

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – January 25, 2006

Sacramento, California

1. Call to Order

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 10:44 a.m. at the California State Lottery Headquarters, 600 North 10th Street, Sacramento, California 95814.

2. Pledge of Allegiance

John Mass led the Pledge of Allegiance.

3. Roll Call

Mass asked Elisa Topete to call the roll.

Commission Members Present:

Commissioner Manual Ortega

Commissioner Loretta Doon

Chairman John Mass

(Commissioner Montes arrived at 12:00 p.m. during discussion of Consent Calendar Item 9c)

CSL Staff and presenters:

Melissa M. Meith, Executive Division

Jim Hasegawa, Marketing Division

Leticia Saldivar, Marketing Division

Tricia Metzger, Sales Division

Mike Doyle, Public Relations

Patt Eberhart, Finance & Administration Division

Bill Hertoghe, Security/Law Enforcement Division

Elisa Topete, Assistant to the Commission

Mary Montelongo, Recording Secretary

4. Consider Approval of the Agenda

Mass asked if any of the Commissioners wanted to make changes to the January 25, 2006 agenda as proposed. Ortega moved to approve the agenda. Seconded by Doon. The motion passed unanimously (3-0).

5. Public Discussion

Mass asked if anyone from the public had anything to discuss. No one had signed up prior to the meeting and no one came forward, so he proceeded to the next item on the agenda.

6. Approval of Minutes

Mass asked if there were any additions or corrections to the October 19, 2005 minutes. Doon moved to approve the minutes. Seconded by Ortega. The motion passed unanimously (3-0).

7. Commission Liaison Reports

Commissioner Doon:

Doon attended the Governor and First Lady's Conference on Women and Families in Long Beach on October 27, 2005. She commended the California State Lottery and GTECH on their exhibit. With respect to the budget, she has been provided monthly updates on the actual expenditures, particularly with respect to revenue. Doon has been briefed on the Lottery's internal and external audit activities. Everything is going fine and there are no issues or significant problems with any of the audits the Lottery is currently going through. As Education Liaison, she reported that staff is working on the PSAs with the education coalition, in particular, the California Teachers Association. Doon was briefed on Assembly Bill 1782, which was introduced by Assemblyman Gene Mullin, in regards to a ballot initiative on how MEGA Millions® dollars will be weighted in terms of how it gets distributed to public education.

Commissioner Ortega:

Ortega received an up-to-date Sales and Expenditures Report from staff. Ortega was briefed on security issues by the new Director of the Security/Law Enforcement Division, Bill Hertoghe. He was also briefed on Item 10(d) as it relates to the Security Director's responsibility to conduct the criminal history checks on potential landlords or individuals the Lottery is going to be leasing buildings or real property from. Ortega was briefed on the merger of GTECH with the Italian firm, Lottomatica. In July 2005, Ortega attended the MEGA Millions draw in Atlanta, Georgia. The primary purpose of the trip was to witness the actual draw and the preparation that goes into the draw itself. He met members of the draw staff from the Georgia Lottery Corporation as well as the auditors from KPMG. Ortega also took a tour of the Scientific Games plant and was impressed with the procedures that are in place to ensure the integrity of the Scratchers®. He was briefed on Senate Bill 1011, introduced by Senator Florez, and Assembly Bill 1782, Assemblyman Mullin's ballot initiative.

Chairman Mass:

Mass was updated on the year-to-date sales for the Lottery as well as the MEGA Millions litigation. He was briefed on the GTECH merger with Lottomatica. Staff briefed him and requested approval on the following contracts: True Green, the landscape maintenance service company for the Lottery; an award to Ross Clark on material handling for a warehouse storage rack system; an update to a Microsoft contract, which is a software assurance annual payment; and an invitation to bid for new Security Guard services. Mass was briefed on Consent Calendar Items 9(a), 9(b), 9(c), and Action Item 10(c). As Marketing Liaison, he was briefed on the new marketing plans for Lotto, Consent Calendar Item 9(d) and Action Item 10(a).

8. Staff Report

a. Business Plan and Sales Update

Hasegawa reported that sales are up \$119 million over last year. Total sales from July to December 2005 were just over \$1.75 billion, compared to July through December 2004 at \$1.63 billion. This is a \$119 million increase, which reflects about a 7% gain over the first six months of last fiscal year. At the current sales pace, if \$1.75 billion was duplicated in the back half of the year, the sales pace would fall short of the 05-06 budget goal of \$3.65 billion. The Scratchers games account for most of the sales gains that have been seen these first six months. Scratchers sales are up \$110 million, 13%, over the same period last fiscal year. The Lottery had about \$950 million worth of Scratchers tickets sold the past six months, versus \$841 million last fiscal year for the same period. For the Lotto category, which combines both MEGA Millions and SuperLOTTO Plus®, it is also up \$18 million over last year, a 3% increase. The other two product lines show slight decreases. The daily games are down about \$4 million and Hot Spot is down about \$5 million.

The Scratchers games had sizable sales increases, with the biggest gains coming from the \$3 products, which increased by 26% in this current fiscal year over the first six months of last fiscal year. The \$2 product increased by 12% and the \$1 and \$5 games are fairly similar for each fiscal year during the first six months. The most popular \$3 games include many extended play Scratchers, particularly Crosswords, but also Bingo. These particular games offer a lot of play value to the Scratchers player because while other games have a 30 second experience, the extended play games offer a 5–10 minute experience. Hasegawa stated that the \$2 games product category increased, as part of the business plan. Staff added features that were very popular in some of the other games and brought them to the \$2 product line to increase their sales. Larger multipliers have been added to the games, such as “10 x the Money,” and the very popular “7’s” theme.

The extended play games represent about a quarter of all Scratchers sales. Add the other \$3 games at a little over 19% and that accounts for about 45% of all Scratchers sales. The \$5 games are about 15% and the \$1 and \$2 games are about 20% a piece.

The MEGA Millions game was introduced in June, but it takes more than just the launch effort to build a new brand. Staff presented the other programs occurring during the first six months of the fiscal year to promote the new game as well as showing results of these efforts. The MEGA Millions introductory ads were designed to build awareness, stating that the California State Lottery was introducing a new big game with big jackpots, so the tag line was “It’s Mega Big.” Additional marketing and advertising efforts are needed to do more than just introduce the game. The new ad campaign is designed to build an emotional bond between the consumer and the brand because that’s what leverages sales. The idea is to get the viewer to think and dream about what they would do if they won. Ultimately, the new

campaign is designed to increase purchase intentions and playship within MEGA Millions.

Leticia Saldivar, Chief of Consumer Marketing and Advertising, presented to the Commission the ad campaigns that are in different markets to represent the diverse populations within California, such as the African-American Community, the Asian market with ads in Chinese, (both Mandarin and Cantonese) Korean and Vietnamese, the Hispanic market and the General Market (ads were shown to the Commission representing these markets).

On November 15, California had its first MEGA Millions winner with a jackpot of \$315 million. Mike Doyle, Manager of Customer Service and Video Unit, went over the details of that event. Within hours of the draw, staff knew that one ticket had the winning numbers and that it had been sold at Rainbow Water and Gifts in Anaheim. The owner, Guadalupe Cordova, learned that she had earned a \$1 million bonus for selling that winning ticket. The store was surrounded by eight live camera trucks operating as well as print reporters and print photographers, prior to 8:00 a.m. John Bridegroom, Santa Ana Lottery Sales Manager, and Bob Vonada, District Sales Supervisor, were busy working with reporters and preparing the store, while the Cordovas' were dealing with the news media, doing one interview after another. Judy Perez, the District Sales Representative for that store, was doing everything she could to keep the store running. On November 17, reporters and photographers heard rumors that the winners were at a Kaiser facility in Garden Grove. The winners finally came forward and were directed to the Santa Fe Springs District Office. The group was quickly dubbed "The Lucky 7," and agreed to a press conference. The parking lot quickly filled with television live camera trucks and reporters, representing the Asian, Spanish, and English language. The producers from the Today Show, Good Morning America, and The Early Show worked with staff to find the most efficient and effective way of getting the winners on those shows. The following Monday morning, a shoot was set up at the Hilton Hotel in Anaheim and the winners were able to appear on all three network shows by changing the feed from one to the other. KCAL, the Lottery's network station for the Big Spin in Los Angeles, sent three live camera trucks to the scene of the press conference to telecast the press conference live. It was a very exciting time for the California State Lottery.

Hasegawa stated the wonderful publicity of the winners, plus the launch of the new ad campaign, has had a very positive impact on MEGA Million's sales. For the draws since November, sales have increased compared to draws of similar jackpots in June, July, August, September and October.

For jackpots between \$20 - \$50 million, draw sales increased by about 14% on average. For jackpots of \$50 - \$70 million, about 7%, and for the \$70 - \$80 million range, there has been a sales increase of 12%. These trends hold up not just in terms of sales, but also in terms of purchase intentions. Since June, purchase

intentions towards MEGA Millions have grown, from 45% up to 59%. There is room to grow because the level is not to the same extent as SuperOTTO Plus, which sits at a 76% positive purchase intention. (Although, SuperLOTTO Plus has had 15 years of marketing efforts and winners, as well as millions of dollars more of advertising.)

Hasegawa updated the Commission on the product and marketing plan. Originally, in the business plan, staff discussed potentially launching a new game in the second half of this fiscal year after undertaking some consumer research. The research was completed, and it projects very modest sales, but also identified some areas for improvement. Staff tested both a Bingo themed draw game that had both a daily and a weekly component, as well as a four digit daily numbers game. The Bingo themed game did do a little bit better, but sales were not as strong as what staff would have liked to have seen. Instead of launching a new game, staff feels that doing additional marketing efforts against the Lotto category, particularly for MEGA Millions, would be more effective and in the best interest of the Lottery. As a result, the Lottery did one consumer promotion in the fall for MEGA Millions and SuperLOTTO Plus, which was the California Combo Play promotion. The California Combo Play is a very efficient way for a retailer to sell both \$5 SuperLOTTO Plus and \$5 MEGA Millions, in Quick Pick plays. This promotional concept came from Alcone. During this four week promotional period, the Lottery offered two free SuperLOTTO Plus plays when a Combo Play was purchased. This created an increase in sales during this period. About \$3 million in incremental sales were realized over a six week period, which included both the promotional period and two weeks afterwards, resulting in a strong Return on Investment. The Lottery is planning on doing the California Combo Play promotion from March 12 through April 8. Again, two free SuperLOTTO Plus plays will be available to the consumer who purchases the \$10 Combo Play.

Currently, the Lottery is running a MEGA Millions promotion from January 21 through February 17, and staff is adding an extra million dollars to the 5-of-5 prize pool over the four week promotional period. Each draw will have an augmented amount and it will vary based on the amount currently residing in the 5-of-5 pool. It allows bigger prizes to be won at that prize category. Many people are waiting for a very large jackpot and while the Lottery cannot time those things, it can time a promotional offer and that is being run right now.

Mass asked if the additional million dollars was being funded by the Lottery and if it was available to all MEGA Millions players across the country.

Hasegawa advised Mass that this promotion was only available in California. It will only be for the 5-of-5 prize category and it is anticipated that during this promotional period, there will be times when the 5-of-5 pool will be in excess of \$1 million and staff wants to communicate that to the players.

Other promotional concepts are to expand some marketing efforts to group play leaders. It is estimated that group play represents close to 25% of sales. The "Lucky 7" came from a group of co-workers and research found that groups usually tend to come from work place environments and so staff wants to expand the marketing efforts to target those leaders. Typically, in groups, there is one person that organizes and takes the time and effort to talk to people, collect the money, buy the tickets, and make copies of the tickets. The Lottery is looking to expand those marketing efforts to those group play leaders via the Internet (with a kind of special club). This will also boost awareness of big jackpots.

For the \$315 million jackpot, 33% of the adults in California knew that the jackpot was that large. Staff is working on in-store events by doing a retailer promotion in combination with the California Combo Play where retailers have a chance to win \$20,000. For every combo play that a retailer sells, they have an entry into a drawing. The retailer has an incentive to try and push that product. Staff has also completed the distribution and production of the signs that display both games' jackpot amounts and are also developing some additional in-store signage to promote jackpots, above \$150 million.

Hasegawa briefed the Commission on some projects presented last June as part of the Business Plan. When a jackpot gets big, the Lottery's website, www.calottery.com, is often in the top ten sites visited nationwide, but staff would like to add some functionality to make it more robust. Staff will be adding a site search function, which will be available to website users by the end of February. For example, players will be able to type in MEGA Millions or Scratchers in the search field and be directed to the appropriate pages. The Lottery is also looking at having a micro site of key pages in Spanish language for our customer's convenience. The key pages for translation have been identified based on commonly used and popular pages, and staff anticipates a launch some time in the fourth quarter. In terms of workforce planning, retirement and general turnover are issues facing all companies right now. The project plan has been completed and a survey of Lottery staff will be fielded very soon. This will allow Human Resources to identify the classifications and skill sets that are going to be most impacted in the near future allowing the Lottery to develop plans for training and recruitment. It is a very important project, and many businesses are realizing this continuity of workforce is critical.

A very large project is the expansion of the Lottery's retailer network. Tricia Metzger, Director of Sales, described the expansion of the retailer network in order to address the needs of California. The Lottery had a limit on the number of retailers that could be recruited based on a limited number of equipment. In other states, population to terminal density was on average, about 1,200 persons per terminal. Because California's population to terminal density is about 1,900 persons per terminal, staff is interested in doing a saturation test. With the approved budget, the Lottery purchased 12,500 Check-a-tickets, 1,000 20-bin ticket vending machines, 175 Gamepoints, 550 Alturas, 700 Quick Terminals, and 145 Self Service Terminals.

This means that the Lottery has the opportunity to recruit 1,250 new retailers. The Gamepoint is a 20-bin instant ticket vending machine that sells all draw games in one piece of equipment. The Gamepoint is an interesting piece of equipment because it will allow the Lottery to go to new trade styles. These retail outlets have previously declined the Lottery, stating among other objections, that they didn't have enough room or a vendor pays a premium to place equipment. The Lottery does not pay for floor space. With the Gamepoint and the recruitment effort, the Lottery has been able to attract Sears as a retail partner. Sears has already started selling at their "Sears Essential" branded stores and the Lottery will be installed in "main" stores in March. This will add about 90 Sears locations statewide. These locations are in malls and other areas that the Lottery has not been able to breakthrough before because of mall management or restrictions in the mall. It is very exciting to have a new retail partner with this new piece of equipment and the Lottery hopes to build a sales history and entice even more and different types of trade styles with Gamepoint.

The saturation test will be in the Los Angeles area, with a goal of 365 retailers in about 50 zip codes. It will take place in the Santa Fe Springs and Santa Ana district offices. The test encompasses the geographic areas from Inglewood to West Covina, down through Anaheim and back over to San Pedro and Palos Verdes. The District Sales Representatives in those districts have promised that they will meet that goal of 365 retailers by the end of March. This will decrease the population ratio for that specific area from 1,900 to 1,600. Staff will be able to study the effects that it has on existing retailers and get a good number on what reducing the population ratio can mean for California. In addition to the 1,250 new retailers, 365 will be devoted specifically to the saturation test, and 885 other retailers will be recruited statewide. Staff has been working with Tom Stanek of GTECH and he has provided a list of retailers. There are more than 100,000 retailers on the list and the Lottery will target the "cream of the crop" from that list. The District Sales Representatives have their own ideas about who to recruit as well. The 145 Self Service Terminals and the Gamepoints will be devoted specifically to recruiting chain retailers such as Smart & Final, and other bigger box type stores that have rejected the Lottery in the past. GTECH has also developed a business model to predict propensity to play and sales levels for each existing Lottery location. The business model uses sales information of trade styles, zip codes, and trade area to predict sales for existing retailers. Using these goals as a target, staff hopes to achieve a higher sales list. With all these efforts, the Lottery can expect a sales increase in the fourth quarter of at least \$10 million. Meith stated that the California Lottery is the first lottery with whom Sears has entered an agreement to sell this product and that is a tribute to Metzger and her staff.

b. Financial Report Fiscal Year 04-05 and First Quarter 05-06

Eberhart stated that pursuant to Government Code sections 8880.22 and 8880.43, the Lottery is required to make quarterly reports on operations and have the financial statements audited on June 30. This year, the audit was performed by the CPA firm

KPMG and they issued an unqualified opinion. The financial statements are prepared in accordance with generally accepted accounting principals and have already been distributed to the Governor, the Attorney General, the Controller, the Treasurer, and the Legislature. In accordance with Government Code section 8880.65, the Lottery requested \$276 million to be transferred on August 19, 2005, and an additional transfer of \$331,176,296 on November 16, 2005. Additionally, the Lottery has prepared a Comprehensive Annual Financial Report (CAFR), for the year ending June 30, 2005. The Government Finance Officers Association of the United States and Canada, awarded a certificate of achievement for excellence in financial reporting to the Lottery for the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2004. This was the second consecutive year the Lottery has received this prestigious award. In order to be awarded this certificate of achievement, the government must publish an easily readable and efficiently organized comprehensive annual financial plan. This report must satisfy both generally accepted accounting principles and applicable legal requirements. The June 30, 2005 CAFR statements were submitted and the Lottery is hoping that that will also receive a certificate of achievement.

Doon asked Eberhart if in this fiscal cycle, the Lottery will be able to give more money than in the prior year, to education.

Eberhart's staff has done projections based on the previous six months of sales and looked at the Lottery's operating expenses and it is believed that at this time, the Lottery should be able to give education more money than was given as of the June 30, 2005 fiscal year.

c. GTECH

Bill Hertoghe, Director of Security/Law Enforcement, gave background information on the GTECH acquisition. The plan is for Lottomatica of Italy, to acquire the outstanding common shares of GTECH for a price of \$4.6 billion and in doing so, Lottomatica would take controlling interest in GTECH. Lottomatica is owned by a private entity called DeAgostini. DeAgostini owns 58% of the operating shares for Lottomatica. It is anticipated that with this acquisition, the operation of GTECH will remain the same and stay in Providence, Rhode Island, and the current CEO will remain. When there is a change in ownership of a company, it is mandated by the Director of Security to make sure that the company is viable, that integrity exists, and that it is an honest company. In the spring, the Lottery will be sending a team of investigators to Italy to conduct interviews, background investigations, and criminal history research. Staff will be contacting local law enforcement, provincial law enforcement, the National Italian law enforcement, Interpol, and the FBI as part of their independent investigation. Hertoghe has received some interest from the Oregon State Lottery and they also intend to send investigators, and staff will be coordinating with them, that portion of the investigation.

Eberhart explained that in addition to the security investigation, a financial due-diligence analysis would need to be performed. This is a process of research and analysis that takes place prior to a takeover, which is used to assess the risk and implications of the transactions and renders an opinion on the financial and deliverability capabilities of the resulting company. Eberhart advised the Commission that it was a very complex task, and in this case, deals with the acquisition of a United States corporation by a foreign corporation that is 58% owned by a private entity. Additionally, accounting standards are different in Italy than in the United States, which will add to the complexity of the preparation to perform a financial statement. The Lottery has not yet decided on how it will approach this task. Eberhart stated that the Lottery could contract with an outside firm that specializes in performing financial due diligence investigations and this firm would then perform the investigation, research and analysis and prepare a report, outlining the strengths, weaknesses, and risks associated with the GTECH merger. California could participate in a group of other GTECH lottery states facing a similar need for performance of due diligence. There is currently a joint effort being coordinated by the New York Lottery to perform such a fiscal analysis. At this time, staff is still in discussions with Meith to determine what course of action should be taken next.

Hertoghe wanted to clarify to the Commission that the due diligence and Security's background investigations are separate. Security has already started with the background investigation by sending out document requests to GTECH. Some of the documents will be shared as part of the due diligence and a process has already been started of collecting data and organizing a team to go to Italy.

Mass asked if the cost associated with the due diligence, both on the financial side and the operational side of GTECH and its new parent, would be paid for by a consortium of lotteries, by the California State Lottery, or by GTECH.

Eberhart informed Mass that based on information the California Lottery has received from the Texas Lottery, GTECH has agreed to pay for such background investigations and due diligence. Meith added that in the California contract, reasonable, necessary costs of investigations are paid for by the contractor. It is not in the contract that all states have, so the lotteries are trying to band together an official way to do this.

Doon stated she expects that this will modify the audit program for the Lottery Commission financial audit and hopes staff and the Lottery's independent auditors will cover this aspect of it.

9. Consent Calendar

- a. Approval to Amend Two Contracts with Alcone Marketing Group, Inc. to Extend the Term for an Additional Year

- b. Approval to Amend Contract with Lagrant Communications to Extend Term for 8 Months
- c. Approval to Purchase Replacement Vehicles
- d. Amendment of Daily 3 Regulations: Clarifications – Prize Pools and Prize Amount Calculations

Ortega moved to pull 9(c) – Approval to Purchase Replacement Vehicles for discussion. Doon moved Consent items 9(a), (b), and (d) for approval. Seconded by Ortega. The motion passed unanimously (3-0).

Ortega wanted clarification for the public as well as for the Commission, relative to the purchase of the vehicles. He wanted to know if staff was asking the Commission for authorization to order the vehicles from the Department of General Services (DGS).

Eberhart explained to the Commission that staff is currently in discussions with DGS to decide whether or not the Lottery will purchase between 22 and 71 vehicles. The State of California currently does not have a master service agreement, so the cost of the vehicles are unknown. Staff anticipates the discussions to be completed within the next month or so and at that time, this item will be brought back to the Commission to share the exact number of vehicles that are being purchased and the dollar amount that would be required. A master service agreement that DGS enters into takes place in the later part of the calendar year, November, December or in this case, January. It allows for a short window for agencies to procure cars and the automobile industry stops producing cars in the summer because they are bringing new models. Staff is in a situation to actually place an order before it has the authorization to spend the money. In a normal state agency, they could encumber that money at that point and set that money aside to be paid for in a future year, when the actual vehicles arrive. (In the Lottery's case, what has been done in the past is to have the delivery of that take place after the close of the fiscal year to allow that money to be budgeted to the next fiscal year because last May, staff did not know how many vehicles nor the cost of them.)

Ortega was concerned about the number of vehicles that were being ordered and would prefer to see them more staggered, purchasing a certain amount of replacement vehicles each year so that the budget does not take such a big hit. He was not aware that last year no vehicles were ordered for reasons out of the Lottery's control. (Montes arrived at 12:00 p.m.)

Eberhart assured the Commission that the goal in the future is to work with DGS so that the Lottery keeps its guidelines with their review current. There was new legislation passed that gave DGS the responsibility to establish guidelines for state agencies. The established guidelines stated that 120,000 – 150,000 miles was the replacement criteria for vehicles. DGS had discussions with other

agencies to modify those guidelines for their specific needs and that is what is expected to take place within the next 30 – 60 days. The Lottery could have a different criteria for the replacement of its vehicles.

Ortega moved Consent item 9(c) for approval. Seconded by Doon. The motion passed unanimously (4-0).

10. Action Items

a. Amendment of Scratchers Regulations: Technical and Procedural Updates

Hasegawa stated that the Scratchers Regulations represent all Scratchers games in total and were initially adopted in February 1990, because each individual Scratchers game previously had its own set of regulations. The first change that is being proposed is more of a wording change and deals with the fact that previously, terminology such as “off-line games and on-line games” were used to describe some of our products. The general community would think that an on-line game is one that the Lottery would be selling on the Internet, but it is not. Therefore, staff would like to omit those phrases. On Page 4 of the actual regulations, in Item ii – “Definition of Terminal,” on line 5, a clause starts out “Validating on-line and Scratchers tickets.” Staff would like to amend this with, “validating tickets,” because the terminals validate both Scratchers and draw game tickets. On-line and Scratchers would also be struck through. Another area of change deals with the slight change in wording that would allow the Director to approve a new game if the profile had been previously approved. The current regulations refer to the Director as having that authority, but it requires the new profile be identical to the one approved by the Commission. Within the profiles that are presented to the Commission, the game number is one of those items and as such, identical would mean it would have the identical game number and we would not print another game with that game number. Since a new game will have a new name, game number, colors, and may be ordered in different quantities, “identical” is the wrong guideline. The new requirement that the profile be “materially similar,” ensures the purpose of avoiding duplication and inefficiency by vesting the Director with sign off authority on game types that have already been approved by the Commission. The third area of discussion was in terms of the game playstyles and the proposed amendment to the regulation that would eliminate duplication and improve efficiency. There are two places where the Commission approves playstyles for games; one is when each profile is brought to the Commission. The profile lists the playstyles for that specific game. In addition, the Scratchers Regulations has a list of the approved playstyles that have already been approved by the Commission. To eliminate redundancy and duplication, staff is proposing that the game profile be the place where the playstyle of the game is defined and approved by the Commission. The last area is again in the goal of trying to avoid any duplication or references to vending machines. The Scratchers Regulations that are being proposed want to remove those references because they already appear in the general regulations.

Doon expressed to staff that she was in support of this amendment, however, she thought the Commissioners at any point upon request, should be kept informed in the event that a game is released under the same number.

Mass moved that the approval of the amended regulations be adopted, including the amendment to section 2 ii, deleting the phrase "online and Scratchers" and leaving the phrase, "validating tickets" in the definition of Lottery and terminal. Doon moved Action Item 10(a) for approval. Seconded by Ortega. The motion passed unanimously (4-0).

b. Approval of Scratcher's Game Profiles for Games 466, 467, 468, 469, 471, and 472

Hasegawa stated that these games would be launched during April and May of 2006, three games each month. Game 466 is a \$1 game that will feature the popular key symbol match playstyle and players can win the indicated prize by uncovering an "8" in the play area and have a chance of winning up to six times on a ticket. Staff recommends the top prize of \$888 to reinforce the theme of the game and overall odds of winning at 1 in 5.28.

Game 467, "3 of a Kind" is a \$2 game that will have a match three playstyle. Players have a chance to win a prize in each of the six different hands. If a player uncovers 3 of a kind in any hand, they will win the indicated prize for that hand. A separate bonus area will also allow players to automatically win \$25 by uncovering "25" in the "Fast \$25 Spot" play area. If a player finds the specified autowin symbol, they automatically win the prize for that hand. Staff recommends a top prize of \$10,000 and overall odds of winning at 1 in 4.5.

The last game to be launched in April is Game 468, which is a \$3 game that will have a Crosswords playstyle. Players can win a prize by uncovering words in a play area. The prize that the player can win depends on the number of words uncovered by a player on their ticket. A new feature for the "Bonus Word Crossword" is offering another way to win a prize through a "Bonus Word" play area. Players can win the indicated prize by uncovering all the letters for the single word in this particular play area using "Your Letters." The top prize of this game is \$20,000 with overall odds of winning at 1 in 3.37.

Game 469 will be launched in May 2006, and will be a \$1 game that reinforces familiar visuals of summer holidays and activities. This game will have a traditional match 3 playstyle and players can also win \$10 instantly by uncovering a specified symbol in the "Quick \$10 Spot" on the ticket. This game will have a top prize of \$2,000 and overall odds of winning at 1 in 4.89.

Game 471, "20 Grand" will reinforce the money theme appeal by delivering over \$28 million in cash prizes and the ability to win up to ten times on a ticket. This is a \$2 game that will feature a key symbol match playstyle supported by two multipliers. If a player uncovers a "2x" symbol, the prize is multiplied by 2 times

the amount shown and if a "3x" symbol is uncovered, the prize is multiplied by 3 times the amount shown. The top prize for this game is \$20,000 and overall odds of winning are 1 in 4.69.

The last game to be launched in May is a \$5 game that will showcase a top prize of \$100,000. This game will have a key symbol match playstyle and offer 16 chances to win a prize on a ticket. Players have the opportunity to multiply their prize won by either 2, 5, 10, or 20 times by revealing the specified symbols in a separate area on the ticket. Players can automatically win \$50 in the "Fast \$50 Spot" area of the ticket. The game will deliver over \$50 million in cash prizes with overall odds of winning at 1 in 3.39.

Mass commended Hasegawa and his staff on introducing fun and exciting Scratchers games. Mass compared the success of the Scratchers to the games that haven't done as well, such as the daily games and Hot Spot. He asked Hasegawa if an analysis could be done to look at the Lottery's overhead and other expenses that are dedicated to those games, and if it could be better served to do something as profitable, such as the returns that the Scratchers games are bringing in. Hasegawa said an analysis and presentation would be put together for the next Commission Meeting.

Montes moved Action Item 10(b) for approval. Seconded by Doon. The motion passed unanimously (4-0).

c. Approval of Contract Award with Sierra National Construction, Inc. for Construction and Tenant Improvements

Eberhart recommended to the Commission that the Lottery award a contract to Sierra National Construction. This would be a three year contract beginning April 1, 2006 until March 31, 2009, with an option to extend the contract for two additional years. The spending authority would not exceed \$1,090,000. It is not a guarantee and there is no minimum on this contract, and it is only for actual expenses as the Lottery needs them. Because the Lottery owns the Headquarters building, there has been a general construction contract for the maintenance and repairs that are beyond the staff's expertise. This contract would continue to provide tenant improvements, repairs and code compliance, such as seismic and ADA, and construction remodels. An invitation for bid was issued in various publications and a letter of interest was sent out to 91 potential bidders. Proposals were received from four companies. Two were disqualified during the mandatory review. A hypothetical project was used to evaluate the cost of the remaining two vendors and Sierra National Construction submitted the lowest evaluation cost. On December 2, 2005, the Lottery announced the apparent successful bidder and there were no protests. Sierra National Construction is currently used by the Lottery and staff is satisfied by their performance.

Mass asked what was spent last year with Sierra National Construction. Eberhart advised the Commission that costs over the last three years have averaged about \$350,000.

Ortega moved Action Item 10(c) for approval. Seconded by Montes. The motion passed unanimously (4-0).

d. Approval of Addition to General Regulations Regarding Real Property Transactions

Eberhart stated that staff had drafted some regulations regarding real property transactions for the Commission's consideration and feedback. These draft regulations include reiteration of the Director of Security's authority to perform background checks on landlords and sellers of property, similar to that which is performed on Lottery suppliers. Additionally, it authorizes that the Director contact the real estate professionals as necessary for assistance. It establishes terms of agreement for leases and it further authorizes the Director to sign leases and lease amendments, with the advance authorization of the Chair of the Commission and notification to the Commission. It is important to note that the regulations as proposed here, do not include the purchase of real property and would still require Lottery staff to bring forward that recommendation to the Commission. Staff is asking for guidance on how to proceed on drafting the general regulations in this area of real estate property transactions.

Doon asked Eberhart if staff was separating actual purchase of real property versus leasing, which could be a long-term lease of property. Doon also asked if staff was proposing they wave the fact that those long-term leases have to be approved by the entire Commission. Eberhart advised the Commissioner that that was correct. Doon asked the other Commissioners if they were comfortable with this scenario because it does have to go to the Chair first and the Chair would have to approve staff's recommendation. Meith stated that with the Director in conversation with the Chair of the Commission, the Lottery could get approval to enter a lease and move more quickly. Properties have been lost in the past because a landlord does not want to have a promise that a Commission will approve the lease some time in the future; they want someone who will start paying rent immediately.

Ortega had concerns regarding lease negotiations that could cost the Commission \$2 - \$4 million, or whatever the cost may be over the course of a period of time and the Commission, as a whole, has no say in it. Ortega realizes that staff has to make quick decisions on an acquisition or a lease. Researching the area and putting wording into this regulation that would give the Chairperson or the Executive Director authority to do something right away before the piece of property is lost, would allow staff to sign a particular lease. In all other cases, Ortega would like the Commission as a whole to be able to review those and say "Yes, go ahead." It takes some of the responsibility off the shoulders of staff and puts it where it should be and that is on the Commissioners.

Doon moved that Action Item 10(d) be tabled to the next meeting. Seconded by Montes. The motion passed unanimously (4-0).

11. Commissioner General Discussion and Election of Chairman of the California State Lottery Commission for 2006

Mass asked Meith, Acting Director and General Counsel, to review the rules on the running of elections. Meith stated that the California State Lottery Act (Act) provide that "the Commission shall elect annually from its membership, a Chairperson."

Traditionally, the Commission has selected both a Chair and a Vice Chair for each calendar year at its first meeting of the calendar year. (The selection takes place under Robert's Rules of Order, "Any Commissioner can put the name of any Commissioner into nomination and a Commissioner can nominate him or herself to serve as the Chair or Vice Chair, no seconds are required.") The names are accumulated and when the nominations are closed, votes are asked of each person on the nomination as with all Commission votes under the Act, and it takes three votes to take action. Meith asked the nominations for Chair be open.

Montes nominated Mass to continue serving as Chair. Seconded by Ortega. Meith asked if there were any other nominations for the position of Chair. Ortega moved that the nominations be closed. The nomination was approved by a show of hands (3-0) for the continuation of Mass serving as Chair of the California State Lottery Commission.

Meith asked for nominations for the position of Vice Chair. Doon nominated Montes. Seconded by Mass. Meith asked if there were any other nominations for the position of Vice Chair. Ortega moved that the nominations be closed. The nomination was approved by a show of hands (3-0) for the continuation of Montes serving as Vice Chair of the California State Lottery Commission.

12. Scheduling Next Meetings

The next Commission meetings are scheduled for March 15, and tentative dates of May 16 and June 27, 2006, at the Lottery Headquarters in Sacramento. Times for the meetings will be determined.

13. Closed Session

The Commission convened in a closed session at 12:35 p.m. to confer with and receive advice from counsel regarding pending litigation California Coalition Against Gambling Expansion v. California Lottery Commission.

14. Adjournment

Meeting adjourned at 1:07 p.m.