

**Oklahoma Lottery Commission
Minutes of Regular Meeting**

June 10, 2008 – 1:00 p.m.

Members Present:

Mr. William Paul, Chairman
Mr. George Charlton, Vice-Chairman
Ms. Charlotte Edwards, Treasurer
Mr. Thomas Riley, Secretary
Ms. Cindy Ball, Trustee
Mr. James Orbison, Trustee

Members Absent:

Mr. Pete Wilson, Trustee

Others Present:

Jim Scroggins, OLC	Rhonda Hooper, Jordan Associates
Rollo Redburn, OLC	Houston Hunt, Jordan Associates
Terri Jackson, OLC	Jeff Packham, Journal Record
Bonnie Presley, OLC	Gay Tudor, AG's Office
Carl Selby, OLC	Allen Blankinship, SGI

ITEM 1

Call to Order. Roll Call and Announcement of Quorum

Mr. Paul called the meeting to order at 1:11 p.m.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. Thomas Riley, Ms. Cindy Ball, Mr. James Orbison and Mr. William Paul were present. Mr. Paul declared a quorum.

Mr. Pete Wilson was absent.

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 March 18, 2008 Regular Meeting

Mr. Orbison made a motion to approve the minutes of the March 18, 2008 regular meeting. Mr. Riley seconded the motion.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. Thomas Riley, Mr. James Orbison and Mr. William Paul voted to approve the motion. Ms. Cindy Ball abstained. The motion carried.

ITEM 4

Executive Director's Report

Mr. Paul stated that as of July 1, 2008 the Lottery Commission will begin a new fiscal year and the provision in the law to increase the mandated profit percentage from 30% to 35% of gross proceeds to be remitted to the Oklahoma Education Lottery Trust Fund (OELTF) will begin.

Mr. Scroggins stated that for the second straight year the OLC has received the Certificate of Achievement for Excellence in Financial Reporting, CAFR. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting.

The NASPL Annual Conference will take place September 23 - 27, 2008 in Philadelphia, PA if any members would like to attend. Next year the NASPL Annual Conference will be in Oklahoma City.

ITEM 5

Discussion and Possible Action Regarding Rules of the Oklahoma Lottery Commission

Mr. Scroggins stated that effective May 11, 2008 the following rules were approved: 1) bonus payments to retailers selling winning jackpot or 2nd level prize tickets for Powerball or Hot Lotto, and 2) increasing time frames for returning inactive and partial packs from three (3) weeks to six (6) weeks. Since the new bonus incentive has been in effect, two retailers have received payments of \$5,000 for selling winning \$200,000 Powerball tickets.

ITEM 6a

Discussion and Possible Action Regarding Contract Renewals: External Auditor Contract Renewal (Cole and Reed)

Mr. Scroggins stated the contract for Cole & Reed, external financial auditors, is due for renewal. The annual contract cost is \$33,000. Cole & Reed continues to be extremely helpful and cooperative in preparing annual financial statements. The staff recommends the contract be extended for another year.

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

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. Thomas Riley, Ms. Cindy Ball, Mr. James Orbison and Mr. William Paul voted to approve the motion. The motion carried.

ITEM 6b(i)

Discussion and Possible Action Regarding Contract Renewals: Legal Services Contract Renewal (Attorney General)

Mr. Scroggins stated the Attorney General's contract is currently up for renewal. Gay Tudor, from the Attorney General's office, continues to provide excellent service to the OLC. The annual contract cost is approximately \$26,000 to \$30,000. The staff recommends extending the contract another year.

A motion was made by Ms. Ball to renew the contract with the Attorney General's office for another year. The motion was seconded by Mr. Orbison.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. Thomas Riley, Ms. Cindy Ball, Mr. James Orbison and Mr. William Paul voted to approve the motion. The motion carried.

ITEM 6b(ii)

Discussion and Possible Action Regarding Contract Renewals: 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. To date the services of Andrews Davis have not been utilized. The OLC staff recommends the contract be extended for another year.

A motion was made by Mr. Riley to renew the contract with Andrews Davis for another year. The motion was seconded by Mr. Charlton.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. Thomas Riley, Ms. Cindy Ball, Mr. James Orbison and Mr. William Paul voted to approve the motion. The motion carried.

ITEM 6c

Discussion and Possible Action Regarding Contract Renewals: Payroll Services Contract Renewal (Office of State Finance)

Mr. Scroggins stated the contract for Office of State Finance (OSF) is up for renewal. Previously OSF handled Human Resources and payroll needs eliminating the need for two additional full-time lottery staff members. However, OSF is reducing the HR services they will provide. They will continue to provide payroll processing. OLC has absorbed the remaining HR duties. The current contract is for \$16,000 annually, an annual savings of \$56,000. The staff recommends a one year extension for the OSF contract.

A motion was made by Mr. Orbison to renew the contract with OSF for another year. The motion was seconded by Ms. Ball.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. Thomas Riley, Ms. Cindy Ball, Mr. James Orbison and Mr. William Paul voted to approve the motion. The motion carried.

ITEM 7

Discussion and Possible Action Regarding Legislation Impacting the Oklahoma Lottery Commission

Mr. Rollo Redburn stated the Board authorized the OLC, per Oklahoma State Regents for Higher Education's request, to transfer \$3 million a month in FY08, versus quarterly, to OELTF to assist OSRHE with debt service requirements on a bond issue and that authorization has expired. SB1795 passed the legislature and was signed by the Governor which requires monthly transfers be made to the OELTF for OSRHE's portion of appropriations as opposed to quarterly. The initial bill required funds be transferred by the 25th day of the current month. Transfer amounts cannot be established by the 25th of the month due to financials being incomplete. After working with OSF staff, the proposed bill was amended to reflect the 9th of the following month, which passed. The bill was amended to include HB1441 requiring the OLC to transfer common education's portion of appropriations to the OELTF on a monthly basis rather than quarterly. The impact to the OLC of monthly transfers versus quarterly equates to approximately \$97,000 in lost interest earnings annually. The first required monthly transfer will be July 9, 2008, for June 2008 gross proceeds, however these will be FY'08 proceeds, not FY'09.

Mr. Scroggins reviewed the measures taken by OLC staff and Board members in petitioning lawmakers to eliminate the mandated profit percentage. Last quarter's instant ticket sales for all US lotteries ranks Oklahoma 40 out of 42. Mr. Scroggins stated the downward trend will continue unless prize payouts are increased. Informative documentation was provided to House and Senate members outlining the strategy for maximizing profits for education, including: an eight case study of comparable state lotteries and the impact of increasing prize payouts and eliminating mandated profit percentages; analysis of problem gambling; analysis of the impact of casinos on state lotteries; and evidence of the direct correlation between higher instant prize payouts and increased sales and net profits. Mr. Scroggins stated that he and Mr. Rollo Redburn met with nine various education groups, the Superintendents Association for common education and the president's board from OSRHE, ten House members, two House staff members, several Senators, OSF, Lt. Governor, Retailer Advisory Board, and brought in Florida and North Carolina Directors to discuss their first hand experience of eliminating mandated profit percentages and the positive impact that follows. Mr. Orbison met with the Editorial Board of the Tulsa World, Mr. Paul visited the capitol and met with various legislative leaders, Ms. Edwards visited House and Senate members. Correspondence was sent to education groups and the OLC Players Club membership of 15,000+. Mr. Paul sent correspondence to all legislators and education groups and to several newspapers. Mr. Scroggins stated all possible avenues had been explored, unfortunately to no avail. Mr. Scroggins suggested staff and Board members continue their efforts, despite being unsuccessful during the most recent legislative session.

After much discussion the Board agreed that efforts should continue, and perhaps expand, to initiate legislative action to eliminate the mandated profit percentage to increase prize payouts, which in turn enables more ticket sales, and thus provides more money to beneficiaries. Ms. Edwards stated she feels the education groups require more information and explanation of the proposal. After much discussion it was decided to explore and share ideas at a later date.

A motion was made by Mr. Riley for the Board, due to their deep belief in education in Oklahoma, to work diligently to change the law during the next legislative session. The change

would be to amend the mandated profit percentage with the purpose of increasing prize percentages so the Lottery Commission can contribute more to its beneficiaries, through means to be discussed and determined at a later date. The motion was seconded by Mr. Charlton.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. Thomas Riley, Ms. Cindy Ball, Mr. James Orbison and Mr. William Paul voted to approve the motion. The motion carried.

ITEM 8

Discussion and Possible Action Regarding the FY'08 Budget for the Oklahoma Lottery Commission

Mr. Scroggins stated budgeted total revenue for FY08 was \$208.2 million and projected total revenue is estimated to be \$213 million, or \$5.6 million more than budgeted and \$1.3 million less than FY07. The budgeted transfers due OELTF for FY08 was \$71.6 million, representing 33 ½% of sales, which will be met. The budgeted Scratcher sales for FY08 were \$83 million and projected total sales are estimated to be \$86.6 million, which is \$11.5 million less than FY07. Pick 3 budgeted sales for FY08 were \$6.9 million, projected total sales are \$7 million. Cash 5 budgeted sales for FY08 were \$7.1 million, projected total sales are estimated to be \$6.1 million. Powerball total sales for FY08 were budgeted to be \$106 million, projected total sales are estimated to be \$107.2, an increase of \$4.4 million over FY07. Hot Lotto total sales budgeted for FY08 are \$5.2 million, with projected total sales estimated to be \$6.9 million, \$1.7 million higher than projected. The Sizzler feature was added after the game began and consistently 55% to 56% of players choose the Sizzler option and out of the 13 states that offer Hot Lotto, Oklahoma is consistently number one in Sizzler players and total sales.

ITEM 9

Discussion and Possible Action Regarding the FY'09 Budget for the Oklahoma Lottery Commission

Mr. Scroggins stated projections for Scratcher sales for FY09 are \$80 million, Pick 3 \$7.0 million, Cash 5 \$5.2 million, Hot Lotto \$12 million, Powerball \$103.8 million, and \$117,000 for retailer fees for a projected total revenue of \$208.1 million. In order to comply with the increase in mandated profit percentage for FY09, \$1.9 million in adjustments had to be made to the budget. Funding was decreased \$1.380 from advertising and marketing: \$600,000 media and advertising; \$180,000 in broadcast production; \$127,000 from promotions; \$15,000 research; \$3,250 in print production; \$5,000 special events. In addition, it was reluctantly decided to discontinue the game show in August which will reduce expenditures by \$450,000. Prize percentages will be reduced from 55.9% to 55.33% for an annual savings of \$456,000. Mr. Scroggins stated that a vacant Budget Analyst position within the OLC will not be filled, saving \$65,000. Contingency money for legal services of \$50,000, sales training of \$20,000 and \$7,000 for temporary services were also cut.

Mr. Scroggins stated that due to the acceleration of payments of gross proceeds to education, monthly reviews will be conducted to ensure projections remain on track.

Mr. Riley made a motion to approve the FY09 budget as presented. The motion was seconded by Ms. Ball.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. Thomas Riley, Ms. Cindy Ball, Mr. James Orbison and Mr. William Paul voted to approve the motion. The motion carried.

ITEM 10

Report of Audit & Finance Committee (Mr. Riley)

Mr. Riley stated the Audit and Finance Committee met prior to today's board meeting. Mr. Riley, Ms. Ball, Mr. Orbison, Ms. Megan Densow, Budget/Financial Reporting Analyst for the Lottery, Mr. Rollo Redburn, Director of Administration for the Lottery and Carl Selby, the Lottery's Internal Auditor, were present. Committee reviewed reports on the internal audit functions for last quarter were accepted with no significant deficiencies. The Audit Plan was discussed for the upcoming quarter and Mr. Selby, Internal Auditor, agreed to send an updated Audit Plan to Committee members covering the rest of the year. The Committee discussed income, expense and operating processes that have been audited internally and externally by the Committee. The FY08 reports were reviewed as well as the status of transfers to OELTF, which are more than we budgeted for this fiscal year based on year to date sales. The contract renewal for the external auditor was reviewed and discussed.

ITEM 11

New Business

Mr. Paul stated a new Retailer Advisory Board has been appointed.

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

ITEM 12

Adjournment

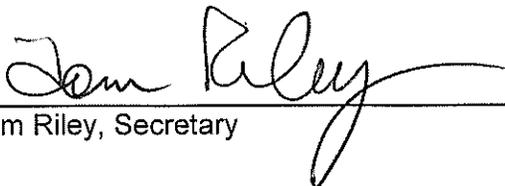
With no additional business, Mr. Orbison made a motion to adjourn. The motion was seconded by Mr. Charlton.

Roll Call: Mr. George Charlton, Ms. Charlotte Edwards, Mr. Thomas Riley, Ms. Cindy Ball, Mr. James Orbison and Mr. William Paul voted to approve the motion. The motion carried and the meeting adjourned at 2:15 p.m.

Submitted by:



William Paul, Chairman



Tom Riley, Secretary