

# CALIFORNIA STATE LOTTERY COMMISSION

Minutes – November 1, 2006

Sacramento, California

## **1. Call to Order**

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 10:05 a.m. at the California State Lottery Headquarters, 600 North 10<sup>th</sup> 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 Rachel Montes  
Commissioner Manuel Ortega  
Chairman John Mass

### CSL Staff and presenters:

Joan M. Borucki, Executive Division  
Linh Nguyen, Executive Division  
Jim Hasegawa, Marketing Division  
Susan Kossack, Executive 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 November 1, 2006 agenda as proposed. Montes moved to approve the agenda. Seconded by Ortega. 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 August 9, 2006 minutes. Ortega moved to approve the minutes. Seconded by Montes. The motion passed unanimously (3-0).

## **7. Commission Liaison Reports**

### **Commissioner Ortega :**

Ortega met with Bill Hertoghe, Director of Security/Law Enforcement, in regards to the progress of the Strategic Plan. Ortega was briefed on the modifications that are being made with Security's procedures relative to the online gaming.

### **Commissioner Montes:**

Montes attended the The Big Spin® tapings in Burbank on September 17 and October 8. Montes also attended the Governor and First Lady's Woman's Conference in Long Beach on September 26 and the 30<sup>th</sup> Annual Asian Business Awards at Universal City on October 6.

### **Chairman Mass:**

Mass was provided a year-to-date update on Lottery sales. Mass was updated on the Debt Collection Services Contract, and an amendment to the SenData Contract to change language and increase funds. Mass was updated on the amendment to the Liebert Global Services Contract to extend and increase funding. As Marketing Liaison, Mass was updated by Jim Hasegawa on the current plans for marketing including a promotion with American Idol and Item 10(a).

## **8. Director's Report**

### **a. Introduction of New Staff**

Joan Borucki introduced Heather Lambert, Deputy Director of Legislative Affairs and Outreach and Don Currier, Chief Counsel. Borucki also announced the promotion of Rob McAndrews as Deputy Director of Communications.

### **b. MEGA Millions® Directors' Meeting Report**

Borucki attended a MEGA Millions® Directors' meeting that was held during the North American Association of State and Provincial Lotteries (NASPL) conference in Chicago. Linh Nguyen, Director of Business Planning, also attended and gave an update on the California Lottery. Potential promotional opportunities for MEGA Millions® were discussed to try and raise the brand of awareness of the game. The NASCAR organization presented an opportunity for the MEGA Millions® consortium to possibly sponsor what is currently the number one car on the Busch Series Tour. Nguyen presented the Commissioners a sample of what the advertisement on the car and driver would look like and advised the Commission of the substantial dollar amount.

### **c. Presentation of the June 30, 2006 Financial Statements with Auditor's Report**

Borucki received the year-end Financial Reports. Borucki reported that it was another good year for the Lottery. The Lottery's assets exceeded its liabilities by \$104.2 million and had another record breaking year in sales that closed out at \$3.58 billion; California's Public Schools received \$1.29 billion at the end of the fiscal year. Borucki reported the first quarter numbers are down from the first quarter of last year. The numbers are down in the Scratchers® area because the Lottery had

less games that were submitted during the quarter, as well as, not having price points above \$3. The Lottery's projections for the year did not account for any kind of seasonality in the purchase of its products. Staff is waiting to see what happens with the next quarter and is taking corrective measures in both some promotional opportunities and the product line to see if there will be a difference.

Other Issues:

As reported previously, the Lottery is performing an ongoing site evaluation for the facility in Sacramento. The facility needs maintenance and restorative work. The evaluation is focused on whether to rehabilitate and stay in the current location, move to another location or find a way to leverage the asset for the Lottery. The evaluation is proceeding along and staff hopes to see a draft report within a couple of weeks.

The Lottery is also undertaking two other efficiency type studies. One is to look at the way the fleet is managed for Sales Representatives and the Security and Law Enforcement Division. The study will determine if there is a more cost efficient way to handle the purchase and maintenance of fleet. The other study requires that a consultant will do a logistic study for the automation and distribution of the Lottery's products, such as Scratchers® and Point of Sale primarily.

Borucki advised the Commission one of the Lottery's third party printers for Scratchers®, Creative Games, had been purchased by GTECH. Staff is in the process of requesting disclosure information, requiring information as to if there are officers of the company changing or if there was anything different that the Lottery would need to go back and re-do background and other due diligence in the Security area.

Borucki thanked staff, especially Tricia Metzger, Director of Sales, for staying on top of new product lines and the distribution of products. The Lottery has packaged up Scratchers® for the holiday season in such a way that people can bulk purchase this product for gifts instead of having to purchase Scratchers® individually. Borucki displayed the Scratchers® gift packs that are a \$60 value and sell for \$50. The gift pack includes \$50 worth of Scratchers®, \$10 worth of SuperLOTTO Plus® QuickPick coupons, and 5 gift envelopes. This is something new and innovative for the California Lottery. The gift packs will be sold at various Lottery locations and staff hopes to have the packs in mall kiosks during the holiday season. In stores, customers will see the gift pack promotion card (shaped as a stocking) hanging from a rack. For security reasons, customers will purchase the packs from the Customer Service Center. Borucki advised the Commission that the packs will begin selling in stores on November 20.

We are initiating a new coupon program as part of the gift pack offering. These coupons are valid for one SuperLOTTO Plus® QuickPick ticket. Scratchers® have been a traditional gift for many players during the holidays. Draw games tickets

were not an easy gift, the recipient may get the gift after the drawing had occurred, taking away all of the play value of the ticket. With the SuperLOTTO Plus® QuickPick coupon, the recipient can redeem the coupon for play at their leisure (two-year expiration). The Lottery will also use the coupons for promotional events during the holidays including radio promotions. The coupons will be used as an ongoing promotional tool throughout the year.

Borucki mentioned that at the last Commission Meeting, the Commission approved the American Idol Scratchers® ticket. The game has started. The Scratchers® are out and there will be an update on the Lottery's website. There will be a lot of marketing support, and the point of sale will begin being posted in mid-November. Borucki displayed a poster board showing the American Idol Scratchers® ticket and said the same type of graphics will be used on the Lottery's website banner. One of the features about the ticket will be the second chance drawings. The drawing will be for logo-type American Idol paraphernalia that won't be available anywhere else. There will be an opportunity to win a chance to attend an exclusive finale party for the evening of the last show as well as a chance to win the grand prize of a pair of tickets to sit in the audience for that last show. Most of the promotional opportunities around the Scratchers® ticket will occur with the beginning of the TV show.

Borucki went over the Jackpot Captain Program that the Commissioners were shown at the last Commission Meeting. The Lottery sent out invitations to 18,000 members that are on the current mailing list and invited them to start registering as Jackpot Captains. There has been a phenomenal response. As the captains register, they will receive kits that include interactive programming to keep track of the members in their playing group and calculate numbers on every member's contribution and potential jackpot winnings. The Jackpot Captains also receive jackpot alerts, winning numbers, and many other opportunities to participate in other kinds of promotional give-a-ways.

#### **d. NASPL Awards**

Borucki announced the NASPL awards won by the California State Lottery. The first one was for the Special Point of Sale materials, which was for the "Next Millionaire," a winner awareness floor mat that the Lottery's partner, Alcone, developed. The next award was for Promotional Premium Items for the "Day at the Beach" kit, which was given to the retailers as a promotional item. For print advertising, the Lottery received the award for retailer signage and merchandising, "More of what you like," again with Alcone. For television advertising, the best coordinated campaign award was received for the BBDO produced commercials, "Snow," "Drawing," and "Softball." Finally, the Lottery received the "Best of the Batch," NASPL's top annual award, for the "Snow" television spot.

### **9. Consent Calendar**

- a. Approval of Contract Award with Honeywell International for Heating, Ventilation, and Air Conditioning (HVAC) Maintenance

- b. Approval of Lease Extension for the San Diego District Office
- c. Approval of Contract Award for Security Guard Services
- d. Approval of Contract Extension for Consumer Marketing Services
- e. Approval of Contract Extension for Retail Point-of-Purchase Services

Montes moved Consent Items 9(a), (b), (c), (d), and (e) for approval. Seconded by Ortega. The motion passed unanimously (3-0).

### **10. Action Items**

- a. Approval of Scratchers® Game Profiles for Games 499, 500, 501, 502, 503, 504, 505, 506, 507, and 508

Susan Kossack presented the Commission the February, March and April Scratchers® game profiles for approval. Starting in February, Scratchers® Game 499 is a \$1 “7’s” themed game with a Match 3 playstyle. The top prize is \$777 and the overall odds of winning are at 1 in 5.43. Game 500 is neon green colored \$2 game called “Green Stuff.” It is a Key Number Match playstyle with the ability to win up to ten times on a ticket. The recommended top prize of this game is \$10,000 with overall odds of winning at 1 in 4.37.

In March, “Double Your Luck” is a \$1 game with a Key Number Match playstyle. Game 502 has four different scenes and each depicts a familiar lucky icon. The four images should encourage players to purchase the series of tickets. Players can win up to five times on a ticket, with a top prize of \$1,000. The overall odds of winning are 1 in 5.27. Game 503, “Winner Take All” is a \$2 game with a unique feature that provides players opportunities to win all of the prizes on the ticket by uncovering and matching the “Winner Take All” number. It is a Key Number Match playstyle with a \$10,000 top prize and overall odds of winning at 1 in 4.62. The final game for March is a popular annuity themed game, Game 504. It is a \$3 game with a Key Number Match playstyle. The top prize is \$500,000, payable in yearly installments over a 20-year period. The odds of winning are 1 in 4.93.

In April, Game 505 will be a \$1 Key Number Match playstyle with a top prize of \$1,000 and odds of winning at 1 in 5.27. The next \$1 game will be Game 506, “Lucky Numbers.” It will feature a Match 3 playstyle and players can multiply the prize two times by uncovering a “2X” symbol in the “Bonus” area. Game 506 will have four different scenes where each scene depicts a lucky number in a familiar series. The top prize for this game is \$1,000, which overall odds of winning at 1 in 5.15.

The last game for April has been divided into two games to cover Northern and Southern California, “Major League Baseball,” Games 507 and 508. The two games will be \$2 licensed property games. Game 507 will represent the Northern teams with the Oakland A’s and the San Francisco Giants, each team

appearing on individual tickets. Game 508, will represent the southern teams with the Los Angeles Dodgers, the Los Angeles Angels and the San Diego Padres on three individual tickets. Staff is in the process of securing one-of-a-kind Major League Baseball prizes that may include trips to Spring Training, season tickets, and attendance to the All Stars Game weekend. Additionally, team specific merchandise prize packages will also be available to players. Games 507 and 508 will be Key Number Match playstyles with a top prize of winning on both games at \$10,000 and overall odds of winning at 1 in 4.17.

Kossack advised the Commission that Game 501, "Bonus Word Crosswords" is materially similar to Game 492 and approval is not required.

Ortega made the motion to approve Action Item 10(a). Seconded by Montes. The motion passed unanimously (3-0).

b. Approval of Contract Amendment for Asian Market Advertising to Extend and Add Funds

Hasegawa said the Lottery has advertising efforts in various markets including the Asian Community, therefore television spots as well as print advertising in Chinese, Vietnamese and Korean are produced. The Lottery had a 4-year contract awarded to Time Advertising (Time) in 2003 with two, one-year options to extend. Staff is recommending exercising both extension options at this time. Through negotiations, Time has offered to produce its production mark-up from 7½ to 7%, as well as reduce the translation fees, "How to Play" brochures and other materials that are translated from English into those languages. It is being reduced by \$25 a page in consideration of the extension options. Throughout the contract, Time has provided excellent customer service and has received very high marks on its annual evaluations. Due to the additional two years of service and the current level of advertising, staff recommends adding \$1 million to the contract expenditure authority, raising the total to \$11 million.

Ortega made the motion to approve Action Item 10(b). Seconded by Montes. The motion passed unanimously (3-0).

c. Approval of Amendment to Regulations for Hot Spot® Game

Linh Nguyen, Director of Business Planning, explained that some deficiencies were found in the current prize structure for the Hot Spot® Game so changes to the regulations are needed. Staff believes sales could be higher if a more stable prize structure was in place so that players would know from one draw to the next, what the prize would be. The changes to the regulations would allow the Lottery to make an initial and irrevocable \$300,000 contribution to a prize fund and 51% of ongoing sales. Combined, it will allow typical prize amounts for all of the levels a player can wager on, except for the 8 of 8 spot, which will be set at \$10,000 and will be pari-mutuel. It will take the place of today's rolling of prize

amounts for that category. The Lottery is going to apply a prize step-down structure in the event the prize fund is insufficient to cover the stabilized prize structure, however it is expected to be a very rare occurrence if ever. The regulations would also require the Lottery to return any funds in the prize fund in excess of \$900,000 back to players as prizes and promotions. Staff also plans to go from a five-minute draw cycle to a four-minute draw cycle in February of next year if the regulations are approved. The overall impact should be an increase in Hot Spot sales and the Lottery's contribution to public education.

Ortega made the motion to approve Action Item 10(c). Seconded by Montes. The motion passed unanimously (3-0).

d. Approval of Regulations for Raffle Games

Nguyen presented the Commission with information on a raffle game, which is new to California, called "Million Dollar Raffle" which is centered on the upcoming St. Patrick's Day. Players will purchase numbers that are issued in sequence with the first number being one and the last number being five million. Raffle numbers will be sold for \$5 each and players purchasing 5, 10, 15, 20, and 25 numbers on a single ticket will receive an incentive discount price of \$4 per ticket. The raffle game will run for six weeks, beginning February 5 and ending on St. Patrick's Day, March 17, when a final drawing will be held.

The game is designed with four preliminary drawings which will be held to build interest in the game to encourage players to purchase tickets earlier, rather than later in the series. The first preliminary drawing will be on February 17, the second on February 24, the third on March 3 and the fourth preliminary drawing will be on March 10. At each of the preliminary drawings, ten raffle numbers will be picked and each of the ten numbers will be awarded a cash prize of \$10,000 each, for a total of \$400,000. The final draw will be on St. Patrick's Day, where at least five numbers and up to ten will be drawn, each of which will receive \$1 million in prizes. The prizes will be cash prizes as opposed to an annuitized prize. The amount of numbers being drawn will depend on the number of sales that the Lottery has or the amount of sales.

The game is important because it fits between the Lottery's lower paying Scratchers® games and daily games as opposed to the very high prize level games in SuperLOTTO Plus® and MEGA Millions®. It provides the best odds the Lottery has ever offered to win \$1 million and is also better than any other state that has offered a raffle thus far. The game is designed with a 47% prize payout, which allows the excess funds to be used to support other games such as higher prize Scratchers® games. Ohio and Pennsylvania have both run successful raffle games, selling in nearly all the jurisdictions that have introduced the games so far and if successful, the Lottery is tentatively planning to launch similar raffle games for the 4<sup>th</sup> of July, Halloween and the next winter holiday season.

Montes made the motion to approve Action Item 10(d). Seconded by Ortega. The motion passed unanimously (3-0).

**11. Commissioner General Discussion**

The Commissioners welcomed the new staff to the Lottery and wished everyone a wonderful holiday season.

**12. Scheduling Next Meetings**

The next Commission meeting is scheduled for January 17 2007, at the Lottery Headquarters in Sacramento. The time for the meeting will be determined.

**13. Adjournment**

Meeting adjourned at 10:55 a.m.