STATE OF CALIFORNIA

LOTTERY COMMISSION

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CALIFORNIA STATE LOTTERY COMMISSION MEETING

TIME: 10:00 a.m.

DATE: Thursday, April 26, 2012
PLACE: California State Lottery
700 North Tenth Street
Sacramento, California

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TRANSCRIPT OF PROCEEDINGS

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1	Thursday, April 26, 2012
2	Sacramento, California
3	000
4	ACTING CHAIR KIRTMAN: I'd like to call to
5	order the April 26^{th} , 2012 , Commission meeting.
6	Can we please rise for the Pledge of
7	Allegiance?
8	(The Pledge of Allegiance was recited.)
9	ACTING CHAIR KIRTMAN: Will the secretary
10	please take roll?
11	MS. TOPETE: Commissioner Smolin?
12	COMMISSIONER SMOLIN: Present.
13	MS. TOPETE: Commissioner Kirtman?
14	ACTING CHAIR KIRTMAN: Present.
15	MS. TOPETE: Commissioner Tagami?
16	COMMISSIONER TAGAMI: Present.
17	MS. TOPETE: Commissioner Ahern?
18	COMMISSIONER AHERN: Present.
19	ACTING CHAIR KIRTMAN: Commissioners, does
20	anyone want to suggest changes to today's agenda?
21	COMMISSIONER TAGAMI: If we could just take a
22	minute to welcome our new colleague.
23	ACTING CHAIR KIRTMAN: Absolutely.
24	COMMISSIONER TAGAMI: And nice to have a sworn
25	member twice on our dais with us this morning.

California State Lottery Commission Meeting – April 26, 2012 1 COMMISSIONER AHERN: Thanks. I appreciate it. 2 COMMISSIONER TAGAMI: You're welcome. 3 COMMISSIONER AHERN: Good morning, everyone. 4 ACTING CHAIR KIRTMAN: Thanks, Commissioner 5 Tagami. 6 Do I hear a motion to adopt the agenda? 7 COMMISSIONER SMOLIN: I'll make that motion. 8 COMMISSIONER TAGAMI: Second. 9 ACTING CHAIR KIRTMAN: Will the secretary 10 please call the roll? 11 MS. TOPETE: Commissioner Smolin? 12 COMMISSIONER SMOLIN: Yes. MS. TOPETE: Commissioner Kirtman? 13 14 ACTING CHAIR KIRTMAN: Yes. 15 MS. TOPETE: Commissioner Tagami? COMMISSIONER TAGAMI: Yes. 16 17 MS. TOPETE: Commissioner Ahern? 18 COMMISSIONER AHERN: Yes.

ACTING CHAIR KIRTMAN: The next item on the agenda is Item 5, approval of the minutes.

Are there any corrections?

(No response)

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ACTING CHAIR KIRTMAN: Do I hear a motion to approve the minutes of the March $22^{\rm nd}$, 2012, meeting?

COMMISSIONER TAGAMI: So moved.

	Camornia State Lottery Commission Meeting – April 26, 2012
1	COMMISSIONER SMOLIN: Second.
2	ACTING CHAIR KIRTMAN: Secretary, please take
3	roll.
4	MS. TOPETE: Commissioner Smolin?
5	COMMISSIONER SMOLIN: Yes.
6	MS. TOPETE: Commissioner Kirtman?
7	ACTING CHAIR KIRTMAN: Yes.
8	MS. TOPETE: Commissioner Tagami?
9	COMMISSIONER TAGAMI: Yes.
10	MS. TOPETE: Commissioner Ahern?
11	COMMISSIONER AHERN: Yes.
12	ACTING CHAIR KIRTMAN: The next item on the
13	agenda is the Director's report.
14	Bob?
15	DIRECTOR O'NEILL: Good morning, Commissioners.
16	What I'd like to do today is, I'll have my
17	comments regarding the past-month-or-so's worth of
18	business activity.
19	We're also going to have, after I speak, we'll
20	have Jim Hasegawa provide the Lottery sales report, but
21	also provide us, really, an update on our Lottery
22	business plan.
23	As we're getting ready for our budget meeting
24	in the next two months and to talk about any changes for
25	next year's budget, we thought it would be helpful today

1 to give you a pretty good in-depth look at our products' 2 performance for the year and some of the trends we see in 3 the Lottery business, as well as what we're witnessing 4 here in California. 5 In addition, we're going to continue with our 6 series of presentations by our various departmental 7 directors. As you know, we've -- Commissioner Ahern in 8 the last two months, we've had people providing 9 background on their various units. And today, we're 10 going to have presentations by the HR department, 11 Operations, Internal Audits, and Finance. So that makes up the Director's report for 12 13 today. 14 As far as my presentation -- hold on a second 15 here. What I'd like to do is talk about five major 16 17 topics. 18 First of all, I'll just give you a general 19 business update of last month. 20 I'll talk a little about the Governor's 21 appointments. We've recently had a number of 22 appointments to our management team here and just bring 23 you up-to-date on that. 24 And then also we had an employee survey this year. It is the second year in a row we've had an 25

employee survey. So I just wanted to give you a sense of some of the summary results of that, kind of taking a pulse of the people here at the Lottery regarding a number of major issues, and also management's response to that.

And then this weekend, we're going to be undergoing a major gaming system upgrade. It will actually call for the shutdown of some of the Lottery's processes over Saturday night, into Sunday morning. I just want to talk a little bit about that. And then mention some of the business and product themes for next year, as I mentioned, which Jim will probably be elaborating on more after myself.

I guess the big news for the Lottery industry was the month of March, and particularly the last week.

California just broke all kinds of records that week.

It was the biggest total sales week in our history,

\$249 million. The biggest sales total month for

\$709 million. And we estimate that at least \$217 million was gathered for education that month.

At the really peak period of the week, when it went to \$676 million, at one point we were doing 43,000 transactions a minute. We set an all-time record for the United States in terms of number of transactions. And between the hours, I believe, of 5:00 and 6:00 p.m. that

night, we sold nine and a half million dollars' worth of Lottery tickets.

So our systems held up. I want to thank our vendors and our staff for just a yeoman's job in responding to that.

And we're going to budget two more of those rolls into next year, so...

Just to keep it going.

But basically, we're on track right now to set a sales record for the year, of the highest year in terms of total sales for the Lottery; and we're also on track to send the most money to education that the Lottery's ever sent.

So I'm really proud of our staff and what we're doing, and for some good fortune, too.

One thing we wanted to emphasize, though, we believe across the country, though, the MEGA Millions® jackpot really did bring awareness to Lottery products. And what we're seeing is kind of a halo effect that not only in the big week did we actually sell more of the MEGA Millions® tickets, we actually sold more of all of our products. Maybe it's because the lines were so long, and the people waiting so long, they got bored and they wanted to scratch a couple tickets. But the reality was, there was the halo effect in terms of what was sold that

week. And we're still seeing it subsequent to that, where people got introduced to the ticket, who may have been a casual or new player to the game.

And so the real challenge for us is going to be, how do we engage those new and casual players, and how do we keep them playing our games?

And our goal is to have a lot of people play a little, and have some fun dreaming and winning.

And so part of the strategy we're looking forward to next year in our budget, is really to try to reach out and engage some of the new folks we came in contact with this year, and also other folks who play just a little bit every now and then.

As far as the filling out of our management team here at the Lottery, I've been working with the Governor's office since January, looking at potential appointees. And so two weeks ago -- I guess a week and a half ago on Monday, the Governor announced four major appointments, as I have up here: Our new chief deputy, a new chief counsel, director of Sales and Marketing, and a director of Legislative and External Affairs. Very qualified candidates. We met with all of them, and are very happy about the appointments.

In addition, this week, the Governor announced three more people: Our head of Retailer Recruitment, our

1 manager of Social Media, and a special advisor to the 2 chief counsel. 3 So we have had eight appointments in two weeks 4 here. And we expect just a couple more appointments next 5 week. So basically, our management team will be 6 7 rounded out. We feel good about having a full complement 8 of staff. And that means that I can share the wealth of 9 responsibility of all the things that are happening here 10 at the Lottery. And it really is a pretty dynamic time for us. 11 12 Also, I would like to thank at this point Lisa 13 Hightower, who has been our chief counsel for the past 14 few years. She has really helped me in the transition. 15 I appreciate what she has done for me to get through and to understand the complexities of this business. And 16 I want to thank her for her service. 17 And also, she has agreed to stay on. Our new 18 19 chief counsel is not coming on until June 1st. And we 20 asked Lisa, and she agreed to stay on until the new chief counsel came. 21 22 So thank you for helping the Lottery. 23 MS. HIGHTOWER: You're welcome. 24 (Applause) 25 DIRECTOR O'NEILL: As you can see, this is the

org. chart. And one of the spots I expect to be filled next week is the project management office spot. But we've rounded out the team, and I'll give you more detail on the structure once it's all completed.

For the last two years, the Lottery has contracted with an independent contractor to conduct a survey of our employees. And this year, about 64 percent of our employees participated in the survey. We took these survey results to heart. We've discussed them as a management team, and we've identified a series of responses to them.

And I would like to just summarize some of the major findings today, and then really talk about a few of the actions we plan on taking to respond to what we see out of these findings.

And I think it's really important because it does give us a sense of the pulse of the employees, where we're stronger and where we're weaker. And we definitely have some areas we want to improve in based upon the survey.

One of the first categories was the work I do at the Lottery. And I think it's nice to see 70 percent of the people talking about the Lottery being a great place to work, and roughly the same amount saying, "Hey, I have the work tools and resources I need to do my job."

I kind of think these are a little lukewarm, though.

What I'm used to, in terms of industry best

practices is seeing people up in the high eighties and low nineties in terms of their feeling for their work and their commitment, and saying it's a great place to work. So we would like to see these numbers improve. It's a little bit too lukewarm for us.

As far as the "Role of co-workers," a nice, strong showing in terms of the co-workers committed to doing quality work.

A little less so on, "I feel valued by my work unit."

And then a pretty poor performance in terms of the feeling that "Management addresses poor employee performance in my division." I think that's something, obviously, that kind of sticks out like a sore thumb that we've got to address.

In terms of "Work ethic and recognition," once again, kind of middling responses, fair responses.

"Employees of the Lottery often make the effort to do more than is expected," 60 percent; and "High performance in my unit is recognized," 55 percent.

So, once again, scores that can be improved upon going forward, we believe.

The next area is the area of training: "I have the opportunity to grow and learn at the Lottery."

Again, kind of a lukewarm response.

And then "Staff training and development is a priority at the Lottery," actually, the responses shows we need improvement in that area. People don't feel they're getting the training and development experience that they need at the Lottery.

Next is the "Role of Supervisors and Management," a good score. "I understand what my supervisor expects of me," things are being communicated well in that respect.

And as far as "I have the opportunity to express my views and concerns to my management," also a decent score. So an okay score there in terms of supervision and management.

As far as the divisions and the teamwork goes, there is a high degree of teamwork among divisions at the Lottery. You can see it's a very poor score, about 40 percent.

One of the things I think I've seen since I have been here is that there's been a good deal of silo decision-making amongst the divisions. And one of the things we're trying to do is work on some cross-functional teams and cross-functional groups in

key strategic areas, to get more people involved in decision-making, to get them to buy into the plan, and then to help execute the plan.

Now, also in the communications areas, "I'm satisfied with the communications I received from management about issues that affect me," once again, just a fair response.

In terms of "Employee Benefits and Time off," as far as "the flexibility to work and meet my family obligations," I think a good score there.

Relating to the project management and our project management processes, not so good a score.

And our overall objectives for our three-year plan we have in place, a slipping score. I think people maybe are starting to lose sight of some of the major objectives they've put in place when the RENEW Project started three years ago. So, once again, I need to reinvigorate that.

Just a few of the management responses to the survey that we've built again into our work plan going forward. We really want to continue to enhance the work environment by providing additional tools and opportunities for our people.

And particularly right now, we're focusing on our sales force. We really feel we've got to work with

them to help them have the tools they need, both in terms of business analytics and also the technology they have available to them.

We're also going to strengthen and improve our recognition program. This January, we had a Lottery-wide recognition program, and I actually went out and gave annual awards for service to people, and gave rewards for exceptional performance through the state system. We want to continue with those programs and also add some additional recognition activities this year.

We are developing, right now through our HR division, and Lisa will talk about that today -- Lisa Watson will talk about some of the training programs we're developing.

Most recently, this past month, we had training for our sales supervision -- DSS's, as we call them, sales supervisors -- and that went very well. And we're in the process right now of having a major training for all of our sales folks here in the upcoming month, once again, to provide them additional insights in terms of what we're expecting of them, and some coaching on how to do their work.

And then lastly, really try to clarify and improve and fully communicate supervision and disciplinary policies and procedures. That was one of

the areas that showed up in terms of discipline. And people who weren't performing well being reprimanded by their leadership and being coached by their leadership how to do better.

So we want to make sure everyone understands those, improve those to the point we want them to be, and make sure we communicate those across the organization.

Then in addition to that, I mentioned the cross-functional teams, that's cross-functional within the divisions, but also headquarters and field staff.

When I was out in my visits to our field office in the last couple months, the field was talking about the fact that they didn't feel involved in some of the initiatives, and didn't have input into some of the decisions that they thought they could have helped improved some of the things we did.

The next one is basically developing our baseline policies and procedures. It's never a fun thing to do. And when I came in December, one of the things I asked for was the operations manual. And it hadn't been maintained well and it wasn't complete. So we have a project underway right now to make sure we get a baseline manual, and it has overall Lottery policies. And then within each division, separate desk policies and procedures for large-scale or important functions within

those units.

And then also, one of the things I think we're doing better on, in terms of the survey, was work-life balance, and still try to encourage that within the Lottery in terms of, "Hey, it's a place to come and work hard; but it's also a place that is part of your overall life, and we want you to be a good, healthy, and happy employee." So I think we'll strive to do that while we're also not losing sight of our mission goals and objectives.

Any questions on that employee survey, in terms of the responses? Or you'll just hold to the end, and I'll just answer anything?

(No response)

DIRECTOR O'NEILL: Okay.

Just to make you aware, that shouldn't be "April 29th, 2012," up there. That was an oversight, I think, on the airplane the other day. I'm not sure if that was before or after the Chardonnay.

The gaming system upgrade started in July 2010; and it's actually going to go live this weekend. We will be shutting down service for a period of time on Saturday night. We are having a good, large contingent from our vendor, GTECH, coming in. Our staff has been working very hard, getting the plans for this. And we have a

feeling it's going to go well.

We've got our fingers crossed a little bit; but

I think in terms of pre-planning, we've done all we can;

and each of the divisions has been involved in this and

signed off on it. So we feel we're as ready as we're

going to be.

The system is really a major, major upgrade to what we've got, and puts us in a position to have a very stable platform for the future, which we can add on a whole host of capabilities which people are doing in other states as well as in Europe, that we don't have right now. So it provides for future growth and expansion.

It also gives us right now much faster processing speed, better storage capacity, and allows us to compute some of our orders in realtime, to help our supply chain in terms of getting the orders as fast as possible to our distribution center and getting those orders filled, which is really quite nice.

And finally, just I wanted to forecast some of the product -- business and product themes for next year. Like I said, we'll be coming to you next month with our draft budget for fiscal year 2012-13.

We are looking at putting the \$2 Powerball introduction next year. California has not been involved

in that to this date. And we took a look at it, and we think it fits into our product plan very well for next year.

Our Hot Spot game has been rather flat in terms of how it's been performing, so we want to reinvigorate that.

Our Scratchers® products, as Jim will talk about in a little bit, is going off the charts in terms of performance. And we want to continue to reinforce some of the core games we have, which, really, is our \$5 game; and to make sure that's as strong as possible before we think about doing some things, like introducing even higher price games, such as more \$10 games or a \$20 game, like other states currently have.

The playership expansion I mentioned earlier, that's always a key theme for us.

Retailer recruitment, as I mentioned previously, we really want to focus on that. We have a new director of Retail Recruitment coming in. He starts next Monday. And we're going to have a team dedicated just to recruiting retailers. We really want to do that.

And looking at what some other states are doing right now, like Illinois, we think we can recreate some of the things they've done, and just model their game plan, and do very well in terms of retailer recruitment.

1 We're looking at a loyalty program to continue 2 to add value to our players. 3 And then lastly, we're having an i-Strategy 4 team, because things are changing very fast in the 5 Lottery industry. There is a lot of potential there, and we're not sure where we're going to play or how we're 6 7 going to play. But I think we've got to think about 8 those things, and have those in our pipeline in case 9 we get the opportunity to move more aggressively in this 10 area. 11 So those are the major things right now. 12 Jim is going to talk more about the business 13 performance and some of the implications for our 14 products, but I'll be glad to answer any questions you 15 have, or comments. 16 ACTING CHAIR KIRTMAN: Thanks, Bob. 17 DIRECTOR O'NEILL: Any questions? 18 ACTING CHAIR KIRTMAN: I think we're good. 19 Thanks, Bob. 20 DIRECTOR O'NEILL: Okay. 21 MR. HASEGAWA: Good morning, Commissioners. 22 ACTING CHAIR KIRTMAN: Good morning. 23 MR. HASEGAWA: I'm going to present to you an 24 update on our sales performance from July 1st, 2011, through April 14th. And that will represent the first 25

41 weeks of this current fiscal year. 1 2 Sales are over \$3.4 billion, representing an increase of 28.5 percent over the same period -- the same 3 4 first 41 weeks of the fiscal year, last year. 5 You might recall at the last Commission 6 meeting, I reported that sales were just running at 7 21 percent above last year's pace -- last month. 8 Our sales currently stand at 103 percent of our 9 year-to-date sales goal. And all of our products, except 10 Hot Spot, are running ahead of their respective goals. 11 Now, the game that changed the sales landscape, as Bob mentioned, in just a month, is MEGA Millions®. 12 13 As you can see, last month, we reported total 14 sales at \$352 million; and now, sales through April 14th 15 are \$627 million, a \$275 million increase. We've already surpassed last year's full fiscal 16 17 year total in sales for MEGA Millions®. And sales are now about 35 percent up from last year, where they were 18 19 running behind last year's pace when we reported a month 20 ago. 21 And most importantly -- well, a year ago, 22 year-to-date sales were running just slightly below the 23 goal. We're now running at 153 percent of our 24 year-to-date goal.

And how did we do that? With the

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record-breaking jackpot of \$656 million last month definitely helps.

I have a graph that shows how sales grow as we lead up to that record-breaking jackpot.

And interestingly, in 2011, we actually had another big jackpot during month of March as well. So I overlaid both the 2011 series and the 2012 series, so you can see the comparisons.

As you can see, first off, the sales in 2012 represented in red, are consistently higher than the sales we achieved for pretty comparable jackpot levels in 2011. And I think that shows how the current MEGA Millions® advertising strategy is really paying off.

And next, you'll be able to see how sales grow exponentially once the jackpot gets really large. The \$241 million jackpot on March 20th had sales of \$21.5 million. The \$290 million jackpot had sales of \$33 million. Then we go to \$50.5 million for the \$363 million jackpot. And the \$656 million jackpot had sales just over those few days of \$120 million.

So you can see the shape of the curve is not a straight, linear curve, but dramatic growth once we get to the 200-, 300-and-up million-dollar levels.

In terms of SuperLotto Plus®, the news is pretty similar to what I reported a month ago.

SuperLotto Plus® sales continue to be close to last year's levels, and they're above the sales goal for the year.

Essentially, the slide that has been seen in this product category since the launch of MEGA Millions® really has stabilized and has been arrested.

And total sales through April $14^{\rm th}$ stand at about \$340 million.

Similarly, the Daily Games are pretty much the same picture as a month ago. Our sales are 2 percent ahead of last year's numbers, and our year-to-date sales continue to be above their year-to-date goals.

For Hot Spot, Hot Spot currently has a promotion running right now, and it's resulting in weekly sales that are the highest of the fiscal year. And year-to-date sales are running at 96 percent of the goal.

. And the current promotion is slated to run through May 20^{th} .

Scratchers® sales continue to do well for us. They've already surpassed the number that we saw for all 12 months of last fiscal year, just like MEGA Millions®. We're running at about 40 percent ahead of year-to-date sales compared to last year. As a result, sales are running slightly ahead of their goals.

And what's been important is -- in this growth

recently is that the \$5 game is now the largest-selling price point for the past six weeks. Its growth has really taken off. As Bob mentioned, we really need to, to make the foundation product like other lotteries.

Our \$10 game sales have stabilized, and are still doing well; but the \$5 game definitely has grown.

This chart, similar to the one I pointed out last month, the red lines represent our original goals for the year by week. And the dark-blue bars represent actual sales, and the light-blue bars represent what we would project for the remainder of the fiscal year.

And as you can see, since February, weekly sales are averaging above the \$60 million mark. And then again, since January, the actual sales are well above the budgeted amount. And they've been averaging about 9 percent ahead. And that allows us to kind of project how the year will play out.

Speaking of which, in estimating year-end sales, I wanted to provide again the assumptions that are used.

So for Scratchers®, we'll kind of continue to see the trend that was shown on that chart. So weekly sales will range from \$56 million to \$63 million per week. And that's based on advertising flights that are planned for the rest of the year, as well as continued

improvement at retail.

We're seeing highest levels of \$5 game and new-game -- \$5 game activation levels. Retailers are carrying the most \$5 games that they've ever carried before since we've been measuring that.

For MEGA Millions®, when we did this estimate a few weeks ago, we assumed that, well, since we had such a large run at the \$656 million, we would be very conservative, and the largest jackpot we'd get for the remainder of the year is \$75 million. Well, actually, Friday's jackpot is at \$88 million, so probably we'll do a little better than what we anticipated. And then the other games are based on this trend analysis.

So what ends up happening is that all the product categories, except Hot Spot, will look like they'll exceed the annual goals. And this will result in total year sales for the fiscal year being about \$4.4 billion.

I'll put up a little chart there and amplify on us some key highlights.

MEGA Millions® will end the year probably about 30 percent higher than last year, and will be about 35 percent higher than the year-end goal. It will be our all-time high in MEGA Millions®.

Scratchers® will end the year at 40 percent

higher than last year's numbers, and again, will also be slightly above our original projections. Scratchers® will be about a little over \$2.8 billion in sales.

And when you add all this together, at \$4.4 billion, our sales in one fiscal year will grow by nearly \$1 billion -- \$962 million, to be precise. A 28 percent increase.

At nearly a billion dollars increase in sales,

I'd doubt -- that's a feat very few, if any, companies

can really match in one fiscal year. So that's a

tremendous growth that we've been on.

And as a result also, sales will be about \$310 million above what we originally had as our goals for the year.

Ultimately, what's important is the amount that we deliver to our beneficiary, public education. As you can see from these slides, we are definitely exceeding that level. We have a current estimate, as Bob mentioned, of \$1,289,000,000 going to public schools throughout the state. And this will represent \$160 million more than what we provided to education last year.

It also shows that since we had prize pay-out relief through AB 142, its base year was fiscal year 2008-2009, we've delivered this year -- plan to be about

1 \$240 million above that base year due to the prize 2 pay-out relief that we've been granted. 3 And, as Bob mentioned, this will result in the 4 Lottery's best year ever. It will be an all-time high 5 in terms of sales and an all-time high in terms of the dollars that we'll be providing to public education. 6 7 So this concludes the sales report part. I'll 8 be moving into the business and product review. But if 9 there are any questions on the sales report, I'll ask and 10 see if there's any questions now. 11 ACTING CHAIR KIRTMAN: We're good. Thank you. 12 MR. HASEGAWA: Okay. 13 Now, let's turn to a review of our business. 14 And it's essential in the planning process to really see where we've gone in order to project what 15 strategies we need to pursue in the future to continue 16 17 that growth. 18 And so that's the purpose of this. We're going 19 to highlight some of the -- this is some of the analyses. 20 I don't think I want to show you all the charts 21 and graphs that my staff and so forth have put together. 22 We'd be here a really long time. 23 But I want to highlight some of the analyses 24 done, we're going to review some U.S. business trends and

lottery trends. We have data within our state in terms

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of sales, playership, and some of the performance measures.

This allows us to identify some strategic opportunities for us, and also provides a way to preview some of our major initiatives and themes that will be presented next month in the business plan presentation.

So, first off, let's look at the lottery industry. One of this year's big stories in the lottery industry was the change in the Powerball game, going from a \$1 price point to a \$2 premium game. You know, we are watching this very carefully. We're doing some sales analysis; but let me give you first a little background, in case you're not totally familiar with these games.

Powerball started in 1988. It was called "Lotto America" back then, and comprised of just six states. And it evolved into "Powerball" in 1992, as it grew and grew. And now, pretty much most of the lottery states carry this game.

MEGA Millions®, then called "The Big Game," was launched in 1996 with just six states. These states typically were states that bordered the Powerball states; and they created that game because they were, you know, losing sales because players in their state would cross the state borders to buy tickets of Powerball.

This game evolved into the name "MEGA

Millions®" when Ohio and New York joined in 2002.

In January $31^{\rm st}$ of 2010, the two big consortiums had been working for many months to be able to sell each other's games; and on January $31^{\rm st}$, that began.

Now, California and Florida were the two jurisdictions that did not elect to enter into cross-sell.

For us, we had been seeing significant cannibalization of our SuperLotto Plus® sales. MEGA Millions® had not been that many years in existence for us, because we joined a lot later than other states, in 2005. And Powerball, MEGA Millions®, and SuperLotto Plus® would essentially present very three similar games, essentially competing with each other.

We also did some research, and we found out that there wouldn't be a very high level of incremental sales because the games were so similar, and yet there would be significant marketing costs to introduce a brand-new game to the public.

Instead, we concentrated on promoting MEGA
Millions® and its key differentiating point: its bigger
jackpots. And what happened was our MEGA Millions® sales
grew by 20 percent in the 52 weeks after the cross-sell
began. In comparison, our sister MEGA Millions® states

that started selling Powerball, their combined sales just went up 8 percent.

So now, we're in a much better position to possibly add a game like Powerball into our portfolio, because our MEGA Millions® game is much more stronger.

Now, Powerball, of course, has changed its game in 2012. And that actually will better differentiate it from our own MEGA Millions® game and SuperLotto Plus® game. It's at a different price point. It has a much larger starting jackpot. And as you can see, it rolls up to a jackpot of mega proportions very quickly.

This game started on January 15th, and by February 11th, they quickly achieved a \$336 million jackpot.

So now, we feel that, you know, the Powerball game would fit better into our portfolio of games now.

And so in the plan that will be presented next month, you'll see initiatives designed to boost jackpot game sales. And a key issue and a key element of this is, of course, the \$2 Powerball game.

For Hot Spot, you know, by looking at the best practices in other jurisdictions, we see that many other states have higher per capita sales than California by offering a higher prize pay-out, and by having more retailers where people hang out and socialize for a long

period of time, like bars, restaurants, and bowling centers.

This year, Hot Spot did make changes to be more like the game in other jurisdictions, by adding a full complement of all ten spots. And the business plan that is being developed, will address ways to increase Hot Spot sales by adopting, you know, more of these best practices, such as higher prize pay-outs and recruiting more Hot Spot specific locations.

In looking at some of the top lotteries in terms of instant ticket sales, you'll notice that the overwhelming majority of them have their \$5 games, which are indicated by the red bars, as the major element of their product category -- of the instant ticket product category.

\$5 games tend to have the largest share of sales. And it's at the center of the portfolio.

If you compare that to us in 2011, our \$3 price point had the largest share of sales, and it's at the center. We had very few sales above \$5 at that point; and a lot of sales below \$5.

So what you will see next year is, we're exploring strategies and tactics aimed at creating a much more solid foundation with our \$5 game; and much of that is already starting to happen now, as I reported in the

sales report.

We want to move up some of our \$3 game players to the \$5 price point. And we need to continue to grow our \$10 game. So we will be showing these and other elements in the Scratchers® plan brought to you next month.

Now, turning to some of our own internal data, just with Lottery sales and playership data, for Scratchers®, we see a pattern of sales decline during the summer, unless there is a major initiative occurring.

And that's what happened in the summer of 2010. You know, when our prize pay-out restrictions were removed, it allowed us to introduce multiple \$5 games for the first time in our history. And that allowed us -- our sales to grow during that summer period. Otherwise, we've seen summer declines of about 5 to 6 percent, compared to the prior quarter.

So in the business plan presented next month, we'll address this issue.

Our Sales and Marketing division has been working on tactics to create excitement during the coming summer, to mitigate this seasonal trend of softer Scratchers® sales.

As Bob talked about, playership is important. Despite the growth in sales that has taken place over the

last few years, the percentage of California adults who play the Lottery is still much lower than it was five or ten years ago.

This light-blue bar on the chart represents "played any of our Lottery games in the past year." So you can see, about 43 percent of California adults in 2011 played at least one of our Lottery games, at least once during the year.

As you can see, it has been as high as at about the 60 percent level.

The same goes for Scratchers®. Scratchers® has seen tremendous growth, and yet playership levels are still lower than they were five, ten years ago.

You know, to continue to grow sales, the

Lottery must find ways to interest more Californians in

the Lottery, particularly Scratchers® as an impulse

product, and also to make it as convenient as possible

for them to buy a ticket. And that will help us grow our

playership base.

So you'll see in our fiscal year 2012-13 business plan that's going to be presented, various initiatives aimed at increasing participation in Lottery products. And this is the reason why we want to strive to do that.

Marketing plans, developing great products will

not achieve their real potential if they're not available to be bought by consumers in the stores. So the business plan presented next month will include many strategies and tactics to help our sales force work with our retailers to improve the mix of Scratchers® games offered in their stores.

We've seen that retail initiatives, designed to get more retailers to sell what we consider our prescribed mix, our ideal mix of games, actually increase those retailer's sales. A prime example is getting retailers to sell the new games that come out, typically at the first of the month, get them out and display them and sell them as soon as they get them, rather than keep an older game that has a partial pack in the display case.

We've done this, we've demonstrated this through things like a pilot test, conducted in San Francisco, which is six territories. After just a few months, we saw that the weekly Scratchers® sales increased 4 percent, by concentrating our rep's times on those types of key tasks.

Recent analysis showed that just by getting a percentage of our retailers to switch one game, from a game that we don't want them to carry, to a game that we think is a much more ideal game, just getting a

percentage of those retailers to do that, would result in \$16 million more a year sales.

So all these types of retail initiatives really can pay off very handsomely.

And so over the past couple of years, we've been developing a lot of good data and a lot of good metrics in this area. And we're going to be developing additional measures to help the sales force diagnose, you know, what the issue is and how it should be tackled, and where -- what retail locations you need to do this in. And you'll be seeing these types of things in the upcoming plan.

Looking at all businesses, across a lot of different industries, you know, businesses are courting customers with loyalty clubs and reward programs.

You know, Americans hold more than two billion memberships in these types of programs. And this figure keeps growing. It's up 56 percent, the number of memberships held by Americans since 2006.

The gaming category is a relatively large one. It's the sixth largest: 133 million memberships held by Americans that deal with gaming products. And this grew by 26 percent between 2008 and 2011.

You can see that, you know, the average household holds about 18 memberships but are only active

in about eight of them. And as such, you know, we have to make sure and engage our members in any type of club to keep them loyal to the brand.

We have a program that allows players to enter in non-winning Scratchers® tickets, for a second chance to win cash prices. In less than three years, over 1.4 million people have registered to be part of our Replay program.

So since customer loyalty is critical to any business and rewards programs can offer really efficient ways to market to our most loyal customers, we need to seek ways to retain our best customers and keep them happy.

And so you'll see in the business plan presentation next month, strategies to do this and how we can evolve the Replay program into a much stronger rewards program.

You know, as mentioned earlier, keeping customers engaged with a brand is extremely important.

One way the Lottery can do that is through its Web site.

And at the end of February, a new public Web site was launched, and it was demonstrated here at an earlier meeting.

We have some statistics from March to show that our players are more engaged on our new Web site, as the

time they spent on our site went up in March.

But it's just one month of data. And also

remember that one month had the big MEGA Millions®

jackpot. And it's also new. So it might be that people

were kind of checking it out and looking for new things

6 that were on the Web site. And we'll see if this trend

7 continues.

But ultimately, we really need to keep our players engaged; and one way is through our Web site, to get them connected to the brand. And so you'll see some strategies and tactics, as Bob mentioned, designed to do that in the upcoming business plan.

So this presentation was designed to give you just a tip of the iceberg, in terms of both the amount of information that staff has analyzed to help develop insights into our business, and identify opportunities to explore, to grow our business.

So the strategies and tactics that have come out of this process will be presented at the next month's meeting, when we present, for your review and approval, the business plan for 2012-2013.

Any questions on this material or issues?

ACTING CHAIR KIRTMAN: No. Thank you, though.

Great.

MR. HASAGAWA: All right, thank you.

1 DIRECTOR O'NEILL: Thanks, Jim. 2 MS. WATSON: Good morning, Commissioners. 3 My name is Lisa Watson. I'm the deputy director for 4 Human Resources. I have been employed with the Lottery 5 for less than a year, but have over 25 years of human 6 resources experience. 7 The Human Resources division provides services 8 to all Lottery employees in the areas of hiring, 9 examination, payroll, and benefits administration, labor 10 relations, equal employment opportunity, health and 11 safety, and training. The division is organized into six functional 12 13 areas. 14 In the area of classification and pay 15 examinations, those staff handle the hiring process, they handle policy guidance, provide guidance to our managers 16 17 and supervisors regarding discipline, and also administer programs that have to do with classification and employee 18 19 and pay-related issues. 20 On transactions and payroll staff, they handle 21 the payroll and attendance reporting, benefit 22 administration. They also maintain our official 23 personnel files and our leave records. 24 Health and safety staff handle medical-leave

issues due to circumstances where employees are suffering

25

from serious or chronic medical conditions. So they'll handle workers' compensation, reasonable accommodation; they will handle our emergency-team response, or get medical response when there's an event that happens at the work site. They also handle our wellness program.

The labor relations staff are responsible for maintaining cooperative relationships with our unions and our employees, as well as management. They will resolve grievances, handle complaints. They also handle contract interpretation.

Equal employment opportunity provides mediation services. They investigate discrimination complaints.

They work with Lottery management to resolve workplace violence situations, and they also will be managing the upward-mobility program.

Training staff develop and administer internal and external training. They monitor our workplace -- I'm sorry, our workforce and succession plan; and they also maintain employee-recognition programs.

Our current initiatives include organizational changes, new employee on-boarding program, and in-house training development.

Organizational changes have involved the redirection of staff. We still face some constraints when it comes to addressing our business-plan

initiatives. That will be coming up. So we anticipate having more discussions about the need for additional staffing resources.

The new employee on-boarding program will include an online new-employee orientation program, and also a new employee handbook.

In-house training development, we're focusing on that in order to reduce the costs of having external vendors provide training. We're focusing on developing progressive supervision training, EEO training, labor relations. We also have an interview exam workshop that will be used to help allow our employees to progress in their careers. And we're also focusing on communications training.

Our planned initiatives include enhancing our employee recognition program, taking next steps when it comes to our workforce and succession program, and also implementing a new upward-mobility program.

As Director O'Neill mentioned, we had a recognition program this year, where we provided sustained superior accomplishment awards; we also provided 25-year state-service awards. That will be an annual ceremony that we'll have.

We are also going to introduce Lottery service awards. These awards will recognize Lottery staff who

1	have been employed with the Lottery for five, ten, 15,
2	and 20 years. And that will be starting with awards
3	presented in May of this year.
4	We're also going to develop options for daily
5	recognition for our staff.
6	In the area of workforce and succession
7	planning, we're currently in Phase 3 of a four-phase
8	program.
9	Phase 1 had to do with looking at our current
10	environment, analyzing where we have areas of risk.
11	Phase 2 allowed us to decide what areas of
12	focus we would work on.
13	Phase 3 will consist of working with divisions
14	to develop action plans for implementation.
15	Our greatest area of risk right now is in the
16	Sales and Marketing area. So we'll be working with those
17	staff to develop a sales training program.
18	In the area of upward mobility, we'll be
19	implementing a new program that will include mentoring,
20	job shadowing, and career counseling for our staff.
21	That concludes my presentation. I'm happy to
22	answer any questions you may have.
23	ACTING CHAIR KIRTMAN: Any questions?
24	COMMISSIONER TAGAMI: Mr. Chair yes, real
25	quick, if I may.

1	Thank you very much. That was informative.
2	In regards to systemwide, you know, where we
3	stand with claims, disability claims and those types of
4	issues, what's the frequency that you report out on that?
5	Or how would we be able to monitor or get a status of
6	that?
7	MS. WATSON: We maintain records on our current
8	cases. And I can certainly provide you more details in
9	the future on that.
10	COMMISSIONER TAGAMI: And then the Director
11	mentioned work-life balance, which I'd like to hear. I
12	think I could probably use a little work-life balance
13	myself.
14	Is that something that your division would be
15	focusing on as a part of your planned initiatives?
16	MS. WATSON: Yes.
17	COMMISSIONER TAGAMI: So when we look at that,
18	and the Lottery system looks at that from just a health
19	perspective, you know, promoting fitness, promoting diet,
20	a full-lifestyle opportunity as well.
21	Can you give me a little peek inside of what
22	you're thinking, when you say "work-life balance"?
23	MS. WATSON: Sure.
24	COMMISSIONER TAGAMI: Is that just hours
25	worked?

1 MS. WATSON: Yes, what we have in place is a 2 wellness program for our employees. We have an annual 3 health fair that we provide information and guidance to 4 employees on benefits available to them. We have on-site 5 exercise classes that we've started. We also have a plan to provide some lunchtime sessions for staff. 6 7 So we have some things in place now, and we're 8 planning to enhance that program. 9 We have, for example, encouraged staff to walk 10 around the building, and take the stairs and so forth. 11 So that's all part of our wellness program. 12 COMMISSIONER TAGAMI: Thank you. 13 ACTING CHAIR KIRTMAN: Thank you. 14 MS. WATSON: Thanks. 15 DIRECTOR O'NEILL: Thanks, Lisa. MR. MURPHY: Good morning, Commissioners. 16 17 Terry Murphy, deputy director of Operations. 18 Operations is basically a support services 19 unit. We are here purely to support staff, so they can 20 do their jobs, be as transparent as possible. 21 Certainly our organization, Operations, has 22 evolved over time. Currently, primarily it exists as 23 facilities operations and business services. 24 We'll go through each of those. 25 For facilities, the Lottery owns nine district

offices, two warehouses and distribution centers; and then, of course, the headquarters campus. Of those, we own the headquarters campus, one district office, and one of the distribution centers.

Facilities is there just to make sure -whether it's a leased or owned facility -- that they are
operated and maintained as efficiently as possible.

You can imagine, with the completion of this building, moving over, the campus work we have, our folks have been pretty busy.

Moving forward, particularly with the new building, we have three projects that be will think pursuing.

One is, we're implementing a maintenance management system. Basically, a computerized database that includes all of the facilities work here at headquarters. We're also going to be inputting in our various district offices under that. That will help us with many things, one of which is pursuing LEED certification for an existing building.

The building was built with a LEED certification for a new building; but we'll be pursuing existing building LEED certification, just showing that we're being responsible stewards.

In addition, our facilities folks take care of

a variety of projects, whether it's in a district office or a warehouse, for space racking, things like that.

The other unit within Operations, business services: Business services is essentially just an array of different things as you can see from the list here.

We have a fleet, currently 229 vehicles right around the state. Sales staff, security staff primarily assigned to those vehicles. Bring them in to inventory, outfit them as needed, work with the folks who keep them operating and running.

Business continuity plan: Essentially, just "What do we do if bad things happen?"

What's the business continuity plan for the Lottery? We've got a version of that out. We're updating that for new I.T. strategies to do with that.

I see questions coming into Phil's head -- then moving, okay.

Property-control and asset management:

Essentially, every organization owns a lot of stuff,

keeping track of it, making sure you know where it's at.

Records retention and forms: Actually, as we related to the move, when we got ready to move or started thinking about it, a year away, we realized these things probably haven't been kind of kept up as far as keep records for so long. You just -- if you have a space to

1 keep them, they just tend to stay there, they don't go 2 away like they should. So we had a lot of house-cleaning 3 to do. About 25 years' worth. And it worked out real 4 well. 5 But the records-retention unit now being better 6 at reminding folks that it's time to archive those things 7 out. 8 Mail services and reproduction: I think that's 9 pretty self-explanatory. Here, on-site at headquarters. 10 Finally, is my office, in addition to being 11 responsible for the division, I was the project manager for the campus project here -- the building we're 12 13 standing in. That's essentially wrapping up. We're 14 finishing a couple things. But by the summer, we should 15 be pretty much there. Additionally, we're in a neighborhood called 16 17 the "River District," which is a redevelopment area. You probably saw coming in from I-5, the new lightrail 18 19 station and other things going on here. I serve on the 20 board representing the Lottery. 21 Any questions at all about any of that? 22 ACTING CHAIR KIRTMAN: Questions? 23

COMMISSIONER TAGAMI: No, nothing.

ACTING CHAIR KIRTMAN: Thank you.

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MR. ZAVALA: Good morning. Thanks for the

opportunity for me to present to you my office's background.

I'm the Internal Audit chief here at the California Lottery. And I've been here since January of 2008. And I've had an opportunity to work with a lot of the individuals that you see behind us, and I got to know the organization very well since then.

I want to give you a quick overview of the Internal Audits Office. We certainly have a mission and purpose that I want to go over. The real objectivity of the office. Our independence, and where we sit in the organization. Some sample audits that I'd like to go over real quickly. A little discussion about the audit committee. Some of the mandated external audits that have to happen on us from time to time. And just some brief discussion about other activities that we do as well.

The mission of the Internal Audits office is to provide an objective and independent consulting activity that management can rely on from time to time on specific questions they have, whether it's an incident that happens or anything that comes up that needs attention from an objective party.

We strive to do this to make sure that all of our games here at the Lottery are fair, honest, and

secure to the public. So that is a very mission statement that I take to heart.

Are we following the internal audits standards practiced nationally? It's the Internal Standards for the Professional Practice of Internal Auditing.

We don't follow the GAS standards that are practiced by the external audit group. So in case you are familiar with both, that's what we do for internal auditors.

A lot of different individuals rely on the Internal Audits office's publications, whether it's an external audit that we produce through our vendors, or whether it's done by our own Internal Audits ourselves. We have a lot of government agencies that rely on our work.

The role of our office is to not exercise any authority over anybody that we audit. This gives us the free and independent objectivity that we need to carry out our mission.

We do respond to management's needs, and we work with them to make sure that they can achieve their goals. That is certainly a key component of our objectivity and goals for the office.

However, this does not relieve management of any types of objectives or goals that they have. So we

1 provide assurances for them, but we don't do their job. 2 As a chief auditor, I report to the director, 3 the audit committee, and eventually, to yourselves, the 4 commissioners. 5 My group is composed of myself, an audit manager that helps me on the day-to-day operations -- I 6 7 have four audit staff that report directly to the audit 8 manager -- and an office assistant or office technician. 9 And I also have several contract auditors on staff that 10 I call on from time to time, that perform either items 11 that need immediate attention or just routine items that they do throughout the year. 12 13 DIRECTOR O'NEILL: Do you want to advance the 14 slides? 15 MR. ZAVALA: Oh, I'm sorry. I apologize, guys. I'm looking at my own slides. Sorry about that. 16 17 Some of the sample audits that we do, I wanted to give you kind of an idea about these. 18 19 Some are planned audits. And those fall under 20 certain items that the Commission wants us to go ahead and carry out throughout the year. And some might be a 21 22 special audit. 23 For example, a planned audit that we had in 24 last year's audit plan was the Camelot contract. And

we wanted to make sure that we were following all of the

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compliance items within the contract. And we certainly wanted to make sure that we can get feedback to management on that item.

A special audit that came up, was certainly items such as a Website incident that we had a year ago, that we wanted to take a look at and get some immediate feedback to management on that. Certainly that item was a quick audit or a quick review that we wanted to get management's attention to.

But most of our audits fall under categories such as compliance, performance audits, consulting or survey work, and some fact-gathering as well.

Now, the audit committee that was established in 2009, it's composed of three members of the audit -- of the Lottery Commission. Right now, the audit -- or the audit committee charter is composed of two members from the Lottery Commission, and then one member from the Lottery staff. However, we're in the process of re-looking at some of that, with the direction of the executive management. And we might come back with a different charter all together.

The goal of the committee is to go ahead and ensure that we are providing ethical, professional, and efficient audits that the State of California can certainly be assured that we are protecting their

resources.

The audit committee reviews all of our external audit reports and internal audit reports, and approves our audit plan throughout the year.

We have not met as an audit committee since October of 2011. We have had a transition, as you might be aware of, with a new Lottery Commission. So hopefully, we will be making moves in the next couple of months in this area.

Some of the mandated external audits that I spoke of earlier include the State Controller's Office. They are, per the Lottery Act, required to do audits of us on a continuous basis.

We have our annual financial audit that gets done by an independent CPA firm that we hire. That's managed through my office.

We also have draw observations. Those are unique type of audits. All they're doing is making sure that our games are all secure and sound, according to procedures.

And that we also have a biennial security audit that's done. And this is the year that it's going to get done over the last two years. And it looks at just the operations, to make sure that information -- whether it's physical security or any information security -- is

looked at, to make sure that the games are secure and that we provide honesty and fairness in our games.

Some of the other activities that my office performs includes analysis of statistical basis. We have a consultant on-board that handles that type of work. We also are involved in assisting in the certifications of any kind of ball-weighing or draw equipment.

We validate through vendors audits of our Scratchers® games. And we also are involved a lot in just helping out and coordinating any kind of meetings or audit responses to external audits that happen to us from time to time.

We do sit on governance committees that they look to us for any kind of direction, or at least some input into external controls.

So with that, that ends my presentation.

 ${\rm I}^{\, \prime} \, {\rm d}$ be happy to answer any questions.

ACTING CHAIR KIRTMAN: Any questions?

COMMISSIONER TAGAMI: Just one.

Traditionally, has the role been ordered -audit ordered from the Executive Director? Or have you
had audit requests from the Board? Or internal,
actually, from deputy directors in individual divisions
for various functions? How have you ordered that audit
protocol?

MR. ZAVALA: Normally, Commissioner Tagami,

I get a lot of direction through my audit planning
throughout the year. I do get a chance to meet with all
the senior staff.

Through the years, I've had an opportunity to recognize needs of the Commission. I do reach out to -- through the audit committee and through the commissioners, any specific areas of focus that they see risk in that they believe needs to be mitigated.

So certainly to address your question, my direction for auditing comes from you guys specifically. And I also reach out to all the different parties behind me as well.

COMMISSIONER TAGAMI: Thank you.

MR. ZAVALA: Yes.

ACTING CHAIR KIRTMAN: Bob?

DIRECTOR O'NEILL: Commissioners, one of the areas we have to follow up on, now that the Commission has got reestablished and we've got four of our five voting members, and we expect having a fifth voting member shortly; we're going to have to take a look at our committee structure. And I think that's one thing that you all need to give some thought to in terms of what number of standing committees do we want to have, if any, for the Lottery Commission.

We, right now, by virtue of our regulations, have a standing audit committee. And so we have to give some thought, I believe, to the composition of that committee, and taking a look at the duties and responsibilities the way that it's been set up right now. And I think the Commission may want to take a look at the composition, the roles and responsibilities, and maybe even the reporting relationship.

COMMISSIONER TAGAMI: If I may, through the Chair.

I agree. Under general discussion -- I was going to bring this up, but this is probably an opportune time. Perhaps some of the discussion that we've had over the last couple months had been that we would wait to get a full complement of commissioners before doing election of officers, and then also having a discussion with senior staff, perhaps a retreat, for some strategic planning. And that would be a good time to work on the alignment.

In looking at how to structure committees and the frequency of those committees meeting, I think that some of the past tradition, if I'm not mistaken, was the Lottery board had been meeting quarterly, with the opportunity then on the off-months, for other functions to take place, that then could report to a committee of

the whole.

And so, in fact, if it works with this calendar, I could make a suggestion that we could look at perhaps a June election of officers, and then give the new management team time to get settled in, and suggest perhaps maybe a September work session, strategic planning session to, in essence, undertake that work. But in the meantime, address, if appropriate, a work session in preparation for that as a committee of the whole. So, in essence, these meetings have been extremely informative, providing various functions of various Lottery divisions, as well as reports; and then use that as kind of a launching point to do that strategic effort with your guidance and, of course, consistent with what you see your work plan being.

DIRECTOR O'NEILL: It makes total sense to me.

I think the election of officers is necessary, you know,
as soon as possible. And then I think it would be very
good to get into -- this is the last year of our
three-year business plan.

COMMISSIONER TAGAMI: Right.

DIRECTOR O'NEILL: And so I think a good look at what's happening in the industry, as well as where we have come as a lottery is appropriate, to take an in-depth look at it, and then make the goals for the next

1	three years.
2	COMMISSIONER TAGAMI: So if it's appropriate
3	I mean, it's not it's really a future discussion item,
4	but I guess we could make that as a recommendation for a
5	future agenda item, so we could actually adopt that as
6	an action.
7	So if I could, through the Chair, I'd ask the
8	Executive Director to maybe codify that, and then we
9	could look at that in the next agenda, and then actually
10	take action formally, so we can adopt that, if that's
11	appropriate.
12	ACTING CHAIR KIRTMAN: Absolutely.
13	DIRECTOR O'NEILL: Okay, I'll take that
14	direction.
15	MR. ZAVALA: Thank you.
16	ACTING CHAIR KIRTMAN: Thank you.
17	MR. OTA: Good morning, Commissioners, and
18	welcome, Commissioner Ahern.
19	COMMISSIONER AHERN: Thank you. Good morning.
20	ACTING CHAIR KIRTMAN: Good morning.
21	MR. OTA: I'm Michael Ota, Deputy Director of
22	Finance.
23	And I'm going to give you an overview of the
24	Finance division. Basically, a walk through our
25	organization chart as the vehicle to do that. And then

I'll conclude my presentation with an overview of where we are in developing the 2012-13 budget, and our expectations from the Commission in the upcoming meetings.

This is the org. chart, our Finance division.

In the middle, just below me, is the chief of accounting,

Meggie Chan. Meggie is responsible for -- we have two

branches under her: Accounting operations and prize

payments, and then financial reporting. She provides

leadership and guidance for basically the accounting

functions in the division.

And on the right side of the org. chart are three, I'll call them units, although one is a unit of one, that report directly to me. The forecasting, budgets, and revenue collections.

And I'll go through each one of those and give a few highlights of each.

Accounting operations: Basically, they perform the core accounting activities that you would find in any organization. They're responsible for the payments to vendors and contractors. And they handle all of the miscellaneous accounting services for Lottery employees.

The one item on there that's not traditional, is the last one: Tax reporting. And this is a huge responsibility in terms of being responsible for the

1 tax reporting for our 21,000 retailers, and then all of 2 our prize winners. 3 Prize payments: That's pretty descriptive. 4 This organization makes all the prize payments that are 5 not paid out directly by retailers. They average about 6 4,200 payments a month, which comes to about 50,000 a 7 year. Although it sounds like a very production-oriented 8 operation -- much of it is -- but also, they are heavily 9 involved with working with our Security and Law 10 Enforcement Division in addressing the mysterious and 11 wonderful types of, I'll call it, questionable claims that come in. I think they could entertain you for hours 12 13 on some of the things that they've seen, with White-Out, 14 taped-together, photocopied claims. And so it's a very 15 interesting group. 16 It does say, "Initiate payment of Lottery 17 prizes," because we do all the preparation; but the 18 actual warrants that go to the prize winners are paid by 19 the State Controller's Office. 20 COMMISSIONER AHERN: May I ask a question? Ιs this over \$500? Is that your limit? 21 22 \$599. MR. OTA: 23 COMMISSIONER AHERN: \$599? 24 Anything over \$599 comes to you? 25 MR. OTA: Right.

Our financial statement and game accounting group is responsible for preparation of financial statements. And there's an "S" at the end because we're required to prepare financial statements quarterly. And those quarterly financial statements are what initiate the quarterly transfers to education.

It's similar to having to do your income taxes four times a year rather than once a year. And at the end of that process, the IRS or our auditors come in and look at our financial statements annually. It's a requirement of the Lottery Act.

Our quarterly transfers had averaged, over the past five or six years, about \$250 million a quarter. But for the quarter ending December 31st, that included the introduction of our \$10 Scratchers® game; and the quarterly transfer for that quarter was \$336 million.

We're currently preparing the financial statements for the third quarter of the fiscal year, which will include the continued success of Scratchers®, but also the big MEGA Millions® jackpot. And we're expecting to have if not the highest quarterly transfer ever. We're very excited to see what that bottom-line number is going to be.

Our investments unit, I've presented information to the Commission in prior meetings. We have

an investment portfolio of over a billion dollars. Those investments -- we purchase U.S. Treasury securities in order to provide cash flow for our annuity winners. The investment unit manages that portfolio, and they do all the preparation for initiating the payments to those annuity winners.

We have about 2,000 payees that receive annuity payments. And during fiscal year 2011, they received \$203 million of annuity payments.

Quite a bit of the Lottery Act describes the process or rules for assigning winners to assignment companies. And this group also manages that process. It's a very -- a lot of rules.

Cheryl Walls is also a unit of one. She supports the financial reporting group. It is also in the middle bullet there -- she researches and analyzes the governmental accounting principles and standards. She is our watchdog for keeping track of all of the new accounting pronouncements, and making sure that the Lottery addresses those requirements, those changes for our financial reporting.

Again, what I've covered so far is everything under the purview of my chief of accounting.

I'd like to now talk about forecasting, the other unit of one.

Sometimes I get carried away about forecasting because these are very interesting activities here.

Dan provides the sales forecast to set the jackpot levels for both SuperLotto Plus® and MEGA Millions®.

The MEGA Millions® process -- every Tuesday and Friday morning, there is a conference call at 8:15 a.m., our time, where the 12 original MEGA Millions® states and one representative from the states that sell Powerball, cross-sell our tickets, they get on the phone, and they estimate the sales of the upcoming draw.

This Finance group is very detail-oriented.

They'll look at, historically, what the sales have been at similar jackpot levels. They take into account weather -- primarily on the East Coast, not so much California -- and natural disasters. They look at what day of the week holidays fall on and how that impacts sales. So it's a very conservative group. But every Tuesday and Friday, they get together to recommend a jackpot level for adoption.

As you can imagine, when we had the historic \$656 million jackpot, Dan was very involved with trying to figure out, where do we go as California? Because although historically we use that information to figure out what sales will be, we started to hit unprecedented

jackpot levels, where there was no history to base it on. And during this time period, this group that sets the jackpot level wasn't talking only on Tuesday and Friday; they were talking every day about forecasting the level of the jackpot to be advertised, which it ultimately ended up being \$656 million.

Our budget group has two primary responsibilities: Develop the budget, and then administer it during the year. And this is the time of the year where this group is very, very busy, and doing both things at the same time.

I'll talk a little bit more on where we are in developing the Lottery budget at the conclusion of the presentation.

Then the revenue collections group: They collect revenues from our 21,000 retailers. Twice a week, our bank -- Union Bank -- sweeps the retailers' accounts to pull in the expected sales for that particular week.

On average, that process generates about 250 non-sufficient funds each month. And we relate that to 21,000 retailers, that's a pretty good number. But every one of those non-sufficient funds has to be followed up with a personal contact to the retailer for resolution.

They also are involved in financially approving retailers for inclusion in the Lottery network, which involves financial checks on their business history and so forth.

That wraps up my overview of the core responsibilities, kind of a description of what we do.

I also want to talk a little bit about who we are.

I've been with the Lottery for about four years -- coming up on four years. And I want to say that I am blessed with a very dedicated, committed team.

The other thing that I feel very fortunate about, is that, oftentimes, when you're in the finance area or an admin area, it's difficult to connect with the mission of the organization. Sometimes you feel a little bit removed from the business of the organization. But here at the Lottery, I don't know if you could tell by the description of things that we do, but we're integrated with just about everything that goes on at the Lottery, whether it's coming up with a new promotion, supporting our security group.

And so I think those two things go hand in hand. We have a very strong organization that feels very committed to the mission of the Lottery, and it helps us get our job done and improves our work-life balance.

1 And finally, I'd like to talk about where we 2 are in the budget process. So as Jim described, we're 3 right now going through our business plan initiatives. 4 Right now, the actual strategies and tactics are being 5 collected. We're looking at the benefits of those. We're trying to look at what are the resources. 6 7 Lottery staff there are going to be required to 8 deliver those objectives. And that, right now, in the 9 early part of May, we'll be going through that process to 10 prioritize and so forth; so that in May, we'll bring the 11 business-plan initiatives to you, along with the sales goals that we expect from that. 12 13 Based on approval of those business-plan 14 initiatives, then in June, we'll take all of that, put it 15 into the budget, and then bring it to the Commission for the budget to be adopted. 16 17 With that, that concludes my presentation. Do you have any questions? 18 19 ACTING CHAIR KIRTMAN: Any questions? 20 COMMISSIONER TAGAMI: If I may, Mr. Chair? 21 ACTING CHAIR KIRTMAN: Absolutely. 22 COMMISSIONER TAGAMI: I have just one quick 23 one. 24 I kind of made a note to myself, and I forgot to mention it when we were covering Human Resources, but 25

it really does tie into budget, which is just pension obligation. I know that some local municipalities recently had to make payments into PERS because the performance of the portfolio there.

I'm just curious where we stand as far as

I'm just curious where we stand as far as unfunded pension obligation, if any; and then outside of that, where we stand as it relates to any payments that were requested from the system.

MR. OTA: I think I can address your question.

What we, as a part of the State of California, the State Controller's Office actually has -- they do the actuarial work to estimate the pension obligation. And at the end of the fiscal year, they parcel that out to the state agencies.

COMMISSIONER TAGAMI: Right.

MR. OTA: So we get a number from the State

Controller's Office as to our share of that pension

obligation, which we accrue on our books in the financial

statements. But it doesn't go out as an actual -- at

that point, it's not going out as an actual payment.

It's just a reflection of a liability out there, based

on the State Controller's Office --

COMMISSIONER TAGAMI: Estimate?

MR. OTA: Yes.

COMMISSIONER TAGAMI: Okay, so the State

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1
     Lottery is not in a position, though it does have
2
     authority to operate somewhat independently in a number
     of financial areas? The pension obligation, it's really,
3
4
     again, banked with and controlled with the State?
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               MR. OTA: Yes, because it's part of the --
6
     right.
7
                COMMISSIONER TAGAMI: So it's not -- not in a
8
     situation where it could have, quote, unquote, "the
9
     unfunded obligation" different than the State?
10
               MR. OTA: Right.
11
               COMMISSIONER TAGAMI: And, therefore, it
     doesn't have requests to come to it for additional
12
13
     funding from something like PERS?
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               MR. OTA: Yes.
15
                COMMISSIONER TAGAMI: Okay, thank you.
               ACTING CHAIR KIRTMAN: Thank you.
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17
               COMMISSIONER SMOLIN: Actually, Michael, I'm
     just curious, and I apologize, I'm curious what your
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19
     integration with Roberto's division is?
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               MR. OTA: Well, we're on the same floor.
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                COMMISSIONER SMOLIN: And I'm curious if,
22
     Roberto -- I mean, I've seen your mission and purpose,
23
     which I go, is there any -- you know, as far as internal
24
     controls for the Finance division, is there any oversight
     in that relation?
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1 MR. OTA: Yes, well, not on an ongoing basis. 2 However, there are areas that we identify as risk that 3 we would like an internal audit to take a look at. 4 COMMISSIONER SMOLIN: Similar to an ad hoc --5 MR. OTA: We looked at internal audits as a resource to us, to help us, and taking an independent 6 7 look at some of our operations. 8 COMMISSIONER SMOLIN: And then also in the 9 preparation of your budgets and forecast, is that 10 something that also you would also potentially work with 11 the internal -- or an external auditor, to, you know, verify the reliability of those numbers? 12 13 MR. OTA: No. The budget process is really 14 working -- we work very closely with Business Planning 15 and Research to validate the numbers that are going into the budget. And we actually work with each deputy on 16 17 their independent budget, to validate numbers. But we 18 do not take -- we do not do external consultation on the 19 budget itself. 20 COMMISSIONER SMOLIN: Okay. 21 MR. OTA: Yes, actually, I --22 MR. ZAVALA: Oh, I apologize. 23 We do have -- the State Controller that does 24 the quarterly transfer review. 25 COMMISSIONER SMOLIN: Right.

1 MR. ZAVALA: So they do look at our quarterly 2 assessment of funds that are being transferred to education. 3 4 That might be part of the control network 5 you're looking for. 6 COMMISSIONER SMOLIN: Uh-huh. 7 MR. ZAVALA: But certainly, Michael and I have 8 worked over the last four years now together. But 9 usually, it's on a continuous basis, when it comes to 10 either a mandated audit that has to happen or a lot of 11 the other audits that certainly he gets tired of seeing me on his front desk every day. 12 13 COMMISSIONER SMOLIN: Sure, right. 14 MR. ZAVALA: No, but they do pretty much 15 participate in a lot of the assignments. COMMISSIONER SMOLIN: Because I'm -- unless 16 17 I'm misunderstanding, I think you two come in around the same time? 18 19 MR. ZAVALA: More or less, yes. 20 COMMISSIONER SMOLIN: And if there was some 21 overhaul in the system at that point, where external 22 audits -- I know your, you know, primary mission you said 23 was ensuring the games are fair and honest, and how that 24 bleeds over to into the internal operations of the

Lottery itself, if there is any interplay between the two

25

departments.

MR. ZAVALA: Yes, certainly what we get involved in is not only just the actual games themselves, to make sure that the way certainly the Security and Law Enforcement Division carries that program out; but we do get involved with Michael's group, to make sure, for example, if there is an issue about a claim, the way it was processed, we will look at the controls over how come that claim may have been processed incorrectly, and advise him on certain procedures that he needs to either update or change, just to make sure he mitigates any risk.

I don't have one specifically in mind, but certainly we work together with those types of situations.

COMMISSIONER SMOLIN: Sure, sure. And then that relationship then creates a better internal control structure for the external audit, so they can see what kind of working relationship that your department has.

MR. ZAVALA: Certainly.

When I do meet with our independent certified public accountants on an annual basis, we go over all the risks that my office observed throughout the year. And we certainly let them know, along with certainly Michael's group, what they may have observed as well, so

1	they get a good understanding, when they're going through
2	their internal control reviews, so
3	COMMISSIONER SMOLIN: Right. But you would not
4	be considered, in their eyes, an independent
5	MR. ZAVALA: No, and, unfortunately, I can't.
6	They have to perform their own internal control review.
7	COMMISSIONER SMOLIN: Right.
8	MR. ZAVALA: I certainly can supplement it.
9	COMMISSIONER SMOLIN: Sure.
10	MR. ZAVALA: And I can point them in certain
11	directions. But, no, they have to do their own work.
12	COMMISSIONER SMOLIN: Right.
13	MR. ZAVALA: Yes.
14	COMMISSIONER SMOLIN: Okay, very good.
15	DIRECTOR O'NEILL: Roberto, if you could, could
16	you also just talk about the unique relationship of the
17	State Controller's Office to the Lottery, just so the
18	commissioners understand that there is a good deal of
19	additional oversight that we have?
20	MR. ZAVALA: Sure. The State Controller's
21	Office, per the Lottery Act, is required to do continuous
22	auditing on the Lottery.
23	In years past, they have done some of the work
24	on our behalf. We used to have what was called an
25	"internal control review," which is called it is

called a "FISMA audit."

We've gotten away from that. They've changed the FISMA requirements, so my office does that now.

However, what the State Controller's Office will do is they'll -- like, I mentioned earlier, they'll do the quarterly assessments of our transfers to education, to make sure, you know, that the numbers are actually in the books; that we do have transfers occurring according to our standard procedures. But they also do a lot of compliance audits that, for example --

COMMISSIONER SMOLIN: Contracts or --

MR. ZAVALA: They do a lot of contracts audits; but also venture into other areas, not just contracts.

They do look at our -- we're actually having an audit of our draw process right now by them. They observe, certainly at their discretion, what they like to do.

We have input with the State Controller's Office; but at the end of the day, it's their responsibility and their plan. They will carry out whatever they believe is important to them.

They provide the level of assurance to the public, that is independent of us. We certainly have had our challenges. I mean, there's -- that's a fair statement to say, as to what should be audited. But I think we've gotten very good about making sure that we

California State Lottery Commission Meeting – April 26, 2012 1 cover areas. 2 For example, I've shared my audit plans with 3 them and they've shared their audit plans with us. So in 4 the event that they have an upcoming audit, I certainly 5 will not do an audit in the same area. It doesn't make any sense. But at the same time, we try to look at each 6 7 other's work, to say whether they cover enough areas. 8 And if there's any gaps, they would want to look at 9 those. 10 So certainly it's a very unique relationship. 11 I don't think any other states have that type of relationship. However, I think it assures the public 12 13 more so, not by just my office but, rather, someone else 14 that is looking over our shoulders, and giving you certainly the information you need to feel like you're 15 16 transparent. So... 17 COMMISSIONER SMOLIN: Okay. 18 ACTING CHAIR KIRTMAN: All right, any other 19 questions? 20 (No response) 21 ACTING CHAIR KIRTMAN: No? 22 MR. ZAVALA: Thank you. 23 ACTING CHAIR KIRTMAN: Thank you.

MR. OTA: Thank you.

24

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ACTING CHAIR KIRTMAN: Since there are no items

1 under the consent calendar, we'll proceed to the next 2 agenda item. 3 Action Item 9.a, amendment to extend the term 4 of the marketing promotions and point-of-sale services 5 contract. And Leticia Saldivar will make the 6 presentation. 7 Hi. 8 MS. SALDIVAR: Hi. Good morning. 9 ACTING CHAIR KIRTMAN: Good morning. 10 MS. SALDIVAR: Good morning, Commissioners. 11 I'll be presenting both action items this morning. The first action item, 8.a: Should the 12 13 California State Lottery Commission approve an 18-month 14 amendment to extend with Alcone Marketing Group, to continue marketing promotions and point-of-sale services 15 for the California Lottery? 16 17 Staff recommends commission approval of the remaining 18-month extension of the Alcone Marketing 18 19 contract under the same terms and conditions and 20 conditions. This 18-month extension requires no 21 additional funding; therefore, the Alcone total contract 22 expenditure authority will remain at the \$40 million. 23 Some background for you: Alcone Marketing 24 Group provides point-of-sale services to the California Lottery, including all collateral point-of-sale 25

1 materials, permanent and exterior signage, product 2 displays, promotional micro-site designs, and development 3 of consumer promotions. 4 As a result of a formal solicitation completed 5 in 2008, the Commission awarded Alcone a three-year contract, with an expenditure authority of \$40 million. 6 The initial contract term was September 1st, 7 8 2008, through August 31^{st} , 2011. In March 2011, the 9 Commission approved an 18-month amendment of the Alcone 10 contract, extending the term to February of 2013. At 11 that time, Alcone agreed to reduce the markup on specific key point-of-sale reorders. 12 13 A key sales and marketing objective is to 14 increase the number of retailers offering Lottery products to ultimately increase sales. Alcone's retail 15 marketing expertise will play a vital role in assisting 16 17 the Lottery to meet this goal. 18 With your approval of this 18-month extension, 19 the new contract expiration date would be August 31st, 20 2014, with the same total expenditure authority of \$40 million. 21 22 I'd be happy to answer any questions. 23 COMMISSIONER TAGAMI: Mr. Chair? 24 ACTING CHAIR KIRTMAN: Do any of the commissioners have questions or comments on action 25

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1
     Item 9.a?
2
                Commissioner Tagami?
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                COMMISSIONER TAGAMI: A couple quick questions.
4
               What's the unallocated amount remaining in the
5
     contract?
               MS. SALDIVAR: I believe they have -- do you
6
7
     know that?
8
               Elizabeth Wells is the contract manager for
9
     Alcone.
10
               MS. WELLS: [Unintelligible] $15 million.
11
                COMMISSIONER TAGAMI: $15 million unallocated?
12
               MS. SALDIVAR: Yes.
13
               COMMISSIONER TAGAMI: And so it's -- in
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     essence, this was a competitive selection based on quals,
     with a not-to-exceed amount, and then there's PO's done
15
     against the not-to-exceed amount through the duration on
16
17
     the clock?
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               MS. SALDIVAR: Yes.
19
                COMMISSIONER TAGAMI: And that's been extended
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     once, and that will be extended again?
21
               MS. SALDIVAR: Yes.
22
                COMMISSIONER TAGAMI: Okay, so it's possible
     that this could run the balance of the term, and not
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24
     extinguish the full $40 million amount?
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               MS. SALDIVAR: That's what we're anticipating,
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1
     yes.
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               COMMISSIONER TAGAMI: Okay, okay, and -- thank
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     you.
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               MS. SALDIVAR: You're welcome.
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               ACTING CHAIR KIRTMAN: Commissioner Ahern,
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     comments?
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               COMMISSIONER AHERN: No questions.
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               ACTING CHAIR KIRTMAN: Commissioner Smolin?
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               COMMISSIONER SMOLIN: No. No, thank you.
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               ACTING CHAIR KIRTMAN: Does any member of the
11
     public want to address the Commission regarding action
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     Item 9.a?
13
                (No response)
14
               ACTING CHAIR KIRTMAN: Thank you.
15
               Do I hear a motion to approve action Item 9.a,
     the amendment to extend the term of the marketing
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17
     promotion --
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               COMMISSIONER SMOLIN: Moved.
19
               ACTING CHAIR KIRTMAN: -- point-of-sale --
20
               COMMISSIONER TAGAMI: Second.
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               ACTING CHAIR KIRTMAN: -- services contract?
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               MS. TOPETE: Commissioner Smolin?
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               COMMISSIONER SMOLIN: Yes.
               MS. TOPETE: Commissioner Kirtman?
24
               ACTING CHAIR KIRTMAN: Yes.
25
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1 MS. TOPETE: Commissioner Tagami? 2 COMMISSIONER TAGAMI: Yes. MS. TOPETE: Commissioner Ahern? 3 4 COMMISSIONER AHERN: Yes. 5 ACTING CHAIR KIRTMAN: Next, then we have the amendment to extend the term of the Asian Advertising 6 7 contract. 8 MS. SALDIVAR: Thank you. 9 The last item is action Item 8.b: Should the 10 California Lottery Commission approve a 14-month 11 amendment to extend with Time Advertising to continue to provide Asian advertising services for the California 12 13 Lottery? 14 Staff recommends Commission approval of a 14-month extension of the Time Advertising contract under 15 the same terms and conditions to carry out -- to carry 16 17 out the 14-month extension, staff is recommending an increase of the contract expenditure authority by 18 19 \$2.5 million, for a total contract expenditure authority 20 of \$8.5 million. 21 Some background on the Time Advertising 22 contract: As a result of a formal solicitation completed 23 in 2009, the Commission awarded Time Advertising a 24 three-year contract, with an expenditure authority of \$6 million. The initial contract term was September 8th, 25

1	2009, through September 7 th , 2012.
2	Services under the Time contract include
3	creative development and production of television, print,
4	and other advertising materials in Chinese, Vietnamese,
5	Korean, as well as media planning and buying.
6	With this extension, Time has agreed to lower
7	their markup rate from 8 percent, to 7.5 percent on all
8	billings.
9	Most importantly, this 14-month extension will
10	synchronize multiple contracts, including the Asian
11	advertising services contract, on the same cycle.
12	Staff hopes to consolidate procurements, thus,
13	reducing overall effort to develop, evaluate, award, and
14	monitor advertising contracts in the future.
15	With Commission approval, on the 14-month
16	extension, the new expiration date will be November $7^{\rm th}$,
17	2013, with a total expenditure authority of \$8.5 million.
18	This concludes my presentation.
19	And I would be happy to answer any questions.
20	ACTING CHAIR KIRTMAN: Any other commissioners
21	have any other questions or comments on action Item 9.b?
22	Commissioner Tagami?
23	COMMISSIONER TAGAMI: Yes. Thank you,
24	Mr. Chair. I do have one.
25	I guess the question would be, is this we

have a number of these extensions that come, if I may, through the Chair to the Director. And so I guess the question really is, is the planning for a new RFP/RFQs, as relates to competition? Because we see we're doing a number of these extensions.

And then the question -- that's question number one.

Question number two to staff would then be, if the reduction in markups is also inclusive of any agency fees or commissions, separate from markups? Meaning, is part of the fee their placement commission for ad placement?

DIRECTOR O'NEILL: If I could on the first part, and then I'll defer to staff on the second part.

On the first part, the Alcone contract is a separate contract. But we do have four marketing contracts, and one of which is the one with Time Advertising.

Our goal is to get them on the same schedule, so that we can then look at the potential to encourage joint ventures, and be administering maybe two contracts instead of four separate contracts.

It takes our staff quite a bit of time to develop -- you know, to go through the RFP process and all these.

1 And we would like to just basically get that, 2 and consolidate by synchronizing some of these; and then 3 really encourage joint ventures in terms of the 4 competitive part of it. 5 COMMISSIONER SMOLIN: Could you for me -- I'm sorry, Phil -- if you could just tell me what you mean, 6 7 "joint ventures" and if that ... 8 DIRECTOR O'NEILL: Well, say, for example, if 9 we had the Chinese advertising contract going out at the 10 same time as, you know, the African-American contract, 11 potentially they could be consolidated so agencies could 12 bid together on one contract, either by a joint venture 13 or a large agency could go after it, maybe subcontract to 14 another agency to do a portion of the contract. COMMISSIONER SMOLIN: And that would -- is the 15 language that I read here, "consolidate procurements". 16 17 DIRECTOR O'NEILL: That's what we're trying to 18 do, yes. 19 COMMISSIONER SMOLIN: Right. 20 DIRECTOR O'NEILL: And we think it will save 21 time, money, and effort not just in the development, but 22 also through the life of the contract, because our people 23 spend a good deal of time doing the contract-monitoring 24 work. 25 COMMISSIONER SMOLIN: What do you think that

the possibility is of the fact that we now have to have joint ventures or consolidate procurements, or even one agency take over the majority of the work? That it would make it more difficult for smaller firms that maybe are currently handling the contracts to...

DIRECTOR O'NEILL: Well, what we can see potentially in the procurement process, is to give some award in terms of point structure or evaluation criteria, which would encourage those types of joint ventures, and encourage more than just one firm in bidding.

COMMISSIONER SMOLIN: Okay, and then is the contracts being California agencies versus, you know, like...

DIRECTOR O'NEILL: Right now, I'm not sure, legally, if we can restrict it to California agencies. But I think there's always, you know, a potential for instilling some type of language for creating jobs in California.

COMMISSIONER SMOLIN: Okay.

ACTING CHAIR KIRTMAN: Commissioner Ahern?

COMMISSIONER AHERN: Yes, if these people we currently have contracts with show a history of being a great vendor and producing a benefit to the Lottery, is there a point structure we can insert into the RFP, so that they get their past practices, their past results,

their profits returned to the Lottery as a decision-making process for the people looking at the RFP?

DIRECTOR O'NEILL: I think we always want to have a level playing field for any types of RFPs. But I think experience, qualifications, and performance are all types of elements we would have in our RFPs that we would give points to and evaluation criteria to support those.

COMMISSIONER AHERN: I just want to make sure that if they have been a great partner for the Lottery, they get some consideration in that if it goes out to RFP.

DIRECTOR O'NEILL: Yes. And this would be probably 18 months hence, down the road -- or 14 months down the road -- but I think the other part of this, is this would give us time to really give some additional thought to these RFPs, so that we can make them as strong as possible.

COMMISSIONER TAGAMI: So -- if I may through the Chair then. So it's interesting, we're kind of separating this down to three areas; and I think that's a good discussion for us to be having.

Looking at the timing, it's to understand that, roughly, there's advanced time for the staff to draft

RFQ/RFP that's going out; and it's also concurrent with that, yet another item for the Commission to consider when it looks at the regulations, the regulations that we adopt for procurement by way of how RFQ/RFPs are to be conducted; and what standards, if any, we want to adopt by way of local preference, of packaging and procurement to enhance and promote small and local business — or just, I should say, small, you know, business participation. And we want to make sure that we, as we look at our contracting policies, are, you know, within the four corners of the law, and make sure that we do that.

So I think it's interesting of the timing to say that, you know, yes, we would -- you know, the staff would probably need a few months to really coordinate with the appropriate divisions and look at what they're looking for and what's going to be going out, looking at what the policy is, and make sure that what we're doing is aligned and consistent, so there is no delay of service.

And I think some of the guiding principles of, "Do no harm" and "Don't break what's working," right?

DIRECTOR O'NEILL: Right.

1 But I appreciate the answer to my question. 2 And then specifically also, the other aspect 3 that staff responded to. But I think those were all 4 great points that were made, and I think that that's some 5 of the work that we're going to need to start to do here, 6 now that we're getting our feet under us. 7 So thank you. 8 DIRECTOR O'NEILL: Now, on the markup 9 question --10 MS. SALDIVAR: As far as the markup, yes, that 11 will be a savings across all billings, both media and production on the Time Advertising contract. 12 13 COMMISSIONER TAGAMI: Thanks. 14 MS. SALDIVAR: You're welcome. 15 ACTING CHAIR KIRNAN: I had one quick question. MS. SALDIVAR: Sure. 16 17 ACTING CHAIR KIRNAN: How do you measure 18 success for these agencies? What's the -- what's their 19 deliverable, and what are you getting out of them, where 20 you know whether they're doing a good job or not? Is it 21 just budget? 22 MS. SALDIVAR: No, it's not just budget. 23 We are in the process of working on some 24 measures to help us attribute some particular sales to the different markets. 25

1 It's very difficult to attribute sales to each 2 particular market, since we don't ask anybody who is 3 coming up to play, "What are you," et cetera. 4 But we have definitely started, as you heard, 5 with the econometrics model and general market. We're 6 looking at which is the biggest, largest market in 7 expenditures that we have. But we're looking at, and 8 having discussions with the Hispanic market now. 9 we'll look to the other markets in the future. 10 ACTING CHAIR KIRNAN: Perfect. Thank you. 11 COMMISSIONER SMOLIN: I'm sorry, could I say, 12 how are you able to identify the markets if, obviously, 13 you don't do a point-of-sale quiz but you do have 14 demographics of ticket sales and locations, right? 15 mean --MS. SALDIVAR: How we identified the markets? 16 17 COMMISSIONER SMOLIN: Right. 18 MS. SALDIVAR: It's by -- for example, the 19 general market is anybody who speaks and gets information 20 from English-language media for the -- in this case, the 21 Asian market is anybody who is predominantly an Asian

speaker versus if it's Chinese, Korean, Vietnamese, we will advertise to that consumer market.

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The general market is anybody who's Asian. COMMISSIONER SMOLIN: No, okay, I understand.

I guess what I'm asking is, how would you identify the amount of resources that need to be allotted towards a particular aspect or portion of the market? You know, what do you use for your -- for instance, you may, you know, not -- you may have a lot of money that you're leaving on the table in a certain market.

How would you know which markets you should be going after? You must somehow break up who's buying the tickets, where, location. How does that --

MS. SALDIVAR: It's a very complex question, but we definitely look at the demographics and the language usage.

Because with, for example, the Asian market, there's a limited amount of media available to them. So we know the Asian population is about 12 percent of California, total; but we know that, obviously, a lot of the Asian population speaks English and gets their information from English language media.

Is it more of the distribution of budgets, is what I'm hearing? Is that what I'm hearing?

COMMISSIONER SMOLIN: Yeah, I mean --

MS. SALDIVAR: And that's what it is. Because in the Asian language, there is probably a couple of stations that run 24/7. All the other -- you know, for a Chinese or Cantonese Mandarin language.

1 The ones are broken into silos, like, for 2 two-hour increments, whether it be Chinese, Vietnamese, or Korean. So there is a limited amount of media that 3 we can buy in those markets. 4 5 COMMISSIONER SMOLIN: Because with your 6 different cable markets, you've got, you know, certain 7 areas. Like, for instance, in Los Angeles --8 MS. SALDIVAR: Right. 9 COMMISSIONER SMOLIN: -- you could say that 10 this is an area where you could really buy up the cable 11 time; whereas you wouldn't -- you know, obviously, you 12 wouldn't be putting -- you would know specifically who 13 your market was and how much you should allot to that 14 particular market. 15 MS. SALDIVAR: We do get a lot of those insights, definitely, from our agencies. But we do look 16 17 at the census demographics and the language usage --18 COMMISSIONER SMOLIN: "Usage from your 19 agencies," meaning...? 20 MS. SALDIVAR: Time Advertising. 21 COMMISSIONER SMOLIN: Okay. 22 MS. SALDIVAR: And the percentage that they 23 believe. 24 COMMISSIONER SMOLIN: Okay. 25 MS. SALDIVAR: Uh-huh.

ACTING CHAIR KIRTMAN: Any other questions?

COMMISSIONER TAGAMI: Maybe a suggestion that would be helpful: I think Commissioner Smolin's question was really good.

I'm sure those service providers provide a cross-tab or a section of the number of impressions that their buy is going to get. So they really can provide -- this is the sample market for English as a second language for various ethic groups; and then, in essence, how they target, and what their suggestions and recommendations are for that spend.

And so it's interesting, I think -- it leads us to, what is our cost per impression in the general market, versus our cost per impression for the -- all other markets, English-as-a-second-language markets.

So perhaps, maybe just as an informational item, we could at a future meeting get that included in our material, just so we could have a snapshot, and have a better understanding of how it's done. Let's address the commissioner's question on cost allocation.

But with that, if the Chair will entertain that, I would make a motion.

ACTING CHAIR KIRTMAN: First, let me ask, does any member of the public want to address the Commission at this time regarding action Item 9.b?

	California State Lottery Commission Meeting – April 26, 2012
1	(No response)
2	ACTING CHAIR KIRTMAN: Do I hear a motion to
3	approve action Item 9.b?
4	COMMISSIONER TAGAMI: So moved.
5	COMMISSIONER SMOLIN: Second.
6	MS. TOPETE: Commissioner Smolin?
7	COMMISSIONER SMOLIN: Yes.
8	MS. TOPETE: Commissioner Kirtman?
9	ACTING CHAIR KIRTMAN: Yes.
10	MS. TOPETE: Commissioner Tagami?
11	COMMISSIONER TAGAMI: Yes.
12	MS. TOPETE: Commissioner Ahern?
13	COMMISSIONER AHERN: Yes.
14	ACTING CHAIR KIRTMAN: Next on the agenda is
15	thank you.
16	Next on the agenda is the Commissioners'
17	general discussion.
18	Do any of the commissioners have anything
19	they'd like to bring up at this time?
20	COMMISSIONER SMOLIN: I'd just like to start
21	by well, first and foremost, thanking Lisa for her
22	service. We just started working together.
23	We'll miss you. But we have you through June,
24	if I'm not mistaken?
25	MS. HIGHTOWER: Through the end of May.

1	COMMISSIONER SMOLIN: Through the end of May?
2	Okay.
3	Thanks to Director O'Neil for organizing,
4	again, today's meeting with all the staff reports.
5	I know we have filled some key positions. I
6	don't know if any of the new appointees are here today.
7	I don't know if
8	DIRECTOR O'NEILL: Not yet.
9	COMMISSIONER SMOLIN: Not yet? Okay.
10	I would just ask that at the next we're
11	going to have a continuing round of director's reports,
12	I would imagine?
13	DIRECTOR O'NEILL: I think we're pretty much
14	done with the director reports.
15	We go right into the budget session at the next
16	meeting.
17	COMMISSIONER SMOLIN: Okay, if I could ask that
18	maybe we did have one more director's report, that would
19	provide us with the legislative briefing.
20	COMMISSIONER TAGAMI: That's great.
21	COMMISSIONER SMOLIN: In particular, you know,
22	I'd like to know the potential impact of the bills that
23	are currently in committee right now and their potential
24	impact or their potential impact on the Lottery's
25	long-term strategic plan, knowing that, you know, even

California State Lottery Commission Meeting – April 26, 2012 1 though -- well, we've got Senate bills and Assembly bills 2 right now in committee. And maybe at least for sure 3 touch on those bills, and any other legislative issues on 4 the horizon. 5 DIRECTOR O'NEILL: I'd be glad to update you on 6 any of the major bills that are flowing through the 7 Legislature. 8 And things pick up this time of year. 9 mating season at the capital, so... 10 COMMISSIONER SMOLIN: Well, and the timeliness, 11 I think, is upon us, because we may have something at the May meeting because at the end of June, they're going to 12 13 be in recess. So it would be, I think, timely to get that done before that happens. 14 DIRECTOR O'NEILL: Okay, be glad to. 15 COMMISSIONER TAGAMI: Great suggestion. 16 17 ACTING CHAIR KIRTMAN: Anyone else? 18 COMMISSIONER AHERN: Thank you. 19 I just want to say, it's a privilege to join 20 such a distinguished group. 21 I want to compliment the Lottery's staff that

I want to compliment the Lottery's staff that has welcomed me so well in the briefings that I have received. And it's just very impressive to see everyone working together and helping me out, making me feel comfortable. So thank you very much.

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California State Lottery Commission Meeting – April 26, 2012 ACTING CHAIR KIRTMAN: Commissioner Tagami? COMMISSIONER TAGAMI: Good. ACTING CHAIR KIRTMAN: Great. Does any member of the public want to address the Commission at this time regarding any item on the agenda? (No response) ACTING CHAIR KIRTMAN: This meeting is adjourned. (Gavel sounded.) ACTING CHAIR KIRTMAN: Thank you. (End of audio recording and end of meeting) --000--

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