# STATE OF CALIFORNIA LOTTERY COMMISSION

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# CALIFORNIA STATE LOTTERY COMMISSION

#### **MEETING**

TIME: 9:30 a.m.

DATE: Thursday, April 14, 2011
PLACE: California State Lottery
600 North Tenth Street

Sacramento, California

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#### TRANSCRIPT OF PROCEEDINGS

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Transcribed By: Cathy S. Dizon

### Daniel P. Feldhaus, C.S.R., Inc.

Certified Shorthand Reporters 8414 Yermo Way, Sacramento, California 95828 Telephone 916.682.9482 Fax 916.688.0723 FeldhausDepo@aol.com

#### APPEARANCES

#### California State Lottery Commission

JOHN MASS Chairman

ALEX FORTUNATI

JOHN MENCHACA

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### Participating Lottery Commission Staff

LINH NGUYEN
Acting Director

MICHAEL BRENNAN
Deputy Director
Sales and Marketing

ED FONG
Chief
Product Development

JIM HASEGAWA
Deputy Director
Business Planning

BARBARA KRABBENHOFT
Deputy Director
Human Resources

LISA HIGHTOWER
Chief General Counsel

ELLEN ISHIMOTO

Deputy Director

Information Technology Services

GLENDA LEWIS
Recording Secretary

#### APPEARANCES

## Participating Lottery Commission Staff

continued

MICHELE TONG
Deputy Director
Sales

ELISA S. TOPETE
Assistant to the Commission

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1	Thursday, April 14, 2011
2	Sacramento, California
3	000-
4	(Gavel sounded)
5	CHAIR MASS: I'd like to call to order the
6	California State Lottery Commission meeting for
7	April 14 <sup>th</sup> , 2011.
8	Can everyone join me and rise for the Pledge
9	of Allegiance?
10	(The Pledge of Allegiance was recited.)
11	CHAIR MASS: Can the secretary Glenda, can
12	you please take roll?
13	MS. LEWIS: Commissioner Menchaca?
14	COMMISSIONER MENCHACA: Present.
15	MS. LEWIS: Commissioner Fortunati?
16	COMMISSIONER FORTUNATI: Present.
17	MS. LEWIS: Chairman Mass?
18	CHAIR MASS: Present.
19	Just before we get started, I want to just
20	acknowledge somebody here who is in the audience. And
21	I think a lot of you know that today is Susan's last

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1
     day here.
2
                And so congratulations, Susan, on 23 years of
3
     service to the State.
4
                (Applause)
5
                CHAIR MASS: And I know it's sort of
6
     bittersweet because you have such a love here for the
7
     Lottery. But you're also going to enjoy your time away,
8
     as I think all of us would like to be retiring these
9
     days, so ...
10
                MS. KOSSACK: I'm joining my husband in
11
     retirement bliss.
12
                CHAIR MASS: Okay, terrific.
13
                MS. KOSSACK: Yes, after 24 fun-filled years
14
     here, it's been quite an adventure and my extreme
15
     pleasure, an extraordinary career.
16
                CHAIR MASS: Yes. Well, terrific.
17
                And thank you so much for your service. Thank
18
     you.
19
                (Applause)
20
                CHAIR MASS: Do any of the commissioners have
     any changes to today's agenda?
21
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1	COMMISSIONER FORTUNATI: None.
2	CHAIR MASS: Commissioner Menchaca?
3	COMMISSIONER MENCHACA: None.
4	CHAIR MASS: Commissioner Fortunati?
5	COMMISSIONER FORTUNATI: None.
6	CHAIR MASS: Then do I hear a motion to adopt
7	the agenda as noticed?
8	COMMISSIONER MENCHACA: I'll move that we
9	adopt the agenda.
10	CHAIR MASS: Is there a second?
11	COMMISSIONER FORTUNATI: Second.
12	CHAIR MASS: Can the secretary please take
13	roll?
14	MS. LEWIS: Commissioner Menchaca?
15	COMMISSIONER MENCHACA: Yes.
16	MS. LEWIS: Commissioner Fortunati?
17	COMMISSIONER FORTUNATI: Yes.
18	MS. LEWIS: Chairman Mass?
19	CHAIR MASS: Yes.
20	The next item on the agenda is Item 5, which
21	is approval of the minutes from our last meeting of

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February 10<sup>th</sup>, 2011.
 1
2
                Do any of the commissioners wish to propose
 3
      changes to the minutes?
4
                Commissioner Fortunati?
 5
                COMMISSIONER FORTUNATI: No. None.
6
                CHAIR MASS: Commissioner Menchaca?
                COMMISSIONER MENCHACA: No changes.
8
                CHAIR MASS: Do I hear a motion to approve
      the minutes for February 10<sup>th</sup>, 2011?
10
                COMMISSIONER MENCHACA: I'll move that we
11
      approve the minutes from February 10<sup>th</sup>.
12
                CHAIR MASS: Do I hear a second?
13
                COMMISSIONER FORTUNATI: Second.
14
                CHAIR MASS: Will the secretary please take
15
      roll?
16
                MS. LEWIS: Commissioner Menchaca?
17
                COMMISSIONER MENCHACA: Yes.
                MS. LEWIS: Commissioner Fortunati?
18
19
                COMMISSIONER FORTUNATI: Yes.
20
                MS. LEWIS: Chairman Mass?
21
                CHAIR MASS: Yes.
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1	The next item on the agenda is the liaison
2	reports.
3	Commissioner Menchaca is now going to be
4	assigned to the Security liaison, in addition to his
5	Audit liaison report. And he'll be giving the Security
6	liaison report at the next meeting.
7	Commissioner Fortunati has generously offered
8	to take on the role as liaison for Education and
9	Community Relations.
10	And in addition to the Marketing and
11	Procurement liaisons that I currently have, I'm also
12	going to take on the Budget and the Legislative and
13	Legal liaisons.
14	So these new liaison reports assignments,
15	just as I said about Commissioner Menchaca, they'll all
16	be taken up at the next meeting.
17	So if I can start with Commissioner Menchaca,
18	with your liaison report.
19	COMMISSIONER MENCHACA: Very good.
20	I have the Audit liaison report.
21	Since our last commission meeting on

1	February $10^{ ext{th}}$ , the following is the status of audit
2	projects at the California Lottery:
3	First-quarter transfer report for the fiscal
4	year 2010, the Lottery responded to the draft report on
5	April 7, 2011. The final report is pending.
3	April 7, 2011. The linal report is pending.
6	The first quarter transfer report, fiscal year
7	2011: Field work is complete and is under review.
8	There are no preliminary issues.
9	[ Implementation of Past State Controller's
10	Office, SCO, audit recommendations: Field work has been
11	completed. Five preliminary issues will be noted once
12	the draft report is issued in April.
13	The 3Ball Production contract: The Lottery
14	responded to the draft report on March 24, 2011, and
15	took corrective actions to mitigate the five issues
16	noted in the report. The final report is pending.
17	Alcone Marketing Group contract: Field work
18	is complete and is under review. There are no
19	preliminary issues. The final report is pending.
20	Otto Construction contract: Field work has
21	been completed. Six preliminary issues will be noted

1 once the draft report is issued. 2 The LPA Sacramento, Inc., contract: Field 3 work is complete and is under review. There are no 4 preliminary issues to report. 5 The Samuel Ramirez and Company audit: Field 6 work began in February 2011, and is expected to last 7 through the end of May 2011. There are no preliminary 8 issues. Budget process: Field work began in March 10 2011, and is expected to last through the end of 11 July 2011. There are no preliminary issues. 12 Risk assessment: The field work began in 13 March 2011, and is expected to last through the end of July 2011. There are no preliminary issues. 14 15 KPMG Draw-Observation reviews: KPMG continues to observe and report on the Lottery's daily draws. No 16 17 significant issues were noted since the last commission 18 meeting. 19 The Scratchers® Ticket printer audits: Delehanty Consulting has completed audits of Scientific 20 Games, Incorporated, and GTECH printing. Final reports 21

1	are pending.
2	Lottery Internal audits:
3	Camelot contract: Field work is complete and
4	under review. Two preliminary issues will be noted once
5	a draft report is issued.
6	Asset Management: Field work began in
7	August 2010. The audit scope expanded November to
8	include the return process for Scratchers® tickets.
9	Field work is expected to last through the end of
10	April 2011. There are six preliminary issues.
11	Scratchers® Ticket activation: Field work
12	began in February 2011 and is expected to last through
13	the end of May 2011. There are no preliminary issues.
14	Travel Program: Field work began in
15	March 2011, and is expected to last through the end of
16	May 2011. There are no preliminary issues.
17	The Audit Committee will be having an informal
18	meeting following today's Commission meeting.
19	And that is my report
20	CHAIR MASS: It sounds like the Audit
21	Committee has been busy.

1	COMMISSIONER MENCHACA: Yes, it has definitely
2	been busy.
3	CHAIR MASS: As Marketing liaison, staff
4	updated me on the following:
5	The MEGA Millions® brand advertising, Imagine
6	What a Buck Could Do brand advertising to support MEGA
7	Millions® aired for three weeks through April 3 <sup>rd</sup> in key
8	markets of Los Angeles and San Francisco.
9	Media elements included TV, radio, digital and
10	social media, and digital outdoor and gas-pump screens.
11	
12	The Lottery will air the <i>Imagine What a Buck</i>
13	Could Do 30-second spot entitled "Funhouse," along with
14	15-second TV spots where the visuals we used only words
15	to expand the dream mindset with statements like,
16	"Imagine flying to Belgium just for waffles," "Imagine
17	throwing a block party for your entire ZIP code," and,
18	"Imagine building sunroom for the doghouse."
19	There also were jackpot alerts. I was updated
20	on jackpot alerts. The MEGA Millions® jackpot's
21	specific messages started running during the MEGA

Millions® run up to \$319 million to support jackpots of \$70 million or more in Los Angeles and San Francisco.

New Red Hot 7 Scratchers® advertising campaign was another update that was given. The California

Lottery is launching advertising for the Red Hot 7

Scratchers® this month at \$5 price point, offering

16 chances to win. This ticket will be featured in advertising — in an advertising campaign that will include separate commercials for general market television and the Spanish-language television market.

The campaign began on April 11<sup>th</sup> and is going to run through May 1<sup>st</sup>.

As Procurement liaison, staff requested the approval on the following:

A proposal to issue an invitation to bid on IFB, to invite responses from qualified bidders to provide courier services for the Lottery distribution centers for Scratchers® ticket deliveries to Lottery retailers throughout California; and an interagency agreement with the Department of Justice to provide criminal history checks and FBI inquiries of employees,

1	retailers, and contractors, as well as subsequent arrest
2	notifications to the Lottery.
3	Those are my liaison reports.
4	The next item on the Agenda is director's
5	report.
6	I'm going to turn the microphone over to Linh.
7	So, Linh?
8	ACTING DIRECTOR NGUYEN: Thank you very much.
9	
10	Good morning, Commissioners.
11	I have three items on the Director's report
12	for today.
13	The first one is the Lottery Report Card.
14	We've broken this up into two parts.
15	First up, is Jim Hasegawa, who will be giving
16	the sales update.
17	As he is making his way up here, I wanted to
18	just recognize all of the effort that Jim and his staff
19	have been putting in.
20	We've become more data-driven; and they've
21	really stepped up and gone into overdrive, and have been

1 really supportive of all the efforts that everybody's 2 been working on. 3 So with that, I'll turn it over to Jim. MR. HASEGAWA: Okay. Thank you, Linh, 4 5 Mr. Chairman, Commissioners, I'll bring you the Lottery sales update. 6 7 In terms of just some highlights that I'll be 8 showing many slides on, this fiscal year we've seen some 9 solid sales growth. It's been a combination of factors, 10 such as the higher prize pay-outs that were made 11 possible through the passage of AB 142; the initiatives 12 from the Lottery's three-year strategic plan, which is 13 in place; and also this year, we've had some beneficial 14 roll patterns in our MEGA Millions® game. 15 Lottery sales, the sales growth is very 16 remarkable. In fact, it will be the largest sales gain 17 that we've seen in the last 18 years. So the last time 18 we had sales growth of this magnitude was back in the 19 early nineties. 20 You know, Lottery sales have been hovering 21 around the \$3 billion mark for the last two years.

you'll see in the next slide significant growth.

And importantly, of course, the profits to education again, are slated to increase for the second year in a row, and will be reaching \$1.1 billion mark this year. And this marks the 11th consecutive year that the Lottery's provided over \$1 billion to public schools in California.

In terms of looking at the numbers, we're likely to end this year nearly \$400 million higher than last fiscal year; and our profits will, again, as I said, increase. We'll be at \$1.1 billion. And that is reflective of our sales goal, of our budget goal.

In terms of sales of our products, I have our sales listed for the current fiscal year running through April  $2^{nd}$ . And I've compared it against the financials for last fiscal year running through March  $31^{st}$ .

As you can see, total sales are running about 16 percent ahead of last year's pace.

The most increase is from the MEGA Millions® product, and that's up about 34 percent relative to last year. And Scratchers® is up 19 percent relative to last

1 year. We'll get into more details looking at some 2 product slides in just a second. 3 I do want to point out that our year-to-date goal percentage, which is something that we've been 4 5 reporting at through our report card and as well as our commission meetings for the last year or two, overall we 7 are running about 97 percent of our year-to-date goal. 8 In terms of our products, we're running pretty 9 much ahead on most of them except for the Scratchers® 10 line. 11 Scratchers® are running, right now, at 12 \$1.467 billion. Although it's up 19 percent, as I said 13 earlier, it is slightly behind the pace that we 14 originally anticipated. However, our other products are 15 making up quite a bit of that difference. 16 In terms of projecting out for this fiscal 17 year, it looks like sales will come in at about 18 \$3.425 billion, which, as I said, will be nearly 19 \$400 million higher than last fiscal year. 20 And most importantly, again, the dollars going 21 to education will be at \$1.1 billion. And that will

meet the goal that we established last June.

Even though our sales numbers might be slightly behind, the profit number is at goal because we're receiving much more sales from our more profitable games like MEGA Millions® and SuperLOTTO Plus®, than originally anticipated.

Speaking of MEGA Millions®, I wanted to provide you some information about that product. As I said, sales are well ahead of last year's pace, and as well as the pace for this year's sales goal. And MEGA Millions® is anticipated to end the year at over \$530 million. And that will be the highest year ever for MEGA Millions®.

Two key factors are: One is the fact that we've had two draws with jackpots over \$300 million in a single fiscal year. And as you can see from the chart below, we have not had that experience before.

And the second reason is because MEGA

Millions® brand has been supported by periodic

advertising, not just for the brand overall, but as

Chairman Mass mentioned in the liaison report, through

jackpot alerts, which we found to be very, very effective in generating additional sales.

In terms of the advertising, for example, just as recently as last week, we looked at sales for comparable jackpots. So last week, sales for the jackpots were about \$30 million and \$44 million jackpots. So we go back in time to look at what sales were for a week with similar jackpots. We went to a period prior to this advertising campaign had started; so back in February of 2010 we had a week where the jackpots were \$32 million and \$44 million, and sales are 26 percent higher this past week than prior to this recent advertising effort began.

The other thing I wanted to point out was,

MEGA Millions®, in terms of the industry context, we've

received some information both from one of our MEGA

Millions® consortium partners Virginia, as well as from

GTECH. And these two analysis show that, you know,

California has had some of the strongest growth in MEGA

Millions® compared to all of our other counterparts in

the other states.

1 If you might recall, California is the only 2 state that did not add Powerball in the cross-sell 3 initiative. But our per capita sales have grown more with just MEGA Millions® compared to other states that 4 5 have both MEGA Millions® and Powerball sales. As you can see, our sales, looking at 2011 6 versus the average for the past three calendar years, 7 8 were up about 88 percent on a per capita basis. The next highest state was New York, and they were up 41 percent. 10 11 As you can, you know, all the states were up 12 some; but overall, our sales are, by far, the largest in 13 terms of growth. 14 Virginia did an analysis looking specifically at the point in time when states began offering -- their 15 16 states began offering the Powerball product through the 17 cross-sell effort. So looking at the 52 weeks prior to that date and the 52 weeks after that date, the other 18 19 11 MEGA Millions® jurisdictions went up about 7½ percent, when you look at the combined sales of 20

Powerball and MEGA Millions® compared to just MEGA

21

Millions® sales before cross-sell started.

On the other hand, in California, during that same time period, our MEGA Millions® sales went up 20 percent due to the efforts of, you know, concentrating on building a stronger and more differentiated brand in MEGA Millions® rather than adding a very similar product like the \$1 Powerball product would be.

So it appears that that strategy has really worked for us this past year.

Also, in terms of SuperLOTTO Plus®, the decline -- the declines that have been noticed over time since the launch of MEGA Millions® have moderated a bit this past fiscal year. And it will be the smallest year-over-year decline since fiscal year 2008. We would definitely be ahead of goal.

And what's happened is the fact that there does seem to be evidence that SuperLOTTO Plus® benefits from large MEGA Millions® jackpots. And when there's a large MEGA Millions® jackpot, it does drive people into our retailers to purchase that product. And SuperLOTTO

1 Plus®, being a very familiar brand to them, they're also 2 buying then. Because that's when we noticed that sales 3 for SuperLOTTO Plus® show strength, is when there are 4 large MEGA Millions® jackpots. 5 For Daily Games and Hot Spot®, the Daily Games are unique in the sense that they provide consistent 6 sales week-to-week. They do not have as much 8 fluctuations due to large top prizes and so forth. So 9 they are a little bit easier to project on. 10 We are running slightly ahead of pace for its 11 annual goal; and Daily Games, as a combined effort -that includes Daily 3, Daily 4, Fantasy 5, and 12 13 Daily Derby -- it will end the year at about 14 \$325 million, which is 4 percent ahead of last year's 15 numbers. 16 And Hot Spot® sales have definitely responded 17 this year. They'll be up about 15 percent relative to 18 last year. And that's the first year-over-year sales 19 gain for Hot Spot® in six years. 20 Hot Spot®'s done really well because it's 21 responded to higher prize pay-out promotions. Higher

prize pay-outs have also been -- because of AB 142, have 1 2 been adopted into the Hot Spot® game. And there, the 3 product has had promotional periods that offer better prizes for our players; and that has, you know, 4 5 definitely responded in an increase in sales. Most importantly, of course, is Scratchers®. 6 7 That's where the largest gains have occurred. And 8 consumer sales for Scratchers®, they'll reach all-time highs this year. We'll be topping \$1.9 billion -- it 10 will be over \$2 billion in sales, which is higher than 11 fiscal year 2005-06, when it was over \$1.9 billion. again, Scratchers® will represent the best year ever for 12 13 that product line. In terms of the reasons why, though, there are 14 15 We've had higher prize pay-outs -- again, through 16 the passage of AB 142. That allowed the Lottery to have 17 multiple \$5 games being sold simultaneously. 18 We've three flights of advertising this fiscal 19 And there's impact from -- supporting our year. retailers through the efforts of our sales force in the 20 21 initiative called Ex\$ell.

This chart kind of shows the sales growth

week-over-week -- week-to-week. And as you can see -
or I'll explain what the chart is, since there's so many

lines and bars -- it's trying to show that at this

stage, my staff is trying to work it -- understanding

the relative impacts between all of those efforts:

higher prize pay-outs, more \$5 games, the impact of

our -- of supporting our retailers through Ex\$ell and

the advertising.

The orange bars represent periods where there was advertising going on on the Scratchers® product line. And as you can see, particularly starting in September -- the September, the holiday time, and then most recently, in February-March, you'll see that during those advertising periods and just thereafter, there are significant gains in sales and a dip after the advertising has ended.

But, of course, the purple arrows represent when the statewide roll-out of the program in the sales division -- called Ex\$ell, that you've heard about at the last meeting -- was undergoing.

So as such, there's many programs happening simultaneously; and so it does take quite a bit of, you know, multi-varied analysis to try to disentangle that.

We also are working with the agency -- our ad agency and their media-buying service initiative to do an econometric modeling to determine what are the relative impacts of each of those factors. And we are still working with them; and we're anticipating a presentation in May.

The other chart, I wanted to also show, is one measure that we do look at to measure our performance, and that's looking at the year-over-year percentage gain. And in this chart, you can see that, again, starting in the September period, sales in this fiscal year compared to sales for the same week last fiscal year started a dramatic increase.

The reason we look at this year-over-year percentage gain is, there are definitely some seasonality impacts on Scratchers®. You know, the week after the holiday periods are very good because people

1 bought tickets as gifts for Scratchers®; and so we want to compare like weeks. 2 3 Similarly, the periods of February and March tend to be stronger periods as well for 4 5 Scratchers®. So that's why we look at the percentage gain year-over-year, to see how we are trending. And again, you can see the same periods of 8 when the advertising has been on in the October period -- October, November period, the 10 holidays; and then most recently, from February through 11 mid-March, we saw increases in our percentage gains. 12 The green bars go up. And they've been as high as 13 37 percent year-over-year gains. 14 The last six weeks -- and this will tie into 15 some other information I'll present during the 16 presentation on the Business Intelligence program 17 system -- the last six weeks, we've seen about a 18 34 percent year-over-year gain in sales. Taking the 19 last six weeks of this year -- fiscal year -- and 20 comparing it to the same weeks in fiscal year -- last 21 fiscal year, there has been a 34 percent gain in

1 Scratchers® sales. 2 And so it's been a cumulative effect of, again, between 3 the higher pay-outs, \$5 games, the advertising, and the retail support. 4 5 In summary, though, the total Lottery sales will be over \$3.4 billion, and that increase is nearly 6 \$400 million compared to last fiscal year. That will 8 be, again, the largest sales gain, both in terms of a dollars perspective as well as a percentage increase 10 since fiscal year 1992-93, which is 18 years ago. 11 that's a pretty remarkable step for the Lottery in this 12 first year of our current three-year business plan. 13 And profits will rise again. It will reach 14 \$1.1 billion -- a little over \$1.1 billion. It not only 15 marks the eleventh consecutive year for providing over 16 a billion to schools, but it does meet the goal laid out 17 before the Commission back in June in terms of the goal 18 of our profits for the year. 19 And with that, if there's any questions, I'll 20 be happy to answer them at this time 21 CHAIR MASS: Commissioner Fortunati?

1 COMMISSIONER FORTUNATI: Great job. 2 presentation. I like it. CHAIR MASS: Commissioner Menchaca? 3 COMMISSIONER MENCHACA: On the Scratchers®, 4 5 are we going to do anything different for 2011-2012 with respect to either reducing the goal or doing something 6 7 different from a marketing standpoint to increase the 8 Scratchers® sale? MR. HASEGAWA: I think if you look at the --10 kind of the trend line and so forth, it probably -- the 11 trend line is pretty much where we were originally 12 anticipating. It's just like the first month or two --13 we're running, like, a month or two behind of what the original trends -- from looking at other jurisdictions 14 15 happen. 16 So it's not like we would expect sales to go 17 down or something next fiscal year. We're at a really 18 high level at this point; it's just that we're trying to 19 make up for the period, you might have seen in like the July-August period, where sales were kind of just --20 21 hadn't kicked off yet.

1	COMMISSIONER MENCHACA: Okay.
2	ACTING DIRECTOR NGUYEN: And one of the
3	difficulties, if I can add something to that, is it was
4	the first year of our higher prize pay-out strategy, so
5	it was difficult to predict exactly when consumers would
6	catch on and sales would pick up. And so that was the
7	one- to two-month delay that Jim was talking about.
8	Heading into this next fiscal year, we have a
9	trend line; and so we think we can do a lot better in
10	terms of projecting what the growth is for next year.
11	And addressing the second part of your
12	comment, you know, our staff is working on the business
13	plan for the second year; and we think growth is going
14	to continue on a very strong trend. We've got a lot of
15	new efforts and strategies that we'll be talking to you
16	about in May.
17	CHAIR MASS: Any questions?
18	I have a quick question, Jim.
19	MR. HASEGAWA: Uh-huh.
20	CHAIR MASS: I noticed the I was really
21	interested in seeing the whole Powerball analysis and

that we're the only state that didn't adopt it, yet our sales were up 20 percent compared to the other states that were up 7½ percent.

What do you attribute that to? Do you foresee this sort of -- that that was going to -- is that what you were predicting was going to happen, and that's why we didn't adopt the Powerball, and going forward, are we going to continue to look at Powerball as an option? Or do you think that that just doesn't make sense for us right now?

MR. HASEGAWA: I think -- it was kind of what was anticipated, because Powerball, in its current format, really isn't very different from MEGA Millions® and not very different, to a certain extent, that SuperLOTTO Plus®.

I think what the other lotteries are experiencing is very similar to what we experienced before; because we really did have, you know, a big jackpot game in SuperLOTTO Plus® and we adopted a second one with MEGA Millions®.

So I think, you know, they, as we did back

1 then, were thinking that we have these huge gains for 2 a long period. And the jackpot wear-off effects 3 happened pretty quickly. And we concentrated on trying to differentiate MEGA Millions®, to make it a 4 5 different-looking product; so that way, we could have multiple jackpot games in the portfolio. 6 7 And so I know the MUSL, which is the Powerball 8 jurisdiction, they are looking at changes to Powerball, some of which make it a much different product, 10 including being a \$2 product. And those are things that 11 we are researching; because then it may make sense for 12 us to be part of it, because then it adds something to 13 the portfolio rather than just has the potential for 14 cannibalizing our existing sales. 15 CHAIR MASS: Right. 16 ACTING DIRECTOR NGUYEN: I think that Jim is 17 It was the right decision not to add Powerball 18 to our portfolio at this time; but I also need to 19 recognize the Marketing staff. I don't know if Leticia is here -- and Michael 20 21 Brennan as well.

1	You know, they came and, as part of the
2	business plan, presented a new marketing strategy, which
3	was to focus on the brand image of MEGA Millions®, and
4	to support jackpots through signage, jackpot alerts, and
5	things like that. And I think that that strategy, in
6	combination with not introducing Powerball, has really
7	led to this growth.
8	CHAIR MASS: Thank you.
9	Thank you, Jim. Great presentation.
10	ACTING DIRECTOR NGUYEN: Okay, the second half
11	of the report card is the project update with Ed Fong.
12	Rudy DiMassa retired, and Ed Fong had
13	volunteered at my request to
14	MR. FONG: Thank you.
15	ACTING DIRECTOR NGUYEN: take over the role
16	of project manager of the RENEW Project.
17	You'll remember him from his leadership
18	efforts in the two RENEW workstreams: The jackpot game
19	workstream, as well as the Hot Spot® workstream. And he
20	did a terrific job on those.
21	And with that, he is here to present the

```
1
     project updates.
2
                MR. FONG: Good morning, Commissioners.
3
                It's my pleasure as new project manager for
4
     RENEW to highlight for you where we're at with this
5
     project.
6
                Oh, I've got to do it? Okay.
7
                ACTING DIRECTOR NGUYEN: Just hit the arrows.
8
               MR. FONG: I know. I've got this thing up
9
     here, though. I can't see.
                Is that ending right there?
10
11
                ACTING DIRECTOR NGUYEN: Hit "escape."
12
               MR. FONG: "Escape." There we go -- there we
13
     go. We're all set.
14
                We are currently in an implementation phase
15
     for this project; and there's six key projects:
16
     Retailer sales support, Scratchers® end-to-end, draw
17
     jackpot games, marketing, digital communications, and
18
     public Web site, and business optimization.
19
                For the retailer and sales support, the
20
     following initiatives are in progress.
21
                For retail sales building program, we are
```

1 finalizing mechanics for an incentive program for execution early first quarter next fiscal year. 2 3 For Ex\$ell, we are implementing the Ex\$ell project using baseline findings from four key 4 5 components: Full facings, activation of key games, maximizing facing of \$5 games, and increased external 6 7 POS exposure at retail as a benchmark. 8 From this project, we also developed a new 9 charter for pilot visitation, which is to maximize the 10 retail services through our retailer segmentation plan. 11 12 For Scratchers® inventory and distribution, 13 there is a key success component for this area. We are 14 in a closeout phase. And findings from that project 15 identified the need to create two new charters. The first was to evaluate our efficiencies in 16 17 the distribution of our games based on the potential 18 growth of Scratchers®. 19 The second one is developing a Scratchers® 20 inventory management center pilot to revitalize our existing operational processes for continuity 21

1 inefficiencies. 2 Next is retailer network optimization. This, 3 too, is a new project. We are developing a charter to evaluate our retailer distribution base and address 4 5 equipment placement to maximize sales performance. 6 And finally, retail communications. This also 7 is a new project. We're developing a charter to address 8 message continuity that is more efficient to our 9 retailers. 10 For Scratchers® end-to-end, we have two 11 initiatives in progress for this area. 12 Thanks to the completion of the RENEW 13 workstream, we are applying key learnings from this 14 workstream in terms of conducting prelaunch research. We're continuing with ways to understand the wants and 15 16 needs of our players prior to games being released 17 through player research. In fact, our Set For Life game 18 and the redesigned family series category was modified 19 to add more appealing prize levels based on these

We're also finalizing the \$10 game design, and

consumer research studies.

20

21

1 started research on ways to expand our \$5 game category 2 with new concepts and features. We will utilize findings from these studies to 3 develop the Scratchers® product plan for next fiscal 4 5 year. 6 For our draw and jackpot games, we have 7 completed two RENEW workstreams and identified the 8 following next steps. For Hot Spot®, we are looking to modify the 10 current game to have all ten spots, plus  $Bulls-Eye^{TM}$  on 11 every spot. 12 We also want to add new features now to 13 refresh a game in four to five months if needed. 14 You will hear more about these changes to 15 Hot Spot® in the subsequent item on today's agenda. 16 For possible improvements in SuperLOTTO Plus®, 17 we are also in the process of planning a brainstorming 18 session with our ad agencies to generate ideas to 19 reposition and differentiate the game. Basically, again, leveraging California theme and affinity of 20 Californians have for SuperLOTTO Plus®. 21

1 Once a position is completed, we need to 2 regain the top-of-mind awareness for this game through 3 Lottery-owned devices. 4 And finally, we need to develop some value-add 5 programs, such as second-chance draws features and 6 programs that offer a purchase incentive. 7 For marketing communications, we have a 8 workstream that addresses our marketing communications 9 processes. This documents our current marketing practice in terms of how we develop communications for 10 11 our games. We identified over 80 detailed 12 process mappings, a binder about two inches thick, and 13 we combined these into just 40 key mappings. We did 14 prioritize and broke down these mappings into two 15 distinct categories. 16 The first will incorporate complex maps and 17 involves many other divisions or external agencies which 18 will need further review. 19 The second one will consist of simpler mappings that can be reviewed and completed by just a 20 project manager or a smaller group of individuals. 21

1 We're also in the procurement process with our 2 Hispanic market advertising service RFP as we speak. 3 And for next year's advertising plan, this will be part of the marketing plan that will be presented at an 4 5 upcoming commission meeting. 6 For digital communications and public 7 Web site, we are on pace to launch a new public Web site 8 this summer. However, the completion of longer-term public Web site projects might be delayed due to 10 resources and the state hiring freeze. But staff is 11 currently priority advertising which public Web site 12 sales-building programs can be completed with existing 13 resources. 14 And finally, one of the key initiatives under 15 business optimization is developing a marketing response 16 analytics for our media buys. We are finding a model, 17 and the targets have the final model by May of 2011. 18 That concludes my presentation. 19 Are there any questions? CHAIR MASS: Commissioner Menchaca? 20 21 COMMISSIONER MENCHACA: No questions.

```
1
                CHAIR MASS: Commissioner Fortunati?
2
                COMMISSIONER FORTUNATI: No questions.
3
                CHAIR MASS: When is the timing on the launch
4
     of the Web site?
5
               MR. FONG: We said summer. Probably summer.
6
7
                Yes, summer.
8
                CHAIR MASS: I hear you.
9
               MR. FONG: All right, thank you.
10
                CHAIR MASS: Thank you.
11
                Is that 2011?
12
               MR. FONG: 2011.
13
               ACTING DIRECTOR NGUYEN: Ed will get back to
14
     you when he has more specifics.
15
                The second item on the Director's report is
16
     the Business Intelligence demonstration.
17
                I have to admit to you, this is all very
18
     conceptual to me; but since the launch, we have had some
19
     really -- some real benefits; and hopefully, you can see
     that from the presentation today. It really has been a
20
     tremendous help for us; and the team has done a really
21
```

1	good job on getting this up and running.
2	And I'll turn it over to Ellen.
3	MS. ISHIMOTO: Thank you.
4	Good morning, Commissioners. I'm Ellen
5	Ishimoto. I'm the deputy director of Information
6	Technology.
7	I'm here with Jim, that you've already heard
8	from, and Michelle Tong, deputy director of Sales.
9	We're really excited to show you Business
10	Intelligence here at the Lottery.
11	So I'm going to just kick it off and give you
12	some of the background information, and then I'm going
13	to turn it over to these guys to show you the fun stuff.
14	
15	So the first thing I have to kind of try to
16	describe is what is "Business Intelligence." And so
17	rather than, you know, spend a lot of time talking about
18	the words; really, what we want to do today is to
19	actually have you experience business intelligence.
20	But I'm going to just point out some different
21	words for you to think about.

1 It is a set of tools and processes. It really 2 is talking about organizing Lottery data. It really is 3 allowing information to be easily accessible by all levels of the organization. It's about timely 4 5 decision-making, and it's about helping us really track performance against our business objectives. 6 It's a lot of words. You'll see it in action. 7 8 The next thing is, the way that we've 9 implemented Business Intelligence here is through phases, or what we're calling "iterations." 10 11 The first iteration we implement in February 12 this year. The scope of that was to really build out 13 our technical infrastructure, and then it was to focus 14 on supporting the Scratchers® end-to-end and the Ex\$ell 15 RENEW workstreams. So we focused the data around sales, 16 distribution, and inventory of Scratchers®. 17 The second iteration, we're in the process of 18 actually developing detailed requirements for now. 19 We're going to be expanding it to our draw-game portfolio. So sales information there. 20 21 We're also going to be doing some enhancements

```
1
     to the Scratchers® and retailer support area. And this
2
     is where, really, in Business Intelligence, we've been
3
     focusing on gaming system information. We now are going
4
     to get into looking at some internal information in our
5
     financial area, and really start to report on that for
6
     iteration 2.
7
               Okay, so here's the fun stuff. We're going to
8
     be showing -- or, really, they're going to be showing --
9
     because they're the users of the system -- how we can
10
     really use key performance indicators to be able to make
11
     decisions, and also about some ad hoc reporting.
12
     just -- Jim is going to go over some of those
13
     capabilities.
14
                So I'll turn it over to these guys.
15
               MS. TONG: Hi. I'm the other Jim.
16
               MR. HASEGAWA: No. This is your -- this is
17
     your --
18
                MS. ISHIMOTO: All right. This is to
19
     Michelle then.
20
                MS. TONG: This first report is very exciting
21
     for the field. What you're looking at is, we have three
```

1	key categories that the field is focusing on, on
2	improving our Scratchers® business.
3	The first one you might recall, is the new
4	games.
5	The second category is the \$5 game
6	performance. And the final is our ideal game mix,
7	or our core games that we're having our retailers carry.
8	
9	Along the left-hand side is all our district
10	offices. And every week we pull these numbers up, so
11	they can see how many games out of our grand total they
12	are performing at for their whole district.
13	So at the top line, you can see Central
14	Valley, heart of California, so to speak. And they are
15	trending very, very nicely.
16	The districts love this information. I have
17	to thank Ellen and Jim, big time, because it used to be
18	my Monday late-nighter because we'd get all this stuff
19	and the field would just wait until, like, 9:00, 10:00,
20	and maybe later at night, until I can crunch that out.
21	But now, we're getting it as early as, like, noon, I

think is the absolute -- for all the reports, which is fabulous.

And how this helps the field is, they can see immediately how they're doing. There's nothing like knowing how well you're doing, and identifying areas that you could do better at. And you compare yourself to the other districts that have similar characteristics.

So, now, from this, we drill down a little bit further, and we go into page 2, which gives you the by-game performance for each one of the districts. And here's where everyone kind of goes in a frenzy, because when you look at the KPIs -- for instance, let's take Central Valley because they're at the top of the list, and you go to the \$5 games, far to the right. You see, we have five \$5 games we're focusing on. And if you look at the range, it goes from 41.2 percent, all the way up to 73. Well, typically, for this district, you know, the \$1 performance has a range from 64 to 77. \$2 has this range around the high sixties to the mid seventies. \$3 has a nice 70 and -- yeehaw --

1 84 percent for one of the games. And that is a goal for 2 them to get to the 80 percent mark for every single 3 game. 4 When you go to the \$5 games, which is 5 something we're focusing on, you notice there's a big 6 range: 41 to 74. And here is where the sales manager, 7 Sid Ramirez, who I know is probably listening at this 8 very moment, saying, "I've got it, I've got it." Those 9 two games, 660 and 665, which is \$100,000 Riches and 10 Stacks of Cash, still have a lot of winners, still great 11 games. He now knows, by looking at this chart, what he 12 needs to focus his sales staff to look for when there 13 are retailer visitations. 14 So let's drill it down one more time in the 15 next report 16 MR. HASEGAWA: This will take -- we're going 17 to tab over. 18 MS. TONG: Okay. It's a good thing he's doing 19 it because if I did it, we'd be lost. 20 MR. HASEGAWA: But, actually, what we're going to do is we're going to show you kind of a demonstration 21

```
1
     how easy it would be to do this.
2
                Right now, the data only shows through the 2<sup>nd</sup>
3
      of February. So as you see here.
4
                MS. TONG: April 2<sup>nd</sup>.
5
                MR. HASEGAWA: Yeah, that's what -- of
     April -- the 2<sup>nd</sup> of April. And now we're going to add
6
7
      the --
8
                MS. TONG: New week.
9
                MR. HASEGAWA: Did it click?
10
                MS. TONG: Yes, it clicked.
11
                MR. HASEGAWA: I can't see from here.
12
                MS. TONG: Yes.
13
                MR. HASEGAWA: Okay.
                And then now, all of a sudden --
14
                MS. TONG: Voila.
15
                MR. HASEGAWA: -- the week ending April 9^{th}
16
17
      appears.
18
                MS. TONG: Yes. Many hours of man time
19
      greatly reduced. Fantastic.
20
                Okay, so, now, again, Central Valley at the
      top of our list. Here, it's very interesting to look
21
```

because each one of your sales reps' territories are 1 2 listed out. And the top bar for Central Valley shows the 3 district performance. 4 So if we go to 4/9 for average new games, it's 5 2.17, and average \$5 games is 3.112. But when you drill down for each territory, the sales manager can actually 6 7 identify areas of interest. 8 So in just looking through this chart, line 9 9 has territory 31034. You know, something will pop --10 it does for me. I look at 1.9 versus 2.7, which is the 11 district pace, and you go over to the average \$5 games, 12 and it's 3.09; so it's a little less again. 13 And then you go way over to the right, to the 14 ideal game mix, and it's 11.67. So it's a pretty good 15 jump down from the pace of the District. So it's the 16 "aha" moment. 17 And before the pager goes off, so to speak, 18 Sid, I already know that's a vacant territory, so that's 19 why the performance is not doing like the rest of the district office is performing at. 20 21 And I know, thanks to all the staff in Central

Valley for pitching in to cover the vacant territory during the hiring freeze. It does help.

But, you know, this kind of information has been really very helpful for the field. We look forward to the future iterations where we work on even more things that help make the action items, you know, more in line to how we visit our retailers. And then the sales staff will just really be so very happy because it will make the job so which less stressful and more efficient.

MR. HASEGAWA: Before BI came into existence, we used these KPIs because they were very important to the Sales division. But how we did that was through a process of actually -- through Ex\$ell manually doing these calculations.

So it takes someone on my staff to take a spreadsheet of about 21,000 rows, representing each individual retailer, and probably about 30 columns, representing all the different games, along with other retailer characteristics. And from that, they would then crunch the data down to come up with those

1 statistics. And it would take, literally, you know, 2 several hours to do that manually versus what you did 3 see right now with the clicks of a few buttons, and we 4 have the data before us. 5 I'm also going to show you what is called the "ad hoc reporting features." 6 7 So let's go to the next Ex\$ell sheet. 8 Whoops. 9 Which one is it? Because they all look the 10 same now. 11 Is it the last one? 12 UNIDENTIFED MAN: The last one. 13 MR. HASEGAWA: Okay. On this Ex\$ell sheet --14 and what I ended up doing is -- what happens in BI, is 15 that there are all these characteristics and measures 16 over here that I can pull into either the row or the 17 column to construct this table. And kind of like a 18 cooking show -- I kind of did some of this in advance, 19 you know, like when you watch those shows and they have all the onions and everything all done, and they just 20 21 assemble it really fast.

```
1
                So it's not quite this fast, but I did a
2
      little work in advance so you wouldn't be watching me
3
     just go through Ex$ell.
4
                But what I did is I drug in the types of
5
     sales --
6
                (End of Tape 1-A. Start of Tape 1-B.)
7
                MR. HASEGAWA: -- the Scratchers® manager,
8
     like, "Where's the increase coming from? What's
9
     accounting for the increase?"
10
                And so BI allows a line manager to drill down
     to understand not just one number, but where is that
11
12
     number coming from.
13
                So this would be an example of being able to
14
      then, through looking at the different types of
15
     characteristics under "instant products," I chose price
16
     point. So from this, all the price-point sales
17
     materialized; and then you can calculate that percentage
18
      change by different -- by different price points.
19
                So what happened, was the average for the
20
     six-week period in 2011 -- the last six weeks -- you can
21
     see that the $5 games have gone from $3 million a week,
```

1 to \$13 million a week or 247 percent increase. 2 So almost all of the increase we're seeing here going 3 from the thirties to the forties is accounted for by the \$5 games; because the \$1 games are pretty flat, the \$2 4 5 games are up slightly at 12 percent, the \$3 games are up about 5 percent; but almost all of our sales growth that 6 we've been seeing recently is accounted for by the \$5 8 games. Similarly, you could slice and dice it using 10 other variables. This variable I chose for this 11 demonstration is what's called DMA. There are the 12 various media markets throughout the state. 13 And the same thing, you just drag that -- you 14 click on the DMA, and all of a sudden, now, all the data 15 for sales are sliced and diced in that manner. And in this way, you can look that the 16 17 Los Angeles market, which obviously is important to us 18 because it accounts for such a huge amount of our sales, 19 its sales were up 39 percent over this same time period, 20 which is greater than the statewide average of 21 34 percent. So the LA DMA is driving a lot of our sales growth.

On the other hand, if you look at certain other areas, like Bakersfield or Fresno and Sacramento and so forth, you know, they're performing at slightly lower percentages.

It's also interesting to note, though, of course, most recently, the most recent ad campaign was run in the Los Angeles, San Francisco, and Sacramento DMAs. So you can see, that's probably a reason why Los Angeles and San Francisco are showing very strong sales increases.

But essentially, what this allows anybody to do is, I guess right here is, again, choosing what measures, whether it be looking at the type of game it is, the type of retailer it is, and dragging it into the respective columns, you're able to do calculations pretty much on the fly.

And so, to me, this is a prime example of ability to have somebody who has a hypothesis on how sales are performing to very quickly test that hypothesis. So it could be that I want to know if

crossword games are increasing dramatically. I can drag the theme called "Crossword" into there, and I can look at the percentage change in sales in crossword games; or by the type of retailer.

We did that most recently for -- and I'm showing the data, since I don't know if the key accounts would want to show, like, what 7-Eleven is doing. But from Michelle's group, we looked to see of her key chains which ones are performing at a much stronger level, increasing sales versus other that the increases aren't as large.

And that's just kind of the types of hypotheses that can be tested through the system.

MS. ISHIMOTO: So just to finish the demonstration out, I want to take a moment to really thank publicly the team members that have made this possible. So it's the technology team, which is the IT staff as well as our consultants. We have business partners -- well, we've been calling partners, which is really Jim Hasegawa and his group, especially Alan Tran. And also GTECH. The majority of the data is coming from

1	the gaming system. They worked really hard with us to
2	help us organize that data.
3	And then also last, but not least, it's our
4	business customers. You know, it's the Michelles, the
5	Michael Brennans, the Steve Cunhas and the Kirti Patels
6	and Liz Furtados, and the rest of the Marketing and
7	Sales teams. They've been great to work with, and we'll
8	continue to work with on moving forward.
9	So I just want to do that.
10	And I also want to just recognize one person
11	from ITSD, which is Chris Lopez. He has been on this
12	project from the inception; and he really has made BI
13	what it is today.
14	So I just wanted to recognize him. He's right
15	here in the nice suit. And so I wanted to recognize
16	him.
17	(Applause)
18	MS. ISHIMOTO: So thank you.
19	If you have any questions for us?
20	CHAIR MASS: Commissioner Fortunati?
21	COMMISSIONER FORTUNATI: It's very impressive.

1	I like a lot, Business Intelligence.
2	I would like to know if you're looking forward
3	to even more metrics. Is this something that this
4	seems to be the first generation, so I'm always
5	interested, what's the second and third generation.
6	MS. ISHIMOTO: Yes, so we're definitely going
7	to work the next iteration is going to be about draw
8	sales. So we'll be able to show our entire portfolio.
9	So, yes, we're going to continue to enhance
10	and grow, get more of the other data that's available in
11	the Lottery within our internal systems, get this all in
12	this system.
13	So ideally, one-stop shopping for kind of
14	reporting and information. That's the vision for
15	Business Intelligence.
16	MS. HASEGAWA: And as we move forward,
17	probably in future demos, you'll be able to see things
18	like score cards with KPI factors in there, so that,
19	again, as Ellen was talking about, it's for all ranges.
20	
21	So that Linh, on a very easy level, can look

1 at one dashboard at a high level and look at what things 2 are going well, and maybe have some yellow flags on it. 3 Hopefully not too many. And then line managers will be 4 able to look, drill down to see even more detailed 5 information. 6 And some of it's just trying to get everybody 7 on the same wavelength in determining what are those 8 different flags, and what's a red flag versus a yellow 9 flag versus a green flag. 10 But we are working on that side as well in 11 terms of KPIs. 12 COMMISSIONER FORTUNATI: If I may? 13 Perhaps one of the future things to consider 14 is that when we do reporting like this down the road --15 obviously this is very impressive right now -- is to 16 call in for population and ethnicity. And if we could 17 give a unit, if it's possible -- and I don't know if 18 it's even possible -- to have a unit per ethnicity to 19 see how it goes in each point of sale or each county and stuff like that. 20 21 But this is down the road, I presume.

1	CHAIR MASS: Good job.
2	MS. ISHIMOTO: Thank you.
3	CHAIR MASS: Commissioner Menchaca?
4	COMMISSIONER MENCHACA: It's just amazing, the
5	information that you've presented today.
6	I'm just curious, are there controls in place
7	to prohibit any inappropriate access to the system, and
8	so nothing can be manipulated that's unauthorized.
9	MS. ISHIMOTO: Yes, this first iteration, we
10	really have limited the number of people until we have a
11	lot of those controls in place.
12	But, yes, we have to have a governance process
13	to really identify who can access what information. So,
14	yes, we will definitely have that in place for the next
15	iteration moving forward.
16	COMMISSIONER MENCHACA: Actually, I'm more
17	concerned with, who can limits on inputs, and who is
18	allowed to input information. And I want to make sure
19	to make sure that those types of controls are in place.
20	
21	MS. ISHIMOTO: Yes, what's behind it is a data

1 warehouse that we control how the information --2 actually, the data gets into that system. 3 So, yes, there is definitely limitations on how that data gets in and if they can get manipulated or 4 5 not. Those are all controls that we work together with a 6 business to put in place. 7 COMMISSIONER MENCHACA: Thank you. 8 CHAIR MASS: You know, I always think of 9 business intelligence as, like, one of those great 10 oxymorons, that just doesn't seem to make a lot of 11 sense. But in this case, it does. I think you guys did 12 a great job. 13 And I think, you know, for people out in the 14 field, especially those that are so far away from the 15 head office, from headquarters, it's important that they 16 have this sort of dashboard that they can look at, and, 17 "Okay, what do I need to focus on? What are the 18 problems?" 19 And, you know, the fact that Sacramento's 20 giving so many tools to the DSRs, I think it's really, 21 really important.

1	And I love that I was going to ask a
2	question: Are there going to be flags or some type of
3	highlights that will make it more easier, so they know
4	exactly what to be looking for? That's problematic, and
5	I'm glad to see that's coming in the next iteration.
6	So thank you. Thank you.
7	ACTING DIRECTOR NGUYEN: The final item on the
8	Director's report is workforce and succession plan
9	update. We have Barbara Krabbenhoft to do this update.
10	
11	As we look at all the changes to the RENEW
12	Project and the attrition through retirements in the
13	coming years, this effort is all the more important.
14	So Barbara and her staff in HR are sort of the unsung
15	heroes that are keeping us afloat as we're embarking on
16	all of these positive changes.
17	So with that, I'll turn it over to our HR
18	director, Barbara Krabbenhoft.
19	MS. KRABBENHOFT: Thank you, Linh.
20	Good morning, Commissioners.
21	I'm here today to present an update on that

1 our workforce and succession plan. I'll review the 2 progress we've made during the last year and share our 3 plans for the future. 4 I'd like to start by sharing the workforce and 5 succession planning model that was adopted in 2009. You may recall that this plan has four phases and is tied to 6 7 our business plan to ensure a strategic approach to 8 workforce development and preparation. There are four phases in our plan, and they're 10 listed before you. This is an ongoing process which 11 will be followed until every classification in the Lottery has been addressed. 12 13 I would now like to focus on some of the key 14 milestones accomplished under this plan. 15 In Phase I, we analyzed the Lottery's current 16 workforce demographics through age profiles and 17 retirement statistics. This process identified the 18 Sales and Marketing division and leadership 19 classifications as mission-critical areas of priority. You may recall this chart. It displays 20 21 Lottery statistics for employees over 50. As you can

see, Sales and Marketing and managers and supervisors have the highest percentage of employees eligible to retire.

Gap analysis identified the need to evaluate and develop basic core competencies for all employees in an effort to establish baseline training development programs. As a result, basic core competencies were established for all Lottery staff, and a workforce development training plan was drafted.

Phase II activities include assessing future needs by completing assessments and gap analysis. Our methodologies included surveys, training session evaluations, employee feedback sessions, and the analysis of our employees' individual development plans. This information was used to help establish core competencies and action plans to address deficiencies in critical knowledge skills and abilities.

This slide references two examples of a gap analysis that resulted in the development of an action plan.

Ongoing Lotterywide training needs assessment

1 helped identify leadership core competencies which were then used to develop our leadership academy. 2 3 And job analysis was completed for sales classifications. This information was used to develop 4 5 training strategies and online examinations which will increase the sales of our candidate pools and greatly shorten the time it takes to administer an exam. 8 In Phase III, we continued to develop and 9 implement action plans. I will now review our current 10 action plans and our progress so far. 11 The workforce development training plan sets 12 forth the structure and components of training needed to 13 ensure the critical class requirements and core 14 competencies are developed to provide the right people, 15 in the right place, at the right time. 16 The training plan is broken down parts. 17 have all staff core competencies; our succession 18 planning and training, which focuses on leadership; and 19 our mandatory training, which is for all staff and then some job-specific mandatory training. 20 21 Currently, we are administering the 2010-2011

individual development plan and performance appraisal summary process. Annual performance evaluations and development plans are now required for all levels of staff. Guidelines and training are provided to employees and supervisors. And this year, we also conducted a workshop for all staff, which included a question—and—answer session, career counseling, and training resources and policies.

Our plan to improve communication accomplished two very important benchmarks. With the help of our IT division, the HR Web page was created in response to the feedback employees provided during the click survey. It is now easier for employees to search for information on job vacancies, pay and employee benefits, training opportunities, and health-and-safety information. This project could not have been implemented without the help of our ITSD division and Corporate Communications.

In an effort to improve communication, HR

partnered with Corporate Social Responsibility and

Corporate Communications to develop and present employee

survey results. The overall survey results were

1 positive, with a 72 percent response rate. Employee brainstorm sessions provided great 2 We will use this information to develop 3 input. 4 additional action plans focused on the four lowest-rated 5 areas. We also began offering communication training 6 7 to all employees. 8 Another accomplishment is in the development 9 of our leadership program. The Leadership Academy 10 program includes two levels. 11 Leadership Academy I was offered to all 12 supervisors and managers in 2010, and is being repeated 13 again this year. The topics covered in each session are 14 listed above. Pre- and post-test are conducted at each session to evaluate what participants learn; and 15 evaluations are completed after each session to measure 16 17 the success of our training. 18 Successfully welcoming and on-boarding 19 employees is an important component of the Lottery's retention strategy. The new employee orientation is a 20 21 mandatory training program that educates new employees

about Lottery history, mission, vision, and culture.

New employees hired since January 2009 have had an opportunity to attend a new employee orientation session. This program has been extremely successful, as evident by the positive evaluation results.

To align with Lottery workforce and succession planning efforts, a career counseling program was created to position employees for upward mobility. This program allows employees to be proactive in their pursuit of professional development, it provides tools and resources that will assist employees in seeking out and applying for positions; offer supports and guidance, and supports our plan.

The last action plan addresses the area of health and safety and wellness. Our team organized a multi-differential effort to bring a half-day training session to each of the nine district offices, both warehouses, and headquarters. Evaluations suggest employees greatly appreciated the information presented. Topics included injury and illness prevention; personal safety and crime prevention, which was presented by our

Security and Law Enforcement Division; EEO and sexual harassment prevention; and stress reduction. We also offered health-benefits training to all staff.

What's next? We will continue the activities of Phase II and III; and our future plans include strengthening our Lottery infrastructure by reviewing and revising our policies and procedures so that employees understand what we expect of them, updating our duty statements, reviewing our class specifications and job analysis, pursuing process improvements and developing desk procedures, and also developing knowledge-transfer programs and strategies.

In Phase IV, we hope to evaluate and modify our action plans, making necessary changes.

In closing, I would like to emphasis that the accomplishments presented today reflect the work of all Lottery employees. Many of these programs would not be effective without the information employees provided.

Response rates to surveys and assessments remain very high. Most action-plan projects are cross-divisional efforts that rely greatly on the expertise and

1	assistance of program staff. Great progress has been
2	made. Employees are engaged in the work
3	and focused on achieving their highest potential so that
4	the Lottery can contribute even more to education.
5	We appreciate the support from the Commission
6	and the executive office.
7	Are there any questions?
8	CHAIR MASS: Thank you.
9	Commissioner Fortunati?
10	COMMISSIONER FORTUNATI: None at this time.
11	CHAIR MASS: Commissioner Menchaca?
12	COMMISSIONER MENCHACA: No questions.
13	CHAIR MASS: I think it's really well done.
14	Thank you very much, Barbara. It was
15	terrific. Thank you.
16	Is that all you have for us?
17	ACTING DIRECTOR NGUYEN: Yes. That concludes
18	the Director's report.
19	CHAIR MASS: The next item on the agenda is
20	consent calendar.
21	We're going to take the item on consent

1	calendar and vote on them without staff presentation
2	unless a commissioner requests that it be discussed.
3	So the two items are the South San Francisco
4	district office lease extension, and the new
5	headquarters project management contract amendment.
6	Each of us have been briefed on both of these.
7	Do any of the commissioners have any questions
8	regarding consent Items a and b 8.a and 8.b?
9	COMMISSIONER FORTUNATI: None.
10	CHAIR MASS: Commissioner Menchaca?
11	COMMISSIONER MENCHACA: No questions.
12	CHAIR MASS: Then do I hear a motion to
13	approve consent calendar Items 8.a and 8.b?
14	A motion to approve it?
15	COMMISSIONER FORTUNATI: I'll move that we
16	approve it.
17	CHAIR MASS: Do I hear a second?
18	COMMISSIONER MENCHACA: Second.
19	CHAIR MASS: Thank you.
20	Will the secretary please take roll?
21	MS. LEWIS: Commissioner Menchaca?

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1
                COMMISSIONER MENCHACA:
2
                MS. LEWIS: Commissioner Fortunati?
3
                COMMISSIONER FORTUNATI: Yes.
               MS. LEWIS: Chairman Mass?
4
5
                CHAIR MASS: Yes.
                The next item on the agenda are the action
6
7
     items.
8
                The first is action Item 9.a. It's an
9
     amendment to extend the term of marketing promotions and
10
     point-of-sale services contract. And we also have
11
     action Item 9.b, which is to extend the African-American
12
     Advertising Agency contract.
13
                I think Michael is going to be presenting both
14
     of them together, and I think we're going to vote on
     them, I think, together. Is that how we're -- are we
15
16
     voting separately or together?
17
                MR. BRENNAN: I think I'll present -- I'll
18
     present together, and then ask for a vote separately, I
19
     believe.
20
                CHAIR MASS: Vote individually on each one?
21
               MR. BRENNAN: Yes.
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1 CHAIR MASS: Okay. 2 MR. BRENNAN: So -- good morning, 3 Mr. Chairman, Commissioners. 4 As you just said, I have two contracts before 5 you for extension today: One for the marketing and promotions and point-of-sale services contract with 6 7 Alcone Marketing Group; and the other for Muse 8 Communications, our African-American advertising agency. Extending these contracts is necessary for a 10 variety of reasons, some within our control and some out 11 of our control. 12 Previously, there had been direction to try to 13 bring the advertising services contracts under one or 14 two providers. That meant that the RFP timelines had to 15 be condensed to allow for that process to be 16 implemented. Later, it was determined that it was 17 not in the best interests of the Lottery to follow that 18 strategy; and, therefore, the contracts now need to be 19 separated so that staff resources can devote the proper 20 time to the process. 21 Over the past 12 to 16 months, the same staff

who have develop RFPs and coordinate the entire procurement efforts have been challenged with implementing the many RENEW initiatives, some of which you saw reports on today, that were critical to the Lottery's ability to implement its three-year business plan.

And they've also worked through the general marketing advertising services contract RFP, and are now engaged in the RFP process for the Spanish language advertising services contract.

Staffing shortages and vacancies require that we carefully assess the priorities and direct our limited resources accordingly, which is why we're here today to talk about these extensions.

Specifically, for Alcone, they continue to provide a consistently high level of service, above what is expected, and would continue to play a critical role in supplying the Lottery with marketing promotions and point-of-sale services. These materials and services are required to furnish over the 20,000 Lottery retailers statewide with the proper equipment and

1	materials, to prominently display and sell Lottery
2	products. Therefore, the staff
3	recommends that the Commission approve Item 9.a, the
4	extension of the Alcone contract for 18 months, under
5	the same terms and conditions, to ensure that the
6	Lottery will continue to receive business-critical
7	marketing promotions and point-of-sale services through
8	February 28 <sup>th</sup> , 2013.
9	The 18-month extension requires no additional
10	funding; and the total expenditure authority for this
11	contract will remain at \$40 million.
12	CHAIR MASS: Commissioner Menchaca, do you
13	have any questions regarding this?
14	COMMISSIONER MENCHACA: No questions.
15	CHAIR MASS: Commissioner Fortunati?
16	COMMISSIONER FORTUNATI: 18 months for any
17	particular reason and not 12 or 24?
18	MR. BRENNAN: It was to we have a calendar
19	here. We've tried to line-out what all the resource
20	work will be. And that's where that fits into the
21	calendar, to make sure that we have the resources to go

1	ahead and do the RFP process properly.
2	It takes about a year; so we'll be starting it
3	a year before the February so in February '12, we'll
4	start the process.
5	CHAIR MASS: When you when you go through
6	the RFP process, are you planning on using an outside
7	service like you did for the main agency? Or are you
8	going to do it all on your own?
9	MR. BRENNAN: We've been doing it all on our
10	own now.
11	We took a lot of those the learnings from
12	that, and incorporated them. We're trying it out right
13	now in the RFP process for the Spanish-language one.
14	CHAIR MASS: Great. Good to hear. Okay,
15	thank you.
16	Do you want to continue with Item 9.b or
17	should we vote on it?
18	Why don't we vote, and then we move on?
19	So do I hear a motion to approve action
20	Item 9.a, the extension of Alcone Marketing contract for
21	18 months?

1	COMMISSIONER FORTUNATI: I'll move that we
2	extend the Alcone Marketing contract as has been
3	presented.
4	CHAIR MASS: Is there a second?
5	COMMISSIONER MENCHACA: Second.
6	CHAIR MASS: Can the secretary please take
7	roll?
8	MS. LEWIS: Commissioner Menchaca?
9	COMMISSIONER MENCHACA: Yes.
10	MS. LEWIS: Commissioner Fortunati?
11	COMMISSIONER FORTUNATI: Yes.
12	MS. LEWIS: Chairman Mass?
13	CHAIR MASS: Yes.
14	The next item on the agenda is another
15	contract extension with the African-American agency.
16	And Michael is going to be presenting that.
17	MR. BRENNAN: So for all the same reasons, and
18	specifically to Muse Communication, they continue to
19	provide a consistently high level of service, and will
20	continue to provide competitive pricing and low market
21	rates.

1	Extending Muse's contract will ensure that the
2	Lottery obtains the desired media purchase with the
3	lowest possible rates through the rest of 2011 and parts
4	of 2013.
5	Therefore, staff recommends the Commission
6	approve Item 9.b, the extension of the Muse contract for
7	one year, and exercise the nine-month emergency extended
8	service option under the same terms and conditions
9	through October 31 <sup>st</sup> , 2013.
10	To carry out the 21-month extension, staff
11	recommends an increase of contract expenditure authority
12	by \$2 million, for a total expenditure authority under
13	the contract of \$8.5 million.
14	CHAIR MASS: Thank you.
15	Commissioner Menchaca, do you have any
16	questions for any of us?
17	COMMISSIONER MENCHACA: No questions.
18	CHAIR MASS: Commissioner Fortunati?
19	COMMISSIONER FORTUNATI: No questions.
20	CHAIR MASS: Neither do I.
21	Can I hear a motion to approve action Item

ſ	g r
1	9.b?
2	COMMISSIONER FORTUNATI: I move that we
3	approve action Item 9.b.
4	CHAIR MASS: Is there a second?
5	COMMISSIONER MENCHACA: Second.
6	CHAIR MASS: Can the secretary please take
7	roll?
8	MS. LEWIS: Commissioner Menchaca?
9	COMMISSIONER MENCHACA: Yes.
10	MS. LEWIS: Commissioner Fortunati?
11	COMMISSIONER FORTUNATI: Yes.
12	MS. LEWIS: Chairman Mass?
13	CHAIR MASS: Yes.
14	MR. BRENNAN: Thank you, Commissioners.
15	CHAIR MASS: Thank you, Michael.
16	The next item on the agenda is action Item
17	9.c.
18	Ed Fong is going to be making a presentation
19	regarding an amendment to the Hot Spot® game
20	regulations.
21	MR. FONG: Hello. Round 2.

1 CHAIR MASS: Ed?
2 MR. FONG: For your consideration is a
3 proposal to adopt amendments to the regulations for
4 Hot Spot®. Basically, these changes will increase the
5 number of ways a player can play Hot Spot® by
6 incorporating additional spots.
7 For background purposes in the RENEW
8 workstream, Hot Spot® was identified as a game that

For background purposes in the RENEW workstream, Hot Spot® was identified as a game that needed further evaluation to determine if there were ways to improve the overall game performance.

In December 2010, the Lottery completed an in-depth analysis of Hot Spot®. From the situation analysis, staff recommended a course of action to make the game more attractive to our core players. It also enabled the Lottery to truly focus on expanding its retailer or social trace our retail network with a better game.

The recommendations were to revise the Hot Spot® game and offer more spots, 1 through 10; offered a Bulls-Eye $^{\text{TM}}$  feature on both of the 10 spots; and create a more meaningful prize between \$50 and \$75.

With these additions to the game, we believe it can satisfy the desires of our core playership.

We're also recommending keeping a wager-prize fund at 56 percent, and increase the typical prize pay-out percentage from 49½ to just under 50.6 percent, or under 51 percent. This will allow the Lottery to strategic increase prize pay-outs over time as the retailer network increases.

Relaunching Hot Spot® with ten full spots,

keeping a wager-prize fund at 56 percent, and offering a

51 percent standard prize pay-out, even with the

conservative 10 and 20 percent increase in sales, staff

considers it to be a very safe, practical approach.

We could still launch a promotion with pay-outs that range from 56 to 62 percent without committing our sales to ongoing higher set base pay-out amount. This is important because higher pay-out promotions we've seen in the past, in Jim's presentation, has proven to be very instrumental in maintaining player interest in our games. These

1	game regulation amendments still required a game pay-out
2	at 56 percent per fiscal year; hence, we need to do
3	promotions that periodically increase the pay-out above
4	51 percent to achieve a balanced prize structure.
5	Should you approve these amendments, staff
6	will likely implement these changes in the summer of
7	2011, or August 1 <sup>st</sup> , 2011.
8	That concludes my presentation.
9	Are there any questions?
10	CHAIR MASS: Thank you, Ed.
11	Commissioner Fortunati, do you have any
12	questions?
13	COMMISSIONER FORTUNATI: None.
14	CHAIR MASS: Commissioner Menchaca?
15	COMMISSIONER MENCHACA: No questions.
16	CHAIR MASS: I have no questions, either.
17	Are we sure on those dates?
18	MR. FONG: Yes.
19	CHAIR MASS: Okay, thank you.
20	Do I hear a motion to approve action Item 9.c?
21	COMMISSIONER MENCHACA: I'll move that we

1	approve action Item 9.c.
2	CHAIR MASS: Is there a second?
3	COMMISSIONER FORTUNATI: Second.
4	CHAIR MASS: Can the secretary please take
5	roll?
6	MS. LEWIS: Commissioner Menchaca?
7	COMMISSIONER MENCHACA: Yes.
8	MS. LEWIS: Commissioner Fortunati?
9	COMMISSIONER FORTUNATI: Yes.
10	MS. LEWIS: Chairman Mass?
11	CHAIR MASS: Yes.
12	The next item on the agenda is the
13	Commissioners' open discussion, general discussion.
14	Do any of the commissioners have anything they
15	would like to bring up at this time?
16	Commissioner Fortunati, would you like to
17	bring anything up?
18	COMMISSIONER FORTUNATI: None at this time.
19	CHAIR MASS: Commissioner Menchaca?
20	COMMISSIONER MENCHACA: Nothing to bring up.
21	CHAIR MASS: I'd like to just bring up

1 something quick, just a thought. 2 You know, there's a lot of change, I think, 3 with the Lottery the over the last six months. Obviously, there's a new acting director; and 4 5 we're preparing to go into a new building. And it just seems to be a lot of things going on. MEGA Millions®, 6 7 great sales, a huge number of audits. It seems an 8 inordinate number of audits were going on at one time. 9 So a lot of people are working really hard; 10 but we're also seeing incredible results. And I want to 11 commend everybody on that because we're going to have 12 record sales and record contributions to public 13 education. So it's fantastic. 14 But I think, most importantly, I gained a lot 15 by reading the employee survey that I think all of you 16 participated in and the people were hopefully 17 participating via the Internet right now --18 participating in. And there seemed to be a common theme 19 in the survey. And, obviously, it was reflective of the 20 last couple of years, not over the last few months, 21 because it was done a little while ago.

But the conclusion was -- that I got from it -- was that there is a communication issue inside the Lottery; that there seemed to be -- not an issue with the Lottery itself. I think people enjoy the job, enjoy the work, and enjoy the product that we put out here -- but want to know more about what's going inside the company and need to communicate more.

And what I saw today, what I've been seeing in the last few weeks, is reflective of greater communications.

So it seems like the executive staff here has really taken -- you know, taken it seriously what was in that report.

And I want to particularly note what Barbara presented -- and where's Barbara? -- Barbara presented in her report was just little, simple -- I would say simple things like the intranet, and making sure that there was an HR page and some information on there, that you can get certain information readily accessible to you that you want to address. That was a common theme inside the survey. It was something that Barbara

1 acknowledged, and now it's a part of our intranet. 2 And even something like the weekly report, 3 the -- "Linh's Low-Down," is that what it's called now? 4 5 ACTING DIRECTOR NGUYEN: Yes, the name which employees picked was "Linh's Lottery Low-Down." 6 7 CHAIR MASS: "Linh's Lottery Low-Down"? 8 So even that is another thing that's giving 9 you a weekly update of information that's provided to 10 the commissioners on a regular basis, but is also now 11 being provided to you. And you get a sense of not only 12 what's going on in your department, but what's going on 13 throughout the Lottery. 14 And then lastly, I got the update on the 15 building -- you know, the newsletter that is being put 16 together; and I think it's excellent. It lets us know, 17 you know, exactly what's going on -- the pacing of 18 things, whether it's the cleaning up of all the desk 19 areas now, to make the area smooth, or just what is the pace of painting and, you know -- and planting of trees 20 21 and what have you. It's just really exciting, and I

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1
      think it's great to be a part of that.
2
                 So I want to commend everyone, particularly,
3
      you know, senior staff on acknowledging what the rest of
4
      the staff are saying.
5
                 And, again, everyone else, I think it's
6
      important that you are so honest and vocal about your
7
      opinions of what needed to be done. So thank you,
8
      everyone.
                 Sorry for the long-winded comment, but I
10
      thought it was important.
11
                 The next item on the agenda is the scheduling
12
      of the next meetings.
13
                 We tentatively have scheduled commission
      meetings on May 19<sup>th</sup>, June 23<sup>rd</sup>, September 8<sup>th</sup>,
14
      October 27<sup>th</sup>, December 8<sup>th</sup>, all of these which will be
15
      taking place in Sacramento.
16
17
                 The next item on the agenda is public
18
      discussion.
19
                 No one has signed up; is that correct,
      Secretary -- Glenda? Is that --
20
21
                 Is there anyone who wants to address the
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1
      Commission at this time?
2
                 (No response)
                CHAIR MASS: If not, then I'm going to adjourn
 3
      the meeting.
4
5
                Have a great day, and we'll see you next
6
      month.
7
                 (Gavel sounded.)
8
                 (End of recording.)
9
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7	TRANSCRIBER'S CERTIFICATE
8	
9	This is to certify that: I transcribed to the
10	best of my ability from one (1) audio cassette provided
11	to me by the California State Lottery Commission; and
12	the foregoing pages 1 to 73, inclusive, contain a full
13	statement and record of said audio recording.
14	In witness whereof, I have hereunto set my hand
15	on the 21 <sup>st</sup> day of April 2011.
16	
17	
18	<del></del>
19	Cathy S. Dizon
20	
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