

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – September 3, 2009

Sacramento, California

1. Call to Order

Chairperson John Mass called the public meeting of the California State Lottery Commission to order at 9:00 a.m. at the California State Lottery Headquarters, 600 North 10th Street, Sacramento, CA 95811.

2. Pledge of Allegiance

John Mass led the Pledge of Allegiance.

3. Roll Call

Mass asked Elisa Topete to call the roll.

Commission Members Present:

Commissioner C. C. Yin
Commissioner Cynthia Flores
Chairman John Mass

CSL Staff and presenters:

Joan Borucki, Director
Sylvia Cates, Chief Legal Counsel
Linh Nguyen, Chief Deputy Director
Ed Fong, Chief of Product Development
Terry Murphy, Deputy Director of Operations
Michael Brennan, Deputy Director Sales/Marketing
Michael Ota, Deputy Director of Finance
Jim Hasegawa, Deputy Director of Business Planning
Ellen Ishimoto, Deputy Director of Information Technology Services
Terri Sue Canale, Deputy Director of the Office of Problem Gambling
Elisa Topete, Assistant to the Commission
Mary Montelongo, Recording Secretary

4. Consider Approval of the Agenda

Mass asked if any of the Commissioners wanted to make changes to the September 3, 2009 agenda as proposed. Yin moved to approve the agenda. Seconded by Flores. The motion passed unanimously (3-0).

5. Approval of Minutes

Mass asked if there were any additions or corrections to the June 26, 2009 minutes. Yin moved to approve the June 26, 2009 minutes. Seconded by Flores. The motion passed unanimously (3-0).

6. Commission Liaison Reports

Commissioner Flores:

As Education Liaison, Flores reported that in July and August, update memorandums were sent to each of the Lottery's stakeholders, including those in the education community, with the following information: Over Father's Day weekend, a SuperLOTTO Plus® ticket worth \$39 million was purchased in Santa Cruz; Information on the monthly Scratchers® for July and August as well as voided Scratchers to sample; In July, the Lottery introduced four new Scratchers games, including a new \$5 ticket, "Hit the Jackpot;" In August, three new Scratchers games were introduced, including new \$1, \$2, and \$3 tickets. The \$3 One Word Crossword ticket offers a chance to win \$20,000 with one word, and there are over \$8 million in One Word prizes.

Flores reported on several outreach events. Superintendent of Public Instruction Jack O'Connell and the Lottery honored five Bay Area 2009 Distinguished Schools at the July 7 San Francisco vs. Florida Marlins game. Principals and their guests attended the game where the night started off with a pre-game ceremony in which each school and principal were announced and their names appeared on the Jumbo-tron. The Lottery and the Oakland A's hosted several Oakland area families of fallen police officers at the August 3 game against the Houston Astros. This year, the Lottery partnered with the Peace Officers Memorial Foundation by creating a Scratchers ticket named "In the Line of Duty." Part of the proceeds from the ticket, up to \$300,000, will go to support the Foundation. The Lottery has also invited families of the fallen officers to attend a River Cats game. On August 27, Superintendent O'Connell and the Lottery will honor the 2009 Teachers of the Year at the San Francisco Giants vs. Arizona Diamondbacks game.

This year will mark the tenth year in a row that Lottery players have given public education \$1 billion. The Lottery is furthering its commitment by supporting two new programs. The Lottery is sponsoring the winners of California's regional spelling bee competitions to fly to Washington D.C. to compete in the Scripps National Spelling Bee Contest. The Lottery is also supporting the San Francisco Chronicle in the Education Program which provides news and information to 20,000 students every day. The program helps improve literacy and encourages students to become better informed citizens by reading the newspaper everyday.

Commissioner Yin:

Yin provided an update on the State Controller's Office that included the following: Prize Validation Process Audit's final report was issued on June 26, 2009 with no findings; Scratchers Tickets Audit's work began in May 2009 and was completed in August. As of today, no findings were reported. The report is scheduled to be released in September; Third Quarter Transfer Report Analysis work began in June 2009 and was completed in July. The final report was issued in August and disclosed that the Lottery transferred 34.20% in the third quarter. No findings were reported; Muse

Communications Contract - Audit work began in July 2009 and is scheduled to be completed in August. As of today, no preliminary findings have been reported.

Audit work with KPMG included: Prize Liability Agreed Upon Procedures for the Quarter ended March 31, 2009 and work began May 2009 and was completed in July. The final report was issued in August with no findings; Financial Statement Audit as of June 30, 2009 - work began in June 2009 and the report is scheduled to be released by October 15, 2009.

Yin reported on the Lottery's Internal Audits that included the Security Audit of Lottery Operations. Work began in April 2009 and the estimated completion date for field work has been revised to October and the final report is scheduled to be released in November. Yin also reported on the Audit Committee which met via conference call on July 3, 2009 and formally adopted the audit committee charter. The next meeting is scheduled for today at 1:00 p.m. and the agenda includes audit planning for fiscal year 2009-10.

Chairman Mass:

As Marketing Liaison, Mass was updated on the advertising for the California REPLAY program which will begin the week of September 8. Media support includes TV, Radio, gas station screens, and online ads. The Warner Brothers Music ticket began selling the week of August 31. The ticket is intended to attract new and younger players. Media support includes In-store Point of Sale, radio and selected stations skewing to 18 to 34 year olds, and online ads and Wild Postings.

There is an NFL promotion with the Oakland Raiders, San Francisco 49ers, and the San Diego Chargers. which will run from September 8 through October 25. The objective is to support the REPLAY program with NFL promotions and encourage playership for Scratchers and the REPLAY logo by offering a second-round chance to win experiential prizes from the three teams. The media support includes in-stadium signage during three home games, radio for home and away games, e-mail blast to fans and season ticket holders, and targeting radio and sports radio stations, and traffic ID's. The drawing is the week of October 26 and the winners are going to be announced the week of November 2. Winners will be able to use their prizes for the remainder of the season, which is November through December. Mass mentioned the I-5 billboard message supporting the Lottery's contributions to education which has been posted since August 17.

As Procurement Liaison, Mass was briefed by staff and requested approval to release a request for proposal to procure services of a vendor to implement a business intelligence solution. The procurement is supported by the 2009-10 Action Plan.

7. Director's Report

Joan Borucki, Director, started by publicly congratulating the Lottery's Finance Department for receiving for the sixth consecutive year in a row since 2003, a Certificate

of Achievement for Excellence in financial reporting for the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2008. In addition, staff was also awarded the Financial Reporting Achievement to the Finance Division.

a. Sales Update

Borucki, provided an update on sales for this fiscal year. MEGA Millions sales for this fiscal year are up more than 87 percent compared to sales over the comparable period last year and the recent MEGA Millions® Jackpot of \$336 Million, shared with New York, contributed to the increase. Overall, there is a 5 percent sales increase for the first nine weeks of this fiscal year versus last fiscal year. Last year, Scratchers sales were above the projected sales goals, however this year, Scratchers are down by about 2 percent and if it continues, it could be down \$200-\$250 million. The Lottery continues to get hit at the lower jackpot levels. The Daily games are also down and the Lottery sees a slump in sales when there is not a lot of marketing. Staff will continue to monitor the trends and if they are going to be a major impact on the Lottery's budget as adopted by the Commission, staff will bring back to the Commission a revised budget to bring expenditures in line with the Lottery's sales. Borucki stated that four-day workweeks due to the furloughs, are having an impact on sales, specifically with the Scratchers. Lottery staff needs to look at a retailer's inventory and have some discussion with the retailer to keep their maintenance order and keep it in balance with the sales. Because of the shorter week, staff is not able to keep up with the monitoring of their orders to get the correct shipments to replenish existing stock.

Discussion by Commissioners.

b. Marketing Update

Michael Brennan, Deputy Director of Sales and Marketing, went over past and future promotions. From March 15-April 25, Make Me a Millionaire® retailer promotions met with great enthusiasm and success by the retailers. The retailers received points of placement of current Make Me a Millionaire collateral POS, new logo permanent POS, full Scratchers ticket dispensing units, and additional facings of Make Me a Millionaire Scratchers tickets. In May, the Lottery began the REPLAY Program. Players have the opportunity to register their non-winning tickets on-line for a chance to win additional prizes. It will give players added value for their non-winning tickets while contributing to the recycling of our tickets. The first draw was held July 31 and the next draw will be September 30. There have been over 107,000 participants in the program who have registered 2.9 million tickets. To support the program's initial launch, the Lottery held a photo contest for the public, incorporating the promotional theme "Don't you wish everything in life came with a second chance?" Winners were judged on originality, creativity, and the ability to incorporate the promotional theme. Prizes included five \$1,000 prizes, ten \$500 prizes, and ten \$100 prizes.

The Make Me a Millionaire mall tours were very successful with the large crowds that were enthusiastic. If they weren't waiting in line to play, the crowds were stopped on stairways or watching from the upper decks of the mall. The Lottery has also had great success in the various fairs including the San Diego County, Orange County, and

Ventura County Fairs as well as the upcoming California State Fair, LA County Fair, Oakland Chinatown Streetfest, Autumn Festival in San Francisco, and the Fresno County Fair.

The Lottery has been featured on 17 LED screens with five 30-second spots per hour at the Nokia Theater L.A. Live, which is the premiere live music and concert destination in the heart of downtown Los Angeles. The Lottery's experiential team is working with the Santa Fe Springs District Office and the L.A. Live team to arrange for seven dates to sell in two kiosks in the Staples Center. There are large crowds that gather there because of basketball games, movie theaters and restaurants. Brennan stated that on the 32nd episode of Make Me a Millionaire, 23 year-old Natalie Marston won \$5.2 million, making her the biggest winner ever in history on a TV show (video clip shown). The July Scratchers games featured \$1, \$2, \$3, and another \$5 game called "Hit the Jackpot," which is the second \$5 game that can be purchased by players. In August, the "Hit Series" was introduced. It is a \$1 and \$2 game that is merchandised together and comes with \$50 and \$200 top prizes. In addition, all of these games are eligible for REPLAY drawings and all have higher prize payouts.

In line with the business plan objective of increasing playership among infrequent players including 18 to 34 year-olds, the Lottery launched a \$2 Warner Brothers (WB) Music Download ticket, which is the first time the Lottery is offering music download prizes. The ticket pictures four different WB artists. Non-winning WB Scratchers are eligible for a chance to win music downloads, concert tickets, and a grand prize of attendance at the 2010 Coachella Music Festival. Winners are able to select music from over 2,500 artists in the WB library. The Lottery will support the effort with in-store POS, ePOS, radio targeted to 18-34 year-olds, wild postings, on-line banner ads, and experiential marketing events. To access the on-line music store and the California Lottery VIP lounge with music related games and tests, logon to the Lottery's website and hit "REPLAY" (website sample shown).

Discussion by Commissioners

On September 8, the Lottery will be offering second chance prizes that are NFL products in the REPLAY program called "California Lottery Blitz." Players will have an opportunity to choose which team's package they want to enter their tickets for and then there will be a drawing for those prizes later in October. From October 21-November 6, the Lottery will be introducing another Hot Spot® promotion in partnership with Oaktree Racing Association, Santa Anita Park, featuring the Breeders Cup. Consumers can enter a cross-promotion using the Web to be eligible to win \$50,000 by matching the horse that wins the Breeder's Cup. Brennan presented new advertising to support the REPLAY program which emphasizes the message that a player will be missing out if their California Replay ticket is thrown away (video shown).

Discussion by Commissioners

In December, the Lottery will be introducing some Scratchers that will be new and innovative and a lottery industry first. Staff has created a bottle tag, "Holiday Cheer" that will be coming during the holiday season. There will also be a bottle tag for year-around use called "Cash Celebration." The Lottery will also have gift card holders that are also Scratchers tickets to add an extra gift for just a \$1. Also in December, the

Lottery has partnered with Warner Brothers Pictures to produce a "Sherlock Holmes" Scratchers ticket. There will be four different graphics on the ticket and part of the program will produce grand prizes of red carpet premiers, tickets, autographed motion picture posters, and DVD's while also having a chance to win up to \$15,000 on the ticket. The movie premiers December 25th and the Lottery will begin its promotion a month earlier to take advantage of the movie's marketing. Finally, Brennan stated that there is an education message billboard on Interstate 5.

c. Legislative and Outreach Updates

Director Borucki reported that Senate Bill 37, which is the MEGA Millions® fix, passed through the Legislature again. The Governor is expected to sign the bill and once again, the Lottery will be in compliance with the court-ordered mandate to change the time period for claiming on a MEGA Millions jackpot from 60 days to a year.

d. Problem Gambling Presentation

Terri Sue Canale, Deputy Director for the Department of Alcohol and Drug Program's (DADP) Office of Problem Gambling updated the Commission on some new developments in the department and gave a recap of what the Lottery's funding to the Office of Problem Gambling provides to the State of California. Canale spoke of the Interagency Agreement and updated the Commission on items that have been funded to date, including Friday Night Live and the 1-800-Gambler Help Line. Canale provided a synopsis of items accomplished by the California Council on Problem Gambling on the new Problem Gambling Multi-cultural Web site. Also discussed was the DADP Problem Gambling Expanded Media campaign for fiscal year 2009-10 and an overview of DADP Problem Gambling Treatment Services Program.

Discussion by Commissioners

e. Business Planning Update

Linh Nguyen, Chief Deputy Director, provided an update on the RENEW Project. The project contains two major phases: The first is the development of the 2010-2013 Business Plan and the second is the implementation of the plan. The Business Plan is broken into three segments: The first is developing the strategies for the business moving forward, developing an implementation road map, and a financial model where expectations and performance goals are developed as well as predicting the Lottery's profitability over the three years. The Business Plan strategies are being developed in five distinct groups: The Lottery is going to value its products, price, and prize structures; Advertising, promotions, and player communications; Retailer and sales support; Scratchers distribution and accounting; and corporate social responsibilities.

Staff performed a top to bottom review of the business with the Lottery's consultant and agreed that there are parts of the business that need improvement in order to grow sales, therefore staff will be focusing on those categories. While the business plan is being developed, the Lottery has agreed with its consultant to make some quick wins that can be implemented immediately to be performed simultaneously before staff finalizes the business plan. The Lottery is approaching this project from the top, beginning with an agreement of the mission and goals. Staff will then develop a strategy, develop the implementation tactics or projects, and develop real performance measures that will continuously measure the Lottery's progress. Two things that are part of that are the External Analysis – threats and opportunities, and Internal Analysis – strengths and weaknesses.

The Business Plan will have four incarnations. The first is preparation and planning. The consultants will be coming to the Lottery for site visits to work with Lottery staff and several meetings have already taken place. The charters will be finalized for each workstream so that there is an agreement of what the scope will include in each of the workstreams. September 14, the consultants will be at the Lottery with their subject-matter experts. Second, there will be a review of the issues. Staff is going to categorize and prioritize the issues facing the Lottery and review and agree on the “do – nothing” scenario which will be the baseline from which the Lottery will judge its progress. Third: will be to consider options. After reviewing the issues, staff will present the Commissioners what they believe the best options are for addressing the shortcomings that were identified in the prior section. The last piece will be to make decisions on which strategic options to proceed with and finalize the content of the Business Plan. There have been some adjustments made to the schedule due to the furloughs, but staff is on track with the original estimate of mid-January. Nguyen gave a description of each of the workstream groups.

An important key aspect of the project is team and morale building. The project is being used to develop future leaders and to give employees a sense of ownership. The employees are going to make the implementation successful as the Lottery moves forward into Phase 2. There is training and development opportunities for staff as well. After going through the entire project, there will be a whole set of employees ready to take the leadership role to continue the process of improving and maintaining the skill sets into the future. Because project management has been a weakness at the Lottery, a project management discipline is being developed by Danni Fischer.

The RENEW Project will be integrated with project management and training, business intelligence, and migration from a website to a player portal. The business organization structure consists of the Program Board, which is the leadership team sponsored by Joan Borucki, and the different workstreams. Supporting the effort will be the consultants and the project management team. The team members came from a competitive selection process based on nominations from each of the Deputy Directors. The teams include over 70 members from Headquarters and across the state. The teams are enthusiastic and are embracing the project.

The Business Plan will be presented for final Commission approval in January/February 2010, which will be ahead of schedule, and quick wins will be implemented as soon as possible. The implementation phase is going to occur beginning February and March 2010, and go through fiscal year ending 2013.

Discussion by Commissioners.

8. Consent Calendar

There were no items on the Consent Calendar.

9. Action Items

a. **Extend Term and Add Funds to United Parcel Services Contract**

Terry Murphy, Deputy Director of Operations, presented information on the United Parcel Services (UPS) Contract. The Lottery has two existing contracts with UPS; one for the shipment of Scratchers tickets out of the Lottery's warehouse, and one for small parcels between the Lottery's mailroom, Headquarters and the different district offices, which is what the contract being presented is for. Staff is looking to extend the term of this UPS contract and add funds to continue using them. UPS has provided exemplary service and is pleased with the timely and accurate delivery service.

Discussion by Commissioners.

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

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

b. **Extend Term and Add Funds to Lowbidder Electrical Contract**

Murphy stated that Lowbidder Electrical provides support of the day-to-day operations of the Lottery's electrical services at the Headquarters office and other facilities around the state. Lowbidder Electrical services have included a wide array of projects for the Lottery, both emergency and reconfigurations. The original contract included an option to extend if the Lottery was satisfied with the services being provided.

Discussion by Commissioners.

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

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

- c. New Statewide Contract for Waste Disposal, Recycling, and Shredding
Murphy stated that Facilities Operations was generating a new waste disposal, recycling, and shredding contract for the Lottery statewide. Prices were received for various fixed services to understand a rate structure of the different competitors. RSI Consulting Services' rates were overall 30 percent lower than competitors.

Discussion by Commissioners

Mass asked if anyone from the audience had any questions on Action Item 9(c). David Kuhnen, of Recycling Industries expressed his concerns on the contract.

Discussion by Commissioners

Yin made the motion to postpone Action Item 9(c) to the October Commission Meeting. Seconded by Flores. The motion passed unanimously (3-0).

- d. Amendment to Interagency Agreement with State Treasurer's Office
Michael Ota, Deputy Director of Finance, presented an amendment to the Lottery's interagency agreement with the State Treasurer's Office. The Treasurer's office has provided financial services to the Lottery since its inception. Primarily, it is for the purchase and custodianship of the U.S. Treasury bonds that the Lottery purchases to ensure there is a payment stream for long-term prize winners. Last fiscal year, with Commission support, staff began efforts to look at the Lottery's investment process, and began efforts to reduce investment costs and increase returns. The process involved looking at the financial market, assessing opportunities to replace the Lottery's U.S. Treasury bonds with other high-credit, high-quality investments. The goal was to continue to increase resources available to driver higher sales and increase the contribution to public education.

In May 2009, the Lottery amended the agreement with the Treasurer's office to address these new activities. Staff discovered that the volume of transactions that are actually being processed were greater than what both the Lottery and the Treasurer's office initially estimated. At this point, the Lottery has determined that the agreement with the Treasurer's office needs to be amended for an additional \$350,000 to cover the remaining period of the Lottery's agreement with them, which expires June 30, 2010. It is important to note that the Lottery's strategy for restructuring its investments is concentrated in Fiscal Year 2009-10. Therefore, the volume of investment transactions processed by the Treasurer's office on behalf of the Lottery will peak in the current fiscal year and return to near past levels in subsequent fiscal years.

Discussion by Commissioners.

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

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

e. Scratchers® Game Profiles and Alternates for Games 616, 617, 618, 619, 620, 621, 622, and 623

Ed Fong, Chief of Product Development, presented the potential game launches for December 2009 and January 2010. Also, in anticipation of future payout relief, staff has developed two profiles for each proposed game: A version with standard prize payouts and a version with higher prize payouts. Game 616 is a \$1 animal-themed game with a Key Number Match playstyle with a specific variant. Players can win prizes that range from free tickets to \$500 and the overall odds of winning are 1 in 4.78.

Game 617 is a \$2 game designed with the “7’s” theme. It has a Key Symbol Match playstyle with two specific variants. Players that uncover a specified “7” symbol automatically win that prize, while revealing another specified “7” symbol multiplies their prize by seven times. It has a top prize of \$7,000 and overall odds of winning are 1 in 4.37. Game 618 is a \$2 game with a 10X multiplier feature. It has a Key Symbol Match playstyle with two specific variants. The game contains over \$9.9 million in prizes that multiply. It has a top prize of \$10,000 and overall odds of winning are 1 in 4.5.

Game 619 is a \$1 game designed with the Asian Lunar New Year in mind, Year of the Tiger. The game will have a Key Symbol Match playstyle with specific variant. The top prize is \$800 and overall odds of winning are 1 in 5.01. Game 620 provides an opportunity for the Lottery to freshen up its TV game show at retail. The \$1 game will have some subtle, fresh graphics that will incorporate the same look and feel of the TV show visuals to maintain some type of opportunity with the game. It is a Match Three playstyle and overall odds of winning are 1 in 5.44. Since the prize structure is identical to the previous TV show Scratchers Games 570 and 590, there is no need for Commission approval, but is included as background and informational purposes only.

The lottery industry calls the next set of games the “Family Series.” Family series are games that are launched with the related theme to cross price points with common graphic directions or designs and similar game attributes. The Lottery recently launched its first family series of games, “Hit \$50” and “Hit \$200” in August 2009 at a \$1 and \$2 price point. Staff recommends continuing efforts to reinforce the winnability experience of these types of games in the Scratchers product mix.

The next set of family games is scheduled for launch in January 2010 with Game 621 and 622. Game 621 is a \$1 game that will feature a Key Symbol Match

playstyle with a specific variant. The game will have a high concentration of \$50 top prize wins. Odds of winning the top prize level are better than 1 in 500, and will include over \$2 million in \$50 prizes. Overall odds of winning are 1 in 5.3. Game 622 is a \$2 game that will feature a Key Symbol Match playstyle with two specific variants. The game includes a high concentration of \$200 top prize wins. Odds of this prize level are better than 1 in 700 and over \$5.2 million in \$200 prizes alone. Overall odds of winning are 1 in 4.0. Game 623 is a \$3 game with a price point that continues to be a staple in the Lottery's Scratchers game portfolio. The new theme reinforces the look and feel of an arcade-style pinball machine. It has a Key Number Match playstyle with specific variants. There are 16 ways to win on the ticket with the top prize of \$25,000 and overall odds of winning at 1 in 4.12.

Fong presented the same games with an alternate game profile with higher payouts. Game profiles for 616, 617, 618, 619, 621, 622, and 623 basically remain unchanged. The only change to the game profiles are the overall odds of winning a prize, which are improved due to higher prize payouts. The overall odds for Game 616 would be 1 in 4.53, Game 617 is 1 in 3.29, Game 618 is 1 in 3.93, Game 619 is 1 in 4.81, Game 621 is 1 in 5.08, Game 622 is 1 in 3.78, and Game 623 is 1 in 3.77.

Discussion by Commissioners.

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

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

- f. Amendment to Add Funds to Ipsos-Reid Service Agreement for Market Research
Jim Hasegawa, Deputy Director of Business Planning, mentioned that the Lottery Act states that the Lottery is to conduct an ongoing study of the "reactions of citizens of the State to existing or proposed features in Lottery Games." The surveys help measure the performance and effectiveness of various Lottery programs. Staff is able to see if certain initiatives actually bring in players, bring in awareness, how they meet performance, and how effective they are.

In April, the Lottery issued a Request for Proposal (RFP) for a Market Research Service Agreement to allow bidders to submit proposals based on conducting the surveys over the telephone, the internet and/or a combination of the two methods. When staff developed the RFP, the Lottery did not have any prior experience with vendors using Internet surveys to reflect the general population. In the RFP, vendors were asked to ensure that the demographics of respondents reflect the adult population of the state.

When the maximum amount for this service agreement was calculated, staff inadvertently only used the Internet methodology in these calculations, assuming that the Internet methodology would prove the most effective and efficient. A study was conducted for a couple of months where both interviews over the phone and interviews over the Internet were collected. Staff found that while Ipsos-Reid did meet the requirements of ensuring that the demographics of respondents reflect the state's population, it was discovered that the Internet samples tended to overstate people who are very active socially. Staff felt that the telephone sampling method at this time, represents a better method to ensure that the Lottery is really getting a random sample of California adults.

Staff is asking to continue using the telephone survey while investigating how to modify the Internet sample so that the Lottery can eventually migrate over to the Internet sample. To achieve this, staff needs to work with the vendor to get a better sampling method that not only ensures that the demographics are met, but that the Lottery is getting the same types of people in terms of their activity level, irrespective of whether they frequently use the Internet. Staff is requesting to increase the contract expenditure authority for Ipsos-Reid. No increase is being requested to the Business Planning and Research budget for fiscal year 2009-2010. However, the contract expenditure authority would need to be increased from \$500,000 to \$680,000. When the Lottery originally calculated this number, staff only used the Internet methodology as a way of calculating what the estimated costs would be

Discussion by Commissioners.

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

Flores made the motion to approve Action Item 9(f). Seconded by Yin. The motion passed unanimously (3-0).

g. Asian Advertising Services Contract

Brennan stated that a contract for the Asian advertising services with Time Advertising was awarded by the Commission on August 1, 2003. It expired on June 30, 2007 and the contract was extended to June 30, 2009. In anticipation of an expiring contract, a Request for Information was issued in September 2008 to over 200 companies, and all the advertising agencies identified in the California State Lottery's Contract and Procurement master vendor list. On January 13, 2009, a Request for Proposal (RFP) for advertising services was posted on the Lottery's Website and a letter of notification was mailed to 119 potential vendors. In addition, the final RFP was advertised in the Sacramento Bee, San Francisco Chronicle, L.A. Times, Sing Tao San Francisco, and the Korean Times in L.A., the Korean Times in San Francisco, the Disabled Veteran Voice, and the State Contracts Register. Three passed the rated evaluation to

make it to the finalist presentation. Time Advertising was rated "Significantly Exceeds" and also submitted the lowest overall price of the three finalists.

Discussion by Commissioners. Yin and Mass requested that a "Standard Performance Measurement Program" be incorporated on behalf of the Commission.

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

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

h. Gaming Contract Amendment

Ellen Ishimoto, Deputy Director of Information Technology Services, presented the gaming contract amendment. The Lottery's gaming and telecommunication services contract with GTECH Corporation began October 2003. As a result of a recent four-year extension approved by the Commission, the contract will expire October 2013. The four-year extension, approved in July 2008, provided the Lottery with a total value of \$40 million that consisted of equipment, software enhancements, and discounts. The equipment was designed to support the Lottery's plan to increase the number of retailers. Although the Lottery has recruited 2,000 retailers over the last three years, there have also been retailers lost due to the economy so the retailer numbers remain about the same.

Staff realizes the need to focus from increasing retailers to investing in the Lottery's existing retailers by using innovative messaging and enhanced player services. The amendment being presented will extend the term of the gaming contract for one additional year. Rather than GTECH providing \$10.5 million of gaming equipment that is no longer needed for retailer expansion, the Lottery will be provided a total value of over \$17.3 million in products and services, which is an additional value of \$6.7 million in equipment. The amendment will allow California to be the first lottery in the nation to deploy these new innovative products and services.

The Lottery will be piloting a new generation of electronic Point of Sale (ePOS) which is a monitor that would be placed in play centers that are in the retail environment. A pilot will be conducted of 500 terminals. It will provide real time information, news, sports, and weather. It is going to be really flexible in real dynamic content that staff would be able to update very quickly and there would also be the opportunity to do some advertising partnerships as well. With the amendment, the Lottery would also be able to receive the placement of some of the EPOS on self-service terminals to increase awareness of the device and what people can do there.

To increase the flow of information to players, the Lottery will install in retailer windows, bright and colorful lighted jackpot amount signs that are wirelessly updated by the gaming system. The back of the sign could be used to put other information regarding the Lottery. There will be two versions: One will have two games, and the other will have three games that the Lottery can promote. Implementing a player platform will expand player services, such as a players' loyalty program, that will provide more information to us about our player behavior and know more about their interested in so staff can start customizing promotions to those members. The amendment will increase the total expenditure authorized by \$65 million. It will cover the additional cost for that one year, through October 2014 for a total expenditure authority not to exceed \$675 million.

Discussion by Commissioners.

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

Yin made the motion to approve Action Item 9(h). Seconded by Flores. The motion passed unanimously (3-0).

10. Commissioner General Discussion

11. Scheduling Next Meetings

The next Commission meetings for 2009 are tentatively scheduled for October 22, and December 2, 2009 and January 20, March 17, May 5, June 16, August 18, October 20, and December 8, 2010 at the Lottery Headquarters in Sacramento. The times for the meetings will be determined.

12. Public Discussion

Mass asked if anyone from the public had anything to discuss. No one had signed up prior to the meeting and no one came forward, so he proceeded to the next item on the agenda.

13. Closed Session

The Commission convened to a closed session at 11:40 a.m. to confer and received advice from legal counsel regarding pending litigation (including adjudicatory proceedings, potential litigation exposure or initiation): CASE v. Schwarzenegger et al.; SEIU v. Schwarzenegger; Hawara v. California State Lottery; McVeigh v. California State Lottery; sales and use tax issues and discussion of personnel matters pursuant to Government Code section 11126(a).

14. Adjournment

Meeting adjourned at 12:50 p.m.