



STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
OFFICIAL MINUTES

March 10, 2020

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 board meeting March 10, 2020 at 1:30 p.m. The board 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 March 9, 2020 at 12:30 p.m. The agenda was sent electronically to the Board members on March 6, 2020 and was posted to the website on March 9, 2020. The agenda is attached as Exhibit A.

AGENDA ITEM 1:

CALL TO ORDER:

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

Board members present were:

- 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, Sylvette Olmeda, Isabelle Alfaro, Audra Eccles, and Liz Sawyer of the Oklahoma Lottery Commission; Jamie Evans of Scientific Games; John Van Pool of Citizen Potawatomi Nation; and Kirke Kickingbird and Zachary Stuart of Hobbs, Straus, Dean & Walker.

AGENDA ITEM 2:

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

Mr. Sherry called upon Ms. Fox to verify that proper public notice was made regarding the March 10, 2020 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 December 3, 2019 board meeting be waived and approved as published and distributed. Ms. Rawlings seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

| | |
|--------------|-----|
| Mr. Sherry | Yes |
| Mr. Blodgett | Yes |
| Mr. Orbison | Yes |
| Mr. Cable | Yes |
| Mr. Yates | Yes |
| Ms. Rawlings | 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, covered the Lottery's legislative agenda for FY20. The Lottery has one bill in legislation in FY20. The bill is to allow the Lottery to accept all forms of retail payments for the purchase of Lottery products and to have the Lottery's security personnel certified by the state as law enforcement personnel. This would enhance the Lottery's ability to gather information and present that to law enforcement and various courts about Lottery fraud issues. Right now, the Lottery has difficulty around the state because the Lottery is not law enforcement. The Lottery gets good cooperation for Oklahoma City proper. Oklahoma City has one detective that is assigned to help the Lottery. , Mr. Redburn is concerned that if this detective left the OKC-PD, the Lottery might be limited on the amount of assistance from OKC law enforcement. The bill has passed the House and has gone over to the Senate.

The Lottery has been working with a couple of the tribes for selling Lottery products at Tribal convenience stores on non-tribal lands. The Lottery now has two that have signed up. The Lottery is doing business with the Turtle Stop Grove LLC in Grove, Oklahoma that is a business of the Wyandotte Nation. The Lottery just recently turned on a lottery terminal at the Apache Market One in Lawton, Oklahoma, which is a business of the Fort Sill Apache Tribe of Oklahoma.

Regarding recruitment, 7-Eleven launched sales of Lottery products on Monday, February 24, 2020. All 7-Elevens launched the same day and the simultaneous launch went well. The Lottery had a few equipment issues on the first day. On the second day that number dropped considerably and on the third the Lottery was back to normal operating procedures. The first couple of days the Lottery had Lottery personnel and Scientific Games personnel standing by, ready to jump on the issues as soon as we heard about the problems.

The Lottery is also working with InComm, which is a nationwide business that works in many retail locations. The Lottery is talking to them about bringing on 750 new sales locations this fall to include Dollar General, perhaps CVS stores, and perhaps Dollar Tree stores. These stores would be operating under a new sales model. They would be selling “hang tags” at the checkout stand. Texas is the first to launch this kind of business model and launched in November. Arizona is launching sometime in the next couple of months. The Oklahoma Lottery is scheduled to launch in October.

The Lottery is working with other stores and chains about improving sales. The Lottery is working with Love’s, EZ Mart, Quik Trip, and OnCue to try and work out cooperative efforts to improve sales.

November 1, 2019 was the first day that players could start using debit cards. The Lottery does not have a count yet on the number of stores that are accepting cards, but the Lottery will work on getting the number. The Lottery continues to council retailers about the benefit of increased sales and the benefits they get from accepting debit cards. The new PCT-HDs that the Lottery put in 7-Eleven stores accept debit card transactions and any new machines after that will also accept debit cards.

Mr. Redburn referenced the literature in the board packet that referenced the Lottery beneficiary contributions to date. Through FY19 the Lottery contributed \$935.9 million to the state of Oklahoma for education programs. Through February 2020 the Lottery has contributed \$966.4 million. Right now, the Lottery is expecting to reach the 1 billion mark in total contributions to the state by July 2020. Mr. Redburn also pointed out the document in the packet titled “Lottery’s Making a Difference”. This document was prepared by the National Association of State and Provincial Lotteries (NASPL). It helps explain in general the contributions that Lotteries have made to beneficiaries all around the country. Since the first US Lottery in New Jersey in 1964, the 47 US Lotteries have generated more than \$1.5 trillion in sales, an average of 25.1%, \$502 billion, has been contributed to various state beneficiaries, \$886 billion has been awarded to players as prizes, and \$89 billion has been payed to Lottery retailers as commissions. The Oklahoma Lottery is 35th in sales of traditional games and 36th in total transfers to beneficiaries of the 45 US Lotteries, including the District of Columbia and excluding Mississippi, Puerto Rico, and the US Virgin Islands.

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 highlighted the financials. The draw game revenue is down, and the instant game revenue is up. The overall net income is down. The Audit and Finance Committee discussed the internal control audit performed by BKD.

Mr. Redburn pointed out that the Lottery is meeting all the appropriation requirements that the state made from the Lottery trust fund this year

AGENDA ITEM 6:

REVIEW OF THE SALES, REVENUES, BUDGET, AND OPERATIONAL UPDATES:

Mr. Finks discussed the sales projections for the remainder of FY20. The overall sales are 8.8% below this time in FY19. In FY19 Powerball and Mega Millions had two large jackpots and multiple smaller but sizable jackpots by this time of the year, but that has not happened in FY20.

FY20 BUDGET: \$258,000,000

FY20 PROJECTIONS: \$241,000,000

Vs. FY20 Budget: -7%

Vs. FY19: -4%

The Lottery was hoping to exceed \$100 million on draw games but if there is not a sizable run it will probably be more like \$80 million. In FY19 there were 63 draws above \$200 million and there have been 21 in FY20. When the jackpots are high, sales grow, and more people play. When more people are coming in the stores to buy tickets for a big jackpot, we find that they buy other Lottery products as well. FY20 has been a unique year for all Lotteries and it is anticipated that will correct itself over time. The Lottery will more than achieve the number that it has committed to the state for FY20.

DRAW SALES YTD: -37% vs. FY19

FY20 DRAW SALES BUDGET: \$102,400,000

FY20 DRAW SALES PROJECTIONS: \$80,000,000

Vs. FY20 Budget: -22%

Vs. FY19: -24%

DRAW SALES YTD:

| Powerball: | FY19 | FY20 |
|----------------------------|---------------|---------------|
| Average Jackpot: | \$191 Million | \$121 Million |
| Draw Above \$200 Million: | 30 | 10 |
| Highest Jackpot: | \$750 Million | \$394 Million |
| Mega Millions: | FY19 | FY20 |
| Average Jackpot: | \$231 Million | \$122 Million |
| Draws Above \$200 Million: | 33 | 11 |

Highest Jackpot: \$750 Million \$372 Million

Statistically, in a 10-11-month period there can be a poor stretch of big jackpots, but the big jackpots will come. In FY19 both Powerball and Mega Millions big jackpots came at the same time. The Lottery will make sales targets with instant games. Instant sales are doing fantastic and continue to grow.

INSTANT SALES YTD: +14.2% vs. FY19

FY20 INSTANT SALES BUDGET: \$258,000,000

FY20 INSTANT SALES PROJECTIONS: \$241,000,000

Vs. FY20 Budget: -7%

Vs. FY19: -4%

The Lottery had an aggressive FY20 instant sales budget and the Lottery hopes to exceed the budget.

TOTAL SALES

| FY19 SALES | FY20 BUDGET | FY20 PROJECTIONS |
|-------------------|--------------------|-------------------------|
| \$241,700,000 | \$258,000,000 | \$240,800,000 |

EDUCATION CONTRIBUTION

| FY20 APPROPRIATION | FY20 BUDGET | FY20 PROJECTION |
|---------------------------|--------------------|------------------------|
| \$47,500,000 | \$69,000,000 | \$62,000,000 |

The Lottery launched a \$20 instant ticket on December 20, 2019. The Lottery is averaging about \$1 million a week in sales of the \$20 ticket. The top prize \$250,000, by far the Lottery's biggest top prize.

The Lottery launched 108 7-Eleven stores two weeks ago. 7-Eleven has the Lottery's brand-new self-service machine and they are doing a self-service model only. They have a jackpot sign in the window, a 43-inch monitor over the counter that displays the Lottery's advertising, including the games, how much money has been given to beneficiaries, winners, etc. 7-Eleven committed advertising to this project including bus shelters, outdoor boards around the city, the banner on the 7-Eleven store front, the gas pumps, etc. The Lottery had two weeks of ambassador programs. The Lottery put a representative in almost every store. They ran promotions, taught people how to use the machines, passed out coupons, and other things to get the customers engaged. The Lottery also did a 7-Eleven branded ticket, 7-Eleven Cold Hard Cash. It is the first ticket that the Lottery partnered with a retailer. 7-Eleven committed \$250 thousand in non-merchandise prizes to the game and put them in the game, players can scratch and win a Big Gulp.

The Lottery had an aggressive goal of \$260,000 per week with a 75% lift, mirroring OnCue and Quik Trip and the Lottery is achieving that goal in the first two weeks. \$1 and \$2 tickets account for 35% of those sales, which is double what the Lottery is selling statewide. The Lottery is seeing new people trying the \$1 and \$2 ticket. The 7-Eleven Cold Hard Cash ticket is the fifth bestselling ticket. 7-Eleven stores in Oklahoma have recently been purchased by 7-Eleven corporate. 7-Eleven corporate is starting to put a digital dispensing unit in all their stores, and they would like the Lottery to participate. The equipment, to come from Scientific games, is called "Sci-Q". Using this equipment, the sales clerk rings up the tickets using a digital terminal and it dispenses the tickets. The unit counts the tickets, it is more secure and reduces theft. 7-Eleven loves self-service but wants to also sell over the counter and three to six months is the time frame that 7-Eleven has built for the Lottery.

Ms. Rawlings asked about the function of the machines and the sale of Lottery products.

Mr. Finks explained the loading of the machines and how the tickets appear on the screen. He also explained that the tickets are secure in the machines and described how the clerk would perform a sale. He stated that it provides better inventory control, real time sales data, bin status, and several other advantages.

The Lottery created a beneficiary marketing program and that campaign is currently running. The Lottery is about to hit \$1 billion in contributions to education and the Lottery is going to do more marketing around that including public relations and a more robust campaign. The law changed to allow the Lottery to show students and teachers and the Lottery has a campaign that will be running this Spring.

The Lottery continues to work HB3916 as a modernization of our Lottery law. The Lottery is trying to get more investigative powers for our security team. Retailers have had Lottery tickets stolen and report that they feel that the police do not care. The Lottery can help facilitate investigation and prosecution of these cases. This law change would help do that. The Lottery is also looking to accept all forms of payment for lottery products (currently, only cash or debit card payment can be accepted). The bill passed the House floor last week and now it is on to the Senate.

AGENDA ITEM 7 a:

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY21 CONTRACT FOR THE DRAWING AUDITOR WRIGHT, MCAFEE, & COMPANY:

Wright, McAfee & Company has provided the nightly drawing audit services since the Lottery launched. They participate with the Lottery's drawing officials nightly to ensure that the nightly draws are accurate and being reported correctly. The Lottery's security team also audits the draw and then BKD audits those audits. The current contract is very cost effective at \$12,775 annual / \$35 per night. Mr. Finks recommended that the board approve renewing year 2 of the 5-year contract for nightly draw auditing services not to exceed \$13,000.

Mr. Cable moved to approve the renewal of year 2 of the 5-year contract with Wright, McAfee, & Company for nightly draw auditing services not to exceed \$13,000. Mr. Blodgett seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

| | |
|--------------|-----|
| Mr. Sherry | Yes |
| Mr. Blodgett | Yes |
| Mr. Orbison | Yes |
| Mr. Cable | Yes |
| Mr. Yates | Yes |
| Ms. Rawlings | Yes |

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

THE MOTION PASSED.

AGENDA ITEM 7 b:

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY21 CONTRACT FOR THE EXTERNAL FINANCIAL AUDITOR RSM US, LLP:

The Lottery's current financial audit contract expires June 30, 2020. The new proposal is a 1-year contract with 4 renewable periods: \$53,200 - \$59,880 annual audit fees. RSM has been providing audits for the Lottery for a while and the Lottery recommends continuing the relationship with RSM. RSM reports to the Board and the Audit and Finance Committee. Mr. Finks recommended the board approve year 1 of a 5-year contract for external auditing services not to exceed \$55,000.

Mr. Blodgett moved to approve the new contract and year 1 -year the new contract with RSM US, LLP for external auditing services not to exceed \$55,000. Mr. Orbison seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

| | |
|--------------|-----|
| Mr. Sherry | Yes |
| Mr. Blodgett | Yes |
| Mr. Orbison | Yes |
| Mr. Cable | Yes |
| Mr. Yates | Yes |
| Ms. Rawlings | Yes |

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

THE MOTION PASSED.

AGENDA ITEM 7 c:

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY21 CONTRACT FOR THE EXTERNAL AUDITOR OF INTERNAL CONTROLS BKD CPAS & ADVISORS:

The Lottery's current internal controls audit contract expires June 30, 2020. The new proposal is a 1-year contract with 4 renewable periods: \$36,000 - \$40,000 annual audit fees; does not include IT audits. BKD has been providing audits of special events, promotional drawings, accounting,

security, claims, and marketing. Mr. Finks recommended that the board approve year 1 of a 5-year contract with BKD CPAs & Advisors for internal auditing services not to exceed \$40,000.

Mr. Blodgett moved to approve the contract and year 1 of the contract with BKD CPAs & Advisors for internal auditing services not to exceed \$40,000. Ms. Rawlings seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

| | |
|--------------|-----|
| Mr. Sherry | Yes |
| Mr. Blodgett | Yes |
| Mr. Orbison | Yes |
| Mr. Cable | Yes |
| Mr. Yates | Yes |
| Ms. Rawlings | Yes |

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

In reference to the FY21 IT Audit:

Senate bill 584: Effective November 1, 2019, required that any state agency with information technology systems that is not consolidated under the Information Technology Consolidation and Coordination act or that is otherwise retained by the agency shall additionally be required to have an information security audit conducted by a firm approved by the Information Services Division that is based upon the most current version of the NIST Cyber-Security Framework. These services are anticipated to be available through the approved third-party firms on Statewide Contract 1042. Costs for these engagements will be required to provide the funding and appropriate subject matter experts to successfully complete the audits within the allocated time.

Due Date: October 31, 2020

Estimated Cost: Maximum of \$25,000

AGENDA ITEM 7 d:

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY21 CONTRACT FOR THE OFFICE LEASE/KCDS HOLDINGS:

The Lottery's current office space, utilities, and parking contract expires June 30, 2020. The building was sold to new landlords January 2020. The new landlord's original proposal included an average of \$60,000 more per year. The Lottery's counter proposal was \$12,000 - \$24,000 more per year with conditions. The new landlord's counter proposal required the state to "float" cash for building improvements. The building services are already falling below standards. Pending board approval, the Lottery's next steps would be to continue to negotiate with the landlords, actively look for new space, work with Scientific Games to identify potential space for both companies to lease collectively, and bring the board a new proposal if the potential deal falls outside of recommendations #1 & #2. Mr. Finks recommended the board approved the following:

Recommendation #1: Board approves Lottery to re-negotiate the lease for a one-year term not to exceed an additional \$1,000 per month.

Recommendation #2: Board approves the Lottery to re-negotiate the lease for one-year with 4 renewals not to exceed an additional \$2,000 per month.

Mr. Blodgett moved to approve the Lottery re-negotiating the lease for a one-year term not to exceed an additional \$1,000 per month or the Lottery re-negotiating the lease for one-year with 4 renewals not to exceed an additional \$2,000 per month. Mr. Yates seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

| | |
|--------------|-----|
| Mr. Sherry | Yes |
| Mr. Blodgett | Yes |
| Mr. Orbison | Yes |
| Mr. Cable | Yes |
| Mr. Yates | Yes |
| Ms. Rawlings | Yes |

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

THE MOTION PASSED.

AGENDA ITEM 7 e:

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY21 CONTRACT FOR THE GAMING SYSTEM VENDOR SCIENTIFIC GAMES:

Scientific Games provides instant and draw game lottery services including field sales and services, IT development, IT printing and shipping, operations, communications, and game development. The current contract was 1 year (August 2013 – August 2014) with 9 renewable options. It includes 3.99% of sales, 1% bonus based on incremental sales, and additional contract options (LIMS, SFA, and printing and licensing options). Mr. Finks recommended that the board approve renewing the Scientific Games contract for FY21 (August 2020 – August 2021) for year 8.

Mr. Cable moved to approve the renewal of the Scientific Games contract for FY21 (August 2020 – August 2021) for year 8. Mr. Blodgett seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

| | |
|--------------|-----|
| Mr. Sherry | Yes |
| Mr. Blodgett | Yes |
| Mr. Orbison | Yes |
| Mr. Cable | Yes |
| Mr. Yates | Yes |
| Ms. Rawlings | Yes |

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

AGENDA ITEM 7 f:

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY21 CONTRACT FOR THE GAMING SYSTEM: ISSUANCE OF NEW RFP:

The current gaming system contract was built in 2013-2014 and after 4 years the Lottery law changed. The Lottery has been on a high trajectory but is still under a contract that was built under a different business environment. The Lottery thinks it is time to put the contract back out to bid not only to maximize the value that the Lottery is getting but also to save the Lottery money and for more equipment. The Lottery does not have any more self-service machines and the Lottery is close to exhausting the capital. The Lottery can continue to pay for equipment separately or the Lottery could work that into a longer-term contract and get that absorbed into the contract. There is an opportunity for the Lottery to go to an RFP and receive bids and evaluate those bids for additional value for the state. The more money the Lottery saves the state, the more money to education. As the Lottery business has ramped up, so has the need for additional equipment and services.

CONDITION:

Gaming Terminals & Peripherals: All gaming terminals were replaced in December of 2016 with newly refurbished equipment

Self-service Gen2 (PCT): All PATs (Gen2) were replaced in 2015 with PCTs

Self-service Gen3 (HD): Being introduced into marketplace (7 Eleven) in late February 2020

Wireless Communications (Statewide): Upgraded over past 2 years to stronger wireless systems (4G) vs 3G / SAT system

Back Office Gaming System: Upgraded to newest "Gaming Management System" in 2017

Lottery in Motion Monitors: System and hardware launched in 2018

The equipment has a long-life span and the Lottery does not have an infrastructure that is old and decaying and needing to be replaced. Instead of putting out an RFP to replace everything, the Lottery can put out an RFP for equipment it needs. Mr. Finks recommended that the board approve the Lottery launch an RFP in the next 30 – 45 days. The Lottery would come to the June board meeting with an outline of the evaluation process of the bids and a recommendation.

Mr. Blodgett moved to approve that the Lottery move forward with an RFP and a recommendation at a future meeting. Ms. Rawlings seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

| | |
|--------------|-----|
| Mr. Sherry | Yes |
| Mr. Blodgett | Yes |
| Mr. Orbison | Yes |
| Mr. Cable | Yes |
| 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 THE FY20 BOARD OFFICERS:

Mr. Redburn indicated that Mr. Felty resigned as board chairman in January 2020. He also stated that Mr. Orbison was reappointed. Mr. Redburn explained that Mr. Sherry becomes the chairman until the board elects a new chair. He stated that the board would be required to nominate and elect a chairman.

Mr. Blodgett moved to elect Mr. Sherry as chairman. Mr. Orbison seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

| | |
|--------------|-----|
| Mr. Sherry | Yes |
| Mr. Blodgett | Yes |
| Mr. Orbison | Yes |
| Mr. Cable | Yes |
| Mr. Yates | Yes |
| Ms. Rawlings | Yes |

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

THE MOTION PASSED.

Mr. Redburn indicated that because Mr. Sherry is no longer vice chairman the board would be required to nominate and elect a vice chairman. He stated that anyone on their list was eligible. He noted that if the board elects Mr. Orbison or Mr. Blodgett, then the board would be required to nominate and elect their replacement. Mr. Orbison indicated that he is a believer in seniority and suggested Mr. Blodgett, or Mr. Cable be elected as vice chairman. Mr. Blodgett nominated Mr. Cable for vice chairman.

Mr. Blodgett moved to elect Mr. Cable as vice chairman. Mr. Sherry seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

| | |
|--------------|-----------|
| Mr. Sherry | Yes |
| Mr. Blodgett | Yes |
| Mr. Orbison | Yes |
| Mr. Cable | Abstained |
| Mr. Yates | Yes |
| Ms. Rawlings | Yes |

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

THE MOTION PASSED.

Mr. Redburn indicated that because Mr. Cable is treasurer the board would be required to nominate and elect a treasurer. He asked Mr. Sherry if he would like to ask anyone to volunteer. Mr. Sherry asked who would like to be treasurer. Mr. Yates indicated that he would be willing to serve as treasurer.

Mr. Cable moved to elect Mr. Yates as treasurer. Mr. Blodgett seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

| | |
|--------------|-----------|
| Mr. Sherry | Yes |
| Mr. Blodgett | Yes |
| Mr. Orbison | Yes |
| Mr. Cable | Yes |
| Mr. Yates | Abstained |
| Ms. Rawlings | Yes |

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

THE MOTION PASSED.

AGENDA ITEM 9:

DISCUSSION AND POSSIBLE ACTION REGARDING THE APPOINTMENT OF THE FY20 BOARD COMMITTEES AND THE APPOINTMENT OF FY20 BOARD COMMITTEE CHAIRS:

Mr. Redburn indicated that because Mr. Sherry is chairman, he would be required to appoint a member to the Government and Citizens Relations Committee. He stated that Mr. Orbison is the chairman and Ms. Rawlings is a member. Mr. Redburn explained that Mr. Sherry could wait to appoint a member until the board has a new member appointed by the Governor. Mr. Sherry indicated that he would wait to appoint a member.

AGENDA ITEM 12:

ADJOURNMENT:

Mr. Blodgett moved to adjourn. Ms. Rawlings seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

| | |
|--------------|--------|
| Mr. Sherry | Yes |
| Mr. Blodgett | Yes |
| Mr. Orbison | Absent |
| Mr. Cable | Yes |
| Mr. Yates | Yes |
| Ms. Rawlings | Yes |

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

THE MOTION PASSED.

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.

EXHIBIT A: Board meeting agenda for 3/10/2020

Oklahoma Lottery Commission

MEETING AGENDA

**Conference Room
Oklahoma Lottery Commission
3817 North Santa Fe
Oklahoma City, OK 73118**

March 10, 2020
1:30 PM

1. Call to order. Roll call and announcement of quorum.
2. Announcement of filing of meeting notice and posting of the agenda in accordance with the Open Meeting Act.
3. Approval of the Minutes of the December 3, 2019 Meeting.
4. Executive Director's report.
5. Report of the Audit & Finance Committee.
6. Sales / Revenue / Budget / Operations Update.
7. Discussion and possible action regarding contracts:
 - a. Drawing Auditor
 - b. External Financial Auditor
 - c. Internal Controls Auditor (External)
 - d. Office Lease / KCDS Holdings
 - e. Gaming System Vendor: recommended contract extension
 - f. Gaming System: issuance of new RFP.
8. Discussion and possible action regarding appointment of board officers for 2020.
9. Discussion and possible action regarding appointment to board committees and appointment of board committee chairs for 2020.
10. New Business
11. Adjournment.

EXHIBIT B: Board meeting draft minutes from 12/3/2019 meeting:

STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
OFFICIAL MINUTES

December 3, 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 board meeting December 3, 2019 at 1:30 p.m. The board 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 2, 2019, at 12:30 p.m. The agenda was sent electronically to the Board members on November 27, 2019, and was posted to the website on December 2, 2019. The agenda is attached as Exhibit A.

AGENDA ITEM 3:

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 Liz Sawyer of the Oklahoma Lottery Commission; Lyn Martin-Diehl, Assistant Attorney General; Eric Tupin of Scientific Games; and Jennifer Mories of Saxum.

AGENDA ITEM 4:

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

Mr. Felty called upon Ms. Fox to verify that proper public notice was made with regard to the December 3, 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. Yates moved that the reading of the minutes of September 24, 2019 board meeting be waived and approved as published and distributed. Mr. Cable 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, updated the Board with the following comments:

1. The Lottery is working to complete the steps to start up the new Lottery retailer on February 3, 2020. Mr. Redburn reported that the Lottery is still working with InComm and Scientific Games to become the third state to initiate in-lane sales of Lottery products in Dollar General, Dollar Tree, CVS, and Walgreens stores in Oklahoma. Arizona (the 2nd state after TX) is pushing the vendors to include a ticket redemption process when they start up. If that is the case in Arizona then we might be doing redemption here in Oklahoma when we start up in September. This will add approximately 900 additional sales locations in Oklahoma.
2. The first \$20 Lottery ticket is in the works. This is the first ticket the Lottery has had of this physical size. To be released right before Christmas.
3. The Lottery finished the financial reports at the last meeting and asked the board to accept them, knowing that the Lottery would have to make a few changes to the document, but the Lottery would update the board about the changes. The auditors met with the Audit and Finance Committee before the board meeting. Changes to the report were not material and the Lottery will continue to work with the Auditor and Audit Committee to make sure that the Lottery is reporting in the most appropriate way. At this point the Lottery is finished and there were no changes in the numbers that the Lottery had reported to the board previously. The financials show that the Lottery's sales were up \$20.6 million versus FY18 and \$90.2 million greater than FY17 sales. Profit for FY19 grew by \$4.3 million over FY18. Commission to retail partners increases by \$1.2 million in FY19 to \$15 million, which was an almost 9% increase.
4. Regarding legislation, the Lottery will be pursuing continuing modernization of our laws. More specifically, we are going to address the ability to accept all forms of applicable retail payments.

This will particularly help with the Dollar General initiative that the Lottery is working on. It will also help with the potential for mobile Lottery as well.

5. The Lottery is also going to seek the commissioning of the Lottery's security staff. This will allow them to enforce our laws and rules around the state. One of the issues that the Lottery faces right now is that local law enforcement and prosecutors a lot of times are not interested in pursuing Lottery cases. The Lottery does get a lot of help from Oklahoma City. They have a detective that takes the time needed to help with Lottery cases. However, he is looking at retiring and it will not be surprising if Oklahoma City replaces him with someone that has the same attitude about helping the Lottery with law enforcement issues. The Lottery is going to pursue trying to get the security staff commissioned so they can do the investigations and work with local law enforcement and local prosecutors so that those who violate the Lottery laws are properly addressed.
6. Mr. Redburn recapped the judgement made in the Hot Lotto / Eddie Tipton case. The Lottery has worked with the Assistant Attorney General and they have filed paperwork in Texas to try to capture land and cash to get back what is owed pursuant to this judgement. If and when that happens the money will be sent to MUSL minus the Lottery's costs. Then MUSL will determine how much will go to the states involved. The Lottery receives a payment of approximately \$160 from Mr. Tipton every one to two months. Mr. Finks stated that there are 14 states involved in the Tipton matter. Oklahoma's "share" is approximately \$75 - \$80 thousand. Mr. Finks is keeping record of his time, Mr. Redburn's time, and the Assistant Attorney General's fee. The Lottery will deduct administrative fees for these services and the balance of the funds will go to MUSL for distribution proportionally to the Hot Lotto member lotteries.
7. Mr. Redburn and Mr. Finks have been responding to requests from the Capital to discuss sports gambling and what can the Lottery do and what the Lottery's participation can be.

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 Audit and Finance Committee met with the auditors from RSM. The committee reviewed the audited financial statements. The audited financial statement is an unqualified opinion. There was no management letter issued. There was a change in how the financials are presented to create a comfort level with the committee regarding the equity section of the balance sheet.
- The committee also met with BKD regarding the internal audit. There were two findings that are immaterial. Both are a low risk level and no further action was determined necessary by the committee.

Mr. Redburn stated that the Lottery has addressed the auditor's concerns and taken the actions recommended.

AGENDA ITEM 6:

REVIEW OF REVENUES, PROFITS, AND BUDGET:

Mr. Finks reported that the FY20 draw sales are down 22% compared to FY19. Mr. Finks explained that the gap in sales during week 16 and 17 is due to a \$1 billion Mega Millions jackpot and a \$600

million Powerball jackpot in FY19. There have not been any significant jackpots in FY20. That has created a deficit in revenue.

| Draw Sales Year to Date: | FY19 | FY20 |
|---------------------------------|---------------|---------------|
| Powerball | | |
| Average Jackpot: | \$177 million | \$91 million |
| Draws above \$200 million: | 13 | 0 |
| Highest jackpot: | \$750 million | \$150 million |
| Mega Millions | | |
| Average Jackpot: | \$263 million | \$120 million |
| Draws above \$200 million: | 21 | 6 |
| Highest Jackpot: | \$1 billion | \$266 million |

Instant Sales Year to Date:

- \$1: -18%
- \$2: +15%
- \$3: +6%
- \$5: -17%
- \$10: +27%

1. FY20 instant sales are up 5.1% compared to FY19. The business is evolving by price point. Overall the picture is good. 5% - 6% is where the Lottery was targeting up until the launch of the \$20 game, which is in 3 weeks.
2. Continuing to grow sales on the instant side and still have to grow the base.
3. If the draw sales weren't in the deficit they are in, the sales would be really strong. A jackpot or two will cure that gap.
4. From a projection of revenue / profit to the State, the Lottery is not recommending any changes. The FY19 total sales were \$241.7 million and the FY20 goal is \$258 million. The FY20 year to date sales are \$77 million. The \$20 ticket launches in three weeks and the Lottery budgeted for that conservatively. The Lottery feels the \$20 ticket will do very well and will probably exceed what the Lottery budgeted for it.
5. 7-Eleven launches on February 3, 2020 and the Lottery is very excited. Their commitment has surpassed any Lottery corporate partner. 7-Eleven will have a 7-Eleven ticket in their PHDs and a 43 inch monitor over their counters advertising the Lottery. There is going to potentially be an advertising campaign at launch that 7-Eleven is going to participate in as well.
6. Mr. Redburn stated that the mockup of the 7-Eleven ticket would be sent to the board but staff provided copies of the tickets to the Board at the meeting. 7-Eleven has asked that the Lottery put a Dr. Pepper logo on the 7-Eleven ticket. There are some legal copyright components yet to be completed. 7-Eleven and Dr. Pepper both have to sign an agreement. The Lottery has received all of the paperwork, signed and sent to Scientific Games for review. Within the game there are 1 million tickets. The player has a chance to win a matching prize provided by 7-Eleven: a Big Gulp, an Icee, or a coffee on a non-winning ticket.
7. There are a lot of potential players that only go to 7-Eleven convenience stores. These potential players don't buy Lottery tickets because the Lottery isn't sold there. But, it will be in a short period of time!

FY20 Total Sales Projections:

FY19 Sales: \$241.7 million

FY20 Budget: \$258 million

FY20 Year to Date: \$77 million

FY20 Sales Projections: "Stay the Course"

Major Business Developments:

- \$20 ticket launch (Dec 20);
- significant retail expansion (Feb 3)

Marketing Initiatives:

- "Feels Like Winning" branding campaign,
- \$20 campaign

Sales Initiatives:

- Bin positioning and bin count growth for \$20 launch;
- Top 25 stores focus;
- \$1 and \$5 coupon campaign;
- corporate store management

Mr. Finks reported on the major chains, the number of stores in the chains, the % of total lottery sales that each chain provides, and discussed FY'2020 developments and next steps to be undertaken.

Following that discussion, he presented FY2020 sales projections and budget projections. Mr. Finks indicated that at the March Board meeting, we would report on the following items:

- Sales Results: Instant, Draw, \$20 game, Retailer Expansion Project
- Legislative Update: Bill Status, Sports Betting Status
- Potential Contracts: Scientific Games (10 year opportunity), 36th and Santa Fe (5 year deal), Internal and External Audit Firms, IT (State-Mandated) Firm

AGENDA ITEM 7:

DISCUSSION AND POSSIBLE ACTION REGARDING THE FY2020 – FY2025 STRATEGIC PLAN:

Mr. Redburn indicated that the strategic plan was discussed at the previous board meeting. The Lottery was asked to look at ways to modify the measures and goals in the strategic plan to help tie more directly to what the Governor has identified as a strategic plan. In the strategic plan the Lottery has outlined exactly what the Governor's plan was but the Lottery did not try to tie to it more directly. Mr. Redburn and Mr. Finks have met with Secretary Mazzei, the OMES budget analyst for the Lottery, and the OMES revenue analyst. The Lottery discussed modifications with the OMES budget analyst that works for Mr. Mazzei and they are happy with the Lottery's measures. The measures added have to do with the type of improvements that the Lottery is making in sales,

profits, and number of retailers. Mr. Redburn pointed out that he stated in the strategic plan, because of Oklahoma’s political climate, the size of Oklahoma, and the competition the Lottery has, it is not possible for Oklahoma to become one of the top ten states in Lottery sales, profits, or number of retailers.

Mr. Yates asked if anyone on the staff would have the capacity or the ability to focus on the per capita idea and compare Oklahoma to the surrounding states.

Mr. Finks stated that Scientific Games has, for the first time, recently hired a pure sales analyst. As part of the contract, the sales analyst is provided to the Lottery and they are able to do that type of analysis.

Mr. Sherry moved to approve the FY2020 – FY2025 Strategic Plan. Mr. Orbison 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 8:

DISCUSSION AND POSSIBLE ACTION REGARDING APPOINTMENT OF BOARD OFFICERS FOR 2020:

Mr. Redburn stated that he had spoken to Mr. Sherry and his recommendation is for the board to reaffirm the current officers for 2020. Mr. Sherry confirmed the recommendation. Mr. Redburn indicated that board members serve until a successor is appointed and confirmed by the Senate. Current members would most likely be expected to be at the March board meeting. If those with appointments ending 1/1/20 were not reappointed, the board would need to reappoint officers to fill the vacated (or soon-to-be-vacated) positions.

2019 Board of Trustees

Chair: Matthew Felty
Vice Chair: Jack Sherry
Secretary: James C. Orbison
Treasurer: Ralph E. “Ted” Blodgett
Trustee: Nevyle Cable
Trustee: Tracey Yates
Trustee: Christy Rawlings

Term End of Current Appointments

Five Year Term, Ending January 1, 2020
Five Year Term, Ending January 1, 2021
Five Year Term, Ending January 1, 2020
Five Year Term, Ending January 1, 2022
Five Year Term, Ending January 1, 2023
Five Year Term, Ending January 1, 2024
Five Year Term, Ending January 1, 2024

Mr. Cable moved to approve the appointment of board officers for 2020. 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 | 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 9:

DISCUSSION AND POSSIBLE ACTION REGARDING APPOINTMENTS TO BOARD COMMITTEES AND APPOINTMENTS OF BOARD COMMITTEE CHAIRS FOR 2020:

Mr. Redburn stated that it is Mr. Felty's decision, as chair, to appoint the board committee chairs and members. Then, the full Board reviews and approves the recommendations as appropriate.

Mr. Felty indicated that he recommended the board reaffirm the current committee chairs and members for 2020.

2020 Nominating Committee

Chair: Jack Sherry

Member: Ralph E. "Ted" Blodgett

Member: Tracy Yates

2020 Government & Citizens Relations Committee:

Chair: James C. Orbison

Member: Matthew Felty

Member: Christy Rawlings

2020 Audit & Finance Committee:

Chair: Ralph E. "Ted" Blodgett

Member: Nevyle Cable

Member: Jack Sherry

Mr. Blodgett moved to approve the appointments to board committees and appointments of board committee chairs for 2020. Ms. Rawlings 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 10:

DISCUSSION AND POSSIBLE ACTION REGARDING BOARD MEETING DATES FOR 2020:

Mr. Redburn referred to the calendar in the board packet. He outlined the need to approve a meeting schedule for 2020 to comply with the law; why quarterly meetings have historically been used; why Tuesday was the historical meeting day; and pointed out the meeting days preferred by management. Mr. Redburn indicated that any days can be selected by the Board to meet.

After discussion, Mr. Felty recommended the following dates:

| | |
|--------------------|------------------|
| March 10, 2020 | June 23, 2020 |
| September 22, 2020 | December 1, 2020 |

Mr. Felty moved to approve the recommended 2020 board meeting dates. 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 | 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 12:

ADJOURNMENT:

Mr. Blodgett moved to adjourn. Ms. Rawlings 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.

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.