

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – May 13, 2009

Sacramento, California

1. Call to Order

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 10:03 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 C. C. Yin
Commissioner Cynthia Flores
Chairman John Mass

CSL Staff and presenters:

Joan Borucki, Director
Sylvia Cates, Chief Legal Counsel
Michael Brennan, Deputy Director of Sales/Marketing
Barbara Krabbenhoft, Deputy Director of Human Resources
Susan Kossack, Deputy Director of Marketing
Jim Hasegawa, Deputy Director of Business Planning
Bill Hertoghe, Deputy Director of Security/Law Enforcement
Michael Ota, Deputy Director of Finance
Ed Fong, Chief of Product Development
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 May 13, 2009 agenda as proposed. Joan Borucki, Director, postponed Item 9(b), Business Planning Consultant, until the June Commission Meeting. Yin moved to approve the amended 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 25, 2009 minutes. Flores moved to approve the March 25, 2009 minutes. Seconded by Yin. The motion passed unanimously (3-0).

6. Commission Liaison Reports

Commissioner Flores:

As Education Liaison, staff updated Flores on the following: In March, the Second Quarter and Cumulative totals contributed to education for the year 2008-09 were mailed to each of the Lottery's stakeholders. In April and the beginning of May, updated memos were sent to each of the Lottery's stakeholders, including those in the education community, detailing information on the most recent SuperLOTTO Plus® winner, information on the monthly Scratchers® as well as voided Scratchers to sample. On March 25, they also received a letter regarding the Commissions' vote to approve a mid-year revision of the California Lottery's budget for 2008-09 fiscal year; Lottery staff attended the 110th annual PTA convention in San Jose April 30-May 3. There were about 3,000 to 5,000 key school volunteers and supported administrators from all over California.

Upcoming Outreach events include: The Department of Education's 2009 Distinguished School Awards ceremony on May 28-29. The Lottery is a sponsor of the event and Director Borucki and staff will attend. The Superintendent of Public Instruction, Jack O'Connell, and the California Lottery will honor five Teachers of the Year at the June 9 Dodgers baseball game. On July 7, the Lottery and Superintendent O'Connell will honor the 2009 Distinguished Schools at a San Francisco Giants vs. Florida Marlins baseball game and on August 26, the Lottery and Superintendent O'Connell will again honor Teachers of the Year at a San Francisco Giants vs. Arizona Diamondbacks game.

Commissioner Yin:

Yin provided an update on the Prize Validation Process open audit. Work began in March 2009 and is estimated for completion in May 2009. The target date for the draft report is June 2009. Recently completed audits include: Review of Second Quarter Transfer of Lottery Funds to Education. Work began in March 2009 and completed in April 2009. The final report was received on May 4, 2009. The review disclosed no findings; Work on Fleet Management began in July 2008 and finished in December 2008. The Lottery received the final report in April 2009. The audit disclosed four findings of non-compliance. The Lottery agreed with the findings and will implement corrective actions; The GTECH contract work began in July 2008 and was completed in March 2009. The Lottery received the final report in April 2009. The audit disclosed no findings. On the Lottery's Internal Audits, work began on the Security Audit of Lottery Operations in April 2009 and is estimated for completion in August 2009. The target date for the report is September 2009.

Lastly, the Audit Committee met on March 25 and adopted the 2009 meeting calendar. The draft audit committee charter was discussed, but action was tabled for the next meeting. The Audit Committee also heard a short presentation from KPMG regarding their security audit. The State Controllers Office (SCO) responded to the Audit Committee's March 19 letter on action items to improve the relationship between SCO

and the Lottery. The Audit Committee will review SCO's response and report back at the next Commission Meeting. The Audit Committee will be having an informal meeting today to discuss the draft audit committee charter.

Chairman Mass:

As Procurement Liaison, Mass was briefed by staff and requested approval on the following items: To award a purchase order to Infiniti Consulting Group, Inc. to perform acquisition support for the redesign of the Lottery's public website. The consulting services would be from April 20, 2009 through January 20, 2010 for the amount of \$150,000; Amendment of an existing contract with Honeywell International, which provides 24-hour, seven days per week maintenance and remedial repair for the Liebert computer room air conditioning systems. The amendment would increase the expenditure authority by \$51,102, extend the contract for two years, and change Honeywell's Contract Manager. The total expenditure authority will be increased to \$230,000 and the contract will be extended to March 31, 2011; To award a purchase order to Warner Music Group (WMG) to purchase 250,000 music downloads to use as a promotional extension for a music-themed second chance drawing. Licensing and set-up fees would be in the amount of \$187,500; Amend an existing interagency agreement with State Treasurer's Office which provides investment and custodial services of U.S. Treasury Securities. The total expenditure authority will be increased to \$116,000.

As Marketing Liaison, Mass was updated on the New Hot Spot® graphics, and the Make Me a Millionaire® program activities which include retailer promotions, mall tours and the recent media flight. Mass also received updates on the "In the Line of Duty" Scratchers, the May and June games, the new "California Lottery Replay Program" and the new Make Me a Millionaire design. Staff provided Mass with the Marketing Agency Evaluations and a sales update.

7. Director's Report

a. Sales and Budget Update

Joan Borucki, stated that in March, the Commission adopted a revised sales goal of \$2.89 billion and staff is now projecting that at fiscal year end, sales will come in at around \$2.93 billion. A large portion is due to an increase in Scratchers sales and the \$5 Scratchers game with the higher prize payout will also lift sales. The recent \$277 million MEGA Millions jackpot has also boosted sales in that category by \$10 million. In addition, the Lottery's administration expenses are down \$12 million. Originally, the Lottery anticipated giving education approximately \$996 million, but will now definitely contribute over \$1 billion.

Jim Hasegawa, Deputy Director of Business Planning, stated that through the first nine months of the fiscal year, Lottery sales were just over \$2.2 billion, compared to nearly \$2.36 billion through the first nine months of last fiscal year. Trends since mid-January have been very positive and the year-over-year decline has been gradually shrinking throughout the year. Through the first four months of this fiscal year, staff reported that

the year-to-year sales were about 10 percent down and at the last Commission Meeting, sales were down just 7.7 percent. Now through the March figures, sales are only down 6.4 percent and by year end, they will be at about the 4 percent level.

Scratchers sales stood at nearly \$1.2 billion which is higher than last year's figures. The marketing campaign that promoted the Make Me a Millionaire Scratchers game boosted sales not only of that product, but most importantly, across the entire Scratchers product line. The sales trend is still continuing strong with the advent of the \$5 game. Staff is estimating the Scratchers will come in year-end at \$1.6 billion which is a 3 percent increase over the prior fiscal year's numbers. The sales of the Lottery's two jackpot games, SuperLOTTO Plus and MEGA Millions are at \$663 million which represents about \$140 million less than last year. The MEGA Millions recent large jackpot has definitely increased the sales projection. Sales are slated to end the year for both jackpot games combined at \$875 million. The sales pace for Hot Spot and the Daily Games are still consistent with what was reported at the last meeting. Hot Spot will continue to end the year about \$125 million and the Daily Games category will end the fiscal year at about \$325 million.

Discussion by Commissioners

b. Workforce/Succession Plan

Barbara Krabbenhoft, Deputy Director of Human Resources, stated that the Business Plan tasks the Human Resources Division with developing a workforce succession plan. Past efforts have focused primarily on formal training programs for supervisors and managers. Staff's approach will now broaden in scope to reflect recruitment and retention strategies for all employees. Staff will accomplish this goal by promoting a culture of value and respect for all employees and provide services that help every employee attain their highest potential. Workforce planning is having the right people with the right skills in the right jobs; and succession planning focuses on developing the leaders within your organization.

Recent workload statistical information indicates that over 50 percent of the Lottery's current employees are eligible to retire, which is defined as 50 years or older. The model that staff has selected relies heavily on best practices by many state and federal organizations. The State Department of Personnel Administration, the State of Virginia, and the U.S. Department of Justice are using very similar models. The model effectively guides a repeatable process that provides a systematic approach to workforce-gap analysis. It aligns with the Lottery's Business Plan and is laid out in four phases. Phase 1 consists of reviewing best practices and selecting a model. Staff has reviewed and evaluated the past efforts made by the Lottery and will continue to analyze the current situation. Staff will identify and implement immediate workforce strategies. Phase 2 will be done in fiscal year 2009-10 and will consist of completing the workforce analysis, developing action plans and continuing to implement immediate workforce strategies. In fiscal year 2010-2011, Phase 3 will implement action plans and Phase 4 will consist of evaluating results and modifying the program as necessary.

Discussion by Commissioners.

c. Legislative and Outreach Updates

Borucki updated the Commission on Senate Bill 831, which is the MEGA Millions Clean-up bill. The bill has an urgency clause in it and is progressing. It went through Senate Appropriations and will move on to the House. Assembly Bill 662 is the bill to stop the Lottery from building its new Headquarters facility. The bill did not make it out of the Assembly Governmental Organizational Committee and is now waiting for the offer for reconsideration, which will probably make it a two-year bill. Under Federal Legislation, Representative Barney Frank of Massachusetts has dropped his bill to enable Americans to legally gamble online. He is looking to repeal the language that was passed in 2006 by Congress and signed into law by President Bush, which made it illegal for financial institutions to process bets made on the Internet.

Discussion by Commissioners.

d. Marketing Update

Michael Brennan, Deputy Director of Sales/Marketing, stated that at the last meeting Chairman Mass questioned how the staff is working with the Lottery's advertising partners to improve the Lottery's image. The Lottery began introducing the new brand last summer 2008, but prior to that staff worked with BBDO so that they could provide the Lottery direction for refreshing the brand image. From the audit findings, staff worked with BBDO to develop "The California Lottery creates winners every day, in all corners of the state." From that, the Lottery decided to reflect the new image so a new logo was in order. To support the positioning, products and promotions have been developed to produce more winners. The POS is reflective of the message and media campaigns under the tag line, "A State of Winning" have been produced. The Lottery's Public Relations and Corporate Communications efforts have emphasized the message that, "The Lottery makes winners all around you every day." Last summer, the Lottery produced a campaign called, "The Summer of Winning."

In the fall, the Lottery did a promotion with the Breeders Cup that brought the attention of a new group of potential players and the promotion brought over a million entries. Also in the fall, the Lottery conducted a very successful gas give-away that garnered a large amount of earned media attention. In November, the Lottery supported the brand positioning of making more winners every day by introducing the Holiday Bonus Program. Players who bought specific Scratchers games played for a chance to be on the new Lottery TV game show, Make Me a Millionaire®. It was the first time that the Lottery required all online entries and there were 1,174,000 entries for that promotion.

The Make Me a Millionaire TV show had its first taping on December 14 and aired January 17, 2009. The launch was supported by radio, television spots, in-store POS, ePOS, ticket messages, monitor messages, mall screens, outdoor billboards, and press releases. Radio and TV went from January 12 through February 28. The Lottery also introduced mall tours throughout California, which brought the winning experience to where the people and players shop. The tours adapted the "Safe Cracker" segment of

the Make Me a Millionaire TV show and the public was able to play the game for prizes. The tours will begin again in June to different parts of the state and other events including the Sacramento Jazz Jubilee and a carnival in San Francisco. Make Me a Millionaire advertising will be on radio, grocery stores, gas screens, and traffic IDs as well as on television through May 18.

Staff also had retailer promotions that brought the retailers in as part of the winning experience. Retailers received points for placement of current Make Me a Millionaire collateral POS, new logo permanent POS, full Scratchers ticket dispensing units, and additional facings of Make Me a Millionaire Scratchers. Beginning May 18 through the end of June, the Lottery will bring back the "Only" campaign that proved successful when it aired last fall. The "Only" campaign asks, "Isn't any jackpot worth playing for?" The Lottery's internal analysis showed there was a 7 percent increase in sales at lower jackpots as a result of the initial airing of those spots. The objectives of the campaign are in line with the business plan to shift the jackpot paradigm and maintain the sales goal for SuperLOTTO Plus.

Some of the tactics that will be used will come from television, radio with traffic IDs and staff also plans to expand the online from traditional sites to some local news sites and from local news sites into travel, sports, and auction sites. Out-of-home expansion includes digitalized billboards that will include jackpots. The Lottery plans to also expand to health clubs and cinema theaters and to develop an iPhone application. The Lottery also developed Spanish-language television, radio, and outdoor advertising for the campaign with the help of Casanova Pendrill.

On Facebook and Twitter, the ads will initiate conversations surrounding, "What would you do with only a few million dollars?" For sports sponsorships, the Lottery has acquired the LA Dodgers and San Francisco Giants. BBBO is also working with the Angels, the San Diego Padres, and the Oakland A's as well as two minor-league teams. Most recently, staff has been talking to the NFL Teams of the Chargers and the 49ers.

Brennan stated the ePOS screens have been displaying localized messages identifying winners in the retail store by prize, dollar amount, and the number of winners. Jim Hasegawa, Deputy Director of Business Planning, and his staff have done research that shows that the stores with ePOS showing the winner awareness messages, have increased incremental sales by about \$43 per store per week.

On May 20, staff will launch the second chance program for all Scratchers called "California Lottery Replay." Players will have the opportunity to register their non-winning tickets online for the chance to win additional prizes in drawings that are currently scheduled for one a quarter. It gives players added value for non-winning tickets at the same time contributing to the recycling of the Lottery's tickets.

On June 15, staff will have a consumer promotion called, "Don't you wish everything in life came with a second chance?" Players will be able to submit the funniest pictures of themselves online with a short description of the photos, and players can win from \$100

to \$1,000. "In the Line of Duty" is a \$2 Scratchers ticket in which the California Peace Officers' Memorial Fund will receive a licensing fee from the California Lottery generated from the proceeds of ticket sales. Approximately \$78,000 has been contributed to them to date. Scratchers games released in May consist of a \$1, \$2, \$3, and a new higher prize payout \$5 game, \$100,000 club ticket. A \$5 game released last July paid out 63.69 percent, however this \$5 game pays 66 percent. The first week of sales for the \$5 game came in at \$1.89 million, compared to the \$5 game released last July which came in at \$746,000.

Also in June, staff will introduce the new \$1 Make Me a Millionaire game ticket with the new graphics that reflect the TV show. "Cash to Go" is another \$1 game with higher prize payouts at 56 percent versus the normal 52 and a half percent; and a \$3 Bingo. The new \$2 Fantasy 5 Scratchers is a crossover game with a free Fantasy 5 play. The Lottery's website has a new vibrant, optimistic look, reflecting the new logo. Staff will begin to develop new content, including a "Players Club."

Discussion by Commissioners.

Brennan stated that staff is working with 3Ball to expand the Lottery's TV show to other lotteries. Staff put a presentation together, presented it at the North American State and Provincial Lottery (NASPL) conference in Washington D.C. and received a good amount of interest. Borucki stated that the purpose is to retain ownership of it and make it a multi-state type TV show where other states can start to sell the tickets in their state and send people to the California Lottery's show.

e. Consumer Protection Update

Bill Hertoghe, Deputy Director of Security/Law Enforcement (S/LED) went over the two types of cases that are handled by S/LED; administrative investigations and criminal investigations. Administrative cases are generally associated with the operational needs of the Lottery and contract compliance. Examples include: background investigations, retailer sanctions, claimant interviews, questioned documents, and ticket quality assurance. Criminal Cases are related with criminal misconduct against the consumer such as ticket theft/burglary, embezzlement, fraud, forgery, counterfeit tickets and threats. There has been a slight decline in criminal activity, especially property crimes. The administrative cases are rising because S/LED is doing more analysis of tickets, especially those claims that are filed by retailers.

S/LED has increased the type of backgrounds it performs because they not only do fingerprints, but complete more thorough backgrounds on almost 60 percent of Lottery employees. This also increases the number of backgrounds and criminal history checks staff does for retailers and vendors. Hertoghe reported that S/LED is converting the Strategic Plan into a program. The program identifies a goal that emphasizes engineering, education and enforcement. Staff has developed, through collaboration with GTECH, a high-value prize alert that notifies S/LED where high-value tickets are

being scanned or validated throughout the state. The report is received daily and if it indicates that it is a winner and is being scanned in multiple locations, it may indicate that someone is trying to sell it.

Hertoghe stated that Check-a Tickets now provide consumers with the amount of a winning Scratchers ticket so that players know what to expect when tickets are turned into Retailers or the Lottery. S/LED is continuing with the Retailer Redemption Compliance Program and the Consumer Protection Program. Staff has spoken at five different conferences about the Retailer Redemption Program and S/LED has received inquiries from 30 different lotteries in the United States and Canada. Even though there was a lot media covering the arrest operations, studies showed there was no reduction in sales.

Staff attends various conferences, seminars and task forces to do Law Enforcement Outreach. S/LED is working with GTECH on the aberrant wagering alert. The alert shows when a retailer's sales numbers suddenly rise for no apparent reason, which could indicate some type of internal theft or embezzlement. Staff is also participating in a Latin Lotto task force in the Bay Area and in the future, Los Angeles. The task force is made up of six local law enforcement agencies and the Lottery and an arrest as already been made.

Discussion by Commissioners

Borucki stated that although Action Item 9b had been pulled, Linh Nguyen, Chief Deputy Director, would be providing the Commissioners information on the scope of services and the intent in bringing a consultant to help the Lottery with its next business plan. Nguyen said for the past 10 to 15 years, the Lottery's strategy revolved largely around increasing prize pay-outs, which was done through cuts and cost savings. Staff deferred investment in the Lottery's business and was able to increase sales year over year, proving that the strategy worked. There are many things the Lottery can do to improve processes, programs and optimize performances. The most recent business plan realized that higher pay-outs were not an option. Over the last few years, staff has had to lower prize pay-outs on Scratchers games, which has a definite negative impact on sales.

The Lottery focused on innovation and tried new things such as a raffle. Although the raffle did not sell well, it taught staff about marketing new games. Staff developed a comprehensive consumer protection program and launched a new brand-image program which has been anchored very well by the Make Me a Millionaire ticket and program. The "Only" campaign is trying to get players to play at lower prize pay-out levels. Other interesting promotions included a Breeder's Cup ticket with the racetrack and a "Mad Money" ticket with the movie. Some major Lottery projects include starting a Project Management Program as well as a Business Intelligence strategy. Staff is preparing to develop the next phase of the business planning process for the next three years.

The Lottery was approached by Camelot and after several discussions; staff felt that they brought the skill-sets and the experience necessary to help develop the next business plan. Camelot currently operates a lottery in the United Kingdom and has a current understanding of the lottery business, unlike other consultants. Camelot was where the California Lottery is today and has learned through trial and error what works and what doesn't work in their lottery. Camelot has tried and tested methodologies and can provide a comprehensive set of resources and services that are not available from other vendors that have approached the Lottery for a similar project.

The Lottery feels Camelot is the right approach because it will be a strategic partnership model. Camelot will help staff through implementation and work side by side with Lottery employees for a knowledge transfer. Staff will not only receive their tools, but also their advice and consulting as far as how to use those tools and how to customize it for California. It will be a tremendous commitment of time, effort, and resources by the Lottery, but staff believes it is the best way to grow sales at a sustained level and make real, long-lasting changes in the way the Lottery does business.

8. Consent Calendar

There were no items on the Consent Calendar.

9. Action Items

a. 2009-2010 Business Plan Strategies

Jim Hasegawa, Deputy Director of Business Planning, went over the proposed business strategies as the foundation of the final year of the 2007-2010 Business Plan and the Fiscal Year 2009-2010 Budget. Hasegawa provided information on industry trends, new Lottery products, the brand image and marketing efforts. The 2009-10 Business Plan shows specific steps that would be implemented to allow staff to further develop the proposals and build the budget required to implement these initiatives.

Staff is trying to improve the brand image by creating more winners and showcasing new programs, either through earned media or through paid marketing efforts. Other areas of improving brand image would be to attract the 18-34 year old market through new Scratchers games as well as unique advertising vehicles. The Lottery needs to redesign the Lottery's website with a more robust technical foundation that will be able to incorporate games and interactive features from third party vendors for specific promotions. The Lottery will continue to show the public that it cares about its customers by enhancing the Consumer Protection Program and illustrate to Californians how Lottery dollars help to benefit the state.

In terms of "Shifting the Jackpot Paradigm," this strategic area will be addressed through the marketing of the Lotto games including a promotion that provides a reason to play other than a large jackpot. Research was also done on a "Players Club." An Internet survey found that about 70 percent of all survey respondents

expressed interest in joining a Players Club because of the possibility of earning and redeeming rewards points. A review of the entire Draw Games portfolio will be completed next fiscal year, with a special focus on SuperLOTTO Plus.

In terms of modernizing operations, Business Intelligence is a project that will ultimately provide better information more quickly to decision makers. For the upcoming year, staff will propose to implement a pilot effort delivering a small set of business measures and analytics. The Call Center Solution involves improving the customer's experience by adding new capabilities, such as providing winning numbers through that system as well as enhancing current functions. Retailers and consumers would be able to navigate more easily through the system and operators can handle the calls more quickly.

Optimizing the retailer network will entail recruiting additional locations to make buying a ticket convenient for customers. The Lottery would also provide the tools and techniques of the sales force to maximize the sales and profits coming out of those retailers. Finally, the Human Resources Succession and Training project will ensure that the Lottery always maintains a staff of highly qualified employees.

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.

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

b. Business Planning Consultant
Item pulled from the agenda.

c. Contract for Lottery Investment Advisor/Agent
Michael Ota, Deputy Director of Finance, stated that there were two components to Action Item 9(c). The first is to award a contract to Samuel A. Ramirez and Company, Incorporated (Ramirez and Company), to act as an investment advisor and agent on behalf of the Lottery. The second part is that staff recommends that the Commission accept a proposed clarification to the Lottery's investment policy that was approved in January. The Commission approved the Lottery's revised 2008-09 budget at the March meeting. A component of that revised budget included anticipated revenues from the opportunity to take advantage of a financial market anomaly that involves the Lottery's investments. That additional revenue also allowed for the launching of the \$5 Scratchers.

The Lottery currently has approximately \$1.8 million invested in U.S. Treasury bonds and the purpose of it is to provide a future cash flow for Lottery winners who are paid in annual installments of up to 25 years. Due to the current

financial markets, U.S. Treasury bonds are considered valuable because investors are seeking liquid or easy-to-trade securities; which is an anomaly. The marketing condition is providing the Lottery a unique opportunity to increase investment returns and generate cash in excess of portfolio requirements to pay Lottery winners. This can be accomplished by restructuring the Lottery's investment portfolio, by selling our U.S. Treasury bonds and purchasing other high-credit-quality investments.

Rapidly and constantly shifting financial markets and the requirement to maintain an investment portfolio that continues to guarantee that cash pay-out isn't very simple. Staff does not have the expertise or the financial information systems in order to accomplish this. Therefore, the Lottery pursued an investment advisor with the expertise to help with this restructuring, to develop a restructuring strategy, as well as to execute the restructuring transactions. Ramirez and Company is a financial services firm that has conducted business with the State of California and has the specific experience in this area.

Staff is recommending approval of a contract with Ramirez and Company covering a period through June 30, 2011, in an amount not to exceed \$4 million. Ramirez and Company will provide two categories of services. The first category covers investment advisor services that will include developing the investment restructuring program or strategy, and also subsequent management of the program. The fee for these services totals \$400,000 and will be paid in two installments based on performance milestones. The initial \$200,000 will be paid upon completion of the Lottery's 2008-09 restructuring goals as adopted or considered in the proposed 2008-09 budget. The second \$200,000 will be paid upon completing of the restructuring of the remainder of the investment portfolio.

The second category of services to be provided by Ramirez and Company will be to act as bidding agent or broker-dealer services. They would interact with the financial world and the State Treasurer's Office in the sale of the Lottery's U.S. Treasury bonds and the purchase of our alternate investments. The total cost of their services depends on the financial market and what strategy the Lottery pursues. Staff estimates the total cost of the bidding agent and broker-dealer services will not exceed \$3.6 million, bringing the total contract amount not to exceed \$4 million.

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.

Yin made the motion to approve Action Item 9(c); the contract to Samuel A. Ramirez and Company, Incorporated. Seconded by Yin. The motion passed unanimously (3-0).

Flores made the motion to approve Action Item 9(c); accept a proposed clarification to the Lottery's investment policy. Seconded by Yin. The motion passed unanimously (3-0).

d. Scratchers® Game Profiles for Games 605, 606, 607, 608, 609, 610, and 611

Susan Kossack, Deputy Director of Marketing, presented the Scratchers games for September and October. In light of the possible passage of Proposition 1C, staff brings forward both the typical prize structures and optional prize structures with higher pay-outs. Game 605 is a 7 -11 - 21 themed \$1 game. If the numbers revealed in each game add up to 7, 11, or 21, they win the prize shown for that game. The game has a top prize of \$711 and the overall odds of winning are 1 in 5.09. Game 606 is a \$2 Key Number Match playstyle with a specific variant. If the player finds a specified symbol, they automatically win triple the prize shown. The top prize is \$10,000 and overall odds of winning are 1 in 4.19.

Game 607 is a \$3 Bingo game that will also feature a new way to win in addition to the traditional way. If a player wins a prize, they have a chance to multiply their win by up to five times by revealing a specific multiplier in a separate area of the ticket. The top prize is \$20,000 and overall odds of winning are 1 in 3.78. Game 608 is called "Find the 8's." It is a \$1 Match 3 playstyle with a specific variant. Reinforcing the lucky number theme is an \$888 top prize and overall odds of winning are 1 in 5.12.

Game 609, "Double Match" is a \$2 game that will feature two ways to play and win. There is both a Key Number Match and Match 3 playstyle on the same game. Players can win with both playstyles at the same time on each ticket, with the chance to win up to ten times. The top prize is \$15,000 and the overall odds of winning are 1 in 3.83. Game 610 is a \$3 extended play game with a Match 3 playstyle. The top prize for this game is \$20,000 and overall odds of winning are 1 in 4.09. Game 611 is a new \$5 annuity game with a chance to win \$2 million paid over 25 years. The game will feature a Key Number Match playstyle and two specific variants. Overall odds are 1 in 3.52.

Discussion by Commissioners.

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.

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

e. Amendment to Extend the Term of Scientific Games International, Inc. Instant Ticket Printing Contract

Ed Fong, Chief of Product Development, stated that on June 29, 2005, the Commission awarded Scientific Games International Inc. (SGI) a four-year contract with a total expenditure authority of \$33 million and the option to extend

up to four additional years as the Lottery's principle instant ticket printer. In May, 2007, SGI acquired Oberthur Gaming Technologies and their contracts with the Lottery. The Lottery has been pleased with the ability of SGI to deliver innovative games of high quality that have met staff's expectations.

As the principle provider of the Scratchers games, SGI produces the majority of the Lottery's Scratchers tickets. The games vary in themes, playstyles, and price points. SGI also provides an on-site graphic artist and coordinator that are very experienced and have the quickest turn-around time of producing a game, which is 26 calendar days versus 37 or 43 calendar days once the Lottery signs the working papers on those games. SGI has fast, efficient printing processes; and have research capabilities that are invaluable in determining which games might be effective in California.

The contract with SGI provides pricing for ticket printing at one of the lowest costs in the industry. The Lottery's current contract with SGI allows staff to unilaterally extend the contract on the same terms. The extension will require an additional expenditure of approximately \$25 million to cover future Scratchers ticket printing costs. With the four-year extension, the new contract expiration date is set for June 30, 2013. With the additional \$25 million, the total contract expenditure authority will be \$58 million.

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.

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

f. Amendment to Extend the Term of Pollard Banknote, Ltd. Instant Ticket Printing Contract

Fong stated that staff would like to amend and extend Pollard Banknote, Limited (Pollard), Instant Ticket Printing contract for four additional years, and an increase in expenditure authority of \$15 million for a total contract expenditure authority of \$35 million. The extension will create ticket printing cost savings to the Lottery over the next four years. Pollard has produced high-performing Bingo themed Scratchers, and holds a patent on the Bingo marketing system using transparent latex. On June 29, 2005, Pollard was awarded a supplemental four-year contract and the option to extend for four additional years, with the initial expenditure authority of \$4 million, and subsequent additions of expenditure authority of \$6 million and \$10 million, which brings the total now to \$20 million.

In preparation for the impending expiration to the supplemental contracts, the Lottery invited Pollard and GTECH to propose a cost-per-thousand pricing model (CPM) that would reduce printing costs. Pollard responded with a tiered CPM

that has the potential to reduce the Lottery's ticket printing costs. Pollard's proposed pricing model gives the Lottery a discount, depending on the volume of tickets printed by Pollard. Based on the recent number of games that Pollard has produced for the Lottery in the past, it estimates that the proposed CPM rates would have saved approximately 7 percent over the current base ticket cost. Pollard also gives the Lottery a rebate by retroactively discounting prior games if and when a certain number of tickets printed have been reached. If Pollard produces a certain level of tickets in a given 12-month period, they would rebate the Lottery the lower CPM rate for all the games produced in that 12-month period towards the next game produced. With the four-year extension, the new contract expiration date is set for June 30, 2013.

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.

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

g. Amendment to Extend the Term of GTECH Printing Corporation Instant Ticket Printing Contract

Fong requested an amendment to extend the terms of GTECH Printing Corporation (GTECH) Instant Ticket Printing contract over four years and increase expenditure authority by \$10 million for a total contract expenditure authority of \$12 million. The extension will result in ticket printing cost savings to the Lottery over the next four years. The new contract expiration date is set for June 30, 2013.

On June 29, 2005, the Commission awarded a four-year supplemental contract to Creative Games International (CGI) with a total expenditure authority of \$2 million and the option to extend for four additional years. In August 2007, GTECH acquired assets of CGI, along with the Lottery's contract. GTECH's presses have the ability to print and capture higher details than other vendors. They have the ability to implement crossover Scratchers games (games that have free draw game plays as prizes) such as Fantasy 5, and these games encourage Scratchers players to try the Lottery's actual draw games.

GTECH also responded with a tiered cost per thousand pricing proposal (CPM) that resulted in reduced costs over an extended period. GTECH's CPM gives the Lottery a discount, depending on the volume of tickets printed by them. The more tickets GTECH prints, the more the Lottery can save and staff has estimated that the Lottery can save 11 percent over the current base cost. Currently, the Lottery bids out printing by supplemental vendors on a game-by-game basis, so the rates are not guaranteed. Operational and manufacturing costs are likely to increase. Locking in the extension will guarantee a discount

over the next four years. In addition to the savings, the rates will be more efficient and save time because the game-by-game bidding process will no longer apply.

Discussion by Commissioners.

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.

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

10. Commissioner General Discussion

Commissioner Yin thanked staff and Director Borucki for assisting him with his new Lottery position.

11. Scheduling Next Meetings

The next Commission meetings for 2009 are tentatively scheduled for June 30, August 19, October 21, 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 12:01 p.m.