



STATE OF OKLAHOMA  
OKLAHOMA LOTTERY COMMISSION  
*OFFICIAL MINUTES*

December 3, 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 December 4, 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 December 3, 2018, at 11:00 a.m. The agenda was sent electronically to the Board members on November 30, 2018, and was posted to the website on December 3, 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: Rollo Redburn, Executive Director; and Krista Jenkins, Board Assistant. Others present were Mary Martha Ford, Paula Clanahan, and Audra Eccles of the Oklahoma Lottery Commission; and Jamie Evans, Marybeth Akin, Mike Bell, and Bryan Colbert of Scientific Games.

**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 December 4, 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 September 18, 2018 Special 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	Absent
	Mr. Blodgett	Yes

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

**AGENDA ITEM 4:**

UPDATE FROM THE LOTTERY'S EXECUTIVE DIRECTOR: Rollo Redburn, Executive Director, gave a report outlining current Oklahoma Lottery Commission activities. Mr. Redburn indicated the Lottery is pursuing one bill for the 2019 Legislative Session. In the bill, the Lottery is trying to modify the advertising restriction that prohibits the use of children in advertising. The goal of the Lottery is to be allowed to use students in beneficiary advertising, telling the public of Lottery progress, but not in any advertisement that tries to sell a Lottery product.

Mr. Redburn also indicated that the Lottery has other pressing legislative issues that will require other conversations with a considerable number of lawmakers, state officials, and employees having a stake in the outcome. These possible changes include some ability to bypass statutory and bureaucratic requirements on purchasing, hiring, and other operational functions. Typically, these requirements simply add time to the Lottery being able to make purchases or hire employees. Due to their more controversial nature, these proposals will require additional work in development to aid in creation of proposals that will be acceptable, followed by additional work and conversations to aid in them passing the Legislature. Mr. Redburn noted that while the Lottery has an understanding that State process requirements provide some protection for the Lottery, the requirements are often burdensome. While the Lottery may be able to demonstrate the capability to take additional freedom from regulation and make it an asset for State and Lottery business, there are many oft-demonstrated situations where entities having too much freedom do abuse it.

Mr. Redburn noted that Scientific Games provided a new security reporting and tracking system (SciGuard), which will allow security investigators improved access to reports that will help them complete their investigations of various player and retailer ticket issues. Scientific Games provided this feature at no cost to the Oklahoma Lottery Commission. This upgrade has been actively in use for approximately four months and has enabled our security team to complete their investigations faster by eliminating the step of waiting for approval of an information request and a written report from Scientific Games.

Mr. Redburn indicated the system upgrade also included a retailer portal (gemRetailer). This upgrade provides the Lottery and retailers with the ability to access sales information in a standard

online reporting format, as well as allowing retailers to create customized reports, as they may need them. This feature will allow Lottery retailers, especially those in multi-state jurisdictions, to better analyze their sales data from multiple jurisdictions, which they have requested. This feature is live and has been rolled out to the corporate chains, who have already begun setting up their scheduled reports.

Beginning the week of December 3, 2018, the Oklahoma Lottery Commission Accounting Unit will prepare and send one report per week to each chain. Previously, Accounting sent up to six reports to each chain weekly. As soon as the final system report set up is completed in the retailer portal, Accounting will no longer be manually preparing these weekly reports. The only report Accounting will continue to provide is the Super Retailer report, which also includes wire transfers, necessitating the manual preparation.

The Oklahoma Lottery Commission is currently working on an update to the Lottery website, which will include an update to the retailer pages. New applicants for a Lottery retailer sales contract will be directed to the proper area and existing retailers will be directed to another area, which will include the retailer portal.

Mr. Redburn indicated MUSL is continuing discussions on how to address the issue of courier businesses that sell lottery tickets outside a lottery's jurisdiction. MegaMillions Consortium (MMC) took action recently and passed a rule stating "... no Director shall knowingly approve or permit any MegaMillions... Retailer in the... lottery jurisdiction to... sell... any Official Mega Millions ticket outside that jurisdiction." The new rule goes on to indicate that if the MMC directors collectively determine that a lottery is in violation of that provision, they can warn, suspend, or expel that lottery from participation in the MegaMillions game. The rule was passed to address the Oregon Lottery and the operation of a private vendor (the Lotter) that sells tickets over a website outside the Oregon jurisdiction.

The MUSL PowerBall Game Group Board of Directors recently passed a rule change requiring a lottery to investigate any such reported incidence if it is reported to them by another lottery and the reporting lottery indicates that the activity is illegal in that jurisdiction. The Lottery then has thirty days to investigate and include a remedial plan if needed. They are to report their findings to MUSL.

The Oklahoma Lottery Commission, working with the Governor's Office and the Lottery's Assistant Attorney General, have finalized a retailer contract for use with tribal businesses that are operating on non-tribal lands. Applications have been sent to two potential applicants.

Mr. Redburn gave an update on liquor store recruitment, indicating that due to recent law changes liquor stores are now allowed, effective October 1, 2018, to have up to 20% of their sales in non-liquor products. This opens the door for lottery sales. Right now, most liquor stores are taking a wait-and-see approach until they figure out exactly how the law changes will affect their businesses. Their main concern is if they will continue to be in business after the changes take effect. Their other questions frequently regard what other products they want to include in their new ability to sell non-alcoholic beverage products. To-date, the Lottery has thirty-four active liquor stores contracted to sell lottery products and five applications pending.

November 1<sup>st</sup> was the first date that players could start using debit cards for lottery purchases. This has started well, but there is still some work to do.

The Lottery has both corporate stores and independents that have started accepting them; Players can also now use them at the Lottery office and at Thunder games for Lottery purchases. There is not meaningful data yet, but the Lottery continues to hear good things from players. When the Lottery started, it had a mixed bag of success – some player financial institutions processed the transactions with no problem, others would not. The Lottery asked the players to call their financial institutions and this seems to have resulted in fewer problems with transactions at the games.

The Lottery also has corporate stores and independents that do NOT accept debit cards for Lottery purchases, many believing that by doing so, they are increasing their costs and reducing the commission they receive from the Lottery. The Lottery sales team is counseling all reluctant retailers about the benefits of increased sales and increased customer participation by accepting debit cards.

The Lottery started the first Second Chance Drawing where players can enter online and mail in their entries. The goal is to continue moving toward and reaching the point where a player can scan in the ticket and quickly enter a drawing. Players that take advantage of this will also become members of the Lottery players club so that the Lottery has identifying information about them. Approaching it in this way makes it easier and less costly for the player and the Lottery. It also provides a level of protection for the player and Lottery by allowing the Lottery to identify potential problems with fraud.

Mr. Redburn outlined the “deep dive” analysis of sales being conducted, which will allow the Lottery to better target under-performing areas that are in need of more detailed attention. This will include an analysis of larger independent retailers as well as corporate partners. The Lottery will review corporate and independent sales for specific store locations compared to performance in the State, the region, and the corporate stores themselves; identify those that appear to be below the norms, and then analyze what steps will improve sales.

Mr. Redburn indicated management has been keeping attentions on what the Lottery can do to improve Instant/Scratcher sales. The goal for the year is a 10% increase over FY2018 (52.8 million year to date) and the Lottery has reached a 6% increase (\$50.9 million year to date). When combined with the 48% (52.2 million year to date) increase in draw sales, much of which can be attributed to the recent MegaMillions jackpot run, the Lottery has reached a 20% (\$103.0 year to date) increase in total sales. This greatly exceeds the goal of an 8.5% increase (\$93.0 million year to date). Mr. Redburn indicated the Lottery would work to identify why some stores are exceeding the norm and see if that information will provide help in other areas. Mr. Redburn noted that Mary Martha Ford, Director of Sales and Operations, would provide more information regarding the current sales totals and the “deep dive” analysis being conducted.

Mr. Redburn outlined the beneficiary contribution. Through FY2018, the Lottery has provided \$868.4 million to the State of Oklahoma for education programs, including \$13.2 million that the Legislature will appropriate in the coming session for the new reading initiative and STEM programs. Mr. Redburn noted the Lottery is maintaining the previously provided projections through FY2022 and expects to reach \$1 Billion in contributions for education near the end of FY2020.

**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 the committee discussed the sales information that Ms. Ford will outline later in the meeting. He also noted that the new Lottery

Comptroller was introduced. Mr. Cable indicated the Lottery continues to satisfy monthly allocations to the State to cover appropriations made to Higher Education and Elementary and Secondary Education, as well as quarterly allocations to meet appropriations made to Career Tech Education, the Voluntary School Consolidation Fund, and the Teachers' Retirement System.

Mr. Cable indicated they reviewed an internal audit consulting report by BKD CPAs and Advisors on nightly drawings. BKD evaluated the control activities and procedures for the nightly drawings. The audit was returned with no findings.

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

SALES AND REVENUE UPDATE: Mary Martha Ford, Director of Sales and Operations, presented an update on current sales and revenues. The FY2019 goal for Instant Sales is 10% or \$52.8 million year to date. Actual sales are up 6% and stand at \$50.9 million. The FY2019 goal for Draw Sales is 6.5% or \$40.2 million year to date. Actual Draw Sales are up 38% for a total of \$52.1 million. The FY2019 goal for overall Sales is 8.5% or \$93.0 million year to date. Actual sales are up 20% and stand at \$103.0 million due to the \$1.6 billion MegaMillions jackpot run.

The Lottery management team has informed staff that this will not be enough. The Lottery still has to bring up instant sales. Various initiatives are being reviewed as the Lottery takes a deeper "dive" into where sales are straggling and where they are beating the current averages, including corporate store analysis and initiatives; territory analysis and actions; review of debit card acceptance and awareness; stronger product placement; and review of liquor store buy-in.

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

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY2020 REVENUE ESTIMATE FOR OMES: State law requires agencies to submit a budget request for the coming years by October 1<sup>st</sup>. The Lottery's agreement with OMES allows for collection of more data to use in making an estimate for them thus they have given the Lottery until the December board meeting to submit the data, as long as it is completed early in December.

The Lottery proposed a 5-year plan to the 2017 Legislature. The plan was accepted by the actions taken in the 2017 legislative session. The legislative action granted the Lottery relief from the existing 35% minimum mandated profit. The plan included five years of estimated lottery sales and profits that resulted in \$110 million more in profits than would have otherwise been provided to the State without the law change.

According to this new plan, the first \$50 million of Lottery-provided profit each year is appropriated on an anticipatory basis by the Legislature to Lottery beneficiaries in the traditional manner (45% higher education and career tech; 45% common education; 5% Teachers' retirement system; and 5% to the Voluntary School Consolidation Fund).

All profits in excess of that \$50 million base are appropriated on a cash basis by the Legislature for reading initiatives and STEM programs. The 2019 legislature will be able to appropriate the first \$13.5 million of such collections.

Reviewing the latest collections and activity, there is no compelling reason to modify the numbers in the current 5-year plan. That means that the Lottery will provide the \$50 million estimate to OMES for FY2020 with eventual profits of \$69 million for the year. The estimate for FY'19 is \$65.6 million. The Lottery hopes that FY2019 profit numbers come in about \$3 to 5 million higher.

Mr. Orbison moved to approve the revenue estimate as outlined. 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	Absent
	Mr. Blodgett	Yes

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

**AGENDA ITEM 8:**

DISCUSSION AND POSSIBLE ACTION REGARDING APPOINTMENT OF BOARD OFFICERS FOR 2019: New officers for the coming calendar year are appointed at the December Board of Trustees meeting.

Current officers are:  
David Ostrowe – Board Chairman  
Matt Felty – Board Vice Chairman  
Jack Sherry – Board Secretary  
Jim Orbison – Board Treasurer

Board by-laws allow one person to serve up to three consecutive terms in the same office. The only mandated change is that Mr. Ostrowe may not serve the next term as board chair. The new officers for 2019 were recommended. Mr. Orbison moved to approve the board officers as outlined below. 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	Absent
	Mr. Blodgett	Yes

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

The 2019 officers are:  
Matt Felty – Board Chairman  
Jack Sherry – Board Vice Chairman  
Jim Orbison – Board Secretary  
Ted Blodgett – Board Treasurer

**AGENDA ITEM 9:**

DISCUSSION AND POSSIBLE ACTION REGARDING APPOINTMENT TO BOARD COMMITTEES AND APPOINTMENT OF BOARD COMMITTEE CHAIRS FOR 2019:

Mr. Felty moved to approve the appointment of the below listed new committee members. Mr. Ostrowe 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	Absent
	Mr. Blodgett	Yes

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

2018 MEMBERS:  
Government and Citizens Relations Committee:

Matt Felty – Chair  
David Ostrowe, Jack Sherry – Members

Audit and Finance Committee:

Nevyle Cable – Chair  
Jim Orbison, Ted Blodgett – Members

2019 MEMBERS:  
Government and Citizens Relations Committee:

Jim Orbison – Chair  
David Ostrowe, Matt Felty – Members

Audit and Finance Committee:

Ted Blodgett – Chair  
Nevyle Cable, Jack Sherry – Members

**AGENDA ITEM 10:**

DISCUSSION AND POSSIBLE ACTION REGARDING BOARD MEETING DATES FOR 2019:

Mr. Redburn suggested the below dates for the 2019 Regular Board Meetings. Mr. Ostrowe moved to approve the 2019 meeting dates as outlined by Mr. Redburn. Mr. Sherry 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	Absent
	Mr. Blodgett	Yes

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

The 2019 Oklahoma Lottery Commission Board of Trustees meetings will be on March 19, June 25, September 24, and December 3, 2019.

**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.