



STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
OFFICIAL MINUTES

March 27, 2018

The Oklahoma Lottery Commission, established pursuant to the provisions of the Oklahoma Education Lottery Act, Sections 701 et seq. of Title 3A of the Oklahoma Statutes, held a special meeting March 27, 2018 at 1:30 p.m. The Meeting was held in the Conference Room of the offices of the Oklahoma Lottery Commission at 3817 North Santa Fe Avenue, Oklahoma City, Oklahoma. In compliance with the Open Meetings Act, 25 O.S. § 301 et seq., the agenda for this meeting was posted at the main and side building entrances, in addition to the main interior office window of the Centennial Business Building at 3817 North Santa Fe Avenue, Oklahoma City, Oklahoma on March 23, 2018 at 9:00 a.m. The agenda was sent electronically to the Board members on March 23, 2018 and was posted to the website on March 26, 2018. The agenda is attached as Exhibit A.

AGENDA ITEM 1:

CALL TO ORDER. Chairperson David Ostrowe called the meeting to order at 1:30 p.m. The roll of Board members was called to establish quorum.

Board members present were:

David Ostrowe
Matthew Felty
Jack Sherry
Nevyle Cable
James Orbison
Ralph E. "Ted" Blodgett

Board members absent were: George R. Charlton, Jr.

Based on the result of the roll call, the Chair declared a quorum was present.

Others in attendance were: Lyn Martin-Diehl, Assistant Attorney General; Rollo Redburn, Executive Director; and Krista Jenkins, Board Assistant. Others present were Jay Finks, Mary Martha Ford, Scott Moulton, Greg Fields, and Audra Eccles of the Oklahoma Lottery Commission; Jamie Evans, Jeremy Kyzer, and Bryan Colbert of Scientific Games; and Mark Wilmes and Don White of The Oklahoman .

AGENDA ITEM 2:

ANNOUNCEMENT OF FILING OF SPECIAL MEETING NOTICE AND POSTING OF THE AGENDA IN ACCORDANCE WITH THE OPEN MEETINGS ACT. The Chair called upon Ms. Jenkins to verify that proper public notice was made with regard to the March 27, 2018 special

meeting, in accordance with the Open Meetings Act. Ms. Jenkins verified that all necessary steps had been taken to remain in compliance with the Act.

AGENDA ITEM 3:

READING AND APPROVAL OF MINUTES. (Exhibit C) Mr. Sherry moved that the reading of the minutes of December 5, 2017 Regular meeting be waived and approved as published and distributed. Mr. Felty seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Ostrowe	Yes
	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Cable	Yes
	Mr. Orbison	Yes
	Mr. Blodgett	Abstain

THE RESULT WAS FIVE VOTES IN THE AFFIRMATIVE, NONE OPPOSED, AND ONE ABSTAINED.

THE MOTION PASSED.

AGENDA ITEM 4:

UPDATE FROM THE LOTTERY'S EXECUTIVE DIRECTOR: Rollo Redburn, Executive Director, outlined the three Lottery bills currently moving through the legislative process. SB 1303, which would allow Lottery players to use debit cards when purchasing lottery tickets, has passed the Senate committee with 8 affirmative votes and 2 negative votes. It passed the Senate floor with 26–12 votes and has moved to the House of Representatives Banking and Business Committee where it is awaiting scheduling. SB 1134, which would allow the Lottery security officials to purchase tickets for security investigations, has passed the Senate committee 8-0 and the Senate floor 41-3. It passed the House committee 6-0 and is pending scheduling to be heard on the House floor. HB 3538, which would allow the Oklahoma Lottery Commission to accept second chance entries via the internet, passed the House sub-committee 7-0, the House committee 25-1, and the House floor 75-15. Scheduling to be heard in the Senate Business, Commerce, and Tourism committee is pending.

Mr. Redburn discussed the planned game modification of PowerBall previously scheduled for implementation in April of 2018. The PowerBall game group has confirmed the Winner Take All feature will no longer be implemented.

AGENDA ITEM 5:

REPORT OF AUDIT AND FINANCE COMMITTEE: Mr. Cable met with the audit and finance committee before the board meeting. Mr. Cable stated that Ms. Ford gave a report regarding the BKD audit of general compliance. Ms. Ford outlined the results of the audit, which compared Oklahoma Lottery Commission's operations and processes and procedures to industry standards. There were a few minor findings, many of which the Office of Management and Enterprise Services houses for the Lottery. The next finding was a tweak to the Lottery's Disaster Recovery

process and the final recommendation was a different software for the Lottery's security department. Mr. Cable noted that during the Audit and Finance committee meeting Ms. Ford indicated almost all of the recommended changes had been implemented and that a report of all changes would be provided at the next Board of Trustees meeting in June of 2018.

Mr. Cable also noted that net revenues are up significantly as reflected in the provided financials report. Mr. Cable indicated there was a review and discussion of the suggested budget items being voted on later in the meeting.

AGENDA ITEM 6:

SALES / REVENUE UPDATE: Jay Finks, Director of Marketing and Administration, gave a presentation regarding year to date sales of the Oklahoma Lottery Commission. In FY2017, the year to date total sales were \$121,520,082. The FY2018 budgeted year to date sales are \$147,245,267 and the FY2018 year to date sales are \$165,951,237, 13% above the budgeted amount. Mr. Finks indicated that the current prediction of actual sales for FY2018 is \$223 million and could potentially be as high as \$225 million. Mr. Finks noted that instant game sales are the area with the largest growth, with FY2017 YTD sales being \$51 million and FY2018 YTD sales being \$93 million, 81% over prior year. Instant ticket sales for FY2018 continue to do very well with the revamped and improved payouts.

Mr. Finks indicated the FY2018 Initial OLC Profit goal was \$58.4 million and that current estimates are reaching \$63 million, due in large part to the overwhelming impact of the improved payouts. The current estimates are 19% over FY2017 actual education contribution and 31% over the anticipated FY2018 education contribution without the law change.

Mr. Orbison asked if players were educated about the new payouts. Mr. Finks indicated that he believes they are, as sales are up and feedback from the sales department has been positive regarding the changes. Mr. Felty asked how effective advertisements are in educating players. Mr. Finks responded that every time the Lottery puts in the TV flight instant sales go up and stay up.

Mr. Finks indicated that the Lottery is remaining budget conscious despite the greatly improved sales. Law mandates that the Lottery administrative expenses remain at or below 3% of income. Currently the Lottery operates at \$3.15 million in projected administrative expenses, 1.41% of sales. Even when advertising and marketing expenses are added to the total expenses, the Lottery is still operating below the 3% threshold.

AGENDA ITEM 7:

SALES OPERATIONS UPDATE: Mary Martha Ford, Director of Sales and Operations, outlined the retail visit "Core 4" philosophy used by the Lottery field sales team at every visit.

- Terminal – Confirming the terminal is working, pulling sales reports, looking at product and inventory
- Sales – Monitor sales and discuss with the retailer, set goals and create action items, follow up
- Instant Tickets – Confirm the retailer has the appropriate level on hand for sales

- POS – Ensure the retailer has appropriate signage reflecting they sell Lottery products

Ms. Ford outlined the current inventory in the field:

- WAVE Terminals
 - 1,856 in the field
 - 244 in inventory for expansion

The sales team is constantly working with retailers to increase bin count and the number of instant tickets a retailer carries and to make sure they are placed in the best location for sales. They are also working on recruitment efforts to bring new stores on board with the Lottery. At this time the sales team has increased bin count an average of two bins per store since the relaunch.

The Sales Force Automation program will launch May 5, 2018. It is currently in the final development and testing phase. This program will increase the sales coordinators' ability to provide actionable information to the retailer while in the field.

Operations is testing the new Lucky for Life program. They will also be implementing a Microsoft update to deal with the recent Microsoft issues with security.

AGENDA ITEM 8:

DISCUSSION AND POSSIBLE ACTION REGARDING CONTRACT APPROVALS AND / OR RENEWALS: Mr. Redburn noted that most items are for renewals of existing contracts that provide for optional renewal periods. Mr. Finks outlined each contract prior to the motion to approve and roll call vote.

- a. 38TH AND SANTA FE COMPANY (office lease renewal): Mr. Felty motioned to approve the next year on the contract with 38th and Santa Fe Company effective June 1, 2018, for no more than \$120,000. Mr. Cable seconded the motion. The Chairman ordered a roll call vote.

Roll Call Vote:	Mr. Ostrowe	Yes
	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Cable	Yes
	Mr. Orbison	Yes
	Mr. Blodgett	Yes

THE RESULT WAS SIX VOTES IN THE AFFIRMATIVE AND NONE OPPOSED.
THE MOTION PASSED.

- b. BKD, LLP (audit of internal controls contract renewal): Mr. Sherry moved to approve the next year of the contract with BKD CPAs and Advisors, at not more than \$45,000. Mr. Orbison seconded the motion. The Chairman ordered a roll call vote.

Roll Call Vote:	Mr. Ostrowe	Yes
	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Cable	Yes

Mr. Orbison	Yes
Mr. Blodgett	Yes

THE RESULT WAS SIX VOTES IN THE AFFIRMATIVE AND NONE OPPOSED.
THE MOTION PASSED.

- c. OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES (accounts payable, HR, and IT services contract renewal): Mr. Felty motioned to approve the proposed contractual agreement with the Office of Management and Enterprise Services for the next fiscal year, which runs through June 30, 2019, for an amount not to exceed \$82,000. Mr. Orbison seconded the motion. The Chairman ordered a roll call vote.

Roll Call Vote:	Mr. Ostrowe	Yes
	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Cable	Yes
	Mr. Orbison	Yes
	Mr. Blodgett	Yes

THE RESULT WAS SIX VOTES IN THE AFFIRMATIVE AND NONE OPPOSED.
THE MOTION PASSED.

- d. RSM US, LLP (external financial audit services contract renewal): Mr. Felty motioned to approve the next contract year with RSM US, LLP for the year, which runs through May 31, 2019, at an amount not to exceed \$45,000. Mr. Orbison seconded the motion. The Chairman ordered a roll call vote.

Roll Call Vote:	Mr. Ostrowe	Yes
	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Cable	Yes
	Mr. Orbison	Yes
	Mr. Blodgett	Yes

THE RESULT WAS SIX VOTES IN THE AFFIRMATIVE AND NONE OPPOSED.
THE MOTION PASSED.

- e. SAXUM (public relations and strategic services contract renewal): Mr. Orbison motioned to continue the contract with Saxum for the next contract year, which runs through June 30, 2019, at the current contract rates. Mr. Sherry seconded the motion. The Chairman ordered a roll call vote.

Roll Call Vote:	Mr. Ostrowe	Yes
	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Cable	Yes
	Mr. Orbison	Yes
	Mr. Blodgett	Yes

THE RESULT WAS SIX VOTES IN THE AFFIRMATIVE AND NONE OPPOSED.
THE MOTION PASSED.

- f. SCIENTIFIC GAMES INTERNATIONAL (contract modification for additional equipment): Mr. Cable motioned to amend the current contract with Scientific Games to add \$1,200,000 for the lease of an additional 200 WAVE terminals and the addition of 50 HD PCTs. Mr. Sherry seconded the motion. The Chairman ordered a roll call vote.

Roll Call Vote:	Mr. Ostrowe	Yes
	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Cable	Yes
	Mr. Orbison	Yes
	Mr. Blodgett	Yes

THE RESULT WAS SIX VOTES IN THE AFFIRMATIVE AND NONE OPPOSED.
THE MOTION PASSED.

- g. SCIENTIFIC GAMES INTERNATIONAL (gaming services contract renewal): Mr. Orbison motioned to continue the contract with Scientific Games for the next contract year, which runs through August 9, 2019, at the current contract rates. Mr. Sherry seconded the motion. The Chairman ordered a roll call vote.

Roll Call Vote:	Mr. Ostrowe	Yes
	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Cable	Yes
	Mr. Orbison	Yes
	Mr. Blodgett	Yes

THE RESULT WAS SIX VOTES IN THE AFFIRMATIVE AND NONE OPPOSED.
THE MOTION PASSED.

- h. WRIGHT McAFEE (draw auditing services renewal): Mr. Felty motioned to renew the contract with Wright McAfee and Company for the next contract year, running through June 30, 2019, at an amount not to exceed \$13,000. Mr. Sherry seconded the motion. The Chairman ordered a roll call vote.

Roll Call Vote:	Mr. Ostrowe	Yes
	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Cable	Yes
	Mr. Orbison	Yes
	Mr. Blodgett	Yes

THE RESULT WAS SIX VOTES IN THE AFFIRMATIVE AND NONE OPPOSED.
THE MOTION PASSED.

AGENDA ITEM 9:

ADJOURNMENT. The Board adjourned by general consent.

OFFICIAL MINUTES:

The action taken by the Oklahoma Lottery Commission on the items for consideration after motion duty made and seconded has been noted herein and made a part of these minutes. The Board caused the entire proceeding of the meeting, excepting any executive sessions, to be recorded on a digital audio recording device to be retained as a record in the office of the Board.