



STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
OFFICIAL MINUTES

June 25, 2019

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 meeting June 25, 2019 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 24, 2019, at 1:30 p.m. The agenda was sent electronically to the Board members on June 5, 2019, and was posted to the website on June 21, 2019. The agenda is attached as Exhibit A.

AGENDA ITEM 1:

CALL TO ORDER

Chairperson Matthew Felty called the meeting to order at 1:30 p.m. The roll of Board members was called to establish quorum.

Board members present were:

- Matthew Felty
- Jack Sherry
- Ralph E. "Ted" Blodgett
- James Orbison
- Nevyle Cable
- Tracey Yates
- Christy Rawlings

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

Others in attendance were: Rollo Redburn, Executive Director, Jay Finks, Deputy Director and Amber Fox, Board Assistant. Others present were Brandie Reisman, Mary Martha Ford, Scott Moulton, Audra Eccles, and Sylvette Olmeda of the Oklahoma Lottery Commission; Lyn Martin-Diehl, Assistant Attorney General; Jamie Evans of Scientific Games; and Jennifer Monies and Caroline Colton of Saxum.

AGENDA ITEM 2:

ANNOUNCEMENT OF FILING OF THE BOARD MEETING NOTICE AND POSTING OF THE AGENDA IN ACCORDANCE WITH THE OPEN MEETINGS ACT

The Chair called upon Ms. Fox to verify that proper public notice was made with regard to the June 25, 2019 board meeting, in accordance with the Open Meetings Act. Ms. Fox verified that all necessary steps had been taken to remain in compliance with the Act.

AGENDA ITEM 3:

READING AND APPROVAL OF MINUTES.

(Exhibit B) Mr. Blodgett moved that the reading of the minutes of the March 19, 2019 board meeting be waived and approved as published and distributed. Mr. Sherry seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

Mr. Felty	Yes
Mr. Sherry	Yes
Mr. Blodgett	Yes
Mr. Orbison	Yes
Mr. Cable	Yes
Mr. Yates	Yes
Ms. Rawlings	Yes

THE RESULT WAS SEVEN 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.

Legislation / Beneficiary Ads

Mr. Redburn outlined House Bill 2347. Under the previous law, the Lottery could not use children under the age of 18 in any form of advertising. Under this bill, the Lottery will be prohibited from using children under 18 in the advertising of games or products, which will allow the use of students in beneficiary-type ads. The Lottery is also required to inform the public of how Lottery funds are used. Bill 2347 passed in the House 96-2 on February 12, 2019, passed the Senate on April 15, 2019, and was signed by the Governor on April 18, 2019.

Legislation / Other Topics

Mr. Redburn also outlined a change to the Lottery Act included in Senate Bill 1047, which was part of the joint committee on budget agreements between the Governor and the House and Senate. The change was agreed to on May 16, 2019 and signed by the Governor on May 24, 2019. Bill 1047 removed the \$50 million dollar floor regarding Lottery profits, removed language that directed all profits in excess of the \$50 million to go to STEM programs on a cash basis, and removed language directing that the cash funds were to also be used for reading initiative programs. Mr. Felty commented that one of the unanticipated outcomes was that Common Education will also not receive as much money under the new law.

Mr. Redburn indicated that the Lottery has other future legislative changes in mind including an exemption from the current procurement process in the works.

Revenues / Profits

Mr. Redburn indicated the Lottery had a second year of growth in sales and profits in FY19. FY19 sales are estimated at \$241 million and profits estimated to be \$67 million. The Lottery is slightly ahead of the five year plan provided to the Legislature in 2017.

Retailer Contract / Tribal Businesses Operating on Non-Tribal Land

The Lottery has worked on renewing the retailer base. The Lottery worked with the Governor's Office and the Lottery's Assistant Attorney General on a process for retailer contracts for use with tribal businesses that are operating on non-tribal lands. Currently the Lottery has now successfully contracted with a tribal business on non-tribal land to sell lottery products.

Liquor Store Recruitment

Mr. Redburn gave an update on liquor store recruitment. Currently the Lottery has twenty-six active liquor stores contracted to sell lottery products and the Lottery continues to recruit liquor stores.

Debit Cards

Currently 1215 of 1839 Lottery retailers are accepting debit cards to purchase Lottery products. The Lottery continues to educate retailers about debit cards.

2nd Chance Drawing /Online Entries

In late November 2018 the Lottery started accepting online entries for 2nd chance drawings, rather than players having to mail in entries. The eventual goal is to allow players to scan their Lottery tickets on their phone to be entered into a drawing. This will be a lot less costly to the players and the Lottery.

Retailer Portal

The lottery staff and Scientific Games have implemented a new retailer portal, provided by SG, which allows retailers to access their sales information online as opposed to contacting the Lottery. This has eliminated approximately 190 weekly reports that the Lottery had to previously prepare manually.

Security

Scientific Games International provided a security package at no cost to help with some of the Lottery's security needs. It has allowed investigators the ability to obtain information more quickly. Security investigators now have immediate online access to information needed to complete investigations into ticket cashing and theft issues.

This is the first year the Lottery has taken advantage of the law change allowing the Lottery to purchase Lottery tickets in investigations. Since January 2019, the Lottery has completed 156 retailer investigations.

High Definition Player Central Terminals

The Lottery has completed successful implementation of the new HD PCT's and 49 machines are ready to be placed in the field.

Oklahoma Department of Public Safety

The Lottery posts all Amber Alerts from the Department of Public Safety. Alerts are posted on all Lottery In Motion monitors, which number 1100 throughout the state.

Health Care Authority

Pursuant to a new law passed by the Legislature, the Lottery sends data to the Health Care Authority about potential Medicaid recipients that may be Lottery prize winners.

Organizational Restructures

The Lottery and Scientific Games Oklahoma have re-trained their staff to better market Lottery products. Scientific Games has consolidated their inside and outside sales teams under one manager. They have created a data analyst position to provide advanced analytics.

Mr. Felty added that the board appreciated Scientific Games for listening to the Lottery's concerns and working with the Lottery to reorganize in a way that better serves the Lottery's mission.

Mr. Felty reiterated that under the 2017 law change, the Lottery delivered \$39.9 million to common education out of the total \$67.4 million in profit for FY19. Under the new law change, common education would only stand to receive \$30.33 million, for a loss of \$9.57 million.

FY20

The Lottery will have a continued focus on sales and marketing initiatives. The Lottery will try to recover lapsed players and make sure light players continue to enjoy lottery products and continue to play. The Lottery will continue to focus on the recruitment of retailers. The Lottery will introduce a \$20 scratch ticket. The Lottery will continue an emphasis on employee development. The Lottery will continue to push for self-service opportunities in the retailer network. The Lottery will continue to monitor sports betting potential in Oklahoma.

AGENDA ITEM 5:

REPORT OF AUDIT AND FINANCE COMMITTEE

Mr. Blodgett met with the Audit and Finance Committee before today's board meeting. Mr. Blodgett stated that the committee met with BKD, our internal controls auditors. BKD prepared two internal controls audits and had five to six findings. These were not considered material weaknesses and all have been addressed. Many of the findings dealt with turn-over that has occurred in the accounting area. In other cases there was a procedure that did not match what was being done. The Lottery has addressed this to be in compliance. BKD also discussed the audit procedures they would be conducting in 2020.

Mr. Blodgett discussed some of the numbers on the financials and indicated that on the statement of revenues and expenses, \$50 million has already been provided to education, with \$17 million more to be provided in the next month, to bring the total to \$67 million for the year.

On another matter, the Lottery changed how vouchers from the vending machines are cashed out. Those vouchers previously did not lapse, leaving open-ended liabilities; now they lapse after 180 days (the same time period that a PowerBall ticket is valid).

And, Mr. Blodgett indicated that the Lottery administrative cost percentage is 1.5% which is half of the authorized 3% allowed in law.

AGENDA ITEM 6:

REVENUES, PROFITS, AND BUDGET REVIEW

Jay Finks, Deputy Director, presented an update on revenues, profits, and a budget review.

- FY19 Total sales were \$241.1 million
- FY19 goal was \$239.8 million
- Exceeded FY17 sales by 60%
- Exceeded FY 18 sales by more than 9%
- The Lottery exceeded the FY19 goal by .5%

- FY19 instant sales were \$135.5 million
- FY19 goal was \$140.4 million
- Exceeded FY17 sales by more than 102%
- Exceeded FY18 sales by more than 6%
- Performance was less than the FY19 goal by 3.5%

- FY19 draw sales were \$105.6 million
- FY19 draw sales goal was \$99.4 million
- Exceeded FY17 sales by more than 26%
- Exceeded FY18 sales by more than 13%
- Performance exceeded the FY19 goal by 6.2%

- FY19 profit was \$67.4 million
- FY19 profit goal was \$65.5 million
- Exceeded FY17 contribution by 27%
- Exceeded FY18 contribution by more than 6%
- Performance exceeded the FY19 goal by 2.9%

Marketing and Advertising Expenses

- FY19 marketing and advertising expense budget was \$3.8 million
- FY19 marketing and advertising expenses were \$3.475 million; 1.44% of sales

Operational Expenses

- FY19 operational expense budget was \$3.69 million
- FY19 operational expenses were \$3.524 million; 1.46% of sales

Profit

- FY19 profit was \$67.4 million; 27.96% of sales

FY20 Strategy

Mr. Finks indicated that the Lottery will focus on products, promotions, and advertising. The Lottery will also focus on retailer expansion and field sales initiatives.

FY20 Sales Projections

- FY20 goal is \$258 million
- Increase of 7%

FY20 Profit Projections

- FY20 profit projection is \$69 million
- Increase of .24%

FY20 Marketing and Advertising Budget

- FY20 marketing and advertising budget is \$4 million: includes all print, radio, billboard and web advertising; promotions around the state; events and event partners such as the Great State Fair of Oklahoma, the Thunder and others; advertising agency and strategic service partners.
- Increase of 5.2% above the FY19 budget
- FY20 marketing and advertising budget is 1.53% of sales

FY20 Payroll and Benefits Budget

- FY20 payroll and benefits budget is \$3.1 million
- Increase of 2.4% over the FY19 budget
- The increase is for two new employees in sales and marketing
- FY20 payroll and benefits budget is 1.2% of sales

FY20 IT Budget

- FY20 IT budget is \$330 thousand
- Increase of 153% over the FY19 budget
- The increase is for an infrastructure upgrade project that will provide proper replication of systems and needed redundancy and IT related costs for two new employees
- FY20 IT Budget is .13% of sales

FY20 Administration Budget

- FY20 administration budget is \$305 thousand
- No increase

- FY20 administration budget is .11% of sales

FY20 Accounting Budget

- FY20 accounting budget is \$210 thousand
- Increase of 23.5% to cover final year increase in financial audit contract; addition of funds to cover additional internal controls audit of IT functions; and to cover the addition of debit fees for some lottery sales transactions on lottery vending machines equipped with debit.
- Accounting budget is .081% of sales

FY20 Security Budget

- FY20 security budget is \$75 thousand
- Increase of 36% which will cover the cost of a vehicle for the new Sales employee and cover revised OMES mileage rates.
- FY20 security budget is .02% of sales

FY20 Lottery Operations Budget

- FY20 lottery operations budget is \$8.025 million
- Increase of 7%

FY20 Audit Plan

- Claims
- IT
- Special Events
- Nightly Drawings
- Promotions

Mr. Finks outlined the Attorney General contract. The FY19 budget was \$30,000 and estimated expenses are \$15,000.

Mr. Finks outlined the employee bonus program and recommended to modify the parameters and apply the new parameters to the FY2019 bonus payable in July, if approved by the Board. The recommended revision is to change the required minimum service time at the lottery to a minimum of three months of service; and for the bonus to be prorated on a twelve month basis.

Mr. Finks outlined the Saxum political affairs contract and recommended the contract be renewed for one year for an amount not to exceed \$250,000. This contract includes funds for lobbying, which the Lottery has successfully utilized to educate law-makers about issues surrounding lottery operations for three years. However, the governor has issued an Executive Order indicating that agencies are NOT to pay for lobbying services unless they have a signed

exception from their Cabinet Secretary. If the Lottery does not get such an exception, the Lottery will NOT spend funds for lobbying services.

AGENDA ITEM 7a.:

DISCUSSION AND POSSIBLE ACTION REGARDING FY2019 EMPLOYEE INCENTIVE PROGRAM

Program parameters, approved by OMES and the cabinet secretary, required the bonus to be authorized by the Board of Trustees for the ensuing fiscal year in the June board meeting; and for it to be approved for payment in the following June board meeting. Staff is requesting approval for payment of the FY2019 employee bonus program, which is a 5% one-time bonus based on achieving the total sales goal for FY2019. Payments will be included in the July payroll.

Staff recommends approval according to the revised parameters described above (minimum of 3 months service with the Lottery and payment prorated against a 12 month period).

Mr. Felty moved to approve the FY2019 employee incentive program as recommended. Mr. Blodgett seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Yes
	Mr. Cable	Absent
	Mr. Yates	Yes
	Ms. Rawlings	Yes

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

THE MOTION PASSED.

AGENDA ITEM 7b.:

DISCUSSION AND POSSIBLE ACTION REGARDING FY2020 EMPLOYEE INCENTIVE PROGRAM

Staff recommendation: Staff requests the Board to approve the bonus incentive program for FY2020, which if approved next June, would be payable in July of 2020, the FY2021 budget. Tier 1: achieving the total sales goal of \$258 million would equal a one-time 5% bonus payment. Tier 2: achieving \$270 million in sales (approximately 12% more than FY19 and another 5% above FY2019) would equal an additional one-time 2.5% bonus payment; a total of 7.5%. Criteria: Minimum of three months of service (prorated on a 12 month basis); employed with the Lottery on the last day of fiscal year; minimum of "meets standards" performance review.

Mr. Sherry moved to approve the FY2020 employee incentive program parameters as outlined. Mr. Yates seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Yes
	Mr. Cable	Absent
	Mr. Yates	Yes
	Ms. Rawlings	Yes

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

AGENDA ITEM 7c.:

DISCUSSION AND POSSIBLE ACTION REGARDING FY2020 PUBLIC AFFAIRS CONTRACT:

SAXUM:

Staff recommendation: approve a one-year contract with Saxum for Public Affairs services not to exceed \$250,000: Services provided by Saxum include public affairs strategy, public relations strategy and execution, marketing and messaging support, and lobbyist support and coordination. As noted above, this contract includes funds for lobbying, which the Lottery has successfully utilized to educate law-makers about issues surrounding lottery operations for three years. However, the governor has issued an Executive Order indicating that agencies are NOT to pay for lobbying services unless they have a signed exception from their Cabinet Secretary. If the Lottery does not get such an exception, the Lottery will NOT spend funds for lobbying services.

Mr. Orbison moved to approve the Saxum contract as outlined. Mr. Felty seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Yes
	Mr. Cable	Absent
	Mr. Yates	Yes
	Ms. Rawlings	Yes

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

AGENDA ITEM 7d.1.:

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY2020 OKLAHOMA LOTTERY COMMISSION BUDGET:

Staff recommendation: approve the FY2020 operating budget as presented or as modified by the Board:

Mr. Blodgett moved to approve the FY2020 Oklahoma Lottery Commission budget as outlined. Mr. Felty seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Yes
	Mr. Cable	Absent
	Mr. Yates	Yes
	Ms. Rawlings	Yes

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

AGENDA ITEM 7d.2.:

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY2020 REVENUE FORECAST:

Staff recommendation: approve the revenue as presented: FY2020 Revenue forecast: \$258 million.

Mr. Sherry moved to approve the FY2020 Revenue forecast as outlined. Mr. Blodgett seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Yes
	Mr. Cable	Absent
	Mr. Yates	Yes
	Ms. Rawlings	Yes

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

AGENDA ITEM 7d.3.:

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY2020 PROFIT FORECAST:

Staff recommendation: approve the estimated profit as presented: FY2020 Profit forecast: \$69 million

Mr. Blodgett moved to approve the FY2020 Profit forecast as outlined. Mr. Felty seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Yes
	Mr. Cable	Absent
	Mr. Yates	Yes
	Ms. Rawlings	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 THE APPOINTMENT OF MEMBERS TO COMMITTEES BY THE BOARD CHAIR:

In addition to previous appointments already acted on by the Board, Mr. Felty recommended that Ms. Rawlings serve on the Government and Citizens Relations Committee. Mr. Felty recommended that Mr. Sherry serve as the Chair and Mr. Blodgett and Mr. Yates as members of the Nominating Committee.

Mr. Orbison moved to approve the appointment of members to committees and the board chair as outlined. Mr. Blodgett seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Yes
	Mr. Cable	Absent
	Mr. Yates	Yes
	Ms. Rawlings	Yes

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

AGENDA ITEM 10:

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.