

STATE OF CALIFORNIA

LOTTERY COMMISSION

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CALIFORNIA STATE LOTTERY COMMISSION

MEETING

TIME: 10:00 a.m.

DATE: Thursday, February 10, 2011

PLACE: California State Lottery
600 North Tenth Street
Sacramento, California

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TRANSCRIPT OF PROCEEDINGS

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A P P E A R A N C E S

California State Lottery Commission

JOHN MASS
Chairman

ALEX FORTUNATI

JOHN MENCHACA

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LINH NGUYEN
Acting Director

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Deputy Director of Sales/Marketing

ED FONG
Chief
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Deputy Director
Business Planning

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Chief General Counsel

MARY MONTELONGO
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A P P E A R A N C E S

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continued

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Senior Marketing Specialist
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Sales

ELISA S. TOPETE
Assistant to the Commission

ROBERT ZAVALA
Chief
Internal Audits

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California State Lottery Commission Meeting – February 10, 2011

Public Testimony

KENNETH MACIAS
Macias Gini O'Connell
(Re Item 9.a)

MARK NICHOLS
California Peace Officers Memorial Foundation

JOAN MICHEL-LAHMAN
Citizen
San Ramon, California

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Thursday, February 10, 2011

Sacramento, California

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(Gavel sounded.)

CHAIR MASS: Let's call to order the California State Lottery commission meeting for February 10th, 2011.

Can everyone please rise for the Pledge of Allegiance?

Thank you.

(The Pledge of Allegiance was recited.)

CHAIR MASS: Good morning, everyone. It's been a little while since we've all gotten together. I hope everyone is doing well.

A couple things before we get started. We have a lot to cover on the agenda.

But I just wanted to start -- I wanted to thank Yuri Vanetik for his service to the Commission of the Lottery. He was a commissioner for a short time, but he was a great member, and we enjoyed working with him. And we wish him very well.

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1 We also want to welcome Alex Fortunati, our
2 latest commissioner.

3 And congratulations on your appointment.

4 COMMISSIONER FORTUNATI: Thank you.

5 CHAIR MASS: And we're looking forward to
6 working with you.

7 COMMISSIONER FORTUNATI: Thank you.

8 I hope I last a little bit longer.

9 CHAIR MASS: The jury's out.

10 Okay, and I also want to congratulate
11 Commissioner Menchaca on his appointment and approval by
12 the senators.

13 And we're very happy to have you here in the
14 Lottery and approved, so...

15 COMMISSIONER MENCHACA: Thank you.

16 CHAIR MASS: And congratulations.

17 And it was 36 to nothing.

18 COMMISSIONER MENCHACA: Right, right.

19 I made sure there was going to be a zero on
20 the opposition side.

21 CHAIR MASS: Well done.

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1 Finally, I'd like to thank Joan Borucki for
2 four and a half years of service of leading the Lottery.
3 She did a terrific job.

4 You know, all of us who are here, who worked
5 alongside of her, wish her well, and really enjoyed
6 working with her. So we wish her the best.

7 And let's move on to the meeting.

8 Do any of the commissioners have any changes
9 to the agenda?

10 Commissioner Fortunati?

11 COMMISSIONER FORTUNATI: No.

12 CHAIR MASS: Commissioner Menchaca?

13 COMMISSIONER MENCHACA: No.

14 CHAIR MASS: Do I hear a motion to adopt the
15 agenda?

16 COMMISSIONER MENCHACA: I move.

17 CHAIR MASS: Do I hear a second?

18 COMMISSIONER FORTUNATI: Second.

19 CHAIR MASS: Can the secretary please take
20 roll?

21 MS. TOPETE: Commissioner Menchaca?

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1 COMMISSIONER MENCHACA: Aye.

2 MS. TOPETE: Commissioner Fortunati?

3 COMMISSIONER FORTUNATI: Present. Aye.

4 MS. TOPETE: Chairman Mass?

5 CHAIR MASS: Aye.

6 The next item on the agenda is Item 5, which
7 is the approval of the minutes.

8 Do any of the commissioners wish to propose
9 any changes to the minutes from our last meeting?

10 COMMISSIONER MENCHACA: No changes.

11 COMMISSIONER FORTUNATI: No changes.

12 CHAIR MASS: Do I hear a motion to approve
13 the minutes of December 9th, 2011?

14 COMMISSIONER MENCHACA: I'll move. I'll move
15 to approve.

16 CHAIR MASS: Is there a second?

17 COMMISSIONER FORTUNATI: Second.

18 CHAIR MASS: Can the secretary please take
19 roll?

20 MS. TOPETE: Commissioner Menchaca?

21 COMMISSIONER MENCHACA: Yes.

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1 MS. TOPETE: Commissioner Fortunati?

2 COMMISSIONER FORTUNATI: Yes. Aye.

3 MS. TOPETE: Chairman Mass?

4 CHAIR MASS: Yes.

5 The next item on the agenda is Item 6, which
6 are the Commission liaison reports.

7 I'm going to discuss the appointment of
8 Commissioner Fortunati, and announce his appointment at
9 the next Commission meeting, so he will not have a
10 liaison report to discuss today.

11 But I'm going to turn it over to Commissioner
12 Menchaca for his liaison report.

13 COMMISSIONER MENCHACA: I'm the audit liaison,
14 so I'll be giving the Audit liaison report.

15 Since our last commission meeting on
16 December 9, 2010, the following is the status of audit
17 projects at the California Lottery:

18 Fourth quarter transfer report, fiscal year
19 2010. Field work has been completed. One preliminary
20 issue will be noted once a draft report is issued.

21 First quarter transfer report, fiscal year

1 2011. Field work has been completed and is under
2 review. There are no preliminary issues.

3 Implementation of past State Controller's
4 Office audit recommendations. Field work has been
5 completed. Five preliminary issues will be noted once a
6 draft report is issued.

7 The 3Ball Production contract audit: Field
8 work has been completed. Five preliminary issues will
9 be noted once a draft report is issued.

10 Alcone Marketing Group contract: Field work
11 has been completed, and an exit conference is pending.
12 There are no preliminary issues.

13 Otto Construction contract: Field work is
14 completed -- or is expected to last, rather -- through
15 the end of February 2011. There are no preliminary
16 issues.

17 The LPA Sacramento, Inc., contract audit:
18 Field work has been completed and is under review.
19 There are no preliminary issues.

20 The KPMG outside auditor audits draw
21 observation reviews: KPMG continues to observe and

1 report on the Lottery's daily draws. No significant
2 issues were noted.

3 Lottery internal audits, contract and
4 procurement services audit: This audit is on hold.
5 There are no preliminary issues.

6 Camelot audit: Field work began in 2010,
7 August. The audit scope -- excuse me -- and is expected
8 to last through the end of February 2011. There are no
9 preliminary issues.

10 Asset management: Field work began in
11 August 2010. The audit scope expanded in November to
12 include the inventory of Scratchers® tickets. Field
13 work is completed -- field work is expected to last
14 through the end of February 2011. There are no
15 preliminary issues.

16 And the Audit Committee, time permitting, will
17 have a formal meeting following today's Commission
18 meeting.

19 And that concludes my liaison report.

20 CHAIR MASS: Thank you, Commissioner Menchaca.

21 As Marketing liaison, Marketing staff updated

1 me on the new MEGA Millions television commercial, the
2 California Lottery and its agency, Casanova Pendrill,
3 produced and aired a brand-new commercial for MEGA
4 Millions, titled, "*Fun House.*"

5 The ad aired during the recent MEGA Millions
6 roll of \$380 million, and will air in rotation on other
7 MEGA Millions branded commercials in the future.

8 There are jackpot alerts. MEGA Millions
9 jackpot specific messages to support jackpots of
10 \$50 million or more in Los Angeles and \$70 million in
11 San Francisco -- \$70 million or more in San Francisco
12 continue.

13 The new *Set For Life* Scratchers® advertising
14 campaign: The Lottery is launching its first version of
15 the *Set For Life* Scratchers® this month with \$5
16 prize-point offering, \$100,000 a year for 20 years.
17 This stick will be featured in an advertising campaign
18 that will mark the first effort to put together a
19 commercial with our new general marketing advertising
20 agency, David&Goliath, of Los Angeles.

21 We will get a look at that during today's

1 Marketing presentation.

2 The California Lottery MEGA Millions promotion
3 with -- I want to make sure I pronounce this right --
4 Viejas? Viejas, is that -- Casino?

5 UNIDENTIFIED MAN: Viejas.

6 CHAIR MASS: Viejas? Viejas Casino? I
7 apologize.

8 The California Lottery entered into
9 partnership on November 18th, 2010, to jointly offer
10 prize incentives to players in contiguous areas around
11 the Viejas Casino which is located in San Diego during
12 February 2011.

13 This promotion represents the first time the
14 Lottery has partnered with a tribal casino. And we're
15 looking forward to seeing some great results from that.

16
17 As a Procurement liaison, the staff requested
18 approval on the following:

19 Purchase order for Allied Network Solutions to
20 replace existing annual maintenance contracts. The
21 Lottery is migrating to Juniper for its networking

1 equipment. The OPNET Solutions replaced the Cisco
2 maintenance contract, which is up for renewal in
3 April 2011.

4 There was a contract amendment with Honeywell
5 International to continue providing 24-hour a day, seven
6 days a week, scheduled maintenance of the Lottery
7 air-conditioning systems.

8 There was a purchase order to Avantel for the
9 procurement of Juniper network equipment for the
10 district offices.

11 There's a contract award to Infiniti
12 Consulting Group to provide project management services
13 and assist the I.T. department in implementing several
14 technological infrastructure projects to support our
15 move to the new headquarters.

16 There was a release and invitation -- we
17 released an invitation to bid to provide on-call, as
18 needed services for an independent firm to provide
19 expert advice, analysis, recommendations on current
20 financial reporting issues, accounting treatments, and
21 potential changes to business processes.

1 We released a request for approval to procure
2 services for an advertising agency to provide Hispanic
3 marketing services.

4 There's a contract amendment with Mayer Brown,
5 LLP, which provides the Lottery with legal service --
6 legal counsel and services in connection with some
7 specialized tax matters that we have.

8 And there's a contract award to University
9 Enterprises, Inc., to provide student assistant
10 services, to provide various divisions and the offices
11 within the Lottery with some assistance.

12 And that is all I have on both Procurement and
13 Marketing.

14 I'm now going to turn it over to the acting
15 director for his report.

16 ACTING DIRECTOR NGUYEN: Thank you.

17 Good morning, Commissioners.

18 I'd like to ask Rudy DiMassa to come up for
19 the first part of the report.

20 The report card at this time is going to be in
21 parts: A sales update; and then Rudy, as the new

1 project manager for the RENEW Project, is going to have
2 some of the team leaders come up and give a report.

3 So, Rudy, if you'd work the slides for my part
4 of the presentation, I'd appreciate that.

5 MR. DiMASSA: Okay.

6 ACTING DIRECTOR NGUYEN: So on this first
7 slide, sales have accelerated since December due to two
8 main factors: One is the passage of AB 142, which
9 allowed us to increase our prize pay-out percentage, as
10 well as our three-year strategic plan initiatives, which
11 is mainly the RENEW projects.

12 Overall, sales have hovered around the
13 \$3 billion mark for the past several years; but we
14 expect it to increase to over \$3.4 billion this fiscal
15 year, and reach over \$5 billion by fiscal year
16 2013-2014.

17 More importantly, profits to education, which
18 have hovered around a billion dollars for the last
19 several years, are also slated to increase to about
20 \$1.4 billion by 2013-14.

21 And now looking at the specific games, you'll

1 see on the left-hand column are the major game
2 categories that we have. The second column shows fiscal
3 year '10-11 sales through February 5th of 2011. The
4 third column shows the prior year's sales for fiscal
5 year '09-10 through February 6th, 2010.

6 And I want to direct your attention to the
7 fourth column, which is year-to-date sales changes,
8 percent change from year to year. You can see, the
9 Scratchers® are up 11 percent over this same period.

10 MEGA Millions is up 16 percent. SuperLOTTO Plus® is
11 down 7 percent. Our Daily games are up 4 percent, and
12 Hot Spot is up 9 percent over that same period.

13 Looking to project for the end of this fiscal
14 year, you can see that Scratchers® are projected to
15 finish the year at 26 percent above the prior fiscal
16 year. MEGA Millions up 2 percent. SuperLOTTO Plus®
17 down 9 percent. Daily Games up 2 percent. And Hot Spot
18 up 15 percent.

19 Looking at the numbers to education, we're
20 looking at sales that are \$400 million more than the
21 prior fiscal year.

1 CHAIR MASS: Excuse me, Linh.

2 When you say "full-year sales, percent change
3 versus last year," are you saying those have been
4 adjusted, or is that what you predicted at the beginning
5 of the year?

6 ACTING DIRECTOR NGUYEN: This is what we
7 predict now, with the latest data that we have.

8 What we projected at the beginning of the
9 year, the approved budget goals, are different than
10 that. If we look at '09-10 -- I'm sorry, if we look at
11 our budget projection, we predicted that we would end
12 this fiscal year at \$3.519 billion. We're now
13 projecting in our likely scenario that we'll end the
14 year at \$3.46 billion. So slightly under.

15 If we take an optimistic approach and things
16 go well for us, we could -- we could still exceed the
17 \$3.519 billion number, but...

18 CHAIR MASS: And just to get a sense of the
19 difference in change for the column 3 and column 5 --
20 let's say, like Scratchers®, to move from we're ahead
21 11 percent, versus last year to what you expect,

1 26 percent. If you could sort of explain that. It
2 seems like that's one, big swing.

3 And then the MEGA Millions were ahead by
4 16 percent, and then you only expect to be ahead by
5 2 percent by the end --

6 ACTING DIRECTOR NGUYEN: Right.

7 CHAIR MASS: Can you just explain those to
8 numbers?

9 ACTING DIRECTOR NGUYEN: Sure. In the
10 Scratchers® game category, what we're seeing now is a
11 tremendous growth trajectory. And that's why we see
12 the -- we predict the percent to continue increasing
13 until the end of the year. And you'll see that on some
14 of the following slides. We'll get into a little bit
15 more detail.

16 For MEGA Millions, we had a very large jackpot
17 of \$380 million. And that helped boost our sales for
18 that period. But when we do the projection for the
19 remainder of the year, we're using likely jackpot levels
20 for that. And that's why you'll see the drop from
21 16 percent, down to 2 percent.

1 CHAIR MASS: Thank you.

2 COMMISSIONER MENCHACA: So that number could
3 possibly go up if there was another one like a few
4 months ago, right?

5 CHAIR MASS: Exactly.

6 ACTING DIRECTOR NGUYEN: Yes.

7 Okay, On the next slide, MEGA Millions is
8 expected to end the year ahead of last year.

9 Hot Spot is actually becoming a stronger game
10 due to the higher prize pay-out strategies we've
11 implemented there. You'll hear a little bit more from
12 Ed Fong later on further changes to improve the Hot Spot
13 game. But we predict that to be 15 percent higher this
14 year than last year.

15 Typically, sales figures shown for Scratchers®
16 are based on ticket distribution. That's how we do our
17 accounting. And this recognizes revenue for Scratchers®
18 when tickets are sent to retailers, and we subtract any
19 tickets returned from retailers.

20 But to really analyze sales trends, we use
21 validation data. And that closely -- most closely

1 resembles consumer sales, and that's how we manage the
2 product.

3 Validations are when consumers turn in
4 tickets, winning tickets. And that gives us a very good
5 idea of how quickly a pack is selling.

6 And so based on the validation data -- the
7 recent trends are on the next slide -- we see that we
8 increase the prize pay-out. That strategy started in
9 May of 2010; and there was a slow wrap-up period. This
10 was the time we took to change our inventory, implement
11 marketing, and then develop consumer awareness, which
12 means players experiencing more wins because of a better
13 product and more prizes on the street.

14 And you can see what I've mentioned before,
15 the acceleration in the sale of Scratchers®. And
16 that's -- and this is projected through March of this
17 year.

18 Do the Commissioners have any questions on
19 this slide?

20 CHAIR MASS: No.

21 ACTING DIRECTOR NGUYEN: On the next slide,

1 turning to profits, what we're seeing in the Scratchers®
2 category by the purple bars is an acceleration in the
3 profits as well. And you can see that in the first two
4 weeks of January, we had a 12 percent gain in weekly
5 profits when compared to a year ago.

6 COMMISSIONER MENCHACA: Is this the first time
7 that this strategy has been implemented from last year?
8 The first time higher prize pay-outs?

9 CHAIR MASS: Well, there was a change in
10 legislation that allowed for higher prize pay-outs at
11 third quarter of last year.

12 ACTING DIRECTOR NGUYEN: Yes, April of 2010.

13 CHAIR MASS: And so it took some time to ramp
14 up the pay-outs. So what we're seeing is the impact
15 now -- really seeing it now.

16 COMMISSIONER MENCHACA: Good, good.

17 ACTING DIRECTOR NGUYEN: Right.

18 And to put this in perspective, I had Jim do
19 some -- a little bit of research; and we found out that
20 we are actually the fastest growing lottery in the
21 United States right now.

1 (Applause)

2 ACTING DIRECTOR NGUYEN: So looking at the
3 fourth quarter of 2010, from October to December, we see
4 that we had 20 percent year-over-year growth. That's
5 compared to the next best states, which are West
6 Virginia and Delaware, which were 16 percent.

7 And this is based on LaFleur's data, which is
8 an industry publication that tracks sales for all state
9 lotteries.

10 COMMISSIONER MENCHACA: What did you call
11 them, sir? The name?

12 ACTING DIRECTOR NGUYEN: LaFleur's: L-A, and
13 then it's F-L-E-U-R, apostrophe S.

14 COMMISSIONER MENCHACA: Okay.

15 ACTING DIRECTOR NGUYEN: And even more
16 striking, we looked at LaFleur's data, and it shows that
17 from the end of December to the end of January, we jump
18 from 35 percent to 28th in per capita sales in the
19 United States. So we're moving ahead very quickly.

20 Okay, so the bottom line on this is, we are
21 growing very quickly. We're on track. This is where we

1 wanted to be. And it also gives us a lot more
2 confidence in projecting over the next three fiscal
3 years, which is the slide you see here.

4 So Lottery sales are projected to grow to over
5 \$5 billion by fiscal year 2013-14. And you'll see three
6 lines on this slide: The conservative, likely, and
7 optimistic scenario.

8 And, once again, this is a result of AB 142,
9 as well as the RENEW Project efforts that are going on.

10
11 The next slide is our education contribution.

12 You can see that this line grows as well. We've been
13 hovering at a billion dollars, as you know, for several
14 years. But by 2013-14 we expect to be over \$1.4 billion
15 to education.

16 And the next slide is retailers. You can see
17 that their commissions grow significantly as well as a
18 result of the RENEW projects and a prize pay-out
19 strategy.

20 And the way we see it is, the things that
21 we're doing now, the business plan and AB 142, has been

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1 a win-win situation for everybody. Players are happier
2 with the product; they're winning more in prizes;
3 education gets more money as a result of this strategy.

4 And it's good for business because retailers have more
5 money that goes into local communities.

6 That's the end of the sales portion -- the
7 sales update portion.

8 Do the commissioners have any questions?

9 CHAIR MASS: Commissioner Fortunati?

10 COMMISSIONER FORTUNATI: No.

11 CHAIR MASS: Commissioner Menchaca?

12 COMMISSIONER MENCHACA: Just one point, Linh.

13

14 On a per capita basis, do we have statistical
15 information on what that looks like, maybe with respect
16 to the lotteries on the West Coast or the lotteries west
17 of the Mississippi or anything to that effect?

18 ACTING DIRECTOR NGUYEN: Our research has
19 always shown that lotteries on the West Coast have lower
20 per capita sales than the East Coast states. And
21 there's various reasons set forth for that. Mainly

1 because of cultural differences and more -- lotteries
2 have been around a lot longer on the East Coast.

3 But you know what I tell my staff, is that may
4 be true; but that doesn't mean that we can't catch up
5 and even surpass lotteries on the East Coast.

6 COMMISSIONER MENCHACA: What state has the
7 largest per capita?

8 ACTING DIRECTOR NGUYEN: I think that's
9 Massachusetts?

10 Yes.

11 COMMISSIONER MENCHACA: And then what can we
12 do to better publicize our successes? You know, it
13 seems like we're on a path to do some really great
14 things, and I want to make sure that we get the most out
15 of our -- the biggest bang out of our buck in telling
16 the world, telling people in the state about our
17 success.

18 Is there any things we can do in that area?

19 ACTING DIRECTOR NGUYEN: We can. We have the
20 report to the public. We have the Web site.

21 You know, part of my responsibilities are to

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1 share our successes with the Legislature. So I'm going
2 to be scheduling those. I am briefing the Governor's
3 office as well. And then various educational groups.

4 COMMISSIONER MENCHACA: Okay, great.

5 ACTING DIRECTOR NGUYEN: This is good news,
6 and I absolutely want to share it as much as possible.

7 COMMISSIONER MENCHACA: Terrific. Thank you.

8 ACTING DIRECTOR NGUYEN: Okay, now, I want to
9 turn it over to Rudy DiMassa. He is the new project
10 manager for the RENEW effort. He is a 25-year employee.
11 And when I first got to the Lottery, he was one of two
12 people who did briefings, and educated me on the Lottery
13 for about a month, a month and a half.

14 So I'll turn it over to Rudy.

15 MR. DiMASSA: Thank you very much, Linh.

16 Good morning, Mr. Chairman, Commissioners.

17 It's a pleasure to be here this morning.

18 What we'd like to do is kind of give you an
19 update on the RENEW Project. For Commissioner
20 Fortunati, this will be new; and for, obviously,
21 Chairman Mass and Commissioner Menchaca, you've seen

1 some of this before. But we want to bring you
2 up-to-date on what we've been doing. We've been very
3 busy on this project.

4 So just to refresh your memories, the RENEW
5 Project was launched in August of 2009. And the
6 objective was to develop a three-year business strategy
7 for the Lottery. This strategy was approved by you in
8 May of 2010; and shortly thereafter, we published and
9 implemented our 2010-2013 business plan.

10 The RENEW Project subsequently moved into the
11 implementation phase, with five main streams of work.
12 These streams are focused on a number of initiatives
13 aimed at making significant and strategic improvements
14 in our operations and, of course, maximizing our
15 contributions to public education.

16 The first stream, Retailer and Sales Support,
17 which we also call just "Retail," includes reviewing all
18 aspects of the retailer support that we provide to
19 establish a business model and service levels that are
20 commensurate with business performance, and to ensure
21 the selection of the best retailers, as well as the most

1 effective use of our sales force.

2 The second stream was Scratchers® End-to-End.

3 It includes reviewing the Scratchers® game development
4 process and implementing a number of initiatives to
5 realize the full potential of this product line,
6 including approving Scratchers® distribution, to meet
7 player demand, the efficient use of prize funds, and
8 managing the product line as an end-to-end business
9 operation to foster a performance management culture
10 here at the Lottery.

11 The third stream is known as Draw and Jackpot
12 Games. And this stream includes analyzing all of our
13 existing draw games and identifying games for management
14 consideration, to include reviewing opportunities
15 presented by our Hot Spot game as a result of AB 142.

16 The fourth stream, Marketing, which includes
17 advertising, promotions, and player communications,
18 includes ensuring that we make the best use of our
19 marketing budget by becoming effective at testing and
20 measuring marketing concepts and creating an optimal
21 marketing plan that ensures the consumer marketing and

1 advertising budgets support sales-driving strategies.

2 And finally, the fifth stream is our Digital
3 Communications and Public Web Site stream. And this
4 stream really includes fully leveraging the
5 opportunities that are presented in today's digital
6 world by implementing and continually expanding and
7 improving a new online marketing program here at the
8 Lottery.

9 So that's kind of a general overview of what
10 the RENEW Project has been doing.

11 So what I'd like to do today is introduce to
12 you the team leads who have been leading each one of
13 these streams, and have them each give you an update on
14 what they've been doing.

15 So our first team leader is Michelle Tong.
16 And I think most of you already know that Michelle is
17 also in her other job at the Lottery, our director of
18 Sales.

19 So, please welcome Michelle.

20 MS. TONG: Hi. Good morning.

21 COMMISSIONER MENCHACA: Good morning.

1 Welcome.

2 MS. TONG: I'm going to tell you briefly what
3 we've accomplished in the last six to nine months under
4 the RENEW program. And the very first initiative we did
5 was the retailer segmentation. And this is the
6 foundation for many of our projects that we undertook.
7 And what "segmentation" is, is categorizing our network
8 by the different retailer segments total combined sales,
9 which is Scratchers® and draw games, by district, by ZIP
10 code, by trade style -- a variety of areas, so that we
11 really understand our business better.

12 From that, we also have the sales advisory
13 council. And what that is, is a committee of
14 representatives from the field. We have nine offices.
15 And that's to provide us input and feedback on the
16 variety of procedures, policies, and programs that we
17 have. And that's very valuable because it helps us make
18 a better implementation plan for some of the things
19 we're doing.

20 The next one is the headquarters staff field
21 visits. And this is developing an opportunity for

1 division managers and key decision-makers and
2 headquarters to get out in the field and get firsthand
3 information working with our retailers and our sales
4 team.

5 The next one is our retailer advisory board.
6 And this is an opportunity to have our retailers, both
7 independent chains and retail trade association members,
8 come in and help us kind of look at our business, find
9 out what we're doing right, where can we go in the
10 future, how can we develop more sales-building
11 opportunities.

12 And this was a great committee for us just
13 last year, as we undertook trying to look at our
14 retailer incentive programs. And they helped us with
15 making a change in altering the retailer cashing bonus,
16 which definitely did help increment sales and profits
17 for our retailers.

18 Then that brings us to the retailer incentive
19 program. And here, the first phase of this was the
20 "makeover of the year" program. And each one of our
21 district offices had an opportunity to select a middle-

1 of-the-road retailer, and using their sales expertise
2 and hard work -- I call it "sweat equity" -- they did
3 the very best they can to move the retailer from here to
4 here.

5 And I'd like to take the liberty to show you
6 the make-over of the year -- whoops, next slide. Go
7 back.

8 And it's a forward slide.

9 Whoop, not that one.

10 MR. DiMASSA: I think we're supposed to go
11 this way.

12 MS. TONG: That way, yes.

13 Now, click on the screen.

14 No, nothing.

15 MR. DiMASSA: You know, we practiced this last
16 night.

17 MS. TONG: No, no.

18 MR. DiMASSA: And it worked much better
19 Friday.

20 MS. TONG: And click on the screen.

21 There we go.

1 (A presentation was played as follows:

2 MS. TONG: Their sales have gone up
3 \$10,000, literally, a week, for the last four
4 or five months.

5 MR. BRENNAN: The Hongs truly
6 understand the value of working closely with
7 their Lottery representative, Heidi Glaser, as
8 one sure way to achieve success. So please
9 join me in congratulating M.J. and Okhee Hong.

10 [Applause]

11 MS. TONG: What we decided to do is
12 really pay attention to having a return on
13 investment, for the Lottery's investment; more
14 importantly, developing a cooperative effort
15 between our DSRs and the retailer to build
16 their business. It's so easy to acknowledge,
17 retailers, you did a great job. What is
18 harder, is to educate them to run a good
19 Lottery business.

20 We have a lot of retailers who have
21 heard about really high-volume locations and

1 they want to do it; they just don't know how.

2

3 And so with the team effort of our
4 DSRs, our district office staff, people from
5 headquarters, retail marketing and also GTECH,
6 they all met together. We have nine locations
7 throughout the state that were selected
8 because of their potential. And we're here at
9 South Grove Liquor, honoring them for being
10 the one for 2010.

11 MS. HONG: It's Heidi all the
12 time -- she support me. She help me. So
13 kind, really that's why I selling great.

14 MS. GLASER: I just felt, first of
15 all, the potential was so strong. And they
16 really wanted to work with me to have
17 something happen in their store. They were
18 ready for a step up.

19 MR. BRENNAN: In light of the
20 economic climate, these two hard-working
21 retailers have raised their sales by

1 *\$10,000 -- an average of \$10,000 per week, an*
2 *increase -- they were ranking in this Lottery*
3 *sales district from number 24, to number 12,*
4 *among the 1,675 retailers in the district.*

5 *Orange County retailers have raised*
6 *over \$1.7 billion for our state's public*
7 *schools since 1985. Over the past year, South*
8 *Grove Liquor has raised approximately \$300,000*
9 *for education.*

10 *We looked at the overall percentage*
11 *increase in sales from the nine retailers that*
12 *we did a makeover with throughout the state,*
13 *and South Grove Liquor came out on top with a*
14 *66 percent increase in sales.*

15 *MS. HONG: We are all -- I make them*
16 *all friend. Everybody make a friend.*

17 *I'm doing a good job?*

18 *I like my customers.*

19 *MAN: Do you know everybody?*

20 *MS. HONG: Yes. Everybody.*

21 *Everybody. Young people, old*

1 *people, all my friends. I make them friend.*

2 *Okay, here's 1, 2, 3, 4 --*

3 *MR. TAYLOR: They provide jobs for*
4 *working Californians. So we wanted to give*
5 *you a little token of our appreciation. It's*
6 *a certificate of recognition.*

7 *And it says, "Presented to South*
8 *Grove Liquor in honor of your make-over of the*
9 *year award.*

10 *"Thank you for contributing to the*
11 *economic vitality of our community.*

12 *So on behalf of Assemblyman Allan*
13 *Mansoor, thank you very much.*

14 *MS. GLASER: I felt that the*
15 *clientele here is different enough from just*
16 *across the parkway to make a huge difference*
17 *for Okhee and M.J. And I was absolutely*
18 *correct. We put in the Hot Spot, and their*
19 *sales increased. You know, I think the first*
20 *week they went up a thousand dollars.*

21 *"MR. TAYLOR: Enjoy your day. Thank*

1 *you for helping contribute to the State of*
2 *California's public education.*

3 *WOMAN #1: Two of these. One of*
4 *these.*

5 *WOMAN #2: Come on, come on. Get*
6 *them, get them, get them.*

7 *GIRL: Thank you, California*
8 *Lottery.*

9 *MS. TONG: Retailer, the one thing*
10 *I'd want to share with you that will*
11 *definitely make a difference in your Lottery*
12 *sales is smile and ask for that sale.*

13 *[Music]*

14 *[End of presentation])*

15 MS. TONG: You want to thank staff, Stacy,
16 Norma, Sally, and Doug Wood for really working on it,
17 and the rest of the make-over team for making that an
18 out-of-sight vision come true.

19 The next one is our field pilot program. And
20 this is a really important one. Normally, the Lottery
21 rolls out programs for the field to implement. And we

1 all do it. But sometimes you'll hear the feedback from
2 the field that, you know, "I wish they would have
3 thought that. I wish they would have asked that. And
4 it doesn't quite work. Our retailers are having a
5 problem."

6 We decided to approach it differently. And we
7 had a pilot test. We took one district office that we
8 felt represented the entire state, and ran through seven
9 components, ranging from visitation, to modifying the
10 sales call, focusing on merchandising, and a few other
11 technical stuff. And in three months, they had some
12 fabulous results.

13 And we have a chart to show you that in these
14 three months -- and it was a very busy summer for them
15 last year -- they raised sales -- incremental sales at
16 each one of the 900 locations in the tests, from zero to
17 \$66 a week for each one of those locations.

18 And so when we looked at that, we said, "Wow,
19 we're on to something here." So if you took the \$66,
20 that equates to \$57,000 a week in the pilot. If we did
21 that statewide, that's \$1.4 million a week. But, gee,

1 if we can do that for a year, hmm, how much would that
2 come to?

3 AUDIENCE: 72 million.

4 MS. TONG: Yes.

5 I took the liberty because we've been trying
6 to share what we're doing in the field with entire
7 headquarters. Because you know what? It takes a team
8 to bring in those dollars. And we need each other's
9 help to do that.

10 I'm so proud of you guys.

11 So on that, the pilot for the seven components
12 were extremely successful; and they were focusing on our
13 Scratchers® activations. And on that, we were going to
14 roll it out statewide. And to do that, we needed to
15 give it a name. And we weren't going to call it "the
16 roll-out." We thought hard about what it is. We were
17 talking about selling. Not just any kind of selling:
18 Excellence in selling. And so that bore the name of
19 Excel. And that's the program that we're going to live
20 and breathe by for many, many moons to come.

21 So in Excel, we have four key components that

1 the whole state is focusing on: Full facings,
2 activations of our ideal mix, which is our core games
3 and also new games; and the multiple \$5 game facings;
4 and, lastly, external visibility. And this is to
5 support, we'll have advertising done. And once the
6 advertising creates the demand, the next best thing we
7 can do is identify where the players need to go play,
8 okay.

9 Next, we have key account sales building
10 strategy. And the key-accounts arm is going to be a
11 very critical one for us as we build our business for
12 the future. They have also run into an ExSell format,
13 where they are focusing on six components in the top ten
14 chains. And they will be running out with initiating
15 their plans with the chains already in a variety of
16 areas, as in placement, distribution, and full facings.

17
18 The third one there is the retailer network
19 optimization. And here's a big one for us: We need to
20 determine why we need to recruit, what we're going to
21 recruit, where we're going to recruit, and how are we

1 going to recruit. So in a future meeting, we'll be
2 providing more details on that project.

3 The last initiative there is retailer
4 communications. And here, we need to build our platform
5 and how we communicate with our retailers involving our
6 publications, our e-business site, and some other direct
7 e-mails to our retailers to make sure they get the
8 message as soon as possible.

9 Next slide.

10 And our KPIs are our "key performance
11 indicators," and how we know we're making a difference.

12
13 Through the pilot, you already saw the incremental sales
14 in just three months. When we are rolling out the
15 ExSell performance, we have already noticed some great
16 inroads. Number one, sales are up, which is fantastic.
17 But more importantly, we are looking at the increase in
18 our activation numbers, the increase in the number of \$5
19 facings. These are all positive things for us.

20 The activation figures, the ideal mix, there
21 are a total of 18 games. We've raised it from 16. And

1 those are the core games where we have specific themes
2 and play styles. So we have to make sure we're at
3 market everywhere.

4 The \$5 games is our target price point. And
5 that also has helped sales grow incrementally, because
6 it takes the same effort to sell a \$1 ticket than it is
7 to sell a \$5 ticket. But guess what? The Commission is
8 much higher.

9 And new games, statistics have shown in player
10 focus groups, that players, they look for those new
11 games. So if we keep them coming out regularly and keep
12 them merchandised properly, you'll be able to see that
13 difference.

14 Now, I want to show you a slide what ExSell is
15 all about.

16 Here's a typical retailer. As you can see,
17 lots of merchandise. Not a lot of space. If you can
18 tell, this retailer has 12 games faced, and there's
19 actually four empty bins. And the retailer has been
20 constantly complaining that he just doesn't have enough
21 product; he just can't keep it in stock, no matter how

1 many times we send it to him.

2 There's some variety there, but, really, not
3 the full extent that we'd like him to have.

4 And if you look, you really can't tell they're
5 really a Lottery retailer.

6 Next slide.

7 After an ExSell visit where our DSR has
8 assessed the business and they go in and take a look and
9 say, "Here's how you can improve," now when you walk in,
10 you can tell this store carries Lottery products. They
11 have bumped up the facings to 27, so they have the full
12 complement of our games with all four price points. And
13 we've also brought into play here draw games.

14 You couldn't buy an online product very easily
15 if you didn't know it was available. So on the counter
16 there, you'll see we have our play slips and our brand
17 awareness logo right there.

18 The retailer, to report to this day, is very
19 happy. They're seeing increased sales and really
20 appreciates the extra service they've received.

21 Our sales force is working very hard on

1 optimal placement of our equipment and our point of
2 sale, educating the retailers on how to sell the Lottery
3 successfully. And now they're able to see and feel
4 better about their efforts instantly.

5 Thank you very much.

6 And I'm happy to entertain any questions.

7 CHAIR MASS: Commissioner Fortunati, any
8 questions?

9 COMMISSIONER FORTUNATI: I'm taking a lot of
10 notes and I'm learning here.

11 But very good. It's good learning. And I can
12 see, I'm starting to understand all of this. Very good.

13 MS. TONG: Thank you.

14 CHAIR MASS: Commissioner Menchaca?

15 COMMISSIONER MENCHACA: How do we decide which
16 one of these programs we take on a statewide basis and
17 which ones we just focus -- take a more focused
18 approach, say, to San Francisco and Los Angeles, where
19 we have the highest population and the highest sales?

20 MS. TONG: Our initial pilot program, we chose
21 San Francisco district because it had the variety of

1 demographics we're looking for that represented the
2 state. It also had a combination between suburban,
3 urban, rural, and metro communities.

4 And so we ran the seven components there; and
5 we only chose the four that were truly successful based
6 on the statistical results.

7 The piloting program we're continuing in
8 San Francisco -- because there are a few more components
9 that didn't flesh out during the original three months
10 that we really think we're on to something, but we need
11 a little more time to assess.

12 For example, visitation. For future piloting,
13 we may actually choose other offices, depending on what
14 the component is that we're trying to increase business
15 on.

16 You'll be hearing later from other work
17 streams on some measures that they're doing initiatives,
18 and then I think it will begin to come into play.

19 We use sales as a means of determining the
20 success, along with activation figures. But that's all
21 a part of the project charters, where we say, "Here's

1 our bench- -- this is ours -- and here are the
2 benchmarks to get us to our goal." And that is how we
3 track whether it's successful or not.

4 CHAIR MASS: Thank you, Commissioner.

5 I have a question: When you started this
6 process and the executive team said, "Hey, we're going
7 to do this RENEW Project," what were your expectations
8 for your division for sales?

9 MS. TONG: The very first number I remember is
10 Linh saying, "2.2 million, young lady."

11 So it's a huge number. And at the time, Joan
12 was initially saying, \$6 billion a year. So, wow, those
13 are huge numbers.

14 Coming from the field, we needed to break them
15 down into manageable chunks, achievable chunks. And
16 that's what part of our whole program is, is saying,
17 focusing on the sales-building activities that's going
18 to generate an immediate return that not only they can
19 see, but they can feel good about, and then continuing
20 that process in each individual visit they go to.

21 CHAIR MASS: I mean, did you think -- maybe to

1 get even more specific and then how you feel about it
2 now -- did you think that it was achievable that the
3 business that was 25 years old, that you had many staff
4 who had been doing things the same way year after year
5 because it seemed to work? Sales increased. And did
6 you think that it was going to be a successful effort --
7 RENEW was going to be a successful effort from a sales
8 standpoint?

9 MS. TONG: Personally, I thought it was very
10 excited about the opportunity to basically start the
11 Lottery all over again, in a lot of ways.

12 And I think the difficulty, like you just
13 mentioned, 25 years -- we've got a lot of mindset, we
14 have a lot of behaviors that we've been conditioned to
15 do. And now, through the variety of programs, we're
16 showing them that, you know, you need to focus on the
17 business. Don't worry about things that are beyond your
18 control because we could be worry-warts, and we're not
19 going to do anything -- go anywhere. So it's tough. We
20 still are sometimes reminding ourselves, "Hmm, we can't
21 do it, why, again? And why don't we have to do it that

1 way? Does it generate any revenue? Is it going to move
2 us closer to our goal?"

3 Sometimes a piece of paper is not necessarily
4 necessary. Maybe there's another action, or where we're
5 doing something that can be used in combination to
6 eliminate the redundancy and non-revenue-generating
7 activities is what we're driving toward.

8 CHAIR MASS: Thank you.

9 One thing, I thought it was really impressive,
10 the video that you created.

11 How do you distribute that to other retailers
12 so that they can see it?

13 MS. TONG: Oh, well, thanks to Sally and Doug,
14 it's actually on YouTube.

15 CHAIR MASS: Oh, really?

16 MS. TONG: Yes. And what we're hoping to
17 do -- and that's part of our retail communications
18 platform -- is, number one, our retailers, we have a
19 fantastic e-Biz. site which accumulates sales history
20 for them. And that will help them, of course, during
21 tax time, but also better understanding of managing

1 their Scratchers® business.

2 And so on that, we are developing
3 opportunities for them to get more information, more
4 education, and definitely to kind of, you know, shout to
5 the world: "Here's some fantastic things retailers are
6 doing. You can do it, too. Here's how simple it is.
7 And your DSRs can help you through this process."

8 So through that particular project -- you
9 know, it's the e-Biz. site, it's direct e-mails, it's
10 terminal messages, and it's our publications.

11 CHAIR MASS: Thank you. Thank you.

12 MS. TONG: Thank you.

13 MR. DiMASSA: Thank you very much, Michelle.

14 Now, I'd like to ask you to welcome Liz
15 Furtado.

16 Liz is the leader of the Scratchers®
17 End-to-End team. And she's the senior marketing
18 specialist in our Marketing department who's responsible
19 for developing all of the Lottery's Scratchers® games.

20 MS. FURTADO: Good morning, Commissioners.

21 I'll be taking you through the Scratchers®

1 End-to-End initiatives.

2 One of the first things that we looked at, was
3 the number of games that were being distributed by our
4 warehouses. When we started this review, we had over
5 50 games in active distribution. And even a few months
6 prior to that, we had over 70 games in distribution.

7 Since our average games carried by our
8 retailers is about 18 to 20, we knew this wasn't
9 benefiting us because some of those games were not
10 good-selling games, which were clogging the system and
11 preventing better-selling games from entering the
12 marketplace.

13 By removing over half of those games --
14 currently, we're at about 25 -- we're able to provide
15 players with games they prefer, and also provide
16 retailers with games that move quickly and increase
17 their profits.

18 The next thing we did, was created the
19 classification levels for our retailers based on sales.

20 And this is different than the segmentation levels that
21 Michelle just described, in that this is specifically

1 dealing with inventory management.

2 In the past, all of our retailers were treated
3 the same, whether they sold 2,000 a week or 200 a week.

4 And by creating these levels, we were able to provide
5 the appropriate services and customize our ticket orders
6 to better fit their needs.

7 We then quickly worked to revise the remaining
8 '09-10 product plan, to make better use of our prize
9 pay-outs and include core games that would provide for
10 additional sales in that year.

11 Because of this, we were able to launch an
12 additional \$5 game; and on May 27th of last year,
13 *Millions in Cash* was launched, which also had TV
14 advertising support.

15 Then we developed the '10-11 game plan to
16 include many of these key learnings. And some of the
17 highlights included launching games every three weeks
18 versus our normal four-week intervals in order to get
19 our high pay-out games in the market quickly. And
20 because of this, we were able to achieve over 90 percent
21 of high pay-out games by the end of September.

1 We also improved our prize structures and
2 created game profile templates which helped streamline
3 our game development process. And we also were able to
4 include seven \$5 games.

5 We launched our first \$5 holiday game; and
6 coming in May, we will launch our first \$5 crossword
7 game.

8 We also revised our vending and in-counter
9 display guides in order to ensure that the ideal mix of
10 games were always being carried.

11 We now also have a more proactive approach to
12 Scratchers® management, by making sure that everyone is
13 receiving Scratchers® sales information, and by meeting
14 frequently in order to make key decisions to target
15 specific areas that need improvement.

16 The initiatives that are still underway are
17 the complete review of our distribution process, which
18 includes our ticket-ordering system and warehouse
19 operations. We expect to have this review complete by
20 June of this year.

21 We're also conducting additional research on

1 Scratchers® themes, attributes, and price points that
2 will help predict the sales performance of games prior
3 to launching them.

4 We are currently at the beginning stages of
5 next year's product plan, again, taking into account our
6 key learnings from this year's experiences, and also
7 growing our player base and providing proven products in
8 order to maximize our sales and, in turn, increase our
9 contributions to education.

10 Our revenue and performance indicators include
11 weekly rate of sale, settlement, and validation reports,
12 where we closely monitor each and every game's
13 performance.

14 This next chart shows weekly sales based on
15 settlements starting in July, compared to last year's
16 weekly sales, which is the bottom line. And the
17 separation you see about the end of September there, is
18 when we achieved over 90 percent of our high pay-out
19 games and also coincides with the launch of our first
20 high pay-out advertising campaign.

21 So as you can see, for last week, compared to

1 last year, the same week, we are 21 percent higher.

2 This represents an increase of over \$7 million just for
3 last week alone.

4 This concludes my presentation.

5 Are there any questions you have for me?

6 CHAIR MASS: Thank you.

7 Commissioner Menchaca?

8 COMMISSIONER MENCHACA: No questions.

9 CHAIR MASS: Commissioner Fortunati?

10 COMMISSIONER FORTUNATI: No questions. Thank
11 you.

12 CHAIR MASS: Thank you very much.

13 MS. FURTADO: Thank you.

14 MR. DiMASSA: Thank you, Liz.

15 Now, I'd like to ask you to welcome Ed Fong.

16 I think you all know Ed Fong. He's the leader of our
17 draw and jackpot games team. And Ed also serves as the
18 chief of Product Development.

19 MR. FONG: Good morning, Chairman Mass and
20 Commissioners.

21 My presentation will cover three initiatives

1 for a draw games category in terms of key findings and
2 next steps.

3 The first initiative was completing the
4 situation analysis for Hot Spots. To give you some
5 background, Hot Spot is California's version of a
6 keno-type game --

7 *(End of Tape 1-A. Start of Tape 1-B.)*

8 MR. FONG: It uses minimal marketing
9 resources, and little, slight tweaks or pause or
10 reinforcements that could translate into harder sales
11 for this game.

12 From the situation analysis, we conducted two
13 Internet player research studies that updated our player
14 demographic data, which gained new insights into how our
15 players receives our monitored game, which is Hot Spot.
16 In terms of opportunities for refinement, the key
17 elements that rose to the top from our player studies
18 and industry best practices were: Number one,
19 additional spots and higher pay-outs generated more
20 interest in the game with our players. There was also
21 very strong brand equity with the Hot Spot name with our

1 core players.

2 Bulls-Eye, too, was an important feature for all player
3 segments: From our core players to our lapsed players -
4 - or, really, infrequent players, I should say. Because
5 nearly half of all players that played Hot Spot played
6 the Bulls-Eye feature. The Bulls-Eye feature actually
7 allows players to win higher prize amounts by wagering
8 additional dollar per play per draw.

9 All player segments from the studies were also
10 interested in growing type of jackpots or higher prize
11 levels than the top prize of each spot. Players also
12 wanted to see new promotions and features for this game
13 because it kept them really interested in the game in
14 the long term.

15 There are also some retailer recruitment and
16 servicing opportunities that surfaced, too, from our
17 studies.

18 In terms of initiatives and in terms of
19 progress for Hot Spot, we actually identified some quick
20 wins for this game. The first one is that we probably
21 need to consider modifying the game to have all ten

1 spots with the Bulls-Eye feature for every single spot.

2

3 We also need to increase the prize pay-outs
4 for this game.

5 And we also want to add new features that can
6 actually refresh the game in about four or five months
7 after adding more spots to this game.

8 We also need to develop and launch master-type
9 programs throughout the state. These programs are great
10 ways to interact directly with the players and bring
11 excitement back at the retail level, with the players as
12 well as the Lottery.

13 In terms of revenue and KPI headlines for the
14 Hot Spot game, we tested various higher pay-out
15 scenarios this fiscal year to gauge the sales response
16 from players. To no surprise, higher pay-out promotions
17 generated higher sales. From these promotions, it
18 actually helped us determine the optimum overall pay-out
19 level for this game should fall between 62 to
20 64 percent.

21 And should we increase these prize pay-outs to

1 62 percent, we could potentially increase sales by
2 24 percent for this game.

3 The second initiative was completing the
4 situation analysis for our jackpot games, which is for
5 SuperLOTTO Plus® and MEGA Millions. The prior work
6 stream that conducted several player studies, they
7 proceeded to test other game designs without success.
8 So we decided to take a look at these same studies in a
9 different way. We want to understand the key issues
10 that players express in terms of: One, do they really
11 want a new game; two, was it more of a communication
12 issue with the current game that we face; or was it
13 something else?

14 Here are some of the findings from the prior
15 research studies.

16 SuperLOTTO Plus® is in a long-term decline
17 since MEGA Millions was actually launched, or introduced
18 back in 2005. And this is due to the reduction in
19 player spending and frequency of play.

20 Having low rollover response in the jackpots
21 just aren't growing -- they're growing very slowly.

1 SuperLOTTO Plus® just cannot compete with other
2 multistate games on a jackpot level because it takes
3 several more rolls to reach large jackpots than before.

4 SuperLOTTO Plus® also needs a very clear, compelling
5 proposition that will not be detrimental or negatively
6 compared with other jackpot games. And, plus, we need
7 to fully understand all player segments, all their
8 rationale and motivations to play SuperLOTTO Plus®,
9 because players actually express some confusion between
10 SuperLOTTO Plus® and MEGA Millions.

11 Our Super Lotto players are older and the
12 player base is shrinking. We believe a large number of
13 players, which are core players, are the ones that are
14 continuing to play this game.

15 On the plus side, SuperLOTTO Plus® is the most
16 recognizable brand in California. There's also very
17 strong affinity for SuperLOTTO Plus® with Californians.

18 There's also very strong, positive attitudes towards
19 SuperLOTTO Plus® with the existing players. They feel
20 it is their game or it is California's game.

21 SuperLOTTO Plus® is also still a very viable

1 game; and the rate-of-decline has simmered to about
2 \$4 million a draw, which is good because there's no
3 longer urgency to make premature, drastic changes to
4 this game.

5 There are still some player issues we need to
6 address, though. And there are heavy marketing costs to
7 launch any type of new game that might be cost
8 prohibitive in terms of ROI.

9 And we also need very -- we need to be very
10 cautious with any type of game changes because other
11 states, in similar issues that we're experiencing right
12 now, have tried to change their game and have failed
13 miserably.

14 In terms of initiatives for progress for
15 SuperLOTTO Plus®, we also identified some quick wins for
16 this game when we examined repositioning and perhaps
17 differentiating this game by leveraging the California
18 theme and capitalizing on the affinity players have for
19 SuperLOTTO Plus®. We need to regain the top-of-mind
20 awareness, the saliency this game could bring through
21 our own Lottery-owned devices. And we have several of

1 those devices here.

2 We also need to develop some value-added
3 programs: A second-chance feature, some purchase
4 incentives. And you can actually promote winner
5 awareness at retail, too. And we want to use our
6 advertising, promotional agencies to brainstorm some
7 potential gaming ideas, that, at that time, we can
8 actually develop into maybe a possible game or promotion
9 for SuperLOTTO Plus®.

10 And we also investigate a subscription program
11 and perhaps a loyalty program for SuperLOTTO Plus® to
12 keep our core players interested in our game.

13 In terms of revenue and KPI headlines for this
14 game, if we do nothing for this game right now, staff
15 estimates that SuperLOTTO Plus® sales will continue to
16 decline about 5 to 15 percent over a 12- to 18-month
17 period.

18 The third initiative was addressing a change
19 for Fantasy 5.

20 So more background for this game here.

21 Fantasy 5 is a game that started back in 1992. It has a

1 5-of-39 matrix. And in 1995, we added a \$5 purchase
2 incentive to this game. Players who purchased \$5 or
3 more receive a coupon that enabled them to appear on the
4 Lottery's TV show for a chance to win \$150,000.

5 In 2009, though, we ended the TV show. But we
6 developed a program to maintain that \$5 purchase
7 incentive. That program was called Bonus Bucks.
8 Players enter codes at the Lottery Web site by
9 purchasing \$5 or more of Fantasy 5 plays, and had a
10 chance to win prizes and weekly drawings.

11 How did that program perform? The Fantasy 5
12 Bonus Bucks program is a self-funded program that awards
13 15 weekly prizes that total \$42,000.

14 Since this program was launched, we have
15 maintained sales levels at the lower rolls, and actually
16 increased sales at the higher rolls. And we actually
17 experienced up to a 29 percent increase in sales during
18 those 1 to 5 roll periods.

19 This concludes my presentation.

20 Are there any questions from the
21 commissioners?

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1 CHAIR MASS: Commissioner Menchaca?

2 COMMISSIONER MENCHACA: No questions.

3 CHAIR MASS: Commissioner Fortunati?

4 COMMISSIONER FORTUNATI: No questions.

5 CHAIR MASS: Thank you, Ed.

6 MR. DiMASSA: Thank you, Ed.

7 And, now, I'd like to ask you to welcome
8 Leticia Saldivar, who is the leader of our Marketing
9 team.

10 And Leticia also serves as the Lottery's chief
11 of Consumer Marketing and Advertising.

12 MS. SALDIVAR: Good morning, Chairman Mass,
13 Commissioners.

14 The initiatives completed, first item, is the
15 general market RFP.

16 Last year, Marketing staff researched industry
17 agency review best practices, and worked with an agency
18 review consultant to update the Lottery's procurement
19 process. A key change was to include a semifinalist
20 phase to the RFP process. The additional phase allowed
21 the Lottery evaluation team more face-to-face meeting

1 time with agencies, to better assess their
2 qualifications, philosophy, and staff experience. This
3 and other key learnings were incorporated into the
4 Lottery's general market advertising RFP procurement,
5 which led to the successful award of the general market
6 advertising services contract to David&Goliath, which
7 the Commission approved last October.

8 The next item, was the 2010-11 marketing plan.
9 The 2010-11 marketing plan was developed to support key
10 business initiatives such as marketing MEGA Millions and
11 marketing Scratchers®.

12 In the past, we had supported the SuperLOTTO
13 Plus® brand and jackpots with advertising. But our
14 analysis found, due to limited ad budgets, our dollars
15 were best spent supporting the MEGA Millions game and
16 the higher jackpots it brings.

17 The marketing MEGA Millions initiative
18 relaunched the fantasize positioning, along with the
19 consumer-tested, *"Imagine What a Buck Could Do"*
20 advertising campaign in support of jackpot alerts.
21 The advertising support for MEGA Millions was focused in

1 key markets with the greatest sales potential. Those
2 markets were Los Angeles and San Francisco.

3 I'd like to show you the latest
4 consumer-tested TV ad we launched on January 3rd to
5 freshen the MEGA Millions "*Imagine What a Buck Could Do*"
6 campaign. This spot was created by our Hispanic
7 advertising agency partner, Casanova Pendrill, and airs
8 in both general and Hispanic markets. It's titled, "*Fun*
9 *House.*" This is the spot that Linh had mentioned
10 previously.

11 Or not.

12 (*The presentation was played as follows:*)

13 *Announcer: The Ramirez family has won*
14 *MEGA Millions and turned their house into a fun*
15 *house."*

16 (*Music played.*)

17 *Announcer: MEGA Millions: Imagine what a*
18 *buck could do.*

19 (*The presentation ended*)

20 MS. SALDIVAR: The next initiative under the
21 2010-11 marketing plan was marketing Scratchers®.

1 As previously mentioned, in April 2010, AB 142
2 was signed into law, which gave the Lottery greater
3 flexibility to set higher prize pay-outs to attract more
4 players.

5 On September 13th, 2010, the Lottery kicked
6 off the higher prize pay-outs advertising campaign to
7 announce this change and benefit to players.

8 A second statewide Scratchers® advertising
9 effort ran in December to reinforce Scratchers® higher
10 prize pay-out messaging during the key holiday season.
11 The objective of higher prize pay-out advertising was to
12 increase sales and ultimately, meet Scratchers® sales
13 goal for the year.

14 Now, I'd like to debut our latest commercial,
15 as Linh mentioned. This is the first TV spot created by
16 our new agency partner, general market agency partner,
17 David&Goliath, that will begin airing February 14th in
18 Los Angeles, San Francisco, and Sacramento, in support
19 of the \$5 *Set For Life* Scratchers®.

20 This spot also tested well in both general and
21 Hispanic markets, and will run in both.

1 (A presentation was played as follows:

2 [Theme from "The Jeffersons" was played.]

3 MAN: Excuse me, what's your name?

4 PHIL: Phil.

5 THE AUDIENCE: Welcome, Phil!

6 [Theme from "The Jeffersons" was played.]

7 ANNOUNCER: Join the Set For Life club.

8 Play the Set For Life Scratchers® with a

9 chance to win a hundred grand a year for

10 20 years.

11 [The presentation ended.]

12 MS. SALDIVAR: Thanks, Rudy.

13 Technical difficulties.

14 MAN: It's my only job, and I can't do it

15 right.

16 CHAIR MASS: You've been here 25 years. Come

17 on.

18 MS. SALDIVAR: It's a new computer.

19 MAN: When I started, they didn't have them

20 yet.

21 There we go.

1 MS. SALDIVAR: There we go.

2 Moving on to initiatives in progress, the
3 first initiative in progress to discuss is marketing
4 ROI, also known as media analytics, also known as
5 econometrics.

6 But basically, what does this do for the Lottery? To
7 state it simply, if we had \$2 million to spend, it's
8 going to tell us how to best spend that money.

9 Currently, we do some research today; but this
10 initiative will help us refine our media planning and
11 spend allocations.

12 The next item is marketing communication
13 processes. Taking advantage of the Lottery's RENEW
14 efforts, we believed it was a good time to review and
15 evaluate marketing processes. This initiative will
16 document marketing processes starting from the research
17 phase, through the performance measures for the
18 following areas: Consumer marketing, retail marketing,
19 experiential marketing, and online marketing.

20 By defining, documenting, and streamlining the
21 marketing processes, future business activities such as

1 decision-making and efficiencies would be enhanced.

2 The next initiative in progress is the
3 Hispanic market advertising services RFP. As previously
4 mentioned, our current Hispanic market advertising
5 services contract will expire at the end of this year.
6 The Marketing staff utilize the proven and successful
7 general market procurement process that incorporated
8 industry best practices into the recently released
9 Hispanic market advertising services RFP.

10 For the 2011 and 2012 advertising plan, we are
11 in the process of developing an advertising plan for the
12 upcoming fiscal year that supports key business
13 initiatives. We will begin using the media analytics or
14 econometrics model that will identify campaign factors
15 we can influence. For example, where to advertise and
16 which media vehicles to use, to increase future sales
17 and measure the effectiveness of marketing spend.

18 Under the key performance initiative
19 headlines, MEGA Millions: From the start of the fiscal
20 year through the week ending February 5th, sales for
21 MEGA Millions are over \$61 million, or 23 percent higher

1 than sales for prior draws at comparable jackpots.

2 (Applause)

3 MS. SALDIVAR: For Scratchers®, unaided game
4 awareness was measured by the Lottery's communication
5 effectiveness tracking study. And it went from
6 29 percent prior to the September 13th advertising
7 campaign, to 50 percent after.

8 For playership, playership levels also
9 increased. Prior to advertising on September 13th,
10 Scratchers® past-year playership was around 20 percent.

11 And after the statewide higher prize pay-out
12 advertising effort, past-year playership showed an
13 increase of 7 percent.

14 Past-month or current playership for
15 Scratchers® was equally strong, going from 11 percent
16 prior to the campaign launch, to 18 percent after.

17 Thank you.

18 If you have any questions, I'd be happy to
19 answer them.

20 CHAIR MASS: Thank you.

21 Commissioner Menchaca?

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1 COMMISSIONER MENCHACA: Yes. The clip that
2 you just debuted this morning, is that going to be in
3 Spanish also, or is it just in --

4 MS. SALDIVAR: We'll run it in both general
5 and Hispanic market.

6 COMMISSIONER MENCHACA: But would it be in
7 the Spanish language?

8 MS. SALDIVAR: Everything except for the song
9 will be in Spanish language, absolutely.

10 COMMISSIONER MENCHACA: Okay, very good.
11 Thank you.

12 MS. SALDIVAR: And it was tested in that
13 market. Basically, we wanted to make sure that the song
14 would fit. And it sets the celebratory mood for the
15 commercial. So it was very well accepted within that
16 community.

17 CHAIR MASS: Commissioner Fortunati, any
18 questions?

19 COMMISSIONER FORTUNATI: No.

20 CHAIR MASS: Thank you very much. Thank you.

21 MS. SALDIVAR: Thank you.

1 MR. DiMASSA: Thank you, Leticia.

2 And last, but not least, I'd like to introduce
3 the newest member of the Lottery Sales and Marketing
4 team, John Reilly.

5 And as I look behind us, the last four
6 presenters, I think each have 20 years, right? I know,
7 20, 20, 20, 25.

8 MAN: Thanks for finding us, Rudy.

9 MR. DiMASSA: So I'm not the only one.

10 And John has a year and a half.

11 LADY: Yay, John.

12 MR. DiMASSA: But John actually joined us from
13 the private sector a little more than a year ago, and he
14 is the leader of the digital communications and public
15 Web site team.

16 John is also responsible for developing,
17 implementing, and maintaining our new and exciting
18 online marketing program.

19 MR. REILLY: Good morning.

20 Several years ago, it was determined by staff
21 that the existing public Web site's foundational

1 structure or architecture could not sustain enhancements
2 the Lottery wanted to employ to increase the overall
3 activity on the site.

4 It was concluded that this digital channel was
5 underutilized, and could be more than a source for
6 winning numbers.

7 Staff's strategic objective for the new
8 Web site is to transform the existing Web site from a
9 purely informational channel, to an entertainment
10 destination site for use as a key marketing tool to
11 drive sales and ultimately increase the contribution to
12 education.

13 The new public Web site project was initiated
14 during the second that quarter of fiscal year '09-10.
15 After an extensive RFP process, the successful bidder,
16 Solution Set, began work during the last weeks of
17 June 2010.

18 The project has four distinct phases.

19 The first phase is the define phase, which is
20 the process whereby the project team, in conjunction
21 with Solution Set, identified business challenges, the

1 various audiences, the current landscape or best
2 practices, consumer insights, and general goals and
3 objectives the Lottery wanted to achieve from a new
4 Web site.

5 These goals and objectives included increasing
6 sales, improving brand image, and increasing visitor
7 efficiency. The results of this phase provide the basis
8 for Phase 2.

9 Phase 2 is the design phase, which is the
10 process of developing a specific marketing plan for the
11 new Web site, including a variety of solutions to
12 achieve the stated goals and objectives.

13 The result of this phase was the approval of
14 the new look and feel of the site, along with site
15 attributes and navigation.

16 I'd like to show you a couple pages from the
17 new site to give you a flavor of the new look and feel.

18 On the screen is the new homepage. At the top
19 of the page is a main navigational bar that offers
20 visitors the information most of them seek in an
21 intuitive and easy-to-understand presentation. The

1 homepage also features a games bar that presents the
2 Lottery's entire game portfolio and important
3 information of each game in a player-selected format.

4 In addition, the homepage includes a winners
5 scroll bar, reinforcing to visitors that there are many,
6 many winners that play the Lottery.

7 Additionally, the home page has an extensive
8 amount of real estate, with the hero space above the
9 games bar, and flexible modules below it to promote,
10 inform, and entice visitors to become aware of the
11 Lottery's various value-added offers.

12 And last, the homepage has a super-footer.
13 Unlike most Web site footers, typically reserved for
14 legal and privacy policy information, we've used this
15 space to provide even more one-click links to specific
16 information sought by many visitors. This allows
17 secondary information that visitors want, to have the
18 visibility afforded primary information by being on the
19 homepage.

20 The other page of the new Web site I wanted to
21 show you is the casual games page, offering visitors an

1 opportunity to play games just for fun. This platform
2 will offer a variety of fun game styles, allowing
3 players to compete against themselves or even play
4 versus friends. The Lottery will also offer tournaments
5 as an additional source of entertainment. This platform
6 also enables the Lottery to communicate with players on
7 a regular basis with information that is important to
8 them as they routinely play games.

9 Integrating the existing second-chance program
10 platform, such as Replay and Fantasy 5 Bonus Bucks with
11 this new casual games platform creates a strong, initial
12 push, at offering visitors an entertainment destination.

13 The third phase of the project, which we are
14 working on at this time, is the development phase, or
15 the actual programming of the architecture for the site,
16 along with its navigational structure, and the
17 flexibility and scalability that will be available to
18 sustain future enhancements.

19 Once programming is complete, this phase
20 includes testing the functionality or navigation of the
21 site, its content and integration with information

1 sources.

2 We will utilize two testing methodologies,
3 each being approximately 30 days in duration.

4 The first testing methodology is the alpha
5 testing. All of the currently planned pages for the new
6 public Web site will have been developed. The content
7 on the pages will be accurate. And any required data
8 for the pages will be provided from a test source.

9 There will be no integration between the
10 different vendors that host pages within the site.

11 Based on the feedback from the alpha testing,
12 the next step is beta testing. At this point, all of
13 the new public Web site pages will be fully functional.

14 The integration of both page links and data uploads
15 from the various vendors providing information to the
16 public Web site will be working; or, in other words, a
17 fully functioning site.

18 The final phase of the public Web site project
19 is the deploy phase, or the launch of the new site.
20 Based on a successful beta test, a soft launch is
21 scheduled for this summer.

1 While not a formal process within the public
2 Web site project, once launched, there will be constant
3 refining of the site using site analytics to ensure
4 optimum performance.

5 An additional element within the scope of this
6 project is the creation of a digital marketing
7 communications department that will be responsible for
8 the online marketing program, which includes but will
9 not be limited to maintaining the new site, including
10 interfacing with other Lottery divisions regarding the
11 governance process for content changes, managing new
12 site initiatives and organizing player casual game
13 tournaments and player interactions.

14 The structure of this organization has been
15 submitted and progress is continuing.

16 With the availability of the new public
17 Web site's architecture, future functionality that will
18 be studied and implemented if research and business
19 practices dictate, are Check-a-Ticket functionality.
20 This will allow players to determine if they've won and
21 how much they've won by entering tickets online. And at

1 the same time, with the player's permission, that ticket
2 number will be automatically entered into the
3 appropriate second-chance program, creating greater
4 efficiency for the player and increasing redemption
5 rates into the second-chance program structure.

6 While the Lottery will announce next week the
7 exciting news that the existing Scratchers® Replay
8 program has just registered its one-millionth player and
9 surpassed 100 million tickets entered since inception of
10 the program in late May 2009, staff believes this
11 additional functionality will help increase the
12 redemption rate of non-winning tickets by integrating
13 Check-a-Ticket with the second-chance programs.

14 Another initiative to be studied, which may
15 coincide with additional functionality offered by GTECH,
16 is a rewards or loyalty program that will further create
17 second-chance entry efficiencies and provide the Lottery
18 with player purchase history to offer reward points
19 which the player can then, in turn, use to enter bonus
20 draws.

21 Once the new site goes live, staff will be

1 focused on several key-performance indicators, including
2 the number of visitors, the length of time visitors
3 spend on the site, the number of pages viewed, as
4 visitors dive within the site.

5 Additionally, staff will track the number of
6 players that register in the second-chance programs as
7 well as Jackpot Captains, which is a program established
8 for those Lottery groups that play Lottery games as a
9 team.

10 Furthermore, staff will monitor all casual
11 game play, the most popular games, and other metrics
12 associated with the casual game platform.

13 Thank you, Chairman and Commissioners.

14 Are there any questions?

15 CHAIR MASS: Commissioner Fortunati?

16 COMMISSIONER FORTUNATI: I have one question.

17

18 Are other lotteries, in other states, issuing tickets
19 online to play?

20 MR. REILLY: I don't believe they are.

21 I could research that and get back to you on

1 that, but I don't believe they are.

2 ACTING DIRECTOR NGUYEN: No, I think some
3 states have subscription programs for some of their
4 games, but none of them are actually selling tickets
5 directly online.

6 CHAIR MASS: Commissioner Menchaca?

7 COMMISSIONER MENCHACA: Yeah, I know under the
8 statute, the Lottery statute, we're prohibited from
9 having any Lottery games played online.

10 Does the second-chance program or the bonus
11 draw program, is that in any way a violation of that
12 legislation?

13 ACTING DIRECTOR NGUYEN: No. All it is, is an
14 entry method. And so there are no transactions
15 occurring online.

16 CHAIR MASS: Just onto something related,
17 going forward, to the extent that legislation is relaxed
18 or it's changed to include Internet sales, which
19 obviously back in 1984, when the Act was started to be
20 written, it wasn't contemplated -- the Internet was
21 never contemplated. Is the Web site -- the new

1 Web site -- versatile enough that you could add that
2 component onto it or does it need to be totally revamped
3 at that point in time?

4 MR. REILLY: It is versatile. That was an
5 important requirement that our ITSD division was adamant
6 about. And they have been an important part of this
7 project, to make sure we have that flexibility and
8 scalability in working with the different vendors that
9 are developing this Web site.

10 So, as I said, that is one of the main reasons
11 we chose to move to the new Web site, is for that
12 ability to have additional functionality in the future
13 however, you know, laws are passed or what we're allowed
14 to do.

15 CHAIR MASS: Thank you very much.

16 Any other questions?

17 COMMISSIONER MENCHACA: No.

18 CHAIR MASS: Thank you.

19 MR. DiMASSA: Okay, well, we're done.

20 Thank you for your patience. And we look
21 forward to giving you another status report in the

1 future.

2 CHAIR MASS: Thank you.

3 COMMISSIONER MENCHACA: Thank you.

4 COMMISSIONER FORTUNATI: Thank you.

5 ACTING DIRECTOR NGUYEN: Okay, the next item
6 on the Director's report, is the annual investment
7 portfolio restructuring report.

8 And I'd like Michael Ota to come and present
9 that.

10 MR. OTA: Good morning, Chairman and
11 Commissioners.

12 Before I start, I'd like to reintroduce Joel
13 Tokimitsu, who is the Lottery's investment officer, and
14 a real driver and brain-trust behind the Investment
15 Restructuring Program.

16 One of the requirements of the Lottery's
17 investment policy is that a comprehensive report on our
18 Investment Restructuring Program be provided to the
19 Commission no less than annually.

20 Today, I'm pleased to present the Lottery's
21 first annual Investment Restructuring Program report.

1 I'd like to begin by saying, the California's
2 Lottery's Investment Restructuring Program achieved
3 \$61 million of net proceeds. The net proceeds were
4 earned during a 14-month period beginning May 2009 and
5 ending in June 2010.

6 The Investment Restructuring Program involved
7 replacing a portion of our \$1.5 billion U.S. Treasury
8 security investment portfolio with higher-yielding U.S.
9 agency securities and municipal securities.

10 34 percent of that \$61 million of net proceeds
11 went directly to education. The remainder was utilized
12 to increase prize pay-outs, fund marketing efforts, and
13 also our RENEW initiatives.

14 The end result, the proceeds from investment
15 restructuring enabled the Lottery to generate higher
16 sales and greater contributions to public education in
17 fiscal years 2008-09 and 2009-10.

18 And while we are very proud of the results of
19 our efforts, we are just as proud of the manner in which
20 it was accomplished.

21 The Investment Restructuring Program took

1 place using prudent investment standards that are the
2 foundation of the Lottery's investment policy.

3 As we explained in the annual report, risk
4 management was essential throughout the process.

5 In the report, you will see the terms "sufficiency of
6 cash flow" and "safety of capital" as key components of
7 our risk management strategy.

8 "Sufficiency of cash flow" simply means that
9 we purchase investments to provide cash in the future
10 for our annuity prize winners. Therefore, as we made
11 decisions to swap our U.S. Treasuries for U.S. agency
12 securities and municipal securities, it had to be done
13 in a manner that maintained the same future cash flow
14 for our prize winners.

15 "Safety of capital" addresses the fact that by
16 swapping U.S. treasuries for the other investment
17 securities, it added a small element of risk to our
18 investment portfolio. The added risk is primarily with
19 municipal securities.

20 The risk was addressed through two means:

21 One, by requiring minimum credit ratings for those

1 municipal bonds, which we describe on page 3 of the
2 annual report; and, two, diversification of our
3 investment portfolio, which we describe on pages 4 and 5
4 of the report.

5 The Investment Restructuring Program was
6 essentially completed in June of 2010. We achieved
7 \$61 million from our efforts, while building an
8 investment portfolio of well-diversified safe and secure
9 investments.

10 A few highlights of our portfolio from the
11 report:

12 At completion of our restructuring efforts,
13 the investment portfolio was comprised of 32 percent of
14 U.S. Treasury securities, 31 percent of U.S. agency
15 securities, and 37 percent of municipal securities.
16 And what that means is that 63 percent of our investment
17 portfolio is either -- is backed by an explicit or
18 implicit guarantee by the United States government.

19 The remaining 37 percent of the portfolio is
20 allocated to investment-grade municipal bonds, primarily
21 general obligation bonds. And general obligation bonds

1 are backed by the taxing authority of the state or local
2 issuer, and are considered to be among the safest
3 municipal bonds.

4 Earlier, I stated the Lottery's Investment
5 Restructuring Program essentially completed in
6 June 2010. The financial markets have changed
7 considerably since we first introduced investment
8 restructuring.

9 We do not anticipate opportunities to further
10 leverage our investment portfolio in the near future.
11 So moving forward, the Lottery's investment activities
12 will focus on the business as usual activity of
13 purchasing securities for our annuity prize winners and
14 activities to manage investment risk. However, we'll
15 continue to keep an eye on opportunities to utilize our
16 investment portfolio and take advantage of those
17 opportunities to advance our mission of maximizing
18 contributions to public education and keeping up the
19 Lottery's investment safe and secure.

20 That completes my report.

21 I'd be happy to take any questions.

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1 CHAIR MASS: Commissioner Menchaca?

2 COMMISSIONER MENCHACA: I have no questions.

3 CHAIR MASS: Commissioner Fortunati?

4 COMMISSIONER FORTUNATI: No questions.

5 CHAIR MASS: Thank you very much.

6 Is that all you have, Director?

7 ACTING DIRECTOR NGUYEN: Yes.

8 CHAIR MASS: Terrific.

9 The next item on the agenda is the consent
10 calendar. This item is going to be taken up and voted
11 without staff presentation, unless one of the
12 commissioners requests that it be discussed.

13 The first item is the Microsoft Enterprise
14 licensing act agreement purchase.

15 Do any of the commissioners have any questions
16 on consent calendar Item 8.a?

17 Commissioner Menchaca?

18 COMMISSIONER MENCHACA: No questions.

19 CHAIR MASS: Commissioner Fortunati?

20 COMMISSIONER FORTUNATI: No questions.

21 CHAIR MASS: Then do I hear a motion to

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1 approve consent calendar Item 8.a?

2 COMMISSIONER FORTUNATI: I'll make a motion.

3 CHAIR MASS: Second?

4 COMMISSIONER MENCHACA: Second.

5 CHAIR MASS: Can the secretary please take

6 roll?

7 MS. TOPETE: Commissioner Menchaca?

8 COMMISSIONER MENCHACA: Yes.

9 MS. TOPETE: Commissioner Fortunati?

10 COMMISSIONER FORTUNATI: Yes.

11 MS. TOPETE: Chairman Mass?

12 CHAIR MASS: Yes.

13 The next item on the agenda is action Item

14 9.a. It's the financial services contract. And I think

15 Roberto is going to be presenting that.

16 MR. ZAVALA: Good morning, Chairman Mass and

17 Commissioners.

18 The action item before you today is requesting

19 that the California State Lottery Commission consider

20 approving a contract award to KPMG for financial

21 auditing-related services.

1 Some background for you: Government Code
2 section 8880.46.5 states, "The Lottery shall engage an
3 independent firm of certified public accountants to
4 conduct an audit of all accounts and transactions."

5 The Lottery's current contract, or past
6 contract, expired on December 31st, 2010.

7 On October 1st, 2010, RFP No. 1105 was
8 publicly advertised, e-mailed, and mailed to 32
9 potential vendors. The RFP was also advertised in the
10 Small Business Exchange, Disabled Veteran Voice,
11 Bidsync, and the Lottery Interplay News.

12 The Lottery received ten intent-to-bids and
13 ultimately received five proposals.

14 Just to walk you through the evaluation
15 process that we went through: Lottery staff evaluated
16 the proposals based on these factors: Mandatory
17 submittals, meaning, that, did all bidders submit
18 required documents? All five proposals passed.

19 The Small and Disabled Veterans Business
20 Enterprise evaluations also took place. And the
21 question there is, did all bidders pass the DVBE and

1 small-business participation requirements; and all five
2 bid proposals did pass.

3 The next step was to do the rated submittals
4 evaluation. The evaluation team rated and compared
5 proposals in four categories, rating them in the areas
6 of -- well, rating them as "superior," "significantly
7 exceeds," "exceeds," "meets," "meets with exceptions,"
8 and "does not meet."

9 The bidders were evaluated on the following
10 items: Background, experience, and capabilities;
11 personnel education and work experience; company and
12 account-team organization charts; and their work plan.

13 The final step of the evaluation process
14 included a review of the price proposal assessment.
15 Price proposals were revealed only after completing the
16 first three steps of the evaluation process.

17 Now, for the results.

18 Pursuant to the Lottery Act and the terms of
19 the RFP, the contract is to be awarded to the bidder
20 with the best value to the Lottery. Three bidders
21 received overall "significantly exceeds" for the overall

1 rated submittals evaluation, including KPMG. However,
2 KPMG was the only proposal to achieve a "superior"
3 rating for the category of personnel, education, and
4 work experience.

5 And lastly, KPMG also submitted the
6 second-lowest price. That said, Lottery staff believes
7 the proposal submitted by KPMG provides the overall best
8 value for the Lottery.

9 Therefore, the Lottery staff recommends that
10 the Commission approve the contract award to KPMG to
11 provide financial auditing and related services for
12 three years, with the option to extend up to two
13 one-year periods. The total amount of the contract
14 spending authority is \$700,000.

15 And with that, I'd like to take any questions.

16 CHAIR MASS: Thank you, Roberto.

17 Commissioner Menchaca?

18 COMMISSIONER MENCHACA: Yes.

19 You sent out the proposal to how many firms?

20 MR. ZAVALA: We sent out proposals to 32 firms
21 that we listed, that were available on our database, and

1 also the firms that we -- my office specifically looked
2 at trying to get. In fact, we did try to send out -- or
3 we did send out --

4 COMMISSIONER MENCHACA: Let me just interrupt.

5 I meant the request for proposal is what I
6 meant, not the proposal itself, okay, just to be clear
7 on that.

8 MR. ZAVALA: Yeah.

9 COMMISSIONER MENCHACA: Okay, so continue.

10 MR. ZAVALA: We solicited them to -- again, to
11 the 32 prospective clients, or potential bidders; and we
12 also sent it out to the Big 4, meaning, we sent it out
13 to KPMG, PriceWaterhouse, Deloitte and Touche, and
14 Ernst & Young, and KPMG was the only Big 4 firm that we
15 were able to get a bid on.

16 We also got bids from regional firms as well,
17 and also we got a bid from a local firm here in town.

18 COMMISSIONER MENCHACA: Do you know how many
19 Lotteries KPMG audits?

20 MR. ZAVALA: Currently, the Lottery -- or KPMG
21 has a wide range of experience with other Lotteries,

1 including -- I believe including the New York State
2 Lottery, Massachusetts Lottery, and I believe they have
3 other lotteries as well, some of the bigger lotteries in
4 the nation.

5 I can have, actually, a representative from
6 KPMG give you more of a specific identification, if you
7 want, of the lotteries that they have.

8 COMMISSIONER MENCHACA: I don't need that at
9 this time.

10 But I have no further questions.

11 CHAIR MASS: Commissioner Fortunati?

12 COMMISSIONER FORTUNATI: Yes.

13 They have been the only auditing firm for --

14 MR. ZAVALA: Correct.

15 COMMISSIONER FORTUNATI: So how many audits --
16 they do this every five years? Every three?

17 MR. ZAVALA: Well, the audits happen every
18 year annually by law.

19 COMMISSIONER FORTUNATI: By contract? I meant
20 how many contracts. I'm sorry.

21 MR. ZAVALA: The contract, the last time

1 that --

2 This contract that just ended began in 2006,
3 for a five-year period. Prior to that, it was also a
4 five-year contract -- or, actually, it's a three-year,
5 plus two years. And that was back in 2000 -- 2001 or
6 2002.

7 And prior to that, I believe -- I'd have to go
8 back to some records -- but I believe it's always been a
9 five-year clip, or a five-year cycle.

10 COMMISSIONER FORTUNATI: Okay. And do you
11 know why the other three Big did not want to submit a
12 proposal?

13 MR. ZAVALA: Frankly, I can't answer that for
14 you.

15 We did reach out. We did contract the
16 contracting office for those firms; and we did get their
17 specific person that we e-mailed and spoke to on the
18 phone, asking them if they would like to bid on our
19 work.

20 But that's all we can do, really.

21 COMMISSIONER FORTUNATI: No more questions for

1 me.

2 CHAIR MASS: And who does the evaluation
3 process? The "superior," "meets," "exceeds," "doesn't
4 meet"? Is it internally, within the audit department
5 that's evaluating or is that --

6 MR. ZAVALA: Actually, the evaluation team is
7 made up of myself as the chairperson. Also, my
8 immediate manager that works for me, she was part of the
9 team as well. And including a representative from the
10 Finance division, she's the assistant deputy for Michael
11 Ota.

12 And the three of us did a rating evaluation on the
13 different bids, the five bids.

14 CHAIR MASS: Does any member of the public
15 wish to address the Commission on this issue?

16 Sir, what's your name?

17 MR. MACIAS: Ken Macias.

18 CHAIR MASS: Please, come forward.

19 MR. MACIAS: Where would you like me to sit?

20 CHAIR MASS: Next to Roberto.

21 MR. MACIAS: I did fill out a card.

1 Can you hear me?

2 CHAIR MASS: Yes.

3 MR. MACIAS: Commissioner Mass and
4 Commissioners, thank you for allowing me to speak on
5 this topic. I'm Ken Macias. I'm the founder and chair
6 of Macias, Gini & O'Connell. It's a regional firm, very
7 big. Seven offices, 250 people.

8 I first want to start off by thanking Roberto
9 Zavala and also Laura Lee Rogers of your staff. They've
10 been totally professional during this process. And I
11 appreciate the transparency of information and their
12 professionalism.

13 I first want to start off by saying that I
14 would like to ask the Commission not to follow the
15 staff's report, and to consider MGO, a regional firm,
16 that is one of the ones that got the "significantly
17 exceeds" in all areas, affirmed since it appears that we
18 were highly rated, and considering everything else, at
19 least to me, that we were in second place.

20 And I'd like you to consider this because we
21 are a large firm. We have experience in this area. We

1 do 17 lotteries on our team. And we became the largest
2 Hispanic CPA firm in the nation, and we're one of the
3 top 200 Hispanic companies in the nation.

4 Other points is that I think you've had KPMG
5 since 1986, since the inception of this Lottery. And
6 there are best practices out there, where it says that
7 you should rotate firms. In fact, the Governmental
8 Accounting Auditing Standards recommend that you don't
9 go to this sort of continuing relationship with the CPA
10 firm because of the perception of independence.

11 Now, that's a soft -- a soft standard in this
12 area. But let me tell you, there are other governmental
13 organizations, although this is an enterprise government
14 organization, it's still a government organization that
15 follows generally accepted auditing standards. And many
16 of those organizations have a routine rotation policy.

17 Number two, this auditing firm also does all
18 the other things, other audits for you. For example,
19 they have audited the security work; they audit your
20 drawings. And, actually, that's a second recommendation
21 that I give to the Commission: That the drawing audits,

1 their contract will be up at the end of this year. They
2 will have two -- three one-year options for renewal.

3 And I would ask that you direct your staff to go back
4 out to bid for that, at least as a minimum, in addition
5 to the security audit, that will be out to bid in 2012.

6 And, of course, we'll bid on it because we have
7 experience in that.

8 The other thing is, as far as the ratings.
9 There were three firms that were rated, you know,
10 "Exceeds expectations." And then there was the one
11 firm, KPMG, that was rated "superior."

12 Now, they were rated superior because, after
13 all, they do the only Lottery in the state of
14 California.

15 I could have been rated superior if you would have
16 looked at our firm in terms of education. Many of us
17 have graduate degrees, and really specialize in this
18 area of governmental enterprise auditing. In fact, I've
19 been on -- and many members of our team -- have been on
20 national auditing standards boards for governments
21 alone.

1 So the word "superior" is just a fine-tooth sort of
2 thing. A fine line there.

3 So, anyway, I close by saying thank you, thank
4 you to your staff; and I hope you would consider our two
5 recommendations.

6 And I'm available for any further questions.

7 CHAIR MASS: Thank you. Thank you,
8 Mr. Macias. Do you have any questions,
9 Commissioner Menchaca?

10 COMMISSIONER MENCHACA: Mr. Macias, thank you
11 very much for addressing the Commission.

12 The only question I had was, are you able, in
13 this case maybe 30 seconds, to let us know which
14 specific lotteries your firm specifically audits?

15 MR. MACIAS: Well, actually, a couple of years
16 ago, we did do the audit of the drawings that were here
17 at this Lottery. That was in the nineties. We rotated
18 off, and KPMG got the work back.

19 Part of our team, we've done the New Jersey
20 Lottery and some other lotteries back east. But those
21 are off the top of my head right now.

1 CHAIR MASS: If I may ask, just related to
2 that -- do you mind, Commissioner Fortunati -- are these
3 members of your team who did it at a prior firm or
4 within your firm currently?

5 MR. MACIAS: Well, actually, myself, as far as
6 the drawing on it, so I was part of this team, and then
7 other members of our team were -- are still on our team
8 that would be doing the work, had done the drawing
9 audits.

10 Members of our team also have --

11 *(End of Tape 1-B. Start of Tape 2-A.)*

12 CHAIR MASS: Any questions?

13 COMMISSIONER MENCHACA: What would be the
14 alliance agreement?

15 MR. MACIAS: The alliance agreement?

16 We have a formal agreement with many firms
17 across the nation. Not -- you know, as you probably
18 know, there isn't one firm that does everything, okay.
19 And so part of pulling together a good team, whether
20 it's consulting, auditing, engineering, whatever -- is
21 to have relationships with other large like-minded firms

1 that we -- that can help us with various audits and
2 projects.

3 And we have a formal relationship with many
4 firms -- several firms across the nation, and have
5 worked with them in the past. And those are the members
6 of our firm -- of our alliance.

7 CHAIR MASS: Thank you, Mr. Macias.

8 Any other questions?

9 COMMISSIONER MENCHACA: No more questions.

10 CHAIR MASS: So if there are no other
11 questions, do you have any comment, Acting Director?

12 *(No response)*

13 CHAIR MASS: No?

14 Then do I hear a motion to approve this action
15 item?

16 COMMISSIONER MENCHACA: I make a motion that
17 we approve this action item.

18 CHAIR MASS: Is there a second?

19 COMMISSIONER FORTUNATI: Second.

20 CHAIR MASS: Can the secretary please take
21 roll?

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1 MS. TOPETE: Commissioner Menchaca?

2 COMMISSIONER MENCHACA: Yea.

3 MS. TOPETE: Commissioner Fortunati?

4 COMMISSIONER FORTUNATI: Yes.

5 MS. TOPETE: Chairman Mass?

6 CHAIR MASS: Yes.

7 COMMISSIONER MENCHACA: Can I make one final
8 comment?

9 CHAIR MASS: Yes.

10 COMMISSIONER MENCHACA: I just wanted to ask,
11 that the Commission and staff to take into consideration
12 Mr. Macias's recommendation that we do go out to bid for
13 these other audits that will be coming up for bid in the
14 next two years.

15 CHAIR MASS: Or prior to the extension, I
16 think is what you're referring to.

17 COMMISSIONER MENCHACA: Correct.

18 MR. ZAVALA: If that is the desire, yes, the
19 current contract for the draw service is due to expire
20 this year. We will be going out during this summer for
21 our advertising on that one.

1 And the security audit that Ken Macias
2 mentioned as well is due to be started again in February
3 of 2012.

4 CHAIR MASS: Thank you, Mr. Macias.

5 MS. MACIAS: Thank you.

6 CHAIR MASS: The next item on the agenda is
7 the contract award for communication effectiveness
8 study.
9 Jim Hasegawa is going to be making that presentation
10 regarding the contract.

11 MS. HASEGAWA: Thank you, Mr. Chairman.

12 Good morning, Mr. Chairman and Commissioners.

13
14 I'm going to present to you a recommendation on the
15 contract award for the communication effectiveness
16 tracking study.

17 First off, in terms of some background, I
18 wanted to discuss why we do the tracking study.

19 Actually, you've heard some of its uses by
20 members of our staff during the report card, because
21 they're part of the KPIs that Marketing staff use in

1 assessing the impact from various campaigns, including
2 advertising.

3 Examples include the awareness of our games on
4 an unaided basis, attitudes about our products, as well
5 as attitudes about the Lottery overall. Playership of
6 our individual games, as well as who plays those games.

7
8 And finally, we also include questions from time to time
9 about our Web site, including usage of our Web site.

10 The tracking study is done amongst a random
11 sample of California adults. So it's not just of our
12 players, but, really, it's representative of
13 Californians -- Californian adults who could play. So
14 it really does give a good measure of who -- the
15 playership levels, the awareness levels, the attitudes
16 towards the Lottery. And that way, we can measure any
17 changes as a result of new games, new marketing
18 programs, and specific advertising campaigns.

19 A second reason why we do the tracking study
20 is because it does fulfill a requirement in the Lottery
21 Act. The Lottery Act requires the Lottery to conduct

1 studies, either on an ongoing basis or from time to
2 time, to look at such things as the reactions of
3 citizens of the state to our existing or proposed
4 features in Lottery games, as well as special studies
5 about the demographics of our players, and finally, to
6 analyze the effectiveness of communication, such as
7 advertising and promotion.

8 Some form of the tracking study has been in
9 place for more than 20 years. We've had a variety of
10 vendors do the actual interviews and data collection and
11 compiling of the data for us over those 20 years.
12 Currently, the company is Ipsos Reid.

13 In terms of the RFP process, a little
14 background is, this process was a little longer than
15 normal, but that's because we put the process on hold
16 prior to the evaluations being conducted to ensure that
17 the scope of services in this contract would really meet
18 the needs of the Lottery because of potential changes
19 with all of the various RENEW initiatives.

20 As those projects, you know, formulated and
21 the initiatives had project sponsors and project

1 managers, research staff met with those individuals to
2 understand what their research needs would be.

3 And after all the RENEW initiatives had gone
4 underway, this assessment was done. And we found that
5 the research needs from all of the various work streams
6 in the RENEW process and the RENEW projects, their
7 needs -- the scope of services that we issued this RFP
8 under, it would meet all of those needs. And as such,
9 we did not need to either go out with a new procurement
10 or change the current scope of services.

11 This RFP was very competitive. We -- in
12 addition, of course, there was -- as Roberto talked
13 about, there's advertising to get notice out on the
14 procurement, as well as being posted on our Web site.
15 But we had ten companies who submitted proposals --
16 responses to our RFP. Nine of these ten agreed to
17 extend their proposals as a result of the additional
18 time that we discussed earlier.

19 So as the -- in terms of the process, it has
20 one -- two key areas. There's a rated submittal area
21 and there's a cost proposal.

1 In the rated submittal area, the most
2 important factor is what we call "managing the
3 sampling" -- the Internet sampling. And that's because
4 this contract would change the methodology of the
5 tracking study.

6 Traditionally, most market research studies in
7 the past have been done typically either in person or
8 phone; and the tracking study used a telephone
9 methodology.

10 But as technology has changed, not everybody,
11 of course, has land-line phones of which market research
12 surveys typically use; and more and more people use the
13 Internet or cell phones.

14 This RFP specified a desire to change the
15 methodology. And we would be wanting to incorporate
16 Internet collection of the interviews.

17 So that's why managing the sample is so
18 critical, because we want the sample of respondents in
19 our surveys to really reflect the California adult
20 population.

21 The other age or area in the rated submittals

1 was the survey strategies. How would they implement the
2 strategies, again, to ensure that proper techniques and
3 quality controls would be used so that the data
4 collected would be, in fact, representative of the state
5 as whole, since we use it for such important measures as
6 deciding whether or not an advertising campaign is
7 successful or which games we should actually do, conduct
8 our advertising efforts against.

9 Per our regulations on procurement, the
10 Lottery is required to award the proposal to the overall
11 best value. And based on that criteria, staff
12 recommends Burke as the company that provides the best
13 overall value. They were the company that had the
14 highest ratings of "significantly exceeds" for the most
15 critical areas, both in terms of managing the Internet
16 sample, as well as for the survey strategies.

17 When you get to the cost proposal side,
18 comparing Burke is also very cost competitive. If you
19 compare Burke to the company that also got a
20 "significantly exceeds" in terms of the managing the
21 Internet sample, Burke's costs are more than 40 percent

1 lower than that other company.

2 If you then go down to the next level of
3 ratings, people who did not score as highly as Burke but
4 were one category lower, in that case, Burke was
5 probably more than -- was more than 40 percent, again,
6 lower than one of those companies, and was just slightly
7 higher -- about 8 percent higher than the other company.

8 And staff feels that the best value for the Lottery is
9 to go with the firm that we can feel assured that the
10 sample is going to be reflective of the population of
11 California. Because without any assurances that the
12 sample would be of utmost quality, then the data that
13 comes out of that sample would not necessarily meet our
14 standards for how we use it.

15 And that's the reason why staff recommends
16 that Burke, which had a higher score and a very
17 cost-competitive proposal, be awarded the contract.

18 CHAIR MASS: Thank you, Jim.

19 MS. HASEGAWA: Okay.

20 CHAIR MASS: Commissioner Fortunati, do you
21 have any questions regarding this contract?

1 COMMISSIONER FORTUNATI: Yes, one question.

2 I see the recommendation.

3 The question that I would have: Who makes the
4 determination about just two languages, English and
5 Spanish? We have a population that has many other
6 people than that.

7 MS. HASEGAWA: Right. The reason they are
8 only conducting those two languages is that because
9 there's not a large market research community that does
10 in-language interviews for the other communities.
11 And we do it from time to time, based on the needs of
12 the Marketing division, primarily.

13 So what we have done in the past, some surveys
14 in other languages. But they are rare because they're
15 very expensive because it's very hard to find firms to
16 do that, and to find interviewers who could do the
17 proper research interviews in those other languages.
18 But it does come up from time to time.

19 It's just that this study is an ongoing,
20 every-week enterprise. And that's why we've elected to
21 do English and Spanish, because it covers the

1 predominant languages in California.

2 COMMISSIONER FORTUNATI: Understood.

3 Perhaps my suggestion, if I may, is that if
4 increased sales is one of the goals, I would keep
5 studying on that particular area, to see if an
6 initiative or something to go in a direction like that.

7

8 MS. HASEGAWA: Okay.

9 COMMISSIONER FORTUNATI: But I don't have any
10 further questions then.

11 CHAIR MASS: Okay, thank you.

12 Commissioner Menchaca?

13 COMMISSIONER MENCHACA: I have no questions.

14 CHAIR MASS: Thank you very much, Jim.

15 Does any member of the public wish to address
16 the Commission on this issue?

17 *(No response)*

18 CHAIR MASS: If not, then thanks a lot, Jim.

19 Does any commissioner want a motion to approve
20 action Item 9.b, contract award for communication
21 effectiveness tracking study?

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1 COMMISSIONER MENCHACA: Chairman, I move to
2 approve an award of the contract to Burke, Inc.

3 CHAIR MASS: Okay, do I hear a second?

4 COMMISSIONER FORTUNATI: Second.

5 CHAIR MASS: Can the secretary please take
6 roll?

7 MS. TOPETE: Commissioner Menchaca?

8 COMMISSIONER MENCHACA: Yes, approve.

9 MS. TOPETE: Commissioner Fortunati?

10 COMMISSIONER FORTUNATI: Yes.

11 MS. TOPETE: Chairman Mass?

12 CHAIR MASS: Yes.

13 MR. HASEGAWA: Thank you.

14 CHAIR MASS: The next item on the agenda is
15 the general discussion for the commissioners.

16 Does anyone have anything they'd like to
17 discuss or bring up to the Commission at this time?

18 Commissioner Menchaca?

19 COMMISSIONER MENCHACA: No, I have no
20 discussion items.

21 CHAIR MASS: Commissioner Fortunati, anything?

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1 COMMISSIONER FORTUNATI: No.

2 CHAIR MASS: The next item is the scheduled
3 meetings, our next meetings.

4 We have tentatively scheduled May 7th --
5 excuse me, April 7th, May 19th, June 23rd,
6 September 8th, October 27th, and December 8th, all of
7 which will take place in Sacramento at this time.

8 I think I'm going to have a problem with
9 April 7th. So we're going to have to work through that.
10 That just came up. Hopefully, we can work around that.

11
12 The next item on the agenda is Item 12, which
13 is public discussion.

14 I see that one member of the public -- or two
15 members of the public have asked to address the
16 Commission.

17 If there's anything else, they can address the
18 secretary.

19 We've got Mark Nichols from the California
20 Peace Officer Memorial Foundation.

21 If you'd like to come forward.

1 Mr. Nichols, we allow about three minutes
2 time. So please proceed.

3 Thank you.

4 MR. NICHOLS: Thank you, Commissioners.

5 I just wanted to thank you for the opportunity
6 to speak here today. As you know, we have partnered
7 with the Lottery over the last couple years on
8 Scratchers®. And we'd like to thank you for that
9 partnership. It allowed us at the Memorial Foundation
10 to assist our families of fallen officers in a way that
11 we were not able to do in the past.

12 We had the benefit of meeting with Acting
13 Director Nguyen last week, and we found out that the
14 Lottery Scratchers® did not perform well enough to be
15 renewed this year.

16 We had some discussions with the director, and
17 we were going to look at and continue to have some
18 dialogue, to see if there was something that we could
19 partner with the Lottery in the future that met the
20 Lottery's needs and also help their families.

21 The Peace Officers Memorial Foundation is made

1 up of volunteers of rank-and-file law enforcement across
2 the state.

3 And I was pleased to see, in the corporate
4 social responsibility report, that law enforcement is a
5 key stakeholder and very valued with the Lottery
6 Commission and recognized with frontline officers that
7 help out, you know, with the Lottery in enforcing and
8 keeping the game -- the type of game that we want here
9 in California, for all Californians.

10 The Foundation provides the ceremony, it
11 provides initially assistance for families immediately
12 after officers killed in the line of duty. It provides
13 scholarships, and it also provides ongoing support for
14 families trying to put their lives together.

15 We have one employee full-time, one part-time
16 staff. And it's all volunteer work made up of
17 rank-and-file management and supervisors across the
18 state.

19 The main emphasis is, we wanted to thank you;
20 and we wanted to have some -- keep a dialogue with the
21 Lottery to see if we could not partner with something in

1 the future that, again, met the needs of the Lottery,
2 and also helped to provide for law-enforcement officers
3 in the state of California that help us to be able to do
4 the things we do in this state, the Lottery being one of
5 those.

6 CHAIR MASS: Thank you, Mr. Nichols.

7 I think I can speak for all the commissioners,
8 and certainly the staff, when I thank you for the work
9 that you and your organization does, and certainly all
10 officers across the state who keep our community safe
11 and risk their lives in doing so.

12 And while I know that this wasn't as
13 successful as we had hoped it would be, we know it
14 benefited your organization. And we look forward to
15 exploring new ways where we could mutually benefit from
16 a relationship going forward.

17 MR. NICHOLS: I thank you for that,
18 Mr. Chairman.

19 CHAIR MASS: Thank you. Thank you.

20 The next person who wanted to address the
21 group -- I have it here -- is it Joan Michael-Lahman?

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1 MS. MICHEL-LAHMAN: It's Michel-Lahman.

2 CHAIR MASS: Oh, okay. I'm sorry, Michel-
3 Lahman, excuse me.

4 MS. MICHEL-LAHMAN: Good morning,
5 Commissioners.

6 My name is Joan Michel-Lahman. I'm a resident
7 of San Ramon, California. I've come a long way to speak
8 today because of a very important issue, I believe, and
9 I think you'll agree.

10 I'm a mother and a grandmother, as well as a
11 concerned citizen. My children were educated in the
12 San Carlos school system here in California. I'm a
13 former mayor candidate -- mayoral candidate -- in the
14 seventies, and also a previous city commissioner for
15 San Carlos for many years.

16 Thank you very much for the opportunity to
17 address you this morning concerning a very urgent
18 matter, that being the California -- oh, sorry, sorry
19 about that -- that being the California school system,
20 public education, which is a recipient of Lottery funds
21 under your control.

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1 In all the many years the Lottery has existed,
2 I have met hundreds and hundreds of people -- teachers,
3 students, parents, and administrators -- when discussing
4 California -- the state of California's school system,
5 public education, we've all agreed that the Lottery was
6 supposed to benefit the schools; wasn't it? Wasn't that
7 the reason it was created to -- created and was sold to
8 the public to benefit public education?

9 It was sold to the public by the California
10 Legislature and its supporters to the issue of
11 supporting our schools was badly needed -- I beg your
12 pardon, I have to go back on this, just a second. I've
13 been sitting here a long time.

14 All right, the California -- there were many
15 detractors -- I apologize. There were many detractors
16 who claimed that gambling is immoral, while the state's
17 position to sell the Lottery was: Who could possibly
18 argue that supporting our schools with badly needed
19 money was immoral?

20 The Legislature easily passed the Lottery
21 system on that proposition, thereby silencing detractors

1 for good because, of course, their children benefited.

2 What evidence is there so far that the Lottery
3 has ever benefited the schools? We can't see it; and I
4 can't see it, either. That's why I founded and became
5 president of Saving Our Schools -- SOS for schools, SOS
6 to rescue our schools.

7 It's a 501(c)(3) nonprofit organization whose
8 mission is to provide additional Lottery funds to the
9 California school system, at a time when school budgets
10 are being slashed, eliminated, teachers and
11 administrators are being laid off, plans for new schools
12 are being scrapped, and badly needed building
13 maintenance is being put off or eliminated all together,
14 causing our valuable, dear children to spend time
15 learning in ugly, dangerous, decrepit facilities in many
16 cities.

17 This is shameful. It's a statewide disgrace.

18
19 What children learn in many of these really badly
20 maintained facilities is that education isn't an adult
21 priority in this state.

1 I hope to give voice to those, like myself,
2 who believe that education should be a top priority, not
3 the lowest.

4 I'm sure that it is universally accepted by
5 citizens in this state that the Lottery compensation
6 awarded by law to the school system many years ago was,
7 and is, so small as to be woefully inadequate, even
8 invisible.

9 When the Lottery was created, the schools were
10 in trouble financially, and they still are. Nothing
11 much has changed. It is clear, I'm sure that you will
12 agree, nothing has changed in the many decades of the
13 existence of the California Lottery.

14 CHAIR MASS: We have to ask you to wrap it up.

15 MS. MICHEL-LAHMAN: Oh, very quickly here.

16 And that is why I appear before you. The
17 subject has changed. I represent hundreds of people --
18 teachers, administrators, students, and parents -- I
19 have met, who agree that it's time to change the
20 monetary compensation awarded to the California school
21 system, public education, upwards, to a net 66 percent,

1 thereby nearly doubling what it -- the compensation
2 today.

3 Even with this upward reversal of compensation
4 for the schools, private citizens -- private citizen
5 Lottery winners, people who, for the ridiculous sum of a
6 buck, will become instant millionaires, while still some
7 schools will continue to lay off teachers and
8 administrators and forgo badly needed maintenance.

9 It is clear that the 66 percent net profit
10 figure isn't going to completely fix the schools and
11 prevent layoffs, but it will be a great, noticeable --
12 it will create a change.

13 There is also another problem that endangers
14 the compensation that schools get from Lottery profits.

15 CHAIR MASS: Ms. Lahman.

16 MS. MICHEL-LAHMAN: I would appreciate it very
17 much -- this is really important, if you give me a
18 moment more.

19 May I?

20 CHAIR MASS: Yes.

21 MS. MICHEL-LAHMAN: Thank you. I appreciate

1 that.

2 I understand that some legislators are in
3 favor of selling the Lottery system and profits to
4 gambling consortiums -- national and international --
5 and privatize the system all together.

6 That is unacceptable. The schools may lose
7 all compensation or supposedly guarantee assurance of
8 the winnings.

9 The State of California will have no way to
10 verify the school system monetary compensation, since
11 all income records will come from private corporations.

12
13 In summation, I hereby request that the
14 Lottery Commission has a resolution supporting the
15 efforts of Saving our Schools organization to raise the
16 monetary compensation provided to the schools, and block
17 any effort by any private citizen, corporation, or
18 members of the California Legislature, including the
19 Governor, to sell, to privatize the Lottery system, even
20 if the schools are guaranteed a share of the winnings by
21 private interests.

1 The reversal of compensation will require a
2 recalibration of the percentage of winnings that go to
3 private citizens and schools.

4 I would like to have a copy of the past two
5 years' Lottery budgets, including the current 2011
6 budget.

7 I'm sure there are ways to trim the budget so
8 that the unnecessary expenditures can be eliminated.
9 And whatever the schools currently get can be increased
10 and the schools benefit. They need it, very definitely,
11 right now.

12 So I thank you very much for giving me that
13 additional time. I very much appreciate it.

14 I traveled a long way. This is really
15 important. We're talking about our children.

16 CHAIR MASS: Of course.

17 MS. MICHEL-LAHMAN: And we're talking about
18 our children, and we need to help them. And the
19 Governor isn't going to do it because his hands are
20 tied. The Legislature isn't going to do it because
21 their hands are tied.

1 CHAIR MASS: Let me address what you said --

2 MS. MICHEL-LAHMAN: Certainly.

3 CHAIR MASS: -- if I could, please.

4 First of all, I appreciate you traveled a long
5 way; and I appreciate that you're looking to support
6 education and our children. I think all of the
7 commissioners are here for that very reason, too. And I
8 think the staff realize that those are our
9 beneficiaries, and we are doing it all for public
10 education --

11 MS. MICHEL-LAHMAN: And your hands are
12 currently tied by the law.

13 CHAIR MASS: I'm going to finish stating what
14 I have to say.

15 And over the past 25 years, we've raised
16 billions and billions of dollars -- I think nearly
17 \$20 billion.

18 ACTING DIRECTOR NGUYEN: Over \$20 billion.

19 CHAIR MASS: \$20 billion that has gone to
20 public education.

21 And there's case study after case study of the

1 benefits that the California Lottery has done to public
2 education, all the way down to the individual student
3 level. If you were to talk to students, the
4 administrators, the teachers union --

5 MS. MICHEL-LAHMAN: I absolutely agree.

6 CHAIR MASS: -- they'd all see the benefit.

7 MS. MICHEL-LAHMAN: Yes.

8 CHAIR MASS: And so our goal is to further at
9 the Lottery.

10 MS. MICHEL-LAHMAN: Right.

11 CHAIR MASS: And in doing that --

12 MS. MICHEL-LAHMAN: It's not enough. Not
13 nearly enough.

14 CHAIR MASS: I'm going to finish saying -- you
15 know, I allowed you to speak. I'm telling you where
16 we're coming from. I'm not arguing with you. I'm just
17 telling you my point of view, just since I listened to
18 yours. If you could please let me finish. Is that
19 okay? So I completely understand where you're
20 coming from, but I think some of your data might not be
21 clearly understood.

1 And what I'd like to do is allow you to have a
2 phone call or a meeting with a Lottery staff member who
3 could sort of explain the information behind that.

4 The amount of pay-out -- the amount that we
5 pay out to individual winners of a game is directly
6 proportional to sales. As you increase pay-out -- as we
7 just saw with the legislative change of AB 142, as we
8 increase pay-out, sales go up. Our sales are going to
9 go up \$400 million this year, approximately -- is that
10 what it is?

11 ACTING DIRECTOR NGUYEN: Yes.

12 CHAIR MASS: And that means that there's going
13 to be hundreds of millions of dollars more over time,
14 going to public education. Our sales are going to go to
15 \$5 billion is what was presented just earlier in this
16 meeting, all because of our increase in pay-out.

17 Now, the absolute dollar amount will increase
18 to public education. The percentage -- which was at
19 34 percent, and is now lower -- will decrease. But the
20 absolute dollar amount going to public education is
21 going to increase.

1 So while I understand on a -- you know, it
2 looks like logical, let's change the pay-out from
3 50 percent to something less than that, so that we can
4 pay out 66 percent to our beneficiary, it will actually
5 do unbelievably detrimental damage to our Lottery, and
6 may do irreparable harm, to the point where the Lottery
7 could fail because no one will play the Lottery if they
8 don't think they'll win.

9 And there is case study after case study of
10 other states that have tried to do this: Increase money
11 to beneficiaries of education by decreasing pay-out.
12 And, in turn -- I can give you Texas as one example --
13 it took them ten years to recover.

14 So while I understand it, we think, and having
15 worked at the Lottery -- I've been with it for almost
16 seven years, and there are members here who have been
17 here for 20, 25 years -- we understand how the Lottery
18 works in pay-out versus the money that we're going to
19 send out to beneficiaries.

20 And the last thing about the budget, we'll
21 make sure that you get the last few years of the budget.

1 I think you'll realize, you'll see that while we're
2 mandated to actually get 16 percent toward operating
3 expenses -- overhead, marketing -- think about it --
4 we're running a \$3 billion a year business that's
5 operating on 16 percent overhead.

6 I don't think there are many Fortune 500
7 companies that do that. And yet we come in under budget
8 every year that I've been here.

9 What are we averaging, 13 percent now?

10 ACTING DIRECTOR NGUYEN: 13 percent.

11 We're also required under AB 142, to keep it
12 under 13 percent.

13 CHAIR MASS: Yeah. So we had historically
14 been coming in under budget; and now we're required,
15 going forward, to keep it under budget. And we'll do
16 that by monitoring our marketing expenses.

17 So I want to make sure we're operating
18 efficiently. I want to make sure that every dollar that
19 we can generate can go to public education. And I think
20 staff is doing a great job of doing that.

21 So thank you.

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1 MS. MICHEL-LAHMAN: Thank you.

2 CHAIR MASS: Is there any other member of the
3 public that wants to address the Commission at this
4 time?

5 *(No response)*

6 CHAIR MASS: Then I'm going to close this
7 session now.

8 We're going to have a closed session. I
9 believe -- will we have a closed session, Elisa?

10 MS. TOPETE: Yes. Short.

11 CHAIR MASS: We'll have a closed session to
12 discuss things with counsel.

13 I'll come back here and adjourn the meeting.
14 But for all intents and purposes, this ends the meeting.

15 We'll see you in April sometime. Thank you
16 very much.

17 *(Closed session)*

18 *(End of recording.)*

19 --oOo--

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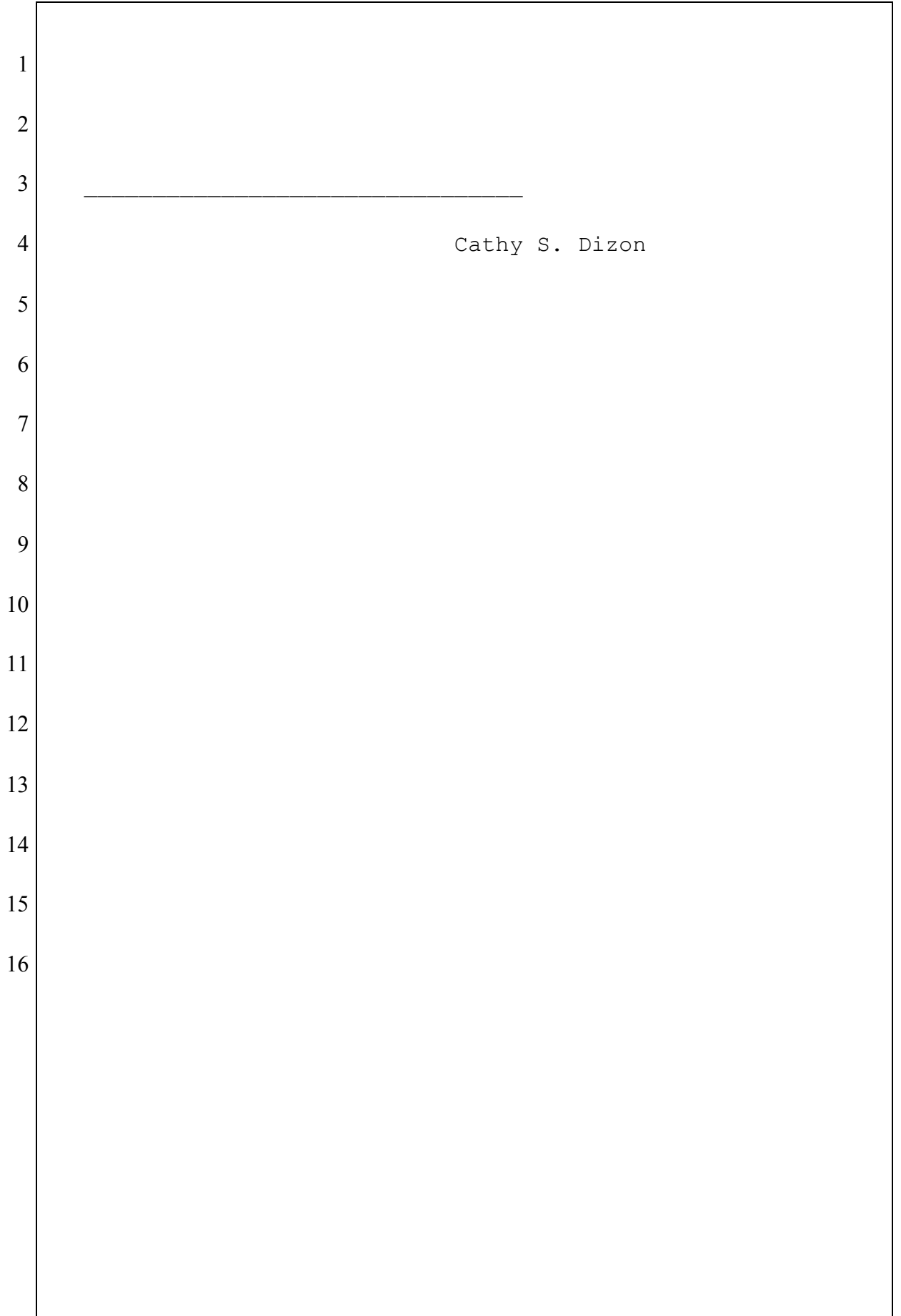
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This is to certify that: I transcribed to the best of my ability from two (2) audio cassettes provided to me by the California State Lottery Commission; and the foregoing pages 1 to 110, inclusive, contain a full statement and record of said audio recording.

In witness whereof, I have hereunto set my hand on the 1st of March 2011.

California State Lottery Commission Meeting – February 10, 2011



Cathy S. Dizon