

# CALIFORNIA STATE LOTTERY COMMISSION

Minutes – October 28, 2010

Sacramento, California

## **1. Call to Order**

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 9:34 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. Mass introduced the Lottery's newest Commissioner, Yuri Vanetik and thanked Margaret Mims for her year's service as Commissioner.

## **3. Roll Call**

Mass asked Elisa Topete to call the roll.

### Commission Members Present:

Commissioner Yuri Vanetik

Commissioner John Menchaca

Chairman John Mass

### CSL Staff and presenters:

Joan Borucki, Director

Linh Nguyen, Chief Deputy Director

Lisa Hightower, Chief Legal Counsel

Michael Brennan, Deputy Director of Sales and Marketing

Roberto Zavala, Chief of Internal Audits

Marilyn Wright, Deputy Director of Legislative and External Affairs

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 October 28, 2010 agenda as proposed. Menchaca moved to approve the agenda. Seconded by Vanetik. The motion passed unanimously (3-0).

## **5. Approval of Minutes**

Mass asked if there were any additions or corrections to the June 25, 2010 minutes. Menchaca moved to approve the June 25, 2010 minutes. Seconded by Mass. Because Vanetik was not at the last Commission Meeting, he did not vote. The motion passed (2-0).

## **6. Commission Liaison Reports**

### **Commissioner Menchaca:**

Menchaca provided the Audit Liaison Report. Beginning with the State Controller's Office (SCO), field work began in March 2010 on the Second-Quarter Transfer report analysis for fiscal year 2010. It was scheduled to be completed in April 2010. The final report was issued on June 30 and no findings were noted. Field work began on the Third-Quarter Transfer report analysis for fiscal year 2010 in May 2010 and the final report was issued on August 18, 2010 with no findings noted. The Fourth-Quarter Transfer report analysis for fiscal year 2010 began in May 2010, and is expected to be completed at the end of October 2010. At this time, no preliminary findings have been noted.

On the Annuity Investment Process audit, the Lottery responded to the draft audit report on May 27, 2010. The final report was issued on September 8, 2010. The report noted one finding regarding a lack of formal procedures for the processing and monitoring of investment transactions. The Lottery is taking corrective actions.

For the implementation of the State Controller's Office audit recommendations, field work began on July 27, 2010 and is expected to last through October 2010, with a draft audit report following thereafter. As of today, there are no preliminary findings noted. An audit was performed on the 3Ball Production contract and initial field work began on February 2010 and was completed in June 2010. On July 22, 2010, SCO expanded their audit scope. Additional field work is expected to last through October, with the draft report following thereafter. SCO noted six preliminary findings. An audit of the Alcone Marketing Group contract began September 22, 2010, and is expected to last through the end of December 2010. As of today, no preliminary findings were noted. Field work also began on the Otto Construction contract audit on October 13, 2010 and is expected to last through the end of February 2011. As of today, no preliminary findings have been noted. Field work began October 13, 2010 on the LPA Sacramento Inc., contract and is expected to last through the end of January 2011. As of today, no preliminary findings were noted.

On the KPMG Audits, field work began in June 2010 on the Financial Statement Audit. The final report was released in October 2010 and no significant findings were noted. On the Draw Observation Reviews, KPMG continues to serve and report on the Lottery's daily draws and there are no significant findings to report. The Lottery has three internal audits being conducted and the first is the Contract and Procurement Services Audit. Field work began in January 2010 and is currently on hold. As of today, no preliminary findings were noted. Field work began in August 2010 on the Camelot Contract and is expected to last through the end of December 2010. As of today, no preliminary findings were noted. Field work began in August 2010 on Asset Management and is expected to last through the end of December 2010. As of today, no preliminary findings were noted. Finally, an oral audit

committee report will be presented during the Director's Report. The audit committee will meet following today's Commission Meeting.

**Chairman Mass:**

As Marketing Liaison, Mass was updated on the "\$50 Million More in Prizes Every Month" campaign. The Scratchers® advertising with the main message that Scratchers have \$50 million more in prizes every month began on September 14 and ran through October 17. The campaign included TV, radio, billboards, store POS; and the campaign aired statewide. Sales in Scratchers have seen an increase since the introduction of the advertising and the introduction of a fifth \$5 game on the market.

The Lottery also had a 25<sup>th</sup> Anniversary "Millions in Cash" Scratchers, \$1 million replay drawing. In the spirit of the Lottery's 25<sup>th</sup> Anniversary, the game features 25 winners of \$1 million each. In addition, the game has a bonus replay draw of a million dollars that was won by Judith Tate of San Jose, and celebrated with a surprise check ceremony hosted by the Director. The event was covered broadly by the press. Jackpot alerts are continuing on MEGA Millions® specific messages to support jackpots of \$50 million or more in Los Angeles, and \$70 million in San Francisco.

Since May of this year, 230,000 registrants have been added to the Replay Program. There is now more than 830,000 registrants in the system, growing at an average rate of 6 percent a month. Since inception in late May, over 77 million tickets have been entered, averaging about six to seven million tickets a month, which is about 8 percent of all non-winning tickets. The last Replay pool draw, three months of all the ticket entries had more than 15 million entries for ten prizes of a thousand dollars. And the "Millions in Cash" 25<sup>th</sup> Anniversary Bonus Draw with a million dollar top prize had nearly two million entries.

The Fantasy 5 Bonus Bucks Program has had more than 97,000 participants entered into this program. Since its inception in July, over 2.2 million codes have been entered. The Lottery is currently averaging 150,000 entries for each weekly draw, which consists of three prizes of \$10,000 and 12 prizes of \$1,000. The NFL Football Second Chance Program has had more than 400,000 tickets entered and the leader is the Raiders with 175,000, second is the 49ers with 120,000, and third is the Chargers with 112,000 entries.

As Procurement Liaison, Mass was briefed by staff and requested approval of the following: An interagency agreement with the Office of the State Chief Information Officer (OCIO). OCIO supports Lottery administrative applications such as the Retailer Master File, Accounts Receivable, Annuity Investment System, Background Investigation, and CASE Tracking System. They also provide secure telecommunications services between the Lottery, GTECH and various state agencies; An interagency agreement with the Department of Justice to provide

criminal history checks and FBI inquiries of employees, retailers, and contractors as well as Subsequent Arrest Notifications to the Lottery; An interagency agreement with the State Personnel Board for test validation, construction and maintenance services for on-line exams for the District Sales Representatives, District Sales Supervisor, and Lottery Manager, Sales classifications; A contract amendment with Wilson Sonsini Goodrich and Rosati. Wilson Sonsini provides specialized intellectual property legal advice to the Lottery's Legal Office; A contract amendment with Service West, Inc who provides modular furniture system services at the Lottery's facilities throughout California; finally, an approval of a purchase order with Sacramento Municipal Utility District (SMUD). The payment to SMUD is the remaining balance due for costs associated with the electrical infrastructure design and installation for the new headquarters building.

### **7. Director's Report**

Joan Borucki, Director, stated that the MEGA Millions jackpot is at \$140 million, SuperLOTTO Plus® is at \$12 million, Fantasy 5 is currently at \$51,000 and Daily Derby is \$186,000. In June, staff made a commitment to the Commission and to the public to be very visible with reporting on the status and progress in implementing the business plan. Many of the individual strategies and tactics included in the business plan had dollar sales goals associated with them. Chief Deputy Director Linh Nguyen and Director Borucki decided to combine the Lottery's sales report and the progress report on implementing the business plan together and call it the Lottery Report Card.

#### **a. Lottery Report Card**

Nguyen provided an update on the Lottery Report Card, starting with the update on Sales. Scratchers sales are 22 percent higher than the "do nothing projection" and MEGA Millions' advertising is increasing sales by 22 percent. Staff is also seeing an increase close to 50 percent when the jackpot is above \$100 million. Scratchers sales were over \$449 million through the first 13 weeks of this year, which is about 22 percent higher than what staff would have expected without prize payout relief and the initiatives of the RENEW Project. Staff set the Scratchers sales goal at 32 percent higher than last year's sales level. As such, Scratchers are trailing by \$145 million short of the sales goal in the first 13 weeks. Because of the growth strategy in the Scratchers category, which is the \$5 price point, sales from the \$5 game has had dramatic growth. It represents 21 percent of Scratchers sales since July, which is up significantly from the 11 percent share the Lottery experienced in fiscal year 2009-2010. Other signs of growth include the Scratchers advertising, which started in mid September. Results have been seen from the efforts by the sales force to increase the number of \$5 products being displayed at retail. However, the major impact from those efforts will not be seen until the October and November sales reports.

SuperLOTTO Plus and MEGA Millions are running on pace to meet sales goals. MEGA Millions had sales of over \$106 million to date with the largest jackpot being

only \$135 million. By comparison, the same time last year the MEGA Millions game already had a \$336 million jackpot. The most appropriate way to measure performance in the jackpot-driven games is against similar-sized jackpots. The first 13 weeks of this fiscal year, MEGA Millions sales are nearly \$19 million higher than prior sales for comparable jackpot levels. SuperLOTTO Plus sales are \$112 million to date and the game continues its steady sales decline that has been observed over the past several years. Sales are down \$6 million compared to prior sales for jackpots of similar size. SuperLOTTO Plus sales are meeting the sales projections for this year.

The Daily Games are performing on par with staff projections and are on pace to meet the goal for the year. The four individual products combined sold over \$80 million in the first quarter and accounted for over 10 percent of total sales. Hot Spot® sold over \$30 million through the first quarter, which is slightly lower than the pace to meet the sales goal. The shortfall is very small however, and year-end sales should reach the target as a result of the higher prize payout strategy and promotions being planned for the game. Total sales through October 2, 2010 were just under \$780 million, which is 13 percent higher than sales would have been without prize payout relief and the initiatives from the RENEW Project. However, sales for the first three months are running at just 84 percent of the sales goal to date, about \$150 million short of the sales goal.

Nguyen went over the Lottery's Report card and highlighted a few of the Retail Projects. The headquarter staff visits is a project that is still pending because of scheduling and timing issues, however the first of the field visits were done by Liz Furtado and Steve Cunha, who head up the Lottery's Scratchers Project under the RENEW effort. Discussion by Commissioners. The visits will become an ongoing program to encourage headquarters staff to go and understand the retailers and the processes in the field. The Retailer Sales Building Program is a project that started out as a retailer makeover project, but has expanded to include a review of the Lottery's retailer incentive efforts. The change resulted in a delay in completion of the project and staff will revise the chart and timeline to reflect the expanded scope. The team is currently evaluating three different retailer incentive programs, which may pose potential resource challenges depending on the retailer incentive chosen and any implementation challenges.

The Retailer Support Pilot was very successful, and from the pilot the team decided on four components to roll out statewide. The first is to reduce the number of empty bins and facings at retail. Second is to maximize Scratchers activations, which entails the retailers placing the right tickets in their displays. Third is to increase the number of \$5 games being displayed and the fourth is to increase the external visibility of the Lottery at retail locations. The risk is that staff has limited resources, and there is a need for a technical solution to the Lottery's data program, which is used by the sales force to input data as they go out to retailers. The issue is that the

program is a bit long and staff is working with the Lottery's Information Technology staff to obtain a shorter form.

To mitigate the concerns, the team is first focusing on the top four challenges of the pilot because they result in the most sales gains. Staff is using a phased approach and will be going district by district with a team of coaches and mentors beginning in November and ending in December. Based on the data from the pilot in San Francisco, an incremental sales gain is expected of \$50 million to \$75 million when the project is fully implemented. In the business plan, a \$15 million sales gain was obtained for this fiscal year and the Lottery is on track to exceed that number. On the Retailer Accounting Review Project, a 30-day extension has been requested by the team due to the unavailability of key staff and will continue to be a challenge, however staff is moving along very well. At a team meeting, a conceptual approval was given to move forward with five short-term projects that will quickly improve the retailer accounting processes with the retailers.

The Marketing Communication Processes Project's completion date has been pushed back three months to April 2011 as a result of staff resources associated with the new multi-year contract for the general market advertising services RFP, which was recently completed. The project charter was amended to add scope and more stake holders. The project team has identified 35 processes that need to be mapped, and has already begun mapping 21 of them. The Marketing ROI project was to develop an econometric model to measure the Lottery's marketing effectiveness and the return on investment in marketing. The charter is being completed and is now being head up by the Research and Development staff because of their knowledge in the area, and they are working on developing an RFP.

The new Public Website is the one of the team's most exciting and promising project and is currently on schedule. The initial charter approval contained major milestones that were estimates based on best-guess scenarios. The initial implementation date for this project is February 28 however staff expects the date to be pushed back one or two months. GTECH is nearing completion of its requirements-gathering phase; and in collaboration with the website contractor Solution Set, a final schedule is being developed. The team is currently completing the second phase of the project, which is the design phase. The phase results in a look and feel of the new website which includes a major navigation organizational structure and will move on to the development phase next.

The Rewards Program is modeled after airline loyalty clubs. Players will have the ability to earn points, gain preferred status, status that offers exclusive draws, access to unique content, access to special tournaments, prize multipliers, and more. Staff is using the Lottery's website to the fullest by continually updating and enhancing the current website. An example is the introduction of education initiatives revolving around the 25<sup>th</sup> anniversary event, highlighting hot-selling Scratchers on the main screen and the Replay micro-site.

Staff is closely monitoring the Jackpot Games Research Project as a result of uncertainty surrounding the possible offering of a \$1 and \$2 Powerball game. Currently there is intense national research and coordination among 43 state lotteries as to what the next game offering might be. Staff is currently reassessing the direction and focus on this project which will likely result in a revised project charter. The final project in the Marketing group is the Hot Spot Research Project. A revised charter was recently approved and the team has come up with a comprehensive research plan that includes promotions with various prize payout levels and two qualitative surveys.

Under the Business Optimization Projects, there is a potential impact to the schedule of the Enterprise Resource Planning Preparation Project because the team is reevaluating their approach. The team initially set out to complete business process maps but found that it would not result in the information needed to develop an effective RFP. The team instead will focus more importantly on determining the business requirements and have been researching various alternative approaches that have been used by other entities undertaking a similar effort.

The New Gaming System Upgrade Project charter needs to be developed, however the project is still moving forward. Staff is defining the needs and determining if any customizations are necessary to the new system. Staff is being cognizant that customizations should be minimized to reduce complication, while increasing the stability and predictability of the new system. Lastly, the Call Center Solution charter is being developed and the project is on schedule. It is a project to replace the Lottery's current Interactive Voice Response system because the current system is outdated and no longer supported by the vendor.

#### **b. Legislative and Outreach Updates**

Marilyn Wright, Deputy Director of Legislation and Outreach, provided a briefing on legislation and the Lottery's outreach sponsorships. August 31, 2010 marked the end of the 2009-10 legislative session. At the end of the session, the Governor had signed 941 bills and vetoed 298. On October 7, the Legislature passed the state budget, marking 100 days past the deadline and the general election on November 2<sup>nd</sup> will create many changes within the California Legislature. Term limits are forcing eight Senators and 18 Assembly Members out of office. There are four Senators who are not termed out but are running for statewide office and if defeated, can finish out the term. One Senator had recently passed away and there are five Assembly Members who are not termed out, but are running for Senate office. In total, there could be about 36 changes beginning the first of the year.

The Lottery has gained three new education partners over the last few months; The Sacramento Bee, The Orange County Register, and Sacramento's News 10. The Sacramento Bee and The Orange County Register have joined the San Francisco Chronicle in partners for Newspapers in Education, the NIE Program. The Lottery underwrites the cost of each of the three newspapers to publish financial literacy

education materials that are emailed to teachers to be used in their classrooms. The lesson plans are now also available on the newly created NIE landing page, which can be accessed from the Lottery's new 25<sup>th</sup> Anniversary micro-site (Wright provided a demonstration of the site). The News 10 "Teacher of the Month" kickoff with the Lottery as a sponsor was on October 10. News 10 created a promo with the Lottery as its sponsor and these promos are aired several times throughout the month up until the Teacher of the Month segment airs (news segment shown). The commercials will air monthly and at the end of the 12-month period, there will be a "Teacher of the Year" ceremony, which the Lottery will also sponsor and the event will be held in Sacramento.

The Lottery is also sponsoring more financial literacy courses. There will be five sponsored courses earlier this year, and they were so popular that "Be Money Smart" asked the Lottery to sponsor ten more. The courses will be held in Roseville, Sacramento, Rancho Cordova, and Elk Grove. For honoring education events, the Lottery honored county Teachers of the Year at county fairs. This year, staff honored the Ventura County Teacher of the Year and two LA County Teachers of the Year. On October 17, the Lottery honored Bay Area Teachers of the Year at the San Francisco 49ers game. There were seven teachers that were honored during an on-field ceremony and the 49ers created a flash banner that was displayed on the Jumbotron during the ceremony. In November and December, the Lottery will honor distinguished schools and teachers of the year at two more NFL Games. The events provide an excellent opportunity to honor outstanding teachers and schools in front of large audiences.

### **c. Audit Committee Report**

Roberto Zavala, Chief of Internal Audits, presented the first audit committee report. Zavala provided a background on the committee that was established to satisfy Government Code sections 13886(a) and 13887(b), which requires that the establishment of a committee occur in order to ensure that independence of internal auditors of the California State Lottery and their final findings are reported to the appropriate levels of government. In addition, the committee has been charged by the Lottery Commission to provide additional guidance in connection with financial statements, compliance with statutory and regulatory requirements, and qualifications and performance of audit personnel, with the goal that the Lottery audits will be conducted in the most ethical, professional, and efficient manner to protect the people of the State of California.

The Audit Committee is required to meet at least two times a year, and additional times as necessary. The committee is composed of two Commissioners. Currently, only Commissioner Menchaca is a committee member; former Commissioner Mims was also on the committee. Staff will be looking for another person to represent the Lottery in the Audit Committee. And in addition to the Commissioners, there is Lottery Chief Counsel, Lisa Hightower. The Audit Committee met four times during last fiscal year 2009-10. During that time, the committee conducted the following



business items: They discussed the annual audit plans for both the Lottery's Internal Audits office and the State Controller's Office. The committee discussed the memo of understanding between the State Controller's Office and the Lottery. The committee assisted Internal Audits with the fraud hotline, which has been running since April 2010. Also in discussion was the Lottery's independent auditor, KPMG and the number of draws scheduled and the draw observations that occur during those draws. The committee is currently discussing the request for proposal for the new independent auditor will be hired.

Zavala gave a brief overview of the State Controller's responsibilities. According to section 8880.46.6 of the Lottery Act, SCO is required to conduct quarterly and annual post-audits of all accounts and transactions of the Lottery, and other special post-audits as the SCO deems necessary, and may issue a public report. The SCO charges the Lottery for these audits. The Lottery relies on the State Controller's Office for audit work to provide insurances to the public that the Lottery is safe guarding assets, and is fiscally responsible with its resources. The Lottery has implemented past audit recommendations, and will always continue to cooperate with SCO during the course of their audit engagements.

During the inception of the California Lottery, the SCO was instrumental in providing guidance to the Lottery in establishing effective fiscal controls. However, over the last few years, SCO has taken an approach that they are just solely responsible for providing audits to the Lottery. Currently, there are five auditors from SCO and one audit manager that are exclusively assigned to conduct audits at the Lottery. In addition to the on-site auditors, nine remote staff also work and charge their time to the Lottery as well, which includes one division chief, four EDP auditors and four I.T. personnel, bringing the total of the number of SCO staff assigned to the California State Lottery at 15, which is based on billing records they submit to the Lottery.

Zavala went over SCO costs over the last two fiscal years. In fiscal year 2008-09, the Lottery was charged \$784,950 for auditing and \$397,475 for other services, bringing the total costs for the year at \$1,182,425. According to billing statements provided by SCO, 21 different categories were charged. The highest charges went to: Online production reviews at \$142,000; program administration at \$135,000; and Scratchers production reviews for \$106,000. In fiscal year 2009-10, the Lottery was charged \$607,215 for audit costs, and \$510,066 for other services, bringing the total to \$1,117,280. According to billing statements provided by SCO, 18 different categories were charged. The highest charges were not for a specific audit, but were other charges such as program administration for \$118,000, online production reviews for \$95,000, and Scratchers product reviews for \$66,000. SCO has currently estimated the 2010-11 fiscal year to be at \$1,636,908, which represents an increase of \$600,000 from the prior fiscal year. The estimate is given to the Lottery to include in its budget.

Zavala went over the audit results of the SCO for the last two fiscal years, which are in addition to the audits that Commissioner Menchaca mentioned during the Liaison Report. Over the last two fiscal years, SCO conducted ten audits and 11 reviews at the Lottery. Of the 21 projects, five were contract audits, five audits looked at Lottery operations, ten reviews looked at how the Lottery transferred its funds, and one review looked at the audited financial statements. Of the ten audits that were conducted, five audits revealed 13 findings and four audits revealed no findings, and one audit is a work-in-progress. Of the 13 findings, four findings noted \$34,726 in questioned costs, while the remaining findings recommended that internal controls be strengthened. While a dollar amount cannot be put on strengthening internal audits, the findings themselves did not indicate an impact on dollars. However, internal controls were strengthened during the resolution of the findings. Staff does implement corrective actions on the findings. The Lottery was charged for the past two fiscal years \$1,392,165 for just the audit effort.

Menchaca asked how SCO determines what audits they will be performing. Zavala stated that on an annual basis, he contacts SCO as well as KPMG to discuss what audits are occurring internally and with the external auditors. SCO then advises Zavala their audit plan for the year. Menchaca asked if SCO is finding specific issues to audit, such as fraud or misuse of funds that would instigate an audit. Zavala stated that staff has not been given a report that notes any fraud at the Lottery. Mass asked if the Lottery has seen an increase in the interest of auditing the Lottery over the last couple of years. Zavala said there has been an increase.

#### **d. Upcoming Marketing and Promotions**

Michael Brennan, Deputy Director of Sales and Marketing, provided updates on marketing and how the marketing has affected sales. Brennan displayed the "Millions in Cash" point of sale, which was the first big Scratchers ticket after the passage of Assembly Bill 142 and was the first ticket to carry the 25<sup>th</sup> Anniversary logo, which began the Lottery's anniversary promotion. The promotion included a chance for players to win a million dollars by entering their non-winning tickets. Judith Tate was a million dollar winner and became the Lottery's 1,960<sup>th</sup> millionaire since its inception.

With the help of the Lottery's partner Alcone, MEGA Millions events were held at a number of malls, including Santa Anita, Puente Hill, Oak Ridge, and East Ridge Mall. Large crowds were drawn to the events and were covered by the media. Players waited several hours to win two or three tickets at times. The Lottery was present at the Autumn Moon Festival, Oakland Chinatown Street Fest, and the Orange County Fair, where there was an increase in sales.

In August, the Lottery released three NFL Scratchers which were supported by advertising that the teams developed as part of the contracts. The teams created broadcast for TV and radio along with their internal networks that included in-

stadium signage and “Supporting the Teachers” celebrations. The promotions starting September 3 through November 20, will allow players who purchase the tickets to have an opportunity to enter non-winning tickets on Replay for a chance to win prizes that include luxury suites, training-camp packages, team trips, and team gear. The Lottery is now selling products at both the Oakland and San Diego stadiums.

Staff attended focus groups and the phrase that they were attracted to was, “\$50 million more in prizes every month.” Staff incorporated the phrase with clever POS and was also the message that was used in TV, online, and out-of-home campaigns (ad sample was shown). When the ads began, Scratchers sales were at \$500,000 more a day over the same period of time last year. As of today, it has almost doubled the increase over last year, in that six-week period of time since the advertising started. Research shows that retailers facing all four of the \$5 games are seeing an increase of 28 percent in sales. Sales went from about \$2,600 a week to more than \$3,300 a week as compared to stores that are doing only up to one facing of \$5 games. The increase was also due to the advertising efforts. Borucki stated that a significant part of the sales goal strategy for this year was the multiple \$5 games, which made up for a large part of the 32 percent increase in sales that the Lottery is expecting from Scratchers this year. Brennan stated that staff is tracking the \$5 game sales and some retailers have already hit 100 percent of their goal even when it is only 50 percent into the quarter.

The \$5 Scratchers games presently out are “Millions in Cash, \$100,000 Riches, Take 5, Stacks of Cash” and “Wintergreen,” which was released for the holidays. The other holiday tickets are “\$2 – Holiday Cash,” and “\$3 – Season’s Gold.” The holiday POS will be out in stores soon. Staff again went with the focus group’s suggestion of the “\$50 million more” as the mainstay message and gift giving would be the secondary message which will be incorporated in TV and radio. The Lottery will also be presenting another MEGA Millions advertisement called “Fun House.” The idea is that the winners stay in their own home but make it a little bit more fun.

## **8. Consent Calendar**

- a. Scratchers® Game Profiles for Games 674, 675, 676, 677, 678, 679, 680, 681, and 682
- b. East Bay District Office Lease Extension

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

## **9. Action Items**

- a. Amendment to Extend the Term Of the Hispanic Market Advertising Contract  
Brennan asked for approval on an amendment to the Casanova Hispanic Market advertising contract, to extend the contract term for seven months, with an additional expenditure authority of \$6 million, for a total contract

expenditure of \$46 million. Brennan gave a brief background of the 2005 formal solicitation to provide Hispanic market advertising services to include assisting in performing marketing analysis, marketing strategy development, and positioning of the Lottery and its products.

The Spanish language advertising is an integral part of the Lottery's overall communication plan and Casanova plays a key role in the marketing efforts for all its Lottery products. Services provided under this contract include creating and producing Spanish-language advertising for consumers of Spanish-language media, and the Spanish translation services for all collateral Point of Sales items customized for the Lottery. Casanova has continued to provide a consistent level of service above what is expected, and continues to provide competitive pricing at low mark-up rates for Spanish-language advertising services. The extension will give the Lottery the time it needs to apply the knowledge and key learnings from its recent general market advertising services procurement to the development and execution of a request for proposal for Hispanic-advertising services. It will promote competition and facilitate the identification of a truly strategic Hispanic market agency that is capable of helping the Lottery approach consumers in a fresh, new way, and complements the Lottery's three-year business plan. The extension will ensure that the Lottery will continue to receive business-critical Hispanic market advertising services through December 31, 2011.

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.

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

b. General Market Advertising Services Contract

Brennan stated the general market advertising began on May 1, 2004 and had an expenditure authority of \$25 million per year; and expires on January 31, 2011. On June 3, 2010, the Lottery posted a document on its website that provided an executive overview of the competitive solicitation process it would undertake to procure general market advertising services. The overview was also mailed to 69 potential vendors from the Lottery's Contract and Procurement Services Section database, and a list of agencies provided by the Sales and Marketing Divisions. Concurrently, notification announcing the pending release of the Request for Proposal (RFP) was published in the Small Business Exchange Challenge News, Disabled Veteran Voice, Ad Week, Ad Age, and online at the California State Contracts Register.

On June 8, 2010, the Lottery released an RFP, inviting responses from qualified agencies to provide general market advertising, and integrated communication services for all Lottery products with the objective of

maximizing net revenue from Lottery sales for the benefit of public education. The Lottery made it clear it was seeking an agency team capable of developing breakthrough work, and highly integrated cross-channel media communication solutions that will successfully elevate its brand, and will motivate more customers to engage with and buy its products to drive sales. The Lottery would consider proposals from partnerships and joint ventures, including creative advertising agencies, media management firms, and Public Relations firms.

The Lottery hired SRA Consulting firm to assist in evaluating and selecting advertising services. With their suggestions, the Lottery revamped the RFP process, allowing for more interactive assessments of the firms vying for the account. Eleven agencies submitted proposals and all agencies participated in the first of three phases of the evaluation process. Brennan briefly explained the process for each of the phases. The three finalists that advanced to the final phase were Alcone Marketing/OMD, David & Goliath/Initiative, and McCann Worldgroup. The finalists were asked to prepare and present a strategic, creative, integrated work assignment, including media and online components.

David & Goliath/Initiative either beat or tied McCann Worldgroup in all three phases by receiving a rating of "Significantly exceeds" in Phase 1, "Superior" in Phase 2, and "Superior" in Phase 3, the finalist work assignment. David & Goliath/Initiative's staff plan and compensation provides the lowest total agency fee, and offers the most staff hours and number of full-time equivalents. In addition, they are offering the best cost per FTE, blended hourly rate, and the best lowest overhead rate and profit margin. David & Goliath/Initiative's proposal provides the Lottery with the best value and quantity, and quality of staff allocated to the Lottery account, at the lowest agency fee. The quality of strategic thinking and creativity are also exemplified by its scores in all three phases of the evaluation process. Staff recommends the approval of a contract award to David & Goliath/Initiative to provide general market advertising services for five years with the option to extend for two additional years. The total expenditure authority, including optional extension authority is \$210 million.

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.

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

c. Amendments to Scratchers Regulations to Establish Core Scratchers Game Profile Templates and Approval of Templates

Brennan stated that the Lottery Act requires the Commission to promulgate regulations for all games that specify the number, value, and type of prizes; and identify prizes consisting of deferred payments or annuities. The core game templates provided for the Commission approval today exceed all of this information and requirements of the Lottery Act by providing additional information, including price points, estimated odds of winning prizes, prize payout percentages, and estimated ticket quantities.

In February 1990, the Commission modified regulations related to the approval of Scratchers games to exceed the requirements of the Lottery Act by requiring the Commission to approve game profiles for each new game comprised of the game's prize structure, play style, special features, order quantity, price point, and dollar value of mid and low-tier prizes to be paid by retailers and prize draw eligibility requirements. Since 1985, the Commission has reviewed and approved almost 700 Scratchers game profiles and not a single one has ever been disapproved. It has been a time-consuming and labor intensive process for staff.

The core game templates will facilitate the execution of the annual Scratchers product plan which is an integral component of the Lottery's annual marketing plan that is presented to the Commission for approval prior to the beginning of the fiscal year. The core game templates further the Lottery's strategic imperative to ensure staff gets the most set of Scratchers by executing the tactics in the marketing plan, and revamping prize structures to make better use of available prize funds. The templates that are being presented are designed to replace irregular prize levels and remove unnecessary prizes and strengthen the more important prize levels.

In the future, new or additional core game templates will be presented to the Commission for approval with the new annual marketing product plans and key staff may also periodically present new game templates during the course of a given fiscal year to take advantage of marketing opportunities. Core game templates will improve the efficiency of the Scratchers game development and production, and further the Lottery's ability to plan ahead and execute Scratchers initiatives to meet market demand. Brennan asked the Commission to amend the Scratchers regulations to provide a more efficient process for the development of new games, by establishing core Scratchers game profile templates, and approve the templates.

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.

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

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

Chairman Mass thanked new Commissioner Vanetik for giving his time and resources to the Lottery.

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

The next Commission Meeting is tentatively scheduled for December 9, 2010 in Sacramento.

### **12. Public Discussion**

Mass asked Edward DeJong to come forward as he had previously signed up to address the Commission. Mr. DeJong expressed his concerns about illegal lottery competition. Director Borucki asked Mr. DeJong to provide his information to the Deputy Director of Security and Law Enforcement following the meeting.

### **13. Closed Session**

The Commission convened to a closed session at 11:03 a.m. to confer and receive advice from legal counsel regarding litigation (including adjudicatory proceedings, potential litigation exposure or initiation): California Attorneys, Administrative Law Judges and Hearing Officers, etc. v. Schwarzenegger et al.; SEIU Local 1000 v. Schwarzenegger et al.; International Union of Operating Engineers etc. v. Schwarzenegger et al.; Claim for Refund of Sales and Use Tax, State Board of Equalization; Seastrom v. California Lottery et al.

### **14. Adjournment**

Meeting adjourned at 11:48 a.m.