

Oklahoma Lottery Commission
Minutes of Regular Meeting
December 9, 2008 – 1:30 p.m.

Members Present:

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

Others Present:

Jim Scroggins, OLC	Renee Smith, Retail Advisory Board
Rollo Redburn, OLC	Sherry Hansen, Retail Advisory Board
Terri Jackson, OLC	Mike Alberty, Retail Advisory Board
Bonnie Presley, OLC	Mike Beighey, Retail Advisory Board
Mary Martha Hall, OLC	Allen Blankinship, SGI
Susan Christian, OLC	Michael McNutt, The Oklahoman
Jay Finks, OLC	Ron Jenkins, Associated Press
Gay Tudor, AG's Office	

ITEM 1

Call to Order. Roll Call and Announcement of Quorum

Mr. Paul called the meeting to order at 1:35 p.m.

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

Mr. Paul introduced Mr. Blake Virgin, the newest member of the Oklahoma Lottery Commission Board of Trustees.

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 16, 2008 Regular Meeting

Ms. Edwards made a motion to approve the minutes of the September 16, 2008 regular meeting. Ms. Ball seconded the motion.

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

ITEM 4
Executive Director's Report

Mr. Scroggins stated the Executive Director's Report is contained in later agenda items.

ITEM 5
Report from Retail Advisory Board Member

Mr. Scroggins stated one of the provisions in the Lottery Act is for the Board of Trustees Chair to appoint a Lottery Retailer Advisory Board to be composed of ten (10) lottery retailers with the function to advise the Board on retail aspects of the lottery and to present the concerns of lottery retailers. Mr. Scroggins introduced Mike Alberty, Snackers, Renee Smith, Wolf PDQ, Mike Beighey, Murphy USA and Sherry Hansen, District Supervisor for the Kum & Go Corporation from the Lottery Retailer Advisory Board.

Ms. Hansen provided a handout to the Board (copy attached to these minutes). She stated the Retailer Advisory Board applauds the Board of Trustees for their efforts to eliminate the 35% profit restriction from the Lottery Act and the Board has the support of the entire Retailer Advisory Board in their efforts. Removing the 35% profit restriction will enable the Lottery to be even more successful by having more money available for prizes which will increase sales, produce more winners, generate more money for education and increase commissions for retailers. In short, it would be a win, win, win situation.

Ms. Hansen indicated that the Oklahoma Lottery Commission, through November, has transferred more than \$236.9 million for the benefit of Oklahoma education. Through the first quarter of fiscal 2009, the Oklahoma Lottery has paid out more than \$496 million in prizes to Lottery players all across the state. The Oklahoma Lottery has had three Powerball jackpot winners within thirty months of the game start-up, two Hot Lotto jackpot winners within 6 months of starting that game and to those players who have won smaller prizes millions have been paid out. A great record for the Oklahoma Lottery.

Ms. Hansen stated the Oklahoma Lottery has also paid more than \$43 million in commissions to 2,100 retail partners who sell Lottery products. These commissions are a tremendous boost to the local economy. Research from the National Association of Convenience Stores shows that a lottery customer typically spends more in the store than a non-lottery customer and Oklahoma retailers see this in their stores as well as increased store traffic.

Ms. Hansen reported players who like the Scratchers, or instant win games, complain that the prize pay outs are lower than in surrounding states. States around us do not have the same profit restrictions as Oklahoma so players play in the states that have more winners. Oklahoma has one of the lowest payouts on Scratcher games and this negatively impacts sales of the product. If we follow the example of states around us, who have lifted the profit restriction, Oklahoma will have more dollars for education, more players will win and retailers will have more traffic in their stores. Everyone wins.

Ms. Hansen continued by stating voters in Arkansas recently authorized a lottery and as soon as their legislature enacts specific laws, they will have a lottery up and running. The chief proponent in Arkansas has already indicated that they will not have the same kind of restriction on profits that exists in the Oklahoma Lottery Act. If that is the case, Oklahoma will likely lose sales in border towns with Scratcher players traveling across the Oklahoma border to buy tickets - and thus supporting beneficiaries in Arkansas rather than Oklahoma.

Ms. Hansen closed by summarizing the fact that the Retailer Advisory Board supports the Board's and the Lottery's efforts to get the law changed. This change would be a win-win-win for all of Oklahoma.

Mr. Paul thanked Ms. Hansen for her comments, support and applauds their partnership with the Board in working to get the law changed. Ms. Ball stated the retail community will be invaluable in assisting with the education of the public and asked the retailers to speak with their local representatives.

Mr. Paul asked Ms. Hansen if Kum and Go considers lottery business a plus - Ms. Hansen said it absolutely is a plus - with additional customers because they purchase tickets, it is a plus for the associates, especially witnessing winners. Mr. Paul asked if the 6.3% was a meaningful income item to the stores - Ms. Hansen said it is.

Mr. Paul thanked the members for their support and appearance at the board meeting and commended them on their contribution to the lottery's success.

ITEM 6

Report of the Government and Citizen Relations Committee Regarding Legislation and a Plan to Address the Profit Restriction in the Lottery Act

Ms. Edwards stated that the Government and Citizen Relations Committee is comprised of members Mr. Charlton and Mr. Paul and herself as Chair. Ms. Edwards reported the Committee continues to discuss the opportunities they have available to speak with supporters and identify legislators and contacts that could be receptive to the lottery's plight. Ms. Edwards stated legislation has been filed by Senator Lerblance in the Senate. Ms. Edwards reiterated to the Retailer Advisory Board that the Board of Trustees welcomes their support and contacting legislators is a must.

Ms. Edwards stated the Committee is baffled at the lack of support by the legislature since voters in all 77 counties approved the lottery. The legislature financed the recent teacher salary increase with lottery funds. It is to the benefit of the legislature to support the lottery's efforts to improve the revenues for the lottery.

ITEM 7

Discussion and Possible Action Regarding a Plan to Address the Profit Restriction in the Current Lottery Act

Mr. Paul stated the Board of Trustees needs a plan and direction for Lottery staff and Lottery committees as to the policy that should be pursued in regards to changing the profit restriction in the current Lottery Act.

Ms. Edwards made a motion that staff be directed to continue a thorough government relations effort, track the filed bills through the legislature, meet with state leadership and education leaders to garner support during this legislative session, assist retailers in their effort to provide information to the public and continue educating the public on the importance of addressing the profit restriction in our current Lottery Act. Mr. Orbison seconded the motion.

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

ITEM 8

Break

Mr. Paul called for a ten minute break at 2:20. Meeting resumed at 2:30.

ITEM 9

Report of Audit & Finance Committee

Mr. Riley stated the Audit and Finance Committee met today prior to the board meeting. Members present at the meeting were Mr. Thomas Riley, Ms. Cindy Ball and Mr. James Orbison. Mr. Riley stated the Committee discussed the Internal Audit Plan for 2009. Lester LaPorte, the new Internal Auditor for the lottery, presented the audit plan for the year based on a risk assessment that evaluates different areas of the operation using a scaling system of one to ten, in eight or nine categories, to score the relative risk assessment for each area. The scores indicate areas that may need emphasis or attention for the upcoming year. Mr. Riley reported that the Committee adopted and accepted the audit plan. The year to date financial report through November 2008 was reviewed and is slightly ahead of budget. Projected transfers to the Oklahoma Education Lottery Trust Fund are on target for the fiscal year meeting the mandated transfer requirements. The budget for the remainder of FY2009, and the budgets for FY2010 and FY2011 were reviewed. The state requires budgets for FY2010 and FY2011 to be submitted to the Office of State Finance and the budget for FY2010 to the State Board of Equalization.

ITEM 10

Discussion and Possible Action Regarding the FY2009, FY2010 and FY2011 Budget for the Oklahoma Lottery Commission

Mr. Riley stated that the Audit and Finance Committee submits the FY2009 year to date budget and the projected budget for the remainder of FY2009 and projected budget for FY2010 and FY2011 which reflects a decline, attributable to the profit restriction in place and the fact that Arkansas will have a lottery.

Mr. Scroggins stated that inception to date \$236.9 million has been transferred to the Oklahoma Education Lottery Trust Fund. The appropriated amount due of \$69.2 million will be met. Year to date sales are down \$6.7 million from this time last year for three reasons: (1) the current economic climate with increased gas prices in the spring, the home mortgage debacle and the State's unemployment rate of 4.1% as of December 4, 2008, (2) the 35% profit

restriction which has a cumulative effect and primarily impacts Scratchers (40% of sales) and, (3) lack of Powerball jackpots.

Mr. Scroggins reported Scratchers account for 40% of sales and the FY2009 budgeted sales are \$80 million, FY2009 projection is \$76.1 million. The economic factor and the profit restriction account for the decrease. Pick 3 accounts for approximately 3% of sales and the FY2009 budgeted sales are \$7 million, FY2009 projection is \$6.5 million, a \$500,000 decline. Cash 5 accounts for 2% of sales and the FY2009 budgeted sales are \$5.2 million, FY2009 projection is \$4 million, a decrease of \$1.2 million. The lottery is currently exploring a revision to the Cash 5 game after the first of the year to increase sales. Hot Lotto sales are about 5% of total sales and the FY2009 budgeted sales are \$12 million, FY2009 projection is \$12.5 million and increase of \$500,000. Powerball accounts for 50% of sales and the FY2009 budgeted sales are \$103.8 million, FY2009 projection is \$92 million, a decrease of \$11.8 million in sales. Powerball is a jackpot driven game, when the jackpot amount is up the sales are up, when the jackpot amount goes down sales decline.

Mr. Scroggins stated the Powerball game will go through several changes effective for the January 7, 2009 draw. Three states have been added since the last game change, Oklahoma, North Carolina and as of January 4, 2009, Florida - this equals over 30 million more prospective players that will have access to play Powerball. Mr. Scroggins detailed the upcoming changes.

Mr. Scroggins stated the FY 2009 budgeted sales were \$208 million with \$72.8 million in profit and \$69.2 million appropriated, the lottery now predicts it will be \$191 million in sales for the fiscal year with \$69.2 million in profit and \$69.2 million appropriated, which is on target. The Lottery is projecting that for FY2009 overall sales will be down but that our profit will be enough to cover appropriations made by the Legislature for the year (by Constitution, appropriations are limited to 95% of the revenue estimate).

Mr. Charlton asked the lottery staff to compile a pro-forma budget which would compare the current projected budget to an estimated budget based on the profit restriction being removed from current law. He also asked that the estimated budget include a timeline showing when we could hope to see the financial benefits of the change.

Mr. Scroggins stated total estimated sales for FY2010 are \$190.6 million, down \$500,000 from FY2009 and \$66.7 million in profit, down \$2.5 million (3%) compared to FY2009. The numbers reflect Scratchers to be down \$3.5 million (4%) attributed to the continued impact of the 35% profit restriction and the assumption Arkansas will be selling scratch tickets seven of the twelve months. Powerball estimates are up \$3.4 million (3%) primarily due to game changes and the assumption Arkansas will be selling for approximately four months of that period. Hot Lotto, Pick 3 and Cash 5 show a small decline due to sales loss to Arkansas.

Mr. Scroggins stated the estimated sales for FY2011 is \$184.1 million in sales, down \$6.5 million from FY2010, and \$64.4 million in profit, down \$2.3 million from FY2010. The numbers reflect Scratchers to be down \$2.5 million (3%) with the continued negative impact of the profit restriction and Arkansas selling scratch off tickets for the full twelve months. Powerball estimates are down \$3.2 million (3%) from FY2010, due to Arkansas selling for the full twelve months. Hot Lotto, Pick 3 and Cash 5 will continue to have some loss to Arkansas.

Mr. Scroggins summarized by saying the lottery will strive to make the best of the situation by controlling the internal items that can be controlled such as expenditures and

providing innovative promotions and Scratchers. Unfortunately there is no control over the economy, the 35% restriction and the impact of the Arkansas Lottery.

Mr. Riley made a motion that the revised budget for FY2009 and the projected budget for FY2010 and FY2011 be approved. The motion was seconded by Mr. Charlton.

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

ITEM 11

Report from Nominating Committee Regarding Board Officers for Calendar Year 2009

Mr. Paul stated the by-laws of the Board of Trustees state the officers shall be a Chair, Vice Chair, Secretary and Treasurer and no member shall hold more than any one office at the same time and the term will be for one calendar year following the election and an affirmative vote of a majority shall be required for the election of each officer. The by-laws set out term limits of no more than three consecutive years in the same office. Mr. Paul stated members were initially appointed staggered terms and his and Mr. Charlton's term expire on January 1, 2009. By-laws state officers can continue to serve until a successor is appointed or they are officially re-appointed.

Mr. Paul stated the Nominating Committee includes Mr. George Charlton, Chair and members Ms. Cindy Ball and Mr. James Orbison.

Mr. Charlton stated the Nominating Committee's recommendation is for current officers to continue their service for calendar year 2009.

ITEM 12

Discussion and Possible Action on the Selection of Board Officers for Calendar Year 2009

Mr. Charlton made a motion to approve the Nominating Committee's recommendation that the current sitting officers Mr. William G. Paul, Chair, Mr. George Charlton, Vice Chair, Mr. Thomas Riley, Secretary and Ms. Charlotte Edwards, Treasurer remain for calendar year 2009. The motion was seconded by Ms. Cindy Ball.

Vote for Mr. Thomas Riley to serve as Secretary for calendar year 2009.

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

Vote for Ms. Charlotte Edwards to serve as Treasurer for calendar year 2009.

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

Vote for Mr. George Charlton to serve as Vice Chair for calendar year 2009.

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

Vote for Mr. William G. Paul to serve as Chair for calendar year 2009.

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

ITEM 13

Discussion and Possible Action on Appointment by Chair of Committees and Chairs of Committees and Approval by Board of Trustees

Mr. Paul stated that the by-laws provide that there shall be two standing committees, "Audit and Finance" and "Government and Citizen Relations" and other committees, task forces, special committees may be appointed by the Chair as deemed necessary with the approval of the Board.

Mr. Paul made a motion to accept his recommendation for current members of the Audit and Finance Committee, Mr. Thomas Riley as Chair, Ms. Cindy Ball and Mr. James Orbison as members, to repeat their service for calendar year 2009. The motion was seconded by Mr. Orbison.

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

Mr. Paul made a motion to accept his recommendation to appoint members of the Government and Citizen Relations Committee, Ms. Charlotte Edwards as Chair, Mr. George Charlton and Mr. Blake Virgin as members to serve for calendar year 2009. The motion was seconded by Mr. Orbison.

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

ITEM 14

New Business

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

ITEM 15
Adjournment

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

Roll Call: Ms. Cindy Ball, Mr. George Charlton, Ms. Charlotte Edwards, Mr. James Orbison, Mr. Thomas Riley, Mr. Blake Virgin and Mr. William G. Paul voted to approve the motion. The motion carried and the meeting adjourned at 3:30 p.m.

The minutes were approved by the Board of Trustees at the March 17, 2009 meeting.