

# CALIFORNIA STATE LOTTERY COMMISSION

Minutes – July 16, 2008  
Sacramento, California

## **1. Call to Order**

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 10:02 a.m. at the California State Lottery Headquarters, 600 North 10<sup>th</sup> 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. Mass welcomed former California State Lottery Commissioner Apodaca, who was in the audience. Apodaca was a Lottery Commissioner for approximately nine years, from 1992-2001.

### Commission Members Present:

Commissioner Manuel Ortega  
Commissioner Rachel Montes  
Commissioner Cynthia Flores (via telephone)  
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  
Ellen Ishimoto, Deputy Director of Information Technology Services  
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 July 16, 2008 agenda as proposed. Ortega moved to approve the 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 June 25, 2008 minutes. Flores moved to approve the minutes. Seconded by Montes. The motion passed unanimously (4-0).

## **6. Commission Liaison Reports**

### **Commissioner Flores:**

As Audits Liaison, Flores was updated by staff on three audits. The first is the State Controller's Office audits: Office Revolving Fund Audit-the audit field work is complete and an exit conference is scheduled for July 10, 2008. The audit report may be issued at the end of July or in August. Potential audit findings have not been formally presented to the Lottery; CAL-Card Audit-the audit field work is on-going and the estimated completion date is the end of July 2008. The audit report may be issued in late July or in August. Potential audit findings have not been formally presented to the Lottery; KPMG Draw Observation Contract-the audit field work is complete however, no exit conference has been scheduled. The audit report may be issued in late July or in August. Potential audit findings have not been formally presented to the Lottery.

The second is the KPMG Audit: Financial State Audit - the audit field work is on-going and the estimated completion date and issuance of the audit report is mid-October 2008. Potential audit finds have not been formally presented to the Lottery; Draw Observation Reviews-KPMG continues to observe and report on the Lottery's daily draws. No significant findings to report.

The third audit is the SAS 70 Audit. As required, GTECH receives a SAS 70 Audit every year. The GTECH SAS 70 final audit report was completed and issued on June 30, 2008 by Price, Waterhouse, Coopers (PWC) for the time period May 1, 2007 through April 30, 2008. An unqualified audit opinion was rendered. There was a major improvement in the number of exceptions noted from the prior year. Only three minor testing exceptions were noted for the current year.

As Education Liaison, staff updated Flores on the following: Communications and Outreach Division sent a letter to every single education beneficiary regarding the budgetary adjustments made at the May Commission Meeting. The letter was sent to allow the beneficiaries of Lottery's education funding, the ability to make necessary budget adjustments, per the Lottery's forecasts; Utilizing existing marketing partnerships with the Major League Baseball stadiums, the Director and Superintendent of Public Instruction Jack O'Connell, honored the 2008 California Teachers of the Year in an on-field presentation at the Angels game on May 28. Additional acknowledgements are scheduled for the remainder of the baseball season; Staff continues to field questions from various education groups to clarify some of the concepts proposed in the May Budget Revision.

### **Commissioner Montes:**

Montes had nothing to report.

### **Commissioner Ortega:**

As Security Liaison, Ortega attended the National Council on Problem Gambling Conference in Long Beach, June 26-28, 2008. Ortega was advised by the Security/Law

Enforcement Division (S/LED) of the proposed reorganization of S/LED and the timeline for implementing the changes. The division will add two supervisors (one north and one south) to the Investigations Bureau to enhance accountability and oversight of field staff. Ortega discussed the recent and pending law enforcement outreach events including presentations at: the California District Attorneys' Association's Annual Conference; the Neighborhood Market Association Annual Conference; and the San Diego County Consumer Protection clergy luncheon. Ortega was also briefed on the arrest of two retailers and two clerks in Northern California as part of the Lottery's Retailer Redemption Compliance Program.

**Chairman Mass:**

As Procurement Liaison, Mass was briefed by staff and requested approval on a non-competitive contract with Infiniti Consulting Group, Inc. for the amount of \$160,000. Infiniti will provide project management support for the Lottery's Facilities Operations Department.

As Marketing Liaison, Mass was briefed on the Happy Cows Scratchers® co-promotion with the California Milk Advisory Board (CMAB) which includes: The launch of the \$1 Happy Cows Scratchers® in July with four different scenes. The CMAB ran animated Scratchers® teaser ads on its home page through June, and in July they included a link to the Lottery's website. The Scratchers® are mentioned in the California editions of Parade Magazine and USA Weekend, and ads are running in the LA Times, San Diego Tribune and SF Chronicle. The Happy Cows Scratchers® and consumer promotions will be featured at several fairs throughout the Summer fair season. The Lottery is also conducting a second chance consumer promotion where consumers can win one of five \$1,000 prizes by entering non-winning tickets via the Lottery's website and by mail.

**7. Director's Report**

Joan Borucki, Director, introduced the new Deputy Director of Finance, Michael Ota. Borucki received a letter from the State Controller congratulating the Lottery on achieving excellence in financial reporting. Borucki acknowledge Dawn Cornsilk and staff who work diligently to achieve the award.

**a. Legislative and Outreach Updates**

Heather Lambert, Deputy Director of Communications, reported that staff attended the California District Attorney's Association conferences. Both Legal and Security staff reached out to the D.A., regarding consumer protection and outreach efforts and received very positive responses. The media relations area has had progress with pitching the Happy Cows Scratchers® in areas where agriculture and dairy is prominent, such as the California Farm Bureau Federation who will run an article to its membership. Lambert's staff is also working on raising awareness about an unclaimed prize in Corona. It was approximately a \$175,000 5-of-5 MEGA Millions® prize that is set to expire in the month of July.

Borucki announced that Senator Florez was in the audience and asked the Senator to come up and speak before the Commissioner. Florez thanked Borucki for being the driving force in terms of trying to modernize the Lottery. Florez suggested that the Lottery look into a gas program that the Florida Lottery has implemented. Given the high price of gas and seeing that there is a huge consumer interest in it, the proposal would be part of modernizing the Lottery. Florez believes it is a game that can be implemented under current law. Florez stated that his staff has been receiving numerous phone inquiries asking when California can participate in a program to provide players some "relief at the pump." The Senator suggested a \$5 ticket for the program so that it will raise good funds for education as well. Florez stated that a Legislative Counsel Opinion would be quickly sent to Borucki. Discussion by Commissioners. Florez was impressed with the Lottery's long-range plan. It is a blueprint that has long-lasting value for California.

### **8. Consent Calendar**

- a. Central Valley District Office Lease Extension Agreement
- b. South San Francisco District Office Lease Extension Agreement
- c. Van Nuys District Office Lease Extension Amendment

Montes made the motion to approve Consent Calendar Items 8(a), 8(b), and 8(c). Seconded by Ortega. The motion passed unanimously (4-0).

### **9. Action Items**

- a. Contract Award for Lottery Television Show Production

Mass stated that in his full-time capacity, he works as Executive Vice President of the William Morris Agency, which is an entertainment agency in Beverly Hills. His company represents a number of different individuals including; actors, writers, directors, musicians, producers and production companies. One of the companies that his agency represents, 3 Ball, may present a conflict of interest. Government Code section 87105(a) (1) states: "Immediately before consideration of a matter that raises a conflict or potential conflict of interest, the public official shall publicly identify the financial interest that gives rise to the conflict of interest, or potential conflict of interest in detail, sufficient to be understood by the public." Before proceeding to Action Item 9(a) Mass stated, "After consultation with the Lottery, I have concluded that there may be a conflict of interest regarding Action Item 9(a). I hold a management position with William Morris Agency, a talent and literary agency. William Morris represents the apparent successful bidder, 3 Ball Productions and Milestone Entertainment. As a result, I decided to recuse myself from the discussion and vote of Action Item 9(a)." Mass left the room before the discussion and vote of Action Item 9(a) and turned the gavel over to Co-Chairman Montes.

Michael Brennan, Deputy Director of Sales/Marketing, presented to the Commission, a contract award to the joint venture of 3 Ball Productions and

Milestone Entertainment, for the production of a new California State Lottery television show. Staff recommends the award of a four-year contract to 3 Ball for the Lottery television production, with a total expenditure authority of \$14 million.

As part of the Business Plan, the Lottery has undertaken a major rebranding effort to improve its brand image, to attract new consumers that will increase playership and build sales and profits for the future. A critical factor in the effort is to improve the Lottery's image through the development of exciting and fun products, promotions, and communication vehicles, including the weekly half-hour TV game show. Findings of a brand audit conducted in 2007 revealed that the television show could benefit from being updated to increase its entertainment value. A strategic initiative was identified in the 2007-2010 Lottery Business Plan to use the high visibility and strong brand equity of The Big Spin® show to reinforce the Lottery's brand image by issuing a Request for Proposal (RFP) for the creative development and production of a new television show.

On November 5, 2007, the RFP was posted on the Lottery's Website, and a letter of notification was sent to 66 vendors. In addition, the RFP was advertised in the Small-Business Change, Disabled Veteran Voice, California State Contracts Register, and on the Broadcasting and Cable Website. From that, eight proposals were received in response and an evaluation of the proposals consisted of three phases: mandatory submittals, rated submittals, and the finalist competition. Eight passed the mandatory submittals phase and were advanced to the next phase of the evaluation process which was assessed using the rating "superior," "significantly exceeds," "exceeds," "meets with exception," and "does not meet."

Based on the overall rating of "exceeds," five bidders were advanced to the finalist competition, which consisted of a finalist case study and a presentation, optional Small and Micro-Business participation, mandatory Disabled Veteran Business Enterprise participation, the cost proposal assessment, and contractor background information. On February 26, 2008, briefings were held with each of the five finalists to address questions regarding the finalist study and presentation. After the briefing, KCET notified the Lottery in writing that it was withdrawing its bid proposal for the new TV show for unspecified reasons.

Pursuant to the Lottery Act, in terms of the RFP, the contract is to be awarded to the Bidder that offers the best value to the Lottery. In accordance with the Lottery's Competitive Bidding Procedures, "best value" maximizes greater overall benefit and value to the Lottery. The proposal submitted by 3 Ball provided the best overall value for the Lottery and was the only proposal to achieve a rating of "superior" for the finalist case study. The cost proposal for 3 Ball was competitive and offered the lowest per-show production cost, and second-lowest cost of the four-year contract period.

On May 30, 2008, the Director announced 3 Ball as the apparent successful Bidder. Bidders were provided five business days to file an intent to protest, and an additional five days from their intent-to-file date to file a protest. No protests were received. Staff recommends awarding the four-year contract with up to two additional years and a total expenditure authority of \$14 million to 3 Ball Productions and Milestone Entertainment. Expenditures for the four-year contract include cost per show from Year 1 at \$35,500, to Year 4 of \$39,932. The contract also includes funding for the estimated four-year cost for hotel at \$506,000, transportation at \$92,000, set procurement at \$2.3 million and creative services at \$2.3 million. The new contract for the television show production is anticipated to commence on August 1, 2008.

Discussion by Commissioners.

Montes asked if anyone from the audience had any questions on Action Item 9(a). No one came forward so she 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. On-line Gaming Contract Extension

Ellen Ishimoto, Deputy Director of Information Technology Services, stated that the Lottery's six-year gaming contract began October 2003 and is due to expire in October 2009. The contract allows the Lottery to extend the term for up to four additional one-year periods. However, the Lottery must notify GTECH at least one year prior to exercising the extension, which is going to be October 2008. In exchange for the Lottery's agreement to exercise a four-year extension at the current base compensation rate of 1.36 percent, GTECH will provide the Lottery with a total value of over \$40 million. The value consists of equipment, gaming system enhancements, and discounts on equipment for future orders. The Lottery has a built-in tiered compensation structure which will reduce the compensation rate for sales above \$4 billion.

The Lottery's long-term business plan calls for retailer recruitment and improving the gaming systems. The proposed extension agreement provides the equipment needed for the new retailers and the upgraded gaming system. The amendment will provide the Lottery with greater value than what would have existed under the current contract extension terms. It is estimated that the Lottery would have spent an additional \$13.6 million to receive the same equipment and system upgrades under the current extension terms. GTECH will begin providing equipment and system enhancements immediately, which is over a year before the extension period begins. Staff recommended an amendment to the gaming system contract with GTECH Corporation for four additional years, at an amount not to exceed \$310 million, to cover the proposed extension and the remainder of the original contract.

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.

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

### **10. Commissioner General Discussion**

Montes welcomed Cheryl Conroy of the Minnesota State Lottery, who was visiting the California State Lottery.

### **11. Scheduling Next Meetings**

The next Commission meetings for 2008 are tentatively scheduled for 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 11:45 a.m.