STATE OF CALIFORNIA

LOTTERY COMMISSION

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CALIFORNIA STATE LOTTERY COMMISSION MEETING

TIME: 9:30 a.m.

DATE: Thursday, October 6, 2011
PLACE: California State Lottery
700 North Tenth Street
Sacramento, California

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TRANSCRIPT OF PROCEEDINGS

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California State Lottery Commission

JOHN MASS Chairman

ALEX FORTUNATI

JOHN MENCHACA

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APPEARANCES

Participating Lottery Commission Staff continued

ELISA S. TOPETE
Assistant to the Commission

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1	Thursday, October 6, 2011
2	Sacramento, California
3	000
4	CHAIRMAN MASS: to order the California
5	State Lottery Commission meeting for October 6^{th} , 2011.
6	Can everyone please rise for the Pledge of
7	Allegiance?
8	(The Pledge of Allegiance was recited.)
9	CHAIRMAN MASS: This is some facility, huh?
10	This is really great.
11	It feels sort of odd, but it also is very
12	energizing. So I'm excited to be here, and I know
13	I think I'm speaking for all the commissioners when I say
14	that I think this is a great sort of new beginning, even
15	though you've been in the building for some time now.
16	It's our first Commission meeting, and it's sort of our
17	first kickoff.
18	And I've already sensed, just in the previous
19	meetings we've had here and just in talking to people
20	on the phone, the increased morale, the energy, the
21	communication, the efficiency. And it's just only going
22	to make the Lottery better. So I look forward to working
23	with you on it.
24	Can the secretary please take roll?
25	MS. TOPETE: Commissioner Menchaga?

California State Lottery Commission Meeting – October 6, 2011 COMMISSIONER MENCHACA: Present.

1 2 MS. TOPETE: Commissioner Fortunati? 3 COMMISSIONER FORTUNATI: Present. 4 MS. TOPETE: Chairman Mass? 5 CHAIRMAN MASS: Present. The first item on the agenda is the approval of 6 7 the agenda. 8 Does anyone have any comments or changes to 9 today's agenda? 10 ACTING DIRECTOR NGUYEN: I do, Commissioner. 11 I request to remove action item 9.b from the 12 agenda. We need to do more work on that before 13 presenting that to you. 14 CHAIRMAN MASS: Okay. 15 Commissioner Fortunati, do you have any changes to the agenda? 16 17 COMMISSIONER FORTUNATI: None. CHAIRMAN MASS: Commissioner Menchaca? 18 19 COMMISSIONER MENCHACA: No changes. 20 CHAIRMAN MASS: So without any changes, other than the exclusion of action item 9.b, do I hear a motion 21 22 to adopt the agenda with that change? 23 COMMISSIONER MENCHACA: I move to adopt the

revised agenda. CHAIRMAN MASS: Do I hear a second?

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1	COMMISSIONER FORTUNATI: Second.
2	CHAIRMAN MASS: Will the secretary please take
3	roll?
4	MS. TOPETE: Commissioner Menchaca?
5	COMMISSIONER MENCHACA: Yes.
6	MS. TOPETE: Commissioner Fortunati?
7	COMMISSIONER FORTUNATI: Yes.
8	MS. TOPETE: Chairman Mass?
9	CHAIRMAN MASS: Yes.
10	The next item on the agenda is the approval of
11	our minutes from June $29^{\rm th}$, 2011, our last Commission
12	meeting.
13	Do any of the commissioners wish to propose any
14	changes to those minutes?
15	Commissioner Fortunati?
16	COMMISSIONER FORTUNATI: No changes.
17	CHAIRMAN MASS: Commissioner Menchaca?
18	COMMISSIONER MENCHACA: No changes.
19	CHAIRMAN MASS: Do I hear a motion to approve
20	the agenda excuse me, I mean, the minutes from
21	the 29 th of June meeting, please?
22	COMMISSIONER MENCHACA: I move that we approve
23	the minutes of the June 29^{th} , 2011 , Commission meeting.
24	CHAIRMAN MASS: Do I hear a second?
25	COMMISSIONER FORTUNATI: I second.

1	CHAIRMAN MASS: Can the secretary please take
2	roll?
3	MS. TOPETE: Commissioner Menchaca?
4	COMMISSIONER MENCHACA: Yes.
5	MS. TOPETE: Commissioner Fortunati?
6	COMMISSIONER FORTUNATI: Yes.
7	MS. TOPETE: Chairman Mass?
8	CHAIRMAN MASS: Yes.
9	The next item on the agenda, 6, is the
10	Commission liaison reports.
11	I'll be calling on each commissioner to give
12	their liaison reports, and then I will give mine.
13	Commissioner Menchaca, would you like to start?
14	COMMISSIONER MENCHACA: Yes, I'm going to be
15	providing the audit the liaison report for the Audit
16	Committee.
17	Under the State Controller's Office's audits,
18	we have final reports issued for Samuel Ramirez and
19	Company. The report was issued in August with no
20	findings.
21	Second-quarter transfer report audit for fiscal
22	year 2011, the report was issued in June with no
23	findings.
24	Third-quarter transfer report for fiscal year
25	2011, that report was issued in August with no findings.

1	The final reports that are pending:
2	We've got the LPA Sacramento, Inc., contract.
3	The final report is due in October. There is one
4	finding.
5	The Risk Assessment audit, there is the final
6	due in October, with no findings.
7	And we have draft reports pending:
8	Otto Construction contract, field work is
9	complete and under review. There were six findings
10	noted.
11	The budget process, our report, the field work
12	is complete and under review. Five findings are noted.
13	The retailer network audit, field work is
14	complete and under review. No findings noted.
15	Work in process:
16	We have the Casanova Pendrill Publicada, Inc.,
17	marketing contract. Field work is expected to last
18	through October. No preliminary findings.
19	We have the personnel and payroll audit. Field
20	work expected to last through October. No preliminary
21	findings.
22	New audits:
23	We have a new audit for Scratchers®
24	distribution centers. Field work began on July 19, 2011,
25	and is expected to end in October 2011.

1	Accounts receivables audit: Field work began
2	on July 22^{nd} , 2011 , and is expected to end in October
3	2011.
4	Fourth-quarter transfer report, fiscal year
5	2011: Field work began on August 30 th , 2011, and is
6	expected to end in November 2011.
7	Those are the State Controller's Office audits.
8	Now, under our external auditor, KPMG, we have
9	a draw-observation review. KPMG continues to observe and
10	report on the Lottery daily draws. No significant
11	findings were noted.
12	The financial statement audit: The field work
13	is expected to last through October 2011. No preliminary
14	findings.
15	Now, under our Lottery internal audit,
16	department audits:
17	A final report was issued in the asset
18	management. A final report was issued on September 7,
19	2011. Six findings are noted.
20	We have draft reports pending for the
21	Scratchers® ticket activation. Field work is complete.
22	Draft audit report is under review. These preliminary
23	findings (interruption in recording).
24	The audit of the travel program: Field work is
25	complete and under review (interruption in recording).

New audits and (interruption in recording) --1 2 September 2011. 3 The FISMA (interruption in recording) work 4 began in June two thousand- (interruption in recording) 5 and is expected to (interruption in recording) began in June 2011 and is expected to also last through 6 7 October 2011. Audit follow-up: Dilahanty printer audits: 8 9 Field work is expected to last through October. No 10 preliminary findings. 11 The Audit Committee: The Audit Committee met 12 via Skype on September 20, 2011, and discussed 13 administrative items. 14 That concludes my Audit liaison report. I do have a Security liaison report. 15 Should I continue with that? 16 17 CHAIRMAN MASS: Yes, please. 18 COMMISSIONER MENCHACA: Effective October 1st, 19 2011, the Security Law Enforcement Division has opened 20 a new investigative office at the Lottery's Southern Distribution Center in Rancho Cucamonga. The new office 21 22 is staffed with three investigators to handle the 23 increased demands for investigative services. 24 Because of the Lottery's successful RENEW 25 Project, the California State Lottery is experiencing the

1	greatest increase of sales than any other state lottery.
2	As a result of increased sales, more claims are being
3	forwarded to the Security Law Enforcement Division for
4	investigation.
5	Since 2009-2010 fiscal year, SLED has a
6	46 percent increase in the number of claims
7	investigations. SLED was unable to timely process the
8	claims investigations with the existing staff.
9	Without creating any new positions, SLED
10	reprioritized its goals and redirected headquarters staff
11	to the field for investigations.
12	The new investigator positions are expected to
13	reduce the backlog of claims, reduce overtime costs, and
14	allow the division to be more responsive.
15	That concludes my Security liaison report.
16	CHAIRMAN MASS: Thank you, Commissioner.
17	Commissioner Fortunati?
18	COMMISSIONER FORTUNATI: Good morning,
19	everybody.
20	I have the Education and Community Relations
21	liaison report.
22	Ongoing projects: We have the Corporate
23	Communication staff continues to take part in meetings
24	regarding the launch of the Lottery's new public
25	Web site, which is set to launch in November.

Staff is currently working on editing media and education-related materials that will be placed on the new Web site.

Staff is also currently working on creating a new logo and slogan to the Web site's education page, which will have a large amount of new content, including videos showing how different schools around the state use their Lottery money.

Several videos have already been created. The page will also contain testimonials from students, educators, and parents.

Staff continues to work with legislators' offices on a number of different issues.

A letter was recently sent out from Acting
Director Linh Nguyen to all offices, discussing what a
successful year it has been at the Lottery.

A fact sheet was also created that can be distributed to legislators and staff when meetings are eventually scheduled with them.

On the internal communications, staff recently launched the campaign urging Lottery staff to use the stairs in lieu of the elevator. Lottery staff voted to name the campaign, "Step It Up." The campaign was announced in a variety of ways: Via CLIC spotlight, bulletin boards, and in other internal messaging.

Staff worked with human relations and other 1 details to keep the momentum high. 2 3 Staff continues to add new content to the 4 "Spotlight On," "Meet a Lottery Employee," and video sections of CLIC. 5 Staff is continuing to work with ITSD on new 6 7 things that can be added to the Lottery's intranet site 8 to make employees take notice. 9 Weekly e-mails to staff continue to be sent 10 with all latest Lottery news, as well as press releases. 11 Staff is currently working on coordination with 12 other departments on a new Lottery-wide e-mail signature 13 block that is a little bit more streamlined and takes up 14 less "in" box space. 15 And the Lottery has started using a new press-release template that looks much more contemporary. 16 17 Winner product awareness: In addition to 18 sending press releases about recent winners as a way of 19 generating earned media, staff continues to take part in 20 meetings with marketing and Alcone and D&G regarding the Lottery's latest promotions and initiatives. 21 22 Staff worked with the Marketing department to 23 help fill out communications plans tied to upcoming 24 promotions and product launches, including the \$10

Scratchers® game, \$250 Million Cash Spectacular.

CCD staff is working on a complete overhaul of 1 the Lottery's Winners' Handbook, and the current handbook 2 3 contains old logos, outdated information, and photos that 4 need refreshing. 5 That completes this report. CHAIRMAN MASS: Thank you, Commissioner. 6 7 As Marketing liaison, staff updated me on the 8 MEGA Millions® jackpot-specific messages that ran 9 recently during the MEGA Millions® run, which began on 10 September 19th, when the jackpot hit \$75 million. The alerts ran in Los Angeles, San Francisco, and San Diego. 11 The California Lottery is also launching a 12 13 campaign for the \$250 Million Cash Spectacular Scratchers® at the end of this month for our \$10 game. 14 15 We're going to be hearing a little bit more about this, I think, in the Director's report. 16 17 This ticket will be featured in an advertising 18 campaign that will include separate TV commercials for 19 general market, Spanish language, and Asian-language 20 television -- Chinese, Korean, and Vietnamese. 21 campaign begins on October 31st and will run for four 22 weeks. 23 There also will be two weeks of TV advertising 24 in December, with a holiday theme featuring a \$10 game in

the same languages.

Both TV campaigns will run in Los Angeles, 1 Sacramento, San Francisco, and Fresno. 2 As the Procurement liaison, staff requests 3 4 approval for the following: 5 A contract amendment for Sun Data to have a one-year term. Sun Data provides statistical analysis 6 7 services for the Lottery's ongoing evaluation of all 8 that's automated draw-equipment performance, to ensure 9 that randomness is functioning correctly. 10 They also request a contract award to National 11 Recovery Agency to provide debt-collection services of 12 Lottery retailer-delinquent accounts. 13 And a request to release a request for proposal, an RFP, to procure services for Scratchers® 14 15 ticket delivery. 16 As the Budget liaison, there's really nothing 17 to report at this time. 18 On the Legislative side, the Lottery has been 19 following one bill, it's AB 363, that would amend the Lottery Act as follows: 20 21 One: It would change the reporting date from December 31^{st} to April 1^{st} for each of the next five 22 23 years, for the California State Controller to make 24 specific reports to the Legislature regarding the State

Lottery's efforts to boost income for public education.

1	Two: It would extend the operation of the
2	change described above until April $1^{\rm st}$ of the following
3	year. The Controller's notification to Legislature and
4	Governor that specified events relating to total net
5	revenues allocated to the benefit of public education
6	have occurred. And the prior law would be restored at
7	that time.
8	When this bill was last reported in June 29^{th} ,
9	2011, it had been enrolled and presented to the Governor
10	for signature. Since then, AB 63 was later approved by
11	the Governor on June 29^{th} , 2011 , and filed with the
12	Secretary of State on July $1^{\rm st}$, 2011. The bill will take
13	effect on January 1 st , 2012.
14	Those are my liaison reports.
15	And I'm going to turn it over to the Acting
16	Director for his report.
17	ACTING DIRECTOR NGUYEN: Thank you.
18	Good morning, Chairman Mass, Commissioners.
19	First up is Jim Hasegawa to give us the sales
20	report. He has promised a very exciting finish. So I'm
21	waiting for that.
22	MR. HASEGAWA: But no rabbits out of the hat.
23	All right, here's a Lottery sales update.
24	Just to note, you know, so far, through the
25	first 13 weeks of this fiscal year, our total Lottery

sales are running about 13 percent ahead of the first
13 weeks of last fiscal year. And that puts us at about
95 percent of our year-to-date goal.

I'll be going through by products.

For MEGA Millions®, it is running about

1 percent behind last year, and it's running at just

80 percent of the goal. While those numbers do not seem
that strong, it's really primarily due to the jackpots,
since that's a jackpot-driven game.

The largest jackpot that MEGA Millions® has seen this fiscal year is \$113 million. That was on September 30th, where we did have a winner. We also had a jackpot on July 1st of \$105 million.

Last year, the first 13 weeks of the year, we saw a jackpot as large as \$133 million.

And sales will definitely pick up when the jackpot surpasses \$200 million.

As you can see from the chart there, jackpots of \$200 million or more, each of the past several fiscal -- the last fiscal years has been between three and six times. So those jackpots will come. I mean, statistically, it's pretty much a guarantee that we'll have jackpots in excess of \$200 million, even though we haven't seen one yet this fiscal year.

For SuperLOTTO Plus®, it's also a

jackpot-driven game. Its sales are good. In fact, they're actually higher than MEGA Millions® through the first 13 weeks of this fiscal year.

SuperLOTTO Plus® has sales that are 3 percent ahead of last year's pace; and they're currently running at 113 percent of our year-to-date goal. But, again, this is due to the jackpot rollovers.

We started the fiscal year on a large rollover with surplus peaking at a jackpot of \$61 million on July 23rd. If you compare that to last fiscal year through the first 13 weeks, our largest jackpot was just \$26 million.

Our Daily Games -- actually, we've seen some growth in the Daily Games product category last fiscal year, and it's continuing this fiscal year. The four games combined are running 5 percent ahead of the same period last year; and they're currently running ahead of goal at 104 percent.

Fantasy 5 is leading that growth. It is the strongest of the four products. It's running 10 percent ahead of last year's sales through this time period; and it's standing at 106 percent of goal.

Related to some other research, we have found that new LED jackpot signs that include Fantasy 5's grand prize on them, they seem to increase Fantasy 5

sales at the locations that we have placed those signs.

For Hot Spot, Hot Spot sales have also increased this fiscal year. And it's been as a result of product enhancements and promotions. As you can see in the table or the chart, sales are running 3 percent ahead of last year through this time period, running at about 97 percent of the goal. And so that shows that pretty much the gains from the product enhancements and the promotions are pretty much what we anticipated.

To give you a better illustration, here's a chart, a graph showing the weekly sales of Hot Spot. And the Hot Spot game was expanded from just the two, three, four, five, and eight spots, to all ten spots. And that occurred on Monday, August $1^{\rm st}$.

So as you can see, the week ending August 6th, which is the fifth week of the fiscal year, you saw a large increase in sales for the Hot Spot game.

In September, a new promotion kicked in, and sales again started to grow. And, actually, they've been maintained throughout the life of the promotion. That promotion will end on October 9th. This promotion increases the prizes that players can win in certain spots -- for certain wins.

So as you can see, Hot Spot tends to react to new elements, like new features or promotional elements,

much like Scratchers® sales go up as new games hit the streets.

And speaking of Scratchers®, Scratchers® sales this fiscal year so far are running at \$540 million. And that is 24 percent ahead of sales for the first 13 weeks of last fiscal year.

The \$540 million in sales, that represents 93 percent of our fiscal year-to-date goal.

Sales from the first 13 weeks of this fiscal year average about \$40.4 million. That is slightly down from the prior quarter. But the big factor in the Scratchers® product plan this fiscal year really is the launch of the \$10 game. And that launched this past Friday, on September 30th.

So far this fiscal year, again, just like last year, the sales growth has been fueled by the growth of our \$5 game product. As you can see, compared to a year ago -- a year ago, summer, sales of the \$5 product have more than doubled.

However, sales in the \$5 game have begun to start to level off. And that's why sales are just at 93 percent of the year-to-date goal for \$5 games.

Sales of our \$2 and \$3 product lines are somewhat flat. The \$2 games are below goal by the largest margin, running at just 86 percent of the goal.

And Sales and Marketing staff have begun to address this issue already through product enhancements, such as a slight boost in the prize pay-out for the \$2 product that will be coming up, and by minimizing the loss of a \$2 facing when the new \$10 game was launched. So they've already taken actions to remedy this situation.

The \$1 game product line, sales are up about 6 percent from the same time last year; and, as such, are running pretty close to the goal at 97 percent.

And now for the aforementioned finish: Here is actually the weekly Scratchers® sales -- so it's a graph, of course -- the finish is going to be with a chart.

This is weekly sales that have been running for about the past 52 weeks. But you'll notice that at the far right is a pink bar. And with the most recent addition to our Business Intelligence System, which you saw a couple meetings ago, we have actually added daily sales data. And as such, each morning I can log on and get the actual daily sales from the day before.

So for the first four days of this current week, total Scratchers® sales have actually been about \$29 million, with the \$10 game coming in at about \$6.5 million just for the first four days of this current week.

And looking at, like, the traditional share between Sunday and Wednesday, we're able to try and project what this current week will look like. And as such, it should be over \$50 million. Probably in the range of about \$52 million to \$53 million. And as you can see, that's about \$10 million more than last week's sales. And that's due to the launch of the \$10 game.

Now, the \$10 game is likely to end this week somewhere between \$10 million and \$11 million. So it also shows that most of these \$10 game sales are incremental.

They're not cannibalizing all of our other products. And actual total sales for the \$10 game since its launch on Friday, September 30th, through yesterday, October 5th, is over \$9.5 million. So it's off to a great start.

Actually, our original forecast for this week had the \$10 game coming in probably around -- between \$7 million and \$8 million. So it definitely will look like it will be exceeding that.

And that concludes my sales report.

At this point, it's probably too early to provide you a very specific number for sales over the entire fiscal year; but although we are at 95 percent of goal, given the fact that we've had lower jackpots than

1	we would statistically expect with MEGA Millions® and the
2	very strong performance of the \$10 game, albeit through
3	just four days, you know, right now it still seems like
4	the original sales goal is still within reach.
5	And that concludes my report.
6	And I'd be happy to take any questions if you
7	have any.
8	CHAIRMAN MASS: Commissioner Menchaca?
9	COMMISSIONER MENCHACA: I don't have a question
10	but a request.
11	Could you, at the end of this week or early
12	next week, can you let us know how that projection ended
13	up with respect to an actual?
14	MR. HASEGAWA: Certainly. We'll do.
15	COMMISSIONER MENCHACA: I appreciate that.
16	CHAIRMAN MASS: Commissioner Fortunati?
17	COMMISSIONER FORTUNATI: Good report. Thank
18	you.
19	MR. HASEGAWA: Okay.
20	CHAIRMAN MASS: Thank you, Jim.
21	MR. HASEGAWA: Okay, thank you.
22	ACTING DIRECTOR NGUYEN: Thanks, Jim.
23	Next up, I'd like to have the head of our RENEW
24	Project come up to give the project update.
25	Ed Fong.

1 MR. FONG: It's different here, trying to 2 arrange everything here. 3 Good morning, Commissioners. 4 COMMISSIONER MENCHACA: Good morning. 5 MR. FONG: As Linh mentioned at our June Commission meeting, our decisions and recommendations are 6 7 based on more data-driven analysis; we are more proactive 8 in our endeavors; and we have created criteria in terms 9 of ROI efficiencies in our marketing practices. 10 And all these efforts have led us to a very 11 successful planning for this fiscal year. So let's go 12 right into the current updates for RENEW projects for 13 this fiscal year. 14 Our core business objectives, which are derived from our business plan, remain consistent from last year. 15 Each RENEW work stream continues to focus their 16 17 efforts on addressing one or more of these key business 18 objectives. 19 For a project status on the key work streams, 20 the key RENEW work streams that address some of the 21 foundational programs at the Lottery are, once again, 22 retailer and sales support, Scratchers® End-to-End, and, 23 draw on jackpot games, marketing, digital communications 24 and public Web site, and business optimization, which is

market response analytics.

So let's get right into the retailer sales report.

The first program I'd like to go over with you is EXL. We continue to make strides with this program in our plans for the future. For example, our coach development program consists of a training manual and DSR handbook that provides the necessary tools and tactical considerations to implement the successful program with our retailers.

Under retailer network optimization: Staff is utilizing a break-even analysis, which is a creation of a sales performance range that our business-planning office has determined in terms of sales potential per equipment placed at retail.

We have also completed our assessment, and currently under review in terms of developing our next-best retailers with the greatest sales potential.

Under retailer visitation pilot, we have included our observation period; and this analysis is currently under review.

Under Scratchers® inventory management, our hypothesis was correct: Having DSRs and LTSSs working closely together with defined roles and ongoing communications results in increased activations and settlements for a Scratchers® product. This is based on

a 13-week assessment at the Sacramento district office.

We are establishing training components in our LTSS handbook; and within this group, we reviewed Scratchers® priorities, brainstorm ideas on common issues, and provide more frequent communications between these two groups within a given month.

Under Distribution Center Assessment, some good news: We are selling a lot of Scratchers®. Like Jim mentioned, we are up 24 percent over the same period last year. And we can see this trend continuing with the addition of a \$10 game.

However, this growth in sales also creates a need to closely examine our ticket storage and distribution methods. The key question is to fully understand our existing ticket distribution infrastructure and define what we need to accomplish to meet our future sales growth. So we need to assess maximum capacity issues using existing resources, and we also need to investigate alternative efficiency models as well, too.

Under Scratchers® End-to-End, we introduced a new price point, a \$10 game. Now, every U.S. state has a \$10 product, finally. We're also adding value to our lower price points. Based on best practices from other states, we need to provide more value to our other higher

price points with the launch of a \$10 game. We need to 1 maintain those sales levels over those other price 2 3 points. And we also need to create opportunities for 4 incremental growth, and not situations that may encourage players to trade their spending amongst our games. 5 The question is, how do we accomplish this 6 7 goal? Well, for \$5 games, prize pay-out was increased 8 from 66 percent to 68 percent, with the focus in the \$50 9 and \$100 prize levels. 10 We also increased the size of the ticket from 11 5-by-4 to 6-by-4 size. 12 In our \$2 games, this pay-out was also 13 increased from 61 percent to 62 percent, with the focus on the \$10 and \$20 prize levels. 14 15 For \$3 games, players are purchasing these games based on the play style, such as bingo, crossword 16 17 and poker, so there really is no changes necessary at 18 this time right now. 19 For a draw on jackpot games, we'll get into the first one with Hot Spots. 20 21 Using the findings from the RENEW Project, we 22 have successfully relaunched the Hot Spot with additional 23 spots, by incorporating Bull's-Eye with every spot, and applying a slight increase to overall pay-outs. 24

Staff is also recommending a very methodical

approach in revitalizing this product category. The first step is to progressively improve the game to generate positive chatter at retail.

The second step is to develop a recruitment strategy to broaden the distribution points for this game.

For SuperLOTTO Plus®, staff recently conducted player research on several promotional executions. One concept actually surfaced to the top; and staff is developing the mechanics of this added-value promotion for players. This promotion will use our Web site, which adds convenience for players; and the second-chance feature adds that extra-added value to the players, too. We anticipate this promotion occurring in the third or fourth guarter of this fiscal year.

For Daily Games, staff has also identified and will enact two tests, two possible new Daily Games based on available resources for this fiscal year. But we are also investigating possible tactics that we can actually improve the performance of existing Daily Games right now.

And the big one: Multi-states.

There has been a lot of speculation as to whether the California Lottery would join the other states when a \$2 Powerball game is launched next year.

Unfortunately, this is not an easy question to answer. But let's identify a few areas that may impact our decision.

First, we have created a marketing plan that outlines our strategies and tactical decisions for the next few years. A key success in our continual growth has been our commitment and key focus on utilizing our higher prize pay-out strategies and overall renewed directions for our Scratchers® products. We are experiencing phenomenal growth despite a weak economy. And we are gaining ground with this clear focused direction with this product line. Our minimal marketing resources and manpower priorities are fully dedicated to this effort.

Second, we need to clearly define, establish, and reinforce the key differences and distinctions between Lotto games. If we do not communicate the differences and benefits of these Lotto games, how can we expect our players to understand those distinctions, let alone the emotional connection that we're trying to evoke for a particular game?

And once we reach a decision as to how to communicate these key distinctions, the question still remains: Do we have sufficient working dollars at our disposal to reach the California players?

And third, perhaps there really is no urgency to quickly join the \$2 Powerball bandwagon. A wait-and-see approach might be the most prudent tactic to employ. We can better assess the performance of a \$2 Powerball game, and gauge the reaction of players from these other states, and utilize this information for our own research purposes.

But to address these concerns, staff is preparing a new charter that will provide a road map in terms of expectations and deliverables to address the impact of a \$2 Powerball game. From those findings, we can better assess our next steps and impact they may have within our draw-games portfolio.

Under Marketing Communications, the Hispanic RFP, we have identified an apparent successful agency for Hispanic advertising services, which the Commission will hear more about later today.

Marketing process mappings: We have completed the process mappings for all consumer marketing and advertising functions, which provides another vehicle to communicate internally with other business-building departments, and also maintains continuity in our programs by updating recent changes to all those that are impacted. This also provides an ideal road map for succession planning, too.

Digital communications public Web site: As part of the California Lottery's initiative to upgrade its system to launch a new public Web site, staff has undergone thorough research, analysis, development, and testing during the implementation phase which resulted in the need for additional time to mitigate neatly identified risk. It is staff's highest priority to launch this project successfully.

The additional time required is attributed to the following:

The first one is cost center IVR projects
e-services schedule delay. The new public Web site is
heavily dependent on the e-services portion of the call
center's IVR project. This is due to the estimation the
new public Web site would generate an increase in player
e-mails to the Lottery, from 3,000 per month to 10,000
based on the availability of the "Contact Us" link, which
will appear on every page of the new public Web site.

The IVR's e-services system has been estimated to triage approximately 50 percent of the incoming 10,000 e-mails through its automatic reply structure.

And this is without human intervention.

Another 40 percent are estimated to require very few keystrokes by causing our agents to send players a prepared response. With limited costs and our

resources, there was a risk of not responding timely to our players by launching the public web site without this automated e-mail functionality in place.

The e-services portion of the IVR project is now scheduled to launch within four to six weeks.

The second item is new learnings from the recent beta test and the hosting configuration requires additional time and resources.

Early in the public Web site project, Lottery staff and vendors were to identify integration points that might be problematic between a core public Web site and the player services area. This highly integrated Web site will provide a seamless user experience to the player.

Staff conducted a live beta test in July to monitor the performance in integration points during a real use of the new Web site and received player feedback. Results of the beta test enables staff to identify additional issues requiring more time and resources to mitigate risk when a new public Web site goes live in the final production environment.

Additionally, the player services portion of the Web site will be hosted in GTECH's data center, providing the additional required security for players' personal information and second-chance submissions.

The beta test also provided new learnings requiring additional time that was not anticipated to configure an environment in this highly secured data center. But there's some good news.

The initial reaction from players during the beta test. In terms of the appearance of the new site, 83 percent rated it "excellent" and 94 percent rated it "average or better."

In terms of ease of navigation, 72 percent rated it "above average or better." And our "Contribution to Education" information, 86 percent indicated a better understanding on our contributions to education.

And, finally, playing casual games for fun, 87 percent indicated an interest in playing these types of games.

Under Business Optimization, which is the market response analytics, this program has been completed and is part of our ongoing business practices.

This project utilizes quantitative models to measure how advertising through specific media vehicles impacted our sales.

From these models, ROIs were calculated based on the different mediums used for specific lottery games.

Based on these results, media plans were optimized to

1	determine the best media mix that would essentially
2	maximize sales.
3	Our media plans have already benefited from
4	these models as changes have already been made.
5	Refinement to these models will be conducted
6	three times a year. As additional months in media and
7	sales data are gathered and analyzed, new findings will
8	surface and we will proactively apply those enhancements
9	to our future media plans.
10	That concludes my presentation.
11	Are there any questions?
12	CHAIR MASS: Commissioner Fortunati?
13	COMMISSIONER FORTUNATI: No, not at this time.
14	CHAIR MASS: Commissioner Menchaca?
15	COMMISSIONER MENCHACA: I had a couple of
16	questions.
17	The call center, the IVR, that's delayed, the
18	call center IVR, is that going to increase the cost of
19	the Web site, that we're putting out?
20	MR. FONG: Actually, I'll bring no, it will
21	not.
22	COMMISSONER MENCHACA: No? No additional?
23	And when do we expect to launch the Web site?
24	MR. FONG: I'll bring the project manager up,
25	John Reilly.

1 Commissioners, it's of paramount MR. REILLY: 2 importance --3 (End of recording on audio tape) --000--5 (Missing portion of audio tape summarized below) 6 Mr. Reilly stated that staff continually evaluates the reliability and 7 performance of the new site during the development phase of the project, in 8 9 combination with the projected schedule. The Lottery will sacrifice schedule in favor of reliability and performance. Therefore, testing is ongoing and 10 11 based on the results of those tests a firm launch date will be established. 12 Currently, the projected launch date is November 8, 2011. Staff will keep the Commissioners informed on launch date adjustments. 13 Consent Calendar 14 8. There were no items on the consent calendar. 15 16 9. Action Items Hispanic Market Advertising Services Contract 17 a. Approval to award a contract with Casanova Pendrill to provide 18 19 Hispanic market advertising services for five(5) years with the option to extend for an additional 2-year period. The total 20 21 expenditure authority including the optional extension is \$75 22 million. Presenter: Michael Brennan, Deputy Director of Sales

& Marketing. Mass asked if anyone from the audience had any questions on Action Item 9(a). No one came forward so he proceeded to the motion of approval. Menchaca made the motion to approve Action Item 9(a). Seconded by Fortunati.

The motion passed unanimously (3-0).

Replacement Vehicles and New Vehicles Purchase Removed from the agenda.

c. <u>Scratchers® Core Game Profile Templates</u>

Approval of the profile templates for the mix of games in the Scratchers Plan through the end of Fiscal Year2011/12 that will implement the tactical approach of higher prize payouts, prize levels, graphics, and the size of the tickets. Staff will continue to conduct Scratchers research which provides valuable information on how well the games will perform in the marketplace prior to launch. Presenter: Liz Furtado, Sr. Marketing Specialist. Mass asked if anyone from the audience had any questions on Action Item 9(c). No one came forward so he proceeded to the motion of approval. Menchaca made the motion to approve Action Item 9(c). Seconded by Fortunati. The motion passed unanimously (3-0).

		California State Lottery Commission Meeting – October 6, 2011
1	10.	Commissioners General Discussion
2	11.	Scheduling of Next Meetings
3		The next Commission Meetings are tentatively scheduled for
4		December 8, 2011 and January 26, 2012 in Sacramento.
5	12.	Public Discussion
6		Mass asked if anyone from the public had anything to discuss. No
7		one had signed up prior to the meeting and no one came forward, so
8		he proceeded to the next item on the agenda.
9	13.	<u>Adjournment</u>
10		Meeting adjourned at 11:46 a.m.
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	California State Lottery Commission Meeting - October 6, 2011
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