

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – June 25, 2008

Sacramento, California

1. Call to Order

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 10:01 a.m. at the California State Lottery Headquarters, 600 North 10th Street, Sacramento, CA 95811.

2. Pledge of Allegiance

John Mass led the Pledge of Allegiance.

3. Roll Call

Mass asked Mary Montelongo to call the roll.

Commission Members Present:

Commissioner Manuel Ortega

Commissioner Montes

Chairman John Mass (via telephone)

CSL Staff and presenters:

Joan Borucki, Director

Kate Killeen, Acting Chief Legal Counsel

Jim Hasegawa, Deputy Director of Business Planning

Heather Lambert, Deputy Director of Communications

Cassandra Lichnock, Deputy Director of Human Resources

Susan Kossack, Deputy Director of Marketing

Bill Hertoghe, Deputy Director of Security/Law Enforcement

Daniel Gullahorn, Assistant Director of E-Communications and Public Relations

Mary Montelongo, 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 June 25, 2008 agenda as proposed. Joan Borucki, Director, asked that three items be deferred to the July 16 agenda, Director's Report 7(e), and Action Items 9(d) and 9(g). Montes moved to approve the amended agenda. Seconded by Ortega. The motion passed unanimously (3-0).

5. Approval of Minutes

Mass asked if there were any additions or corrections to the May 20, 2008 minutes. Ortega moved to approve the minutes. Seconded by Montes. The motion passed unanimously (3-0).

6. Commission Liaison Reports

Commissioner Ortega:

Ortega was advised by the Security/Law Enforcement Division (S/LED) of the Retailer Redemption Compliance Program and the warrant arrest operation that occurred during the week of June 9, 2008. Ortega was updated by staff on the pending preliminary hearing in Roseville involving a store clerk that stole a \$535,000 Lottery ticket. Finally, S/LED discussed with Ortega the training and implementation of the new case tracking system called RIMS. It will allow investigators to share reports and crime information electronically and will allow investigators to store digital data within the case system.

Commissioner Montes:

Montes had nothing to report.

Chairman Mass:

As Procurement Liaison, Mass was briefed by staff and requested approval on the following projects: to award a Non-Competitive Agreement with University Enterprises, Inc. to provide student assistant services to various departments within the Lottery. The contract term would be from July 1, 2008 – June 30, 2011 for \$165,000; an approval for the purchase of t-shirts to be utilized in promoting the Lottery throughout the State of California. The contract is for BWM Global for the amount of \$110,376; and the approval to award an Interagency Agreement with the Department of Justice to conduct criminal history checks. The contract term is July 1, 2008 – June 30, 2009 for \$240,000.

As Marketing Liaison, Mass was briefed by staff on the following: the Marketing campaign for the new Daily 4 game continued with out-of-home, online messages and Point-of-Sale that ran through June 15; SuperLOTTO Plus® Brand advertising “A State of Winning” campaign continues with 30-second radio spots statewide June 18 to June 29; the Happy Cow Scratchers® co-promotion with the California Milk Advisory Board includes the launch of the \$1 Happy Cow Scratchers® in July. The board is running the teaser ads on its home page through June and tagging the media in the California edition of Parade Magazine. The Lottery will run a second chance consumer promotion and highlight the unique Scratchers® on the Lottery’s website; and last is the Request for Proposal (RFP) process for the new TV Game Show production company. It is for The Big Spin® show and is in its completion phase with the Apparent Successful Bidder announcement on May 20, 2008. No protests to the announcement were received and the contract award will come to the July Commission meeting for approval.

7. Director’s Report

a. Financial Statements for March 31, 2008

Borucki advised the Commission that the financial statements are required to be presented to various state officials. The statements are from books without audit for the third quarter ending March 31, 2008. The year-to-date sales figures are \$2.4 billion,

with a third-quarter transfer to education of \$285 million which is on target for that quarter.

b. Consumer Protection

Bill Hertoghe, Deputy Director of Security/Law Enforcement (S/LED), provided the Sanction Activity report for the period of March 1 to May 31, 2008 (see attached slides). S/LED has been working with Chief Deputy Director Linh Nguyen and the Sales and Corporate Communications Divisions in developing a Consumer Protection Program and a plan for expanding the Lottery's protection program. One of the components of the Consumer Protection Plan is the Retailer Redemption Compliance Program. The program uses undercover investigators from the Lottery to pose as consumers with Lottery tickets. The plan is to see if retailers/clerks intend to pay the full price of the ticket or steal it from the consumer. Borucki stated that there are over 20,000 retailers and the vast majority are good and honest retailers, however it only takes one to deceive Lottery players and staff works very hard to protect the integrity of the games and convince customers that the Lottery holds the games to a very high standard.

c. Legislative and Outreach Updates

Heather Lambert, Deputy Director of Communications, gave an update on conferences the Lottery participated in. In June, staff attended the National Council of Legislators from Gaming State Conference in California. The conference was a good opportunity to hear different gaming issues from various lotteries throughout the country. Also in June is the National Council on Problem Gambling Conference that the Lottery sponsors with approximately \$25,000. Various Lottery staff as well as Commissioner Ortega, will be in attendance of this conference. In early July, S/LED will be attending the California District Attorney's Association Conference.

Lambert advised the Commission of the success staff has had in raising awareness of the Lottery by sending monthly mailings of voided Scratchers® tickets to the Assembly and Senate offices, and the Constitutional offices throughout the state. The legislative staff enjoys seeing what the Lottery has out on the market, such as the "Happy Cow" Scratchers®, which will be out in late June. Lambert's staff has also sent letters to the Assembly and Senate offices regarding winners as well as the retailers that sold the winning tickets in their districts. The members are pleased to reach out to their constituents and congratulate them on their winnings.

Lambert went over Senate Bill 146, which is a Senator Scott bill. It is a per-pupil reporting bill that looks to replace the average daily attendance with average monthly enrollment for the calculation and distribution of education funds. It would affect the way Lottery dollars are distributed under the current formula. The calculations are done between the California Department of Education and the State Controller's Office. Senate Bill 1679 is the Florez bill that was to enact Lottery best practices and tie itself to a state constitutional amendment that would basically create a higher education endowment that would benefit from the additional revenues of the Lottery, should it be reformed. In regards to the budget, staff continues to be part of those conversations so

that the Lottery can continue to offer support and answer questions or concerns of the various legislative and constitutional offices.

In media relations, the Communications Division is doing an excellent job on regional winner awareness, not only when there are 5-of-5 winners, but also small winners. The press has been wonderful in covering every single story that has been received from Communications. Lambert's staff has also been working with S/LED on the consumer awareness front and the distribution of the brochures that were discussed in last month's Commission Meeting.

Discussion by Commissioners.

d. Succession Plan

Cassandra Lichnock, Deputy Director of Human Resources, gave an update on the progress of the Succession Plan. The components of the plan include staff development strategies, knowledge transfer strategies, recruitment selection strategies, classification changes, and retention strategies. The preliminary outline of the training program consists of mandatory training and the best methods for its delivery; discipline-specific training; supervisor and management development training; transitioning staff for success in supervisory management positions; supervisory training, new and continuing education management; leadership academies for current and future job success; and executive management development.

Lichnock went over the mandatory training that staff would be required to participate in when employed with the Lottery as well as discipline-specific training for staff who work in specific programs and developing skill-sets for success in those programs. There is a supervisory category for staff to develop skills for transitioning into supervisory positions and continuing education for continued success at managing and management positions. For knowledge-transfer strategies, staff is in the process of researching ideas for a comprehensive upward-mobility program. The practical paths for promotion within each of the divisions has been identified and staff is looking at other state organizations' as well as private organizations upward-mobility programs.

In regards to classification changes, Human Resources is establishing a new classification, Route Sales Representative. The new classification would be in the Sales Division to facilitate a new set of job functions created from the new business model. Staff has had several meetings with the union on the establishment of the new classification and the class specifications has been presented to the State Personnel Board (SPB). The new classification is scheduled to be adopted by SPB at the July 7 meeting.

Discussion by Commissioners.

To conclude the Director's report, Borucki stated that California hosted the National Association of State and Provincial Lotteries (NASPL) Spring Directors Meeting. Many directors from around the nation as well as Mexico, Virgin Islands, and Canada

attended the meeting. Borucki also mentioned two very important retirements, Patt Eberhart, Deputy Director of Operations, and Pat Meroney, Acting Deputy Director of Finance. The Lottery is very grateful for their 25-plus years of service and the dedication and accomplishments they achieved.

8. Consent Calendar

- a. RSI Consulting Services, Inc. Contract Amendment
- b. TruGreen LandCare Contract Amendment
- c. Sierra National Construction, Inc. Contract Amendment

Montes made the motion to approve Consent Calendar Items 8(a), 8(b), and 8(c). Seconded by Ortega. The motion passed unanimously (3-0).

9. Action Items

- a. 2008-09 Business Plan

Jim Hasegawa, Deputy Director of Business Planning, stated that the strategies for the Business Plan were outlined and approved at last month's Commission meeting. The Business Plan now details the tactics staff recommends to achieve the outlined strategies. The Business Plan being proposed is the result of analyzing and considering various options. It presents the best of what can be accomplished in FY 2008-09, given the constraints of the Lottery's administrative budget which must devote significant funds to increase Scratchers® prize payouts. The higher prize payouts are essential to maintain the sales level of Scratchers® games. With Commission approval, staff will begin to commit resources and start implementing the initiatives. The resources required for these programs are incorporated into the FY 2008-09 budget.

Hasegawa discussed the proposed tactics of the plan for each of the four components of the strategic plan; Focus on Long Term Planning, Improve Brand Image, Shift the Jackpot Paradigm, and Modernize Operations. As part of the strategic goal of long-term planning, the proposal combines tactics that will be introduced in the upcoming fiscal year along with other programs that will be researched and developed in Fiscal Year 2008-09 for introduction in future years. For improving the Brand Image, a new Lottery TV Show will be launched as well as the start of the new Lottery Branding Campaign. Staff will enhance service to players, retailers and the general public. The Lottery's Public Website will be redesigned and staff will design and research a Second Chance Entry Program for all Scratchers®. For shifting the jackpot paradigm, enhancements will be made to the Daily Games and staff will research a Lottery Player Rewards Club and develop game concepts for future testing. To modernize operations, the Lottery will be recruiting retailers in non-traditional trade channels and deploying a new Case Management System. The Lottery will decrease time for gaming system changes, develop and begin deployment of a new Business Intelligence System and continue human resource training and succession efforts (see attached slides).

Discussion by Commissioners.

Mass asked if anyone from the audience had any questions on Action Item 9(a). No one came forward so he proceeded to the motion of approval.

Montes made the motion to approve Action Item 9(a). Seconded by Ortega. The motion passed unanimously (3-0).

b. Fiscal Year 2008-09 Budget

Borucki stated that the budget for Fiscal Year 2008-09 is based on a sales goal of \$3.2 billion for the year, which results in a \$1.134 billion contribution to education. The budget is based on the Business Plan and staff is making sure

the Lottery is maximizing revenue in order to produce dollars for education. The \$3.2 billion represents a turn-around of sales from the current year. The Lottery expects to end the current year at \$3.075 billion, and it would be the ninth consecutive year that over \$1 billion has been provided for public education.

For the Lotto games, including SuperLOTTO Plus® and MEGA Millions®, the Lottery is looking at a combined sales target of \$1.1 billion, which represents an increase of \$80 million over the current year's growth. The sales goal for Hot Spot will be \$140 million, about \$10 million below the current year budget as it was adopted last year, but higher than the sales from the current fiscal year. The sales goal for the Daily Games is at \$360 million, which is \$40 million more than what is estimated for the current fiscal year in sales and due to the strong performance of the new Daily 4 Game, staff feels it is a fairly conservative sales goal estimate. The sales goal for the Scratchers® product line is \$1.6 billion with a 58 percent prize pay-out, the same as in the current fiscal year.

The administrative budget is at 13.1 percent of sales and the Lottery is capped by law at 16 percent. The main categories within the budget are retailer compensation, game operations, communications, general administrative expenses, and the administrative spending reserve, which is at \$10 million for the year. The total administrative budget proposed for the next year is about \$418 million. Borucki stated that there is an increase of 14 positions to the budget, which are the new Route Sales Representative classifications for the Sales Division. The Lottery is also looking at over 300 new retailers to come online and will be utilizing the new business model that the Commission adopted the regulations for at the last meeting. The budget also includes spending levels for the Marketing Communications budget, which includes advertising, point-of-sale, and consumer and retailer promotions. The dollars in the marketing campaign are for three quarters of the fiscal year. Staff will update the Commissioners both at the end of the second quarter and at the end of the third quarter of the fiscal year.

Pat Meroney, Acting Deputy Director of Finance, advised the Commission that the issue memo incorrectly references a \$10 million spending reserve and the attachment correctly shows the spending reserve is \$6 million. Meroney was congratulated by the Commission on his recent retirement.

Discussion by Commissioners.

Mass asked if anyone from the audience had any questions on Action Item 9(b). No one came forward so he proceeded to the motion of approval.

Ortega made the motion to approve Action Item 9(b). Seconded by Montes. The motion passed unanimously (3-0).

c. Scratchers® Game Profiles for Games 567, 568, 569, 570, 571, 572, 573, and 574

Susan Kossack, Deputy Director of Marketing, presented the October-November game profiles. Scratchers® Game 567 called "Wild 7's" is a \$1 Key Number Match playstyle with a specific variant. When a "7" is revealed, players automatically win a specified amount. The top prize is \$777 and overall odds of winning are 1 in 4.88. Game 568, "Trump Card" is a \$2 game with graphics featuring a deck of cards. It is a Key Symbol Match game that offers players the chance to win a prize by matching one of ten "Your Cards" to the "Dealer's Card." Players have ten chances to win on each ticket, including a top prize of \$5,000 and overall odds of winning at 1 in 4.56.

Game 569 is a \$3 annuity game with a top prize of \$750,000, paid over 25 years. It is a Key Number Match game that provides 12 chances to win and players can multiply their prizes five or ten times if specific symbols are revealed. The odds of winning are 1 in 4.49. To kick off the excitement of the Lottery's new game show, staff recommends Game 570 as a Scratchers® tie-in. The Match 3 game will be offered at a \$1 price point and will provide the entry method for players to appear and participate on the new television show. The overall odds of winning are 1 in 5.44.

Game 571 features a Key Number Match playstyle. It is a \$1 game with a top prize of \$1,000 and odds of winning are 1 in 5.02. Game 572 is a \$1 holiday game with multiple scenes utilizing a Match 3 playstyle with a specific variant. There is a convenient \$500 top prize which is easy for redemption by a retailer and the odds of winning any prize are 1 in 4.38.

Game 573 is a \$2 game that will incorporate a holiday theme. Staff suggests a Key Number Match playstyle with two specific variants. When a specific symbol is revealed, players will either double or triple the prize shown. The game offers more than two million winners, a \$10,000 top prize, and overall odds of winning are 1 in 4.48. Game 574 is a \$3 holiday-themed extended play crossword. The top prize is \$20,000 with overall odds of winning at 1 in 3.33.

Mass asked if anyone from the audience had any questions on Action Item 9(c). No one came forward so he proceeded to the motion of approval.

Montes made the motion to approve Action Item 9(c). Seconded by Ortega. The motion passed unanimously (3-0).

e. Service Agreement for Market Research

Hasegawa presented the Commission with a request to approve an award for a two-year service agreement to Ipsos Reid for market research services to conduct the tracking study. The Lottery satisfies many of its Lottery Act requirements by conducting an ongoing tracking study by an independent research firm that conducts a random sample of California adults each week.

Currently, the survey is done by Synovate, Incorporated and it expires June 30, 2008. A new procurement for these services was done through a competitively bid process and the Request for Proposal (RFP) went out April 11, 2008. Responses were due May 14, 2008 and a total of six companies submitted responses. Based on the responses and the work of the evaluation teams, staff recommends awarding the service agreement to Ipsos Reid based on their excellent research design proposal, strong qualifications of personnel that were committed to the Lottery's account, and superior experience in providing marketing research services to many lotteries and gaming entities.

As part of the award, staff is proposing some changes to the methodology of the study and will be doing a combination of Internet-based survey data collection as well as telephone. The cost under the new service agreement will ultimately result in some savings for the Lottery. In the first year, as the Lottery transitions to the methodology, anticipated cost savings should be about \$100,000, and in subsequent years, it could potentially reach about \$200,000 a year.

Mass asked if anyone from the audience had any questions on Action Item 9(e). No one came forward so he proceeded to the motion of approval.

Ortega made the motion to approve Action Item 9(e). Seconded by Montes. The motion passed unanimously (3-0).

f. Interagency Agreement with California Office of Problem Gambling

Lambert stated that the Lottery has the longest-running problem gambling efforts in the State of California, with the original problem gambling help line being administrated out of the offices of the Lottery. At the Senate Governmental Organization Committee hearing last year, it was urged of all the gaming entities of the state to unify the message and funding for problem gambling under the California Office of Problem Gambling (OPG). It was suggested to the Commission to not only increase the amount of funding for problem gambling awareness and treatment, but instead of having internal staff administrate this program, the Lottery would enter an interagency agreement, allowing the experts

at OPG to administrate the program. The program would include the maintenance of the help line, brochures, and various articles that will be used in Lottery publications. Staff recommends the approval of the coming fiscal year of \$250,000 to go directly to the California Office of Problem Gambling for the Lottery's problem gambling awareness efforts.

Discussion by Commissioners.

Mass asked if anyone from the audience had any questions on Action Item 9(f). No one came forward so he proceeded to the motion of approval.

Montes made the motion to approve Action Item 9(f). Seconded by Ortega. The motion passed unanimously (3-0).

h. Public Website Redesign Contract

Daniel Gullahorn, Assistant Director of E-Communications and Public Relations, provided information on the redesign implementation and hosting of the Public Website. The funds requested are for the third and final stage of the redesign process. In order to complete a redesign that would communicate and connect with public Website users in both an informational and experiential way, the Lottery leveraged the expertise of Human Factors International (HFI) for the first two phases of the redesign process.

Phase 1 of the redesign project consisted of in-depth usability studies of the Lottery's current website and its processes from users' perspectives. From these studies, combined with stakeholder interviews with Lottery personnel, a comprehensive redesigned information architecture was developed, along with suggested design direction and opportunistic and experiential architectures. Phase 2, which is currently coming to completion, implements the direction of Phase 1 into graphical site design that refreshes the public website while creating a unique and new user experience. Contrary to many creative-based designs, the design provided by HFI is based upon the user metrics gathered during Phase 1 and the beginning of Phase 2, and will convey those metrics in a graphical manner, while highlighting the Lottery's new branding effort.

The new design has been shared with a diverse group internally here at the Lottery, and has been met with excitement and approval. Staff is ready to implement that design to take communications, marketing, and business needs to a new generation. Staff will be able to focus on long-term planning and improving the brand image through programs like Bonus Draws, a Players Club, and other interactive components. The redesigned website can offer strong support in shifting the jackpot paradigm by educating the Lottery's players on the number of regular winners and the benefits of lower jackpots. Lastly, the redesign of the Public Website will enable the Lottery to modernize operations through several different programs such as an online help desk and an online prize claim system that would benefit players and Lottery employees alike. Staff

is requesting up to \$750,000 in funding over the next fiscal year for the implementation of the new design.

Discussion by Commissioners.

Mass asked if anyone from the audience had any questions on Action Item 9(h). No one came forward so he proceeded to the motion of approval.

Ortega made the motion to approve Action Item 9(h). Seconded by Montes. The motion passed unanimously (3-0).

10. Commissioner General Discussion

Mass asked each of the Commissioners to check their schedules for an attendance at an additional Commission Meeting to be held on July 16 in Sacramento.

11. Scheduling Next Meetings

The next Commission meetings for 2008 are tentatively scheduled for July 16, August 20, October 15, and December 3 at the Lottery Headquarters in Sacramento. The times for the meetings will be determined.

12. 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.

13. Adjournment

Meeting adjourned at 11:37 a.m.