

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – April 14, 2010

Burbank, 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 Burbank City Hall, 275 East Olive Avenue, Burbank, California 91502.

2. Pledge of Allegiance

John Mass led the Pledge of Allegiance.

3. Roll Call

Mass asked Elisa Topete to call the roll. Mass publicly thanked Cynthia Flores for her two years of service as Lottery Commissioner and welcomed John Menchaca as the newest Lottery Commissioner. Menchaca is a managing partner of Menchaca and Company, Certified Public Accountants and business consultants in Los Angeles. Menchaca stated that he was honored to part of the Commission and participated in the Strategic Planning Meeting in Sacramento. Mass also thanked the City of Burbank for allowing the Lottery the use of the beautiful Counsel Chambers for the Commission Meeting.

Commission Members Present:

Commissioner Margaret Mims

Commissioner C.C. Yin

Commissioner John Menchaca

Chairman John Mass

CSL Staff and presenters:

Joan Borucki, Director

Linh Nguyen, Chief Deputy Director

Lisa Hightower, Chief Legal Counsel

Michael Ota, Deputy Director of Finance

Michael Brennan, Deputy Director of Sales/Marketing

Ellen Ishimoto, Deputy Director of Information Technology Services

Jim Hasegawa, Deputy Director of Business Planning

Andrew Chang, Chang & Adams Consulting

Justin Adams, Chang & Adams Consulting

Richard Wheeler, Camelot Global

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 April 14, 2010 agenda as proposed. Yin moved to approve the agenda. Seconded by Mims. The motion passed unanimously (4-0).

5. Approval of Minutes

Mass asked if there were any additions or corrections to the December 17, 2009 minutes. Menchaca abstained from the approval because he was not present at the December 17 meeting. Mims moved to approve the December 17, 2009 minutes. Seconded by Yin. The motion passed (3-0).

6. Commission Liaison Reports

Mass appointed Menchaca the Liaison for Audits and Yin will now be the Liaison for the new headquarters building. Both Menchaca and Yin will be part of the Audit Committee and Menchaca will present a report at next meeting.

Commissioner Mims:

As the Liaison for Security/Law Enforcement (SLED), Mims was briefed and updated on the following issues: SLED staff has been involved in the design and procurement of a new physical security system for the new headquarters building. Staff prepared a Request for Proposal (RFP) for Otto Construction, identifying the requirements of the system and its need to interface with each existing district office. The RFP was released and five bidders responded with proposals. Staff is currently working with Otto Construction, evaluating each proposal with the intent of selecting a successful vendor shortly.

The Amber Alert System is a public alert system that notifies the public regarding at-risk, missing, or juveniles involved in criminal activity. Staff became aware of a problem and breakdown of communication between the California Highway Patrol (CHP) and GTECH. Approximately a year ago, the communication breakdown occurred, which has since been fixed. The CHP now communicates with GTECH and the Lottery's gaming system is used to distribute these alerts. The system is back in place to keep the children that are victimized, safe.

The Lottery's consumer alert link has been positioned to a more prominent location on the Lottery's public web site. Along with the move, the link was renamed, "Consumer Protection" and includes the image of a law enforcement badge. The upgrade has given the link a more professional appearance and aligns it with the law enforcement functions of the division. Staff has been working with the California Department of Consumer Affairs to provide a link from their Senior Fraud web site, directly to the Lottery's Consumer Protection link. It will facilitate the sharing of Lottery-related fraud information affecting senior citizens, and provide a resource to report the crimes to SLED.

Over the past couple of months, staff has participated in several high-profile outreach events in law-enforcement meetings. The meetings include the annual California Chief of Police Conference and trade show in San Jose, the San Diego County District Attorney's Consumer Protection seminar, an intelligence-sharing meeting with the Santa Barbara County District Attorney's office, and the Fresno County Anti-terrorism meeting.

Commissioner Yin:

As the Headquarters Building Liaison, Yin reported that the building is on schedule and well within budget. Yin thanked Director Borucki and Deputy Director of Operations, Terry Murphy, for their leadership and dedication. Yin met with contractors and has worked closely with the City of Sacramento in order to keep on schedule and within budget. Councilmember Tretheway has been very supportive and will be coming to the Lottery on May 5 for a tour of the site. Lottery employees have been involved in the design of such areas as the furniture, bathrooms and the work areas. Yin stated that the employees feel they are building the new home together, are proud of the new building, and look forward to the completion next year.

Chairman Mass:

As Marketing Liaison, Mass was updated on in-store Point of Sale (POS) that has been distributed in retail for the theme, "Play for Millions." The POS is supporting SuperLOTTO Plus® and MEGA Millions®, and reinforces the draw days of both games. The POS began in stores from February through March 2010.

On March 8, the MEGA Millions advertising campaign began the "Imagine What a Buck Could Do" which brought back the softball and snow TV spots. The TV campaign runs for 12 weeks in Los Angeles and San Francisco, March 8 through May 30 and invites consumers to imagine what they could do if they won the MEGA Millions jackpot. Mass stated that this timeless campaign ran several years ago, has been brought back and according to the Marketing staff, the Lottery is seeing results from this campaign. Staff is using old spots that were already paid for years ago and repurchasing them for MEGA Millions. The MEGA Millions media elements air in Los Angeles and San Francisco and include: radio from March 8 to April 4, Traffic IDs from March 8 to May 30, Outdoor, (meaning billboards, bus stops and others) from March 8 to May 30, Online from March 22 to May 30, gas pump grocery screens from March 8 to May 30, and in-store jackpot alerts only from March 8 to May 30. On jackpot alerts, the "Imagine What a Buck Could Do" brand message will replace the MEGA Millions' jackpot specific message to support jackpots of \$70 million or more in Los Angeles, and \$100 million or more in San Francisco in all media vehicles that was outlined.

Participants who have registered with Replay have surpassed 540,000 players. To date, 494,000 participants have entered a ticket. The total number of tickets entered exceeds 30 million tickets and about 1.4 million are entered each week. Online, also

supporting the MEGA Millions push, is a microsite, “If I Won Millions,” which went live on March 8. It offers the public the ability to describe what they would do if they had won millions of dollars. The site also allows visitors to vote on other visitors’ posts and easily alert friends via Twitter and Facebook. The site will run for 12 weeks and be promoted via Lottery media and radio spots. The site also reinforces the “Imagine What a Buck Could Do” campaign tagline and also links the Lottery’s public web site and a call to action to visit and find out more.

Additionally, the first phase of the iPhone app launched on March 8 and features SuperLOTTO Plus and is being revised to feature both MEGA Millions and SuperLOTTO Plus. It was decided to launch this phase so as not to disrupt the Apple approval process and delay the process even more by almost 14 weeks. It is anticipated that the MEGA Millions functionality will be ready in another four to six weeks. This particular app invites users to shake the phone to activate the bouncing balls to create lucky numbers that the user can take to a retailer and play. The app also has a calendar feature so the lucky numbers can be saved for future play and lists winning numbers for past draws. The app also has current jackpot amounts available and a message/link to the my.calottery microsite to encourage the user to sign up for text message alerts. The app will be promoted via Lottery media.

As Procurement Liaison, Mass was briefed by staff and requested approval of the following: an amendment to Infiniti Consulting Group to extend the contract term and increase funding. Infiniti is assisting the Lottery with Project Management policies, procedures, and training; an Amendment to the Trius Technologies purchase order to extend the term by seven months and add additional funding. Trius provides telecommunications and network services required to install, maintain and service existing voice, data, and video systems for the Lottery Headquarters complex and district offices; a contract with Consolidated Engineering Laboratories to perform special inspection and testing services to support construction of the new Lottery Headquarters Facility; an interagency agreement with the State Treasurer’s Office for investment and custodial services of U.S. Treasury Securities. The custodial services cover the Lottery’s California-only managed lottery games and for the multi-state MEGA Millions Lottery games; and to release an Invitation for Bid to procure services for a vendor to provide shredding services. The vendor will shred Lottery tickets and confidential office paper per year at its various offices and Record Center. The Lottery will issue one or two contracts (either North and South, or statewide, if the same bidder provides the lowest bid in both areas).

Discussion by Commissioners.

7. Director’s Report

Joan Borucki, Director, stated that the RENEW Project Update is the primary focus of the Lottery and the work for the business strategy phase is complete. The business strategy, which is comprised of 30 key initiatives, was discussed at the Strategic Planning Meeting that Commissioner Menchaca spoke about. The key

initiatives will be implemented over the next three years of the new business plan that staff will be asking the Commission to take action on in May. Based on financial estimates, the Lottery expects to realize an incremental revenue of approximately \$1.7 billion, which does not take into account prize payout reform, and returns to education of about \$900 million across the next three years, if the Lottery successfully implements the initiatives. An implementation road map has been put together which is base lined and has a high-level feasibility assessment. Staff has put together a program structure and a governance model to help the Lottery stay on course.

a. RENEW Project Update

Linh Nguyen, Chief Deputy Director, and Richard Wheeler of Camelot Global, presented the update on the RENEW Project, which represents the end of the business-strategy phase. On the Key Headlines, the work of the business strategy is now complete. The strategy comprises of 30 key initiatives, implemented over the next three years. Staff expects \$1.7 billion in incremental growth without prize payout relief over the next three years, and \$900 million to education. The Implementation Roadmap has been baselined with a high level feasibility assessment. There is a Program Structure with a governance model and the Lottery has 1,000 days of Camelot to help us successfully implement the project. Mass asked if the 1,000 days of support equates to months of support from the implementation process or 1,000 days over a year or two. Wheeler stated that the contract provides for 1,000 days of support to be used as needed over the next three years. Camelot and the Lottery have agreed to a resourcing plan for the first 12 months, which equates to around 400 days. And more days will be set for the following two years.

Staff has reached the end of the business plan development phase and is ready to move on to the implementation phase. The mission statement was developed at a strategic planning session with the Commissioners and from the session, staff developed the seven strategic imperatives and has charted out the key initiatives for growth into four major categories: Lottery Products, Marketing, Retail Execution, and Corporate and Social Responsibility.

For Quantification and Financial Modeling, staff wanted to give some insight on how they came up with quantifying the benefits of the projects and the methodology used. Staff performed a thorough As-Is assessment and financial projections. Over the next three years if nothing was done, the Lottery's business would continue to decline at a rate of about 3.6 percent per year in overall revenues and 4.1 percent year-over-year on net returns to education. In the final phase of the project, staff also individually quantified the benefits of proposed initiatives, grouped them into the major scenarios, overlaid the scenarios onto the "do-nothing" projections, and from that, developed the future financial projections. The \$1.7 billion in incremental revenue over the next three years was baselined from the As-Is assessment that projected year-over-year decline. Finally, the scenario set the stage for overall

performance expectations and the annual budgets, which the Commission will see in upcoming meetings. Discussion by Commissioners.

The method used from the list of initiatives was to determine which are financially quantifiable versus foundational. For the financially quantifiable initiatives, staff used several components, such as the California Research Data, third-party research, and reports that have been accumulated over the years, a comparison with U.S. jurisdictions. Finally, Camelot data and experience, as well as Lottery data and experience, provided the basis for the financial quantification, which are fairly accurate, but are also a range of estimates and are generally conservative. There are some unknowns that would make some of the assumptions change. Staff believes in them and they do establish the goals that the Lottery has set. Discussion by Commissioners.

The next level that staff came up with is the Base Initiatives, which are 20 core initiatives that were used to determine the \$1.7 billion of incremental revenue over the next three years. Powerball could be a very high opportunity, but it depends on staff's analysis of the data coming in from other states. The highest level of potential is prize payout reform. The base initiative scenarios are grouped into nine major financial forecast groups and staff has projected the revenue impact for each of those initiatives over the next three years. Wheeler gave an example of the timing of these initiatives and when they are actually expected to take effect. For instance, the reduction in the number of Scratchers® games that are available for sale; the Lottery staff had already started implementing this in December and January, which has already started to have financial effects this year. There are much longer term initiatives, however the further out the Lottery goes in this plan, the greater the margin for error increases. Staff will be revisiting from a three-year plan perspective on a fairly frequent basis.

Draw-based games interact with each other; changes to games can mean incremental revenues and/or cannibalization of existing games, as seen in MEGA Millions and SuperLOTTO Plus. The key to the Powerball Scenario lies in three areas: Performance in other states, consumer research in California, and the evaluation of potential changes to SuperLOTTO Plus. The current focus is to understand the potential of a revised draw-based Lotto category environment in California. Staff sees two possible scenarios. The first one, is that SuperLOTTO Plus can be changed to stabilize the revenues where they are, which would mean stopping players from leaving the game, as well as possibly increasing per Capita spends to maintain current sales levels. The game needs to be differentiated within the portfolio, so that it is seen as a different game than MEGA Millions, and possibly Powerball. The second scenario is that the SuperLOTTO Plus decline cannot be stemmed. In that event, staff would execute a managed decline and then introduce Powerball as soon as possible.

For the Prize Payout Reform Scenario, the legislation now passed, the removal of the 34 percent net return will undoubtedly drive growth in those categories typically requiring higher prize payouts than previously permitted to realize potential. Staff used the Chang & Adams Consulting firm's analysis as the basis for the Lottery's projections on the effect of the legislation. In isolation, staff expects prize payout relief to drive upwards of \$2 billion in incremental sales over the next three years. The business plan and the budget plan for next year, is a bottom-up plan to understand how many \$5 games the Lottery is going to have in market and the total level of prize payout. Scratchers will be looked at to see how prize payout is going to be allocated across the various price points in games. Mass asked if without the prize payout, could there be \$1.7 billion in increased revenues over three years and up to \$2 billion additional revenue with the prize payout legislation? Wheeler confirmed and Mass stated it would be a 50 percent increase of what the Lottery is currently sending to public education.

The implementation of the RENEW Project is moving forward with several guiding principles. The first is to establish a two-month mobilization phase which includes further evaluation of each of the initiatives for resourcing needs. Staff will establish a formal Project Management structure, which the Lottery has not had previously. Staff will also look at how to combat project fatigue so that staff remains motivated and on top of their game as the Lottery moves through implementation. Finally, as part of the Lottery's change in management process, staff needs to create space for staff-wide consultation and communication, to make sure the Lottery has the best implementation possible. Discussion by Commission.

One of the Lottery's guiding principles is to effectively utilize Camelot's remaining hours that are left in the contract over the next three years and to establish a strong and visible governance. It consists of monthly steering committees chaired by Director Borucki, regular milestone-driven formal progress reports to the Commission, and a clear point of escalation of issues and decisions. What is being presented represents the first real, hard numbers that the Commission has seen of staff's projections for the initiatives. Staff plans on providing the Commission a summary or binder that can be referred to from Commission meeting to Commission meeting to track the progress of the project.

Under Governance, the Commission is at the top with the Project Governance Committee and RENEW Sub-Committee below with three main groups that consist of: Business Support Program Board, Marketing Program Board and Retail Program Board. Below will be individual project committees. In order to track the Lottery's performance measurement and accountability, staff has designed it around schedule, quality costs, and benefits realization, which are pretty standard in project management, and tracking will be done on a Program Balanced Scorecard. The Financial Performance is the cost of the project as it is being implemented. The Financial Performance Benefits Realization is going to be the key to tracking whether staff is meeting their goals.

The Program Milestone Plan plots each of the initiatives over time with milestones on a chart. It will be updated from Commission meeting to Commission meeting so it will be tracked based on what was estimated in the beginning. The Commission will have an expectation within June, August, and October, precisely which projects will be reaching a significant milestone or conclusion. The Key Risks include Key Resource Constraints, which includes effectively using Camelot and the Lottery staff's time to develop succession and development plans so that the Lottery can take over some of the new duties that are being developed as part of the RENEW Project. Another Key Risk is the November elections. If there is a leadership change, staff wants to make sure that the organization is set in motion to continue developing the three-year plan because it will maximize revenue for the Lottery's beneficiary. Finally, Employee Understanding and Buy-in includes conducting proactive communication sessions in Sacramento as well as in the field. Lottery employees need to understand the plan itself, the initiatives, as well as the benefits for the organization as well as for the individual employees.

The Quick Wins have already started to have a positive effect. The Scratchers sales were on a downward trend, beginning the year at about \$34 million per week and then dropping to about \$32 million per week. As a result of the cascading meetings of reducing the number of inventory in the field, better placement and management of Scratchers, weekly sales have risen to about \$36 million. In summary, staff believes the business plan addresses the key issues facing the Lottery, has very candidly assessed all the options open to the Lottery, and has addressed the issues that have been identified. The business plan will deliver significant financial growth in terms of returns to education, which is very important to the Lottery. There is a strong leadership, clear program structure, and an emphasis on accountability. Mass stated that Lottery staff is working hard at clearly working two jobs; their daily job and the RENEW Project. Results are being seen from their hard work and wondered if the staff's morale and excitement continues to be positive. Both Nguyen and Wheeler indicated that early results are being seen because of the hard work being put in by staff. The positive feed back creates more enthusiasm and enthusiasm drives further good news. Mass wants to make sure that the Director constantly re-examines what has been done with RENEW so that staff does not get locked into what the RENEW plan. If there is a potential to renew RENEW or improve it, perhaps the Commission could discuss it at future meetings and make it an agenda item on a periodic basis.

b. Business Strategy Analysis Presentation by Chang & Adams

Borucki stated that Chang & Adams, a Sacramento based consulting firm, were brought on to provide an independent source to provide the Lottery a financial and economic analysis on prize payout strategies. Justin Adams and Andrew Chang conducted the report last fall and provided the Commission key findings and a brief background on how the approach was conducted.

Adams reported that Lottery sales, currently at about \$3 billion annually, are currently projected to decline by 3.7 percent every year between now and FY 2013-14. Similarly, Lottery profits for education are projected to decline 3.6 percent every year. Under current code, the Lottery faces an effective prize payout limit of about 53 percent of sales, which is low compared with the rest of the United States. The national average payout is about 7 percentage points higher than California. Other states, such as Washington and Oregon, have payouts ranging from 7 to 12 percentage points higher. Based on a statistical analysis of sales and payout data from lotteries across the United States, the Lottery's payout restrictions dampen its potential sales and the total dollar amount for education. The Lottery administration costs at 13.5 percent of sales as they are now and the analysis suggests that education contributions are maximized at a payout level closer to 62 percent.

It could take about three years to fully phase in higher prize payouts into Scratchers games. Increasing the payout rate would leave FY 2009-10 sales unchanged from current projections of \$2.9 billion. But in FY 2013-14, assuming that higher payouts were fully implemented that year, sales would measure \$5 billion. This is without RENEW, just changing the payout rates. The percentage going to education would drop from 34 percent to about 24.5 percent, which means profits for FY 2013-14 would be \$1.229 billion rather than the \$863 million projected for that year under the status quo. Discussion by Commissioners.

Lottery sales have been growing at about 2 percent a year, which is less than the rate of inflation, about 20 percent less. Inflation has been growing at about 2.5 percent a year and when you factor that in with population, real per capita Lottery sales have actually been declining by 1.4 percent a year for the last ten years. Chang & Adams studied ten years of data that included sales, payout, advertising, and population for the 42 state lotteries, plus the District of Columbia. The states were grouped in comparison by the U.S. Census Bureau/Bureau of Economic Analysis, by their economic regions. Discussion by Commissioners.

Through the statistical analysis, Chang & Adams were able to calculate a relationship between composite payout percentage and per capita sales. At 53 percent, it was calculated the per capita sales were just under \$78, which is close to actual. If it had been 62, 63, or 64 percent, it would increase it to \$120 or \$129 per capita. The higher payouts would be phased in over three years and fully implemented by 2013-14 and sales would be around \$5 billion instead of \$2.4 billion with profits of \$1.2 billion instead of \$863 million. Under current law, ADA support is expected to decline by 3.0 percent annually. Under higher composite payout levels, per ADA support would instead crease by 3.2 percent, which really shows the impact of how the Lottery can help education by lifting the payout restrictions.

Discussion by Commissioners

c. Legislative and Outreach Updates

Assembly Bill (AB) 142 by Assemblymember Mary Hayashi, passed. The bill would increase revenue for California's public education by authorizing the Lottery Commission the flexibility to determine prize payout structure. The bill also gave the Lottery a responsibility over the next five years. A trigger in the bill states that should the Lottery not bring in the same or more dollars for education in each of those five years, the bill will take away the flexibility and the Lottery will go back to the previous 50/34/16 percentage splits, so there will be some additional reporting requirements between the Lottery and State Controller's Office. The bill was an urgency statute so it went into effect immediately.

The Lottery participated in two other important outreach efforts last month, the first being the 2010 Census Complete Count. The Lottery supported the Governor's effort to get the word out and to get people to turn the census forms back in. Staff placed messages on the Lottery website's homepage, Public Service Announcements, as well as the National Problem Gambling Awareness Week, which was the week of March 7.

Menchaca asked what the marketing public relations efforts were going to be to advertise the change and benefit to education, when it will transpire, and in what matter. Borucki stated that the Lottery's sales representatives will provide the retailers information, and there will be marketing campaigns as well as press releases. Also, a number of articles will be sent out to the various trade publications. Most importantly, the players will see the Lottery's actions of getting the better prize payout tickets out there for them. Menchaca asked if through the Lottery's Corporate Responsibility, if the education community would be advised that they will be receiving the incremental increase? Borucki thanked the education community because the bill would not have passed without their support. As soon as the revised budget is approved, the education community will receive an email blast letting them know there is education money coming already this year. Mass asked if thank you letters could be sent out on behalf of the Commission to Assemblymember Hayashi, the California Teachers Association, and Superintendent O'Connell for their support and efforts on the bill.

8. Consent Calendar

- a. Request to Purchase Replacement Vehicles
- b. Southern Distribution Warehouse Lease Amendment

Menchaca advised the Lottery for future purchases, to start taking a more greening type of view, such as hybrid vehicles. Mass stated that the new headquarters building will be a very green building.

Yin made the motion to approve Consent Calendar Items 8(a) and 8(b). Seconded by Mims. The motion passed unanimously (4-0).

9. Action Items

a. Revised FY 2009-10 Budget Reflecting Passage of Assembly Bill 142 (Pending Governor's Action)

Michael Ota, Deputy Director of Finance, presented the Lottery's revised 2009-10 budget. The revised budget reflects four major themes and results in a \$15 million increase to public education, above what is in the adopted budget by the Commission last June. One of the major themes reflects the Lottery's first action taken in response to AB 142 passing. Second, the budget reflects positive results of the RENEW effort. Third, the budget reminds us that in addition to planning, strategy, and execution, luck plays a factor in sales. And finally, the revised budget reflects that the Lottery is not immune from current economic conditions in terms of resources and revenues.

The revised budget includes a proposal to launch a \$5 Scratchers game in June that would otherwise have been cost-prohibitive prior to AB 142 passing. This \$5 Scratchers game will generate \$18 million in additional sales.

Earlier in the year, staff reported that sales for Scratchers games were projecting to be below the \$1.7 billion expected in the 2009-10 budget. However, at the time staff felt that RENEW "Quick Win" initiatives were expected to lift sales back up to the original budget level by the end of the fiscal year. The revised budget reflects that the "Quick Win" initiatives have been successful and the Lottery is now expecting \$1.7 billion in Scratchers sales. While this is significant, it is also important to note the \$1.7 billion reverses a three-year downward trend in Scratchers sales.

In the area of how luck contributes to sales, SuperLOTTO Plus and MEGA Millions sales are heavily influenced by jackpot levels. In addition to the marketing efforts that were described earlier, MEGA Millions sales have been boosted by several high-level jackpots this fiscal year. In August, MEGA Millions had a \$334 million jackpot, which was the second highest jackpot for this game. Based on the higher sales to date, staff is projecting MEGA Millions sales will come in at \$94 million higher than originally budgeted.

The projected increase in sales reflected in this revised budget has been partially offset by current economic conditions. To date, the Lottery has been successful in achieving \$39 million of proceeds from restructuring the Lottery's investment portfolio. However, there has been a combination of recent changes in financial market conditions that are prompting staff to recommend reducing expected proceeds from investment portfolio restructuring from \$50 million to \$45 million.

The economy has negatively impacted the budget in another area. The Lottery Act mandates that interest earned on Lottery funds held in the State

Treasury be transferred to public education. The original Fiscal Year 2009-10 budget expected interest earnings of \$10 million. However, interest rates for the State's Surplus Money Investment Fund have plummeted lower than anticipated and interest earnings are now expected to be \$5 million for the fiscal year.

The cumulative effect of the revised budget reflects a \$15 million increase for public education above what was anticipated in the 2009-10 budget approved by the Commission. With this revised budget, contributions to California's public schools are expected to be nearly \$1.07 billion marking the tenth consecutive year that the Lottery has surpassed the billion dollar mark in contributions to public education.

The passage of AB 142 combined with the Lottery's RENEW initiatives have positioned the Lottery for greater contributions to public education in the coming years. More importantly, they provide the foundation for sustainable growth in revenues and further enable the Lottery to carry out the commitment to enhancing education and supporting local communities.

Mass asked if anyone from the audience had any questions on Action Item 9(a). No one came forward so he proceeded to the motion of approval.

Yin made the motion to approve Action Item 9(a). Seconded by Mims. The motion passed unanimously (4-0).

b. Scratchers® Game Profiles and Alternates for Games 647, 648, 649, 650, and 651

Michael Brennan, Deputy Director of Sales/Marketing, stated that maintaining a constant level of higher prize payout games at various price points has been a successful tactic used within the lottery industry to maximize profitability of games. With the recent passage of AB 142, the Commission now has the flexibility to approve higher prize payout games that will provide players with more winning experiences thus increasing sales of Scratchers products and generating more funds for public education. Staff has prepared several game profiles that immediately take into account the key benefits from this bill. Four of the game profiles, 647, 649, 650, and 651, will offer higher prize payouts as a result of AB 142 and therefore begin taking advantage of the bill's affect on the new ability to maximize revenues beginning in June of this fiscal year with the launch of the Lottery's new exciting \$5 game, "Millions in Cash," Game 647. Staff focuses on the ability to quickly deliver the immediate benefit from the recent passage of the bill and will provide the Commission with a detailed annual Scratchers product plan that takes into consideration the full advantage of the bill in the upcoming May Commission Meeting.

Game 647 is the \$5 game with a higher prize payout, and a Key Number Match playstyle with two specific variants. If a specified symbol is revealed, the prize shown is multiplied by ten. If a different specified symbol is revealed, the prize shown is multiplied by twenty. The game touts 25 instant \$1 million top prizes. Additionally, players can enter the game's non-winning tickets into a special second chance drawing for a chance to win a separate \$1 million prize. The overall odds of winning are 1 in 3.49. Game 648 is a \$2 game with an Add-Up playstyle with six separate play areas. In each play area, players reveal three numbers. If these numbers add up to 7, 11, or 21, the player wins the associated prize. The top prize for this game is \$7,777 and overall odds of winning are 1 in 3.71.

For Game 649, staff recommends a higher price payout \$1 game with a Crossword playstyle. Players match "Your Letters" to "Game Letters" and if an entire word is revealed, they win the associated prize. The top prize is \$1,000 and the overall odds of winning any prize are 1 in 4.48. Game 650 has a higher price payout and is a \$2 game with a Key Symbol match playstyle and a specific variant. If a specified symbol is revealed, the prize shown is multiplied by seven. If another specified symbol is revealed, players automatically win the prize shown. The top prize is \$17,000 and the overall odds of winning are 1 in 3.65. Finally, game 651 will also have a higher price payout and is a \$3 game with a Legend Match playstyle. Players add up the total number of specified symbols revealed in the play area to determine their prize won according to a provided prize legend. The prize legend shows all of the prizes a player can win, starting at a free ticket and ending with a top prize of \$20,000. The overall odds of winning are 1 in 3.73.

Discussion by Commissioners

Mass asked if anyone from the audience had any questions on Action Item 9(b). No one came forward so he proceeded to the motion of approval.

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

c. Business Intelligence System Development Services

Ellen Ishimoto, Deputy Director of Information Technology Services, stated that ensuring the successful implementation of RENEW requires simple, uncomplicated access to the Lottery's business information. Currently, data is spread across different data sources, and reporting is time-consuming and inadequate to support executive and managerial decisions or needs. To address these needs and challenges, the Lottery needs to implement a Business Intelligence (BI) system. Unfortunately, it takes more than just installing some software for the information to magically appear. BI systems

are highly complex, requiring specialized skills and knowledge to successfully implement.

Lottery staff does not have the required skills to implement this system on their own. Staff is asking for the help of a consulting firm to provide assistance in designing, developing and implementing a BI system. Lottery staff will work along with the consultants in order to gain the skills and knowledge to provide ongoing support of the system. The delivery of the BI system will be accomplished using a phased incremental approach. Each phase will focus on subject areas that are scoped and prioritized by Lottery executives. The contract will cover a pilot of two phases and provide the ability to extend the contract if the Lottery needs assistance in the delivery of additional phases. As a result of a Request for Proposal process, Estrada Consulting was selected because they proposed and demonstrated a solid implementation approach, and presented a project team that has extensive, proven experience in the delivery of BI systems of similar size, scope, and complexity. Estrada Consulting also submitted the lowest overall price when compared to the other finalist. The contract will be for two years, with a total contract expenditure authority not to exceed \$2 million, with an option to extend up to two additional years.

Both Yin and Mass were pleased that all of this important structured data will be put into one system and Director Borucki will be able to access it quickly. They also hope the Lottery will be able to control this in-house so that staff does not rely on outsourcing and will save money. Menchaca would like Ishimoto to take all the necessary steps to make sure that the systems are secure, that employees are given a certain level of rights to each component, and that it is monitored very closely.

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. Contract for Public Website Design, Development, and Hosting Services
Ellen Ishimoto, Deputy Director of Information Technology Services, and Michael Brennan believe it is time to transform the Lottery's Public Website (PWS) from being simply an information vehicle, to a Website that focuses on actively promoting Lottery products. The goal is to create new interactive player experiences through personalized content, play for fun games, a rewards program, and really improve electronic communications. Due to the specialized skills needed to design, develop, implement, host, and continually enhance a new PWS, the Lottery needs the assistance and guidance from an experienced company that provides theme services as a core business.

The Lottery needs a consulting partner that can keep the PWS current, fresh, and relevant in a very fast-paced, ever-changing technology world. The consultants will also provide knowledge transfer to Lottery staff, so ongoing content updates to the website can be performed by the Lottery. The Request for Proposal (RFP) process began in September 2009 to find a consulting firm to design, develop, implement, host, and once deployed, constantly augment the Lottery's PWS to continue to attract players and visitors alike.

As a result of the RFP process, SolutionSet was selected because of their proposed solid implementation approach. SolutionSet presented a project team that has the depth and breadth with respect to Website development in a broad creative range in the delivery of a PWS of similar size, scope, and complexity. SolutionSet was the only finalist who received a rating of Superior and their demo was thorough and comprehensive. SolutionSet demonstrated a technical knowledge and experience, to successfully implement the Lottery's new PWS and keep it current as technology innovations occur. The contract will be for three years, with a total contract expenditure authority not to exceed \$8 million, with an option to extend for one-year periods.

Ishimoto pointed out that the \$8 million was not SolutionSet's bid, it was the Lottery's estimates based on the 16 proposals that were received from the companies. Staff retrieved the information to come up with a reasonable estimate for the various parts of the project, which is the development, the actual hosting, and to make specific enhancements that staff requires and even those that the Lottery hasn't envisioned at this point.

Mims wanted to make sure that the content would be updated by Lottery staff and not SolutionSet. Menchaca was excited about the new program and stated it would provide a lot of opportunity for enhanced marketing for all of the Lottery's products. Mass read a legislative report that Representative Frank of Massachusetts is putting together legislation for legalized Internet gaming with some other members of the Finance Committee. If it were to pass, would it allow gambling of all kinds, including lotteries, but would then have to be approved by the state government? Borucki confirmed that the state would have to approve it. Mass stated if it were approved, both the national and legislative changes, potentially the statewide changes would allow the sale of lottery tickets online. Is this what is being developed by SolutionSet; preparing us for the change going forward? Brennan and Ishimoto confirmed.

Mass asked if anyone from the audience had any questions on Action Item 9(d). No one came forward so he proceeded to the motion of approval.

Yin made the motion to approve Action Item 9(d). Seconded by Mims. The motion passed unanimously (4-0).

e. Amendment to Extend the Term and Add Funding to the General Market Advertising Contract

Michael Brennan presented the proposed amendment to BBDO West general market advertising contract, to extend the contract term for nine months, with an additional expenditure authority of \$25 million, for a total contract expenditure authority of \$175 million. The extension of the BBDO West contract will run through January 30, 2011.

Over the past few months, the Commission has asked staff to rethink how the Lottery uses its marketing agencies. The Lottery contracted with Select Resources International (SRI) to aid staff in preparing a Request for Proposal (RFP) that achieves the goals set by the Commission. The goal was to ensure that the Lottery obtains new and innovative approaches to consumer advertising services by identifying an agency that is at the cutting edge of changes in consumer behavior, and that has experience, expertise, and new media technologies.

Marketing staff, along with SRI consultants, are currently in the process of developing the RFP to achieve this goal. The additional time the Lottery is taking to develop the RFP will help to ensure that the future general marketing advertising services complement the Lottery's new three-year Strategic Business Plan that is currently under development as part of RENEW. Combined, these efforts will ensure that the Lottery's position to obtain the highest level of service and future general marketing and advertising contracts, and that the Lottery will be in a better position to evaluate the effectiveness of all advertising efforts and campaigns.

Discussion by Commissioners.

Mass asked if anyone from the audience had any questions on Action Item 9(e). No one came forward so he proceeded to the motion of approval.

Yin made the motion to approve Action Item 9(e). Seconded by Mims. The motion passed unanimously (4-0).

f. Amendment to Extend Term and Add Funding to Ipsos-Reid Service Agreement for Market Research Services

Jim Hasegawa, Deputy Director of Business Planning, stated that an RFP was conducted for market research services and Ipsos-Reid won that procurement. The Lottery has a two-year contract with Ipsos-Reid and in that contract there were five separate one-year extension options available. Staff

is asking to extend the term by one year and add funding in the amount of \$600,000 to cover the additional year.

The market research conducted by Ipsos-Reid provides part of the information that is collected and provided to Marketing for understanding consumer behavior and attitudes about Lottery games as well as for assessing the impact of marketing initiatives. A random sample of all California adults is conducted with reports done monthly. The reports include their behavior in terms of the playership, what games they play, who plays the Lottery, their attitude towards the Lottery in general as well as their attitude towards specific games. The data is used to better understand the Lottery's customers in helping Marketing to plan their campaigns, and also used after the fact to help measure the performance of the campaign. Staff can see if advertising increased the playership of Lottery games and see how marketing efforts changed the opinions or the attitudes of consumers.

There will be additional research needs as a result of RENEW, because it changes the way the Lottery does business in terms of decision making and holding staff accountable for the results. Staff has begun discussions with the various workstreams in the RENEW Project to understand the research needs for the upcoming year and to determine which issues could be incorporated into the Tracking Study. There is a concern that the time required for determining the new research needs, for making the changes to the new internet-based methodology, and for adjusting the Tracking Study to meet any additional research needs, may require continuing with the existing methodology under the current agreement with Ipsos-Reid for a bit longer than originally anticipated. The contract will expire July 31, 2010 and with the one-year extension, it would go through July 31 2011.

Mass stated that the staff should be putting RFP's rather than extending contracts so that the Lottery can challenge providers and vendors so that they are providing the best work for the Lottery. Borucki stated that because the company is going through so many changes within the organization, it is difficult to go out to bid for new contracts and vendors because the Lottery is not far enough in front of the curve and the RFP process is very time-consuming. Initially, the contracts are not long enough to get a sense of a vendor before staff goes out to bid.

Mass asked if anyone from the audience had any questions on Action Item 9(f). No one came forward so he proceeded to the motion of approval.

Mims made the motion to approve Action Item 9(f). Seconded by Menchaca. The motion passed unanimously (4-0).

10. Commissioner General Discussion

Borucki introduced the Lottery's new Chief Counsel, Lisa Hightower. Mims had a meeting with Deputy Director Everest Robillard and went over some SLED initiatives. Mims stated it is an important function to hold the retailers accountable and making sure the players are honest, which is part of making sure the Lottery has a good image. Menchaca thanked Borucki for keeping the Commissioners and the education community informed of various issues, which also enhances the Lottery's image statewide.

11. Scheduling Next Meetings

The next Strategic Planning Meeting is tentatively scheduled for May 20, 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 12:10 p.m.