

STATE OF CALIFORNIA  
TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION  
COMMISSION MEETING

TIME: 10:00 a.m.  
DATE: Thursday, June 20, 2019  
PLACE: California State Lottery Headquarters  
700 North 10<sup>th</sup> Street  
Sacramento, California 95811

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**A P P E A R A N C E S**

**California State Lottery Commission**

SHERIFF GREGORY AHERN  
Chair of the Commission  
Commissioner

ROWENA LIBANG-BOBILA  
Vice Chair of the Commission  
Commissioner

NATHANIEL KIRTMAN, III  
Commissioner

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Chief Internal Auditor

Sharon Allen  
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Jim Hasegawa  
Deputy Director, Business Planning and Research

Susan Myers  
Chief Counsel

Paula Negrete  
Deputy Director, External Affairs

Nick Buchen  
Chief Financial Officer

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**Thursday, June 20, 2019**

**Sacramento, California**

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**CHAIRMAN AHERN:** Good morning. Are we ready to go? We'll call our Lottery meeting to order, and we'll start with the Pledge of Allegiance. Please join me.

*(The Pledge of Allegiance was recited.)*

**CHAIRMAN AHERN:** All righty. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Here.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Here.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Here. All right. Item Number 4 is Consider Approval of the Agenda. Commissioners, does anyone want to suggest any changes to today's agenda in any respect?

**COMMISSIONER KIRTMAN:** No changes for me.

**CHAIRMAN AHERN:** All right. All right, do I hear a motion to adopt the agenda?

**COMMISSIONER KIRTMAN:** Motion to adopt the agenda.

**CHAIRMAN AHERN:** Is there a second?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**CHAIRMAN AHERN:** Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. Item Number 5 is Approval of the Minutes of the March 28, 2019 Commission Meeting. It's approval of the minutes. Are there any corrections to the minutes?

**COMMISSIONER KIRTMAN:** No corrections for me.

**COMMISSIONER LIBANG-BOBILA:** None for me.

**CHAIRMAN AHERN:** Then do I hear a motion to approve the minutes of the March 28, 2019 Commissioner's Meeting?

**COMMISSIONER KIRTMAN:** A motion to approve the minutes.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** A motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. Next we have the Director's Report, and we have a new director, Alva Johnson. Alva, we'd like to welcome you.

**MR. JOHNSON:** Thank you.

**CHAIRMAN AHERN:** We're very proud to have you here. You have a great history with everything that you've accomplished in your life, and we look forward to many years of your great service.

**MR. JOHNSON:** Thank you, Mr. Chairman. I'll present at the podium. Okay, Mr. Chairman and Commissioners, thank you again for that warm welcome. Again, everyone, my name is Alva Johnson. I was sworn in yesterday as the director of the Lottery, and I'm excited to be here. Lottery has done a lot of good things for kids in California, and I'm looking forward to working closely with our team. I'm presenting to you today the Director's Report, and working through the agenda action items, wanted to just indicate that we have a few things to start off with. The Department of Rehabilitation Interagency Agreement, Item 8a, will be presented by Roberto Zavala. Scientific Games International Instant Ticket Printing Contract Amendment, Item 8b, will be presented by Sharon Allen. Ms. Allen will also present the IGT Global Solutions

Corporation Instant Ticket Printing Contract Amendment; that's Item 8c. She will also present Items 8d and 8e. Item 8d concerns the Pollard Banknote, Limited, Instant Ticket Printing Contract Amendment; 8e concerns Marketing, Promotions and Point-of-Sale Services Contract Extension and Contract Amendment. Jim Hasegawa will present Item 8f. This is our Fiscal Year 2019-2020 Business Plan. Ms. Susan Myers will present 8g, concerning the Stanley Convergent Security Solutions Contract Amendment. Paula Negrete will present 8h, the Interagency Agreement with the Department of Public Health's Office of Problem Gambling. Nick Buchen will present Item 8i, Fiscal Year 2019-20 Budget. Okay, I'm going to provide a brief sales update. Top line, Commissioners, is that year-to-date sales are ahead of goal and last year. You can see numbers indicated in the chart for you. With just two weeks of sales left in the fiscal year, Lottery sales are over \$7.1 billion. Our sales continue to be ahead of our sales goals. Currently, it is more than \$330 million over goal, or about 5 percent, and relative to last year's sales through mid-June, combined revenue across all of our products is up 7 percent. With over \$4.9 billion in sales, Scratchers are now running more than \$40 million ahead of its sales goal and almost 3 percent over last year's sales. After a slower start this fiscal year, POWERBALL now has sales 3 percent ahead of goal

with sales totaling just over \$500 million so far this year. It still slightly trails last fiscal year's sales by 3 percent, mainly due to greater competition from large MEGA Millions jackpots this year. MEGA Millions continues to feel the continuing effects from the billion-dollar jackpots in October. Its year-to-date sales are now \$725 million, 62 percent higher than goal and nearly 75 percent higher than last year's figures. It is important to note, Commissioners, that both MEGA millions and POWERBALL benefited from many large jackpots. In fact, we experienced 11 draws where the jackpot in one of these games was \$500 million or more. This rate is definitely higher than the statistical average, and we do not anticipate this frequency of big jackpots when developing the sales goals and budget for the upcoming fiscal year. SuperLotto Plus sales are over \$250 million for the year but are still running behind goal by about 3 percent. Its jackpot continues to roll and is the highest it has been since July 2017, the highest we've seen this fiscal year. At the last Commission meeting in March, SuperLotto Plus sales were reported as being below last year's sales pace by 4 percent; however, now it is ahead of last year's sales by nearly 2 percent. Our daily games, which include Daily 3, Daily 4, Fantasy 5 and Daily Derby, have collective sales on target, with their year-to-date goal and about 3 percent higher than last year's sales

through mid-June. Finally, Hot Spot continues to have very strong sales. Since the start of February, Hot Spot sales have been over \$6 million per week. To put it in perspective, at this time two years ago, we were averaging just over \$5 million per week in Hot Spot sales. Through mid-June, sales totaled about \$300 million, which is about 9 percent ahead of last year and slightly ahead of goal. Moving onto the next slide, just a few quick comments here. Estimated fiscal year-to-date profits are solid and well above goal. In addition to sales, we also continually assess how the Lottery is performing in the most important barometer of our success, our profits to California schools. We estimate that our profits from game sales through the first 11 months are nearly \$1.5 billion. This equates to being 7 percent ahead of goal or more than \$100 million higher than what we expected through the end of May. Total sales are ahead of goal by 5 percent. You may remember that draw game sales are well ahead of their year-to-date goal, boosted by the strong performance of jackpot games like MEGA Millions and POWERBALL. These games are more profitable than Scratchers, resulting in our profits being ahead of goal to a greater extent than our sales. Draw game profits continue to run ahead of their goal by 17 percent. And finally, thanks to strong Scratcher sales during the spring, Scratchers profits are now right at their goal. Other

details about the performance and trends of our products will be discussed when the Business Plan is presented to you. In summary, Commissioners, we just want to indicate that our sales and profit picture looks very good for this current fiscal year. We continue to stay on pace to exceed both our sales and profit goals for the year.

**COMMISSIONER KIRTMAN:** Thank you.

**MR. JOHNSON:** Uh-huh.

**CHAIRMAN AHERN:** Thank you very much, Director.

**MR. JOHNSON:** Thank you.

**CHAIRMAN AHERN:** Okay, we'll move on to Item Number 7, which is the Consent Calendar. There are no items under Consent, so we'll proceed to Action Items. Action Item 8a is Department of Rehabilitation Interagency Agreement with Robert, and there you are, Robert. Good morning.

**MR. ZAVALA:** Good morning, Chair, Commissioners, and Director Johnson. I am with you to present Item 8a, the Department of Rehabilitation Interagency Agreement. The Interagency Agreement between Lottery and the Department of Rehab will expire at the end of this month. The Department of Rehab provides inspection services for the California Lottery to ensure that its accessibility to individuals with disabilities in retail locations is secure. Some background on this: At the Lottery's direction, the Department of

Rehab randomly inspects 5 percent of active retailers. Retailers are required to comply with the Retailer Access Program in accordance with Lottery regulations and also the contract itself that they sign when they first become a retailer. On January 28<sup>th</sup>, 2013, the Lottery executed an Interagency Agreement with the Department of Rehab to provide accessibility services, consultant services. It was amended in 2014 to include an increase in statement of work and also to inspect retailers themselves. The Interagency Agreement has been amended multiple times since, including the current term of June 30<sup>th</sup> of 2019. The current maximum amount of the contract is \$1,140,104. The original Interagency Agreement was not competitively bid because services were procured through a section of the California Lottery Regulations that allows it to not have to deal with any kind of competitive bidding, in accordance with 8.1.2b. The lottery analyzed the Department of Rehab costs against outside vendors, including a 5 percent year-over-year increase in its retailers over years. The estimated three-year cost of the Department of Rehab Contract today would be \$1,071,000. The Lottery compared this estimate against private vendors and specifically to the Certified Assessment Specialists. We found that the Specialists would not provide the best value. Overall costs would increase by approximately \$150,000 over the three-year period. Also,

multiple contractors would be required versus a single State contract. The Department of Rehab is the State's accessibility expert when it comes to ADA. Since 2013, the Department of Rehab has partnered with the Lottery to meet its inspection requirements. In the coming year, the Lottery will consider analyzing the feasibility of bringing this type of work indoors or certainly into the Lottery itself. In the meantime, we are recommending that the Lottery recommend the approval of the Interagency Agreement with the Department of Rehab for three years, with an option to extend for one three-year period. The three-year period option, as opposed to three one-year options is in the best interest of both parties. This will minimize future costs in amending the contract, considering it is with another State agency. Therefore, the new maximum amount that we're recommending today would be \$1,071,000 for a three-year period, and I can take any questions you may have.

**CHAIRMAN AHERN:** Robert, for a point of clarification, if you could look under Discussion, paragraph three, the third sentence says the overall costs would increase by approximately -- I think you said \$150,000. It says 150 percent.

**MR. ZAVALA:** 150 percent; I'm sorry if I mentioned that, yeah.

**CHAIRMAN AHERN:** Just want to make it a point

of clarification.

**MR. ZAVALA:** Yes, you're right.

**COMMISSIONER KIRTMAN:** Roberto, if you wouldn't mind reminding me what the minimum number of required annual inspections is?

**MR. ZAVALA:** Five percent of active retailers in a given year.

**COMMISSIONER KIRTMAN:** Okay, thank you.

**MR. ZAVALA:** Uh-huh.

**CHAIRMAN AHERN:** All right, are there any more questioners by the Commissioners regarding Action Item 8a?

**COMMISSIONER KIRTMAN:** No questions.

**COMMISSIONER LIBANG-BOBILA:** No questions.

**CHAIRMAN AHERN:** Does any member of the public want to address the Commission at this time regarding Action Item 8a? All right, do I hear a motion to approve Action Item 8a for the Department of Rehabilitation Interagency Agreement?

**COMMISSIONER LIBANG-BOBILA:** Motion to approve.

**COMMISSIONER KIRTMAN:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All righty, thank you very much, Robert.

**MR. ZAVALA:** Thank you.

**CHAIRMAN AHERN:** Next, we'll move on to Sharon Allen, Action Item 8b, Scientific Games International.

**MS. ALLEN:** Good morning, Chairman, Commissioners, Director Johnson.

**CHAIRMAN AHERN:** Good morning.

**MS. ALLEN:** Good morning. I am presenting on the first three items. They're all regarding Instant Tickets or Scratchers Vendor Contract Amendments, so before I go into each individual item, just as background, Scratchers printing is highly specialized, and there are only three qualified vendors nationwide. After a competitive bidding process in 2013, the Commission awarded contracts to all three. Today we are requesting approval of extensions of these contracts. Issuing an RFP would not result in locating new, qualified vendors, while exercising the extension will help maintain critical operations without interruption. So that said, the first item is 8b, the Contract Amendment for Scientific Games International, or SGI. The Commission awarded a six-year contract to SGI as their primary Scratchers vendor with the option to extend

for one additional three-year term and three additional one-year terms, with the maximum expenditure authority of \$100 million. The additional term is December 1<sup>st</sup>, 2013 through November 30<sup>th</sup>, 2019. We are requesting approval today to exercise the first extension option to extend the contract term for three years, with an increase in expenditure authority of \$76 million. As primary vendor, SGI is responsible for printing approximately 70 percent of Scratchers and also provides support with research, marketing and product planning. SGI has proven to be a responsive vendor partner that has helped Lottery increase Scratcher sales from approximately \$3 billion in 2013 to over \$4 billion this year. Based on current tracking, an additional \$6 million is required for the current term, ending November 30<sup>th</sup>, as well as an additional \$70 million in funding for the proposed three-year extension period. In anticipation of the extended terms, staff has also amended or removed outdated and unnecessary contract language and also added more competitive pricing. With the approval of the three-year extension and \$76 million funding increase, the new contract expiration date will be November 30<sup>th</sup>, 2022, and the maximum authorized contract expenditure amount will be \$176 million. We recommend that the Commission approve an amendment to the Scientific Games Contract to extend the term by three years and increase maximum expenditure

authority by \$76 million. I'd be happy to answer any questions?

**CHAIRMAN AHERN:** All right. Does any member of the Commission have any questions regarding Action Item 8b?

**COMMISSIONER KIRTMAN:** No questions.

**COMMISSIONER LIBANG-BOBILA:** No questions.

**CHAIRMAN AHERN:** Does any member of the public wish to address the Commission regarding 8b? All right, do I hear a motion to approve 8b?

**COMMISSIONER KIRTMAN:** Motion to approve 8b.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. Okay, Sharon, will you continue on with Action Item 8c, IGT Global Solutions?

**MS. ALLEN:** Okay. Next, the Lottery currently contracts with IGT, a secondary Scratchers vendor. The initial term is December 1<sup>st</sup>, 2013 through November 30<sup>th</sup> of this year, with the maximum expenditure authority of \$25 million and an option of one three-year extension and three

one-year extensions. We are recommending today that the Commission approve exercising the option to extend the term by three years. No increase in expenditure authority will be necessary. With the approval of the three-year extension, the new contract expiration date will be November 30<sup>th</sup>, 2022, and the maximum authorized contract expenditure amount will remain at \$25 million. Similarly to the other contract, in anticipation of the extended term, staff has also amended and/or removed outdated and/or unnecessary contract language and with more competitive pricing. We recommend that the Commission approve an amendment to the IGT Contract to extend the term by three years. Are there any questions on this?

**CHAIRMAN AHERN:** All right, does any member of the Commission have any questions regarding Action Item 8c?

**COMMISSIONER KIRTMAN:** No questions.

**COMMISSIONER LIBANG-BOBILA:** No questions.

**CHAIRMAN AHERN:** All right. Any member of the public wish to address the Commission at this time regarding Action Item 8c? All right, do I hear a motion to approve 8c, the IGT Global Solutions Corporation Instant Ticket Printing Contract Amendment?

**COMMISSIONER KIRTMAN:** Motion to approve 8c.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second.

Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right, is there a Sharon Allen in the room?

**MS. ALLEN:** Here.

**CHAIRMAN AHERN:** Item 8d.

**MS. ALLEN:** All right. Are we ready for Item 8d?

This is the Contract Amendment for Pollard Banknote, Limited. The Lottery currently contracts with Pollard as a secondary Scratchers vendor. The initial term of this six-year contract goes through November 30<sup>th</sup>, 2019, with a maximum expenditure authority of \$50 million and an option of one three-year extension and three one-year extensions. We are requesting today that the Commission approve an amendment to extend the term by three years, with an increase in expenditure authority of \$15 million. With the approval of the three-year extension and the \$15 million funding increase, the new contract expiration date will be November 30<sup>th</sup>, 2022, and the maximum authorized contract expenditure amount will be \$65 million. As with the others, staff has also amended and/or removed outdated and unnecessary

contract language and added more competitive pricing. We recommend that the Commission approve an amendment to the Pollard Contract to extend the term by three years and increase the maximum contract expenditure authority by \$15 million.

**CHAIRMAN AHERN:** All right. Do any of the Commissioners have any questions or comments on Action Item 8d?

**COMMISSIONER LIBANG-BOBILA:** No questions.

**COMMISSIONER KIRTMAN:** No questions.

**CHAIRMAN AHERN:** All right, does any member of the public want to address the Commission at this time regarding Action Item 8d? All right, do I hear a motion to approve Action Item 8d, the Pollard Banknote, Limited, Instant Ticket Printing Contract Amendment?

**COMMISSIONER LIBANG-BOBILA:** Motion to approve.

**COMMISSIONER KIRTMAN:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right. Keep on the

roll; you're doing good. 8e.

**MS. ALLEN:** All right. Switching gears to 8e, Marketing, Promotions and Point-of-Sale Services Contract Extension and Amendment. In 2014 the Commission awarded a four-year contract with the option to extend for three additional one-year terms to Alcone Marketing Group, with a maximum expenditure authority of \$40 million. The initial term was from September 2014 to August 31<sup>st</sup>, 2018. Last June, the Commission approved the first one-year extension and an addition of \$10.2 million in expenditure authority, bringing that total to \$50.2 million. Alcone is responsible for the development, design and execution of promotions and retail point-of-sale materials that are displayed at our more than 23,000 retail locations. This program is an integral part of the Lottery's overall marketing plan, and Alcone has proven to be a strategic and creative agency partner. Today we are seeking approval to exercise the second available one-year contract extension option. This will enable the Lottery to continue our critical marketing efforts. An additional \$10.5 million will also be needed to fund services provided during the proposed extension. Additionally, in anticipation of the extended term, we have updated payment terms to clarify timelines and responsibilities. We recommend that the Commission approve a second available one-year contract extension to Alcone and

add \$10.5 million in funding. This will extend the contract to August 31<sup>st</sup>, 2020 and will result in maximum authorized contract expenditure of \$60.7 million. I'd be happy to answer any questions.

**CHAIRMAN AHERN:** All right. Do any of the Commissioners have any questions or comments regarding Action Item 8e?

**COMMISSIONER LIBANG-BOBILA:** No questions.

**COMMISSIONER KIRTMAN:** No questions from me, either.

**CHAIRMAN AHERN:** Well, does any member of the public want to address the Commission at this time regarding Action Item 8e? And is there a motion for Action Item 8e?

**COMMISSIONER KIRTMAN:** Motion to approve Action Item 8e.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. Sharon, thank you very much for (overlapping).

**MS. ALLEN:** Thank you.

**CHAIRMAN AHERN:** All right. Okay. Jim, Action Item 8f is Fiscal Year 2019-20 Business Plan.

**MR. HASEGAWA:** Yes, thank you. Good morning --

**CHAIRMAN AHERN:** And good morning.

**MR. HASEGAWA:** -- Chair, Commissioners, Director Johnson. It's my honor to present the Business Plan for Fiscal Year 2019-20. All of my presentation will run about 15 to 20 minutes. It's a process that's many months in the making, and it involves dozens and dozens of people throughout the Lottery, and I want to thank all the individuals who worked so hard to create this Business Plan.

**CHAIRMAN AHERN:** Jim, so we don't distract you, we're in a little difficulty with the IT world, so we're going to --

**MR. HASEGAWA:** Okay, yes, that I turn around, okay.

**CHAIRMAN AHERN:** Right.

**MR. HASEGAWA:** All right. So before presenting the Business Plan for the upcoming fiscal year, let me recap some of the accomplishments from the current fiscal year. First, the current fiscal year will set all-time records in terms of sales and profits for the California Lottery. Year-end sales are now anticipated to be about \$7.38 billion, which would be more than \$400 million higher than

the prior fiscal year, and as well as \$300 million higher than this year's sales goal. Back in July, the California Lottery's largest prize ever awarded was claimed by an 11-member office pool when they hit the MEGA Millions jackpot. This winning ticket, which was purchased in San Jose, was worth \$543 million. This past October, MEGA Millions rolled to its all-time high of \$1.537 billion, and on that draw night, that jackpot also produced record-setting traffic to our website and to our mobile app. As an example, the mobile app had over 98,000 users per second during its peak hour. And probably more importantly, during this huge jackpot, when there is peak interest, not only from our players but also from the news media, our website and our mobile app did not experience any down time on draw night, and this is in contrast to some other lottery jurisdictions, which were down for some of that time. Speaking of our mobile app, this past August it won the Center for Digital Government's 2018 Best Mobile Wireless Project. This app was recognized for its addition of the "Check-a-Ticket" function, whereby players can scan a ticket with their smart phones and learn if their ticket was a winner or not. When this feature was released, the number of users for the Lottery's app increased by 16 percent in just the first month. A pilot project where players winning a Lottery prize between \$600 and \$1,000 could come to a district

office and potentially receive a check right then as opposed to having to mail in a claim was started in November but just at the Sacramento District Office. This pilot has been a huge success in improving the customer experience, with 91 percent of those coming into to the District Office receiving a check on the spot. There were a few others who had something on the claim that required additional research or additional processing that had to be done at Headquarters, and players typically received their check within 15 minutes upon arrival at the office. The pilot has been averaging about 153 claims per week, and through a follow-up survey, we found that 78 percent of those claiming a prize at the District Office were very satisfied with their overall experience, and nearly 90 percent said their experience was somewhat or much better than they had expected. In September the Fresno District Office became the fourth Lottery building to receive the prestigious LEED Gold Certification. LEED stands for Leadership in Energy and Environmental Design. The rating system includes optimum energy performance; onsite renewable energy; minimizing indoor pollutants, as well as controllability of lighting and temperature. And in July, the Santa Fe Springs District Office received an EPA Energy Star Rating of 100, which is the highest score possible. Energy Star buildings use less energy, reduce greenhouse gas emissions and are

less expensive to operate, while also meeting strict requirements regarding occupant comfort. One of our multi-year projects is upgrading our gaming system, and in this project, one critical step is the installation of new, state-of-the art terminals to all of our retailers. This massive endeavor began in November of 2018, and we are now nearly 96 percent complete with these new flex terminals being used at our retailers.

In terms of the process in setting up the Business Plan, the Strategic Plan provides a foundation for developing the annual Business Plan. Before we define the key objectives for the upcoming fiscal year, a review of our business, including the performance of our products, is done. Once the objectives are set, staff develop proposals that will help achieve those objectives for work in the upcoming year. Some of these projects are continuing multi-year projects, and others are totally new initiatives. In these proposals, estimates of the monetary and staff resources needed to complete the project work during the year is done. In the evaluation and review stage, here the deputy directors and key staff from Finance, ITSD, as well as Business Planning reviewed the 19 proposals, 12 that were continuing projects, multi-year projects, and seven were new initiatives. They obtained additional details and clarifications from the authors, evaluated the proposals and

made the recommendations on each one. Then these proposals, plus the evaluations and recommendations were forwarded to the director and chief deputy director to make the final selections into this proposed Business Plan for your consideration. In line with the tenets of our Strategic Plan and with a long-term vision to one day become the top U.S. lottery in terms of sales and profits, the upcoming fiscal year has these four objectives: Grow sales and all jackpot games and HotSpot; continue moderate growth of our Scratcher sales; improve the customer experience for players, retailers and internal customers; and elevate perceptions about the Lottery in order to grow player base in the future, and I'll be discussing each of these individually.

Before I discuss the strategies and tactics associated with this first objective, I want to highlight one piece of information from our review of MEGA Millions and POWERBALL. The changes to these games over the past few years have definitely increased the frequency of large jackpots, as noted by the director in the Sales Report. For example, back in Fiscal 2013-14 and 2014-15, those two fiscal years, before any of the recent game changes were made, each year had just one draw where the jackpot reached \$500 million or more. The past couple of years, however, there's been, after the game changes, there's been a

dramatic rise in jackpots of \$500 million or more. Last year saw a total of four such occurrences across the two games combined, and this year, as noted earlier, we had 11 such occurrences. And you can see from this table, having big jackpots more frequently has reduced interest from the news media, as the amount of free publicity we receive generally has been declining with similar-sized jackpots, and our players are generally purchasing fewer tickets for these large jackpot draws compared to prior occurrences. The trend in sales is probably somewhat related to the first point, the decline in the earned media. So to offset this decline in free publicity, the Lottery should utilize more advertising support during high-jackpot periods.

So in terms of the efforts this fiscal year in this objective, growing sales in our draw games, particularly the jackpot games, is important, since these products have higher profit margins, meaning, as we grow their sales, more dollars will flow to our beneficiary, California public schools. The reason for this is that jackpot games, as well as other draw games outside of HotSpot, have prize payouts of about 50 percent, and this compares to Scratcher games, which have significantly higher prize payouts. For example, in last fiscal year, Fiscal Year '17-18, the overall payout for Scratchers was at 69 percent. As discussed in the prior slide, there is a need

to have more marketing dollars devoted to the jackpot games, and the Fiscal Year 2019-20 plan and budget include more of these jackpot alerts, ads, to generate awareness of the big jackpot as well as to help stimulate the social buzz about it. And also, you should note that analytics has revealed that these types of jackpot alert ads for MEGA Millions and POWERBALL have delivered the highest ROIs in terms of our different advertising efforts.

**CHAIRMAN AHERN:** Jim, let me interrupt you real quick.

**MR. HASEGAWA:** Uh-huh?

**CHAIRMAN AHERN:** What is the level where we consider something a big jackpot?

**MR. HASEGAWA:** Well, to be honest, that has changed over the years. I believe our jackpot alerts start at around \$200 million? \$100 million? It scales up. The data that I've shown is, like, \$500 million, which are extremely large jackpot periods that would generate significant sales.

**CHAIRMAN AHERN:** I just didn't know when the big number kicked in. All right. About 100?

**MS. ALLEN:** Yeah, where we start -- where we advertise, and then after it gets really large, then we (inaudible) get people in the lower levels engaged (inaudible).

**CHAIRMAN AHERN:** Thank you.

**COMMISSIONER LIBANG-BOBILA:** I'm sorry; did you say that in the apps, it tells you what the prices are, or it alerts consumers about what the jackpot?

**MR. HASEGAWA:** Yeah, you can get -- in the app it does show what the current jackpot amount is for all of our games.

**COMMISSIONER LIBANG-BOBILA:** All right.

**MR. HASEGAWA:** And supporting jackpot games is also important because these products have a greater ability to attract new players to the Lottery, as fewer barriers to try MEGA Millions and POWERBALL will be found than compared barriers related to Scratchers. Now while one of the jackpot alert marketing activities I just discussed will work towards boosting sales in the upcoming fiscal year, other Business Plan tactics are poised to improve sales in future years, and let me talk about those.

So we'll be analyzing draw times of our in-state draw games, and that'll be done so that we can determine if it's profitable to move draw times later in the evening. Potential new features or additions to some of our draw games will be concepted and then tested for possible future implementation. And although the size of our Lottery's retailer network has grown by more than 1,000 locations over the past couple of years, Fiscal Year 2019-20 still has a

goal of increasing the total number of retailers selling Lottery products by 350 over the course of the year, and specifically for social retailers that are best for selling HotSpot, the goal is a net gain of 75 locations. Turning to Scratchers, Scratcher sales will be over \$5.1 billion this year and will represent about 70 percent of our total sales. Back in Fiscal Year 2008-09, which was the last year prior to legislation that gave the Lottery the flexibility to offer higher-prize payouts was passed and signed, Scratcher sales back then were just over \$1.6 billion, and total Lottery sales were just under \$3 billion. So the key driver in our growth of sales and profits over the past 10 years has been the dramatic increase in Scratcher sales. However, the pace of Scratcher sales growth has slowed. This year's sales will be about 2 percent higher than the prior year, or an increase of just \$100 million. And with the introduction of \$10, then \$20 and eventually, the \$30 tickets having already taken place, probably different tactics are needed now to continue growing the Scratcher line, and one of those is to focus on profitability. Here's some Scratcher data I wanted to show that's going through the end of April. On the left, it displays the share of sales coming from each price point of Scratchers. Then we estimated the dollars of profit coming from each game to generate the chart on the right that shows the share of profit-dollars coming from

each of those price points. Because the \$20 and \$30 games, which are at the top there, have higher prize payouts and therefore lower profit margins, while their sales may account for one-third of all Scratchers sales, they only comprise about 22 percent of the profits coming from Scratchers' product line.

**CHAIRMAN AHERN:** So you're trying to tell us that the \$5 and \$10 tickets are the most profitable?

**MR. HASEGAWA:** Right. That's delivering half of the dollars, half of our profit dollars, and that's why the efforts in our upcoming fiscal year will be more proportionate to how you see related to the profits rather than the sales. So, like, roughly half of our profits coming from \$5 and \$10s, and most of our efforts should be devoted to the \$5 and \$10 games, and similarly, the \$2 games deliver about the same level if not more than our \$30 products, so we need to have similar levels of effort against our \$2s as we do against our \$30s.

**COMMISSIONER KIRTMAN:** Are the odds any better on \$5 and \$10 games, or is it all the same across the board?

**MR. HASEGAWA:** Well, the prize payouts are much higher, and that increases both the odds of winning anything, but probably more importantly, the odds of winning kind of a more significant prize.

**COMMISSIONER KIRTMAN:** Okay.

**MR. HASEGAWA:** As such, in Fiscal Year 2019-20, there is a greater emphasis on our lower price-point games than in recent years. For example, very recently, just about a little over a month ago, the \$1 tickets are larger in physical size, and then we'll have a full-year effect of that. An additional \$1 game will be launched this coming fiscal year compared to the current fiscal year, and the types of games and themes have really been looked at at the \$1 and \$2 product line to kind of maximize appeal in sales. In terms of other Scratchers plan elements to continue the moderate pace of growth, here's a couple of things I want to note. The Scratchers product plan for the fiscal year includes monthly game launches with a total of 52 Scratchers games being introduced over the period of the year. A variety of price points, themes and play styles to accommodate the various preferences of our players are planned, and this includes more versions of the popular Crossword-style of games, including a holiday version in November-December. This year will also see a greater attention on our retailers, to help them increase their Scratchers sales. Using advanced analytics, we'll try to isolate which retail activities had the greatest impact on our Scratchers sales and then concentrate our resources towards educating and motivating retailers on those types of activities. Speaking of retailers, the continued expansion

of our retailer network will also help boost Scratchers sales. As I mentioned earlier, the goal to expand the total network is an increase of 350 retailers in the total network size over the course of the year, and our communications and advertising strategies for Scratchers will evolve this fiscal year. Changes in our infrastructure will allow us to more effectively utilize our own platforms and channels to directly inform and engage our existing players, and this allows advertising efforts to refocus against non-players and less frequent players without impacting our Scratchers sales.

Customer experience: Well, at other presentations of the Strategic Plan and the annual Business Plan, I have described how the discipline of customer experience has emerged as a driving force behind today's top-performing companies. The most successful companies will be those businesses who truly understand their customers and build on those customer relationships, and to do this, an organization must become customer-centric and make decisions by looking through the lens of the customer. Now, the reasons for all of this is that advances in technology and the free flow of information really allow customers to make a lot of good choices. Through Internet, social networks, consumers have all this information about all these different alternatives, and new technology has created even

more competition and totally new business models; think of, like, Amazon and Uber and Airbnb, for example. As a result, consumers have so many choices today, and this empowers them to demand very positive experiences from a company; otherwise, they can go elsewhere. So whether it's to retain existing customers, or specifically, in our case, current Lottery players and current Lottery retailers, or to ensure that new customers have a very positive experience when they first engage with the Lottery, initiatives to improve the customer experience will be valuable for the California Lottery. One important step the Lottery has already begun is to understand that customer journey and specifically, the pain points that customers experience when interacting with the Lottery, so we can then remedy those areas. In terms of some specific initiatives, here are some examples in the Business Plan: In addition to expanding the player claim at the District Office pilot to more locations, which will occur, we'll also begin analyzing other services to our customers, both consumers and retailers, that may benefit from either advanced offerings of service and/or maybe expanding the hours of availability. Some projects will go towards enhancing the experience of our internal customers, the Lottery employees, so that they can do their jobs more effectively and efficiently. Projects like this include the upgrade to our current financial systems and asset

management and also modernizing processes such as the forms used in Human Resources. This year we'll also see the crafting of an overall mobile communications strategy to our players, including mobile app notification products. This will ultimately allow our players to choose the way in which they receive information from the Lottery, the way they want to receive it. Retailers will see benefits from our upgrade to the gaming system, including the rollout of additional, more types of updated equipment, as well as a new retailer online portal providing financial information that retailers need in managing their business (inaudible), and there's a picture of the terminal. The fourth objective is to elevate the perception of the Lottery brand, but I would like to share one piece of information again from our business review first. So one measure from our tracking study involves asking all California adults their overall feelings towards the Lottery, and the percentage who are very or somewhat positive towards the Lottery has an upward trend between Fiscal Year 2011-12 and Fiscal Year 2017-18. This measure is really important because it's also a key driver in actual Lottery purchase behavior. So ultimately, when it comes to improving the perception of the Lottery brand, particularly as an organization, it comes down to ensuring that people have trust in the Lottery, trusting that we are in fact doing what the Lottery was set up to do, providing

supplemental funds for public education, trusting that we are a responsible company with respect to our business practices, trusting that we are a company that does the right thing, whether it's promoting responsible play, having facilities that are environmentally friendly or safeguarding consumers and retailers against any data breaches. It's also about trust in our products, whether it be the integrity of our draws or knowing that all types of Californians buy and enjoy playing Lottery games. So those are the types of projects that we'll work on during the year. So in conclusion, the Fiscal Year 2019-20 Business Plan focuses on four key pillars and delivers both initiatives that will deliver sales in the upcoming year, but probably more importantly, builds toward future growth down the road, and our recommendation is approval of the Business Plan, and I can answer any questions you have at this time.

**CHAIRMAN AHERN:** All right. Does any member of the Commission want to ask any questions regarding Action Item 8f, the Business Plan?

**COMMISSIONER KIRTMAN:** I do have a quick question. Do you see -- is there any value in communicating the -- I think you alluded to it in the mission, but just in terms of how the Lottery functions, and I bring this up in light of the L.A. Times article where there was a question

about, well, what happens to the money? Well, I think we all know what the money is, but in terms of sales growth, do you see any value in those level of communications, whether they come from a communications end or marketing end, that might encourage more growth by folks having the information of what that dollar, \$5, \$20 ultimately goes to?

**MR. HASEGAWA:** Yeah, for some of the players, people who don't currently participate in the Lottery, while it's not the largest barrier, it is something that kind of is an issue that's in their mind, and so I think it might be hard to translate to the exact number of dollars it would contribute, and it may not be the most dollars, but it is something that is an issue for people who don't currently participate, and even among those who very casually participate, they often wonder; it didn't preclude them from a purchasing a ticket in the past year, but it is something that we found in talking to them that is a question they still have. And I think the bigger question isn't so much, many people do know where the money goes, but the connecting of our schools are in need, and yet the Lottery's giving money, and so I think that disconnect is probably the bigger thing that our focus groups have shown.

**COMMISSIONER KIRTMAN:** Thank you.

**COMMISSIONER LIBANG-BOBILA:** It's been an ongoing issue. I know that when I came on board, that was my

biggest concern, is the lack of education about really where the money's going, and that L.A. Times article is actually -  
- and thank you for that --

**COMMISSIONER KIRTMAN:** Uh-huh.

**COMMISSIONER LIBANG-BOBILA:** -- really, it's actually a great article because it really highlights what we do --

**MR. HASEGAWA:** Yeah.

**COMMISSIONER LIBANG-BOBILA:** -- and I'm wondering, when you mentioned about customer satisfaction, that the survey that was conducted shows that there's more trust, I mean, what changed? Do you know? And if so, why can't we just improve on that in terms of communicating to the public what the California Lottery is all about?

**MR. HASEGAWA:** And I think it'd be hard to say one specific effort to get the number changes that we saw, but I think over the past several years, there's been a strong and concerted effort of trying to get the messages out, and I think that has obviously shown some benefit. I think one of the difficulties we've seen is that the media vehicles, the way you communicate is really important, because if it's seen as just another advertisement from the Lottery, then some people might question it a little bit more, and so the way it's presented is just as important as the actual message itself and who's giving that message, and so that's

some of the crux of the issue that makes it a difficult thing to communicate to the citizens of California.

**COMMISSIONER LIBANG-BOBILA:** I know, and it's been an ongoing challenge. You know, just being out there in the community, I still encounter the same comments, the misconception that the California Lottery is supposed to cure the California Public School System financial issue, and it's not designed for that, so I'm not sure how to really get that information to the public.

**MR. HASEGAWA:** You know, one way that I believe is being worked on now is, like, how to find out -- getting information down to, like, local levels, like at retailers and eventually have retailers become advocates, because the retailer is the local person they see and touch, and it's someone who they probably have more affinity with, a person, so if the retailer is able to tell them that the local district got "X" amount, then that message probably permeates a little bit better than just from mass message from the Lottery, and I know that that is an effort that is being worked on.

**MS. ALLEN:** I can just, just jumping in, we agree, and I think there's a lot we can do, and we want to do more, and that's part of the plan moving forward, and an immediate tactic that will be unveiled in a couple of months is the new website, and the website will allow a lot of that

messaging to be more prominent, to be more integrated. The digital infrastructure and having that technological backbone in place will allow us to use our email systems better, our website to get that out there, and so we'll have that from a tactical standpoint, but one of the goals for the year ahead is to develop a long-term strategy and plan to continue to reinforce that message, and it's a mix, and agree with you and Commissioner Kirtman that it's a mix of communications and on the marketing side where we can deploy this message and (inaudible). We're excited.

**COMMISSIONER KIRTMAN:** Just a question; I'm sorry to prolong this. Excuse me, Sharon. How many downloads has the app gotten so far, an estimate?

**MS. ALLEN:** Off the top of my head, is it like, 4 million?

**COMMISSIONER KIRTMAN:** Okay.

**MS. ALLEN:** Thank you. It's over 4 million installed bays.

**COMMISSIONER KIRTMAN:** Okay.

**MS. ALLEN:** And so looking at ways that we can continue to grow that and have that connection with notifications and really getting all of the -- take advantage of marketing technology and advertising technology to get those messages out there efficiently and also working at retail, whether it's customized through our electronic

point-of-sale or actually doing something very customized for each retailer that highlights that educational contribution.

**COMMISSIONER KIRTMAN:** Cool.

**COMMISSIONER LIBANG-BOBILA:** Do we know if these are new consumers or if they are repeat consumers? Do we have any way of finding out if that's --

**MS. ALLEN:** The app?

**COMMISSIONER LIBANG-BOBILA:** -- yes.

**MS. ALLEN:** It's probably a mix. We do see a large influx when the big jackpots come --

**COMMISSIONER LIBANG-BOBILA:** Right.

**MS. ALLEN:** -- so we know that those are more casual, and we want to bring them in and keep them within the ecosystem so we can continue to communicate.

**COMMISSIONER LIBANG-BOBILA:** Thank you.

**COMMISSIONER KIRTMAN:** Thank you both.

**MR. HASEGAWA:** I think having the messages that can go to our players, even through our own assets, is important because we find that people who don't play very often, they often know people who are Lottery players, and they ask them the questions. So if we can equip the Lottery players with the answers to those questions, again, it's not us telling them, it's that the Lottery player will say, hey, yes, I know that the local school district got this amount,

and then that helps spread the information a lot more efficiently and effectively.

**CHAIRMAN AHERN:** Any more questions?

**COMMISSIONER LIBANG-BOBILA:** Not from me.

**COMMISSIONER KIRTMAN:** No. Thank you.

**CHAIRMAN AHERN:** Any member of the public want to address the Commission at this time regarding Action Item 8f? Entertain a motion?

**COMMISSIONER KIRTMAN:** Motion to approve 8f.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes.

**MR. HASEGAWA:** Thank you.

**CHAIRMAN AHERN:** Thank you very much, Jim. That was well done. The next is Action Item 8g, the Stanley Convergent Security Solutions Contract Agreement, and Susan?

**MS. MYERS:** Good morning, Chairman --

**CHAIRMAN AHERN:** Good morning.

**MS. MYERS:** -- Commissioners, Director Johnson.

I am presenting on Item 8g as the acting deputy director for the Security and Law Enforcement Division. I am presenting a request for approval for an amendment to add time and funds to an existing SLED contract. This contract is with Stanley Convergent Solutions, providing for maintenance and technical support for the Lottery's electronic physical security system. The Lottery has invested over \$2.5 million in hardware and software assets to operate our 24-hour, seven-day-a-week Statewide security system for all of our offices and facilities. The current Stanley contract expires on August 31<sup>st</sup>, 2019. The contract includes an option to extend the term for up to two additional years. The Lottery requests approval to exercise the option to extend the term for two years, through August 31<sup>st</sup>, 2021. Current funding under the contract is adequate to cover the two-year extension for the services currently provided; however, the Lottery is also requesting additional funds to add one more embedded onsite contractor technician to perform maintenance and support services. We currently have one contract resource dedicated full-time to the Lottery, but we have determined that an additional dedicated resource is necessary to help reduce down-time when security system equipment goes offline, or repairs or replacements are needed. These technicians are trained on the Lottery's security systems and have been certified by the system's

component manufacturers. Adding the additional dedicated resource for the extended term of the contract will add \$300,000 to the required expenditure amount. Stanley has been more than satisfactorily performing its contractual obligations since inception of the contract five years ago. In that regard, the Lottery recommends approval of an amendment to the contract to exercise the option to extend the term for two years, through August 31<sup>st</sup>, 2021, to add additional services of a second embedded technician and add \$300,000 in funding. The proposed contract amendment will increase the maximum authorized contract expenditure amount from \$3.5 million to \$3.8 million. Are there any questions?

**CHAIRMAN AHERN:** Do any members of the Commission have any questions at this time regarding 8g?

**COMMISSIONER KIRTMAN:** No questions.

**COMMISSIONER LIBANG-BOBILA:** No questions.

**CHAIRMAN AHERN:** I have one question.

**MS. MYERS:** Yes?

**CHAIRMAN AHERN:** Do they have maintenance or technicians that can stop this irritating blinking that's going on in front of our faces right now? Maybe we could -- if not, does any member of the public wish to address the Commission regarding Action Item 8g?

**MALE:** (Inaudible).

**CHAIRMAN AHERN:** Ready to go. Way better. All

right. No public comment? All right. We'll entertain a motion.

**COMMISSIONER KIRTMAN:** A motion to approve.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second.

Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. Thank you very much.

Okay, Action Item 8h with Paula.

**MS. NEGRETE:** Hi, good morning --

**CHAIRMAN AHERN:** Good morning.

**MS. NEGRETE:** -- Chairman Ahern and

Commissioners, Director. I'm here to seek Commission approval on our Interagency Agreement with the California Department of Public Health's Office of Problem Gambling. This contract is set to expire June 30<sup>th</sup> of this year. The Lottery has held this interagency agreement with the Office of Problem Gambling since 2008. The Lottery's Responsible Gaming Programs focus largely on the promotion of the State's Problem Gambling Helpline, 1-800-GAMBLER, where free treatment services are available through the Office of

Problem Gambling. The helpline number can be found on Lottery tickets, in marketing campaigns and in other Lottery communications. The interagency agreement provides for the maintenance of the helpline, helpline data, development of literature for distribution to helpline clients and Lottery retailers, as well as assistance in drafting articles for Lottery communications, training of Lottery employees, and additional programs that aid players with problem gambling issues. The Lottery recommends that the Commission approve a new two-year interagency agreement with the California Department of Public Health for Problem Gambling Prevention Services in the amount of \$278,160, effective July 1<sup>st</sup>, 2019 through June 30<sup>th</sup>, 2021. Any questions?

**COMMISSIONER KIRTMAN:** No.

**CHAIRMAN AHERN:** Does any member of the Commission have any questions?

**COMMISSIONER KIRTMAN:** No questions.

**CHAIRMAN AHERN:** Does any member of the public want to address the Commission at this time regarding Action Item 8h? All right. Well, do I hear a motion to approve Action Item 8h?

**COMMISSIONER KIRTMAN:** Motion to approve Action Item 8h.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second.

Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER LIBANG-BOBILA:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes.

**MS. NEGRETE:** Thank you.

**CHAIRMAN AHERN:** Okay, moving on to Action Item

8i. Nick?

**MR. BUCHEN:** Yes. Good morning, Commissioners,  
Director.

**CHAIRMAN AHERN:** Good morning.

**COMMISSIONER KIRTMAN:** Good morning.

**MR. BUCHEN:** I invite you to top off your coffee and use a restroom break if you need it. So I'm here to present the Lottery's Fiscal Year 2019-20 Budget for your approval. I'll start with a quick refresher on the Lottery's budget development process, which begins with my budget team meeting separately with each division to develop division-specific administrative expenditure budgets. The Business Planning Group generates a preliminary sales estimate for the year by product, and we determine the associated prize expense. This preliminary sales estimate and associated prize expense are combined with the

divisional administrative expenditures to create the Lottery's initial draft budget. And this year we took a different approach, in that we developed the marketing plan and other smaller components from the ground up, which is also known as zero-based budgeting. Under a zero-based budget, recurring costs are reviewed with the same level of scrutiny as newly proposed costs, which enables resources to be concentrated where they're most effective and best aligned with strategic priorities. I'll talk more about this effort when I get to the Administrative Expenses section. The takeaway on the Lottery's budget development process is that it is essentially a balancing act between the estimated funding available in the initial draft budget and the resources required to invest in new initiatives and in our infrastructure to enable us to meet our strategic goals and desired contribution to education now and into the future. The Lottery's Fiscal Year 2019-20 budget invests in the four key objectives of our 2019-20 Business Plan that Jim spoke of earlier, and this will enable us to maximize our contribution to education and put us further on the path of becoming the leading lottery in the nation. All initiatives included in this budget tie back to at least one of these four key objectives. And before I dive into the numbers, I want to set the stage for what you're about to see. The extraordinary performance we've been achieving in

this current fiscal year will appear to overshadow the proposed budget for the coming fiscal year, and as was described earlier, this is primarily due to the unprecedented level of sales and profit the Lottery achieved in the current fiscal year from the historic \$1.6 billion advertised MEGA Millions jackpot that we had last October. As a result, both sales and the Lottery's contribution to education are on pace to being higher in this current fiscal year than what we were projecting for Fiscal Year 2019-20. If we were to instead compare our budget for the coming fiscal year to the budget that the Commission adopted for the current fiscal year, we'd see modest growth in both sales and the contribution to education.

So with that as context, I present the Fiscal Year 2019-20 Budget. Are there any questions? I'm just kidding. I know this is difficult to read. I'll walk through each of the main sections separately. So this chart and the ones I will walk you through compare our estimated revenues and expenditures for 2019-20 to our estimate of how we'll end the current fiscal year on June 30<sup>th</sup>. And just a reminder that all dollars in these charts are in thousands. As you know, the Lottery's budget is a simple formula comprised of four major elements: sales from our products minus the associated prize expense minus the administrative expenses equals our contribution to education. So for the first of

those major components, sales, you can see in the middle dollar column that we're projecting a total of \$7.295 billion in sales revenue for 2019-20. And the far-right column shows that this is a decrease of \$83 million from the level with which we are projecting in the current fiscal year, and this represents a 1.1 percent decrease. And as I mentioned a moment ago, this year-over-year decrease is primarily attributable to the current fiscal year's performance of MEGA Millions. The proposed Fiscal Year 2019-20 Budget does not assume another historic jackpot roll and instead reflects anticipated MEGA Million sales from more traditional jackpot levels. The good news is the year-over-year sales decrease in the multi-state jackpot games is partially offset by modest projected year-over-year increases in the games for which the Lottery generally has more control, such as Scratchers and HotSpot. Specifically, looking at the top line, you can see we are projecting a year-over-year increase in Scratchers of \$215 million or 4.2 percent. And I'm going to repeat some of what Jim talked about. The projected increase is based on several factors, including assumed growth in the Lottery-user retailer network; more customized email communications to registered players; and a concentrated effort using advanced analytics to identify retail activities having the largest impact on Scratcher sales. It's also worth repeating another item

that Jim touched on, that this budget reflects a specific emphasis to improve the profitability of Scratchers games by focusing on the lower price-point games, which have a higher per-dollar profit margin.

So continuing down the list, for POWERBALL and MEGA Millions combined, we are projecting a year-over-year decrease of \$335 million or 26.6 percent. In each game, we are assuming more conservative jackpot roller patterns in 2019-20, based on statistical averages, as compared to the great fortune that we experienced in these games in the current fiscal year. And we would actually be reflecting a larger year-over-year decrease in this category if not for the fact that the budget includes funding for more frequent marketing support of jackpots, ranging from \$250 million to \$700 million. As Jim indicated, this is because, in addition to the players experiencing jackpot fatigue, the press is becoming desensitized to moderate-to-large jackpots, resulting in a reduction in earned media. So investing in more frequent marketing support will help boost interest and sales at these jackpot levels.

Moving down to the next line, for SuperLotto Plus, we are projecting a year-over-year increase of \$6 million or 2.2 percent. This projected growth is primarily attributable to building on the current fiscal year's "May the best dream win" campaign, as well as dedicated

promotions for retailers and consumers. This growth is significant because it's only been a couple of years since SuperLotto Plus sales had been steadily declining from year to year.

On to the next line, the largest year-over-year percentage increase in projected sales revenues is in the HotSpot game, with an estimated increase of \$21 million or 6.7 percent over our current-year projection. And this growth is primarily attributable to plans to increase social trade-style retailers, increased exposure for HotSpot on the Lottery's new and improved public website coming later this summer and rolling out additional HotSpot monitors in the convenience grocery and liquor trade channels. And lastly, the daily games, including Fantasy 5, are projected to increase by \$10 million combined or 2.7 percent from the current fiscal year to 2019-20. That increase is primarily due to projected growth in retailers selling Lottery products and an increase in the number of jackpot signs at retail and an initiative to more accurately estimate the advertised top prize for Fantasy 5.

So the next major area of the budget is Prize Expense, which is projected to total \$4.8 billion in 2019-20, and this is an increase of \$29.4 million or 0.6 percent from the current-year estimate. And the primary reason that prize expense is projected to increase while the year-over-

year sales have an overall decrease is because the sales decline is in our most profitable gains. Just one item to point out is that although the prize payout percentages by game are pretty consistent between the two fiscal years, there are differing prize payout percentages assumed for SuperLotto Plus. So if you look about four lines down, in the current fiscal year, we're showing an estimated prize payout of 45.5 percent for SuperLotto Plus, and we're projecting this will increase to 50 percent for the coming fiscal year, and this is because the SuperLotto Plus jackpot has been hit only twice in this current fiscal year, where it has hit six times in the previous year. So we can't assume that we'll have that same good fortune.

And now on to Administrative Expenses, which the Lottery Act caps at 13 percent of total annual sales revenue. The first area of administrative expense is retailer compensation, which is estimated to total \$500.9 million in 2019-20, and that's a decrease of \$2.6 million or 0.5 percent from the current-year projection and is mainly due to the decreased year-over-year sales estimate. The next area of administrative expense is gaming costs, which are estimated to total \$130.4 million in 2019-20. This is an increase of \$1.6 million or 1.3 percent over the current-year projection. And although gaming contract costs are estimated to decrease based on the decreased sales

projection, this is more than offset by a projected increase in Scratchers ticket costs; specifically, Scratchers ticket licensing and distribution costs are projected to be higher in the coming fiscal year than they were in this current year. And the final area of administrative expense is operating costs, which are estimated to total \$317.1 million in 2019-20, and this represents an increase of \$72 million from the current fiscal year. And this comparison is a little misleading, however, since the 2019-20 column reflects both a reserve for insurable risk and an administrative spending reserve, while you can see that the 2018-19 column reflects zeros for both of those items. I'll talk more about the reserves in a moment, but if we exclude them for now, the year-over-year increase in operating costs is projected to be \$34.2 million, and more than half of that growth is in the Marketing Budget Plan, which reflects an estimated year-over-year increase of \$18.4 million. As I mentioned earlier, unlike in years past, the marketing budget plan for Fiscal Year 2019-20 was zero-based. This means that each individual element was vetted and justified prior to inclusion in the proposed budget. The 2019-20 Marketing Budget Plan balances the importance of both short and long-term goals throughout the fiscal year and reflects a strategic allocation of resources across initiatives and segments to maximize profits for education and to grow

Lottery playership. The total cost to fund the Marketing Budget Plan in 2019-20 is \$98.4 million, with a majority of the investment dedicated to advertising, retail marketing and engagement and retention efforts. This investment is extremely important as the Lottery shifts focus from top-line sales to bottom-line profits to eke out more funding for public education. And we started this zero-based budgeting effort with the Marketing Plan since it is the second-largest expenditure category within the Lottery's operating costs. We also zero-based a limited number of components of the broader Sales and Marketing Division budget. The Lottery will be expanding the zero-based budgeting effort to all the remaining divisions, including the rest of the Sales and Marketing Division budget in next year's budget. For all the remaining operating costs categories except the reserves, the year-over-year increases are primarily due to resources required to continue previously approved multi-year projects, execute the 2019-20 Business Plan initiatives and to make operational improvements. And the last two items within operating costs are the reserves. In the current year, we've zeroed out the reserves, since anything that we funded from them is already reflected as an expenditure in the other operating cost categories above those lines. And for 2019-20, we are proposing a \$5 million reserve for insurable risk to cover

fiscal exposures for the areas of our organization that we are choosing to self-insure. And the 2019-20 budget also includes \$32.8 million in an administrative spending reserve, shown on the next line. This administrative spending reserve acts as a safeguard against uncertainties, such as if our sales do not come in as projected. So looking at the very bottom line, the total administrative expenses, which is the sum of retailer compensation, gaming costs and operating costs, including both of the reserves, are projected to be \$948.35 million in 2019-20, and this is precisely 13 percent of the \$7.295 billion in projected sales. Any unspent administrative funds below the 13 percent cap, including unspent funds within both reserves, will be transferred in their entirety to education.

This next slide is a summary of resources needed for the proposed initiatives and other revisions that are reflected in the administrative expenses for 2019-20. Since the Marketing Budget Plan was developed from the ground up, the plan's entire \$98.4 million cost is reflected within the \$104.2 million total shown on this slide. The remaining amount is approximately \$5.8 million and predominantly reflects funding to continue many previously approved efforts, such as upgrading the Lottery's gaming and financial systems, as well as expanding the pilot of paying claims at the Sacramento District Office to additional

district offices in 2019-20. And I'd like to take a moment to provide some context to the Lottery's administrative expenses, which are mainly comprised of fixed percentages of Lottery sales. Specifically, Lottery regulations require roughly 7 percent of sales revenues to go toward retailer compensation to incentivize our retailers to stock and sell Lottery products and to cash prizes under \$600. Similarly, approximately 2 percent of total Lottery sales revenues go toward gaming costs, including contractual costs for the Lottery's gaming system provider, payments to our Scratchers ticket-printing vendors and the cost of distributing Scratchers tickets to approximately 23,000 Lottery retailers. Combined, retailer and gaming costs comprise roughly 9 percent of sales revenues. In each of the last five fiscal years, the Lottery has only spent a little over 3 percent on the remaining component of administrative expense operating costs. And this chart breaks out our administrative expenses in another way. Excluding the reserves, 80 percent of our projected administrative expenses for 2019-20 is comprised of retailer compensation, gaming expense and marketing costs. These three components of our administrative expense are unique to our business operations and have a direct impact on our sales and profits. Our other operating costs, which is our overhead, is estimated to account for just under 20 percent of our

total administrative expense, and this translates to only 2.5 percent of our projected revenues. So this speaks to us doing an excellent job of managing our costs, which enables us to maximize our contribution to education, which of course is why we even exist. So remember our easy formula for calculating the contribution to education. There are a few additional items that factor into the final contribution amount. Specifically, both unclaimed prizes and interest earnings on our cash sitting within the State Treasury are mandated to be transferred directly to education, and any unspent funds within both reserve line items will be transferred to education as well. So assuming both reserves remain unspent, the total projected contribution to education is estimated to be \$1.66 billion in 2019-20, and this proposed budget includes a balanced approach between actions to drive short-term increases in sales and profits, as well as prudent investments that will enable the Lottery to sustain responsible growth in sales and contributions to public education in years to come. So that concludes my presentation. I'd like to take a moment to thank the Lottery's Budget Officer Bret Grosso and his team of analysts, Larry, Britt, Ruth, Janae, Francisco and Greg. Zero-basing represents a major paradigm shift for the Lottery, and the Budget's team rose to the challenge and worked closely with the Marketing team to make this happen.

And to that end, I'd like to give a sincere thank you to the Marketing team for producing such a well thought-out and comprehensive plan. This sets the bar high as we look to zero-base the remainder of the Lottery's budget next fiscal year. So with that, I'd be happy answer any questions.

**CHAIRMAN AHERN:** All right, do any of the Commissioners have any questions or comments regarding Action Item 8i?

**COMMISSIONER KIRTMAN:** Yes. For the proposed budget versus the year-end estimate, I feel like it's not quite an apples-to-apples comparison. Can you give me sort of an estimate of what the proposed budget was for 2018-19?

**MR. BUCHEN:** Sure. Actually, I don't have that with me.

**COMMISSIONER KIRTMAN:** And the only reason why I ask is because as it filters down to contribution to education, it would be great to see the comparison between the proposed budgets because the year-end you have, it feels like you probably have a lot more info, and then you're basically proposing a lower contribution, but if I remember correctly, I think the proposed budget was lower than the proposed budget for 2019-20.

**MR. BUCHEN:** Yeah.

**COMMISSIONER KIRTMAN:** So I feel like it's a better comparison.

**MR. BUCHEN:** No, you're absolutely correct. The current year was -- the original budget that was adopted by the Commission was lower in both sales and contribution to education than what we're proposing. And you also hit on another point of what is intended to come out of zero basing. What we have projected, particularly in the expenditure column for 2019-20, in many cases represents kind of a worst-case scenario, and we know as the year goes on, if we spend less than what we projected, it goes to education, so we're kind of reflecting that in the current-year column already, whereas we're, like I said, building in a worst case for the proposed budget year, so that kind of skews it as well. So I don't have the exact figures for what was adopted, but like I said, I did check that it's both lower in both sales and the contribution to education.

**COMMISSIONER KIRTMAN:** Thank you.

**COMMISSIONER LIBANG-BOBILA:** I just want to add that ever since -- I think I came on board in 2015, and I've really seen the growth in the California Lottery. I think when I started, it was at \$3 billion, and now it's \$7 billion, so great work, and thank you for putting this together for us.

**MR. BUCHEN:** It was everybody.

**CHAIRMAN AHERN:** Any other questions? Does any member of the public wish to address the Commission at this

time regarding Action Item 8i? All right, hearing none, we'll entertain a motion.

**COMMISSIONER KIRTMAN:** Motion to approve Action Item 8i.

**COMMISSIONER LIBANG-BOBILA:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Libang-Bobila?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right. Thank you very much. Moving on to Item Number 9 is the Commissioner's General Discussion. Do any of the Commissioners have anything they'd like to bring up at this time?

**COMMISSIONER LIBANG-BOBILA:** Just, have a great summer and God Bless.

**COMMISSIONER KIRTMAN:** Second.

**CHAIRMAN AHERN:** All right. I think we have some public comment. I would like to note that the Commission will elect its chairperson and vice-chairperson at the September Commission Meeting. A commissioner can self-nominate or nominate another commissioner to serve in either role, so please direct those nominations to me if you

so wish. Item Number 10 is the Scheduled Meeting. We have tentatively scheduled Commission Meetings on September 26<sup>th</sup> and November 21<sup>st</sup> in the great city of Sacramento. Item Number 11 is Public Discussion. I have two people listed here for public comment. The first is Elvis Y. Meja (phonetic). Elvis is not wishing to come forward. Monica? Is there a Monica who wants to come forward?

**MONICA:** I was just signing in.

**CHAIRMAN AHERN:** Signing in? Okay. Well, that will count. All right. Anybody else want to come up and sign in? All right. With that, I'd like to make a few comments. One, congratulations on record sales for Fiscal Year 2018-19. The \$1.8 billion is something to be very proud of with the great staff that we have working for one common mission, to make education better in the State of California. Also the advancements and achievements that we've made dealing with the mobile app, and we got an award for that. That's something to be very proud of; that doesn't happen very often. And dealing with 23,000 points of sale -- that's something to deal with, and you do such a great job with that at 23,000 different people. It's remarkable. And we'd like to welcome Alva. Thank you very much for being here. Congratulations on your appointment. The Governor is a brilliant man to pick another brilliant man to be in charge of the Commission, so welcome. And with

that, we'll be adjourned. All right, thank you. Have a great summer. (End of Recording)

**(MEETING ADJOURNED)**

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