STATE OF CALIFORNIA

LOTTERY COMMISSION

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CALIFORNIA STATE LOTTERY COMMISSION MEETING

TIME: 9:00 a.m.

DATE: Thursday, March 22, 2012
PLACE: California State Lottery
700 North Tenth Street
Sacramento, California

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TRANSCRIPT OF PROCEEDINGS

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NATHANIEL KIRTMAN III

PHIL TAGAMI

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1	Thursday, March 22, 2012
2	Sacramento, California
3	000
4	ACTING CHAIR SMOLIN: I'm going to go ahead and
5	call this meeting to order.
6	(Gavel sounded.)
7	ACTING CHAIR SMOLIN: And, like I said, thank
8	you all for coming.
9	This is our second meeting now, and so the
10	honeymoon's just starting. And hopefully, it will be an
11	extended honeymoon for us all.
12	So like I said, I appreciate everyone being
13	here.
14	We'd like to go ahead and start with the Pledge
15	of Allegiance.
16	(The Pledge of Allegiance was recited.)
17	ACTING CHAIR SMOLIN: Okay, if we could please
18	get the secretary to take roll.
19	MS. TOPETE: Commissioner Smolin?
20	ACTING CHAIR SMOLIN: Present.
21	MS. TOPETE: Commissioner Kirtman?
22	COMMISSIONER KIRTMAN: Present.
23	MS. TOPETE: Commissioner Tagami?
24	COMMISSIONER TAGAMI: Here.
25	ACTING CHAIR SMOLIN: Okay, as we started with

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1
      a precedent last meeting, we'd like to go ahead and start
2
     with closed-session.
3
                So at this point, the Commission is going to
4
     convene into a closed session and confer with counsel
5
     regarding Agenda Item No. 4.
6
               And I will go ahead and reconvene the meeting
7
     after closed session.
8
                (The California Lottery Commission met in
9
                executive closed session.)
               ACTING CHAIR SMOLIN: Okay, thank you very much
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11
      for your patience.
12
               What we'd like to do next is approve the
13
     agenda.
14
                Commissioners, does anyone want to suggest any
     changes to today's agenda?
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                COMMISSIONER KIRTMAN: No.
16
17
                COMMISSIONER TAGAMI: None.
18
               ACTING CHAIR SMOLIN: Okay. So can I have a
19
     motion to accept the agenda as noticed?
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                COMMISSIONER TAGAMI: So moved.
21
                COMMISSIONER KIRTMAN: Second.
22
               ACTING CHAIR SMOLIN: Second? Okay.
23
               Will the secretary please take roll?
24
               MS. TOPETE: Commissioner Smolin?
               ACTING CHAIR SMOLIN: Yes.
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California State Lottery Commission Meeting – March 22, 2012 MS. TOPETE: Commissioner Kirtman? 1 2 COMMISSIONER KIRTMAN: Yes. 3 MS. TOPETE: Commissioner Tagami? 4 COMMISSIONER TAGAMI: Yes. 5 ACTING CHAIR SMOLIN: Okay, the next item is 6 the approval of minutes. This will be for the 7 February 23rd meeting, our first meeting. 8 Are there any corrections to the minutes? 9 MS. HIGHTOWER or TOPETE: Commissioner Smolin, I noticed something from the minutes. 10 11 On Item 9.f, it's currently listed as, "Lottery 12 Investment Policy and Strategy." That should be amended to read, "Retail sanctions, penalty guidelines." 13 14 ACTING CHAIR SMOLIN: Okay. With that 15 correction, the minutes stand approved. The next item will be the Director's report. 16 17 Bob, if you would? DIRECTOR O'NEILL: Good morning, Commissioners. 18 19 What I'd like to do this morning, as far as the 20 Director's report, is first provide you with a few 21 comments of my own. 22 I also then have Jim Hasegawa come on up and talk about the sales report for this month. 23 24 And then we're going to have a couple of items.

One is a follow-up item on the asset management study

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which was done related to the Lottery; and then we're going to have three presentations, by three separate divisions within the Lottery, just once again to help you with the education of what our different divisions do and what some of their key activities are right now.

As far as my general overview, what I'd like to do is give you some -- a general business update, talk about some of the major business considerations we have for the upcoming fiscal year. I also recently did some field office and distribution center visits. I'd like to talk about those and some of the common themes that came up amongst the employees, give you a brief legislative update, and then also talk about an Office of Problem Gambling award that the Lottery won this past month.

And I also have one informational item related to the investment portfolio report required each year, that I'm going to talk about, too.

Basically, as far as a general business update, our sales for the year continue to be very, very strong. In fact, last week, we sold \$100 million worth of Lottery tickets -- \$109 million worth of Lottery tickets, which is the best Lottery sales in the past five years. So we're on a nice little roll.

And this week, the MEGA Millions® is up to \$290 million this Friday night. So encourage your

friends to buy their tickets.

But year-to-date, our sales are about 103 percent of budget, which is quite nice.

Presently, our senior management team is reviewing the current activities in our year-to-date budget. Basically, we're going unit-by-unit, walking through the revenues and expenses, and trying to tighten up our estimates for the fiscal year 2011-12 revenues and expenses.

We're looking at total sales estimates. We are looking at total expense estimates. And most importantly, we're focused on achieving our 2012-2013 total sales goals, as well as our contribution-to-education goals.

We also, as part of this process, are starting to develop our preliminary estimates of next year's sales goals, which will be coming back to you and starting to discuss in the subsequent months.

Jim Hasegawa is going to talk after me, and he will be updating you in more detail in terms of where we are right now for this year.

Also, throughout this process, we're developing our major initiatives for next year. I talked with you a little bit about those last month. But they fall into five major categories.

First is building capacity within the Lottery.

The next is major retail initiatives.

The third one is basically Lottery economies and efficiencies, trying to look at ways of cutting down some of our administrative expenses, as well as other operating expenses.

Looking at product development.

And then also looking at major advertising and marketing initiatives.

I just want to talk a little bit about some of the major business considerations we're looking at for next fiscal year, some of the things that are in play.

First of all, we're developing our game mix and schedule for next year. Generally speaking, the Lottery does three to four new Scratchers® games per month each year. So as part of that right now, we're looking at what that mix is going to be for next year. And one of those items is going to be a major Monopoly push coming up this fall. So we're going to do a branded item with the Monopoly folks, and that will be coming up this fall. And that's been one of the major things you're going to see in the game mix next year.

We're also doing some preliminary planning on the roll-out of the \$2 Powerball game. We're developing plans with other states to join them in implementing the

\$2 Powerball effort. It's very successful to date with other states, and other states are having market increases in their other sales of other products, along with the \$2 Powerball.

So we're taking a serious look at doing that for next year, looking at the planning and scheduling for that kind of a roll-out, and potentially when it could be. And right now, we're looking at possibly the springtime of next year. But that's in process right now.

We also are considering a national game.

Other states right now are in the process of developing what they call a \$5 hybrid game, which is basically a \$5 Scratchers®. But in addition to that, there's a second-chance opportunity to win other prizes that you submit for and take advantage of the second half of the ticket, basically.

We're looking at that right now, and then kind of watching what the other folks are doing. But right now, that's not on our game plan for next year.

We're also looking at potentially a \$20 Scratchers® game. The thing about the Scratchers® games, our \$5 and particularly our \$10 Scratchers® right now are very successful this year. And a \$20 Scratchers® has been successful in other states. But we are concerned

about cannibalization of our existing \$5 and \$10 Scratchers® products.

So what we're looking at is probably when to implement a \$20 Scratchers® game -- not if to implement it but when. And right now, we're pushing it back in the process because of the fact that our \$5 and \$10 products are being successful; and we want to let them run their course.

And finally, we're considering adding a loyalty program. Other states, such as Tennessee, have had some very good success with loyalty programs. This is similar to other loyalty programs where basically you accumulate points based upon your purchases, and then you can select from catalogs, to use these points to get various prizes for yourself.

Basically, in other states, it's shown to be a very good program for promoting brand loyalty, and also provide additional value to the players.

So these are some of the things right now that are in the mix right now, we're considering for next year; and we'll probably implement a couple of those.

I just want to give you some feedback from field office and distribution center visits I did within the past month.

I was able to visit seven of our nine field

offices, as well as our two distribution centers. And basically, I was able to discuss my initial impressions of the Lottery and some of the things we're working on. Also, talk about my management philosophy, and also some of the focus areas that we'll be developing initiatives on in the coming months and for next year.

The nice part of this was, it gave me a chance to have an informal question-and-answer session with our staff at these locations, and to kind of hear what was on their minds.

In addition, I handed out some achievement awards that they had earned and some service awards for longevity with the State of California.

My goal, going forward, would be to get out there and visit these offices at least twice a year, as I did this past round, doing another round of the visits probably in the fall. So get out at least twice a year to each of these offices to have some dialogue with our staff.

I just want to bring to your attention some of the common themes among the employees in these discussions I had with them. And I think these could be very important as we go forward and do some of our strategic planning efforts in the next few months, just considering what's on the minds of the employees.

One of the things was the shortcomings in our ticket distribution system. Basically, our supply chain for getting tickets out there. There is still considerable difficulty getting the right tickets, in the right amounts, out there to the retailers on a timely basis. And staff gave various examples of some of the concerns in this area.

The big point here is, to the extent we don't have product on the shelf, we're not going to sell it. So it's important to make this thing work.

The second area is point-of-sale equipment.

Some of our point-of-sale equipment is rather old; and in addition to the old equipment needing to be replaced, as we intend to bring on new retailers on going forward, we're going to need to purchase more point-of-sale equipment so we can have good point-of-sale merchandising out there.

A third area is just the sheer number of retailers serviced by our staff. In talking with the staff, it's not unusual for our staff to service anywhere from 120 to 160 retailers per -- on a regular basis.

What we're trying to do, is work with staff to basically get them to target their time on the retailers that have given the biggest payback for us, and spend a little less time with some of those lower-level retailers. So that's

an ongoing effort, to try to use our staff time for high-value activities with the retailers that offer us the most promise.

And in some cases, we'll probably have to harvest some retailers that just aren't meeting our sales goal and haven't been able to perform their performance over a period of time.

Another area is better technology for sales staff. Currently, our sales staff are using some pretty antiquated netbooks out there. Very small netbooks, very poor communication tools for them. That's one of the issues.

I think the larger issue is, we don't really have a good CRM system for our staff -- a customer relationship management system for our staff. So one of the areas we have to focus on is how do we improve that communication between our headquarters, between our purchasing, our distribution system, our staff, and our retailers. And I think we've got to take a look at a better CRM system for the Lottery.

Another area is the bonus program. Staff
brought up the concern that they would like to see our
bonus program -- which is unique in state government,
that we do offer bonuses to our employees based on
sales -- more tied directly to those things that they can

control.

The concern is that some of the things, such as the number of rollovers in the MEGA Millions® Lottery, is out of their control. They would like to see the bonus program tied to things that they can directly impact and control and, therefore, influence their bonus. So that is a good point of view on their part.

Another concern was the pay in classification system that we currently have. As I have spoken with the folks out there, they believe that over time, the number of things and the types of things they're being asked to do are somewhat different than the original classification system. And they want the classification system looked at, as well as the pay for those types of skill sets they have to operate in those type of activities they're performing. So a concern regarding what we ask them to do, and also what they're rewarded for in that respect.

Another major area is vehicle replacement. The Lottery has a fleet of about 220, 225 vehicles right now; and we have a basic replacement policy that either six years or 110,000 miles, vehicles are considered for replacement. Many of our vehicles, because of the last couple years of holding off on some replacements, are much beyond that, in terms of one hundred fifty, one

hundred sixty thousand miles. So we've got ourselves in a little bit of a hole from a replacement point of view, and that is a concern of the staff and a concern for safety. So I think one of the things we have to take a look at is what we're going to do to replace some of these older vehicles that our people are operating.

In addition to that, we are anticipating growing our sales staff in the upcoming year; and so we'll probably have to get some new vehicles for those staff. So we've got to get creative in this respect; but it's a definite need for the Lottery.

And lastly, they brought up the issue of the need for winner awareness. I think the big thing here is, a lot of people are winning the Lottery these days. And what they were saying was at the local level, just like you see at the casinos, with the person with the sign in front of their chest, that "I just won \$5,000 or \$10,000, or \$25,000 playing the slots." People are winning like that all around their local area. And they thought the publication of that and the increased awareness of that would allow them to help market more into their existing accounts, as well as try to develop new retailers. So a whole winner-awareness focus is something they felt was much more needed.

Just a variety of concerns they brought up, but

I think a lot of good ideas there that we should consider as we go forward with our planning processes in the next few months.

I just want to give you a brief legislation update. Right now, the legislative director position for the Lottery has been vacant for over a year. So we haven't had anybody really doing our legislative work at the Capitol.

Right now, we are working to try to fill a joint position, which is a combination legislative director/external affairs person. We're in the process of doing that right now.

But in the meantime, I just wanted to update on a couple of bills we're following. These are the major things we're seeing this year:

First of all, there's SB 1390, by Senator Wright, related to sports wagering. This authorizes gambling establishments, race tracks, and satellite wagering facilities to conduct wagering on sporting events in California. So that is an issue that's up right now.

The major bill, SB 1463, by Senator Wright and Senator Steinberg, is the big Internet Gambling bill that's on the table right now at the Capitol. It was an effort that was started last year, they stopped it last

fall; and now SB 1463 is the major piece of legislation.

Basically, it authorizes intrastate -- within

California -- Internet gambling for registered players

in California. So it's the bill that's going forward

now.

And, really, our position on this right now -- we don't have a position, but we're really watching this to see how this might affect the Lottery.

I think just from a defensive point of view, we've got to be aware of what's going on in relationship to this bill, to see how it might impact us, and so we'll be following this, this springtime.

And then also a third bill, AB 2542 by Assembly Member Norby just relating to the California State

Lottery. This bill requires that by April 1st of next year, the Lottery issue a request for information, soliciting ideas for enhancing the integration of the Lottery functions to increase sales and funding for education.

Each of my bills have been referred to the respective government organization committees, within their respective houses at the Capitol. And we'll be just watching them this year and reacting to them.

And we'll keep you abreast of their progress.

Another area is the Office of Problem Gambling

award that we received, I want to bring to your attention. During the week of March $4^{\rm th}$, the Lottery participated in the Tenth Annual Problem Gambling Awareness Week.

I attended the awards luncheon for the Office of Problem Gambling. And this was held in San Diego. At this event, the Lottery received the award for the best government agency in California, supporting the Office of Problem Gambling for last year. So it was a nice award.

We were recognized for our strong support for the Office of Problem Gambling and related programs in California, including our support of the 1-800-Gambler hotline; our production of a dozen public service announcements for the Office of Problem Gambling; and also for joining forces with other state agencies to promote problem gambling awareness.

So it was a nice award for the Lottery and the staff, for the reference in this respect.

One other item I just wanted to bring to your attention -- it's in your briefing binder -- is that each year, the Lottery Act requires us to provide you with an annual investment portfolio report. The report is in your binder.

Basically, the Lottery manages a diversified

investment portfolio, comprised of U.S. Treasuries, 1 2 U.S. agency and municipal securities. As of June 30th last year, our portfolio was 3 4 over \$1.3 billion in value. Generally speaking, the 5 Lottery has to buy and hold strategy for its investments. And basically, we try to ensure -- we don't try, we 6 7 ensure -- that our investment portfolio maintains a 8 strong credit quality and diversification. 9 So it's consistent with the policy we talked 10 with you about last month and made some changes to; and this is our annual report for last June 30th in that 11 12 respect. 13 So those are the major items I wanted to 14 discuss with you this morning. I'd be glad to answer any questions you might 15 16 have. 17 COMMISSIONER KIRTMAN: I do have a quick 18 question. 19 DIRECTOR O'NEILL: Sure. 20 COMMISSIONER KIRTMAN: You mentioned on the 21 \$20 game, you delaying it for fear of cannibalizing the 22 \$5 and \$10 games. 23 DIRECTOR O'NEILL: Yes. 24 COMMISSIONER KIRTMAN: I was just wondering how -- why a \$20 game would cannibalize those two games? 25

1 DIRECTOR O'NEILL: Part of it is the fact that 2 the strength of the product right now -- our \$5 is 3 building. 4 Our \$10 game was very surprisingly, very, very 5 successful out of the chute, to the extent, in some ways, that our \$5 game hadn't fully matured as a game. 6 7 So we're trying to mature the \$5 and \$10 players prior to 8 introducing a higher-priced game. 9 We're finding there is different players 10 playing these higher-priced games; and we just wanted to 11 make sure we had the brand loyalty to the \$5 and \$10 product before we introduce a higher-level product. 12 13 Otherwise, our feeling is that those lower-level games 14 may be negatively impacted. 15 COMMISSIONER TAGAMI: Mr. Chair? To the Director, through the Chair, you 16 17 referenced the vehicle replacement needs, and that the pool has gotten old. 18 19 What's the relationship between the Lottery and 20 the State by way of this type of issue? 21 I understand that the State is taking steps to

I understand that the State is taking steps to reduce dramatically the use of their inventory and pool. And is there any reciprocal ability or ability to coordinate through General Services on using some of those newer vehicles that aren't currently in circulation

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1 by the State? 2 DIRECTOR O'NEILL: Good point. 3 There's a couple issues here. 4 First of all, technically, we don't fall under 5 the jurisdiction of the state Department of General Services. 6 7 That being said, the Governor did issue an 8 executive order last year which talked about the 9 replacement of vehicles, which did apply to us. 10 We fully participate in that program. reduced the number of vehicles we had on-site. We also 11 12 reduced the number of take-home permits that our 13 employees have. And that project right now is being 14 finalized; and our final negotiations on the actual 15 numbers are taking place with the Department of Finance right now. 16 17 So we've met that; we've tightened up on what 18 we have. Unfortunately, what we have is a lot of old 19 vehicles. So what we're trying to do this year, going 20 forward with the budget, is develop some criteria of how many vehicles we really need to replace. 21 22 One thought is that maybe we talk with the 23 Department of General Services and say, "If you're 24 getting all these vehicles back, can we take some of

those off your hands if they are vehicles which are still

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service-worthy?"

So that's in play right now. Some of them may have to be just new vehicles.

But we're looking at cost-effective,

alternative ways of trying to address the replacement

need, as well as what we know is going to be the need for

new vehicles for any additional sales staff we bring on

board.

COMMISSIONER TAGAMI: Thank you.

ACTING CHAIR SMOLIN: Director, I just have one question as well.

I would commend you on your position that, you know, we need to move forward with legislative director.

I'm just curious -- you know, not only considering, you know, the items we have here in California, but across the nation right now with Internet gaming and all -- you know, a lot of items in the hopper right now. I'm just curious what the external affairs component of the position would be if you were to combine them, if that would be something that --

DIRECTOR O'NEILL: Sure. There's a variety of organizations and associations which, in the past, the Lottery has had some considerable interaction with and involvement with. Example: Chambers of commerces and the Retailers Association is a couple.

1 So there's a variety of organizations that we 2 are involved with. And we have to hear what they are saying; and they should know our point of view, too. 3 4 So my idea there is that we need a legislative 5 person; but because of the number of bills that relate to the Lottery, there's not as many and we're not a big 6 7 agency in terms of sponsoring legislation, I could see 8 that this could be a combined position where that person 9 could handle some of these external affairs duties, as 10 well as address our legislative issues. 11 ACTING CHAIR SMOLIN: Okay. Thank you. DIRECTOR O'NEILL: Okay, thank you very much. 12 13 ACTING CHAIR SMOLIN: I think Jim Hasegawa is 14 up next. MR. HASEGAWA: Good morning, Commissioners. 15 I'm going to provide an update on Lottery sales 16 through March 10th. That's the first 36 weeks of the 17 current fiscal year. 18 19 Sales through that date were just over 20 \$2.8 billion; and that represents a number that's 21 21 percent higher than sales last fiscal year, through 22 that same time period. 23 We're also ahead of our year-to-date sales 24 Through March 10th, we're running at 102 percent. goal. 25 And those numbers are actually increasing with the

current MEGA Millions® roll of the jackpot.

In terms of some details -- speaking of MEGA
Millions® -- as we discussed at last month's meeting,
sales of MEGA Millions® are really driven by large
jackpots. And, actually, we have been rolling since late
January. There hasn't been a jackpot winner in MEGA
Millions® since late January. And so the top prize funds
keep rolling from draw to draw, and that's why it's now
up to the \$290 million level.

So the report that's before you is much better than the one I mentioned a month ago. While sales are down by 7 percent versus last year, I reported a month ago that it was at a 12 percent figure at that time.

In terms of the rollovers, these sales only reflect up to the \$148 million jackpot we had on March 9th. Since then, we've seen a \$171 million jackpot on Tuesday, the 13th; a \$200 million jackpot on Friday, the 16th; a \$241 million jackpot just this past Tuesday; and, as the Director said, we're on \$290 million for this Friday. And all of those bring in great sales.

Here is an example of how sales rise as the jackpot rises. And what we are looking at, really, is how the current jackpot sequence is shown in red. Sales are much higher than a comparable sequence that occurred about a year ago, in the February, March period of 2011.

You can see that sales from the red bars are running about 25 to 40 percent higher than the sales in the purple bar, which represents the roll sequence back in February to March of 2011.

And those are jackpots that, once they get past the \$100 million mark.

At the last meeting, I showed some graphs over a longer period. It was over about a several-year period. And it showed that in the last three years -- in less than three years, draw sales are up about 40 to 80 percent versus three years ago for jackpots of \$50 million or more.

So you can see that, you know, big jackpots drive sales; and we need to take the opportunity, when it does come, to capitalize on it. And later this morning, you will be hearing an advertising presentation that will show some of the strategies responsible for these sales gains.

For SuperLOTTO Plus®, the good news continues. SuperLOTTO Plus® sales are nearly \$296 million through March 10th. Year-to-date, we are running 106 percent of the goal. That is 2 percent down from a comparable period last year. However, I want to note that, previously, sales had been running at about a declining rate averaging 9 percent a year, for the past several

years. And so essentially, the six-year slide we've had in sales has been arrested.

Our Daily Games -- that category -- it's very similar to what was reported last month. Sales are running slightly ahead of last year's pace, and they're running ahead of our anticipated numbers for the year.

Hot Spot, for this product, sales are running at nearly \$90 million through March 10th. They're down about 1 percent relative to the same time period last year. And we're running 96 percent of goal. So just slightly lower than we anticipated.

However, I do want to point out that Hot Spot promotions, which are real pivotal for this product line, they are planned for over half of the remaining weeks of this fiscal year. And this should raise the sales level of this product, and get us closer to reaching our goals.

The big news, of course, this fiscal year is our Scratchers® sales. And they continue to grow. The numbers are actually even stronger than what was reported just, literally, a month ago. It's a much better picture.

Last year -- last fiscal year, sales were
21 percent higher than fiscal year 2009-2010. In the
first quarter of this fiscal year, sales were up
24 percent versus last year, which was already higher

than the year before.

If you take the first two quarters combined, we're running at 36 percent ahead of the year before.

And now, running it all the way through March 10th, we're running at 39 percent ahead of last year.

So as such, Scratchers® are really gaining momentum. And I'll show you, in a couple of slides, the reasons why.

And as a result, Scratchers® are running ahead of our year-to-date sales goal.

Last time, I showed how higher-price-point games have really been driving our sales success. And it continues to do that. But in the most recent months, what's really important, is the fact that we are now gaining growth in our \$3 and \$5 games. As mentioned earlier this morning, when the \$10 game launched, we did see a little bit of a hit, particularly in our \$5 product.

This past -- since January, we've really seen gains at the \$3 and \$5 level. And that's going on top of maintaining the high sales for the \$10 game.

So while in the first quarter of this year, we've pretty much been averaging \$40 million a week in Scratchers® sales, we're probably in the low \$50 million range in our second quarter. But since that time, from

the third bar on, those are weekly numbers. And as you can see, oftentimes, we're topping the \$60 million weekly figure in Scratchers® sales.

Now, comparing our actual sales to what we were anticipating per week, you can see that during July, August, September, actually, consumer sales were slightly below the weekly goals. The weekly goals are represented in red; and the blue bars represent the actual sales.

I can talk loud, though.

And then during October, November, we were pretty much, on average, meeting our goals and our expectations.

Since December, we have been beating those weekly sales goals; and since January, our actual consumer sales are running about 10 percent higher than what we anticipated.

And as I showed in the earlier slide, it's really due to a combination of the strong launch of the \$10 game, being able to maintain those good sales; and now on top of that, getting gains in our \$3 and \$5 product.

And this all bodes well for the slides I'll show in a bit that talk about what we expect year-end to be. Because as you can see, we're really going well ahead of our anticipated pace; and it doesn't look like

it's abating. So we do assume that this trend will continue for the rest of the year.

So now, I want to provide you what our best estimate would be for sales looking like at June $30^{\rm th}$, at fiscal year-end.

Some of the assumptions that went into this model, as I showed you with the previous slide, the trend on our strong Scratchers® sales growth should continue.

Sales will average from between \$56 million to \$66 million a week. So it is pretty much in range with what we've been recently showing.

That's going to be based on, we have advertising campaigns that are already planned, that will be coming forward in both April, and an additional flight in June, I understand; and we'll also continue to see improvements at retail. "Retail" meaning the rate of activation, the new games, the \$5 games being out for sale at the retail level.

For MEGA Millions®, we are obviously on a big roll right now. But after the current jackpot sequence, this estimate assumes that the highest jackpot for the remainder of the year will only be reaching about \$150 million; and others will only get to about the \$75 or \$45 million range before we have a winner.

And then for the remaining products, the

estimates are just based on the current trends.

With that, here are the actual numbers. It looks like we'll be running ahead of our goals. While we originally anticipated a sales number of about \$4 billion, 90 million, we're looking actually now conservatively with the MEGA Millions® roll continuing at exceeding \$4.2 billion in sales. And that will represent a 22 percent increase versus last fiscal year's sales, and be about \$120 million above our goals.

Again, the main difference with this is primarily with our Scratchers® sales. Scratchers® sales are significantly higher than what I reported even a month ago. And the numbers reflect about a hundred million dollars greater than what we anticipated, even as recently as four weeks ago.

In terms of, importantly, the bottom line of what we're going to deliver to public schools across California, we now estimate about \$1.2 billion going to public schools. That will exceed the budgeted amount that was adopted by the Commission back in June of 2011. That amount was \$1.19 billion.

It also represents an increase of more than \$70 million going to education, compared to last fiscal year.

And if you compare it to the base year set

1 forth in AB 142 -- that was the legislation that provided 2 the Lottery flexibility and prize pay-outs, and really 3 is responsible for our growth -- we're showing a 4 \$150 million increase in profits to education since that 5 base year. 6 And so all in all, we are looking pretty good on the 7 sales front. But, obviously, we'll continue to monitor 8 it and provide you updates at every Commission meeting. 9 That concludes my report. I'd be happy to 10 answer any questions, if you have any at this time. Thanks, Jim. 11 ACTING CHAIR SMOLIN: 12 COMMISSIONER TAGAMI: Thank you. 13 MR. HASEGAWA: Okay. 14 MR. ZAVALA: Good morning, Commissioners. Thanks for the opportunity to present to you a 15 follow-up of our asset management audit that we conducted 16 17 over -- about a year ago. 18 I just wanted to give you some background on 19 myself. I'm the chief auditor. My name is Roberto 20 Zavala; and I do the audits for the California Lottery, 21 the internal side, at the direction of the Commission, 22 and certainly at the direction of the Director, as well as the executive staff, if there's any special requests. 23 24 This audit fell under our audit plan for that given year. It was last fiscal year. We focused on some 25

efficiencies during that year. And certainly, I think this audit was one of those that fell under, you know, "What are we doing with the new building" kind of scenario? Meaning, that we're going to get into a new building. We're going to recognize that we're going to have certainly a lot of assets, a lot of equipment, and a lot of items that certainly need to be accounted for, considering that we're going to get a lot of, you know, great furniture and so forth.

With that, we identified that as a pretty big risk. We said, "What are we doing here in consideration of our new equipment with the disposal of the existing assets, with the tracking of them," and so forth. So certainly, that was a risk item that we needed to take care of during that fiscal year.

Our review looked at, specifically, the disposal of assets, the tracking of assets, and any recording of new assets as they come online.

Our audit period for that year was from July 1st, 2009, through November 30th of 2010. We issued the report on September 13th of 2011. And we included one extra item in this audit because it was something that came up during the assignment; and we figured we'd just go ahead and handle it.

There was some inappropriate disposal of

1 tickets that occurred during that time; and so we decided 2 to take a look at the ticket-return process and --3 briefly. 4 It was not in depth, but it was something that we at 5 least needed to handle and give back some information to management to see what they could do to take care of 6 7 that. 8 Some of the findings we noted during the 9 audit -- I'll give you a quick update on them and the 10 recommendations associated with those findings -- we 11 identified that our policies and procedures really needed to be updated. That was one of the main items. 12 13 I think for a lot of our audits, and specifically this one, that we needed to make sure we 14 15 could take care of, what are we doing with assets? So for the short-term, they provide us -- we 16 17 provided some quick guidance on how to identify assets, 18

what do you need to track, so at least we can start moving forward immediately.

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The long-term was that we would go ahead and develop some more comprehensive -- we recommend a development of comprehensive policies and procedures.

The second item that we noted was just our asset-management practices, in general, needed to be improved, understanding that this is an area of focus,

because we wanted to be prepared for the new building. But we discovered that just our practice for accounting for assets was not where we thought it should be. So we really recommended that they needed to be clearly understood by staff, and that we included also training, that they need to be understood by all staff that you need to know and understand how to keep track of assets.

We identified that, as a third finding, that there was no reconciliation or inventory of assets in the last five years.

That being said, we decided immediately, that you needed to have some kind of form -- or some kind of quick measure to at least do some quick reconciliation of your current asset base.

Knowing that some longer-term projects might come online, we felt that this immediately needed to be done now.

We also recommended that a physical inventory needs to be conducted. However, that physical inventory would need to wait to determine how our policies, for what types of assets, need to be accounted for.

The fourth finding that we identified, involved the cataloging -- the inconsistent cataloging of assets, meaning, that certain divisions would catalog a certain asset, while others did not. And there was a number of

inconsistencies with that practice, leading to some people tracking assets at a very, very low level, and others ignoring the higher ones, and so forth.

So we recommended at the time that we have these policies identified, identifying what types of assets that needed to be disseminated through staff by liaisons and whoever that needs to be accountable for these types of assets.

We looked at the plans for this building, as far as how we're going to be disposing of surplus assets. But at the time, there were no plans in place. During the audit, we notified management of that, and they started taking care of -- or putting a plan in place for that to happen. So that was our recommendation.

We also noticed that the person that is the property controller, so to speak, for assets was only a single person. We believe that person was a -- certainly did as best as they could. However, it was a key-person dependency issue we noticed; that there should be a backup to that person; and we recommended that that a second person needs to be trained to identify what needs to be done in the event that that person is no longer available.

And the last one, we got back to that one question about the return of Scratchers® tickets. We

were able to identify that the process that was used by one of our district offices for the return of a Scratchers® tickets, they just didn't follow process.

We alerted management of that, and they took care of the issue immediately.

So the current status of these findings, I'm happy to report that the division operations is really the lead, or the majority division that's going to be handling some of these items. They have implemented Findings Numbers 5 and 6, which dealt with the key-person dependency item that we noted; and also the issue with plans of handling the surplus here at this building.

The other items, though, they've got four projects that they've implemented, that will address the remaining findings. One of the finding -- one of the projects is called the Asset Management Policies and Procedures. That project is underway.

The second one is Asset Tracking and

Reconciliation. They are, right now, preparing some

certain milestones about when the assets are going to

actually be inventoried and tracked. There is certainly

some equipment issues as far as how we're going to

capture that information, whether it's going to be a new

system, new bar codes, or something like that, that could

make it more easier to capture.

1 And they should handle Items 1, 2, and 4, which 2 are related to the updating of policies and procedures, the asset-management practices that I spoke of, and also 3 4 the inconsistent tracking of assets. 5 One other project that is going to be starting 6 in May is called the Asset Management Physical Inventory 7 Project. And this will address Item 3, as far as not 8 having an inventory account of this -- of assets over the 9 last five years. The district office and district -- the 10 11 distribution center will have their own project in place. It's called the Return Ticket Process. And this will 12 13 address Item 7, regarding the need for returning tickets, 14 and how they're accounted for at the district offices, and how that process works where people are not disposing 15 of them inappropriately. 16 17 So that's the presentation I wanted to give 18 you -- at least a follow-up to our audit. 19 I would be more than happy to answer any 20 questions you may have. 21 ACTING CHAIR SMOLIN: Commissioners? 22 COMMISSIONER KIRTMAN: None for me. 23 Thank you. 24 COMMISSIONER TAGAMI: No. 25 MR. ZAVALA: All right, thank you.

1	ACTING CHAIR SMOLIN: Thanks, Robert.
2	DIRECTOR O'NEILL If I could, Mr. Chairman,
3	just to add to that. The State Controller's Office does
4	a lot of auditing of the Lottery on an ongoing basis, as
5	a part of an annual audit program. And they also had
6	brought up asset management in some of their reports
7	previously, too.
8	So the combination of our own internal audit,
9	as well as what the State Controller's Office has
0	identified, made this an area which is important to us;
1	and we are definitely on it right now.
2	ACTING CHAIR SMOLIN: Great.
13	Leticia?
4	MS. SALDIVAR: Good morning, Commissioners.
15	My name is Leticia Saldivar, and I'm the chief
6	of Consumer Marketing and Advertising in the Sales and
17	Marketing division.
8	I have a bachelor of science degree in business
9	administration. My concentration is in marketing, and
20	I have a Spanish minor.
21	I have been managing this unit for a little
22	over seven years.
23	What is the role of Consumer Marketing and
24	Advertising? Simply put, this division creates the image
25	of the Lottery and its products for California's diverse

1	adult 18+ population, by developing integrated
2	communications for all consumer touch points.
3	Our division is comprised of ten dedicated
4	staff members that oversee three areas: Advertising and
5	point-of-sale, retail marketing, and events.
6	For advertising and point-of-sale, using
7	consumer research, the goal is to understand player
8	motivation, help differentiate and position the Lottery
9	games to enhance player consideration, and ultimately,
10	increase sales.
11	We develop advertising for the general,
12	Hispanic, Asian, and African-American consumer markets.
13	Retail marketing develops permanent
14	point-of-sale materials to bridge the retailer objectives
15	and player expectations.
16	Events provides Lottery staff with face-to-face
17	player engagement at fairs, festivals, and Snow Globe
18	events.
19	And now, I'd like to show you the hot
20	streak Scratchers® integrated advertising
21	campaign that recently aired.
22	(Video presentation:
23	OLD PROSPECTOR: Golden nuggets. Ah!
24	A golden pocket watch!
25	Golden horse shoes!

California State Lottery Commission Meeting – March 22, 2012 1 (Laughter) 2 OLD PROSPECTOR: Ya-hoo! 3 MALE ANNOUNCER: Play the new Hot Streak 4 Scratchers®. Six games, one ticket." 5 MS. SALDIVAR: And the radio. 6 (Audio presentation: 7 MALE ANNOUNCER: There was an old 8 prospector, they say, who searched for gold in 9 Californ-I-A. 10 Then one day, like lightning, he struck a 11 Scratchers® ticket with six games that changed 12 his luck. 13 He scratched it in a feverish furry, 14 winning three in a row, when he got hot in a 15 hurry. All said and done, it was an epic hot 16 17 streak. He went from prospector to country 18 western tres chic. 19 OLD PROSPECTOR: Je suis rich! 20 MALE ANNOUNCER: Going in a hot streak has 21 never been easier. Play Hot Streak 22 Scratchers®: Six games, one ticket. 23 Please play responsibly. Must be 18 or 24 older to play." MS. SALDIVAR: Other campaign elements included 25

gas screens, digital billboards, transit shelters, online ads, mobile, interactive online, custom online banner ads, play-center posters, change map, optional custom change map, ITBM topper, Take-a-Penny tray, and bus wraps.

As you can see, having the integrated look, feel, and messaging on all consumer touch points throughout the campaign works harder for our Scratchers® product and brand.

Major initiatives this fiscal year include:
Marketing Scratchers®:

This year, we focused advertising efforts on maintaining the Scratchers® momentum. Approximately four Scratchers® advertising campaigns were developed to help achieve this year's established Scratchers® sales goal of \$2.7 billion.

Working with Business Planning and Research, we conduct consumer research on all TV advertising concepts prior to approving creative direction.

We currently advertise Scratchers® in key markets of Los Angeles, San Francisco, Sacramento, and Fresno.

Marketing MEGA Millions®:

Advertising support for MEGA Millions® is being focused in key markets with the greatest sales potential:

1 Los Angeles, San Francisco, and San Diego. 2 MEGA Millions® jackpot alerts air throughout 3 the year, once the agreed-upon jackpot is reached. The 4 threshold is currently at jackpots of \$70 million and 5 over. 6 With this strategy, as Jim just mentioned, MEGA 7 Millions® draw sales are up around 40 to 80 percent, 8 jackpots over \$50 million in less than three years. 9 Hispanic Market Advertising Services RFP: 10 Marketing staff utilize the proven and 11 successful general-market procurement process that incorporated industry best practices to update the 12 13 Lottery's procurement process. A key change was to include a semifinalist phase. This additional phase 14 allowed the Lottery evaluation team more face-to-face 15 meeting time with agencies to better assess their 16 17 qualifications, philosophy, and staff experience. 18 Earlier this year, the Hispanic market 19 advertising services doctorate was awarded to Casanova 20 Pendrill. 21 Consumer Market and Advertising Process Maps: 22 We were the first division to successfully

complete process maps for all Consumer Marketing and Advertising functions. By defining, documenting, and streamlining the Consumer Marketing and Advertising

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processes, future business activities and efficiencies would be enhanced. Process maps also provide the ideal road map for succession planning.

Planning for next fiscal year is still underway. However, here are some of the Scratchers® initiatives we're focusing on:

Increasing the number of advertising campaigns for the \$5 Scratchers® games will not only help increase sales of the \$5 games, but will also help increase sales across other Scratchers® games and price points.

Increase the number of Scratchers® games being advertised: Working closely with Liz Furtado and the product development Scratchers® team, we will select key Scratchers® games to advertise in next fiscal year in order to maintain interest of the core players and generate interest among the infrequent players.

The third initiative: Increasing the number of \$5 Scratchers® facings at retail. The Retail Marketing team is working closely with sales to develop a plan to increase facings of the \$5 Scratchers® games at retail and ensure compliance with the ideal game mix.

Initiatives for the draw games next fiscal year include MEGA Millions®. Last month, you heard from Ed Fong, chief of Product Development for draw games, talk about player perceptions and the lack of emotional

connection to the MEGA Millions® brand. Product research told us MEGA Millions® was in need of a major identity overhaul.

Consumer research is currently underway to help select campaign direction that will help players build an emotional connection to the MEGA Millions® brand.

The new advertising campaign is scheduled to launch early next year.

We will continue to advertise MEGA Millions® jackpots of \$70 million or more throughout the year, as afforded in key markets with the highest sales potential.

Possible introduction of a new draw game. You just heard the director talk about that. As the Product Development Draw Games team continues to gather data on the impact of adding a new game to our product mix, Consumer Marketing and Advertising will work to develop a brand identity and messaging for the game, to differentiate it from other draw games in the product portfolio.

And lastly, we are currently reviewing industry best practices on advertising services contract procurement, and will bring recommendations to the Commission on how to best proceed.

This concludes my presentation. And I'd be happy to answer any questions.

COMMISSIONER TAGAMI: Mr. Chair?

ACTING CHAIR SMOLIN: Yes?

COMMISSIONER TAGAMI: Ms. Saldivar, I'm going to ask you a question in the context, but let me tell you why I'm going to ask you the question. There is currently a transportation trailer bill that's being looked at, that would be a pilot program for Caltrans for changeable message signs that would be controlled by the state. It would provide real-time driver information, road conditions; Megan's Law, if there was a problem; but also, it would have outdoor advertising on it as a part of a rotation to justify the cost.

And the reason why it's being done as a pilot is because of driver distraction.

If it all proves well, of course, the State will be having a revenue share from that. And as a part of that, the question would really be what the Lottery currently spends on billboard advertising; and if, as a part of that trailer bill, there needs to be a rate set -- or a click, as we say, or some exposure provided for the State Lottery as a benefit. So it would be an interesting time to know that as it relates to high-volume traffic areas that are going to be used for this pilot, as many as 240 signs in high-volume, high-value areas.

So can you give me an indication of what our current spend right now is on outdoor advertising? And, if appropriate, for the staff to look into messaging with the carrier of that trailer bill to see if, in fact, that's an appropriate modification?

MS. SALDIVAR: I don't have the specific amount for outdoor advertising, but I do know that the econometrics model this year did tell us that outdoor advertising works hard for us. So we did increase the spend. And I'd be happy to look into adding additional billboards.

COMMISSIONER TAGAMI: That would be an offline follow-up. And then if I could, through the Director, then we'll get you that -- the appropriate contacts for that trailer bill. And then in lieu of external affairs -- or legislative person -- will address -- or identify the appropriate way to communicate.

DIRECTOR O'NEILL: We'll work on that.

Also, as Leticia said, that one of the areas we've seen in terms of return on investment, the billboarding -- the electronic billboarding -- it has a very high return on investment in terms of the number of people seeing it. And it's come across right now as one of our most effective means.

COMMISSIONER TAGAMI: Okay.

1	COMMISSIONER KIRTMAN: I have a quick question.
2	ACTING CHAIR SMOLIN: Oh, please, go ahead.
3	COMMISSIONER KIRTMAN: So going through the
4	advertising campaign that you had, and I was just
5	curious, is there any value in reminding consumers where
6	their money goes?
7	I mean, it's education. So is there do you
8	think there's any value in establishing a boilerplate,
9	sort of reminding people that their money is going
10	towards education on top of an opportunity to win?
11	MS. SALDIVAR: Absolutely. I believe that
12	players will you know, that's one of the questions
13	that we get all the time when we do focus-group
14	advertising.
15	And I know that our Corporate Communications
16	group works to provide that type of information.
17	COMMISSIONER KIRTMAN: But, I mean, actually
18	tied to the advertising, not necessarily separate.
19	So let's say in the ad, for example, there is
20	some boilerplate, or some mention, or some text that says
21	where that money is going and how it's being contributed.
22	And the only reason why I ask, because one of
23	the interesting things in my sort of first three months
24	is, just in casual conversation, that lost message
25	that sort of seemingly lost message is that the money

1 played actually goes towards something. It's not just 2 a -- it's not just a business. The money is specifically 3 directed somewhere. 4 So that's just a general question for my own 5 education. I was just curious if there was any value 6 doing it. 7 MS. SALDIVAR: Just last year, we did have an 8 outdoor billboard. 9 Here in Sacramento -- and, actually, we bought two in Los Angeles -- to communicate the contributions to 10 11 education message. And LA is one of our primary markets. So we did have two billboards communicating the message. 12 13 But we can definitely look into that. 14 COMMISSIONER KIRTMAN: Gotcha. Thank you. 15 MS. SALDIVAR: Any other questions? ACTING CHAIR SMOLIN: Thank you, Leticia. 16 17 MS. SALDIVAR: Thank you. 18 MR. ROBILLARD: Good morning, Commissioners, 19 Director. 20 My name Everest Robillard. I'm the deputy 21 director for the Security and Law Enforcement Division 22 here within the Lottery. I've held this position for 23 approximately two years now. 24 Our legal mandate is right out of the California Lottery Act of 1984. I'm responsible to 25

ensure the integrity, security, honesty, and fairness in the operation of the Lottery.

We provide several services and functions to carry out that mandate. For example, we have the physical security unit here at the Lottery that controls the physical access. These badges are controlled by that staff.

Our mission within our division is to control the assets, both human and fiscal. Human first, fiscal second. We protect the Lottery and we protect the employees. We try to minimize to the best of our extent, our ability, to minimize our losses.

Our mission priorities are, we protect our most valuable asset. Our employees throughout the state, they're the backbone of the Lottery. We also investigate crimes that are committed against the Lottery: thefts.

The thefts occur in so many different imaginable ways. It's surprising, even after 25, 26 years here at the Lottery, or the existence of the Lottery, people still submit counterfeit tickets to the Lottery, hoping that they'll be paid off for them. Thank you.

We also investigate crimes committed against our retailers: The robberies, the burglaries, the embezzlements, only when Lottery products are stolen.

When a retailer is the victim of a crime involving stolen Lottery products, they contact us after they contact the local law enforcement. And our primary focus is to get those stolen tickets entered into our database so they can no longer be claimed. There is a short window between the theft and before it's reported to us, where suspects who steal them will go out and try to cash those stolen winning tickets. We try to minimize that by getting those flagged in the system as quickly as possible.

We also investigate crimes committed against our players. Players will report stolen tickets. The Consumer Protection program, where -- mostly it's the employees, not the retailers themselves -- will steal a winning ticket from a player or underpay them.

We provide this service through the Lottery's 1-800 number. All the retailers know how to contact us through this number. It's staffed 24/7, 365, a hundred days a year.

We also -- one of our mission priorities is to promote the image of the California Lottery. We get calls from players, we get calls from the public, questioning the integrity or the fairness of the game. We attend community meetings up and down the state when they ask for a presentation about the fairness of the

Lottery. We coordinate this through Corporate Communications.

We administer the compliance program. You may have seen it on Dateline. I would like to emphasize that that program is mostly complaint-driven, meaning, a player calls us where they believe that they've been stolen.

We also do, to a limited degree, underage gaming enforcement. That was in response to concerns from the Office of Problem Gambling.

In addition to this, Commissioners, we're responsible for Draw Management.

Here, there is a picture of Becky to the left, and then an auditor by KPMG. It's a dual validation process. But Draw Management, again, is 365 days a year, day and night operation. That comes under my division.

We also conduct forensic examinations. And people are getting more and more sophisticated in how they alter tickets. The old days of cut-and-paste is -- I've seen some cut-and-paste tickets lately served, that bypassed me. Couldn't identify it until you saw it under a forensic microscope.

People now are -- they'll wash the ticket, they'll wash the ink. You'll sign the back of the ticket; it's your ticket. It's amazing, with certain

1 chemicals out there, how you can completely wash a name 2 and then rewrite your name. 3 We recently had some tickets stolen through the 4 U.S. mail, where players will submit their tickets. The 5 person washed the back of the tickets and then claimed the winning tickets themselves. 6 7 It wasn't until the player that was expecting 8 their payment called us, that it all came together. But 9 we do conduct forensic examinations of these tickets. 10 Physical security: The security guards, the 11 private security guards, we use them more than the other typical state agencies. We also use them as our 12 13 dispatch. They staff the phones during non-business 14 hours -- nights, weekends, holidays. They'll answer the 1-800 incoming number. So when a retailer is the victim 15 of a burglary, depending on the theft threshold, they'll 16 17 call an investigator right then and there or wait until the next business morning. 18 19 They prepare incident reports and then forward 20 it to my division for investigation. 21 Having said that, is there any questions I can 22 answer for you? 23 COMMISSIONER TAGAMI: Mr. Chairman? 24 Through the Chair, thank you for your 25 presentation.

1 How many sworn LEOs do we have right now? 2 MR. ROBILLARD: 33. 3 COMMISSIONER TAGAMI: 33? 4 MR. ROBILLARD: Yes. 5 COMMISSIONER TAGAMI: And those are 6 distributed, I guess, throughout the state? 7 MR. ROBILLARD: For the most part, 8 Commissioner, there's two in every district office, 9 through the nine district offices. There's three in the Southern California distribution center. 10 We saw a growth in calls for service down in 11 LA, or the Highway 10 corridor, out to Riverside. 12 13 that's where we put the majority of our staff. 14 There is three here in headquarters that conduct the preliminary investigations. 15 COMMISSIONER TAGAMI: With the advent of the 16 17 Occupy movement, I know a lot of law-enforcement 18 organizations and some with a law-enforcement presence 19 have been reevaluating their rules of engagement and 20 their use-of-force policies. 21 I was just curious if there has been any 22 coordination or collaboration with any local law 23 enforcement or coordination in that regard, preparing 24 for May 1st of this year and the -- you know, the blogosphere's on fire with the threat of Occupy in May? 25

1 MR. ROBILLARD: Actually, yes, Commissioner. 2 When the Occupy movement was being very active in Oakland, I was giving updates to our East Bay office, 3 4 such as informing our DSRs to avoid the downtown area for 5 their own safety. 6 As far as our use-of-force policies, both use 7 of force, firearms, pepper-spray, those are all revised 8 under my leadership, reviewed by legal, and then reviewed 9 and approved by the former law enforcement commissioner. 10 I intend, as soon as the new law enforcement 11 commissioner comes on board, to have that other additional review as well. 12 13 COMMISSIONER TAGAMI: Thank you. 14 ACTING CHAIR SMOLIN: I do have one question, 15 actually. And I was just curious -- and I think this may be under I.T. -- but what is your integration between 16 17 SLED and I.T.? Because obviously, we can see in the future, that's going to be a larger and larger concern, 18 19 that security via the computer world? 20 MR. ROBILLARD: Actually, I'm very pleased with 21 the services that I.T. has provided to our division. 22 The investigators now have laptops, and they 23 work out in the field. They use their Blackberry devices 24 to tether to the computer, to access the database.

Because I have staff out there seven days a week,

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     including, they were responding to a burglary -- a
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     robbery in Oakland on New Year's Eve.
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                I'm very pleased with the systems. I'm looking
4
     forward to the new gaming system upgrade. That, I
5
     believe, is going to be launched around April 1st.
               Was that the answer to your question, sir?
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               ACTING CHAIR SMOLIN: Well, that's good
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8
     information. I think I'm also -- I'm wondering about,
9
     like, information technology fraud or, you know,
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     accessing the information of the California Lottery, now
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     and in the future.
               MR. ROBILLARD: We have an information security
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     officer. He's new on board, just started January 1st.
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     He's assessing those security issues.
15
               ACTING CHAIR SMOLIN: So he's part of SLED, not
     I.T.?
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               MR. ROBILLARD: Correct.
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               ACTING CHAIR SMOLIN: Okay.
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               MR. ROBILLARD: And at this point, I am
20
     confident, I am comfortable with our information security
21
     issues.
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               ACTING CHAIR SMOLIN: Great.
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               DIRECTOR O'NEILL: If I could just add to that,
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     Commissioner.
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               Right now, we are in the process of selecting a
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1 security auditor for us. We have a requirement every two 2 years for a security audit. And this year, the 3 information technology, kind of the cyber security stuff 4 is a good portion of that. 5 So on a routine basis, we look at this. And 6 particularly with the movement to this new building, we 7 felt it was even more incumbent that this year's security 8 audit be even more robust than in past years. 9 ACTING CHAIR SMOLIN: Great. 10 MR. ROBILLARD: Any other questions, sir? 11 COMMISSIONER KIRTMAN: No. Thank you. 12 MR. ROBILLARD: Thank you. 13 ACTING CHAIR SMOLIN: Thanks, Joe. 14 Good morning. 15 MR. LOPEZ: Hello, everyone. Welcome to 16 Sacramento. 17 My name is Russ Lopez. I am the deputy director of Corporate Communications, soon to be renamed, 18 19 because our nice, little family in Corporate 20 Communications is growing, and so we're going to rename 21 it to better reflect all the things we're doing. 22 Just by way of introduction, my background is 23 broadcast reporting. I graduated from the University of 24 Missouri, Columbia. 25 Back in 2001, I was recruited by former

Governor Gray Davis to be one of his senior deputy press secretaries.

After that administration retired, I was a communications director for several senators, the State Controller's Office.

And today, I am another appointee by the Brown Administration. So I'm happy to be here in this post. It's a great job.

Starting off, in the past, they included the word "corporate" into the Corporate Communications name, because we do more than just answer the phone, answer media questions, and write press releases. But that is definitely one of the primary responsibilities, marketing Lottery news to the media.

In fact, right after this, I'm going to go
upstairs and prepare for a two-hour interview with New
Tang Dynasty, which is the largest Chinese-speaking
network in the U.S. And they are very interested in what
we're doing here at the Lottery.

So we do a lot of media work. We do write press releases. We put together press conferences when it's appropriate.

We also are big on winner awareness. I think the Director just talked about our District office wants us to do more in winner awareness.

Well, now that some of the travel budgets have relaxed a little bit, we're going to be able to go to the district offices. I have a plan in place. We're going to go and train sales staff on how to handle winners as they come in, because they are the first point of contact. And so we're going to try to get more photos and more video as they come in and claim a big prize.

We also track unclaimed prizes. It's very important. You'd be surprised, sometimes people either they don't want to claim their prize or maybe they misplace their ticket. But prizes go unclaimed month after month. And it's really incumbent upon Corporate Communications to remind the media that a prize has remained unclaimed. That way, we give our player a good chance to claim that prize.

If it expires, that money goes -- FYI -- it goes directly to education, so our bottom line.

We also write reports. We just finished our annual report to the public. We're responsible for writing, creating content, getting graphics together, getting photos. And we put this on our Web site. That should be out, hopefully within a month.

We are responsible for four quarterly contributions to education reports. That is also placed on the Web site.

We just finished updating our Winners'
Handbook. Our Winners' Handbook is a nifty little guide
for our jackpot winners. It tells them everything they
need to know when they, all of a sudden, find themselves
rich.

And I encourage you to check that out. It's on the Web site under "Win."

And we track our earned media and our publicity value. Anytime the jackpot goes up, anytime we put out a press release, anytime we do anything here at the Lottery, we see how much free earned publicity we get.

And we give that to the director as well.

Social media: We kind of talked about that with market and with SLED. Social media used to be one of these really nice tools that, "Hey, Russ Lopez is eating at Mulvaney's on 19th Street." "Oh, I'm taking a jog." Well, I would never have written that because I don't jog.

But it's turned into something a lot larger, a lot more important. It's a marketing and sales tool; and that's what we're doing.

The Director just asked us to create, I guess what I'll call an ad hoc committee, it's called iStrategy. We're going to start looking at all the different ways we can use the Internet, social media,

anything online to further our goal to increase sales, increase the number of retailers we have, increase our marketing and campaign launches, et cetera.

And we really think it's a better way to communicate with our customers and grow our fan base.

Right now, we're big on Facebook, we're big on Twitter, we're getting new fans every day. And right now, what we're doing is we're responding to them, we're having conversations. But then it ends right there.

We can do more. We have to do more. And we're committed. We have a goal.

We are starting to meet, as we speak, on our iStrategy. And it's going to be probably the big direction right now for Corporate Communications.

On our Web site, we are responsible for developing content, updating nine pages on the public Web site. Four of those are pretty static, but five of them will be constantly changing. So my staff is responsible for that.

We also have an intranet site specifically for our retailers and our employees.

We really believe that our employees should understand what's going on with the Lottery and learn it from us rather than from a third party, from the newspaper. So we use Click to communicate with our

employees. And, as well, we write recognition articles:

Employees that are doing well, units that are doing

well -- Alex Traverso, who is my assistant deputy, is

responsible for that. And we do that on a routine basis.

Corporate social responsibility, we mentioned that a little while ago. We are certified Level 3 by the World Lottery Association. And basically, all that means, is that we have a very high integrity when it comes to putting out corporate social responsibility messages.

Right now, that is mostly focused on problem-gambling. We finance and support the 1-800-Gambler hotline. We were the first Lottery in the nation to create a 1-800 number.

Week every March. We just finished it. As such, we have problem gambling awareness messages on our terminals, on our point-of-sale merchandise, on our materials. We print it on our tickets. And, of course, somebody was asking about a boilerplate. On every press release that we put out, our boilerplate does have the CSR message, as well as the, "Play responsibly, play within your budget." And we also talk about where the money goes. I think somebody mentioned that as well. You know, money goes to education, it goes to prize pay-outs.

Then we have the Lottery lobby -- I'm trying to make this brief because I know you guys have been hearing a lot of speeches here.

We're responsible in Corporate Communications for maintaining the Lottery lobby. Instead of buying very expensive, professional artwork, we decided to go the opposite direction, and invite students to showcase their art.

So we're inviting the best and brightest art students throughout the state of California to send us their art, we will pay for it, and we will pay to send it back. And that's one way where we kind of dovetail what our mandate is. You know, our mandate is to grow sales for the benefit of supplementing public education funding.

Well, one of the things, unfortunately, that happens when school districts have budgetary problems, extracurricular activities are impacted, namely, music programs and art programs. So we thought this would be a good message to bring student art, showcase it in our lobby for four to five -- four to six months. And this is still kind of in its infancy.

Right now, we have a filler from the

Los Angeles County High School for the Arts. We're

expecting more artwork to be coming in within a couple of

weeks. And so this will be an ongoing, changing display.

We also had nine display cases that we work with. We're trying to make those educational, who we are, what the Lottery's about. We have something on WLA right now. We try to put our campaigns on those display cases, just in case any public comes in, they want to know what we're doing. Just look at our Web sites -- I mean, excuse me, our display cases.

Now, we talked about, a little bit -- excuse me, I talked a little bit about our -- I didn't talk about our AV unit, and I wanted to save that for last. Right now, everything you're seeing right now, my unit is responsible for: Making sure the wires are connected and the audio is good, the PowerPoints, and we're taping this commission meeting. But we do more than that. I have a broadcast news background. And so I'm taking a page out of my past -- a long, a long time ago. And so I'm bringing and using our AV unit more effectively, I think.

And so I started as soon as I got here in July, an education series. So what we're doing is going to schools throughout the state of California, talking to principals and teachers and parents and students; and we're asking them, what are they doing with their Lottery funds? We understand it's supplemental. We don't want to get in this fight that we're fully funding education.

We are not. We are supplementing public funding.

And so we go to the schools and we find out:
What are you using your money for? And it really is a
good way to showcase a school, showcase the students and
their programs that are very successful. And it's also
helping us, let people know that our money, our work,
everything we do every day has a goal.

And so this is one of the educational ports that I'm going to play in just a sec.

I'm also doing an integrity series. A lot of people say, "Nobody wins the Lottery." "Well, they rig the numbers." Well, you know that's not true. We are very, very secure. We have a high sense of integrity in how we draw. And so I started an integrity series.

There are three reports right now on the Web site, two more coming, on why we do what we do. And so we explain: What is a draw? What is an automated draw? Why do we measure the rubber balls? Why is that important?

We want people to understand that every

Californian has a fair chance to win the Lottery, to

become a millionaire. And so that's the purpose of that

series.

So we're going to be really heavy on producing video reports for our Web site; and it's a good outreach for us.

1 So let's go ahead, I want to show you one of 2 our education reports. 3 Let's roll that tape, please. 4 (A presentation was played: 5 Mr. Lopez: Hello. I'm Russ Lopez with 6 the California Lottery. 7 This month, we head off to a growing 8 suburb in Sacramento County, where one middle 9 school and one high school have established a 10 unique educational opportunity. With a little 11 help from the California Lottery, this school 12 helps their distinguished students learn 13 important analytical skills that, if they 14 choose, will take them a long way in earning a 15 law degree. 16 It is my pleasure to introduce to you the 17 Natomas Specific Pathways Prep, or NP3, in 18 Natomas, Sacramento County. 19 MS. MORI: And why are we taking --20 MR. LOPEZ: These middle-school students 21 at the Natomas Pacific Pathways Prep, or NP3, 22 are getting a handle on the law. 23 You heard it right, these high-school 24 juniors are learning the basics of law from 25 U.S. history teacher Melissa Mori.

California State Lottery Commission Meeting – March 22, 2012 1 MS. MORI: What you understand is that 2 this colony is focused and supportive and 3 tolerant of all faiths. 4 MR. LOPEZ: The Natomas Unified School 5 District partnered with the University of 6 California, McGeorge School of Law, for a 7 unique educational experience. 8 MS. MORI: So, was it written in a 9 positive, cheerful way about practicing 10 religion? 11 GROUP OF STUDENTS: No, no. 12 STUDENT: They say it was tolerate or 13 else. 14 MS. MORI: Okay, it was "tolerate or else." 15 MR. LOPEZ: This charter school of more 16 17 than 300 high-school students offers a 18 four-year curriculum on all aspects of the law, 19 in addition to other college prep classes. But 20 their advanced placement books are pricey. 21 MR. RUTTEN: Textbooks eat up a huge part 22 of a school's budget. 23 MR. LOPEZ: Principal Tom Rutten says his

school's share of the District's Lottery money

isn't great, but the \$15,000 it received last

24

25

1 year was enough to pay for half his school's 2 textbooks. 3 MR. RUTTEN: At least the Lottery -- for 4 us, the Lottery money is a consistent source 5 of revenue that we know we can count on to 6 supplement instruction materials, especially 7 books. 8 MR. LOPEZ: In another part of the campus, 9 more than 300 of the NP3 middle-school students 10 are using reading to hone their analytical 11 skills. 12 TEACHER: All right, she don't actually 13 understand what's really going on around her, right? So you've got to just kind of use these 14 15 kind of hints to piece together. STUDENT: Luis' girl cousin is older than 16 17 us. She lives with Luis' family because her 18 own family is in Puerto Rico. 19 MR. RUTTEN: Kids really need to read a 20 full book and then be taken through the steps 21 of interpreting -- comprehending, interpreting, 22 analyzing the information in the book, and then 23 drawing their own conclusions. 24 MR. LOPEZ: The instruction style at NP3 25 links grammar lessons here with eighth grade

1 English teacher Jennifer Carlson to reading 2 books, helping students identify and interpret 3 the meaning of the words. 4 MR. RUTTEN: Without our Lottery money, 5 we definitely would not have nearly as many novels. We would not be able to give the full, 6 7 rich experience to our kids that we do today. 8 MR. LOPEZ: Nearby Lottery retailer 9 Natomas Market does brisk business selling 10 Scratchers® tickets. A portion of every dollar is set aside for education. 11 12 MAN: It helps a lot -- lot of kids to go 13 to school and education, you know, learn more 14 things and get a better education. 15 MR. LOPEZ: Customer Raymond O'Bannon agrees. He worked for the school system for 16 17 30 years. 18 MR. O'BANNON: Yes, anything to help the 19 school systems now with money because budget is 20 tight, everything is so tight. Anything that 21 goes towards that, it's a big help for the 22 schools. I think the California Lottery is 23 doing a great deal. 24 MR. LOPEZ: Whatever NP3 is doing, it Last year, 100 percent of the 25 works.

California State Lottery Commission Meeting – March 22, 2012 1 graduating class went on to college, earning 2 NP3 its California distinguished school status. In Natomas, Sacramento County, this is 3 your California Lottery news." 4 5 (End of presentation) 6 MR. LOPEZ: I'm happy to answer any questions, 7 if anyone has any. 8 ACTING CHAIR SMOLIN: Commissioners? 9 COMMISSIONER KIRTMAN: I'm just curious. You 10 say you're formerly the Corporate Communications moniker 11 you're under. Now, is it changing to something else? 12 MR. LOPEZ: Well, I am the Corporate 13 Communications deputy director, but we're going to change 14 the name from Corporate Communications to something that is going to reflect multi-social media skills. I'm 15 also -- we just announced, Bob -- that the call center 16 17 and the customer service center is coming under my team, my umbrella. 18 19 So it's not just media; it's call center, it's 20 also customer service. And it's this new iStrategy, social media and Internet and so forth. So we want to 21 22 kind of come up with a different name. 23 COMMISSIONER KIRTMAN: So we're confused.

MR. LOPEZ: Oh, it's -- we're still thinking

Still, I didn't catch what the new title was going to be.

24

25

about --

DIRECTOR O'NEILL: We're going to have a "Name that unit" contest.

But, basically, the idea is that, as we started talking about all the different ways that people are contacting the Lottery -- in the old days, it used to be a correspondence unit, and then became a telephone and a correspondence unit.

Now, there's so many different media that the people are using to contact us, we wanted to get control over those contacts. Basically, file them into one place, and then have a way of tracking recording, and making sure we're giving timely, consistent, accurate answers to people contacting us with questions or concerns.

And Russ's group is going to be the, if you will, the quarterback, or the shortstop for all those types of things coming into the Lottery.

COMMISSIONER KIRTMAN: I do have a quick question.

ACTING CHAIR SMOLIN: Go ahead.

COMMISSIONER KIRTMAN: Is there -- what's the difference between Marketing and -- what Marketing does in terms of communicating some products, and what Corporate Communications is tasked with messaging?

1 MR. LOPEZ: Right. Well, Leticia may come 2 and tackle --COMMISSIONER KIRTMAN: And then add one more 3 4 piece to it. So if there's a social media strategy that 5 I've been following fairly closely on the Web site, is there something different that's going to happen in terms 6 7 of Twitter and Facebook from Corp Comm, or is that the 8 same thing? 9 MR. LOPEZ: I think what we're talking about --10 and the Director gave us this direction earlier -- is that he wants to see a lot of units cross -- what's the 11 terminology you used, cross-style? 12 13 DIRECTOR O'NEILL: Cross-functional. 14 MR. LOPEZ: Cross-functional? Okay. 15 So I will be working with Leticia, and I will be working with Michele Tong in Sales, I will be working 16 17 with SLED. 18 So, again, this ad hoc committee, we're all 19 going to be working together for the one goal. I will 20 just be pushing it out. 21 I see in Marketing -- and, again, Leticia may 22 come and tackle me -- but I see Marketing as coming up 23 with the games and coming up with the campaigns and 24 launching that creativity. And it's my job to push it out to the world, to our public and to our customers. 25

1	And also Corporate Communications is
2	responsible for the voice and the tone of the Lottery.
3	So anything we write, whether it's for the media or not,
4	it's going to come through my shop, and we have to edit
5	it and make sure that we have a consistent voice and a
6	consistent tone. Because we decided to come out we
7	have to come across as friendly. We are customer
8	service, and we're going to put a lot of our time in
9	perfecting our customer-service role.
10	COMMISSIONER KIRTMAN: Got it. Thank you.
11	MR. LOPEZ: Okay.
12	ACTING CHAIR SMOLIN: Okay, that is it for the
13	reports.
14	I would now move to the consent calendar.
15	It appears that there are no items on the
16	consent calendar, so we are going to proceed to the next
17	agenda item, which will be I'm sorry, is there to
18	the action items? Okay.
19	And so the first is going to be action Item
20	9.a.
21	Mr. Terry Murphy is going to make a
22	presentation for us.
23	And the floor is yours.
24	MR. MURPHY: Good morning, Commissioners.
25	Terry Murphy, deputy director of Operations.

I was also the project manager on the building that we are in.

I actually have all four action items -- 9.a, b, c, and d. They all relate to the construction of not only the building, but the wrapping up of the rest of the campus.

The four amendments before you all extend the term out to the end of the year. That's basically to ensure enough time to take care of final work on the campus here, demolition of the old headquarters, construction of a visitor parking lot, as well as some tenant improvements on the retail space out in the front of the building.

Additionally, two of the contracts -- in particular, the LPAS contract, which is Item 9.b, that's our architect. We wanted to supplement that contract with \$60,000. That money is primarily focused towards the tenant improvement design for the retail space in front of the building.

And then the last item, Broadspec,

Incorporated. That's our inspector of record and

building official. We're looking to supplement that

contract by \$15,000, just to ensure, again, we have

enough funds to cover their services for the life of the

project.

1	The first one I'll now go through them
2	basically in order, because I understand we need to take
3	action on each one individually.
4	Item 9.a, Otto Construction amendment, we're
5	looking to amend the time only. No additional dollars.
6	I'm wondering if you have any questions on the
7	Otto contract in particular?
8	COMMISSIONER TAGAMI: Mr. Chair?
9	ACTING CHAIR SMOLIN: Commissioner Tagami?
10	COMMISSIONER TAGAMI: Mr. Murphy, through the
11	Chair, the total GMP for this contract was \$68 million
12	and change; is that correct?
13	MR. MURPHY: The contract the original
14	amount was 63.8 million
15	COMMISSIONER TAGAMI: Sixty-three eight? Yeah.
16	And so you're asking for additional time, but
17	there is an increased scope of work. So that means that
18	there is unallocated amounts in the contract that remain?
19	MR. MURPHY: Yes, sir.
20	COMMISSIONER TAGAMI: And how much is that?
21	MR. MURPHY: A little over \$2 million.
22	Actually, there's six contracts, in total,
23	involved with the construction of the headquarters and
24	the campus work here that we have been doing.
25	COMMISSIONER TAGAMI: Okay.

California State Lottery Commission Meeting – March 22, 2012 1 MR. MURPHY: In total, the original awards of 2 all those contracts added up to \$69.4 million. 3 COMMISSIONER TAGAMI: Okay. 4 MR. MURPHY: And with amended contract amounts, 5 including these today, that amount goes up to about \$69.9 million. 6 7 COMMISSIONER TAGAMI: Okay. 8 MR. MURPHY: However, it's anticipated 9 expenditures of all the contracts, I expect to be around \$67.3 million. 10 11 I gave a bunch of numbers right there. 12 Essentially --13 COMMISSIONER TAGAMI: I got them. Good. 14 MR. MURPHY: The six contracts, in their entirety, I'll be bringing in \$2.1 million under the 15 original allocation, not including the additional 16 allocation we did receive. 17 18 COMMISSIONER TAGAMI: Congratulations. That's 19 good news. 20 Is there a shared savings provision in the GMP for Otto Construction? 21 22 MR. MURPHY: Yes, there is. Actually, both the Otto and LPAS contracts include what we call an 23 24 integrated project delivery team contingency.

We used a little bit different design process

and construction process on this building. We did bring the contractor on board early in the design phase. The reason for that, was to ensure that the construction and the design were integrated and worked together, ultimately achieving more efficient construction.

We set aside \$950,000 for that contingency fund to be used specifically for any items, mostly in construction, that were missed, if you will, during the design phase.

We will be using -- I'm estimating right now we're going to use about \$625,000 of that \$950,000 to take care of some of those items -- well, all of those items that occur during construction. That will leave an excess of three twenty-five. That money would be equally divided between the Lottery, Otto Construction, and LPAS. So Otto and LPAS would each receive, estimated, around \$108,000 at the end of the contract.

COMMISSIONER TAGAMI: Okay. And this would apply to some of the others, so it might make it easy.

And thank you for that explanation.

If I may, through the Chair, what's the square footage of the retail space that you're adding?

MR. MURPHY: The total square footage is 4,000 -- right around 4,000 square feet, although we've used up about, a little over 1,400 on the subway area.

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1
     We've got a little over 2,500 remaining that will be
2
     improved as well.
3
               COMMISSIONER TAGAMI: And so --
4
               MR. MURPHY: We are in negotiations now.
5
     had advertised, and appear to have a successful person
     that we're working through negotiations on now.
6
7
                COMMISSIONER TAGAMI: Thank you, Mr. Chair, and
8
     thank you, Mr. Murphy.
9
                That answers my questions on 9.a.
10
               MR. MURPHY: Thank you.
11
               ACTING CHAIR SMOLIN: Okay, does any member of
     the public want to address the Commission at this time
12
13
     regarding 9.a?
14
                (No response)
15
               ACTING CHAIR SMOLIN: Okay, then if I could
     have a motion to approve action Item 9.a?
16
17
               COMMISSIONER TAGAMI: So moved.
18
               ACTING CHAIR SMOLIN: And a second?
19
               COMMISSIONER KIRTMAN: Second.
20
               ACTING CHAIR SMOLIN: Okay. Do we have any
     further discussion?
21
22
                COMMISSIONER KIRTMAN: no.
23
               COMMISSIONER TAGAMI: No.
24
               ACTING CHAIR SMOLIN: No? Okay.
                Secretary, can you please call roll?
25
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California State Lottery Commission Meeting – March 22, 2012 1 MS. TOPETE: [Inaudible] 2 ACTING CHAIR SMOLIN: Yes. 3 MS. TOPETE: [Inaudible] 4 COMMISSIONER KIRTMAN: Yes. 5 MS. TOPETE: [Inaudible] COMMISSIONER TAGAMI: Yes. 6 7 ACTING CHAIR SMOLIN: Okay, that takes us to 8 action Item 9.b. 9 And as Mr. Murphy had mentioned, he will also 10 provide the background for that as well. 11 MR. MURPHY: Yes, again, action Item 9.b is LPAS contract amendment for funds in the amount of 12 13 \$60,000, and time to the end of the calendar year, LPAS, 14 the Lottery's architect for the building itself and the 15 campus. 16 COMMISSIONER TAGAMI: Mr. Chairman, if I may? 17 ACTING CHAIR SMOLIN: Please, Mr. Tagami? 18 COMMISSIONER TAGAMI: My primary -- I would 19 assume that LPAS's contract includes all MEPF, mechanical 20 and electrical plumbing --21 MR. MURPHY: Yes. COMMISSIONER TAGAMI: -- fire-life safety 22 23 coordination? 24 MR. MURPHY: Yes.

COMMISSIONER TAGAMI: And all the core shell

1 improvements are in place; so, really, it's just the 2 bridging documents and then the finished tenant 3 improvement drawings, correct? The actual T.I. drawings? 4 MR. MURPHY: Yes. 5 COMMISSIONER TAGAMI: I mean, so bridging from the core services that are already in place in the 6 7 building --8 MR. MURPHY: Yeah, their core services are 9 99 percent complete. 10 COMMISSIONER TAGAMI: My look at this, you 11 know, just on a per-square-foot cost, and though there is loss of economies of scale with smaller retail spaces, is 12 13 a little on the steep side. So I'm, you know, respectful of the fact that 14 you want to keep schedule and get the building wrapped 15 up. I want to be supportive of that. 16 17 But in just looking at that number as a function of the amount of space that needs to be dealt 18 19 with, I am having a hard time getting there by way of 20 the --21 MR. MURPHY: The \$60,000, by way of 22 explanation, I have not gotten a price from LPAS for that 23 space. 24 What I did, was try to pick a number big enough to where I wouldn't have to come back. 25

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COMMISSIONER TAGAMI: So this is a
 1
2
     not-to-exceed amount at your discretion?
3
               MR. MURPHY: Yes.
4
                COMMISSIONER TAGAMI: Under your discretion?
5
               MR. MURPHY: Yes.
6
                COMMISSIONER TAGAMI: With that, Mr. Chairman,
7
     that answers my question.
8
               ACTING CHAIR SMOLIN: Okay.
9
                Commissioner Kirtman, any questions?
10
                COMMISSIONER KIRTMAN: No. No questions.
11
     Thank you.
12
               ACTING CHAIR SMOLIN: Okay, does any member of
13
     the public wish to address the Commission regarding
14
     Item 9.b?
15
                (No response)
               ACTING CHAIR SMOLIN: Then with that, I would
16
17
     ask for a motion.
18
                COMMISSIONER TAGAMI: So moved.
19
                COMMISSIONER KIRTMAN: Second.
20
               ACTING CHAIR SMOLIN: Okay, any further
     discussion?
21
22
                (No response)
23
               ACTING CHAIR SMOLIN: Okay, secretary, would
24
     you please call roll?
25
               MS. TOPETE: [Inaudible]
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ACTING CHAIR SMOLIN: Yes.
 1
2
               MS. TOPETE: [Inaudible]
3
               COMMISSIONER KIRTMAN: Yes.
4
               MS. TOPETE: [Inaudible]
5
               COMMISSIONER TAGAMI: Yes.
6
               ACTING CHAIR SMOLIN: Okay, once again, for
7
     Item 9.c, Murphy?
8
               MR. MURPHY: Item 9.c, Capital Program
9
     Management contract amendment. This is for term only.
10
                This has been the consultant that has assisted
11
     the Lottery with project management, as well as contract
     management and contract development for the entire
12
13
     campus. Actually, this was the first consultant
14
     contractor we had on board for the project.
               Funds in the contract remaining are adequate;
15
16
     it's just time only.
17
               COMMISSIONER TAGAMI: Mr. Chairman?
18
               ACTING CHAIR SMOLIN: Please.
19
               COMMISSIONER TAGAMI: Just a couple quick
20
     questions.
21
                In this regard, the couple different ways that
22
     it's done in practice, but just in general terms, just so
23
     I can get a sense of it, only for more information and
24
     then I'll get to the point. What number of RFIs on a
     project -- on this project, specifically -- were being
25
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1	dealt with? And then what number of RFIs were claims or
2	change orders? And then what, if you could, in rough
3	terms, what number were rejected by the CM?
4	MR. MURPHY: I'm going to need to get back to
5	you on those numbers.
6	COMMISSIONER TAGAMI: Okay.
7	MR. MURPHY: I don't have those off the top of
8	my head.
9	COMMISSIONER TAGAMI: Some of the objectives
10	really are at the QA/QC question, and so it's the it's
11	the, you know, hours, at a three and a half to four
12	multiplier based on rate; and then, in essence, what the
13	performance is, as we look at it.
14	So, again, understanding it's in the context of
15	a smaller exercise in space, and then your demo exercise
16	that you're undertaking within your GMP, is just trying
17	to track and follow that.
18	So that would really answer my question.
19	And I can accept those offline through the
20	Director, if it's to the satisfaction of my colleagues.
21	And I'm willing to make a motion to approve
22	that.
23	ACTING CHAIR SMOLIN: Well, could I
24	Any comments on that, Nate?
25	COMMISSIONER KIRTMAN: No. None from me.

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ACTING CHAIR SMOLIN: No? Okay.
 1
2
                And would any of the public like to address the
     Commission regarding this item?
3
4
                (No response)
5
                ACTING CHAIR SMOLIN: Okay, seeing none, it
     sounds like I had a motion.
6
7
                COMMISSIONER TAGAMI: Yeah, a motion and a
8
     little discussion on the item.
9
                ACTING CHAIR SMOLIN: I'm sorry, what is that?
10
                COMMISSIONER TAGAMI: If I may, just one last
11
     comment.
12
               ACTING CHAIR SMOLIN: Oh, sure, yes.
13
     Absolutely.
14
                COMMISSIONER TAGAMI: It would be, just as a
15
     general statement for these types of items. Respectful
     of the fact there is probably a large compendium of
16
17
     documents, project specifications that are exhibits to
     a contract, asking staff to provide all that supporting
18
19
     detail for this type of change is not practical.
20
                So based on that, one of the check-offs,
21
     understanding that the memo shows "Prepared By," and
22
     then, really, from the Director, I think what I would be
23
     looking for, just as a compliance check-off, as we do
24
     these things, if, in fact, Legal is part of that process,
     from a contract-compliance standpoint, if there are any
25
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other whistle stops that are just part of the checks and balances, that we go ahead and just have a signature line, signed off, checked off, reviewed, followed up; just so as we're in this role, relying on two pieces of paper, as it relates to the reference of, you know, was the contract checked, were all the other provisions met of the contract, then it's that extra comfort, knowing that that's there.

So, again, not looking to make -- you know, we don't want to kill a forest for having all that other information; but just knowing we've had that review and validation, as then we're being asked to approve the expenditure.

DIRECTOR O'NEILL: Mr. Chairman, if I could?

ACTING CHAIR SMOLIN: Please.

DIRECTOR O'NEILL: Commissioner Tagami, right now, we currently do that internally, prior to providing memos. But I don't see any reason why we couldn't put those check-offs, you know, overtly, right on the memo itself, and have each person in the chain of command who signs off, show that on the memo itself. So we can do that from now on.

COMMISSIONER TAGAMI: So if I could make that as a friendly amendment to the staff report in my motion to approve, and then I would recommend that approval.

California State Lottery Commission Meeting – March 22, 2012 COMMISSIONER KIRTMAN: Second. 1 2 ACTING CHAIR SMOLIN: Okay. It sounds like --3 do we have any further discussion then? 4 (No response) 5 ACTING CHAIR SMOLIN: Okay, then will the secretary please call roll? 6 7 MS. TOPETE: [Inaudible] 8 ACTING CHAIR SMOLIN: Yes. 9 MS. TOPETE: [Inaudible] 10 COMMISSIONER KIRTMAN: Yes. 11 MS. TOPETE: [Inaudible] 12 COMMISSIONER TAGAMI: Yes. 13 ACTING CHAIR SMOLIN: Okay. Thank you for that 14 input. 15 Now, we go to action item 9.d. This is the Broadspec amendment and --16 17 COMMISSIONER TAGAMI: Move the item. 18 ACTING CHAIR SMOLIN: Pardon? 19 COMMISSIONER TAGAMI: I'll move the item, if 20 we're ready. 21 I think he covered it earlier, in his 22 earlier --23 ACTING CHAIR SMOLIN: Okay, did you have 24 anything you wanted to add to that?

MR. MURPHY: No.

California State Lottery Commission Meeting – March 22, 2012 1 ACTING CHAIR SMOLIN: Okay, any public comment 2 or any -- does the public want to address Item 9.d? 3 (No response) 4 ACTING CHAIR SMOLIN: Okay, then I do have, it 5 sounds like, a motion from Commissioner Tagami. A second? 6 7 COMMISSIONER KIRTMAN: Second. 8 ACTING CHAIR SMOLIN: And do we have any 9 further discussion? 10 COMMISSIONER KIRTMAN: No. 11 ACTING CHAIR SMOLIN: Okay, and would the 12 secretary please call roll? 13 MS. TOPETE: [Inaudible] 14 ACTING CHAIR SMOLIN: Yes. 15 MS. TOPETE: [Inaudible] COMMISSIONER KIRTMAN: Yes. 16 17 MS. TOPETE: [Inaudible] 18 COMMISSIONER TAGAMI: Yes. 19 ACTING CHAIR SMOLIN: Okay, great. 20 Thanks, Terry. 21 Next on the agenda, would be the Commissioners' 22 general discussion. 23 Do any of the commissioners have anything 24 they'd like to bring up at this time?

Commissioner Tagami?

1 COMMISSIONER TAGAMI: Yes. If appropriate, at 2 this time, we understand we have a new colleague that 3 should be joining us at our next meeting and, if 4 appropriate, wanted to communicate with our colleagues 5 and the executive director and appropriate staff, maybe coordinating a little reception, either at the -- maybe 6 7 the afternoon following our regularly scheduled board 8 meeting, to give staff and commissioners an opportunity 9 to welcome our new colleague. And, you know, nothing too 10 elaborate. You know, modest, at best. 11 And just for an opportunity for folks to be able to get the opportunity to say "hello." And 12 13 hopefully, shortly thereafter, we'll have a full 14 complement of commissioners to focus on the work ahead. 15 DIRECTOR O'NEILL: We'd be glad to have a reception after the next meeting. 16 17 He should be on board. He's already been appointed. He'll be taking the oath of office shortly. 18 19 And so after the next meeting, that will be 20 fine, just directly following that. 21 ACTING CHAIR SMOLIN: Okay. Anything else? 22 (No response) 23 ACTING CHAIR SMOLIN: No? Okay. 24 Our next meeting is tentatively scheduled for April 26th. 25

California State Lottery Commission Meeting – March 22, 2012 1 Is that correct? 2 DIRECTOR O'NEILL: Yes. 3 ACTING CHAIR SMOLIN: Now, is going to be 4 public discussion. 5 It's my understanding that there is no one here at this time who would like to address the Commission; is 6 7 that correct? Is there anyone here that's...? 8 (No response) 9 ACTING CHAIR SMOLIN: Okay, well, with that, I 10 would like to thank everyone for coming, once again. And 11 like I say, I look forward to our next meeting. We'll 12 have a fuller staff. Thank you all. 13 And this meeting is adjourned. 14 (Gavel sounded.) 15 (End of audio recording and end of meeting) 16 --000--17 18 19 20 21 22 23 24 25

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