



STATE OF OKLAHOMA  
OKLAHOMA LOTTERY COMMISSION  
OFFICIAL MINUTES

June 26, 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 June 26, 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 Oklahoma Lottery Commission at 3817 North Santa Fe Avenue, Oklahoma City, Oklahoma on June 26, 2018 at 9:00 a.m. The agenda was sent electronically to the Board members on June 25, 2018 and was posted to the website on June 25, 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
George R. Charlton, Jr.
Ralph E. "Ted" Blodgett

Board members absent were: None

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

Others in attendance were: Rollo Redburn, Executive Director; and Krista Jenkins, Board Assistant. Others present were Jay Finks, Scott Moulton, Greg Fields, and Audra Eccles of the Oklahoma Lottery Commission; Jamie Evans and Bryan Colbert of Scientific Games; and Tyler Telley of eCapitol.

**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 June 26, 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. Cable moved that the reading of the minutes of March 27, 2018 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. Charlton	Abstain
	Mr. Blodgett	Yes

THE RESULT WAS SIX 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.

1. Mr. Redburn outlined the three Lottery bills that were passed by the 2018 Legislature and signed into law by Governor Fallin.

Following on the success of getting relief from the minimum mandated profit requirement last legislative session, the Lottery asked for three law changes this year to improve our operations.

a) Methods of payment:

1. As supported by various studies of the marketplace, cash is no longer the preferred method of payment by the majority of consumers when making purchases.
2. Today's consumer prefers the use of a debit card or credit card and often does not carry cash to make purchases.
3. According to the current Lottery Act, cash is the only valid form of payment for the purchase of lottery products. The Act prohibits both debit and credit cards as forms of payment.
4. The Lottery felt that while many may not be ready to allow the use of credit cards for gambling related entertainment, the use of debit cards should present no serious concerns.
5. The Lottery asked for, and the Legislature passed, a bill that will allow the use of debit cards for the purchase of lottery products. This will be effective 11/1/2018.

b) Ensure Game Integrity:

1. The Lottery Act also prohibits Lottery employees from purchasing or redeeming lottery tickets.
2. That prohibition prevents the Lottery from being able to conduct a full spectrum of investigatory procedures when checking on retailer performance to ensure the proper handling of player transactions.
3. The Lottery requested a bill to allow Lottery employees to legally purchase and/or claim lottery prizes if it is pursuant to an investigation authorized in advance by the Executive Director. This would allow a lottery employee participating in an

investigation to purchase and redeem lottery tickets while investigating retailers suspected of improper conduct.

4. The Legislature passed such a bill to be effective 11/1/2018.

c) Quality Customer Service:

1. Lotteries provide common promotions referred to as “2<sup>nd</sup> Chance Drawings”. Players can receive an entry to the drawing as a prize in a lottery game, or they can submit certain non-winning tickets as entries. To enter these drawings in Oklahoma, the player has to mail or hand-deliver their entries. The Lottery proposed approval of a law change to allow players to enter “2<sup>nd</sup> Chance Drawings” over the Internet, through the Lottery web site rather than having to mail the entries in through the USPS.

2. Allowing the players to submit their entries on the Lottery web site saves both the player and the Lottery both time and money, and meshes with the use of technology to shorten transaction times and improve accuracy.

3. The Lottery requested a law change granting authority for lottery players to submit entries over lottery web sites. Language was included that says if for some reason, this approval allows for the expansion of gambling into other arenas, then this authority is withdrawn.

4. The Legislature passed such a bill to be effective 11/1/2018.

The OLC is currently working with strategic partners to develop a legislative agenda for the 2019 session and will present that to the Board for review in the September or December Board meeting.

2. Sales Force Automation

The Lottery has successfully replaced the outdated and no-longer-supported Sales Force Automation System (SFA), with a new product, Gem Intelligence, approved by the Board last fall. Staff will provide a more detailed update with appropriate visuals in the September Board meeting.

3. Back-office and Gaming System

This system was successfully replaced last summer immediately after completely replacing all existing tickets in the field with newer products offering higher payouts. Working with Scientific Games, the Lottery has identified about three separate system upgrades that will be needed to complete various system functionalities. Plans are to have this completed sometime next spring.

4. New Security Reporting and Tracking System

Scientific Games provided this feature at no cost to the Lottery. It will allow Lottery security investigators improved access to reports that will help them complete their investigations of various player and retailer ticket issues.

5. Retailer Portal

A second feature, a retailer portal, was also provided by Scientific Games with the new system upgrade. This will provide reporting features allowing retailers to access sales information in a standard online reporting format. While not as useful for smaller retailers, this is something that multi-state retailers constantly ask about, and a feature that will allow them to better analyze their sales data from multiple jurisdictions. This is in the development / testing phase.

6. MUSL

Mr. Redburn indicated his term as President of the Multi-state Lottery Association (MUSL) ends at the end of this month. Serving in this position provided a benefit to Oklahoma in that he was able to facilitate a discussion that led to the defeat of a potentially costly change to the PowerBall game; one that many felt would not have benefited the game nor Oklahoma. MUSL has also begun discussions on how to address the issue of courier businesses that sell lottery tickets outside a lottery’s jurisdiction. Mr. Redburn indicated he will likely continue to be involved in this particular issue for the near future, and will continue to serve on the MUSL Executive Committee for an additional year in the position of “Past President”.

7. Contribution to the State

Mr. Redburn indicated the total estimated contribution through FY2018 is \$855.154 million to the traditional formula and an estimated \$13.00 million to reading and STEM programs. The FY2018 portion of that is \$50 million contribution to the traditional formula and \$13.00 million to reading and STEM programs.

**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 Bryan Neal, a representative from BKD, presented the findings of the internal marketing audit. Their findings were reported "Satisfactory," which is the top finding that can be awarded. There were three minor findings having to do with clerical duties. BKD also reported that Lottery personnel cooperated fully during the auditing process.

Mr. Cable also indicated that the Audit and Finance Committee went over the May financials, some of which Mr. Finks will outline later in the meeting. Mr. Cable indicated there were no items of concern.

**AGENDA ITEM 8:**

DISCUSSION AND POSSIBLE ACTION REGARDING CONTRACT APPROVALS AND/OR RENEWALS: Mr. Finks outlined the two contracts that need to be approved for FY2019.

- a. Attorney General (Legal Services): Mr. Finks outlined the services included in the Lottery's annual contract with the Attorney General. Those services include legal counsel, initial collections assistance, contract language guidance, and state policy adherence counsel. Current services do not include legal collections activities beyond an initial contact with those owing the Lottery for unpaid sales revenues. Collections court proceedings and the pursuit of judgements are not covered. Mr. Finks recommended issuing a contract to the Attorney General for general legal services and a new one for collection services. This includes changing the contracts from retainer-based compensation to hourly-based compensation at \$85 per hour. The annual total is not to exceed \$30,000 for the general counsel contract and \$15,000 for the collections contract. Mr. Charlton moved to accept Mr. Finks' recommendation. Mr. Orbison 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. Charlton	Yes
	Mr. Blodgett	Yes

THE RESULT WAS SEVEN VOTES IN THE AFFIRMATIVE, NONE OPPOSED, AND NONE ABSTAINED.  
THE MOTION PASSED.

- b. Saxum (Advertising Services): Mr. Finks indicated a statewide RFP was issued and three responses were received. Mr. Finks scored the three responses based on brand knowledge, brand strategy, media strategy, and price. Based on those scores and the Lottery's previous experience with Saxum, Mr. Finks indicated his recommendation is to

remain with Saxum, with the annual contract not to exceed \$2 million. The option to renew the contract for one additional year is included. Mr. Felty moved to approve the Saxum contract. Mr. Cable 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. Charlton	Yes
	Mr. Blodgett	Yes

THE RESULT WAS SEVEN VOTES IN THE AFFIRMATIVE, NONE OPPOSED, AND NONE ABSTAINED.  
THE MOTION PASSED.

#### **AGENDA ITEM 9:**

SALES / REVENUE UPDATE: Jay Finks, Director of Marketing and Administration, gave a presentation recapping the FY2018 strategy and the results of that strategy. Responding to player feedback, the Lottery enhanced instant prizes 9% by replacing all existing instant games in eight days, eliminating free tickets, and introducing a \$10 ticket price point. The Lottery successfully pursued legislation granting the ability to use debit cards and to enter second chance drawings via the internet. As part of the rebranding effort, the Lottery focused on winner awareness, a return to TV advertising, and PR indicating how the Lottery helps education. The draw game portfolio was also updated with the elimination of Hot Lotto and Poker Pick and the launch of Lotto America and Lucky for Life.

Mr. Finks outlined the total net sales for FY2018 after the passage of the new Legislation removing the 35% mandate by the 2017 Legislature. The FY2017 actual sales were \$151 million. The FY2018 budgeted sales were \$196 million and the FY2018 actual sales were \$221 million, up 47% from FY2017. The increased sales have also had a significant impact on profits for Oklahoma Education. In FY2017, the Lottery contributed \$53 million to Education. In FY2018, the Oklahoma Lottery budgeted \$58 million for Oklahoma Education. The actual FY2018 contribution will be \$63 million, a 19% increase over FY2017. This allows for a \$13 million Lottery contribution to K-12 Reading and STEM Initiatives.

Mr. Finks noted that instant sales are up 82% over FY2017. This is mostly due to prize enhancement.

Mr. Finks outlined the FY2019 strategy as continued enhancement of prizes, game count expansion, and enhanced promotions taking advantage of the recent law passage for web-based second chance drawings. Mr. Finks indicated the messaging would continue re-defining the Lottery brand as a better winning experience with the addition of beneficiary messaging. The Lottery will also place focus on jackpot awareness and educating players that debit cards will now be accepted for ticket purchases. In retail locations, the Lottery will continue to enhance product placement, maintain targeted corporate initiatives, and increase awareness of the coming debit card and liquor store launch.

Mr. Finks outlined the sales goals for FY2019. The Lottery instant sales goal is to increase instant ticket sales by 10%, which totals a budgeted \$140 million in instant sales. The FY2019 jackpot

game sales goal is an increase of 8%, bringing the FY2019 total jackpot sales budgeted to \$90 million. This brings the total net sales budgeted goal to \$240 million, or an increase of 8.5%. In reaching these goals, the Lottery will increase the beneficiary contributions to Oklahoma Education by 5%, making the total contributed to Oklahoma education \$66 million for FY2019.

Mr. Finks indicated that the Lottery is remaining budget conscious despite the greatly improved sales. Law mandates that Lottery administrative expenses remain at or below 3% of sales. Currently the Lottery operates at \$3.15 million in projected administrative expenses, 1.41% of sales. When advertising and marketing expenses, which are excluded from the threshold, are added, the Lottery is still operating at just more than 3%.

#### **AGENDA ITEM 6:**

PRESENTATION REGARDING RECOMMENDATIONS OF SUBCOMMITTEE APPOINTED TO STUDY STAFF COMPENSATION FOR FY2018 AND THEREAFTER: Mr. Orbison gave a presentation regarding committee findings on staff compensation. Mr. Orbison indicated that the subcommittee, consisting of Mr. Felty, Mr. Ostrowe, and himself, are recommending an employee compensation plan based on performance.

#### **AGENDA ITEM 7:**

DISCUSSION AND POSSIBLE ACTION REGARDING RECOMMENDATIONS OF SUBCOMMITTEE ON EMPLOYEE COMPENSATION: Mr. Finks outlined staff composition, noting the bulk of personnel are in the marketing and sales departments, as the Lottery is a sales and marketing driven agency. The total number of full-time employees is currently 27, with two positions in the IT department vacant. Mr. Finks provided the known changes expected in FY2019. The Comptroller is retiring in December 2018, the Lottery is hiring a Software Developer to facilitate building consumer applications, and the IT / Operations departments will be restructured.

Mr. Finks stated the Lottery staff indicated during recent interviews that rising insurance costs are a continued concern. The State has placed a freeze on the allowed employee benefit allowance, lasting from 2012 to 2020. The cost of insurance to employees has continued to increase, thus eroding the net pay of long-time employees. The Board charged Lottery management with implementing a strategy to:

- remain competitive in the marketplace to maintain valued employees in place during this critical growth period of the Lottery;
- enhance the Lottery's ability to attract quality talent as the business grows and changes over the coming years;
- address cost of living conditions affecting employee compensation.

Mr. Finks outlined a three-tiered approach: improve salary levels to address cost of living and rising insurance rates, create an annual incentive program for all employees to help drive incremental sales and profits, and improve the Executive Director's compensation to create a stronger pay ceiling for Oklahoma Lottery employees.

The State Legislature passed a state employee pay raise which provides a raise for all employees except the Executive Director. This is the first state pay raise since 2006. It has an impact of \$37,000 for the year on the FY2019 budget.

Mr. Finks outlined the proposed annual incentive program. Employees that meet the following conditions will be eligible for the incentive pay adjustment in July of 2018 for the exceptional agency sales and profit performance in FY2018.

1. the employee must have a minimum of twelve months of full-time employment with the Lottery,
2. the employee must be employed on the last day of the fiscal year, and
3. the employee must have a “Meets Standards” or better rating on the annual performance review.

The incentive program would be a continuing program. For FY2019 and following years, an incentive program would be in place. Employees who continue to meet the three conditions stated above will be eligible for the end of year incentive payment if the Lottery as a whole meets the sales goal established by the Board in the June Board meeting prior to the start of each fiscal year. For example, for FY2019, if the Lottery meets the sales goal approved in the June 2018 Board meeting for FY2019 (total sales of \$239.8 million), a 5% payment could be awarded to all eligible employees. If the Lottery exceeds the sales goal by 5% (total sales of \$251.79 million), an additional 2.5% payment could be awarded, for a maximum incentive payment of 7.5% of the employee’s annual base pay. As with the July 2018 incentive pay adjustment, future year adjustments would be approved in the June Board meeting for payment to employees in the following July.

In all cases, at any time during the year or at the end of the year, the Board can cancel the incentive program. Whether or not the incentive will be paid depends on Board approval in the June Board meeting each year.

Mr. Orbison moved to approve the plan as outlined by Mr. Finks. 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. Charlton	Yes
	Mr. Blodgett	Yes

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

THE MOTION PASSED.

## AGENDA ITEM 10:

DISCUSSION AND POSSIBLE ACTION REGARDING FY2019 LOTTERY BUDGET  
***(all budgeted revenue and spending categories: including ticket sales; retailer contracts; retailer commissions; ticket production and related costs; employee compensation / payroll; intra-agency; travel; advertising; events; promotions; equipment; operating budget and related contracts; gaming system and related costs)***

Mr. Finks gave a presentation outlining the FY2019 budget. The FY2019 Administrative Budget recommendation, which includes accounting, security, IT, and administrative expenses, is \$655,000. This is a 5% increase over the FY2018 budget. The slight increase is due to fuel costs, security investigations, liquor store applications, membership fees, and collection legal efforts. The FY2019 Payroll Budget is \$3,030,000, an increase of 11%. The increase is due to the employee

compensation recommendation, an increased headcount of 29 to 30, and staffing changes. The total Administrative Budget including payroll is 1.54% of sales, 1.46% below the 3% cap allowed by law.

The FY2019 Marketing Budget includes media expenses; agency services including brand strategy, research, political strategy, and lobbyists; production, special events i.e. Thunder games and the State Fair; and promotions, which includes second chance drawings, prizes, and premium items. The FY2019 Marketing Budget recommendation is \$3,800,000, an increase of 17% over the FY2018 budget. The increase is due to additional dollars for expanded advertising campaigns, a slight increase in advertising agency services, an increase in production costs, and an increase in promotions. The recommended Marketing Budget for FY2019 equals 1.58% of sales. This is 3.04% for the combined Administrative Budget and Marketing Budget, which is just over the 3% allowed by law for the Administrative Budget alone.

Mr. Cable moved to approve the FY2019 budget as outlined by Mr. Finks. 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. Charlton	Yes
	Mr. Blodgett	Yes

THE RESULT WAS SEVEN VOTES IN THE AFFIRMATIVE, NONE OPPOSED, AND NONE ABSTAINED.  
THE MOTION PASSED.

#### **AGENDA ITEM 11:**

ADJOURNMENT. The Board adjourned by general consent.

#### **OFFICIAL MINUTES:**

The action taken by the Oklahoma Lottery Commission on the items for consideration after motion duly 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.