

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – August 20, 2008

Sacramento, California

1. Call to Order

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 10:00 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 Elisa Topete to call the roll.

Commission Members Present:

Commissioner Manuel Ortega
Commissioner Rachel Montes
Commissioner Cynthia Flores
Chairman John Mass

CSL Staff and presenters:

Joan Borucki, Director
Kate Killeen, Acting Chief Legal Counsel
Heather Lambert, Deputy Director of Communications
Michael Brennan, Deputy Director of Sales/Marketing
Bill Hertoghe, Deputy Director of Security/Law Enforcement
Cassandra Lichnock, Deputy Director of Human Resources
Susan Kossack, Deputy Director of Marketing
Richard Woonacott, Acting Executive Director, Office of Problem Gambling
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 August 20, 2008 agenda as proposed. Joan Borucki, Director, requested Action Item 9(c) be pulled from the agenda. Ortega moved to approve the amended agenda. Seconded by Montes. The motion passed unanimously (4-0).

5. Approval of Minutes

Mass asked if there were any additions or corrections to the July 16, 2008 minutes. Flores moved to approve the minutes. Seconded by Montes. The motion passed unanimously (4-0).

6. Commission Liaison Reports

Commissioner Flores:

As Audit Liaison, Flores was briefed by staff on the following: the State Controller's Office will start two new audits in July; contract-compliance audit of the GTECH contract and also the fleet management audit, both audits are for the two-year period that is going to end June 30, 2008. The State Controller's Office held an exit conference for the office revolving fund audit. Internal Audits had not yet received the draft audit report to formally respond to the three cited audit findings. Field work was completed by the State Controller's Office on the CalCard and KPMG draw-observation contract audits, however Internal Audits is waiting for scheduled exit conferences and the audit reports are to follow. The KPMG auditors are continuing to work on the annual financial statement audit for the year ending June 30, 2008. The audit report is scheduled for release in mid-October 2008.

Commissioner Montes:

Montes had nothing to report.

Commissioner Ortega:

As Security Liaison, Ortega was updated on the results of the retailer redemption compliance program stings conducted throughout the state by the undercover investigators from the Lottery. The RIM system (case management system) has been functioning for two months. Ortega announced that Helen Brean was promoted to Supervisory Lottery Agent. The Security/Law Enforcement Division (S/LED) is currently in recruitment for two additional investigators and a civilian analyst. The Lottery investigators are participating with law enforcement from the Modesto area on a regional task force and have arrested several suspects for multiple burglaries of retail businesses. Investigators have associated the suspects to more than 20 burglaries.

Chairman Mass:

As Procurement Liaison, Mass was briefed by staff and requested approval on the following projects: Non-competitive contract with Sun Data for statistical consulting services in the evaluation and analysis of the Lottery's draw equipment, for performance of randomness. The contract term will be from October 1, 2008 to September 30, 2011. The total cost of the initial contract will be \$200,000. A non-competitive contract for Wilson Sonsini Goodrich & Rosati, a Professional Law Firm Corporation, will provide the Lottery with legal advice and counsel in the area of intellectual property law. The contract is from August 15, 2008 through August 14, 2010, with the option to extend two additional one-year periods. The contract is in the amount of \$200,000.

As Marketing Liaison, Mass was updated by staff on the following: The continuation of the Happy Cow Scratchers® co-promotion with the California Milk Advisory Board, which includes a Happy Cow Scratchers® game, will be launched in July and featured at consumer promotions at various state and county fairs. The California Milk Advisory Board also continues to include a link to the Lottery's website.

The Lottery continues conducting the second-chance consumer promotion where players can win one of five \$1,000 prizes by entering non-winning tickets. The "Summer of Winning" campaign will run in August with a variety of promotions designed to increase participation. It awards more winners and more prizes for SuperLOTTO Plus®, MEGA Millions®, Daily 3®, Daily 4, and Hot Spot® games. The new brand Point-of-Sales materials are scheduled to be completed by the end of August. Many retailers favorably reported liking the Lottery's refreshing new look.

7. Director's Report

Joan Borucki stated that in the past, the Lottery operated its own problem-gambling hotline. This year, the Lottery plans to partner, per the Commission's direction, with the Office of Problem Gambling. The Lottery will give \$250,000, which is a substantial increase from past years. Borucki introduced Richard Woonacott of the Office of Problem Gambling.

a. Office of Problem Gambling

Richard Woonacott, Acting Executive Director, thanked the Lottery for funding \$250,000 to the Office of Problem Gambling. The funding will be used to further the use of help lines and will also be going to the Tulare County Office of Education to assist with youth programs. Borucki asked Woonacott to return and provide progress reports on the youth outreach programs.

b. Legislative and Outreach Updates

Heather Lambert, Deputy Director of Communications, reported that the League of California Cities Conference is in September and the Lottery will be in attendance in an effort to reach out to local government officials to make them aware of how the Lottery functions. The Lottery will be sponsoring the Women's Conference in Long Beach on October 22.

Staff has been monitoring various legislative bills. A new bill that has surfaced is Assembly Bill 1781, which is the budget bill for the current fiscal year. The bill offers the Lottery some modernizations, and would allow some prize pay-out relief. It will allow the Lottery to retain earnings from year to year, as well as retain unclaimed prizes and interest income. It would also provide some procurement and security flexibility when it pertains to retailers. It would allocate a million dollars annually to the Office of Problem Gambling. The Senate is working on its own legislation for the budget.

Lambert updated the Commission on media relations in particular concerning the Corona 5 of 5 ticket which is worth approximately \$175,000. The media was notified when the draw occurred and the ticket ultimately went unclaimed. Staff looked at the media coverage over the course of six months and was pleased at their accomplishment of obtaining coverage for a lower-level prize. It was covered in three media markets and by all major networks in Los Angeles. All of the local papers in the area covered the ticket and over the course of six months, the Lottery received

nine print stories, 59 television stories and four radio stories and hit 6.8 million impressions or circulation with this particular story. Staff was not only able to relay the message that the Lottery had a winner, but that we were looking for the winner.

Lambert introduced Eric Alborg as the new Assistant Press Secretary and Monique Blue would be joining Communications in September as a Public Information Officer. Lambert also stated that members of her staff, in particular Cathy Johnston, were able to convince two recent jackpot winners to do press releases; one in Fresno and one in Los Angeles which garnered significant press. Often times, winners want to remain anonymous and staff certainly respects that, however the recent winners gained a level of comfort with staff to do interviews. Ortega requested that the Commissioners be notified of SuperLOTTO Plus® and MEGA Millions® winners.

Discussion by Commissioners.

c. Consumer Protection

Bill Hertoghe, Deputy Director of Security/Law Enforcement Division (S/LED) stated that staff has been working on a strategic plan with various deputy directors and departments in the Lottery. Staff has developed engineering, education, and enforcement principles to identify some of the initiatives and how they evolve.

The K-9 alert is a feature that alerts the Lottery if there is aberrant gambling activity at a particular retailer site. S/LED would like to expand the alerts to include not only real time gaming activity, but over a period of time. For instance, a store that normally does \$5,000 in sales all of a sudden does \$20,000 in sales, would be an alert to the Lottery from GTECH that it is unusual activity and would lead to some type of investigation. Oftentimes, the investigation would conclude embezzlement by a clerk stealing from the store. The alert will protect the consumer as well as the retailer.

The Undercover Compliance Program sends undercover investigators in with Scratchers® tickets to see if retailers properly redeem the ticket, steal the ticket, pay less than the prize amount or discount the ticket. Staff is working with Scientific Games on the development of the ticket packs as well as the placement of bar codes under the latex of Scratchers® tickets. The bar code will allow the ticket to be scanned by the Check-a-Tickets to provide the consumer with information that not only tells them if they won a prize on a Scratchers® ticket, but the amount of the prize. The goal is to get 100 percent Check-a-Ticket capabilities in every retailer.

Hertoghe went over public awareness and website enhancements to allow the consumer to inquire about a possible winning ticket online. Players would also have the capability to file a claim electronically and staff would have a better tracking system of the claim. S/LED is working on fraud notifications via the website to create some type of alert to the consumer. Staff is looking at an online citizen reporting system that could be filed and would interact with S/LED's Records Information System or Management System, to allow staff to track complaints that do not necessarily go through the Call

Center. S/LED is working with Corporate Communications on revising the "Don't be a victim" pamphlet to be distributed to all retailers.

Discussion by Commissioners.

d. Succession Planning

Cassandra Lichnock, Deputy Director of Human Resources, provided an update on the Lottery's Succession Plan. For the Comprehensive Training Program, staff met with several vendors regarding the development of the components of the leadership and executive management academies. The Lottery met with Los Rios Community Colleges to discuss a program development and staff will be meeting with CSUS to solicit a proposal from them as well. Other agencies and private companies are also being contacted to identify any other vendors that may specialize in leadership and executive management development for further solicitation.

Staff has researched various knowledge transfer strategies. The next step will be to identify the practical application for implementation of using the tactics, along with the developing performance measurements for their success. Lichnock stated that a plan for upward mobility will identify components of each division, along with the typical promotional paths within each division. The tool will allow management and staff to use it in career-mapping, along with individual and organizational development. It will also assist managers to identify potential gaps which may exist within their organization for upward mobility.

On classification changes, staff has established a new classification in the Sales Division called Route Sales Representative and an open examination is being developed to recruit candidates for eligibility for appointment to this new class. The District Sales Representative classification changes have been agreed upon and approved by the State Personnel Board (SPB). An agreement on salary has not yet been reached with the Union. The Lottery Agent classification changes have been submitted to Department of Personnel Administration for further analysis, SPB approval, and potential Union negotiations.

Discussion by Commissioners.

e. Marketing Presentation

Michael Brennan, Deputy Director of Sales/Marketing, reported that the Happy Cows are continuing to sell well at about half a million dollars a week and are the theme for the Lottery's contests at fairs. For the month of August, the "Summer of Winning" is a second chance draw for players who purchase SuperLOTTO Plus® or MEGA Millions® to enter a sweepstakes on the Web for a chance at 888 winners of \$800 for the first two weeks. The third week will promote Daily 3® and the last week of the month will be Daily 4. The Lottery had a \$2 Super 8 Scratchers® and from August 1-17, there was a Hot Spot® promotion on the 8 spots where there were large prizes and more winners for the 5 of 8, 6 of 8, 7 of 8, and 8 of 8 spots.

Staff has found an opportunity to participate in the California Speedway in Fontana from August 28-31. The Lottery will be selling tickets and conducting the Daily 4 Game Fest. Brennan stated that the new Point-of-Sale materials are out in retail stores and showed examples of new banners and signs (see attached slides), and the self-service terminals will incorporate the new colors. In September, the "Only" campaign which states, "Isn't any jackpot worth playing for" will be back on the air. An analysis by the Business Planning Unit showed there was a seven percent increase in sales when the campaign ran in February 2008. At the last Commission Meeting, Senator Florez suggested and asked the Lottery to consider gas as a prize and staff has come up with a gas give-away program. It will be done in October with a plan to do seven gas give-aways.

Brennan stated that the Lottery will be working with the Breeders Cup in Santa Anita. The promotion will be from October 12-24, and players will have an opportunity to purchase any draw game except Fantasy 5 (which already has a coupon associated to it) to obtain an entry coupon to go online to enter and be assigned three horses. It will be assigned as QuickPick® and if the horses come in first, second, or third, players will be eligible for a drawing with \$50,000 in prizes and 350 total winners. If the horses get scratched, the player will get the favorite and if they already have the favorite, they will get the next favorite.

Brennan gave examples of the upcoming holiday Scratchers® "Let it Dough, Jingle Bucks, and Candy Cane Crossword." Staff predicts all three will be successful and will be tied to an opportunity to enter a second-chance drawing to for a chance to go to the new game show. The tickets will begin selling from November through the holiday season. On October 27, the new "Make Me a Millionaire" Scratchers® ticket will be out and will be associated with the new television show which is scheduled for January 17, 2009. Staff will introduce the exciting new addition of the game show as an example of the continued branding of the California Lottery and will be supported by advertising promotions and events in January and February.

Borucki congratulated the Finance Division for having received for the fifth consecutive year, the Certificate of Achievement for Excellence in Financial Reporting.

8. Consent Calendar

There were no items on the Consent Calendar.

9. Action Items

- a. Scratchers® Game Profiles for Games 575, 576, 577, 578, 579, and 580.
Susan Kossack, Deputy Director of Marketing, presented the Scratchers® games scheduled to launch in December 2008 and January 2009. Game 575 is a \$1 game called "Twice the Action." It offers two Match 3 playstyle games on one ticket with a top prize of \$1,000 and overall odds of winning are 1 in 4.97. Game 576 is a \$2 Key Number Match playstyle game. Players can win up to ten times on the game and the top prize is \$7,000 with overall odds of 1 in 4.41.

Game 577 is called "Super Instant Daily 4" and is a \$3 game that offers 15 chances (plays) to match "Your Numbers" to four "Draw Numbers." To reinforce the top prize of the actual draw game, the top prize is \$5,000 and overall odds of winning are 1 in 4.19. Game 578 is a \$1 game that will utilize a Match 3 playstyle with a specific variant. The top prize is \$3,000 and the odds of winning a prize are 1 in 4.97.

Game 579 is called "Double Play" and is a \$2 game that will have two ways to play and win. The game will have both Key Number Match and Match 3 playstyles on one ticket within the same game. Players can win both playstyles at the same time on each ticket, with the chance to win up to ten times. The top prize is \$10,000 and overall odds of winning are 1 in 4.43. Game 580 is a \$3 crossword game with a triple feature. The overall odds of winning are 1 in 3.37 and the top prize is \$20,000.

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.

Ortega made the motion to approve Action Item 9(a). Seconded by Flores. The motion passed unanimously (4-0).

b. Contract with Alcone Marketing Group for Marketing Promotions and Point-of-Sale Services

Kossack stated that the consumer marketing and promotions services used by the Lottery include the development, design, and implementation of the collateral Point-of-Sale materials and the development of consumer promotions. Retail Point-of-Sale services used by the Lottery include the design production of also the permanent exterior signage, banners, and product displays. The current contracts providing these services expire August 31, 2008.

On March 28, the Lottery released a Request for Proposal (RFP) which was posted on the Lottery's website and a variety of other places. In addition, it was advertised in seven print and newspaper publications. Four proposals were received as a result of the announcement from the following companies: Alcone Marketing Group, Creative Productions, Swirl Incorporated, and Traver Hispanic Marketing Group.

The rating scale used during the evaluation process was as follows: Superior, Significantly Exceeds, Exceeds, Meets, Meets with Exception, and Does not Meet. Alcone Marketing Group and Creative Productions advanced to the final competition, which consisted of a case study and presentation. On June 25, the presentations were held at the bidders' offices. Price sheets were evaluated and Alcone Marketing Group's price was \$4,641,196 less than Creative Productions. On July 25, 2008, Alcone Marketing Group was announced as the

apparent successful bidder as the result of being awarded an overall rating of "Significantly Exceeds." No protests were received in response to the announcement. The contract would commence September 1, 2008 for three years, with the option to extend up to three years, with a total contract expenditure of \$40 million.

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 (4-0).

10. Commissioner General Discussion

Commissioner Ortega mentioned seeing the Lottery store for the first time in the cafeteria. Borucki stated that the store is open approximately once a month for employees to purchase Lottery merchandise. Chairman Mass thanked Richard Woonacott of the Office of Problem Gambling, for the work they do for the state as well as for the community.

11. Scheduling Next Meetings

The next Commission meetings for 2008 are tentatively scheduled for October 15 at the San Bernardino County Government Center 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 11:05 a.m.