottery's ability to increase prize payouts. Decreasing Instant ticket sales are partially offset in FY2009 with the start of the Hot Lotto game in January 2008, for which a full year of sales will be realized; estimated at \$10 million. In FY2010 the lottery believes sales for Hot Lotto will be equal to the previous year and instant ticket sales will continue to slide, which in turn provides less money for education.

Mr. Scroggins stated that currently the Oklahoma Lottery has a profit of approximately 34.2% which has been achieved by holding operating costs down and holding prize percentages to 53-54%. To achieve a 35% mandated profit there are only two areas that a cut can be made: take it out of prizes or further reduce day to day expenditures. To reduce prizes would further decrease sales. The Oklahoma Lottery is one of the smallest staffed, most efficient operating lotteries, and our operating costs are fixed. A cut in expenses would likely be in advertising and/or in staff. Our projections for FY2009 and forward, if the law were to change, are very conservative. The projections are based on eight state case studies of lotteries that have increased their prizes. For FY2009 (transitional year) the contribution to the state, would be an additional quarter of a million dollars if the mandate is removed. For FY2010 the additional funds would amount to \$4.8 million. Mr. Scroggins stated that with the removal of the minimum mandated 35% profit, the lottery anticipates a profit in FY2009 of 33.4% and in

FY2010 it would be 31.4%. However, proceeds for education would be \$5 million more than if the law is not changed.

Board members asked Mr. Scroggins if he knew of an existing lottery, making the same changes being proposed, that did not have a positive impact for their beneficiary. The eight states in the case studies all had an increase in sales and provided more real dollars for their beneficiary. Mr. Scroggins said the comparison between the state of Louisiana and Kentucky shows that Louisiana has a 35% mandated profit and Kentucky does not, they have virtually the same population, started about the same time, carry the same type games. Kentucky's sales are double that of Louisiana, and Kentucky has a 27.5% profit.

Mr. Scroggins stated that another serious issue the Oklahoma Lottery faces is the fact that Arkansas is going to have a lottery, probably late FY2009 or early FY2010. Based on Oklahoma Lottery prizes claimed by Arkansas residents, the estimated sales loss is \$10 to \$11 million in Oklahoma Lottery sales if Arkansas starts a lottery. If the lottery in Arkansas does not have a minimum mandated profit, their prize payouts will be larger than Oklahoma's, which means Oklahoma players would likely be playing in Arkansas.

Mr. Paul stated that the Finance and Audit Committee met prior to the board meeting. The Committee reviewed the proposed budgets and the committee approved the revised budget for the current fiscal year and the proposed budget for FY2009 and FY2010. They also made a recommendation to the board to approve it as well.

Mr. Paul made a motion to approve the revised budget presented for FY2008 under the current law and the proposed budget for FY2009 and FY2010 under the current law. Mr. Charlton seconded the motion.

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

Mr. Paul stated that the Finance and Audit Committee reviewed a revised budget work program for the current fiscal year and a proposed budget for four future fiscal years, FY2009 through FY2012, based on the assumption that the law of Oklahoma is changed and the minimum mandated 35% profit requirement is eliminated. The Finance and Audit Committee agree that these projections are reasonable and the committee recommends that the board approve the projected budget.

Mr. Paul made a motion to approve the projected proposed budget for FY2009 through FY2012, assuming removal of the minimum mandated profit of 35%. Mr. Charlton seconded the motion.

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

The Board meeting was recessed for a short break at 2:30. The meeting was called back to order at 2:47.

ITEM 8

Discussion and Possible Action on Vendor Contract Renewals

Mr. Scroggins stated that the law requires contracts to be for one year only. They can have renewal periods for multiple years but have to be renewed annually. The Oklahoma

Lottery has an excellent relationship with all of their current vendors and rather than wait until the March or June meeting, Lottery staff is recommending review and approval of four of the contract extensions now: Scientific Games International, Jordan Associates, Sinclair Broadcasting and Wright McAfee.

Mr. Scroggins stated that Scientific Games International is the lottery's largest vendor and a great partner. Scientific Games International is the game system vendor, providing all lottery terminals located in the retail stores; the satellite dishes; gaming computer system; communications for the terminals to transmit data to the gaming system; instant ticket printing; ticket and marketing research; ticket design consulting services; technicians to repair the gaming system; TelSel operations; help desk; warehousing of tickets and equipment; delivery and installation of equipment; delivery and pick up of promotional materials, tickets and ticket stock. Mr. Scroggins and the lottery staff would like to recommend that their contract be extended for an additional year to begin August 9, 2008.

A motion was made by Mr. Charlton to extend the contract for Scientific Games International for an additional year, to begin August 9, 2008. The motion was seconded by Ms. Ball.

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

Mr. Scroggins stated that Wright McAfee audits our online drawings for Pick 3 and Cash 5. The purpose for the auditor is to ensure that the written procedures for executing each drawing are followed precisely. They are required to be at the studio seven evenings a week, 365 days a year. For their service, they also receive audio and video acknowledgement during the drawing. Mr. Scroggins and the lottery staff would like to recommend that the contract be extended for an additional year beginning July 1, 2008.

A motion was made by Ms. Edwards to extend the contract for Wright McAfee for an additional year, to begin July 1, 2008. The motion was seconded by Mr. Paul.

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

Mr. Scroggins stated that Sinclair Broadcasting currently televises our nightly drawings for Pick 3, Cash 5 and Powerball and they have committed to carry our game show for one year. They provide studio; set, equipment and secure storage; production personnel; talent and billing; satellite coordination for a Tulsa station (if applicable). Mr. Scroggins and the lottery staff would like to recommend that the contract be extended for an additional year beginning September 13, 2008.

A motion was made by Ms. Edwards to extend the contract for Sinclair Broadcasting for an additional year, beginning September 13, 2008. The motion was seconded by Mr. Paul.

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

Mr. Scroggins explained that Jordan Associates places our media, develops ads and point of sales materials, assists in public relations and strategic planning. Jordan Associates continues to be an excellent partner and attends conferences and meetings, at their own expense, to stay up to date on the lottery industry. A re-bid will need to take place late in calendar year 2008, as this contract will expire at the end of the next renewal period. Mr.

Charlton stated he met with Jordan Associates prior to the meeting and was very pleased with their discussions.

A motion was made by Ms. Ball to extend the contract for Jordan Associates for an additional year, beginning August 29, 2008. The motion was seconded by Ms. Edwards.

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

ITEM 9

Discussion and Possible Action on Proposed Legislation for the Lottery

Mr. Scroggins stated that a Senator has committed to sponsor the legislation in the Senate and a Representative has committed to sponsor the legislation in the House to eliminate the mandated minimum 35% profit. The legislation was submitted as of December 7, 2007 to them and they will have a bill drawn up which will be introduced in January 2008. Mr. Scroggins said he is committed to meet with all the educational groups and try to enlist their support and discuss any issues they may have. The House and the Senate leadership will be approached, the chairs of the appropriate committees and members that are known to be strong opponents or supporters in an effort to provide them with information and facts. Mr. Paul stated that he is available to assist in any way he can and in order to maximize funds for education, this change has to be realized. Ms. Ball stated that it will be critical to inform educational association members and provide factual information so they have a better understanding of the issue.

A motion was made by Mr. Paul to authorize and encourage the lottery staff to aggressively seek a change in the current law to eliminate the minimum mandated profit percentage by working with our leaders in state government, in particular the state legislature. Mr. Charlton seconded the motion.

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

ITEM 10

Report of Audit & Finance Committee (Mr. Paul)

Mr. Paul reported that the Audit and Finance Committee met prior to the Board of Trustees Meeting. Mr. Paul, Ms. Charlotte Edwards, Stan Van Ostran, Comptroller for the Lottery, and Carl Selby, the Lottery's Internal Auditor, were present. The audit reports for the first quarter were reviewed as were the reports that are expected to be completed by calendar year end. Year end reports were reviewed and the committee was well satisfied with the reports. Risk Assessment was reviewed and the committee was pleased with the analysis and the plan for 2008. Financial statements for the first quarter ending November 30, 2007 were reviewed and found to be on track with the revised budget. The lottery accounting staff continues to refine systems and procedures and the committee found no cause for concern. The Comprehensive Annual Financial Report (CAFR), which is for governmental financial officers and for government agencies, was reviewed. The Government Finance Officers Association of the United States and Canada (GFOA) recently awarded the Oklahoma Lottery Commission with the Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report.

ITEM 11

Discussion and Possible Action on FY2007 Year End Financial Audit

Mr. Scroggins stated that Cole & Reed, the agency's external auditors, provided the lottery with an unqualified opinion.

Ms. Edwards made a motion that the FY2007 Year End Financial Audit report be accepted as presented. Ms. Ball seconded the motion.

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

ITEM 12

Discussion and Action on Board of Trustees Officers for Calendar 2008

Mr. Scroggins explained that the by-laws for the Oklahoma Lottery Commission Board of Trustees state that officers are elected annually for a term of one year and may not serve more than three years in the same office. The Nominating Committee for Officers and Committees review the assignments and make recommendations to the full board. The Nominating Committee consisted of Mr. Jim Orbison, Mr. George Charlton and Ms. Charlotte Edwards.

Mr. Orbison reviewed the nominating committee's recommendations for the Board of Trustees' officers for calendar year 2008: Mr. Bill Paul as Board Chair, Mr. George Charlton as Vice Chair, Ms. Charlotte Edwards as Treasurer and Mr. Tom Riley as Secretary.

The nominating committee's recommendation for members of the Audit and Finance Committee: Mr. Tom Riley as Chair, Mr. Jim Orbison and Ms. Cindy Ball as members.

The nominating committee's recommendation for members of the Government and Citizens Relations Committee: Ms. Charlotte Edwards as Chair, Mr. George Charlton and Mr. Pete Wilson as members.

Mr. Paul recognized the valuable service and knowledge that Mr. Orbison has contributed to the Board and wished to thank him for his service.

A motion was made by Mr. Orbison to appoint the recommended officers and committee members for calendar year 2008 as presented by the Nominating Committee. The motion was seconded by Ms. Edwards.

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

ITEM 13

New Business

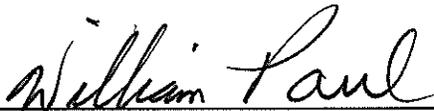
Mr. Orbison stated that there was no new business to be discussed.

ITEM 14
Adjournment

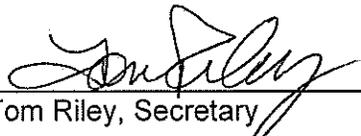
Mr. Charlton made a motion to adjourn. The motion was seconded by Mr. Paul.

Roll Call: Ms. Ball, Mr. Charlton, Ms. Edwards, Mr. Paul, Mr. Wilson and Mr. Orbison voted to approve the motion. The motion carried and the meeting adjourned at 3:25 p.m.

Submitted by:



William Paul, Chairman



Tom Riley, Secretary