

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – January 9, 2008

Sacramento, California

1. Call to Order

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 10:06 a.m. at the Governors Inn, 210 Richards Blvd., Sacramento, CA 95814.

2. Pledge of Allegiance

John Mass led the Pledge of Allegiance.

3. Roll Call

Mass asked Elisa Topete to call the roll. Mass explained why the California Lottery Commission was being held at the Governors Inn. The Lottery Headquarters building had a power outage and flooding due to a heavy storm that made most of the facility unusable. The Governors Inn, which is a mile from Lottery Headquarters, was available and was widely announced as the site of today's meeting. It was announced to the media, interested parties and on the Lottery's website. Mass announced that the meeting was being video-taped and that it would be available on the Lottery's website. Mass asked if anyone from the audience had any questions regarding the location of the meeting. No one responded so the meeting continued with the next item on the agenda.

Commission Members Present:

Commissioner Rachel Montes
Commissioner Manuel Ortega
Chairman John Mass

CSL Staff and presenters:

Joan Borucki, Director
Linh Nguyen, Chief Deputy Director
Kate Killeen, Acting Chief Legal Counsel
Heather Lambert, Deputy Director of Communications
Bill Hertoghe, Deputy Director of Security and Law Enforcement
Susan Kossack, Acting Deputy Director of Marketing
Patt Eberhart, Deputy Director of Operations
Elisa Topete, Assistant to the Commission
Joyce Crandall, Recording Secretary

4. Consider Approval of the Agenda

Mass asked if any of the Commissioners wanted to make changes to the January 9, 2008 agenda as proposed. Ortega moved to approve the amended agenda. Seconded by Montes. The motion passed unanimously (3-0).

5. Approval of Minutes

Mass asked if there were any additions or corrections to the October 16, 2007 minutes. Montes moved to approve the minutes. Seconded by Ortega. The motion passed unanimously (3-0).

6. Commission Liaison Reports

Commissioner Montes:

Montes had nothing to report.

Commissioner Ortega:

Ortega reported that Bill Hertoghe, Deputy Director of Security and Law Enforcement (S/LED), and Lou Mucci, Security Services Supervisor, attended the North American Association of State and Provincial Lotteries conference in Florida. The East Bay Office agents served a search warrant on a suspected burglar and recovered Scratchers® that had been stolen in Danville and Fremont. The two suspects were arrested for possession of stolen property and charged with two counts of burglary. The Santa Fe Springs Office agents are investigating an attempted theft of a \$100,000 Scratchers® ticket from a customer that had purchased it at a Whittier retailer.

Three S/LED employees staffed a vendor booth at the Peace Officers Research Association of California in Palm Desert. A Solano man who embezzled over \$400,000 in Lottery products from his former employer at Suisun City AM/PM store was convicted on multiple felony counts. S/LED is working on evaluating multiple case management systems to replace the current system that is more than 15 years old. Record Information Management System (RIMS) developed by Sun Ridge Systems Inc. of California, was determined to be the system most compatible with the Lottery's needs.

The Waste, Abuse & Fraud Hotline was launched the week of November 26 to afford confidential reporting of concerns by Lottery staff. The toll-free line will be run by the Deputy Director's Office in S/LED. Investigators from the East Bay District Office worked with San Jose Police detectives to solve a burglary series of commercial establishments. Ortega concluded by reporting that investigators presented a case to the Kern County Grand Jury involving embezzlement from a Bakersfield retailer at the request of the Kern County District Attorney's Office. Three former clerks were arrested for misreporting pay-outs to the store and taking cash from the register for the unreported difference.

Chairman Mass:

Mass advised that staff requested approval for a new successful bidder for the Modular Furniture Systems Services solicitation due to the disqualification of the previous

successful bidder. Staff also asked approval to release a competitive solicitation to procure the services of a contractor to provide television production services to the Lottery.

As Marketing Liaison, Mass was updated on the "WinnerWonderland" consumer events that were held across the state to introduce the new Holiday Lottery Products. In-store point of sale materials for the new year are in distribution and will be posted in January celebrating winners throughout the state with the "Winners. Every town has them" theme. The Lottery is in Request for Proposal (RFP) process for a new TV Game Show. A bidder's conference was held in November and 16 bidders notified the Lottery of their "Intent to Bid" on the RFP. Bid responses are due January 18 and the contract is expected to be awarded June 2008.

An interim SuperLOTTO Plus® campaign is in development, which encourages consumers to play SuperLOTTO Plus® at all jackpot levels because "Any jackpot is worth playing for." The campaign is scheduled for airing mid-January. Mass was also briefed on Action Items 9a, 9b, and 9c.

7. Director's Report

Joan Borucki, Director, introduced two new employees to the Lottery, Al Lundeen, Press Secretary, and Roberto Zavala, Chief of Internal Audits.

a. 2007 Annual Report to the Public

Heather Lambert, Deputy Director of Communications, went over the 2007 Annual Report to the Public, which was distributed to approximately 18,000 individuals including the Governor, the Legislature, education, libraries, local elected officials and other interested parties. The document serves to memorialize the sales figures reported at the last Commission meeting, some of the financials, including the \$3.3 billion in sales last fiscal year, \$1.7 billion in prizes, more than \$1 billion to education and \$234 million paid to the Lottery's retailers. Lambert advised that staff's approach to this year's report was to provide more of a story about the Lottery and how it weaves into various parts of people's communities and everyday life. Staff also significantly reduced the overall cost of the document. Lambert gave a quick overview of the document and advised that it would be posted on the Lottery's website.

b. 2007 Comprehensive Annual Financial Report (CAFR)

Patt Eberhart, Deputy Director of Operations, advised that the CAFR is prepared to provide an easily readable and efficiently organized comprehensive financial report for any member of the public and other lotteries. It allows the Lottery to be able to compare its financial data to other lotteries so that the reader has a better understanding of how the operations are maintained. The CAFR is submitted annually on December 31 to the Government Financial Officers Association of the United States and Canada. It is the hope of staff to receive a certificate of achievement for excellence in financial reporting and Eberhart reported that for the last four years, the Lottery has received this certification. The document has been extremely helpful in educating people within

California on the background of the organization, and the types of games that are offered. It also includes the financial statements which are audited by KPMG, a statistical portion that has demographic information, ten-year averages, and a ten-year comparison.

c. Presentation of the September 30, 2007 Financial Statements

Eberhart stated that the California Lottery Act (under section 8880.22) requires the Lottery to prepare quarterly financial reports in compliance with generally accepted accounting principles. The financial reports were distributed to the Governor, Attorney General, State Controller, State Treasurer, and the California State Legislature. Pursuant to Government Code 8880.65, the Lottery asked the State Controller's Office to transfer in excess of \$306 million on November 20, 2007.

d. Business Plan Update

Linh Nguyen, Chief Deputy Director, reported on some of the strategies underneath the long-term planning of the business plan. Staff wanted to improve the brand image and is putting the final touches on the re-branding campaign which will be based largely around a winner-awareness aspect. At the next Commission Meeting, details will be presented of a 12-24 month marketing plan and staff is making sure that the organization is aligned to move forward in the same direction, led by the marketing and sales plan. The interim campaign which is based on "Any jackpot is worth playing for" will be launched the week of January 14. Staff will be working on shifting the jackpot paradigm which will lead into the re-branding campaign. Under "Modernizing operation," Nguyen reported that a consultant was brought on to look at the Lottery's back-office systems and to look at what the major paying points are and how to change the system to be more efficient and to modernize that operation.

Discussion by Commissioners.

e. Retailer Actions

Bill Hertoghe, Deputy Director of Security/Law Enforcement (S/LED) updated the Commission on the retailer sanctions and the action that has been taken. For the period of October 1 through December 31, 2007, there were nine contract terminations and nine appeals. The majority of the terminations are appealed, about 80 to 90 percent, and Sr. Staff then considers whether the appeal should be granted. The Lottery has collected \$17,750 in monitoring fees for the quarter. The Lottery places the fee on the retailer when it is put on probation and it requires staff to do follow-up inspections of the premises to make sure that the terms of the probation are being followed. Hertoghe mentioned one notable sanction where the Lottery collected a \$10,000 monitoring fee for a major chain for some violations. Hertoghe provided the Commission information on several retailer terminations.

Discussion by Commissioners

f. Lottery Scams

Hertoghe briefed the Commissioners on several lottery scams. The Security/Law Enforcement Division is investigating many scams that are soliciting people over the internet, phone, fax, and mail generated. One of the most notable scams is the advance-pay scam where an advance payment is requested to be awarded the prize. These particular scams are the Nigerian Lottery, Canadian Lottery and Latin Lotto. The California Lottery is taking a more assertive approach to educating the public and investigating scams that ultimately impact not only the players and retailers, but also the image of the Lottery (see attachment).

g. Legislative and Outreach Updates

Heather Lambert, Deputy Director of Communications, advised that the Legislature is back in session. Staff will be working on Assembly Bill 1251, which is the bill to address the MEGA Millions® time frame issue. Staff continues to be in contact with Senator Florez' office to monitor the progress of AB1251. Lottery staff has attended several conferences including the California Science Teachers in October, the Association of County School Administrators in November and the Southern California School Boards Association to raise awareness amongst local elected officials. In November, S/LED staff attended the Peace Officers Research Association of California (PORAC) in Rancho Mirage. Exhibiting at the various conferences allows staff to reach out to people who want to learn more about the Lottery.

Upcoming conferences include the California Charter Schools Conference and the California Police Chiefs Conference, which will be attended by S/LED who will touch on the Lottery's Security Division work on scams and other issues that face local law enforcement. Erin Sasse, Assistant Deputy Director of Legislative Affairs and Outreach, attended the National Council of Legislators from gaming states in Arizona. The bi-annual conference covers issues that face various gaming entities around the country.

Lambert went over the sponsorships the Lottery has with the California Teachers of the Year program which teams up with Superintendent O'Connell's office and the staff at the California Department of Education. National Problem Gambling Awareness Week is in March and the Lottery is working with the Office of Problem Gambling to put forth a resolution with the Legislature and releasing a Public Service Announcement, terminal messages, and retail newsletters. The Lottery has negotiated with an interagency agreement with the California Office of Problem Gambling to use the brochures they use throughout the year, rather than produce our own. The brochures will be going out in February to retail locations to be in place for National Problem Gambling Awareness Week, and will be stocked throughout the year.

8. Consent Calendar

- a. Approval to Purchase Microsoft Software Licenses and Assurance
- b. Approval to Amend the Lowbidder Electrical Contract

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

9. Action Items

a. Approval of Scratchers® Game Profiles for Games 547, 548, 549, 550, 551, and 552 Profiles

Susan Kossack, Acting Deputy Director of Marketing, introduced the Scratchers® games for April and May. Game 547 is a \$1 Key Number Match playstyle with a specific variant. Players match “Your Numbers” to the “Winning Number” to win a prize. The game has a \$500 top prize and overall odds of winning are 1 in 4.83. Game 548 is a \$2 money-themed game utilizing the Key Number Match playstyle. Players match “Your Numbers to “Winning Numbers.” Additionally, if a player matches a specific “Winner Take All” number, they win all ten prizes on the ticket. The top prize for the game is \$20,000 and the odds of winning any prize are 1 in 4.63.

Game 549 is the “Crossword Tripler” which is a \$3 crossword game with a new tripler feature. The overall odds of the game are 1 in 3.37 and the top prize is \$20,000. Game 550 is called “Find the 9’s” and is a \$1 game with a specific variant, where players match three like amounts to win that prize. The top prize is \$999 and the overall odds of winning are 1 in 5.12.

Game 551 is a \$2 hot food-themed game incorporating chili peppers as the main visual and a Key Number Match playstyle. If a specific symbol is revealed, the prize triples and players have ten chances to win on a ticket. The top prize is \$10,000 with overall odds of winning at 1 in 4.54. Game 552 is a \$3 Bingo game with a new feature of a highlighted line. If five numbers in a row in the “Your Cards” area is highlighted with a colored line, players win a specific prize defined in the prize table. The top prize is \$25,000 and the overall odds of winning are 1 in 3.79.

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. Approval of Regulations for Daily 4 and Amendments to Lottery Regulations for the Daily 3 Game

Kossack presented the Commission the regulations to adopt the launch of a new California numbers game, Daily 4 and approve the technical amendment to regulations for the current Daily 3 game. Daily numbers games have been very popular throughout the country, especially the eastern states. Most states offer more than one daily-number game and of the 43 states that offer the game, 23 offer more than one game, generally at fixed-prize levels.

The Daily 4 game offers a daily opportunity to win a desirable top prize, a game that delivers an excellent chance to win several thousands of dollars daily. Daily 4 will be similar to that of Daily 3, except that players will select four numbers instead of three. Plays will cost \$1 each and players must decide which playstyle they wish to use to play their numbers. The playstyle selection also determines how much a player can win based on the odds for each playstyle and the numbers chosen by the player. Although the prizes will be pari-mutuel, staff anticipates the Daily 4 top prize should be near \$5,000.

Staff would like to offer up language in the Daily 3 regulations to provide consistency and uniformity across all games. The Daily 3 regulations currently say, "All prize breakage which results from the rounding of prizes will be accumulated and used to supplement subsequent prizes." Staff would like to amend the language to read, "All prize breakage which results from the rounding of prizes will be used to supplement Lottery prizes." The amendment would approve uniformity of language within the omnibus regulations between the Daily 3 and Daily 4 games.

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 (3-0).

c. Approval of Amendment to Extend the Term of the General Market Advertising Contract

Kossack requested approval for a 14-month extension to the contract with BBDO West to continue the general market advertising services. The extension requires no additional funding, and the total expenditure authority for the contract will remain at \$150 million. The initial term was to be from May 1, 2004 to April 30, 2008 and the contract provided for up to two additional years extension. BBDO West continues to provide a consistent level of service above what is expected and is playing a critical role in the development of the Lottery's brand image campaign.

Discussion by Commissioners.

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.

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

d. Approval of Amendment to Contract with McDonough, Holland & Allen for Expanded Legal Services

Kate Killeen, Acting Chief Legal Counsel, stated that McDonough, Holland & Allen is a law firm that currently provides legal services, particularly in the area of real estate, to the Lottery. Over the next four years, the Lottery's business plan is intending to modernize operations with objectives to both build a new headquarters facility as well as purchase real estate properties due to expiring leases. The Lottery will be looking at whether to replace the leases with purchased properties and will be in need of real estate legal assistance to guide staff through the negotiations. The Lottery has a very small legal staff and has obtained the proper approvals from both the Attorney General's office and the Office of Legal Affairs for the Governor, to pursue outside representation in the area of real estate consultation.

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 Montes. The motion passed unanimously (3-0).

e. Approval of Contract with Ross Clark Material Handling

Eberhart requested approval of new warehouse racking and "Pick n Pack" station with conveyor belt systems for the Northern Distribution Warehouse, through the vendor Ross Clark Material Handling. The Lottery did not go through a formal competitive bid process, but staff did solicit three other vendors for pricing. Ross Clark, who has previously worked with the Lottery before at the Sacramento Warehouse, came forward with a bid of \$505,000.

Discussion by Commissioners.

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. Approval of Amendment to Contract with Sierra National Construction, Inc. for Additional Funding

Eberhart stated that the Lottery is currently using Sierra National Construction for remodeling and other types of activities that are needed at the headquarters location. The Lottery went through a competitive bid process in 2005, and it was awarded to Sierra National Construction. At the time, it was not anticipated a need to perform additional ADA-type improvements in the parking lot nor other structural issues associated with the Lottery's second floor flooring at the headquarters building. Also, staff did not anticipate in 2005, purchasing a new

warehouse or district office. The Lottery is asking for an amendment of the contract with costs associated with the Northern California Distribution Center of \$250,000.

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.

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

10. Commissioner General Discussion

Commissioner Ortega thanked staff for their assistance in organizing the change of the Commission Meeting location due to last week's storm. Ortega also thanked representatives from the California Teachers Association for their attendance to the meeting. Mass wished everyone a Happy New Year and expressed his enthusiasm for the Lottery's upcoming year.

11. Scheduling Next Meetings

The next Commission meetings for 2008 are tentatively scheduled for March 19 (Pasadena City Hall), May 21, June 25, August 20 and October 15 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 11:27 a.m.