## CALIFORNIA STATE LOTTERY COMMISSION

Minutes – February 23, 2012 Sacramento, California

#### 1. Call to Order

Commissioner Phil Tagami called the public meeting of the California State Lottery Commission to order at 9:00 a.m. at the California State Lottery Headquarters, 700 North 10<sup>th</sup> Street, Sacramento, CA 95811.

### 2. Pledge of Allegiance

Tagami led the Pledge of Allegiance.

# 3. Roll Call

Tagami asked Elisa Topete to call the roll.

#### **Commission Members Present:**

Commissioner Phil Tagami Commissioner Nate Kirtman

Commissioner John Smolin

#### CSL Staff and presenters:

Robert T. O'Neill, Director

Lisa Hightower, Chief Legal Counsel

Jim Hasegawa, Deputy Director of Business Planning

Ed Fong, Chief of Product Development

Liz Furtado, Sr. Marketing Specialist

Michele Tong, Deputy Director of Sales/Marketing

Ellen Ishimoto, Deputy Director of Information Technology Services

John Reilly, Sr. Marketing Specialist

Terry Murphy, Deputy Director of Operations

Michael Ota, Deputy Director of Finance

Roberto Zavala, Chief of Internal Audits

Elisa Topete, Assistant to the Commission

Mary Montelongo, Recording Secretary

# 4. Closed Session

The Commission convened to a closed session at 9:01 a.m. to confer and receive advice from legal counsel regarding litigation (including adjudicatory proceedings, potential litigation exposure or initiation): California Attorneys, Administrative Law Judges and Hearing Officers, etc. v. Schwarzenegger et al.; SEIU Local 100 v. Schwarzenegger et al.; Claim for Refund of Sales and Use Tax, State Board of Equalization; Seastrom v. California State Lottery et al.; 3 Ball Productions v. California State Lottery. The Commission reconvened at 9:29 a.m.

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### 5. Consider Approval of the Agenda

Tagami asked if any of the Commissioners wanted to make changes to the February 23, 2012 agenda as proposed. Lottery Director, Robert O'Neill, requested Item 9(f) – Retail Sanctions Penalty Guidelines, be removed from the agenda. John Smolin moved to approve the amended agenda. Seconded by Nate Kirtman. The motion passed unanimously (3-0).

## 6. Approval of Minutes

Tagami asked if there were any additions or corrections to the October 6, 2011 minutes. The minutes were approved unanimously (3-0).

### 7. Director's Report

The following oral reports were presented:
Director's Comments – Robert T. O'Neill
FY 2010-11 Financial Statements – Robert T. O'Neill
Lottery Sales Reports – Jim Hasegawa
Product Development Presentation – Ed Fong and Liz Furtado
Sales Presentation – Michele Tong
Information Technology Presentation – Ellen Ishimoto

#### 8. Consent Calendar

There were no items on the consent calendar.

# 9. Action Items

a. Ratification Request of San Diego District Office Lease Extension and Amendment

A lease extension and amendment for the San Diego District Office with Schonlaw Property Management was approved by former Acting Director Linh Nguyen on December 6, 2011, due to the cancellation of a Commission meeting. Staff requested approval to ratify the seven year lease extension. Presented by Terry Murphy, Deputy Director of Operations.

Tagami 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.

Smolin made the motion to approve Action Item 9(a). Seconded by Kirtman. The motion passed unanimously (3-0).

b. Ratification Request of BroadSpec. Inc. Contract Amendment No. 2 The BroadSpec, Inc. Contract Amendment No. 2 was approved by former Acting Director Linh Nguyen on July 22, 2011. Staff is requesting the ratification of the amendment to increase the contract amount. BroadSpec, Inc. provided the Lottery with Inspector of Record services on the new headquarters project. Presented by Terry Murphy, Deputy Director of Operations. California State Lottery Commission Minutes February 23, 2012 Page 3

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

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

#### c. <u>Ratification Request of Century Link Network Software Support and Maintenance</u> Purchase Order

Due to the cancellation of the December 2011 Commission meeting, former Acting Director, Linh Nguyen, approved an expedited purchase order with Century Link. Century Link was selected after a competitive process to provide computer network software support and maintenance. Presented by Ellen Ishimoto, Deputy Director of Information Technology Services.

Tagami 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.

Smolin made the motion to approve Action Item 9(c). Seconded by Kirtman. The motion passed unanimously (3-0).

d. Ratification Request of Scratchers® Ticket Deliver Courier Service
Staff requested that the Commission ratify the award of a five-year contract to
United Parcel Service (UPS) for delivery of Scratchers tickets to Retailers. The
contract began February 20, 2012 and the Lottery Commission was not
scheduled to meet until after the new contract term was to commence. On
January 31, 2012, the newly-appointed Lottery Commissioners received
Notification of Expedited Contract Award as required by the California Lottery's
Omnibus Regulations. Presented by Michele Tong, Deputy Director of Sales.

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

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

#### e. Lottery Investment Policy and Strategy

Staff requested approval of an investment strategy that focuses on on-going investment activity in support of SuperLOTTO Plus®, MEGA Millions®, and various Scratchers® games and maintenance of the Lottery's Investment Portfolio which includes monitoring and mitigating potential investment risk. Staff also requested approval of the amendments to the Lottery's Investment Policy to replace references to investment "portfolio restructuring" with broader language that reflects the Lottery's current investment strategy. Presented by Michael Ota, Deputy Director of Finance.

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

Smolin made the motion to approve Action Item 9(e). Seconded by Kirtman. The motion passed unanimously (3-0).

## f. Lottery Investment Policy and Strategy

#### Removed from the agenda

g. Three Month Extension of Draw Auditing and Review Services Contract
The current KPMG contract is scheduled to expire on April 30, 2012 and
amending the contract for three additional months will ensure there is no gap in
providing mission-critical services on Lottery draws. The extension will ensure
the completion of the Request for Proposal process. The target date for
executing a new contract is June 2012. Presented by Roberto Zavala, Chief of
Internal Audits

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

Smolin made the motion to approve Action Item 9(g). Seconded by Kirtman. The motion passed unanimously (3-0).

# 10. Commissioner General Discussion

All three Commissioners thanked the presenters and look forward to working with the Lottery staff. Tagami made a request of the Director to afford a letter to the Governor's Office informing them of the Lottery's March 22<sup>nd</sup> meeting and inquiring about the appointment of the two remaining Commissioner positions in order to maintain a quorum. Once the two remaining positions are filled, a publicly noticed Strategic Planning Meeting with senior management would be beneficial to help work on moving the organization forward. Tagami requested that Lottery staff arrange for the Commissioners to visit district offices, retailers, and distribution centers and to forward future Commission meeting dates to the Commissioners.

# 11. Scheduling Next Meetings

The next Commission Meeting is tentatively scheduled for March 22, 2012.

# 12. Public Discussion

Tagami asked if anyone from the public had anything to discuss. Karen McClaflin, Executive Director of the California Automobile Museum introduced herself as a new Lottery retailer.

# 13. Adjournment

Meeting adjourned at 11:23 a.m.