CALIFORNIA STATE LOTTERY COMMISSION

Minutes – May 20, 2008 Sacramento, California

1. Call to Order

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 10:04 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 Cynthia Flores Chairman John Mass

CSL Staff and presenters:

Joan Borucki, Director
Kate Killeen, Acting Chief Legal Counsel
Jim Hasegawa, Deputy Director of Business Planning
Michael Brennan, Deputy Director of Sales/Marketing
Heather Lambert, Deputy Director of Communications
Cassandra, Deputy Director of Human Resources
Susan Kossack, Deputy Director of Marketing
Pat Meroney, Acting Deputy Director of Finance
Terry Murphy, Deputy Director of Special Projects
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 May 20, 2008 agenda as proposed. Ortega moved to approve the agenda. Seconded by Flores. The motion passed unanimously (3-0).

5. Approval of Minutes

Mass asked if there were any additions or corrections to the March 19, 2008 minutes. Ortega moved to approve the minutes. Seconded by Flores. The motion passed unanimously (3-0).

6. Commission Liaison Reports

Commissioner Ortega:

Ortega was advised by the Security/Law Enforcement Division (S/LED) of its analysis on all retailers who have submitted multiple claims for high tier prizes. Lottery Investigators have noted that some claims submitted by retailers were for tickets obtained in violation of Lottery regulations (discounting) or by theft. S/LED is working with the FBI and detectives from the Sacramento Sheriff's Department of the Elder Abuse Unit to stop an 84-year-old woman's participation in a major foreign lottery scam. The woman has been defrauded of personal funds in excess of \$100,000 and S/LED is working to identify the suspects. Finally, a management study conducted by an outside law enforcement consultant was reviewed and a recommendation of a reorganization of S/LED was discussed. Further analysis by S/LED staff, Human Resources, and Executive staff will be necessary before considering implementation.

Commissioner Flores:

Chairman Mass designated Flores to be the Liaison for Education and Audits. Flores will give a report at the next Commission Meeting.

Chairman Mass:

As Procurement Liaison, Mass stated that staff briefed and requested approval on several projects: the approval to release a competitive solicitation to procure the services of a contractor to provide marketing promotions and point-of-sale services to the Lottery; approval to purchase Zebra Printers, Print Servers, on-site preventative maintenance and repair service from Royce Digital Systems, Inc. for the amount of \$119,551; approval of a purchase order to Evolve Technology Group for a Cisco Maintenance agreement. Cisco equipment is the platform for the Lottery's enterprise network; approval to acquire moving and transportation services in and around the various Lottery facilities; and finally the request of approval to acquire consulting services with Natoma Technologies for the first phase of the Business Intelligence project formerly called "Dashboard Reporting" in accordance with the approved Lottery Business Action Plan for FY 2007-08.

As Marketing Liaison, Mass was briefed by staff on the following: the "State of Winning/SuperLOTTO Plus®" campaign ran March 31 through April 27, highlighting winner messages throughout the state via television, radio, out-of-home, and online; the SuperLOTTO Plus® 1,000 Winners promotion ran April 6-26. Consumers who purchased \$5 or more of SuperLOTTO Plus® received a coupon to enter a drawing to win 1 of 1,000 extra prizes of \$1,000. Close to a million entries were received for the second chance drawings; and lastly Marketing developed and launched an introductory campaign for the new Daily 4 game including radio, out-of-home, online messages, and Point-of-Sale and retail. The game introduction also includes a consumer promotion from May 20-June 3 where consumers who purchase \$5 or more of Daily 4 on a single transaction will receive a free Daily 4 Quick Pick® play.

7. Director's Report

Joan Borucki, Director, stated that the new Daily 4 launch which started May 19 did very well with approximately \$146,000 in net sales.

a. Legislative and Outreach Updates

Heather Lambert, Deputy Director of Communications, went over the upcoming conferences in June and July. The National Council of Legislators from gaming states will be in California in June and the Lottery will be a sponsor for the National Council of Problem Gambling Conference in Long Beach. In July, Communications and S/LED will be attending the California District Attorneys Association Conference.

Lambert advised the Commission of some legislative leadership changes; Karen Bass is the new Assembly Speaker and Dave Cogdill is the Senate Republican leader. Staff will be working with them to educate them about the Lottery. Lambert has been tracking Assembly Bill 1251 which is the MEGA Millions® bill to fix the time-frame issue for this particular game. The bill was passed April 14, signed by the Governor April 23 and goes into effect on January 1, 2009. Senate Bill 1679 is the Lottery Best-Practices bill, which was introduced in February. Senator Florez is carrying the bill and introduced it as a way to ultimately recognize best practices from lotteries all over the country and world, here in California. Lambert gave an overview of the bill and some of the restrictions that would be lifted such as prize payouts, technology, elimination of the fixed-prize limitation, and the removal of the ticket-dispenser limitations. Also on the bill is a restriction for the Lottery not to operate video lottery terminals.

Lambert gave an update on the media relations section. Staff has been working on shifting the jackpot paradigm by trying to raise awareness about lower jackpots. Lambert's staff will start speaking to the press as early as 5:00 a.m. concerning jackpots as low as \$100 million. Media Relations is also working hard on their efforts concerning regional winners. Staff is reaching out to some of the smaller media markets and regionalizing the winner releases. When there are 5-of-5 winners or lower-tier winners in regions, the Lottery will raise awareness in just that region about those winners. Borucki stated that on the brand audit that was done a year ago, one of the issues for people who used to play the Lottery was that they felt nobody was winning. The media relations section is starting to get releases of winners out to the public while still respecting the privacy of the winners. The Lottery has been maximizing some of the existing marketing programs, the earned media that was garnered over the holidays. Staff will move forward with Daily 4 in raising media attention about the Lottery when it is out in communities doing promotions.

Lambert updated the Commission on Consumer Protection, with the Security/Law Enforcement Division (S/LED) leading the charge to be an industry leader. The "Don't be a Victim" and "Protecting Security and Integrity of the California Lottery" brochures have been revised and given a new look. The brochures will be mailed to all public safety agencies throughout the state to raise awareness about S/LED and its abilities to assist local law enforcement and federal law enforcement with crimes involving Lottery

tickets. The brochures will also be at the California District Attorneys Association Conference as well as consumer groups where some of the Lottery scams take place.

b. Succession Planning

Cassandra Lichnock, Deputy Director of Human Resources, gave a presentation regarding the Lottery University. The study began with profiling the Lottery's current workforce and gathering statistical information regarding the classifications used within each division. Staff looked at how many positions are in each division and as well as the two-year vacancy rate was for those classifications. Lichnock looked at the percentage of staff that were of retirement age in all of the classifications and the information was provided to the deputy directors. The deputy directors were asked to identify the classifications and positions that are critical to the mission of their divisions with regards to knowledge and skill. Once the information is collected, Human Resources will meet with each deputy director. Lichnock will develop potential solutions to meet department needs, including staff development strategies to prepare current employees for upward mobility within the organization. Lichnock will also look at knowledge-transfer strategies to capture knowledge of experienced employees before they leave the agency and recruitment and selection strategies will be looked at to find and hire qualified candidates. Classification changes will be assessed including redefining classifications that have been identified as critical to the organization. Finally, staff is looking at retention strategies to encourage employees to stay within the organization.

Discussion by Commissioners.

c. Retailer Recruitment Update

Borucki advised the Commission that retailer recruitment was an important objective within the Business Plan. Michael Brennan, Deputy Director of Sales/Marketing went over the four strategies that were in the business plan; long-term planning, improving the Lottery's brand image, shifting the jackpot paradigm, and modernizing operations. All of the strategies have an impact on Lottery retailers. Staff started by building a plan to make Lottery games fun, interactive, and available wherever and whenever a player is ready to play. The goal was to increase the availability of the games by increasing retailer density, with the continuing focus towards profitable, traditional, and nontraditional Lottery retailers, with better penetration into social trade style environments. Staff would increase sales at existing retailers and decrease the number of underperforming retailers. An analysis was performed by the Business Planning Unit as well as GTECH and the data was taken to the Sales Division to be reviewed. The criterion that was used to come up with a recommendation was to look at the retailerdensity ratio, current draw-game sales, per-capita sales, and population growth throughout the state. The internal analysis from Business Planning and GTECH said that the most important places to recruit were in Santa Clara, San Mateo, Alameda, and Orange Counties. Sales agreed to recruit in those counties, but did not ignore the opportunities in counties such as Los Angeles, Riverside and San Bernardino counties, where the population is growing the fastest in the country.

Discussion by Commissioners.

Brennan stated that the important element was to consider draw sales because the Lottery depends on its support. The recruitment for the needed counties, would be done over a three-year period and retailers for additional counties throughout the state would be at a target rate of about five percent a year. By 2010, staff estimates the ratio to be down to 1,690-to-1 or 22,433 retailers, exactly.

For the current care and treatment, over the last year, from April 2007-08, the sales force recruited 1,747 retailers last year, a net gain of 865 retailers through the month of April. Since April, 150 retailers have been added to the network. During that year, 882 retailers were terminated either for low sales, not following the rules or because they went out of business. Brennan went over the statistics for retailer termination. Discussion by Commissioners. What motivates successful retailers is that it is a fun product to sell and it helps bring a community together. In the small communities, it is especially evident when a retailer is receiving a Retailer-of-the-Month or Retailer-of-the Year because the community will come and show support and celebrate with the retailers. The retailers will in turn give back to the community by purchasing a bicycle for a child or provide entertainment for the celebration.

The Low-Volume Program is retailers that are selling at \$500 or less during the week and have been actively selling for over 12 consecutive months. Staff will try to spend some time with the retailers to keep them in the network. Discussion by Commissioners. Another program is the Optimization Program for retailers that are doing above \$500 a week. Staff will work with them to try and help them achieve even greater sales by monitoring the self-service equipment, providing extra merchandising and point-of-sale, and making sure the Scratchers® tickets are correct and are the right mix of games. Brennan went over the Ambassador Program which encourages the retailer to get involved in giveaways and also brings in Lottery staff to assist players in filling out play slips and using the machines.

There are about 1,700 Hot Spot® social trade style retailers, which include bars, taverns and restaurants. Eight percent of the entire network is doing 65 percent of the Hot Spot® sales. The current average in the social trade styles is about \$1,076 per week. Liquor and convenient stores that sell Hot Spot® have large weekly averages of \$4,000. Convenient stores with gas have Hot Spot® weekly sales of \$2,600. The Lottery has few places selling Hot Spot®, but the sales are actually more efficient. The focus on recruitment for Hot Spot® is setting the goals by the district offices based on the percent of the network and the social trade styles. Staff is exploring suspending the application fees for certain Hot Spot® trade styles, establishing direct-mail pieces that will go to the ABC license application lists, and to recruitment lists that are generated by GTECH, specifically for on-site Hot Spot®.

Key Account Specialists who work in the Sales Division are specifically dealing with chains to make sure that new games are being sold to key accounts such as Safeway, Raley's, CVS, 7-Elevens and Quickstops. The specialists are also out recruiting new retailers, establishing contacts and making calls because of the importance of selling the new logo and new games. Lottery staff is working on Costco and has been the only

lottery that has been invited to travel to Costco to make a presentation. Discussion by Commissioners. Brennan gave examples of other groups who are interested in Lottery products such as the Compass Group, American Travel, InfoPlace, and Delaware North. (See attached slides)

8. Consent Calendar

There were no items on the Consent Calendar.

9. Action Items

a. Scratchers® Game Profiles for Games 561, 563, 564, 565, and 566 Profiles Susan Kossack, Deputy Director of Marketing, introduced the five Scratchers® games for August and September. Game 561, "Lemon Twist" is a \$1 Tic-Tac-Toe playstyle with a top prize of \$500 and overall odds of winning are 1 in 5.30. Game 563 "Super 888" is a \$2 game to promote the once-in-a-millennium date of 08-08-08. With a Key Number Match playstyle and ten chances to win, players also have increased chances to win prizes from \$8 to \$88. The game is funded with \$18 million in cash prizes and offers an \$8,000 top prize. The overall odds of winning a prize are 1 in 4.31.

Game 564 is a \$1 game called "Double Doubler". It has a Match 3 playstyle with a specific variant and offers a top prize of \$2,000 with overall odds of winning at 1 in 5.38. Game 565 is a \$2 game that features the riches of gold with a Key Symbol Match playstyle. Players have ten chances on each ticket to reveal gold bar symbols as well as \$50 automatically if a different specified symbol is revealed. The top prize for the game is \$14,000 and the overall odds of winning are 1 in 4.87. Game 566 is called "Diamond Mine" and is a \$3 game utilizing gem-inspired graphics with a Key Number Match playstyle. The top prize is \$25,000 with overall odds of winning at 1 in 3.94.

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.

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

b. Revised FY 2007-08 Sales Goal and Revised FY 2007-08 Budget
Pat Meroney, Acting Deputy Director of Finance, presented to the Commission a
revision to the current year budget. On June 27, 2007, the Commission adopted
a budget for fiscal year 2007-08 and the budget was based on a sales goal of
3.35 billion and revenues for education of \$1.185 billion. Meroney stated that the
issue memo had a typo that read "1.18 million" to education and it should read
\$1.185 billion." Despite implementing innovative and ground-breaking strategies
outlined in the Business Plan and achieving some very significant milestones this
fiscal year, sales are behind the pace necessary to achieve the \$3.35 billion

sales goal. Sales to date and current projections would indicate a revised sales goal of \$3.075 billion, a decrease of \$275 million, or about eight percent.

The budget now proposed reflects the related adjustments to the prize fund and the administrative expenses to bring the budget in balance and ensure that education receives their 34 percent entitlement. The adjustments result in the Lottery's education contribution coming in at \$1.091 billion, a \$94 million decrease, or about an eight percent decrease from the original projection.

The largest decline is in the Scratchers®, approximately \$210 million below the original forecast, or about a 12 percent decline. The level of Scratchers® sales that can be supported is influenced by the aggregate pay-out for the product, which is dependent on the amount of other prize funding that can be diverted to Scratchers® prizes and the amount of administrative savings. The overall pay-out for Scratchers® was reduced from 58 and a half last year, to a budget of 57 and a half. The actual pay-out will be closer to 58.1, however the game declines with players experiencing few winning experiences.

For the combined Lotto games, MEGA Millions® and SuperLOTTO Plus®, the revised sales goal is \$1.02 billion, only a \$30 million decrease from the original budget. Hot Spot is forecasted at a revised sales goal of \$135 million, a decrease of \$15 million from the original budget. For the Daily games, a revised sales goal is forecasted at \$321 million, an \$11 million increase. All products are above the budget, with the largest increase associated with Daily Derby. The game will have about a 45 percent sales increase which is attributed to an unusually large jackpot earlier this year.

The budget included a forecast of \$40 million for potentially two raffle games. Only one was launched, resulting in sales of \$9 million. Research indicates that there was relatively low awareness of the raffle game, therefore additional raffle games are not planned until the low awareness can be addressed. Staff will continue to monitor sales and expenditures and will keep the Commission informed as the Lottery closes out the year.

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.

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

c. 2008-09 Business Plan Strategies

Jim Hasegawa, Deputy Director of Business Planning, outlined the Business Plan strategies for Fiscal Year 2008-09. The strategies come directly from the components of the long-term Business Plan that was approved by the Commission June 27, 2007. The strategic components include focusing on long-term planning, improving the brand image, shifting the jackpot paradigm, and

modernizing operations. The Commissions approval of the outlined strategies will allow staff to begin the process of more fully developing the programs and the budget required to implement the initiatives as part of the FY 2008-09 Business Plan and Budget. The final will be presented for approval at the June 2008 Commission Meeting. Hasegawa presented highlights of some key trends in the industry, as well as certain programs that were conducted the past fiscal year. Also presented was information included within the specific plan strategies to highlight the reasons for existence.

Many lottery states including California, experienced declines last fiscal year in sales, including some instant ticket sales. Roughly half of California adults have played a Lottery product in the past year, but this proportion is down about ten percentage points in the past five years. This decline is possibly due to the lack of game awareness, especially a decline in both SuperLOTTO Plus® and Scratchers® games. Game awareness is related to the type and level of advertising and other marketing efforts done by any company. A new marketing campaign for SuperLOTTO Plus® began in mid-January 2008, the "Only" campaign tries to break the jackpot paradigm. SuperLOTTO Plus® sales for draws where the jackpots were at the lower levels of \$7 million to \$11 million, were up over seven percent over data fro the first six months of the fiscal year at comparable jackpot levels. MEGA Millions® also saw gains.

Approximately 7,000 electronic point-of-sale devices were installed over the October through March period and some preliminary analysis showed a positive impact on store sales. Enhancements that are being planned for the devices for next fiscal year include direct messages to specific areas to provide more localized and regionalized winner information. Discussion by Commissioners. Hasegawa stated that a review of the Lottery brand revealed a need to improve the overall brand image. The improvement will increase the number of Californians that are participating with the Lottery and increase the success of new product introductions. This strategic initiative will not be achieved by just having new messages in advertising, but will be accomplished by improving the products, promotions, and customer service at the Lottery. Staff is working to communicate that real people do win all across California and the Lottery provides entertainment, excitement, and a good value for the dollar. The final component is to show the public that the Lottery is a responsible corporate member of the community and the State of California. It fulfills its mandate by providing a small but important source of funding for public schools. Discussion by Commissioners.

In terms of shifting the jackpot paradigm, there will be initiatives designed to have Californians consider playing outside of the big jackpot periods. The component is important for California because about 31 percent of sales come from bigger jackpot games such as SuperLOTTO Plus® and MEGA Millions®. It is important for the Lottery to not rely on big jackpot periods to get sales; more continuous, regular play is needed. Borucki stated that other states do not have the prize

> pay-out restrictions that California has. Therefore they can offer much better payouts in the Scratchers® product. Some of the programs to shift the jackpot paradigm will include: new marketing of the Lotto Games, the Marketing of the Daily Games as one group; research, development, and potentially launch a Lottery Players Club; and research of new games for the future. Discussion by Commissioners.

> To modernize operations, staff wants to use technology to update processes that will minimize or eliminate manual methods. The Lottery needs to invest in its infrastructure for new types of gaming equipment as well as additional locations to sell. These improvements include obtaining additional equipment for existing retailers, such as the Electronic Point-of-Sale devices, as well as upgrading the facilities of the Lottery's Sales staff, warehouse and district offices. Another project involves a new telephone interactive voice response system that will have more capabilities and more services to replace outdated equipment. Borucki stated that Grant Thornton looked at the Lottery's "Backoffice Systems" which include the financial and administrative system and the gaming system. Grant Thornton will be looking at trying to streamline the systems to make is simpler for staff and retailers to get quicker access to a large amount of information. Other areas for improvement include better inventory control of the Scratchers® product, both at the Lottery and at the retailers. (See attached slides)

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.

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

d. Marketing Plan Strategies

Brennan stated that the Business Plan included long-term planning, improving the brand image, changing the paradigm and modernizing operations, which is encompassed in the Marketing Plan. When the long-term planning was looked at, the focus groups expressed negative comments about the brand. Because of several factors, it has been difficult to have any kind of long-term or even midterm planning. The Lottery has a fixed profit margin, a singular focus on prize pay-outs and a neglect of the brand image. Marketing has a small budget and money has gone back into the Scratchers® payouts. It has been difficult to introduce new games or promotions, therefore there has been a decrease in playership, and sales and profits have been dropping. BBDO West was asked to review the Lottery brand as a whole and found out that the Lottery did not have a very good image. The retailers however, felt very good about the Lottery because staff spends a good amount of time communicating with them through visits, websites, product plans, and the retailer newsletter.

Together with some strategies and research, a new campaign has been put together to build the brand and make it stronger. The Lottery wants to convey

that it is fun, exciting, and full of energy. The Lottery wants to tell a story so people will understand that there is winning going around them, and that the money does go to public schools and it does enhance their life here in California. Staff wants to reduce any barriers to play, increase playership, and leverage a strong brand to easily introduce new products. The focus will be on brand messaging that will emphasize fun, excitement, and winning with the Lottery's retailers, with its consumers, with lapsed players, and for those thinking about a low cost gaming experience. It will also focus on how the Lottery treats its players, retailers, salespeople, workforce and winners. Staff will conduct a review of the Lottery's customer service and the relationship with our beneficiary and be open and transparent.

The "State of Winning" campaign had a million people submit applications, 80 percent submitted online and 20 percent by mail. The Lottery will focus on real winners and staff is working with GTECH for some programming so that if there is a winner in a retail area, that winner will come up. Staff will also focus on a range of prize levels. Brennan showed the Commission the various posters for the April promotion which led to some free media by a local television station. Daily 4 posters were up in stores and had a very successful launch. Staff is also seeing an increase at the lower jackpot levels.

In July, the Milk Council tie-in Scratchers® will be introduced. It will have some cross-promotions and will be in USA Magazine and the Parade Magazine. In August, staff will be close to finalizing all point-of-sale on the Month of Winning, which will be two weeks of promotions for SuperLOTTO Plus® and MEGA Millions® and then a week each of higher jackpots for Daily 3 and Daily 4. Staff will be releasing the new TV Game Scratchers® and is close to having a winning bidder of the new TV Game Show, hopefully in the next week or two and will be on the Commission agenda for June. Once awarded, the new game show will premier in October, during the October sweeps, along with some promotions. In September and October, the brand will launch some exciting events and staff will be working on the brand advertising campaign. The Hot Spot® promotion will be in November and the holiday season campaign, mostly centered around the Scratchers®, will be in November and December.

The brand launch and campaign is about the organization, the players and how we touch and impact them and their Lottery experience with the image being a representation of it. Approximately 500 logos were narrowed down to four with the research being done by Business Planning. The logo needed to communicate "New and improved Lottery, fun and excitement, optimism." Discussion by Commissioners. For the second half of the fiscal year, staff has done 15 of the snippets for the State of Winning Promotion for SuperLOTTO Plus®. In April, staff will do a promotion with the Triple Play, and Daily 3®, Daily 4, and Fantasy 5 will have their own play slip and logo for the promotion. For May and June, the Lottery will announce the coming out of a second chance draw for all Scratchers® and support it with some more brand support. In June,

staff will be working on a Scratchers® that will crossover to an online prize, possibly Fantasy 5.

Brennan went over Fiscal Year 2009-10. Staff will be working on the following: Quick Pick® card test, Scratchers® promotion tie-in, New Monitor Game, Loyalty program kick-off, Holiday Campaign, New Lotto Game with Retailer and Consumer promotions, Monitor Game promotion with crossover Scratchers®, TV Show promotion, and Scratchers® promotion tie-in. (See attached slides)

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

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

e. Amendments to Lottery Regulations—Retailer Compensation Brennan asked the Commission to adopt amendments to the regulations to give the Director of the Lottery the authority and flexibility to enter into alternative compensation agreements with retail partners operating different business models than traditional retailers. The Commission approved regulations changes in February 2007 that gave the director the authority to enter into alternative compensation agreements to pilot-test new business models. The pilot test was with CVS Pharmacy and began early March 2007 with a total of 29 locations. 17

with CVS Pharmacy and began early March 2007 with a total of 29 locations, 17 of the stores were existing Lottery retailers and 12 stores had never sold Lottery products.

At all pilot locations, self-service devices sold both Scratchers® and draw-game tickets out of the same machine. A different business model between the Lottery

tickets out of the same machine. A different business model between the Lottery and the retailer was tested and the Lottery had significantly more responsibilities over the equipment and tickets than with other retailers. With less responsibility, CVS did not receive compensation based on the traditional form of percentage of sales. Staff is proposing under section 8880.51 of the Lottery Act, it stipulates that unless the Commission shall otherwise determine, the compensation paid the Lottery game retailers shall be a minimum of 5 percent of the retail price of the tickets or shares. The proposed regulation amendment grants the director the authority to negotiate and develop alternative ways of doing business with other retail organizations, including plans that result in compensation that is less than 5 percent of retail sales. The regulations call for the Chair of the Commission to consent to the alternative compensation model prior to its becoming effective. In addition, the director will report to the Commission on a bi-annual basis to inform them of the various compensation packages being used by the Lottery. Allowing the director to negotiate and enter into new business models and alternate compensation structures will allow the Lottery to keep up with changing consumer habits and retail trends.

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.

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

f. Amendments to Lottery Regulations-Employee Recognition

Kate Killeen, Acting Chief Counsel, presented to the Commission a goal to allow the director to implement employee-recognition programs equivalent to those offered by other state agencies in California. The programs would be consistent with the State Merit Award Program, offered by the Department of Personnel Administration, as well as their parameters for recognition of state employees who have served 25 years on behalf of the state. Examples consist of three

main categories: 25 years in state service, a merit award program for superior accomplishment, and merit award programs for employee suggestions. Any award authorized would use administrative funds and expenses; and those would not exceed in value those authorized pursuant to the Government Code for applicable programs.

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.

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

g. <u>Solicit Proposals for Design and Construction contract for a Replacement</u> Headquarters Facility

Terry Murphy, Deputy Director of Special Projects, asked the Commission to approve the advertisement for a contract to perform the final design and construction nof a new headquarters facility. In October 2007, the Commission approved to move forward with looking into the design of a new facility. Since October, consultants were hired to look at the entire 13-acre Lottery site. In keeping with the business plan and looking at the long-term overall operation. staff determined that a new headquarters facility was needed and did some preliminary design work with a size and shape. The contract would also cover going through the city entitlement process for whatever the ultimate site plan would be. The site planning and preliminary design for the headquarters has been completed. The phased approach site plan will look at first constructing a new headquarters facility with a potential future development of the site to add lease space that the Lottery could lease to other tenants, and offset operating expenses, particularly those related to the facility itself. Consultants did a thorough financial analysis of the various alternatives, which was good news on the headquarters building only. It would move to construct a new headquarters facility on the north end of the site, where existing Building D is, and construct that while we were still operating here in these buildings, which would mean no

> impact to the Lottery staff during construction. Once completed, it would open up the rest of the site for either utilizing this building to lease out as is or perhaps additional development.

> For the preliminary design of the new building, the consultant used existing studies that were done and brought them up current with a team of Lottery staff, looking at each division and their needs, and then coming up again with the size and shape of the building. The proposal is for a six story, roughly 148,000 square foot building. Included in that is about 3,000 square feet of retail space for a deli and coffee shop. Murphy stated that the current building is about 184,000 square feet and the new building proposed is 148,000, which is getting down to the right size that is needed for staff. The new building would be ADA-compliant and it would be a LEED-certified building (green building) and operationally superior to the current facility. The approval is to move forward with the solicitation for design and construction and the approval to award contracts would come back to the Commission at a future meeting.

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

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

10. Commissioner General Discussion

Commission Ortega thanked Terry Murphy for meeting individually with the Commissioners for a briefing on the new headquarters facility. Flores asked Michael Brennan for additional demographic information on marketing strategies.

11. Scheduling Next Meetings

The next Commission meetings for 2008 are tentatively scheduled for June 25, 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 12:28 p.m.