

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – May 20, 2010

Burbank, 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

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 Margaret Mims
Commissioner John Menchaca
Chairman John Mass

CSL Staff and presenters:

Joan Borucki, Director
Linh Nguyen, Chief Deputy Director
Lisa Hightower, Chief Legal Counsel
Everest J. Robillard, Deputy Director of Security/Law Enforcement
Ellen Ishimoto, Deputy Director of Information Technology Services
Barbara Krabbenhoft, Deputy Director of Human Resources
Marilyn Wright, Deputy Director of Legislation and Outreach
Ed Fong, Chief of Product Development
Richard Wheeler, Camelot Global
Elisa Topete, Assistant to the Commission
Stephanie Greenlee, Recording Secretary

4. Consider Approval of the Agenda

Mass asked if any of the Commissioners wanted to make changes to the May 20, 2010 agenda as proposed. Mims moved to approve the agenda. Seconded by Menchaca. The motion passed unanimously (3-0).

5. Approval of Minutes

Mass asked if there were any additions or corrections to the April 14, 2010 minutes. Menchaca moved to approve the April 14, 2010 minutes. Seconded by Mims. The motion passed (3-0).

6. Commission Liaison Reports

Mass announced that Commissioner Mims and Lisa Hightower will be members of the Audit Committee.

Commissioner Mims:

As the Liaison for Security/Law Enforcement (SLED), Mims was briefed and updated on the following issues: Last month, along with Otto Construction and the Lottery's Operations Division, selected Stanley Convergent Security Solution as the provider for the physical security system for the new headquarters building. Stanley is currently under contract with the Lottery to provide maintenance service to the existing physical security system and will incorporate an upgraded product called Pro-Watch into the new building. This allows the Lottery to retain all its current functionality in the district offices without incurring additional expenses.

SLED Investigators in the San Francisco and East Bay District Offices recently concluded an investigation into the embezzlement of Lottery products from a CVS Pharmacy in Palo Alto. During the investigation, an assistant manager was identified as responsible in the theft of over \$73,000 in Scratchers® tickets. During a search of the suspect's vehicle, investigators recovered three full packs of unscratched tickets. The suspect was arrested and booked into the Santa Clara County jail and bail is at \$50,000.

During the month of May, investigators in the East Bay and San Francisco District Offices worked jointly with local and state law enforcement to break up an illegal numbers operation in the Bay Area. The operators used the Lottery's Daily 3 number to illegally solicit wagers. Investigators centered around four businesses in the San Pablo and Richmond areas. A Lottery investigator in an undercover capacity was able to place illegal wagers in each of the four locations. Search warrants were served at each business with the assistance of the San Pablo PD, Richmond PD, the Department of Alcohol Beverage Control, and the Department of Justice Gambling Control Division. Arrests are pending.

Finally, Amber Bettar from the Special Investigations Unit provided training on Lottery frauds to local law enforcement personnel from Santa Barbara and San Luis Obispo counties. The main focus of the presentation centered on the proliferation of Latin Lotto fraud scams in the state. Amber has become a subject-matter expert in these frauds, and is being actively sought out by law enforcement throughout the United States to share her information. The Lottery's law enforcement division and local law enforcement is making sure they keep the Lottery systems secure.

Commissioner Menchaca:

Menchaca provided the Audit Liaison Report. From the State Controller's Office, the Lottery had the First Quarter Transfer Report Analysis for the fiscal year 2010. The final report was issued on February 19, 2010 with no findings. For the Second Quarter Transfer Report Analysis for Fiscal Year 2010, the field work was completed

in April 2010. The final report is expected to be issued in May 2010 and no preliminary findings were noted. The Annuity Investment Process Audit's field work began in October 2009 and was completed in January 2010. The Lottery received a draft report in May 2010 and is responding to one finding regarding a lack of written procedures for processing of monitoring of investment transactions. Field work began on March 3, 2010 on the 3Ball Production Contract and is expected to be completed in June 2010. The draft report is expected to be released in July 2010.

The Lottery's auditors KPMG, performed a security audit of Lottery operations. The final report was issued on February 26, 2010 and the Lottery agrees with the findings and has either implemented or is in the process of implementing the corrective actions. There was a Lottery Internal Audit of the Contract and Procurement Services. Field work began on January 28, 2010 and is expected to last through the end of June 2010. As of today, no preliminary findings were noted. The Financial Integrity and State Managers Accountability Report on internal controls were issued in April 2010 and noted six vulnerabilities of which the Lottery has initiated corrective actions. Lastly, the Audit Committee did not meet during the last Commission meeting, but will be meeting following June's Commission meeting.

Chairman Mass:

As Marketing Liaison, Mass was updated on an in-store Point of Sale (POS) that has been distributed to retail with the theme, "Imagine what a buck could do" which is supporting MEGA Millions®. It reinforces the advertising campaign and the POS was posted starting in April 2010. Additionally, in-store POS will support Millions in Cash Scratchers which features the theme "Oh----!" with an exclamation mark, and "____Yeah." The POS supports the advertising campaign that starts in June 2010.

The MEGA Millions "Imagine what a buck could do" brand and jackpot messaging continues. The advertising is focused in markets with the greatest MEGA Millions sales potential, which include Los Angeles and San Francisco. The TV campaign runs through May 30 and invites consumers to imagine what they could do if they won the MEGA Millions jackpot. The media elements are included in TV, radio, traffic IDs, direct outdoor online gas/grocery screens, and in-store radio.

That brand message of "Imagine what a buck could do" will be replaced with a MEGA Millions jackpot-specific message to support jackpots of \$70 million or more in Los Angeles and San Francisco. The San Francisco market jackpot threshold was adjusted to \$70 million based on the results showing an increase in the MEGA Millions sales and on May 4. The California Lottery sold the winning ticket for the \$266 million jackpot. Mass was pleased that the Lottery is using the "Imagine what a buck could do" campaign, even though it is five-plus years old and still going strong. The Lottery has seen its biggest sales gains during the past couple of weeks when the jackpot surpassed the \$150 million mark. Sales in Los Angeles and San Francisco areas were between 30 and 40 percent higher than normal with these jackpots.

The “Millions in Cash” Scratchers TV advertising “Boss” will begin airing on June 7 and run through June 30 in Los Angeles and San Francisco markets. The TV campaign’s main message is with Millions in Cash Scratchers you can become an instant millionaire. In the spirit of the Lottery’s 25th Anniversary, the game features 25 instant winners of a million dollars. In addition, the game will have a Bonus Replay draw of a million dollars to be awarded on the Lottery’s anniversary on October 3.

Players who have registered with Replay are near the 650,000 mark. Approximately 590,000 of them have entered at least one ticket and the total number of tickets entered is nearing 50 million. As part of the Replay program, the Lottery’s first three Scratchers games that were part of the Replay have ended and the first drawing and posting of the End of Game Top Prize was completed May 26. The prize amounts were \$100,000, \$20,000, and \$10,000. The second End of Game Top Prize drawing is scheduled for July 14. There are five Scratchers games involved with prizes ranging from \$500 to \$20,000.

To help support the MEGA Millions push, staff created an online micro-site called, “If I Won Millions.com” which was up from March 8 to June 7. It offered the public the ability to express what they would do if they won millions. The site also allowed visitors to vote on other visitor’s posts, which created a list of the highest-ranked suggestions and easily let visitors alert their friends via Twitter and Facebook. The site had nearly 6,000 posts and more than 32,000 visits. The site reinforced the “Imagine what a buck could do” tagline. It also linked to the Lottery’s Public Website and a call to action to visit and find out more.

As Procurement Liaison, Mass was briefed by staff and requested approval of the following: Consulting services contract with BroadSpec, Inc. to perform inspector of record services to support construction of the new Lottery Headquarters Facility; a contract with Allied Waste Disposal for waste disposal services. The services provided are necessary for the removal of daily waste at the Lottery Headquarters facility, the Northern Distribution Warehouse, and the Sacramento District Office on a weekly basis; and finally, the release of a Request for Proposal (RFP) to invite responses from qualified bidders to provide general market advertising services. A successful competitive solicitation process will result in an agreement with a contractor capable of providing the Lottery’s general market advertising services for at least five to seven years.

7. Director’s Report

Joan Borucki, Director, began by acknowledging the Lottery Finance Division for receiving for the eighth year in a row, the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

a. Sales Update

Borucki stated that at the last Commission meeting, staff brought a revised budget and for the first time in four years, staff brought the revised budget that revised the Lottery's sales goal upward from \$2.9 billion to \$3.0 billion to \$7 billion. As of the end of week of May 8, the Lottery's fiscal year sales have already totaled over \$2.6 billion and now have the expectation that sales for the fiscal year will likely end around \$3.1 billion which exceeds the Lottery's goal.

The biggest area of improvement has been MEGA Millions sales, both attributable to the jackpots and the Lottery's marketing campaign. Scratchers sales are also up, with the Lottery being a little above goal. At the beginning of the year, it was projected that the Lottery would fall short in the Scratchers category. Because of what staff has been able to accomplish and the changes that have been made in dealing with the Scratchers inventory, the Lottery is doing fantastic. For example, the last 13 weeks of sales have averaged over \$34 million per week. During the first 13 weeks of this fiscal year, the Lottery was averaging \$29 million.

SuperLOTTO Plus should finish the year at about \$470 million, which staff projected less. Sales of the daily games and Hot Spot should come in at pace of where staff was projecting those to come in at. Sales are looking very good which means more money for education.

b. Legislative and Outreach Updates

Marilyn Wright, Deputy Director of Legislation and Outreach, focused on the Lottery's outreach efforts over the past year and what staff would like to achieve going forward. The Legislative and External Affairs Division has moved in a new direction in the kinds of sponsorships and outreach efforts in which it participates. The new formed Corporate and Social Responsibility (CSR), created by the RENEW Project, now plays a major role in the selection of the Lottery's outreach efforts. The CSR tagline, "25 years of enhancing education and supporting local communities" is the foundation for CSR and the goal is to seek additional ways to support education above and beyond the Lottery's mandate.

This year, the Lottery partnered with the San Francisco Chronicle's "Chronicle in Education" program which is a nonprofit program that provides information to roughly 20,000 students everyday at no cost to the teachers. As part of the sponsorship, the Lottery was able to pick a four-park educational series that was emailed to students once a week for four weeks. The Lottery partnered with YoungBiz to create this curricula. YoungBiz is a financial literacy company that teaches kids from the ages of 13 to 18 about financial responsibility. The series contained the Lottery's logo and was also printed in the version of the Chronicle. At the end of the four weeks, the Chronicle included the quarter page "Thank you" to the Lottery and printed in the version of the newspaper.

The Lottery sponsored 13 regional spelling bees across the state. The Lottery underwrote the cost of each of the spelling bee champions to fly to Washington DC to compete in the Scripps National Spelling Bee. The sponsorship allowed the Lottery to support education and reach local communities. The host of each spelling bee was thrilled to have the Lottery as a new partner. In honor of April being recognized as Financial Literacy Month, the Lottery again partnered with YoungBiz and sponsored a series of five financial literacy workshops in the Sacramento area. These courses were very popular and exceeded the enrollment expectations. The parents also enjoyed the workshops and many stayed to learn a few things about how to manage their own finances. YoungBiz produced various advertising via radio ads, newspaper articles, and social networking.

The Lottery is currently partnering with the TV magazine show "California Life" to sponsor a 12-part educational series focusing on how the Lottery supports education. The show reaches 5 million households and has access to a potential of 6.5 to 7 million hits via the Lottery and the California Life websites, where the segments are also available. California Life is seen in eight of the twelve California media markets: Los Angeles, San Francisco, San Diego, Monterey, Bakersfield, Palm Springs, and now Sacramento.

The Lottery continued its sponsorship of the California Distinguished Schools and the California Teachers of the Year. This year, the Lottery also sponsored the Academic Achievement Awards and National Blue Ribbons School Ceremony. The Blue Ribbon Schools program honors schools that are either academically superior or that demonstrate dramatic gains in its student achievement. Over the months of July and August, the Lottery will honor distinguished schools and the Teachers of the Years at Major League Baseball games. These events provide recognition for the schools and the teachers with an on-field ceremony with the Superintendent of Public Instruction and the Director of the Lottery. Lottery staff will continue to look for new education sponsorships as part of the new CSR effort and hope to have several new partnerships this year.

c. Workforce/Succession Planning

Barbara Krabbenhoft, Deputy Director of Human Resources (HR), went over the Workforce and Succession Planning model that consists of four phases. Phase one consists of reviewing and analyzing the situation and initiating some immediate recruitment and retention strategies. Phase two is to conduct some gap analysis and phase three consists of beginning the development and implementation plans. Lastly, phase four will be to evaluate and modify those plans and staff is currently in phase two and three. HR has been working with the Enterprise Project management office to follow and adhere to the project management principles and methodologies and staff now has a workforce and succession plan charter.

As a high-level project, the workforce and succession charter sets out action plan timelines and defines specific measurements for achieving them. The

measurements will include identification of competencies and analysis of skill gaps and attrition rates, while the training plan measurements will include pre and post tests and session evaluations. Some of the successful recruitment and retention strategy accomplishments include the Annual Health and Safety Fair, the Annual Recognition Ceremony, the New Employee Orientation Program and the Needs Assessment Surveys. From the surveys, staff developed the Leadership Academy, which is a six-session certificate program mandatory for all supervisors and managers. To date, three sessions have been completed. The first session was on the supervisor's role in New Employee Orientation. The second session was on the Performance Appraisal Summary and the Individual Development Plan process. The last session was on Effective Communication Skills, presented by an external consultant.

Some of the Workforce Development Programs included "Lunch with Linh" that included a session for employees to help them determine their career development. HR staff produced a step-by-step "Career Development Resource Guide." Career counseling is available and "Effective Communication Skills" is being offered. A Preventing Harassment and EEO issues training session called "Making the Lottery a Winning Workplace" is being initiated.

The Initial Gap Analysis identified two critical areas needing immediate action, Leadership and Sales and Marketing Division. Krabbenhoft displayed a chart showing the Lottery age profiles for employees over the age of 50 by division, as well as for supervisors and managers. Sales and Marketing is at 71 percent, while the leadership classifications are at 68 percent. They are on target to be the first emphasis on training. Phase two and three action plans continue to be developed for a leadership competency model; identify the core competency for all employees, with the emphasis on Sales and Marketing, and conduct gap analysis for other critical areas.

Staff continues to enhance the training program and develop the training budget. HR is analyzing the individual development plans for job-required and career development training, addressing the identified skill gaps, and securing internal and external training programs. HR is also working with the Information Technology Services Division to create a training resource and information network database that will track all employees training history.

Future goals are the Organizational Development, which includes reviewing and revising class specifications, and duty statements; and the development and utilization of internet exams, both Lottery-specific and service-wide. Future recruitment and retention strategies include, attend career fairs/focused recruitment; develop recruitment brochures; work with RENEW on employee survey; develop career ladders; establish mentor programs; conduct exit interview; and initiate knowledge transfer strategies. Future events at Lottery Headquarters includes: the Health and Safety Fair, May 25, Session 4 of the Leadership Academy on May 26,

Health Benefits Seminar in the Summer of 2010, and the 25th Anniversary Summer of 2010 include the Health and Safety inspections, Health Benefits Seminar, Mini Health and Safety Fairs, and "Making the Lottery a Winning Workplace!" – Preventing Harassment and EEO Issue.

d. Consumer Compliance & Protection Program

Everest Robillard, Deputy Director of Security and Law Enforcement (SLED), stated that the mission of SLED is to protect the assets of the California Lottery, both human and fiscal, while ensuring the highest level of operational integrity, honesty, and fairness is achieved. SLED's objectives include investigating Lottery-related violations by law; conducting internal and external criminal, civil, and administrative investigations; creating a secure physical and logical work environment; establishing security systems for game operations; determining ownership of questionable tickets; investigating all internal security violations; providing a loss prevention program for retailers; conducting background investigations for all Lottery employees, retailers, and contractors; and establishing and maintaining law enforcement liaisons.

SLED provides training on Lottery-related fraud to law enforcement agencies with staff that travel throughout the state and even across the country, to explain what the resources are, and educating them on the latest trends that SLED has discovered. The Lottery is represented at various law enforcement trade shows and conferences and SLED is providing web-based resources for both the player and the law enforcement community. Staff is investigating complains from consumers on suspected fraud from the 1-800-LOTTERY hotline, and SLED is reaching out to seniors to prevent them from being victims of fraud. The public outreach efforts include fraud information on the Department of Consumer Affairs senior fraud web page as well as press releases, media outreach, public awareness, and public education.

SLED's complaint processing includes the 1-800-LOTTERY number, where the majority of the calls come to; letters to the Director, e-mail correspondence; calls for assistance from local law enforcement; complaints made by retailers; partnership with Sales/Marketing Division staff (District Sales Representatives); and information sharing efforts through a computerized program called "Critical Reach." The program is similar to a "Wanted Persons" bulletin and with technology, staff is able to identify suspects who commit crimes towards retailers.

SLED's enforcement consists of protecting retailers that are victims of robberies and burglaries. SLED agents work every furlough Friday, Saturday, Sunday, and Christmas morning. Once a call is received on the 1-800 number, staff begins the investigations right away. When a retailer is the victim where Lottery products are stolen, SLED is quick to get those stolen tickets entered into the database and flagged in the Lottery's system (Robillard played a short video clip of a retailer being robbed). The first responders are local law enforcement and the retailers know to

call the 1-800 number to report the stolen tickets. Staff begins to track the stolen tickets through a variety of different ways.

A crime against players consists of winning tickets that have been signed by the player and are stolen by perhaps an acquaintance. The acquaintance might attempt use white-out, write in their name, and then submit the winning ticket. SLED conducts forensic testing that can actually see the original handwriting underneath the white-out. Investigators will interview both the original signee and the person who submitted the claim. Most often it is a stolen ticket, however sometimes it is to avoid offsets, which is tax withholdings, judgments, or child support. SLED's role is to identify who the real winner is.

Fraud by pinning is a retailer who will fine scratch the Scratchers ticket to identify the VRN number, which is a secret code number on the front (video played of retailer pinning). The retailer then scans the bar code on the back through the database, scratching the VRN number on the front, and entering the VRN number to determine if it is a winning ticket. The retailer will take the losing tickets and try to sell them to the public while they claim the winning tickets. Robillard stressed it is a small percentage of retailers who are pinning and it was

SLED is getting better at identifying retailers that have an unusual number of high winning claims. The database has been programmed where staff can start discovering activity where some retailers or their employees or family members are submitting high claims and this is just not an indication that there is a violation, but it is an indication. The Retailer Redemption Compliance Program consists of an undercover agent visiting these retailers with a prefabricated winning ticket. The agent will see if the retailer does the right thing by informing the player that they have a winning ticket or committing fraud by keeping the ticket and advising the player that it is of no value.

SLED's future consists of, a comprehensive review of all internal policies and procedures, which have been submitted to the Lottery's Chief Counsel for review; implementation of performance-based measurements; a comprehensive training program with strategic leadership development as the primary focus; and succession planning. The average length of experience of a Lottery Agent is a little less than 31 years of law enforcement experience. Many are approaching retirement therefore a new generation has to be prepared. Menchaca asked if there was a higher incidence of fraud and scams in the Latino Community. Robillard stated that most of the complaints are coming in from the Latin American communities. The perpetrators of these crimes are of the same ethnic background and are preying on their own culture.

8. Consent Calendar

a. Amendment to Extend the Term of United Parcel Service (UPS) Contract for Scratchers Delivery Services to Retailers

Mims requested discussion of Item 8(a). Mims asked if there might be an opportunity to rebid the contract for economic purposes. Borucki stated that when staff receives authorization from the Commission for extensions, the Lottery will negotiate to receive the best deal. For instance, last year when the UPS contract was up for extension, it was scheduled for a percentage increase and staff negotiated a zero percent increase. Mass would like the Lottery to take advantage of any leverage, negotiation or the opportunity to find as good or better services at a lower cost.

Mims made the motion to approve Consent Calendar Item 8(a). Seconded by Menchaca. The motion passed unanimously (3-0).

9. Action Items

a. 2010-13 Business Plan

Linh Nguyen, Chief Deputy Director, gave each Commissioner a binder that contained a copy of the presented PowerPoint, a summary of the business plan, the Roadmap for Implementation, and a one page profile for each of the initiatives that staff will be undertaking in the next year. The Balance Scorecard will be included in the June Commission Meeting. The strategy was to do a long-term plan so what is being presented is a continuation of the 2007-10 business plan. The presented plan contains a three-year business strategy with a detailed one-year implementation plan.

The three-year business strategy is based on seven strategic imperatives, first is to focus on draw based game sales; second is to ensure we are getting the most of the Lottery's Scratchers products; third is to take advantage of the retailer network; fourth is to get the most of the marketing dollar; fifth is to allocate resources to maximize profit; sixth is to foster performance management; and seventh is to focus on building productive stakeholder relationships.

Richard Wheeler of Camelot Global, recapped some of the numbers and projections that were presented in the April Commission Meeting. The "Do nothing" prognosis is the expectation that revenues will decline to around \$2.5 billion by 2012-13 and returns to education being estimated at about \$850 million. What staff now expects to happen over the next three years is an increase to revenues of approximately \$4.6 billion by 2012-13 comprising both the base initiatives in terms of how we operate the business and the opportunities prize payout reform presents. In terms of next returns to education, there is an increase of around \$1.3 billion to \$1.4 billion over the same period.

Nguyen stated that the first category of the tactical priorities will focus on turning around draw-based game sales, specifically the large jackpot game portfolio that includes SuperLOTTO Plus and MEGA Millions, and the consideration of whether or not the Lottery includes PowerBall. Staff is working diligently on collecting and analyzing data to make recommendations on the contents of the portfolio. The next category is to ensure the Lottery is getting the most out of the Scratchers product which includes successful implementation of the higher prize payout strategy. It also includes a revamping of the prize structures so that the prize levels that are set are creating good excitement and good consumer experience. Staff is using information and data analysis to not only look backward, but forward by having trading meetings. Staff is turning the data into action by giving instructions out to the field on what tickets to place and what tickets are selling, which has had a positive effect on sales already.

The next category is to get the most out of the Lottery's retail network. A retailer pilot will be implemented in the San Francisco District. Staff will look over the best practices and implement them in a pilot environment. If it is successful in San Francisco, it will be rolled out to the rest of the state. This entails what staff is calling the "Ideal Retailer Visit." What should the District Sales Representative (DSR) be talking about; what product should they be pushing; what should they be investing their time in? In today's environment, it is left up to the DSR and there is no clear indication that what a DSR does today results in sales increases. The pilot will help staff measure what works and what does not work and then the best practices will be shared across the state.

The next category is to get the most out of the Lottery's marketing dollars with the key being to select a new general market agency and developing an econometric model to measure performance of the marketing campaign. Another category is to allocate resources to maximize profits. Staff will make sure campaigns are now focused on the products in the coming year rather than abroad, general image campaign to focus on making sure SuperLOTTO Plus is a good game that is worthy of support, Scratchers management, and return on investment in our marketing. The next category is to foster performance management culture which includes; agency-wide measures, reference materials, and the Balance Scorecard that the Commission will be tracking. Borucki stated that this information will also be up on the Lottery's Web site so that anybody can see what the Lottery will be doing with the money to track the progress and performance in carrying out the business plan.

Nguyen stated that staff will focus on building productive stakeholder relationships. The Lottery has done various efforts through its media office, and the education outreach office in the past, but was never coordinated.

Susan Kossack will be responsible for carrying out the message through various communication channels. Nguyen went over some key risks and challenges that the Lottery faces as it implements the business plan. The first corrective decision is SuperLOTTO Plus, which is a \$400 million game so staff will be careful in making a decision because of the high stakes. Another correct decision is interning Powerball and staff is carefully looking at what is currently happening in other states.

Mass asked for an explanation on what it means to “enter Powerball.” Nguyen stated that California is currently a MEGA Million state and there are two multi-state games in the United States: MEGA Millions and Powerball. MEGA Millions is more the large-state game. Recently, there was an agreement that states that carry Powerball could now sell MEGA Millions through a licensing agreement and states that sold MEGA Millions previously could also now sell Powerball. California decided not to start selling Powerball at that time, but instead will analyze what is going on in other states. Staff’s decision was based primarily on the fact that the Lottery already had two large Lotto games: MEGA Millions and SuperLOTTO Plus. It was also based on the experience of entering MEGA Millions and what that can do to a portfolio, specifically, the starting of cannibalizing sales in other games. What staff has seen in other states is that there is an initial boost from carrying both games, but there is a decline month-over-month. Staff would like to continue monitoring for another couple of months before determining whether sales will increase for those states over time. Also, adding to that portfolio requires money for marketing.

Nguyen talked about the constraint marketing budget, which the Lottery has struggled year-over-year to make sure we are on the air the entire year. In the past, the marketing campaigns had stopped or were run shorter due to the lack of money so this will be a key to the Lottery’s success in the coming year. The Lottery needs to focus on successful implementation of the Scratchers strategy and the business plan calls for the Scratchers sales to increase nearly 30 percent. This will be highly dependent on not only having higher prize payouts, but how well staff executes it in the field.

Wheeler went over the latest sales projections. For SuperLOTTO Plus, there will be a decline that is consistent with what has been seen during 2009-10 to around \$400 million next fiscal year. MEGA Millions has seen a huge increase in sales performance through the campaigns and also the jackpot winner in the State of California most recently and also big jackpots back in August. Staff expects sales to remain around \$460 million. The main engineering of growth will be in the Scratchers category which is driven by two things: First is the continued improvement in operation and second is the increased prize payout. Cumulatively, it adds up to the proposed sales budget next year of \$3.5 billion.

Michael Brennan, Deputy Director of Sales/Marketing went over the product and marketing plan for the next year. Because of the success of MEGA Millions, staff does not feel the need to tweak the game but its performance will be continuously monitored with respect to the ongoing campaign. Staff will continue to monitor Powerball, MEGA Millions, and the cross-sale states. The daily games remain steady with little anticipated growth in Daily 3® and Daily 4. Staff is working on increasing the performance of Hot Spot®, which is currently underperforming. On Scratchers, a huge focus will be based on product-planned evolution, operational and distribution improvement, and the higher prize payouts made available through Assembly Bill 142.

Brennan stated that staff's priorities next year will be SuperLOTTO Plus, to see what can be done in order to arrest the decline. The Lottery feels it is beyond just marketing communications, and requires a change to the game itself. Staff will assess options for Hot Spot and utilize the additional payout opportunities to reengage players in the game. Staff is working on different kinds of displays for the games and different kinds of themes and formats. Staff has completed the first steps of quantitative Internet surveys and focus groups on prospective game concepts for SuperLOTTO Plus. Results from the groups indicate that neither of the two concepts in the current form have a clear mandate to replace SuperLOTTO Plus. There are a number of components to the concepts that require further game development before being sent back out to testing. As discussed earlier with regards to Powerball, the indications are that the states have seen some uplift in the sales, but staff will continue to watch and see if cannibalization occurs.

Mass asked that when the decision to bring in MEGA Millions to California was made, did staff look at other states that had MEGA Millions to see if it was cannibalizing? Brennan stated that all indications are that other states are having the same problem with their in-state game. Borucki stated that when speaking to the other MEGA Millions Directors, there was a conscious decision that they knew that eventually the MEGA Millions game would replace their in-state games because of the phenomenon here in the United States that people chase the larger jackpots. With the talk of approaching the cross-selling of Powerball, there is the possibility of eventually leading to a new national jackpot game. Staff also has to look at what cross-selling is doing as a whole to the game of MEGA Millions. If the California Lottery is not selling Powerball, what happens if Powerball becomes a stronger game than MEGA Millions and the Lottery is not in Powerball? Staff will not have an easy analysis to make right now on the choice of SuperLOTTO Plus. Brennan continued with Hot Spot, which staff has some short-term changes, such as the allowance of higher prize payouts that will be coming to the Commission in June. Staff estimates \$2.2 billion in Scratchers sales in the next fiscal year.

Brennan gave an overview of the marketing plan. Beginning this fiscal year, staff began advertising MEGA Millions in key areas with the greatest return, such as Los Angeles and San Francisco. The campaign elements include "Imagine what a buck could do" and staff had brand messaging inter-spread with jackpot alerts when the Lottery hit \$70 million in LA and \$100 million in San Francisco by the next draw. Staff plans on using MEGA Millions coupons to provide added value at Lottery events. During July and September, staff will begin MEGA Millions tours. The events will be held in shopping malls to reach a large number of consumers and introduce them to the MEGA Millions brand. A new purchase incentive program for Fantasy 5 will be implemented where players can receive multiple entry codes based on their purchase amounts. Weekly prizes will be awarded to reinforce more winners of meaningful prizes and develop a second chance online entry program for Fantasy 5 in the first quarter. Fantasy 5 coupons are still mailed in one coupon per envelope so players can be chosen to go on the show. It will now be online because the Lottery has had requests for this for a long time.

The Hot Spot strategy will be in two stages. The first stage is in progress now and includes reviewing best practices with regard to Keno-type games and focusing on promotions that have gained incremental sales. The Commission will also be asked to approve an increase in the prize payout percentage of Hot Spot in the future. Staff plans on allocating in the baseline marketing budget for next year and a place holder for the introduction of a new SuperLOTTO Plus replacement game or Powerball, or a combination of the two. There is money set aside in a February-type timeframe to address that issue.

In June there will be a promotion featuring the Lottery's 25th Anniversary. Tickets introduced June through October will have a 25th anniversary logo and are eligible to be entered online if they are non-winners for a weekly prize of \$1,000, and a grand prize at the end of the 25 weeks of \$25,000. In September, staff will support the new higher prize payout Scratchers with advertising, focusing on more prizes, more winners, and the 25th anniversary. During the fourth quarter of fiscal year 2010-11, a new Public Web site will be launched that will offer visitors and players a new, positive, and exciting experience to motivate them to play Lottery games, promoting player loyalty, and increasing Lottery sales. The new site will include an enhanced Players Club, functionality offering tournaments and player interaction. Players Club will also allow players to earn points to be redeemed for free Lottery game plays, merchandise, and travel opportunities. The enhanced Web site will enable the Lottery to track the players' behaviors and potentially product purchases, and offer them relevant timely information opportunities.

Brennan stated that the amount of money staff received this year for marketing communications was in the low \$30 million range. Knowing that MEGA Millions has proved successful with the campaigns done this year, staff will continue to do brand advertising and jackpot alerts through next year in LA and San Francisco. The first quarter of next fiscal year will include the promotion for the 25th anniversary tickets, the Fall Scratchers, the MEGA Millions mall tours and participation in fairs and festivals. The Lottery will also continue its partnership with LA Live for the first two quarters. The second quarter will include the promotion of the 25th anniversary tickets, the NFL sponsorship will have a holiday tour, and the last quarter for the LA Live sponsorship. The third quarter will include SuperLOTTO Plus or Powerball advertising, statewide, and new game events. Scratchers advertising will be included in the fourth quarter as well as the introduction of a new game or replacement game, and the continued sponsorship of Major League Baseball.

Nguyen went over Accountability which included performance measures as set out in the Scorecard; Roadmap, which enforces adherence to schedule; regular reporting through steering committees and Commission Meetings; and information publicly available through Commission Meetings and the Lottery's Web site. If the business plan is approved, the next steps will be to finalize the RENEW Balance Scorecard by mid-June. Staff will also finalize the budgets and the business plan detail for presentation and approval at the June meeting. The Lottery be holding its first RENEW Program Steering Committee meeting in June to kick-off project implementation officially. Staff believes the plan is comprehensive; it addresses the obstacles and implementation that the Lottery has seen in the past and will be seen in the future. Borucki stated that the approval of the business plan also includes giving the Lottery direction to use the \$3.5 billion sales goal for development of the budget to bring back for Commission approval in June.

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

b. Scratchers® Game Profiles and Alternates for Games 653, 654, 655, 656, and 657

Ed Fong, Chief of Product Development, presented the Commission with one set of game profiles for July and August, 2010, that will reinforce the Lottery's ability to focus on creating more winners in California through higher prize payouts. Game 653 is a \$1 game with a Match 3 playstyle with a specific variant. If players match three prizes, they win the prize shown and if a specified symbol is revealed, players win a prize according to the prize

legend. The top prize for this game is \$999 and the overall odds of winning are 1 in 4.37.

Game 654 is a \$1 game with a Key Symbol Match playstyle and one specific variant. If a different specified symbol is revealed, players automatically win the \$50 top prize and the overall odds of winning are 1 in 4.80. Game 655 is a \$2 game with a Key Symbol Match playstyle and two specific variants. If a specified symbol is revealed, players automatically win the prize shown. If a different specified symbol is revealed, players automatically win the \$200 top prize and overall odds of winning any prize are 1 in 4.31.

Game 656 is a \$3 game with a Bingo playstyle and a specific variant. Players match "Callers Card" numbers to the numbers in the "Your Cards" area and if a line, four corners, or "X" pattern is revealed, players win the prize indicated in the adjacent prize key. If matched numbers appear in a specified colored line, the prize shown is doubled. The top prize for this game is \$20,000 and the overall odds of winning are 1 in 3.74. Finally, Game 657 is a \$1 game with a Key Number Match playstyle and a specific variant. If a specified symbol is revealed, the prize shown is doubled. The top prize is \$500 and the overall odds of winning are 1 in 4.67.

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.

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

c. Amendments to Regulations for Hot Spot®

Fong presented the proposal for adopting amendments to the regulations for Hot Spot. The changes will increase the prize payouts for the game to take full advantage of the passage of Assembly Bill 142. By making adjustments to the Hot Spot game, staff will have the ability to create larger prizes for Lottery players. Staff will accomplish this by running promotions more frequently that will raise the prize payouts of 51 percent to 56 percent. Staff's experience of running periodic promotions suggests that if the Lottery had additional funds to run promotions more often, it could increase sales.

Adopting the amendments will provide an irrevocable \$1 million to the Hot Spot prize fund, which will provide the necessary funds create promotional programs that will award players with larger prizes during promotional periods. Staff anticipates the frequent promotions will provide a 15 to 20 percent increase in overall Hot Spot sales for next fiscal year. Adopting the regulations will not change the odds of winning prizes in the current Hot Spot game. Staff can provide the Commissioners with periodic updates on the progress of the promotional efforts throughout the upcoming fiscal year.

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). Seconded by Mims. The motion passed unanimously (4-0).

d. Gaming System Upgrade

Ellen Ishimoto, Deputy Director of Information Technology Services, described the Lottery's gaming contract with GTECH and some of the core services that GTECH provides in the contract. GTECH develops and supports the Lottery's core gaming and administrative systems that manage millions of gaming-related transactions through a satellite telecommunications network. GTECH installs, moves, repairs, and maintains over 86,000 pieces of gaming equipment located in retailers across the state. GTECH supports the Lottery's 21,000 retailers through a retailer call-center hotline that is staffed 24/7. They operate a primary and secondary data center; they print and distribute consumables such as play slips, ticket stock, and claim forms; and they provide marketing and research services. GTECH has more than 125 employees located in six locations that service the Lottery.

Lottery staff recommends that the gaming contract with GTECH be amended to extend the contract for five additional years. In return for the five years, GTECH will continue to provide those core services at the same compensation rate and will invest over \$48 million in additional technology, products, and services that are needed to support RENEW and the prize payout reform. Based on the Commission's approval of the July 2008 amendment, the contract will also continue to have a tiered compensation structure that will reduce the rate as sales grow beyond \$4 billion.

The \$48 million investment by GTECH in the Lottery will include the latest state-of-the-art version of GTECH gaming and administrative systems; and the software consulting services needed to really support the upgrade process. They will provide an expanded player services package that complements the player service package already in implementation. The expanded services include; a second chance drawing feature, subscription play, player registration, and player claim card capabilities.

GTECH will also have a game research testing system called Game Pro that can provide live testing later this year for potential SuperLOTTO Plus replacement game and Hot Spot game changes as part of the RENEW effort. Additional functionality includes ticket-by-ticket retailer accounting, integration with retailer point of sale, and advanced reporting. The new system will have reduced energy consumption and approximately four times greater processing power and storage capacity, providing the horsepower for unlimited sales growth that will be needed with the prize payout reform.

The amendment will increase the total expenditure authorized by \$400 million, which will cover the annual costs for the additional five years, and the projected increase in revenue as a result of the prize payout reform and the new business plan.

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.

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

10. Commissioner General Discussion

Mims stated that the three Commissioners were going to GTECH for meeting and stressed that there would not be any Lottery business discussed or conducted. Menchaca stated there was a press release that indicated that Camelot was interested in acquiring the management of the Illinois Lottery and asked if that would impact their services to the Lottery and if there were confidentiality issues between the California and Illinois Lotteries. Borucki stated that it is clearly stated in the Lottery's contract with Camelot. Mass publicly thanked C.C. Yin for his Commission service to the Lottery. Yin had an incredible amount of value to the planning and building of the Lottery's new Headquarters building and to the Audit Committee with respect to the Lottery's business and its financial aspects.

11. Scheduling Next Meetings

The next Strategic Planning Meeting is tentatively scheduled for June 17, August 19, September 16, October 28 and December 9, 2010 in Sacramento.

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 11:53 a.m.