CALIFORNIA STATE LOTTERY COMMISSION

Minutes – February 28, 2007 Sacramento, California

1. Call to Order

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 10:10 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. Mass congratulated Joan Borucki on her appointment as Director of the California State Lottery.

3. Roll Call

Mass asked Elisa Topete to call the roll. Mass mentioned that the Glendale Hilton issue, an item that was listed in the Closed Session, would not be discussed due to the fact that it was dropped off the agenda that was posted on the Internet in error. Don Currier, Chief Counsel, advised the topic could be discussed if it were brought up in another context during the meeting.

Commission Members Present:

Commissioner Rachel Montes Commissioner Manuel Ortega Chairman John Mass

CSL Staff and presenters:

Joan Borucki, Executive Division
Linh Nguyen, Executive Division
Don Currier, Executive Division
Heather Lambert, Executive Division
Susan Kossack, Executive Division
Stacy Matsunami, Executive Division
Bill Hertoghe, Security/Law Enforcement Division
Elisa Topete, Assistant to the Commission
Carla Corcoran, Recording Secretary

4. Consider Approval of the Agenda

Mass asked if any of the Commissioners wanted to make changes to the February 28, 2007 agenda as proposed. Montes moved to approve the agenda. Seconded by Ortega. The motion passed unanimously (3-0).

5. Approval of Minutes

Mass advised that under the Director's Report, Page 3, Item (d), lines 2 and 4, it was noted as 2006-07 fiscal year but should have been 2007-08. Mass asked if there were

any additions or corrections to the January 17, 2007 minutes. Ortega moved to approve the minutes. Seconded by Montes. The motion passed unanimously (3-0).

6. Commission Liaison Reports

Commissioner Montes:

Montes was updated on the Million Dollar Raffle.

Commissioner Ortega:

Ortega was given an update by the Security/Law Enforcement Division (SLED) on the background investigation of GTECH and Lottomatica and the travel necessary to complete the investigation. Ortega was also briefed on the CGI/GTECH acquisition background investigations as well as modifications to security procedures for public meetings. Internal Audits informed Ortega that the Lottery had received a draft report on the Security Evaluation and was in the process of finalizing responses to recommendations.

Chairman Mass:

Mass was given an update on Lottery sales and as Procurement Liaison, followed up with staff on a non-competitive contract with Cambria Solutions to provide consulting services for best practice and organization assessment of the Lottery. Mass was updated on the Million Dollar Raffle and on several joint promotional opportunities as well as the Scratchers® Game Profiles.

7. Director's Report

Joan Borucki introduced new Lottery Staff. Erin Sasse, Assistant Deputy Director of Legislative Affairs and Outreach; Olga Gallardo, Assistant Deputy Director of Corporate Communications; and Daniel Gullahorn, Assistant Deputy Director of E-Communications and Public Relations.

a. Business Plan Update / Review

Linh Nguyen, Director of Business Planning, provided the Commissioners with a draft of the Mission Statement, Vision Statement and Goals that staff is planning to pursue in the Business Plan Development process for the upcoming 2007-08 fiscal year.

Discussion by Commissioners.

b. Raffle Update

Nguyen stated the Million Dollar Raffle Game successfully launched on February 5 and did very well on the first day. Net sales were just over \$12 million and the Lottery was just under 2.9 million tickets sold. Preliminary drawings were held on February 17 and 24 and thus far, four claims had come forward. Sales have declined somewhat, but is consistent with what other lottery states have experienced with raffle games. Sales will start well, then have a low but consistent period during

the middle and then pick up towards the end. Staff is designing marketing efforts which should help take advantage of the push towards the end of the game.

c. Hot Spot® Update

Nguyen reported that the Lottery launched 4-minute draws on February 5. Staff expected a 5% boost moving from 5-minute draws to 4-minute draws and actually saw an increase of 10% for the first two weeks. The next promotion of the game is slated for the end of March. Borucki advised the Commission that Hot Spot® was a game that was trending downward in sales and with the changes, the Lottery is starting to see an improvement.

d. Legislative Update

Heather Lambert, Deputy Director of Legislative Affairs and Outreach reported that new member meetings were still ongoing and the reception is warm with no negative feedback. Senator Margett introduced a bill that would prohibit Lottery funds from being spent on salary and employee benefits. Senator Florez introduced a bill that would prevent the Lottery from conducting or joining an international or internet run lottery. Senator Scott introduced a bill that would replace the use of average daily attendance to compute education funding apportionments with average monthly enrollment. The bill would affect how Lottery funds are calculated for distribution to the districts.

Lottery staff is working with the Assembly Governmental Organization, specifically the Chair, Assemblyman Torrico, on a resolution designating March 5 – 11 as Problem Gambling Awareness Week.

Assemblymember Tran is carrying Assembly Bill 1251 on the Lottery's behalf. The bill is an administration sponsored bill that would resolve the time frame issue that was raised as part of the MEGA Millions® lawsuit during the last year. Some of the language was part of the bill last year that did not pass through the Assembly and the administration is going to sponsor the legislation and help the Lottery through the process and staff hopes it will resolve the issues that the judge has with the timeframe.

There was a hearing with the Senate Governmental Organization Committee on February 27. The hearing dealt with Problem and Pathological Gambling and the social costs. It involved the Lottery, the Office of Problem Gambling, the Problem Control Commission, Horse Racing Board, the Attorney General's Office and the California Council and Problem Gambling. The discussions were regarding unifying the efforts in the state, making sure that all were on the same page, then discussing how the group could expand treatment efforts as well as expand the funding programs in the future. Senator Florez specifically asked the Lottery to research and discuss which types of games are more prone to cause problem gambling when considering approving games in the future.

The Lottery hosted the California Teachers of the Year at a Clippers Game on Saturday, January 20. The event was a joint effort with the Marketing Division who had use of the suite. The five California Teachers of the Year were acknowledged on court at halftime.

Lambert and Erin Sasse met with staff from the Superintendent for Public Instruction in order to establish a working relationship with that office. In addition, Lambert and Sasse plan on attending a number of education conferences such as the California Charter Schools Association conference in March, CASBO which is the California Association of School Business Officials, as well as the California PTA Association Conference in April. Lambert advised that the National Teacher of the Year will be awarded in April by President Bush and that one of the California Teachers of the Year will be competing. May 6-12 is National Teacher Appreciation Week.

Mass advised Lambert to begin the research asked by Senator Florez, concerning the types of games that are more prone to cause problem gambling when the Lottery is considering approving games in the future as well as to explore if a self exclusion program would exist in the form of the Lottery.

e. 2006 California Problem Gambling Prevalence Study Overview

Stacy Matsunami, Deputy Director of Special Projects, introduced Steve Hedrick, Deputy Director of the Office of Problem and Pathological Gambling. Hedrick gave an overview of the Office of Problem Gambling (OPG) and its requirements which included: helpline, development of a statewide plan, training, research, and public awareness. Hedrick reviewed the 2006 Prevalence Study, its strengths and limitations. As it relates to the Lottery, he explained that 10% of the people surveyed who play the Lottery are considered "at risk" and a much lower percentage in terms of "problem or pathological." The data shows that gambling participation is high for the Lottery, although it has one of the lower problem gambling rates for the state. (See attached slides for reference.)

Montes would like a follow-up from the Office of Problem Gambling on programs targeting underage gambling.

f. National Problem Gambling Awareness Week Update

Matsunami advised the Commission that the Lottery has joined with other state agencies in the recognition of National Problem Gambling Awareness Week (NPGAW), which will be held March 5 – 11, 2007. The Lottery has participated in the campaign for the past four years and the goal of the campaign is to educate the general public about the warning signs of problem gambling and raise awareness about the help that is available, both on a state and national level. The Lottery provided translation services and circulated the brochures on responsible gambling guidelines. The brochures were made available in English, Spanish and Asian languages and distributed to all Lottery retailers. NPGAW will be highlighted in the Lottery's website and a Lottery sponsored television Public Service Announcement on problem gambling will run through the month of March. The Legislature and the

Governor have recognized the participating state agencies with a house resolution and proclamation, and will be presented on the Assembly Floor tentatively March 5, 2007.

g. GTECH / CGI Update

Bill Hertoghe, Deputy Director for Security/Law Enforcement (S/LED), provided a final update on GTECH/CGI. A disclosure investigation was initiated after an announcement by GTECH of its intent to acquire CGI. It included a background investigation of two new corporate officers by S/LED investigators, a financial due diligence review by Lottery staff and a review of the transaction by the California Department of Justice Anti-Trust Unit. No disqualifying information was discovered.

Discussion by Commissioners

h. GTECH / Lottomatica Disclosure Update

Due to the addition of new corporate officers, Hertoghe reported that an updated disclosure investigation would be necessary. The new officers are located at GTECH Headquarters in Rhode Island and in Italy. Agents are scheduled to conduct the investigation during the months of February and March 2007. The agent's travel will include venues in Rhode Island and Italy. The agents will meet with Security and Exchange (SEC) staff in Boston to review the SEC file on GTECH activities in South America.

Discussion by Commissioners

9. Consent Calendar

There were no items on the Consent Calendar.

10. Action Items

a. Approval of Scratchers® Game Profiles for Games 518, 519, and 521
Susan Kossack, Chief of Product and Development, brought forth the July Scratchers® games for approval. Game 518 is a \$1 animal-themed game with a Match 3 playstyle. Players can automatically win \$10 in the "Quick \$10 Spot" area of the ticket. The top prize for this game is \$1,000, and overall odds of winning are 1 in 4.95. Game 519 is a \$1 Key Number Match with a specific variant playstyle and players will have the ability to win up to five times on each ticket. Players can also multiply their prize amount two times by uncovering a special multiplier symbol. The top prize is \$2,000, with overall odds of winning at 1 in 4.97.

Game 521 is a \$2 game that will have a Key Number Match playstyle. Players can multiply their prize amount seven times by uncovering a special multiplier symbol and can also win up to ten times on each ticket. The top prize for the game is \$10,000, and overall odds of winning are 1 in 4.55. Game 520, "The Big Spin" which was previously approved by the Commission in May 2001 as Game

310, is attached for the Commissioners' information. Commission approval is not required.

Mass asked if anyone from the audience had any questions on the Action Item 10(a). No one came forward so he proceeded to the motion of approval.

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

b. Approval of New Retail Model Regulations

Nguyen advised that Item 10(b) was tabled at the last Commission Meeting on February 28, 2007 for further information. Staff provided additional information and is asking for approval of new regulations to allow the Lottery to test new retailer compensation models on a pilot basis. If the pilot is successful, staff would bring the model back to the Commission for approval for permanent change to the regulations.

Discussion by Commissioners.

Mass asked if anyone from the audience had any questions on the Action Item 10(b). No one came forward so he proceeded to the motion of approval.

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

c. Sales Update and Approval of Adjustments to the 2006/07 Fiscal Year Budget Borucki advised the Commission that staff is requesting the approval of the midyear adjustments to the 2006-07 fiscal year budget and to authorize staff to notify the Department of Finance and education community of the revised estimates. The adjustments revise the projected revenue to \$3.2 billion, and make needed changes to the prize fund allocations and the administrative budget. The revised budget projects education revenues at \$1.134 billion, compared to the original projection of \$1.27 billion. While it is a reduction of \$136 million from the original projection, but will still represent the third highest education earnings in the California State Lottery's (Lottery) 22-year history.

On June 27, 2006, the Commission adopted the Annual Business Plan and Budget for 2006-07 fiscal year. The plan was based on the achievement of \$3.6 billion in sales and resultant generation of \$1.27 billion in revenue for public education. The goal was very close to the final \$3.585 billion overall sales for the 2005-06 fiscal year. The projections were predicated on a combined increase in the sales of MEGA Millions® and SuperLOTTO Plus® from \$1.18 billion to \$1.245 billion. There has been an absence of large jackpots in both MEGA Millions® and SuperLOTTO Plus® and based on the first two quarters of the

current fiscal year, the trend analyses and simulations show that the Lottery will not meet the \$1.245 billion goal for the two games.

Education will still receive the mandated 34%, but it will be a smaller dollar amount than the prior year. If the cycle continues and draw game sales continue to decline, as they are across the nation, education will continue to receive smaller amounts from the Lottery.

The Lottery has taken steps to introduce new and innovative games such as the Million Dollar Raffle and is developing additional games for the future, but more needs to be done to reverse long term trends. Staff is exploring fundamental and critical changes such as selling products where consumers prefer to shop today instead of where shopping was done 20 years ago. The options are being evaluated and will be presented to the Commission after fully assessed. The Lottery has taken steps to mitigate the decline in sales including cuts in administrative spending and other reductions. There has been a \$3 million cut for over a dozen projects planned for this fiscal year.

Staff will continue to monitor sales and expense performance very closely and return to the Commission with updates as needed. The cuts will not be enough to make up the sales deficits. Related adjustments to the prize fund category and the administrative spending category are also needed to bring the budget in balance and help assure that Education receives the statutorily 34% of Lottery sales revenues.

Mass asked if anyone from the audience had any questions on the Action Item 10(c). No one came forward so he proceeded to the motion of approval.

Discussion by Commissioners.

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

10. Commissioner General Discussion

11. Scheduling Next Meetings

The next Commission meetings are tentatively scheduled for May 16, June 27, August 15 and November 7, 2007 at the Lottery Headquarters in Sacramento. The times for the meetings will be determined.

12. Public Discussion

The following individuals all spoke in regards to the issues between the Glendale Hilton and union supporters:

Bill Camp – Sacramento Central Labor Council Robert Haaland – San Francisco Democratic Party Greg Larkins – Hotel Workers Rising Nell Ranta – National Organization of Women Agar Jaicks – San Francisco citizen Mike Downey – California Teachers Association Linda Roberts - Forum Melinda Rivasplata – Peace in the Precincts Kelly Dugan – UNITE HERE Local 2 Marjorie Boehm – Women's International League for Peace & Freedom Bob Fossgreen – Elk Grove Peace & Justice Forum Dave Krebs – Peace in the Precincts Jon Rodney - Oakland, CA Richard Seyman – Paratransit, Inc. Karen Bernal – UNITE HERE Liana Molina – East Bay Alliance for a Sustainable Economy

13. Closed Session

The Commission convened in a closed session at 11:59 p.m. to confer with and receive advice from counsel regarding pending litigation: <u>California Coalition Against Gambling Expansion</u>, et al. v. California State Lottery Commission; <u>Carpenters Local 46 v. DGS</u>; <u>California State Lottery</u>, et al.; <u>Lee v. California State Lottery Commission</u>; <u>Gustafson v. California State Lottery</u>; <u>McFoy v. Director</u>, <u>California Lottery Commission</u>, et al.; <u>Glendale Hilton Contract</u>.

14. Adjournment

Meeting adjourned at 12:45 p.m.