



OKLAHOMA LOTTERY COMMISSION
EXECUTIVE REPORT

FY18

Oklahoma Lottery: By the Numbers

\$880M

Total amount contributed to education since 2005

28%

Amount of every dollar sent back to Oklahoma education

1,900

Retailers statewide

\$14M

Retailer commissions in FY18

47%

FY18 increase in sales after law change

30

Full-time employees

3%

Maximum percentage of sales allowed by law for administrative expenditures

1.49%

Percentage of sales allocated to FY18 administrative expenses



The Oklahoma Lottery started selling lottery tickets Oct. 12, 2005. Our mission is maximizing revenues for public education through the creation and marketing of fun and entertaining products consistent with the highest levels of service, integrity and public accountability. Ultimately, our goal is to create the best games possible, drive player interest and increase sales so we can maximize our contribution to Oklahoma public school education.

After recent adjustments in the laws governing how the Lottery operates, we've made sweeping changes that have improved our products and created a sustainable boost in sales, increasing our annual education contribution. We look forward to many more years of innovation and success.

The Lottery's story is unique, and we'd like to share it. This document provides an overview of the Oklahoma Lottery: formation, operations, oversight, future outlook and more. If you have questions or feedback, please contact us.

► **Rollo Redburn, Executive Director**



ESTABLISHMENT OF THE LOTTERY

► **CREATED IN 2004 BY A VOTE OF THE PEOPLE**

Oklahomans voted to establish the Lottery with State Question 705, the Oklahoma Lottery Commission Act, which passed with 65% approval. Lottery laws provided for the following:

The trust fund shall consist of the funds transferred by the Oklahoma Education Lottery and be used for education support including:

- **K-12 public education, early childhood development programs, including compensation and benefits for public school teachers and support employees**
- **Tuition grants, loans and scholarships to attend colleges and universities located within this state**
- **Construction of educational facilities, capital outlay projects and technology**
- **Endowed chairs for professors at institutions of higher education**
- **Programs and personnel of the Oklahoma School for the Deaf and the Oklahoma School for the Blind**
- **The School Consolidation and Assistance Fund**
- **The Teachers' Retirement System Dedicated Revenue Revolving Fund**

The legislature shall appropriate funds from the Oklahoma Education Lottery Trust Fund and shall not use funds to supplant or replace other state funds supporting common education, higher education, or career and technology education. If funds are identified as being supplanted during the State Board of Equalization's annual examination, the legislature will be required to replenish the trust fund.

The Lottery is a non-appropriated, self-supporting state agency governed by a board appointed by the Governor and confirmed by the Senate. The board members serve staggered five-year terms, and our executive director is appointed by the board.

The Oklahoma Education Lottery Act (Title 3A: Section 701-735) includes the following highlights:

- **Net proceeds of Lottery games shall be used to support improvements and enhancements for educational purposes and programs and that proceeds shall be used to supplement rather than replace existing resources.**
- **Lottery games shall be operated and managed in a manner which provides full and complete public disclosure, provides entertainment to the public, maximizes net proceeds and ensures the Lottery is operated with integrity and dignity and free of political influence.**
- **The Lottery Commission is to be operated in such a manner that is self-sustaining and self-funded. It will be a non-classified state agency.**
- **The Lottery Commission will be governed by a board of trustees composed of seven members appointed by the Governor with consent from the Senate who serve terms of five years.**
- **The board may promulgate rules regulating the conduct of Lottery operations to include types of games, sale price of games, prize amounts, manner and time of payments, frequency of games and drawings, method of ticket sales and compensation to retailers.**
- **Administrative costs as defined in the law cannot exceed 3% of total sales.**
- **Employees of the Lottery Commission cannot purchase, play or cash winning tickets.**



As an entrepreneur, I recognize the hard work and smart business decisions made by Lottery leadership to drive sales, minimize administrative costs, raise profits and maintain focus on maximizing the Lottery's contribution to public education. The Lottery is a state agency uniquely operating in a consumer environment, and they've done a commendable job of advocating both for players and for the mission."

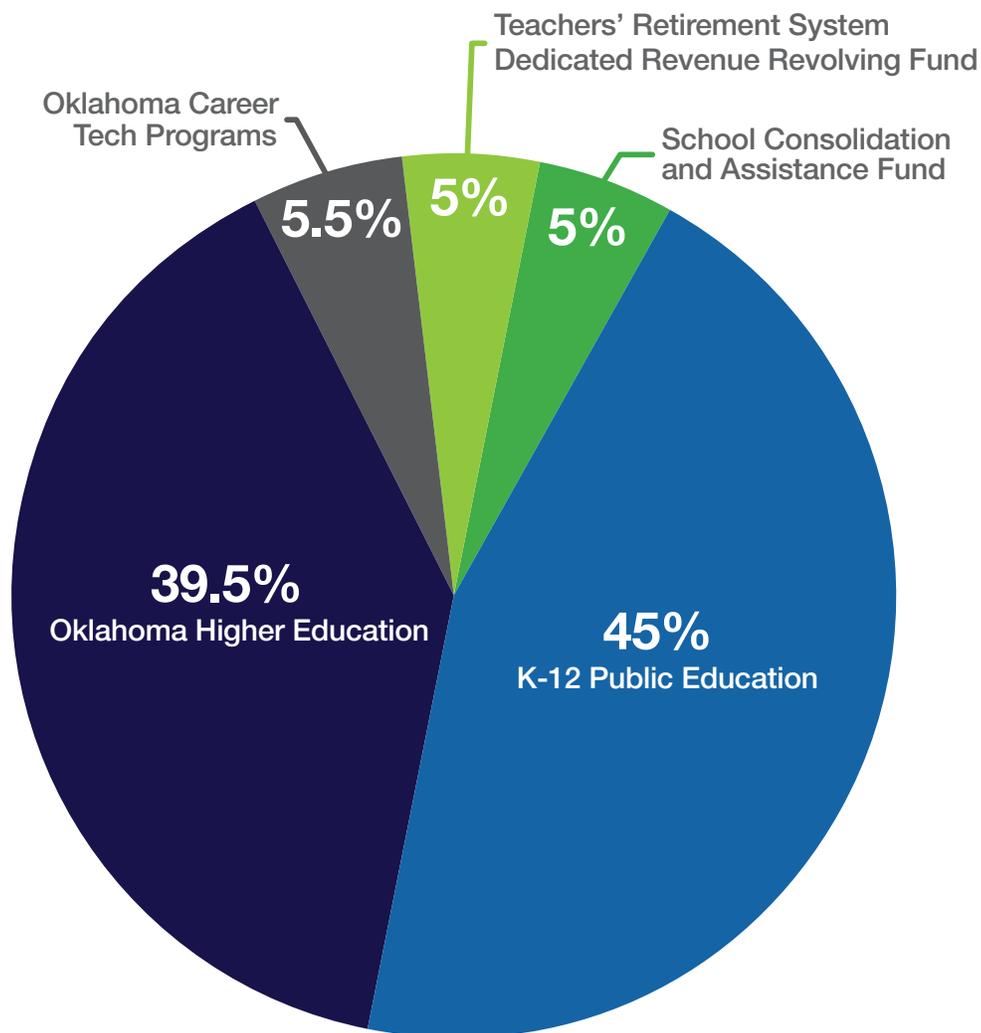
**- David Ostrowe, Secretary of Digital Transformation and Administration;
outgoing Chairman, Oklahoma Lottery Commission Board**

► BENEFICIARY CONTRIBUTIONS

All Lottery activities are motivated by our organizational mission of contributing profits to Oklahoma education. Of Lottery profits, the first \$50 million are appropriated by the legislature on an annual basis and go to public education through the 2005 Lottery legislative formula.

All additional profits, above \$50 million, are contributed on a cash basis and subsequently appropriated by the legislature to early education reading, and science, technology, engineering and math (STEM) programs in public schools.

Breakdown of First \$50 Million

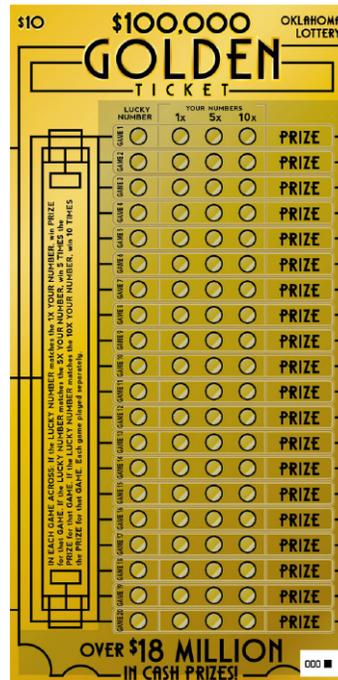


▶ PRODUCTS

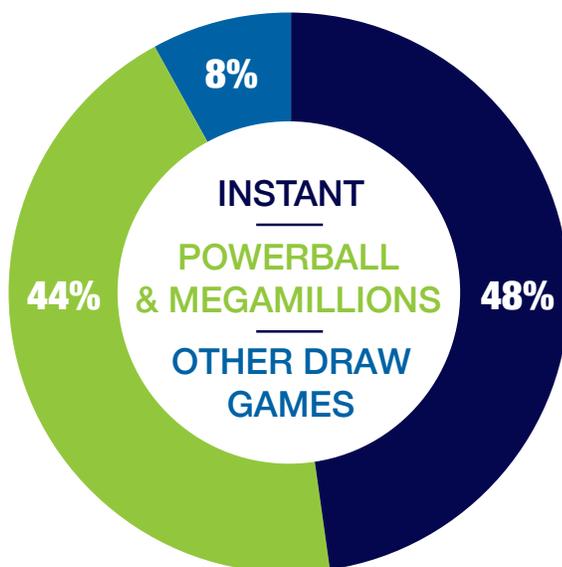
The Oklahoma Lottery sells a wide variety of games in order to help maximize sales and profits for public education.

Instant Games – Called scratch tickets or scratchers, provide players an immediate entertainment source. The tickets are purchased, scratched and a player can find out instantly if they have won or lost.

Draw Games – Called number games, provide players with chances to select a group of numbers for a subsequent drawing. Players match their numbers for a chance to win varying amounts of prizes. Many of the Lottery’s games are “multi-state” games which allow a pooling of dollars to create large jackpots. Net profits are not negatively impacted by Oklahoma’s participation in these types of games.



Sales Breakdown

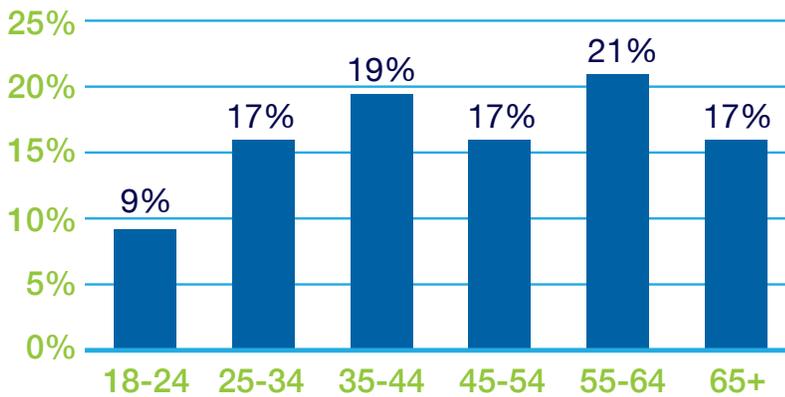


▶ OKLAHOMA PLAYERS

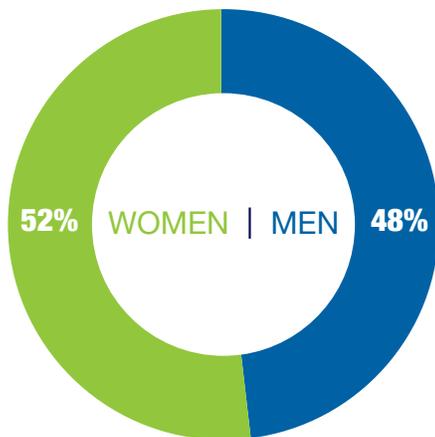
Players must be at least 18 years old to play the Lottery. The Oklahoma Lottery sees playership across all ages and demographics.

Since our inception, the Oklahoma Lottery has made millionaires of 62 individual players.

Players by Age



Players by Gender





ROBIN



\$25,000

A YEAR FOR LIFE

Largest Prizes Won in Oklahoma Lottery History

Powerball

\$105,800,000
Roland, OK

Powerball

\$32,800,000
Kiowa, OK

Powerball

\$101,800,000
Broken Arrow, OK

Hot Lotto

\$6,780,000
Norman, OK

Powerball

\$84,900,000
Altus, OK

Mega Millions

\$5,000,000
OKC, OK

▶ OKLAHOMA LOTTERY RETAILERS

The Oklahoma Lottery is a proud partner to more than 1,900 retailers across all 77 counties statewide. We recognize retailers are key in helping achieve our goals of driving sales, increasing profits and maximizing the Lottery's contribution to education, and we appreciate their efforts. Our sales team works with retailers every day to ensure they have the tools they need to be successful.

Retailers receive a 6% guaranteed sales commission on every product sold, as well as a 0.75% cashing commission on all tickets cashed at a retail location. Further, research shows that customers playing the Lottery are more likely to purchase other retail items, which helps enhance a retailer's opportunity to grow profits.

The Lottery also provides the following to retailers at no cost:

- **Equipment, including sales terminals**
- **Installation and training**
- **Ongoing product delivery**
- **Product displays and point-of-sale marketing materials**
- **Advertising and promotional partnership opportunities**
- **24/7 technical support**



Selling Lottery products is an economic driver for our business and continues to bring more foot traffic into our stores. We appreciate the Lottery's efforts to continuously improve their offerings to keep players engaged, which ultimately means more money for our local schools."

- Greg Webb, OnCue Express



► ORGANIZATIONAL OVERVIEW

The Lottery runs a very efficient operation with only 30 full-time employees generating almost a quarter of a billion dollars in annual sales. Employees engage in the business across a wide variety of daily tasks including:

- Marketing
- Security
- Administration
- Sales
- Claims
- IT
- Accounting

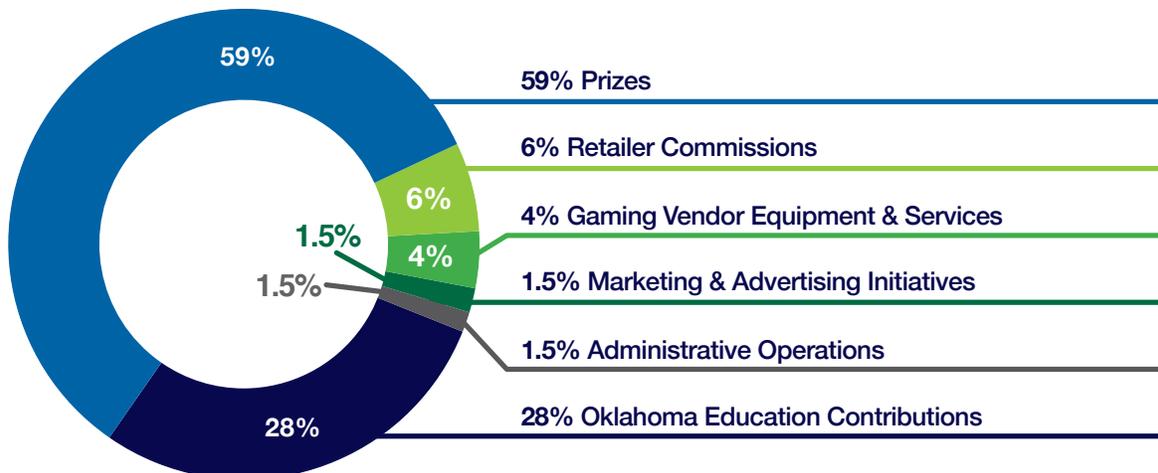
The Lottery is also responsible for managing a 50+ person, private-sector gaming vendor with a workforce of support personnel such as field technicians, marketing sales representatives, gaming system operators and a fully functioning ticket distribution center.



► OPERATIONAL COST OVERVIEW

The Lottery is charged with maximizing sales and profits for the State of Oklahoma. The most successful lotteries maximize their prizes to players to help stimulate play while holding administrative fees to manageable levels. We pride ourselves on our ability to run an efficient operation. Current administrative costs do not exceed 1.5% of sales, even though the law allows for a maximum of 3%. A quick snapshot of annual costs from FY18 are detailed below:

Percent of Sales Budgeted for:



► THE FIRST TWELVE YEARS

While the Oklahoma Lottery contributed more than \$800 million dollars to education over the first 12 years, our performance was limited by restrictive language that existed in the 2005 legislation. Specifically, the requirement for the Lottery to contribute 35% of every dollar limited the amount of money that could be invested into prizes. With a poor winning proposition, coupled with some of the lowest payout percentages in the nation, Lottery sales stagnated and ultimately began to significantly decline. This same lack of growth and ultimate decline was felt in the Lottery's contribution to education.

| YEAR | SALES | EDUCATION CONTRIBUTION |
|------|----------|------------------------|
| 2006 | \$191.0M | \$69M |
| 2007 | \$203.4M | \$69M |
| 2008 | \$204.6M | \$72M |
| 2009 | \$193.3M | \$69M |
| 2010 | \$199.9M | \$70M |
| 2011 | \$198.2M | \$69M |
| 2012 | \$199.9M | \$70M |
| 2013 | \$200.3M | \$70M |
| 2014 | \$191.2M | \$67M |
| 2015 | \$171.7M | \$60M |
| 2016 | \$189.7M | \$66M |
| 2017 | \$151.6M | \$53M |



▶ A TURNAROUND IN FY18

House Bill 1837, which was passed during the 2017 legislative session, was a major change to improve the long-term sustainability of the Oklahoma Lottery. This bill, authored by Rep. Leslie Osborn (Mustang) and Sen. Kim David (Porter), modernized the Lottery by removing the 35% requirement. This change was designed to allow us to invest more money into prizes, which would drive player interest, increase sales and profits and maximize the dollar amount we contribute to education.

| YEAR | SALES | EDUCATION CONTRIBUTION |
|-------|----------|------------------------|
| 2018 | \$221.2M | \$63.2M |
| 2019* | \$240M | \$68M |

**projected sales and education contribution for FY19*



We project that Lottery contributions over the first five years following implementation of this new law will be more than \$330 million, \$110 million more than what would have been contributed under the previous law.

House Bill 1837 went into effect July 1, 2017, and we were ready to hit the ground running with an entirely new lineup of games with bigger prizes per game and more winners per pack. Our staff made a herculean effort to pull and replace all products within 8 business days from the 1,900 statewide retailers and to train retailers on the new products.

In the first fiscal year since HB 1837 went into effect (July 1, 2017-June 30, 2018), Lottery sales increased 47%, and the Lottery contributed \$63.2 million to public education, a 19% increase over what was previously projected.

“With the passage of HB 1837, FY18 was transformative for our state’s lottery. Giving the Lottery the tools to increase sales means more money for Oklahoma public schools overall, plus additional dollars contributed for funding science, technology, engineering, math and reading initiatives.”

- Former Rep. Leslie Osborn, bill author



The Oklahoma Lottery runs an effective and efficient organization by applying good management techniques and adhering to industry best practices. The Lottery is grounded in integrity through a strict adherence to internal policies and procedures, which is verified and monitored by conducting a wide variety of audits:

- **Independent, Third-Party Auditors**
- **Annual Financial Audit** – conducted at the completion of every fiscal year to ensure all sales are captured and all profits are properly contributed to education
- **Contracted Internal Audits** – conducted throughout the fiscal year to identify areas of risk, assess current policies and procedures and tighten areas of opportunity
- **Nightly Drawing Audits** – conducted on a nightly basis to confirm all drawings are being executed in the proper manner

The Oklahoma Lottery also conducts a series of internal audits to ensure proper operations in the areas of claims, accounting, security, special events and marketing.



The board has been impressed with the Lottery's commitment and adherence to their policies and procedures, and we have found them to be a very professionally run organization grounded in the principles of integrity, commitment and consistency."

- Nevyle R. Cable,
Treasurer, Oklahoma Lottery Commission Board





▶ ADMINISTRATION EFFICIENCY

Even though our statutes allow for a maximum of 3% administrative expenses, including all payroll and benefits, the Lottery historically has managed that expense to less than 2%. FY18 administrative expenses and projected FY19 administrative expenses are currently holding at 1.5% of total sales.

▶ PROVIDING ADDITIONAL STATE SERVICES

The Oklahoma Lottery also initiates a variety of verifications during the winner validation process in an attempt to offset other debts to the State.

- **State Taxes** – We automatically deduct state taxes owed on any prize more than \$5,000.
▶ **\$12,500,000+ collected to date**
- **Child Support** – Any debt to the Department of Human Services is automatically deducted on any prize more than \$600.
▶ **\$385,000+ collected to date**
- **Back Taxes** – Any debt to the State of Oklahoma Tax Commission is automatically deducted on any prize over \$600.
▶ **\$275,000+ collected to date**
- **Unemployment** – Any debt to the Oklahoma Employment Security Commission is automatically deducted on any prize more than \$600.
▶ **\$18,000+ collected to date**
- **Department of Mental Health** – the Lottery contributes \$750,000 per year to the Department of Mental Health and Substance Abuse Services for the treatment of compulsive gambling disorder and educational programs related to such disorders.
▶ **\$7,000,000+ to date**

► CONTINUOUS IMPROVEMENT

As a consumer brand, it's key that we stay up-to-date with industry trends and fulfill the wants and needs of our players. We recognize they have a choice in where they spend their entertainment dollars, and our goal is to always offer the best player experience so we can fulfill our ultimate mission of supporting public education.

We realize that maximizing the Lottery's potential is a continuous process. As we build on the early successes afforded by the passage of House Bill 1837, we've supported and implemented additional improvements that bring value and convenience to our players and our retailers, as well as efficiency to our operations. These steps will continue to help us maximize profits and education contributions. Some examples include:

- **Acceptance of Debit Cards:** As of Nov. 1, 2018, Oklahoma Lottery retailers are authorized by the passage of Senate Bill 1303 to accept debit card payments for Lottery products in addition to cash (previously, only cash had been accepted). This modernization step allows customers to purchase Lottery products in a more convenient manner and through a more widely used means of payment.
- **Liquor Store Sales:** The state's implementation of State Question 792 on Oct. 1, 2018 enables liquor stores to sell non-alcoholic items they previously could not sell; this has opened an opportunity for us to increase our retailer base in this category over time.

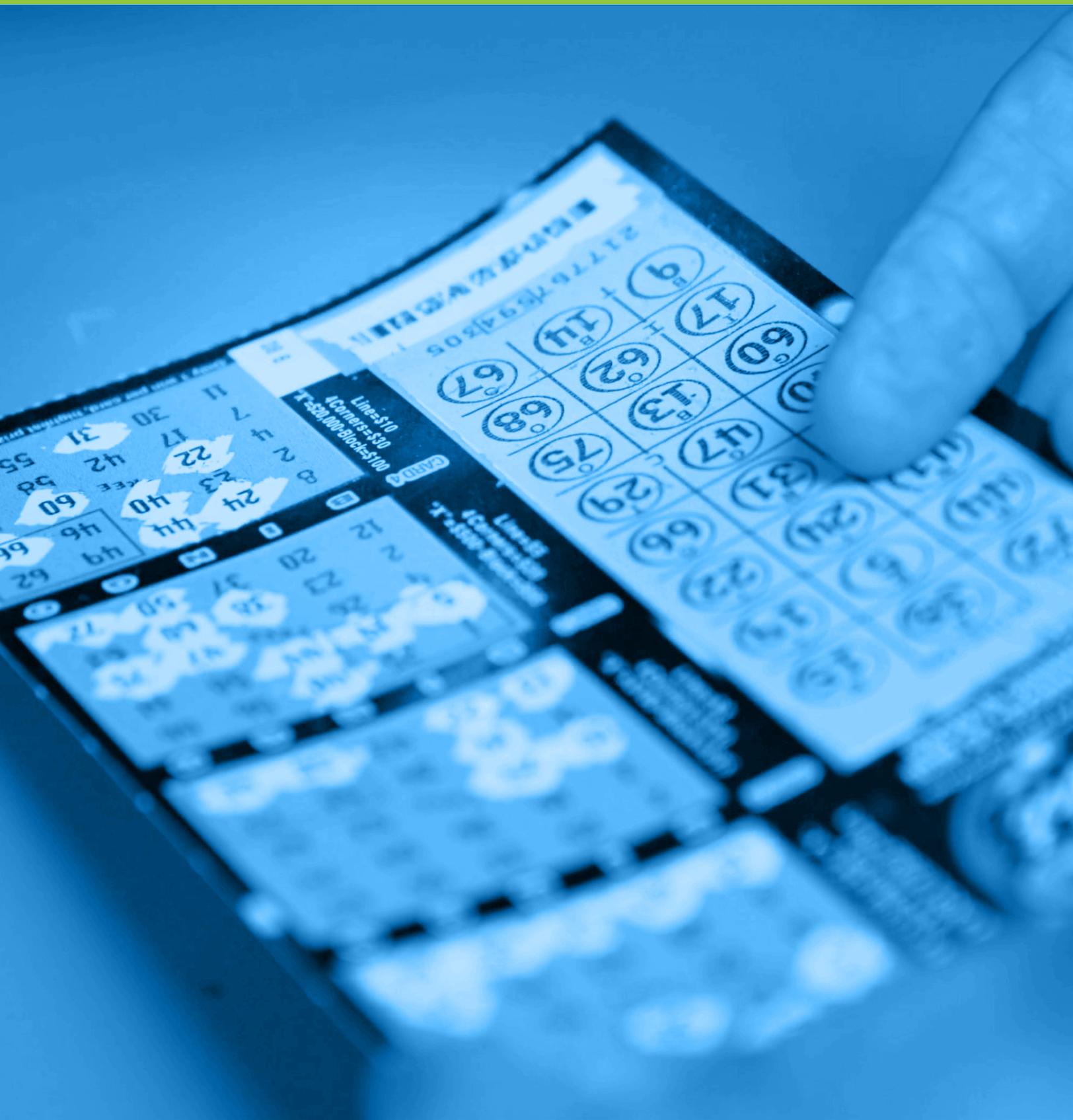
► FOR FY20 AND BEYOND

We are always looking at new opportunities that may help us elevate our brand and our operation, both when it comes to identifying efficiencies and driving innovation. As we look beyond the next year, there will be new opportunities for growth and improvement. We will continue to offer new and exciting products that appeal to players. We will also stay open to new opportunities as the marketplace evolves. Most important, we will continue in our efforts to reach \$1 billion contributed to Oklahoma public education in the next few years.

“We’ve been emphasizing to Oklahomans including players, retailers, legislators, and educators throughout FY18 that we’re building ‘A Better Lottery.’ The past year has been one of change and growth, but we can’t stop there. We’ll continue to seek efficiencies and drive innovation to meet our mission of enhancing Oklahoma public school funding.

- Jay Finks, Oklahoma Lottery Deputy Director









OKLAHOMA LOTTERY: A SUMMARY

Our goal is simple... to increase sales through the development of entertaining games, to conduct an effective and efficient operation, and to maximize our profits in order to help increase funding for Oklahoma education.

We work diligently to remain experts in the fields of marketing, sales, customer satisfaction and security. Our players are the lifeblood of our success. Their satisfaction with our games, their loyalty to innovative new products, their confidence with our integrity and our adherence to our mission of helping public education are what drive us to achieve greater results.

And there are more positives to come. We will continue to push the envelope of gaming innovation for better products and services to all players across Oklahoma. With the subjects like sports betting and play via the web sweeping the nation, Oklahoma should be looking at these opportunities with great interest.

Our journey has just begun, and we look forward to continuing to share it with you as we progress. Please don't hesitate to reach out with any questions you have regarding our strategic mission or daily operations.

► **Jay Finks, Deputy Director, (405) 522-7721**



OKLAHOMA LOTTERY

lottery.ok.gov

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