STATE OF CALIFORNIA

LOTTERY COMMISSION

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CALIFORNIA STATE LOTTERY COMMISSION

MEETING

TIME: 9:30 a.m.

DATE: Thursday, May 26, 2011
PLACE: California State Lottery

600 North Tenth Street Sacramento, California

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TRANSCRIPT OF PROCEEDINGS

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APPEARANCES

California State Lottery Commission

JOHN MASS Chairman

ALEX FORTUNATI

JOHN MENCHACA

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Participating Lottery Commission Staff

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Acting Director

MICHAEL BRENNAN
Deputy Director
Sales and Marketing

ED FONG
Chief
Product Development

LIZ FURTADO Senior Marketing Specialist

JIM HASEGAWA
Deputy Director
Business Planning

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Deputy Director

Information Technology Services

GLENDA LEWIS
Recording Secretary

ELISA S. TOPETE
Assistant to the Commission

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1
                        Thursday, May 26, 2011
2
                        Sacramento, California
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4
                (Gavel sounded)
5
                CHAIR MASS: I'd like to call to order the
     California State Lottery commission meeting for May 26th,
6
7
     2011.
8
                Can everyone please rise and join me in the
9
     Pledge of Allegiance?
10
                (The Pledge of Allegiance was recited.)
11
                CHAIR MASS: The first item on the agenda is
12
     the attendance.
13
                Can the secretary please take roll?
14
                MS. TOPETE: Commissioner Menchaca?
15
                COMMISSIONER MENCHACA: Present.
16
                MS. TOPETE: Commissioner Fortunati?
17
                COMMISSIONER FORTUNATI: Present.
18
                CHAIR MASS: Chairman Mass?
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                CHAIR MASS: Present.
20
                The next item on the agenda is the approval of
21
     the agenda.
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1
               We do have a change, as Linh is changing the
2
     director's report, I think.
3
               You're going to do that?
               ACTING DIRECTOR NGUYEN: Yes. I'd like to
4
5
     request to move Item 7.b to the next Commission meeting.
6
               CHAIR MASS: Okay. That's the Consumer
7
     Compliance and Protection Program?
8
               ACTING DIRECTOR NGUYEN: Yes.
9
               CHAIR MASS: Okay, do I hear a motion to adopt
10
     the agenda as amended?
11
               COMMISSIONER MENCHACA: I move that we adopt
     the agenda as amended.
12
13
               CHAIR MASS: Is there a second?
14
               COMMISSIONER FORTUNATI: Second.
15
               CHAIR MASS: Can the secretary please take
16
     roll?
17
               MS. TOPETE: Commissioner Menchaca?
18
               COMMISSIONER MENCHACA: Yes.
               MS. TOPETE: Commissioner Fortunati?
19
20
               COMMISSIONER FORTUNATI: Yes.
21
               MS. TOPETE: Chairman Mass?
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1	CHAIR MASS: Yes.
2	The next item on the agenda is the approval of
3	the minutes for April 14 th , 2011.
4	Do any of the commissioners wish to propose
5	any changes to that, the proposed minutes?
6	COMMISSIONER FORTUNATI: No.
7	CHAIR MASS: Commissioner Fortunati?
8	Commissioner Menchaca?
9	COMMISSIONER MENCHACA: I have no changes.
10	CHAIR MASS: Neither do I.
11	Can I hear a motion to approve, please?
12	COMMISSIONER MENCHACA: I move that we approve
13	the minutes.
14	CHAIR MASS: Can I have a second?
15	COMMISSIONER FORTUNATI: Second.
16	CHAIR MASS: Will the secretary please take
17	roll?
18	MS. TOPETE: Commissioner Menchaca?
19	COMMISSIONER MENCHACA: Yes.
20	MS. TOPETE: Commissioner Fortunati?
21	COMMISSIONER FORTUNATI: Yes.

1	MS. TOPETE: Chairman Mass?
2	CHAIR MASS: Yes.
3	The next item on the agenda is the Commission
4	Liaison reports.
5	We'll start with Commissioner Menchaca.
6	COMMISSIONER MENCHACA: I have two reports.
7	I will start with the Security liaison report first.
8	In early April 2011, all of the Lottery
9	investigators meaning, peace officers successfully
10	completed the certified advanced officer training
11	course, mandated every two years by the California
12	Commission on Peace Officer Standards and Training.
13	The Lottery's investigators are now in full
14	compliance with the standards and trainings, continuous
15	professional training, and perishable skills training
16	requirements.
17	The segment of the certified training included
18	areas such as racial profiling, first-aid, CPR, legal
19	updates, and firearm certification.
20	May 27^{th} , all the Lottery investigators will be
21	attending a mandatory one-day risk-management course at

the California Highway Patrol's headquarters, located 1 2 next door from the Lottery's headquarters. Again, 3 that's tomorrow. The training course is certified by the California Commission on Peace Officer Standards and 4 5 Training. The training is a joint effort by the Lottery, 6 7 California Highway Patrol, Department of Justice, Bureau 8 of Gambling Control division, and other state agencies. 9 The focus of the training is to create an environment 10 for ethical decision-making. 11 The California State Controller's Office and 12 the Franchise Tax Board's Interagency Intercept Collections Unit has agreed to provide greater access to 13 the Lottery's investigative staff for accessing Offset 14 meaning, tax withholdings for its investigators. 15 16 Offset information identifies persons who owe 17 back-taxes, child support, court-ordered judgments, tax 18 liens, et cetera. 19 Normally, offset information is guarded and 20 not normally provided to state law-enforcement agencies. 21 Both the State Controller's Office and Franchise Tax

1 Board have agreed to work more closely with the 2 Lottery's investigative staff. During the week of April 25th, the Dateline 3 news program news crew, rather, rode along with the 4 5 Lottery investigators during the retail compliance program in San Francisco and Bakersfield. Undercover 6 7 Lottery investigators using decoy winning 8 tickets entered retailer stores to determine if the clerks would steal the winning ticket from the 10 unsuspecting players. 11 The stores selected for the compliance program 12 were retailers where Lottery players have previously had 13 complained about such action. 14 Unfortunately, several clerks decided to steal 15 the winning ticket from the undercover investigator. is not known at this time when Dateline is going to air 16 17 the new story. 18 And, again, I think the programs that have 19 been reported on today are a credit to our Security It seems like they're doing a very outstanding 20 21 job out there.

1	Should I go into my Audit liaison report?
2	CHAIR MASS: Yeah, please.
3	COMMISSIONER MENCHACA: Audit liaison report:
4	Since our last commission meeting of April $14^{\rm th}$, the
5	following is the status of audit projects of the
6	California Lottery:
7	We have two final reports issued. Fourth-
8	quarter transfer report, fiscal year 2010, that report
9	had no findings.
10	Alcone Marketing Group contract: Issued May,
11	2011, that had no findings.
12	Final reports pending. First-quarter transfer
13	report for fiscal year 2011, no findings.
14	The second-quarter transfer report, fiscal
15	year 2011, no findings.
16	3Ball Production contract: The Lottery took
17	corrective actions on five findings noted in that
18	report.
19	Implementation of past State Controller Office
20	audit recommendations: The Lottery responded to the
21	draft audit report on May 16 th , 2011. The Lottery took

1	corrective actions on five findings that were noted in
2	the draft report.
3	Draft reports pending:
4	Otto Construction contract: Field work has
5	been completed and is under review. Six findings will
6	be noted once the draft report is issued.
7	The LPA Sacramento, Inc., contract: Field
8	work is complete and is under review. One issue will be
9	noted once the draft report is issued.
10	Work in progress:
11	Samuel Ramirez and Company: Field work is
12	expected to last through the end of May 2011. There are
13	no preliminary issues.
14	The budget process: Field work is expected to
15	last through the end of July 2011. There are six
16	preliminary issues.
17	Risk assessment: Field work is expected to
18	last through the end of May 2011. There are no
19	preliminary issues.
20	And finally, new audits actually, it's not
21	finally. There's a few other audit areas.

1	Retailer network: Field work began on
2	May 16^{th} , 2011, and is expected to last through
3	July 2011.
4	Casanova Pendrill Publicidad, Inc., marketing
5	contract: Field work began on May 17 th , 2011, and is
6	expected to last through July 2011.
7	The KPMG audit: Draw observation and they
8	are external auditors.
9	Draw observation reviews: KPMG continues to
10	review and report on the Lottery's daily draws. No
11	significant issues were noted since the last Commission
12	meeting.
13	Financial statement audit: KPMG began field
14	work on the annual financial statement audit for fiscal
15	year 2010-2011. Field work is expected to last through
16	October 2011. The final report is scheduled to be
17	released on October 14 th , 2011.
18	Our Lottery internal audits:
19	Camelot contract: The draft report was issued
20	on May 2011. The findings and one observation were
21	noted in the draft report. The final report will be

1	issued in June 2011.
2	Asset management: Field work is complete and
3	is under review. The draft report is pending. Six
4	preliminary findings are noted.
5	Scratchers® ticket activation: Field work is
6	expected to last through the end of May 2011. There are
7	no preliminary findings.
8	Travel program: Field work is expected to
9	last through the end of May 2011. There are no
10	preliminary findings.
11	The Audit Committee will be meeting following
12	today's Commission meeting.
13	As you can tell from the number of audits,
14	Roberto has been keeping very busy with his employment
15	here at the Lottery.
16	But thank you very much, Roberto, for all your
17	efforts.
18	CHAIR MASS: Thank you very much,
19	Commissioner.
20	Commissioner Fortunati, I think this is your
21	first liaison report?

1	COMMISSIONER FORTUNATI: Oh, yes.
2	CHAIR MASS: Okay, the pressure's on.
3	COMMISSIONER FORTUNATI: Good morning,
4	everybody.
5	So this is May 26 th , 2011. Education and
6	Community Relations report.
7	The Lottery has sent in its application for
8	Level 3 certification by the World Lottery Association
9	for Responsible Gaming.
10	The application requires the Lottery to spell
11	out all the programs that it puts together to encourage
12	players to engage in responsible gaming.
13	There are many programs, and there are
14	numerous places, including the back of each Scratchers®
15	ticket, where the Lottery lets players know about a
16	hotline that anyone can call if they think they have a
17	gambling problem or they know someone who does. The
18	hotline provides counseling and treatment.
19	In addition, the Lottery produced 12 new
20	public service announcements in six languages, warning
21	about the dangers of problem gambling. These ads will

1 be broadcast throughout the state. 2 If the Lottery wins Level 3 certification, it 3 will be the only Lottery in the nation with such a high level of recognition for promoting responsible gaming. 4 5 We should know whether our application is approved this 6 summer. 7 Then we have art display. The Lottery is 8 moving ahead with a program to display our pieces 9 throughout the year at the new Lottery headquarters 10 building. The first installment will feature 36 11 award-winning pieces of art from Elk Grove High School. 12 The art will be displayed in July, August, and 13 September. 14 And that's a good report. 15 CHAIR MASS: Thank you, Commissioner 16 Fortunati. Thank you. 17 As Marketing liaison of the California State 18 Lottery, I was updated by marketing staff about the 19 Red Hot 7 Scratchers® advertising campaign, which was launched at a \$5 price point, with 16 chances to win. 20 This ticket featured an advertising campaign that 21

1	included separate commercials for the general market for
2	television, radio, Spanish language television and
3	radio.
4	The campaign began on April 11 th and ran
5	through May 1 st .
6	Marketing is not on the air at this time with
7	advertising. They are planning for the next round in
8	August, which is going to focus on the Set For Life
9	Scratchers®. And that will introduce a \$10 Scratchers®
10	game. Advertising for that game will air in October.
11	Very exciting to have a \$10 Scratchers®.
12	Michael, we're expecting some big returns,
13	right?
14	MR. BRENNAN: Yes.
15	CHAIR MASS: As Procurement liaison, a
16	contract was amended with Wilson, Sonsini, Goodrich and
17	Rosati. They provide us in-house legal assistance with
18	our intellectual-property legal advice.
19	There is also release of an invitation to bid
20	for solicitation to procure a contract to provide
21	security guard services. That includes monitoring and

controlling access to our Lottery facilities here and other places throughout the state, and which will include escorting visitors, providing security services at special events.

A purchase order to Epicor Software

Corporation for annual maintenance and support of the

Lottery's accounting system was issued from June 1st,

2011, through May 31st, 2012. And there was procured an

interagency agreement with the Department of Alcohol and

Drug Programs, Office of Problem Gambling, for

maintenance of the Lottery's problem gaming help line,

and other services.

As Budget liaison, I was updated on the 2010-2011 budget. Staff continues to monitor expenses against goals. We're happy to report that we're at 97 percent of our goals have been met. So we're right on target, and we're hoping to even potentially overachieve.

The 2011-2012 budget is well underway. The key step in that process is going to have the approval of the 2011-12 business plan that will be presented

1 today. 2 Staff's on schedule to present the proposed 3 plan at the meeting in June. Staff will be providing an overview of the 4 5 budget development process to Commissioners Menchaca and Fortunati prior to the June Commission meeting. The 6 7 overview will include a timeline for building the 8 budget, and key components that will help drive the 9 overall budget as it evolves. 10 The Legislative/Legal liaison report is as 11 follows: AB 363, I was updated by our general counsel, 12 Lisa Hightower. This bill changes the reporting dates 13 for the State Controller to make specified reports to the Legislature from September $1^{\rm st}$ and December $31^{\rm st}$ of 14 one year, to January 1st and April 1st of the following 15 year, respectively, for each of the five specified full 16

It also extends the operation of AB 142 and restoration of the prior law from December 31st of one year, to April 1st of the following year, if the

fiscal years regarding the Lottery's efforts, under

AB 142, to boost income to the public education.

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1	Controller notifies the Legislature and the Governor of
2	specified events relating to total net revenues
3	allocated to the benefit of public education have
4	occurred.
5	I was also notified about SB 939. This bill
6	makes several technical and non-substantive corrections
7	to the Lottery Act.
8	Those are my reports for today. I'm sorry
9	it's so long.
10	I'm now going to turn it over to Linh for his
11	Director's report.
12	ACTING DIRECTOR NGUYEN: Thank you.
13	First up, is the Lottery Report Card.
14	Typically, we do the sales report and then the
15	project update in this section.
16	For today, Jim Hasegawa is going to be doing
17	the sales report as part of his business plan
18	presentation on Action Item 9.b. so I'd like to have Ed
19	do his project updates.
20	MR. FONG: Good morning, Chairman Mass and
21	Commissioners.

1	Like Linh was mentioning, later today, Jim
2	Hasegawa will present the proposed business plan to you.
3	So let's get started as far as update on the
4	RENEW initiatives.
5	As you recall, there are six key projects, and
6	all are in the implementation phase. So let's just
7	highlight the status of those key initiatives.
8	The first one is retailer sales support. We
9	finalized a retailer incentive program that focuses on
10	pack activations for the \$5 Mega-Crossword May game.
11	This incentive should motivate retailers to activate the
12	packs and display the packs. A very simple selling
13	concept: Making a product available to the consumer.
14	This incentive will run from June 6 th through
15	September 6^{th} . And the retailer prizes range from a \$100
16	to \$10,000.
17	For Scratchers® inventory and distribution,
18	starting on June 6^{th} , we will roll out a program that
19	will maximize efficiencies in how we distribute our
20	games.
21	Free Ex\$ell, retail optimization, and retail

1 communications, we have either finalized or approved the 2 new charters for those new programs. 3 (Train whistle blowing.) MR. FONG: I like that. 4 5 Scratchers®. We have fine-tuned our product plan because we wanted to quickly seize the benefits of 6 7 an earlier \$10 game launch. And we're constantly 8 refining the prize structures to create the optimum 9 prize awards within our templates. In fact, Liz Furtado 10 today will present some proposed changes in an upcoming 11 action item to you. For draw and jackpot games, we are on pace to 12 13 relaunch Hot Spot on August 1st, 2011, with additional 14 spot plays. This is a first step in really 15 strengthening this product line. 16 For possible improvements to SuperLOTTO Plus®, 17 we're finalizing mechanics for a brainstorming session 18 that will hopefully lead us in ways to differentiate and 19 identify value-added programs for SuperLOTTO Plus®. This session is currently scheduled for mid-July. 20 21 For Marketing/Communications, we have

1 announced the three finalists for the Hispanic 2 Advertising Services RFP. And we actually briefed them 3 just a few days ago on the next steps in the procurement We're on pace, completing this RFP. 4 process. 5 For the 2011-12 advertising plan, we are refining this plan to accommodate such tactics as 6 7 supporting an earlier \$10 game launch. 8 For digital communications and public Web 9 We've been very successful in identifying and site: 10 realigning internal resources to assist our efforts in 11 this new program. We're also looking at programs that 12 would have immediate sales impact, such as Web-based 13 second-chance draw programs for draw games, and even 14 possibly a subscription program for SuperLOTTO Plus®. 15 And finally, one of the key initiatives under 16 "Business Optimization," is developing a market response 17 analytics for media buys. We are refining the model, 18 and the target is to have the initial model completed by 19 early June 2011. 20 Are there any questions? 21 CHAIR MASS: Commissioner Fortunati?

1	COMMISSIONER FORTUNATI: None at this time.
2	CHAIR MASS: Commissioner Menchaca?
3	COMMISSIONER MENCHACA: On the Hispanic
4	marketing advertising services RFP, you say you have
5	three finalists?
6	MR. FONG: Correct.
7	COMMISSIONER MENCHACA: Are you able to
8	disclose those or is that going to be, I guess, by any
9	kind of rule?
10	MR. FONG: I'm not sure.
11	UNIDENTIFIED WOMAN: You know, I think we
12	should follow up with him after the meeting.
13	COMMISSIONER MENCHACA: Okay. Very good,
14	thank you.
15	MR. FONG: Okay.
16	COMMISSIONER MENCHACA: I think probably, to
17	be on the cautious side, it's probably not a good idea
18	to publicize that publicly.
19	Thank you.
20	CHAIR MASS: Anything else, Commissioner?
21	COMMISSIONER MENCHACA: No further questions.

1 CHAIR MASS: Thank you very much. 2 ACTING DIRECTOR NGUYEN: Next, I'd like to 3 have Michael Brennan come up and provide the Marketing 4 and promotions update. 5 (Train whistle blowing.) UNIDENTIFIED MAN: Who gave her that? 6 7 UNIDENTIFIED WOMAN: Hey, Brennan, are you on 8 board? MR. BRENNAN: I'm on board. It's Roberto that 10 I was wondering about. 11 Good morning, Chairman, Commissioners. 12 What I want to do this morning is do a quick 13 overview of what we did last year, and then talk to you 14 about what the upcoming year looks like when it comes to 15 advertising promotions and the marketing plan, including 16 the product. 17 As you will see through this presentation, a 18 lot of the progress and projects that Ed just went 19 through are intermingled; and most of them are in sales and marketing. So there will be some overlap when we go 20 21 through this, but a little bit more detail, hopefully.

1	Last year, we did introduce advertising for
2	Scratchers®. And we had four flights of Scratchers®
3	advertising starting in the fall. You'll recall, we had
4	holiday advertising; and then we did specific ticket
5	advertising for <i>Set For Life</i> , which is a \$5 game; and
6	just finished up with Red Hot 7's advertising last
7	month.
8	And then we're going to come back out in
9	August with advertising. We're going to refresh Set For
10	Life. And I just wanted to show you those refreshments
11	because they've already been completed. So we'll have a
12	30-second refresh of the original, and then we came up
13	with some new concepts for the 15 seconds. So let me
14	show you those, if I do this right.
15	(Presentation played as follows:
16	The Theme from The Jeffersons, "Movin' on Up,"
17	played.
18	ANNOUNCER: Excuse me, what's your name?
19	PHIL: Phil.
20	THE AUDIENCE: Welcome, Phil!
21	(Theme from The Jeffersons, "Movin' on Up,"

1	played.)
2	ANNOUNCER: Join the Set For Life club.
3	Play the Set For Life Scratchers®, with a
4	chance to win a hundred grand a year for
5	20 years.")
6	MR. BRENNAN: Do I click again?
7	(Presentation played as follows:
8	(Theme from The Jeffersons, "Movin' on Up,"
9	played.)
10	ANNOUNCER: Join the Set For Life club.
11	Play the Set For Life Scratchers®, with a
12	chance to win a hundred grand a year for
13	20 years.")
14	MR. BRENNAN: So then out of door
15	out-of-home and some of the POS will have some other
16	sayings on them throughout. They'll be more contextual
17	throughout the campaign.
18	It was finally good to see that the lady with
19	the bird finally got used, because we went through a lot
20	of machinations to get that into cut; and it never was
21	used the first time. So it had a lot of B-roll to go

1 through to get her in there. 2 Last year, in 2010-2011, we accelerated 3 distribution of our tickets. We went from three tickets every four weeks, to four games every three weeks, with 4 5 the goal of having at least 17 of the 24 tickets in retail faced by the end of September. 6 7 What that goal was, was to get an overall 8 pay-out of between 61 and 62 percent from the average 9 that we had before, which was 57.7 percent. 10 When we did accomplish that in September, that is when we began our first phase of advertising. We had 11 12 that first roll-out, as you recall, that said that we 13 had more prizes and more ability to win. 14 And from that point in time, we've seen steady gains in sales throughout the year. 15 We've also been able to maintain at least five 16 17 \$5 games in retail throughout the year. And that's 18 contributed -- and I think Jim will show you all the 19 numbers, so I don't want to step on him. But it's 20 contributed significantly to our growth this year. 21 These are an example of the May Scratchers®

1 games that are out now. You'll see over there, at least 2 on my left of the screen, the Tripling Crossword. We 3 actually have two facings of Tripling Crossword out. It's done that well. It's been out for quite a while 4 5 now. And the two facings together are doing over \$5 million a week. 7 We had a promotion for the first time with a 8 casino this year: Our promotion with Viejas Casino down in San Diego County. It ran from February 1st through 9 March 1st. It had a second-chance entry to win \$5,000 10 11 from the Lottery. Players received one second-chance 12 entry code for every \$5 spent per transaction. 13 In addition, the player also received 14 promotional messaging, directing them to the Viejas 15 Casino to join its loyalty club. 16 Upon joining, the player received a free 17 Scratchers® game, a free play at the Viejas Casino's 18 kiosk game, and free entry into the casino's weekly 19 drawing, which had a price of about \$10,000. Sales for the San Diego was influenced by 20 21 this. We did see what translated into more than \$100,000

1 in higher sales than would have been realized looking at 2 statewide averages. 3 We also had a Web site developed, a microsite, and had more than 800,000 visits in February, with 4 5 approximately 650,000 of those being unique; and had more than 14,000 players sign up to participate in the 6 7 promotion by entering Web code entries -- Web entry 8 codes. So that takes us through the previous year. 10 We will follow up here next month. We do have 11 some money left over in the jackpot alert fund. 12 are going to buy some air time in the second and third 13 week of June, anticipating either continuing the 14 MEGA Millions® roll, which you know is at \$35 million, 15 which could be over a hundred million by that time; or we'll go with other advertising, maybe continue with 16 17 Red Hot 7's or MEGA Millions® branding. 18 But we have money, and so we're going to put 19 it into advertising to get the -- continue the sales 20 momentum. 21 CHAIR MASS: Right.

1 MR. BRENNAN: Our marketing plan for 2011-2012 2 will involve, as Ed already pointed out, awarding a new 3 contract for the Hispanic marketing services, utilizing the econometric ROI modeling for choosing our marketing 4 5 Supporting jackpot draw-based games in the market year-round is afforded, and aligning marketing 6 7 initiatives to support the Scratchers® product plan. 8 Programs will be implemented to entertain the 9 consumer. Offer value with additional second-chance 10 promotions provide additional services on the Web site, 11 and to better connect with our player. 12 When it comes to Daily Games, we'll continue 13 with our Fantasy 5 Bonus Bucks \$5 purchase incentive, 14 which has been successful, and helped raise sales for 15 Fantasy 5 this year. We'll continue to generate awareness of the 16 17 Daily Games. And we're going to include Daily 4 now, 18 and the top prizes through Lottery-owned devices, like 19 our LEDs and our ePOS. 20 We just added the Daily 3 jackpot information 21 just in the last three or four months. And we've seen a

1 bump in sales already. 2 And potentially, Ed and his staff are looking 3 at adding a midday draw to the Daily 4. 4 For Hot Spot, we did a review of the Hot Spot 5 business, and found that players are seeking some new elements of the game, so it will continue to be exciting 6 7 to them. So in August, as Ed's already pointed out, 8 we'll offer the 10-spot Hot Spot with Bull's-Eye. A new 9 expanded version of the Hot Spot with more spots and 10 more prizes. We'll offer ten spots, one through ten, as 11 opposed to the five currently. 12 And we'll also offer a Bull's-Eye wage on 13 every spot. And the highest prize could end up being up 14 to \$300,000. So it's pretty exciting. 15 We'll also continue to have periodic 16 promotions using the higher prize pay-outs throughout 17 the year. 18 Jackpot games will continue advertising MEGA 19 Millions® in key areas. So far, those have been LA and San Francisco, with both brand messaging and jackpot 20 21 alerts, looking at thresholds between \$70 million and

\$100 million to begin those jackpot alerts.

SuperLOTTO Plus® -- right now, what we've done for next year's budget, we've talked to our media-buying company, and we've looked at how many jackpots were over those thresholds last year. And we've set aside, I think, 44 draws so far, which was about what we did last year. So we put that money away, knowing that we're going to use it throughout the year, and then we build the other part of the budget after that.

SuperLOTTO Plus® has been evaluated, and promotional concepts are being or have been developed, and will be implemented in 2011 to make the product more exciting, with some value-added incentives. One of those will be implemented after the first of the year, which will be including a Web-based second-chance program for SuperLOTTO Plus®.

The other thing we're looking at is -- and watching closely -- are the possibility of a national game being developed by either -- by both MUSL and the Mega Millions® states. So we're staying on top of that, and the different possibilities that may arise with

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1
     those opportunities.
2
                For the new public Web site, which will launch
3
     in the summer --
4
                CHAIR MASS: Is that 2011?
5
                MR. BRENNAN: -- we will have added --
                Where's ITSD?
6
7
                I think so.
8
               We'll have added functionality, with the
9
     possibility of Check-a-Ticket online, integration with
10
     the second-chance programs, a new rewards programs,
11
     casual games. As I said, the second-chance for
12
     SuperLOTTO Plus®. The possibility down the road of
13
     claims-tracking process and, of course, supporting
14
     advertising campaigns.
                Future iterations may include improved mobile
15
16
     applications for communication with the players.
17
                Scratchers®: We did improve our prize
18
     structures last year. And we'll continue to look at
19
     those and tweak those, and make sure that we have the
     right prize structures for the players that we're trying
20
21
     to attract. And we will continue to pilot-test the use
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1 of core games, with longer life cycles and slightly higher pay-outs. 2 3 And we will also continue to look at best-practice increased sales, including raising the 4 5 \$5 game pay-out this upcoming year, to 68 percent from its current 66 percent. 6 7 We will continue to use advertising, both 8 brand- and game-specific; continue to communicate with 9 our retailers to the revised monthly retailer product 10 plan, which will include the new game mix, the ideal 11 game mix, and those games that are to be ended and 12 pulled out of retail. 13 We'll also provide a monthly game, vending and 14 counter display, to ensure that the right games are 15 being displayed at retail. And we'll be using brand-16 and game-specific messagings at intervals throughout the 17 year. 18 We're going to launch 45 to 48 games, with an 19 average pay-out of 64 percent. You'll see, significantly, that the \$5 game there is going from 66 20 21 to 68. And we have 73 percent scheduled for the \$10

1 game. 2 We'll have 13 \$1 games, twelve \$2 games, 3 thirteen \$3 games, eight \$5 games, and the one \$10 game. We'll be out there starting September 28th, I think it 4 5 is, and run throughout the year. 6 This is an example of the \$10 game. It's 7 getting closer and closer to finalization. I guess the launch is 9/30, not 9/28. 8 9 73 percent, \$250 million cash spectacular. Ιt 10 will be the largest ticket we've had so far. It's a 11 key-number match. It will be on holographic paper, so 12 it will be shiny and attractive. 13 You can uncover a star and win automatically 14 \$100, or you can uncover a "cash" symbol and win all 15 20 prizes. 16 We also have events and promotions in the 17 year. These will all be tied to a purchase, so there 18 will be no non-purchase events that we'll have in the 19 It will include the 13 fairs and festivals year. throughout California, throughout the summer, and 20 retailer events. And, of course, one of our favorite 21

1	and nonular events is the notable based numbers
	and popular events is the retailer-based purchase
2	incentive Snow-Globe Tour. And as I think I've been
3	told, I think the Snow Globe is out for final repairs
4	because it's been in use for four or five years without
5	any fix-up.
6	So the year looks like this:
7	There is Quarter 1. So far, MEGA Millions®
8	branding all across all quarters, as required by the
9	jackpots. Fairs and festivals in Quarter 1, advertising
10	for Scratchers® will be in August. Launch of the new
11	public Web site in the summer. And advertising for the
12	\$10 game.
13	Quarter 2 will have the Holiday tour.
14	Quarter 3, we plan on more advertising for
15	Scratchers® and the second chance for SuperLOTTO Plus®.
16	
17	And then, again, in Q4, we have advertising
18	budgeted.
19	That is my report.
20	CHAIR MASS: Thank you, Michael.
21	Commissioner Menchaca, do you have any

1	questions?
2	COMMISSIONER MENCHACA: What is the Snow Globe
3	tour?
4	MR. BRENNAN: The Snow Globe is a plastic
5	bubble in which a player buys \$20 worth of tickets and
6	gets a chance to go in there. And inside the bubble,
7	there's air blowing, and there are certificates
8	representing prizes. And you try to catch as many
9	little certificates blowing around you as you can in, I
10	think, the one minute that you're in there, and then you
11	get to redeem them.
12	COMMISSIONER MENCHACA: I see. I think I've
13	seen that.
14	And then the Holiday tour, what is that?
15	MR. BRENNAN: That's the same thing. I'm
16	sorry. The Snow Globe is during the Holiday.
17	COMMISSIONER MENCHACA: Okay. Very good.
18	Thank you.
19	No further questions.
20	CHAIR MASS: Commissioner Fortunati?
21	COMMISSIONER FORTUNATI: I was curious to know

1	about the Viejas Casino. Is that something that more
2	partnerships are going to go into?
3	MR. BRENNAN: We are evaluating that right
4	now, about the cost and the time and effort and how much
5	we can do, and how many we can do.
6	COMMISSIONER FORTUNATI: Why Viejas Casino was
7	chosen? Any particular reason?
8	MR. BRENNAN: They were the most interested
9	and worked it out.
10	We had been contacted by somebody else, but
11	they pulled out.
12	CHAIR MASS: Thank you, Michael.
13	MR. BRENNAN: Thanks.
14	CHAIR MASS: The next item on the agenda is
15	the consent calendar.
16	There are no items under the consent calendar,
17	so we're going to proceed to the next item on the
18	agenda, which are action items.
19	I'm going to ask Ed to come back up here to
20	talk about action Item 9.a, which are the regulations
21	for implementation of the draw test games.

1 Thanks, Ed. 2 MR. FONG: Hello again. 3 Before you is a proposal on improving amendments to the regulations for the implementation of 4 5 the draw test games. 6 Basically, these amendments provide the 7 Lottery with the ability to run controlled live draw 8 test games. More importantly, it also lays a foundation 9 or the groundwork to provide staff with the ability to 10 thoroughly investigate, design, and actually complete 11 the basic framework that is needed to run these test 12 games. 13 There are no game concepts that are being 14 approved today, just a basic framework for having test 15 games. 16 I'm trying to think of an analogy for this; 17 and I thought, well, this is like comparing a process like building a thermal mug, if you bear with me here. 18 19 You put in hot coffee, cold liquids, even soup into it. But the thermal mug doesn't change because it was 20 designed to actually hold any type of liquid. 21

This is exactly what we're trying to build right now in terms of a test game framework.

Flexibility to test different games, as long as it adheres to guidelines that meet validation requirements and overall gaming integrity.

Some background: One goal in developing new products is offering products that meet the wants, needs, and desires of our players. We identified these player preferences through research studies. Findings from these studies are critical and provide important key player insight into the development of key programs. However, to truly understand a potential player's spending habits, there is no better method than having a player actually purchase and actually experience the actual game or promotion, versus asking a player, "Would you like to play the game, and how much would you actually spend?"

These test games or promotions concepts can offer players -- or can be offered alone or in conjunction with other existing Lottery games, because we want to truly gauge how a player reacts to these test

1 games, when there's other gaming products and other test 2 consumer goods at retail. 3 The test system is entirely independent from Lottery's host gaming system, which allows for very 4 5 self-sufficient deployment. Now, one question you may ask is, how can we 6 7 do this? 8 Our gaming vendor, GTECH, has developed a 9 secure wireless test system that communicates separately 10 from retailer's existing gaming system. Players can 11 only purchase a test game from a test system terminal 12 only. Players can view the test game's actual draw and 13 results on a separate monitor or other types of 14 communication device; and at that point, they can 15 experience the winning and in many cases, the 16 non-winning experience -- which is still very important 17 to understand exactly how the player perceived that 18 particular game. 19 Players will also be able to validate their 20 test-game tickets and collect winnings as they normally would for any type of draw games. But the claiming of 21

any of these test-game prizes has to be from this test-game system.

The wagering can also be enabled and suppressed at certain times of the day. So the Lottery has full control in determining when it starts and when it ends.

The key benefits of approving regulations for draw test games would allow the Lottery to obtain real-world data as a result of this live environment testing. We're also going to be in a very unique position to gain critical insight into our players and retailers, like never before. Especially in terms of —it's not just product trial but, more importantly, the repurchase. Because then we would really understand if they really like the game or are they going to actually go and repurchase the game again.

Should you approve these amendments, staff would like to move forward and build this test-game framework so it can run live test games next fiscal year.

This concludes my presentation.

1	Are there any questions?
2	CHAIR MASS: Thank you, Ed.
3	Commissioner Menchaca, do you have any
4	questions?
5	COMMISSIONER MENCHACA: Would the test games
6	cannibalize any of our just regular games, or has that
7	been considered at all?
8	MR. FONG: That's one way to test these games,
9	is to actually run it in an isolated location. We'll
10	have this one test game in, say, one or two retailer
11	locations. And we'll run it against one of our other
12	monitored games.
13	So we can see the impact, how players would
14	respond to the test game, as well as our current game
15	out there.
16	There's a perfect way to see if it does
17	cannibalize it, yes.
18	COMMISSIONER MENCHACA: Thank you.
19	No further questions.
20	CHAIR MASS: Commissioner Fortunati?
21	COMMISSIONER FORTUNATI: These are just

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1
     amendments, right?
2
                Amendments, right?
                I'm fine.
3
4
                CHAIR MASS: Does any member of the public
     wish to address the Commission on action Item 9.a?
5
6
                (No response)
7
                CHAIR MASS: Then do I hear a motion to
8
     approve action Item 9.a?
9
                COMMISSIONER MENCHACA: I move to approve
10
     action Item 9.a.
11
                CHAIR MASS: Is there a second?
12
                COMMISSIONER FORTUNATI: Second.
13
               CHAIR MASS: Can the secretary please take
14
     roll?
15
               MS. TOPETE: Commissioner Menchaca?
16
                COMMISSIONER MENCHACA: Yes.
17
               MS. TOPETE: Commissioner Fortunati?
18
                COMMISSIONER FORTUNATI: Yes.
19
               MS. TOPETE: Chairman Mass?
20
                CHAIR MASS: Yes.
21
                The next item on the agenda is the fiscal year
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1 2011-2012 business plan, which Jim Hasegawa is going to 2 be making a presentation on now. 3 Jim? 4 MR. HASEGAWA: Yes. 5 Good morning, Mr. Chairman, Commissioners. Let me advance the slides -- there we go. 6 7 I'm going to first start off by going through 8 the sales update to show where we're starting from for 9 next fiscal year. 10 I'll get all my paperwork together. 11 As you can see in the slide above, that for 12 the first ten months of this current fiscal year, sales 13 are running at about, as you said earlier, 97 percent of 14 our goal -- year-to-date goal; and we're running about 15 13 percent ahead of last year. And based on this and 16 looking at what is likely to occur over the course of 17 the rest of the fiscal year, we anticipate that sales 18 will surpass the \$3.4 billion mark. And, again, that 19 will be about 13 percent ahead of last year's figures, and will provide public schools about \$1.1 billion at 20 21 the end of the day.

1 One thing to note about the increase, it will 2 be about more than -- it will be nearly \$400 million 3 higher than the sales of the prior fiscal year, and that's going to be the largest dollar gain that the 4 5 California Lottery has seen in about 18 years. So that gain is quite significant. 6 And another thing I want to point out is, 8 February's meeting, I discussed how the California 9 Lottery is actually leading the U.S. in the lottery 10 industry in terms of year-over-year sales growth. 11 Back then, it was for the fourth quarter of 12 calendar year 2010, when we were having sales gains of 13 about 20 percent; while just literally a few days ago, 14 NASPL released sales figures from other jurisdictions 15 for the first quarter of this calendar year; and I'm 16 pleased to report that for the second consecutive 17 quarter, California is, again, the fastest growing 18 Lottery in the U.S. Our sales --19 (Train whistle blowing.) 20 MR. HASEGAWA: Our sales were 30 percent 21 higher in January through March of 2011 than they were

1 in the same quarter in 2010. And I actually have a 2 quickly made chart here by my staff that shows how we 3 ranked versus all the other jurisdictions. If you take about the forty-some-odd Lotteries 4 5 that are across the U.S., and you look at about the 50th percentile, or the median Lottery, the average 7 Lottery is growing about 7 percent during that quarter. And as I said earlier, we were going at 30 percent. So 9 you can see our growth is quite impressive within the 10 whole context of the Lottery industry. 11 You might want to know some of the sources 12 behind our growing sales. 13 You know, during the presentation of the 14 business plan, I'll be reviewing some data from various 15 initiatives, and then we'll provide more details on how 16 our sales have grown and why. But in terms of a rough 17 summary, from the Scratchers®, which will have a huge 18 growth this year, it can be attributed to three main 19 areas: 20 One, of course, is very critically AB 142, 21 which allowed us to increase our prize pay-out and,

1 therefore, grow our \$5 product category. The many RENEW 2 initiatives which Ed has described, in terms of changes 3 to our games, to the Scratchers® plan, and the Ex\$ell 4 program in the field --5 (Train whistle blowing.) MR. HASEGAWA: -- as well as advertising 6 7 campaigns against Scratchers® during this past year that 8 Michael talked about -- and I'll be showing some results 9 from those ad campaigns. 10 For the MEGA Millions®, the advertising 11 campaign has resulted in higher draw sales at all 12 jackpot levels. And, of course, we did benefit from 13 having a second jackpot over the \$300 million level this 14 fiscal year. 15 And then for Hot Spot, Hot Spot benefited from 16 an increase in its prize pay-out with periodic 17 promotions. And just as with Scratchers®, as the prize 18 pay-out increases, we've seen greater sales and greater 19 profits. 20 So now I'm going to turn to the -- make sure 21 how I'm doing on time -- turn it over to looking at next

year's plan -- business plan.

First, though, I want to talk about the development of the plan and its initiatives. This was truly a team effort, involvement by Lottery staff through the various RENEW work streams, as well as discussions and presentations from our key business partners. They were all part of the process, and in creating not only this plan, but also many of the initiatives and tactics. And I want to acknowledge and -- very appreciatively, I want to acknowledge all those that were involved in this effort.

You'll see that the business plan has kind of revolved around the four P's of marketing: Product, place, and promotions -- also, price, because of our unique situation with our products, I'm going to go over the product and price P's, if you want to call it that, under one chapter within this plan.

Now, the same strategic imperatives from the three-year strategic plan, those still form kind of the cornerstone of the foundation for this year's plan.

21 I think you've seen the seven strategic imperatives

before, so I'm not going to go through them in detail.

But just know that the same guiding force that guided

the three-year plan is in practice here for the annual

plan that I'm about to present.

In terms of the products, there are two main categories that I'll describe. One is the Scratchers® game category, and one is the draw games.

And enhancements to our Scratchers® products, there's two key initiatives in the business plan. One is introducing a \$10 game; and the second is kind of continued refinements in product planning for Scratchers®.

For the \$10 game, some of the background is the fact that the \$5 game sales have dramatically grown this fiscal year as a result of AB 142, and increasing our prize pay-outs. It allowed us actually to launch multiple \$5 games. And for the first time, rather than just having, you know, periodically a \$5 game on the street, as Michael mentioned earlier, we now have five different \$5 products being distributed to our retailers.

1 What this has done in terms of sales, is the 2 fact that \$5 games have gone from a little over 3 \$3 million a week in the first quarter of 2010, to over \$11 million a year later. 4 5 The share of sales coming from our \$5 product line has gone from 10 percent of our Scratchers® sales, 6 7 to now representing 28 percent of our Scratchers® sales. 8 And if you look at the overall Scratchers® gain and compare it, 90 percent of the dollar volume 9 10 growth in Scratchers® can be attributed to growth in 11 the \$5 category. 12 Now, a \$10 game has been a key part of -- a 13 key strategy for most jurisdictions that have been very successful with Scratchers®. All other states do have a 14 15 \$10 product. 16 We also wanted to see if our consumers were 17 ready for a \$10 product. And much research has gone 18 into this development effort. 19 And we find that players are ready. We found 20 that in our research, many Scratchers® players are 21 already primarily purchasing \$5 games because they

really see the benefit and more winning experiences in higher prizes they win from the \$5 product and its higher prize pay-out than the lower price-point games.

The game that Michael Brennan presented as the \$10 game, that's been tested both qualitatively through focus groups, as well as quantitatively, through the Replay database that we have, to find out the best features and how it should be optimized and be introduced. And based on that, we feel that our consumers are ready for the next step in the Scratchers® evolution, which would be launching a \$10 game.

The details of that \$10 game Michael did cover, so I'm not going to go over all of the details in the \$250 million cash spectacular game.

Elsewhere in Scratchers®, I wanted to talk about the actual Scratchers® plan and the Scratchers® products itself. You know, over the last 18 months, there's been dramatic changes in the Scratchers® that have led to dramatically better-selling games, such things as prize-structure changes. Not only the prize pay-out percentage, but also where the prizes are, what

people are actually winning.

There have been some thematic changes.

There's been the fact that we've reduced the number of games being distributed to our retailers from somewhere around, I think -- at one point, it was up to like 70 different games on the street, down to an offering of 28. And that way, retailers are more likely to be ensured of carrying the best-selling games.

All what this has done is caused the number of individual Scratchers® games in any given week that are selling more than \$2 million to dramatically grow up.

And the chart there shows that back in early 2010, typically, we'd only see maybe two, three, or four games, of our Scratchers® games, individual games sell at this level of about greater than \$2 million a week.

I'm happy to report that in May of this year, we had a record-breaking 11 different Scratchers® games that sold \$2 million or more. So our games are better selling, they're lasting longer.

But next year -- not just to rest on laurels -additional refinements are going to be developed,

1 implemented, and then assessed to continually fine-tune 2 our --3 (End of Tape 1-A. Start of Tape 1-B.) MR. HASEGAWA: -- know that that game will 4 5 always be available for sale. Another area that Michael talked about is, 6 we're going to look at increasing the pay-out of our 7 8 \$5 games. It's been an important cornerstone for us. But as we move into the \$10 game and its higher prize 10 pay-out, we want to make sure that the sales from the 11 \$10 game just don't come from our \$5 product. So we 12 want to maintain the strength of our \$5 game. 13 Another example is having quarterly 14 Scratchers® review meetings. What this is going to entail, is being able to really dive down into games 15 16 that have been introduced recently, explore their sales, 17 how players have reacted to it, so that we can determine 18 what features were very strong with those games, so 19 they'd be implemented in the future, and those lessons 20 learned applied to, you know, other product development 21 for the Scratchers® line.

much more of the pretesting. As I said, the \$10 game, we did extensive pretesting on it. The quarterly review meetings are designed to have my research staff go out, test a bunch of games, and provide some findings to the product development team as they, again, develop the next year's games, the next quarter's games, and so forth.

In the draw-games area, new features and promotions for Hot Spot, SuperLOTTO Plus® promotion, and evaluating a potential national Lottery game, those are its highlights.

In going through that, I wanted to mention first that, for Hot Spot, this year will mark the first time in many, many, many years where Hot Spot will actually show an increase in sales from the prior fiscal year. This year, we'll see about an 11 percent gain.

And it did have to do with the prize pay-out.

This year, as part of the RENEW effort, an extensive deep dive into the Hot Spot business was done; and one of the key findings was the fact that Hot Spot

behaves very differently here in California compared to how successful games in other lottery jurisdictions behave. Some examples include that in our game, we generate a much lower share of our sales from social venues, like bars or restaurants and taverns. We don't have all of the ten spots, and we have a lower prize pay-out.

As Ed mentioned, we did test -- as Michael mentioned, we did test various features with players to understand which things would work and be well-accepted with our players. And those will be implemented this year.

An example is, players did like the fact there was a higher top prize, but they didn't want it to impact or reduce their more winnable mid-tier prizes.

And as a result, what will be implemented later this fiscal year, would be a rolling top prize; whereas -- much like how, you know, in SuperLOTTO Plus® and MEGA Millions®, if there's not a winner at that top prize, then that prize pool rolls over and it grows.

The other thing that we learned from the

testing, is that having new items to keep Hot Spot fresh and exciting was very important. So I think the plan is to have periodic enhancements to the Hot Spot product during the year.

In the RENEW effort on the jackpot games, various SuperLOTTO Plus options were analyzed last year. And at this time, no major game change is being recommended. The rationale behind that includes such items as a high risk of changing the SuperLOTTO Plus® game, because none of the U.S. Lotteries have really successfully restructured their in-house, instate Lotto game, once the multistate games have, you know, surpassed it in sales.

Another factor, is the fact that we found that MEGA Millions® advertising -- and I'll show you even more detail of that in a bit -- has been very successful in boosting the sales; and making a major game change to SuperLOTTO Plus® would divert the ad dollars away from it. And that would, you know, probably hurt the MEGA Millions® growth that we've seen.

And finally, the decline in SuperLOTTO Plus®

1 has actually slowed, as shown by the graph on the right 2 Part of it is due to the fact that MEGA 3 Millions®, with its large jackpots, when that occurs, 4 SuperLOTTO Plus® sales benefit from it. And there are 5 some very preliminary findings from the media analytics model that as marketing continues to advertise MEGA 6 7 Millions®, there is some halo effect or glow onto 8 SuperLOTTO Plus®. So instead of a major game change, what's 10 being recommended is to launch a promotional feature. 11 First, it's a promotion; but then as it would become 12 embedded in the public and, most likely, successful, 13 have it become a full-length feature as part of the 14 SuperLOTTO Plus® game. 15 And as Michael mentioned, that's being planned 16 for the -- probably about midyear before, January or 17 February of this fiscal year. 18 And to develop that promotion, we'll be 19 working with Product Development to try and get it not just from a promotional effort, but to make sure it 20 21 helps brand the game better, so that it becomes a little more unique in its positioning from the MEGA Millions® product. And so this promotion will do that.

So we'll be conducting a lot of research with players to really understand their perceptions about SuperLOTTO Plus® versus MEGA Millions®, so that we can create a unique -- carve out of kind of a unique space in the players' mind about that game, so it's not just some other jackpot game. It has a unique personality and brand.

In terms of evaluating the potential national game, Michael did mention that analysis whether to add Powerball was done this past fiscal year. That was the current Powerball game at \$1. And as you know, that the recommendation was not to join that game at this time. What we wanted to show is some analysis from the Virginia Lottery. They looked at per capita sales growth; and it showed that we had a 20 percent growth in our MEGA Millions® sales.

Now, other MEGA Millions® states, all the other ones joined Powerball; but they only saw an 8 percent gain in their combined MEGA Millions® and

1 Powerball game sales compared to just MEGA Millions® before. And this is based on the first 52 weeks after 2 3 that cross-selling effort began. 4 So, again, for this coming fiscal year, staff 5 plans to do very similar research and analysis and assessment to decide whether any of the potential 6 7 national lottery games that are being developed will 8 really create more sales and more to the bottom line for 9 public schools before making a recommendation to the 10 Commission. 11 Moving from product and price to the place 12 Improvements where the Lottery sells its area: 13 products, there are a number of initiatives being 14 proposed. And I'll be going through this. So I want to 15 just read the list at this time. 16 Ex\$ell, you've had presentations on that 17 effort in the field. 18 Phase I has already produced some measurable 19 results. You know, remember, in Ex\$ell, there was --20 21 the first phase, it was to concentrate the activities of the sales force on the most critical ones. And those have resulted in higher Scratchers® sales.

(Train whistle blowing.)

MR. HASEGAWA: Phase II is going to kind of take that same concept but in a slightly different way.

It's going to now focus the efforts in the field on those specific retail locations, those specific stores that have the greatest potential to grow Lottery sales and increase the visitations there, and concentrate the DSRs' times there, versus areas or stores where maybe a visit wouldn't produce as much in terms of sales growth.

Speaking of Ex\$ell, corporate-owned

locations -- various supermarkets and convenience stores

that are key-account locations -- those corporate-owned

locations are very different than the mom-and-pop

independent locations. And so the principles from

Ex\$ell really have to be kind of changed and modified to

work with the corporate locations. And so that started

this year, that program; but it's going to be continued

and intensified this coming year, again, so that the

corporate accounts, working with the headquarters, and

then trickling it down to the chain locations, those same principles are applied.

And for the corporate locations, the focus are on these critical drivers, reducing empty Scratchers® bins; so that way, there's always a full complement of Scratchers® games available for the players; improving game activation levels. "Game activation" means so that a retailer not only just receives the pack of tickets, but then, you know, actively sells it -- what's called "activation to the system," and then puts it out for display and available for sale to the consumers.

of the games. And it's important that the right games are being made available to our players because those are the hottest-selling, the best-selling products. And we want those to be in the retailer's ticket dispensers.

Other drivers include increasing the number of \$5 games sold. As Michael said, we have five different ones available. We'd like retailers to be carrying all five of them.

1 Installing ePOS equipment at these locations. 2 They're great communication devices that we found that 3 definitely do increase sales and actually increase 4 profits based on the cost of those ePOS devices for us. 5 And then finally, increasing the actual number 6 of chain locations in our network. 7 8 A real critical project to accommodate all the 9 growth that's being planned for Scratchers®, is ensuring 10 a supply chain that is effective and efficient. So if 11 we can't get, you know, ample supplies of ticket 12 inventories to the retailers and make sure that the 13 right games are being shipped, and do so, you know, 14 efficiently and effectively, then we will not be able to 15 reach the potential sales for Scratchers® that it really

So in this critical project, in everything -everything in the whole supply chain is going to be
looked at, because every step is important. It all
works together. So this initiative will be very
intensive and critical to the ultimate growth of

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could grow to.

Scratchers®.

Also important -- maybe a bit more on a longer-term basis, though -- is the network optimization project. It's a very highly analytical project. And what it ultimately will do, is recommend potential areas that either need more retail locations or perhaps even fewer locations selling Lottery products. And it's done in two different ways: One is geographically, which is probably the easiest to think, you know, areas of the state and trends and population and all, but also the types of retailer establishments. You know, are we oversaturated in convenience stores or grocery stores, or are we underrepresented there? So all types of trade channels will be looked at in this analysis.

Some other retailer initiatives include improving retailer communications. And, really, this is designed to develop and evaluate and kind of implement ways to provide consistent and integrated communications through all the different ways we communicate to our retailers. Really, a much more coordinated effort.

And, therefore, to educate, engage, and hopefully

motivate the people who sell our products with that consistent message.

And this project becomes really critical now because as earlier, I described how the retailer visitation schedule is going to be modified through the Ex\$ell experience in the field; and once we undertake that, making sure we have these other means of communications to the retailers in a very cohesive, consistent manner, that's consistent with the -- you know, the marketing plan is critical. Otherwise, retailers won't be getting the right messages.

The retailer is the driving force behind selling our Lottery products. And so what we want to be able to do with the next initiative, is make sure and make their life a little easier, to handle and account for the Lottery's product. The way the Lottery product is handled and accounted for in a retailer environment is very different from other products. So it makes it more difficult for the retailer to carry and handle. And so this is designed to streamline the retailer's workload in that effort.

A number of ideas and concepts have been developed; but now, it's kind of the final assessment of those, and actually starting to try and implement those in the field with retailers.

Again, you know, time is money. So if something can streamline a retailer's efforts, it reduces the amount of time that they have to spend on our product; and that goes to the retailer's bottom line, which makes them more likely to want to sell Lottery products, and want to sell more Lottery products.

The final initiative in the retail area is developing the recruitment plan for Hot Spot locations.

I talked about in the product area, how our Hot Spot game does not have as well developed of a social venue as other lottery jurisdictions. And so developing this recruitment plan as to -- not just who to recruit, but what the steps and processes will be to successfully get those new accounts is part of the development of this recruitment plan.

Now, into the next area, is the "P" for

"promotion," which here at the Lottery involves

advertising and promotion. We'll go through some data

on MEGA Millions® advertising. You've heard about the

Web site. And then also, a final area on Scratchers®,

and some areas for longer-term development of

Scratchers® players.

This chart shows how advertising, which is represented by the two bars on each collective right -- so that each group of bars represent jackpot amounts and the bars represent draw sales. So if you notice the green and purplish bars are always much higher than the bars to the left. And that's because draw sales at all jackpot levels are higher over the last couple of quarters compared to earlier sales. And that's because of the advertising efforts that Michael talked about.

Based on an analysis of looking at the

Los Angeles and San Francisco DMAs, where the

advertising was done, and comparing it to the other

parts of the state, we can measure the actual impact of

the ads. And since March of 2010, due to the

advertising, we can see that there's been an additional

\$65 million in sales, or a 14 percent lift in

Los Angeles and San Francisco compared to what we would

have expected if there were no advertising being done.

In this year's plan, the media analytics model will allow us to further, you know, enhance the impact of the advertising, because the media vehicles will be optimized, as well as they are looking at different jackpot amounts, and when is the best ROI to do those jackpot alerts.

One other element of the MEGA Millions® advertising I wanted to show, was how the recent sales were positively impacted from the advertising is because MEGA Millions® is really now more top of mind. If you look at the red bars in the last -- particularly, the last quarter, January-March of 2011, the unaided awareness -- meaning, top-of-mind awareness -- for MEGA Millions® has dramatically grown. And as you can also see the blue bar, which represents MEGA Millions® past year play is also up. So the advertising has increased top-of-mind awareness of MEGA Millions®; and that's driven more people into the stores to purchase the

product.

You heard in detail the various elements that are being proposed for the new Web site. And in summary, it's really trying to take the -- from a strategic plan standpoint, it's really trying to take the Web site from just the source of information that people go to, to learn something, to actually engaging and connecting with the players, so that they would then connect better with the Lottery overall.

And through whether it's additional services, added value, or ways to entertain the player, there's going to build that better bond between the player and the Lottery through the various Web site and digital communications components that were in the marketing plan.

The last area within the marketing area that's important is, you know, the Scratchers® advertising that we've seen has definitely increased sales. Awareness is also dramatically up, as you can see from the kind of the bluish-aqua bars over the last couple of quarters. The top-of-mind Scratchers® awareness is definitely

higher. People are thinking -- consumers are thinking about Scratchers®.

However, the number -- we have not seen a rise in the number of new players in this fiscal year. And, again, for future growth in the Scratchers® product line, we do need to increase the size of the player base. So one of the long-term initiatives that will start next fiscal year is, really, to uncover the strategies and the -- starting with the consumer insights, develop strategies that will allow advertising to reach the new players and get them to play Scratchers® in the future.

There are a number of initiatives that are outside the four P's of marketing because it's really built to build a strong business infrastructure, strengthen that, because that's the foundation by which all the projects in the Lottery run. So everything from ensuring that communications within the Lottery organization is improved, well-coordinated, and that all of the various segments of the Lottery collaborate well against those projects is a key element for the next

year.

We have the gaming system upgrade, which will allow us to have new functionality, some of which was described with the new Web site. It will allow us to bring new products to market faster.

Business intelligence, I think we've shown you at the last Commission meeting some of the benefits of that program. And that will be expanded to include draw games and other areas, as well as KPI's.

Succession planning, to ensure that these projects can live long beyond the fact that, you know, the Lottery Baby-Boomers would be entering into their retirement years.

And then finally, documenting and reviewing

Lottery processes, so that, you know, we can follow them

in an orderly way. And that also does help the

succession planning. If things are written down, then

others can kind of follow those same processes in the

future.

In a nutshell, at a high level, the financial highlights for this plan, it will deliver record sales.

We'll shatter the prior highest sales record, which was about -- let me look -- 3.428, I think, billion -- 3.58 billion, set back in 2005-2006. We probably will be somewhere around the \$4 billion mark, but that hasn't been finalized yet.

This plan will deliver increased profits to schools, probably in the range of about a hundred million dollars more this coming fiscal year than our current year. That will get us to about \$1.2 billion going to public schools. And that will represent the 12th consecutive year that the California Lottery has provided more than a billion to public education.

So approving this plan will allow staff to kind of develop the details, develop the budget to implement this plan. Right now, the budget would be presented at the June meeting. And between May and June as well, overall performance goals, as well as performance goals for the various initiatives will be developed and established, and then will be monitored over the course of the fiscal year.

1	And finally, with the approval of this plan,
2	then resources will begin to be committed for the
3	various plan projects outlined previously.
4	And with that, I
5	CHAIR MASS: Thank you, Jim.
6	MR. HASEGAWA: Are there any questions?
7	CHAIR MASS: Commissioner Menchaca, do you
8	have any questions for Jim?
9	COMMISSIONER MENCHACA: No. Just that,
10	obviously, there was quite a bit of work that went into
11	this; and so I think you have to be congratulated on
12	your efforts.
13	I was just fortunate to be at the sales
14	meeting this morning that was going on beginning
15	yesterday. And the sales staff is certainly highly
16	motivated and ready to get to work on achieving these
17	numbers for the year.
18	Thank you very much.
19	No other comments.
20	CHAIR MASS: Thank you very much.
21	Commissioner Fortunati?

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                COMMISSIONER FORTUNATI: Yes, a lot of good
2
     work in all of this.
3
                Just a quick question, if I can. The retailer
     communication today, how does that happen, besides
4
5
     personal -- the DSRs that are going out there? Is there
6
     technology that --
7
               MR. HASEGAWA: Yes. There are various
8
     messaging devices, such as we can send e-mails,
9
     actually, through the terminal to the retailers, that
10
     are kind of like messages.
11
                There's also publications that we produce
12
     that, you know, are given to the retailers. So there's
13
     different ways like that.
14
               COMMISSIONER FORTUNATI: I just wanted to know
15
     if technology was more used into that, that's all.
16
               MR. HASEGAWA: That's right, yeah. For those
17
     that are connected, we have a separate Web site just for
18
     Lottery retailers.
19
               COMMISSIONER FORTUNATI: But good work.
                                                         Thank
20
     you.
21
               CHAIR MASS: Thank you, Jim.
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1
                Does any member of the public wish to address
2
     Jim on Action Item 9.b?
3
                (No response)
4
                CHAIR MASS: If not, do I hear a motion to
5
     approve Action Item 9.b for the fiscal year 2011-2012
6
     business plan?
7
                COMMISSIONER MENCHACA: I make a motion to
8
     approve the fiscal year 2011-2012 business plan as
9
     presented.
10
                CHAIR MASS: Do I hear a second?
11
                COMMISSIONER FORTUNATI: I second.
12
                CHAIR MASS: Can the secretary please take
13
     roll?
14
               MS. TOPETE: Commissioner Menchaca?
15
                COMMISSIONER MENCHACA: Yes.
               MS. TOPETE: Commissioner Fortunati?
16
17
                COMMISSIONER FORTUNATI: Yes.
18
               MS. TOPETE: Chairman Mass?
19
                CHAIR MASS: Yes.
20
               MR. HASEGAWA: Thank you.
21
                CHAIR MASS: Thanks, Jim.
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1 (Train whistle blowing.) 2 CHAIR MASS: The next item on the agenda is 3 Action Item 9.c, core Scratchers® game profile templates. 4 5 And Liz is going to be presenting this. Hi, Liz. 6 MS. FURTADO: Good morning. 8 Good morning, Chairman Mass, Commissioners. 9 As you may recall, in the past, we created 10 profiles for each and every game which were presented at 11 Commission meetings for approval. And one of our 12 Scratchers® RENEW initiatives, was to create templates 13 which we could reuse for more than one game. 14 templates were based on improved prize structures for 15 every price point that incorporated higher pay-outs and maximized winning opportunities. 16 17 In October, the Scratchers® regulations were 18 modified to include the approval of core game profile 19 templates, instead of approving individual game profiles. This process has streamlined game development 20 21 and created efficiencies for staff.

1	These new templates include mainly \$5 games.
2	As both you saw in Michael and Jim's presentations, we
3	recommended increasing the \$5 game pay-out from
4	66 percent to 68 percent, with prizes being improved
5	mainly at the \$15 and \$20 levels.
6	And also, we're increasing some of the top
7	prizes on those games, from \$100,000 to \$500,000. This
8	is especially important once we launch the \$10 game in
9	order to provide more significant wins that will reward
10	our established and loyal \$5 player base.
11	This concludes my presentation.
12	Are there any questions at this time?
13	CHAIR MASS: Thank you, Liz.
14	Commissioner Menchaca?
15	COMMISSIONER MENCHACA: No questions.
16	CHAIR MASS: Commissioner Fortunati?
17	COMMISSIONER FORTUNATI: No questions.
18	MS. FURTADO: Thank you.
19	CHAIR MASS: Thank you.
20	Does any member of the public wish to address
21	the Commission on this Action Item 9.c?

1	(No response)
2	CHAIR MASS: Then do I hear a motion to
3	approve Action Item 9.c?
4	COMMISSIONER MENCHACA: I move to approve
5	Action Item 9.c on the game profile templates.
6	CHAIR MASS: Is there a second?
7	COMMISSIONER FORTUNATI: Second.
8	CHAIR MASS: Can the secretary please take
9	roll?
10	MS. TOPETE: Commissioner Menchaca?
11	COMMISSIONER MENCHACA: Yes.
12	MS. TOPETE: Commissioner Fortunati?
13	COMMISSIONER FORTUNATI: Yes.
14	MS. TOPETE: Chairman Mass?
15	CHAIR MASS: Yes.
16	Thank you.
17	Thanks, Liz.
18	The next item on the agenda is commissioner
19	general discussion.
20	Do any of the commissioners have anything that
21	they'd like to bring up at this time?

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1
                Commissioner Menchaca?
2
                COMMISSIONER MENCHACA: No, I have nothing
3
      today.
                CHAIR MASS: Commissioner Fortunati?
4
5
                COMMISSIONER FORTUNATI: No.
                CHAIR MASS: I'd like to bring up one thing:
6
7
      If the whistling could be kept down a little bit.
8
                I'd like to actually, in all seriousness,
      thank Barbara for her incredible effort and value that
9
10
      she's brought to the Lottery over the last few years.
11
      She's been terrific.
12
                I know I'm working with you in the reorg. of
13
      HR, the succession plan, the communications plan. It's
14
      only going to make the Lottery better for years to come;
15
      and your contribution is going to be felt for a long
16
      time. So thank you very much. It's really been a
17
     pleasure. I know everyone joins me.
18
                (Applause)
19
                CHAIR MASS: I have nothing else to add.
                The next scheduled meetings that we have
20
      tentatively scheduled are June 23<sup>rd</sup>, September 8<sup>th</sup>,
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October 27<sup>th</sup>, and December 8<sup>th</sup>. Those are all going to be
 1
2
      held here in Sacramento.
                And I guess the September 8^{\rm th} meeting might be
3
4
      the first meeting in our new building, right? Is that
5
      the plan --
6
                MR. HASEGAWA: Yes.
7
                CHAIR MASS: -- possibly?
8
                 It should be exciting.
9
                 The next item on the agenda is public
      discussion.
10
11
                We have no one signed up.
12
                 Does anyone wish to address the Commission at
13
      this time?
14
                 (No response)
15
                 CHAIR MASS: If not, then I'm going to adjourn
      the meeting, and wish everyone the very best.
16
17
                 And we'll see you in a month.
18
                 (Gavel sounded.)
19
                 (End of recording.)
20
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